**Fifth Sustainable Palm Oil Dialogue (SPOD)**
**SPOD Breakout Session 2: A view into the future of oleochemicals**
**Frankfurt, Germany**
**14 June 2023, 12:00 PM – 13:00 PM (GMT+2)**

**Moderator:**

- Francesca Morgante, Senior Manager, Market Transformation (Europe), RSPO

**Panelists:**

Dr. Gerhard Ahlbrecht, Responsible Care & Logistics Manager, European Association of Chemical Distributors (FECC)

- Ariane Denis, Head of Sustainable Sourcing, Transitions
- Inke Van Der Sluijs, Director, Market Transformation, RSPO

**Introduction:**

- Oleochemicals sector is a particularly challenging one, not only in light of the new legislation but also in relation to specific market dynamics.
- Around 8% of palm oil and 70% of palm kernel oil used globally goes into producing "oleochemicals". In terms of vegetable oils, palm oil and palm kernel oil represent the largest oleochemical feedstocks.
- A far greater amount of palm oil is produced than palm kernel oil, due to the fact that 1 tonne of palm kernel oil equates to about 10 tonnes of palm oil, in terms of feedstock
- RSPO Supply Chain Certification standard is designed to certify all the derivatives along the supply chain. The Oleochemical supply chain is largely debated in the RSPO working groups and it has been high on the agenda recently.

**Gerhard Ahlbrecht, Brussels-based European Association of Chemical Distributors (FECC)**

- FECC is composed of many small to medium sized family owned enterprises (SMEs).
- Sustainable palm oil is integrated into chemical distribution sourcing strategy
- The role of FECC is to ensure that distribution companies are compliant with laws and regulations.
- Highlights the need for capability of RSPO traceability systems to guarantee the use of palm oil and palm kernel oil from sustainable sources
- Alternative sources have been explored, including brown seaweed extract by companies in the efforts of dealing with complexity in sourcing and sustainability

- In response to Gerhard's mention of alternative sources being explored, Francesca points this out as one of the unwanted consequences of the EUDR, which is the use of alternative, unregulated sources as a replacement for palm oil derivatives. There is a risk that companies will start to look at other less sustainable ingredients and thereby defeat the purpose of tighter regulation.

**Ariane Denis, Action for Sustainable Derivatives (ASD)**

- A collaborative organisation for palm oil derivatives supply chain that upholds NDPE principles, respects human rights and supports local livelihoods. ASD aims to sustainably transform the derivatives supply chain through risk monitoring and enhancing transparency.
- She mentioned that the supply chain disruption (from the pandemic) is still ongoing.
- Derivatives are coming off a very complex supply chain, composed of many regional markets and players that include the EU, Asia and North America.
- The chemical industry is very secretive about their formulas.
- The ASD is made of 31 members, with BSR and Transitions (sustainable sourcing) acting as coordinators.
- Their Framework for action involves mapping the supply chain of their members. The framework's main components are:
    A. Transparency and Risk Assessment - one million tonnes of palm-based material is mapped and over 300 supply chain actors are engaged;
    B. Monitoring and Grievances Management -
    C. Supply and Market Transformation
    D. Positive Impact - accelerating action on the ground
- Shortages are being experienced now, and downstream players can help mitigate this
- There are two elements at play: the strong demand for PKO, palm oil and coconut oil; and production which has not grown as fast to keep in pace with the demand.
- By 2030, there will be a point of deficit in the global need for palm oil, in which not even conventional palm oil will have kept up.
- There is a pressure on the market, with PKO being a product with very high demand; yet the demand is greater than the supply. With a need to drive sustainable palm oil demand, as right now, its demand is not as high.
- Switching to coconut oil as an alternative to palm oil has risks – the coconut sector also faces a lot of issues, including human rights issues and ageing coconut trees. It is important to look for solutions, and not merely find a replacement with its own risks.

- Inke Van Der Sluijs mentioned that the demand for sustainable PKO has been picking up over the years.
- RSPO has revived the Oleochemicals Task Force when the tightness of the market was observed in 2019. This tightness continued during the pandemic years, and this is

predicted to persist as seen in credit prices. New RSPO certifications that are coming in may help ease the supply.

**Inke van der Sluijs, RSPO, Mass Balance role in market transformation**

- Mass Balance (MB) is an example of good impacts on the ground, but cannot be traced back to its source due to the mixing with conventional material.
- MB is the next step to prepare the supply chain. What needs to be worked towards is getting more visibility. All supply chains have a role to play for more transparency. There is a need to work closer with growers to bring them on board.
- RSPO already has a system in place to trace material between growers and refineries, that is PalmTrace. RSPO is developing this system to allow companies to provide information on certified and conventional material throughout the supply chain as required by EUDR.
- There is the need to work towards more visibility on the conventional material and allow more time for this to happen.
- There are still certified volumes that are not reaching the market. This needs to be avoided, apart from needing to grow overall supply as well.
- RSPO is working with members, including new palm kernel crushers to get them certified. This would help lift the tightness in the market in the short and intermediate term.
- Francesca pointed out that "Traceable" does not necessarily mean that it is sustainable. Under EUDR, it would still be possible to use MB if companies are able to trace where uncertified components are coming from.

**Annex 1 of EUDR**

- Only companies placing those products mentioned in the Annex I on the market (or exporting them) will be in scope of the regulation. The regulation does not apply to finished products being placed on the market which contain ingredients derived from palm oil or palm kernel (ex., a shampoo or a soap bar). This raises the question what this will mean for the production of finished products in the EU. Because when you import an ingredient from Annex I you are falling under the regulation, but when you produce outside the EU and import the finished product you are exempted.

- Gerhard presents also the initiatives that the private sector has put in place, with a particular mention to the Responsible Care programme that is not commodity specific but has impacted the industry, to underline how private initiative and legislation can reinforce one another, being also the case for the EUDR and responsible sourcing.

- In reply to a question, Francesca clarifies that for RSPO members that hold Supply Chain Certification there is no green lane, meaning that they will still need to demonstrate compliance, but they are better prepared to do that, more equipped with tools and knowledge compared to those not certified. This may also apply to different production sites of the same member, some certified, others not.