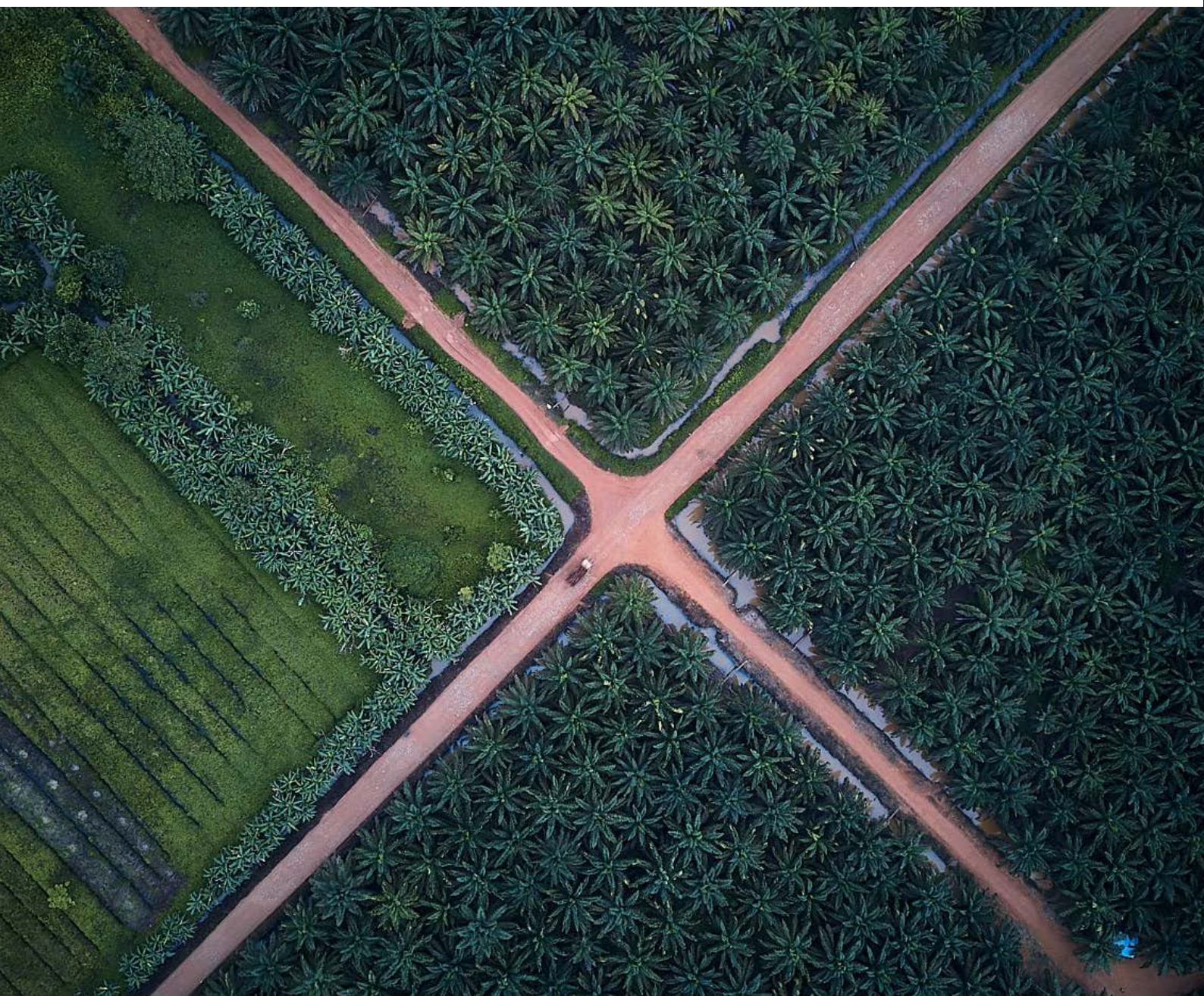
Prepared for

Scoping Study on Roadmap for Responsible Sourcing in India and to Support the Creation of Sustainability Criteria for Imports of Palm Oil

Executive Summary



Background

India remains the largest importer of palm oil at the global level, consuming approximately 11% of the global palm oil production between 2019 and 2020—a surge of 230% over the last two decades. The bulk of palm oil, constituting 90%, finds application in the food industry, with the remaining 10% utilized in cosmetic and personal hygiene products. Due to its low price, it remains a natural choice for many when it comes to edible oil. Over 90% of India's palm oil imports come from Indonesia and Malaysia.

On the production side, oil palm trees are highly efficient and capable of producing 4-10 times more oil than soya, sunflower, olive, rapeseed, and other oil seed crops. As it offers far greater yield than other oil seeds, oil palm remains an attractive plantation to small landholders. To meet the surge in consumption, oil palm plantations have been expanding at a massive rate, and such a rapid expansion comes at the cost of deforestation and the environment. The natural habitat of many native plants and animals has been affected. Also, farmers use the slash-and-burn method, where they set forest land on fire for quick clean-up. Such practices lead to an increase in emissions and affect soil quality.

Further, palm oil cultivation has been associated with land-use change and human rights abuses questioning the process's social integrity and environmental sustainability. Palm oil plantations have been reported to be violating the human rights of local and indigenous communities surrounding them. Involuntary displacement, denial of fundamental environmental rights, and harassment are some of the commonly reported violations.

Despite being the largest importer and consumer of palm oil, India's domestic production is very low. Over 95% of India's palm oil consumption is reliant on imports. Though the government is focusing on boosting domestic production, it must be noted that oil palm takes 6-7 years to grow and become harvest-ready. As the gestation period is longer, it may not be possible to substitute imports with domestic production immediately, so the country must prioritize promoting sustainable procurement of palm oil.

Also, as the largest consumer and importer of palm oil, India is in a distinguished position to influence sustainability in the palm oil trade and production and set new standards in the global space. An optimal pathway must be devised for introducing the sustainable sourcing criteria as they could impact costs, supply, and thus, food security.

Methodology Overview

Palm oil is primarily used as cooking oil in addition to its usage in consumer products comprising of cosmetics, detergents, etc. Essentially, its utilisation as cooking oil implies that consumers have significant degree of backward linkage with palm oil. In other words, countries like India, China and European Union are vital stakeholders given their consumption and palm oil import. Computable General Equilibrium (CGE) can enable us to model the policy shocks and understand the intricacies of palm oil given their tendency to comprehensively incorporate sectoral and trade linkages of palm oil with other industries downstream. Introduction of sustainability-sourcing criteria would impact costs and affect supply of palm oil. However, over the medium-long run, such measures are expected to increase market access to the EU and other developed countries which emphasize sustainable sourcing and consumption. CGE models are appropriate in this scenario as they help capture the demand and supply side components.

We model the possible impact of policy change by measuring the difference between base-case scenario and post-policy change scenario. There are two different ways to achieve that- 1. Quantify the cost of certification; 2. Quantify the growth of India's palm oil exports to the EU and other developed nations assuming India complies with sustainability-related Non-tariff Measures (NTMs) introduced by the EU in relation to palm oil exports. This is based on the assumption that developed countries would prefer to import sustainable food products and that India will have an edge when it prioritizes sustainable sourcing in palm oil.

Outline of the Proposed Sustainability Criteria

The current structure of palm oil cultivation prioritises unrestrained production and extractive policies. These policies have markedly detrimental consequences for environment in palm oil producing nations. In addition, some of the major producing countries are also noted to exploit labour. Therefore, any sustainability criteria related to sustainability will have to account for ecological effects and assess conditions of people cultivating palm oil.

Environment

Deforestation

- Land with High Conservation Value (HCV) or High Carbon Stock (HCS) areas must be identified and should not be cleared for oil palm cultivation. Environmentally Sensitive Areas (ESAs) should not be converted.

- Cultivation can be allowed on peat land that is recorded in the gazette as agricultural land. Forest land should not be cleared for oil palm cultivation.

Minimize emissions

- Fire should not be used for preparing the land for oil palm cultivation. Plantation managers must adhere to reducing pollution and minimizing GHG emissions. This helps mitigate emissions.

- Identify and document the sources of waste products and pollution. Devise a waste management plan to minimize waste and pollution and promote efficient utilization of resources. Waste disposal is to be carried out responsibly.

- Renewable energy should be used wherever possible, and strategies be put forth to promote renewables in the energy mix. The management shall estimate the direct usage of non-renewable energy sources like fossil fuels and electricity, and overall efficiency against the base period.

Minimize pollution to soil and water bodies

- Pesticides that pollute the soil and endanger the biodiversity must not be used.

- Water levels should be taken care of and the cultivation must be managed responsibly. Management should ensure that its activities do not pollute water bodies used by local communities.

Labour

Employee rights

- Employees, including migrant, transmigrant, and contract workers, have the right to create associations and engage in collective bargaining with their employer. This right should be honored as per International Labour Organization (ILO) Conventions.

- Workers must not face any form of discrimination, whether it's related to gender, age, wages, working conditions, or social benefits, in either their employment or opportunities.

- Palm oil mill operators, fresh fruit bunch cultivators, and industrial companies must establish and uphold a clear and easily reachable system for addressing complaints.

Fair wages and safe working conditions

- Management is responsible for making sure that employees receive compensation and working conditions that comply with the minimum legal requirements or industry standards, by Collective Agreements that have been mutually agreed upon.

- Employees must have access to safe working conditions achieved through proper training and education, the use of protective clothing, and timely assistance in case of accidents. Management must offer suitable housing, water resources, medical services, educational support, and welfare facilities that meet or exceed national standards, especially in cases where public facilities are unavailable or not easily accessible.

Child labour and slavery prohibition

- No individuals below the legal working age should be employed on the farm. The minimum age requirement adheres to both local and national laws and aligns with the standards set by the International Labour Organization (ILO) Conventions 138 and 182. Records must include the birthdates of workers, and they should be documented.

- Any form of slavery or practices that resemble slavery, as well as forced or mandatory child labor, is strictly prohibited.

Recommendations

1. Position India as a global leader in sustainability

India as largest importer of palm oil can demonstrate its commitment to sustainability practices by harnessing tracing systems such as supply chain mapping to ensure high standards of palm oil imported by India. Such a measure will also bolster and improve India's technological and regulatory credentials. India has always emphasized sustainability within international forums, notably G20 meetings, and introducing sustainable sourcing criteria will strengthen its commitment. As one of the world's most populous and rapidly developing nations, India's actions resonate on a global scale, encouraging other countries to make similarly bold and determined strides towards achieving sustainability.

As per Nationally Determined Contributions (NDCs) targets submitted to the UNFCC, India is committed to achieving net-zero emissions by 2070 and a reduction in the emission intensity of its GDP by 45 percent by 2030, from the 2005 level. Sustainable sourcing and prioritizing environmental standards in trade will accelerate its NDC commitments.

Also, sustainable sourcing will strengthen its commitment to the UN SDGs (Sustainable Development Goals). By prioritizing the implementation of sustainability sourcing criteria, the country could accelerate its commitment to the following SDGs –

- **SDG 12** - deals with responsible consumption and production.
- **SDG 13** - Take urgent action to combat climate change and its impacts.
- **SDG 15** - Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss.
- **SDG 2** - End hunger, achieve food security and improved nutrition, and promote sustainable agriculture.
- **SDG 8** - Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.

When India prioritizes sustainable domestic production in the palm oil sector, it helps foster innovation and investment in green technologies and infrastructure. It could scale this to other sectors and catalyze economic growth on one hand, and sustainability on the other. This helps the country achieve leadership in technology and innovation which is the rationale behind its Make in India, Startup India initiatives.

2. Introduce sustainable sourcing criteria in imports to be achieved over a gradual time period

Following a gradual approach to introducing sustainable sourcing criteria would help mitigate the risks of cost increases, supply disruptions, and food security problems. This inference is based on the CGE modelling results.

To understand this, we model two scenarios using the CGE model – 1. Gradual approach where we phase out the implementation and thus the cost increase is spread across years until there is a net benefit. 2. Rapid implementation is where we shock the model with an immediate increase in the cost of certification

According to the model, gradualist approach results in a gain of 693 million USD to the Indian GDP when we follow a gradual approach of around 8 years for criteria implementation. Here, the increase in the cost of certification is nullified by the benefits from India's increased market access and exports of food and other products made from sustainably sourced palm oil to developed countries like the USA and the EU.

The following is a broad summary of the modelling results.

Table 1: Summary of the CGE model findings

	Phased implementation - 8 years
GDP	0.02% or 693 million USD gains
Import of palm oil	Declines by 0.32% or 30.6 million USD
Domestic output of Palm oil	Increases by 3.07%
Export of food products	Increases by 6.56%
Food Processing Industries Output	Increases by 2.11%
Vegetable oil output	Increases by 2.95%

As seen in Table 1, the gradual phased implementation may lead to increase in exports of food products to the developed countries, while also boosting domestic output of palm oil, food processing industries and vegetable oils. Therefore, given that the gains of this implementation are so high that no costs are visible, we propose such a gradual approach while implementing the sustainability criteria.

3. Incorporate sustainability terms in the trade policies

As India is a major importer of palm oil, incorporating sustainable sourcing criteria in the trade agreements would help accelerate the process. It also makes it easier for the country to scale sustainability sourcing criteria to other sectors.

This comes at a time when India is negotiating FTAs with developed economies like the UK and the EU. Introducing sustainability terms in the FTA has the power to quicken the India-EU FTA process as the EU emphasizes sustainable consumption to a notable extent.

As FTAs are expected to boost India's economic growth to a notable extent, this would be the right time for India to strengthen the sustainable sourcing process.

Also, India is revisiting its tariff schedules of the ASEAN-India FTA which was signed in 2009. The existing agreement does not have labour commitments, gender-related provisions, environmental commitments, etc. The new agreement should include these commitments and prioritize responsible sourcing criteria in the agreement, so it becomes a benchmark for India's trade policy and other FTAs.

4. Align domestic production in India with the sustainability criteria for imports

The government is already focused on increasing domestic production to reduce the import dependence in the sector. As India is just beginning to increase the domestic production of palm oil, placing an emphasis on sustainable production right from the beginning is important.

So, it is important to introduce sustainable sourcing criteria for both, the domestic production and the imports of palm oil. This also ensures compliance with the WTO-MFN (Most Favoured Nation) and non-discrimination clauses, which require that no country can differentiate domestic sector and imports, as well as imports from different sources, in terms of criteria/standards.

The modelling results indicate that exempting domestic palm oil from sustainability standards could impact the gains from increased market access for palm oil-based food product exports to the EU and other developed countries. The modelling results for immediate implementation show that when we exempt domestic production the estimated increase in the export of food products to developed countries is 3.78% lower than otherwise.

5. Align sustainability criteria with existing international standards

While designing optimal sourcing criteria for India, it should recognize and align with the best aspects of ISPO and MSPO as it would reduce the costs and distortions. Adopting extant standards of those countries is likely to enable us to produce sustainable palm oil domestically and boost exports to the EU and other developed nations. Our CGE modeling estimations are based on the assumption that no criteria or standards exist for sustainable production. However, it must be noted that almost 97% of palm oil in Malaysia is MSPO-certified, and 50% in Indonesia is ISPO-certified.

When India aligns the sustainability sourcing criteria to the ISPO and MSPO terms, the net gains could increase by more than the estimated 693 million USD.

As these standards are locally advocated, the farmers and other stakeholders find it easy to comply with and thus, implementation becomes easy and less expensive. India should also benchmark the sustainability provisions of other developed countries like the EUDR. It will help boost the market access for India's exports to these countries.

- When it comes to legality terms, MSPO terms should be considered the golden standard as it combines compliance with international laws and native customary rights.

- With environmental management and natural resources conservation, India should look upon the best practices from MSPO and ISPO. For instance, HCV protection is covered in the MSPO but not in the ISPO. Similarly, the protection of water bodies is covered in the ISPO but not in the MSPO. Waste management is covered in both, ISPO and MSPO. ISPO certification includes protection of forests and peatland compared to MSPO certification which excludes forests and peatland.

- When it comes to social responsibility, we have drawn from both MSPO and ISPO. MSPO has terms for the protection of the rights of local and indigenous groups and ISPO has properly defined conditions for wage and compensation-related terms.

- When it comes to promoting transparency, EUDR has robust conditions. It calls for disclosing compliance commitment to national and international laws, collecting geo-location coordinates of the cultivated land, and disclosing soil types.

So, our recommendations for India's sustainable sourcing criteria are based on the existing MSPO and ISPO criteria. This would help reduce the costs and increase the net gains from implementing sustainable sourcing criteria.

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