

Energy (bio-diesel) demand is a major driver in the palm oil chain

- Bio-diesel demand and demand for biofuels for electricity generation, especially in the EU, are increasing rapidly.
- Major drivers are the high mineral oil price, tax incentives and legislation. Demand in the EU is linked to 'Kyoto'-arguments, whereas demand in the US is linked to a wish for more energy independence.
- European rapeseed crops are insufficient to supply the European biodiesel market. Palm oil and biodiesel from palm oil are becoming increasingly important.
- The energy market is an important driver for the palm oil industry. As a whole, palm oil is not providing and will not provide a major part of total energy supply. In other words: the energy market is more important to the palm oil industry than palm oil is important to energy supply. Second generation biofuels are needed for a less marginal contribution of biofuels to total energy demand.
- There are more oil palm based opportunities for delivering energy than just burning palm oil or palm oil esters. There are interesting technical possibilities to use empty fruit bunches, etc., which are still very much underexploited.

Positions and relationships in the palm oil supply chain are changing rapidly and dramatically

- Present, predominantly legislation-driven, bio-fuel demand is very attractive for the palm oil industry. It may create longer term security for investors in the palm oil industry, partly based on long term contracts, e.g. with the electricity sector. Oil palm plantations are longer term investments with a fixed output over many years and are, in this respect, different from soya, which can be planted according to actual demand.
- In the present market, plantation ownership / access to plantations is a strategic factor. Players who have access to sufficient CPO production have ample possibilities to invest in an expanding market. Trading and processing companies, such as Cargill, are acquiring plantations. Plantation companies are heavily investing in processing.
- As a result, the positions and relationships in the supply chain are rapidly and dramatically changing. Not long ago, the palm oil supply chain was controlled by downstream players in the food sector, such as Unilever and large retailers. Today large Malaysian palm oil companies have become the 'stage director' in the supply chain ('ketenregisseur'). Their power is backed by governments who have created legislation driven biofuel markets.

There is a need for keeping global standards in different palm oil markets, also for sustainability

- There is real risk that separate markets for the different uses of palm oil (Food, Feed, Fuel) could emerge.
- For the Fuel market, for example, food safety issues will not be an issue. As a result, there could become palm oil available in the market that is dangerous for food production. The emergence of a parallel market of uncontrolled palm oil could undermine the efforts put into food safety during the last decades and present real risks to the consumer.
- On the other hand, the sustainability discussion on 'energy crops' could easily lead to additional requirements and more severe standards for bio-fuel based on palm oil. The discussion on land use for oil palm plantations and their negative effects on biodiversity could become even more intense for palm oil for biofuels as the issue of competition between food and energy crops will add a new critical element: "Feed the poor, not the cars of the rich".
- The NGO arguments against expanding oil palm plantations as an energy crop will not only focus on the usual biodiversity arguments (destruction of the last habitat of the Orang Utan) but also on the Kyoto argument: is the use of palm oil really contributing to less CO₂ emissions than the use of fossil fuels? Their argument is that the development of new plantations in virgin rain forest areas is in fact

destroying huge carbon sinks, which makes the Kyoto contribution of palm oil based biofuels, at least, questionable.

- As a result of discussions on the sustainability of fuel crops, governments could develop sustainability criteria for (among others) palm oil used for biofuel that are more stringent than the criteria used for palm oil as an input to the food industry.
- In sum: there is both a risk that palm oil with less regulation on food safety will become present in international markets and a risk that palm oil as an energy crop will be confronted with more stringent regulation.

There is a need to strengthen RSPO and to include CO₂ aspects into the RSPO criteria

- In order to avoid the emergence of separate sustainability standards for separate palm oil markets, it is important to strengthen the RSPO standards and their implementation.
- RSPO is a private sector / NGO initiative with formally no governments involved (although there are close links to .e.g. the Malaysian government through MPOA and partly government owned Malaysian member companies). Its private sector character has made it possible to develop a global standard in a relatively short period of time. Considering the major role of governments, both in creating demand for palm oil (in the biofuel sector) and in implementing RSPO criteria (especially those related to land use issues), RSPO criteria should become an increasingly important basis for government action and regulation as well in the near future. It is important that European countries and the EU take RSPO as the basis for sustainability criteria for biofuels from palm oil. Sustainability criteria for food and fuel applications should remain identical. There is no valid argument why fuel applications would need other criteria than food applications.
- It is important that CO₂ aspects will become an integral part of the RSPO criteria. The development of palm oil plantations that destroy huge carbon sinks cannot be considered to be sustainable.
- On the other hand, it should be recognised that planting oil palm on degraded land can positively contribute to the creation or restoration of carbon sinks. There is a need for a fact based discussion on the question: under what conditions can the development of oil palm plantations contribute to a positive CO₂ balance without unacceptably destroying biodiversity or violating other RSPO criteria?

The present situation is creating opportunities to move the sustainability agenda on palm oil further and to strengthen RSPO

- There are major risks: the creation of parallel markets with different sets of standards, weakening of RSPO and an intensification of conflicts between the palm oil sector and NGOs.
 - These risks can be turned into opportunities, however. With governments playing their role properly, RSPO can gain in importance, also (or especially) in the energy related palm oil growth market and the emergence of multiple standards can be avoided.
 - The opportunities can be developed only if certain conditions are being met:
 - all players should recognise the importance of global standards and not opt too easily for national solutions based on national interests;
 - an open fact-based discussion on the CO₂ aspects of oil palm development should take place, recognising that oil palm developments can have both a negative and a positive CO₂ balance, depending on the character of the oil palm development.
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