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Palm Oil Sustainability: NDPE

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NDPE policies

What is an NDPE Policy?

Since 2013, major palm oil companies have increasingly adopted ‘No Deforestation, No Peat, No Exploitation’ (NDPE) policies that aim to ensure palm oil is more sustainable. ‘No deforestation’ is typically achieved through protecting High Conservation Value (HCV) and High Carbon Stock (HCS) areas, ‘No Peat’ through avoiding planting on peat, and ‘No Exploitation’ through protecting human rights, workers’ rights and the rights of local communities and indigenous peoples. The palm oil produced under an NDPE policy can be described as sustainable, and in many cases is meant to go beyond legal or certification requirements, but it is not officially certified to a standard controlled by a standard body.

NDPE policies first emerged in 2011, when Golden Agri Resources (GAR) adopted its Forest Conservation Policy. This policy applied an ambitious definition of HCS forests, but the scope of it was limited to GAR’s own land bank. Two years later, Wilmar launched its NDPE policy, setting requirements to the group’s full supply chain and not just Wilmar’s operations. In subsequent years, several other large traders/refiners followed suit. Most large international palm oil traders/refiners now have NDPE sourcing policies, including the four major UK refiners. Currently, 99% of palm oil entering Europe is traceable to oil mill level. Over 84% of all palm oil imports is covered by company sourcing policies that focus on ‘No Deforestation, No Peat and No Exploitation’.¹

Many major brands also have an NDPE policy or bespoke responsible sourcing initiatives based on traceability to mill data. Brands will use a third party to verify their policies via ground audits but are also heavily reliant on understanding the mills within the supply chain and geospatial data. In terms of enforcement, violations of policies among growers can lead to suspension or termination of sourcing relations.² Non-compliant growers also face real risk that supply chain exclusion could put their revenue at risk.

The scope and strength of NDPE policies vary considerably and each company’s policy differs slightly. This limits standardisation and, unlike certification, many policies are not consistently independently verified. Methods to identify HCS areas differ. Companies are increasingly adopting the HCS Approach (HCSA), a well-accepted methodology for achieving no deforestation which integrates HCV and Free Prior and Informed Consent processes (FPIC), but others may use weaker HCS standards.

¹ www.idhsustainabletrade.com/uploaded/2019/01/EPISO_Vormgeving2019_DEF_31012019.pdf

² <https://chainreactionresearch.com/report/unsustainable-palm-oil-faces-increasing-market-access-risks-ndpe-sourcing-policies-cover-74-percent-of-southeast-asias-refining-capacity/>

The Impact of NDPE policies

The impact of NDPE policies to date is difficult to measure. However, research undertaken by Chain Reaction Research (CRR) saw a decline between 2017 and 2018 of over 50% in deforestation rates attributed to the top 10 palm oil growing companies in Malaysia, Indonesia (Kalimantan, Sumatra, Sulawesi and West Papua) and Papua New Guinea.³ They speculate that continued uptake of NDPE policies by growers, traders and downstream companies, and renewed NGO focus on growers that violate NDPE policies, may have had an impact on dropping deforestation rates. Other contributory factors may include the continued moratorium on new palm oil licenses in Indonesia, as well as declining palm oil prices making plantation development less viable. CRR believe that the new RSPO Principles & Criteria, which bring the RSPO further in line with NDPE commitments to peat and HCS conservation, could allow a decreasing deforestation trend to continue.

In 2018, the Environmental Investigation Agency (EIA) monitored the impact of NDPE policies on palm oil plantations in Papua and West Papua provinces (Indonesia).⁴ EIA noted that the NDPE policies have roughly halved the extent of deforestation for oil palm in Papua anticipated under a business-as-usual scenario and that a significant number of palm oil growers have halted forest clearance in order to comply with NDPE. EIA notes however that the rate of deforestation still remains high, and that while deforestation is being confronted, mechanisms for eliminating social exploitation as part of NDPE implementation are considerably less advanced or effective.⁵

Furthermore, a segment of the refining market does not apply NDPE sourcing criteria, resulting in 'leakage' where unsustainable palm oil is produced and sold to India, Pakistan and China, as well as domestic Indonesian users. In India, the largest importer of CPO from Indonesia, only 35% of all refineries are operated by companies with NDPE policies.⁶ In 2017, an analysis completed by CRR showed that NDPE policies cover 74% of the refinery market in Indonesia and Malaysia, and 65% of the refinery market in the rest of the world. However, the leakage market share is likely to shrink further in the coming years, because refining is the bottleneck of the supply chain, and the majority of refiners already operate with NDPE policies.⁷

Improving Traceability of NDPE policies

Because of the voluntary nature of NDPE policies, traceability is key. To date, it has been difficult to police compliance to NDPE policies, and several growers have been shown to be in violation of their own commitments. For example, several major global palm oil buyers, including AAK, Bunge Loders Croklaan, IOI, Louis Dreyfus, and Wilmar, have recently had to suspend trading with BLD Plantation

³ <https://chainreactionresearch.com/the-chain-continued-uptake-of-ndpe-policies-a-key-factor-in-reducing-deforestation-rates-in-se-asia/>

⁴ <https://eia-international.org/wp-content/uploads/EIA-report-Promises-in-practice-spreads.pdf>

⁵ <https://eia-international.org/wp-content/uploads/EIA-report-Promises-in-practice-spreads.pdf>

⁶ <https://chainreactionresearch.com/report/unsustainable-palm-oil-faces-increasing-market-access-risks-ndpe-sourcing-policies-cover-74-percent-of-southeast-asias-refining-capacity/>

⁷ <https://chainreactionresearch.com/report/unsustainable-palm-oil-faces-increasing-market-access-risks-ndpe-sourcing-policies-cover-74-percent-of-southeast-asias-refining-capacity/>

Bhd, a major palm oil producer and refiner operating in Sarawak, Malaysia, as the company was shown to be continuously clearing land in violation of their own NDPE commitment.^{8,9}

In terms of reporting advances, the NDPE Implementation Reporting Framework (IRF) has been established by ProForest. It is a monitoring and reporting tool designed to allow palm oil companies all along the supply chain to report on progress in delivering NDPE commitments for the volumes they produce and purchase.¹⁰ In its first phase, the IRF works by asking refineries (and in the future, mills) to fill out information about progress by the mill and its supply in meeting NDPE commitments. It captures a wide range of different activities, from early activities like workshops, all the way to advanced methods for monitoring, such as satellite monitoring of concessions for no-deforestation commitments. This information is used to assign the mill, or the volumes to the mill, to one of the following categories: Unknown; Known; Awareness; Commitments and Starting Actions; Progressing; and Delivering.¹¹ Phase 2 of the NDPE IRF relies on self-reported information from refineries. In future this may become more robust through verification of volumes with mills and fresh fruit bunches (FFB) producers.

Currently, more than 30 companies from every stage in the supply chain are involved in the IRF. A group of companies have convened an active working group, and most of the large producer companies are going to use the IRF as their approach to monitoring and reporting. Ultimately, the IRF is meant to be industry-wide and requires the supply chain to work together to monitor and report on sustainable volumes.

In terms of future regulation, it remains to be seen whether the EU implements a due diligence-type regulation requiring palm oil to conform to sustainability criteria based on NDPE.

⁸ <http://www.mightyearth.org/major-rogue-player-in-southeast-asias-palm-oil-industry-announces-zero-deforestation-policy/>

⁹ <https://news.mongabay.com/2018/12/palm-oil-giant-wilmar-promises-to-take-a-harder-line-with-errant-suppliers/>

¹⁰ For more information see the website (www.ndpe-irf.net).

¹¹ https://ndpeirf.files.wordpress.com/2019/09/ndpe_irf_03_guidance.pdf