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Thai Smallholders: Challenges in sustainable palm oil production

Info Briefing #6
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UK Sustainable Palm Oil Initiative – Info Briefing #6

This Info Briefing is part of a series designed for the stakeholders of the UK Roundtable on

Sourcing Sustainable Palm Oil, to provide relevant information and updates on issues surrounding the sourcing of certified sustainable palm oil. After attending the November 2019 RSPO meeting in Bangkok, the Efeca team visited smallholder plantations in Southern Thailand with Wild Asia. This info briefing note pulls together information gathered on the field trip with desk based research, and highlights the challenges faced by smallholders in Thailand (the 3rd largest palm oil producing country) in meeting RSPO criteria, as well as sustaining their livelihoods. It does not provide a full overview of the different perspectives of smallholders; rather it offers insights into the environmental and social issues faced in adhering to sustainable palm oil practices in Thailand.

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Info Briefings

Please see below for a list of other Info Briefings.

Info Briefing #1: [Palm oil in the foodservice sector]
Info Briefing #2: [Palm oil in the oleochemical sector]
Info Briefing #3: [Exploring lesser known tropical oils as substitutes for palm oil]
Info Briefing #4: [Changes to the Renewable Energy Directive: impacts on palm biofuel]
Info Briefing #5: Palm Oil Newsletter: Sustainability Schemes Update. Part 1: RSPO; Part 2: ISPO; Part 3: MSPO; Part 4: NDPE; Part 5: ISCC
Info Briefing #6: Thai Smallholders: Challenges in sustainable palm oil production

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1. Introduction

There are more than 3 million palm oil smallholders and small-scale farmers globally, accounting for almost 40% of palm oil production. However, only 10.35% of Certified Sustainable Palm Oil (CSPO) is grown by smallholders.[1] Palm oil is often the principal source of income for smallholders, alongside other subsistence crops, predominantly using family labour. Smallholders often face low yields, inadequate information and knowledge in growing palms and selling oil.

In 2018, Thailand was the third largest producer of palm oil after Indonesia and Malaysia.[2] The majority of Thai oil palm production comes from over 120,000 smallholders.[3] Most of the palm oil production in Thailand is used in domestic consumption and biodiesel, with very little exported (Figure 1). Thailand was the first producer country in the world to have some independent smallholders RSPO-certified under the RSPO Group Certification.

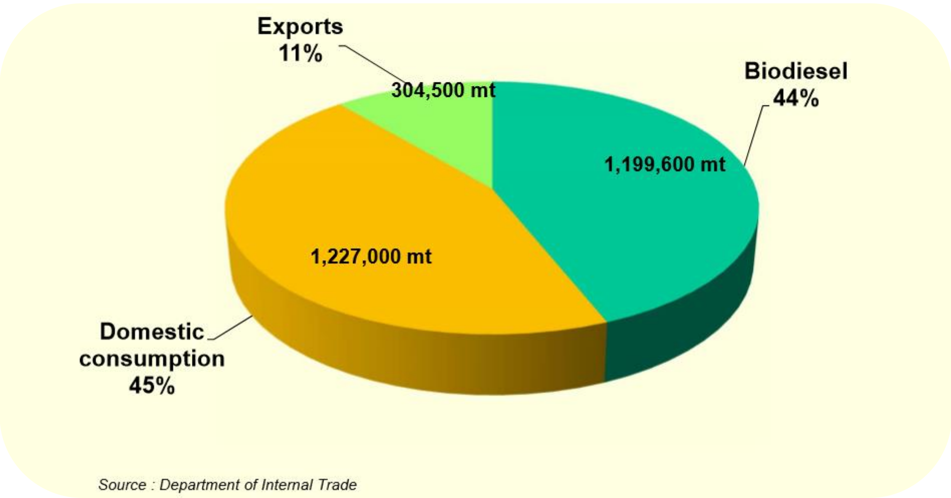

Figure 1. Thailand's production of CSPO in 2018

This info brief stemmed from discussions during a WildAsia smallholder tour in Thailand. It firstly outlines information about general palm oil production and smallholder production in Thailand. It describes some of the difficulties and challenges that smallholders in particular face in Thailand and looks at the criteria of the RSPO Independent Smallholder Standard. Lastly, it presents some potential strategies for private sector companies to promote the growth of CSPO in Thailand.

2. Palm Oil: Thailand

In 2017, the world production of oil palm fruits was 317,571,419 metric tonnes. In the same year, Thailand was the third largest producer of palm oil after Indonesia and Malaysia, with Thailand contributing 4.6% of the global volume. Since the first palm oil plantings in 1969 for

1 https://rspo.org/smallholders/smallholder-certification-in-numbers
2 FAOSTAT, 2018
3 Sustainable palm oil: Including smallholders in a sustainable supply base - A case study in Thailand (2015-2016)

Thailand and the Philippines, Thailand has gone on to see 1.04 million hectares of planted area in 2019 (Figure 2).[4]

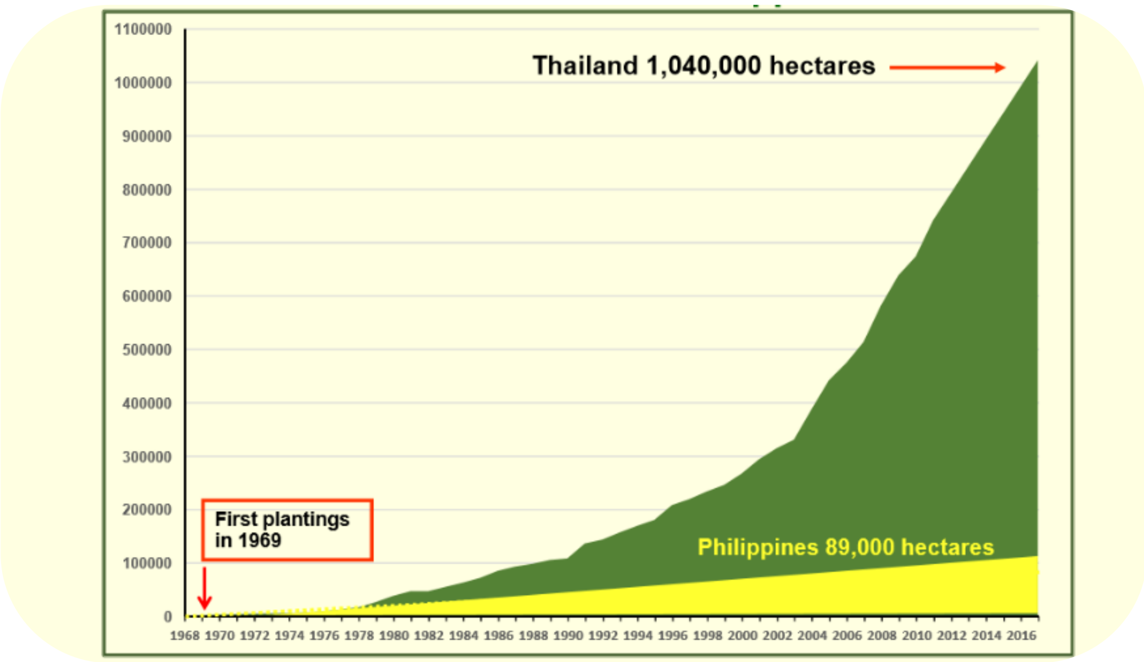

Figure 2. **Planted area (ha) since 1969 in Thailand and the Philippines**

Oil palm production began around 1975 in Thailand by the Univanich company. Realising that oil palm could provide better income than other crops and be used both for energy and food, many smallholders began to grow palm oil.[5] As a result, the land area planted with oil palm in Thailand has increased steadily over the last thirty years. Plantations and refineries are found mostly in the south where the climate is more suitable for cultivation.[6]

As of 2018, there were 13 bio-diesel plants, 18 palm oil refineries, with a production capacity of about 2.4 million tons, and approximately 137 palm oil mills in operation producing up to 23 million tons of palm oil each year (Krungsri Research).[7] The mills are mostly considered as "stand-alone" as they do not have their own plantations. Therefore, they rely solely on buying Fresh Fruit Bunches (FFB) from third-party independent smallholders.

The government's Alternative Energy Development Plan for 2015 – 2036 included an Oil Palm and Palm Oil Industries Development Strategy 2015 – 2026, which aims to boost palm oil production by improving yields and expanding plantation areas by 50% over the next nine years. Ultimately, the strategy aims to increase cultivation of oil palm from 5 million rai[8]

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[4] https://www.foodnavigator-asia.com/Article/2019/11/13/Palm-progress-Three-reason-Thai-palm-oil-sector-surged-whie-Philippines-stagnated
[5] Rakthong, Krabi Agricultural Office, 2015
[6] https://news.mongabay.com/2017/03/as-thailand-ramps-up-its-palm-oil-sector-peat-forests-feel-the-pressure/
[7] https://brandongaille.com/18-thailand-palm-oil-industry-statistics-and-trends/
[8] 1 rai is 0.16 ha, approximately 3.9 million rai with 100 trees per ha

(approximately 2 million acres) in 2017, to 7.5 million rai (approximately 3 million acres) in 2026.[9]

2.1. Thai Smallholders

Small farmers owning less than 8 ha (50 rai) comprise more than 90% of the 1 million planted hectares. The majority of Thai oil palm production comes from over 120,000 smallholders throughout the country,[10] with more than 300,000 small farmers and their families now supported by oil palms.[11]

Smallholder oil palm plantations are being converted from existing crops, such as rubber and coconut, as well as trying to integrate palm oil with fruit and timber. Palm oil provides an income once or twice per month, as opposed to once or twice per year for rice and once per year for fruit. By harvesting palm oil regularly, smallholders are reducing their financial risk should crops fail.

Whilst the Thai government strategy[12] is looking to boost the industry and meet the nation's demand for alternative energy, it is also trying to implement policies in order to support smallholders, including trying to increase the cost of FFBs to 4 baht a kilo. One kg of FFB is currently equivalent to 3.3 baht.[13] As of November 2019, earnings matched the cost of production for smallholders. With the Thai government offering subsidies to farmers to plant palm oil, too many suppliers have led to a decrease in price. Consequently, due to the drops of prices in FFBs, some smallholders are moving back to timber as it provides more money than palm oil in Thailand.[14]

Thailand was the first producer country in the world to have some of their independent smallholders RSPO-certified under the RSPO Group Certification. The certification of the first three independent smallholder groups in Thailand was supported by GIZ,[15] as well as United Palm Oil Industry Corporation, Thaksin Palm Oil Limited, Suksomboon Palm Oil Ltd and Univanich Palm Oil PCL in 2012. By September 2015, Thailand had certified 10 independent smallholder groups, comprising 1,150 individual smallholders and over 6,626 hectares of production area, with an estimated production close to 32,000 metric tonnes of Certified Sustainable Palm Oil (CSPO). This is a significant

[9] https://news.mongabay.com/2017/03/as-thailand-ramps-up-its-palm-oil-sector-peat-forests-feel-the-pressure/
[10] Sustainable palm oil: Including smallholders in a sustainable supply base - A case study in Thailand (2015-2016)
[11] Thailand's Office of Agricultural Economics (OAE) 2015
[12] Palm Oil Industries Development Strategy 2015 – 2026
[13] As of March 2020, less than GBP £0.10
[14] Information obtained during the smallholder tour in Thailand
[15] Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (German Corporation for International Cooperation GmbH).

achievement for Thailand as the largest volume producers of CSPO from independent smallholders worldwide.[16]

3. Challenges faced by smallholders in Thailand

Although Thailand's oil palm industry seemingly has brought dramatic economic improvement to previously impoverished rural communities, it has also contributed to the draining of Thai peatlands and mangrove areas for plantations. One 2016 study suggested that 38% of mangrove deforestation was caused by the development of rice and palm oil plantations between 2000 and 2012.[17]

As production areas are generally small of size, fragmented and located far away from the mills, it is in general difficult to deliver FFB to the mills. Therefore, a middleman system to collect and deliver FFB to the mills is necessary and common in Thailand. As a result, the quality monitoring system is difficult to control and sustainability criteria are difficult to police.[18]

Furthermore, an annual average FFB yield of 19 ton/ha is reported (Office of Agricultural Economics OAE 2016a), which is lower than those in Malaysia and Indonesia where large growers are prevalent. This is because the smallholders usually do not follow the best management practices, good agricultural practices, as they lack knowledge on how to do so,[19] for example the quantities of fertilizer to use and soil management.[20]

4. RSPO Independent Smallholder Standard

The RSPO brought out a new sustainable palm oil standard for low acreage farmers in November 2019, with a transition period of one year from November 2019 to November 2020.

The newly adopted RSPO Independent Smallholder Standard (ISH) aims to increase the inclusion of smallholders into the RSPO system through a mechanism which takes into consideration the diversity in challenges and situations faced by smallholders globally, together with their varying needs and concerns while adhering to the key pillars of RSPO's Theory of Change (ToC): Prosperity, People and Planet. The standard has 4 principles which can be found in the standard.[21]

RSPO defines independent smallholders as:

- Not scheme smallholders i.e. not connected to a miller, company or grower[22]
- Having a production size smaller or equal to 50ha, or the defined national interpretation
- Having freedom to utilise the land and having enforceable power making

[16] https://rspo.org/news-and-events/news/growth-of-certified-palm-oil-smallholders-in-thailand-showing-no-signs-of-slowing-down
[17] https://www.bbc.co.uk/news/science-environment-35198675
[18] Information obtained during the smallholder tour in Thailand
[19] https://www.rspo.org/publications/download/20f5c1fad6adec4
[20] Information obtained during the smallholder tour in Thailand
[21] https://www.rspo.org/certification/rspo-independent-smallholder-standard
[22] Scheme smallholders are structurally bound by a contract or credit agreement to a particular mill or estate

- Meeting any further criteria relative to the applicability of this standard as provided in the National Interpretation in their country.

The Unit of Certification for the RSPO ISH Standard is the group manager and all individual members. The certificate holder is the group. The independent smallholder:

- Must be a member of a group for independent smallholder certification
- Can form a new group or join an existing group
- Must sign the Smallholder Declaration committing to meeting full compliance with all requirements of the RSPO ISH Standard.

Independent smallholders can sell RSPO credits as Independent Smallholder Certified Sustainable Palm Oil, Certified Sustainable Palm Kernel Oil and Certified Sustainable Palm Kernel Expeller credits. To receive full compliance with the RSPO Independent Smallholder Standard, smallholders have to undertake a phased approach (Figure 3). The phased approach allows the smallholder to enter the system once they are part of a group and meet all eligibility indicators.

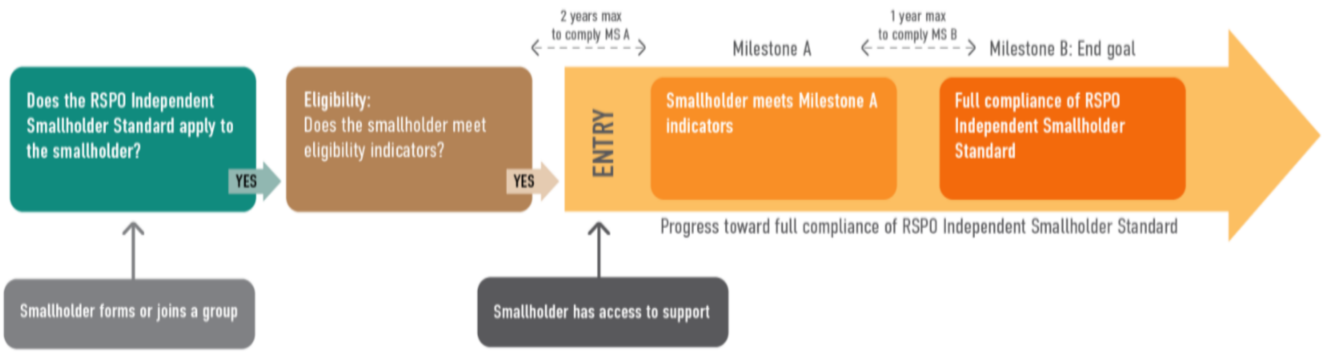

Figure 3. RSPO ISH Standard Phased Approach

The certification system consists of three phases where each phase has its own requirements for assessing compliance. It details claims that the smallholder can make, as well as benefits for the smallholder such as selling certified FFB as RSPO smallholder credits or through the physical supply chain models (such as identity preserved, segregated or mass balance). The group needs to demonstrate progress in moving from meeting eligibility indicators, to indicators listed under Milestone A and finally to meeting the indicators of Milestone B. In the eligibility phase, smallholders will learn about certification and be trained in sustainable farming methods. Progress must occur within a set timeframe: two years to progress from Eligibility to Milestone A and one more year to progress from Milestone A to Milestone B. The continual improvement process is tied to incentives such as the ability to sell 40% of their volume as credits initially, 70% at milestone A and 100% at milestone B as a mixture of credits and physical material.[23][24] This newly adopted strategy focuses on capacity building and improving livelihoods based on providing training for smallholders.

[23] https://www.foodnavigator.com/Article/2019/11/06/RSPO-adopts-new-sustainable-palm-oil-standard-for-independent-smallholder-farmers
[24] For further information on the ISH Standard, see https://www.rspo.org/publications/download/bd13a810a6c6a16

4. How can the UK private sector influence producer countries such as Thailand?

The UK and other consumer countries could support the production of CSPO by purchasing physical material from Thailand. However, only 11% of Thailand's total production is available for export and more crucially, the trade routes to the UK and Europe are not established. Existing trade routes are dominated by Indonesia, Malaysia and PNG.

Global processors and traders disclose their mills on dashboards, which indicate if palm oil is being exported and the trade route taken. The only trader to list mills from Thailand to EU/UK is Bunge Loders Croklaan.[25] This can be seen within this graph from Bunge identifying only 13 mills in their supply chain (Figure 4).

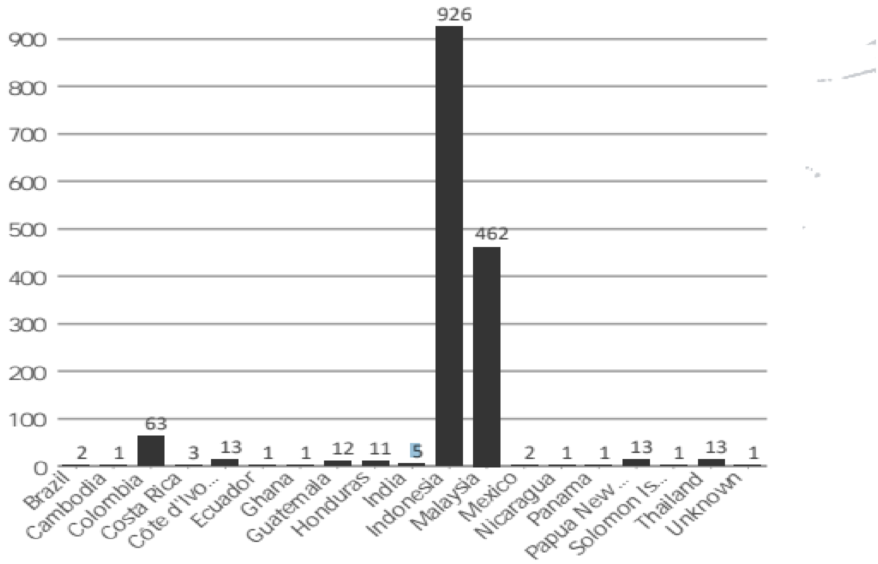

Figure 4. Bunge Loders Croklaan Palm Oil Mill Dashboard

If the UK cannot support by purchasing physical palm oil, another option is buying RSPO credits. The total claims made for RSPO credits in the UK was 32,346 in 2019, of which 2,755 RSPO credits, or 8.5%, were sold by growers in Thailand.

Another way to influence this key producer country involves the many UK and international businesses that trade in Thailand. Many have clear policies[26][27] to use only RSPO CSPO and therefore should, by default, be purchasing CSPO material where possible. The following gives an idea of the scale and presence: Tesco operates 1,967 stores in Thailand, under the Tesco Lotus brand, and another 74 in Malaysia, employing more than 60,000 people. The businesses made combined revenues of £4.9bn in the year ending in February 2019, making a profit of £286m – about a fifth of Tesco's total global profits.[28] In Thailand, M&S operates eleven stores in

[25] https://www.cargill.com/doc/1432155778288/cargill-palm-mill-list-q3-2019.pdf'; https://www.wilmar-international.com/sustainability/traceability/supply-chain-map; http://www.simedarbyplantation.com/sustainability/open-palm-traceability-dashboard; http://europe.bungeloders.com/images/applications/BLC_Global_Mill_List_2019_Q3.pdf
[26] https://www.tescoplc.com/sustainability/downloads/palm-oil-policy/
[27] https://corporate.marksandspencer.com/sustainability/food-and-household/product-standards/raw-materials-commodities-and-ingredients/palm-oil#a7585564248343db8a7b4282f904b984
[28] https://www.theguardian.com/business/2019/dec/08/tesco-weighs-up-sale-of-thai-and-malaysian-stores

Bangkok, and four in other major cities (Chiang Mai, Hat Yai, Pattaya, Phuket). There are 700 KFC restaurants operating in Thailand as of December 2018, with 258 operated by Central Restaurant Group and 273 by QSR of Asia (QSA), an indirect wholly owned subsidiary of Thai Beverage Plc (ThaiBev). Therefore, it is clear that UK based companies and global businesses with operations in the UK, could considerably influence wider consumer markets in supporting sustainable palm oil.

Purchasing CSPO may prove difficult in some cases due to some production being sold via RSPO Credits or breaks in the certified supply chain caused by lack of RSPO membership and supply chain certification. The cost of certification may remain a barrier to more availability. Mass Balance currently dominates the physical supply chains in Thailand, with limited segregated (SG)or high premiums.

Global organisations should ensure that any palm oil within their products, including fractions and derivatives, is CSPO. This would encourage and provide incentives to growers to become certified and to supply physical CSPO rather than credits, supporting the transformation of the smallholder palm oil market towards more sustainable supply chains.