2022 Palm Report

Collective retail initiative to drive transparency and identify gaps in sustainable palm oil supply chains

3keel

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Executive Summary

This report highlights the key findings from an annual collective assessment of the palm oil used within the supply chains of 9 retail companies across the UK.

Global consumption of palm oil has increased exponentially over the past 50 years as it is a highly efficient and low cost crop. However, concerns remain about it being linked back to widespread deforestation, which reduces biodiversity levels and releasing high amounts of CO2.

While some businesses have sought to remove palm oil from their supply chains due to the associated deforestation risk, there is a growing consensus that sustainable palm oil can work to protect the biodiversity of forests, and the livelihoods of smallholder famers. In response to this, The Roundtable on Sustainable Palm Oil (RSPO) has developed a certification scheme to achieve a global standard for sustainable palm oil production, and now 20% of global palm oil production is RSPO certified.

Retailers have been developing policies for suppliers that include requirements to source RSPO certified palm oil, which has materialised into a significant uptake of RSPO Segregated volumes within the UK retail supply chain. Of the 108,713 tonnes reported during this collective process, 83% of the palm volumes were reported as either RSPO Segregated or Identity Preserved, an increase of 4% from 2021.

Key findings

- → RSPO Segregated volumes continue to increase within food categories (83%)
- → Supply chain visibility needs to improve to meet upcoming EU Deforestation Regulation requirements
- → Retailer certification expectations are not translating into wider supply chain transformation

RPSO has 4 certification models

IDENTITY PRESERVED
Single identifiable certified source, separated from conventional palm oil throughout the supply chain

SEGREGATED
Certified volumes from different sources, separated from conventional palm oil

MASS BALANCE
Certified palm volumes mixed with ordinary palm oil throughout the supply chain

99%+ UK retail volume

CREDITS/BOOK & CLAIM
Manufacturers and retailers can purchase RSPO Credits and Independent Smallholder Credits from RSPO Certified growers, crushers and independent smallholders. This encourages the production of Certified Sustainable Palm Oil, but the palm oil is not physically certified

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Background

An increasing focus on sustainable palm oil

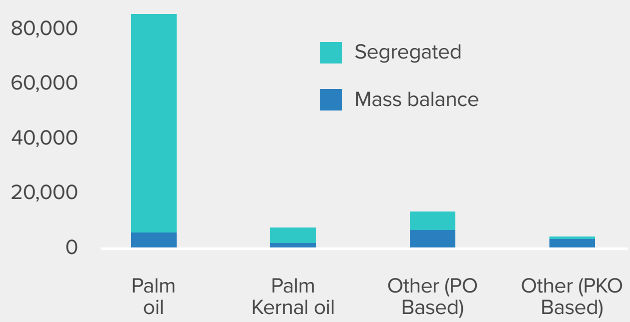
Palm oil has been estimated to be present in more than half of the products in UK retail. From bakery products to shampoo, the use of the most land efficient vegetable oil has grown significantly in use over the past two decades as companies have sought to expand food production. With nearly half of all palm oil being produced on smallholder plantations, the sector itself provides a route to community and social development that has reached areas that have not always had other forms of income available to them. At the forefront of trying to ensure that palm oil is responsibly produced has been the Roundtable on Sustainable Palm Oil (RSPO), whose standards have now been adopted to cover approximately 20% of global production. However, it's also clear that some significant challenges remain within the sector as deforestation, peatland planting and exploitation continue to be present in supply chains.

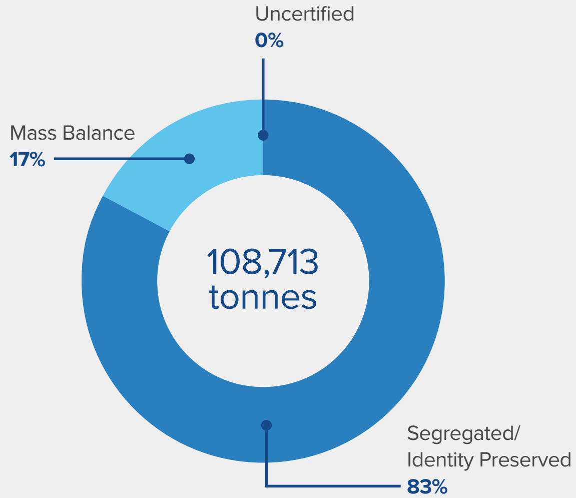
Retailers have a unique place in the supply chain as the end specifiers and sellers of products. Many have adopted minimum standards for 100% RSPO certification as a condition of supply, with an escalating expectation for how supply chains can be segregated to ensure that only certified product is physically used. With just one key credible certification available, monitoring the chain of custody delivery of verified product is enabled by cross referencing claims and evidence. Undertaking this review individually, however, can create a burden on supply chains to duplicate customer reporting when not done in a coordinated way.

In 2018, 3Keel developed an annual, standardised, collective process to provide retailers with the ability to quantify the risk and improve the visibility of palm within their supply chains. This has informed palm sourcing policies and strategies to improve the RSPO certification levels within supply chains and therefore decrease the deforestation risk in both food and non-food products. By working together to create a market-level view of supply chain activity, this report enables the identification of specific areas for improvements, informs wider-scale action and provides opportunities to drive whole system change.

In the six years this research has been carried out, we have seen an increase of segregated volumes from 65% to 83%, with a 4% increase in just the last year. This improvement has been driven by the enhancement of policies to reflect the gaps identified through each round of annual reporting.

Palm type split by certification





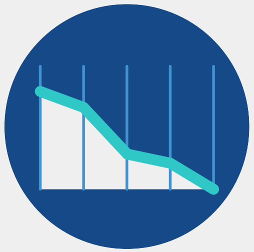
Moving beyond certification

Many theories of change have been developed in the palm industry to reduce the associated deforestation risk, and as a result a number of different approaches now exist that can play a role in aligning with the upcoming EU Deforestation Regulation requirements

Direct supply chain approaches

Policies

Food policies are requiring downstream actors to supply products that contain physically RSPO certified palm. Currently, non-food policies are unable to require the same certification level due to material availability of derivatives and the complications of traceability within the processing operations.



Reducing palm usage

Addressing the risk of deforestation through palm reduction is complex. Finding an alternative oil that is equally as land efficient, with the same properties, requires serious considerations to ensure there are no unintended impacts.

Industry or landscape-level approaches

Area mechanisms

Regional based approaches have been adopted in some areas by coalitions of public and private actors within the industry. By engaging with producer regions, actors are able to support the promotion of good agricultural practices and encourage RSPO certification among smallholders.

Trader engagement

Engaging with palm traders through coalitions such as the Palm Oil Transparency Coalition (POTC), helps to mobilise traders to encourage responsible action to ensure that their palm oil supply chains are free from deforestation and importers are addressing key issues within their operations.

Upcoming EU/UK Due Diligence legislation

The need to ensure that palm oil is traceable and responsibly produced has entered a new phase with the adoption of legislation in Europe to eliminate the presence of deforestation-linked commodities from the marketplace. Whilst first adopted as a principle by the United Kingdom in 2021, the European Union became the first jurisdiction to legally impose a requirement on businesses to ensure their supply chains complied with the requirements through new due diligence responsibilities. Palm oil and palm derivatives, in particular, were identified as a key forest-risk commodity within the new EU Deforestation Regulation (EUDR).

In order to demonstrate compliance, all companies in scope of the legislation, including retailers where the products they sell contain palm oil, must conduct a risk assessment to identify the risk of deforestation and to ensure that mitigation efforts are in place to reduce these risks to a negligible level. This requirement goes beyond certification as additional transparency and traceability will be needed to ensure companies can identify the specific production plots associated with production. For a commodity supply chain like palm oil, this requirement will present new challenges and the use of segregated chain of custody certification schemes, like RSPO, will be critical pieces to help deliver the transparency and verification needed to promote compliance.

WHAT THE EUDR REQUIRES

Commodities and associated products which are placed on the EU market (imported, exported or traded) will be required to be:

a) deforestation-free (based on a cut-off date of 31 December 2020), regardless of legality;

b) legal, as defined by legislation in the country of production; and

c) covered by a due diligence statement.

What does this mean for retailers?

The greatest burden of proof and evidence rests with the first importers of palm oil to Europe and those that directly process it into materials and ingredients that are used in retail supply chains. To ensure that retailers are able to maintain the integrity and viability of their supply chains, they will need, at the minimum, to be able to do the following:

- Identify the first importer of palm oil into Europe
- Ensure that the first importers have undertaken their own risk assessment to declare that all of the palm oil entering Europe is deforestation free
- Know the volumes associated with each supply chain connected to them

Methodology

Our approach to assessing claims

1. Identify suppliers using palm oil to produce retailer own label products
2. Engage companies on reporting on specific volumes and certification claims
3. Review and cross reference reported volumes with retailer systems
4. Assess validity of RSPO claims using manufacturing site certification information
5. Assess retailer and market-level progress and trends

Established & consistent approach to palm mapping

Now, in the sixth year of this palm oil reporting process, nine retailers from the UK and Europe are involved in an annual collective process to collect and assess their palm oil supply chains. Working with suppliers across these retailers reduces the reporting requests suppliers receive, whilst also improving overall supply chain visibility for identifying opportunities and barriers to increase the sustainable palm volumes within the market.

KEY FEATURES

1. Alignment of scope and reporting asks – Retailers align to determine consistent scope and reporting requirements for KPI's. All suppliers identified by retailers are requested to provide information about their sourcing practices and specific volume information related to their supply chain. Data is collected at the manufacturing site level due to the mixing of materials and the general complexity of product-level reporting for suppliers.

2. Supplier engagement – Support and guidance is provided for suppliers throughout the process through various forums such as live webinars, email and live chat support in multiple languages to allow suppliers to report as efficiently as possible.

3. Data analysis/validation and reporting – The team review and validate submissions, engaging the suppliers where necessary to clarify any queries and discuss anomalous results before providing the results back to the retailer. The format and data requested remains consistent, meaning the quality of the data and supply chain transparency improves year on year.

Key findings

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1.

RSPO Segregated volumes continue to increase within food categories

2.

Supply chain visibility needs to improve to meet upcoming EU Deforestation Regulation requirements

3.

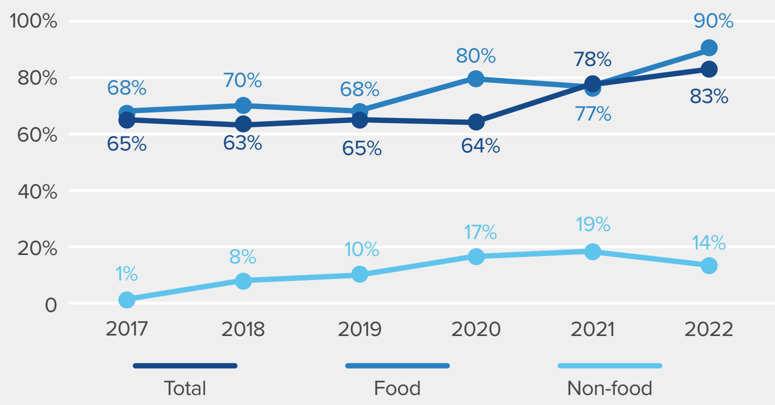
Retailer certification expectations are not translating into wider supply chain transformation

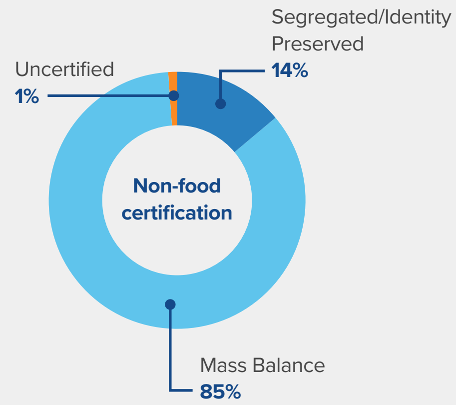
1. RSPO Segregated volumes continue to increase within food categories

Over the last 5 or 6 years, UK retailer policies have focused on requiring RSPO segregated volumes within food categories, significantly improving the certification uptake within retailer supply chains. A certification gap now remains in non-food categories with RSPO Mass Balance and Credits certification contributing to 85% of the total volume in 2022. Non-food palm volumes typically include home and personal care products containing palm-based derivatives which are less available as physically certified due to the complexity of the processing.

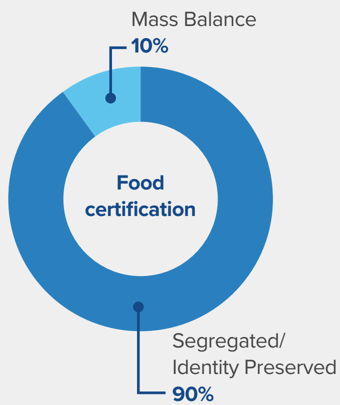
In 2022, it was reported by suppliers that there was a shortage of palm-free glycerine, resulting in higher RSPO Mass Balance volumes within food categories. The production of glycerine is a by-product of biodiesel production so as the demand fluctuates, so does the availability of glycerine and therefore the certified volumes on the market.

% of volume RSPO segregated (Average Retailer)





	Palm type typically used	Product categories
Food	Palm oil	Bakery, Convenience foods, Confectionery
Non-food	Palm or palm kernel based derivatives	Household and personal care



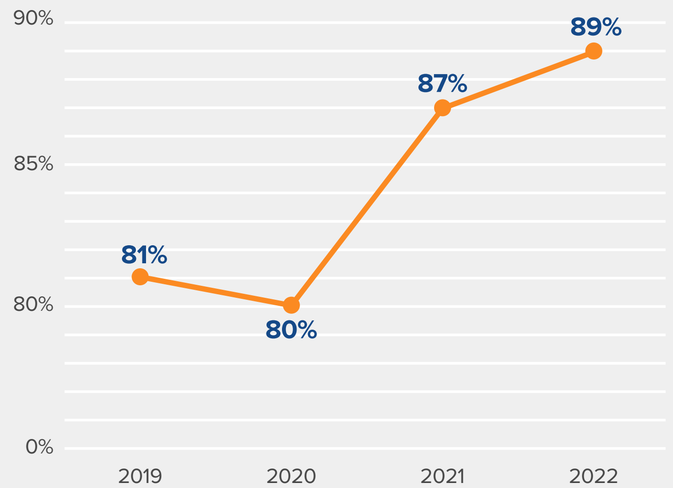
2. Supply chain visibility needs to improve to meet upcoming EU Deforestation Regulation requirements

The UK palm supply chain as it stands is not currently prepared to adapt and meet future expectations such as the upcoming EU/UK Due Diligence legislation, and a focus on transparency and traceability will be required to deliver this. During the reporting process suppliers were asked a number of questions to gain an insight into the due diligence preparedness within the industry, and the responses signify that capacity building to create data systems to be able to share the required data still needs to be developed. The retail industry as a collective is in a position to encourage disclosure from downstream actors to improve transparency and therefore sustainable sourcing within the palm supply chain.

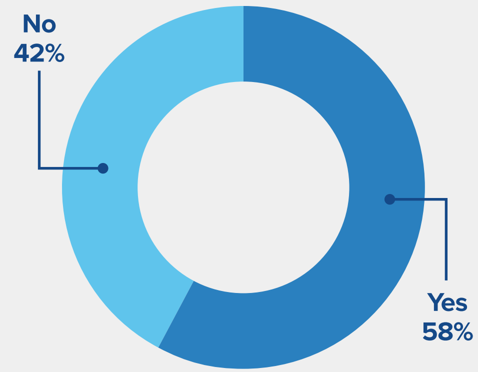
Suppliers cited that the key barriers to tracking 100% of palm-based ingredients back to the original importer were:

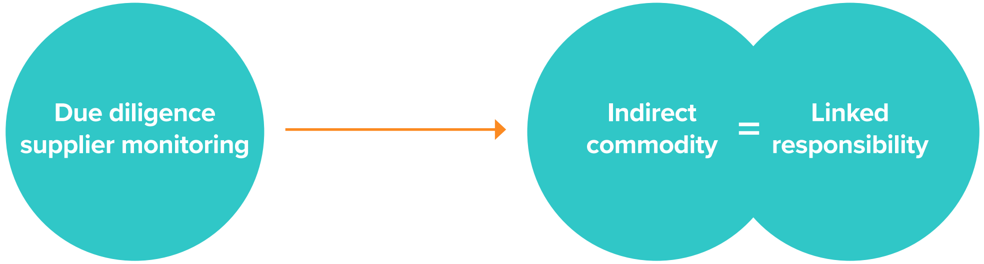
- Traceability gaps
- Supply chain complexity (processing of palm ingredients)
- Lack of existing demand or requirement
- Lack certified materials available
- Confidentiality and disclosure

Transparency of the first importer into Europe



Are suppliers aware of the upcoming EU/UK DD requirements?





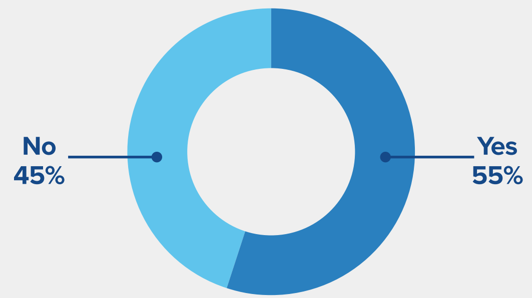
3. Retailer certification expectations are not translating into wider supply chain transformation

Suppliers are not necessarily implementing the same sourcing policies as their customers, therefore to improve sustainable sourcing practices within the wider supply chain, upstream actors need to be mobilised. If suppliers develop group sourcing policies that aligned with retailer requirements, the volume of certified sustainable palm oil would increase within the UK market and beyond.

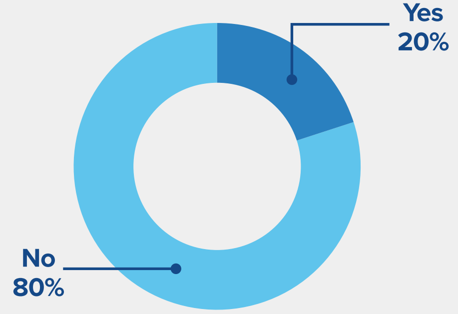
The main barriers to achieving 100% RSPO Segregated supply of palm-based materials have been identified by suppliers as:

- Considering the cost of sourcing certified materials, currently the decision is dependent on a case by case basis for each customer due to their policy requirements
- Implementation cost of certification requires both resource and a financial considerations e.g. becoming RSPO site certified
- Availability of some certified raw materials, such as palm based derivatives, can be a barrier to achieving 100% RSPO Segregated supply
- Lack of customer demand outside of retail doesn't incentivise suppliers to adopt sourcing certified palm

Suppliers with group policies on the responsible sourcing of palm oil



Suppliers intending to develop a policy if it doesn't currently exist



Recommendations

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Retailers

- Address existing gaps in palm policy scopes, such as:
    - Reviewing the impact of palm embedded within animal feed in the supply chain. The feed sector is currently lagging behind the food sector in terms of transparency and certification, so a collective effort will be required to identify and address this
    - Considering ways to assess and engage the impact of the branded products footprint
- Further developing policies to include a requirement for full importer disclosure

Suppliers

- Introducing group policies that align with retailer requirements and include deforestation cut-off dates, and a time bound action plan for delivering
- Prioritising work with downstream suppliers to be able to provide transparency on the first palm importer into Europe
- Developing internal systems to align with instant traceability of the shipment for the requirements of upcoming EU legislative requirements

Civil Society

- Work to align the UK Due Diligence legislation with the EU requirements to ensure consistent data asks
- Promote solutions for smallholders to bring them with the sector to ensure they don't get excluded

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