



WORLD GROWTH

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A Roadblock to Food Security

How Halting Land Conversion
Threatens Food Security in Africa—
A Palm Oil Case Study

Foreword by President J. A. Kufuor
Former President of the Republic of Ghana



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**Palm Oil Green Development
Campaign**

Alleviating Poverty through Wealth Creation

Palm oil provides developing nations and the poor a path out of poverty. Expanding efficient and sustainable agriculture such as Palm Oil Plantations provides small and large plantation owners and their workers with a means to improve their standard of living.

Sustainable Development

Sustainable development of palm oil plantations and growth of the palm oil industry in developing nations can and will be achieved through consultation and collaboration with industry, growers, lobby groups and the wider community.

Climate and the Environment

Palm Oil is a highly efficient, high yielding source of food and fuel. Palm Oil plantations are an efficient way of producing fossil fuel alternatives and capturing carbon from the atmosphere.

Opportunity and Prosperity

Developing nations must be allowed the chance to grow and develop without political intervention by environmental groups or developed nations. It is crucial that developing nations be given the same opportunities which developed nations have benefited from.

Property Rights

Efficient palm oil plantations and the growing demand for palm oil give smaller land holders greater opportunities to make a living off their land, maintain their ownership and support their rights to property and prosperity.

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Foreword by President J. A. Kufuor, Former President of the Republic of Ghana

Food security is one of the greatest challenges facing Africa today. According to the United Nations, since 1970, the food security situation in Africa has deteriorated, and over one third of people in sub-Saharan Africa are now considered to be malnourished.

While there are many causes of Africa's food insecurity, from my experience it is clear that high levels of poverty and restrictions on access to food supplies are critical causes.

Poverty alleviation in Africa continues to lag the rest of the world. The rural poor are a large proportion of the food insecure - half of Africa's food insecure people are smallholders.

The problems facing Africans in accessing food supplies are clear. Agricultural productivity is low. Post-harvest losses are high, as are the costs of internal transport and distribution. As a consequence, smallholders are unable to produce enough either to feed their families or to lift them out of poverty.

In South-East Asia, commercial palm oil plantations have been highly successful at reducing rural poverty levels, fostering employment for small holders, developing rural infrastructure, and providing a source of inexpensive, staple food for the population as a whole.

As this paper makes clear, commercial palm oil represents an exciting opportunity for Africa. It has the potential to provide significantly higher returns to smallholders than their current crops or become an inexpensive African-produced source of food, particularly when years of drought have left the continent reliant on vegetable oil imports to meet demand. However there are a number of threats that must be faced before Africa can develop a vibrant palm oil industry.

Concerted attempts are underway to restrict the type of land on which oil palm plantations may be developed, most prominently by the World Bank, the International Finance Corporation and environmental NGOs. For some time, environmental campaigners have been actively seeking to stop multilateral and private financial support to major palm oil developments in Africa, regardless of the net economic and social benefit that the local population can expect to receive from these developments. In the context of African food security, this campaigning is misguided and dangerous.

Because food security is one of Africa's prime challenges now and in the coming years, I am pleased that this paper re-focuses the debate away from environmentalism, towards the positive role that staple crops, such as palm oil, can play in African development. I endorse this paper for its uncompromising examination of the challenges and opportunities facing Africa's poor and hungry, and I urge national leaders to consider its conclusions in the forthcoming climate change negotiations to be hosted in Durban. It is essential that, as these negotiations look towards agreement on environmental issues, we do not sacrifice the needs of Africa's poor and hungry in the process.

A Roadblock to Food Security

How Halting Land Conversion Threatens Food Security in Africa—A Palm Oil Case Study

Executive Summary

Food security is the ability of individual households within a given population to access, at all times, the minimum food that they require for a healthy and active life.

As global population continues to grow and developing nations continue to raise their populations' standard of living, the pressure on global food supplies has increased. This paper addresses the challenge of global food security, particularly in Africa and the role of sustainability standards in curtailing the expansion of oil palm plantations in Africa.

The United Nations estimates that, by the end of 2020, the global population will be 7.7 billion¹.

Over the coming decade the OECD and FAO are projecting that population and income growth will drive up food demand, especially in developing countries. The increase in food demand will be particularly high in countries with low but increasing incomes, since a greater portion of their additional income is devoted to improving the household diet. In North Africa, the Middle East and Sub-Saharan Africa, the OECD and FAO are projecting food consumption per capita to increase by 9.5 per cent and 6.5 per cent respectively over the coming decade.

Palm oil is widely used as a food staple and in cooking in developing countries, particularly those in Africa, where the plant originated, and Asia, where it was introduced in the 19th century. For example, in equatorial West Africa it has been estimated to account for between 10 and 20 per cent of all the calories consumed by the local population.

The OECD and the FAO have projected global consumption and production of palm oil to increase by about 44 per cent over the coming decade.

The palm oil industry is also vital to smallholders in Africa. Smallholders constitute a large percentage of palm oil production in Africa and will form the backbone of palm oil development on the continent. The equatorial areas of Africa and South America are proving to be highly attractive prospects for large scale plantations and a number of development projects are in the process of being implemented. If they proceed to fruition, these investments have the ability to increase the local supply of an important food staple, reduce the need for Africa to import substantial quantities of crude palm oil, and provide the basis for a new export industry.

Environmental NGOs and some leading industrialized economies, as well as the World Bank, have advocated a position in the UN climate change negotiations that conversion of forest land to other uses, including palm oil, should cease. The argument is that this will reduce greenhouse gas emissions. Recent research has shown the contention that deforestation is a major driver of greenhouse gas emissions is wrong.²

Last year at Cancun in Mexico, the parties to the UN Framework Convention on Climate Change (UNFCCC) expressly declined to endorse the principle of not converting forest land for agriculture or commercial use or to set a global target for the cessation of deforestation.

The decision reflected strong concern that inappropriate regulation of land-use change would seriously hamper economic development and poverty reduction in developing countries. This is particularly important in terms of the ability

1 United Nations Secretariat, Department of Economic and Social Affairs, World Population Prospects: The 1996 Revision (New York, 1996)

2 See World Growth 2011, "Trees not Poverty"

of an expanded oil palm sector to contribute to both goals as Malaysia has successfully shown and Indonesia is in the process of doing.

The palm oil industry in Malaysia, particularly the Federal Land Development Authority (FELDA), has provided a model for how palm oil can be used to develop a strong income source and a highly successful measure to reduce poverty.

Notwithstanding this, aid donors have pledged over US\$ 4 billion dollars to developing countries to change their economies into “low-carbon” economies, including in particular by ceasing conversion of forest land to other purposes, such as palm oil.

In parallel, the World Wildlife Fund (WWF) is actively lobbying donors and governments to commit to ceasing conversion of forest land. It urges that the principles which underlie their sustainability standards, such as the Forest Stewardship Council and the Roundtable on Sustainable Palm Oil, be mandated by governments. These sustainability standards restrict conversion of natural forest to other uses. The World Bank also endorses these policies.

These donor policies and NGO strategies would directly impede strategies to increase production of food staples, like palm oil and hinder achievement of food security, including in Africa.

However these strategies are undermined by direct action from Western nations, environmental NGOs and bodies such as the World Bank to erect roadblocks to the development of a domestic supply of vegetable oil in Africa. While these policies are endorsed, Africa will be hindered from developing a viable industry which can assist in feeding its people.

Effective strategies for reducing food insecurity involve increasing agricultural production by expansion of land for production, increased productivity, reducing post-harvest losses, and increasing openness to trade. Expansion of palm oil has to be part of the solution, given its relatively low cost and excellent cooking properties.

In light of the upcoming Durban climate change talks, it is important to recognize that strategies to preserve forests have significant impacts on developing nations. Food security for Africa cannot be sacrificed.

I. The Challenge to Provide Food Security

Food security is the ability of individual households within a given population to access, at all times, the minimum food that they require for a healthy and active life.³ It is a function of the size of the population and its location, the level and distribution of purchasing power in the population, the level of domestic food prices, and the barriers to importing food.

Over the past five years world agricultural commodity prices have been significantly higher and more volatile than historical experience would suggest. These developments have adverse implications for food security. This was underlined by the G20 Summit in Seoul in November 2010 and the outcome of the meeting of G-20 Agriculture Ministers in Paris in June 2011 where agriculture ministers formulated a plan to curb food price volatility.

Against this background the OECD and the FAO have published their most recent assessment of the medium-term outlook for global food commodity markets.⁴ Their 2011 report covers the time horizon from 2011 to 2020. The report’s baseline projection is a plausible scenario of what can be expected to happen to production, consumption,

3 FAO [Food and Agriculture Organization of the United Nations], Trade Reforms and Food Security, Food and Agriculture Organization, Rome

4 OECD [Organization for Economic Cooperation and Development] & FAO [Food and Agriculture Organization of the United Nations], 2011, *OECD-FAO Agricultural Outlook 2011-2020*, OECD Publishing and FAO, Paris and Rome [accessed at http://dx.doi.org/10.1787/agr_outlook-2011-en]

stocks, trade, and prices for each commodity under a given set of assumptions about population and demography, the macroeconomic environment, productivity trends in agriculture, and agricultural and trade policy settings.⁵

Over the short term, normal seasonal conditions will see increases in agricultural output in response to the current high price levels. Although prices should fall as a consequence, the OECD and the FAO do not expect them to fall back to the levels that were observed over the 2000s. Moreover, livestock and meat prices are now starting to manifest the effects of sustained high prices for animal feed.

As the impacts of higher commodity prices have flowed down the food chain, there are signs global price inflation is accelerating. In developing countries erosion of the purchasing power of their poorer citizens raises particular concerns about economic stability and food insecurity. There is room for Africa to lead the way in the coming decades in improving food security. In an editorial in the Financial Times, Columbia University Professor Jeffrey Sachs wrote, “leading agronomists have been saying for years that tropical Africa can produce vastly more food; enough to end food insecurity and import dependence.”

The OECD and the FAO project global agricultural production to grow by 1.7 per cent a year over the decade to 2020, compared to 2.6 per cent for the past decade.⁶ Slower output growth is expected for most crops, as they face higher production costs and a slow-down in productivity growth. In contrast the growth in livestock production should remain

close to recent trends. Despite the slow-down, output per capita is still projected to rise by 0.7 per cent a year.⁷

Agricultural productivity growth is slowing because of many factors. They include higher input costs, slower adoption of new technologies, expansion into more marginal lands, and limits to the application of double-cropping and irrigation. While a substantial area of land could be converted to agriculture, most of it is in the lower productivity zones of Sub-Saharan Africa and South America.

The global slowdown in improvements in crop yields will put continued upward pressure on world prices. Higher production growth is expected from emerging suppliers where existing technologies offer good prospects for yield improvements, although yield and supply variability may be higher as a consequence of their adoption. The share of output accounted for by the developing countries should continue to rise over the outlook decade.

In the future many drivers of price volatility — such as the weather, yields, stocks, energy prices — may themselves become more volatile. Agricultural output and trade should continue to grow, led by the emerging economies, but growing food deficits are likely in Sub-Saharan Africa.

The OECD-FAO commodity outlook is based on the UN 2008 population projections.⁸ These indicate that, by the end of 2020, the global population will be 7.7 billion. This represents a growth rate of just over one per cent a year over the coming decade, significantly slower than the 1.2 per cent

5 The OECD-FAO commodity projections cover biofuels, cereals, oilseeds, sugar, meats, dairy products, fish and seafood. They use a mathematical model of global agricultural markets to generate a series of internally consistent projections for the analysis of issues of interest, such as the implication of a particular demand- or supply-side ‘shock’ for food security.

6 OECD [Organization for Economic Cooperation and Development] & FAO [Food and Agriculture Organization of the United Nations], 2011, *OECD-FAO Agricultural Outlook 2011-2020*, OECD Publishing and FAO, Paris and Rome [accessed at http://dx.doi.org/10.1787/agr_outlook-2011-en]

7 OECD [Organization for Economic Cooperation and Development] & FAO [Food and Agriculture Organization of the United Nations], 2011, *OECD-FAO Agricultural Outlook 2011-2020*, OECD Publishing and FAO, Paris and Rome [accessed at http://dx.doi.org/10.1787/agr_outlook-2011-en]

8 UN [United Nations], 2008, *World Population Prospects: The 2008 Revision*, Population Division, Department of Economic and Social Affairs, United Nations, New York, NY

observed over the last decade. The prospective slowdown in global population growth should be evident in all regions but differ between the developing and industrialized countries. For example, the population of Africa will continue to grow at more than 2 per cent a year to 2020.

The UN expects the large majority (86 per cent) of the global population growth over the coming decade to occur in large urban areas in the developing countries. Urbanization implies significant changes in the composition of household food budgets, involving, among other things, a higher share being spent on processed food, pre-prepared food, and higher value-added products.

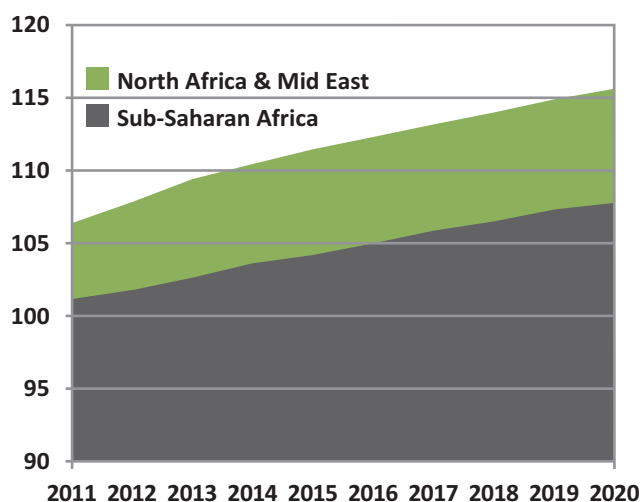
The demand for food depends not only on population but also on income. The economic environment underpinning the OECD-FAO commodity outlook is based on macroeconomic projections prepared by the OECD, in the case of its member countries, and by the World Bank for the rest of the world.⁹ They suggest that GDP per capita in the developing world will grow by about 3.8 per cent a year over the coming decade, compared to more than 4 per cent a year for the previous decade. As a consequence, GDP per capita in many poor countries will increase by as much as 50 per cent, including in Sub-Saharan and North Africa.

Over the coming decade the OECD and FAO are projecting that population and income growth will drive up food demand, especially in developing countries. The increase in food demand will be particularly high in countries with low but increasing incomes, since a greater portion of their additional income is devoted to improving the household diet. In North Africa and the Middle East and Sub-Saharan Africa, the OECD and FAO are projecting food consumption per capita to increase by 9.5 per cent and 6.5 per cent

respectively— see Figure 1.

The small low-income developing countries that depend on imported food have been particularly hard hit by the recent combination of high food commodity prices and the global financial crisis.¹⁰ Most of these countries are in Africa, particularly the Horn of Africa. Between 2007 and 2008 the number of undernourished people remained constant in Asia but increased by 8 per cent in Africa.

Figure 1: Projection of index of total food consumption per capita, 2001 to 2020 (a) (b)



Notes: (a) actual 2011, projection 2012-20 (b) index 2004-06 = 100

Source: OECD & FAO 2011

It is widely recognized that the most effective policy strategy to promote food security is one based on increased productivity in agriculture, reduced commodity losses in the marketing chain, greater policy predictability and openness to trade.¹¹ Investment in agriculture remains critical to increased productivity, lower post-harvest losses, and long

9 World Bank, 2011, *Global Economic Prospects January 2011: Navigating strong currents*, World Bank, Washington, DC, January

10 FAO [Food and Agriculture Organization of the United Nations], IFAD [International Fund for Agricultural Development], and WFP [World Food Programme], 2011, *The State of Food Insecurity in the World: How does international price volatility affect domestic economies and food security*, FAO, Rome

11 FAO, IFAD & WFP 2011

term food security. The private sector has to provide the bulk of the investment but the public sector should provide those public goods that the private sector cannot.

II. The Role of Palm Oil as a Food Staple

Palm oil is widely used as a food staple and in cooking in developing countries, particularly those in Africa, where the plant originated, and Asia, where it was introduced in the 19th century. For example, in equatorial West Africa it has been estimated to account for between 10 and 20 per cent of all the calories consumed by the local population.¹²

Palm oil is also being increasingly used by the commercial food industry in both developing and industrialized countries for the preparation of food products and as a feedstock for the production of biodiesel.

In equatorial Africa the smallholders who raise oil palm for their subsistence do not waste any part of the palm or its many by-products.¹³ After extracting the oil from the fruit, they feed the plant residue — palm kernel cake — to their livestock. They use palm fronds to make brooms, roofing and thatching, baskets and mats, and the thicker stalks as walls in their huts. The bark of the palm frond is peeled and woven into baskets.¹⁴ They split the palm itself for use as supporting frames in buildings.

The empty fruit bunches, the shells and fiber that remain

after extraction of the crude palm oil, are used for mulching, manure and as a fuel.¹⁵ The clear oil that is extracted, often manually, from the palm kernel is used to make soap.

Sap from the flower of the palm can be fermented to produce palm wine. The palm wine can, in turn, be distilled into a gin, which is known as 'akpetesin' in Ghana and 'ogogoro' in Nigeria.¹⁶

Tables 1 and 2 set out the global consumption and production of crude palm oil in the four years to 2010-11. The data were sourced online from the Foreign Agricultural Service of the US Department of Agriculture.¹⁷

The most notable feature of the global market is the extremely rapid growth of consumption of crude palm oil in very poor countries with high populations, such as Egypt (22 per cent a year), India (12 per cent a year), Indonesia (10 per cent a year), and Bangladesh (9.1 per cent a year). This is a reflection of its relatively low cost and excellent cooking properties.

In 2010-11, Africa accounted for 8 per cent of global consumption of palm oil but only 3.9 per cent of global output, despite the fact that the oil palm is a native of West Africa. To fill the gap, African countries have had to rely heavily on imports, mostly from Asia. Over the four years to 2010-11, the growth in domestic consumption in Africa has been more than twice that for domestic production, so

12 Bruce F Johnson, 1958, *The Staple Food Economies of Western Tropical Africa*, Food Research Institute, Stanford University, Stanford University Press, Stanford, CA

13 Thompson Ayodele, 2010, *African Case Study: Palm Oil and Economic Development in Nigeria and Ghana; Recommendations for the World Bank's 2010 Palm Oil Strategy*, Initiative for Public Policy Analysis, Lagos, Nigeria, August

14 M. F. Komolafe and D. C. Joy, 1990, *Agricultural Science for Senior Secondary Schools, Book One*, University Press Ltd, Ibadan, Nigeria, quoted in Ayodele 2010

15 K. O. Soyebó, A. J. Farinde, and E. D. Dionco-Adetayo, 2005, 'Constraints of Oil Palm Production in Ife Central Local Government Area of Osun State, Nigeria', *Journal of Social Science*, 10(1): 55-59, quoted in Ayodele 2010

16 V. A. Akinyosoye, 1976, *Senior Tropical Agriculture for West Africa*, Macmillan Education Limited, London and Basingstoke, UK, quoted in Ayodele 2010

17 USDA [United States Department of Agriculture], 2011, 'Production, Supply and Distribution Database', Foreign Agricultural Service, United States Department of Agriculture [accessed on 13 November 2011 at <http://www.fas.usda.gov/psdonline/>]

Table 1: Global consumption of crude palm oil, thousand tonnes

COUNTRY/REGION	2007/08	2008/09	2009/10	2010/11	CAGR (a) (% PER YEAR)
India	5,075	6,230	6,440	7,135	12.0
Indonesia	4,704	4,855	5,424	6,265	10.0
China	5,222	5,618	5,930	5,797	3.5
EU-27	4,717	5,220	5,210	5,150	3.0
Malaysia	3,170	3,229	3,389	3,806	6.3
Africa	3,424	3,440	3,655	3,746	3.0
Nigeria	1,190	1,208	1,232	1,240	1.4
Egypt	540	740	885	970	21.6
Pakistan	1,816	1,953	1,971	2,050	4.1
Thailand	943	1,229	1,297	1,180	7.8
Bangladesh	797	700	911	1,035	9.1
United States	948	959	958	917	-1.1
Colombia	515	615	777	775	14.6
Iran	519	551	552	555	2.3
Russia	705	584	527	590	-5.8
Japan	551	531	581	575	1.4
Rest of World	6,176	5,938	6,292	6,820	3.4
World	39,318	42,108	44,493	47,070	6.2

Note: (a) compound average growth rate from 2007-08 to 2010-11

Source: USDA 2011

Table 2: Global production of crude palm oil, thousand tonnes

COUNTRY/REGION	2007/08	2008/09	2009/10	2010/11	CAGR (a) (% PER YEAR)
Africa	1,802	1,852	1,873	1,873	1.3
Latin America	2,233	2,277	2,307	2,361	1.9
Indonesia	18,000	20,500	22,000	23,600	9.4
Malaysia	17,567	17,259	17,763	18,215	1.2
Thailand	1,050	1,540	1,345	1,288	7.0
Rest of World	432	564	574	593	11.1
World	41,084	43,992	45,862	47,930	5.3

Note: (a) compound average growth rate from 2007-08 to 2010-11

Source: USDA 2011

Table 3: Production of crude palm oil in Africa, thousand tonnes

COUNTRY/REGION	2007/08	2008/09	2009/10	2010/11	CAGR (a) (% PER YEAR)
Angola	58	58	58	58	0
Benin	35	35	35	35	0
Cameroon	182	190	190	190	1.4
Congo, Dem. Republic of	182	185	185	185	0.5
Cote d'Ivoire	290	300	300	300	1.1
Ghana	120	120	120	120	0
Guinea	50	50	50	50	0
Liberia	42	42	42	42	0
Nigeria	820	850	850	850	1.2
Sierra Leone	36	36	36	36	0
Togo	7	7	7	7	0

Note: (a) compound average growth rate from 2007-08 to 2010-11

Source: USDA 2011

imports grew much more rapidly than did domestic consumption. Imports amounted to around 1.9 million tonnes of palm oil in 2010-11, having been only 1.6 million tonnes in 2007-08.

The OECD and the FAO have projected global consumption and production of palm oil to increase by about 44 per cent over the coming decade. In terms of annual growth rate, however, global output is expected to slow down compared to the last decade. Malaysia and Indonesia, which account for nearly 90 per cent of global output, will see their combined palm oil output increase by almost 45 per cent, notwithstanding more restrictive land conversion and environmental regulation in the countries in question.

The OECD and the FAO have highlighted the uncertainty surrounding the outlook for exports of palm oil from Indonesia and Malaysia, the two largest producers in the

world. Both are confronting the prospect of low productivity growth in oil palm cultivation. Future advances in this area depend on scientific and economic factors, as well as domestic policy settings, especially those associated with land conversion and environmental protection.

III. Destination Africa — Expansion of Palm Oil

Studies on the impact of the use of oil palm plantations as a development tool have found that ‘the cultivation of oil palm had certainly played a dominant role in enhancing the income of the rural population and in the alleviation of poverty among agricultural smallholders’.¹⁸ The incidence of poverty in the Malaysian agricultural sector between 1970 and 1990 declined markedly amongst smallholders of oil palm compared with other types of agriculture. By 1980 oil palm smallholders had the lowest incidence of poverty of any smallholder in the Malaysian agricultural sector. Estate

18 Simeh, A. and Ahmad, T. (2001), “The Case Study on the Malaysian Palm Oil”, Regional Workshop on Commodity Export Diversification and Poverty Reduction in South and South-East Asia, April 2001

workers, including oil palm estate workers, had the second lowest incidence of poverty.

In both Indonesia and Malaysia, palm oil is a leading agricultural product and export earner, accounting respectively for 16.6 and 15.5 million tonnes of exports in 2009-10.¹⁹

Following the demonstrated success of palm oil in boosting prosperity and reducing poverty in South East Asia, it is being developed in other regions in the developing world. The FAO has recognized the considerable potential for developing and expanding the palm oil industry in Africa to raise living standards and provide a viable domestic source of vegetable oil²⁰.

There has been a very buoyant global outlook for palm oil over at least the medium term and relatively limited opportunities for expansion through land conversion in the major producing countries in South-East Asia. As a result, the industry is actively looking to expand global productive capacity by developing new commercial plantations elsewhere. The equatorial areas of Africa are attractive prospects for large scale plantations — see Table 3.

A number of palm oil development projects are in the process of being implemented. If they proceed to fruition, these investments have the ability to increase the local supply of an important food staple, reduce the need for Africa to import substantial quantities of crude palm oil, provide the basis for a new export industry and, most importantly, boost job

creation in a region historically beset by poverty.

Investment in new capacity needs to be distinguished from merger and acquisition activity involving existing palm oil plantation and processing assets. For example, in 2007 two agribusinesses listed on the Singapore Stock Exchange — Olam International and Wilmar International — created the Nauvu joint venture to undertake investments in integrated plantations and agri-processing operations in Africa, including in the oil palm and natural rubber sectors.²¹ Nauvu's initial investments have included the following equity acquisitions in **Cote d'Ivoire**:

- 25 per cent of the SIFCA Group — the largest private agro-industrial group in Cote d'Ivoire whose interests include oil palm;
- 50.5 per cent of the business created by the merger of the edible oil businesses of the SIFCA Group and Unilever in Cote d'Ivoire; and
- 16.65 per cent of the oil palm plantations in Cote d'Ivoire that are the primary supplier of crude palm oil in Cote d'Ivoire.

The following outlines proposed investments that are on the public record to create new oil palm plantations and/or new processing mills.

In 2009 Sime Darby, a Malaysian agri-business with substantial palm oil interests, signed a 63-year concession agreement with the Government of **Liberia** to develop a total of 220,000 hectares of land into oil palm and rubber plantations.²² The concession areas are located in four

19 United States Department of Agriculture, 2011, 'Production, Supply and Distribution Database', Foreign Agricultural Service, United States Department of Agriculture [accessed on 13 November 2011 at <http://www.fas.usda.gov/psdonline/>]

20 United Nations Food and Agriculture Organisation, "Small-Scale Palm Oil Processing in Africa", 2002, FAO Agricultural Services Bulletin, accessed at: <http://www.fao.org/DOCREP/005/Y4355E/y4355e00.htm#Contents>

21 Wilmar International and Olam International, 2007, 'Formation of 50:50 Joint Venture for Investments in Palm Oil and Rubber Assets in Africa', *Presentation to Analysts and Media*, Singapore, [accessed on November 16 2011 at: http://www.wilmar-international.com/investor/Olam_Presentation.pdf]

22 The Federal Land Development Authority (FELDA) is the Malaysian agency responsible for resettling the rural poor based on development of smallholdings to grow cash crops, including oil palm. It is the world's largest operator of oil palm plantations. See Cheng Hai Teoh, Undated, *Key Sustainability Issues in the Palm Oil Sector: A Discussion Paper for Multi-Stakeholders Consultations*, The World Bank Group, Washington, DC.

counties of the country — Grand Cape Mount, Bomi, Bong and Gbarpolu.

Under the concession agreement, Sime Darby will work with Liberian smallholders who are located in the vicinity of their concession areas to develop an additional 44,000 hectares of oil palm under an Outgrowers' Scheme, which is similar to the Malaysian Government's successful Federal Land Development Authority (FELDA) palm oil program.²³ The Outgrowers' Scheme seeks to develop a new plantation, which will boost local employment for 35,000 previously poor small farmers.²⁴ Malaysia's FELDA program was an inspiration for this development program.²⁵

In 2010 Golden Agri-Resources (GAR), which is one of Indonesia's largest operators of oil palm plantations and is listed on the Singapore Stock Exchange, concluded a partnership agreement with the Government of Liberia for a large palm oil development in the southeast of **Liberia**.²⁶

The project is expected to involve the cultivation of oil palm by a local joint venture vehicle as well as by Liberian smallholders and farmers, the processing of the fruit for the project, and the development of value-added manufacturing opportunities. The project will require total investment of US\$1.6 billion.

GAR was the initial and lead investor in the project but funds will also be raised from other investors to meet the project's

investment target of US\$1.6 billion. The project draws on GAR's technical expertise but will be locally managed.

The Government of **Liberia** has granted the project a concession to develop about 220,000 hectares of land for oil palm in the Counties of Sinoe, Grand Kru, Maryland, River Cess and River Gee. The associated Liberian smallholder development will provide an additional 40,000 hectares of oil palm. The initial development for the project is expected to involve the development of 15,000 hectares of land.²⁷

In **Cameroon**, Herakles Farms, a New York-based agriculture company, is developing 73,086 hectares of land in the southwest of the country. A significant portion is suitable for planting oil palm, after appropriate allowances are made for waterways, high conservation value forest (HCVF), buffer zones, plantation roads and land for the processing mills.

In **Ghana**, Herakles Farms is developing 4,364 hectares of land in the Volta Region. In 2008 the company placed the first batch of high-yielding and drought- and wilt-resistant oil palm seedlings into the nursery for the project. To date it has planted out some 550,000 oil palms.

The Government of **Sierra Leone** has agreed to lease 12,500 hectares of land in the Pujehun district to the Société Financière des Caoutchoucs (Socfin).²⁸ The land is to be developed for oil palm and the initial phase of the development is reportedly expected to cost a total of US\$112

23 Sime Darby, 2011, 'Plantations Overview: Liberia', [accessed on 14 November 14, 2011 at http://www.simedarbyplantation.com/Plantations_Overview_-_Liberia.aspx]

24 Hanim Adnan, 2011 "Sime invests in Liberia," Malaysia Star, May 21, [accessed on 18 November at <http://biz.thestar.com.my/news/story.asp?file=/2011/5/21/business/8724889>]

25 Sime Darby, 2011, 'Plantations Overview: Liberia', [accessed on 14 November 2011 at http://www.simedarbyplantation.com/Plantations_Overview_-_Liberia.aspx]

26 The information quoted here has been sourced from: Golden Agri-Resources Ltd, 2010, 'Joint Press Release by Government of Liberia and Golden Veroleum to Form Partnership in US\$1.6 billion Sustainable palm Oil Project', Announcement No. 00007 to the Singapore Stock Exchange, Singapore, September 3, 2010

27 Joint Press Release by Government of Liberia and Golden Veroleum to Form Partnership in US\$1.6 Billion Sustainable Palm Oil Project, accessed at: <http://www.goldenagri.com.sg/pdfs/News%20Releases/2010/GAR47-03-09-2010-JointPressReleaseGOLandGVL.pdf>

28 Simon Akam, 2011, 'Sierra Leone arrests 39 in oil palm land lease dispute', *Reuters*, 12 October [accessed at <http://www.reuters.com/article/2011/10/12/sierraleone-protest-idUSL5E7LC43D20111012>]

million. Socfin is part of the Bolloré Group, a French conglomerate with interests in tree crop plantations that is listed on the Paris Bourse. The Group owns 9,000 hectares of oil palm and rubber plantations in **Cameroon**.

There are NGO reports that EU companies are actively seeking to lease land in **Sierra Leone** for development of oil palm plantations.²⁹

Sierra Leone Agriculture, which is based in the UK, has signed a lease for 43,000 hectares in the north-west of Sierra Leone. It plans to develop 30,000 hectares for oil palm, starting with an estate of 10,000 hectares plus 5,000 hectares for smallholders.

Quifel International Holdings is based in Portugal and has operations in Portugal, Spain, Brazil, Angola, and Mozambique. It has signed agreements with local communities in Lokomasama and Masimera to prospect for land that would be suitable for growing rice, oil palm, and sugar cane.

In **Uganda**, the International Fund for Agricultural Development (IFAD) funded an ongoing program to develop oil palm plantations in 1998. The project was aimed at reducing Uganda's dependence on vegetable oil imports as well as providing opportunities for smallholders to grow their incomes. Oil palm was considered an appropriate crop because of its high yield.

IFAD funded a partnership between a private sector consortium, comprised of BIDCO and Wilmar, and the Kalangala Oil Palm Growers' Trust to develop a total of 10,000 hectares of oil palm trees. One third of that plantation is cultivated by smallholders. The private sector consortium

has now made a commitment to the Ugandan palm oil industry almost four times the original IFAD proposal.

BIDCO is set to produce \$40 million worth of crude palm oil each year, saving the Ugandan economy \$150 million each year in palm oil imports. The oil palm will be developed in a new \$30 million refinery built by the company in the Ugandan city of Jinja.

It is estimated that more than 7,000 smallholder farm families (a total of 42,000 people) will directly benefit from the project. The project has resulted in investment for roads, electricity and water infrastructure, housing and health clinics.

Nigeria is now the third largest producer of palm oil after Malaysia and Indonesia. The Nigerian palm oil industry has greatly benefited from investments and funding from the World Bank. The Nigerian palm oil industry had declined over many years until investments were made by the World Bank. In the early 1960's, Nigeria's palm oil production accounted for 43 per cent of the world production, but now only accounts for merely 7 per cent of total global output.³⁰ Nigeria is seeking to emulate the Malaysian FELDA scheme as a means to expand their local palm oil industry and achieve self-sufficiency in vegetable oil for Nigeria. Since 1999, the Nigerian Government has undertaken a deliberate scheme of rejuvenating the Nigerian agricultural sector, with a particular focus on palm oil.

The rejuvenation of the Nigerian palm oil industry has been strongly modeled around the Malaysian FELDA scheme. The FELDA scheme involves a government authority distributing plots of land to smallholders and facilitating the processing and milling of the produce from smallholder plots. FELDA also provides improved infrastructure such as roads, schools and housing.

29 Joan Baxter, 2011, Understanding Land Investment Deals in Africa – Country Report: Sierra Leone, Oakland Institute, Oakland, CA

30 J. A. Akangbe1, G. B. Adesiji1*, S. B. Fakayode2 and Y. O. Aderibigbe1, "Towards Palm Oil Self-sufficiency in Nigeria: Constraints and Training needs Nexus of Palm Oil Extractors", 2011, J Hum Ecol, 33(2): 139-145 (2011)

Recently, the vice president of the Nigerian Business Council stated that Nigeria must seek to emulate the Malaysian palm oil industry to benefit from oil palm plantations. Dr. Michael Aderohunmu stated that Malaysia had managed to effectively and efficiently make use of their resources and focus on strategic assets such as oil palm as a means of securing a strong industry and to achieve poverty alleviation³¹.

IV. The Threat to African Food Security — Sustainability Standards that Would Restrict Palm Oil Development in Africa

Last year at Cancun in Mexico, the parties to the UN Framework Convention on Climate Change (UNFCCC) expressly declined to endorse the principle of not converting of forest land for agriculture or commercial use or to set a global target for the cessation of deforestation.

The decision reflected strong concern that inappropriate regulation of land-use change would seriously hamper economic development and poverty reduction in developing countries. This is particularly important in terms of the ability of an expanded oil palm sector to contribute to both goals as Malaysia has shown so successfully and Indonesia is in the process of doing.³²

Notwithstanding such concern, the Roundtable on Sustainable Palm Oil (RSPO) has endorsed a management standard for the production of palm oil that embraces the application of the 'no conversion' principle as a mandatory requirement. The Forest Stewardship Council (FSC) and the

Roundtable on Responsible Soy (RTRS) have adopted a similar approach in developing their production standards for forestry and soybeans. The World Wildlife Fund (WWF) is a member of all three bodies and a key participant in the development of all three standards.

The 'no conversion' principle is enshrined in the High Conservation Value (HCV) criteria in all three standards. The HCV criteria were developed by the World Wildlife Fund (WWF) with funding from the International Finance Corporation (IFC), the private sector development arm of the World Bank Group.³³ Moreover, the World Bank has now endorsed a policy that requires palm oil projects that seek funding from the International Finance Corporation to comply fully with the RSPO and FSC sustainability standard as appropriate, including their 'no conversion' provisions.³⁴ The policy would also require smallholders to be certified to the relevant standard.

Restrictive sustainability standards, championed by WWF, have been adopted by the World Bank and IFC, key institutions for the delivery of project financing for developing nations. These sustainability standards are endangering the opportunity for Africa to gain benefits from the adoption of palm oil which have been secured in South-East Asia. This is the result of pressure from environmental NGOs such as WWF to impose conditions on palm oil production which would limit conversion of forest land for plantation purposes such as palm oil.

Smallholders constitute a considerable proportion of palm oil production in Africa. In Nigeria, 80 per cent of palm oil is

31 Igbinoba, I., May 200, "Nigeria: 'The Country Needs to Emulate Malaysia', accessed at: <http://allafrica.com/stories/201106010940.html>

32 Cheng Hai Teoh, Undated, *Key Sustainability Issues in the Palm Oil Sector: A Discussion Paper for Multi-Stakeholders Consultations*

33 IIED [International Institute for Environment and Development], ProForest & Rabobank International, 2004, *Better Management Practices and Agribusiness Commodities*, March

34 World Bank and IFC [International Finance Corporation], Undated, *The World Bank Group's Framework for Engagement in the Palm Oil Sector*, The World Bank Group, Washington, DC, [accessed at: [http://www.ifc.org/ifcext/agricconsultation.nsf/AttachmentsByTitle/Draft+Framework+Paper+for+consultations/\\$FILE/WBG_Framework_for_Palm_Oil-DRAFT+FOR+CONSULTATION.pdf](http://www.ifc.org/ifcext/agricconsultation.nsf/AttachmentsByTitle/Draft+Framework+Paper+for+consultations/$FILE/WBG_Framework_for_Palm_Oil-DRAFT+FOR+CONSULTATION.pdf)]

produced by smallholders.³⁵ In Cote d'Ivoire 70 per cent of palm oil plantations are owned by smallholders.³⁶ The sustainability standards pushed by WWF are expensive and difficult for smallholders to achieve. The adoption of these sustainability standards by the World Bank and IFC represent a significant barrier for Africa smallholders to access finance and enter the palm oil industry.

WWF has been very clear that, in doing so, its strategic aim is to 'transform markets.'³⁷ Its preferred tactics are to pressure businesses in dominant downstream positions in the supply chain to require producers to meet WWF sustainability standards.³⁸

This is a fundamental distortion of the purpose of voluntary, market-based standards and conformance regimes, which is to enable a producer to demonstrate that its products or production processes comply with a specified standard. Doing so confirms that the product in question has a particular characteristic, which the consumer personally values — such as the fact that it is safe, healthy, or produced in an ethical or sustainable fashion — and for which the consumer is prepared to pay a price premium over those products that do not have that characteristic. Markets are not distorted when consumers are informed and are free to choose.

WWF has made clear its method of 'transforming markets' is for them to exert monopoly control over the supply chains for targeted commodities, such as palm oil, timber, and soybeans. Its strategy is to cajole, entice, persuade or coerce

downstream businesses in dominant positions to require their suppliers to implement WWF-approved sustainability standards. Complementary attacks on such businesses by like-minded leftist social activist groups, such as Greenpeace and the Rainforest Action Network, provide external pressure to support the WWF campaign.

The WWF preferred standards and conformance model distorts the market. It creates barriers to entry of prospective competitors and their products. It also restricts consumers in accessing competing products made by businesses that have chosen to conform to some other standard or to none at all.

The consultant contracted by WWF to bring parties together to develop the RSPO standard has observed that RSPO was established after WWF recognized that WTO rules would not permit use of 'improper trade controls' to encourage producers to adopt WWF's preferred sustainability policies.³⁹ For some time WWF and its environmental allies have campaigned, albeit unsuccessfully, to amend the global trade rules so as to allow governments to restrict imports that do not meet certain environmental standards.

It is common knowledge that there is little or no price premium for products certified to the FSC standard. Manufacturers who use palm oil to make their products have been adamant that they cannot recoup the cost of using only palm oil certified by the RSPO and publicly confirm that by passing their additional costs to all of their consumers.

Producing to RSPO standards also imposes significant

35 Vermeulen, S. and Goad, N. 2006. Towards better practice in smallholder palm oil production. Natural Resource Issues Series No. 5. International Institute for Environment and Development. London, UK.

36 Vermeulen, S. and Goad, N. 2006. Towards better practice in smallholder palm oil production. Natural Resource Issues Series No. 5. International Institute for Environment and Development. London, UK.

37 WWF, 2010, 'How WWF wants to transform markets' [accessed at: http://wwf.panda.org/what_we_do/how_we_work/business/transforming_markets/solutions]

38 J. Nikoloyuk, T. Burns, and R. Man, 2010, 'The promise and limitations of partnered governance: the case of sustainable palm oil', *Corporate Governance*, 10(1): 59-72

39 Nikoloyuk, Burns, and R. Man 2010

additional costs on those who grow and harvest oil palm. The World Bank Group has acknowledged the harmful impacts that mandatory compliance with RSPO standards would have on smallholders. It has stated that the RSPO certification is

‘...likely to be well beyond the capacity of most small holders and thus they may be significantly disadvantaged’.⁴⁰

Small businesses typically do not adopt voluntary process standards as they are too expensive. The most successful voluntary process standard in the world is ISO 9000 on quality management. Although it is very expensive to implement, consumers presumably value dealing with large companies with ISO 9000 certification and are prepared to pay a premium for their services or products. However, they do not expect small businesses to have this certification but are still prepared to do business with them.

WWF has sought to extend sustainability standards like RSPO to smallholders because this advances their goal to have the standard imposed throughout the market, regardless of the value, if any, that consumers place on products that conform to it. Small holders produce about 30 to 40 per cent of all palm oil and therefore cannot be left out of the certification system if the WWF are to realize their goal.

V. Conclusions

The high and volatile food commodity prices of recent years have reignited concerns about food security, particularly in Africa.

The OECD-FAO commodity outlook — prepared in early 2011 — suggests food commodity prices will ease somewhat over the coming decade but will remain well above historical

trends for both measures. While food consumption per capita should rise around the world, including in Africa, agricultural productivity is expected to fall and there is increasing uncertainty about the extension of agriculture in many countries. This outlook is predicated on solid and comprehensive growth in the global economy, which is now less assured given more recent developments in global financial markets, particularly those for sovereign debt.

Low-income countries that depend on imported food have been particularly hard hit by recent developments in commodity and financial markets. Most are in Africa, where the number of undernourished people increased by 8 per cent.

The most effective strategy for reducing food insecurity involves increasing agricultural productivity, reducing post-harvest losses, and increasing openness to trade.⁴¹ Private sector investment is critical but the public sector has to provide those public goods the private sector cannot. Expansion of palm oil has to be part of the solution, given its relatively low cost and excellent cooking properties.

Palm oil is widely used as a food staple and in cooking in the developing world and particularly in Africa. It is also being increasingly used the world over in manufacturing food products and as a feedstock for biodiesel.

The most notable features of the global market is the breadth of consumption in the developing world and the rapidity of its growth, particularly in very poor countries with high populations, such as Egypt, India, Indonesia, and Bangladesh. The OECD-FAO outlook has projected that global consumption of crude palm oil will increase by 44 per cent over the coming decade.

40 World Bank and IFC, [International Finance Corporation], Undated, *The World Bank Group's Framework for Engagement in the Palm Oil Sector*, p. The World Bank Group, Washington, DC, p. 14 [accessed at: [http://www.ifc.org/ifcext/agriconsultation.nsf/AttachmentsByTitle/Draft+Framework+Paper+for+consultations/\\$FILE/WBG_Framework_for_Palm_Oil-DRAFT+FOR+CONSULTATION.pdf](http://www.ifc.org/ifcext/agriconsultation.nsf/AttachmentsByTitle/Draft+Framework+Paper+for+consultations/$FILE/WBG_Framework_for_Palm_Oil-DRAFT+FOR+CONSULTATION.pdf)]

41 FAO, IFAD & WFP 2011

Given the outlook and the limited opportunities for expansion in South-East Asia, the industry is looking to develop new plantations elsewhere, particularly in equatorial Africa and South America. Hence numerous development projects are in progress. If they proceed to fruition, they have the ability to increase the local supply of an important food staple, reduce the need for Africa to import palm oil and providing the basis for a new export industry, and most importantly, boost job creation in a region historically beset by poverty.

The RSPO has, however, endorsed a production standard for palm oil that requires producers not to convert forest land, which would limit the palm oil expansion prospects of many developing countries, particularly those in Africa. The FSC and the RTRS have adopted similar approaches for forestry and soybeans. The WWF is a member of all three bodies and a key participant in development of all three standards.

WWF pressures dominant downstream businesses to require their suppliers to meet standards that it has approved. The organization is distorting the market by creating barriers to entry for prospective competitors and their products and restricting consumers in accessing products that they value most. The World Bank Group has seriously exacerbated the problem by requiring that private sector palm oil projects in developing countries that are funded by its International Finance Corporation must formally comply with the RSPO standard. This requirement extends to any smallholders that participate in such developments.

There is no evidence that products certified to these various sustainability standards command any price premium in the consumer market. They do, however, impose significant additional costs on their producers and distributors. For example, the World Bank has explicitly acknowledged the harmful impacts that RSPO standards would have on smallholders.

WWF has insisted that sustainability standards be extended to smallholders to impose the standard on the market, regardless of the value, if any, that consumers place on products that conform to it. As smallholders in Africa produce a very high proportion of palm oil, they cannot be left out of the certification system if the WWF are to realize their goal.

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