

WORLD GROWTH
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World Bank's Revised Palm Oil Strategy Undermines Economic Development & Restricts Global Markets

*Submission to the World Bank Group and International
Finance Corporation's Revised World Bank Group and
International Finance Corporation (IFC) Strategy Framework
for Engagement in the Palm Oil Sector*



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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.

A Submission by World Growth to the World Bank Group and International Finance Corporation's Revised World Bank Group and International Finance Corporation (IFC) Strategy Framework for Engagement in the Palm Oil Sector

The World Bank's revised palm oil strategy undermines economic development & restricts global markets

World Growth has reviewed the revision by the World Bank of its proposed framework for engagement in palm oil following further comments from stakeholders.

The new text now refers to many of the concerns raised by Governments, interest groups in developing countries and World Growth that the draft strategy disregarded the Bank's obligation to advance economic development.

Unfortunately, that improvement means little, because the original strategy proposed by the Bank remains basically unaltered. It continues to subordinate reduction of poverty and expansion of economic growth to environmental policy, instead of balancing the two.

Since the revised strategy was issued, the official global community (represented by UNFCCC members) has formed a consensus on tackling forestry and climate change while also recognizing the development dimension. Global consensus to prioritize development puts the World Bank even further out of step with other international organizations.

The revised strategy will reduce finance available to promote palm oil; the framework will fail to reduce poverty because it:

- wrongly assumes there is a sustainability problem in the palm oil industry;
- sidelines the World Bank's mission to fight poverty;
- promotes a carbon reduction strategy which is now invalid and will reduce growth;
- is out of step with the consensus in the official global community;

- seeks to dictate to developing countries how they manage natural resources;
- follows the position of Western NGOs who represent a handful of wealthy donors, not the consensus of the world's government including those representing hundreds of millions in poverty;
- establishes the IFC and the Bank as an environmental regulator: and
- has become a willing partner in the World Wildlife Fund (WWF) strategy to control commerce and manage markets in selected commodities.

Through the World Bank's formal partnership with WWF, it has become a willing partner in WWF's declared intent to control markets and restructure them, in the process limiting access by consumers to products other than those deemed suitable by WWF. The WWF strategy is to achieve this by capturing supply chains by pressuring dominant major operators in downstream links to demand suppliers upstream provide only products which meet WWF standards.

The Bank has overturned the fundamental principle adopted at its founding to support development by fostering open markets. The Bank is instead fostering strategies to manage markets.

There is no "unsustainability" case against the palm oil industry

World Growth has shown that the complaints by NGOs that IFC rules have not been followed do not justify the new restrictions on funding of palm oil which are proposed.

World Growth demonstrated that:

- Palm oil is not a major driver of deforestation. For example, in Malaysia, oil palm is not developed on land reserved for forestry, which is about half the country.

- Palm oil is not a significant emitter of greenhouse gases. Research shows that oil palm plantations perform as active sinks, provided the carbon cycle is correctly calculated over cycles of regrowth.
- Palm oil is not a major source of bio-fuel. The amount of bio-fuel generated from palm oil is very small compared to ethanol from corn and sugar. It will never be a major biofuel.

The draft framework contradicts the World Bank's mission of fighting poverty

The World Bank acknowledged that stakeholders are concerned that the framework is too negatively focused and should “put poverty impacts first consistent with the World Bank Group role as a development institution.”

The revised document states that the reassessment of its approach in the sector “reflects the important role the sector can play in fostering economic growth and poverty alleviation.”

But it doesn't. The revised framework continues to limit the capacity of the World Bank Group to support the development of palm oil; it still imposes onerous conditions which will significantly reduce funding. The concerns of stakeholders remain unaddressed.

World Bank is disregarding the sovereign right of each country to determine sustainable use of land use for plantations and forestry

The parties to the UN Framework Convention on Climate Change (UNFCCC) at the last meeting of parties at Cancun, Mexico, last December specifically declined to endorse the concept of “No Conversion” of forest land for commercial (or agricultural) use or the proposal to set a global target to cease deforestation. These concepts were advanced for inclusion in the position UNFCCC parties were preparing on how forest land should be used and related Reducing Emissions from

Deforestation and Forest Degradation or “REDD” issues should be addressed for inclusion in a new global strategy to tackle climate change.

Some, however, have indicated willingness to adopt “no conversion” as a national goal in bilateral programs funded under REDD.

NGOs, including WWF, continue to press for this being mandatory under global arrangements, despite the UNFCCC consensus not to do so. The revised draft strategy suggests the Bank continues to support the NGO positions.

World Growth has noted that World Bank had formally expressed sympathy for the “no conversion” concept. An inescapable implication is that the Bank has not taken a formal position to require “no conversion” from recipients of Bank assistance.

The reality, however, is that the Bank is implementing this policy when it comes to forestry. This is a consequence of exclusively endorsing the Forest Stewardship Council (FSC) forestry standard (which requires a commitment by producers not to convert forest land to commercial uses) and would follow as well from formal support by the Bank of the Roundtable on Sustainable Palm Oil (RSPO) palm oil standard (which has a similar requirement) as an exclusive standard.

The revised framework proposes the Bank require compliance with the RSPO standard by any recipients of IFC funding. The IFC is already giving the RSPO standard direct support. It funded a Global Environment Facility (GEF) proposal, initiated and part funded by WWF-US, to help develop the High Conservation Value principle of the RSPO. The IFC has a group of officials working full time in its office in Jakarta to expand and develop the RSPO standard.

By what reference point does the Bank justify ignoring a global public consensus on how forestry is to be handled? Does it give more credence to the policies of WWF which can claim

only to represent some 10 to 15 million individuals in wealthy economies worldwide and virtually none of the 600 million poor people who live in economies where forests and plantations are industries important to economic development?

The Bank should align its position with the global consensus of the world's governments.

The Bank seeks to dictate management of land use

The revised framework gives priority funding to the rehabilitation and conversion of degraded plantations. The World Bank Group identified limited or insecure land tenure as a key driver of land-use change and degradation.¹ The use of degraded land will only be successful when there is secure land title. The revised strategy finds that the clarification of land use and access rights is a key solution from improving the impacts of oil palm development.

World Growth understands the common sense of not funding projects on degraded (or any) land to which title is unclear.² However it does not consider it is the Bank's prerogative to make this a precondition for funding. It considers this condition erodes the sovereign right of each country to determine how its resources are used.

Stakeholder consultations outlined that the definition of degraded land is not clear.² The revised draft states that improvements need to be made in identifying non-forested areas that are suitable for oil palm plantation.

World Growth contends that Bank approved land rights for palm oil should not be a pre-condition for funding of projects. As these are inevitably complex systems in any country and will delay the expansion and development of palm oil.

The Bank should not adopt positions which dictate to governments how to use natural resources for economic development.

The Bank is promoting a carbon reduction strategy that is now invalid and outmoded

In its revised strategy, the World Bank has increased focus on the use of REDD payments for reductions in carbon emissions. Presumably the Bank considers this a key sustainability issue in the development of palm oil.

The original, broad REDD concept is invalid anyway. It is now clear that there will not be agreement in the Bali process to establish globally-regulated emissions trading, which was a premise for this proposition. The idea has even been opposed by environmental NGOs on the grounds that such a scheme would reduce the global prices of carbon credits.

The proposition on which the whole concept rested—that emissions from deforestation were large (18 or 19 percent of global emissions)—has also been shown to have been wrong. New research by Winrock International (with Bank participation) cuts by over half the conventional estimation of emissions from deforestation.

World Growth is aware the Bank was influential in advancing the key idea which largely inspired the REDD concept. This idea was that if developing countries could generate large banks of carbon credits by using forest to store carbon rather than produce timber products, this would generate funds which would provide income to pay for environmental services which would replace income generated from commercial use of forest land.

The REDD concept as advanced by the Bank always risked fostering a behavioral inclination among some developing

1 Hatcher, J. (2009), Securing Tenure Rights and Reducing Emissions from Deforestation and Degradation, Social Development Papers: Social dimensions of climate change, Paper No.120, pg ii

2 Woodhill, J., (2010), World Bank Group's Framework for Engagement in the Palm Oil Sector: Global Stakeholder Consultation (Frankfurt, Germany), pg 4.

economies to embrace REDD payments without adequately assessing the negative impacts on economic development. It risked distorting production and consumption, with potentially adverse consequences for economic growth and living standards.

Yet the Bank continues to advance carbon reduction as a criterion for sustainability for palm oil. It is time it adjusted to reality.

REDD is now more appropriately focused on assisting developing forested countries to strengthen their capacity to practice sustainable forest management. World Growth urges the World Bank Group to refocus its approach to REDD programs in the same way.

Certification of sustainability remains a binding condition for finance.

In the revised framework, the World Bank Group acknowledged the importance of voluntary standards and adjusted the fourth pillar of reengagement in the sector—‘Codes of Sustainable Practice’— to state more clearly the requirement to implement ‘voluntary’ sustainability standards and codes of practice.

Yet the Bank proposal is not voluntary for Bank clients. Under the revision of the new framework, the IFC still requires clients to commit to obtain independent certification to appropriate standards for sustainable practices (which as we see from the foregoing was proposed to be RSPO) and will invest only in companies that ‘commit to adopting industry best practice for environmental and social performance.’

The Bank position must be more flexible if financing is to properly support economic development.

The Bank is fostering control of markets, not genuine voluntary certification

World Growth’s submission on the first draft noted the clear inclination of the World Bank Group to give preference to the RSPO system.

World Growth expressed concern this meant the World Bank would extend a precedent set with forestry where it has set criteria which result in its recognizing only one sustainability system—that of the Forest Stewardship Council which was established by WWF. This demonstrated unjustifiable discrimination against other very high quality forest sustainability standards.

In response to these concerns, the Bank observed in its revised framework “the WBG will encourage the development of appropriate international standards and codes of practice, including certification systems based on the standards. Such support will be informed by lessons from experience with certification in related sectors.”

This is not reassuring. By setting criteria for acceptable standards which only recognize the FSC system, the Bank has made provision of financial support for any forestry activity conditional on adoption of a national policy in the recipient country which severely restricts, if not disallows, further conversion of natural forest to other purposes, regardless of what national policies of conservation of forest may be in place and regardless of national economic development strategies.³

World Growth cannot locate any official decision by a Bank executive arm which endorses a principle that justifies adoption of this position by the Bank.

The position taken by the Bank has important consequence. Many financial institutions in the private sector now refuse to

³ It has refused to agree to alter its criteria for acceptable certification standards for forestry to recognize the PEFC system which provides recognition of high standards of sustainability and, unlike FSC, recognizes the right of developing countries to pursue national development strategies in forestry which promote economic growth.

finance forestry in the developing world and thereby advance this anti-development policy because they have adopted the Equator Principles and thereby World Bank Group safeguard policies which propose this position.

The implication in the draft Framework Agreement is that the Bank has not yet taken a decision to endorse RSPO. The World Bank Group acknowledged that stakeholders are concerned with the strong focus on RSPO standards and that there should be coordination with current multiple standards.⁴

Yet the record shows the Bank has been an active supporter of RPSO. The IFC jointly funded with WWF a program to develop the High Conservation Value criterion in RSPO.⁵ The IFC has as team of people in Jakarta working on RSPO biodiversity questions. The clear preference for RSPO standards remains in the revised draft with specific goals including the promotion of RSPO.

There is a much more significant implication of Bank support for these WWF-promoted sustainability systems. They are not genuine, voluntary systems for certification.

WWF has been very clear that its aim with RSPO, as with the other sustainability certification systems it has promoted, most prominently, for forest products and soy, is to “transform markets.”⁶ The declared strategy is to pressure parties with dominating positions downstream in the supply chain to require producers to meet WWF sustainability standards.⁷

This is a fundamental distortion of the aim and purpose of voluntary, market-based systems of standards and conformance. Their purpose is to enable producers to demonstrate

to consumers through compliance with specified standards that the product demonstrates something the consumer values, e.g. that it is safe, healthy, ethical or sustainable. Markets are not distorted when consumers are free to choose to purchase the product in question.

The Bank’s revised draft defines the RSPO model as one where the private sector determines industry practices, with the uptake of voluntary standards encouraged by buyers rather than enforced by the public sector. This slides over a critical point. The ultimate buyer is the consumer. In the case of RSPO (and FSC), it is the processor or a party with a dominant position in the supply chain who is “the buyer” not the consumer.

WWF has made clear its method of “transforming markets” is to control the supply chains in targeted products, such as timber products and oil palm. Its strategy is to cajole, entice, or persuade dominant players in key links downstream in the supply chain to require that suppliers implement WWF sustainability policies. Attacks on those players by groups like Greenpeace and the Rainforest Action Network provide external pressure to support the WWF campaign.

The model distorts the market. It creates barriers to entry of competing products and restricts availability of competing product to consumers.

The consultant contracted by WWF to bring parties together to develop RSPO has observed RSPO was established after WWF recognized that WTO rules would not permit use of “improper trade controls” to lever producers to adopt WWF’s preferred sustainability policies.⁸

4 Woodhill, J., (2010), pg 3

5 IIED, ProForest, Rabobank International (2004), Better Management Practices and Agribusiness Commodities

6 WWF (2010), How WWF wants to transform markets, accessible at: http://wwf.panda.org/what_we_do/how_we_work/businesses/transforming_markets/solutions/

7 Nikoloyuk, J., Burns, T. and Man, R., (2010), ‘The promise and limitations of partnered governance: the case of sustainable palm oil’, Corporate Governance, Vol 10. Issue 1., pg 59-72

8 Ibid

WWF and other leading environmental groups have campaigned, unsuccessfully, for years to amend global trade rules to allow governments to restrict imports if they did not meet certain environmental standards.

So WWF has corrupted the market basis of the concept of voluntary standards. It is common knowledge in forestry that there is no market premium for timber products which are certified. It is producers and retailers who decide which certified stock they will carry and that decision is made in response to a conscious decision to support, if not join, the WWF endorsed system. It is not made in response to demand in the market.

In the case of RSPO, the manufacturers of products using palm oil have been frank that they cannot recoup the cost of using only certified palm oil and publicly verifying that by passing the cost to consumers.

By its actions to date and the declared intent in the proposed palm oil strategy, the Bank has demonstrated that it is an active supporter of this strategy. Furthermore, in the area of forestry, adoption by the Bank of criteria for determining what are acceptable certification standards – which only recognize one certification system (FSC)— means the Bank itself is directly undermining the voluntary market for certification. This outcome is because the Bank has directly contributed to severe inhabitation of contestability in the leading market for certification standards.

The Bank needs to step back and revise its programs to ensure it supports the operation of markets and fosters freedom of commerce, and does not continue to serve as a partner of an organization which is formally committed to distorting and controlling markets to advance its environmental objectives, and does not itself undermine the operation of markets.

If the Bank is serious about giving weight to economic development interests in its palm oil strategy, it should remove the precedent it has set with dictating control of forestry markets.

Insistence smallholders be certified will curtail production

World Growth stated in its initial submission that there are currently no certification systems that exist or can be developed which are commercially viable for small holders. In its revision, the World Bank has acknowledged the harmful impacts that RSPO standards would have on small holders stating that the RSPO certification is “likely to be well beyond the capacity of most small holders and thus they may be significantly disadvantaged.”

Another consequence of disregard of the essential features of voluntary certification is that the Bank has overlooked the fact that in general small operators, such as small businesses in processing and manufacturing, typically do not adopt voluntary certification systems. They are too expensive.

The most successful voluntary certification system in the world is ISO 9000. It is a quality system for management. It is expensive to comply with but consumers value large companies with this certification and will pay a higher price for a service or product from the certified business. In general they do not expect most small operators to have this certification and recognize they have their own niche in markets.

The reason the WWF certification systems, like RSPO, have been pressed to extend to small holders is because this advances the goal of seeing WWF sustainability standards imposed throughout the market, not to provide certification systems to enable producers to reach discerning consumers who will value compliance with the WWF sustainability standard.

Small holders produce 30 to 40 percent of palm oil. For those not bound into a marketing arrangement where the processor is willing to absorb the cost of demonstrating small holders follow nominated sustainability practices, certification does nothing but risk putting small holders out of business.

Furthermore, demonstration of sustainability in an industry at large does not require 100 percent adherence by every

producer to a set of sustainability principles.

The Bank is a development agency, not an environmental regulator. That it even toys with the idea that it is necessary for all smallholders to be certified is clear evidence that it has surrendered its development mission.

Summary: What the World Bank Should Do

World Growth urges the World Bank to further revise its draft framework for engagement in the palm oil sector such that it advances the Bank's primary mission of reducing global poverty rather than restricting activity in an industry that is already sustainable.

Specifically, World Growth urges the World Bank to:

- cease supporting and disavow strategies to distort voluntary certification systems to manage commerce and undermine the operation of markets;
- recognize that most palm oil is consumed as an important food staple in low income economies thus generating growth and enhancing food security;
- recognize palm oil is already highly sustainable;
- commit to recognize any genuine certification system which producers, consumers and Governments consider satisfactory, rather than advance the anti-growth agenda of environmental NGOs;
- not set standards for certification, as it has in the case of forestry, which advance policies which are not endorsed in relevant, official, multilateral institutions, disregard national development strategies and national conservation strategies and which discriminate against high quality systems of certification;
- attune its strategy on land use for palm oil to the terms for action on forestry and related land use as now

agreed among UNFCCC parties following the Cancun UNFCCC meeting in December, 2010;

- avoid becoming a de facto regulator of sustainability of palm oil;
- avoid mandating certification of small holders as a condition for financing palm oil and ensure that principle is not included World Bank safeguards;
- not make reform of land management a prior requirement for Bank funding of palm oil projects which will advance economic development and reduce poverty and not propose that as a prior condition for funding by private sector financial bodies;
- focus on the funding of programs that improve economic development and advance the practice of sustainable forest and plantation management and reduce reference, particularly in REDD programs, to strategies to base economic growth on creating carbon credits for markets which are infeasible.

World Growth

World Growth is a non-profit, non-governmental organization established to expand the research, information, advocacy, and other resources to improve the economic conditions and living standards in developing and transitional countries. At World Growth, we embrace the age of globalization and the power of free trade to eradicate poverty and create jobs and opportunities. World Growth supports the production of palm oil and the use of forestry as a means to promote economic growth, reduce poverty and mitigate greenhouse gas emissions. World Growth believes a robust cultivation of palm oil and forestry provides an effective means of environmental stewardship that can serve as the catalyst for increasing social and economic development. For more information on World Growth, visit www.worldgrowth.org.



WORLD GROWTH

PO Box 3693
Arlington, VA 22203-3693
(866) 467-7200

www.worldgrowth.org