2.1 Sustainability and certification leads to the success of New Britain Palm Oil Limited

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Setting the scene

Demand from consumers and markets, especially in Europe, have increased the rigour of standards for proving that the palm oil used in many different food products is produced in an environmentally responsible way. Although this has turned many in the industry away from voluntary certification, market leaders in sustainable palm oil regard it as an opportunity to distinguish themselves within the market. As a frontrunner company, New Britain Palm Oil Limited (NBPOL), wholly owned by Sime Darby, has chosen sustainability as its business model and credible certification as a vehicle to that end. NBPOL is able to comply with increasingly stringent standards through innovation and is also successfully applying these standards in its sourcing from independent smallholders.

New Britain Palm Oil Limited has chosen sustainability as its business model.

NBPOL is a fully vertically integrated company, controlling its seed production, plantings, cultivation, harvest, delivery and processing, both from its nucleus estates and the many independent smallholders associated with its mills. The company is small enough to adapt to a changing market environment and large enough to make a difference. It operates ten mills and a refinery in Papua New Guinea, a mill in the Solomon Islands, and a refinery in the UK, all of which provide fully segregated product that is traceable to source and 100% RSPO certified.

The area that feeds these processing plants is made up of roughly 86,000 ha of nucleus estates managed entirely by NBPOL, and 42,000 ha owned and managed by an estimated 25,000 smallholder families who work closely with NBPOL. All of the nucleus estates and smallholders are RSPO certified, and since there are no other palm oil plantations or mills within NBPOL's supply areas, there is no risk of any mixing with non-certified production. This unusual feature is the result of years of involvement in voluntary certification standards and continual improvement.

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NBPOL certified its core operations to RSPO standards in 2008. The company was already conducting high conservation value (HCV) assessments prior to its new developments in 2013, when it published its Forest Policy. The policy committed NBPOL to zero deforestation and set out the methodology to implement this in a credible, equitable and transparent way.

The policy resulted from many years of engagement with the Roundtable on Sustainable Palm Oil (RSPO) and other stakeholders, such as the Palm Oil Innovation Group, The Forest Trust and most recently, the Rainforest Alliance. Through these partnerships, NBPOL has continued to raise the bar, including its most recent initiative of achieving the Sustainable Agricultural Network (SAN) standard for all its estates and smallholders. Recognizing the safeguards that these standards have put in place, as well as the development aspirations of Melanesian land-owners, NBPOL is continually improving its approach to new developments through a methodology it calls value-based responsible development. This approach employs scientific rigour to decide how and where oil palm is planted, taking into account high conservation values (HCV), high carbon stock (HCS), and socio-economic impacts, all within a fluid and unhurried process of free and prior informed consent.

The company is also now incorporating community needs assessments into an approach called the One-Hour Principle, which looks at the availability of clean drinking water, education and health care services within one hour's walk from each community it works with. The approach was developed to meet the aspirations of the land-owning communities with whom NBPOL forges partnerships. They have eagerly embraced these concepts and committed to the time and effort required to make the various assessments required for the expansion of the nucleus estate. The company acknowledges, however, that it is unreasonable to expect the independent smallholders who sell to it to conduct these assessments themselves; they do not have the resources to do so.

Forests, agriculture and development

Papua New Guinea is one of the most forested countries in the world, with 71% of its total land area still covered with natural forest (Bryan and Shearman 2015). It is ranked 158 out of 188 on the UN Human Development Index. The government's central strategic planning document (Papua New Guinea Vision 2050) notes that agriculture must play a significant role in improving the economy. According to Shearman et al. 2008, the main drivers of forest change in the country have been logging (48%), subsistence agriculture (46%) and fire (4%).

Subsistence agriculture in Melanesian society has been a significant part of forming the current forest estate, and much of what is considered as deforestation and forest

degradation by slash-and-burn is traditional agriculture that incorporates fallow as an integral part of the system (Bayliss-Smith, Hviding and Whitmore 2003; Allen and Filer 2015). The average fallow period in Papua New Guinea is 15 years, and more than half of all fallow takes the form of high forest (Allen and Filer 2015). However, slash-and-burn systems can maintain a healthy forest estate only under a relatively low and constant population pressure (Allen 2015). The population of the country has increased from 3 to 7.3 million in the past three decades, and from 4 to 17 persons per square km between 1961 and 2015, with 81% now living in rural areas. People in more remote areas have tended to migrate to roadside communities for access to markets and services, and many new roads have been built as part of the expansion of exploitative industries such as logging and mining. People have continued with traditional forms of agriculture, however, and oil palm is an attractive and proven low-risk entry into the cash economy.

Involving smallholders

Smallholders in Papua New Guinea are essentially independent; they own their land and decide for themselves whether they want to engage in any new activity. The relationship between smallholders and milling companies was first established in 1967 as part of a public-private partnership between Harrisons and Crosfield, the World Bank, and the Territory of Papua and New Guinea, which was then administered by Australia. This resulted in privately managed companies establishing mills and large nucleus estates, which was bolstered by a significant group of smallholder producers, and which further supported their economic development.

State land was made available to participants who wanted to become involved, smallholder families were recruited and resettled, and the government provided infrastructure and basic services, including health care and schools. The private partner provided expert technical support to assist smallholders and ensure that they were able to produce export quantities, using a pricing formula regulated by government. The spirit of the agreement was one of economic development through the establishment of a viable export commodity, technology transfer and smallholder inclusion. However, although strengthened standards are achievable for the expansion of NBPOL's own large estates, the technical requirements are too strict for independent smallholders to achieve, and NBPOL does not solicit nor organize smallholder expansion. This situation is preventing new smallholders from entering NBPOL's sustainable supply chain. These potential growers are part of an expanding population for which oil palm represents their best opportunity for much-needed economic development and improvements to their standard of living. The land that is left "vacant" by responsible companies or smallholders without the ability to comply is still unprotected and available to a much larger industry that may have no consideration for social or environmental safeguards.

Ensuring compliance with evolving standards

The ability of NBPOL to keep smallholders compliant with evolving standards relies on the sharing of benefits that result from innovation in sustainable oil palm. The hybrid seedlings produced by NBPOL's breeding programme are 30% more productive than previous generations and are issued only to new growers whose proposed land is inspected and found to be compliant with company standards. Because the seedlings are more productive, growers source all seedlings from NBPOL. In addition, NBPOL's ongoing research and development programmes provide smallholders with advice on agronomy, integrated pest management and meeting sustainability standards. As suppliers to NBPOL, all smallholders are advised when to harvest, and the company provides delivery and transport of their fruit at cost. NBPOL also provides interest-free loans that allow farmers to purchase inputs such as seedlings, tools and fertilizer, and which are paid back through deductions from fruit sales. In addition, an annual RSPO Bonus is paid to all certified smallholders; this is a proportional share of the premiums received from buyers.

The highest hurdle

Some of the most important compliance standards are the environmental safeguards that certification has put in place, and the critical factor is new plantings. NBPOL issues new seedlings only to suppliers who agree to new plantings that have passed the necessary spreliminary inspections. Originally, initial inspections and authorization for the release of seedlings were controlled entirely by the Oil Palm Industry Corporation, a quasi-governmental body created in 1992 with a mandate to provide extension services to smallholders.

In 2013, with support from the World Bank, a set of guidelines for new plantings were produced. They governed compliance with key RSPO criteria; namely, that no primary or high conservation value habitats were converted and that the use of free and prior informed consent was proven. The guidelines were simplified to meet the context of rural Papua New Guineans; They tend to live along former logging roads, since historically, the oil palm industry has followed logging, which took placed in the 1960s. Smallholder families typically allocate one or two ha of their land for oil palm, near their homestead so that they can easily tend it and near a public road for ease of transportation.

Although the earlier guidelines were adequate in preventing the conversion of high conservation value forests, the new certification standards require smallholders to conduct the same level of studies as large estates. This includes assessments of HCVs, HCS, social impacts, land-use changes and greenhouse gas emissions, as well as a soil suitability study. These assessments are effective in guaranteeing the sustainability and environmental and social responsibility of a specific project, but they are also impossible for rural people to undertake. NBPOL paid consultants an average of US$13 and US$18 per ha for recent large-scale HCS and HCV assessments, respectively. Although most smallholders could afford this for their small plots, qualified consultants — i.e., those who pass the highly regulated quality controls — cannot offer that price to individual smallholders and their individual one- to two-ha plantations.

The fact that RSPO now requires the same level of assessment for new smallholder developments as for large estates, has meant that there have been no new smallholder developments since January 2016. The cost and technical skills required are out of reach for associated smallholders; although NBPOL is willing to assist, this is made difficult since smallholders are essentially independent. The current expansion model will work for NBPOL into the medium term, but it is a more difficult proposition for the development aspirations of the country as an agrarian nation, and for the smallholders who form an important part of a society that aims to make the transition into a modern economy.

NBPOL shares the RSPO premiums it receives on sales, but the additional amount that the market is willing to pay does not equal the extra costs of certification, nor the opportunity cost of putting fallow forests into less sustainable but more intensive land use. For a developing and highly forested country such as Papua New Guinea, this raises the questions of the effectiveness of certification commitments and how to achieve national development objectives while also satisfying the increasing demands of consumers and buyers from the developed world.

Conclusions

Market pressure has driven responsible industries in a direction that gives increasing priority to environmental protection over social development objectives. This has resulted in a tendency to abandon regard for human well-being and economic development. For NBPOL, the solution has been to continue with new expansion exclusively on grasslands, and to temporarily stop efforts to increase the number of smallholders it works with until tools are developed to fully assist smallholders to implement environmental safeguards. It should be considered, however, that NBPOL's sustainable land-use strategy could open the door to planters who do not consider environmental or social safeguards, inadvertently giving them a competitive advantage.

Improvements are needed in working with standard-setting organizations such as RSPO and SAN to ensure that safeguards are appropriate to the risk being addressed and are holistic in their approach. The average smallholder planting averages one to two ha, and the environmental impacts of this are far lower than those of a nucleus estate, which typically exceeds 1,000 ha. Ironically, new nucleus estates have been able to comply with the RSPO zero deforestation policy and technical procedures, while smallholders are unable to do so under current criteria and requirements. Smallholders cannot afford to pay for the needed site assessments and have specific issues with how such assessments apply to vegetation that smallholders perceive as only an intermediate phase of agriculture on their private land.

Where national government outreach programmes fail to provide sufficient technical training, NBPOL has had to step in and invest in the necessary support and internal control systems needed to ensure improving yields and compliance with evolving certification standards. Where standards are becoming increasingly difficult to meet, thus creating a technical barrier, NBPOL is building internal capacity to carry out the assessments (such as those for HCV and HCS). The company is also working in partnership with the HCV Resource Network on a streamlined approach for conducting HCV assessments for smallholders as well as combining these assessments. These approaches are appreciated by smallholders, who are always most interested in support that will increase their income and standard of living. Finally and most importantly, an assessment for any particular value, whether carbon or biodiversity, must take into account local, national and international significance, and weight these against human development needs and international obligations under UN Conventions on climate change and biological diversity. And while no deforestation commitments may be ideal for a particular company, from the perspective of Papua New Guinea, the country is being asked to sacrifice more than European countries in order to bring their respective human development indices closer together.

NBPOL firmly embraces the goals and challenges of adopting social and environmental safeguards into large-scale agriculture. It is developing relevant methodologies to ensure that these safeguards are met and maintained, and that they are commensurate with the risks of each new development. Imposing the same procedures for individual independent smallholders as for large developments, however, poses a risk that smallholders may not be able to participate in sustainable supply chains. They will then engage with any land use that most directly meets their development needs and aspirations, regardless of how sustainable it is. While the European market may be happy to see a no-deforestation policy being implemented, there are other much larger markets who don't care. The challenge for sustainable oil palm, or any other commodity, is to find the right balance.

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