



Sustainable Bioenergy
Solutions for Tomorrow



Smallholders in product chain

Case study of BEST WP 4 Enhanced business opportunities through securing sustainability

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NESTE OIL

CLEEN
Cluster for Energy and Environment

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FINNISH BIOECONOMY CLUSTER



Content

- Who are palm oil smallholders?
- Role of certification
- Social and economic aspects
- Environmental aspects
- Examples
- Summary



Neste Oil and smallholders

- Neste Oil bought palm oil from around 54,000 smallholders in 2013
- Neste Oil is currently negotiating with International Financial Corporation (IFC) to organize a system that would enable Neste Oil to buy palm oil from smallholders in the future as well. IFC is a member of the World Bank Group. It funds sustainable development projects.
- Neste Oil buys **only certified** crude palm oil (CPO). Neste Oil continues to purchase crude palm oil that is **fully traceable** back to the point of origin, and produced in compliance with local laws and regulations.
- The smallholders sell to companies who have contract with Neste Oil. The first batch of smallholder oil sold to Neste Oil, their certification was paid by Neste Oil. These smallholders now provide 100% certified and traceable CPO
- Neste Oil is committed to purchasing only sustainably produced raw materials, and also require all its suppliers to be committed to sustainable operation, protecting biodiversity, and respecting human rights.





Who are smallholders?



- Smallholders are:

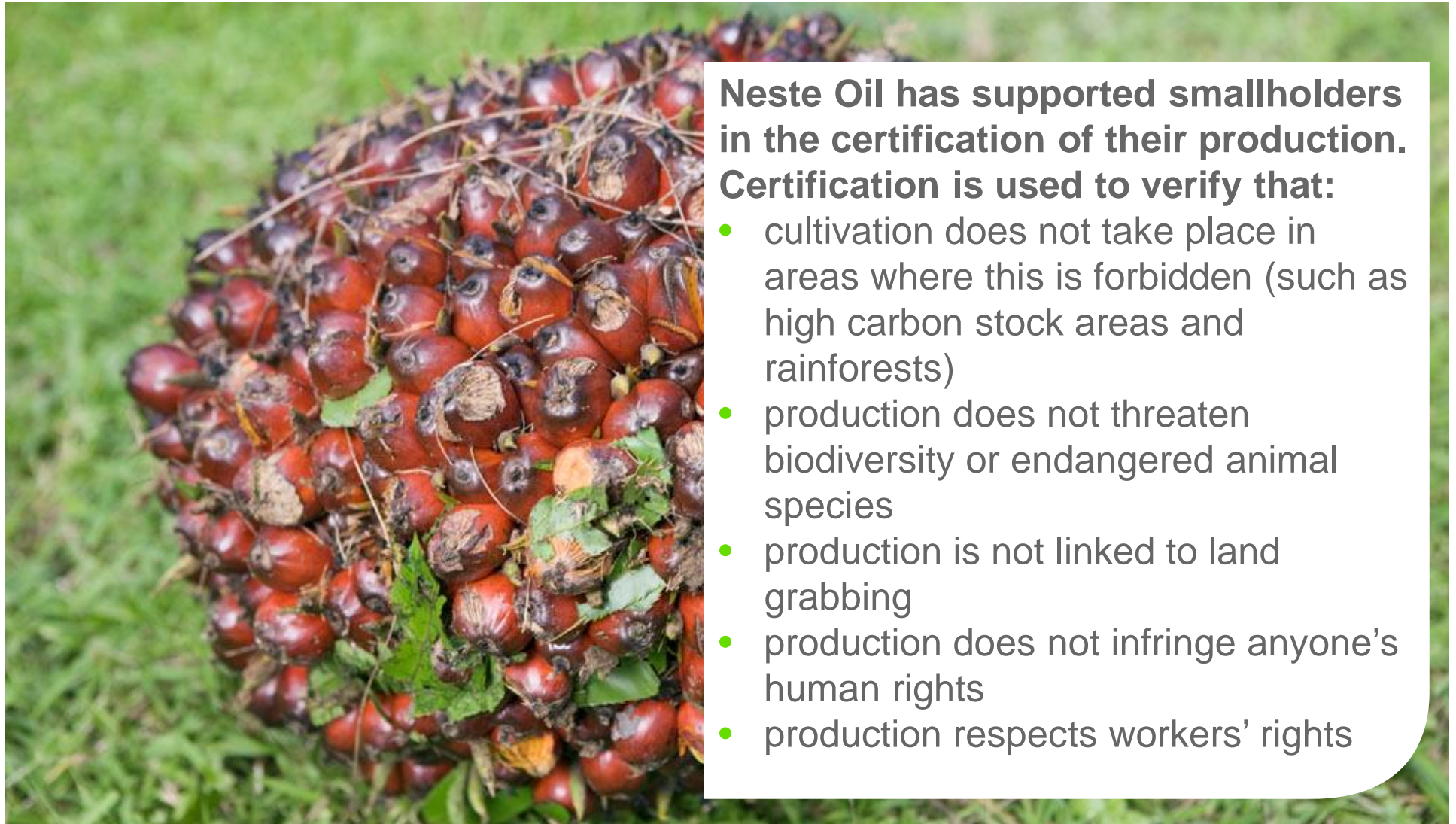
Farmers growing oil palm, sometimes along with subsistence production of other crops, where the **family provides the majority of labour** and the farm provides the **principal source of income**, and where the planted area of oil palm is usually below 50 hectares in size [*Definition from: RSPO Principles and Criteria for Sustainable Palm Oil Production – October 2007*]

- Key differences with Big companies:

Factor	Big Companies	Smallholders
Average Size	> 1000 Ha	2-3 Ha
Labour	Contracted workers	Family and some workers
Income	Within corporations	To provide livelihood
Processing	Own mill produce CPO	FFB Sold to companies with mills
Land Ownership	By government concessions (limited time)	Own land, inherited or bought from government/ third parties



Role of certification



Neste Oil has supported smallholders in the certification of their production. Certification is used to verify that:

- cultivation does not take place in areas where this is forbidden (such as high carbon stock areas and rainforests)
- production does not threaten biodiversity or endangered animal species
- production is not linked to land grabbing
- production does not infringe anyone's human rights
- production respects workers' rights



Role of certification



Roundtable on sustainable palm oil principles to be certified:

<http://www.rspo.org/file/revisedPandC2013.pdf>

8 PRINCIPLES FOR GROWERS TO BE RSPO CERTIFIED

-  **1** Commitment to transparency
-  **2** Compliance with applicable laws and regulations
-  **3** Commitment to long-term economic and financial viability
-  **4** Use of appropriate best practices by growers and millers

-  **5** Environmental responsibility and conservation of natural resources and biodiversity
-  **6** Responsible consideration of employees, and of individuals and communities affected by growers and mills
-  **7** Responsible development of new plantings
-  **8** Commitment to continuous improvement in key areas of activity



Palm oil is a significant source of livelihood to smallholders



- Smallholders represent a big majority of land ownership in Indonesia (39,5 %) and Malaysia (39,4 %) of oil palm area planted
- Poverty is driving people into the forests to plant more oil palm.
- An average smallholder in Indonesia earned only 133 USD/ month for 2 Ha of land (the minimum wage 141 USD)



Helping Smallholders improve the sustainability of oil palm industry

- Many smallholders cultivating oil palms used to grow rubber trees. By switching to oil palms smallholders can double their income.
- The training and support provided by cooperatives help smallholders follow sustainable cultivation methods.
- Certified palm oil commands a better price than non-certified palm oil.
- Families can afford to provide education to their children
- Growing oil palms has increased the standard of living of smallholders in Indonesia
- However, there are smallholders who are not within cooperatives and not yet included in certification efforts. Projects with international organizations aim to reach out to them.





Battle against deforestation

All of Neste Oil's suppliers (smallholders included) are covered by a clear policy banning the use of slash and burn to clear land. Other requirements:

- Environmental responsibility and conservation of natural resources and biodiversity
- Protect High Conservation Values as defined by the HCV Network
- Support the Free, Prior and Informed Consent of indigenous and local communities for activities on their customary lands
- Protect High Carbon Stock (HCS) forest areas
- Protect and properly manage peatlands



Collaboration with TFT: to promote sustainable palm oil production

- The Forest Trust (TFT) is an organization dedicated to combating deforestation together with international environmental organizations, TFT has helped numerous international companies develop sustainable supply chains.
- As part of its collaboration with TFT, Neste Oil published its [No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock](#) in 2013.
- TFT has carried out a risk assessment of the palm oil mills and estates used by Neste Oil. The works covers also the nearby plantations that do not form part of Neste Oil's supply chain but which supply the mills supplying certified palm oil to Neste Oil. In their assessment they concluded that Neste Oil's direct supply chain does not include any immediate high-priority issues.
- The results of the TFT review have been used in workshops with suppliers to help develop their operations, including those unrelated to Neste Oil's supply chain. These workshops have paid particular attention to suppliers' policies and to ensuring that they continue to reflect the requirements of Neste Oil's No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock.
- In 2015, we plan to extend the TFT work to include mapping our third party suppliers. These include small palm oil producers and smallholders.



Mongabay news: 12/23/2014

- **The Year of Zero Deforestation Pledges:**

In 2014, the unimaginable happened: companies representing the majority of palm oil production and trade agreed to stop cutting down rainforests and draining peatlands for new oil palm plantations. After years of intense campaigning by environmentalists and dire warnings from scientists, nearly two dozen major producers, traders, and buyers established zero deforestation policies that include environmental, social, and labor safeguards. And it wasn't just the palm oil sector: following the lead of Wilmar, agribusiness giant Cargill extended the policy across its entire \$135 billion commodity supply chain. Meanwhile early adopters of zero deforestation policies, including Indonesia's Golden Agri-Resources (GAR) and Asia Pulp & Paper (APP), continued to make progress on their commitments, with GAR extending the policy to all palm oil it processes and trades, and APP pledging to support conservation and restoration of an area equivalent to its concessions: one million hectares. Still while there was positive progress toward eliminating deforestation from key supply chains, some companies continued to destroy forests. Asia Pacific Resources International Limited (APRIL) came under heavy criticism for continuing to source fiber at the expense of peat forests. The company claimed the deep peat Greenpeace documented it clearing didn't breach its sustainability policy. *Rhett Butler*

<http://news.mongabay.com/2014/1223-hance-butler-top-ten.html>

Educating plantation workers' children



Humana Child Aid Society

- Neste Oil has contributed for years to the work of Humana Child Aid.
- Humana Child Aid runs schools and learning centers on remote plantations together with responsibly minded local palm oil companies.
- These schools are for migrant worker children who have difficulty to access local schools within remote areas
- Over 12,000 children attend the organization's 130 schools in all.

Battle against poverty and deforestation



CASE: Palm oil smallholders

- Palm oil production is an important livelihood in Indonesia and Malaysia.
- Neste Oil had over 54,000 smallholders in its supply chain in 2013.
- Our experts help the farmers to certify their production.
- Certification increases the farmers' income, and often leads to better yields.



Thank you.

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