BAROMETER
ON SUSTAINABLE PRODUCTION AND TRADE OF PALM OIL IN COLOMBIA

PLATAFORMA COMERCIO SOSTENIBLE

FACILITADA POR:
Solidaridad

In recent years the Colombian palm oil sector has become a leading provider of sustainable palm oil globally. Thanks to efforts by the sector organization Fedepalma, individual companies, civil society and international cooperation, the country has been able to successfully introduce, scale and mainstream sustainable palm oil in Colombia. However, Colombia now requires more efforts to tackle a variety of systemic issues -environmental, social and economic- to complete sector transformation towards sustainable production and trade.

This barometer presents the figures for local production and international trade of sustainable certified palm oil in Colombia to understand the trends between 2014 and 2018. These sector data were consolidated and cross-referenced by Solidaridad from a number of primary and secondary sources and is partly based on estimates. This report also analyses the current situation, challenges and opportunities to further foster sustainability and create a collective impact in the sector.

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Context

In 2018, total production in Colombia reached 1.6 million tonnes of crude palm oil produced on 530.000 hectares. The sector represented 8% of agricultural GDP, generating more than 170.000 jobs, and indirect economic benefits to around 400.000 people. Colombia is the fourth producer of palm oil in the world, with a contribution of 2% of the worldwide production and 1,7% of total palm oil traded globally, and the first in America. Currently, palm oil is produced in 21 departments of Colombia, including 152 municipalities.

Production of Crude Palm Oil	1.6 Million tonnes
Production Area	530.000 hectares
Share of agricultural GDP	8%
Producers	5.400 (83% smallholders)
Average size of smallholders	12 hectares
Direct employment	68.000 workers
Total employment	170.000 workers
Total % formal jobs	82%
Indirect beneficiaries	400.000 people
% of total deforestation in Colombia related to palm oil	0,25% (2011-2017)
Total ha deforestation related to palm oil	2.838 hectares (2011-2017)
Total sustainable certified volume (%)	22%

Table 1. Colombian palm oil sector in 2018

Sources: ESPO 2019, Nepstadt 2013, ENS 2018, Fedepalma, IDEAM, Fedesarrollo

Colombia has the potential to further consolidate its position as one of the leading suppliers of sustainable palm oil without pushing the agricultural frontier or incurring into deforestation. Though it should ensure that fair solutions for land conflicts and working conditions are in place across the different agricultural sectors. According to the Agricultural Rural Planning Unit (UPRA - agency of the Colombian Ministry of Agriculture), in Colombia there are 44 million hectares that are suitable for cultivation of different crops while only 7 millions hectares are being used. Out of this total 44 million hectares, only 1,2% hectares are planted with oil palm, meanwhile 36,3% is suitable for oil palm. Recent growth rates are around 9% between 2014-2018. Currently, 530.000 hectares are mapped in the National Oil Palm Register. None of these legally registered plantations are located in or near the geographical boundaries of the Amazon. Between 2011 and 2017 only 0,25% of the total deforestation in Colombia was linked to palm oil. The 2.838

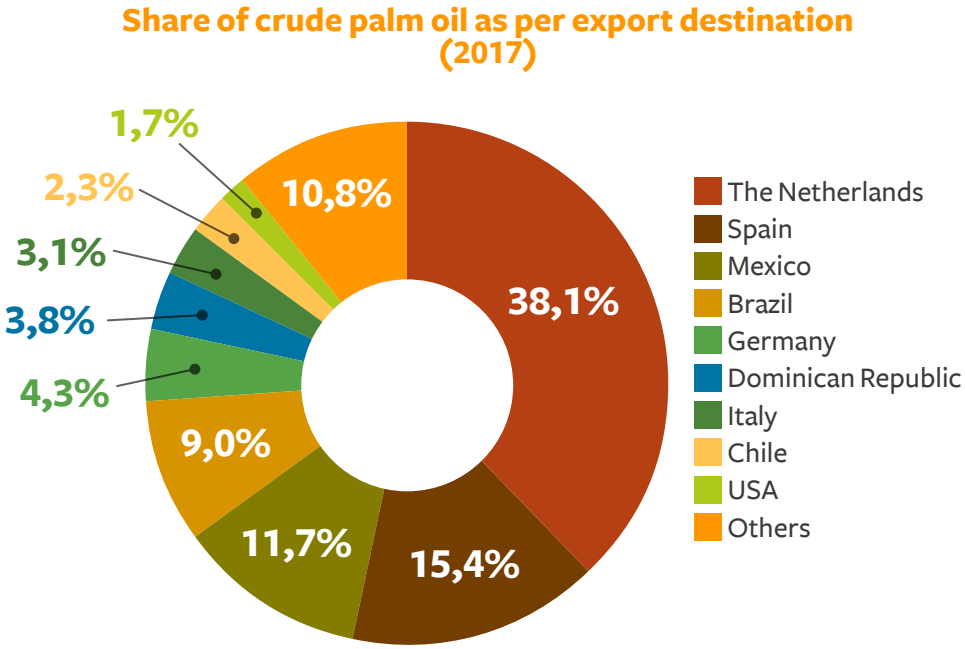
hectares of deforestation caused by palm oil plantations were mainly located in the Santander, Bolivar and Norte de Santander departments, according the Institute for Hydrology, Meteorology and Environmental Studies (IDEAM).

Palm oil is increasingly export bound

The export represented 49,8% of national production, in 2017, with Europe being the main destination. The remaining 50,2% was domestic sales to oil and fat processing industry for food (19,5%), feed producers for animals (3%) and biofuel industry (27,7%). In comparison, in 2014, internal market absorbed 77,5% of national production, while external sales were 22,5%, showing an increasing trend of the export market (22,5% vs. 49,8%).

Graphic 1. Export destination for Colombian palm oil

Source: Fedepalma Statistical Yearbook 2018



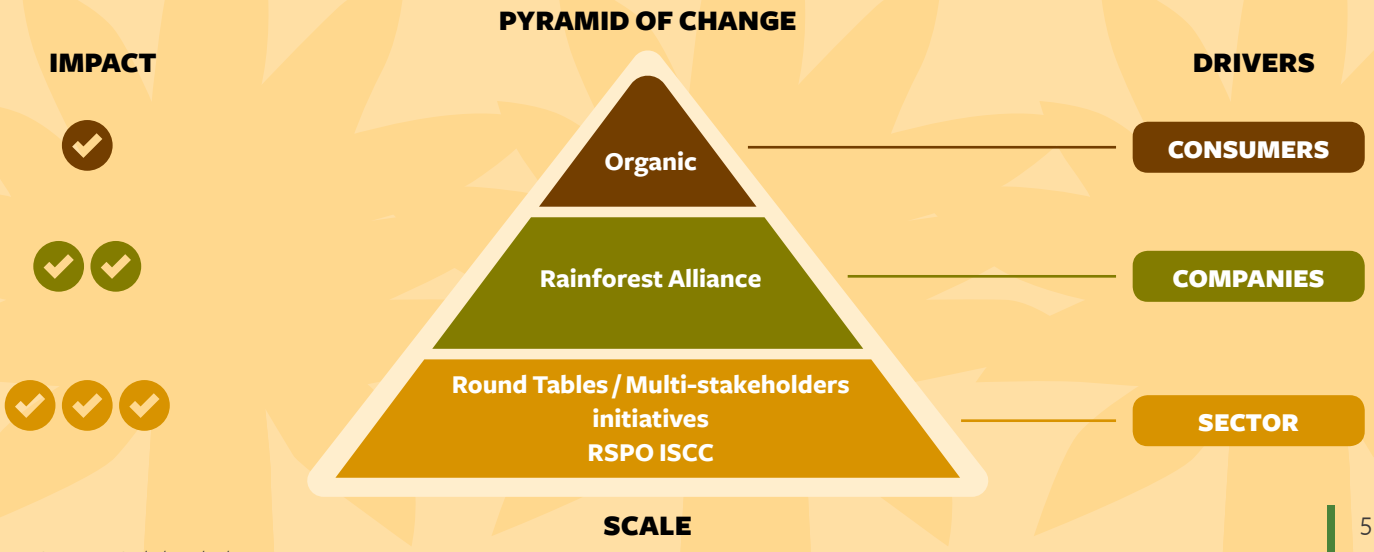
Europe is the main importer of Colombian palm oil, with The Netherlands, Spain and Germany as main destination countries.

Overview of the production and trade of sustainable palm oil in Colombia

In the last ten years, certification and verification systems have emerged as the most commonly used strategy to adopt more sustainability practices in the palm oil value chain and comply with international market requirements. The growth curve of three generations of Voluntary Sustainability Standards according to the 'pyramid of change' concept has introduced many new dynamics to the global palm oil market, in the supply chain and for producers. It put sustainability on the public agenda, raised consumer awareness, and created (niche) markets that are beneficial for change in the marketplace and the agriculture practices, with real impact for producers.

The first generation of Voluntary Sustainability Standards (VSS), the standards for organic production were focused on and limited to niche markets based on the preference of consumers for sustainable products. This first generation of VSS flagged the need for more fundamental market change to increase sustainable production and consumption. The second generation of VSS, were brand focused certification standards, such as Rainforest Alliance. These standards showed the significance of pilot projects in which early adopters prepared larger volumes for the mainstream market and mobilised a broader engagement from companies for sustainability. End-consumer companies and traders took responsibility for the origin of their products. In the third layer of sustainability, roundtables became a precondition for the continuity and profitability of the business, processors and producers. At the same time, the RSPO and ISCC standards have a provided the sector minimum requirements to be recognized as sustainable production.

Graphic 2. Types of sustainability standards as defined under the Pyramid of Change



Source: Solidaridad

Voluntary Sustainability Standards that have been adopted by the Colombian palm oil sector are:

1 Organic

Organic certification involves a set of production standards for growing, storage, processing, packaging and shipping that include mainly: avoidance of synthetic chemical inputs, avoidance of genetically modified seeds, maintaining strict physical separation of organic products from non-certified products. In Colombia, Daabon is the company that pioneered organic palm oil production and is the current leader in the production of organic ingredients in South America.

2 Rainforest Alliance Standard (RAS)

The Rainforest Alliance is a non-governmental organization working to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behaviour. The standard RAS includes ecosystem conservation, wildlife protection, fair treatment and good working conditions for workers. In Colombia, the first company to be Rainforest Alliance certified was Daabon in 2013.

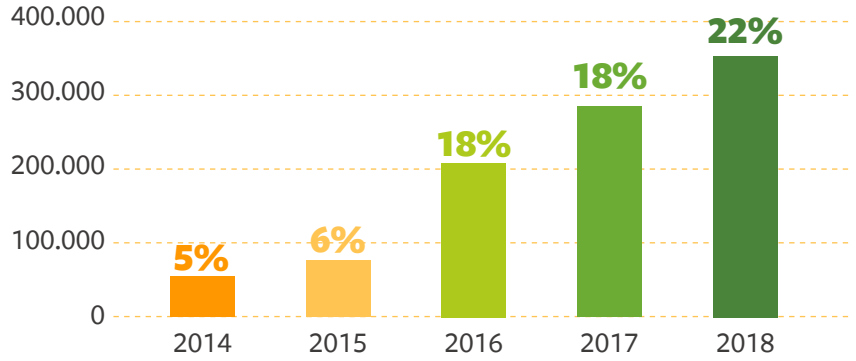
3 Roundtable on Sustainable Palm Oil (RSPO)

RSPO was established in 2004 with the objective of promoting the growth and use of sustainable oil palm products through credible global standards and engagement of stakeholders. It has developed a set of environmental and social criteria; which companies must comply with in order to produce certified sustainable palm oil. Currently 11 companies in Colombia have obtained the RSPO certification.

4 ISCC

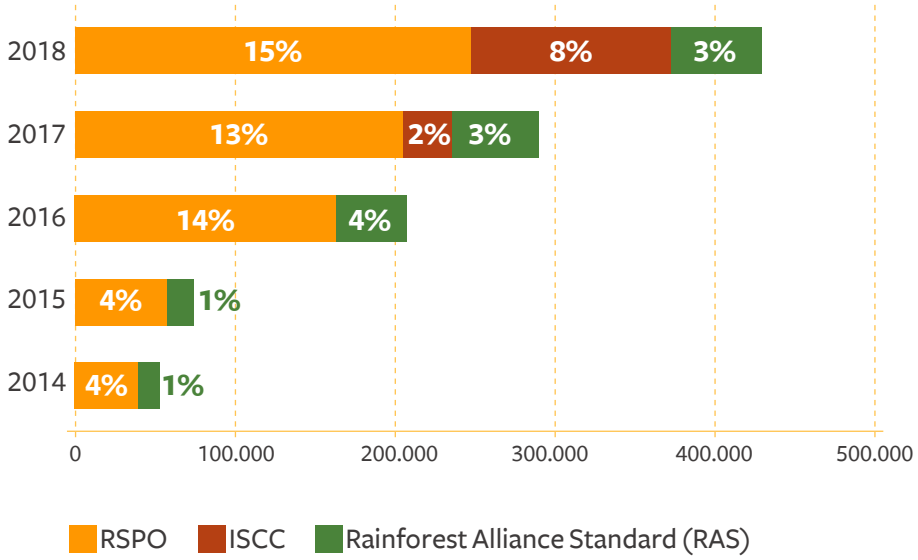
International Sustainability and Carbon Certification (ISCC) is a globally leading certification system that offers solutions to address sustainability requirements for all feedstock and markets. Its focus is on social and ecological sustainability criteria, monitoring deforestation-free supply chains, avoiding conversion of biodiverse grassland, calculating and reducing GHG emissions and establishing traceability in global supply chains. Biocosta Group in 2017 achieved the first ISCC certificate in Colombia. Currently 8 companies in Colombia have obtained the ISCC certification.

Overview of the production and trade of sustainable palm oil in Colombia



Graphic 3. Overall amount of certified tonnes and certified volume as % of total production
(Tonnes and share of total production)

Sources: Own compilation, based on company data and estimations.



Graphic 4. Overall number of certified tonnes by Voluntary Sustainability Standard
(Tonnes and share of total production)

Sources: Own compilation, based on company data and estimations.

Production: rapid growth of volumes and hectares of certified sustainable palm oil among producers and processing mills

The overall share of certified palm oil increased from around 5% in 2014, to approximately 22% in 2018. Whereas RSPO and Rainforest Alliance (RAS) certification have already been used for several years, the first Colombian companies got ISCC certified in 2017. Although introduced later than the other certifications, the share of ISCC certified production has grown quickly to 8% of the national CPO production in 2018, while RSPO and RAS accounted for 15% and 3% respectively.

The same development can be observed for the number of ISCC certified mills, which in 2016 had none certified mill but in 2018, the second year after introduction, accounted for 8 out of 66 national mills. The same year, 11 mills were RSPO certified, representing 17% of all Colombian palm oil mills.

Whereas between 2014 and 2017 there was a significant increase of RSPO certified hectares from 8.448 ha to 70.819 ha, and from 39.706 to 205.103 in terms of volumes, the strong trend did not continue in 2018. Possible explanations are the new procedures included into the standard that have delayed the certification processes, as well as follow up audits including fewer hectares. The number of RAS hectares grew continuously on a small scale, and in 2018 made up 4% of national productive plantations.

So far, smallholders are involved only in RSPO and RAS certification. In 2018, the total number of RSPO producers accounted for 260, including 11 companies and 249 smallholders. This last mentioned number represents a share of 5,5% out of the overall estimated number of 4.500 smallholders in the Colombian palm oil sector. In the same year, RAS certified palm oil was produced by 3 companies and 47 certified smallholders. So far, there are no ISCC certified smallholders.

Table 2. Historical development of certified hectares, volumes, producers and mills in Colombia

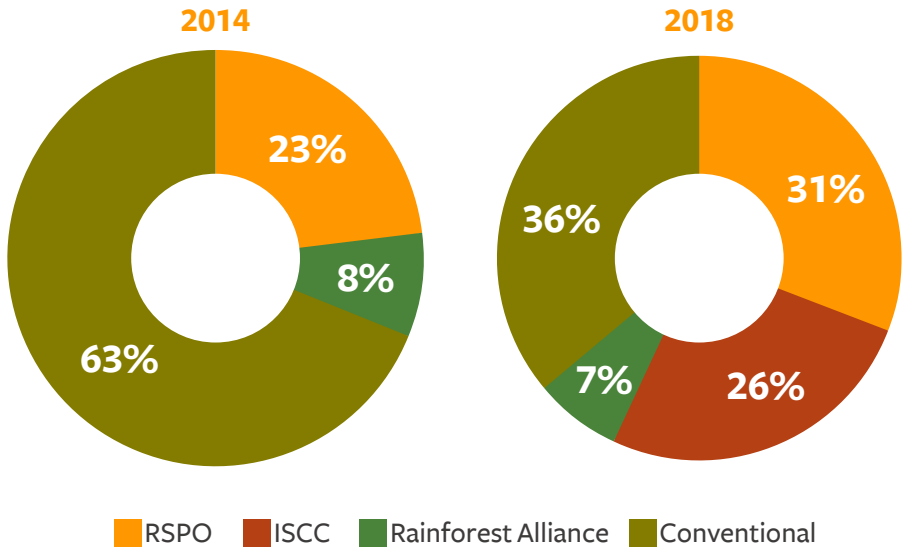
Sources: Own compilation, based on company data and estimations. *Productive hectares

	2014	2015	2016	2017	2018
Hectares					
RSPO	8.448	17.391	46.368	70.819	63.903
Total*/%	2%	5%	12%	16%	15%
ISCC	0	0	0	17.965	44.783
Total*/%	0%	0%	0%	4%	10%
Rainforest	3.861	5.332	12.757	16.148	16.192
Total*/%	1%	1%	3%	4%	4%
Volumes [tonnes]					
RSPO	39.706	56.517	163.316	202.246	247.012
Total/%	4%	4%	11%	12%	15%
ISCC	0	0	0	30.514	126.508
Total/%	0%	0%	0%	2%	8%
Rainforest	13.127	18.129	43.374	54.903	55.053
Total/%	1%	1%	4%	3%	3%
Producers					
RSPO	4	4	171	173	260
ISCC	0	0	0	2	8
Rainforest	4	6	11	51	50

	2014	2015	2016	2017	2018
Mills					
RSPO Total / %	4 (6%)	4 (6%)	6 (9%)	10 (15%)	11 (17%)
ISCC Total / %	0 (0%)	0 (0%)	0 (0%)	2 (3%)	8 (12%)
Rainforest Total / %	1 (2%)	1 (2%)	3 (5%)	4 (6%)	4 (6%)

Trade: the Colombian industry benefits from international sustainable sourcing commitments with higher volumes of certified palm oil

The sustainable trade of palm oil from Colombia doubled from 2014 to 2018. Certified volumes traded with Europe increased from 31% to 64%, including all certification standards. It confirms efforts from both sides, the supply base and the market, to have real commitments towards sustainability. Additionally, the Free Trade Agreement between Colombia and the European Union has favoured better trade conditions for the import of palm oil. All in all, it marks Colombia as an emerging origin that is quickly gaining market share in Europe to deliver sustainable palm oil.



Graphic 5. Volume of Colombian certified sustainable crude palm oil imported in Europe (2014-2018)[1]

Source: based on own calculations.

[1] NOTE: As no aggregated import data for certified palm oil was available, following assumptions were used to calculate a respective share:

- 60% of all RSPO and RAS certified palm oil produced in Colombia is exported to Europe. The assumption is based on the data some companies shared about their export rates and expert knowledge.
- 100% of all ISCC certified palm oil is exported to Europe, as ISCC certification is demanded for biofuel production in Europe. Other possible markets for ISCC certification, like Australia and Japan, are none of the main export destinations for Colombia.
- Furthermore, the annual share of exports to the Netherlands, Spain and Germany of total exports to Europe were used for the calculation.

The relative share of RSPO certified palm oil imported from Colombia to Europe went from 23% to 31% throughout 2014-2018. This performance can be attributed to big market players located in Europe who boosted the demand for RSPO certified oil, and due to the increased recognition of the standard to meet global market requirements.

As ISCC certification is a requirement for the production of biofuels in Europe since 2016, this standard has become more relevant for the palm oil sector in Colombia, as is reflected in an increase of its share from 7% in 2017 to 26% in 2018.

Due to lower production volumes, also import volumes of Rainforest certified palm oil can be assumed to be relatively low, varying between 5-10% over the years 2014-2018. One of the reasons for this trend is the lack of specific market requirements for this standard, so most companies prefer to focus their efforts on certifications that are most demanded by the market.

Progress driven by the market and supported by alliances between the industry and civil society

It is evident that in Colombia a remarkable growth has taken place of certified palm oil trading over the last 4 years. This relative rapid growth of certified volumes has enabled Colombia to differentiate more and more its production from other producer countries.

There are strong indications that the growth of sustainable palm oil in Colombia has been accelerated by market requirements due to international commitments to buy only from certified sources.

Some examples of corporate commitments to highlight are: Unilever's Sustainable Living Plan, which sets out a pathway to 100% sustainable raw materials for its fast moving consumer products to decouple its growth from its environmental footprint, while increasing its positive social impact[2], Wilmar's sustainability strategy including the No Deforestation, No Peat, No Exploitation (NDPE) policy, which extends across its global operations, including its joint-venture partners and third-party suppliers[3]. Cargill's commitment to deliver a 100 percent traceable, transparent and sustainable palm oil supply chain by 2020, embodied in the philosophy of "No Deforestation, No Peat and No Exploitation" (NDPE)[4]. Henkel's strategy is to increase the availability of sustainable palm oil and palm kernel oil by a volume equal to their global demand through collaborative projects with small farmers, that

[2] https://www.unilever.com/sustainable-living/

[3] https://www.wilmar-international.com/sustainability

[4] https://www.cargill.com/sustainability/palm-oil/palm-certification

create sustainable value in the wider communities and environment in which they operate[5]. BASF's Oil Palm Commitment to ensure that the palm oil, palm kernel oil and derivatives they use are produced sustainably through active support of RSPO[6], and integration of forest conservation requirements, requirements for a Free, Prior Informed Consent (FPIC) process as well as labor and human rights into their Oil Palm Sourcing Policy.

Furthermore, there are sector commitments such as the Amsterdam Declaration in support of a fully sustainable palm oil supply chain by 2020, FONAP (Forum for Sustainable Palm Oil) and DASPO (Dutch Association for Sustainable Palm Oil). The Italian Union for Sustainable Palm Oil, and The Spanish Foundation for Sustainable Palm Oil, which are created for raising awareness of the benefits and contribution of certified sustainable palm oil for the food industry and supporting private sector across Europe to remove deforestation from their supply chains. At a bilateral level, in 2018 a joint declaration was signed by the Dutch organization of vegetable oil importers (MVO), FEDEPALMA, Solidaridad and IDH to reach 100% sustainable trade between Colombia and the Netherlands by 2021.

On the other hand, the Colombian palm oil sector has had great benefit from the initiatives that were implemented by a coalition of private sector, civil society and international cooperation. A great example has been the Biodiverse Oil Palm Landscape programme (PPB-Paisaje Palmero Biodiverso), financed by the Global Environmental Facility (GEF) through the Inter-American Development Bank (IDB), and implemented by the World Wide Fund for Nature (WWF), Alexander von Humboldt Institute, Fedepalma (The National Federation of Oil Palm Growers) and Cenipalma (National Research Centre for Oil Palm Growers), which implemented scenarios to conserve biodiversity and to solve critical environmental challenges in the Colombian palm oil sector such as the reduction of the water and energy footprint. From a circular economy angle, this project also developed new value-added models for biomass by-products.

Other examples are the Sustainable Trade Platform[7] facilitated by Solidaridad and financed by the Netherlands Ministry of Foreign Affairs, that supports over 60% of the local industry players in building collective impact towards smallholders within their supply chain. The Zero-Deforestation Agreement[8] has been initiated in 2017 by the Colombian Ministry of Environment and signed by 25 companies. This agreement operating under the Tropical Forest

[5] https://www.henkel.com/sustainability/positions/palmoil

[6] http://www.taskforceduurzamepalmolie.nl/uploads/media/Dutch_Alliance_Sustainable_Palm_Oil_-_commitment_english.pdf

[7] http://www.comerciosostenible.org/en

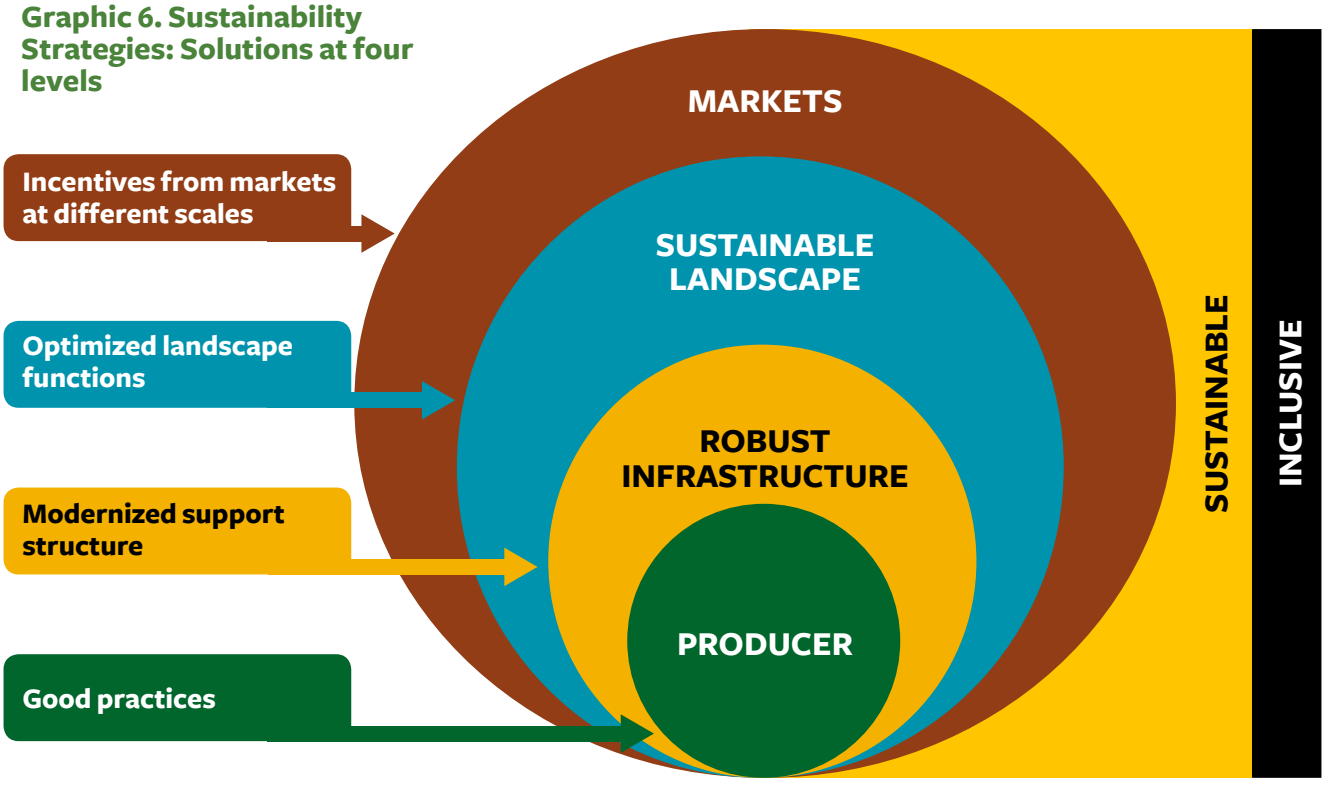
[8] http://www.minambiente.gov.co/images/ACUERDO_DEFORESTACION_CEROCADENA_ACEITE_DE_PALMA__COLOMBIA_Version_para_Suscripcion_28112017.pdf

Alliance, maps, monitors and reduces the exposure deforestation risks among local players. These sector platforms have allowed companies and organisations to pool their resources, share knowledge and develop joint strategies to address complex sustainability issues. It has supported stakeholders to better understanding the challenges of others in the sector and identify opportunities to acknowledge successes and share best practices via collaboration.

Towards a sustainable transformation of the palm oil sector in Colombia

The past years the Colombian palm oil sector has demonstrated significant progress to transform towards sustainable production and trade. However, to complete this transformation and to reach the target of 75% sustainable production by 2023, more efforts are required to resolve a series of systemic issues: environmental, social and economic. In that regard, this report identified a comprehensive set of actions at different levels for further implementation.

Graphic 6. Sustainability Strategies: Solutions at four levels



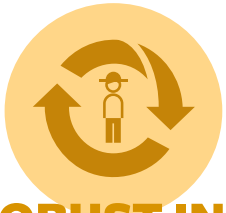
Source: Solidaridad

PRODUCER

Close the gap with Voluntary Sustainability Standards for smallholders through continuous improvements systems and incentives

With the widespread use of Voluntary Sustainability Standards as a basis for transformation of production practices, there is the risk to create a gap with smallholders in Colombia. This group makes up over around of the total producer population in Colombia. Certification processes and the implementation of necessary management and control systems are especially challenging for this specific group. In many cases technical and financial support, and also practical guidance throughout the implementation period, seem to be preconditions for successful smallholder certification. The use of a sustainability index for smallholders, which is already under development by Cenipalma and Fedepalma, is an appropriate way to improve effectiveness of sustainable production, promoting a continuous improvement approach, rather than focusing only in certification.

By all means, the design and the inclusion of an incentive scheme is a real need to add speed and scale to the uptake of sustainable practices in the palm oil value chain by including smallholders. These incentives can take the form of financial, technical and/or commercial stimulus, but should be designed from a producer perspective to maximize effectiveness.



ROBUST INFRASTRUCTURE

Strengthening of support services at palm oil cluster level to add speed and scale to sustainable production

The productive alliances in Colombia are proven models to integrate the palm oil supply chain and to boost the implementation of better practices, as the mills work hand in hand with smallholder suppliers to increase volumes and quality of fresh fruit bunches, to channel investments and to provide technical assistance.

These services at cluster level are vital for the transformation of the sector. With the introduction of digital innovations, the sector is now enabled to optimize access to services. Although, some digital apps for agriculture are already implemented in Colombia, they do not seem to be fully adapted to smallholders needs either sustainable production challenges.

Optimization of support services at cluster level can offer solutions to help smallholders towards compliance with the required labour conditions under Voluntary Sustainability Standards. Labour

formalization processes, simplified and adapted to the context of smallholders and (temporary) workers, can help to overcome one of the challenges to assure compliance of more small- and medium sized palm oil producers.

By providing technical assistance and financial support, the supply chain integration, also contributes to a livelihood improvement of field workers and their families, and could demonstrate that sustainable production is a viable business for a smallholder palm oil producer in Colombia.

Through the optimization of the digital infrastructure, there will be more agile forms available to approach smallholders providing tailor made trainings and monitoring the implementation of better practices, as well as calculating the impact of investments over time.

Lastly, improving the access to financial services and products at cluster level is a prerequisite to accelerate the investment in sustainable production. The co-creation of financial products between banks and processing mills, and based on better information on the profiles of farm and farmers is a prerequisite to increase the sustainable investment by local and international financial institutions in the sector.

SUSTAINABLE LANDSCAPES

Move from a business case to an investment case for integrated landscape management

In Colombia there are many challenges yet to explore at this intervention level, such as how to strengthen existing multi-stakeholder landscape approaches within global supply chains and how to connect businesses and investors to these initiatives. The coordinating efforts between policymakers, civil society and the private sector, to develop a business case for integrated landscape management should go beyond and move towards the development of an investment case for sustainable landscape management or jurisdictional approach.

Experiences from other palm oil producing countries on sustainably managing productivity and natural resources, have demonstrated to generate promising results to implement better practices and to have a more ambitious jurisdictional approach to ensure the protection of ecosystems and the rights of communities. These approaches have also come up with new incentive schemes for producers within their farms, to contribute to zero-deforestation commitments and to the criteria for the protection of High Conservation Value Areas. Colombia can also provide a good example from the Biodiverse Oil Palm Landscape programme that identified possibilities to reduce the water and energy footprint, as well as the identification of value-added applications for biomass by-products within a circular economy model.

MARKET

Promote further market transformation with the support of international and local buyers

When proposing solutions and improvements, it is important to build on existing mechanisms and efforts and understand that a mix of various instruments is necessary to enable a holistic market transformation. Foremost, it is crucial to ensure sufficient demand for sustainable palm oil in European markets. The example of oversupply of certified sustainable products in other agricultural commodities should serve as a reminder to find a healthy balance between production and demand. Without an adequate economic recognition from the market for the environmental and social value produced by sustainable palm oil, the incentives are limited for farmers to continue investing in the adoption of the criteria of Voluntary Sustainability Standards.

In view of the success of the international commitments and given that local markets making up half of the total sales of Colombian crude palm oil (CPO), there is a need to replicate the international sourcing commitments on sustainable palm oil to the local context, including the CPO bound for the biofuel industry in Colombia.

Lastly, focusing the commercial efforts on boosting sustainable palm oil for the traditional food and/or cleaning product markets could become an alternative to overcome the more restrictive legislation for the imports of palm oil as a raw material for biofuels.

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