Roundtable 9
Preparatory Cluster

Supply chain for smallholders
22 November 2011
Types of Smallholder

- Scheme smallholder – tied to a mill; follow company’s system
- Independent smallholder – not tied to a mill
Schematic of SH certification

**Group Manager**
- Supports members
- Controls Group
- Monitors the group members

**Certification Body Auditor**
- Assesses the group manager
- Assesses a sample of group members each visit

**Members**
- Formally join group
- Agree to group rules
- Comply with oil palm management requirements

Supports

Monitors
Currently the RSPO uses three supply chain options:

- **Segregated**: Certified palm oil is kept apart throughout the supply chain.
- **Mass Balance**: Certified palm oil is mixed in with conventional palm oil but monitored administratively.
- **Book and Claim**: Certified palm oil is not kept apart; Suppliers sell certificates to users; Claimed volumes are matched.
• In the current system traceability starts at the CPO mill.
• The transport between the plantation and the mill is not traced.
• The mill acts as certificate holder and the certified products are:
  - Crude Palm Oil (CPO)
  - Palm kernel (PK)
Challenges for independent SH

• Independent smallholders by definition operate independently of specific mills.
• Most or many in fact sell their fruits, either direct to mills or via middlemen, on an ad hoc basis waiting for buyers to offer them an advantageous price.
• Such situations pose a challenge to the RSPO system in terms of chain of custody certification as, over the years and even within a single month, fruit from any one grower may be processed into crude palm oil by a number of different mills.
• Moreover if such growers’ produce is to be certified it is as Fresh Fruit Bunches (FFB) and not as Crude Palm Oil (CPO)
SC options for independent SH

Option A
Independent smallholders group
RSPO certified Mill(s)

Option B
Independent smallholders group
Middlemen
RSPO certified Mill(s)

Option C
Independent smallholders group
Middlemen
Non-RSPO Mill(s)

Option D
Independent smallholders group
Non-RSPO Mill(s)

Mass balance & segregation system relatively easy to implement, but need revision of Supply Chain System.

Mass balance and segregation system needs big revisions of Supply System, but is feasible.

Book & Claim seems to be the only option on mid-term, as mass balance and segregation will be very complex to implement.
What changes are required in the RSPO Supply Chain mechanisms to enable independent smallholders to become part of the RSPO system?
Farmer groups will be allowed to commercialize certificates, based on their compliance with the RSPO standard.
Advantages:

- No issues to resolve concerning traceability via middlemen or (non-certified) mills

- Cheaper in implementation and therefore higher feasibility for groups with smaller volumes (which is very relevant in the smallholder context)
Disadvantages

• This option does not satisfy possible demand for physical sustainable oil palm from independent smallholders.

• If smallholder groups are able to sell their certificate independently, their negotiation position towards a RSPO certified mill would increase considerably. A perverse effect could be that these mills decide not to source from these smallholders.

• This is going to be difficult to match up physical supply and actual demand. There are major issues now without adding another leg into the operation. A mill isn’t going to segregate SH FFB from their own certified FFB.

• If a sustainable premium is a priority then to earn this via GreenPalm allows the SH to sell their FFB to which ever mill they want without the added pressure of demanding a sustainable premium to the mill.
GreenPalm smallholder FFB certificates

Advantages: relatively simple to calculate

- Is there a demand of FFB certificates? Does it align with CPO volume targets in industry? Is it easy to integrate in the RSPO Communication Guidelines?

- There is no demand for FFB certificates, however we could agree on a standard OER to convert to CPO, PKO certificate and also calculate PKE content. These could then be traded.
Segregated or Mass Balance

• This system allows for full traceability from plantation to consumer.

Advantages
• Could meet actual demand physical sustainable oil palm from independent smallholders
• Could create better synergy between certified mills and independent smallholders

Disadvantages
• Complex in developing traceability system
• I would question this assumption in mainstream markets, segregation through the mill is not likely.
• RSPO should consider using just a single FFB to CPO conversion factor. The recommended value is 19.5% (from the participants in the Indonesia workshop) and 20% (participants form the Malaysian workshop).

• A conversion factor of 6% should be considered from conversion of FFB to PK.

• RSPO to develop process/platform to seek consensus on these conversion factors.

• RSPO may need to establish an expert group to deliberate on this subject.
In order to encourage independent SH certification, there is need to **better promote certified SH CPO**.

RSPO to carry out market research to determine how demand is really out there for certified SH CPO.

RSPO to embark on promotion campaign to encourage buyers to take up certified SH CPO.

The possibility of **GreenPalm having a special category for certified SH CPO** needs to be looked into.
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