

A photograph of the UNESCO-IHE building in Maastricht, Netherlands. The building is a modern, multi-story structure with a light-colored facade and large windows. A tall flagpole stands in front of the building, flying a blue flag with a white wave pattern. The sky is clear and blue. The text is overlaid on a semi-transparent white background.

**Sustainability, fair play and free trade in the modern world,
Partnerships for the development of sustainability in
Malaysia's palm oil sector** *Meine Pieter van Dijk, professor UNESCO
IHE Delft and MSM Maastricht in the Netherlands IPSConference in Kuala Lumpur 10-9-12*

UNESCO-IHE INSTITUTE FOR WATER EDUCATION

Overview

- 1. Sustainability what does it mean?**
- 2. The challenges for palm oil: free trade and fair play and others**
- 3. Partnerships to improve sustainability:**
 - A government initiated partnership with the Malaysian, Indonesian and Netherlands*
 - B partnership initiated by the private sector, the Roundtable on Sustainable Palm Oil*
 - C a business to business partnership*
- 4. Some conclusions**

Sustainability what does it mean?

We do not want:

1. All kind of chemical products in our food
2. The growing of palm oil to go at the expense of the environment
3. Deforestation
4. Palm oil to be grown under adverse labour conditions
5. Palm oil to be manufactured causing pollution or CO₂ emissions
6. Lower standards when investing in palm oil abroad

What can be done:

1. Mind the use of pesticides, insecticides and fertilizers
2. Keep up bio-diversity and opportunities for orang-utans
3. Limit deforestation and replant trees
4. No child or forced labour, minimum wages and freedom to organize themselves
5. Reduce CO₂ emissions and limit different types of pollution
6. Apply rigorously the same standards in Indonesia or Africa as in Malaysia

Challenges for palm oil policy makers

- Environmental challenges
- Doubts about the quality
- Changes in health consequences
- Availability of cheaper substitutes, or use for bio fuel
- Competing countries
- Technological developments, for example high yielding varieties
- Trade limitations
- Higher cost of transportation

How to deal with these major challenges

- Limit environmental consequences
- Quality problems could lead to restricting imports
- Health issues: groundnut oil became less popular when it proved less healthy
- Cheaper substitutes: less demand
- Used as bio fuel: higher prices
- Competition: African producers may be cheaper
- Technological developments: competitive advantage may change to new producers
- Trade limitations: export would be more difficult
- Cost of transportation[^]->higher prices& less demand

Producers face changing challenges in a global economy and do their risk analysis to determine their strategy

- The challenges listed have led major producers like Wilmar International to invest in Africa and other companies have diversified to be able to offer a range of oil products
- However, the great achievement of the economic crisis of 2008 is that no country has resorted to outdated protectionist policies and probably that has become more and more difficult through the World Trade Organization (WTO) regulation and
- The specialization of most countries means focusing on products in which they have a competitive advantage!

Partnerships to improve sustainability

One Public sector initiated partnership:

Malaysia, Netherlands & Indonesia

Two Private sector initiated partnerships in Mal.:

1. RSPO and the GreenPalm certificates trading scheme
2. Trading companies with vertically integrated companies: oil is traceable, a guaranteed delivery of segregated sustainable oil

Three partnerships

- The government initiated partnership involved representatives of the three governments involved, the private sector and non-governmental organizations (NGO) in the three countries concerned
- The RSPO is a partnership initiated by the private (commercial and non-commercial) sector
- Finally, the third partnership is between two big companies, one of which assures the sustainability for the first part of the chain

What is a partnership?

A partnership is a form of cooperation between parties with similar objectives but different (complementary) qualities, which each contribute resources and share in the investment risks

Basic characteristics

- Common objective
- Some legal or informal arrangement
- Joint activity
- Shared resources
- Sharing of risks

Have PPPs contributed to sustainable development of the palm oil sector?

- The question is whether PPPs in Malaysia have contributed to sustainability by defining & respecting standards concerning the achievement of sustainable production, transport, manufacturing & distribution of palm oil
- OECD (2002) defines evaluation as “an assessment, as systematic and objective as possible, of an on-going or completed project, programme or policy, its design, implementation and results”
- The concepts of relevance, impact, efficiency and effectiveness are used to assess to the dynamics of the partnership process

Empirical traits of the partnership: to be studied, factors that play a role:

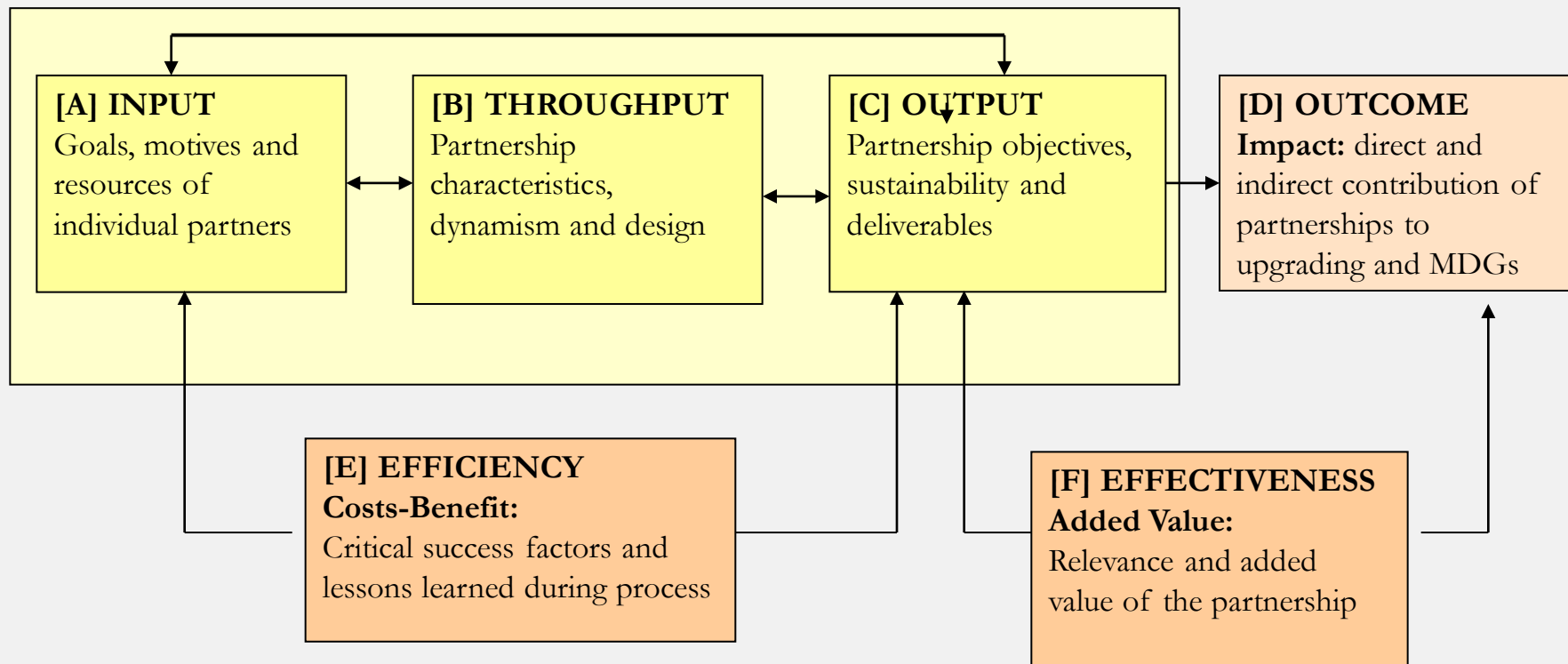
- Level of equality or hierarchy
- Level of trust
- Level of ownership
- Expectations of both parties
- Commitment
- Complementarity
- Resources put in place
- Actual risks and their distribution
- Drivers
- Internal or external factors affecting the success or failure of a partnership

Methodology

Research question: which factors determine the success of these partnerships and what explains the differences between them?

- The review of the first partnership is based on an evaluation study Pfisterer and van Dijk (2009)
- The two others are based on the literature & Financial Times
- Theoretical framework & findings concerning government initiated partnership summarized in Van Dijk (2012)
- Nikoloyuk (et al., 2011) assess the effectiveness, efficiency and level of legitimating of the RSPO partnership

Framework of analysis for partnerships



Source: Van Tulder and Kostwinder (2007)

Expected differences between government and private sector initiated partnerships

Variable	Government initiated	Private sector initiated
1. Initiation	Important role government	Important role private
2. Size	Tends to be big	actors, but smaller group
3. Way of functioning	Hierarchical	Based on activities
4. Participation: inclusion or exclusion	Dominant role of government	Based on the perceived interests of partners
5. Financing	Expectation of subsidies	Contribution by partners
6. Continuation	Political decision	If still beneficial
7. Success	If objectives have been achieved	If beneficial

A government initiated partnership with the Malaysian, Indonesian and Netherlands

- Strengthening adequate institutional capacity to deal with international standards for food safety
- Exchange knowledge of national standards and process of standards setting: sound scientific analysis, consistency, transparency, reviewing all relevant information & document it
- Assisting in evaluating existing systems of standards, including risk assessment systems, legislation, certification & quarantine
- Transfer of technologies related to the process of standard setting, implementations, control and inspection of standards
- Monitoring & surveillance systems and building capacity of institutions responsible for plant & animal health & inspection
- Training programs related to the above areas
- Promote private sector investments to strengthen food chain

Objective to address bottlenecks in export-oriented palm oil in Malaysia and Indonesia

- Malaysian partners convinced that partnering in a trilateral partnership with Indonesia – the second important palm oil exporter – and with The Netherlands, as strategic import country, could achieve more than partnering on bilateral basis
- The tool of partnerships was used to build local capacity and thereby improve access to the European market, Malaysia being concerned about continuous access to these markets because of increased EU regulation

The review demonstrated:

- Upgrading of export-oriented activities; capacity building to achieve policy reforms and to deal with sustainability issues
- Important factors that affected the effectiveness of partnerships are:
 1. the governance mechanisms put in place (including the level of ownership, the level of transparency, the vertical and horizontal accountability)
 2. the existence of an enabling environment for public-private collaboration and
 3. sector specific characteristics

The partnership outcomes

- It Identified bottlenecks in the chain and tried to find solutions, with participation of stakeholders: government, private sector and civil society
- Activities were implemented through a National Focal Point, major stakeholders were represented in this national committee
- The Ministry of Plantation Industries and Commodities (MPIC) was the focal point and responsible for coordination for the partnership
- Government, industry and civil society discussed bottlenecks of the sector and developed activities to address them
- From Malaysian perspective the partnership had two strong points:
 1. the possibility to improve the negative perception of Malaysian palm oil
 2. the possibility for technology and knowledge transfer by Dutch experts
 3. It was a unique chance to develop market intelligence

Malaysian stakeholders appreciated it but would have liked more outcomes!

The Malaysian partners perceived:

- A shift in the objective of the partnership from quality issues more towards sustainability, which was not the primary objective of the partnership
- Sustainability became more relevant in the course of the partnership. However, sustainability was already (indirectly) introduced through linkages with the RSPO
- During the implementation of project linkages with RSPO were created: through overlap of stakeholders involved in RSPO and consultative processes of the WSSD partnership on palm oil, the WSSD partnership managed to fastened the process of creating awareness of RSPO
- Without a formal involvement of the Malaysian government in RSPO (observer status), the trilateral partnership created indirect linkages with RSPO
- The Malaysian government committed itself to support activities focusing on smallholder inclusion and the Malaysian Palm Oil Board (MPOB) provided technical support to RSPO
- Given that the Malaysian partners questioned whether the partnership served the intended purpose, the Malaysian partners announced to step out of this partnership, during a meeting in November 2008: the trilateral partnership therefore officially ended
- Setting up bilateral cooperation was perceived as more appropriate to address bottlenecks in the palm oil sector, Malaysia started a bilateral cooperation with the Dutch Ministry of Housing, Spatial Planning & Environment on R&D in the context of carbon emissions!

A partnership initiated by the private sector, the Roundtable on Sustainable Palm Oil

- RSPO is criticized for making slow progress and now Indonesia has even opted out
- Some Indian buyers have become interested in sustainable palm oil
- RSPO considers sustainable production is not coming on stream because the market is not willing to pay the additional 5 to 20 dollar
- Unilever claims customers not willing to pay for certified products
- RSPO is considered "remarkably successful" (Nikoloyuk et al., 2011).
- On the one hand the legitimization process of this private governance initiative, which has been able to develop widely accepted standards
- On the other hand Schouten et al. (2011) claim that the Round table model tends to fall short on two criteria of deliberative democracy: inclusiveness of (all) actors & discourses and on outcome consequentiality (the output, the standard, is not actually implemented by all partners)

Impressions concerning the two

Variable	Government initiated partnership	RSPO
<p>1. Initiation</p> <p>2. Size</p> <p>3. Way of functioning</p> <p>4. Participation</p> <p>5. Financing</p> <p>6. Continuation</p> <p>7. Success depends on a number of factors: Van Dijk, 2012</p> <p>8. Dominant partner?</p>	<p>However too big to govern</p> <p>Very big: 3 times 3 times 3</p> <p>Palm oil had small secretariat</p> <p>Not all stakeholders included</p> <p>Too dependent on governm.</p> <p>Discarded by Malaysia because it did nor benefit</p> <p>Yes concerning the original motives, but later no longer useful</p> <p>The governments</p>	<p>Small dedicated nucleus</p> <p>Small secretariat in Kuala L.</p> <p>More democratic</p> <p>Important stakeholders</p> <p>Mobilized enough funds</p> <p>Still continuing, but Indonesia stepped out*</p> <p>Concrete issue, which is still relevant, but now standards need implementation</p> <p>The NGOs, gov. not active</p>



Partnerships buyers with vertically integrated companies

- Long supply chains make it difficult to prove that palm oil was sourced sustainably
- In 2011 Nestlé and Unilever were accused of buying palm oil from unsustainable sources
- Buying certificates means you can claim to use sustainable oil
- To be sure to actually get sustainable palm oil Nestlé bought from vertically integrated companies of which oil is traceable
- In 2010/11 3 million out of 46 million metric tonnes was segregated sustainable palm oil, which is a problem for RSPO
- The companies claim RSPO it is too expensive and RSPO could not increase the quantity of certified oil fast enough

Some conclusions

- Socially responsible investing (SDRI) community is growing and putting pressure on multi-national corporations to produce sustainable products. It is important to know as a consumer and producer which part of the global eco system we are using while producing or consuming. We conclude that there is a need to bring more rigour in the measurement of corporate sustainability performance. Also more transparency is desired and private sector initiated activities may have a better chance than government initiated partnerships
- Global customers become more and more important for exporting countries. Important factors that affect the effectiveness of partnerships are the governance mechanisms put in place (including the level of ownership, the level of transparency, the vertical and horizontal accountability), the situational context of the partnerships, the existence of an enabling environment for public-private collaboration and sector specific characteristics as can be learned from the Malaysian case study