Continuous Commitment of Indonesia as the Largest CSPO Producer: Toward a Fair Shared of Responsibility

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Sustainability Movement

John Elkington, who has been described by Business Week as "a dean of the corporate responsibility movement", poses an interesting case on how seven dimensions shape our corporate landscape, in form of a three prongs fork of sustainability: economic prosperity, environmental quality, and social justice (1997).

These seven dimensions were discussed in his seminal book, Cannibal with Forks (1997), where Elkington stated that out of seven dimensions, the second one is how values have been changing, from hard to soft values, and it is closely linked with the fifth dimension, from subversion relationship to a more balanced form, *a partnership*.

Elkington argues that no one imagines that we will ever reach the point where everyone on the planet shares a common set of values, and converged around at a minimum set, executed in a partnership way. Organizations which once saw themselves as sworn enemies, enforcing their own hard values to others, are increasingly flirt with, and propose new forms of relationship.

All of these possibilities were opened when the Brundtland Report(1987) was produced and changing the landscape and make peace between environmentalist and business sector. The term Sustainable Development was coined and defined as: actions that meet the needs of the present without compromising the ability of future generations to meet their own need. In palm oil industry, the RSPO is illustrated in the Chart 1, which implicitly and explicitly engages two factors: that Equity matters, and acknowledgement of interdependence of economic growth and environmental quality.

Chart 1 Sustainability Platform

Palm oil industry and its many actors, including smallholders, company growers, industry consumers and NGOs, also one of the first industries to underwent the revolution, from adverse relationship, to a partnership form. This resulted in a Roundtable on Sustainable Palm Oil (RSPO), which many has hailed as the forum where many actors with diverse interests get together in an equal partnership.

In this spirit of partnership, all parties committed to the idea should work hand in hand to achieve the greater objectives, by discharging their responsibilities responsibly.

Table 1 Stages towards Sustainability

Stages	Principle for focus	Ethic
1) Conservation	Use resources wisely and do not deplete them needlessly. Emphasised efficient development and use of resources	Instrumental view nature in that nature has utility only as it serves human purposes.
2) Preservation	Certain areas of the country are to be preserved in their natural state and closed to development.	Nature has intrinsic value in its own right apart from the services it provides for human beings
3) Protection	Focussed on pollution control and the dangers to human health	Health centred
4) Sustainability	**Concerned with global problems, sustainable growth and equity problems**	**Eco Centred**

Source: Chapple, 2005

Continuous Commitment

Currently Indonesia is the biggest oil palm exporter, servicing increasing demands for the world's appetite for eco-efficient edible oil and energy. And we are proud that Indonesia with its long history of involvement in RSPO (see chart 1) and sustainability movement, now is the biggest CSPO and CSPKO producers.

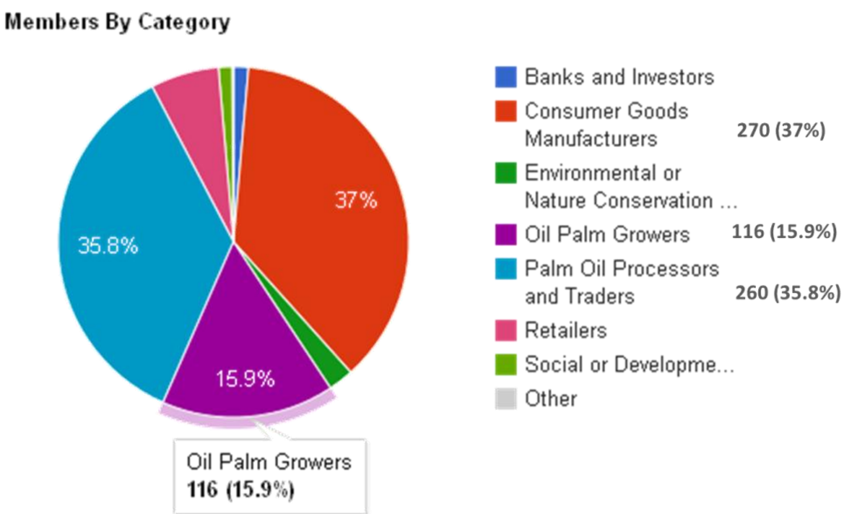
Despite growing discontent of some fellow companies, peaked last year when GAPKI quit RSPO, the Indonesian growers stand up their commitment of sustainability, by taking the leadership role for the benefit of Indonesia and the whole sustainability movement, and also driving Indonesian growers' voice in the Executive Board of RSPO.

This is not an easy job, since the Government has started its own initiative for sustainable palm oil certification scheme (ISPO). However, the RSPO can be proud that the ISPO is in fact an institutionalization of sustainability standards introduced by RSPO. At the same time, this also create additional pressure for Indonesia growers.

Chart 2 Milestones Indonesian Growers in RSPO

If we look at the data, there are 54 members of Indonesian growers, plus 14 oil palm companies operated in Indonesia but listed abroad.

Chart 3 RSPO Members



Source: RSPO (2012)

Chart 4 The World CSPO Producers 2008 – MAY 2012

1. **Indonesia : 3,059,537 MT (47%)**
2. Malaysia : 2,754,853 MT (42.8%)
3. Papua New Guinea: 435,331 MT (6.8%)
4. Brazil: 125,793 MT (2.0%)
5. Solomon Island: 28.830 MT (0.4%)
6. Colombia: 22.000 MT (0.3%)
7. Ivory Coast: 5.760 MT (0.1%)

Source: RSPO (2012)

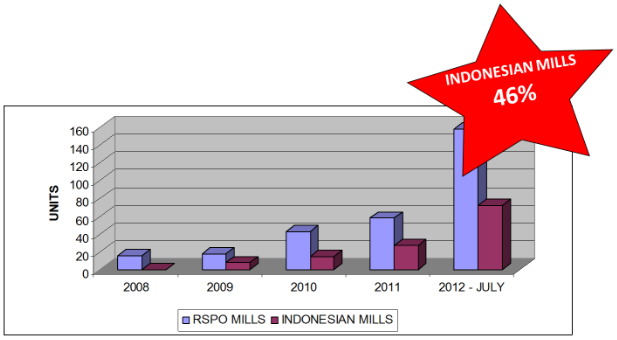
Other data also look interesting. In general, Indonesia is the world largest CSPO producers, supplying more that 47% of the world supply. If we look at the RSPO-certified companies, the number is also similar, 48%.

Other data also look promising. RSPO-certified Indonesian mills are 46% of the world, the Indonesian CSPO are 48% of the world CSPO supply, and its corresponding RSPO-certified CSPO are also around 47%.

Chart 5 RSPO-Certified Indonesian Companies: 2008-2012

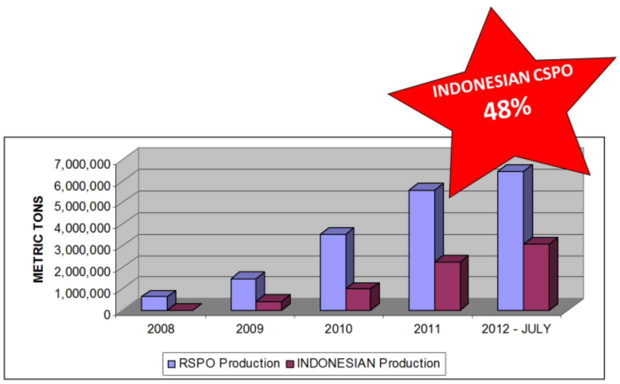
Source: RSPO (2012)

Chart 6 RSPO-certified Indonesian Mills: 2008-2012



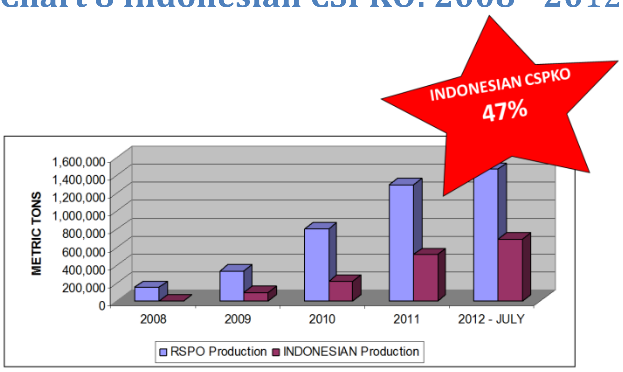
Source: RSPO (2012

Chart 7 Indonesian CSPO:2008 - 2012



Source: RSPO (2012

Chart 8 Indonesian CSPKO: 2008 - 2012



Source: RSPO (2012

All the data has been speak for themselves, that Indonesian commitment to the sustainability movement in general, and specifically to the RSPO, are beyond question. Despite all of the internal and external threats, such as skepticism and suspicion from business association and the Government, Indonesia's CSPO production is growing, and now representing 48% of the world CSPO supply.

The Indonesian perspective is that Sustainability is the equilibrium between responsible growth with equity. An equilibrium between various forces that shape the international sustainability movement, and also an equilibrium between interests that establish the RSPO.

Power Imbalance

However, after some short years of experiment in the sustainable development movement, in general the relationship has been tainted with some blind spots from some actors that prevent the industry to advance the partnership revolution. Crane and Matten (2010) have predicted this as a result from the difficulties of managing relations between culturally diverse organizations, especially if they are from developed and developing worlds, and also ensuring consistency and commitment.

One could easily accuse that when NGOs and business sit in the same table, the business will have exert more power than NGOs, in terms of resources, political influence, capital, etc. However, we tend to overlook the power of NGOs in forms of communications expertise to the public, exerting its credibility and public sentiments toward business (Crane and Matten, 2010).

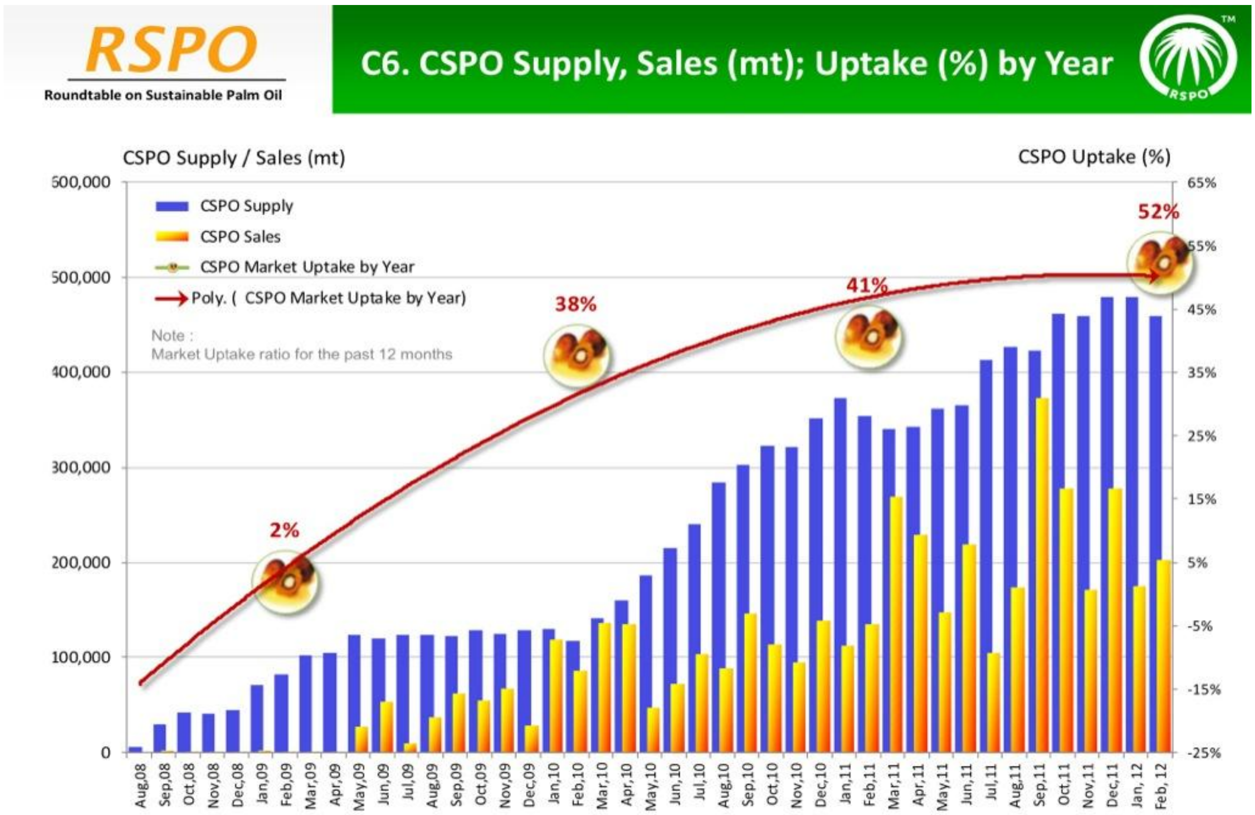
There is also an interesting example within business sector in the sustainable development movement, e.g. RSPO: Power Imbalance between companies with different background. RSPO is upping the ante of sustainability standards for Growers. Growers, where originated from third world countries, tend to be *enforced and imposed* to the sustainability framework, compared with the companies along the supply chain: the downstream producers in the developed countries.

We know that business is linked by an economic relationship, tied by contracts. Companies committed to the RSPO P & C should be committed to the promises made in the exchange process. However, there are two important questions need to be raised:

1. **Have the promises to the Growers been fulfilled? Growers have been voluntarily certifying theirs supply chain, but do the buyers significantly buy CSPO?**
2. **Have the Product priced appropriately? How do we look at the distribution of benefits of partnerships?**

The Power Imbalance can be seen in the uptake data. Growers have produce CSPO, but uptake is still disappointing:

Chart 9 CSPO market is growing despite low premium price



Toward a Fair Shared of Responsibility

For the past years, there has been some negative campaign toward Indonesian palm oil industry, and it has hurt the goodwill of the industry to sit together to shape our common future. This is exactly how the power imbalance takes place.

APEC meeting in Vladivostok, Russia, September 2012, is a fair representation of the Imbalance, when it was failed to include CPO as one of the 54 eco-friendly products in APEC's list. There are approved 54 categories, covering more than 300 items, i.e. chopsticks, bicycles, turbines, generators, and bamboo products. *APEC's failure is narrowing Indonesia's CPO (whether CSPO or not) to penetrate global market through tariff reduction facility*. Is the (developed countries, , i.e. APEC's members, which have overlaps with countries represented by companies and organisations in RSPO) market really prepared for eco-friendly / CSPO?

I believe that the CPO demand is still high in global market, so that it still competitive although subjected to import tax tariff. However, with the CPO price is currently dropping, how Indonesian growers should go? Such tariff reduction facility will set a maximum import tax tariff of 5%. The tariff for non-eco-friendly products will reach 30% or higher if without using the facility.

The tariff reduction facility can be proposed in other Free Trade Agreements (FTA) if it fails in APEC. Indonesia has a free trade agreement with Pakistan, CPO export is subject to zero import tax tariff. Indonesia also has other free trade agreements for CPO export, i.e. ASEAN FTA and Australia-New Zealand-ASEAN FTA.

This imbalance exploits some blind spots that are originated from facts and myths surrounding palm oil cultivation: first, palm cultivation need to be curbed because we have commitment to reduce our carbon emission.

However, Elkington gave an interesting case on how we tend to overlook the premise that we have agreed with: economic prosperity, environmental quality, and social justice. Many have tended ascribed assumption that among these 3, economic and environment are the most important, and left for the third, social justice. He noted that Eco-efficiency is a necessary condition for fully sustainable development, but it is not sufficient. Genuine sustainability also means that we seriously looking at activities to alleviate poverty, employment creation, human rights observance, and giving opportunity access for redistribution.

This, according to many research in Indonesia, on how industry -in this case in palm oil cultivation, plays an important role in promoting regional development, minimizing poverty and create for our future with opportunity to have a renewable energy (biofuel).

Michael Porter, the strategy guru, along with der Linde (1995), noted that we need to forge strong links between environmental protection, resource productivity, innovation, and competitiveness. They stated that environmental constraints drive innovation and, as a result, eco-efficiency.

Palm oil estate in general has far higher productivity, 6 -10 times more, than any other oil seed crop in terms of efficiency in land use and productivity. This is what Porter called as eco-efficiency.

When we can easily compare the eco-efficiency among options, Porter and der Linde stated that the fixed trade-off: ecology vs economy was something in the past. Today and tomorrow, eco-efficiency is one aspect of sustainability.

I believe that this is how the eco-efficiency, in this case of palm oil cultivation, is striking a balance between economy and ecology within the sustainability frameworks of our agricultural operations.

Second misunderstanding derived from legal uncertainty in Indonesia. Many accusation toward palm estate are sourced from different interpretation arising from conflicting laws and regulations, i.e. forestry, environment, agriculture, regional autonomy, land concession. When some parties, e.g. a foreign NGOs, accusing that some growers violating environmental law, they exploit the loopholes resulting from conflicting laws. The goodwill of growers to comply with certain laws is not treated well.

Palm oil industry, in form of RSPO is an interesting precedent, where many actors with diverse interests get together in an equal partnership. However, as the power imbalance hinders more productive result from the partnership, are there any way for regulating palm oil actors in achieving sustainability?

RSPO was developed with the framework of partnership in mind. However, when the power imbalance still haunted and ensuring consistency and commitment is difficult, we need to rethink the commitment of each partner.

My point is once again, is a simple one: we need to have a fair shared responsibility of RSPO members. Growers have discharging their responsibilities to produce CSPO. It seems that many companies outside growers have not done their homework: buy CSPO

The RSPO framework, if we carried out with consistency, I believe we can achieve what Elkington notion of sustainability as the long-term maintenance of systems according to environmental, economic & social consideration.

Conclusion

1. Indonesian growers are committed champion of sustainability. We have been enduring and growing in challenging environment, against all odds in domestic and global arena. Indonesia also showed an interesting numbers: growing RSPO members (54 Indonesian out of 68 growers operated in the country) and certifield mills and CSPO production, and is currently producing 48% of global CSPO, with a projection of to 57% in 2025.

2. Indonesia strives to further expand palm oil plantation, and Indonesian CSPO will also grow steadily to more than 60% of CPO Production: *tangible evidence of continued commitment*

3. Indonesian growers see RSPO as one of the avenues to become "a good corporate citizen" and prime mover towards high value company.

4. We see growing demand for a balanced and fair shared-responsibility of RSPO members. If we look at the competing sustainability certifications for Indonesia growers, actually ISPO is institutionalizing sustainability standards introduced by RSPO. This is adding more pressures to Indonesian growers, since they have to manage two certification schemes. Therefore RSPO members must respect and recognize RSPO certification, ***not introducing other schemes.*** We also need to acknowledge that **premium price** is one of the main drivers of CSPO growth. Therefore the growth of CSPO has to be balanced with boosting the **growth in uptakes**: speeding up **market transformation.** RSPO is upping the ante of sustainability standards for Growers, and we can conclude that **responsibilities of other member stakeholders must be real and measurable.**

5. Lastly, there is a growing demand for a balanced and fair shared-responsibility of RSPO members: ***Quid pro quo!*** All RSPO members need to engage in revamping RSPO Secretariat, while simultaneously improve growers representations in RSPO to enhance engagement of producing country reps and smallholders