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Annual Progress Report 2023

UK Roundtable on Sourcing Sustainable Palm Oil



Final Report – Project P184

Prepared for Partnerships for Forests

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1 Executive summary

Global action on forest risk commodity supply chains is continuing to accelerate, with 2025 target dates of voluntary commitments on deforestation rapidly approaching, and government regulatory action ramping up. This includes the UK palm oil sector, which is looking to meet commitments to sustainable sourcing whilst understanding implications of incoming regulation on deforestation in the EU and UK, which will require businesses to undertake due diligence on the forest risk commodities that they place on the market.

The latest market data shows that UK industry is in a strong position in its aim to develop sustainable supply chains of palm oil, with at least 86% of UK imports of crude and refined palm and palm kernel oil in 2022 being physically RSPO certified.

However, this percentage, which represents the highest proportion of certified sustainable palm oil ever to have entered the UK in a calendar year, is largely driven by a pattern of reduced total imports of palm and palm kernel oil. The reasons behind this reduction are under investigation, but are likely due to a range of factors, including, for example, consumer preference for alternative oils, a response to regulation on foods high in fat, sugar and salt.

Despite the strong position of the market in general, significant challenges are faced by some sectors of industry, in particular by those sourcing ingredients derived from palm oil, rather than the crude or refined oil itself. An important example is that of oleochemicals – chemicals derived from oils and fats – which are characterised by highly complex supply chains that face unique barriers to achieving traceability and assurance of sustainable production. The pressure to overcome these barriers is increasing with incoming regulatory drivers, such as the EU Deforestation Regulation, which will require strong traceability on these products – and UK businesses that supply to or operate in the EU will be required to comply. This is in addition to incoming regulation in the UK, which, once implemented, will see a due diligence obligation placed upon companies using forest risk commodities as part of the 2021 Environment Act.

The UK Sustainable Commodities Initiative (UKSCI) and its industry Roundtable is continuing to support companies to collaborate and explore solutions to these challenges, including by facilitating working groups and sharing technical guidance. Moving forward, the UKSCI has a key role to play in strengthening the understanding of the UK market and how remaining gaps can be addressed, and also as a demand-side partner to other National Initiatives around the world, in consumer and consumer/producer countries.¹ It is imperative that the UK uses its influential role on the global stage to work in partnership with other countries and understand not only how lessons can be shared as consumers, but also the positive role that producers can play in addressing the challenges still experienced in markets like the UK.

¹ The term ‘consumer/producer countries’ is used here in recognition that the largest producers of palm oil are also the largest consumers, and therefore have a role to play and lessons to share on both the supply and demand side of the market.

2 Introduction

COP26, the UN climate conference held in Glasgow in 2021, saw 145 countries make a collective pledge to halt and reverse forest loss by 2030². Actions to implement this pledge continue to gather pace across the world - from the public sector, impending and developing regulations in the EU, UK and USA aim to inhibit the import of goods associated with deforestation, including palm oil, while producing countries continue to develop and roll out national standards for production (e.g., MSPO and ISPO in Malaysia and Indonesia respectively). There is leadership in the private sector too, for example, with widespread uptake of NDPE (no Deforestation, no development on Peatland, no Exploitation) commitments and involvement with landscape programmes,³ and the development of Science Based Targets to reduce emissions from forestry, agriculture and land use.⁴

Evidence is emerging that such actions may be having a positive impact on deforestation rates on the ground. There are now indications of sustained reductions in deforestation rate in the world's largest producers of palm oil, Indonesia and Malaysia. Indeed, the progress made in these two countries has been hailed as significant, with Global Forest Watch measuring Indonesia and Malaysia to have had the 1st and 3rd largest reductions in tropical forest loss rate between the periods 2015-17 and 2021-22, with both countries seeing a sustained reduction in annual deforestation rates.⁵

Although these deforestation rates do not relate solely to the oil palm industry, positive action in the sector is being credited with some of this impact. However, this progress has been described as fragile⁶ - as the global population and economy continue to grow, so too may demand for palm oil, with the reduction in deforestation perhaps due at least in part to lower prices and tempered demand. Likewise, the reduction in deforestation may be simply due to a saturation of production in areas with infrastructure available to support production, including roads and palm oil mills.⁷ As new infrastructure is built, new deforestation fronts associated with palm oil may arise, in new regions of Southeast Asia, or in tropical areas of Latin America and Africa. So, whilst notable progress seems to be being made on deforestation, caution should be taken to account for these other factors, and it is important that market demand for deforestation-free palm oil is maintained.

The need for sustained ambition means that action continues to be important in the U.K. Although the UK's consumption of palm oil represents only 0.5% of global consumption, it can have a disproportionately influential impact, as a base for large companies with multinational operations. Likewise, the UK government plays an active role in producer-consumer country dialogue, including in the FACT (Forests, Agriculture and Commodity Trade) dialogue.⁸

² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1121154/COP26-Presidency-Outcomes.pdf

³ https://www.tropicalforestalliance.org/assets/Uploads/TFA_Design_210921-1.pdf (p.88)

⁴ <https://sciencebasedtargets.org/sectors/forest-land-and-agriculture>

⁵ <https://research.wri.org/gfr/latest-analysis-deforestation-trends>

⁶ <https://insights.trase.earth/insights/indonesia-makes-progress-towards-zero-palm-oil-deforestation>

⁷ <https://blog.palmoil.io/what-is-driving-declines-in-palm-related-deforestation-in-indonesia/>

⁸ <https://www.factdialogue.org/>

Government action is continuing to ramp up through the introduction of regulatory action, too. The EU Deforestation Regulation (EUDR) will require companies to ensure that certain commodities they are sourcing (including palm oil) are traceable to origin and deforestation-free, and UK businesses supplying the EU market will be required to provide information that ensures compliance. In addition, incoming due diligence regulation in the UK as part of the Environment Act will require companies to ensure that sourced commodities, likely to include palm oil, were produced in accordance with local laws.

A key forum through which UK industry collaborates to drive forward progress on sustainable palm oil is the UK Sustainable Commodities Initiative (UKSCI), which convenes UK companies through the UK Roundtable on Sourcing Sustainable Palm Oil (referred to hereafter as the UK Roundtable). Since 2022, the UK Roundtable has operated alongside the UK Roundtable on Sustainable Soya under the newly established UK Sustainable Commodities Initiative (UKSCI). The UKSCI aims to support UK industry to develop sustainable, resilient commodity supply chains by providing technical assistance, fostering peer-to-peer learning and sharing best practice. Each year, Efeca, as secretariat of the UK Roundtable, produces this Annual Progress Report (APR) summarising the UK's progress in sourcing sustainable palm oil.

3 UK progress on sourcing sustainable palm oil

Methodology

All data presented in this report is from the calendar year 2022.

Data on the volume of UK imports of palm and palm kernel oil is sourced from the Oil World Annual 2023. Data on the countries of origin of UK imports is sourced from the UN Comtrade database. Data on volumes of palm and palm kernel oil imported into the UK that are RSPO certified or imported under an NDPE policy has been provided confidentially by UK refiners – it has been anonymised and aggregated for use in this report. Through these sources, this report provides a unique and accurate analysis of a national market.

It is important to note that the data presented in this report relates to crude or refined palm and palm kernel oil and their fractions, and not palm or palm kernel oil embedded in an ingredient or finished product. There is no credible way to verify palm oil content or sustainability status for ingredients or finished products in the same way as this report does for crude and refined oil.

In 2022, the UK imported 382,600 metric tonnes (MT) of palm oil and palm kernel oil,⁹ a considerable decrease compared to 433,200 MT in 2021. Figure 1 below illustrates the countries that the UK imported from in 2022. This also shows a marked change from 2021; the percentage of imports from Papua New Guinea has increased from 24% to 38% in that period, whilst the percentage from the Netherlands has decreased from 28% to 8%. Another notable proportional change is that of Germany, which was the source of 4% of UK imports in 2021, increasing to 10% in 2022. The percentage of imports from Indonesia and Malaysia remained

⁹ Source: Oil World Annual 2023 – www.oilworld.biz. In 2022, the UK imported 360,600 MT of palm oil and 22,000 MT of palm kernel oil.

fairly consistent across this period. It should be noted, however, that imports from European countries like the Netherlands and Germany would have originated in producer countries like Papua New Guinea, Indonesia, Malaysia and others.

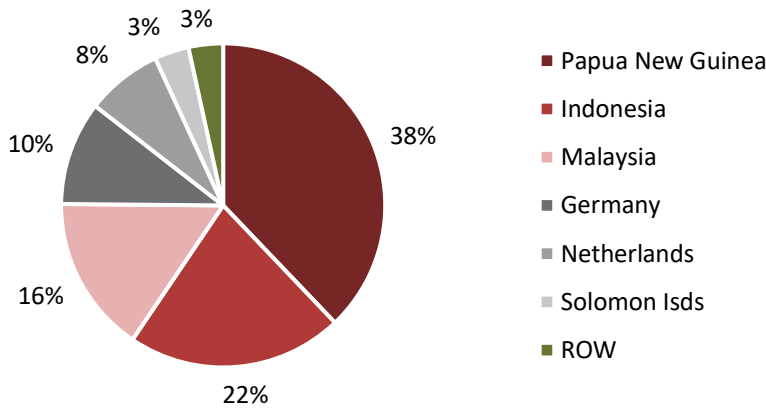
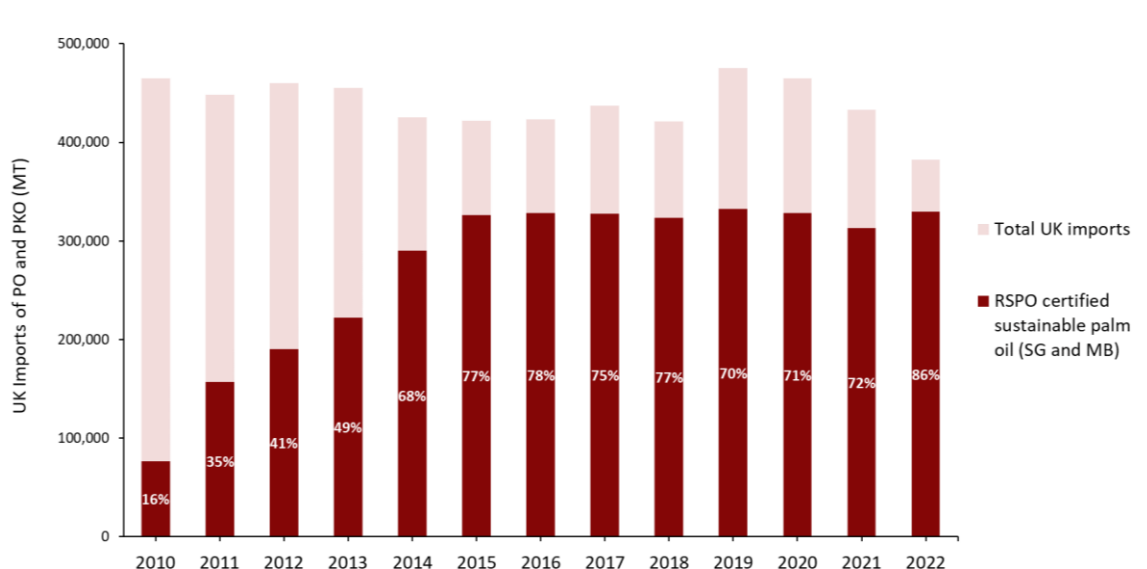


Figure 1 Sources of UK imports of palm and palm kernel oil in 2022¹⁰

To assess the proportion of UK imports that has been sustainably sourced, this report analyses the volume entering the UK as RSPO certified. Efeca and the UK Roundtable do not define sustainable palm oil as RSPO certified palm oil, recognising that other important mechanisms of assurance are available too. However, this is a useful metric to achieve a general understanding of the position of the UK market.

Figure 2 shows that, in 2022, 86% of palm and palm kernel oil imported into the UK was RSPO certified (to a physical supply chain model). This is the highest ever volume of RSPO certified palm oil, and highest ever percentage of UK imports that is RSPO certified, reported by the UK Roundtable. This therefore should be considered a significant and positive step.



¹⁰ Source: UN Comtrade database

Figure 2 UK imports of RSPO certified volumes as a percentage of total imports

It is also clear from Figure 2 that, since 2019, the UK’s total import volume has decreased steadily year-on-year. The main factor behind the high percentage of RSPO certified imports in 2022 is this reduction in total imports. This is a reduction that has not been observed in the data on RSPO certified and conventional volumes provided confidentially to Efeca by UK refiners, which have instead shown a marginal increase. The decrease in imports has therefore occurred outside of the proportion of imports that these refiners are responsible for.

The drivers behind this drop remain unclear and under investigation. It is likely to be due to a combination of factors, which could include: a shift towards consumption of alternative oils such as shea or coconut; reduction in use of palm oil, which is relatively high in saturated fat, due to UK regulation on foods high in fat, salt or sugar (HFSS);¹¹ and potentially a response to incoming mandatory regulation and continuing voluntary commitments on deforestation.

Looking in more detail at the UK’s imports of palm oil in 2022, figure 3 provides an in-depth breakdown of Efeca’s analysis.

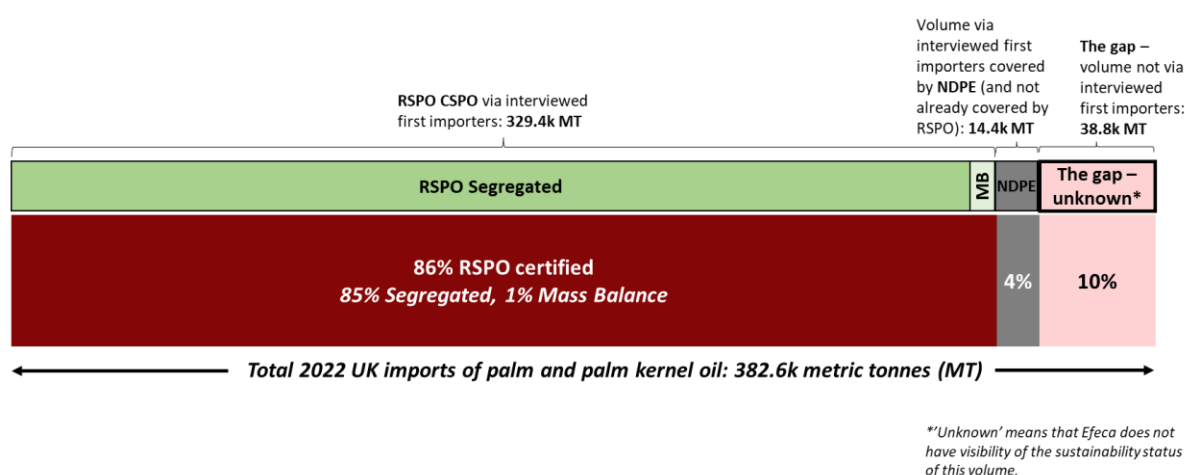


Figure 3 Breakdown of 2022 UK import data¹²

As illustrated in figure 3, this analysis shows that, in addition to the RSPO-certified proportion, 4% of the UK’s imports are not RSPO certified but are sourced under an NDPE (no Deforestation, no development on Peatland, no Exploitation) policy. Finally, this analysis is unable to assess the status of 10% of the UK’s total imports (‘the gap’); this volume could be RSPO certified, sourced under an NDPE policy or carry no sustainability assurance. It is likely that at least some of this ‘unknown’ volume is RSPO certified, and therefore the percentage of the UK’s total imports that is RSPO certified is likely to be higher than 86%. Anecdotal evidence

¹¹ Following a 2019 consultation, the UK government introduced legislation to restrict the promotion of HFSS products by volume price (for example, ‘buy one get one free’) and location, both online and in store in England. The restriction of HFSS products by location came into force on 1 October 2022. The restriction of HFSS products by volume price will come into force on 1 October 2025.

¹² RSPO CSPO = RSPO certified sustainable palm oil; MB = Mass Balance

suggests that at least a portion of this ‘gap’ could be imported by oil packers that supply the foodservice and retail markets.

A significant finding of the analysis presented in figure 3 is the proportion of UK imports that is certified as RSPO Segregated. This supply chain model, through which palm oil is 100% RSPO certified from a range of sources, comprises the vast majority of the RSPO certified volume displayed in figure 3, and accounted for 85% of total UK imports in 2022. 1% of the UK’s imports were RSPO Mass Balance certified, making up the total of 86% of UK imports that were RSPO certified. A Segregated supply chain model is important not only for the strength of assurance that it provides, but also for the traceability benefits it brings – RSPO Segregated palm oil can be traced back to a relatively small group of palm oil mills.

Explainer: RSPO Segregated palm oil and traceability

There are reportedly approximately 2,500 palm oil mills globally. Of these, as of summer 2023, 546 were RSPO certified.¹³ 204 of these RSPO-certified mills were Identity Preserved certified, which means that process fresh fruit bunches from a 100% certified sourcing area. This is as opposed to a Mass Balance certified mill, which can process fresh fruit bunches from a mix of certified and non-certified sourcing areas. RSPO Segregated palm oil by definition is 100% certified palm oil from a range of certified sources, and therefore must originate from this group of Identity Preserved certified mills. Traceability is therefore stronger for Segregated palm oil as it can be traced back to a smaller group of mills compared to Mass Balance or non-certified palm oil.

Such traceability is achieved by passing information down a supply chain from one stage to the next – a process that is facilitated, in the case of RSPO certification, by its Supply Chain Certification process, whereby each actor in the supply chain is certified in order to pass information on. Figure 4 illustrates this from the perspective of polygon (origin) information – which the EUDR will require companies placing a product on the market in the EU to obtain.

¹³ Note that the number of RSPO certified mills changes frequently, so may not be completely accurate at time of reading.

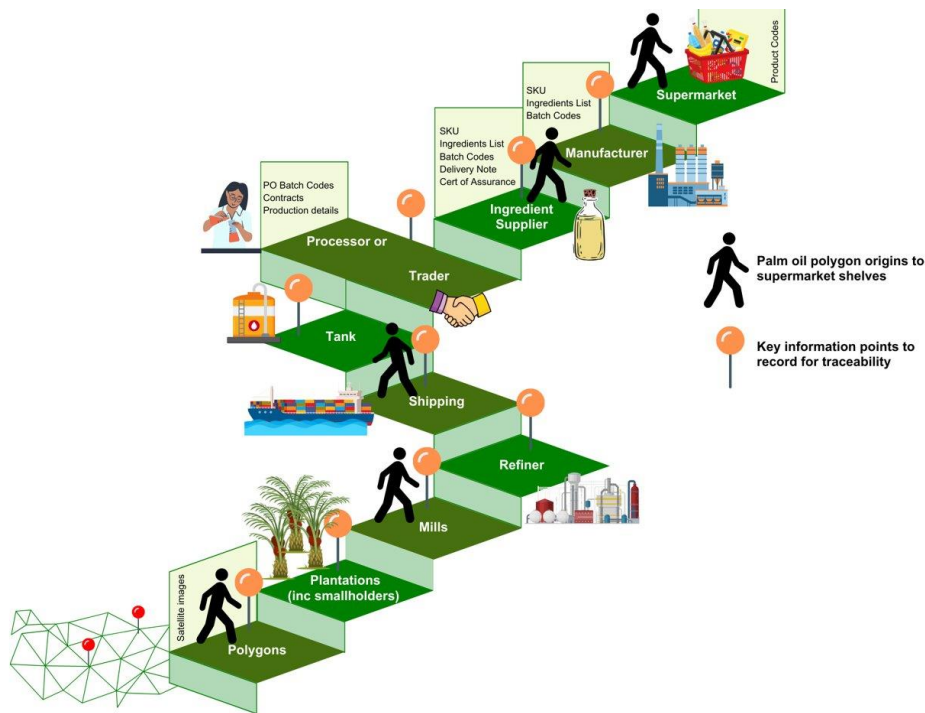


Figure 4 Illustration of information being passed down a palm oil supply chain (source: Murdoch Associates)

The same traceability benefits cannot be consistently provided by RSPO Mass Balance certified palm oil (a supply chain model through which certified and non-certified palm oil can be mixed), as the non-certified volume may be of an unknown origin. As can be seen in figure 3, only a very small proportion of palm oil imported into the UK is Mass Balance certified. However, this does not mean that this is not a widely used and relied upon supply chain model in the UK.

This is because the data presented in this report is an analysis of imports of crude and refined palm and palm kernel oil only, which are mostly used in the food sector. It does not account for imports of products containing or derived from palm oil – such as oleochemicals. Oleochemicals – chemicals derived from oils and fats – are characterised by highly complex supply chains that are currently generally reliant on the Mass Balance supply chain model for certified options, and therefore facing limitations inhibiting traceability and assurance. Addressing gaps such as this is a key focus for the UK Roundtable looking to the future.

4 Addressing the gaps

The traceability and assurance gaps in the UK market are becoming increasingly important to address, with many companies in the sector working towards goals with a fast-approaching 2025 deadline, compounded by incoming regulatory requirements, such as the EUDR and UK due diligence legislation.

Two sectors facing particular challenges in this area include the oleochemicals and foodservice sectors, which the UK Roundtable is taking action to support.

4.1 Oleochemicals

Oleochemicals are often used in cosmetics and cleaning products, and have a wide range of other applications in the industrial and food sectors. They are often produced in highly complex supply chains that feature many processing stages, which can occur across different markets. Traceability back to origin is currently therefore a major challenge for the sector, as is a reliance on Mass Balance certification for those sourcing RSPO-certified oleochemicals; the current cost of segregating chemicals in these supply chains is often cited as a key reason for this.

This is a particular issue given that some oleochemicals are included within the scope of the EU Deforestation Regulation, which will require a higher level of traceability and assurance than that which is generally available at present in the sector (although it should be noted that all European refiners in oleochemical supply chains are operating under NDPE policies).

The UKSCI is taking action to address these challenges through its Oleochemicals Working Group – a subset of Roundtable members active in the oleochemicals sector who have come together to understand the issues and explore solutions.

The Oleochemicals Working Group has focused in 2023 on strengthening understanding of oleochemical supply chains and identifying where efforts can be best directed. This has included research to identify the most common oleochemicals in a small sample of supermarket products, as displayed in figure 5.

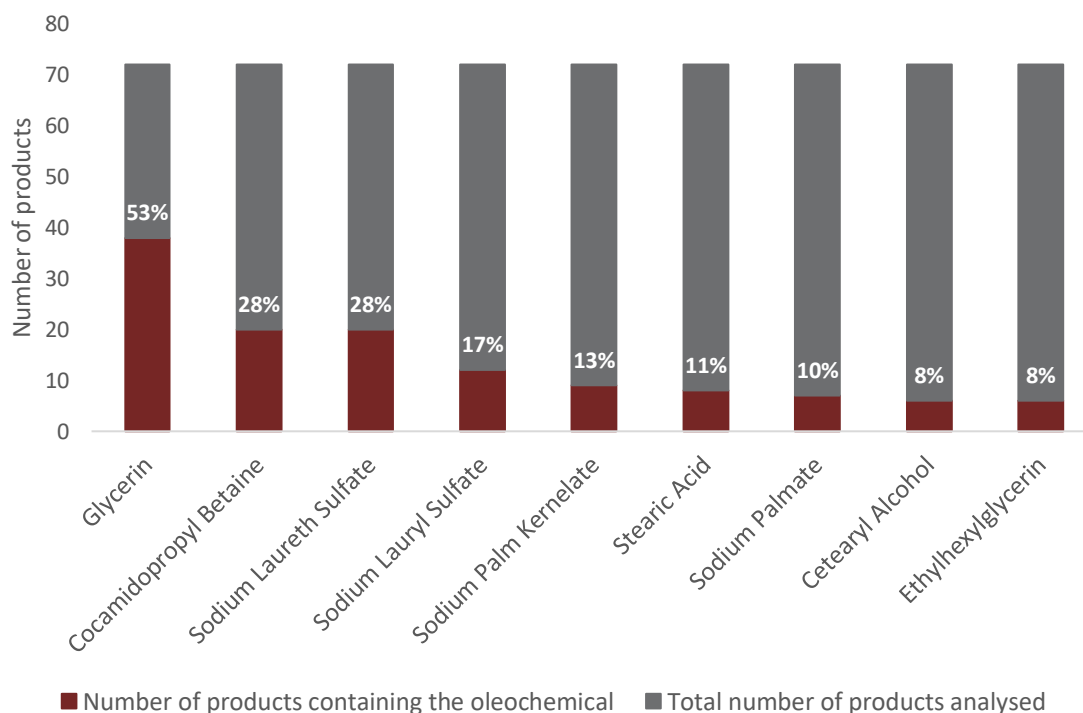


Figure 5 Common oleochemicals contained within a sample of 72 supermarket products

This research showed that 53% of the sample of products contained glycerine/glycerin, or glycerol, making it the most common oleochemical present in this sample. Glycerine is used in

many home and personal care products, and is also an example of an oleochemical within scope of the EUDR.

According to the UN Comtrade database, the UK imported about 56,000 tonnes of glycerine in 2022, with the vast majority of this volume imported from intermediary non-producing countries (80%). 69% of the total was imported from Germany and the Netherlands alone (see figure 6). This shows that UK supply chains of this major oleochemical are closely linked to European intermediaries, and therefore are likely to be imported having already met market requirements of those countries. The other 20% of glycerine imports in 2022 were imported from Indonesia and Malaysia, with this proportion representing a higher risk volume in terms of the traceability and assurance information likely to be already available for it.

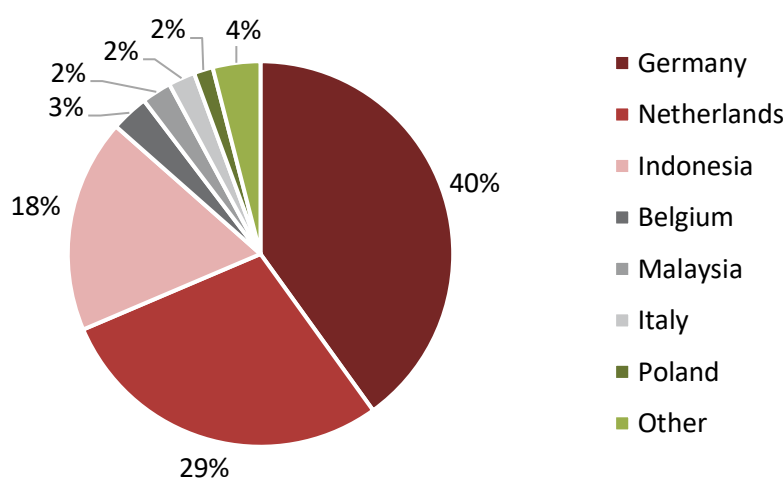


Figure 6 Sources of 2022 UK imports of glycerine (source: UN Comtrade database)

In addition to being produced through laboratory-based processes, glycerine is produced as a by-product of the biodiesel production process, with palm oil a major feedstock for EU biodiesel production. Glycerine is therefore tied to market developments in the biofuel sector, including the commitment from the EU to phase out the use of palm oil in biofuels by 2030, which could therefore limit the availability of palm-derived glycerine from EU sources in future.¹⁴

A major barrier in achieving traceability in glycerine, and other oleochemical, supply chains is a lack of clarity on feedstocks. Glycerine, like other oleochemicals, can be produced from a number of different feedstocks – however, a company sourcing glycerine may not have information available about the feedstock used. For companies aiming to develop sustainable, traceable supply chains of palm-derived oleochemicals, this presents a significant initial barrier, at clarity about whether a palm-derived oleochemical is present in a supply chain can be difficult to achieve.

With regard to assurance, RSPO Mass Balance oleochemicals, including glycerine, are readily available – although, as discussed already, this carries limitations for companies working to

¹⁴ <https://www.reuters.com/article/us-eu-climatechange-palmoil-idUSKBN1JA21F/>

achieve fully traceable supply chains that are 100% assured of sustainable production practices. RSPO, however, is not the only assurance mechanism operating in the palm oil sector, and others have important roles to play in filling the gaps experienced in some sectors, like oleochemicals. For example, national certification standards may be able to provide assurance of the non-certified element of RSPO Mass Balance volumes, helping to raise the base level of production in the countries in which they operate. These include ISPO and MSPO, the national standards for Indonesia and Malaysia respectively, which are mandatory certification standards being implemented across their countries' production areas.

Whilst continuing to build understanding of oleochemical supply chains and the possible avenues for improving traceability and assurance in the sector, The Oleochemicals Working Group is now aiming to move from learning to action, exploring what best practice looks like in different areas of the supply chain and how it can be implemented.

4.2 Foodservice

The foodservice sector faces a different set of challenges to the oleochemicals sector in sourcing sustainable palm oil, which are generally focused on business-to-business communications. In the previous Annual Progress Report, it was reported that sustainability claims may not be passed down foodservice supply chains due to breaks in chain of custody, an issue that the UKSCI has looked to address for example by holding webinars to support the wholesale sector on this topic.

Through its Foodservice Working Group, the UKSCI is working to support the foodservice sector to develop a shared voice and come together to work collaboratively to address challenges faced by the sector as a whole on sustainable commodity sourcing. The Working Group has focused on taking action on three key focus areas:

- **Upskilling and raising suppliers' awareness** of sustainable commodity sourcing through the facilitation of interactive webinars.
- **Facilitating stronger internal business communication** on sustainability, recognising the importance of a base level of understanding in non-sustainability focused functions of a business, such as buying. This included the production of internal training resources.
- **Aligning supplier data requests** made by foodservice operators. Recognising that some foodservice operators with the same suppliers are not being consistent in their requests for information, a shared supplier survey template was developed to ensure stronger alignment. This is important to make it easier for suppliers to provide information about the products they are supplying, and the sustainability information associated with them.

5 Looking to the future

As a small user of palm oil, using around 0.5% of global volumes, the UK can only have a limited impact on the ground solely through its purchasing of palm oil. However, the international

presence of many UK companies means that the UK's influence can be extended beyond its borders, for example by global brands applying their policies consistently in all markets in which they operate. Collectively, through fora including the UK Roundtable and the wider UKSCI, UK industry can amplify its impact through engagement with other National Initiatives around the world.

A critical part of this international outreach is the ways in which platforms like the UKSCI can engage with major producer countries, such as Indonesia and Malaysia. As producers, there is an opportunity to engage with these countries collaboratively to identify solutions to challenges faced by businesses in the UK and other demand-side markets, such as those traceability and assurance issues in the oleochemicals sector discussed in depth in this report. Importantly, however, producer countries are also major users of palm oil; Indonesia is both the largest producer and user of the commodity. They should also therefore be engaged as fellow consumers, where lessons can be shared and learned between markets, for example with regard to consumer awareness and perception of palm oil – an ongoing prominent issue in many consumer markets.

Looking to the future, the UKSCI and its Roundtable has a clear direction through which it can build upon the positive position the UK market is currently in. This includes continuing to investigate and strengthen understanding of the UK market, and support those sectors of industry facing challenges in meeting voluntary commitments and regulatory requirements in complex supply chains. But perhaps most importantly, recognising the UK's role on the global stage, it is imperative that government and industry continues to collaborate constructively with partners in other demand-side and producer markets to achieve the positive change on the ground that is our collective goal.