



## **EPOA Position on the Commission's proposal for a regulation for deforestation-free supply chains**

**The European Palm Oil Alliance (EPOA) supports the introduction of regulatory measures in order to create a sustainable deforestation-free palm oil trade in the European Union (EU).**

The European Palm Oil Alliance believes that:

- Europe will remain a large importer of palm oil for use in many applications, including the food industry. It is important to be clear about the importance of sustainable production and consumption of palm oil;
- Europe is an important market for sustainable and deforestation-free palm oil and it is important to maintain the positive leverage it has on the global market;
- Country Benchmarking will not lead to more deforestation-free production;
- European regulation should not exclude small holders but Europe should rather help supporting producing countries to lift small holders out of poverty;
- Traceability to mill and traceability to plantation should both be allowed until full traceability can be realised with producing countries
- Industry initiatives and (inter) national (voluntary) standards that have driven supply chain transformation over the last decade and which include environmental, social and economic aspects, should have a role to play in view of upcoming legislation;

Response to the European Commission's **proposal** dated 17 November 2021 for placing raw materials with a risk of deforestation on the market



## Summary

Europe remains a large importer of palm oil for use in many applications including the food industry. With 90 percent of imported palm oil for food feed and oleochemicals in Europe already being certified sustainably, it is important to maintain this positive leverage on the global market. EPOA supports the EC's ambition to fight deforestation as described in the European Green Deal, as well as the EU Biodiversity Strategy and the EU Farm to Fork Strategy. EPOA members have been working to fight deforestation in their supply chains.

The current proposal however, will lead to inefficiency, higher costs and exclusion of especially smallholders in the palm oil supply chain. Different approaches will need to be combined in order to secure the required palm oil supply to Europe and accelerate the positive trends in the industry with regard to decreasing palm oil related deforestation<sup>1</sup>.

## General

Europe is not self-sufficient in vegetable oils and will continue to depend on and be a major importer of palm oil for use in many applications including the food industry. There are successful initiatives in Europe to stimulate the production and consumption of certified sustainable palm oil<sup>2</sup>. EPOA believes the EC should also incorporate these successful industry initiatives.

We also believe that the value and importance of sustainable and deforestation free palm oil should be clear to the European consumers. We believe that we should intensify the communication about the importance and progress of sustainable and deforestation-free (palm oil) production and consumption and the role of sustainable palm oil in implementing the UN Sustainable Development Goals (SDGs).

Sustainable deforestation-free production can only be achieved if good governance (adequate laws, regulations and enforcement) is achieved in the (palm oil) producing countries. Governments, industry and NGOs, as well as financial institutions play a crucial role in constructively supporting the producing countries in their sustainable deforestation-free palm oil developments.

And last but not least; Deforestation for palm oil can also be halted if we can increase the productivity of the millions of smallholders in the producing countries. Under the new regulation, support for palm oil smallholders should be ensured to help them implement sustainable agricultural practices and increase yield per hectare.

## The role of sustainable palm oil production

EPOA fully recognises the problem of deforestation and ongoing deforestation for palm oil in particular. Deforestation is a serious threat to the world and one of the causes of climate change.

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<sup>1</sup> The Chain: Deforestation Driven by Oil Palm Falls to a Four-Year Low: <https://chainreactionresearch.com/the-chain-deforestation-driven-by-oil-palm-falls-to-a-four-year-low/>

<sup>2</sup> <https://palmoilalliance.eu/wp-content/uploads/2021/12/2021-Palm-Oil-Report-21.8-Small.pdf>



The effects of climate change are more visible than ever. We therefore welcome the proposal for a Regulation by the European Commission. However, we also have some specific concerns that are listed below:

**1. Country Benchmarking will not lead to more deforestation-free production.**

Together with other stakeholders, we are particularly concerned about the country benchmarking proposal and its unintended negative consequences. We foresee that sustainable producers in 'high-risk countries' will be discriminated against where operators may try to avoid these high-risk areas. In addition, un-sustainable producers may relocate their deforestation practices to 'low-risk' regions where due diligence requirements are less stringent. 'High-risk' does not sell, therefore we foresee that companies will take advantage of the option to only use deliveries from low-risk countries, likely worsening the situation in high-risk areas. It is also important to realise that such a country-specific approach harms relations with producing countries.

**2. The proposal will lead to exclusion of smallholders**

The current proposal aims at a completely deforestation-free supply chain in the EU through physical separation (segregation). This can lead to the exclusion of smallholders in the palm oil supply chain. Smallholders play an important role and cover around 40% of the total oil palm production area. By excluding the mass balance and credit supply chain models, smallholders will be expelled from the market. This would be detrimental to lifting communities out of poverty and helping to create sustainable economic opportunities. In case the EU market is closed to these smallholders, they should be forced to supply countries with lower environmental and social criteria which could lead to the EU's failure to contribute to deforestation free production at a global level.

For palm oil, traceability to mill together with its 50-kilometre radius, monitoring of its supply base should be the traceability standard when the legislation comes into effect. Traceability to mill should be enhanced over time by 2030, with a view to achieve traceability to plantation. This *temporary* traceability to mill would still provide deforestation-free supply chains while allowing smallholders to be included, as traceability to plantation will only be possible for the majority of smallholders once certain challenges have been resolved (i.e. legality of land titles, prohibition to share geo-location data in some countries, and the time and investments required to collect this data from smallholders). The EU should work with producing countries to remove the obstacles faced by smallholders and require them to have traceability back to plantation only after these obstacles have been satisfactorily removed.



**3. Particular time-period over specific date and time of production.**

In the palm oil supply chain the common practice is that storage and production tanks are used in continuous processing mode. This means that (liquid) palm oil may be added to the tank and withdrawn when needed. Therefore, it is impossible to indicate exact date and time of processing. It is more realistic to consider a particular time period that is linked to tank cleaning (where the whole tank is emptied before cleaning). In that respect, a term of one year is more realistic. As for the process, it is not clear whether the due diligence statement needs to be available for each shipment or whether a due diligence statement can be provided for a period of time. We are of the opinion that it should cover a reasonable period of time. Therefore we believe an annual third-party audit of due diligence systems and evidence of deforestation-free supply chains would be appropriate. This removes the logistical and administrative problems that would arise from per shipment due diligence declarations.

**4. Scope should be inclusive.**

Currently, SME's are excluded in the proposal. EPOA thinks also SME traders should be included since otherwise a leakage market may emerge.

As for the commodities and products as listed in Annex 1, it should be clear that the current listed commodities trade will be impacted and costs for these commodities will increase. This will lead to the import of products consisting of these commodities (including palm oil). Therefore products should be included as well.

**5. Proof of no-deforestation needs to be feasible.**

It is not clear from the proposal what can and should be used as evidence of no-deforestation. It is also not clear with what frequency the data should be refreshed.

In the palm oil industry there is already a due diligence on suppliers. In case suppliers are found to be in breach of the NDPE (No Deforestation, No Peat, No Exploitation) commitment, suppliers will be asked to operate in compliance with these commitments. We believe that operators and the data available should be checked by third-party auditors. This audit would also help ensure that none of the plots in the supply base of operators were deforested. In case deforestation is detected, the operator should suspend the supplier and eventually, if deemed appropriate, engage with the supplier to stop deforesting and implement a remedial action plan to be able to re-enter the supply chain. The third-party audit report would support and be part of an annual due diligence statement made by companies to competent authorities.

Linked to this, EPOA underlines the role certification schemes can play and the importance of building on the existing certification schemes. For the palm oil supply chain advanced multistakeholder certification systems exist and EPOA believes that the role of certification systems should be enhanced.



#### **6. Current proposal implies a multiple duplication of work.**

In the current proposal the due diligence obligation is mandatory for all ‘traders’ (if not SMEs) when placing commodities and/or products on the EU market. This means that there will be a tremendous amount of additional administrative work beyond the first marketing of commodities and or products , which can be effectively avoided by making reference to the operator/trader’s due diligence when placing products on the EU market for the first time.

EPOA is open for any constructive discussion about the above standing points.

Zoetermeer, May 2022

#### **About EPOA**

The European Palm Oil Alliance (EPOA) is a business initiative of European palm oil refiners and palm oil producer organisations. We believe that sustainably produced palm oil is a key food ingredient that fits in a nutritionally balanced diet and helps feed the world, protect biodiversity and improve socio-economic development and overall contributes to achieving the United Nations’ Sustainable Development Goals (UN SDGs). We push for sustainable palm oil market transformation and support initiatives committed to sustainable palm oil across Europe. All our members are committed to supply certified sustainable palm oil<sup>3</sup> in Europe and support a fully traceable NDPE (‘No Deforestation, No Peatland and No Exploitation’) supply chain.

The European Palm Oil Alliance (EPOA) supports the development, initiatives and concrete measures to produce, trade and consume deforestation-free palm oil. Our position is building on all the work and initiatives done and generated over the last years in the respective countries in and outside Europe working towards 100% sustainable deforestation free palm oil in the markets. We take the issue of deforestation very seriously and realise that the decisions made are not only relevant today but also have an impact for the generations to come. We believe that the palm oil supply chain is in a perfect position to lead the way.

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