SUSTAINABLE PALM OIL IN CHINA
Barriers, challenges and opportunities
INTRODUCTION

Palm oil is the most widely consumed vegetable oil globally. Due to its versatility, high yield and low price, it is used throughout the food industry, consumer goods and energy sector. In 2019, nearly 85% of the global supply of palm oil came from Indonesia and Malaysia. As demand for palm oil increases globally, there is increasing pressure for more land to be converted to palm oil plantation. Between 39-53% of oil palm expansion in Malaysia and Indonesia from 1989 to 2013 was on land that was forest in 1989.

Loss of tropical forests causes significant declines in local biodiversity. Palm oil expansion also contributes to greenhouse gas emissions, as the tropical and peatland forests which store carbon are lost. Unsustainable sources of palm oil associated with deforestation impact the environment and also pose business risks to supply chain companies.

China is one of the largest importers of palm oil globally, importing 14.9% of the global palm oil volume. Between 2019 and 2020, the number of Chinese companies reporting on forests-risks through CDP increased by 95%. This indicates that Chinese companies are increasingly aware of the business risks associated with forest commodities. However, uptake of sustainable deforestation-free palm oil is still not the norm among Chinese companies, which exposes them and their customers to substantial risks. For more Chinese companies to reduce forest-risks and transition to sustainable sourcing of palm oil it is important to understand the barriers and challenges present in palm oil supply chains.

The complexity of the palm oil supply chain has been identified as a major barrier preventing companies globally from implementing no-deforestation commitments, because it impedes the traceability of palm oil and engagement with suppliers and customers. Greater transparency in the supply chain therefore has the potential to overcome barriers associated with supply chain complexity and increase production and purchasing of sustainable palm oil.

In order to investigate whether greater transparency in the palm oil market could enable Chinese buyers to source sustainable palm oil, CDP held a consultation with organizations operating in China. The consultation also aimed to identify the opportunities, barriers and challenges that Chinese palm oil buyers face when sourcing and purchasing sustainable palm oil. This report presents the findings from the consultation.

2 https://doi.org/10.1371/journal.pone.0159668
3 https://doi.org/10.1016/j.tree.2008.06.012
CDP held semi-structured interviews with 7 Chinese companies that source palm oil and a non-profit organization focused on the Chinese sustainable palm oil market. The companies interviewed included producers, processors, traders, manufacturers, and retailers from the personal care and household products, specialty chemicals, supermarkets, animal farming and palm oil processing industries. Three questions were asked which relate to palm oil buyer action in China:

1. What are the benefits of producing/purchasing sustainable palm oil?
2. What do you think is the most challenging part of purchasing/producing sustainable palm oil?
3a. Would greater transparency in the palm oil market help you buy more sustainable palm oil?
3b. If so, why? If not, what would?

Interviews were analyzed using the Framework Approach. This is a 5-step framework involving familiarization, indexing, charting and mapping and interpreting themes presented within interviews.

1. Benefits of producing or purchasing sustainable palm oil

Producing and purchasing sustainable palm oil was seen to benefit companies bottom lines directly as well as benefit companies indirectly through environmental and market improvements.

The greatest number of participants identified reduced environmental impact as a benefit of producing or purchasing sustainable palm oil (5 out of the 8 Chinese organizations interviewed). Reducing the environmental impact associated with producing or purchasing palm oil increases supply chain resilience and reduces the reputational risk of businesses in the supply chain. Unsustainable palm oil is associated with deforestation. When tropical forests and peatland forests are cleared for palm oil plantations carbon dioxide is released, which contributes to climate change8. This threatens the resilience of the supply chain as climate change is associated with increased severity of extreme weather and changes to precipitation. Changes in weather patterns associated with climate change is expected to reduce oil palm yields by 13.4%, reducing the quantity of palm oil available on the market9. Additionally, deforestation leads to dramatic declines in biodiversity.

This negatively impacts the ecological services that forests provide which include flood control, water filtration and erosion prevention. Consumers awareness of these negative environmental impacts pose a risk to companies’ reputations. By purchasing and producing sustainable palm oil, companies are less exposed to reputational risks associated with unsustainable palm oil.

Overall, participants most frequently (6 out of 8) felt that producing or purchasing sustainable palm oil would provide direct intra-company benefits such as increased profitability or a competitive advantage. Half of participants (4 out of 8) recognized wider benefits to the palm oil market from sustainable palm oil such as improved supply chain transparency or catalyzing market transition towards reduced environmental impact.

Half of participants (4 out of 8) also identified social responsibility as a benefit of producing and purchasing sustainable palm oil. Corporate social responsibility benefits businesses by increasing their brand value and customer preference.

8 https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5756879/#ece33610-bib-0027
9 https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0217148
Figure 1: Number of participants identifying each type of business benefit from purchasing or producing sustainable palm oil.

![Pie chart showing the number of participants identifying each type of business benefit.]

- Environmental impact: 4
- Social responsibility: 5
- Intra-company benefits: 6
- Market benefits: 4

Figure 2: The business benefits of purchasing or producing sustainable palm oil identified by participants in interviews.

- Reduced environmental impact
- Corporate social responsibility
- Sustainable development
- Increased supply chain transparency
- Catalyzing market transition towards reduced environmental impact
- Improved stakeholder relations
- Increased profitability
- Competitive advantage
- Improved compliance with regulations
- Meet increased customer demand
- Ensuring supply chain resilience
- Manage reputational risk and increased brand value
- Improved corporate resilience

Number of participants

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Number of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced environmental impact</td>
<td>4</td>
</tr>
<tr>
<td>Corporate social responsibility</td>
<td>5</td>
</tr>
<tr>
<td>Sustainable development</td>
<td>4</td>
</tr>
<tr>
<td>Increased supply chain transparency</td>
<td>6</td>
</tr>
<tr>
<td>Catalyzing market transition towards reduced environmental impact</td>
<td>5</td>
</tr>
<tr>
<td>Improved stakeholder relations</td>
<td>4</td>
</tr>
<tr>
<td>Increased profitability</td>
<td>3</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>3</td>
</tr>
<tr>
<td>Improved compliance with regulations</td>
<td>2</td>
</tr>
<tr>
<td>Meet increased customer demand</td>
<td>2</td>
</tr>
<tr>
<td>Ensuring supply chain resilience</td>
<td>1</td>
</tr>
<tr>
<td>Manage reputational risk and increased brand value</td>
<td>1</td>
</tr>
<tr>
<td>Improved corporate resilience</td>
<td>0</td>
</tr>
</tbody>
</table>
2. Challenges of purchasing sustainable palm oil

Limited market demand was identified by the majority of participants (6 out of 8) as the most challenging aspect of producing or purchasing sustainable palm oil. The lack of market demand reduces the pressure on Chinese companies to procure sustainable palm oil. Therefore, driving the demand for sustainable palm oil in the Chinese market could encourage more Chinese companies to increase their procurement of sustainable palm oil.\(^\text{10}\)

Participants also identified company capacity constraints such as limited company resources and increased operational costs as barriers to procuring sustainable palm oil (2 out of 8, respectively).

This differs from data disclosed through CDP in 2020 by all companies globally that produce, purchase or use palm oil which finds that supply chain complexity is the most common challenge to purchasing or producing sustainable palm oil - identified by 36% of companies. In contrast, limited public awareness and/or market demand is the 4th most common challenge, identified by 13% of all companies disclosing on palm oil through CDP in 2020. This difference could indicate that Chinese companies, such as those interviewed, perceive different priority barriers to producing and purchasing sustainable palm oil than companies operating in other countries or value chain positions. Tailoring approaches aimed at increasing adoption of sustainable palm oil by key country, regional or value chain segment specific barriers could increase their effectiveness.

Figure 3: Number of participants identifying challenges to producing/purchasing sustainable palm oil during interviews.
3. Greater transparency in the supply chain

A small majority of companies (5 out of 8) felt greater transparency could help them buy more sustainable palm oil. These participants felt that greater transparency would help them source more sustainable palm oil for several reasons. Two companies confirmed that greater transparency would increase the supply of certified products. Participants also discussed that greater transparency could lead to increased demand for certified products, increased trust in the supply chain, increased awareness of risks associated with unsustainable palm oil, advanced reward and punishment mechanisms, increased standardization of the sustainable palm oil market and increased stakeholder engagement and collaboration.

For those companies that did not believe increased transparency would help them purchase sustainable palm oil, two companies stated that increased demand for certified products would instead aid them in purchasing sustainable palm oil. One company declared that no measure would help them increase their purchases of sustainable palm oil, despite being aware of the risks associated with unsustainable palm oil.

Analysis of 2020 CDP data from palm oil companies globally found that increased demand for certified products is also the most frequently identified measure that would improve organizations’ ability to manage its exposure to deforestation and/or conversion of other natural ecosystems (identified by 18% of disclosing companies). This suggests that other interventions apart from those focused on increasing transparency could also be beneficial to companies. For example, regulation or government procurement policies that support sustainable production and use of sustainable palm oil could help increase demand for certified palm oil.

Figure 4: Number of participants stating that greater transparency could help them purchase more sustainable palm oil, why it would be beneficial and alternative measures that would if not.
CONCLUSIONS

1. Chinese companies have begun to recognize multiple potential business benefits linked to sustainable palm oil

   Awareness of the benefits of sustainable palm oil was high among interviewed organizations – all identified at least one benefit. The most frequently cited benefit was reduced environmental impact.

2. Insufficient market demand remains the biggest challenge to sourcing sustainable palm oil for Chinese companies

   The most common barrier to producing/purchasing sustainable palm oil identified by participants was limited market demand. Given this finding, focusing on increasing the market demand could enable Chinese companies to procure more sustainable palm oil.

3. Data gathered suggests that Chinese supply chain companies perceive different priority barriers to producing and purchasing sustainable palm oil than other companies operating in the global palm oil market

   Tailoring approaches aimed at increasing adoption of sustainable palm oil by key country, regional or value chain segment specific barriers could increase their effectiveness.

4. Chinese companies recognize the benefits of transparency

   The majority of participants agreed that greater transparency in the palm oil market would help them purchase more sustainable palm oil. Increasing transparency in the palm oil market was considered beneficial for a multitude of reasons. For example, it would increase the supply and demand of certified products, increase stakeholder engagement and collaboration and increase trust in the supply chain, alongside other benefits.

This report provides unique insights into the opportunities, barriers and challenges to sourcing and purchasing sustainable palm oil perceived by Chinese organizations in the palm oil market. Due to the relatively small number of Chinese companies interviewed for this consultation, further research on this topic is recommended as it could confirm whether greater transparency could enable more Chinese companies to take up sustainable palm oil as well as establish whether more Chinese palm oil buyers face similar opportunities, barriers and challenges to sourcing and purchasing sustainable palm oil as identified by this consultation.
For more information please contact:

**CDP China CDP 中国**
**Sabrina Zhang 张译戈**
Country Director 中国办公室主任
sabrina.zhang@cdp.net

**Fei Li 李蜚**
Forest Program Manager 森林项目经理
fei.li@cdp.net

**Hanna Ye 叶珏含**
Senior Project Officer, Forests 森林项目高级官员
hanna.ye@cdp.net

**Lifeng Fang 方立锋**
Account Manager 项目经理
lifeng.fang@cdp.net

---

**CDP China**
Room 025, 1/F
Jingshi Law Firm Building
No. 37 Dongsihuan Mid Rd
Chaoyang District
Beijing 100025
Tel: +86 (0)10 8341 2867

**CDP 中国**
北京市朝阳区
东四环中路37号
京师律师大厦一层025室

邮编: 100025
电话: +86 (0) 10 8341 2867

**CDP Forests CDP 森林项目**
Plantation Place South
Level 4
60 Great Tower Street
London EC3R 5AD, UK
Tel: +44 (0) 20 3818 3900
forests@cdp.net
www.cdp.net