Achieving Traceability in Palm Oil:
Palm Oil Traceability Working Group (TWG) Concept Note

Introduction

As the number of companies committed to producing and sourcing fully deforestation free palm oil increases, there is growing awareness that traceability is an essential requirement for meeting that commitment. Companies throughout the supply chain need to be able to prove sustainability at source in order to safeguard their reputation and comply with internal or customer sourcing guidelines. As a result, many companies have signaled their intention to move to full traceability.

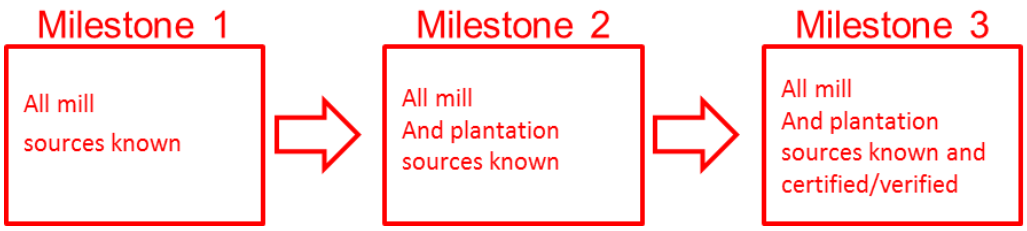
However, unless the industry aligns and articulates clearly what traceability means and how it can be achieved, traceability will remain an ambiguous concept and the scale required to make it economical will not be possible. The Palm Oil Traceability Working Group (TWG) was formed in early 2014 to address this challenge. The TWG consists of a committed group of palm oil producers, traders and users who are working together to define traceability and the roadmap to get there. This concept note explains the group's vision on traceability and its implementation.

Defining traceability[1]

The members of the TWG are united behind the working definition of traceability as: *knowing all palm sources within one's supply chain all the way to plantation level (including smallholders), and traceability to mill as an intermediary step in achieving full traceability*. In this context traceability is not a chain of custody concept and traceable is not the same as segregated.

Milestones and approach

Although the ultimate goal of the group members is to achieve full traceability and sustainability to plantation level, the group has set some intermediary milestones that are essential to meet the ultimate goal and will also serve to measure progress. These milestones are shown below:



The palm oil supply chain is complex, and there are a large number of actors involved. For this reason, the TWG members have agreed that once mill sources have been identified (Milestone 1), a prioritization approach will be adopted to ensure that highest risk areas receive attention first.
This approach will involve the following steps:

[1] *The following are suggested as minimum information requirements for traceability: 1) Mill name, 2) mill parent name, 3) mill's geographic coordinates, 4) mill's certification/verification status, and 5) percentage of oil that is traceable*

Step 1: Identify all mills within the company's supply chain. For derivatives or oleochemicals, this may initially be limited to supply chains of select priority products.
Step 2: Conduct a risk assessment on mills and sourcing areas (50-100km radius) using social and environmental criteria agreed to by the TWG members[2] based on combination of desktop review, field data and remote sensing data. Classify areas as high/medium/low priority for further investigation.
Step 3: Prioritization of mills in highest priority areas and on-the-ground verification according to each individual company's process and policies. For low priority areas, proceed to Step 5.
Step 4: Engagement and support to mills needing corrective action. Verification and/or certification may be an iterative process. Exclusion from the supply chain would be a last resort.
Step 5: Continuous monitoring and re-verification as necessary.

The methodology used for prioritization and verification will be transparent and publicly available.

Risk Assessment

Each individual company will prioritize areas for action according to its own needs. In general, members of the TWG will seek to prioritize those areas from where high risks and high sourcing volumes coincide. The TWG members see the benefit of aligning on key risk assessment criteria so as to have an efficient process and avoid multiple verifications of the same shared mills. The TWG will work together with other parties to define these criteria, e.g. deforestation, peat and social/labor.

Areas considered high priority would be further investigated. The risk assessment tool will be to identify where action may be required. It is not a verification or certification process in itself, and TWG members will not use the results of an assessment to exclude or penalize suppliers.

Certification and verification

The members of the TWG are united in their ongoing commitment to the RSPO as the leading industry standard on certification for palm oil sustainability. The purpose of the TWG is not therefore to create a new set of standards for sustainability. However, in recognition of the fact that a large proportion of palm oil used around the world is not RSPO certified, and that some company policies include criteria not covered by the RSPO, the members agree that there is a role for verification processes to support the achievement of traceable, certified/verified palm oil (milestone three). Members will decide individually on the role of verification. For some, verification may be a stepping stone on the route to 100% certification, while others may use verification as a complementary tool alongside certification.

Where verification is used, the methodology of verification and the criteria against which mills are verified will be determined individually by each company. It is the ambition of the members to link this process to ongoing monitoring that will allow companies to be proactive in their management of sustainability risks. Verification will be carried out in a transparent way by independent third parties.

[2] In process and alignment work will be carried out with WRI and other parties with relevant expertise

Impact on the ground

The TWG members see traceability as a necessary means to an end but not an end in itself. The ultimate goal of traceability is to drive impact on the ground. It is foreseen that supply chain mapping and traceability can help identify supply sheds[3] that represent significant sustainability risks and should therefore become the focus of concerted interventions. Defining the structure of intervention will likely be an iterative learning process, but it is expected the following levers could be used to drive change: the application of incentives and disincentives to specific mills, jurisdictional approach, and consideration for area certification/verification. It is expected that public sector funding and buyers will be able to provide incentives to help drive these changes.

Co-creating solutions

The purpose of the TWG is to co-create solutions to traceability that are fair, pragmatic and workable for all parties, not to dictate to others what must be done. As such, all members of the TWG are committed to working constructively with each other and with other actors including mills to understand what is needed, how this can best be met, and how companies can be supported to improve practices where this is necessary. The members of the TWG will always seek to support change in the first instance, and will remove parties from their supply chain only when all other options have been exhausted.

Timelines

Each individual company has its own timelines for achieving traceability within its supply chain. Broadly, however, the members of the TWG aspire to the following:

- Growers would like to achieve CPO mill level traceability in Malaysia by the end of 2014, and in Indonesia and elsewhere by the end of 2015.
- Traders would like to achieve CPO mill level traceability for oil destined to Rotterdam by the end of 2014 and elsewhere by 2015.
- Brands would like to achieve mill level traceability latest by the end of 2015.
- Beyond 2015, the ambition of the TWG members is to achieve 100% certified/verified sustainable palm oil that is traceable to plantation (including smallholders) by 2020 at the latest, and some members have committed to achievement earlier than this.

These timelines are aspirational and do not represent commitments by the individual members of the TWG.

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[3] *A supply shed consists of various catchment areas that feed into a refinery. A catchment area is the supply base of a mill. In some cases, parts of supply sheds will overlap, feeding multiple refineries.*