

## Sustaining Sustainable Palm Oil – Sime Darby Plantation

### A chocolate snack and orangutans

A video clip that went viral in early 2010 helped to hasten change in an old-fashioned business – the palm oil industry. The video clip featured an office worker opening a pack of Kit Kat, a well-loved chocolate snack, only to reveal an orangutan’s finger inside.<sup>1</sup> The spoof ad produced by Greenpeace, an environmental NGO, ended with Kit Kat's famous slogan paraphrased: “Have a break? Give orangutans a break”. It was aimed at Nestlé, the conglomerate that manufactured the snack, and the link between one vital ingredient it bought – palm oil – and the loss of rainforest habitats of orangutans and other Asian wildlife. The destruction of forest cover and peatland in Indonesia and Malaysia, where about 90% of the world’s palm oil was grown, also added to growing greenhouse gas emissions responsible for climate change.

The palm oil industry had been in the crosshairs of green activists for some time. Another multinational corporation, Unilever had its corporate offices stormed by Greenpeace activists dressed as orangutans in 2008. However, the fact was that palm oil was firmly entrenched as a major ingredient in the manufacturing of numerous food and consumer goods from margarine to shampoos and detergents. Nevertheless, public pressure arising from the viral clip did bear some fruit. Not long after Greenpeace’s campaign, Nestlé’s biggest palm oil supplier in Indonesia pledged to stop deforesting.

One palm oil company, a Malaysian federal government-linked enterprise, had been quietly making strides in incorporating environmental sustainability into its business. With about 580,000 ha of estates spread across Malaysia, Indonesia, Papua New Guinea and the Solomon Islands, Sime Darby Plantation (SDP) was the world’s largest palm oil company by planted area and the largest producer of certified sustainable palm oil. As early as in the 1980s, SDP had pioneered a zero-burning replanting technique using cut trunks and fronds of old palms as organic fertilizers in place of the traditional slash-and-burn method. SDP had been stung by criticisms before. In 2013, it had to rebut accusations that it was among the palm oil companies responsible for hotspots in Indonesia that caused severe haze in the region.<sup>2</sup>

In a cut-throat industry with a poor environmental track record, how did SDP make the transition towards sustainability?

### Patchy standards in the industry

SDP was a founding member of the Roundtable on Sustainable Palm Oil (RSPO) since 2004. Set up in response to growing concerns about the environmental impacts of palm oil, RSPO worked with palm oil companies, major buyers and civil society organisations to set sustainable production standards. These included not cutting virgin forests, reducing use of fires, and promoting its voluntary scheme for certified sustainable palm oil. SDP also adhered to national sustainability standards and certification schemes for palm oil introduced by the Malaysian and Indonesian governments in the 2010s.

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<sup>1</sup> Paul Armstrong, “Greenpeace, Nestlé in battle over Kit Kat viral”, *CNN*, March 20, 2010, <https://edition.cnn.com/2010/WORLD/asiapcf/03/19/indonesia.rainforests.orangutan.nestle/index.html>

<sup>2</sup> Zatil Husna, “Sime Darby not involved in open burning”, *The Edge*, June 27, 2013,

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However these voluntary and national standards faced criticisms. Although the RSPO had the most recognisable standard especially in Europe, it had been accused of having lax rules and enforcement,<sup>3</sup> low coverage of the industry,<sup>4</sup> and being “agonisingly slow”.<sup>5</sup> On the other hand, both the Indonesian Sustainable Palm Oil (ISPO) certification scheme and its Malaysian equivalent, the Malaysian Sustainable Palm Oil (MSPO) standards were seen as less stringent than the RSPO standard.<sup>6</sup> The ISPO scheme had been in place for some years, but less than 1% of smallholder plantations was ISPO-certified in 2021, compared to almost 63% of the private sector plantations and nearly one-third of state-owned plantations.<sup>7</sup> Malaysia fared better, with almost 98% of oil palm plantation areas MSPO-certified by January 2023.<sup>8</sup>

There were other legal provisions to make palm oil production more sustainable, such as Malaysia’s cap on total oil palm cultivation at 6.5 million hectares,<sup>9</sup> and Indonesia’s moratorium on new clearance of primary forest and peatland.<sup>10</sup> Despite such legal protections, forest protection was often hamstrung by a lack of effective enforcement. One environmental NGO pointed out that there was a “lack of political will on the part of governments to enforce existing law”.<sup>11</sup>

Meanwhile, the European Union (EU) placed palm oil imports under increasing scrutiny in recent years. In May 2023, the EU formally adopted mandatory due diligence rules and banned imports of palm oil and other commodities linked to deforestation.

### Closing the traceability gap

In such a climate, SDP knew it had to do more to strengthen and demonstrate its commitment to sustainability. The company was one of the first to launch a Responsible Agriculture Charter in 2016 which outlined its commitment to “no deforestation, no (new development of) peat, no exploitation (of workers and communities)” (NDPE). More recently, SDP set a higher target for its entire supply chain to be fully deforestation-free by 2025. This was particularly challenging as SDP had to know where all its supplies were coming from, even those purchased through third parties.

In the upstream phase, the oil palm fruit (known as fresh fruit bunches or FFB) would be processed at mills into crude palm oil (CPO) and other derivatives such as palm kernel oil. While most of the FFB received at SDP’s 67 mills came from its estates, about 10-15% was supplied from third-party estates and smallholders. In the downstream stage, almost a third of the CPO processed into refined, bleached and deodorised (RBD)<sup>12</sup> palm oil at SDP’s 11 refineries was sourced from third parties. These were either supplied directly to SDP or indirectly through intermediaries such as traders and collection centres.

<sup>3</sup> Nithin Coca, “Certification fails to transform the palm oil industry—what next?”, *Eco-Business*, February 25, 2021, <https://www.eco-business.com/news/certification-fails-to-transform-the-palm-oil-industry-what-next/>

<sup>4</sup> “The palm-oil industry’s effort to curb deforestation has lots of flaws”, *The Economist*, March 7, 2019.

<sup>5</sup> “Green palm oil push: Kit Kat, Dove makers could face fines”, *The Business Times*, November 27, 2019, <https://www.businesstimes.com.sg/companies-markets/consumer-healthcare/green-palm-oil-push-kit-kat-dove-makers-could-face-fines>

<sup>6</sup> Kong Lingyu, “who gets to define sustainable palm oil?”, *China Dialogue*, June 4, 2021, <https://chinadialogue.net/en/food/who-gets-to-define-sustainable-palm-oil/>

<sup>7</sup> Dzulfiqar Fathur Rahma, “Palm oil: More than 750 ISPO certificates issued for producers as of last year”, *The Jakarta Post*, June 7, 2021, <https://www.thejakartapost.com/news/2021/06/07/palm-oil-more-than-750-ispo-certificates-issued-for-producers-as-of-last-year.html>

<sup>8</sup> Cynthia Ignatius, “More Than 97% Of Oil Palm Planted Areas Are MSPO-Certified”, *Business Today*, February 28, 2023, <https://www.businesstoday.com.my/2023/02/28/more-than-97-of-oil-palm-planted-areas-are-mspo-certified/>

<sup>9</sup> “Govt adopts policies to ensure sustainable oil palm cultivation”, *New Straits Times*, September 23, 2019, <https://www.nst.com.my/news/nation/2019/09/523800/govt-adopts-policies-ensure-sustainable-oil-palm-cultivation>

<sup>10</sup> “Indonesia president makes moratorium on forest clearance permanent”, *Reuters*, August 8, 2019, <https://www.reuters.com/article/us-indonesia-environment-forest-idUSKCN1UY14P>

<sup>11</sup> “As fog clears on benefits of forest protection, excuses for failure wear thin”, *Reuters*, July 10, 2020, <https://www.reuters.com/article/us-global-deforestation-climatechange-an-idUSKBN24A2SN>

<sup>12</sup> RBD palm oil can be further processed and used in manufacturing various food and consumer products.

To meet its NDPE commitments, SDP developed the Responsible Sourcing Guidelines which were incorporated into its sourcing contracts with third parties. This set out SDP's NDPE commitments and expectations on its suppliers if the commitments were violated, including the possibility of suspension of suppliers. SDP also implemented a dedicated policy, "Working with Suppliers to Draw the Line on Deforestation", to avoid deforestation within its supply chain.

Another strategy was enhancing transparency in SDP's supply chains, including improving traceability to the mill and plantation levels to monitor the origins of supplies to SDP. The company had set a target of achieving 100% overall traceability to mill and plantation by 2025. Given that SDP's network of refineries sourced from hundreds of mills, which were in turn supplied by several thousands of plantations and smallholders, this was no easy task.

By 2021, SDP reported that 96% of raw materials processed by its refineries and kernel crushers globally was traceable to mill.<sup>13</sup> However a small proportion – 4.6% – was sourced indirectly through various intermediaries or one-off spot market purchases outside of long-term contracts, and details about origin could be particularly elusive. Traceability to plantation for third-party mills proved harder still. Despite having mapped over 3,495 smallholders in recent years, only 34.5% of such third-party mills could be traced credibly to plantation, resulting in overall traceability of 73.5% to plantation for SDP.<sup>14</sup>

"A lot of work is being done to close that particular gap," said Rashyid Redza Anwarudin, SDP's Chief Sustainability Officer since 2020.<sup>15</sup>

One way to close the gap was to deploy technology solutions to increase transparency and crowdsource monitoring efforts. In 2014, SDP was part of a group of palm oil companies participating in what was touted as a landmark High Carbon Stock Science Study conducted by 50 scientific experts. The study was aimed at establishing greenhouse gas emissions thresholds to differentiate high carbon stock forest that should be protected from land suitable for conversion to plantation. The study which also considered other socio-economic factors, ruled out planting on virgin forest, most partially cleared forests and secondary forests which was previously cleared but had grown back for 20 years.<sup>16</sup>

In 2019, SDP opened its operations to even higher levels of public scrutiny by launching "Crosscheck", an open access online platform that traced the origins of FFB and CPO in its supply chain. Besides information on mills supplying to SDP, it included a risk map displaying areas of risk such as high-carbon stock forest and animal habitats within a 50-km radius around each mill, and satellite maps which could show forest and peatland clearing on the ground.<sup>17</sup> The platform built on SDP's earlier initiatives including an online hotspot monitoring dashboard. By December 2021, Crosscheck had been expanded to cover 1,105 mostly independently owned mills.<sup>18</sup> SDP was also part of a coalition which partnered an environmental NGO to develop a publicly available radar-based forest monitoring system to improve monitoring in Malaysia and Indonesia.<sup>19</sup>

<sup>13</sup> Sime Darby Plantation, *Sustainability Report 2021*, April 29, 2022, 99, [https://sime-darbyplantation.com/wp-content/uploads/2022/04/SDP-SR-2021\\_20220429.pdf](https://sime-darbyplantation.com/wp-content/uploads/2022/04/SDP-SR-2021_20220429.pdf)

<sup>14</sup> Sime Darby Plantation, *Sustainability Report 2021*, April 29, 2022, 99, [https://sime-darbyplantation.com/wp-content/uploads/2022/04/SDP-SR-2021\\_20220429.pdf](https://sime-darbyplantation.com/wp-content/uploads/2022/04/SDP-SR-2021_20220429.pdf)

<sup>15</sup> Rashyid Redza Anwarudin (Sime Darby Plantation), interview by Jean Chia, June 13, 2023.

<sup>16</sup> "A recipe for sustainability", *The Economist*, July 30, 2015, <https://www.economist.com/business/2015/07/30/a-recipe-for-sustainability>

<sup>17</sup> "Sime Darby Plantation Launches 'Crosscheck' in a major step towards Palm Oil Supply Chain Traceability", Sime Darby Plantation, May 23, 2019, <https://sime-darbyplantation.com/sime-darby-plantation-launches-crosscheck-in-a-major-step-towards-palm-oil-supply-chain-traceability/>

<sup>18</sup> "Crosscheck", Sime Darby Plantation, <https://dsr2021.sime-darbyplantation.com/responsible-sourcing/crosscheck/>

<sup>19</sup> Michael Taylor, "Palm oil giants double down on deforestation with new radar system", *Reuters*, November 1, 2019, <https://www.reuters.com/article/us-asia-forest-palmoil-idUSKBN1XB3Q5>

## Challenges with suppliers and smallholders

Constant engagement with its suppliers was critical for SDP. SDP had encountered recalcitrant suppliers who flouted its responsible sourcing guidelines in the past. Using data from satellite monitoring reports, SDP suspended one Malaysian supplier in February 2020.<sup>20</sup> Another 54 others were identified as high-risk in Malaysia and Indonesia based on their locations near protected forest areas or orangutan ranges.

Based on regular forest monitoring reports, SDP would first ascertain through on-the-ground checks whether violations were indeed occurring within its supply chain. If this was the case, SDP would issue a stop-work order to the supplier and start an engagement process which allowed the supplier to conduct its own investigations. The supplier would be expected to develop a remediation plan, including conducting High Conservation Value-High Carbon Stock Approach assessments, and develop an action plan to meet SDP's NDPE commitments.

"This engagement process can take some time," explained Rashyid, "because sometimes the suppliers don't really understand the environmental issues. And there's a lot more engagement and explanation. And sometimes there're disputes with the sort of satellite imagery, and they have their own. And there's some additional validation that's needed."

Those unwilling to implement such measures would be removed from SDP's supply chain as a last resort. However, some risk remained as suspended mills could still re-appear indirectly in SDP's supply chain through spot market transactions.

Complying with higher sustainability and compliance standards for markets like Europe was especially difficult for smallholder farmers who typically grew subsistence food crops alongside small scale oil palm cultivation. Despite their modest size, smallholders were a force to be reckoned with in palm oil production. For instance, an estimated 30-40% of oil palm in Malaysia was grown by some 250,000 smallholders.<sup>21</sup> SDP sourced about 20% of its supply directly and indirectly from some 64,000 smallholders across Indonesia, Malaysia, Papua New Guinea and Solomon Islands.<sup>22</sup>

However smallholders were a weak link in an industry that was trying to clean up its act. Satellite monitoring data revealed that rather than industrial scale forest clearing, it was smallholders "nibbling at the edges of forests" who were driving deforestation in Indonesia.<sup>23</sup> Especially among independent smallholders not associated or supplying exclusively to corporate groups, many lacked the awareness, capacity, know-how and financial resources to fully meet responsible sourcing guidelines.

Over time, SDP had developed segregated palm oil supply chains with RSPO certification and complete traceability to plantations, which catered to demand from Europe and North America companies with higher sustainability requirements. While palm oil that fell short of these standards could be channelled to alternative markets like China and India, this was not what SDP had envisioned for the longer term. SDP was clear that smallholders in its supply chain had to be part of the company's sustainability journey.

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<sup>20</sup> Krishna N. Das and Mei Mei Chu, "Malaysian palm giant bars supplier, identifies risky ones amid deforestation worries", *Reuters*, February 11, 2020, <https://www.reuters.com/article/us-sime-darby-plant-malaysia-idUSKBN20516J>

<sup>21</sup> Ajeng Jok Wan, "Next generations of smallholders in Malaysia", Malaysian Palm Oil Certification Council, accessed October 3, 2023, <https://www.mpocc.org.my/mspo-blogs/next-generations-of-smallholders-in-malaysia>

<sup>22</sup> "Smallholders", Sime Darby Plantations Sustainability Report 2021, accessed October 3, 2023, <https://dsr2021.simedarbyplantation.com/responsible-sourcing/smallholders/>

<sup>23</sup> Tim Ha, "Do smallholders hold the key to sustainable palm oil?", *Eco-Business*, June 26, 2019, <https://www.eco-business.com/news/do-smallholders-hold-the-key-to-sustainable-palm-oil/>

“At the end of the day what we want to do is to ensure that we reduce the compliance costs for the smaller players to meet these requirements,” said Rashyid. “If you look at the smallholders, they may not have the resources to comply, and what that potentially entails is exclusion from those particular supply chains, which is the last thing that we want.”

To mitigate this, SDP took an inclusive approach by rolling out programmes to build capacity among smallholders for sustainability certification, improve production efficiency and secure higher yields. The programmes included climate-smart agriculture approaches, such as responsible land use and conservation planning, good agricultural practices in fertiliser application and moisture retention, and maintaining vegetated areas near streams as riparian buffer zones for flood mitigation.

“Another approach that we do is work with our smallholders to get them certified to sustainability standards, such as the RSPO, so that their practices are at least at a certain level of sustainability,” added Rashyid. Getting smallholders certified according to the RSPO standards meant that the gap with the EU’s requirements would be significantly reduced.

Although the COVID-19 pandemic slowed down SDP’s efforts, half of the smallholders in SDP’s supply chain across the four territories were RSPO-certified by December 2021 (Table 1).<sup>24</sup> In particular, smallholders in Papua New Guinea and Solomon Islands – numbering over 17,000 – were fully RSPO-certified.<sup>25</sup> On the other hand, certification rates were substantially lower among smallholders in Malaysia who were more focused on obtaining the mandatory national MSPO certification. This was made even more challenging for SDP as the vast majority of FFB in Malaysia was sourced through traders, rather than directly from smallholders. Among Malaysian smallholders supplying to SDP, only 42% were covered under SDP’s programmes, 9% were MSPO-certified and less than 1% was RSPO-certified as of 2021.<sup>26</sup>

**Table 1: Overview of smallholder programmes and certification by region 2021**

Country	Type of smallholder	Smallholders supplying to SDP (number)	Covered by SDP’s programmes (number)	Covered by SDP’s programmes (%)	RSPO-certified (%)
Malaysia	Independent	16,137	6,784	42%	0.67%
Indonesia	Scheme	28,305	28,305	100%	52%
	Independent	2,602	n.a.	n.a.	n.a.
Papua New Guinea and Solomon Islands	Independent	17,167	17,167	100%	100%
Total		64,211	52,256	81%	50%

Source: Sime Darby Plantations, Sustainability Report 2021.

### Slowing demand for sustainable palm oil

What was perhaps more worrying for companies like SDP was that despite the global attention and growing production of sustainable palm oil, in reality, demand was slow to pick up. According to the RSPO, only about 20% of annual global production was RSPO-certified, most of which was going to Europe and North America.<sup>27</sup> Europe was by far the largest consumer of certified sustainable palm oil with 45% of global consumption, but demand there was showing signs of plateauing (Fig. 1). By 2021, sustainable palm oil made up 93% of

<sup>24</sup> Sime Darby Plantation, Sustainability Report 2021, April 29, 2022, 109, [https://sime-darbyplantation.com/wp-content/uploads/2022/04/SDP-SR-2021\\_20220429.pdf](https://sime-darbyplantation.com/wp-content/uploads/2022/04/SDP-SR-2021_20220429.pdf)

<sup>25</sup> Sime Darby Plantation, Sustainability Report 2021, April 29, 2022, 109, [https://sime-darbyplantation.com/wp-content/uploads/2022/04/SDP-SR-2021\\_20220429.pdf](https://sime-darbyplantation.com/wp-content/uploads/2022/04/SDP-SR-2021_20220429.pdf)

<sup>26</sup> Sime Darby Plantation, Sustainability Report 2021, April 29, 2022, 109, [https://sime-darbyplantation.com/wp-content/uploads/2022/04/SDP-SR-2021\\_20220429.pdf](https://sime-darbyplantation.com/wp-content/uploads/2022/04/SDP-SR-2021_20220429.pdf)

<sup>27</sup> RSPO, Impact Report 2022, <https://rspo.org/wp-content/uploads/RSPO-Impact-Report-2022.pdf>

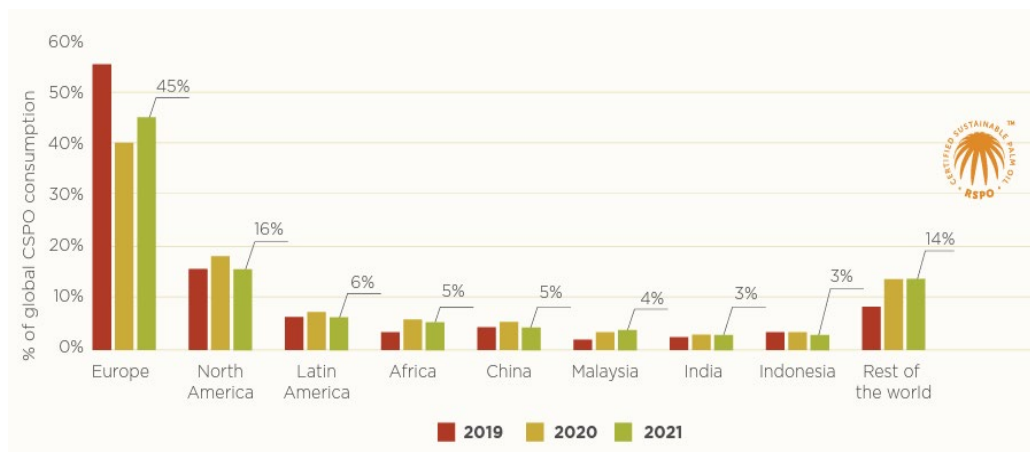


Europe’s total consumption.<sup>28</sup> However overall consumption of palm oil in Europe had also decreased from 8.39 million MT in 2019 to 7.48 million MT in 2021, largely due to decreases in non-food sectors such as oleochemical and feed.<sup>29</sup>

Nor did the big global consumer brands seem to move fast enough. Reports by environmental pressure groups like WWF and Rainforest Action Network indicated that many including Kellogg’s, Mondelez and General Mills fell far short of their goal to phase out deforestation through sustainable palm oil by 2020.<sup>30</sup>

In China, India and Pakistan, which consumed about 40% of global palm oil exports, sustainability was less valued and few were willing to pay a premium.<sup>31</sup> Certified sustainable palm oil was only 2% and 6% of overall palm oil consumption in India and China respectively in 2020.<sup>32</sup> Demand in palm oil producing countries themselves was similarly dismal. A RSPO representative lamented that “progress [was] very slow in major [Asian] markets, not to mention [mediocre] uptake of CSPO has also been observed in the producing countries”.<sup>33</sup>

**Fig. 1: Estimated share of global CSPO consumption by region, 2019-2021**



Source: EPOA, IDH and RSPO, *Sustainable Palm Oil: Europe’s Business*, 2022.

While SDP had forged a clear path in its sustainability journey so far, challenges laid ahead. How could SDP continue to navigate between its environmental and commercial goals?

<sup>28</sup> EPOA, IDH and RSPO, *Sustainable Palm Oil: Europe’s Business*, 2022, [https://rspo.org/wp-content/uploads/Sustainable-Palm-Oil-Europes-Business-Report\\_SEP2022.pdf](https://rspo.org/wp-content/uploads/Sustainable-Palm-Oil-Europes-Business-Report_SEP2022.pdf)

<sup>29</sup> EPOA, IDH and RSPO, *Sustainable Palm Oil: Europe’s Business*, 2022, [https://rspo.org/wp-content/uploads/Sustainable-Palm-Oil-Europes-Business-Report\\_SEP2022.pdf](https://rspo.org/wp-content/uploads/Sustainable-Palm-Oil-Europes-Business-Report_SEP2022.pdf)

<sup>30</sup> Fiona Harvey, “Biggest food brands ‘failing goals to banish palm oil deforestation’”, *The Guardian*, January 17, 2020, <https://www.theguardian.com/environment/2020/jan/17/biggest-food-brands-failing-goals-to-banish-palm-oil-deforestation>

<sup>31</sup> “The palm-oil industry’s effort to curb deforestation has lots of flaws”, *The Economist*, March 7, 2019.

<sup>32</sup> RSPO, *Impact Report 2022*, <https://rspo.org/wp-content/uploads/RSPO-Impact-Report-2022.pdf>

<sup>33</sup> Pearly Neo, “‘Mediocre uptake’: Sustainable palm oil experts lament lack of demand from large Asian markets and urge government action”, *FoodNavigator Asia*, October 21, 2020, <https://www.foodnavigator-asia.com/Article/2020/10/21/Mediocre-uptake-Sustainable-palm-oil-experts-lament-lack-of-demand-from-large-Asian-markets-and-urge-government-action>