

Frequently asked questions: Palm oil, forests and finance

What is palm oil?

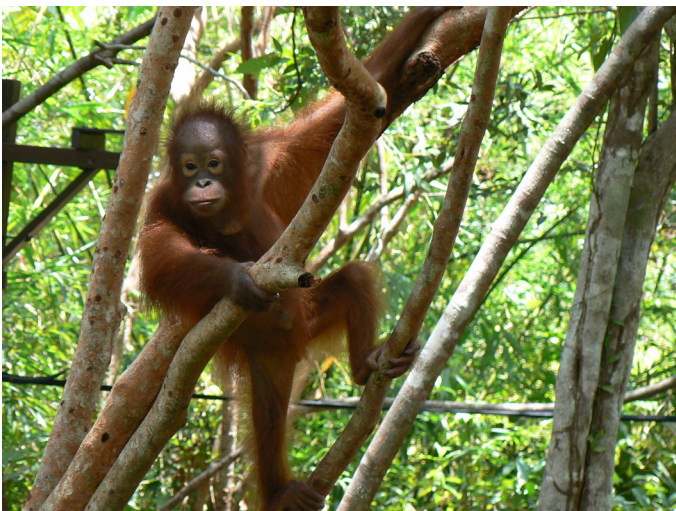
Palm oil is a vegetable oil derived from the fruit of the oil palm tree, native to West Africa. It is used in thousands of consumer products from baked goods and ice cream to cleaning products and cosmetics, to biofuels. Because of its high melting point, its high yield and its lack of unhealthy trans fatsⁱ – and because weak environmental and social standards make it cheap to grow and process – palm oil has rapidly come to dominate the global vegetable oil market.

What are the main uses of palm oil?

Palm oil and its derivatives are used in a wide array of packaged foods, including ice cream, cookies, crackers, chocolate products, cereals, breakfast bars, cake mixes, doughnuts, potato chips, instant noodles, frozen sweets and meals, baby formula, margarine, and dry and canned soups. Some three-quarters of global palm oil is used for foods, with the remainder used for industrial purposes including bio-diesel.ⁱⁱ Palm oil is not used as a biofuel feedstock in the United States, but it is in Europe.

Why is palm oil such an urgent issue for environmentalists?

Palm oil production is a major cause of tropical deforestation. Palm oil production has exploded in the past two decades to make it the world's most widely traded vegetable oil, and production is projected to double again in the next decade.ⁱⁱⁱ Forest destruction for palm oil



expansion is spreading quickly in South East Asia and to other rainforest regions in Central Africa and Latin America. Nearly 90 percent of global production comes from Indonesia and Malaysia,^{iv} where 55-60 percent of palm oil expansion since 1990 has occurred at the expense of native rainforests.^v The Indonesian government plans to convert some 45 million more acres of rainforests – an area the size of Missouri – into palm oil plantations by 2020.^{vi}

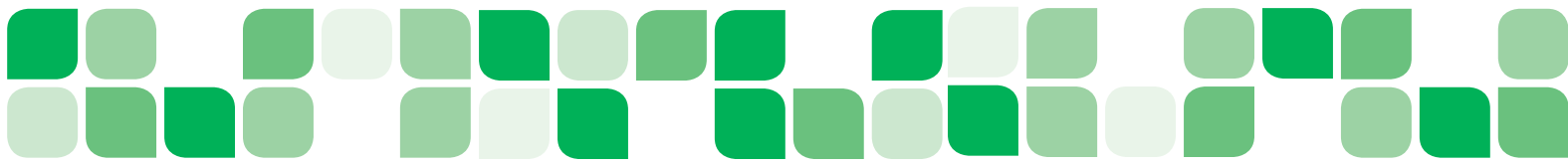
Indonesia's rainforests are one of earth's most biologically and culturally rich landscapes. Incredibly, with just one percent of the Earth's land area, Indonesia's rainforests contain 10 percent of the world's known plants, 12 percent of mammals and 17 percent of all known bird species, as well as the only wild populations of orangutans, Sumatran tigers and Sumatran rhinoceri, all of which are critically endangered. As recently as the 1960s, about 80 percent of Indonesia was forested;^{vii} today, just under half of the country's original forest remains.^{viii} Between 2009 and 2011, Indonesia lost 12,400 kilometers of forest to palm oil plantations.^{ix}

What are the social impacts of palm oil?

Corporate land grabbing of indigenous and community forests for palm oil plantations is responsible for serious human rights abuses and persistent conflicts between companies and rural communities. The palm oil monitoring group SawitWatch has identified 663 ongoing land disputes between palm oil companies and rural communities in Indonesia.^x In too many cases, private armies and paramilitaries have been deployed and people have been killed. Many industrial palm oil plantations also rely on the use of forced and child labor. In Malaysia and Indonesia, child labor has been documented and allegations of modern-day slavery on plantations across Malaysia and Indonesia are common.^{xi} As palm oil plantations expand across Africa and Latin America, the same array of problems is seen.

Do palm oil plantations affect climate change?

Deforestation is responsible for some 10-15 percent of global greenhouse gas emissions – more than the combined emissions from all the cars, trucks, trains and buses in the world each year combined. In Indonesia



and Malaysia, deforestation to clear land for palm oil production is especially polluting because it often happens in peat swamp forests – carbon-rich wet ecosystems that have sequestered billions of tons of carbon through thousands of years of accumulating leaf litter and organic material.^{xiii} The conversion of Indonesia’s peat lands to palm oil plantations^{xiii} is having an impact on the climate similar in scale to the world’s biggest coal and tar sands projects. For example, in Indonesia, 25 million acres of peat land have already been deforested and drained for palm oil plantations,^{xiv} activities that cause the highest CO2 emissions of all land uses.^{xv}

What is driving the demand for palm oil?

Global consumption of vegetable oils in general, including palm oil, has grown by about five percent a year for more than a decade and is expected to continue growing at this rate.^{xvi} The largest consumers of palm oil are China, Indonesia, India and the European Union, each of which import between 10 and 15 percent of world production.^{xvii} The United States uses only around two percent of global production, though even this small percentage constitutes a growth rate of 485 percent in the last decade.^{xviii}

Since 2006, the U.S. Food and Drug Administration has required that all food labels list their trans fat content,^{xix} leading to a market-wide switch to palm oil, which is low in trans fats. Since 2010, the European Union has required that all transportation fuels are blended with biofuels, leading to a rapid and steady rise in EU palm oil imports.^{xx} Although both of these efforts began as laudable attempts to address unhealthy addictions – to trans fat and fossil fuels – they have had the perverse result of destroying huge areas of rainforest.

Consumer choice and government mandates are not the only factors driving palm oil demand: Palm oil is extremely cheap to produce, largely because producers disregard environmental and human rights standards to grab huge swaths of land in countries where governments eagerly welcome development, regardless of social concerns. Another key driver has been the ready availability of financing. Every 10,000 acres of new palm oil plantations require roughly \$100 million in capital investments.^{xxi} Since 2008, major financial institutions have extended the palm industry more than \$20 billion in loans, bonds and equity,^{xxii} which makes it easy for the industry to grow beyond its means.

Palm oil in biofuels

Burgeoning global markets for biofuels, and national biofuel mandates, have spurred a huge rise in land conversion to fuel crops, including palm oil, soil and sugarcane. More than 60 percent of the land grabs in Africa over the past decade have been for biofuel production.^{xxiii} In Europe, palm oil is second only to rapeseed oil (canola) as a biofuel feedstock, and production to meet the EU biofuel mandate is expected to double by 2050.^{xxiv} The U.S. imports about a million metric tons of palm oil annually, none of which is currently used for biofuels.^{xxv} But there is looming possibility that it will be imported as a biofuel feedstock in the future, despite its negative environmental impacts.



Does the Roundtable on Sustainable Palm Oil help?

The Round Table on Sustainable Palm Oil certifies a certain percentage of the palm oil from participating companies as “sustainable.” However the criteria used for certification are not comprehensive, and even WWF, one of the founders and key promoters of RSPO, has said it no longer considers RSPO certification sufficient to guarantee for responsible companies.^{xxvi} Even if a company purchases a certain percentage of RSPO-certified product, this is not traceable through the supply chain, so there is virtually no way of telling whether the palm oil in any particular product has been grown on deforested land.^{xxvii} Further, RSPO certification does not include converted peat land, thereby permitting for the worst



climate impacts even in certified products.

What are the alternatives to palm oil in consumer products?

All edible oils have an environmental and social footprint and any oil used to replace palm oil should meet rigorous environmental and social standards. Food manufacturing companies can use oils that are not grown in the tropics and have been produced responsibly including olive oil, canola oil, corn oil and safflower oil. In the tropics, coconut oil is a good option. But the key to replacing palm oil is reducing overall consumption – of snack foods, of unwarranted cosmetics and of fuel. While this is demanding and difficult, especially with a growing population and the increasing middle class in many ‘developing world’ nations, ultimately it is the only solution to maintain a liveable planet.

Is palm oil healthy?

The science is not entirely settled. What we know, however, is that many of the health claims about the virtues of palm oil are based on the properties of fresh, unprocessed palm oil and not the highly processed food additive used in packaged foods. Palm oil does not contain trans fats, which has led to its wide usage in the United States, as the FDA mandates labelling of trans fats. But it is high in saturated fats. The World Health Organization, the National Heart, Lung and Blood Institute, the National Institute of Diabetes and Digestive and Kidney Diseases and the USDA’s Agriculture Research Service all recommend against consuming palm oil and other tropical oils high in saturated fats. The USDA agricultural research service states that palm oil is not a healthy substitute for trans fats.^{xxviii} Much of the palm oil that is consumed as food is to some degree oxidized rather than in the fresh state, and this oxidation appears to present a health risk.^{xxix} Moreover, from a holistic perspective, an oil that depends on rainforest destruction and human rights abuses is not healthy.

What can I do to address the problems of palm oil?


Businesses that buy vegetable oils can and should commit to sourcing only deforestation-free, conflict-free vegetable oils. Consumers can buy deforestation-free products whenever possible, and demand that companies


make public declarations to go deforestation-free, and then hold them to their word. Ultimately though, because demand in North America represents a small fraction of global demand, reducing consumption in the US – though it is a good thing to do – will not solve the problem.

However, North American banks and investors, including pension funds, do contribute significantly to the financing of large palm oil companies. Palm oil is a capital intensive industry and relies on public and private financing to continue to grow at the pace it has. In the past decade more than \$50 billion USD has been invested in the Malaysian and Indonesian palm oil sectors, with half of this going to 27 of the largest palm oil companies.^{xxx} Many North American financial institutions, including three of the largest banks in the U.S. (Bank of America, Citigroup and JPMorganChase) and the three largest pension funds in North America (TIAA-CREF, CalPERS and the Canada Pension Plan Investment Board),^{xxxi} supply financing to Wilmar International, the world’s largest palm oil company, and other bad actors in the palm oil sector. By putting pressure on financiers to make palm oil companies improve their practices – or to cut off financing for expansion – we can have a significant impact in reducing deforestation and defending human rights in tropical countries.

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