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Why a ban on palm oil must be prevented!

Palm Oil: A vital commodity

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A. The importance of Palm Oil

- **Consumption** of palm oil has **doubled** over the past 15 years to nearly 8 kg per inhabitant of the globe, and shows no signs of slowing down.
- **Indonesia (53 % of global output)** and **Malaysia (29 %)** are the leading producers, followed by Thailand (4 %), Nigeria (2.6 %), Colombia (2.3 %) and Ecuador (1 %).
- Around **half of packaged products in supermarkets contain palm oil**.
- Palm Oil has a **big productivity advantages**: compared to other oil seeds such as soybean (the world's second most widely consumed vegetable oil after palm oil), rapeseed and sunflower, it requires **only one-tenth as much land** to produce the same quantity of oil.

B. Reform of the REDII

- Trialogues on the **Promotion of the Use of Energy from Renewable Sources (RED II)** are ongoing.
- In **April 2017** the European Parliament (EP) passed the **resolution on "Palm oil and the Deforestation of Rain Forests"** by an overwhelming majority. Parliament mandates the **phasing out of palm oil** as feedstock for biodiesel and by **2020**.
- **Given the important role palm oil plays in the economies of producing countries** and its contribution to **lifting people out of poverty**, phasing out palm oil would have **detrimental effects**.

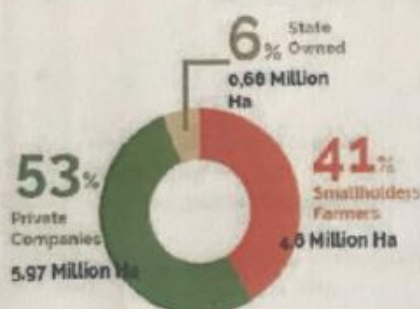
C. The economic impact of oil palm cultivation

- Palm oil is the **main agricultural export** of **Indonesia and Malaysia**, generating **10 % and 5 %** respectively of their exports.
- The sector provides **employment** for **721 000** smallholders and labourers in **Malaysia**, and **4 million** in **Indonesia**; a further **11 million** in the two countries are **indirectly dependent on it**.
- Most oil palm jobs are in remote rural areas, where alternative employment is scarce, thus helping to promote **rural development** and **alleviate poverty**.

C.1 Indonesia

- Indonesia is the **world's eighth economy**, accounting for more than 35 % of ASEAN's GDP (\$ 932,5 billion in 2017), with a population of around 260 million.
- In 2016, the EU was Indonesia's **third trading partner**, accounting for almost 11 % of its total exports, after the US and China.
- Indonesia was the EU's **29th trading partner** for total goods trade.
- **Indonesia is the world's largest palm oil producer**; with Malaysia it produces almost 90 % of the world's palm oil.
- Indonesia is also the **world's largest exporter** and it exports 15-20 % of its total palm oil to the EU.
- Palm oil is a **key employment sector** and the main source of income for millions of smallholders.
- According to research by the Stanford University, at least **1,3 million people were lifted from poverty in Indonesia** as a direct result of the expansion of the palm oil industry.

Smallholders Farmers Share Almost Half of The Plantation



Total Plantation ± 11,26 Million Ha

The share of smallholders' land

has increased from 20% to 41%

over the period 1980 - 2016

It is expected to reach 50% by 2020

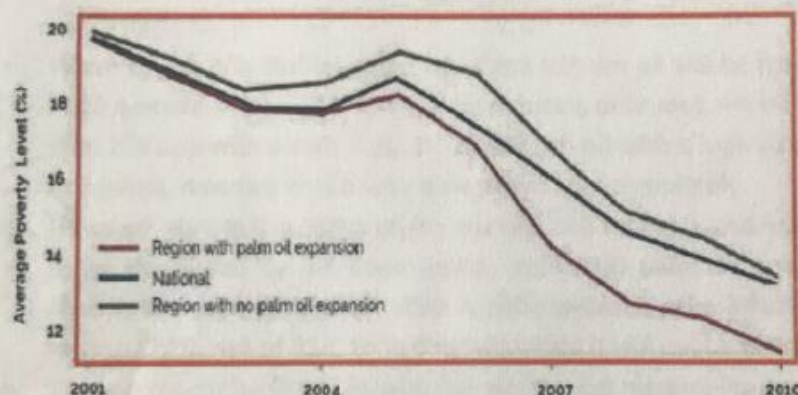
Source: Directorate General of Plantation, Ministry of Agriculture (2016)

C.2 Malaysia

- The economy of Malaysia is the **4th largest in Southeast Asia**, and is the 38th largest economy in the world, with a population of over 31 Million (2016).
- In 2016, Malaysia was the EU's **22nd largest trading partner** in goods.
- Malaysia is the EU's **third trading partner inside ASEAN**, behind Singapore and Vietnam.
- Palm oil accounts for **5.5%** of Malaysian global exports.
- Palm oil represents **6.5%** of total Malaysian exports to the EU.
- 40% of the Malaysian palm oil imported into the EU is used for producing biofuels (biodiesel).
- In 2017 Malaysia exported **1.99 million tonnes** of palm oil. Three EU countries account for more than 80% of these 1.99 million tonnes: **Netherlands (50.41%)**, Italy (18.19%) and Spain (15.28%)

- The palm oil industry has contributed to **lift a great percentage of people out of poverty**. In Malaysia, the **income** of millions of farmers and employees related to the palm oil industry has **increased** from about **US\$2** to about **US\$20** per day.
- Palm Oil is the **major employer for millions in the agricultural sector** (especially for smallholder farmers).
- **More than one million people** are employed in the sector, producing a share of between **five to six percent of Malaysia's GDP** and **7.8% of total exports**, making palm oil **the fourth largest contributor** to overall Malaysian **exports by value**.
- In 2016 total export value of palm oil and palm related products stood at 67.6 billion ringgits, roughly equivalent to **14.5 billion Euros** (at the May 2018 exchange rate).
- Malaysia is committed to keep the pledge made in Rio de Janeiro Earth Summit (1992) to **keep at least 50% of the territory as forest** (today about 55% of the territory is forest). There is therefore according to Malaysia **no more significant conversion of forest to palm plantation** to be expected.

Role of palm oil in poverty reduction



Regions with palm oil expansion have higher poverty eradication level than other regions

Source: Ryan B. Edwards, Center on Food Security and the Environment, Stanford University, 2016

D. Possible impacts of REDII

- Palm oil is of **pivotal importance** for the Malaysian and Indonesian economy, helping to **eradicate poverty** in both countries.
- A new, restrictive EU policy is expected to have a **huge impact** on both countries, significantly **disrupting their export revenue**.
- The decision to phase out palm oil would significantly **limit the trade volume** between the EU and Indonesia as well as Malaysia.
- Both, Indonesia and Malaysia, consider that any legislation discriminating against palm oil constitutes a **breach of the EU's WTO commitments**. Phasing out palm oil is interpreted as a protective trade barrier.
- Both countries mentioned on several occasions that they **will not hesitate** to challenge any such discrimination at the WTO and to **take corrective actions** which could negatively impact European-South Asian relations and may eventually lead to a **trade conflict** between the EU and South East Asia.
- In fact, Indonesian palm oil producers and business players have already urged their government to take **strong retaliatory action against the EU**, including terminating the talks on the Comprehensive Economic Partnership Agreement (CEPA).

- The EU is accused of **colonial thinking** and of **undermining necessary poverty reduction efforts**.
- Some voices in Indonesia also say that under the cover of sustainability and health considerations, there is a **deliberate attempt** to spread a **negative image of palm oil** to the **benefit of other** (EU produced) **vegetable oils/fats**.
- If Indonesia and Malaysia cannot further export to Europe they will export to China instead.

E. Results of the RED II Trilogue

In the RED II Trilogue it was agreed in that a minimum share of at least 14% of fuel for transport purposes must come from renewable sources by 2030. In particular:

- **first generation biofuel**, based on food crops, **must be capped at 2020 levels** (with an extra 1% possible increase) and **in no case exceed 7% of final consumption of road and rail transport**;
- Member States below 2% can increase their share of first generation biofuels to 2%. **The share of advanced biofuels and biogas must be at least 1% in 2025 and at least 3,5% in 2030.**
- The Commission is to come up with a **delegated act** to develop **certification** of low risk of land-use change production and for the **phase-out** (after a review) of **food-crop biofuels like palm oil**, which have a high "indirect land use change" (ILUC) **by 2030 and not by 2021** as initially demanded by Parliament.
- When calculating biofuel goals, the share of palm oil will be **frozen on the level of 2019**. From **2023 onwards**, palm oil levels will be reduced, because palm oil belongs to the category of food-crop biofuels with a high ILUC. **By 2030 palm oil with a high risk of ILUC would no longer count as biofuel**, meaning that it would be phased out completely.
- However, due to the compromise found in the trilogue and with the new certification schemes to be developed by the Commission, until **2030 palm oil producing countries now have the chance to prove their production is sustainable**. If palm oil changes from being categorized as having a **high risk of ILUC** to having a **low risk**, it will not be phased out.
- The text should be **WTO compliant** (since it is not mentioning palm oil as such) and does not apply the controversial ILUC modelling, but asks the Commission to define risk of land-use change / deforestation

F. Summary

- Good overall result due to diverse discussions and information.
- No ban on palm oil, but a transitional period from 2019 to 2030 based on a freeze on existing quantities of imported palm oil.
- The overall result takes WTO requirements and the specific export situation of Indonesia and Malaysia into account.
- The ultimate goal should be the production of sustainable palm oil instead of its ban.
- For all these reasons, I kindly ask you to support the compromise.