

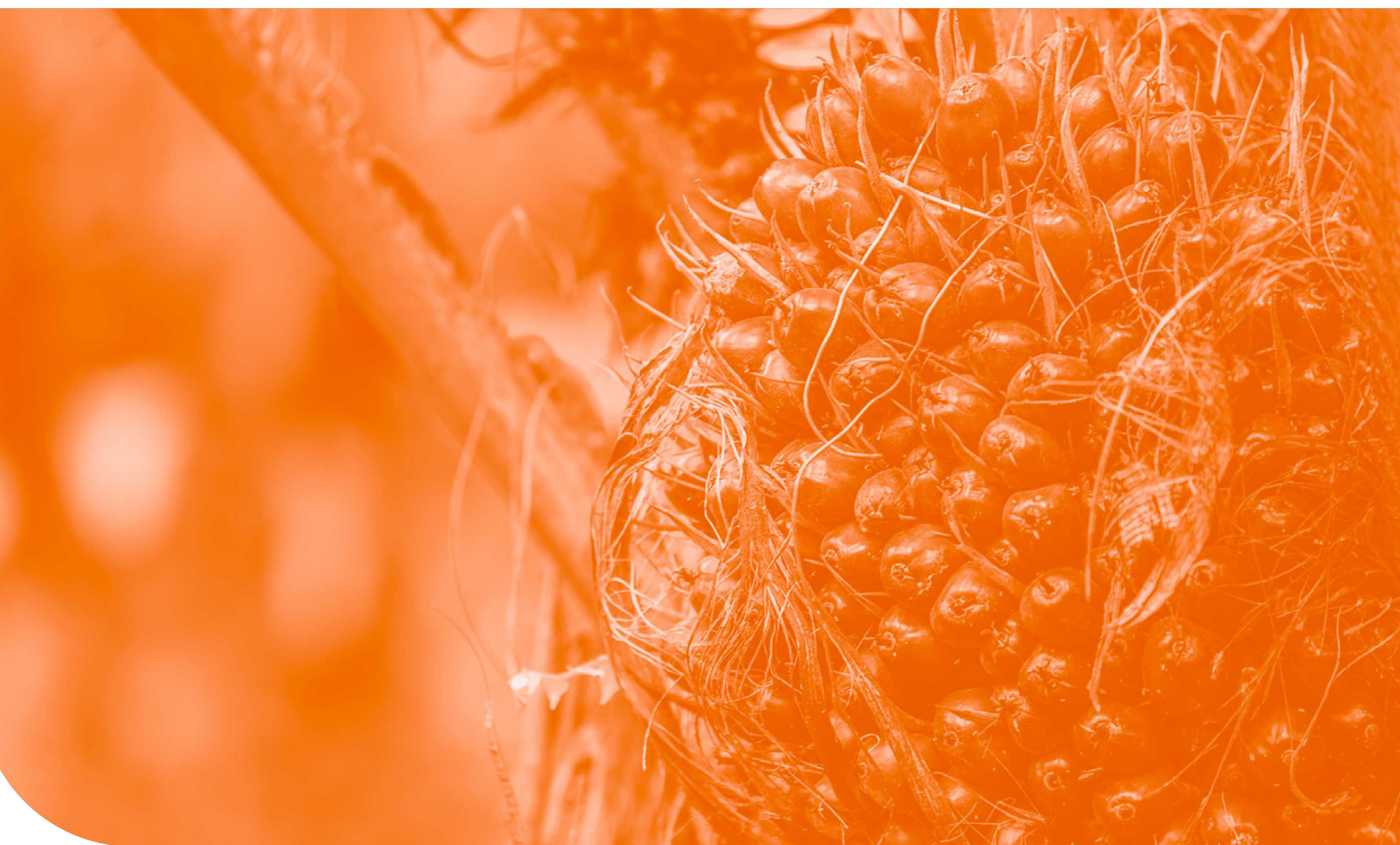
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# The Case for Responsible Sourcing of Palm Oil in China

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Version 1.0



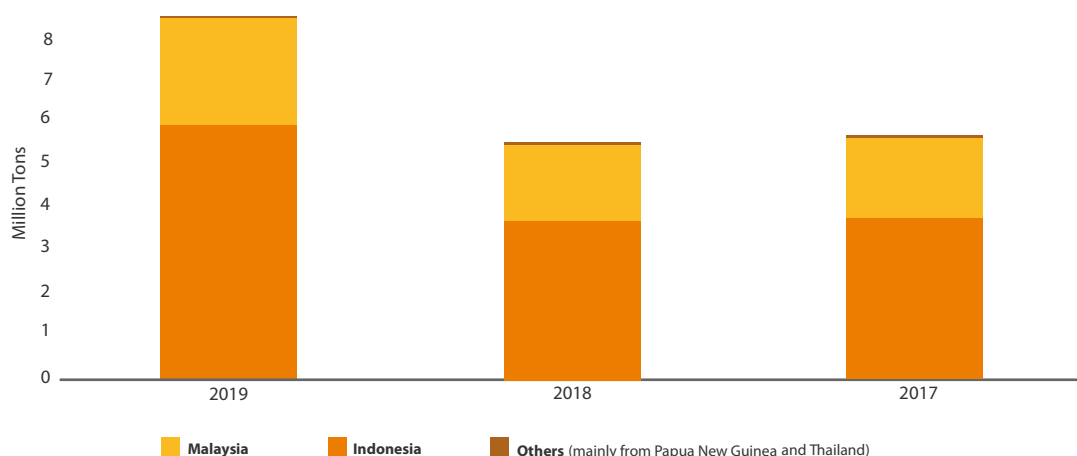
The Palm Oil Toolkit has been developed by Proforest as part of the Good Growth Partnership's Responsible Demand Project, thanks to financial support from the Global Environment Facility (GEF) through World Wide Fund (WWF). We also acknowledge co-funding from Forest Governance, Markets and Climate (FGMC) Programme.



This document is part of the Palm Oil Toolkit ([www.palmoiltoolkit.net](http://www.palmoiltoolkit.net)) and aims to help palm oil buying companies in China to understand the business case for the sourcing of sustainable palm oil and resources needed to address deforestation and other social and environmental risks in their global supply chains.

## China's high dependence on palm oil imports

China is currently the second-largest buyer of palm oil in the world, and may soon overtake India as domestic demand grows. China imports over 7 million tons of palm oil annually<sup>1</sup>, with an import value of about 4.12 billion U.S. dollars. China sources the vast majority of its palm oil and derivatives from Indonesia and Malaysia (see Figure 1), where the expansion of oil palm plantations has led to an annual average loss of 350,000 hectares of forest area between 2001 to 2016.<sup>1</sup> But a report by CDP in 2020 reveals that only around 18% of companies producing and sourcing palm oil globally have an effective and comprehensive policy to ensure sustainable and ethical palm oil supply chains.<sup>2</sup> Therefore, Chinese companies can play a critical role in mitigating and ultimately removing deforestation from palm oil value chains.

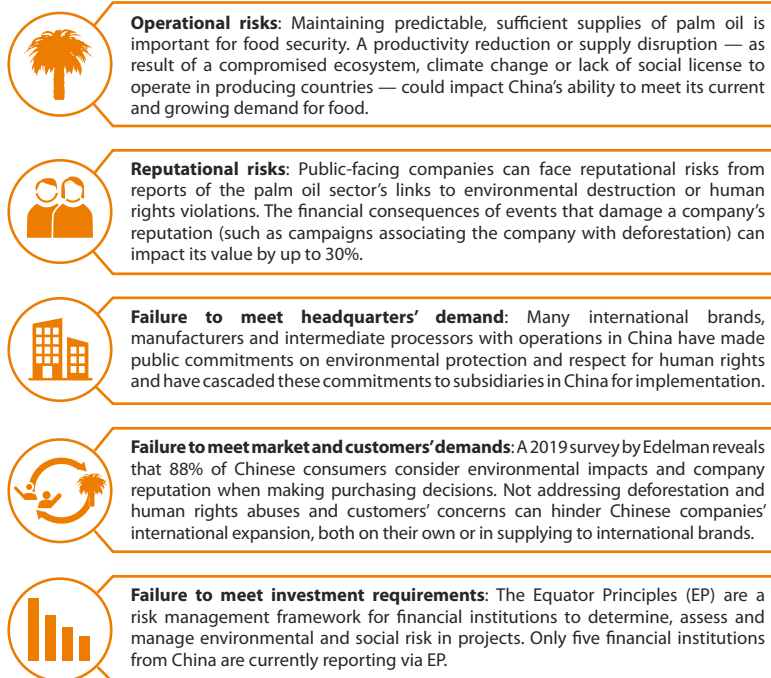


**Figure 1:** China palm oil imports by country of production 2017-2019. (Graph source: GACC)<sup>3</sup>

## Risks for Chinese companies not addressing potential issues in their supply chains

Chinese companies need to address sustainable palm oil sourcing in their supply chains in order to mitigate environmental, social and financial risks. Corporate actors are increasingly urged by investors and financial intuitions to decouple deforestation from the production and sourcing of palm oil. Between 2010 to 2016, Asian international financial institutions have been the main financiers of the palm oil sector, issuing more than USD 15 billion in corporate loans. To date, Chinese banks have provided around USD 3.9 billion in credit to upstream palm oil companies. However, Chinese banks have yet to publish Environmental, Social, and Governance (ESG) risk mitigation policies and standards for their clients in deforestation-risk sectors. These institutions have a strong potential to push for more commitments for sustainable palm oil from new borrowers. In 2020, the Bank of China, the National Development and Reform Commission and the China Securities Regulatory Commission for public consultation jointly published a draft of the updated Directory of Supported Green Bond projects targeting green agricultural commodities certified by the RSPO and other international schemes.

## Reducing risks through sustainable supply of palm oil



**Figure 2:**

An overview of risks for Chinese companies without responsible palm oil sourcing commitments.

For further details on the environmental and social concerns of palm oil production, focusing on Southeast Asia, see: **Briefing Note 02A: Understand the supply chain: main environmental and social risks.**

## Developments in China to promote the responsible sourcing of palm oil

The support of Chinese supply chain actors for a more sustainable palm oil sector would be directly aligned with the UN Sustainable Development Goals (SDGs), specifically SDG 8 (Decent Work and Economic Growth) and SDG 12 (Responsible Consumption and Production). It will also contribute to SDG 13 (Climate Action) as a higher demand for certified palm oil in the Chinese market would generate greater economic incentives for sustainable palm oil in producing regions, with a positive impact on deforestation, loss of biodiversity and GHG emissions.

The uptake of sustainable palm oil is set to increase with the 'Consumption Upgrade Action Plan' and 'Greening Value Chains' programmes launched by China's Ministry of Commerce in collaboration with the Ministry of Ecology and Environment and the Ministry of Agriculture and Rural Development. Moreover, rising income levels, greater awareness among consumers, the establishment of multinational companies with sustainability commitments and highly concentrated trading and retailing sectors create favourable conditions for greater sustainable palm oil development in China.<sup>3</sup>

The consumption of palm oil in China is largely concentrated in the food sector (54%). Yihai Kerry and China National Cereals, Oils and Foodstuffs Corporation (COFCO) dominate the market as the biggest importers and processors of palm oil in China. These traders and processors control 53% of China's edible oil market. Many global brands operating in China have made pledges to use 100% RSPO-certified palm oil in recent years (Table 1). Many of these companies conduct regular engagements with their suppliers, industry players, NGOs and other key stakeholders to promote relevant industry standards and programmes for responsible palm oil sourcing.

**Table 1: Company commitments and progress towards responsibly-sourced palm oil in China.**

Company	Pledge	Year	Progress
<b>DuPont Nutrition and Health Division</b>	100% physical certified RSPO PO. <sup>4</sup>	2025	40% RSPO physical certified and 30% Segregated volumes with limited palm-based volume covered by Book & Claim. <sup>5</sup>
<b>KFC</b>	100% PO used for cooking sourced from trusted and sustainable sources with RSPO certified suppliers prioritised.	2017	Achieved by parent company Yum! Brands in 2019. <sup>6</sup>
<b>McDonald's</b>	100% RSPO PO for its potato and fried chicken products.	2015	100% of globally sourced PO certified by the RSPO in 2021. <sup>7</sup>
	100% RSPO PO for all ingredients.	2020	
<b>Mars Wrigley Confectionery</b>	100% RSPO PO.	2013	Achieved 100% RSPO physical certified. <sup>8</sup>
<b>L'Oréal</b>		2020	Achieved with third-party certification. <sup>9</sup>
<b>Nestlé</b>	Timebound zero-deforestation commitments in place for globally procured palm oil.	2022	97% deforestation-free in 2021. <sup>10</sup>
<b>Procter &amp; Gamble</b>		2020	Achieved with third-party certification. <sup>11</sup>
<b>Unilever</b>		2023	99.6% core volumes of PO and PKO sustainably sourced in 2020. <sup>12</sup>

## Case studies

### China National Cereals, Oils and Foodstuffs Corporation (COFCO)

COFCO is the largest state-owned, globally operating agri-business company involved in trading and refining palm oil for markets in China, with a total credit value of USD 2.65 billion. It has been an RSPO member since 2012 and a key stakeholder of the China Sustainable Palm Oil Alliance (CSPOA). COFCO International and COFCO Donghai, its joint venture, have established a Sustainable Palm Oil Sourcing policy that covers its entire supply chain for palm oil, palm kernel oil and derivatives.<sup>13</sup>

COFCO has also publicly disclosed its Supplier Code of Conduct<sup>14</sup> and published its Sustainable Palm Oil Sourcing Policy Implementation Plan<sup>15</sup> for 2022 to 2023. COFCO has set a target to use 100% certified palm oil by 2025 and is supporting several of its Chinese facilities to receive RSPO-certified palm oil.

## Yihai Kerry

Yihai Kerry Arawana Holdings Co., Ltd is a Chinese agricultural and food product processing company.

In 2021, Yihai Kerry launched their Responsible Palm Oil Sourcing Policy which outlined commitments to meeting NDPE requirements, including the protection of HCV and HCS areas, as well as achieving traceability of palm oil supply. A supplier Code of Conduct was also published outlining expectations for their suppliers to meet environmental requirements and the respect of labour rights.

Currently, over 60% of Yihai Kerry's palm oil volumes are traceable and originate from suppliers that have NDPE commitments in place. The company aims to strengthen efforts to promote traceability and certification of palm oil by increasing supplier engagement in 2022.<sup>16</sup>

## AAK China

AAK is a global Sweden-based company and a leading producer of specialty vegetable oils and fats. AAK has a group-level policy<sup>17</sup> on sustainable palm oil which outlines the selection and approval criteria for their suppliers based on:

- RSPO membership.
- Signing and committing to AAK's Code of Conduct for Suppliers of Raw Materials.<sup>18</sup>
- Data collected through AAK's questionnaire on environmental and social issues.

In 2018, AAK engaged with China's leading companies in the food additives and ingredients industry and RSPO, in an effort to promote the uptake of 10% certified sustainable palm oil by 2020 in the country.<sup>19</sup> AAK is also a member of the China Sustainable Palm Oil Alliance (CSPOA).

## Learn more and help us improve

- The Palm Oil Toolkit provides clear and accessible information on existing and emerging solutions to address key environmental and social issues in the palm oil supply chain. Briefing notes on each of the 5 elements of this approach are available for download in Mandarin and English at: [www.palmoiltoolkit.net](http://www.palmoiltoolkit.net).
- Discover free courses for companies on responsible sourcing and production of palm oil and other agricultural commodities from **Proforest Academy**.
- Updates and case studies on palm oil are presented at major platforms such as the **Roundtable on Sustainable Palm Oil**, **The Palm Oil Collaboration Group** and the **Consumer Goods Forum (CGF) Forest Positive Coalition**.
- For more information or to provide comments, requests, or suggestions, get in touch via [palmoiltoolkit@proforest.net](mailto:palmoiltoolkit@proforest.net).

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