

Follow-on review of the Roundtable on Sustainable Palm Oil 'book-and-claim' system administered by GreenPalm

January 2009

1 Background

In June 2008 Ecofys conducted a review of the Roundtable on Sustainable Palm Oil (RSPO) 'book-and-claim' system administered by GreenPalm. The overall conclusion reached was that the GreenPalm system was considered to be generally credible, although some weaknesses and limitations in transparency were identified.

The recommendation made to the RFA was to approve the use of the GreenPalm system on the condition that the following points were addressed by the end of 2008:

- **3-month balancing up period:** Investigate the feasibility that the GreenPalm system automatically adjusts the Producer's balance, rather than relying on the Producer to do so.
- **Audit process for claimed certificates:** Further details to be made available by GreenPalm with regard to the process and the auditing company selected.
- **Documentation:** Complete operational documentation should be made publicly available that describes how the GreenPalm system works and also how it interacts with the UTZ Certified central database and the RSPO. Particular attention on the responsibilities of each organisation with regard to the audit process should also be addressed.

It was also recommended to the RFA that an additional review should take place at the start of 2009 to review progress the RSPO, GreenPalm and UTZ Certified have made since these recommendations were made to them in the first review of the book-and-claim system in June 2008, giving special attention to the above points. A second review was recommended to take place in November 2009 to specifically assess how the 3-month balancing up process worked in practise for the trading year 2008.

The RFA accepted the above recommendations; relevant documentation relating the GreenPalm review was released in December 2008 as part of the 'Carbon and Sustainability Consultation', further details of which can be found on the RFA's website¹.

¹ Refer to http://www.renewablefuelsagency.org/db/documents/Benchmark_GreenPalm_-_website_version.pdf

2 Review of progress made on the recommendations

2.1 3-month balancing-up period

Background

A weakness identified in the GreenPalm system was that the system placed the onus on the Producer to 'cancel' or 'buy' certificates during the 3-month balancing-up period where the Estimated annual production of sustainable crude palm oil was higher than the Actual annual production (refer to Table 1 for an overview).

Table 1: Possible scenarios open to Producers in the 3-month balancing up period.

Scenario	Estimated production 2008 (t sustainable CPO)	Actual production 2008 (t sustainable CPO)	No. of GreenPalm certificates sold	No. of GreenPalm certificates unsold	Action to be taken (as per original rules)
A. Producer produces less sustainable CPO than is estimated ² . Excess production is not sold.	50,000	40,000	40,000	10,000	Producer needed to reduce the number of registered Greenpalm certificates by cancelling the appropriate number of certificates. by the Producer.
B. Producer produces less sustainable CPO than is estimated ² . Excess production is sold.	50,000	40,000	50,000	0	Producer needs to buy through the trading platform GreenPalm Certificates equal to the shortfall for cancellation.

² Any sustainable CPO sold via other approved schemes (i.e. through UTZ Certified) is deducted from the total RSPO verified production estimate.

It was suggested that a more robust approach would be that the GreenPalm system automatically adjusted the Producer's balance at the end of the 3-month period should the Producer fail to do so, rather than relying on the Producer to do so. GreenPalm was tasked to investigate the feasibility of this.

Update

- **Producer produces less sustainable CPO than is estimated. Excess production is not sold (Scenario A):** The GreenPalm Membership Rules (GreenPalm, 2008) have been updated. The GreenPalm system will now automatically cancel on March 31st any unsold certificates relating to the excess production from the previous calendar year, if the Producer has not already done so. (Refer to Membership Rules 3.8 and 3.11.)
- **Producer produces less sustainable CPO than is estimated. Excess production is sold (Scenario B):** GreenPalm do not consider it practical for the system to automatically force Producer's to buy certificate shortfalls³. GreenPalm will instead assess the Producer's Self-Declaration⁴ and then work with any Producers identified as having a shortfall to buy the relevant number of certificates⁵. GreenPalm reserves the right to suspend any Producers who fail to cover their shortfall. If no GreenPalm certificates are available to buy for that calendar year, then the GreenPalm system will cancel an appropriate number of certificates for the Producer's next calendar year balance to compensate. (Refer to Membership Rules 3.9, 3.10 and 5.14.)

Further details can be found in Appendix A, which provides details of the relevant Membership Rules text.

2.2 Audit process

Background

GreenPalm has the right to conduct random independent audits of End-users who redeem and make claims on GreenPalm certificates. At the time of the original review, GreenPalm was not able to provide specific details of the audit process, such as the number of certificates or End-users audited, and which companies had been selected to perform these audits. The 2008 review therefore recommended to further investigate this.

³ The GreenPalm system works by electronically matching available 'bids' and 'offers'.

⁴ Membership Rule 5.14 requires Producers to submit a 'self-declaration' to GreenPalm that the total registered and sold sustainable crude palm (and kernel) through all RSPO approved schemes in that year does not exceed RSPO verified production.

⁵ The RSPO will also be informed of any volume discrepancies.

Update

- **Number of certificates audited:** GreenPalm proposes to audit a minimum of 10% of the End-users who have made certificate claims annually⁶. Audits will be conducted using a random basis (unless there is specific reason to investigate any particular End-User). This proposal is up for approval by the RSPO Executive Board.
- **Audit companies:** GreenPalm initially explored the option of selecting an auditing company. However this was not followed through as the RSPO subsequently instructed GreenPalm that it would select the auditors to ensure that the same companies are responsible for auditing all of the RSPO's approved Chain of Custody systems. The RSPO 'Trade and Traceability' Working Group is responsible for this selection, but as yet no decision has been announced⁷.

The RSPO's 'Supply Chain Certification Systems' document (RSPO, 2008) released in October 2008 provides further information on the auditing process for all Chain of Custody options. This document covers the accreditation of Certification Bodies, auditor competency (including minimum auditor qualifications) and the audit process. Furthermore, the document highlights the relevant international standards⁸ that Certification Bodies and auditing companies have to work to. This provides the RFA with a high level of assurance that the auditing companies will be well qualified to conduct the audits.

2.3 Documentation

Background

Information on the GreenPalm book-and-claim system available in June 2008 (e.g. the GreenPalm Membership rules, an on-line demonstration tool of the GreenPalm program and various flow diagrams describing how to trade) was contained in a number of separate areas on the GreenPalm website which made it more difficult to have a comprehensive understanding of the workings of the system. In addition, the interaction with the UTZ Certified system, which is important in avoiding double counting, was not documented clearly. It was recommended that an over-arching document (using non-technical language) be drafted to provide a simplified overview of the GreenPalm program. The document was also required to highlight the responsibilities of the RSPO and UTZ Certified and the audit process.

The recommendation also extended to the RSPO and UTZ Certified, particularly as the level of information contained on their respective websites was very limited in both scope and content.

⁶ As of January 2009, GreenPalm certificate claims for 2008 amounted to less than 1,000 certificates (i.e. tonnes of sustainable palm oil) and these all related to a single non-biofuel company.

⁷ Bob Norman (GreenPalm general manager) confirmed that should the RSPO fail to appoint auditors in time for the 2008 audits then GreenPalm would nominate independent auditors as an interim measure.

⁸ These include ISO Guide 65:1996, ISO 17021:2006 and ISO 19011:2002.

2.3.1 GreenPalm

GreenPalm tasked a 3rd party to prepare a document providing an overview of its book-and-claim program and how it interacts with the RSPO and UTZ Certified. This eight page document includes the following information:

- **The History:** Overview of palm oil, environmental impact of palm oil, The RSPO and its Principles and Criteria, GreenPalm and the RSPO – including supply chains system and specifically 'book-and-claim', Purchasing GreenPalm certificates
- **The benefits:** Benefits of the book-and-claim system, End user claims
- **How it works:** Step-by-step guide – audit, registration in GreenPalm, trading, Donations and broker's fee
- **Credibility:** Use of RSPO auditors only, Central database⁹, Rules of membership

The draft document was reviewed by Ecofys and was found to properly address the information concerns raised in the original GreenPalm review. The document is due to be publicly available on GreenPalm's website in February 2009.

2.3.2 UTZ Certified

The UTZ Certified Palm Oil section of the website has been expanded significantly¹⁰. It now includes a more detailed overview of UTZ Certified and its role in the context of the RSPO, an on-line demo of the mass balance system as well as 'download' resource section. The most relevant documents available on-line include:

- **Traceability system guide (presentation):** Overview of the supply chain options (focusing on traceability), UTZ Certified's role and the central database, link to GreenPalm and book-and-claim (see Appendix B).
- **RSPO Traceability Glossary:** RSPO factsheets on the different traceability options for palm oil (including book-and-claim).
- **Quick Start trading guide:** Short memo outlining how to trade.

2.3.3 RSPO

In September 2008, the RSPO prepared 1-page factsheets on each of the Chain of Custody options approved for use in the RSPO, including Book-and-claim¹¹. As well as providing an overview of each option (with diagrams) the factsheets also highlight the benefits and limitations of each supply chain method with respect to the level of traceability, level of claim and implementation costs. Reference to both GreenPalm and UTZ Certified are made. (These factsheets are available on UTZ Certified's

⁹ It should be noted that the document does not explicitly name UTZ Certified as managing the Central Database.

¹⁰ Information was previously restricted to a brief overview of UTZ Certified and an on-line demo of the mass balance system.

¹¹ The RPSO has approved four Chain of Custody (termed supply chain) options: Mass balance, Segregation, Identity preserved and Book-and-claim. In January 2009, only the Mass balance and Book-and-claim Chain of Custody options were operational.

website, as highlighted above, and included as annexes in the RSPO Supply Chain Certification Systems document.)

As indicated in section 2.2, the RSPO's Supply Chain Certification Systems document provides further details on the audit process for all Chain of Custody options.

3 Conclusion and recommendations for further action

This review confirms that GreenPalm has made good progress in meeting the recommendations made to it in June 2008. To summarise:

- **3-month balancing up period:** 1. GreenPalm has amended its Membership Rules. The GreenPalm system will now automatically cancel on March 31st any unsold certificates relating to the excess production from the previous calendar year, if the Producer has not already done so. 2. GreenPalm will work with Producers to correct any shortfalls identified in the Producer's Self-Declaration. Should the Producer not be able to correct its shortfall due to a lack unavailable certificates, then an equal number of certificates will be cancelled from the Producer's next calendar year balance to compensate. It is recommended that these points be further reviewed in November 2009.
- **Audit process for claimed certificates:** The proposed minimum target of auditing 10% of the End-user Claims annually is considered to be a credible sample level. With regard to progress on selecting an auditing company, it is acknowledged that the decision now rests with the RSPO. It is therefore recommended that these points be further reviewed in November 2009.
- **Documentation:** The level of documentation provided by GreenPalm, UTZ Certified and the RSPO is extensive, covering all relevant issues. No further action is required other than to check that the GreenPalm operational document is published on GreenPalm's website in February 2009.

On the basis of the above, it is recommended to the RFA that the GreenPalm system continues to be approved for use in the RTFO.

Appendix A GreenPalm update of the Membership Rules

3. The GreenPalm Programme

3.8 If in any calendar year a Producer produces less RSPO verified sustainable CPO or CPKO (after deducting CPO or CPKO, as applicable, sold via other RSPO approved schemes) than the quantity for which GreenPalm Certificates relating to that calendar year have been registered by that Producer, GreenPalm¹² will reduce the number of registered GreenPalm Certificates to the produced net volume of RSPO verified sustainable CPO or CPKO, as applicable, by cancelling the appropriate number of certificates, as soon as becoming aware of the shortfall and in any event within three months of the end of the calendar year.

3.9 If in any calendar year a Producer produces less RSPO verified sustainable CPO or CPKO (after deducting CPO or CPKO, as applicable, sold via other RSPO approved schemes) than the quantity for which GreenPalm Certificates relating to that calendar year have been sold by that Producer, not later than three months after the end of that calendar year the Producer will buy through the Website and cancel GreenPalm Certificates equal to the shortfall.

3.10 If a Producer does not buy and cancel GreenPalm Certificates equal to the shortfall not later than three months after the end of the relevant calendar year in accordance with rule 3.9, in the following calendar year and thereafter, as necessary, GreenPalm will cancel a number of GreenPalm Certificates registered by the Producer equal to the shortfall.

3.11 On 31 March in each calendar year GreenPalm will cancel all GreenPalm Certificates registered by Producers in respect of the preceding calendar year which have not been sold.

3.12 Where the Producer or GreenPalm cancels GreenPalm Certificates in accordance with rule 3.8, 3.10 or 3.11, any Offer to Sell in respect of such GreenPalm Certificates shall be removed from the Website.

3.13 For the avoidance of doubt, any shortfall relating to CPO or CPKO must be made good by the purchase or cancellation of GreenPalm Certificates relating to CPO or CPKO, as applicable, and cannot be made good by any excess production of or the purchase or cancellation of GreenPalm Certificates relating to any other type of oil.

5. Producers

5.1.4 within three months after the end of each calendar year to provide to GreenPalm details of the volume of RSPO verified sustainable CPO or CPKO produced by that Producer during that calendar year and to make a declaration to GreenPalm that the total of registered GreenPalm Certificates relating to that calendar year and sales of CPO or CPKO by the Producer during that calendar year through other RSPO approved

¹² The previous Membership Rules referred to the 'Producer'.

schemes for the support or promotion of sustainable CPO or CPKO production do not exceed the volume of RSPO verified sustainable CPO or CPKO produced by the Producer during that calendar year;

Appendix B UTZ Central Database

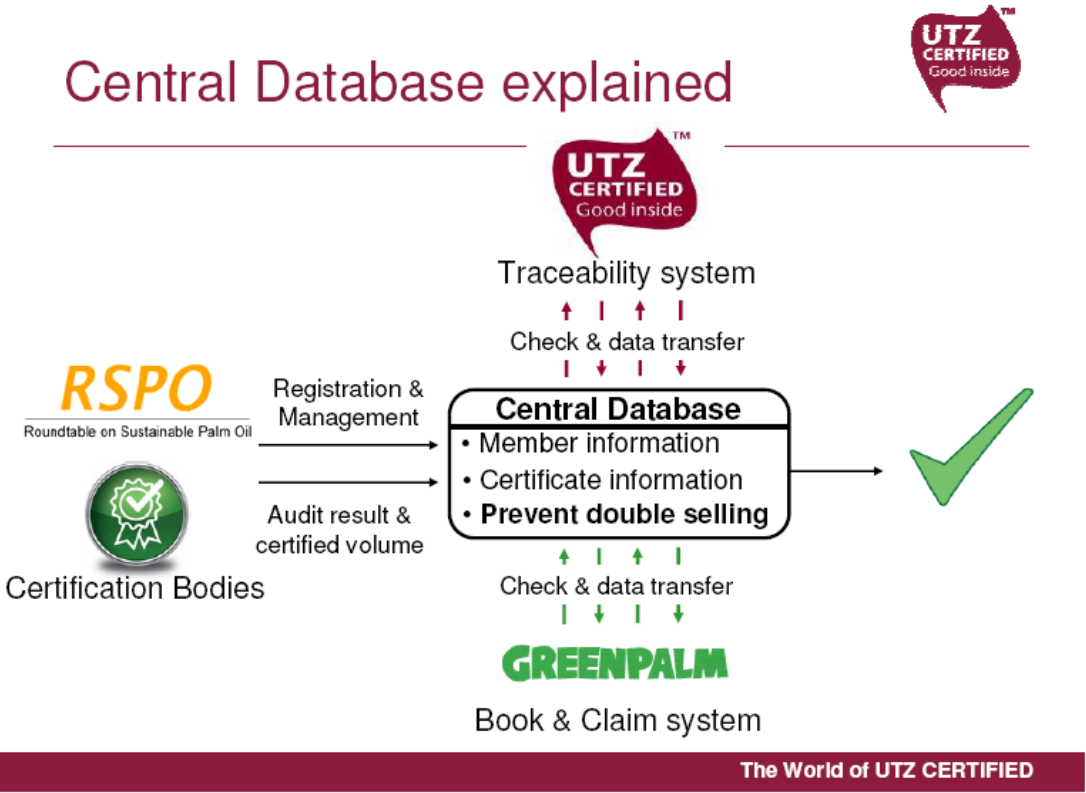


Figure B1: Overview of the Central Database managed by UTZ Certified and how it interacts with the GreenPalm book-and-claim system.

Appendix C References

GreenPalm (2008) The GreenPalm Programme Membership Rules. Available at:
http://www.greenpalm.org/files/membership_rules.pdf

GreenPalm (2009) GreenPalm – A fresh approach to sustainability. Available at:
www.greenpalm.org (expected February 2008)

UTZ Certified (2008). Fact sheet Supply Chain Options, Book and Claim, Version 1.1 – September 24, 2008. Available at:
http://www.utzcertified.org/index.php?pageID=225&showdoc=225_1_32

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http://www.rspo.org/resource_centre/RSPO%20Supply%20Chain%20Certification%20Systems.pdf