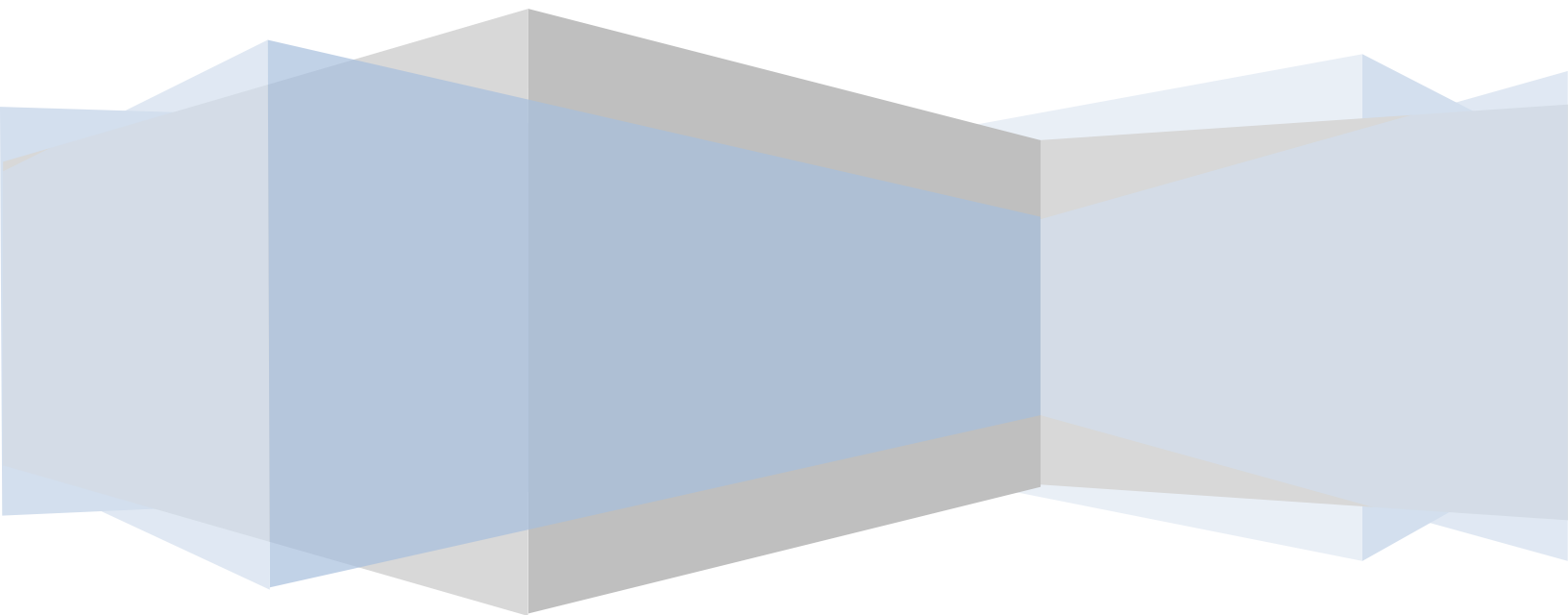


# Strategic Procurement

*Sustainable Procurement of Palm Oil from South-East Asia and its Uses in FMCG's*



**Contents**

- 1. COMPARATIVE REVIEW OF RESEARCH: ..... 1
  - a) Methodology used for research: ..... 2
  - b) Literature Survey:..... 3
  - c) Findings and Conclusion: ..... 3
- 2. RECOMMENDATIONS: ..... 4
- REEFERENCE..... 4

## **1. COMPARATIVE REVIEW OF RESEARCH:**

Palm oil is the most thriving issue of the South-East Asian Countries who supply around 85% of the global production of palm oil. The palm oil has been increasingly used in the range of foods, fuel, cosmetics and cleaning products. In this respect, procurement is acquiring the goods and services from an external source. In the process of procurement quality, quantity, time and location are the important factors that must be considered by the procurer. The top producers of palm oil are Indonesia and Malaysia which receives around US\$40 billion. The procurement process is the crucial aspect of the palm oil so it is necessary that the manufacturers must abide by the sustainable procurement strategies in order to facilitate the systematic approach to the certified sustainable palm oil (CSPO) and communicating with the parties of the supply chain like the traders, processors and refineries etc. In this case the downstream stakeholders like the retailers also have the procurement policies which must be known by the manufacturers. The complex supply chains can be managed by the fundamental step of clear communication which will help to improve the transparency. (Brack, D., 2013).

The article from the Sustainable Palm Oil Platform has stated that the Zoological Society of London had initiated a palm oil procurement strategy which is applicable for the retail and the service sectors. Based on the 6<sup>th</sup> Palm Oil ASIA Summit, there was no much hype on the issue of the sustainable procurement of the palm oil. An article by the World Wide Fund for Nature (WWF), the recent happenings in this field reveals that by 2020 there will be an expansion in the palm oil production which is expected to be almost double the amount, mainly because the population of the world is increasing. Also there is an increased demand for palm oil in the emerging countries like India and China. The thriving issue of the palm oil is the land clearing method of the palm oil plantations that has increased deforestation in Indonesia and Malaysia which has caused many species like rhinos, elephants, orang-utans and the tigers on the verge of extinction. A research report by the Department for Environment, Food and Rural Affairs (Defra) have formulated a review policy on the sustainable procurement of the palm oil. (Schouten, G., and Glasbergen, P., 2011).

### **a) Methodology used for research:**

The research was commenced through the articles and the journal articles. On one instance, the article published by the sustainable palm oil platform was used to determine the sustainable procurement of the palm oil. The article based on the 6<sup>th</sup> Palm Oil ASIA Summit was highlighted and used because much attention has not been paid on the procurement of the palm oil in the discussion. The Recent Issues of the palm oil procurement was stressed on by the journal article by the WWF that depicted the issue of over expansion in the production of the palm oil. Then the article by Defra emphasize on the other impact of the palm oil production which is the deforestation and the cause of the extinction of rare species in Indonesia and Malaysia. (Upham, P., Thornley, P., Tomei, J., and Boucher, P., 2009)

Search Engines like Google, Bing, Yahoo etc. were used to acquire information about the palm oil production, procurement and challenges in the South-East Asia which highlighted the issue of the palm oil over the years. Companies like Unilever, Pepsico are continuously making strategies towards their Corporate Social Responsibility (CSR) so that the supply chain management of their company is improved and the palm oil procurement strategies are sustainable. The search engines also helped to acquire recent and latest news regarding the palm oil controversy.

Globally, the use of the palm oil has increased alarmingly with its heavy uses in the processed food, cosmetics and household cleaners. The issue came to notice when the production of the palm oil massively hampered the ecological imbalances, it is when the World Bank, disrupted the funding of the palm oil projects. Then, came the Roundtable on Sustainable Palm Oil (RSPO) which ensures the approved method of operation by the companies. (Jayed, M. H., Masjuki, H. H., Saidur, R., Kalam, M. A., and Jahirul, M. I., 2009).

### **b) Literature Survey:**

The survey on the environmental impacts of the palm oil production has been a serious problem in South East Asia. The increase in the demand for palm oil over the coming years has instilled in the minds of the South East Asians that the production of the palm oil must be increased. In this case Indonesia and Malaysia are the two top

producers of the palm oil which initiated steps to increase and expand the oil palm plantation by utilizing the method of land clearance. The Malaysian and Singaporean government has expressed concern on the effect of haze from the forest fires that has been a result of the land clearance due to the expansion in the palm oil plantation. (Forest Peoples Programme (FPP)(Moreton-in-Marsh),2007) Thus, there has been careless development in the palm oil which includes deforestation, drying of peat swamps, pollution, altering climate, dispossessing Indigenous peoples and harming of the rural poor. (Nellemann, C. (Ed.), 2007). Apart from the problem of environmental concern, there is this big concern on wiping out of the endangered species. One such case is the orangutans who are on the verge of extinction. The wildlife has also been harmed by the procurement process of palm oil. The deforestation and the land clearance have posed a serious threat on the endangered species like the orangutans. (Tan, K. T., Lee, K. T., Mohamed, A. R., and Bhatia, S., 2009).

### **c) Findings and Conclusion:**

The demand for the palm oil has been increasing continuously and is predicted to increase and expand by the year 2020. This study reveals the process of procurement of palm oil from South East Asian countries like Indonesia and Malaysia has posed a serious social environmental threat. The expansion in the plantation of the palm oil has resulted in the land clearance and the deforestation that has caused several ecological imbalances within the countries. Apart from the environmental concerning the indigenous communities as well as the rural poor of these countries are also hampered through the procurement techniques of palm oil.

## **2. RECOMMENDATIONS:**

Unilever initiated the certified sustainable palm oil and introduced it in its supply chain. This ensured that Unilever supports the halt to deforestation and extracts palm oil supply through sustainable measures. It is recommended for the company to ensure that the

suppliers of palm oil are sanctioned carefully who do not source palm oil under unlawful terms and who do not support deforestation.

Pepsico also introduced a new palm oil sourcing commitment in order to ensure that the company maintains the sustainable procurement of the palm oil. This would help to reduce the deforestation and the effect of the global warming would be dampened. But this commitment lacked explicit efforts to trace the source of the palm oil. So the company must develop a committee who would monitor the procurement process and ensure that the sourcing of the palm oil must be done free of deforestation. (Butler, R. A., 2007).

Simplot Australia abides by the certification of the RSPO and ensures that the suppliers of palm oil must commence the sourcing without unlawful means. The company puts efforts in substituting more sustainable oils for the palm oils so that the rainforest resources and the biodiversity is not lost which could have otherwise damaged the habitats of the orangutans. It is recommended that the company must improve the research and monitoring of the inflows of the palm oil in Australia and the process by which it changes with the change in the environment. Thus, it is recommended to all potential companies to maintain the sustainable procurement of the palm oil. (Food, A., and Council, G., 2008).

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