

Wetlands International
Input to World Bank Group Palm Oil Strategy Consultations
7 June, 2010

Question 1: From your perspective, what are the 5 most important aspects that must be covered by IFC (International Finance Corporation) and the World Bank in their new strategy for engagement and investment in the palm oil sector? Please provide the reasons for your selection.

1.1 No support should be provided to production or sourcing of palm oil grown on peat

The IFC/ World Bank strategy should clearly exclude investment in new plantation operations on peat. Additionally, for investments further along the palm oil supply chain, the IFC/ World Bank strategy should include safeguards to ensure that no palm oil is being sourced from plantations on peatlands.

A moratorium on expansion of oil palm on peat and forested areas will be a positive incentive mechanism for enhancing efficiency and quality measures.

The strategy should explicitly recognize that peat soil is found across land uses, including agricultural land, tropical peat swamp forests and marginal/degraded land.

Emerging biofuels regulations and voluntary sustainability standards often include reference to “degraded or marginal land” and its suitability for growing biofuels feedstock. A new methodology to promote biodiesel production has been developed under the Clean Development Mechanism. Depending on the definition of degraded or marginal land used, there is the risk that deforested peat areas could be considered “marginal lands” and suitable for growing biofuel crops. Given the unique characteristics of peat areas, even if a peat area meets other criteria for degraded or marginal land, it should not be used for oil palm because of the risk of extreme and prolonged CO₂ emissions from soil carbon oxidation.

In Southeast Asia all lowland peatland areas are naturally forested with an average canopy height of 40 meters and emergent trees of up to 50 meters. Their conversion to oil palm plantations causes emissions from deforestation. However, more importantly, the peat soil itself constitutes a significant and generally even larger carbon stock than the above ground stock in the forest cover. While the organic carbon in waterlogged peatlands is maintained due to the anaerobic circumstances, drainage exposes the organic carbon to the air. This causes a process of organic decomposition and oxidation of the organic carbon resulting in high CO₂ emissions.

Oil palms will not produce and cannot survive in undrained waterlogged peatlands. Minimal drainage for oil palm growth in peatlands is around 60 to 80cm, but generally drainage is much deeper and can reach several meters, especially if no water control structures are used.

The impact on emissions once peat swamp forests are turned into plantations is enormous and continuous for as long as the drainage continues. In most cases, and as a conservative estimate, the relationship between drainage level and the peat subsidence rate is almost linear and yields an emission of 9t/ha/yr CO₂ for each 10cm of additional drainage up to a depth of 50cm when subsidence may level off. Scientific data on emissions from areas with deeper drainage is limited. In some areas it seems to remain constant at around 45t/ha/yr, but in other studies much higher emissions have been found of up to 90 tonnes/ha per annum at one meter drainage (for additional data and references please see the paper at www.wetlands.org/peatpalmoilpaper).

In other words: emissions due to this land use change and land use, related to the increasing global demand for oils, are enormous, regardless of whether the plantations have been developed in virgin forests, secondary forests or degraded/marginal lands.

1.2 Recognition that existing government regulations do not adequately protect peat areas

In major producer countries, existing government regulations do not adequately protect peat areas. For example, in the new Indonesian national spatial plan many forest and peat areas have been designated for conversion to plantations. In the coming years many existing but still undeveloped concessions will become effective and many new concessions will be allocated. As of 2006, forestry and plantations licenses on peat totaled some 5.6 million ha.

Land under cultivation of oil palm in Indonesia increased from 5.9 million ha in 2007, to 6.5 million ha in 2008, and 7.2 million ha in 2009. Current plans are to double Indonesia's output of palm oil by 2020, to 40.5 million tonnes. This will be achieved through a combination of increasing average yields and expanding the land area under plantation.

Until recently "deep peat" (more than three meters) was protected by Indonesian law and could officially not be developed. However, a [recent Indonesian ministerial decree \(February 2009\)](#) has ended this protection measure by requiring only 70% of a concession to be on shallow peat. As such, it opened up the possibility for conversion of any Indonesian peatlands, except those that are part of the Indonesian legal protected area system (less than 5% of all Indonesian peatlands are protected). [The decree](#) is estimated to bear relevance for 2.8 million ha of peat areas that now may be converted legally to oil palm plantations.

The newly announced decision of the Indonesian government to suspend any conversion of peatlands into other land uses, including palm oil plantation, is a positive step for the sustainable management of the country's peatlands and the global climate. However, as the decision is only for two years (2011 – 2013), and only comes into effect in January 2011, effort is required to ensure that the decision will have a long-term impact. The IFC/World Bank could play a role by encouraging the government to adopt a no-support policy for opening new plantations on peatlands beyond 2013.

The IFC/WB strategy should support the Indonesian government in granting more Ecosystem Restoration permits for healthy and degraded peatlands that still have the potential to be restored, especially in areas with rich biodiversity potential.

In Malaysia there is a strong drive for peatland conversion, particularly in Sarawak. Many areas are first deforested under forestry regulations and only then handed over to the Ministry of Plantation Industries, enabling the latter to maintain in their international campaigns that they only use degraded areas. There are many instances where Malaysia's green belt policies are not implemented. There is a continued lack of transparency of plans and insufficient environmental impact assessment procedures.

1.3 Assessment of the long term economic viability of plantations on peatlands

The viability of plantations on peat is affected by subsidence in the short and long term. Over the long-term, the peat soil under oil palm plantations may subside to levels where flood risks will be too high and drainage will be impaired, rendering the land unproductive for future generations. Additionally there is a risk that a significant number of oil palms planted on deep peat will start to lean, which significantly reduces the productivity of plantations on peat.

1.4 Land tenure status must be clear and community land must not be claimed without free, prior and informed consent.

Huge tracts of peatlands and other wetlands in South-east Asia have been allocated for oil palm plantation developments, including extensive areas in Sumatra and Kalimantan, and recently 1.5 million hectares in Papua. The Indonesian government lacks the mechanisms to ensure prior, free and informed consent and traditional land claims are often ignored. In Malaysia and especially in Sarawak, large scale plantation developments are conflicting with traditional land claims of local tribal Dayak communities. Increased erosion as a result of deforestation and plantation developments is impacting on traditional fishing resources.

1.5 Support to moving plantations off peat areas

The IFC/World Bank strategy should consider support to incentive mechanisms that direct development of plantations to degraded areas on mineral soil, and away from peatland areas. In addition, the IFC/World Bank should consider ways to encourage existing plantations on peat to move to degraded areas on mineral soils.

There should be a focus on improving the efficiency of existing plantations on mineral soils, and the expansion of sustainable smallholder activities on mineral soils, rather than expansion of oil palm plantations. Most, if not all, of current market demands can be achieved through improved efficiency.

Question 2: Should the WBG continue to invest in the palm oil sector, or should it withdraw until the major environmental and social issues are resolved? If WBG continues to invest in the sector, what would be appropriate pre-conditions for an investment in a particular country?

The WBG should defer any investment in the palm oil sector until the sector and the producing countries have resolved the major environmental and socio-economic issues. This should include the agreement on a GHG emissions criterion under the RSPO, as well as off-site impacts of drainage, infrastructure and Indirect Land Use Change (ILUC). As long as these issues are not appropriately addressed, any investment in oil palm development may lead to increased pressure and impacts on remaining forests and peatlands.