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-Neha SIMLAI

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Neha SIMLAI
IDH The Sustainable Trade
Initiative
India

Responsibly sourcing, palm oil trade and India: A wheel of change for the circular economy

Estimates regarding our planet's ecological footprint reveal that, currently, it takes nearly 1.7 times ¹ the available resources in our planet to meet the demands of the 7.9 billion people living on Earth. The "Earth Overshoot Day" marks the date when humanity's demand for ecological resources and services in a given year exceeds what Earth can regenerate in that year; in 2021, that date was July 29.

With an estimated population of approximately 1.4 billion, India is responsible for 6% of the global resource demand.² While India's ecological footprint is relatively low, its bio capacity is even lower, leading to a large deficit. India's ecological footprint per capita is 1.19 global hectares (gha),³ whilst its bio-capacity per capita is estimated at 0.43 gha. India's total ecological deficit ⁴ is estimated to be more than -1 billion global hectares.

As geopolitics takes shape against the backdrop of the destabilizing effects of the combined COVID-19 pandemic and Russia-Ukraine crisis – with commodity prices increases and impending shifts in supply chains – another crisis is emerging: a growing gap in the demand and supply of India's natural resources.

This ongoing crisis of an ever-increasing ecological footprint, is typified in the case of palm oil. Palm oil is used by most Indians on a daily basis in products from toothpaste, soap and moisturizers to ice cream, milk powder and bakery products; margarine and loose edible oil (Vanaspati) are used in an array of Indian savories. Additionally, it is estimated that 50% of consumer products,⁵ including make-up, hygiene products and household foods, contain palm oil. Palm oil in India ⁶ is also largely used for cooking purposes by businesses and individuals (75%), and by the processed food industry (17%).

India remains influential in the global supply chains for palm oil,⁷ and the main driver of regional trade flows, being the largest importer and the second-largest consumer.⁸ The country imports ~16% of the global palm oil imports (largely from Indonesia and Malaysia) and consumes around ~12% of the total global production.

However, the issue is not one simply of demand and supply. In India, and across most of the developing world in Africa, Latin America and Asia, food security, trade relations, and increasing self-sufficiency heavily shape the national govern-

mental priorities and the agenda on trade in general – particularly on palm oil – especially as the Russia-Ukraine crisis plays out.

The Government of India recently launched the national mission to boost domestic production,⁹ and thereby reduce import dependence, to keep palm oil prices low and save foreign exchange. While domestic production is expected to triple over the next five years (~1.1 MMT by 2026), independent studies reveal that India is likely to continue depending on imports ¹⁰ to meet >80% of its demand, even if the current consumption levels are maintained.

In this context, India continues also to shape the regional trade balance and the potential intersections with Forest-Positive Commodity Supply Chains, ensuring a substantial political capital. Through independent representations by CSOs, key government departments are now being convened to better articulate the need for a level playing field in the responsible sourcing of key commodities like palm oil. Given India's commitments to the Sustainable Development Goals and its strong statements at Glasgow in 2021 (COP26), palm oil could be the filament of the import-consumption-responsible sourcing-stewardship conundrum. New research details the complexity of global value chains, India's demand and a possible solution to global deforestation risk.

In an effort to maintain economic and social growth, Indian businesses and the government are already exploring invest-

ment potential in areas of increased food system productivity. Predominantly, the focus is on the palm oil area expansion and resource-efficient production under an “in India, for India” narrative. Significantly different from the work being done in other parts of the world, India is only beginning to identify and address the multiple social, environmental and economic challenges associated with palm oil imports.¹¹

In contrast, the European Commission's decision to phase out palm oil in biodiesel by 2030 helped Europe leapfrog its drive towards sustainability in its palm oil trade with a focus on oleochemicals. This, in turn, had far reaching effects in Indonesia and Malaysia, changing production practices in plantations and getting 86% of European palm oil use to being sustainable as of 2020. But does the EU's use of sustainable palm oil halt global deforestation? Perhaps not. The thrust of the problem lies in the fact that despite the environmental challenges associated with it, palm oil continues to sustain much of the developing world, including India.

EU's Green taxonomy regulation was approved in April 2021 by the European Commission and provides companies with a list of compliance guidelines and threshold related to environmental activities. Companies need to adhere to these guidelines for their activities to be considered sustainable and are required to report against the framework under the Corporate Sustainability Reporting Directive (CSRD). These regulations are not just applicable to UK/EU-based businesses, but impact their overseas value chains as well.

India has, until now, remained conservative on any major (policy or market) action that could limit the deforestation risk in its palm oil imports. This remains a crucial game-changer in setting the regional sustainability agenda. Even if India were to make a significant shift in edible oils, crude palm oil would still remain an important stock of biodiesel and will likely continue finding global buyers, considering its prices. As a result, this, implies that global deforestation risk will continue to rise.

At the COP26 summit in Glasgow in November,¹² Prime Minister Narendra Modi pledged to cut India's total projected carbon emission by 1 billion tons by 2030, reduce the carbon intensity of the nation's economy to less than 45% by the end of the decade and achieve net-zero carbon emissions by 2070. India's Finance Minister, Nirmala Sitharaman mentioned in her budget speech for 2022, "The Circular Economy transition is expected to help in productivity enhancement as well as creating large opportunities This will be supported by active public policies covering regulations, extended producers' responsibilities framework and innovation facilitation."

From a policy perspective, 2022 might be a year of great significance for climate disclosure in India as the Securities and Exchange Board of India (SEBI) introduces mandatory climate disclosure under the new Business Responsibility and Sustainability Report (BRSR) disclosure norms.

In the broader context, some groups have been advocating a shift away from palm oil. It appears that this approach is not feasible, since removing palm oil across product lines could result in agricultural expansion of other commodities in other areas or a shift to other products that may come with other trade-offs. More importantly, a shift away from palm oil production may discourage the efforts of global companies, that have made public commitments on responsible sourcing and are already in the process of improving their value chains. This will also take a toll on India.

A larger uptake of sustainably produced and responsibly sourced palm oil in India will create benefits of scale in producer countries as well, thereby serving global circularity and reducing sourcing costs. Increased demand will also create economic incentives for palm oil producers to delink deforestation from their production and apply good agricultural practices.

Today, India has the option and the opportunity to play a role in addressing the emerging global climate risks and providing energy and nutritional access to communities by (a) increasing its overall uptake of responsibly sourced imports, (b) consciously planning domestic production and (c) reusing waste for energy generation. The leadership role is ours for the taking.

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