



July 2024

Overview of impact of the EUDR on RSPO Independent Smallholders

GAP AND IMPACT ANALYSIS

Final Version



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Acronym list

CGM	Consumer Good Manufacturers (Companies)
EU	European Union
EUDR	European Union Deforestation Regulation
FAO	Food and Agriculture Organization
FAQ	Frequently Asked Questions
FFB	Fresh Fruit Bunches
FPIC	Free Prior and Informed Consent
FSC	Forest Stewardship Council
GM	Group Manager
GNSS	Global Navigation Satellite System
GPSNR	Global Platform for Sustainable Natural Rubber
ha	Hectares
HCS	High Carbon Stock
HCV	High Conservation Values
IS-Credits	Independent Smallholder Credits
ISEAL	International Social & Environmental Accreditation & Labelling
ISH	Independent smallholder
ISO	International Organisation for Standardization
ITC	International Trade Center
MSPO	Malaysian Sustainable Palm Oil
MVO	The Netherlands Oil and Fats industry
NGO	Non-Governmental Organisations
OSH	Occupational safety and health
P&C	Principles and Criteria
PRISMA	P alm R esource I nformation and S ustainability M anagement
RaCP	Remediation and Compensation Procedure
RSPO	Roundtable for Sustainable Palm Oil
UNGPs	United Nations Guiding Principles on Business and Human Rights
USD	United States Dollars
VSS	Voluntary Sustainability Standard

Executive Summary

In June 2023 a new law was adopted by the EU to ensure that from 31 December 2020 no deforestation has taken place on production sites for oil palm, cocoa, coffee, beef, soya and other forest risk commodities entering the market. The EU Deforestation Regulation (EUDR) will come into effect 2024. While the intention of this Regulation is to address the global challenges of deforestation from agricultural commodity production and aims to bring responsibility to buyers and importers of these products within the European Union boundaries for enhanced due diligence checks, the EUDR brings the risk that non-certified independent smallholder farmers especially will be excluded from EU imports, as they may struggle to demonstrate compliance with the regulation. In particular, the Regulation may inadvertently encourage downstream companies to prioritise the sourcing for EU imports from low-risk supply chains or at least from areas where there is a low risk of deforestation, and where, in some cases, deforestation had already taken place before the 2020 cut-off.

The current study, commissioned by the RSPO, explores the likely impact of this Regulation on the independent smallholders (ISH) certified under the RSPO ISH Standard.

The study explores opportunities and gaps of the RSPO ISH Standard as well as other RSPO supporting mechanisms, including the RSPO Smallholder Support Fund, RSPO Smallholder Trainer Academy, the new RSPO traceability platform PRISMA and more recently, Shared Responsibility Requirements for non-grower members.

As part of RSPO five-year review cycle of its standards, a revision is ongoing to update and strengthen the RSPO ISH Standard and the intention is that the results/findings of this study will feed into it.

General findings of the study show that while 1) current certified ISH are in a good position to support the information collection as part of the EUDR requirements, some key elements on legality might benefit from strengthening 2) most of the data collection and traceability challenges to trace physical ISH volumes derive from currently 'interrupted' supply chains, i.e. the fact that unregistered middlemen/intermediaries sit between the ISH and mills, as well as sale of RSPO ISH Standard volumes to uncertified mills or certified mills buying RSPO ISH Standard volumes as conventional PO.

As such, our recommendations to the RSPO are two-fold:

1. Consider introducing an optional EUDR add-on module to the RSPO ISH Standard, composed of additional requirements aimed at bridging the gaps identified in this report between the RSPO ISH Standard and EUDR requirements.

The optional nature of those requirements will ensure that no undue burden is added to ISHs whom are not directly affected by the information collection requirements of the EUDR.

The module may include requirements focusing on the following:

a. Geolocation:

- i. Geolocation data must have 6 decimal points.

b. No-deforestation:

- i. No-deforestation indicator aligned with FAO definitions.

c. Legality:

- i. Additional indicator explicitly requiring compliance with national laws, aligned with criterion 2.1 of the RSPO P&C (2018)
- ii. Additional indicator on anti-corruption and compliance with tax laws, similar to indicator 1.2 in the RSPO P&C 2018

2. Address the issue of interrupted supply chains contributing to ISH exclusion from EU supply chains and beyond, through a holistic review of the traceability and market access challenges associated to the different supply chain levels, namely:

- a. Facilitating traceability at intermediaries' level
- b. Facilitating the sale of physical ISH certified volumes to certified mills
- c. Encourage downstream support of ISH through the RSPO Shared Responsibility mechanism
- d. Improved integration of ISH and intermediary traceability data into PRISMA

1. Introduction

This report has been prepared in response to the Request for Proposals released by the Roundtable on Sustainable Palm Oil (RSPO) to carry out a study exploring the impacts, gaps and opportunities of the European Deforestation Regulation (EUDR) on certified RSPO independent smallholders (ISH).

1.1. Research context

RSPO Context

The RSPO Independent Smallholder Standard (RSPO ISH Standard) was introduced in 2019 by RSPO to include more smallholders and reflect their unique circumstances and needs in relation to becoming certified. This standard, focused on independent smallholders (ISH) makes the bridge between smallholder's inclusion and promoting RSPO's core sustainability requirements. To do so, the standard offers a phased approach to reach and verify compliance.

To further support access to and uptake of certification by ISH, the RSPO has developed several supporting mechanisms, including the RSPO Smallholder Support Fund, RSPO Smallholder Trainer Academy, and smallholder-focused Shared Responsibility Requirements for non-grower members. As of 2022, 22,017 ISH were certified under the RSPO ISH Standard, covering a certified production area of 65,603 ha¹.

As part of RSPO five-year review cycle of its Standards, a revision is ongoing to update and strengthen the RSPO ISH Standard.

Legislative context

In the second quarter of 2023 a new law was adopted by the EU to ensure that from 31 December 2020 no deforestation has taken place on production sites for palm oil, cocoa, coffee, beef, soya and other forest risk commodities entering the market. The EU Deforestation Regulation (EUDR) will come into effect 2024, while the US is currently also considering a similar bill, the Fostering Overseas Rule of Law and Environmentally Sound Trade Act, to prohibit products associated with deforestation, including palm oil.

The EUDR brings the risk that non-certified independent smallholder farmers especially will be excluded from EU imports, as they may struggle to demonstrate compliance with the regulation. In particular, the Regulation may inadvertently encourage downstream companies to prioritise the sourcing for EU imports from low-risk supply chains or at least from areas where there is a low risk of deforestation, and where, in some cases, deforestation had already taken place before the 2020 cut-off.

1.2. Objectives of the study

The aim of this study is to conduct a comprehensive gap analysis to identify areas of alignment and divergence between EUDR requirements and the RSPO Independent Smallholder Standard (RSPO ISH Standard) and associated Group Certification requirements.

For the purposes of this study, the scope was primarily limited to providing insights and recommendations on the impacts of the EUDR on RSPO certified independent smallholder groups. However, further stakeholders' interviews and research on RSPO systems helped us identify wider opportunities for RSPO to build on the RSPO smallholder strategy and drive smallholder inclusion in sustainable palm oil supply chains at scale, for example, in partnership with other stakeholders in the sector (government and industry).

¹ [RSPO Impact Report 2022](#)

The study was divided in two parts:

1. A **Gap analysis**, looking specifically at **current RSPO ISH Standard certification compared to EUDR requirements** and how current RSPO systems will allow (or not) the integration of the certified smallholder volumes within the EU.
2. An **Impact study** where **challenges faced by certified, or yet to be certified, independent smallholders in complying with the EUDR** were explored as well as **insights and lessons from RSPO member supply chain actors** were collected to better understand the current status on **smallholder production trends and existing mechanisms designed to support ISH producers within and outside RSPO systems**.

Key questions investigated for the impact analysis therefore were:

1. How may compliance with the EUDR impact RSPO certified independent smallholders? Looking at both potential positive and negative outcomes.
2. What will be the potential impacts of the EUDR on independent smallholder livelihoods? This includes economic, social and environmental implications, including access to the EU markets.
3. What are the overall risks and benefits of the EUDR on independent smallholder palm oil production (e.g. both for certified and non-certified/not-yet certified; physical vs B&C volumes)?

Based on the findings from the gap and impact analyses, the research team developed a list of recommendations and suggested strategies to mitigate the challenges faced by certified, or yet to be certified, independent smallholders in complying with the EUDR, as well as proposed measures to enhance the effectiveness and practicality of both standards for sustainable palm oil production.

These findings and recommendations are laid out in this report.

2. Methodology

The study included a range of approaches to gather information, ensure stakeholder inclusion and inputs, and develop a series of recommendations.

As such the following activities were carried out:

2.1. Benchmarking exercise of the RSPO ISH Standard against EUDR-relevant criteria

An initial benchmarking exercise was done using the Proforest Neutral Benchmarking Framework (NBF), which was built based on criteria from the GIZ Sustainability Standards Comparison Tool (SSCT), the WWF Certification Assessment Tool (CAT) and further strengthened by Proforest. It includes additional requirements on biodiversity and ecosystems developed by us for IUCN, as well as a range of criteria to cover additional aspects of assorted due diligence regulations, such as the EUDR. The NBF consists of:

- **System elements:** criteria on the system behind a standard, from a standard owner's governance and standard setting, to accreditation, certification system, audit requirements, chain of custody and traceability.
- **Standard's content:** criteria relating to the content of the production level standard of a standard scheme, covering social, economic and environmental criteria.

EUDR-relevant criteria within the NBF were filtered so that the benchmarking analysis reflected the scope of the requirements within the regulation².

Additionally, to evaluate alignment and gaps between the RSPO requirements for ISH and the EUDR we proceeded to benchmark all three levels of the RSPO ISH Standard on the standard content tab i.e.:

- Entry level (Eligibility)
- Progress (Milestone A)
- Full compliance (Milestone B)

This allowed us to identify how far do each of these levels support compliance with the different requirements in the EUDR.

Following the benchmarking, RSPO Secretariat staff were asked to review the benchmark and provide comments before the benchmark was finalised. Finally, we analysed the benchmark to evaluate how far the current RSPO system and RSPO ISH Standard are aligned with EUDR requirements and where there are gaps.

2.2. Desktop research

To further guide our research and recommendations, an initial desktop review was done, trying to identify:

- Current knowledge regarding **potential impacts** of EUDR on smallholders' production based on producing countries and trade data.
- Current **certification challenges and opportunities** for ISH across the globe.
- Key **innovations and enabling environment** allowing certification for ISH.

2.3. Certified ISH survey

A survey, translated into 4 languages (English, Spanish, Bahasa Indonesia and Thai), was sent to RSPO ISH group managers in order to gather feedback and initial comments regarding their understanding of the regulation as well as key characteristics of their certified groups, notably:

1. **Group Information:** *date of group establishment, support received, management strategies, perceived benefits of certification;*
2. **Supply chain Information:** *buyers, Milestone B characteristics, ISH credits vs certified volumes sale and challenges;*
3. **Awareness of environmental challenges and EUDR regulation:** *size of group members' farms, challenge for geolocation data gathering, perception of market access safeguards.*

2.4. Interviews with experts

As part of our due diligence to better understand impact and challenges of EUDR for ISH, a series of interviews was done with various experts in the sector. As such, the team interviewed 21 stakeholders for this study. Annex 1 presents an overview of these and their organisation/group expertise.

For a detailed summary of interview content and key comments by respondents, see Annex 2.

² Note that we still included most of the criteria originally included in the system elements tab – while they may not seem directly linked to the EUDR, it was critical to include them as they reflect, among other things, how the scheme is set up, its standard developed, what level of assurance does it cover, and what does it allow in terms of CoC. This allowed us to gain a full picture of how credible, transparent and effective the scheme is while putting the standard element tab into context.

2.5. Regular Communication with RSPO Secretariat

As part of the study and regular project management, we had regular communication with the RSPO Secretariat smallholder team. This ensured that we could access to relevant internal data and statistics already gathered by the team as well as better understand current innovations in the RSPO systems to recommend a feasible strategy aiming at adapting to current RSPO technical and administrative system requirements. Key RSPO data such as market shares and credit transactions were also reviewed in order to provide a better understanding and picture of the extent of potential impact of reductions of ISH transactions in the future.

3. Setting the scene – EU palm trade and importance of smallholder production

This next section aims at setting the scene for the study by putting into context the current state of play in terms of EU current main palm importing countries, global smallholders’ palm production, and smallholder certification number.

3.1. Understanding EU trade exposure of the different palm oil producing countries

To provide an overview of different countries’ exposure to the EUDR, we used EUROSTAT latest data to map and estimate, based on trade, the share of country’s palm oil exports to the EU (Including Palm oil, Palm Kernel Oil and Palm Kernel Expeller) as well as importance in terms of price.

The Table 1 below shows the top 10 countries importing palm products to Europe using 2022 and 2023 data.

Table 1. Total EU-27 Imports of palm oil and oil palm products under EUDR in 2022 and 2023 for 10 most important producing countries. Based on Eurostat Data*

Countries exporting Palm Oil*	2022		2023			
	Exports to EU (MT)	Exports to EU (EUR)	Exports to EU (MT)	% of Exports Volumes	Exports to EU (EUR)	% of Exports Value
1. Indonesia	5,156,228	4,992,897,000	5,125,004	54%	3,898,291,000	44%
2. Malaysia	2,114,961	2,971,639,000	2,045,793	22%	2,344,616,000	26%
3. Guatemala	603,200	806,580,000	664,891	7%	657,362,000	7%
4. Papua New Guinea	388,398	505,212,000	364,234	4%	382,122,260	4%
5. Honduras	338,622	424,018,000	313,950	3%	291,159,800	3%
6. Colombia	297,263	454,197,000	138,316	1%	134,332,000	2%
7. Costa Rica	144,940	180,600,000	147,255	2%	149,743,430	2%
8. Cote d'Ivoire	87,814	96,907,000	59,108	1%	32,815,000	0%
9. Gabon	43,422	56,496,000	36,079	0%	34,837,000	0%
10. Solomon Islands	15,238	20,503,000	27,850	0%	27,652,120	0%
Others	725,103	1,322,591,000	587,752	6%	942,529,390	11%
Total	9,915,189	11,831,640,000	9,510,232	100%	8,895,460,000	100%

**Important Note: Does not include palm oil or oil palm products processed/refined in other countries which are then exported to EU-27 under relevant EUDR HS codes for palm oil (e.g. crude palm oil from Indonesia refined in Singapore then exported to EU-27; crude palm oil from Papua New Guinea refined in the UK into fatty acids distillates exported to EU-27. These trades are subject to EUDR as well).*

This initial data gives a first awareness into the palm oil production and export dynamics of the producing countries, and their relevance to the EU at present (top 10 importers).

It is interesting to see the moving trends across the years where data from the MVO, shows a change in EU-27 Importing countries' reliance from 2012-2020 (See Figure 1). While the reliance on South-East Asian palm imports (Indonesia, Malaysia and Papua New Guinea) remains constant, the increase of the LatAm imports into the EU is seen starting 2015 with Guatemala, Honduras and Colombia taking their fair share of the market in the last years.

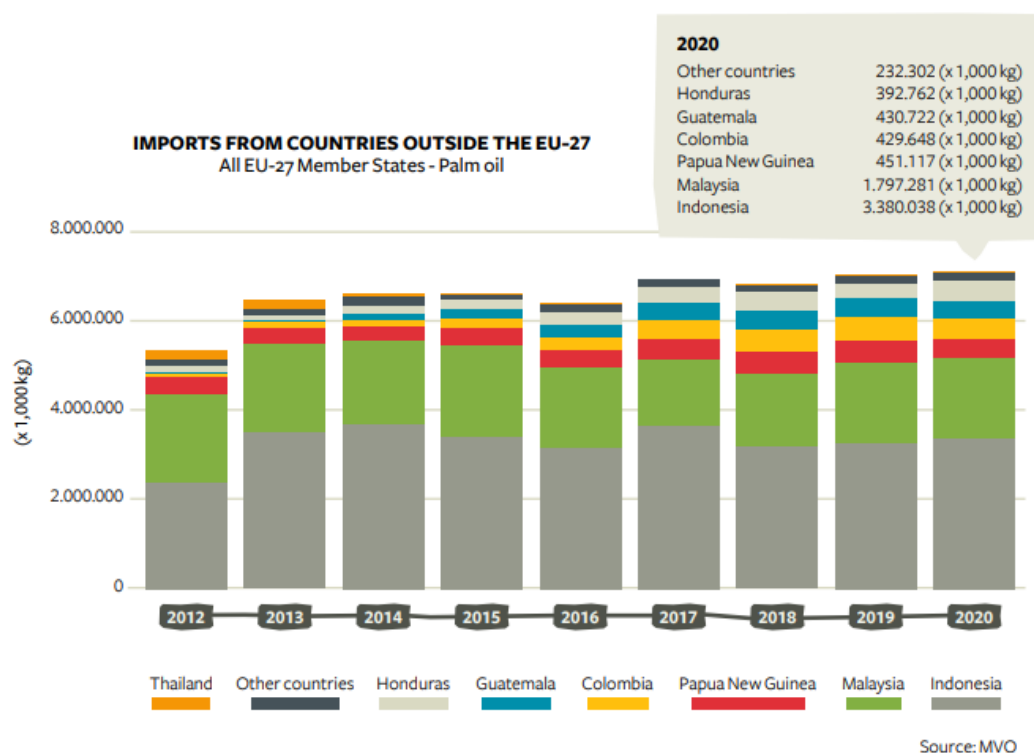


Figure 1. Imports from countries outside the EU-27. Source: MVO from Solidaridad Report (2020).

The implications of EUDR could vary widely among these countries, depending on their production scale, the proportion of exports going to the EU, and their share in EU imports. Note that even a small share of exports destined to the EU or a small share of the product in a country's total exports can still imply that the EUDR has important consequences for individual producers in a given country including smallholder producers.

3.2. Understanding the broader context of independent smallholders in the palm sector

While there is no official conclusive global data on smallholders share of markets and exports, a late study by Descals in 2021 and analysis by Solidaridad (2022) estimated the smallholder farmers land owning for palm as 27% of the total cultivated land area and estimated between 25% and 30% of global production. In terms of numbers of individuals, an estimated 7 million smallholder farmers produce oil palm fruit worldwide (see Figure 2).

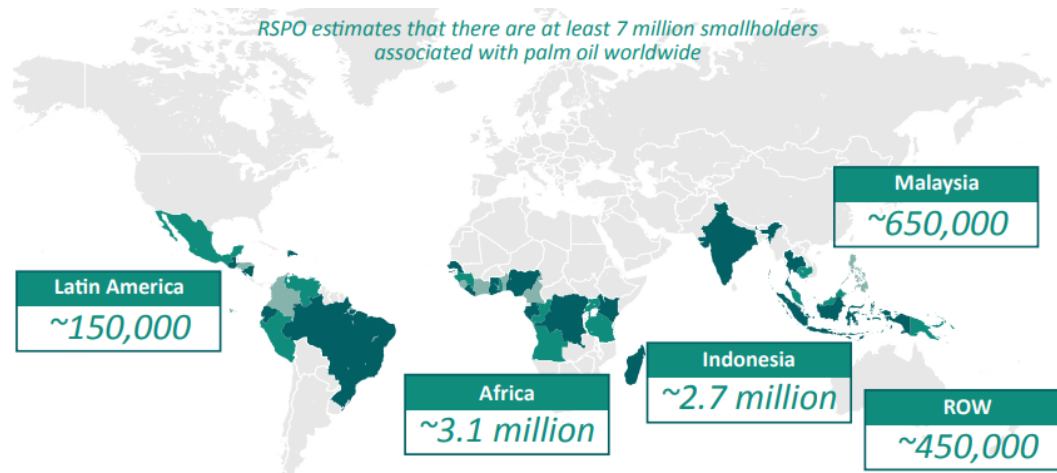


Figure 2. Estimated number of smallholders farmers involved in oil palm by region (RSPO Impact report 2022).

Table 2 below, shows, an estimated reported numbers of smallholders in the top producing countries and share of smallholders in terms of country’s production allowing to later look at potential impact of estimated share of smallholders’ production affected and risks from EU regulations on imports that will now be demanding specific due diligence requirements related to the deforestation-Free Regulation.

Table 2. Share of smallholder’s palm production in top 10 palm producing countries in 2023 (In red, added countries part of top 10 world producers).

PO producing countries	Top Producing country 2023*	Exporting to EU 2023 (Top 10)	Estimated Total PO production in country *2023 (MTons)	Estimated SHs in Country	SH share in production	Source
Indonesia	1	1	48 million	2,605,207	34%	Buku Statistik Sawit 2021-2023
Malaysia	2	2	~ 18 million	300,000 - 650,000	40%	RSPO, 2022 ; MSPO 2023 , MPOB 2023
Thailand	3	X	~ 3 million	120,000	70%	CPOPC 2023 , GIZ, 2023 , RSPO 2023
Colombia	4	6	1.84 million	~ 5660	75%	Fedepalma 2023 ,
Nigeria	5	X	1.4 million	>10,000	~80%	USDA Estimates 2023 , IDH 2019 , Biodun et al 2023
Guatemala	6	3	933,000	130	51%	Grepalma 2023
Papua New Guinea	7	4	820,000	23,000	32%	USDA Estimates 2023 , Solidaridad 2022
Cote d'Ivoire	8	8	600,000	40,000	70%	USDA Estimates 2023 RSPO, 2019
Honduras	9	5	595,000	17,000	60%	USDA Estimates 2023 , Solidaridad 2023 , F. Linares 2023
Brazil	10	X	585,000	~ 1500**	<10%-30%	USDA Estimates 2023 , Proforest 2013 , USDA 2022 , Castellanos-Navarrete (2021)

*Source: USDA, 2023 else National Federation numbers

**Rough estimation from 2013 data

Putting Table 2 data in comparison with Table 1, some insights can be drawn in terms of potential regions where we see already a high percentage of smallholder production and eventual risk of market changes due to the regulation.

Seeing the very heavy reliance of smallholders in terms of proportion of produced palm but also share of country's exports going to the EU, some countries like **Colombia, Honduras and Papua New Guinea** are worth highlighting. **Guatemala** sending more than half of its exports to the EU is also worth mentioning, despite the few numbers of smallholders present.

It is also worth noting that in many of these top producing countries, we see a trend towards increasing production encouraged by national support and motivation to achieve poverty reduction goals, develop the national agricultural sector and increase rural livelihoods as well as increasing national consumption demands³.

The production numbers are therefore likely to increase, and the resulting involvement of smallholders could also follow.

RSPO plays an important role in driving best practice for smallholders and has certified more than 28,000 independent smallholders (covering around 85,000 ha) and a little less than 140,000 scheme smallholders, i.e. smallholders under mill management (covering around 330,000 ha) globally (Table 3).

Table 3. Current certified smallholders (Independent and Scheme) – RSPO Impact Report 2023.

Region	Country(ies)	Certified Production Area (ha)	Certified FFB Production (tons)	No. of farmers
Scheme smallholders (Full RSPO P&C Certification)				
Asia	<i>Indonesia</i>	196,696	13,689,541	114,937
	<i>Malaysia</i>	8,347	0	44
Latam	<i>Including Ecuador, Costa Rica, Honduras, Guatemala, Brazil & Colombia</i>	56,025	1,318,824	1,453
Africa	<i>Including Sierra Leone, Cote D'Ivoire & Ghana</i>	26,959	247,710	4,887
Rest of the World (ROW)	<i>Including Thailand, PNG Ghana</i>	42,334	670,686	17,167
Total Scheme smallholders		330,361	5,926,761	138,488
Independent Smallholders ISH (Certified RSPO ISH Standard)				
Asia	<i>Indonesia</i>	35,706	718,159	15,485
	<i>Malaysia</i>	7,975	140,836	1,994
Latam	<i>Mexico</i>	1,255	5,280	117
Africa	<i>Including Sierra Leone & Ghana</i>	8,348	22,939	5,116
Rest of the World (ROW)	<i>Including Thailand</i>	31,260	684,585	6,267
Total Independent smallholders		84,544	1,571,799	28,979
Total Certified smallholders (both)		414,905	7,498,560	167,467

³ Ruml et al (2022)

Table 3 therefore shows that even for RSPO certified smallholders (both scheme and independent), we see previously highlighted countries coming up again as important in terms of smallholder numbers and volumes sent to Europe:

- **Indonesia**
- **Malaysia**
- **Guatemala**
- **Colombia**
- **Honduras**
- **Cote d’Ivoire**
- **Papua New Guinea**

Thailand, Ecuador and Ghana, while not being amongst the top countries exporting to EU, are still important in terms of global palm production, i.e. amongst the top 15⁴ of palm production countries and are also heavily dependent on smallholder production with over 70%⁵, above 90%⁶ and between 60-80%⁷ of share of production, respectively.

3.3. Implications for ISH based on their country’s EU market relevance

It remains to be seen if or how this shift will occur given the inherent complexities of supply chains outlined above, and the reality that EU demand for segregated palm oil can essentially be met from volumes and supply chains largely from large plantations (including RSPO IP or SG certified volumes)⁸.

One thing to keep in mind, beyond trade data, volumes and countries’ value generated, is the actual benefits and potential risks of change of trade and buyers’ habits for certified independent smallholders.

Indeed, latest data from RSPO show that 93% of palm oil imports (for food, feed and oleochemicals) to Europe hold RSPO certification, and of this, 22% are RSPO Credits. Additionally, between 2020 to 2022, ISH Credit sales to the EU increased from US\$510,000 to US\$1.84 million (+260.78%)⁹.

The average value derived from ISH-Credits increased from US\$224 per farmer in 2018 to US\$285 per farmer in 2022. Knowing that the average daily income of a smallholder farmer in Indonesia is around US\$3.20 per day (~ US\$98/month)¹⁰, this means that a certified ISH farmer, through additional income with ISH-Credits, would earn an additional 3 months of income, of which the EU market represents a third of this revenue in terms of global credits buyers through direct market access (See Table 4 below).

Table 4. Revenue from ISH-credit Sale from certified RSPO independent smallholders across the years, RSPO 2023 internal data

	2018	2019	2020	2021	2022
Revenue from Total ISH-Credits Sale by ISH Farmer (US\$)	225.12	194.27	144.26	241.6	285.95
Revenue from Total ISH-Credits (EU Share) Sale by ISH Farmer (US\$)	148.9	63.82	45.37	94.58	95.31

⁴ [USDA Estimates 2023](#).

⁵ Thailand: See Table 2

⁶ Ecuador: [Solidaridad 2023](#), [Chain Reaction 2019](#)

⁷ Ghana : [RSPO 2016](#), [UN Ghana 2023](#)

⁸ "The EUDR defaults to segregation traceability models because of the threat that mass balance models incorporate mixing of sources from unknown origins": [CDP](#), [ISEAL](#), [EU Commission FAQ](#)

⁹ [Factsheet on ISH Credits, RSPO 2023](#)

¹⁰ World Bank, 2022 - Data from RSPO

It is also interesting to take these income numbers into consideration when trying to evaluate future costs of EUDR for smallholders' 'readiness' due to the requirements asked (Deforestation-free, legality and traceability, see in Section 4). Smallholders' association estimate that the cost to get one smallholder compliant could be around 2,600 US\$ farmer¹¹. Hence, ten times (10X) more than the monetary benefit received by a certified smallholder from credit sales and nine hundred times more than regular income of a (non-certified) Indonesian smallholder (900X).

3.4. Initial insights

Overall, the initial data seems to indicate that we have been seeing a relatively important change in palm production and country position in the last 10 years. New regulations and embargoes (such as Biofuels law or EUDR) as well as countries' own consumption increase and development of rural areas are currently changing the picture in markets and we are likely to see market fluctuations in the upcoming years, even though they cannot be fully predicted with regards to upcoming regulations.

The data above gives a snapshot of the current state of art, but already helps to draw some insights to potential risks to smallholders (high smallholder production level/ high export volumes to EU) and therefore attention should be turned to.

While it is true that current volumes and value is still highly concentrated in Asia with around 90% of global market shares, palm oil production in Latin American (LATam) and African countries has still room for growth. Again, historic data (Figure 1) show that **more countries are becoming important players in the international market, many of them with a high proportion of smallholders' production** (Colombia, Honduras, Cote d'Ivoire).

Finally, knowing that we estimate that nearly 100% of independent smallholder groups from Indonesia, have a relationship with European buyers through RSPO Credits¹², a potential shift from buyers located in the EU due to the regulation away from ISH-Credits¹³ might also influence the overall future benefits derived from RSPO certification from smallholders choosing to join.

¹¹ [SPKS, 2023](#)

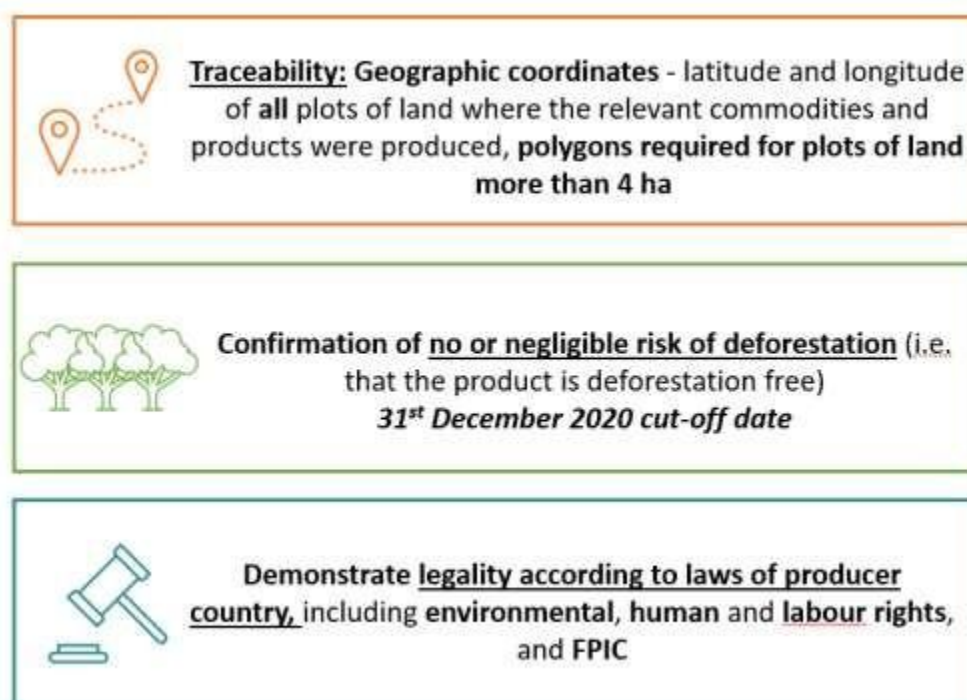
¹² [Factsheet on ISH Credits, RSPO 2023](#)

¹³ As explained in section 3.3 above, while already certification doesn't guarantee EUDR acceptance unless through a strict segregated model due to the key traceability requirements, majority of ISH volumes are lost into certified mix and often compensated via ISH credits sold on the credit market, which in that case, will not be a way to adhere with EU requirements.

4. Findings: Certified smallholders

4.1. Implications at the plantation level – gap analysis of the RSPO ISH Standard versus EUDR

The European Deforestation Regulation (EUDR) is primarily aimed at companies that place products on the EU market. These companies are responsible for ensuring that the commodities they import do not contribute to deforestation and are made according to the legislation of the respective producing countries. However, this regulation will indirectly affect producers as well, since, as suppliers, they are required to provide certain information and assurances to their buyers (the ones importing to Europe) namely:



As such, while the EUDR is directly enforced on companies placing products on the EU market or exporting such products out of the EU, it indirectly imposes these requirements on producers. Producers who fail to provide this information and assurance may find their products rejected by companies seeking to comply with the EUDR, potentially losing access to the EU market as it will force producers to only procure supply from their own plantation and compliant sources. Therefore, while producers are not the ones liable vis-à-vis the EU, they play a crucial role in its implementation and success.

In this section, we provide an overview of how the RSPO ISH Standard already supports certified independent smallholders in meeting those requirements and highlight any remaining gaps for full alignment.

4.1.1. Traceability – Geolocation coordinates

The European Union Deforestation Regulation (EUDR) requires operators and traders to collect geographic coordinates of the plots of land where the commodities were produced and is central to verifying the absence of deforestation. The data must be collected before the products are placed on the market or exported.

For plots of land of more than 4 hectares used for the production of the commodities in scope (other than cattle), the geolocation must be provided using polygons. **This means latitude and longitude points of six decimal digits are used to describe the perimeter of each plot of land.**

For plots of land under 4 hectares, operators can use a polygon or a single point of latitude and longitude of six decimal digits to provide geolocation.

It is important to note that the EUDR prohibits the placing on the market, or the export, of any product covered by the regulation’s scope whose geolocation coordinates have not yet been collected and submitted as part of a due diligence statement. Therefore, collecting the geolocation coordinates of a plot of land is a core part of the Regulation.

As part of the certification process to meet the RSPO ISH Standard, smallholders are required to collect geolocation information regardless of plot size. This is applicable from the entry level, and as such is a pre- requisite for smallholders to become fully certified (see Figure 3).

	Entry level (Eligibility)	Progress (Milestone A)	Full Compliance (Milestone B)
Each ISH provides geolocation coordinates on their plots of land	✓ (indicator 2.1)	✓ (indicator 2.1)	✓ (indicator 2.1)

Criteria	Indicators		
	Eligibility (E)	Milestone A (MS A)	Milestone B (MS B)
2.1 Smallholders have legal or customary rights to use the land in accordance with national and local laws, and customary practices.	2.1 E Smallholders provide the coordinates or maps of their plots and evidence of ownership, or rights to use the land. (reference Indicator 1.1 E, Annex 2).	2.1 MS A Smallholders can demonstrate legal ownership or native and/or customary rights to use the land or demonstrate that they are in the process of legalisation of that right.	2.1 MS B Smallholders plots are clearly and visibly demarcated and maintained, and the smallholders are operating only within these boundaries.

Figure 3. Requirements on geolocation according to the RISS level

As such, **the requirement to collect geolocation data is a significant area of strength of the RSPO ISH Standard** in relation to supporting ISH compliance with the EUDR. Data and boundaries need to be available for every single plot the group members own, that is planted with palm and is included as part of the group certification.

It is, however, **unclear whether the actual geolocation data collected provides the latitude and longitude points of six decimal digits** as requested in the EUDR. Indeed, the accuracy of geolocation coordinates will depend on the precision of the device (mobile app, GNSS or GPS device) used. As it is currently collected through farmers’ surveys using standard phone/geolocation apps, it is often done though only up to five decimal digits (accuracy between 3-5 m).

Importantly, the collecting geolocation data for independent smallholders' oil palm plots presents already several challenges:

- **Technical Capacity:** Many smallholders lack the resources to accurately determine and provide their plot's geolocation, especially if they operate multiple plots.
- **Data Management:** The EUDR requires precise information, including geolocation data. Managing this for millions of smallholders is a significant task, with implications for the digital systems needed.
- **Data Protection:** In some countries, data protection rules may restrict information sharing about smallholders, complicating geolocation data collection.

As such, smallholders often **lack the technical capacity and financial resources** to meet the EUDR's due diligence requirements.

To address these issues, the **RSPO provides a specialized HCV smartphone app for smallholders**. This app, coupled with training from group managers, helps collect and aggregate data on group members and their plots, easing the technical and financial burden of geolocation data collection.

4.1.2 Confirmation of no or negligible risk of deforestation

The EUDR relies on the definitions provided by the Food and Agriculture Organization (FAO) of the United Nations for 'forest' and 'deforestation':

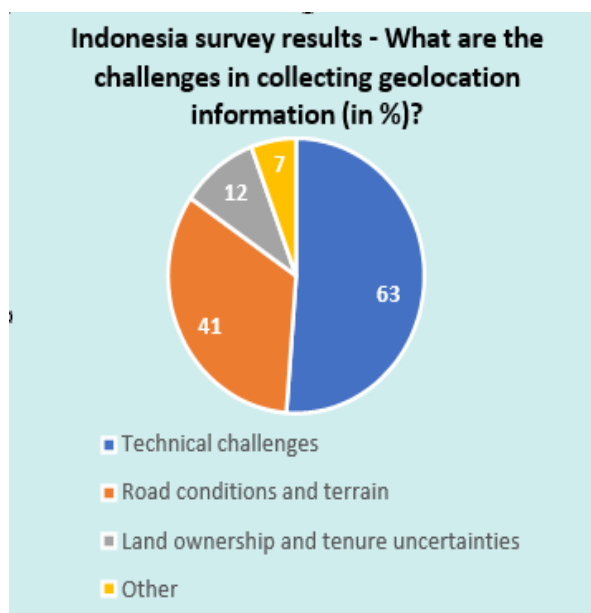
Forest: This includes land areas greater than 0.5 hectares that contain trees that are 5 meters or taller and a canopy cover of more than 10%. It encompasses four billion hectares of forests – most habitable land area not already used by agriculture or urban use. Forest definition explicitly excludes "agricultural plantations" (includes oil palm and agroforestry systems).

Deforestation: The EUDR defines deforestation (and forest degradation) as the conversion of forest to agricultural use, whether human-induced or not.

A note on the EUDR's acceptance of 'negligible risk':

The EUDR defines 'negligible risk' as "the level of risk that applies to relevant commodities and relevant products, where, on the basis of a full assessment of product-specific and general information, and, where necessary, of the application of the appropriate mitigation measures, those commodities or products show no cause for concern as being not in compliance with Article 3, point (a) or (b)".

However, the **EU Commission is yet to provide guidance on the exact scope of what will be accepted as a negligible risk and what will not**. As such, until more information is provided on the scope of what will be accepted as 'negligible risk', we will assume that the EUDR requires companies to provide evidence of strictly no deforestation having occurred.



As such, the EUDR requires companies to ensure that the products they place on the EU market or export out of the EU market have not contributed to deforestation past the December 2020 cut-off date. This means that the raw materials that are in scope and used in these products must not come from areas where forests (as per the FAO definition) have been converted to agricultural or other uses.

For RSPO ISH Standard-certified ISHs, **the standard does not allow deforestation or conversion of High Conservation Value (HCV) areas (2005 cut-off date), and High Carbon Stock (HCS) areas (2019 cut-off date)** for smallholders. This means that any land classified as HCV or HCS cannot be converted for oil palm cultivation after this date. Additionally, RSPO's approach carries a crucial element of verification with it. After spatial analysis, ground verification of forests through LUCA if the spatial analysis detects forests within the polygon provided.

HCV definition:

HCVs are biological, ecological, social, or cultural values that are considered outstandingly significant or critically important at a national, regional or global level. There are six categories of HCVs, as follows:

HCVs 1-3 are biological HCVs focused on biodiversity, species, ecosystems, and landscapes (often globally important species and sites). HCVs 4-6 are social HCVs focused on environmental services, natural resources use by communities and cultural values. The latter are most often important at a local level (i.e. critical for livelihoods).

HCS definition:

The HCS Approach is a practical methodology that identifies High Carbon Stock forests (See Figure 4) in the humid tropics for conservation, through an integrated conservation land use plan, and allows degraded non-forest land (with no HCS forest and no High Conservation Values) to be developed for agricultural or plantation commodities (including palm oil) while ensuring the rights and livelihoods of local peoples are respected.

Additionally, as per indicator 2.4, **smallholder plots must be located outside of areas classified as national parks or protected areas**, as defined by national, regional, or local law, or as specified in National Interpretations.

However, **scrub and open land can still be converted under the RSPO ISH Standard (and indeed also the P&C 2018)**, as these do not fall within the scope of HCS (See **Error! Reference source not found.** 4), whereas under the EUDR they might be included, depending on the areas falling within the trees over 5m and 10% threshold. This means that **the conversion of these areas for agricultural use could be considered as deforestation under EUDR rules.**

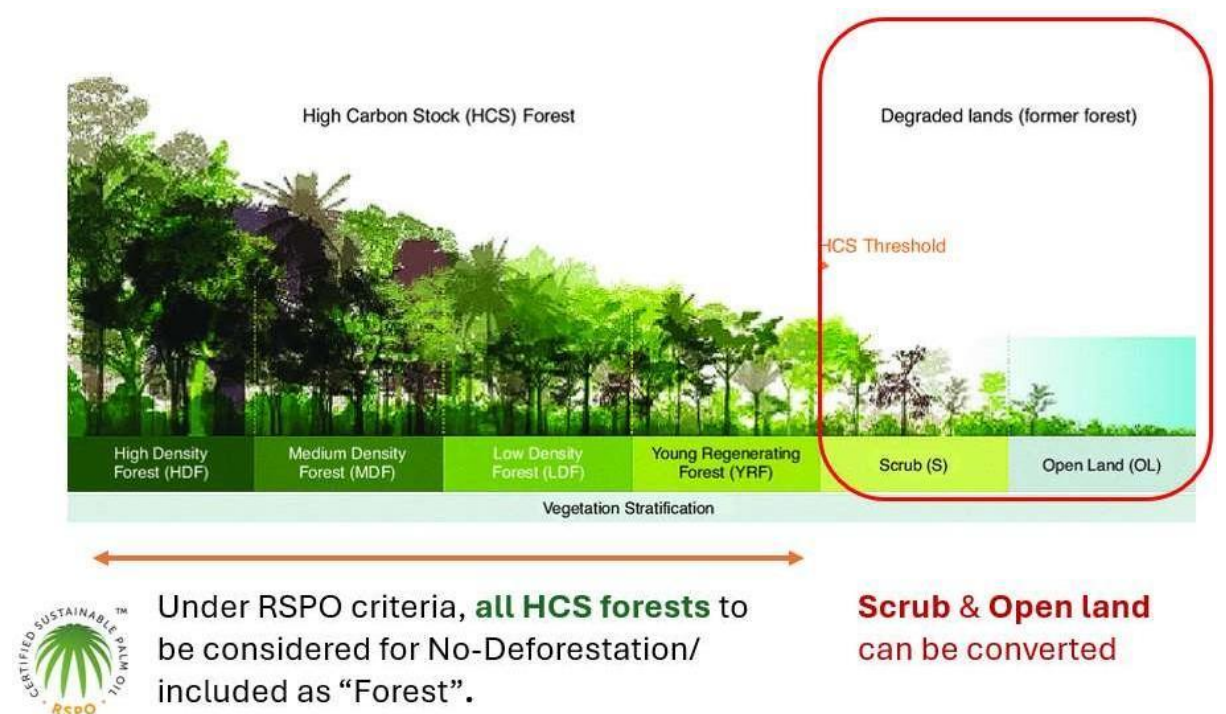


Figure 4. RSPO HCS forest graph and misalignment with EUDR deforestation criteria as Scrub & Open land allowed for conversion.

The Table 5 below summarises the areas of alignment and remaining gaps:

Table 5. Gap assessment of RSPO ISH Standard milestone level criteria against EUDR requirements on no deforestation.

	Entry level (Eligibility)	Progress (Milestone A)	Full Compliance (Milestone B)
Deforestation cut-off date	✓ 2005 (primary forests/HCV) / 2019 (HCV/HCS)	✓ 2005 (primary forests/HCV) / 2019 (HCV/HCS)	✓ 2005 (primary forests/HCV) / 2019 (HCV/HCS)
No conversion of protected areas as defined by national laws	✓ (indicator 2.4)	✓ (indicator 2.4)	✓ (indicator 2.4)
Assessing the environmental risks & impacts of production prior to any significant intensification or expansion of cultivation?	✓ (indicator 4.2)	✓ (indicator 4.2)	✓ (indicator 4.2)
No deforestation using FAO (& EUDR) forest definition	X	X	X

No new planting on HCV / HCS forests	✓ (indicator 4.3)	✓ (indicator 4.3)	✓ (indicator 4.3)
Prohibition of severe or sustained degradation of forests after a specified cut-off date	≈ (indicator 4.1) Commitment	≈ (indicator 4.1) Commitment	✓ (indicator 4.1) Implemented

For non-certified ISH, there are less formalized frameworks to support compliance with deforestation-free practices. Indeed, ISH might not have access to recognised methodologies, tools and frameworks to prove or demonstrate no-deforestation compared to certified ISHs or big producers, which can be a further barrier to showing compliance with the EUDR and in turn might force producer companies to exclude the non-certified SH from the supply chain.

Remediation

As it is stated in the 2019 RSPO ISH Standard, the Remediation and Compensation Procedure (RaCP) 2015 is not fully applicable for independent smallholders. However, the RaCP Smallholder sub-group has been working on developing an appropriate RaCP mechanism specific and contextually appropriate for the ISH.

These ongoing discussions are looking at a firmer mechanism for environmental remediation potentially including a list of immediate progressive actions (i.e. within 6 months and until areas are restored).

However, it is worth noting that **current EUDR is not accepting any form of remediation if deforestation is found after cut-off date.**

4.1.3 Demonstrate legality

The European Deforestation Regulation (EUDR) stipulates that for due diligence to be completed, operators must gather and disseminate information that is both “adequately conclusive and verifiable”, including information that confirms that the commodities in question have been produced in compliance with the relevant legislation of the country of production. The scope of national laws included is as follows:

- land use rights;
- environmental protection;
- forest-related rules, including forest management and biodiversity conservation, where directly related to wood harvesting (not applicable)
- third parties’ rights (not applicable)
- labour rights;
- human rights protected under international law;
- the principle of free, prior and informed consent (FPIC), including as set out in the UN Declaration on the Rights of Indigenous Peoples;
- tax, anti-corruption, trade and customs regulations.

A note on what will constitute adequate evidence of compliance with legislation of the country of production under the EUDR:

In a recently published Frequently Asked Questions (FAQ) [document](#), the EU Commission has provided the following information regarding what kind of evidence would be required specific to the legislation element of the EUDR.

“Relevant documentation is required for the purposes of the risk assessment, Art. 9 (1) (h), 10 EUDR. Such documentation may, for example, consist of official documents from public authorities, contractual agreements, court decisions or **impact assessments and audits carried out**. In any case, the operator has to verify that these documents are verifiable and reliable, taking into account the risk of corruption in the country of production.”

As such we see a potential clear role for certification regarding the legality aspect of the Regulation, due to the carrying out of certification audits, including verification of RSPO ISH Standard indicators requiring the producer to comply with certain national legislations as part of the certification process.

Under the RSPO ISH Standard, certified independent smallholders are required to comply with several legality aspects, including some which are within the scope of the EUDR. From Milestone B, ISH are required to prove that they have legal ownership over their land or demonstrate that they have a right to the land. Additionally, ISH who have met Milestone B have to implement measures to respect labour rights based on national laws touching on child labour, forced labour, wages, occupational health and safety (OHS) and discrimination. Finally, regardless of the compliance level, all ISHs must follow the principle of Free Prior and Informed Consent (FPIC).

However, for the RSPO ISH Standard to fully align with the EUDR’s legality requirement, the standard would have to require ISH to **comply with broader international human rights conventions, as well as cover a wider range of national environmental laws**. In addition, the standard does not currently require ISHs to **comply with anti-corruption, tax, trade and custom laws**.

It is worth noting that a key feature of the RSPO P&C 2018 is its inclusion of a general criterion for compliance with national and local laws. This means that RSPO members certified against the P&C are required to adhere to the legal regulations of the countries and regions in which they operate. This criterion is crucial as it ensures that the production of sustainable palm oil does not infringe upon the legal rights and regulations of the production countries.

RSPO Principles and Criteria (2018) criterion 2.1 on compliance with national and international laws:

Criterion 2.1:

There is compliance with all applicable local, national, and ratified international laws and regulations.

Indicators:

- (C) The unit of certification complies with applicable legal requirements. A documented system for ensuring legal compliance is in place. This system has a means to track changes to the law and also includes listing and evidence of legal due diligence of all contracted third parties, recruitment agencies, service providers and labour contractors.
- Legal or authorised boundaries are clearly demarcated and visibly maintained, and there is no planting beyond these legal or authorised boundaries.

RSPO ISH Standard (2019) criterion 2.1 to 2.5 on legality, respect for land and communities rights:

Criterion 2.1:

Smallholders have legal or customary rights to use the land in accordance with national and local laws, and customary practices.

Criterion 2.2:

Smallholders have not acquired lands from indigenous peoples, local communities or other users without their free, prior and informed consent (FPIC), based on a simplified FPIC approach.

Criterion 2.3:

The right to use the land is not disputed by indigenous peoples, local communities or other users.

Criterion 2.4:

Smallholder plots are located outside of areas classified as national parks or protected areas, as defined by national, regional or local law, or as specified in National

On the other hand, the RSPO Smallholder Standard (2019), which is specifically designed for small-scale farmers, does not include this general criterion for legal compliance but adapted ones for the context of SH production (for e.g. criterion 2.1 of the RSPO ISH Standard and customary practices). The absence of this criterion might be due to the unique challenges faced by smallholders, such as limited resources (financial, social, human capacity) and lack of access to legal information. It is also explained by the unique nature of smallholders being both rightsholders (*i.e. human beings with rights protected under international law*) but also duty-bearers with some, making specific mention to international conventions on Human Rights and specific UNGPs principles not always applicable.

In the 2023 gap analysis of the RSPO P&C 2018 against the EUDR¹⁴, it was identified that the inclusion of a legal compliance criterion strengthens the RSPO P&C's support for EUDR compliance. **Therefore, the absence of such a criterion as it currently stands in the RSPO Smallholder Standard could potentially limit its effectiveness in supporting EUDR compliance.**

¹⁴ Brinkmann Consultancy and Pasmans Consultancy. (2023). [The RSPO system as a tool to help companies comply with requirements of the EU Deforestation Regulation.](#)

Table 6 below shows the status of the RSPO ISH Standard milestone criteria compared to the EUDR key legality requirements.

Table 6. Gap assessment of RSPO ISH Standard milestone level criteria against EUDR requirements on legality

	Entry level (Eligibility)	Progress (Milestone A)	Full Compliance (Milestone B)
General requirement on compliance with National and Local laws	<p>≈</p> <p>No specific requirement to comply with national laws + for specific indicators where it is required (majority are for labour rights), it is mostly at commitment level</p>	<p>≈(+)</p> <p>No specific requirement to comply with national laws + for specific indicators where it is required (majority are for labour rights), it is mostly at commitment level</p>	<p>≈(++)</p> <p>No specific requirement to comply with national laws + scope of specific indicators where it is required (majority are for labour rights) is too limited</p>
Business Legality	<p>✓</p> <p>(indicator 1.1)</p>	<p>✓</p> <p>(indicator 1.1)</p>	<p>✓</p> <p>(indicator 1.1)</p>
a. Land use rights	<p>✗</p> <p>(indicator 2.1)</p> <p>No specific requirement to prove legal ownership (but demonstration of customary practices is – and right to use the land is accepted)</p>	<p>✓</p> <p>(indicator 2.1)</p>	<p>✓</p> <p>(indicator 2.1)</p>
b. Environmental protection laws	<p>≈</p> <p>Covered for some env. laws (e.g. protected forests or peat protection) but scope too limited</p>	<p>≈</p> <p>Covered for some env. laws (e.g. protected forests or peat protection) but scope too limited</p>	<p>≈</p> <p>Covered for some env. laws (e.g. protected forests or peat protection) but scope too limited</p>
c. forest-related rules, including forest management and biodiversity conservation, where directly related to wood harvesting	<p>Not applicable for palm production</p>		

d. third parties' rights ¹⁵	Not applicable for ISH		
e. labour rights	≈ Commitment level (forced labour, child labour, wages, OHS, discrimination)	≈ Commitment level (forced labour, child labour, wages, OHS, discrimination)	✓ Implementation level (forced labour, child labour, wages, OHS, discrimination)
f. Human Rights protected under International Law	≈ Several labour rights indicators are aligned with internal HR laws; however these are not directly referenced in the standard	≈ Several labour rights indicators are aligned with internal HR laws; however these are not directly referenced in the standard	≈ Several labour rights indicators are aligned with internal HR laws; however these are not directly referenced in the standard
g. The principle of FPIC	✓ (indicator 2.2)	✓ (indicator 2.2)	✓ (indicator 2.2)
h. Tax, anti-corruption, trade and customs regulations	X	X	X

While palm oil smallholders may theoretically be able to provide evidence of legal or customary land use, the practical ability to do so can be significantly impacted by a variety of factors, including local laws and regulations, socio-economic conditions, and the support (or lack thereof) provided by governments and international entities. Therefore, while it's theoretically possible for palm oil smallholders to provide evidence of legal land rights, in practice, this can be a complex and challenging process. Support from both state and international entities, such as the EU, could be crucial in helping smallholders formalise their rights to use the land and land tenure documentation. This in turn would not only support demonstrating compliance with the regulation, but also constitute a very practical help as it could open access to credit and investments for farmers who are currently not able to secure any loans due to absence of formal land titles.

4.1.4 Conclusions

As described above, by complying with the RSPO Independent Smallholder Standard, **fully certified smallholders who have reached milestone B are already in a good position to provide evidence for some key elements of the traceability, no deforestation and legality requirements of the regulation, and therefore provide this to their buyers might help feed into their due diligence requirements.** However, there remains several gaps for which the RSPO ISH standard does not currently fully cover what is required from producers by the EUDR.

¹⁵ As per the gap Analysis for RSPO P&C 2018 REPORT: "RSPO does not explicitly refer to 'third parties rights' as specified in the EUDR requirement. However, EUDR does not further explain what is meant by this requirement. Potentially, elements of 'third parties rights' are included in RSPO rights recognised". Brinkmann Consultancy and Pasmans Consultancy. (2023).

A note on the different compliance levels of the RSPO ISH Standard

The RSPO Independent Smallholder Standard has different compliance levels, which are structured as a phased approach:

Eligibility - Entry Level: This is the initial phase where smallholders demonstrate compliance with the Eligibility indicators of the Standard.

Milestone A - Continual Improvement and Progress: Smallholders are given two years to demonstrate progress and meet the Milestone A indicators.

Milestone B - Full Compliance: One year after achieving Milestone A, smallholders are expected to demonstrate full compliance with the Standard by meeting the Milestone B indicators.

Because of the strict need for full traceability to plot level required by the EUDR, **ISH certified volumes destined for the European market will have to be sold as physical trade rather than through the ISH credits system***. Certified physical volumes can only be sold by ISHs who have reached milestone B of the RSPO ISH Standard. As such, **as of December 2024, for an ISH to sell palm oil volumes destined to the EU market, they will need to comply with the entirety of the standard.**

**for more information on the implications of the EUDR on credit sales, refer to section 4.2*

Table 7 below summarises these areas of alignment and where the gaps remain, while section 5 provides recommendations on how best to address the identified gaps.

While the RSPO ISH Standard provides a robust framework for ISHs to meet significant requirements in the EUDR, possibly one of the most valuable benefits of certification when it comes to Due Diligence regulations, is the independent verification of compliance with the standard's requirements. This serves as a key tool allowing users to make credible claims on the sustainability status of the products they produce, thus providing assurance to their buyers that their product is indeed meeting those requirements. It can also serve as a powerful tool to monitor and identify any non-compliances and resolve them in a timely manner.

As such, certified independent smallholders are in a stronger position to be able to provide credible evidence of compliance with the traceability, no-deforestation and legality aspects of the EUDR compared to non-certified independent smallholder who may not have access to such a framework or tools necessary for them to remain included in EU supply chains.

Table 7. Summary of gap assessment: EUDR requirements against the current RSPO ISH Standard criteria

Aligned	Partial gaps	Full gaps
GEOLOCATION		
Provision of geolocation coordinates (indicator 2.1) Smallholders must provide coordinates of plots, or officially mapped shapefiles, or other acceptable geospatial data	Unclear whether the geolocation data includes the latitude and longitude points of six decimal digits	n.a.
NO - DEFORESTATION		
Cut-off date latest 2019 No clearing of any primary forests, and/or any areas required to protect or enhance HCV and HCS forests	Definition of forest (HCS)/deforestation not fully aligned with FAO/EUDR definitions.	n.a.
LEGALITY		
Business legality (indicator 1.1) Smallholders must establish a legal entity (cooperative)	Compliance with local and national laws There is currently no specific requirement to comply with national laws. While some indicators require smallholders to comply with specific aspects of national law (especially around labour rights and no planting on nationally protected areas), the scope remains limited	Tax, anti-corruption, trade and customs regulations Currently not covered in the RSPO ISH Standard
FPIC (indicator 2.2) Smallholders must provide evidence that land was acquired with FPIC		
Land use rights (indicator 2.1) <u>Only for Milestone A & B</u>	Human Rights protected under International Law Several labour rights indicators are aligned with international Human rights norms:	

<p>Smallholders must provide evidence on ownership and/or legal or customary rights to cultivate the plots, through acceptable means.</p> <p>They must also update the Group Manager immediately if any cases of land dispute arise and provide evidence of due process in such cases.</p>	<p>however, these are not directly referenced in the standard for e.g.:</p> <ul style="list-style-type: none"> • <i>Specific mention of Rights of Indigenous People as set out in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)</i>
<p>Labour rights (indicator 3.5)</p> <p><u>Only for Milestone B</u></p> <p>Smallholders must implement (rather than commit to) respecting key labour rights (no forced labour, no child labour, fair wages, OHS, etc.)</p>	<p>Environmental Protection</p> <p>Reference to complying against national, international or local law for environmental protection are indirectly captured under various section of the standard:</p> <ul style="list-style-type: none"> • Only clear mention of legal aspect of environmental protection is found in indicator 2.4 related to Smallholder plots are located outside of areas classified as national parks or protected areas, as defined by national, regional or local law, or as specified in National Interpretations. • Indicator 4.4: On peat protection, depending on the ISH NI, some specific reference to national law is present (e.g. In Indonesia NI, the smallholders may refer to the national regulation on monitoring peat subsidence). • Indicator 4.7: Mention of Training and commitment to maintain riparian buffer zones but no specific mention on legal aspect of environmental protection of those according to country/national laws.

	<ul style="list-style-type: none">● Indicator 4.8: There is mention of exclusion of paraquat and pesticides categorised as WHO Class 1A or 1B, or those listed by the Stockholm or Rotterdam Convention, <u>only for Milestone B</u>. Awareness and commitment of BMPs is only expected for Eligibility (E) and Milestone A (MS A).
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4.2. Implications at the supply chain level – the challenge of an interrupted supply chain

As described in section 4.1 above, RSPO certified ISH are in a better position to provide the evidence and information necessary for their buyers’ deforestation due diligence processes, compared to most other smallholders in the sector who might miss the right frameworks, resources or capacity to show compliance with the EUDR requirements.

Additionally, the RSPO P&C require certified mills to ensure legal origins of their third party FFB supply as well as geolocation of the farms.

Despite these strong features of the RSPO system, our analysis has shown that challenges remain with regards to several key supply chain actors.

This section therefore aims to explore the role of supply chain actors, as well as key challenges for them, in ensuring that the EUDR compliant status of certified smallholders can be transferred throughout the supply chain, all the way to the operators placing the palm oil on the EU market’s due diligence processes and statement further downstream. This is critical to ensuring that smallholders remain within EU supply chains.

As such, we see that the pure supply chain and traceability focused approach to deforestation mandated by the EUDR, risks putting smallholders at a real disadvantage, as companies placing product onto the EU market are expected to ensure compliance with the regulation regardless of origin of production.

With this in mind, some key challenges for smallholders in the context of the EUDR comes from barriers to market entry, including:

A. Traceability and geolocation data is not always transferred to the mill – blockages at the intermediaries’ level

Independent smallholders are significant contributors to the supply of Fresh Fruit Bunches (FFB) to mills, often relying on intermediaries for transportation and sale. However, the involvement of intermediaries introduces complexities and challenges to the supply chain dynamics. These intermediaries, motivated by competition and price fluctuations, may resist disclosing the sources of FFB, hindering transparency, and making it challenging for mills to establish direct and stable relationships with ISHs.

While intermediaries play a crucial role in collecting FFB from ISH farms and delivering them to mills, their presence can complicate traceability and contribute to volatile supply chains. This lack of transparency not only affects the ability of mills to trace the origin of FFB but also disrupts the integrity of certified and traceable supply chains.

To address these challenges, the RSPO Certification Systems document mandates that intermediaries handling FFB from smallholder groups must comply with the supply chain standard. They are required to obtain certification or be integrated into the group structure, ensuring a chain of custody system managed by the group manager. Despite these requirements, implementation has been hindered by various factors, including a lack of understanding

From a survey respondent

“The biggest obstacle to physical sales is that currently all RSPO certified member farmers in cooperative institutions already have attachments to collecting agents. Besides that, the wide distribution of farmers is also an obstacle.

So, selling credit is the best solution to be able to get institutions operating costs and improve farmer welfare”.

of the context of intermediaries and their interactions with smallholders and above all, a strong business case that would bring benefits to the intermediaries by assuming a role as certified supply chain members or formal supply chain license holders in the RSPO system.

As such, this lack of transparency and traceability at the intermediaries' level makes it difficult for EU importers to verify the sustainability and legality as RSPO ISH Standard certified FFB frequently gets mixed with non-certified FFB at intermediary level. Without clear visibility into the origin and production practices of the FFB supplied through intermediaries, EU importers face challenges in ensuring compliance with the regulation's stringent requirements. As a result, ISH may struggle to access EU markets due to concerns over deforestation and sustainability, exacerbating their exclusion from global supply chains and impeding their economic integration into the EU market. Addressing the intermediary issue is crucial for facilitating ISH inclusion in EU supply chains and promoting compliance with the EUDR.

B. Non-certified mills in the supply chain

The credit trading option was chiefly designed to allow some financial benefit to reach producers whilst fully certified supply chains are being developed. For RSPO ISH Standard certified smallholders that are in the vicinity of non-certified mills, this means reliance on the credit trading option as sole way of achieving a financial benefit from certification, whilst they continue to sell their FFB as conventional.

Insight from the surveys:

The lack of access to certified mills, and therefore lack of opportunities to their sell their PO as physical certified FFB rather than credit was a recurring theme in the ISH surveys.

For example, out of the 84 Indonesian ISH groups who participated in the survey, 29 cited the lack of nearby RSPO certified mills as a key challenge to selling certified FFB to the mill.

C. Certified mills deferring to credit sales

Interviewees made us aware that even where certified mills are buying from RSPO ISH Standard certified smallholders, these are often advised to sell their certification credits via the credit trading system and the mill purchases their FFB as conventional. We need to better understand these dynamics, but it seems market pricing is playing a role here, with mills not in a position to make good on the premium that can be achieved via credit sales.

D. Commercial leverage is limited

The EU market represents a small fraction (~7%) of the global palm oil market (see section 3.1). This means mills sourcing from riskier origins can easily find alternative buyers and markets with fewer demands. This limited leverage can make it challenging for smallholders to negotiate better terms or prices.

E. Risk of narrowing supply chains

Companies supplying to Europe may prioritise sourcing from a small number of "lower" risk suppliers or origins to comply with demand-side requirements and focus on the already complying suppliers or cost-effective option. For example, turning to larger, long-established plantations are often better equipped to provide the necessary traceability and other data to demonstrate compliance.

F. Impact on RSPO Shared Responsibility credit uptake target:

The RSPO encourages traders, consumer goods manufacturers, and retailers to increase their purchases of certified sustainable palm oil (CSPO). Independent Smallholder credits (IS-credits) are an acceptable way to contribute to these targets. Latest data from RSPO regarding the volumes and sale of IS-credits¹⁶ show the overall price generated by those and potential revenue stream for certified smallholders using this avenue to gain a premium from their sustainability efforts (See Figure 5).

Insight from the surveys:

When asked “what impact do you think EUDR will have on certified ISH access to the palm oil market?”, a large number of surveyed ISH groups highlighted the potential loss of credit sales to the EU as a direct negative impact which will affect their access to premium and impact their livelihoods.

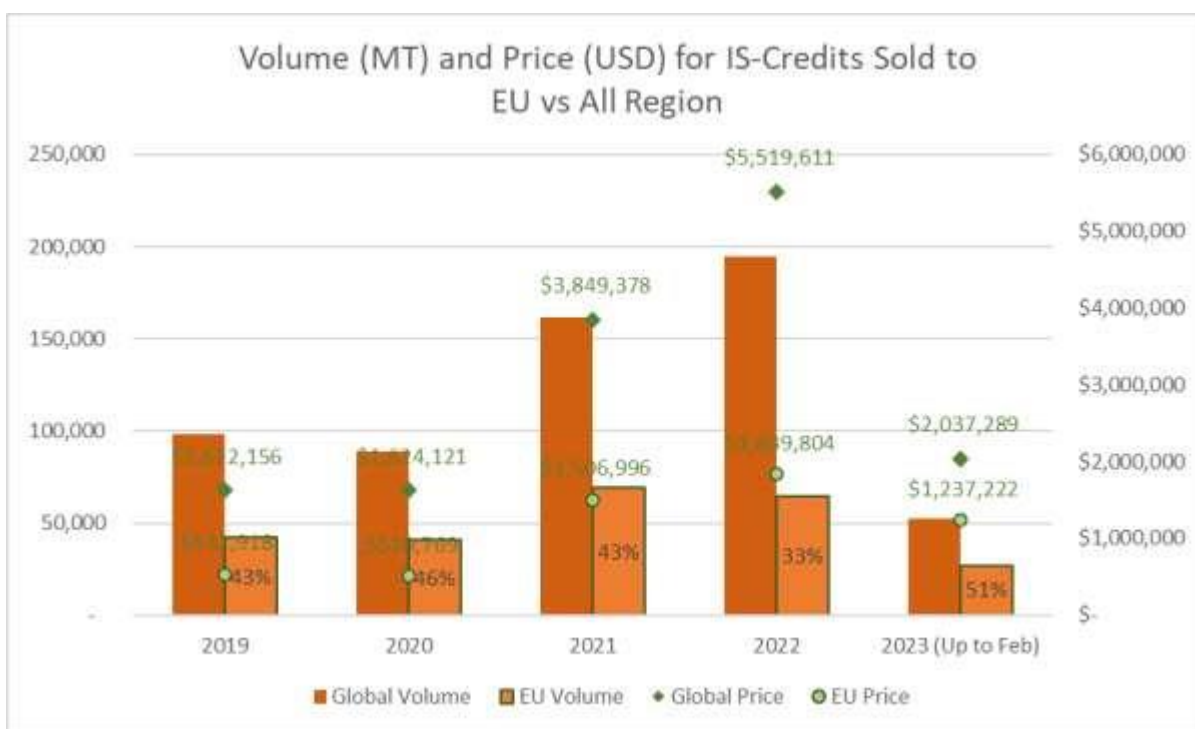


Figure 5. Evolution of Volume (MT) and Price (USD) for IS-Credits sold to THE EU between 2019-2023. Data from RSPO (2023).

However, the EUDR’s requirement for fully traceable sources could counteract this mechanism and risk excluding independent smallholders and potential additional income benefits.

On the other hand, some NGOs and smallholder advocacy groups (for e.g. SPKS) argue that the EUDR’s traceability requirements could empower smallholders by reducing supply chain complexity. and strengthening their incomes¹⁷. They believe that these requirements could lead to more transparent and equitable supply chains, potentially benefiting smallholders in the long run.

¹⁶ Here IS-credits refers to all ISH credits: IS-CSPO/IS-CSKO/IS-CSPKE – as per their name on RSPO system

¹⁷ SPKS, Mongabay, Chain Reaction Research

5. Recommendations

5.1. Recommendations for the RSPO ISH Standard

As described in section 4.1 of this report, the RSPO ISH Standard in itself is already in a good position to support certified ISHs comply with the requirements in the EUDR. As it currently stands, the standard already requires its users to:

- a. Collect geolocation data / polygons for all of their plots of land.
- b. Not contribute to the deforestation of HCV and HCS forests, as well as any forests protected under national law.
- c. Respect national and international land and labour laws, as well as respect FPIC and be part of a legally registered cooperative.

However, some gaps remain to fully cover the scope of the EUDR, namely:

- a. It is unclear whether the geolocation data requirements systematically include the latitude and longitude points of six decimal digits as requested in the EUDR.
- b. The scope of RSPO's forest and deforestation definitions are not fully aligned with the FAO definitions used in the EUDR. The RSPO ISH Standard currently allows the conversion of scrubland which will not be accepted under the EUDR.
- c. It is currently unclear what the cut-off date for remediation will be. If the cut-off date is post-December 2020, any palm produced in plots of land that have remediated deforestation post December 2020 will not be accepted under the EUDR.
- d. There is currently no specific requirement to comply with all national laws. While ISH are required to comply with the ones listed above, the standard does not specifically request compliance with other laws relevant to palm oil production for smallholders, nor is there a requirement to comply with anti-corruption, tax, trade, and customs laws.

Recommendation:

To avoid any undue burden on ISH who either are producing fresh fruit bunches that are highly unlikely to be destined for the EU market (for example, ISH in West Africa and Thailand), we recommend for RSPO to consider bridging those gaps through the creation of an optional add-on EUDR module to the RSPO ISH Standard, rather than making these requirements obligatory for all RSPO ISH Standard users.

This add-on module would include the following requirements:

1. Geolocation:

Geolocation data must have 6 decimal points for those plots under 4ha and polygons for plots of 4ha and above.

2. No-deforestation:

No-deforestation indicator aligned with FAO definitions.

3. Legality:

Additional indicator(s) explicitly requiring compliance with national laws, aligned with criterion 2.1 of the RSPO P&C (2018) but specific to smallholders. This could be done through an Annex within the RSPO ISH Standard, with reference and instructions for National Interpretations (NI) on integrating national legislations relevant for smallholders which includes:

- a. Having land tenure confirmed
- b. Holding all necessary licences for their operation
- c. If they employ workers, meeting those laws
- d. Environmental no-pollution (including agrochemicals management if they use any)
- e. Additional indicator(s) on anti-corruption and compliance with tax laws, similar to indicator 1.2 in the RSPO P&C 2018

It is worth noting that the introduction of EUDR-specific add-on modules which are optional has been adopted by other voluntary certification schemes, such as the Forest Stewardship Council's (FSC) Regulatory Module which provides additional deforestation, degradation, and legality requirements which will allow certificate holders to make 'no deforestation' claims¹⁸; as well as Rainforest Alliance's EUDR add-on requirements which cover geolocation, anti-corruption and compliance with tax laws¹⁹.

Alternatively, **should the RSPO not wish to go down the optional add-on module route**, these additional EUDR could sit within existing RSPO systems. In this case:

1. **Geolocation:** the specification of 6 decimal points for the geolocation **could sit within PRISMA** instead, whereby the option to input that level of granularity for ISH volumes could be offered to its users.
2. **No-deforestation:** Similarly to geolocation, **remote sensing via PRISMA** could also directly be used to check that no deforestation according to the EUDR/FAO definition and scope has occurred in the ISH plantations in question. Indeed, PRISMA is being built to have a forest layer that approximates FAO definitions of forest, this can then be overlaid during LUCA and spatial analysis to spot gaps between RSPO's requirements for forests (HCV, HCS) and generic forests, and flag any gap areas.
3. **Legality:** The add-on legality indicators introduced above could then be **directly integrated within the updated RSPO ISH Standard** and would therefore become mandatory for all ISHs rather than optional.

However, should the RSPO choose this alternative option, especially for 1 and 2, it will be critical to ensure that certified ISHs are adequately informed of what practices and data they will need to provide to feed into PRISMA and be EUDR compliant. By not integrating the geolocation and no-deforestation according to FAO directly in the ISH standard (as an add-on module), the RSPO risks losing the opportunity to provide a clear framework to support the production of ISH EUDR compliant volumes.

5.2. Recommendations for tackling the issue of interrupted supply chains

The supply chain - and consequently traceability – gaps linked to independent smallholder (ISH) volumes are potentially the most pressing challenges that need to be resolved not only by the RSPO but the palm sector as a whole, to support smallholder inclusion in EU supply chains and beyond.

We understand that a multipronged approach is needed to tackle different areas of the supply chain to ensure continued (and maybe even increased) sourcing of FFB from certified sustainable independent smallholders, as well as enhancement of internal RSPO tools and systems. This is directly linked to questions of fully traceable physical supply chains that are at the heart of EUDR requirements, so looking at the factors currently impeding a through supply chain will be key. As such, we are taking a general approach to support our understanding of these interrupted supply chains. By this we recommend RSPO to explore the traceability interruption both coming from the initial production (from ISH) to first buyers (this including intermediaries such as dealers or middlemen), to mills, through to downstream buyers which also have a role to play within the ultimate assurance of responsible sourcing and shared responsibility.

5.2.1 Facilitate traceability at the intermediaries' level

The involvement of intermediaries in smallholder supply chains poses challenges to traceability and transparency, as they may resist disclosing their sources of Fresh Fruit Bunches (FFB) to mills (or are themselves in a chain of dealers with variations week-on-week as to which farmers they each source from), hindering efforts to establish direct and stable relationships with independent smallholders (ISH). This lack of transparency can lead to difficulties in tracing the origin of FFB and disrupt the integrity of certified and traceable supply chains, especially when ISH end up having to sell certified credits separately from the physical FFB volumes. Despite wording in the RSPO systems documents to

integrate intermediaries into the RSPO supply chains, implementation hurdles persist due to a lack of understanding of intermediary dynamics and lack of a concrete business case for them to either get supply chain certified or obtain a trader’s license.

To overcome these barriers, stakeholders must enhance their understanding of the roles and dynamics of intermediaries within smallholder supply chains, and such be in a position to build a business case for them to take on a formal role in FFB traceability. This includes fostering transparency, and promoting collaboration among all actors involved, including any national traceability efforts or certification standards. By addressing these challenges collectively, the industry can work towards building more resilient, sustainable, and transparent supply chains for the benefit of all stakeholders involved. Any costs for the integration of intermediaries into the RSPO system should therefore be covered via the RSPO Shared Responsibility mechanism.

From an interviewee

“Consider collaboration with Malaysian Sustainable Palm Oil (MSPO), particularly on Dealership certification. As current RSPO certification has not accounted for FFB dealers, a collaboration could address the gap and hold the dealers accountable.”

As such we recommend for the RSPO to further integrate the intermediaries into RSPO Supply Chains by:

A. Consider a category for them in the RSPO Chain of Custody Standard either as a certified supply chain member or a trader license holder with obligation to track volumes in and out.

AND

B. Engaging with and supporting dealers, through a collaborative approach (e.g. including national and local government and sector initiatives as well as certified mills at the forefront, with costs borne by downstream actors in the supply chain) to set up and manage traceability data systems.

5.2.2 Facilitate the sale of certified physical ISH volumes

Our interviews and surveys found that there are still challenges for many certified groups to find mill/ factories willing to buy their certified volumes ranging from 1- non- certified mills in the vicinity naturally have no interest in buying certified FFB 2. Certified mills in the vicinity who offer prices lower than the price that can be achieved if selling conventional FFB plus the certification credits separately online or 3- even where certified mills would be willing and, in a position, to buy certified FFB, the physical distance affects transportation costs to the extent that again it results in a loss calculation.

From an interviewee

“Consider during the P&C revision a mandate for mills to source additional 5% certified FFB from neighbouring independent smallholders every consecutive year. These mills can also support the ISH in financial terms.”

As such, we recommend:

A. Enhance understanding of the barriers to physical certified ISH FFB being bought as such (in specific context: regions, countries, landscapes)

AND

Consider adding new targets for mills in the updated P&C for supporting ISH in the regions where there are certified ISH.

- **Increased sourcing of physical certified ISH FFB where certified ISH are present** in the region (percentage points with timeline?)

AND

- **Consider finetuning the targets in the Shared Responsibility mechanism** to aid the demand generation for ISH volumes – see below.

5.2.3 Encourage downstream support of ISHs through Shared Responsibility

The RSPO Shared Responsibility sets responsibilities adopted by RSPO members to achieve RSPO’s vision “a global partnership to make palm oil sustainable.” The theory of change means that to drive uptake and transform markets, the volume requirements for supply chain actors include Certified Sustainable Palm Oil (CSPO) and Certified Sustainable Palm Kernel Oil (CSPKO) percentage point uptake targets year on year. These targets can be reached by buying physical certified products (Identity Preserved (IP), Segregated (SG), or Mass Balance (MB)) or RSPO Credits when there is limited availability of physical certified products. While it is set currently at 2% CSPO for Processors & Traders and 12% CSPO for CGMs (Consumer Good Manufacturers) & Retailers, the current RSPO position is to encourage members that cannot fulfil the uptake target, to buy RSPO ISH Credits, yet there is no current uptake percentage recommended.

In this line, we recommend:

- A. **Additional SR target for increased sourcing of physical volumes from ISH AND**
- B. **Consider adding \$ to SH fund** (also Banks & Investors) for specific activities to aide RSPO ISH Standard certified ISH and Intermediaries with EUDR compliance and to compensate for reduced credit sales in EU.

5.2.4 Improved integration of ISH traceability data into the PRISMA

RSPO’s new **Palm Resource Information and Sustainability Management (PRISMA)** system is intended to empower members by seamlessly integrating data collected at the upstream level through certification, audits, and risk assessments into a secure trading platform.

The new platform will support RSPO Members (operators and traders) in providing information which is necessary for the due diligence statement required by the European Commission in line with the European Union Deforestation Regulation (EUDR) by 29 December 2024.

Based on the recommendations above aimed at addressing the bottlenecks at the different ISH supply chain levels, **it should then become possible to gather traceability data from ISH to FFB intermediaries and mills in PRISMA. This will allow for consistency in data according to PRISMA data quality requirements and sharing of this data with downstream actors who are sourcing palm oil products through these supply chains and need the traceability information as part of EUDR compliance.**

6. Conclusion

While there is still work to do in tackling deforestation in large plantations, recent evidence indicates that deforestation is now higher outside of large plantations, including by Small and Medium Sized Enterprises (SMEs - in the RSPO context referred to as medium growers) and independent smallholders (ISH)¹⁸, many millions of whom rely on oil palm for their livelihoods. However, a pure supply chain and traceability focused approach to deforestation, as mandated by the EUDR, risks putting smallholders at a real disadvantage. Indeed, the regulation does not differentiate between smallholder or industrial production, so that companies placing products onto the EU market are expected to ensure compliance with the regulation regardless of origin of production¹⁹.

These traceability requirements and exclusion of non-compliant' independent smallholders, might favour shorter supply chains and create better direct' links/ trade between ISH associations and mills or other buyers. This might, in turn, reduce dependence of ISH on middlemen and traders and thus improve their visibility in the supply chain, possibly reducing the risk of unfair payments and allowing them to receive a larger share of profits.

RSPO already plays an important role in driving best practice for both smallholders and other actors in the supply chain, and therefore has a role to play to further supporting better integration of all actors (smallholders, intermediaries, mills, refineries and buyers) in order to ensure sustainable practices are followed and costs shared across the supply chain.

¹⁸ [WRI – latest analysis deforestation trends 2023](#)

¹⁹ [Briefing Paper: Implications of the EU Deforestation Regulation \(EUDR\) for oil palm smallholders – Solidaridad, CPOPC, MVO, 2023](#)

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- **RSPO Internal documents: Sales by Book & Claims, Market Data, Smallholder technical committee Internal discussions**
- **External Interviews with palm oil experts**
- **Surveys with RSPO ISH certified Group Managers**

Annex 2. List of interviewees

ID	Interviewee(s) name(s) & Role	Organisation /Company	Type	Region
1	Rob Nicholls (<i>Independent Smallholder Division</i>)	Musim Mas	Grower	Indonesia
2	Bella Sosa (<i>RSPO Latin America Smallholder Manager</i>)	RSPO	VSS	LatAm
3	Daniel Liew (<i>Manager Standard Design and Development - Jurisdictional Approach</i>)	RSPO	VSS	World
4	Rosemary Addico <i>Programme manager, responsible gold</i>	Solidaridad Ghana	NGO	Ghana
5	Julián Peña <i>Coordinador de operaciones de campo</i>	Solidaridad Colombia	NGO	Colombia
6	James Lael-Allotey (<i>Senior Officer-Farm and Landscapes Frameworks</i>) & Kerry Daroci (<i>Cocoa Sector Lead</i>)	Rainforest Alliance	VSS	World
7	Stefano Savi (<i>Director</i>)	GPSNR	VSS	World
8	Dayang (<i>Certification Manager</i>)	Control Union Malaysia	RSPO ISH Certification Body	Malaysia
9	Hoo Boon Han (<i>Assistant General Manager</i>)	ISF Refinery	Independent Palm Oil Refinery	Malaysia
10	Amanina Rashid (<i>Project Manager</i>) Amrin (<i>Smallholder representative</i>) Saifullah Azahar (<i>Traceability Manager</i>) Faridz Harith (<i>Group Manager</i>)	PERTANIAGA	ISH group	Peninsular Malaysia
11	Rahmat (<i>Smallholder Representative</i>)	KUD Tri Daya	Smallholder's cooperative	Central Kalimantan, Indonesia

12	Jeklin (<i>General Manager & ICS Manager</i>)	Perkebunan Belayan Sejahtera Cooperative	Smallholder's cooperative	East Kalimantan, Indonesia
13	Hudri (<i>Head of Koperasi & ICS Manager</i>)	Berkah Taka Mandiri Cooperative	Smallholder's cooperative	East Kalimantan, Indonesia
14	Fauzan, <i>Representative of Smallholder Association</i>	Setara Jambi	ISH Facilitator (NGO)	Jambi Province, Indonesia
15	Darno (<i>Smallholder Representative</i>)	Persada Engkersik Lestari Cooperative	Smallholder's cooperative	
16	Tonidi (<i>ICS Manager</i>)	Koperasi Produsen Unit Desa Rangan	Village cooperative producer unit	East Kalimantan, Indonesia
17	Choirul Fuadi (<i>Director & ICS Manager</i>)	BUM Desa Berkah Mulya Jaya Mekar Mulya,	Village cooperative	Central Kalimantan
18	Novet Charles Akololo (<i>Field Coordinator</i>)	Serikat Petani Kelapa Sawit (SPKS)	NGO supporting ISH across Indonesia	Indonesia
19	Razzeman (<i>Group Manager for MSPO</i>) and Alfred Yee (<i>Director</i>)	Koperasi Landskap Kelapa Sawit Sabah Berhad	ISH group	Sabah, Malaysia
20	Dr Chaiyaporn Seekao	N/A	RSPO Auditor	Thailand
21	Rukaiyah Rafik (<i>Head of FORTASBI Secretariat</i>)	Fortasbi	NGO supporting ISH across Indonesia	Indonesia

Annex 3. Surveys Questionnaire – Pdf doc shared separately

Annex 4. Surveys Results - Excel doc shared separately

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