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Certifying China

The Rise and Limits of Transnational Sustainability Governance in Emerging Economies

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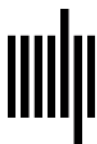
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4 Palm Oil: The Entry of the RSPO with Lukewarm State Support

Used in a variety of products, including food, cosmetics, and cleaning products, palm oil is a critical commodity for many industries. From 1970 to 2010, its global production experienced a 23-fold surge, but this boom has caused large-scale deforestation and biodiversity loss, especially in Southeast Asia (Byerlee, Falcon, and Naylor 2017). In light of this surge, some environmental NGOs and business stakeholders initiated a transnational certification program—the Roundtable on Sustainable Palm Oil (RSPO)—to reduce the industry’s environmental and social impacts. As the only certification program focusing solely on palm oil, the RSPO quickly expanded its influence in the global supply chain and has been eager to win support from Chinese companies. But the market structure that China has—no oil palm plantations and only imports of the commodity from other developing countries—presents challenges for the RSPO in engaging with Chinese stakeholders, who generally lack awareness of relevant sustainability issues. Additionally, palm oil is only used as an ingredient in different products, which further increases the difficulty of targeting a specific industry and gaining support from consumers. In this challenging situation, what can drive the rise of palm oil certification in China?

This chapter investigates the evolving process through which the RSPO was taken up in China’s palm oil supply chain and identifies the key forces shaping this process. It shows that the program’s fast growth in China since 2015 was mainly attributable to efforts made by the RSPO and its NGO supporters to proactively engage with Chinese stakeholders, especially actors in the state organization. As the outcome of such efforts, the RSPO has partnered with a quasi-state industry association—the China Chamber of Commerce for Import and Export of Foodstuffs, Native Produce and Animal By-Products (CFNA)—to build awareness of sustainable palm oil in China

and reach out to domestic enterprises holding dominant positions in the market. This finding underscores the positive effects of proactive communication strategies and strong local capacity on the promotion of transnational eco-certification in China. It also confirms the important role of state actors, especially national industry associations, in influencing the spread of transnational governance in China. Nonetheless, the study also reveals that Chinese state actors have been hesitant to provide stronger policy support to incentivize firms to change their sourcing behaviors, as the direct benefits of palm oil certification for the country are deemed limited. Such hesitation has prevented a significant increase in the volume of certified palm oil imported to China.

The chapter begins with a summary of the RSPO's history and its growth in China. Next, I consider the structure of China's palm oil supply chain, assessing its fit with the governance model of eco-certification. I then examine the RSPO's efforts for increasing its uptake in China and its progress over time. My analysis shows the importance of partnerships between the RSPO and Chinese state actors and illustrates such dynamics through the case of the largest state-owned agribusiness—China National Cereals, Oils and Foodstuffs Corporation (COFCO). In the conclusion, I draw lessons from the RSPO's China strategy and discuss the limitations of palm oil certification in transforming the Chinese market.

4.1 Palm Oil Controversies and the Emergence of the RSPO

As a cheap edible oil, palm oil is highly saturated and solid at room temperature, and it has a neutral taste and smell. Therefore, it became an appealing ingredient for food, cleaning, and toiletry products (Saxon and Roquemore 2011). It is also used as the primary cooking oil in many developing countries. Due to growing demand, the commodity has become the most used vegetable oil in the world in the past two decades.¹ Southeast Asia has been always the leading supplier in the global palm oil market, and Indonesia and Malaysia together represent around 85% of global production (see figure 4.1).

The rapid growth of palm oil industries in the two leading producer countries resulted in a phenomenal expansion of plantations at the expense of natural forests (Koh and Wilcove 2008; Pirker et al. 2016). For economic reasons, both governments have strongly supported the expansion of palm oil

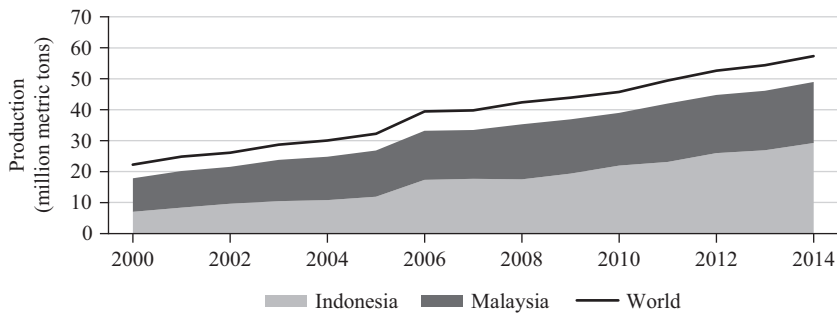


Figure 4.1

Changes in global palm oil production since 2000.

Data source: FAO 2018a.

export and have paid less attention to the consequences of land-use change (IFC 2011). But the tropical land converted to oil palm plantations contains species-rich and carbon-rich tropical forests, including peatlands, which are important biodiversity and carbon stocks (Koh et al. 2011; Vijay et al. 2016). As a result, large amounts of greenhouse gases have been released into the atmosphere, and the survival of many endangered species, such as the orangutan and Sumatran tiger, has been threatened (Greenpeace 2008; Rainforest Action Network 2013; Henders, Persson, and Kastner 2015). Human rights violations have also been associated with the expansion of oil palm plantations, including the failure to protect local communities' land rights and the use of forced and child labor (Colchester 2011; Rainforest Action Network 2013; Amnesty International 2016).

Seeing huge environmental and social impacts caused by the palm oil industry, in the late 1990s, WWF decided to partner with industry representatives and investors to promote sustainability governance in the global palm oil supply chain. The outcome was the creation in 2004 of a certification program—the RSPO—that aims to “transform markets to make sustainable palm oil the norm.”² The RSPO is a membership-based organization, where businesses and civil society groups can join as members to participate in its decision-making processes and obtain access to its information. Business members can take a further step to get certified for producing or using sustainable palm oil. At the heart of this certification program are the RSPO Principles and Criteria, a set of guidelines for producing palm oil sustainably, against which assessments of producers are made by third

parties. Businesses in the downstream part of the supply chain using certified palm oil also need to have their management system verified to obtain a supply chain certificate (like the chain-of-custody certification for seafood). On paper, the RSPO's Principles and Criteria cover every aspect of sustainable development to promote economically viable, environmentally appropriate, and socially beneficial management and operations (RSPO 2013; Pye 2016). But the program's standard-setting processes have been dominated by industry groups with little involvement of smallholders, and many loopholes exist in the implementation (Pichler 2013; Richardson 2015). Field investigations by environmental NGOs found cases where certified producers destroyed natural forests or violated the rights of local communities and workers.³

In terms of supply chain certification, the RSPO has four systems: book and claim, mass balance, segregated, and identity preserved.⁴ In the "book and claim" system, downstream manufacturers and retailers who want to support sustainable palm oil can buy credits from RSPO-certified producers without physically purchasing and using certified palm oil. "Mass balance" allows downstream users to mix certified and uncertified palm oil but provides no guarantee about the percentage of certified palm oil in the resulting products and, therefore, may help in "greenwashing" (Rainforest Action Network 2013). Only the "segregated" and "identity preserved" systems monitor the whole supply chain by separating certified products, and the "identity preserved" system even traces sustainable palm oil back to the individual supply bases. While these systems imply different levels of commitment and use of certified products, the RSPO does not require downstream businesses to communicate the systems they choose to end consumers, and this has further sharpened observers' criticism (Ruysschaert and Salles 2014).

In response to external critics, the RSPO reformed its governance and strengthened its standards, and these efforts have made the program's requirements substantially more stringent than regulations in most producer countries (Schouten and Glasbergen 2011; Garrett et al. 2016). Accordingly, holding the promise of reducing the sustainability impacts of the global palm oil market, the RSPO has experienced rapid growth since 2008. As of June 2018, the RSPO had attracted 3,920 members and had more than 3.1 million hectares of certified oil palm area, which collectively produced 13.6 million tons of palm oil—approximately 19% of the global production volume (RSPO 2018a). Hence, the RSPO has been considered by some analysts to be one of the most successful eco-certification programs in the past decade

(Lernoud et al. 2017). To transform the global market, the RSPO needs to engage with emerging economies, which have become major end markets for palm oil (Schleifer 2016; Dauvergne 2017). In addition to the EU, China, India, and Indonesia were three major consumers in the past decade, together accounting for nearly 40% of global consumption.⁵ But advocates of sustainable palm oil have been worried about these new end markets and have even warned that the demand by emerging markets for cheap palm oil is now the key driver behind agricultural expansion and deforestation in Indonesia and Malaysia (Greenpeace India 2012). In response to this market change, in the early 2010s, the RSPO decided to make efforts to promote certified products in emerging economies.⁶

The RSPO has set time-bound plans for uptake in these markets—for China, the goal is to have 10% of palm oil certified by 2020 (RSPO 2016). The target in China is relatively pessimistic compared to other Southern markets (e.g., 30% for India and 50% for Indonesia). While the rationale behind these targets remains unclear, the modest goal for China reflects the many obstacles that have been expected in transforming the country's palm oil sector.⁷ In 2011, the RSPO was first introduced to Chinese companies, and in 2015, the program began to accelerate its spread in the country (see figure 4.2). Such progress is rather surprising for the RSPO, as the number of its members and supply chain certificates has always been higher in China than in India—an outcome contrary to the program's initial expectations for the two markets (Schleifer and Sun 2018).

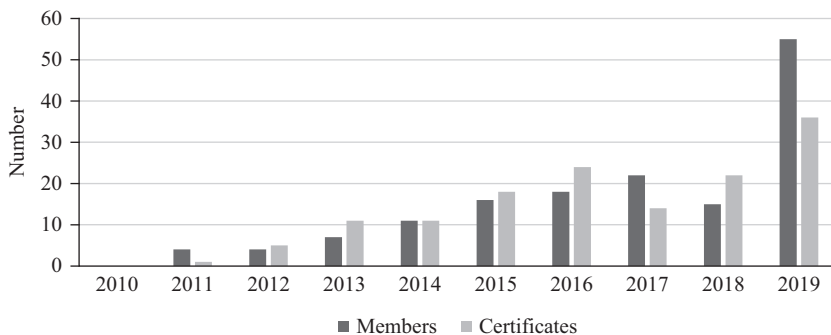


Figure 4.2

The RSPO's annual growth in China.

Data source: RSPO website at <https://rspo.org/certification/search-for-supply-chain-certificate-holders>.

Table 4.1

Support for the RSPO from major trading companies in the Chinese market

| Company | RSPO membership | RSPO-certified facilities in China |
|---------------------|-----------------|------------------------------------|
| Wilmar | ✓ | ✓ |
| Cargill | ✓ | ✓ |
| COFCO | ✓ | ✓ |
| Sinograin | ✓ | ✗ |
| Julong ^a | ✓ | ✗ |
| Sinar Mas | ✓ | ✗ |

Note: This list was suggested by a commodity trader specializing in the Chinese palm oil market (Interview BBJ11). The imports of these companies represent more than half of the total palm oil consumed in China.

^aJulong was a private Chinese company specializing in palm oil trade, but since mid-2016, the company has suffered from financial problems and withdrew its membership.

Growing support for the RSPO in the Chinese market is also reflected by the position of the commodity traders dominating China's palm oil supply chain. Table 4.1 shows that, as of mid-2017, nearly all major traders of palm oil in the Chinese market were RSPO members, and three of them had supplied certified palm oil to buyers through their facilities in China. Despite these encouraging trends, we must recognize that the uptake of certified palm oil in the Chinese market remains very low—only up to 1.5 % of the total volume imported to China, according to data for 2017–2018 (RSPO 2018a).⁸ This figure shows a substantial gap between the physical uptake of certified products and the RSPO's target of 10%. To explain the RSPO's progress and limitations in China, we need to consider the industry's structure and the influence of key stakeholders.

4.2 China's Palm Oil Supply Chain

Over the past 25 years, China has become a major player in the global palm oil market by quintupling its consumption volume. Accounting for 17% of the country's vegetable oil consumption, palm oil is now the third-most popular vegetable oil in the country after soybean and rapeseed oils.⁹ As the climate in China is not suitable for the growth of oil palm, all palm oil consumed in the country is imported, mostly from Indonesia and Malaysia.¹⁰ Figure 4.3 illustrates China's import volumes and its position in the

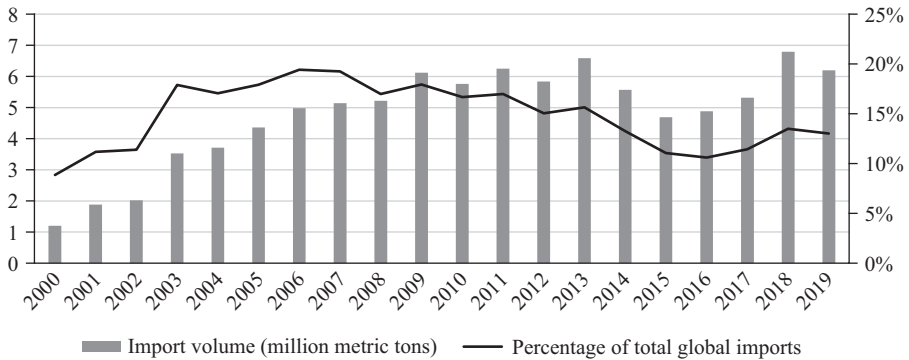


Figure 4.3

China's imports of palm oil.

Data source: US Department of Agriculture's reports *Oilseeds: World Markets and Trade* at <https://usda.library.cornell.edu/concern/publications/tx31qh68h?locale=en>.

global palm oil trade since 2000. Despite some fluctuations, China always has been one of the top palm oil importers in the world.¹¹

The surge in the demand for palm oil has been driven by the development of China's food and chemical industries since the late 1990s. Trade liberalization policies in the agricultural sector, as a result of the country's accession to the World Trade Organization, further facilitated the import of palm oil for Chinese industries (Orden et al. 2007). In 2006, China finally opened its import market by abolishing all quotas and only setting a tariff rate of 9% for palm oil.¹² Due to this liberalization reform, an increasing number of private traders, including foreign-owned ones, were able to enter China's vegetable oil market (Martin 2005).

Nearly all palm oil imported to China is used to produce products consumed domestically, and only an insignificant amount is used in exported products (CFNA 2010). Being a large end market of palm oil poses challenges for the rise of palm oil certification in China, as the strategy of targeting Northern multinationals may be problematic due to the limited influence of these companies on the Chinese market. Unlike the case of the seafood processing industry, very few users of palm oil in China seek market access to developed countries. Hence, we are unlikely to observe the situations assumed by hypothesis 1 in chapter 2. This market structure has indeed made many practitioners pessimistic about the prospects of sustainable palm oil in China.¹³

In terms of industry structure, China's palm oil supply chain consists of three main stages: commodity trading, manufacturing of consumer goods, and retail. Involving very different companies at each stage, this chain often lacks lead firms seeking vertical coordination along the chain. In other words, downstream companies wanting to source certified products could face technical barriers to tracing their materials and identifying certified producers. Nonetheless, horizontally, the commodity trading industry in this chain has been concentrated in a small number of large companies—a feature that can be conducive to the spread of eco-certification. In the absence of official data, market analysts have estimated that fewer than ten trading companies control more than half of the supply of palm oil to China (also see table 4.1).¹⁴

Some top importers in this list are large multinational agribusinesses, which play a dominant role in the global agricultural commodity trade.¹⁵ Originally established as grain traders, these companies have been transformed into “agricultural value chain managers” on a global scale by undertaking a range of activities from production and processing to distribution and finance (Clapp 2015). For their business in palm oil, companies like Cargill and Wilmar have their own integrated supply chains with plantations and crushing mills in producer countries.¹⁶ Because of their influence on global trade, multinational agribusinesses have been the main targets of various eco-certification programs (Ponte 2014). This is also the case for the RSPO, which has proactively engaged these agribusinesses since its creation. Moreover, under pressure from NGO campaigns, consumer goods manufacturers have also asked these companies to provide a “license to operate” through certification or other governance initiatives (Rueda, Garrett, and Lambin 2017). As a result, major agribusinesses in the global palm oil market, such as Wilmar and Cargill, have decided to support the RSPO and have been committed to making 100% of their supply compliant with RSPO standards.¹⁷ If these foreign traders follow through on such commitments in their business in China, they will constitute a key driving force of the rise of sustainable palm oil.

Besides multinational companies, the Chinese government has also aggressively supported the so-called “dragonhead” agribusinesses, and some state-owned companies, such as COFCO and Sinograin, have become top palm oil importers and strongly influence the Chinese market. More recently, Chinese agribusinesses have followed the state's “agricultural going out” policy to

merge multinational commodity traders and purchase farmland and processing plants abroad (Schneider 2017). For instance, in 2014, COFCO acquired the majority stake of two major international grain traders, Nidera and Noble Agri, a move that would enable China to get closer to the source of oilseeds (Clapp 2015). Hence, if large, capital-intensive Chinese agribusinesses find the RSPO helpful in building their global reputation and improving their supply chain management, they may help the program to promote eco-certification in the Chinese market.

Additionally, a few private companies also became major palm oil importers in the 2000s (Potts et al. 2014). However, most of them are not traditional commodity traders but have used palm oil as collateral to get cash loans from banks and then put cash into higher-yielding investments (Ng 2013). To get loans from banks, private traders cash out their imported palm oil at a discounted price in China's local market, which discourages traditional commodity traders (i.e., agribusinesses) and palm oil users from importing directly from producer countries. However, to repay their loans, these companies must continue to increase their import volume, even though actual demand remains unchanged, and this has led to a vicious circle that further decreases the price in the Chinese market.¹⁸ As a result, for several years, the price of palm oil in China was consistently lower than the imported price (Reuters 2014). This trading model, with a distorted price status, constituted a major challenge for the import of certified palm oil, as relevant trading companies are highly price sensitive and have little incentive to build relationships with producers. Fortunately, since 2014, most companies engaging in commodity financing have been gradually eliminated from the market, as the price discounts have become too high to maintain and the government also has tightened regulations on bank loans after a fraud case, in which traders pledged the same collateral for multiple loans (Reuters 2014). This market change has important implications for palm oil certification in China, as, compared to financial market speculators, large agribusinesses are more likely to support eco-certification to maintain long-term supply and corporate reputation.

Moving to the stage of consumer goods manufacturing, some large users of palm oil in China are branded companies that produce food or chemical products. In the 2000s, more than 70% of the palm oil imported to China was used in the food industry and around 15–20% was for the oleochemical industry (CFNA 2010; Ng 2013). In China's food industry, palm oil is

not used as a major cooking oil, nor is it sold in bulk. Hence, most palm oil in China is used by convenience food manufacturers, and this market has become increasingly concentrated in large brands: For instance, a few companies control China's instant noodle industry (X. Zou 2013). In the oleochemical industry, palm oil is used to produce various personal care products and candles. The scale of production is relatively large and major manufacturers include both multinational and domestic chemical companies.¹⁹ In this market, we see multinational brands like Unilever, which have adopted strong sustainability policies and may serve as important agents to introduce sustainable palm oil certification in China. However, given the scale of the country, it has been estimated that over 5,000 small companies in China use palm oil, many of which target the country's less developed regions.²⁰

In the last stage of this chain, China has a fast-growing and increasingly concentrated retail sector, with the rapid expansion of Northern big-box supermarkets in the past two decades (Allen 2012; Dauvergne and Lister 2013; Pickles, Barrientos, and Knorringer 2016). Meanwhile, large Chinese supermarket chains have also become popular in urban areas (Hu et al. 2004). Accordingly, many products containing palm oil are likely to be sold by these large, branded retailers, who could play a key role in raising awareness and increasing the uptake of palm oil certification in China. For instance, the RSPO's growth in China would be accelerated if multinational retailers such as Walmart extended their sustainable sourcing commitments to the Chinese market (Dauvergne 2017).

Figure 4.4 illustrates the key parts of China's palm oil supply chain from production sites to retail stores. While vertical integration remains limited, the RSPO could leverage a few dominant traders, especially multinational ones, to promote certified palm oil in the Chinese market. Additionally, large, branded manufacturers using palm oil are prospective supporters of eco-certification. These structural features suggest opportunities for the RSPO to gain traction in China, although sustainability impacts of palm oil production remain largely unknown to most local stakeholders. Below I examine how the RSPO gradually entered and expanded its operations in China.

4.3 The Progress and Limitations of Sustainable Palm Oil Certification

The RSPO was initially introduced to Chinese stakeholders in the late 2000s.²¹ However, until 2011, no companies based in China had joined the RSPO, nor had any certified palm oil been sold to the country. Since 2011,

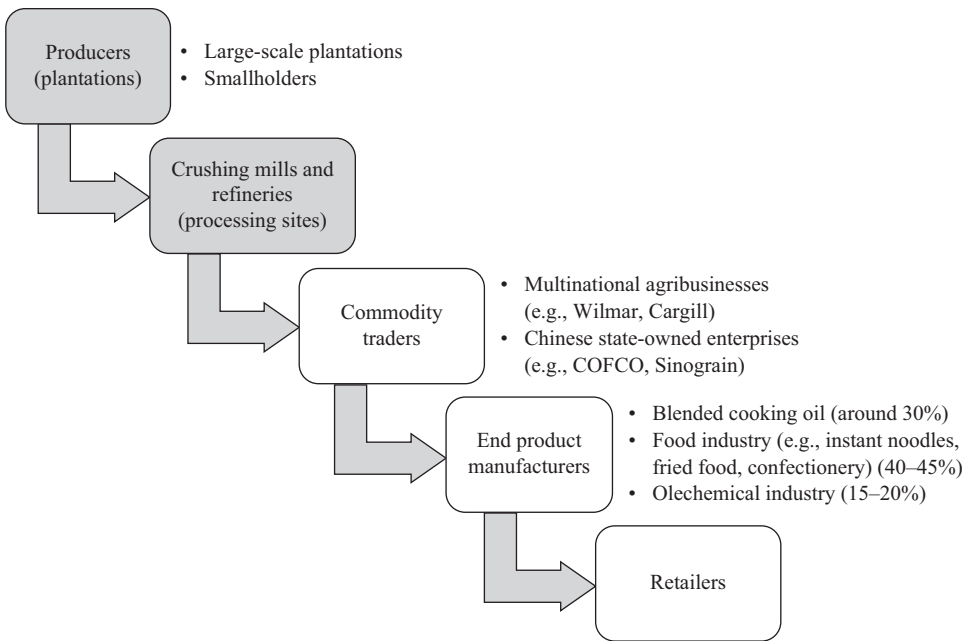


Figure 4.4

Structure of China's palm oil supply chain.

Note: Shaded boxes refer to stakeholders located outside China. Large multinational agribusinesses usually have integrated supply chains up to the stage of production, by owning plantations and crushing facilities in producer countries. But this is not the case for Chinese state-owned agribusinesses.

some companies began to show interest in the RSPO by becoming members and even obtaining supply chain certificates to physically handle certified palm oil. The RSPO gathered further momentum after 2014, as reflected by a surge in the number of new members and certificates every year (see figure 4.2). This progress is remarkable, although the sales volume of certified palm oil to China remains low. It can be attributed to the RSPO's efforts to engage with domestic stakeholders and the subsequent support from some actors in China's state organization. This section first examines the roles of different stakeholders in the relevant processes and then zooms in on the case of COFCO, a major state-owned commodity trader in China.

4.3.1 Transnational Market Influences on the Initial Entry of the RSPO

RSPO-certified facilities began to appear in China in 2011. As only an insignificant part of palm oil is used in China to make products for export,

the influence of Northern buyers on the adoption of palm oil certification by Chinese firms should be limited. Nonetheless, in line with the mechanism specified by hypothesis 1 in chapter 2, a few export-oriented manufacturing companies were among the earliest RSPO certificate holders in China due to the demand by their customers in developed countries. The first-ever RSPO supply chain certificate holder in China was Beltek (Huizhou) Foods Co., a producer of instant noodles that not only supplies China's domestic market but also many developed countries, such as the US, the UK, Canada, and Germany since the early 2000s.²² In its Communication of Progress to the RSPO, the company stated that to follow requirements on sustainable palm oil in foreign markets, 22% of the palm oil it had purchased in 2013 was from certified plantations.²³ This is a typical case, in which sustainability governance has flowed from Northern buyers upstream in the global palm oil supply chain. Hence, a few companies in developed markets sourcing products from China that contain palm oil were the drivers of the initial entry of the RSPO into China before 2015.²⁴

In the same period, foreign-invested multinational corporations in China seemed to play a more significant role in introducing the RSPO to the Chinese industry and market by adopting relevant standards in their facilities and setting requirements for their suppliers. Most of them sought certification for their global operations due to the social pressure concerning palm oil that they had experienced from other countries. Accordingly, their certified facilities in China have served as a prerequisite for them to meet their global sourcing commitments, even if they did not immediately switch to certified palm oil in their Chinese business. In line with hypothesis 4, these foreign-invested companies tend to be large and have the capacity to implement traceability in their supply chains. These early supporters included companies at different stages of the supply chain, from commodity traders to consumer goods manufacturers and retailers.

Among commodity traders, large multinational agribusinesses like Wilmar and Cargill became major contributors to the initial rise of the RSPO in China after they had decided to support sustainable palm oil certification in their global networks. A notable example is Wilmar, a Singapore-based agribusiness that is one of the largest oil palm plantation owners in Indonesia and Malaysia and is also the largest edible oils refiner and specialty fats manufacturer in China.²⁵ As of mid-2017, the company had the most RSPO-certified facilities in China, holding 13 out of the 87 supply chain

certificates listed on the RSPO's website. The company is among only a few agribusinesses in the world that have built an integrated system of palm oil production, encompassing cultivation, processing, and trading, and therefore has been able to adopt RSPO standards in its vertically integrated supply chain.

Wilmar's support for RSPO certification has been largely driven by criticisms from civil society groups about its environmental and social impacts in producer countries (Colchester et al. 2011). For instance, NGOs launched campaigns against the company and submitted complaints to the RSPO and also to the World Bank's International Finance Corporation, which financed the company's plantations (Balaton-Chrimes and Macdonald 2016). Under such pressure from civil society and investors, Wilmar announced a far-reaching policy commitment of "No Deforestation, No Peat, and No Exploitation" in 2013 (Poynton 2013; Wilmar 2013). With this commitment, the company began to adopt the RSPO standards in its global operations, including China, where it has always been a leading supplier. In late 2013, Wilmar adopted the RSPO supply chain standard in its processing plants in China, and a year later, it began to supply palm oil from certified plantations to China.²⁶ While the company has expressed its willingness to support the uptake of sustainable palm oil in the Chinese market, it has not announced any target for the volume or percentage of certified commodity in its Chinese business, nor has it set out explicit requirements for their Chinese buyers.²⁷ In other words, if downstream companies do not demand the certified commodity, Wilmar's support for the RSPO seems unlikely to increase the actual sales volume of sustainable palm oil in China.

In China's industry of consumer goods manufacturing, a few Northern-headquartered, branded companies were among the earliest promoters of sustainable palm oil in China. A widely cited example is Mars, Incorporated, an American manufacturer of chocolate and chewing gum. Partly as a response to activist campaigns in Northern markets, in 2010, the company joined the RSPO and set a target of sourcing only RSPO-certified palm oil by 2015. Since then, the company has implemented this policy in its global operations, including in China. To achieve its target, Mars has made great efforts to explain the importance of sustainable palm oil and potential benefits of eco-certification to its suppliers in China.²⁸ By the end of 2013, all palm oil purchased by the company around the globe was RSPO-certified according to the mass balance model. Hence, this case shows that the sourcing

requirements of some foreign branded manufacturers in China provided another important pathway for the initial rise of certified palm oil in China in the early 2010s.

In the retail sector, multinational supermarkets' policies on responsible sourcing also facilitated the initial entry of the RSPO into the Chinese market. For example, Walmart and Carrefour committed to ensuring the use of 100% sustainable palm oil in their private brand products by the end of 2015. While both companies have prioritized Northern markets—North America for Walmart and Europe for Carrefour—in implementing their policies, they have also introduced the RSPO to their suppliers in China, driving a few Chinese manufacturers to support sustainable palm oil.²⁹ However, in their 2016 Communications of Progress to the RSPO, both retailers reported that their Chinese business represented only 1% of the total certified palm oil that they purchased globally.³⁰ Given the size of the whole Chinese market, these figures suggest that the existing policies of multinational supermarkets had only a marginal influence on the rise of sustainable palm oil.³¹

In summary, in the early 2010s, multinational companies in China were key actors in introducing the RSPO to Chinese businesses in the palm oil supply chain. As illustrated by figure 4.5, before 2014, 12 out of 13 RSPO supply chain certificates in China were held by foreign-invested companies. These

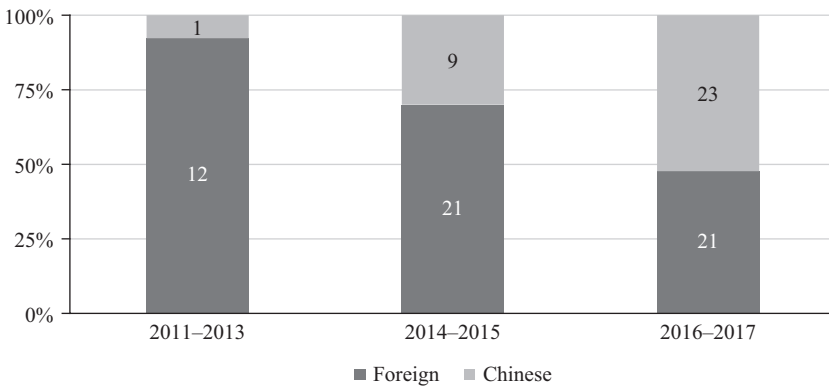


Figure 4.5

Evolution of RSPO supply chain certificate holders in China.

Note: The figures appearing in the bars indicate the number of certificates.

Data source: RSPO website at <https://rspo.org/certification/search-for-supply-chain-certificate-holders>.

companies drove the initial uptake of sustainable palm oil in China due to the pressure they received in other markets—a phenomenon that is in line with hypothesis 2 in chapter 2. Yet, as reflected by the RSPO's slow growth before 2015, the influences of transnational market agents remained weak in China's palm oil supply chain. This made the RSPO and its NGO supporters further realize the importance of gaining the support of Chinese stakeholders.

4.3.2 Engagement of the RSPO with Actors in the Chinese State

Soon after its creation, the RSPO acknowledged the importance of the Chinese market and began to devote efforts to engage with stakeholders in China's palm oil supply chain. The program has adopted a strategy to proactively leverage the influence of actors in the Chinese state to incentivize businesses for sourcing sustainable palm oil. According to a former top official of the RSPO, "to increase the uptake of sustainable palm oil in China, you should move the government first and get the right people on board."³² Under this strategy, since 2008, the RSPO has invited representatives of the Chinese government and industry to the RSPO annual roundtable meetings and also organized, with support from some partner NGOs, several visits by Chinese stakeholders to producer countries for awareness raising.³³

While the RSPO has gradually built connections with some government officials through these exchanges, the program was not present in China until 2015. Prior to that, it had mainly relied on transnational NGOs advocating sustainable palm oil to engage with Chinese stakeholders. In this respect, WWF, as a founding member of the RSPO, played an important role. WWF-China was the first organization to raise the issue of palm oil in China in 2007 and helped the RSPO establish contacts with some government agencies and businesses.³⁴ Another important partner is Solidaridad, a Dutch development NGO, which has worked on palm oil issues since 2009 and has actively advocated sustainable palm oil in the global market. Since 2013, Solidaridad, with the support of the Dutch government, has organized several roundtable dialogues with Chinese stakeholders as well as study tours in Europe and Indonesia in order to raise Chinese stakeholders' awareness of sustainability problems related to palm oil.³⁵

For both WWF and Solidaridad, their main approach is to engage the attention of major companies in the supply chain through communication and collaboration instead of campaigns or boycotts. To incentivize companies

in the palm oil supply chain to support eco-certification, both NGOs first attempted to partner with the relevant government agencies or industry associations supervised by these agencies. This strategy has been deemed particularly important in China, because the government cannot be bypassed in the rise of transnational governance. According to the team leader of the market transformation program in WWF-China, “The nature of voluntary standards changed when they entered China[,] as the country remains an incomplete market economy . . . the Chinese government has a strange position as it would like to represent everyone including companies, civil society, and consumers.”³⁶ As I show below, over time, proactive engagement by the RSPO and its NGO partners with Chinese state actors has come to fruition, as reflected by the establishment of a partnership in 2013 with the CFNA, a national trade association supervised by the Ministry of Commerce (MOFCOM).

In China, the MOFCOM is the national agency regulating commodity import, and it naturally became the first target of engagement by the RSPO and its NGO supporters. As mentioned earlier, in 2008, the RSPO invited officials of the MOFCOM to attend its annual meeting and visit plantations in Indonesia. Despite sending their officials to these activities, the MOFCOM viewed the RSPO as a foreign NGO and remained unwilling to start formal collaborations with it.³⁷ For transnational NGOs, the MOFCOM has been one of the most difficult Chinese ministries to approach, as it lacks experience working with civil society groups and has demonstrated little interest in sustainability issues outside China.³⁸

Nonetheless, the RSPO and WWF-China found opportunities in a trade association on oils and oil seeds under supervision of the MOFCOM (i.e., CFNA). Representing China’s agri-food industry involved in import and export, CFNA comprises more than 6,900 members, including all major firms in different stages of China’s palm oil supply chain. Like most other national industry associations in China, it is a quasi-state organization responsible for passing on the opinions of the industry and providing policy advice to national regulators, in this case the MOFCOM. Accordingly, the association has played a bridging role in communication between the state and the companies importing oils and oilseeds, and it has influence on China’s palm oil market by providing important policy and market information.³⁹ Due to the role of CFNA in China’s palm oil supply chain, its top officials also joined the Chinese delegation at the RSPO annual meeting in 2008. This trip made CFNA’s officials realize that eco-certification has

become such an important governance mode in the global palm oil market that Chinese businesses could no longer ignore this new trend.⁴⁰ Therefore, CFNA showed interest in starting a dialogue with the RSPO. Seeing this as an opportunity to find supporters in China's state organization, the RSPO and its NGO supporters proactively approached CFNA about a collaboration to promote sustainable palm oil in China.

As a result, CFNA began to work with the RSPO on several awareness-raising activities to introduce the concept of sustainable palm oil and RSPO certification to Chinese businesses. In 2009, CFNA assisted the RSPO in organizing a dialogue on sustainable palm oil held in conjunction with the China International Cereals and Oils Industry Summit, and CFNA invited major importers and users of palm oil in China to participate in the dialogue. These participants agreed on a statement of support for the promotion of sustainable palm oil, based on which the "China Sustainable Palm Oil Network" was created later in the year as a platform for sharing information among major companies in the palm oil supply chain, the RSPO, and its NGO partners. From 2009 to 2011, this network organized several stakeholder meetings and identified a strategic plan to help companies increase the procurement and use of sustainable palm oil.⁴¹

These meetings have allowed CFNA officials and representatives of its member companies to regularly interact with transnational actors supporting sustainable palm oil and to better understand the sustainability impacts of palm oil production.⁴² As a result of such interactions, CFNA and some of its members have gradually increased their interest in supporting sustainable palm oil. Collaboration between CFNA and the RSPO has been further strengthened since 2010 through a study sponsored by the UK's then-Department for International Development (DFID) on developing policy recommendations for sustainable palm oil in China.⁴³ As the Chinese party executing this project, CFNA organized three multi-stakeholder forums from 2011 to 2012 and published a report on the "Prospects and Challenges of Sustainable Palm Oil for China" (CFNA 2010). The project has enabled CFNA's leadership to further realize the influence of the RSPO on the global palm oil supply chain and the changing positions of key market actors on eco-certification.⁴⁴ Seeing the need to inform Chinese companies sourcing palm oil of such changes, in May 2013, CFNA decided to formalize its partnership and strengthen collaboration with the RSPO in a Memorandum of Understanding (MoU). By signing this MoU, CFNA has started to "fully

endorse RSPO certification and [be] committed to working with [the] RSPO to promote the procurement and use of sustainable palm oil in China.”⁴⁵

Winning the moral support of this trade association has been a key achievement for the RSPO, allowing it to further diffuse knowledge about sustainable palm oil and its certification in the Chinese market. For the RSPO, CFNA became a “comrade” in promoting sustainable palm oil and further helped the program engage with major Chinese companies in the supply chain.⁴⁶ For CFNA, collaboration with the RSPO has allowed the group to expand its areas of work to sustainability issues and gain more traction both within the state and internationally. In 2014, following the first study project, CFNA led another project funded by DFID on developing a code of best practices for Chinese companies investing in palm oil production. The result is the “Guide for Overseas Investment and Production of Sustainable Palm Oil by Chinese Enterprises” (CFNA 2015). The development and publication of this guide and related outreach activities have further raised awareness among Chinese businesses about the sustainability challenges associated with palm oil, providing an impetus for the growth of RSPO certification beyond transnational market influences. Hence, although the RSPO could not collaborate with the MOFCOM, its partnership with CFNA, a quasi-state organization connected to the MOFCOM, has been helpful in promoting sustainable palm oil in the Chinese market.

In retrospect, the partnership with CFNA constitutes a critical juncture for the RSPO to attract members and certified companies in China. In this process, the endorsement of CFNA has helped the program establish contacts with large state-owned commodity traders, such as COFCO, and also, through stakeholder forums and meetings, has raised awareness of the sustainability issues associated with palm oil among a wide range of downstream companies in the supply chain. For many Chinese companies, the information and advice provided by CFNA has been deemed credible and even interpreted as a signal of future government policy.⁴⁷ As a result, the MoU between the RSPO and CFNA and the resulting efforts to promote certified palm oil in China have given incentives to an increasing number of Chinese companies, especially large ones, to support sustainable palm oil. As shown by figure 4.5, before 2014, all but one of the RSPO supply chain certificates in China were held by multinational companies, and no certified palm oil had been physically imported to China; but since 2016, the share of domestic companies over the total number of RSPO-certified

plants in China has significantly increased, and a few of them have physically purchased certified palm oil.⁴⁸ Although the sourcing policies of multinational companies also contributed to this growth, CFNA's nudge-like interventions, including information sharing and awareness raising, have been a critical force driving this progress.

With CFNA's support, the RSPO also began to strengthen its organizational capacity in China in late 2015 by opening a local office in Beijing with a full-time national representative. Since then, the program has further intensified its marketing efforts in China. In 2016, it launched a Chinese website and organized a stakeholder forum. As in the case of the seafood sector, the RSPO and WWF-China began to collaborate in 2016 with the national industry association in the retail sector—China Chain Store and Franchise Association (CCFA)—to organize a yearly “Say Yes to Sustainable Palm Oil” consumer campaign.⁴⁹ In 2017, 156 supermarkets, department stores, and appliance stores participated in this event (RSPO 2018a). These activities were associated with an accelerated growth of the RSPO in China, where the number of RSPO-certified facilities increased by 40% from mid-2016 to mid-2017 (RSPO 2017b). The growing presence of the RSPO in China has also gained the attention of researchers working for an advisory body of the State Council, who suggested using the RSPO to green China's palm oil supply chain in a 2016 report (CCICED 2016).⁵⁰

More recently, with sustainable development increasingly gaining importance on the Chinese government's agenda and palm oil becoming a salient issue in global arena, CFNA has continued its support for sustainable palm oil by creating with the RSPO and WWF the “China Sustainable Palm Oil Alliance,” a platform aiming to facilitate communication among stakeholders in China's palm oil supply chain for increasing the uptake of certified palm oil (RSPO 2018b). In short, since the late 2000s, the RSPO has proactively approached Chinese state actors and formed a partnership with CFNA, the national trade association affiliated with the MOFCOM. CFNA's endorsement has further facilitated the RSPO's engagement with major Chinese companies in the supply chain. Table 4.2 summarizes the milestones in this process and the role of CFNA.

Despite the momentum gained by the rise of RSPO certification in China, a caveat must be added about the program's actual impact due to the very low volume of certified commodity imported into the country. CFNA's support has been effective in raising awareness about sustainability impacts of

Table 4.2

Milestones in the rise of sustainable palm oil in China

| Date | Activities |
|------------|---|
| 2013 | The MoU signed between the RSPO and CFNA forming a strategic partnership to promote the procurement and use of sustainable palm oil in China |
| 2014–2015 | A DFID-funded project, implemented by CFNA, producing the “Guide for Overseas Investment and Production of Sustainable Palm Oil by Chinese Enterprises” |
| 2015 | The opening of a local RSPO office in Beijing |
| 2016 | The launch of a Chinese website of the RSPO; The organization of the first RSPO-China forum bringing together stakeholders in China’s palm oil supply chain |
| Since 2016 | The “Say Yes to Sustainable Palm Oil” campaign in supermarkets and stores, organized by the RSPO, WWF, and CCFA |
| 2018 | The “China Sustainable Palm Oil Alliance” created by CFNA, the RSPO, and WWF |

palm oil and introducing the RSPO to Chinese businesses. However, simply relying on the provision of information and technical advice without financial rewards cannot offer businesses strong incentives to change their sourcing practices. Furthermore, unlike seafood, the product characteristics of palm oil as an ingredient, instead of end product, and its bad reputation among Chinese consumers for being unhealthy have made many food manufacturers unwilling to openly promote certified palm oil in the market.⁵¹ Consequently, Chinese companies may become RSPO members and even get supply chain certificates as a preemptive strategy to prepare for potential market changes, but without proactively changing sourcing behavior.

Seeing the limitations of the current partnership between the RSPO and CFNA, many advocates of sustainable palm oil have stressed the need for “building a business case through more concrete policies,” such as public procurement or reduced tariffs for certified palm oil.⁵² Unfortunately, according to several observers, CFNA had no intention of advocating for further policy support from the MOFCOM to increase the physical uptake of sustainable palm oil, partly because the Chinese government is unlikely to pay for sustainability benefits in producer countries.⁵³ For CFNA, the fact that palm oil is much less important than soybean oil in China’s

vegetable oil market also limits the association's incentives to make additional efforts lobbying the government to subsidize importers of certified palm oil. Indeed, despite some efforts by transnational NGOs and foreign governments in persuading the Chinese government to set a sourcing target like some European countries do, no state agency in China has ever expressed interest in taking further actions to promote sustainable palm oil.⁵⁴ Therefore, the support of Chinese state actors for palm oil certification has remained lukewarm and has made little contribution to the physical uptake of the certified commodity.

4.3.3 Case Study: COFCO's Support for Sustainable Palm Oil

The analysis in this section shows how the RSPO's engagement with domestic stakeholders and the subsequent support from CFNA has led to growing interest in sustainable palm oil in China. Considering the progress that the RSPO has made in the country, one of the greatest achievements is winning support of state-owned agribusinesses, which are major palm oil suppliers in the Chinese market. In this respect, the commitments on sustainable palm oil made by COFCO are remarkable. I now delve into this case to show how COFCO has been approached by the RSPO and has gradually generated incentives for supporting sustainable sourcing.

Being state owned, COFCO is the largest Chinese agribusiness operating on a global scale in a range of commodity sectors. In China, it is a top importer of oilseeds, including soybean and palm oil. In recent years, the company has risen in the global commodity market by acquiring some international grain traders and increasing its investment in commodity production in other developing countries (Clapp 2015; Schneider 2017). Due to the company's scale and its importance in China's palm oil supply chain, RSPO founding organizations attempted to involve COFCO in the program's initial creation; as a result, COFCO joined the RSPO in 2005 due to corporate social responsibility considerations.⁵⁵ However, because of the uncertainty in China's palm oil market and changes in the company's internal governance, COFCO did not further engage in the RSPO's activities and soon withdrew its membership.⁵⁶

In the early 2010s, when the RSPO and its NGO supporters approached the company again, at a time when the Chinese government was paying increasing attention to sustainable development, COFCO returned to the RSPO to support sustainable palm oil. The change in COFCO's palm oil

policy occurred after advocates of sustainable palm oil, especially WWF, had partnered with CFNA to establish dialogues with the then-top managers of COFCO. Through these dialogues, COFCO's leadership learned about the benefits of the RSPO and concrete ways to make progress on sustainable sourcing.⁵⁷ As a result, COFCO resumed its RSPO membership in late 2012, and a few months later, it received its first supply chain certificate following the RSPO's mass balance model.

Since its return to the RSPO, COFCO has made a strong commitment to sourcing sustainable palm oil. The company has seen its support for the RSPO as part of China's action to combat climate change and pursue sustainable development. As the Chinese government has strengthened its climate and sustainability policies, COFCO has also announced its ambitious commitment to sustainable commodities at several international events. In December 2015, during a side event at the Paris Climate Summit, the then-chairman of the company, Ning Gaoning, introduced a plan to promote sustainable consumption in China:

We will not buy products grown from areas of deforestation or conversion of natural habitats, or the crops produced by using a lot of pesticides, water and other chemicals due to poor management of farming practices. . . . We will strive to establish green and sustainable global supply chains, because we are in a great position to decide what product[s] we buy or do not buy to meet the increasing demand of Chinese consumers for environmentally friendly agriculture products.⁵⁸

At the 2017 World Economic Forum in Davos, the company's president again underscored the commitment to purchase sustainably produced commodities and called on global commodity traders to "turn our pledge into concrete measures" (Elliott 2017). For some observers, these statements by a Chinese company marked a historical shift by China's leadership on global climate action (Tabuchi 2017). Therefore, in addition to concerns about corporate social responsibility, COFCO, as a state-owned enterprise (SOE), has also drawn on transnational sustainability governance to support broad policy goals set by the top Chinese leaders.

Beyond these statements, COFCO has also taken concrete steps to support the RSPO and sustainable palm oil. The company is among the four Chinese members that have maintained the best reporting records by disclosing their purchased volume of certified palm oil every year.⁵⁹ Thus, in terms of reporting and transparency, COFCO has been one of the most

compliant companies in China with respect to the RSPO's requirements. Moreover, beginning in 2013, COFCO has begun to purchase certified palm oil, and since then, its sourcing volume of sustainable palm oil has gradually increased (see figure 4.6). However, the purchasing volume has remained very low, showing that COFCO has a long way to go before completely switching to sustainable sourcing. A main obstacle to this fundamental change seems to be the price premium, which makes certified palm oil unlikely to become mainstream in the Chinese market, even though COFCO has made efforts to promote certified commodity to its downstream buyers.⁶⁰

Therefore, the case of COFCO shows that Chinese SOEs can become strong supporters of transnational eco-certification without pressure from Northern markets. According to NGO officials interacting with COFCO, the company's progress should be attributed to its top managers, who are also government officials and, therefore, sought to use eco-certification to support the Chinese state's policy on sustainable development.⁶¹ Hence, at a deeper level, COFCO's support for sustainable palm oil has been motivated by the increasingly strong position of the Chinese state on supporting sustainable development. In this case, the shadow of the state has contributed to the adoption of corporate sustainability policy by Chinese SOEs. Nonetheless, we also see only slow progress by COFCO in delivering on its

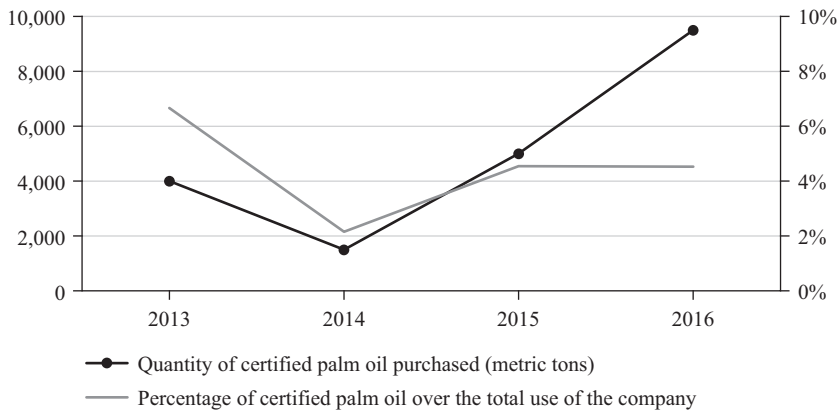


Figure 4.6

COFCO's purchase of certified sustainable palm oil.

Data source: Annual Communications of Progress submitted by COFCO to the RSPO in 2013–2016, at <https://www.rspo.org/members/1928/COFCO-Corporation/group-member>, last accessed on August 13, 2018.

commitment, which provides evidence casting doubt on the potential of sustainable palm oil in the Chinese market.

4.4 Conclusion

The case of palm oil demonstrates the challenges for the rise of transnational eco-certification in China when the influence of Northern market agents remains weak. In the early 2010s, the RSPO was little known in China's palm oil supply chain, although several multinational corporations had introduced the program and set sourcing requirements for their subsidiaries and suppliers. In other words, despite evidence supporting the hypothesis on the contribution of foreign investment (hypothesis 2 in chapter 2), this mechanism could not lead to a rapid expansion of sustainable palm oil in China.

Yet, with the RSPO's proactive strategy to engage with local stakeholders, sustainable palm oil certification has still taken off in this difficult market environment since the mid-2010s. In this process, the strategic partnership with CFNA—a quasi-state trade association—has helped the program approach a larger number of companies and raise their awareness of sustainable palm oil. For instance, the case of COFCO shows that some Chinese SOEs have become willing to use eco-certification to show their support for China's policy on global sustainable development and climate action. As a result, an increasing number of companies in China, especially domestic ones, have become RSPO members and have even become certified. Hence, the recent momentum of palm oil certification in the Chinese market lends support for both hypothesis 3 on the importance of proactive communication and the local capacity of transnational certification programs and hypothesis 6 on the support of national industry associations.

The partnership between CFNA and the RSPO also corroborates hypothesis 7 on the conditions enabling the emergence of Chinese state actors' support for transnational governance. The existence of the MOFCOM, as the only agency regulating palm oil import, and CFNA, as the relevant association supervised by the MOFCOM, has facilitated the RSPO in identifying its target of engagement and concentrating its efforts. On this basis, the efforts of the RSPO and its NGO supporters, especially WWF, to initiate dialogues and organize study tours have been helpful in building the trust of Chinese officials and have ultimately paved the way for establishing the

RSPO-CFNA partnership. Compared to the seafood case (see chapter 3), state actors' support for palm oil certification has been weaker and less determined. Such variations may be explained by the fact that China can gain fewer economic benefits from palm oil certification, given that the country does not produce the commodity.

Additionally, this chapter shows that, to date, Chinese companies supporting the RSPO mainly consist of large agribusinesses and manufacturers of food and chemical products. In these cases, market concentration and economies of scale reduce the marginal costs of certification. This uptake pattern, in combination with the challenges that many downstream companies face in tracking materials along their supply chains, supports hypothesis 4 on the fit between domestic industry structure and the governance model of eco-certification.

The palm oil sector also shows the limits of eco-certification in transforming the Chinese market. Despite the progress made by the RSPO since the mid-2010s, the sales volume of certified palm oil has been less than 2% of total consumption in China. In fact, several barriers are likely to persist in the foreseeable future to prevent significant growth of the import of certified palm oil by China. First, unlike seafood, which is consumed as an end product, palm oil remains largely unknown by consumers. More work is needed from the RSPO and its supporters to educate Chinese consumers and subsequently develop their demand for the certified commodity. But this task seems extremely difficult, as the negative consequences of the palm oil industry are not perceived as a major issue in Chinese society. Relatedly, without strong consumer demand, retailers and consumer goods manufacturers are reluctant to change their sourcing practices. This is even less likely for this commodity, as certified palm oil is more expensive than its conventional counterpart. With a lack of demand from their downstream businesses, commodity traders can hardly translate their responsible sourcing commitments into an actual increase in the sales volume of certified palm oil. As shown by the cases of COFCO and Wilmar, traders have been unwilling to impose certified commodity requirements on their buyers, given the competition in the market. This situation may result in gridlock in the supply chain, where businesses at different stages wait for others to move first, despite everyone claiming to support sustainability. Finally, although CFNA has played a central role in promoting the RSPO in China, its nudge-like interventions have limitations in generating market demand

for certified palm oil. State agencies like the MOFCOM could use regulations or rewards to break the abovementioned gridlock. However, the Chinese government has shown no intention of taking stronger actions to promote sustainable palm oil. Looking ahead, hopes may lie in China's eagerness to take a leadership role in global environmental governance through some sourcing commitments, but it remains to be seen whether the Chinese state wants to draw on transnational governance to achieve this goal.

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