



*High Commissioner for Malaysia
Canberra, A.C.T.*

23 May 2011

Senator Claire Moore
Senate Standing Committees on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Senator Moore,

With this letter, Malaysia is submitting additional information in relation to the Food Standards Amendment (Truth in Labelling – Palm Oil) Bill following our in-person testimony at the Senate Community Affairs Legislation Committee Hearing, held on 18 April 2011. I would like to express appreciation on behalf of the Malaysian delegation from the Malaysian Ministry of Plantation Industries and Commodities, the Malaysian Palm Oil Council and the High Commission in Canberra signifies the critical nature of this consideration to our bilateral relations and to the people of Malaysia.

The palm oil industry has delivered millions of Malaysians out of poverty, and continues to offer hope and opportunity to millions more. It is a key pillar on which our economy stands and will grow, supporting Malaysia's goal of achieving high-income status by 2020 and driving development of next generation, green technologies. Malaysia formally committed to conserving 50% of its forest land for conservation at the 1992 UN Rio Earth Summit, while currently 56% of the country's forest land remains intact. However, these efforts are often ignored by opponents of the industry, resulting in a gross misrepresentation of industry practice.

Over the course of the hearing, several questions were asked of our delegation with requests to provide more detailed responses. This information is included in the enclosed briefing document which answers the questions submitted to our office. Also enclosed are revisions to the Hansard report as requested by the office of the Senate Community Affairs Legislation Committee.

Malaysia's participation in the Committee's hearing was an important opportunity for our country and our industry to address the misconceptions behind the proposed bill. We look forward to continued dialogue with the Committee.

Salman Ahmad
Malaysian High Commissioner

Malaysian Palm Oil Council Response to Questions by the Australian Senate Community Affairs Legislation Committee

May 2011

Background

The palm oil industry in Malaysia has evolved steadily since the first commercial planting took place in Tennamaran Estate in Selangor in 1917, laying the foundations for the industry in Malaysia. The cultivation of oil palm increased at a fast pace in early 1960s under the government's agricultural diversification programme, which was introduced to reduce the country's economic dependence on rubber and tin.

In the 1960s, the government introduced land settlement schemes for planting oil palm as a means to eradicate poverty for the landless farmers and smallholders. Development of the industry has been central to increased prosperity and societal advancement throughout the country, from the rural communities that rely on employment from the plantations, to the downstream industries that extend to city centers and export zones.

Today, the industry directly employs more than 570,000 people, and contributed US\$21.09 billion to Malaysia's exports. More than 39% of oil palm plantations are owned by small land holders, and has contributed to one of the largest poverty alleviation projects in the world through the Federal Land and Development Authority (FELDA).

Distribution of the Malaysian Oil Palm Business Ownership in 2010

| OWNERSHIP OF PLANTED AREA (mil ha) | | |
|---|--------------|-------------|
| Private Estates | 2.961 | 61% |
| Government/State Schemes | 1.262 | 26% |
| Smallholders | 0.631 | 13% |
| TOTAL | 4.854 | 100% |

Note: Total smallholders' share is 39% or 1.893 mil ha

Source: MPOB (2011)

FELDA began in 1956 as a means of providing landless farmers and the rural poor with land for oil palm cultivation. In addition to providing a means of revenue, the scheme also provided funding for housing and basic amenities. In 2008, the income of FELDA settlers was 4 times higher than the National Poverty Level.

Further development of smallholder plantations is a key component of Malaysia's effort to achieve high-income status by 2020, as indicated by the Government's Economic Transformation Programme. This includes advancing replanting of matured plantations, and further expansion within Malaysia's allotted agriculture land bank for oil palm development. However, as the land bank becomes increasingly scarce as Malaysia maintains its commitment to

forest and biodiversity conservation, increased production is becoming increasingly focused on improving yields and increasing efficiency.

As the fourth largest contributor to the national economy, the palm oil industry, and the smallholders that account for more than 39% of production, is vital to Malaysia's economic growth and prosperity. Meanwhile, the industry has been a leader in sustainability, demonstrating the highest standards of environmental stewardship and conservation of the nation's flora and fauna.

As with many other agriculture sectors, there is an emphasis on increasing mechanization of the cultivation and harvesting processes – decreasing input costs and improving labor standards. It has been asserted that as the industry becomes increasingly mechanized, it will undermine the economic value of the industry to local communities.

This ignores the fundamental shift in labor associated with modernization and industrial innovation. While it is true that mechanization would replace a share of laborers on plantations, that loss of employment will be more than offset by the increase in specialized services and employment associated with machine intensive industries.

Deforestation and Palm Oil

Allegations of rampant deforestation as a result of industry expansion have abounded for some time, but have increased in recent years as a result of the perceived relationship between biofuel mandates and expanding production. However, the allegations are misleading, lacking context, and ignoring the Government's commitment to conserving 50% of Malaysia's land area as permanent forest, made at the 1992 United Nation's Rio Summit.

By way of comparison, Australia had identified 6.5% of its land for nature conservation purposes in 1997. A further 13.4% of the land is identified as protected area, such as the preservation of indigenous lands.

The assertion that *“300 football fields are cleared every hour for oil palm development”* is without substantiation, and reflects the inflated values arbitrarily presented by opponents of the industry without supportive evidence. The United Nation's Food and Agriculture Organization (FAO) is frequently referenced with respect to the claims of deforestation linked to palm oil. However, it should be noted that the FAO itself cited poverty as being the primary driver of deforestation – for the clearing of land for habitat, subsistence farming and fuel.

Some oil palm expansion prior to the 1990s was made at the expense of forests, which were designated for conversion to agriculture production prior to expansion. Since then, the industry has been restricted to expansion into previously converted land previously devoted to other crops such as rubber and coconut and into previously logged over forests zoned for agriculture use. This is indicated by the decreasing share of rubber and coconut plantations relative to the increases in oil palm acreage (see table below). The reduction in 'forest land' in the below table includes forest land which has already been logged over and/or is dedicated to agriculture. To

support this, the 2010 FAO Global Forest Resource Assessment indicates that there has been no reduction in ‘primary forest’ between 1990 and 2010. In contrast, there has been a 0.75 percent decrease in ‘primary forest’ between 2005 and 2010 in Australia.

Oil palm development occurred as a result of the recognized efficiency and value of palm oil and its byproducts. Agriculture expansion has not been due to the crop itself, but increasing demand for food (in the case of palm oil, for vegetable oils) and Malaysia’s commitment to economic growth and national prosperity. Should palm oil production not be expanded, other crops will be produced to meet global demand for food, employment and energy.

Comparison of Total Area of Oil Palm, Other Commodity Crops and Forest in Malaysia

| Year | Oil Palm Area (mil ha) | Other Commodity Crop Area* (mil ha) | Forest Area (mil ha) |
|------|------------------------|-------------------------------------|----------------------|
| 1980 | 1.023 | 2.492 | 20.500 |
| 1986 | 1.599 | 2.571 | 19.700 |
| 1990 | 2.029 | 2.651 | 19.400 |
| 1995 | 2.540 | 2.152 | 19.200 |
| 2000 | 3.377 | 1.678 | 19.490 |
| 2005 | 4.051 | 1.438 | 19.490 |
| 2010 | 4.854 | 1.173 ^e | 18.000 ^e |

Notes: * includes rubber, cocoa, coconut and pepper
^e estimates

Since 1980, Malaysia has lost about 2.5 mil ha of forests. This is about 12.2%

Sources: Department of Statistics Malaysia, Malaysian Rubber Board, Malaysian Palm Oil Board, Malaysian Cocoa Board, Malaysian Pepper Board and Ministry of Agriculture

Currently, there is over 365,414 hectares of oil palm trees older than 25 years which will require replacing in order to ensure optimum output and efficiency. This backlog, the result of delayed replanting due to a desire to avoid loss of income during replanting, will require a long-period of transition, including felling of old oil palm plantations. Felling will be undertaken in a manner limiting carbon release, and fully utilizing biomass for energy generation and fertilizer. This should not be misrepresented as deforestation.

This replanting process has to date been without limit, with original plantations currently in their fifth generation of growth, without any noticeable reduction in soil quality. Research has demonstrated that this will continue for the foreseeable future, with replanting occurring every 25 – 30 years, maintaining efficiency of growth and carbon sequestration.

Meanwhile, Malaysia’s agriculture land bank is restricted, limiting any further expansion of oil palm plantations. Today, the country only has a maximum potential increase of 28% of oil palm plantation area. As a result, increasing production in Malaysia will be focused on improving yields. Furthermore, meeting increasing global demand will be supported through expansion in

Africa and South America, as demonstrated by the escalation in investment by Southeast Asian plantation operators.

The Orangutan

Accusations that the leading threat to orangutans is the palm oil industry are incorrect, and current habitat loss cannot be directly attributed to the palm oil industry in general. For every hectare of land developed for palm oil production, four hectares are preserved as permanent forest, including orangutan habitats in Sabah and Sarawak (the two original states in Malaysia with orangutan populations), where 50% or more of their land is preserved under permanent forest.

This ensures a healthy balance between preserving tropical habitats and meeting domestic and international food requirements.

The Sabah and Sarawak State governments have identified a number of forest areas known to contain higher populations of orang-utans as wildlife sanctuaries, national parks or forest preserves. Ulu Segama – Malua Forest Reserve in Sabah, spanning over 0.236 million hectare, has been shown to be inhabited by about 6,000 – 7,000 orang-utans, the most populated orang-utan area in Sabah. The Lanjak-Entimau Wildlife Sanctuary in Sarawak has been shown to be inhabited by about 1,400 orang-utans. All these areas are permanently protected from development.

Major Locations of Orang-utan in Sarawak

| No. | Location | Total area (hectare) | Estimated Orang-utan Populations |
|-----|-----------------------------------|----------------------|----------------------------------|
| 1 | Lanjak Entimau Wildlife Sanctuary | 168,758 | 1,400 |
| 2 | Batang Ai National Park | 24,040 | 300 |
| 3 | Ulu Sebuyau National Park | 27,275 | 300 |
| 4 | Semenggoh Nature Reserve | 653 | 35 |
| | TOTAL | 220,726 | 2,035 |

Source: Sarawak Forestry Council (2007)

A conference was held in 2009 on the island of Borneo to address the risks and challenges facing the future of orangutans. At the conference, leading experts noted that the primary threat to orangutans was not the legitimate agriculture expansion illustrated by the palm oil industry, but poachers, hunting by local peoples, poor enforcement of existing laws and mining.

In fact, far from being the leading threat to the future of orangutans, the industry is a leading supporter of their preservation. In May 2010, MPOC along with other members of the industry and the Sabah state government announced the establishment of a mega-wildlife sanctuary, comprising 100,000 hectares of rainforest in an area of 300,000 hectares of contiguous forest

zones in Sabah. This demonstrates but one such initiative among many that are supported by the industry, through efforts such as the Malaysian Palm Oil Council Wildlife Fund, which funds conservation projects and rehabilitation centers.

Ensuring a High Environmental Standard

The Malaysian palm oil industry is a highly regulated industry. Currently, the industry must adhere to more than 15 laws and regulations including the Land Acquisition Act 1960, Environmental Quality Act 1974, Environmental Quality (Clean Air Regulations) 1978, Pesticides Act 1974 (Pesticides Registration Rules), Occupational Safety and Health Act (1977), and Protection of Wildlife Act 1972. The industry must also comply with Hazard & Critical Control Points (HACCP) and the Environmental Impact Assessment (EIA) requirements. Being sensitive to environmental concerns and in its drive to ensure constant improvement in process and production, the industry is actively pursuing ISO 14000 standard series discussions and formulations notably on climate change, life cycle analysis (LCA), Eco-labelling & Design for the Environment (DfE), environmental communications, and environmental management system (EMS).

Smallholder developments are held to the same standard as the rest of the industry, with environmental impact assessments of plantations larger than 500 hectares on agriculture land requiring such an assessment prior to the commencement of development. Meanwhile, developments of 50 hectares or greater on mangrove swamps or hillsides exceeding a 7° slope also require environmental impact assessments. Smallholder plantations smaller than 500 (or 50, in the case of mangrove swamps and hillsides) hectares are generally developed as part of larger community driven development projects, such as under the FELDA development scheme requiring environmental impact assessments of the entire project area. This ensures a robust and comprehensive assessment identifying the measures and processes required to meet federal environmental standards.

Measures required to mitigate environmental degradation and ensuring sustainability include:

- On slopes exceeding 7°, bench terracing is required to mitigate erosion;
- Re-vegetation of exposed areas is carried out immediately following clearing, ensuring retention of moisture and further mitigating erosion;
- Zero-burning policy;
- Utilizing integrated pest management, thus reducing the use of pesticides;
- Locals should be given preference in employment; and
- Proper living quarters and medical facilities are provided to all workers.

The density of oil palm plantations assists in retaining moisture, with stands per hectare varying between 138 and 143 oil palm trees. After four years of growth, the fronds interlock, providing a full blown canopy. This retains moisture, and supports an environment similar to secondary forests. (*See Addendum for aerial photographs*)

Meanwhile, the industry is also undertaking efforts to further support biodiversity alongside and within oil palm plantations. This includes an already common practice of maintaining small preserves within plantations with a wide variety of trees and plants, supporting the dietary needs of wildlife. The first RSPO certified plantation, United International Enterprises Estate Sdn Bhd of United Plantations Berhad, located in the Majung District of Malaysia, has undertaken this, with a goal of having over 500 tree species within their 500 hectare preserve within the plantation.

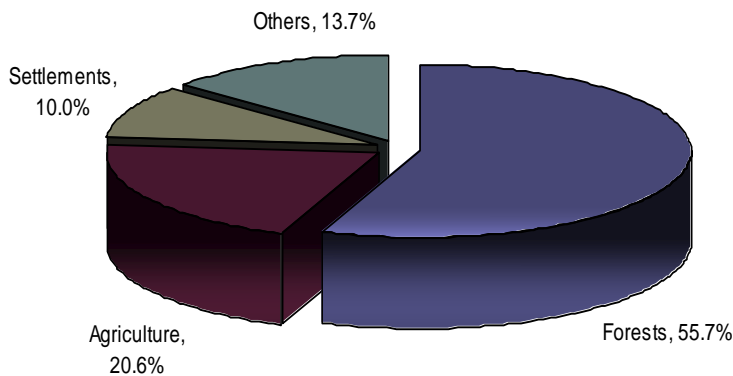
MPOC is actively supporting the further development of these practices, through workshops to inform industry and plantation operators.

Malaysian Land Use Policy

Malaysia has a defined land use policy with a strict emphasis on ensuring a balance between conservation and economic development. The country has allocated 21% of its land to agriculture purposes, while more than 50% is identified for conservation purposes. In fact, Malaysia is currently exceeding that commitment, conserving 56.4% of Malaysia's land, or 18.48 million hectares.

Land-use policy is strictly defined. Future expansion is limited to the land identified for agriculture production, or within the aforementioned 21% of Malaysia's land. This share of land has been allocated to agriculture production through thorough analysis of requirements for domestic alimentary requirements, as well as to support industries with a global market. This applies to such commodities as palm oil, rubber and coconut.

Land Use in Malaysia



Note : Total Land Area is 32.86 million hectare

Source: Thang C.H (2005), Ministry of Agriculture, Department of Statistics Malaysia

Over the course of the hearings held by the Australian Senate Community Affairs Legislation Committee, there has been much discussion regarding the need for better enforcement of conservation areas. However, what is ignored is the importance of economic development to support such enforcement.

Agriculture development will support the state to enforce laws and monitor conservation and agriculture practices, through the establishment of a tax-base to support the basic infrastructure and administrative needs of state and federal agencies.

In this regard, it is important to acknowledge the need for a comprehensive balance between conservation and economic development, thus ensuring sustainability. Robust economic activity ensures prosperity for communities and government, thus supporting the very infrastructure and social services that will lead Malaysia ever closer to high-income status.

Therefore, seeking to influence the sourcing of palm oil has direct implications for the future economic well-being of rural communities and the ability to enforce environmental laws.

The Life-Cycle of Palm Oil

According to analysis undertaken by the Malaysian Palm Oil Board (MPOB), Malaysian palm oil's emissions pathway when compared to ultra-low sulfur biodiesel has a range from 5.3 to 24.5 g CO₂e/MJ, corresponding to a 74– 94% reduction in fuel cycle greenhouse gas emissions. Other oilseeds, including rapeseed and soy, are unable to meet the standard set by palm oil, as demonstrated by GHG savings values attributed to these crops in the USA and the EU (see table below for other values given).

Oilseed Life Cycle Assessment

| Oilseed | GHG Emission Reduction |
|--------------|------------------------|
| Soy Oil | 57 – 74% |
| Rapeseed Oil | 38 – 45% |
| Palm Oil | 74 – 94% |
| Jatropha Oil | 39 – 73% |

Today, oil palm plantations are actively employing the use of barn owls to control rodent populations; a persistent problem for the industry as rodents consume the fruit bunches. It is estimated loss due to rodents can amount to as much as 5% of fresh fruit bunch (FFB) yields. And through limiting the already low level of pesticide use (see table below), the industry is also reducing input costs.

Input-output in cultivating oil palm and other oil crops

| Item and Unit | Inputs to produce one tonne of oil by crop | | | |
|---|--|-------------|---------------|--------------|
| | Palm Oil | Soybean Oil | Sunflower Oil | Rapeseed Oil |
| Seed/fruit for extraction (kg) | 4500* | 5000 | 2500 | 2500 |
| Inputs | | | | |
| Nitrogen (kg N) | 47 | 315 | 96 | 99 |
| Phosphate (kg P ₂ O ₅) | 8 | 77 | 72 | 42 |
| Pesticides and Herbicides (kg) | 2 | 29 | 28 | 11 |
| Others (kg) | 88 | 117 | 150 | 124 |
| Energy (Gj) | 0.5 | 2.9 | 0.2 | 0.7 |
| Outputs | | | | |
| <i>Emission to Soil and Water</i> | | | | |
| Nitrogen | 5 | 32 | 10 | 10 |
| Phosphates | 2 | 23 | 22 | 13 |
| Pesticides/herbicides | 0.4 | 23 | 22 | 9 |
| <i>Emission to air (kg)</i> | | | | |
| Nitrogen Oxide (NO _x) | 0.5 | 4 | 0.3 | 0.8 |
| Sulfur Dioxide (SO ₂) | 0.2 | 2 | 0.1 | 0.2` |
| Carbon Dioxide (CO ₂) | 32 | 205 | 16 | 50 |
| Pesticides/herbicides | 0.1 | 6 | 6 | 2 |

Source: FAO 1996

Certification

Central to the debate surrounding the labeling of palm oil has been the distinction between “certified sustainable” palm oil and conventional palm oil. This insinuates that palm oil is not inherently sustainable, contrary to its land efficiency and the role of plantations as carbon sinks. Nevertheless, the industry is voluntarily advancing certification, both through the Roundtable for Sustainable Palm Oil, the International Sustainability & Carbon Certification System and Indonesia’s recently launched Indonesian Sustainable Palm Oil certificate.

It is in MPOC’s belief, confirmed by testimony before the Committee, that the distinction is not easily recognizable to consumers. Rather than choosing products containing “certified” palm oil, consumers are more likely to avoid products containing palm oil all together, motivated by the “information” campaigns by NGOs and the Zoos Victoria. Thus, in an effort to inform consumers, the result is a boycott against these products.

In light of the shortage in supply of “certified” palm oil, with current supply accounting for 5 to 10 percent, further motivation through legislative action is unlikely to affect the adoption of certification, as it is limited by time and economic constraints unsupported through the legislative proposal. Voluntary labeling is a more appropriate motivator, as it will allow producers and retailers to make the transition, from the smallholder that requires 12 to 15 months to gain certification, to the end-producer who is competing for limited supply of “certified” palm oil.

The biggest irony of the labeling proposal is that the very oils produced by the Australian farmers are not certified sustainable, and not required to be separately labeled apart from the vegetable oil classification as proposed for palm oil.

IOI Corporation Berhad

IOI Corporation Berhad (IOI) is a private plantation company which is listed on the Malaysia Stock Exchange. From their public records, IOI has more than 30,000 shareholders both from within and outside Malaysia. The Malaysian government or its agencies have no direct association with IOI.

In respect of the recent case between IOI and the natives of Sarawak on a land dispute matter in Sarawak, there is a court proceeding between IOI and the natives which has been concluded at the High Court of Sarawak last year and is now on appeal at the Court of Appeal of Malaysia. The Malaysian Ministry of Plantation Industries and Commodities as well as its agency, the Malaysian Palm Oil Board, monitor the activities of all the plantation companies operating in Malaysia to ensure compliance with laws and regulations in the country. Given that this is an ongoing matter before the Malaysian courts involving the land ownership rights of two private groups, it is not proper for the Malaysia government to comment.

With that said, the issue between IOI and the Roundtable on Sustainable Palm Oil (RSPO), a voluntary certification system not associated with any government, is an internal matter between two private parties and therefore a private, not a public policy, matter.

Addendum

United Plantations, Peninsular Malaysia







