THE DYNAMICS FOR MANDATORY MSPO CERTIFICATION SCHEME TO BE SUCCESSFULLY IMPLEMENTED
Dr. Sanath Kumaran

Abstract
The oil palm sector in Malaysia is one of the main pillars of the Malaysian economy, contributing close to 43% of the agriculture GDP and earning on an average of USD16 billion in annual exports. The oil palm sector also provides direct and indirect employment to over 2 million people in Malaysia, apart from raising the income of small farmers, who on the average own or manage farms less than 4 hectares. In total, independent small farmers, own 979,758 hectares of oil palm areas accounting for 17% of the total oil palm planted area in Malaysia. The success story of this industry over the last century, has been negated by implications that the oil palm sector is a direct cause of deforestation, contributing to greenhouse gas (GHG) emissions through fires and planting on drained peat lands, harbouring exploitative human rights practices in the workforce, and lack of good governance and transparency. One tool to demonstrate implementation of good practices is through third party independent certification systems. Currently, at the global level, voluntary certification schemes have coverage of approximately 30% of the oil palm cultivated area. As such, the footprint of voluntary certification schemes will never be able to completely reach 100% of the users of the certification system. With the ambitious move for the implementation of a mandatory national certification system, Malaysia aims to cover the entire oil palm planted area through Malaysian Sustainable Palm Oil (MSPO) Certification Scheme. The MSPO Certification Scheme is the national scheme in Malaysia for oil palm plantations, independent and organised smallholdings, and palm oil processing facilities to be certified against the requirements of the MSPO Standards. The MSPO Certification Scheme allows for oil palm management certification and supply chain certification and provides for development of certification standards; accreditation requirements and notification of certification bodies; application by potential clients for certification audits; supply chain traceability requirements; guidelines for auditing; peer reviewing of audit reports; issuance of logo usage licenses and procedures for handling of complaints. The fundamental enabling measures that are needed to make MSPO Certification successfully implemented in Malaysia is described in this paper.

Keywords
Malaysian Sustainable Palm Oil (MSPO), sustainability, certification, palm oil

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1. Introduction
The oil palm sector in Malaysia is one of the main pillars of the Malaysian economy, contributing close to 43% of the agriculture GDP and earning on an average of USD 16 billion in annual exports. The oil palm sector also provides direct and indirect employment to over 2 million people in Malaysia, apart from raising the income of small farmers, who on the average own or manage farms less than 4 hectares. As of December 2017, in total, 979,758 hectares of oil palm areas is owned by independent small farmers, with areas less than 40.46 hectares. Independent small holdings account for 17% of the total oil palm planted area in Malaysia (Figure 1). The oil palm industry’s contribution and shared value include development of rural infrastructure and other multiplier effects to the local economy. Over the past 100 years, oil palm development is acknowledged to contribute to the positive economic development in Malaysia, including raising the livelihood of many out of rural poverty, development of downstream product processing, oleo-chemical and bioenergy uses.

The success story of this industry has been negated by implications that the oil palm sector is a direct cause of deforestation, contributing to greenhouse gas (GHG) emissions through fires and planting on drained peat lands, harbouring exploitative human rights practices in the workforce, and lack of good governance and transparency.

One tool to demonstrate implementation of good practices is through third party independent certification systems. Currently, at the global level, voluntary certification schemes have coverage of approximately 30% of the oil palm cultivated area. As such, the footprint of voluntary certification schemes will never be able to completely reach 100% of the users of the certification system. With the ambitious move for the implementation of a mandatory national certification system, Malaysia aims to cover the entire oil palm planted area through Malaysian Sustainable Palm Oil (MSPO) Certification Scheme.

The MSPO Certification Scheme is the national scheme in Malaysia for oil palm

\[\text{Figure 1: Malaysian oil palm planted area by category}\]

\[
\text{Private Estates 61%}
\]
\[
\text{FELDA 12%}
\]
\[
\text{RISDA 1%}
\]
\[
\text{FELCRA 3%}
\]
\[
\text{State Schemes 6%}
\]
\[
\text{Independent Smallholders 17%}
\]
plantations, independent and organised smallholdings, and palm oil processing facilities to be certified against the requirements of the MSPO Standards. The MSPO Certification Scheme allows for oil palm management certification as well as supply chain certification. This further provides for development of certification standards; accreditation requirements and notification of certification bodies; application by potential clients for certification audits; supply chain traceability requirements; guidelines for auditing; peer reviewing of audit reports; issuance of logo usage licenses and procedures for handling of complaints.

The Malaysian Standard (MS2530:2013 series) was launched in 2013 and the MSPO Certification Scheme has been in implementation since January 2015 on a voluntary basis. The Scheme will now be implemented in a phased approach towards mandatory implementation by December 2019.

Relevant incentives under the MSPO Certification will be made available for smallholders, plantation companies and processing facilities to obtain MSPO certification by December 2019. The phased approach towards December 2019, was developed through a multi-stakeholder consultative approach taking into consideration the various stakeholder needs (time and resources) and the scale of operation, in achieving MSPO certification.

The fundamental enabling measures that are needed to make MSPO Certification successfully implemented in Malaysia is described in this paper. The official decision for the implementation of MSPO certification as a mandatory scheme came about timely during the 100 year celebration of commercial oil palm cultivation in Malaysia on 18 May 2017. This gave the entire oil palm industry in Malaysia adequate time of over two and half years to comply with the requirements of MSPO Standards. Apart from that, to spur the uptake of MSPO certification, the Malaysian government has made available financial assistance that covers MSPO auditing fees to smallholders, growers and processing facilities. This is a pledge by the government to facilitate the implementation of MSPO certification and helps reduce the cost of obtaining MSPO certification. MSPO certification will be implemented nationwide and forms the basis for the branding of Malaysian palm oil in the future as being sustainable, healthy and safe. Implementation of MSPO certification is aimed to further improve the palm oil governance in Malaysia through a nationwide sustainability initiative and transparency throughout the value chain. Apart from that, this effort will also improve accessibility, competitiveness and differentiation of Malaysian palm oil in the global oil palm markets.

2. The MSPO Certification Process
The certification process of MSPO requires auditing and certification by third party independent Certification Bodies (CB). The client applies to a CB to undergo an audit against the applicable MS 2530:2013 Standard to ascertain its compliance with the certification requirements. The auditing procedures fulfil the requirements of MS ISO/IEC 17021:2015 (for oil palm management certification) and ISO/IEC 17065:2012 (for supply chain certification). The details of the MSPO Certification Scheme and its implementation arrangement (Figure 2) set out the key components and requirements of the MSPO Certification Scheme. The audit report is subjected to a peer review process, which is only applicable for oil palm management certification during initial and re-certification audits. The client is eligible for the award of the certificate of compliance against the respective MSPO Standard or in the case of a recertification audit, the renewal of the certificate, if the CB has issued no major nonconformities.

The CB needs to provide public access to, or provide upon request, the established internal procedures for auditing and certification information describing the auditing and certification processes for the granting and maintaining of certification, expanding or reducing the scope of certification, renewing, suspending, restoring or withdrawing of certification. The CB informs MPOCC of all the certificates that it has issued, and any changes made concerning the validity and scope of the certificates.
3. The MSPO Standards
The Malaysian Standard, MS 2530:2013 series, or generically called, the MSPO Standards was launched in November 2013. The Standards is currently used under the MSPO Certification Scheme and was developed based on domestic laws and regulations, and best management practices on sustainability, encompassing the three pillars of sustainability. Inputs from representatives of various palm oil interest groups were taken on board in the development of the MSPO Standards. The MSPO Standards stipulate the general principles on certification requirements for oil palm smallholdings, plantations and palm oil processing facilities to ensure that the palm oil is produced in a responsible and sustainable manner. The MSPO Standards can be purchased from the Department of Standards Malaysia. In line with international best practices, the MS2530:2013 Standards is now going through a review process to further strengthen the requirements for certification, through a multi-stakeholder process.

The MSPO Standards contain seven (7) principles which form the general requirements of a management system framework, based on the three pillars of sustainability, i.e. economically viable, socially acceptable, and environmentally sound. The 7 MSPO Principles covers the themes of management, social equity, environmental protection and economic progress.

The 7 Principles in the MS2530:2013 are as follows:

Principle 1: Management commitment and responsibility
Principle 2: Transparency
Principle 3: Compliance to legal requirements
Principle 4: Social responsibility, health, safety and employment conditions
Principle 5: Environment, natural resources, biodiversity and ecosystem services
Principle 6: Best practices
Principle 7: Development of new plantings

Each of the seven Principles have specific Criteria and Indicators that the Certification Bodies (CBs) use during the auditing process to determine compliance. The management of the entity that meets the requirements of the
standards will be awarded MSPO certificate, which is valid for a period of five years. During the validity of the MSPO certification, annual surveillance audits will be conducted to ensure continued compliance.

Over the past year, MPOCC through a multi-stakeholder consultative process under the Technical Working Committee on MSPO Standards and the Experts Working Group has developed the MSPO Supply Chain Certification Standard [MSPO(SCCS)]. The MSPO(SCCS) underwent rigorous pilot testing in various processing facilities in Peninsular, Sabah and Sarawak through the support of the members of the Technical Working Committee on MSPO Standards. The National Steering Committee on MSPO endorsed the MSPO(SCCS) on 31 July 2018. The MSPO(SCCS) uses segregation and mass balance models of the palm oil supply chain.

4. Malaysian Palm Oil Certification Council (MPOCC)
For the overall implementation of MSPO Certification Scheme, a crucial and important enabling measure is the establishment of a governing body for the development and operations of the scheme. For this purpose, the Malaysian Palm Oil Certification Council (MPOCC) was formed in 2014 to fulfil the implementation of the MSPO Certification Scheme. MPOCC was established as an independent non-profit organisation incorporated as a company limited by guarantee under the Malaysian Companies Act, 1965. MPOCC is responsible for the development and operation of the MSPO Certification Scheme, which began operation in October 2015. A broad multi-stakeholder Board of Trustees governs MPOCC with representation from oil palm industry, government, academia, research and development institutions, non-governmental organisations, smallholder’s organisations and civil society.

5. Strategies for MSPO Certification
Various strategies are presently employed under the MSPO Certification Scheme for its full implementation through a multi-pronged approach. These include the conduct of nationwide independent certification audits against the MSPO standards, MSPO Roadshows for oil palm growers, smallholders and palm oil mills, training of peer reviewers who will be able to carry out independent review of audit reports, endorsement of training providers who can carry out training for MSPO auditors, certification bodies workshops, forums to engage with the environmental and social NGOs to further enhance the scheme, improvement in the audits by carrying out witnessing of certification audits and accreditation audits. The Certification Bodies who wish to carry out MSPO audits must be a legal entity in Malaysia. Accreditation with the national Accreditation Body is a must for all certification bodies.

To reduce the burden of audits on the industry, through a multi-stakeholder Working Group, MPOCC facilitated the development of an audit checklist for the conduct of combined audits of MSPO and RSPO schemes. This has resulted in a rapid uptake of MSPO certification of RSPO certified entities by reducing both, time and cost for the industry and is seen as a positive development by the industry in Malaysia.

6. Values and shared benefits of MSPO certification
For the successful implementation of MSPO certification, the values and shared benefits of the system need to be disseminated. The realisation of the benefits among others includes, tangible and intangible benefits, such as protection of the environment, safe work conditions and contribution to local sustainable development. MSPO certification requires legality compliance, safety and health requirements to be in place. Indirect benefits would be increased productivity as a result of effective cost management and better waste management, which will in turn result in, higher optimization of yields and greater profits. Spin off benefits includes local business development, innovations and outsourced activities. Traceability of the raw materials (Fresh Fruit Bunches, Crude Palm Oil and Processed Palm Oil) up to the point of origin will be known and therefore, will address concerns of affected stakeholders on the negative public perception throughout the value chain of the oil palm sector. Some of the positive impacts of MSPO would be legality compliance, reduced work accidents, implementation of best agriculture practices, tax breaks and financial incentives for MSPO audits, market access and meeting the demands of the environmentally sensitive markets for certified sustainable palm oil.
Table 1: MSPO certification achievement in Malaysia (as of 31 July 2018)

<table>
<thead>
<tr>
<th>Areas certified</th>
<th>Total planted area (ha)*</th>
<th>Units Certified</th>
<th>Certified Areas (ha)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Smallholding</td>
<td>979,758</td>
<td>62 clusters</td>
<td>12,312.02</td>
<td>1.3</td>
</tr>
<tr>
<td>Organised Smallholding</td>
<td>1,287,958</td>
<td>56 clusters / estates</td>
<td>105,751.06</td>
<td>8.2</td>
</tr>
<tr>
<td>Plantation Areas</td>
<td>3,543,429</td>
<td>377 estates</td>
<td>971,732.95</td>
<td>27.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>5,811,145</strong></td>
<td><strong>1,089,796.03</strong></td>
<td><strong>19%</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Palm Oil Mills certified</th>
<th>Total no. of palm oil mills*</th>
<th>Unit Certified</th>
<th>Mills Capacity (MT/h)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palm Oil Mills</td>
<td>454</td>
<td>102</td>
<td>5,528</td>
<td>23%</td>
</tr>
</tbody>
</table>

* Source: MPOB (As of December 2017)

Figure 3: Total MSPO certified area (ha) (left) and total MSPO certified palm oil mills (right), as of 31 July 2018
(CSPO). Overall, the production of CSPO through Malaysian Sustainable Palm Oil (MSPO) Certification will promote the image and brand of Malaysian palm oil as a mark of compliance against a set of sustainability certification standards.

7. Progress to-date
As of July 2018, the total oil palm planted area that is MSPO certified is 1,089,796.03 hectares. Breakdown of the certification statistics is provided in Table 1. It is evident that while the oil palm estates and palm oil mills have demonstrated considerable progress in MSPO certification in the past years (Figure 3). However, the smallholder sector has achieved a certified area of slightly more than 1% of the total independent smallholdings nationwide. To further promote the uptake of MSPO certification among smallholdings, there is a need to involve all relevant stakeholders, including NGOs, in a collaborative approach. This will ensure accelerated uptake of MSPO certification, and long-term efforts towards addressing improved productivity, raising the income of the smallholders and ultimately sustainable practices.

8. Conclusion
Implementation of a mandatory MSPO certification scheme will need the highest-level commitment by all relevant stakeholders for full implementation of the scheme. The close cooperation and collaboration among all key players at the national and state level, be it government, industry certification bodies, national accreditation body, NGOs and CBOs, is needed. A robust traceability and monitoring system to track certified materials (FFB, CPO, PPO, etc.) throughout the value chain is needed. In this regard, a national traceability system is being created to monitor all aspects of the oil palm value chain from seed production up to point of export. For the purpose of MSPO certification, a detailed IT platform will be in place to monitor certified areas and products originating from certified sustainable managed areas. The national level regulation on oil palm will be amended to include MSPO certification, as a pre-requisite for MPOB licensing will be in place.

References
