

Background

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World Bank's Palm Oil Development Strategy Should Focus on Economic Freedom

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Abstract: *In ongoing campaigns against the expansion of the palm oil industry in developing countries, non-governmental organizations (NGOs) and environmental groups claim that palm oil production destroys tropical rainforests and threatens wildlife. In truth, a major motivation for their opposition seems to be sheer protectionism: In addition to being a vitally important cooking oil and food ingredient, palm oil is a cheap and efficient biofuel that threatens the market share of the rapeseed oil produced in Europe. Therefore, European producers of rapeseed oil and other biofuels have pushed the European Commission to grant millions of euros in taxpayer-funded subsidies to NGOs that agitate against palm oil exports to developed countries. The NGOs also pressured the World Bank to suspend lending to palm oil development projects. Heritage Foundation trade and economics expert James Roberts explains why the World Bank should design its new strategy to uphold its principles of alleviating poverty while encouraging economic growth, and adopt a pro-growth strategy that continues to support palm oil investment in developing countries. It is free-market principles, not protectionism, that elevate living standards and reduce poverty.*

The World Bank Group's International Finance Corporation (IFC) is examining its "global strategy" for future development assistance investments in the palm oil sector¹—a sector that is vital to economic growth and job creation in Indonesia, Malaysia, and other developing countries—which it suspended in late 2009 in response to pressure from environmental non-gov-

Talking Points

- NGOs and environmental groups are campaigning against expansion of palm oil production in developing countries, claiming it destroys tropical rainforests and threatens wildlife.
- A major motivation for their opposition to palm oil production is sheer protectionism: Palm oil is a vitally important cooking oil and food ingredient; it is also a cheap and efficient biofuel that threatens the market share of the rapeseed oil produced in Europe.
- European producers of rapeseed oil and other biofuels have pushed the European Commission to grant millions of euros in subsidies to many NGOs to agitate against palm oil exports to developed countries. The NGOs also pressured the World Bank to suspend lending to palm oil development projects.
- The World Bank should uphold its principles of alleviating poverty while encouraging economic growth, and adopt a pro-growth strategy that continues to support palm oil investment in developing countries.
- Free-market principles, not protectionism, elevate living standards and reduce poverty.

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ernmental organizations (NGOs).² Groups seeking to restrict further development of the global palm oil sector and limit its access to developed-country markets in Europe and elsewhere would thus block new opportunities for raising living standards and reducing poverty in the developing world, and potentially harm trade and investment partners, too. Therefore, the World Bank should adopt a pro-growth strategy that continues to support palm oil investment programs in developing countries.

The War on Palm Oil

NGOs have long campaigned against the production of palm oil in developing countries, alleging that it damages the environment (specifically tropical rainforests) and endangers threatened species, such as the orangutan. Yet palm oil is an essential food item and cooking oil, and a good source of private-sector investment, economic development, and employment for thousands in the developing world. In fact, one of the real-world factors motivating the opposition to palm oil production by some Corporate Social Responsibility (CSR) activists, extreme environmentalists, and other NGOs is protectionism: These groups are opposing imports of lower-cost, higher-quality palm oil because it

threatens the market share of oil produced from EU-grown rapeseed.³ Many of these NGO opponents of palm oil production are recipients of some of the millions of euros in annual grants from EU environment ministries and the European Commission, advanced by European companies and labor unions in an effort to protect domestic rapeseed oil production (which in turn is itself subsidized through the EU's Common Agricultural Policy).⁴

Foreign direct investment (FDI) to develop the palm oil industry has played an important part in fueling the market-based economic growth and freedom in the past decade that has increased stability and prosperity in Indonesia and Malaysia (together accounting for as much as 85 percent of world production⁵), as well as Colombia, Liberia,⁶ Ghana, and other important economies in the tropical regions.

Indonesia and Malaysia have maintained high palm oil production while protecting more than 25 percent⁷ and 50 percent⁸ of their forest cover, respectively. Meanwhile, the palm oil industry employs more than 570,000 Malaysians and over three million Indonesians.⁹ The industry in these countries accounted for more than US \$27 billion in sales in 2007.¹⁰

1. International Finance Corporation, "World Bank Group Launches Palm Oil Strategy Development Website," April 8, 2010, at <http://www.ifc.org/ifcext/media.nsf/Content/WorldBankGroupLaunchesPalmOilStrategyDevelopmentWebsite> (June 10, 2010). See also, International Finance Corporation, "World Bank Group Palm Oil Strategy 2010," at <http://www.ifc.org/ifcext/agriconsultation.nsf/Content/Home> (June 10, 2010).
2. Lesley Wroughton and David Gregorio, "World Bank's IFC Suspends Palm Oil Investments," Reuters, September 9, 2009, at <http://www.reuters.com/article/idUSTRE5886OD20090909> (June 10, 2010).
3. Fredrik Erixon, "Green Protectionism in the European Union: How Europe's Biofuels Policy and the Renewable Energy Directive Violate WTO Commitments," European Centre for International Political Economy *Occasional Paper* No. 1/2009, at <http://www.ecipe.org/publications/ecipe-occasional-papers/green-protectionism-in-the-european-union-how-europe2019s-biofuels-policy-and-the-renewable-energy-directive-violate-wto-commitments/PDF> (June 10, 2010).
4. European Commission, "Operating Grants to European Environmental NGOs," April 21, 2010, at http://ec.europa.eu/environment/ngos/index_en.htm (June 10, 2010).
5. United States Department of Agriculture, "Indonesia: Palm Oil Production Prospects Continue to Grow," Foreign Agricultural Service *Commodity Intelligence Report*, December 31, 2007, at http://www.pecad.fas.usda.gov/highlights/2007/12/Indonesia_palmoil/ (June 11, 2010). See also Arti Ekawati, "Indonesia and Malaysia Team Up Against Palm Oil Critics," *The Jakarta Globe*, March 7, 2010, at <http://www.thejakartaglobe.com/business/indonesia-and-malaysia-team-up-against-palm-oil-critics/362488> (June 11, 2010).
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7. Mongabay.com, Indonesia Forest Figures, at <http://rainforests.mongabay.com/20indonesia.htm> (June 2, 2010).
8. Convention on Biological Diversity, "Country Profiles: Malaysia—Details," at <http://www.cbd.int/countries/profile.shtml?country=my#thematic> (June 2, 2010).

Key Nations With Significant Palm Oil Employment



Sources: Indonesia and Malaysia: International Finance Corporation, "Key Sustainability Issues in the Palm Oil Sector," p. 9, at [http://www.ifc.org/ifcext/agriconsultation.nsf/AttachmentsByTitle/Discussion+Paper/\\$FILE/Discussion+Paper_FINAL.pdf](http://www.ifc.org/ifcext/agriconsultation.nsf/AttachmentsByTitle/Discussion+Paper/$FILE/Discussion+Paper_FINAL.pdf) (June 15, 2010); Liberia: *Liberian Observer*, "GOL to Plant 10m Oil Palm Trees," at <http://www.liberianobserver.com/node/4195> (June 15, 2010); Colombia: http://www.fedepalma.org/oil_col.htm (June 15, 2010); Ghana: OT Africa Line, "Palm Oil—UK Ban Exports from Ghana—The Actual Facts - 06/09/04," at <http://www.otal.com/commodities/palmoil.htm> (June 15, 2010).

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The World Bank's "Palm Oil Strategy"

Oil palm trees originated in West Africa and the oil is produced from its fruit. The trees are now cultivated in tropical regions around the world. The crop is vital to meeting global demand for healthy cooking oil as the world's population increases and standards of living rise. Palm oil is also an efficient and sustainable crop. It consumes less energy in

production, uses less land, requires less input of fertilizers or pesticides, and generates more oil per hectare than other leading vegetable oils, such as European rapeseed or soybean oil.¹¹

Over the past five decades, the World Bank and the IFC together have invested nearly \$1.3 billion in palm oil projects¹² and are helping palm-oil-producing countries take prudent steps to expand

9. Cheng Hai Teoh, "Key Sustainability Issues in the Palm Oil Sector," International Finance Corporation, 2010, at [http://www.ifc.org/ifcext/agriconsultation.nsf/AttachmentsByTitle/Discussion+Paper/\\$FILE/Discussion+Paper_FINAL.pdf](http://www.ifc.org/ifcext/agriconsultation.nsf/AttachmentsByTitle/Discussion+Paper/$FILE/Discussion+Paper_FINAL.pdf) (June 11, 2010).
10. "Malaysian Palm Oil Industry Performance 2008, Supplement," *Global Oils and Fats Business Magazine*, Vol. 6, No. 1 (January–March 2009), at http://www.mpoc.org.my/gofbm_view.aspx?id=ec27b7ab-a508-4ed0-9f4c-c00a8622500d (June 2, 2010), and Multa Fidrus, "Minister Lobbies EU Over Palm Oil Restrictions," *The Jakarta Post*, September 19, 2008, at <http://www.thejakartapost.com/news/2008/09/19/minister-lobbies-eu-over-palm-oil-restrictions.html> (June 11, 2010).
11. Roundtable on Sustainable Palm Oil, "Factsheet: Palm Oil," at <http://www.rspo.org/files/pdf/Factsheet-RSPO-AboutPalmOil.pdf> (June 11, 2010).
12. Teoh, "Key Sustainability Issues in the Palm Oil Sector," pp. 11–15.

production while protecting the environment and wildlife. In response to NGO pressure groups, however, in September 2009 the IFC announced a suspension of approval of any new palm-oil-development investments pending completion of a review of its practices in the sector.

According to the World Bank Group, the IFC is in a “consultative phase of the Palm Oil Strategy development process to seek multiple stakeholders’ input into developing a framework and a set of principles to guide the World Bank Group’s future work in the palm oil sector.”¹³ The IFC has been collecting consultation comments from the public.

It is distressing to see the World Bank trying to take another step in re-orientating its development resources away from private-sector economic and agricultural development projects and toward more social-engineering and environmental causes.¹⁴ The decision to suspend the IFC’s palm oil program is symptomatic of this larger pattern.

This policy bias directly contradicts the IFC’s stated mission of “promoting open and competitive markets in developing countries” and “catalyzing and mobilizing other sources of finance for private enterprise development.”¹⁵

Environmental NGOs: Palms Oiled by European Protectionists?

The campaign by European NGOs, such as Greenpeace,¹⁶ Rainforest Action Network,¹⁷ the World Wildlife Fund,¹⁸ and Friends of the Earth,¹⁹ among others, to restrict palm oil production worldwide and limit access to European markets would block future job creation, development of higher living standards, and poverty reduction in the very countries the NGOs claim to be protecting. In part, their opposition reflects a philosophical objection to plantation industries in any form anywhere in the world.

As is often the case with left-leaning environmental groups, they have also formed an alliance with the European Commission as well as protectionist European bio-fuel producers and their labor unions that seek to restrict palm oil imports. In fact, dozens of European NGOs (or their subsidiaries) that oppose palm oil production are recipients of some of the millions of euros in annual grants from EU environment ministries.²⁰ Friends of the Earth Europe, one the most vocal palm oil opponents, receives more than 50 percent (more than 800,000 euros) of its funding from the European Commission.²¹

13. International Finance Corporation, “World Bank Group Launches Palm Oil Strategy Development Website.” See also International Finance Corporation, “World Bank Group Palm Oil Strategy 2010.”
14. An independent review of the World Bank Group determined that it is the largest multilateral source of environment-related financing. The World Bank’s new policy is that environmental causes be given increased operational priority and the Bank has since initiated its 2010 Environment Strategy Consultations to fulfill this priority. See The World Bank, “Environmental Sustainability: An Evaluation of the World Bank Group Support,” 2010, at <http://web.worldbank.org/WBSITE/EXTERNAL/EXTOED/EXTENVIRONMENT/0,,contentMDK:21798364~menuPK:4681948~pagePK:64829573~piPK:64829550~theSitePK:4681890,00.html> (June 11, 2010).
15. International Finance Corporation, “IFC’s Vision, Values & Purpose,” 2010, at <http://www.ifc.org/ifcext/about.nsf/Content/Mission> (June 11, 2010).
16. Greenpeace International, “Palm Oil: Cooking the Climate,” November 8, 2007, at http://www.greenpeace.org/international/en/news/features/palm-oil_cooking-the-climate/ (June 11, 2010).
17. Rainforest Action Network, “The Problem with Palm Oil,” February 9, 2010, at <http://ran.org/content/problem-palm-oil> (June 11, 2010).
18. World Wildlife Fund, “WWF Palm Oil Buyers’ Scorecard 2009,” October 2009, at <http://assets.panda.org/downloads/wwfpalmoilbuyersscorecard2009.pdf> (June 11, 2010).
19. Friends of the Earth, “Palm Oil: Rainforest in your Shopping,” at http://www.foe.co.uk/campaigns/biodiversity/case_studies/palmoil_index.html (June 11, 2010).
20. European Commission, “Operating Grants to European Environmental NGOs.”

So, in addition to their campaign against palm oil, these NGOs are pushing for adoption of the EU's "Renewable Energy Directive" which would restrict imports of bio-fuels by imposing higher and more onerous environmental standards on them than on bio-fuels produced in the EU (for instance, from rapeseed). This favoritism is prohibited under the non-discrimination and national treatment rules of the World Trade Organization.²² In addition, the Renewable Energy Directive mandates taxpayer subsidies to European producers of rapeseed,²³ which further erodes the low cost advantage of palm oil and is also deemed illegal by the World Trade Organization.

Best Development Strategy: Private-Sector Trade and Investment

Almost 90 percent of the world's vegetable oils are produced in developing countries—a major generator of jobs, prosperity, and opportunity for people in those nations. Palm oil is one of the leading sectors generating economic growth in Malaysia,²⁴ Indonesia, Colombia, and other developing countries.

As can be seen in Chart 1, this growth has accompanied gains in the ranks of countries on the

Heritage Foundation's *Index of Economic Freedom*, especially in the cases of Malaysia and Ghana (which have been among the *Index of Economic Freedom* leaders in their regions in recent years).²⁵

In Malaysia, the palm oil sector has become one of the larger contributors to GDP growth,²⁶ while in Liberia and Uganda it is an important source of small business creation.²⁷ In Uganda, through support from the International Fund for Agricultural Development (IFAD), the government, and private enterprise, the Vegetable Oil Development Project expects to employ 3,000 smallholder farmers and 136,000 households directly stand to benefit.²⁸ In nearly every case, palm-oil-sector growth has correlated positively with these countries' scores on the *Index of Economic Freedom*.

Conclusion

The EU's "Renewable Energy Directive" is a protectionist measure that harms economic growth and poverty alleviation in the developing world and stands in direct contradiction to the free-market principles that alleviate poverty and create prosperity. EU-funded NGOs seeking to restrict development of the global palm oil sector by stopping IFC palm-oil project lending and limiting market access to mar-

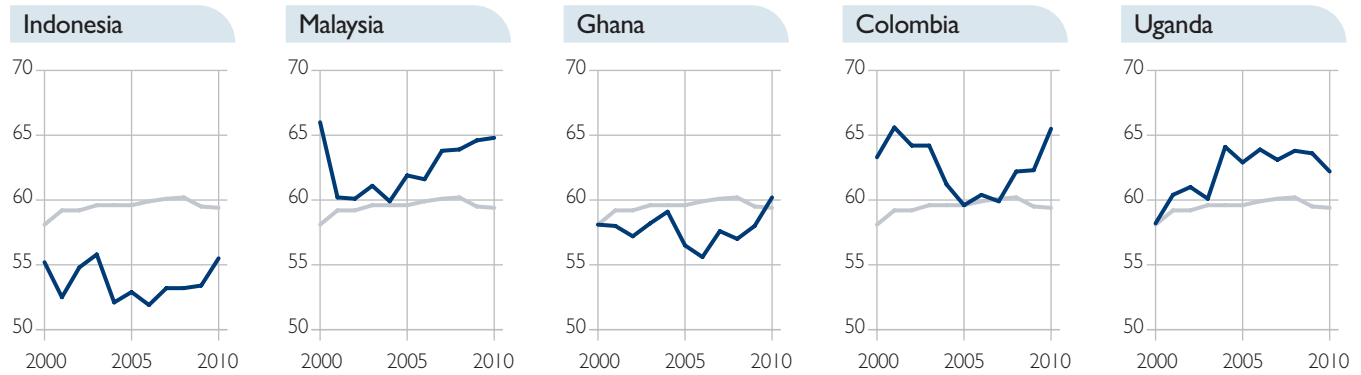
21. European Commission, listing of NGOs receiving grants from the EU contained in "Results of Call for the submission of proposals from European non-governmental organisations primarily active in the field of environmental protection for 2009 under the Financial Instrument for the Environment (LIFE+)—Regulation (EC) No. 614/2007 of the European Parliament and of the Council of 23 May 2007," at <http://ec.europa.eu/environment/ngos/pdf/ngos2009.pdf> (June 11, 2010).
22. Erixon, "Green Protectionism in the European Union: How Europe's Biofuels Policy and the Renewable Energy Directive Violate WTO Commitments."
23. European Commission, "Directive 2009/28/EC of the European Parliament and of the Council," *Official Journal of the European Union*, April 23, 2009, at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0016:0062:EN:PDF> (June 11, 2010).
24. Malaysian National News Agency, "Palm Oil Sector to Become Larger Contributor to GDP," March 30, 2010, at http://findarticles.com/p/news-articles/bernama-malaysian-national-news-agency/mi_8082/is_20100330/palm-oil-sector-contributor-gdp/ai_n52991475/ (May 24, 2010).
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26. Malaysian National News Agency, "Palm Oil Sector to Become Larger Contributor to GDP."
27. Leroy M. Sonpon, III, "GOL to Plant 10m Oil Palm Trees," *Daily Observer*, January 25, 2010, at <http://www.liberianobserver.com/node/4195> (June 11, 2010), and International Fund for Agricultural Development, "Vegetable Oil Development Project—Phase 2," at <http://operations.ifad.org/web/ifad/operations/country/project/tags/uganda/1468/project%20overview> (May 28, 2010).
28. International Fund for Agricultural Development (IFAD) and Uganda Government, "Vegetable Oil Development Project—Phase 2," at <http://operations.ifad.org/web/ifad/operations/country/project/tags/uganda/1468/project%20overview> (June 7, 2010).

The Importance of Palm Oil to Developing Countries

The five nations shown below rely on the trade of palm oil for a significant portion of their economies. In recent years, as they have increased their trade, their economies have grown, along with their Economic Freedom scores.

Scores in the *Index of Economic Freedom*, 2000–2010

— Nation — World Average



Source: Terry Miller and Kim R. Holmes, *2010 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2010), at <http://www.heritage.org/index>.

Chart I • B 2426 heritage.org

kets in the Organisation for Economic Co-operation and Development are thereby blocking new opportunities to raise living standards and reduce poverty in the developing world, as well as potentially harming U.S. trade and investment partners.

The Obama Administration should urge World Bank president Robert Zoellick to uphold the bank's

principles of alleviating poverty while encouraging economic growth, and adopt a pro-growth strategy that continues to support palm oil investment in developing countries.

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