

RSPO P&C – The Challenge of Making the Principles and Criteria Operational

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ABSTRACT

The Round-table on Sustainable Palm Oil (RSPO) Principle and Criteria (P&C) took effect in 2007. Since then, 5% of the RSPO oil has been certified as 'sustainably produced'. Nevertheless, deforestation continues at an alarming rate, leading to intensified criticism of the palm oil industry's practices. This study assesses members' capacity to comply with the RSPO P&C beyond the moment of certification. Thirty-six companies operating 4.25 million hectares of oil palm plantations generate USD 3 billion in net profit but only two have set up in-house capacity to implement the RSPO P&C. Limited understanding of the RSPO P&C at conceptual level, rather than lack of commitment, is a key weakness amongst the industry stakeholders. Concurrently, environmental NGO often give technical criticism rather than offer broad operational support to the industry, which reduces the general perception of the RSPO P&C to specific regulations that require reactive measures instead of adopting and integrating it conceptually in a proactive manner at the earliest planning stages of the operations. Finally, ambiguous HCV-evaluation and assessments, and lack of a common standard add to the confusion and often leave industry players in unreasonable and costly management situations.

INTRODUCTION

The past decade has seen a significant increase in environmental degradation and loss of ecosystem services in most parts of the World (Bradshaw *et al.*, 2009; Butler and Laurance, 2009; Craft *et al.*, 2009; Dobson *et al.*, 2006; FAO, 2009; Greenpeace, 2007; Hoesinghaus *et al.*, 2009; Kettunen and Ten Brink, 2006; Koh and Wilcove, 2008; Malcolm *et al.*, 2006; Sodhi *et al.*, 2004; UNEP, 2007; UNESCAPS,

2007). While some parties continue to dispute the primary causes of global warming it is widely recognised that extensive and ill-planned land-use practices and the burning of fossil fuels contribute more than anything else to climate change (Houghton, 2003; Lomborg, 2001). In line with the increasing debate of how to limit the negative effects of extensive habitat alteration, companies responsible for significant land-use change, pollution and natural

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resources exploitation are expected to exhibit a corresponding level of responsibility by adopting sustainable production methods. Since the palm oil industry is a key driver of tropical forest degradation in Southeast Asia (Dermawan, 2001; Fuller *et al.*, 2004; Greenpeace, 2008a, b, c; 2007; Koh, 2007; Malcolm *et al.*, 2006; UNEP, 2007), it is only a matter of time before the sector will see an increasing amount of significant regulations to their traditional – ecologically unsustainable – agricultural practices.

The formation of the Roundtable on Sustainable Palm Oil (RSPO) was a timely response to an increasing demand for the industry to comply with contemporary sustainability requirements and contribute positively to deceleration of global warming. With the formation of RSPO, the industry also acknowledged that it plays a vital role in both local and global natural resources management. By developing the RSPO Principles & Criteria (P&C), the industry took a very important step towards becoming contemporary operators in a world where biodiversity conservation is increasingly associated with safeguarding important ecosystem processes and human welfare (Dobson *et al.*, 2006; Duffy, 2009; European Communities, 2008; Ewel, 2009; Gamfelt *et al.*, 2008). The formation of the RSPO and, subsequently, the development of the RSPO P&C were the outcome of fruitful cross-sectoral collaboration between the palm oil industry and environmental organizations. The RSPO P&C was first implemented in 2005 for a two-year pilot period, then revised and finally adopted at the General Assembly on 22 November 2007 (RSPO, 2007). Since then more than 4% of the oil has been certified as ‘sustainably produced’ and a number of companies have been

certified as ‘sustainable producers’ starting with United Plantations Bhd (Malaysia) on 26 August 2008.

Many industry stakeholders applauded United Plantations Bhd for its achievement whereas many environmental NGO dismissed the certification as premature and untimely. Greenpeace published the report, *United Plantations Certified Despite Gross Violations of RSPO Standards* (Greenpeace, 2008a) that appeared as a crude summary of the report, *The Impact of RSPO Partial Certification Standards: A Case Study in Kotawaringin Barat, Central Kalimantan* (Greenpeace, 2008b) and called for a temporary halt to certifying more companies as well as a temporary moratorium on deforestation. The report ruffled feathers at the RSPO RT6 Conference, November 2008, in Bali, but did little to help resolve some pertinent weaknesses with regard to the certification system. During the entire process, United Plantations Bhd exhibited exemplary transparency and commitment to collaborate and resolve social and environmental concerns and raise its practices to higher standards, but in a broader ecosystem conservation and RSPO certification context, little else than a few technical adjustments emerged as a result of the report. In December 2007, the Indonesian government issued a decree to stop all development on peat swamp, which was subsequently annulled in the end of 2008. The recommendation for a temporary halt to clearing of peat swamp and other tropical forests was expressed by many other sectors as well (Bradshaw *et al.*, 2009; Butler and Laurance, 2009; Koh *et al.*, 2009; FAO, 2009). Concurrently, the Malaysian Palm Oil Board (MPOB) launched their ‘Code of Practice’ on 27 August 2007 (MPOB, 2007). MPOB’s ‘Code of Practice’ is a comprehensive attempt to

promote responsible agricultural practices in Malaysia and within Malaysian companies operating abroad. Whilst the Code of Practice focuses primarily on ensuring that all Malaysian produced palm oil that reach the consumers is free of any form of contaminants and has not violated human rights and sustainable environmental practices in the production process, the concept of land-use practices that optimises conservation value and the protection of ecological processes is not well communicated in it. Nevertheless, it is yet another clear indicator that not only environmental NGO’s but also governments in palm oil producing countries are putting pressure on the industry to ensure that it complies with some form of measurable international standards.

The question of whether or not the RSPO certification system is ready for implementation remains unresolved. The RSPO P&C provides an extensive list of requirements for a company to qualify for certification. Yet the certification itself draws criticism from many government agencies, environmental groups and organizations. Many critical publications and reports focus on issues and recommendations that are often technical in nature (Bradshaw *et al.*, 2009; Butler and Laurance, 2009; Koh *et al.*, 2009; Greenpeace, 2008a, b; Laurence *et al.*, 2010) and, despite being relevant, provide little useful operational support to the industry. Whether a company has cleared 3.1 m deep peat forest or only 2.9 m deep peat forest seems somewhat irrelevant in comparison to the importance of introducing proper land-use planning. Adherence to the RSPO P&C is critical to the development of a credible certification system and remains one of the key challenges for the industry as well as for RSPO if it

hopes to progress into a convincing and respected entity in the future.

This study assesses current capacity of the oil palm industry in relation to following the RSPO P&C effectively. It also extracts the gist of the RSPO P&C, in particular in relation to maintaining ecosystem services, and puts into context the substantial criticism that is often directed at the industry by environmental NGO and organisations. The aim is to provide useful support to those stakeholders among the palm oil industry, NGO and government sector that wish to embrace environmental concerns and address the challenge in a proactive and collaborative manner.

METHODOLOGY

Criteria

RSPO members were identified and selected from the RSPO website according to the following criteria.

Member is an oil palm grower. The RSPO P&C focus on activities related to growing and producing palm oil non-growers were omitted from the assessment, because they are not involved in any activities with direct impact on the environment or they are not involved in major land-use changes.

Member operates more than 20 000 ha of palm oil plantation. By omitting members with a land bank less than 20 000 ha, we did not intend to dismiss the role and importance of small companies in developing sustainable practices. Smallholders are often slow to comply with environmental regulations due to resource and capacity limitations. However, large companies with the biggest land banks also risk creating the biggest environmental problems. Therefore, we consider these as the primary drivers of change towards ensuring mainstreaming

of sustainable practices in the industry. Crop types other than oil palm (e.g. rubber, coffee) were not included in this criterion.

Member provides public access to their respective company's annual report. Some companies have not made their annual reports available on their websites and, therefore, we have only included companies with available information in this study. For each company, we listed the following parameters: i) land bank in hectares, which includes both planted and un-planted, ii) conservation land in hectares (not included as un-planted area), iii) net profit after tax in USD (as stated in the respective annual reports¹) and iv) location (country).

RSPO P&C Capacity

To assess a company's environmental capacity to implement the RSPO P&C, we grouped companies in the following three categories:

Group A. Companies that have allocated resources to develop an in-house environmental/biodiversity division to manage the company's environmental issues, including the RSPO P&C.

Group B. Companies that have: i) employed a biologist/ecologist/environmentalist, ii) appointed in-house staff with an agricultural background as responsible for environmental issues but without the capacity to deal with the broader perspective of e.g. biodiversity conservation and ecosystem services and iii) engaged in partnership with an external organisation with the necessary expertise. An external partner could be, for example, Fauna & Flora International, Conservation International and WWF.

Group C. Companies without any in-house capacity and reliant on external *ad hoc* advice.

These groupings are based on information provided in the respective annual reports. If there is no direct mention of the establishment of, for example, an environmental division or similar we considered such a unit to be absent in the company.

The RSPO P&C Concept

In order to extract the gist of the RSPO P&C and allow for a more comprehensive conceptual appreciation and understanding of the implications involved in adopting the RSPO P&C, we searched for keywords associated with environmental sustainability and used these as indicators of key focal points. Whilst keywords do not necessarily reflect the main focus of a document on its own, we assessed whether or not keywords were associated with proactive or reactive interventions and/or responses in the document.

THE CRITICISM OF THE PALM OIL INDUSTRY

We reviewed many recent publications highlighting the environmental challenges in the palm oil sector. Some of these are highly critical of the sector (e.g. Greenpeace, 2008a; 2007; Wakker, 2004; Koh *et al.*, 2009), whereas others are more concerned with scientific facts and figures (e.g. Kinnaird *et al.*, 2003; Koh and Wilcove, 2008; Malcom *et al.*, 2006; Greenpeace, 2008b) and few deal with practical implementation (e.g. Phalan *et al.*, 2009; Steinmetz *et al.*, 2006; Tallis *et al.*, 2009; Teoh and Tan, 2007). We assessed these in relation to their capacity to provide useful guidance to the industry in relation to applying the RSPO P&C.

¹ All but three of the 36 companies assessed refer to their 2008 annual report. The remaining three refer to their 2007 annual report.

The HCV Challenge

We reviewed 10 HCV assessments undertaken as part of a compulsory RSPO-certification process. HCV assessments must be based on solid scientific principles adhere to comparable methodologies to ensure relevant and unbiased HCV assessments. Therefore, we assessed the HCV assessments for methodological uniformity with regards to assessment methodologies, survey length, type of species and habitat assessed, and relevance to post-planting monitoring opportunities.

Results

A total of 36 companies from seven different countries fulfilled the selection criteria. These companies account for approximately 4 325 000 ha of palm oil plantations that generate a profit in excess of USD 3.78 billion (Figure 1).

Most of the palm oil plantations belonging to the companies reviewed in this study are found in Malaysia and Indonesia (Figure 2). United Kingdom and Belgium have no palm oil estates in their respective countries but have been

included in the list because it was unclear how much land these companies owned and operated in Indonesia, Malaysia and/or other countries.

Companies listed in Malaysia (Figure 3) produce the biggest revenue. Although Indonesia has surpassed Malaysia in terms of land area utilised for oil palm production, a proportion of it belongs to Malaysian companies. Malaysian owned companies generated more than USD 2 billion in net profit a year, which exceeds the amount of all the other companies combined.

Despite the large land areas utilised for palm oil production and the substantial profit generated from this activity, only two companies stated that they had created a separate environmental/biodiversity unit, whereas eight companies had an affiliation with environmental organisations and/or employed one resource person in charge of RSPO issues. Twenty-six companies did not have any functional environmental unit (Figure 4).

The keyword assessment of the RSPO P&C revealed a heavy bias towards terms such as 'planning, plan' with 'soil' and 'monitoring' being distant second and third. 'Planning/plan' were used 20 times more than keywords such as 'biodiversity' and 'oilpalm/palm' (Figure 5).

HCV assessments do not adhere to any standard system. All 10 reviewed HCV reports applied different survey methodology. Some undertook comprehensive amphibian and reptile assessment whereas others focused on, primarily birds and mammals. Even when focusing on surveying for the same taxa the amount of time spent on surveys differed. None of the reviewed assessments put emphasis measuring and monitoring water quality and hydrological parameters.

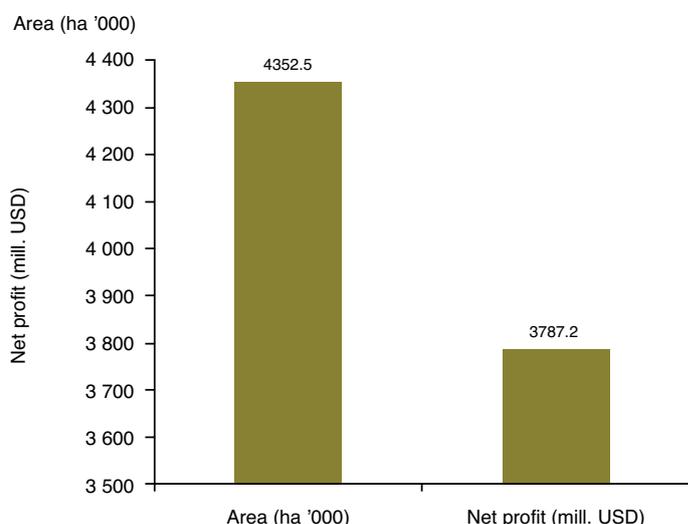


Figure 1. The total amount of land area (ha) and the associated annual net profit (USD) of the 36 companies assessed in this study. The figures do not include contributions from companies with less than 20 000 ha of plantation.

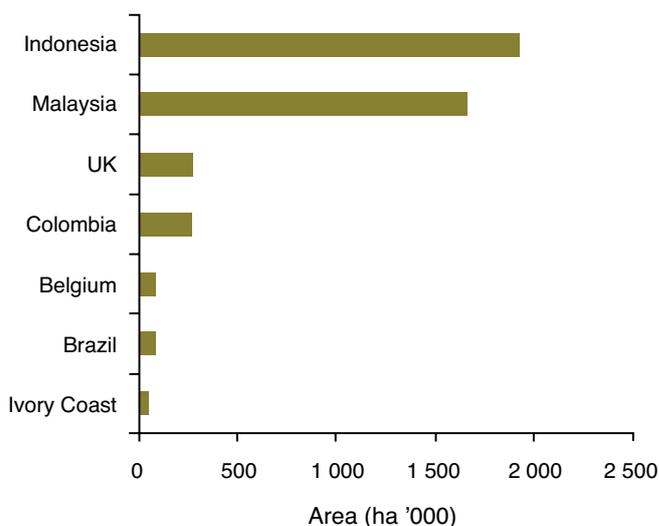


Figure 2. Indonesia and Malaysia are the two leading countries in terms of land area utilised for palm oil production. In total the companies assessed in this study account for almost 4 million hectares of oil palm plantations in Indonesia and Malaysia.

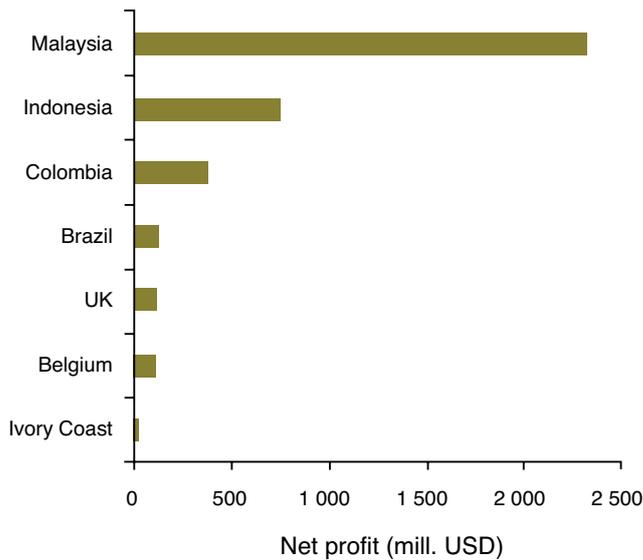


Figure 3. The net profit generated by plantation companies in different countries in 2008. The nationality of the company is based on country of registration and the net profit reflects group earnings irrespective of where its plantations are located. Malaysian companies generate more than USD 2 billion annually, which is more than all the other companies combined (1.47 billion).

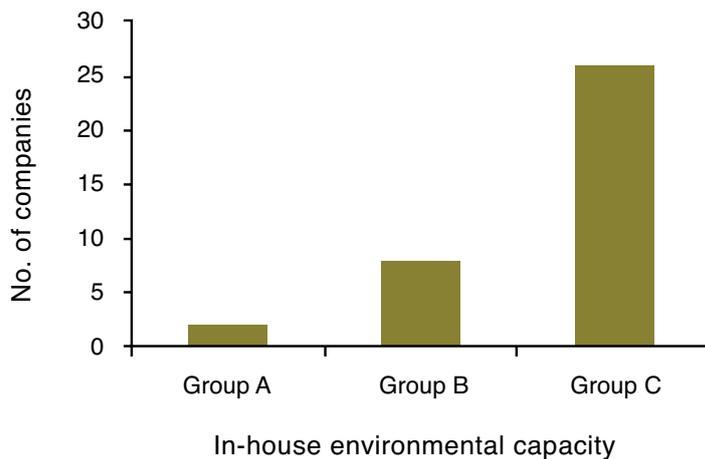


Figure 4. Most palm oil companies assessed in this study do not have any in-house capacity to deal with emerging environmental concerns (Group C). Rather than reflecting an adverse attitude to the topic the results suggest limited conceptual understanding of the RSPO P&C.

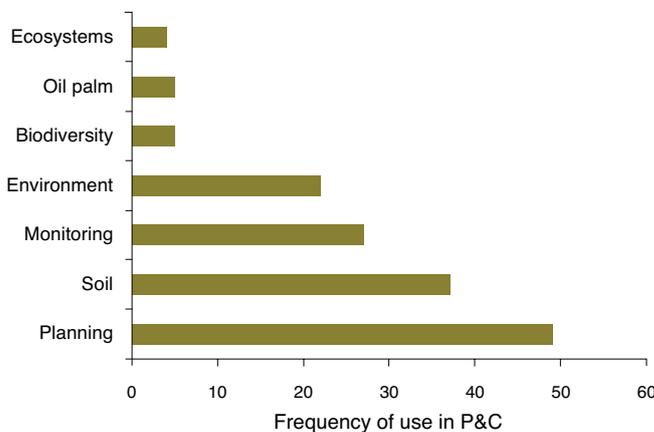


Figure 5. The conceptual focus of the RSPO P&C is not technical in nature per se. It focuses on planning and monitoring of environmental concerns.

DISCUSSION AND CONCLUSION

This study suggests that the focus of RSPO's P&C is on the planning process, *i.e.* it aims at seeing that proper mechanisms are in place throughout the industry and, primarily at growers' level, to ensure that environmental concerns are integrated into all aspects of plantation operation. Whilst keywords do not necessarily reflect the main focus of a document critical keywords such as 'planning/plan' and 'monitoring' are used 10 times more than, for example, 'oil palm/palm oil' (Figure 5). This is critical in relation to conserving ecosystem functions and services and it can only happen if environmental concerns are considered at the beginning of the planning process, *i.e.* before the first bulldozer is sent out, before the first road is built and before the first oil palm has been planted. Furthermore, the P&C was conceived to contribute positively to alleviating the global warming and is intrinsically linked to the Kyoto Protocol and associated international environmental agreements and aspirations. The expected outcome of applying RSPO P&C is, therefore, sustainable operation by all members of RSPO. This will limit indiscriminate and unnecessary conversion of sensitive and biodiversity rich habitats, disruption of ecosystem functions and contribution to global warming. The concept requires a high degree of holistic land-use planning that is proactive rather than reactive in nature and incorporates concurrent monitoring of ecosystem integrity (Luck *et al.*, 2009; Tierney, 2009; Teoh and Tan, 2007). For a company to do this it needs to see that corporate mechanisms are in place for implementing company policies, strategies and planning processes. This, perhaps more than any other

P&C issue, is essential for all companies that aspire to integrate and mainstream environmental concerns into their daily operations and to be able to document practices that are environmentally sustainable. It also requires that the necessary technical staff, with knowledge and experience in species ecology, landscape ecology, GIS, environmental economy and community development, are available in-house to undertake proper land-use planning and contribute to the day-to-day operation.

This study suggests that only a small fraction of the industry have the necessary capacity to deal with environmental issues and the RSPO P&C in general, despite the fact that many of these have been certified, or partly certified, by RSPO as 'sustainable producers'. Only two companies of the 36 assessed gave clear indications of having created an in-house operational environmental or biodiversity unit. Despite generating more than a combined USD 3.5 billion in profit after tax annually an insignificant amount of resources are allocated for environmental planning. This study is only based on available information from 36 large companies, which does not represent the entire industry, but including smallholders in the assessment is likely to worsen the scenario because smallholders are less likely to allocate resources for environmental staff in all operational procedures.

The question remains why such a substantial part of the industry, despite having a well rounded framework in the RSPO P&C, still lacks the mechanisms and still refrains from allocating sufficient economic resources to cope with environmental issues in a contemporary manner. It may be because the understanding of the management implications set out in the RSPO P&C appears

to be limited as suggested by the many companies that fall in the Group B and C categories of this assessment.

Group B companies are not considered to have sufficient capacity to grasp the concepts of the RSPO P&C. Several companies are engaged with national and international NGO or have hired consultancy companies to undertake 'environmental' projects at their estates in order to comply with RSPO P&C and be awarded RSPO certification. Whilst commendable, this procedure does not build the necessary in-house capacity to deal with holistic land-use planning and monitoring of environmental parameters. The approach is not invalid *per se* but it is reactive in nature, for example;

a company buys a 'product' as a reaction to certain emerging negative environmental issues rather than installing mechanisms that are proactive and aimed at preventing such issues from emerging in the first place.

Many companies are already certified by RSPO and yet, the certification does not assure holistic land-use planning has taken place because the certification process does not require the certifying bodies to measure environmental parameters before and after plantation activities have commenced. To certify companies as environmentally sustainable producers without measuring a single environmental parameter in the certification process seems to be pointless. Companies need to integrate planning and monitoring mechanisms that will ensure maintenance of ecosystem services beyond the time of certification to be considered for certification.

An operational approach to RSPO P&C is a cyclical approach that integrates proactive planning, documentation, monitoring, and re-adjustments of activities that have potential detrimental impacts to the environment. Company planners must be familiar with the role of maintaining a high level of biodiversity and how this can contribute to increased revenue as well as maintain ecosystem services (e.g. Koh, 2008a, b). Unless such planning mechanisms are integrated and mainstreamed in companies' operational procedures, environmental issues will reappear and continue to attract criticism. Many companies are being criticized despite setting aside substantial land banks for conservation purposes. The question of 'when will it be enough?' will never be settled amicably until the P&C is interpreted in an ecosystem context, particularly the RSPO secretariat, the industry and the certification bodies.

The sustained criticism is often disregarded by many RSPO certified companies. Why are companies that set aside more conservation area than required subject to on-going criticism? Companies that have allocated extensive areas for protection deserve applause; however, land-use is not only about setting land aside and herein lays the problem, *i.e.* limited conceptual understanding of the RSPO P&C. The RSPO P&C encompasses concepts that go beyond the number of hectares (its overall aim is to sustain ecosystem services) and setting land aside for conservation is only meaningful if the respective land has conservation value in more than a size sense. Parameters such as habitat type, representability²,

²The International Union for Conservation of Nature (IUCN) recommends that 10%-15% of each type of habitat should be maintained to optimise habitat and species diversification. Measuring the total percentage of conservation land only without regards for habitat representability will result in one or two types of habitats being protected (e.g. grass land, mangrove *etc.*) and others perish.

connectivity³, watershed, species endemism, local and regional context and potential conservation value (e.g. value as potential corridor) must be included in an assessment of which areas to set aside. The physical layout of conservation versus plantation land should consider topographical features and not only be based on vehicle accessibility. Estates planning must integrate natural topographical features into the plantation layout so that a relatively high percentage of habitat types is maintained and connected by corridors, watersheds and riparian reserves are protected. Landscape level planning is for the maintenance of ecosystem functions and this can easily be accomplished within the existing plantation framework, in particular considering the large tracts of land that many companies are willing to set aside. The question is thus only 'which land to set aside'?

There are still critical weaknesses in the RSPO certification system even if it is not easy for a company to become certified. Certification ought to be based on a holistic approach and advice provided by environmental NGOs should focus on this concept rather than on technical issues. For example, most of the critical points published in Greenpeace's report (Greenpeace, 2008a) were technical in nature. The report focused primarily on issues such as peat depth (e.g. was 2 m or 3.1 m deep?), legal ambiguities (e.g. should land allocation follow a 2003 or 2006 provincial map?) and 'potential orang utan habitat' (e.g. should potential orang utan habitat be considered HCV without confirmed

presence of orang utans in the HCV studies?). Whilst highlighting and focusing on technical issues may be relevant, technical arguments are difficult to settle because they are subject to interpretation under different circumstances and contexts. Therefore, they often fail to provide useful information about how to deal with current environmental challenges. By focusing on insignificant technical issues many critical reports fail to draw attention to the real essence of RSPO P&C and give reasons for recurring environmental problems in companies that are already certified. The real weakness, however, lies in the certification procedure where certification bodies are not required to – and rarely have the capacity to – evaluate companies' environmental performances before and after plantation activities have taken place. The outcome of this is companies that are certified according to operational procedures rather than according to environmental sustainability. The key inconsistency is that companies can adhere to the immediate RSPO P&C technicalities, receive certification and still do environmental damage. Consequently, it is more meaningful to focus on improving the RSPO certification system rather than criticise companies that, in many cases, act in good faith and take pride the accomplishment of being certified. The onus is on environmental NGO and the RSPO secretariat to provide advice that considers plantation development in an ecosystem context and is practical, thereby supporting the operationalisation of the RSPO P&C.

An additional challenge in the certification process relate to the HCV assessments. In its current format, there are no standard methodology and procedures that each assessor has to comply with to

describe a habitat, an ecosystem and a landscape. Instead, assessors rely entirely on HCV toolkit definitions interpreted by HCV experts at their own discretion. This often results in significant discrepancies in the HCV assessment because survey methodologies are not standardised and developed to capture the broadest possible number of taxa to describe the biodiversity richness and function of an area. The ambiguous HCV assessment procedure result in additional frustration – and cost - for companies striving for certification, and is likely to deter many from even trying. In the end, it is a loss to all parties and, consequently, environmental NGO and RSPO must develop uniformity in HCV assessments that are scientifically sound and aim at safeguarding ecological process and ecosystem functions.

Currently, far too little economic resources have been allocated for environmental purposes amongst the industry stakeholders at large, which question their commitment to the cause. Many companies have voiced concern that they are worried about losing focus of their agricultural core-business by allocating adequate economic resources to ensuring sustainable agricultural practises. This study suggests that this is not a valid concern, because none of the companies reviewed appear to spend more than 1.0% of their annual net profit for the 2008 fiscal year on environmental matters. An internal environmental division for a plantation size of about 100 000 ha can be set up for less than USD 0.5 million per year, which is approximately 1% of the reviewed companies' average profit in the 80 000 – 120 000 ha category, or equivalent to approximately the profit generated in 1.5-2 days. Considering an exceptional profitable 2008 and adjusted for 2007 profit margins, the percentage

³Conservation land must be linked through habitat corridors to provide possible inter-habitat migration and facilitate the exchange of genetic material. This is particularly important for small patches of conservation land.

contribution remains insignificant and not in line with the Indonesian pledge to allocate 2.5% company profit to environmental causes (Law No. 40, 2007). Until 2009, the RSPO secretariat operated on an annual budget of approximately RM 2 million, which is less than 0.02% of the combined net profit of the 36 RSPO member companies assessed in this study. Becoming 'sustainable' is unlikely to cost more than the profit generated in one to two days by the average company in this category, an expenditure that could possibly be recovered by looking into alternative financing mechanism, for example, carbon trading (Butler and Convey, 2007; Butler *et al.*, 2009; UNFCCC, 2007; Venter *et al.*, 2009).

The RSPO P&C constitutes fundamental progress in ensuring that long-term environmental sustainable practices are incorporated into the plantation industry. Despite often being interpreted in a technical and regulatory context, it is important to understand that the RSPO P&C is not a regulatory document. Respective national legislations provide technical regulations (e.g. labour laws, environmental laws, corporate laws) whereas the RSPO P&C provides a conceptual framework for what sustainability means and what the industry must do in order to become 'sustainable' operators. The means to be proactive when developing new plantations and identifying environmental opportunities in existing plantations (e.g. protecting the riparian zone) appears to be the biggest challenge for the industry because the knowledge about ecological processes and implementing sustainable practices is limited within the industry, the certifying bodies and the RSPO secretariat. In addition, progress remains slow due to, often, inappropriate support and guidance from environmental

stakeholders because it is more lucrative to continue to plug holes rather than to identify and fix the problem that courses them.

The lack of progress in integrating ecosystem services with plantation activities has often led to the general perception that the oil palm industry lacks the commitment to incorporate environmental divisions. This

study, however, suggests that limited conceptual understanding of the RSPO P&C combined with inadequate guidance and limited allocation of resources for environmental expertise, both within companies as well as to the RSPO secretariat, is a more rational explanation for the slow progress in driving the industry towards sustainable production.

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