

Moving Forward with Mandatory MSPO Certification Standards

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ABSTRACT

The Malaysian Sustainable Palm Oil (MSPO) Certification Scheme was developed as the national scheme in Malaysia for oil palm plantations, independent and organised smallholdings, and palm oil processing facilities. The Malaysian Palm Oil Certification Council (MPOCC) develops, operates and manages the MSPO Certification Scheme. The MSPO Standards used under this scheme cover a range of principles and criteria (P and C) that covers the environmental, social, and economic aspects in oil palm plantation management, palm oil milling and supply chain traceability systems. The MSPO Standards include certification for independent smallholders, organised smallholders, plantations, and all processing facilities under the scheme. In 2017, an official announcement was made by the Malaysian government that the implementation of the MSPO Scheme will be made mandatory by the end of December 2019. This shows Malaysia's commitment to and policy support for nationwide implementation of a credible oil palm certification system operated through accredited third-party certification bodies (CBs) when auditing of all field practices and milling operations is conducted against set auditable standards. This article reviews the development of the MSPO Certification Scheme, its institutional set-up, strengthening of the systems and standards through the review process, incentives to encourage adoption and tax relief, and amendments to the Malaysian Palm Oil Board (MPOB)'s regulations for its implementation as a mandatory certification scheme. The paper also discusses some of the issues and challenges in implementing mandatory sustainability standards.

Keywords: accredited certification bodies, certification scheme, mandatory, MPOCC, MPOB, MSPO, oil palm management and supply chain, sustainability standards.

INTRODUCTION

For an oil palm certification mechanism to be credible, monitoring of the implementation of oil palm management practices, tracing of raw material supply and labelling of palm oil products must be managed through an independent third-party certification. In the past two decades, both globally and nationally, independent third-party certification systems are increasingly seen as an important tool for promoting good oil palm management and for addressing the negative perceptions against the palm oil industry. In the forefront, particularly, are issues such as deforestation, greenhouse gas emissions, human rights violations and loss of wildlife arising from the planting of oil palm (Miettinen, *et al.*, 2011; Carlson, *et al.*, 2012; Asia Monitor Resource Centre, 2019; Wasmann and Frei, 2019; Wahab, 2020).

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Globally, several mandatory and voluntary certification schemes and standards exist to certify and validate sustainable and responsible palm oil production. Apart from that, there are also existing industry-driven initiatives and cooperation between environmental and civil society organisations that build upon existing certification standards and company commitments to address these issues – which include loss of biodiversity, increased greenhouse gas (GHG) emissions, improper storage, handling and use of pesticides, as well as poor social standards and social relations (Aubert, *et al.*, 2017).

Existing certification standards that can be applied to the oil palm industry include the Roundtable on Sustainable Palm Oil (RSPO), International Sustainability and Carbon Certification (ISCC), Indonesian Sustainable Palm Oil (ISPO), Malaysian Sustainable Palm Oil (MSPO), Rainforest Alliance Sustainable Agriculture Standard (SAS), Roundtable on Sustainable Biomaterials (RSB) and the Palm Oil Innovation Groups (POIG). All these certification schemes promise to make distinctions between certified sustainable palm oil and conventionally produced palm oil. Each scheme and standard has its own approach, strengths, and weaknesses (McInnes, 2017; Loh, 2018). Nevertheless, one common element among all oil palm sustainability standards is that all schemes have evolved to raise the bar and to push for continual improvement in agricultural practices (Hansen *et al.*, 2015).

Certification is often voluntary in nature, depending on market needs. In the case of Malaysia, the MSPO Certification Scheme was developed as a national scheme to cover independent certification of all sectors of the oil palm industry as well as the entire value chain. MSPO certification covers all independent

and organised smallholdings, oil palm plantations, palm oil milling and processing facilities. The MSPO Standards are currently being reviewed by a range of relevant Malaysian stakeholders, including economic, environmental and social stakeholders, government agencies, industry (both upstream and downstream), smallholder organisations, environmental NGOs, civil society, indigenous people's organisations, worker unions and academia/research and development institutions (Kumaran and Suparyono, 2019).

The task of certifying the entire oil palm sector in Malaysia is a daunting one, considering that the oil palm industry has arguably been the mainstay and pillar of the government's socio-economic development and poverty eradication programmes with a long history of over 100 years in Malaysia (Kushairi and Parveez, 2017). However, with the full commitment, collaboration, and support of both the federal and state governments, Malaysia is now set to respond to global demands for sustainability in the oil palm sector through the mandatory implementation of MSPO Standards. This needs both a top-down and bottom-up approach so that all the necessary procedures and requirements for certification will be a part of the daily operations of all the industry players involved.

The Malaysian government is convinced of the benefits that MSPO certification can bring to the industry, and is therefore providing incentives and income tax deductions for MSPO-certified industry players. The Malaysian Palm Oil Certification Council (MPOCC) as the governing body is also taking measures to further strengthen the accreditation requirements for certification audits. To further enhance the policy commitments, MPOB's regulations have also been amended

to cater for the implementation of MSPO as a mandatory scheme (The Sun Daily, 2019).

INSTITUTIONAL SET-UP OF MPOCC

MPOCC was incorporated as an independent non-profit organisation in December 2014, following the decision of the Malaysian Cabinet. As the governing body and owner of the MSPO Certification Scheme (Kumaran and Suparyono, 2019), MPOCC has been tasked with the implementation and operation of this national scheme throughout the country with the following objectives:

- i. to establish and operate a sustainable palm oil certification scheme in Malaysia;
- ii. to engage with relevant stakeholders, *i.e.* non-governmental organisations, institutions of higher learning, trade associations, and accreditation and certification bodies in Malaysia; and
- iii. to establish a mechanism for the certification of entities complying with the requirements of auditable sustainability standards.

The MPOCC Board of Trustees (BoT) is responsible for the management of the affairs of MPOCC, and comprises representatives from all sectors of the oil palm industry. Members of BoT are appointed from the oil palm industry associations, government agencies, academic and research and development institutes, non-governmental organisations (NGOs), smallholders' organisations and civil society. To ensure inclusiveness of representation, members of the Board come from all three regions of Malaysia, *i.e.* Peninsular Malaysia, Sabah and Sarawak.

As the governing body, MPOCC is fully responsible for the development and implementation of the MSPO Certification Scheme and scheme documents, and for raising awareness through briefings and training sessions to system users, stakeholders, auditors of the certification bodies (CBs), and assessors from the Department of Standards Malaysia (Standards Malaysia). MPOCC's main aim is to facilitate and to increase the uptake of MSPO certification nationwide, and promote it regionally and globally.

As the scheme owner, MPOCC is also responsible for endorsing training providers for training of auditors from accredited certification bodies (ACBs), Standards Malaysia assessors, peer reviewers, and any other party involved with the MSPO Certification Scheme. MPOCC is also responsible for notifying ACBs to operate under the scheme, monitoring and reporting data on MSPO certification, and issuing logo usage licenses to certificate holders and other logo users. MPOCC also serves as the secretariat to the Dispute Resolution Committee (DRC), an independent committee established by the MPOCC BoT to address complaints, disputes, and grievances against the MSPO Scheme.

Institutional Arrangements of the MSPO Certification Scheme

Being the national oil palm sustainability certification scheme, the key organisations involved in the MSPO Certification Scheme are represented in *Figure 1*. As the governing body and scheme owner of MSPO, MPOCC is responsible overall for the operations of the scheme. Standards Malaysia, being the National Accreditation Body (NAB) for the scheme, is responsible for all accreditation matters of the certification bodies which operate MSPO certification.

Once accredited, all CBs will be notified by MPOCC through an agreement and listing on the MPOCC website. This process enables CBs to issue accredited certificates recognised by the scheme owner. Applicants for both oil palm management and supply chain certification will submit their applications to CBs for audit to be conducted. Details of the CBs' accreditation and the MSPO certification process are available on the websites of Standards Malaysia and MPOCC.

Accreditation Requirements

The full requirements for accreditation of CBs at the national level are subsumed under the Standards Malaysia ACB Scheme requirements. As with other sustainability certification schemes, the MSPO Certification Scheme requires all third-party independent CBs operating under the scheme to obtain accreditation. Competent CBs that are able to carry out MSPO certification must first be accredited by Standards Malaysia acting as NAB.

The scope of accreditation for oil palm management systems certification is anchored on the international standard ISO/IEC 17021:2015 Conformity Assessment Requirements for Bodies Providing Audit and Certification of Management Systems – Part 1: Requirements (or its replacement), as well as the four ACB Oil Palm Management Certification (OPMC) series and scheme owner requirements.

For supply chain certification, the scope of accreditation is in accordance with the international standard ISO/IEC 17065:2012 Conformity Assessment – Requirements for Bodies Certifying Products, Processes and Services (or its replacement) and relevant scheme owner requirements as stated by MPOCC, the scheme owner.

The accreditation system of Standards Malaysia is in accordance with the international standard, ISO/IEC 17011:2017 Conformity assessment – General requirements for accreditation bodies accrediting conformity assessment bodies. This standard specifies requirements for the competence, consistent operation and impartiality of accreditation bodies assessing and accrediting conformity assessment bodies.

All CBs accredited by Standards Malaysia receive international recognition. This is done through the accreditation granted by the International Accreditation Forum's (IAF) Multilateral Recognition Arrangement (MLA), and the International Laboratory Accreditation Cooperation (ILAC) Mutual Recognition Arrangement (MRA) accreditation body signatories that are recognised worldwide.

MSPO STANDARDS DEVELOPMENT AND REVIEW

The MSPO Standards were developed with industry participation in 2011 and 2012, leading to the launching of the MS2530:2013 Series of Standards in 2013 (JSM, 2013). It is also acknowledged that the MSPO Standards then were initially developed with limited stakeholder participation. Steps have now been taken to address this shortcoming by engaging a wider range of relevant stakeholders, which include social and environmental NGOs, civil society, worker unions and academia, to further strengthen the MSPO Standards and Certification Scheme. A review of the MSPO Standards, which is currently being undertaken, is mandated to have a balanced multi-stakeholder representation by including the economic, environmental and social interest groups in the technical committee

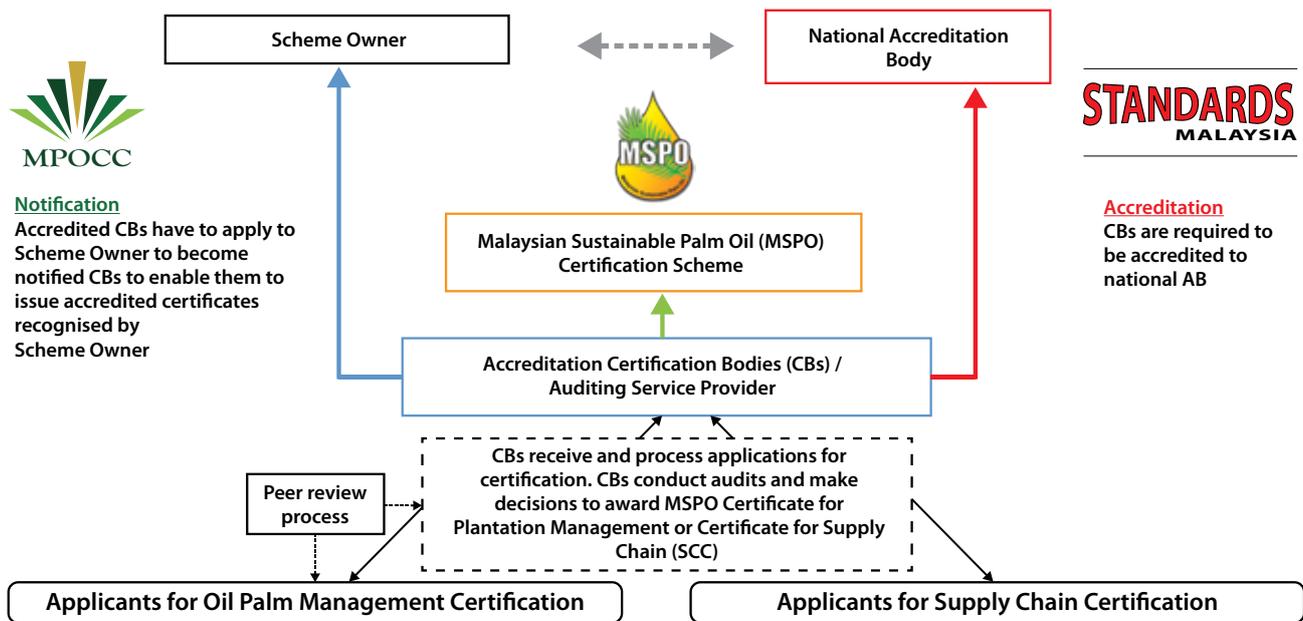


Figure 1. Institutional arrangement of the MSPO Certification Scheme.

and specific working groups and initiatives (MPOCC, 2019a).

As the MSPO Scheme owner, MPOCC works in close cooperation with Standards Malaysia, as they jointly form the secretariat responsible for MSPO standards development and review. Other than being tasked with providing joint secretarial support with Standards Malaysia to the technical committee on MSPO (TC MSPO), MPOCC is responsible for bringing together expert panels and working groups to provide advisory and technical input for standards development and review processes, and other scheme requirements; and for recommending to the MPOCC BoT the adoption of any revised MSPO Standards and scheme documents for implementation under the MSPO Certification Scheme.

The thirty-eight member TC MSPO serves as a broad multi-stakeholder forum, with its members comprising individuals nominated by their respective organisations which represent oil palm stakeholder groups nationwide (Table 1). Thus, TC MSPO comprises oil palm

stakeholders with expertise on issues that are affected by the relevant standards, and those issues that could influence the development and implementation of such standards at the national level. The scope of TC MSPO is to develop, review and monitor the standards being used under the MSPO Certification Scheme. The Chairperson of TC MSPO reports on its progress and activities to the National Standards Committee on Oil Palm and its Products (NSC X). NSC X was formed on 13 September 2018 at a meeting of the Malaysian National Standards Committee (MyNSC).

Under TC MSPO, specific working groups (WGs) can be created. Each WG has its own scope, duties and responsibilities in the development and review of the standards within an agreed timeline for delivery of the outputs. Every WG is established as an ad hoc committee and is dissolved when the task at hand is completed. The various standards development committees and their reporting line to TC MSPO are part of a larger national standardisation infrastructure (Figure 2) under Standards Malaysia.

Continued strengthening of the system through standards review is a must. Under the MPOCC Standard setting and review procedure, standards are reviewed at least once every five years to ensure continued relevance and effectiveness in meeting the stated sustainability objectives. A review may result in the standard being confirmed, revised, amended, or withdrawn (MPOCC, 2019b).

THE MSPO STANDARDS

At present, several MSPO standards are being used for certification audits nationwide under the MSPO Certification Scheme. The MSPO Standards target was designed for the entire industry to be certified and to strive for continuous improvement. As such, the entire oil palm sector in Malaysia is auditable and certifiable. Broadly speaking, the standards are categorised as oil palm management certification standards and as a supply chain certification standard (Kumaran and Suparyono, 2019).

The Malaysian Sustainable Palm Oil (MSPO) Standards (MS 2530:2013 series) are the oil

TABLE 1. STAKEHOLDER MEMBERSHIP OF THE TECHNICAL COMMITTEE ON MSPO (TC MSPO) IN MALAYSIA

Stakeholder group	Member organisation
Government agencies (5)	<ol style="list-style-type: none"> 1) Ministry of Plantation Industries and Commodities (MPIC) 2) Malaysian Palm Oil Board (MPOB) 3) Malaysian Palm Oil Council (MPOC) 4) Jabatan Tenaga Kerja (JTK) 5) Department of Standards Malaysia (Standards Malaysia)
Industry – Upstream organisations (6)	<ol style="list-style-type: none"> 1) Malaysian Palm Oil Association (MPOA) 2) Malaysian Estate Owners Association (MEOA) 3) Malaysian Oil Palm Dealers Association (MOPDA) 4) The East Malaysia Planters' Association (EMPA) 5) Sarawak Oil Palm Plantation Owners Association (SOPPOA) 6) Malaysian Oil Palm Nurseries Association (MOPNA)
Industry – Downstream organisations (6)	<ol style="list-style-type: none"> 1) Palm Oil Refiners Association Malaysia (PORAM) 2) Malaysian Oleochemical Manufacturers Group (MOMG) 3) The Federation of the Palm Oil Millers Association Malaysia (POMA) 4) Malayan Edible Oil Manufacturers' Association (MEOMA) 5) Malaysian Biodiesel Association (MBA) 6) Malaysian Agricultural Producers Association (MAPA)
Smallholder organisations (6)	<ol style="list-style-type: none"> 1) National Association of Smallholders (NASH) 2) Federal Land Development Authority (FELDA) 3) Sabah Land Development Board (SLDB) 4) Sarawak Land Consolidation and Rehabilitation Authority (SALCRA) 5) Sarawak Dayak Oil Palm Planters Association (DOPPA) 6) Persatuan Pekebun Kecil Kelapa Sawit Sabah
Environmental NGOs (5)	<ol style="list-style-type: none"> 1) Malaysian Nature Society (MNS) 2) Sabah Environmental Protection Association (SEPA) 3) World Wide Fund for Nature Malaysia (WWF- Malaysia) 4) Sustainable Development Network Malaysia (SUSDEN Malaysia) 5) Malaysian Environmental NGOs (MENGO)
Indigenous Peoples organisations (6)	<ol style="list-style-type: none"> 1) Persatuan Orang Asli Semenanjung Malaysia (POASM) 2) Partners for Community Organizations (PACOS Trust) 3) Sarawak Dayak National Union (SDNU) 4) Sarawak Dayak Iban Association (SADIA) 5) Federation of Orang Ulu Association Sarawak Malaysia (FORUM) 6) Society for Rights of Indigenous People of Sarawak (SCRIPS)
Worker union organisations (3)	<ol style="list-style-type: none"> 1) The National Union of Plantation Workers (NUPW) 2) Malaysian Trade Union Congress (MTUC) 3) Association of Agricultural Executives Sabah
Academia/ Research and Development institutions (1)	<ol style="list-style-type: none"> 1) Academic Research on Palm Oil Sustainability (ARPOS) Network

Source: MPOCC (2019a).

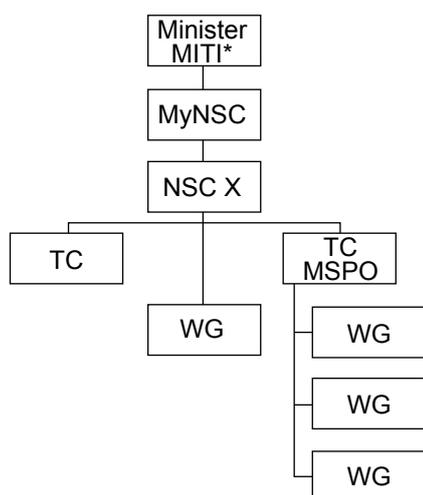


Figure 2. Schematic diagram of the standards development committee structure and reporting line, in accordance to the national standardisation infrastructure, with effect from 1 January 2019 in Malaysia.

Source: *Ministry of International Trade and Industry, Malaysia.

palm management certification standards. These were developed as voluntary and industry-driven national certification standards aimed at defining the principles and criteria for sustainable palm oil production in Malaysia. The MS 2530:2013 series of MSPO Standards consists of four parts: *i.e.*, Part 1: General principles; Part 2: General principles for independent smallholders; Part 3: General principles for oil palm plantations and organised smallholders; and Part 4: General principles for palm oil mills. These four parts of the MS 2530:2013 series have different compliance requirements applied through the various principles, criteria, and indicators listed in Table 2. The contents and details of the certification requirements vary depending on the topic, and specific provisions are given for independent and organised smallholders in Parts 2 and 3 of the MS 2530:2013 series.

Independent third-party auditing of oil palm management and mill management practices

is provided for in the MSPO Certification Scheme to ensure sustainable management of oil palm plantations, processing facilities and throughout the supply chain to meet the demand for certified sustainable palm oil. Independent certification bodies must comply with the document ISO 17021 – Requirements for bodies providing audit and certification of management systems to be

The MSPO Standards for oil palm management certification contain seven principles which form the general requirements of a management system framework, and are based on the three benchmarks of sustainability, *i.e.*, economic viability, social acceptability, and environmental accountability. The seven general requirements for the MS2530:2013 series are as follows:

TABLE 2. THE MALAYSIAN SUSTAINABLE PALM OIL (MSPO) STANDARDS (MS2530:2013 Series)

Malaysian Standard	Principles	Criteria	Indicators
MS2530-1:2013: MSPO Part 1: General principles	7	33	Nil
MS2530-2:2013: MSPO Part 2: General principles for independent smallholders	7	22	32
MS2530-3:2013: MSPO Part 3: General principles for oil palm plantations and organised smallholders	7	33	114
MS2530-4:2013: MSPO Part 4: General principles for palm oil mills	6	25	80

able to obtain accreditation from Standards Malaysia, in its capacity as NAB, in order for CBs to claim oil palm management certification under the MSPO Certification Scheme.

The MSPO Standards address requirements pertaining to the principles and criteria of sustainability based on the 3P's of the sustainable development model (*i.e.*, People, Planet and Prosperity), which takes into consideration stakeholder participation in a balanced, open, transparent and participatory manner. As the MSPO Standards have just recently been developed and implemented, it is envisaged that it will take some time to gain full and meaningful acceptance by the various stakeholders, and in doing so, gain traction in the market, both at the national and international level.

Principle 1. Management commitment and responsibility

That the organisation's management is committed to the implementation of MSPO, as well as for continual improvement in accordance with the MSPO requirements.

Principle 2. Transparency

That the organisation's management ensures that adequate information is publicly available, as well as ensures open consultation and communication with stakeholders, and traceability along the supply chain.

Principle 3. Compliance to legal requirements

That the organisation's management abides by the local and ratified

international laws and regulations, such as land use rights and customary rights.

Principle 4. Social responsibility, health, safety and employment conditions

That the organisation's management complies with adequate employment conditions, occupational safety and health requirements, as well as provides relevant training for its employees. That the well-being of local communities be assessed and further developed, with an avenue to address complaints and grievances.

Principle 5. Environment, natural resources, biodiversity and ecosystem services

That the requirements that relate to environmental management, energy use, waste and pollution management, water resources, and the protection of species or habitats are put in place by the organisation's management.

Principle 6. Best practices

That the organisation's management implements standard best practices throughout its operations.

Principle 7. Development of new plantings

That the organisation's management implements appropriate agronomic practices for new plantings to ensure that areas are not developed on disputed customary land or on areas with high biodiversity value.

Supply Chain Certification Standard

For certification of the supply chain, starting from the raw materials up to the processing and manufacturing of palm oil

and palm oil-based products, the MSPO Supply Chain Certification Standard (MSPO SCCS) covers management requirements and traceability of the production (MPOCC, 2018a).

For an organisation to comply with the various requirements of the MSPO SCCS, traceability can be achieved by mass balance and/or the segregation method with the relevant corresponding traceability attributes and declarations. The MSPO SCCS is intended to deliver confidence and credibility to the customers and end-users that the palm oil raw material originates from sustainably managed oil palm planted areas. The MSPO SCCS is applicable to organisations which process, manufacture, supply and/or export palm oil products using raw materials originating from MSPO-certified oil palm planted area, and/or take legal ownership and physically handle MSPO-certified palm oil products throughout the supply chain. The organisations include, among others, palm oil mills, kernel crushing plants, refineries, palm oleochemical plants, biodiesel plants and end-product manufacturers.

The eight general requirements for the supply chain management system under the MSPO SCCS are as follows:

Requirement 1: Management System

That the organisation establishes its sustainability policy; appoints a management representative; establishes and maintains accurate records for a minimum of three years; establishes documented procedures for its supply chain to demonstrate compliance with the MSPO SCCS; and conducts internal audits and management review of the organisation at planned intervals.

Requirement 2: Resource Management

That the organisation ensures that all personnel are competent

with relevant training, skills and experience; establishes an effective training plan; and maintains records of the training provided to personnel in relation to the implementation of the MSPO SCCS.

Requirement 3: Traceability

That the organisation ensures that the documents associated with transactions between the customer and supplier of the certified palm oil products are kept and maintained, and has a documented procedure for handling non-conforming palm oil products and/or documents.

Requirement 4: Supply Chain Models

That the organisation chooses from one of the two supply chain models, viz. the Segregation (SG) Model and the Mass Balance (MB) Model, for its operations to be certified. The SG Model requires that MSPO-certified palm oil products are kept separate from non-MSPO certified palm oil products at every stage of production, processing, refining and manufacturing throughout the supply chain. This model allows for the mixing of any MSPO SG certified palm oil products from various certified sources. Clear procedures and record keeping are kept at the site to ensure that the certified palm oil products are kept segregated from non-certified palm oil products, including during transportation and storage, to strive for 100% separation. The MB Model monitors the trade of MSPO-certified palm oil products throughout the entire supply chain. The MB model can only be operated at the site level (*i.e.*, mass balance claims cannot be transferred from site to site administratively). The MB Model allows for the mixing of MSPO and non-MSPO certified palm oil products at any stage in the supply chain provided that overall

site quantities are controlled. There are no requirements for separate storage, transportation, or controls in the production process for the MB Model. Certification requirements for oleochemicals and derivatives are stated in the reference document (MPOCC, 2018b).

Requirement 5: Outsourced Activities

That the organisation which outsources its activities to an independent third party ensures that it has legal ownership of all input materials during the outsourced activities, has an agreement covering the outsourced activities with each contractor, and has documented control system procedures for the outsourced activities which are shared with the relevant outsourced contractor.

Requirement 6: Claim

That the organisation only makes claims on the products that contain MSPO-certified material from oil palm planted areas which have been certified under the oil palm management certification standard as being sustainably managed. The details are in the reference document on MSPO logo usage (MPOCC, 2017).

Requirement 7: Complaints and Grievances

That the organisation implements and maintains documented procedures for dealing with any substantive and procedural complaints and grievances relating to its stakeholders.

Requirement 8: IT Platform

That the organisation with supply chain certification registers its production and sale of MSPO products in the available system. The IT Platform (MSPO Trace) is operational under MPOCC.

FINANCIAL ASSISTANCE – MSPO INCENTIVES

Compliance with MSPO certification which reflects a unified code of laws, good agriculture practices and sustainability requirements throughout the palm oil supply chain from planting to processing requires both financial and manpower support. To spur the uptake of MSPO certification, the government announced in July 2017 the MSPO incentives to assist oil palm smallholders gain MSPO certification by 2019.

This effort serves to defray the cost of certification and at the same time is seen as necessary for the long-term prospects of the industry, as more than 500 000 independent and organised smallholders depend on oil palm for their livelihood. In October 2017, the government also announced that the MSPO incentives will be extended to medium and large oil palm estates, so that nationwide the oil palm growers can collectively meet the brand promise of MSPO certification. At that time, the decision was made to fund 70% of the MSPO audit fees for small and medium-sized estates (SMEs), *i.e.*, covering between 40.46 and 1000 ha. For estates of more than 1000 ha, the MSPO incentive will cover 30% of the audit fees. For downstream operations, including mills, refineries, and crushers, the MSPO incentive covers 30% of the audit fees.

In May 2018, following the formation of a new government, the MSPO incentives continued to be made available for the entire industry to facilitate the uptake of MSPO certification. In July 2019, the government further agreed to increase the incentive rate for MSPO audit cost to 100% from the 70% initially announced for SMEs. Entities with areas between 40.46 and 1000 ha will be eligible to claim for 100% of auditing

fees, which cover audit man-days, report writing, stakeholders' consultation and peer review. In addition, they are also eligible for claims of 50% preparation costs, which are limited to the costs for preparing MSPO policies and system documents, social impact assessment (SIA), environment aspect and impact (EAI) report and high biodiversity value (HBV) report, as well as training for greenhouse gas calculation and for internal audit and management review.

The government also announced new incentives for SMEs to cover MSPO certification preparation costs of 50% or up to a maximum of RM10 000, whichever is lower, having realised the fact that these mid-sized growers require additional assistance to be audited and certified. In addition, the incentives for organised smallholders was increased to RM55 per ha from RM10 per ha. In October 2019, the government amended the conditions of MSPO incentives to allow applicants, who had begun their MSPO certification before 31 December 2019, to be eligible for the MSPO incentive application. The MSPO incentives are made through reimbursement, and become available only after the entity obtains the MSPO certificate (MPOCC, 2019c).

Matters pertaining to the MSPO incentives for independent smallholders and organised smallholders are under the jurisdiction of MPOB (Fauziah *et al.* 2020) For independent smallholders, MPOB will cover the cost of training, and the costs of auditing, documentation, personal protective equipment and chemical storage rack. Meanwhile, organised small-holders are eligible for RM55 per hectare to cover the costs of auditing, training, as well as of social and environmental impact assessments.

These are all efforts to reflect the government's commitment at the

national level to the implementation of MSPO sustainability certification in the oil palm sector, and also to facilitate better palm oil market access globally with palm oil products certified as being sustainably produced by the year 2020.

Income Tax Deduction for MSPO Certification

As a nationally mandated sustainability certification system, MSPO certification operates under Standards Malaysia's accreditation schemes and programmes. In line with these, the MSPO programme is eligible for such government incentives as tax deductions, similar to all other programmes operated by Standards Malaysia.

Under the Income Tax Act, 1967, paragraph 34(6)(ma) is applicable for entities that have obtained MSPO certification, while paragraph 34(6)(m) is for ACBs that offer MSPO certification. CBs, under Standards Malaysia's accreditation scheme, are eligible for tax deductions for such costs incurred as assessment fee, annual fee and any other fee that is imposed by Standards Malaysia.

For an entity that is certified, it being an oil palm grower or a processing facility that holds a valid accredited MSPO certificate, that entity is eligible for income tax deduction under the Income Tax Act, 1967. The entity is responsible for having valid copies of accredited MSPO certificates and proof of payment receipts for the costs of obtaining the certification as imposed by a Standards Malaysia-accredited CB. This is stated under the Standards Malaysia rules and the relevant Income Tax guidance document (LHDN, 2012).

Mandatory MSPO Implementation

Voluntary implementation of the MSPO Certification Scheme

began since 1 January 2015. Various efforts and stakeholder consultations were carried out then to promote the adoption of the certification and its benefits to the industry. About two years later, in 2017, the then Minister of Plantation Industries and Commodities announced that the government was going to make MSPO certification mandatory for the entire oil palm industry in Malaysia by 1 January 2020 (The Star, 2017). Since then, as the regulatory body, MPOB has made a specific announcement in relation to the mandatory MSPO implementation in 2020. MPOCC as the scheme owner of MSPO certification is bound by the regulatory requirements of MPOB relating to the mandatory implementation of MSPO.

During the period from 2018-2019, a series of industry consultations was carried out in line with the MPOB procedures to revise MPOB's licensing regulations to include MSPO as a part of MPOB's licensing requirements. The consultative approach included face-to-face engagements, online consultations, and written feedback from various industry associations.

As a result of the various consultation sessions, an announcement was made by MPOB on 5 October 2019. The announcement stated that with effect from 1 January 2020, MPOB will not renew the licenses for estates (greater than 40.46 ha or 100 acres) and for palm oil mills which have not obtained MSPO certification in line with the provisions in the MPOB regulations (MPOB, 2016). Further updates on regulatory requirements on mandatory MSPO certification will be made available to the industry to cater for the full implementation of MSPO certification.

ACHIEVEMENTS

Following the launching of the MSPO Standards in 2013, pilot

audits were carried out in the two years that followed (2014-2015) on seven plantations, five mills and two smallholder clusters. The results were encouraging, proving that the MSPO Standards are auditable and achievable by the various entities. Since then, there has been significant uptake of MSPO certification over a short period.

During the period from 2018-2019, a rapid increase in MSPO certification was recorded (Figures 3 and 4), partly due to the industry's response to the mandatory deadline and to the MSPO incentives made available (MPOCC, 2020).

By the end of December 2019, a total of 94 003 ha of independent smallholder oil palm planted areas have been certified against Malaysian Standard, MS2530-2:2013. A total of 605 748 ha of organised oil palm smallholders have been certified under the Malaysian Standard, MS2530-3:2013, while 2 961 891 ha of oil palm plantations have been MSPO-certified. This brings the total area of MSPO-certified area to 3 661 642 ha in Malaysia, as of December 2019. A total of 343 palm oil mills were certified against the Malaysian Standard, MS2530-4:2013 as of December 2019 (Table 3). All palm oil processing facilities are subjected to MSPO Supply Chain Certification Standard (MSPO SCCS) since the standard was launched in October 2018. This completes the entire value chain of Malaysian palm oil in terms of sustainability and traceability under MSPO certification. The details of MSPO SCCS implementation as of December 2019 are presented in Table 4.

CONCLUSION

The MSPO certification scheme which was introduced in 2015 on a voluntary basis has taken great

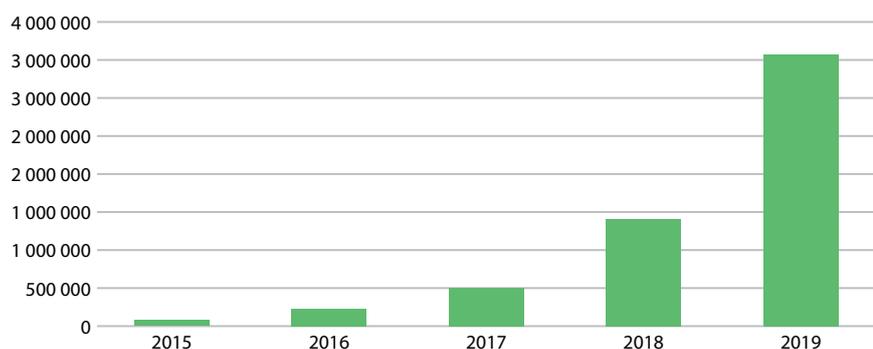


Figure 3. MSPO-certified area (ha) achieved by year, under the Malaysian Standards MS2530-2:2013 and MS2530-3:2013.

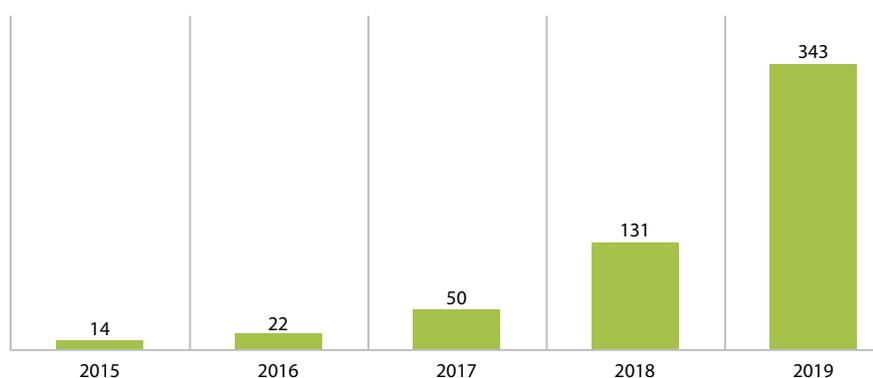


Figure 4. MSPO-certified mills (achievement by year) under the Malaysian Standard MS2530-4:2013.

strides in the past few years in transforming the oil palm sector in Malaysia. Since 2017, the drive towards achieving the target of mandatory certification for the entire value chain of the palm oil sector has been intensified and the enablers put in place. This is also reflected in the high-level intervention to demonstrate that Malaysia is committed to the management and production of sustainable palm oil (Box 1) through the full implementation of MSPO certification nationwide. Through the close cooperation of MPOCC and MPOB, together with the high-level intervention by the government, the right ingredients are in place to develop a credible MSPO Certification Scheme that provides assurance to buyers and consumers.

Box 1. Malaysia, palm oil and MSPO
 'Malaysia is committed to sustainable development. We have taken steps, for example in improving production methods to ensure that our palm oil production is sustainable. By December 2019, the Malaysian Sustainable Palm Oil (MSPO) standard will become mandatory. This will ensure that every drop of palm oil produced in Malaysia will be certified sustainable by 2020.'

Excerpt from Prime Minister Tun Dr Mahathir Mohamad's speech at the general debate of the 73rd session of the United Nations General Assembly in New York, 28 September 2018.

Dr. Mahathir further highlighted Malaysia's objection over attempts to ban the import of palm oil at the 74th session of the United National General Assembly, in New York, on 28 September 2019, saying it is a classic case of the denial of free trade.

The MSPO Standards have an aim of being regarded, in

Malaysia, as credible sustainability standards for the palm oil industry to bring about positive economic, social and environmental benefits, particularly to the independent smallholders, while minimising the negative impacts, particularly on the people and the environment. There is ample evidence to show that certification improves visibility and inventory management of all suppliers, and provides a competitive advantage in accessing international markets. Certification also provides proof of a robust management system which enhances stakeholder confidence, while improving compliance to meet all legal, regulatory and sustainability requirements. The oil palm industry is indeed very dynamic, and certification is seen as an effective tool to demonstrate compliance to good practices and to the requirements of applicable certification standards.

As part of continual improvement, the MSPO Standards will be subjected to periodic reviews to ensure that the requirements and thresholds contained in the standards not only meet, but also exceed stakeholder expectations, through a broad and participatory stakeholder engagement process. The review of the MSPO Standards which began in 2018, aims to cover all aspects of sustainability, traceability, transparency, legality, and accountability in line with best practices and international norms. This is being done through a broad multi-stakeholder approach by including all relevant stakeholders from the government, the industry, NGOs, worker unions, smallholders' associations and academia.

Together with strong government support in the form of MSPO incentives which have been made available by the government to spur the uptake of certification among the growers, mills and refineries, the industry is now ready to face new challenges in terms of

TABLE 3. MSPO-CERTIFIED AREAS AND MILLS UNDER OIL PALM MANAGEMENT CERTIFICATION (OPMC) (as of December 2019)

Category	Total area (ha)	Units certified	Area certified (ha)	%
Independent smallholdings certified under MS2530-2:2013	979 892	161 clusters	94 003	9.60
Organised smallholdings certified under MS2530-3:2013	682 524	375 clusters/ estates	605 748	88.80
Plantations certified under MS2530-3:2013	4 186 914	1784 estates	2 961 891	70.74
Total planted area certified	5 849 330		3 661 642	62.60
Category	Total number of palm oil mills*	Units certified	Mill capacity (tonnes/hr)	%
Palm oil mills certified under MS2530-4:2013	452	343 mills	18 511	76.00

Source: MPOCC (2020).

TABLE 4. MSPO-CERTIFIED PROCESSING FACILITIES CERTIFIED UNDER SUPPLY CHAIN CERTIFICATION STANDARD (SCCS) (as of December 2019)

Category	Total number of processing facilities (unit)	Units certified	%
Palm oil mills	452	93	21
Kernel crushers	43	12	28
Refineries	52	47	90
Oleochemical plants	21	8	38
Biodiesel plants	16	6	38
Others	NA	12	
Total	584	166	30

Source: MPOCC (2020).

recognition and acceptance in the global markets. Efforts are being carried out to build confidence in consumer markets for MSPO certification, apart from publicising the MSPO certification scheme to raise awareness of its existence and credibility to all stakeholders, local and international. The MSPO incentives made available since 2018 have become an impetus for all entities to embrace MSPO certification.

Malaysia has paved the way to implementation of mandatory

sustainability certification for the palm oil sector, which is seen as a catalyst for other national standards systems on sustainability certification to emulate. Considering that palm oil is a big contributor to the Malaysian economy, the way forward for the continued relevancy of the industry is through MSPO certification.

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