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Oiling the 'palm': The pros and cons of SL's palm oil industry



- **Local economic analysis notes the need for a stern in-depth scientific study based decision, on sustainable management practices of cultivation and use of this controversial money-spinner**

The use of palm oil and the cultivation of oil palm have remained a controversial topic for years, with back and forth debates as to whether the potential harms of palm oil or oil palm cultivation outweigh their potential benefits. In a context where various researches in this regard have presented mixed findings and environmental issues are common to any agricultural land use, the decisions that Sri Lanka is to take in this regard should be based on more in-depth studies.

This was one of the central points that was discussed in a recent study report titled “Palm Oil Industry in Sri Lanka: An Economic Analysis” which was authored by researchers Erandathie Pathiraja, Ruwan Samaraweera, Hiruni Fernando and Jaan Bogodage. The study report noted that further investigations and the close monitoring of the criticisms in the local context are essential in order to decide whether to remove the plantations or to internalise the environmental cost to mitigate the negative externalities, and that hence, identifying the feasibility of adopting sustainable management practices to overcome such negative externalities is vital. Published by the Institute of Policy Studies of Sri Lanka (IPS), the study report comes in a context where, during the past few weeks, oil palm industry stakeholders urged the Government to lift the ban imposed on the cultivation of oil palm and the Government is conducting studies to determine its future course of action regarding the same.

Pros and cons of the oil palm

The study concluded that the local palm oil industry currently holds the potential to provide around 6% of the local edible oil demand, and that oil palm cultivation has the potential to save around \$17 million in foreign exchange outflow annually, which the study report said varies with international prices, exchange rate volatility and local productivity. The capital investment estimated so far is Rs.23 billion, while additionally, the industry employs over 33,390 people and has attractive profit margins.

Noting also that the initial policy planning pertaining to productivity is unrealistic when compared with local average productivity and global average productivity, the study said that yet, the palm oil price is substantially lower than coconut oil. "Due to palm oil's specific characteristics, coconut oil is barely considered a perfect substitute for industry needs. Moreover, the current coconut production capacity is insufficient to meet the local edible oil demand. Currently, nearly 74% of the fats and oil requirements in the country are supplied through imports. Tax on palm oil imports protects the local edible oil industries, palm oil and coconut oil. However, it disincentives productivity improvements in oil palm cultivation and value addition in the coconut oil industry."

With regard to environmental factors, the study noted that the annual rainfall and the length of the dry spell are the main determinants of Fresh Fruit Bunch (FFB) based productivity, both locally and internationally, which means that selecting the most suitable lands for oil palm cultivation benefits the economy and the environment. It added that any agricultural land use would reduce the quality of the environment in terms of biodiversity, greenhouse gas emissions, soil erosion, nutrient leaching, water quality depletion, etc., and that this will vary depending on the nature of the crop. According to the literature, oil palm has potential specific issues, mainly related to soil erosion, groundwater depletion, water quality depletion, siltation, regeneration and mill effluent disposal, which require guidelines for stringent management practices. However, the literature on the environmental impacts remains non-conclusive, as per the study report, which further added that the regional plantation companies (RPCs) have taken measures to adopt sustainable management practices, although close monitoring by the authorities is not evident.

"More importantly, suitable lands for oil palm cultivation exist in the low country wet zone areas, which are closer to environmentally important and sensitive areas. However, there is no regulation governing the establishment of plantation crops and replacing existing conventional plantations in ecologically sensitive locations. Nevertheless, the Coconut Research Institute (CRI) has provided some guidelines for oil palm cultivation."

In addition, the study report added that social acceptance towards the oil palm tends to be very low owing to its perceived environmental impacts on the community and a lack of community inclusiveness. Noting that consumption patterns show that though

the consumption of edible oil has gradually increased locally and globally, owing to the current economic crisis in Sri Lanka, affording the local edible oil needs through imports will be challenging.

It added: "Encouraging oil palm smallholders would not be a solution to address inclusiveness since monitoring the potential environmental risks would not be feasible. Currently, no policy provision has been brought into force for smallholders to adopt the oil palm. The health hazards of palm oil consumption in literature remain non-conclusive. However, unhealthy processing, adulteration with repeatedly used oils and unhealthy storage contribute to health related issues of locally consumed edible oils (palm oil and coconut oil)."

Reaping benefits, managing risks

Based on the findings, the study report put forward several recommendations to improve and benefit from oil palm cultivation in the country. Explaining that the productivity levels of mature oil palm are low compared to global productivity levels, it said that in this context, possible causes for low productivity should be identified and measures to improve productivity must be adopted.

In response to the issues of literature on environmental issues pertaining to oil palm remaining mixed and non-conclusive, the study report said that scientific land use planning techniques and accurate spatial analysis considering hydrological and hydro-geological conditions are necessary to identify suitable areas for oil palm cultivation due to its criticism of groundwater depletion. Therefore, it stressed that necessary guidelines and regulatory provisions are essential for establishing oil palm plantations and other crop plantations in environmentally sensitive areas. Periodic monitoring was recommended as a precautionary measure to minimise potential environmental issues regardless of the mixed reactions documented in the literature.

"Further, it is necessary to enhance the community's inclusiveness and acceptance through facilitating community programmes, such as supporting other home gardening activities and alternative income sources and linking these to markets. Moreover, RPCs need to gain community acceptance by minimising potential environmental impacts discussed in the literature, such as groundwater depletion, water quality depletion, regeneration, siltation and soil erosion, which would directly affect the surrounding environment and the community."

Discussing the potential solutions to the above-mentioned policy concerns, the study report said that oil palm smallholder cultivation has no policy provisions, and that due to the scattered nature of cultivation, difficulties would arise in proper monitoring and environmental management for the potential impacts, such as regeneration and local biodiversity. Hence, it recommended that the relevant authorities need to pay attention to regulating smallholder cultivations. In addition, it noted that necessary assistance should be provided for the RPCs by the relevant authorities to manage the environmental sustainability of the oil palm industry. However, the monitoring cost would be a considerable expense for the Government and possibly be financed through the import Cess collected from palm oil imports or a production levy from the local producers, as per the study report.

Meanwhile, maintaining a low import tariff level for palm oil and its derivatives was recommended, considering the low productivity levels of the oil palm estates. A shift in coconut oil industry based technology for better technologies and value added products, such as virgin coconut oil production and lauric acid extraction, is vital to minimise the impact on the coconut industry.

The study report recommended: "It is necessary to closely revisit and monitor the potential environmental cost associated with oil palm cultivation (compared to rubber and tea) and processing, and the effectiveness of potential practices to avoid such hazards and associated costs. If the environmental cost is likely to outweigh the economic benefits, banning oil palm cultivation is appropriate, with a reasonable compensation scheme for the RPCs. The analysis regarding these concerns should be conducted independently and fairly with the involvement of the relevant experts and authorities adequately representing the sector stakeholders."

Health hazards of consuming edible oils (palm oil, coconut oil and other edible oils locally produced and imported) need to be minimised through necessary enforcement, monitoring and awareness creation on processing, storage, quality control and adulteration, it was further recommended.

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