

Private Governance Undermined: India and the Roundtable on Sustainable Palm Oil

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Abstract

Are emerging markets undermining private environmental governance? In the past, most trade in agricultural commodities occurred between developed and developing countries, but in recent years the volume of South-South trade has increased significantly. The booming demand from emerging markets for food, feed, and fiber is now a key driver behind agricultural expansion, causing large-scale deforestation and biodiversity loss in the tropics. By examining the case of palm oil, this article argues that existing private governance institutions are not well equipped to deal with this crisis. They continue to operate on the basis of a North-South trade model, trying to leverage the market power of big-brand companies to achieve their sustainability goals. However, the effectiveness of this mechanism is increasingly undermined by the rise of South-South trade and the different structure and institutional context of emerging market value chains.

Private governance is now part and parcel of global environmental politics (Cashore et al. 2004; Falkner 2003; Green 2014). Less constrained by state borders, private standards constitute institutional alternatives or complements to “traditional” intergovernmental regulation (Gulbrandsen 2004; Schleifer 2013). Besides the much studied forestry and fishery sectors, agriculture has emerged as a dynamic site of nonstate institution building.

One important group of arrangements in this policy area is agricultural commodity roundtables. Beginning in the early 2000s, nongovernmental organizations (NGOs) in cooperation with progressive firms launched a number of these initiatives in key agricultural sectors such as palm oil, soy, sugarcane, cotton, biofuels, and beef. Unlike the push for organic labels and the fair trade movement, with their focus on niche markets and price premiums, roundtables are mainstream platforms designed to shift the entire sector toward more sustainable practices. The governance model underlying these initiatives rests on

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the market power of big-brand companies from the Global North. Incentivized through reputational and regulatory pressures, as well as through the prospect of tapping markets of virtue, these corporations are meant to function as “key leverage points for change” (WWF 2004). But trade flows and the distribution of market power in the global economy are shifting. In the past, most trade in agricultural commodities occurred between developed and developing countries. But in recent years, the volume of South-South trade has increased significantly, and, today, some of the world’s environmentally most problematic crops, such as oil palm and soybean, are mainly traded between Southern countries. The booming demand for these commodities from emerging markets is now a key driver behind deforestation and biodiversity loss in producer countries—creating a new sustainability crisis in the Global South.

Bringing insights from global value chain (GVC) analysis to the study of private governance, this article explores this development through an in-depth case study of the global palm oil industry. In their current form, private governance arrangements do not seem well equipped to deal with this crisis. For the most part, they continue to operate on the basis of a North-South trade model, trying to leverage the market power of Northern lead firms to address governance failures in the Global South. However, the effectiveness of this model is increasingly undermined by global economic change and the different structure and institutional context of emerging market value chains.

Given that little is known about the nature of South-South trade in agricultural products and how it affects private governance institutions in this area, the approach of this article is explorative.¹ It provides a rich description of broader trends in the global economy of agriculture and uses induction to develop the argument through a carefully selected case. With a focus on the Roundtable on Sustainable Palm Oil (RSPO), it studies one of the most advanced nonstate institutions in the agriculture sector. Therefore, this case is well placed to identify trends and developments likely to affect other private governance arrangements in similar ways. An empirical analysis of trade data and secondary data on the Indian palm oil industry as well as primary research on private governance in the agriculture sector, is used to put this case in context. The primary research was conducted between 2011 and 2014, including over fifty interviews with private governance managers, environmental NGOs, lead firms, suppliers, and industry associations. As part of a PhD dissertation (Schleifer 2014), this research investigated the diffusion of private governance institutions in the agricultural sector; in many of the interviews, the shift of global economic power emerged as an important topic.

The remainder of this article is organized in four sections. The next section briefly describes the evolution of private environmental governance in the agriculture sector. This is followed by the main argument, and then by a rich

1. See Kaplinsky et al. 2011 for a notable exception.

description of broader trends in the global economy of agriculture. Finally, the case of palm oil is used to illustrate and inductively develop the argument. The article concludes with a brief summary of the main findings and a discussion of avenues for future research.

Private Governance in the Agrifood System

Agricultural expansion has a significant impact on the environment and people, causing deforestation, soil degradation, biodiversity loss, and social conflict. In terms of environmental impacts, forest conversion is one of the main drivers behind deforestation in the tropics. Scientific studies have shown that between 1980 and 2000, more than 55 percent of new agricultural land in the tropics came at the expense of intact forests (Gibbs et al. 2010). The large-scale conversion of forests and other landscapes with a high conservation value (e.g., grasslands) has had a significant effect on biodiversity on the planet. Biodiversity loss occurs as the natural habitats for birds, insects, and other animals are destroyed (Foley et al. 2005). Furthermore, intensive farming methods have strongly degraded land and water systems. In some areas, the impact is so severe that production and livelihoods are compromised. A recent study by the United Nations Food and Agriculture Organization (FAO) estimates that approximately 25 percent of the world's arable land and its associated water systems are now highly degraded (FAO 2011). Finally, the large-scale expansion of agricultural activity has reduced the ability of our ecosystems to store and sequester carbon, making this sector a major carbon emitter and a key driver behind global climate change (FAO 2014).

But implementing effective environmental regulation remains difficult. In the countries of the Global South, where the bulk of agricultural expansion occurs, weak administrative capabilities are among the main obstacles for achieving sustainability goals. In the Global North, by contrast, where states are strong, regulators remain constrained by national borders and therefore find it difficult to regulate transnational production networks, but are also reluctant to confer regulatory authority to supranational bodies. As a result, the system of international environmental regulation remains weak and fragmented.² In the absence of an effective public regulatory response, private governance has emerged as an important mechanism to address the environmental externalities of global agriculture. Following Robert Falkner (2003), this article defines private governance as “interactions among private actors, or between private actors on the one hand and civil society and state actors on the other, giving rise to institutional arrangements that structure and direct actors’ behavior in an issue specific area” (p. 72).

2. See Abbott and Snidal 2009 for a more detailed discussion of the challenges of regulating transnational production.

The development of private governance in the agriculture sector can be traced back to organic farmers' associations and fair trade NGOs (Lockeretz 2007). At the beginning of the 20th century, organic farmers' associations emerged in several countries. Early examples are Demeter in Germany (1928) and the British Soil Association in the United Kingdom (1946). These organizations developed standards for organic agriculture and sought ways to distinguish themselves from conventional food production. In particular, the British Soil Association developed the world's first organic certification scheme, in 1973. A second site of initial emergence has been the fair trade arena (Daviron and Ponte 2005). Beginning in the 1980s, fair trade NGOs started to experiment with certification and on-product labeling. The fair trade system operates on the basis of a price premium. These price premiums benefit producers in developing countries, mostly smallholders producing coffee, bananas, cotton, and other agricultural products. Initiated by the Dutch development NGO Solidaridad, Max Havelaar pioneered the certification model in the fair trade arena (1988). Similar initiatives, such as Transfair and Fairtrade Mark, soon emerged in other European countries and North America.

Today, certification programs are an integral part of the emerging governance architecture in the sector. Besides fair trade NGOs, organic farming associations, and corporate codes of conduct, the commodity roundtables of the World Wide Fund for Nature (WWF) are an important group of initiatives. Under the umbrella of its Market Transformation Initiative, the WWF has launched several roundtable initiatives in key agricultural sectors, including palm oil, cotton, sugarcane, soy, biofuels, and beef (see Table 1). Jointly governed by industry and civil society actors, the roundtables set standards for transnational production and rely on market forces (certification) for their implementation. However, unlike organic and fair trade labels—with their focus on smallholders, price premiums, and niche markets—the roundtables are mainstream platforms designed to shift the entire sector toward more sustainable practices.³

The model was explained in detail by Jason Clay, WWF's Senior Vice President of Market Transformation. According to Clay, fifteen key agricultural commodities are responsible for the majority of the sector's environmental impact. Seventy percent of those commodities are under the control of a limited group of 300–500 companies. Against this background, the WWF seeks to engage the top 100 influential companies, which between them control 25 percent of the trade in these commodities, in its roundtable initiatives. In this way, the NGO hopes to significantly reduce the environmental impact of agricultural activity on a global scale (Clay 2010).

3. Author's phone interview with the Chair of the Farmer Support Programme at Solidaridad, May 2012.

Table 1
Agricultural Commodity Roundtables

<i>Initiative</i>	<i>Initiated</i>	<i>Sustainability Goals</i>
Better Cotton Initiative (BCI)	2005	BCI's mission is to "transform cotton production worldwide by developing Better Cotton as a sustainable mainstream commodity." The scheme has 327 members from twenty-six countries. In 2013, BCI produced 623,000 tons of certified cotton (2 percent of global production). The goal for 2020 is to reach 8.2 million metric tons (MMT) (about 30 percent of global production) by 2020.
Better Sugarcane Initiative (Bonsucro)	2005	Bonsucro "promote[s] measurable improvements in key economic, environmental and social impacts of sugarcane production and processing." The organization has nearly 200 members from twenty-seven countries. In 2013, Bonsucro produced 2.96 MMT of certified sugar (2 percent of global production). The goal for 2017 is to reach a market penetration of 20 percent.
Roundtable on Responsible Soy (RTRS)	2004	The RTRS aims to ensure that "current and future soybean is produced in a [socially and environmentally] responsible manner." The initiative has more than 170 members from twenty-four countries. In 2013, the RTRS produced 1.16 MMT of certified soybeans (1 percent of global exports). The WWF has set a target of reaching 25 percent of global production by 2020.
Roundtable on Sustainable Biomaterials (RSB)	2006	The RSB's mission is to "provide and promote the global standard for socially, environmentally and

Table 1
(Continued)

<i>Initiative</i>	<i>Initiated</i>	<i>Sustainability Goals</i>
Roundtable on Sustainable Palm Oil (RSPO)	2002	<p>economically sustainable production and conversion of biomass.” The scheme has 107 members from more than twenty countries. The RSB has issued certificates to sixteen producers. Its long-term goal is a “significant and broad uptake and adoption of the sustainability practices described in the RSB standard.”</p> <p>The RSPO’s goal and long-term objective is to “transform markets to make sustainable palm oil the norm.” The scheme has more than 1,000 full members from over fifty countries. Today, about 15 percent of global palm oil production is certified under the scheme.</p>
Global Roundtable for Sustainable Beef (GRSB)	2010	<p>The GRSB “envision[s] a world in which all aspects of the beef value chain are environmentally sound, socially responsible and economically viable.” The scheme is still in the formation phase and has not yet published its sustainability standard.</p>

Source: Websites of roundtable initiatives.

The Argument: Corporate Power, Global Economic Change, and Emerging Market Value Chains

How do nonstate certification programs govern? Existing theories of private governance distinguish two mechanisms: an incentive-based mechanism, highlighting the importance of “club goods,” monitoring, and sanctioning; and a norm-based mechanism, emphasizing deliberation and learning. The so-called *club theory* approach posits that firms join private governance arrangements because they produce club goods, in the form of reputational benefits. Members can use the club’s “brand” to signal their environmental performance to relevant

external audiences (e.g., NGOs, consumers, and regulators). In return, they are obliged to adopt and adhere to the club's membership requirements. To prevent individual firms from free-riding and shirking, club sponsors monitor compliance and sanction noncompliance with exclusion from the club (Potoski and Prakash 2009). The underlying model of corporate behavior is best described by March and Olsen's notion of the "logic of consequences" (March and Olsen 1998). In addition to this rationalist account, scholars have shown how processes of learning and socialization can occur within the context of private governance institutions. Through interaction and deliberation, firms and NGOs learn from one another and build communities of practice. This can create shared norms and understandings about environmental problems and ways to mitigate them, leading to compliance with rules based on the "logic of appropriateness" (Bernstein and Cashore 2007).

While incentives and norms are important to understand private governance, the picture is not complete without considering the role of power and how nonstate certification programs strategically exploit power asymmetries between corporate actors to achieve their regulatory objectives. The club and socialization approaches are well placed to explain why big-brand companies adopt and comply with private standards, but they do not fully capture the mechanism of implementation within the supply chain. In this context, lead firms and their market power play an important role. As one WWF representative put it, "you need to get your arms around the [supply] chain at the bits where it is concentrated and then drive change through that."⁴

This article draws on GVC analysis to gain a better understanding of private environmental governance and how it is affected by processes of global economic change (Gereffi 1995; Gereffi and Fernandez-Stark 2011; Gereffi et al. 2005). With its focus on corporate power, interfirm relations, and institutional environments, the GVC approach complements and integrates insights from existing theories of private governance. The term "value chain" describes the full range of activities that firms and workers perform to bring a product from its conception to end use and beyond. Most importantly for this analysis, the framework distinguishes various types of GVC governance, which differ—among other variables—in their degrees of coordination and the power asymmetries between lead firms and suppliers (Gereffi et al. 2005).⁵ Focusing on the power dimension of the framework, market value chains are characterized by the lowest level of power asymmetries and explicit coordination. In these constellations, suppliers have the capability to make the products in question with little input from lead firms, and transactions between sellers and buyers occur through market exchanges. At the other end of the coordination-power spectrum are *captive value chains* and *hierarchies*. In captive value chains, explicit

4. Author's interview with the Senior Commodity Advisor at WWF-UK, London, May 2012.

5. Here the focus is on the instrumental power of lead firms in GVCs. See Clapp and Fuchs 2009 for a more detailed treatment of corporate power in global agrifood governance.

coordination and power asymmetries between lead firms and suppliers are high; firms can exert a great deal of monitoring and control, and suppliers are dependent on the lead firms and their buying decisions. In the case of hierarchies, the value chain is characterized by vertical integration.

Using the example of the fresh vegetable trade between Kenya and the United Kingdom, Gereffi et al. (2005, 92–94) describe how the “agri” value chain has moved from market coordination to explicit coordination through the power of large retail companies such as Tesco, Asda, and Sainsbury’s. Along similar lines, Jennifer Clapp, Doris Fuchs, and others have shown that large horizontally and vertically integrated retail and processing companies now dominate the agrifood industry (Clapp and Fuchs 2009; Fuchs and Kalfaggiani 2010). On a very general level, the agri value chain can be divided into five major segments: input provision, production, trade and processing, retail, and consumption. Its shape has been repeatedly described as resembling that of an hourglass (Vorley 2003), where a large number of suppliers transact with a much smaller number of processing, trading, and retail companies, which occupy the value chain’s middle and downstream segments. The analogy only works if agricultural input companies are not considered. The more general point, however, is that corporate concentration is highest at certain stages of the agri value chain, which has crucial implications for the distribution of power in the industry. Large transnational companies that occupy key positions in the chain are able to set prices for suppliers and influence the rules under which they operate (Fuchs and Kalfaggiani 2010).

These companies, however, do not operate in an institutional vacuum. Corporate concentration not only brings power and control, but also visibility and vulnerability to normative, economic, and regulatory pressures. In particular, food companies in Europe and North America now have to respond to an increasingly complex institutional environment. The private governance literature shows that in the past, NGOs directly targeted big-brand companies through naming and shaming campaigns, pressuring them to reduce their environmental impact (Bartley 2003; Sasser et al. 2006). Additionally, there is a growing awareness among Northern consumers about sustainability norms. Although consumer demand may not have been the primary driver behind sustainability certification, markets for these products are growing, with commodities like coffee and tea now reaching 10 percent or more of global export sales (Potts et al. 2014, 167 and 306). There is also high risk that corporate scandals and shared reputations may lead to costly public regulation.

With environmental issues becoming increasingly important to NGOs, consumers, and regulators, many of the industry’s lead firms have started to mobilize around sustainability issues, formulating strategies and sourcing targets in response to these pressures. One example is Unilever’s Sustainable Living Plan, in which the company has committed itself to sourcing all of its agricultural raw materials sustainably by 2020. Similar strategies have been formulated by other big-brand companies, such as McDonald’s, PepsiCo, Coca-Cola,

Starbucks, Marks & Spencer, and Walmart (Dauvergne and Lister 2012, 38). However, without third-party verification, big-brand sustainability suffers from a credibility problem. In the words of the sustainability director of a big beverage company: “Just because we say we are doing this sustainably does not mean that anyone is going to believe us.”⁶ This is where private governance arrangements like the roundtables come in. Through NGO participation and third-party monitoring, they provide reputational benefits and assurance to lead firms, allowing them to send more credible signals to relevant external audiences. In return, these companies adopt the roundtables’ agendas and use their market power to implement sustainability standards in the industry’s global supply networks.

This discussion shows that corporate power is a key mechanism of private environmental governance. Big-brand companies are leveraged to mitigate the impact of transnational production. For this mechanism to work effectively, two factors are important: corporate concentration at the downstream end of the agri value chain, in combination with strong institutional pressures for sustainability. These constitute the scope conditions of the roundtable model and of initiatives following a similar approach. However, as I will show below, this mechanism is undermined by the rise of South-South trade and the growing importance of emerging markets, including India and China, as importers of agricultural products. While big brands from the Global North have a presence in these markets, they are not the dominant players. Rather, domestic companies control the majority of commodity flows in these environments. The problem from a private governance perspective is that emerging market value chains are not well integrated in existing certification programs. Schemes like the RSPO experience great difficulties winning the support of Southern lead firms. Through an inductive analysis, this article identifies the structure of emerging market value chains and low institutional pressures for sustainability as key factors explaining this lack of support (see Table 2). To fully develop and contextualize the argument, the next section describes broader changes in the global economy of agriculture, then I turn to the case of palm oil and the Indian market.

The Rise of South-South Trade

The world economy is undergoing a period of rapid change, with emerging markets gaining in power and influence. A fast-growing literature has developed to describe and analyze this process (e.g., Mahubani 2008; O’Neil 2001). The tenor of these works is that the global economic system is in transformation as its architecture, institutions, and trade patterns all adapt and change in response to this power shift. As this section shows, this is also true for the agriculture sector and the system of private environmental governance in this arena.

6. Author’s phone interview with the Director of Sustainable Agriculture at Coca-Cola, June 2012.

Table 2
Developed Versus Emerging Markets

<i>Market Type/Scope Condition</i>	<i>Developed Markets</i>	<i>Emerging Markets (Palm Oil in India)</i>
Industry structure	High level of corporate concentration at downstream end, value chain led by big brand companies	Industry more fragmented at downstream end, value chain led by domestic companies (brands play a minor role)
Institutional context (normative, economic, and regulatory pressures for sustainability)	High (strong incentivizes for corporate mobilization around sustainability issues)	Low (weak incentives for companies to mobilize around sustainability issues)

International trade in agricultural products has been (and remains) restricted. Many countries continue to shield their markets from foreign competition through tariffs, quotas, subsidies, and other barriers to trade. But the rise of neoliberalism in the 1980s, and in particular the Uruguay Round of the General Agreement on Trade and Tariffs (1986–1994) brought some liberalization to the sector. Until then, trade in agri commodities was largely exempted from free trade rules, because countries with highly subsidized agriculture sectors, such as those in the European Community, had long resisted making agriculture a subject of previous free trade talks. However, prior to the launch of the Uruguay Round, pressure to include agriculture as an official agenda item mounted. A major driving force was a coalition of countries with large export-oriented agri industries, the so-called Cairns Group. Eventually, the pro-free-trade coalition succeeded in making agriculture an official agenda item, and after eight years of negotiations, the Uruguay Round agreements included an Agreement on Agriculture, which paved the way for the industry's global integration (Clapp 2012, 57–90).

While protectionist barriers in the agriculture sector remain high, the overall volume of agricultural trade has increased significantly in the last two decades. Fueled by a growing world population, changing diets in key developing countries, and the adoption of renewable energy policies, high world market prices have triggered a boom in agricultural production and trade. Between 1990 and 2012, trade in agri commodities increased fourfold, from US \$415 to \$1,657 billion (WTO 2013, 68). Today, the US and the European Union (EU) remain the world's largest exporters and importers. However, their market share has been declining for years. As part of a larger transformation of the global economy, the center of gravity in the agrifood system is shifting: from the Global North to the emerging markets of the Global South.

On the supply side, emerging markets like Argentina, Brazil, China, India, Indonesia, Malaysia, Thailand, and Vietnam have strongly expanded their export-oriented agricultural sectors. From 2000 to 2012, their share of global agricultural exports grew from 14.9 to 23.1 percent (WTO 2013, 67). This trend is set to continue in the future. The FAO projects that, to feed the rapidly growing and urbanizing populations in Africa and Asia, world cereal production will have to grow by 904 million tons (+46 percent), and meat production by almost 200 million tons (+76 percent) by 2050. Developing countries will produce about 90 percent of the projected increase in global agricultural output, raising their share to 74 percent by 2050 (FAO 2012, 95–96).

A similar trend can be observed on the demand side. In particular, the booming economies of China and India have experienced strong growth over the last decade. Whereas the two countries accounted for only 4 percent of global agricultural imports in 2000, this figure rose to over 10 percent in 2012. In the same period, the combined global market share of the US and the EU-27 (extra-EU imports) fell by 7 percent, from 25 to 18 percent (WTO 2013, 67). The growing importance of emerging markets in global agricultural trade is even more pronounced in individual sectors. With an import volume of 63 million metric tons (MMT) in 2013, China is now by far the largest buyer of internationally traded soy (OECD-FAO 2013, 74). In the palm oil sector, India, with a market share of 21 percent, tops the list of the world's largest importers. In 2014, the country imported a total of 8.8 MMT of crude palm oil, mostly from Indonesia and Malaysia (Index Mundi 2014).

These figures illustrate the speed and magnitude of change. The rise of emerging markets like India and China is shifting the balance of power in the global agriculture economy, with Southern countries and the companies supplying these markets gaining in importance. With a focus on the Indian palm oil sector, the remainder of this article explores this development, its detrimental impacts on the environment, and why existing private governance arrangements struggle to respond to it.

The Case of Palm Oil

Palm oil is a highly versatile edible vegetable oil. It is mainly used for cooking and as an ingredient in a large variety of food and cosmetic products. A relatively small proportion of global production is also processed into biodiesel. Because of the product's versatility and cost-effectiveness, global demand for oil palm is booming, making it "the world's most aggressive crop."⁷ The environmental impact of this expansion is amplified because about 90 percent of global production is concentrated in just two countries: Indonesia and Malaysia

7. Author's phone interview with the Chair of the Farmer Support Programme at Solidaridad, May 2012.

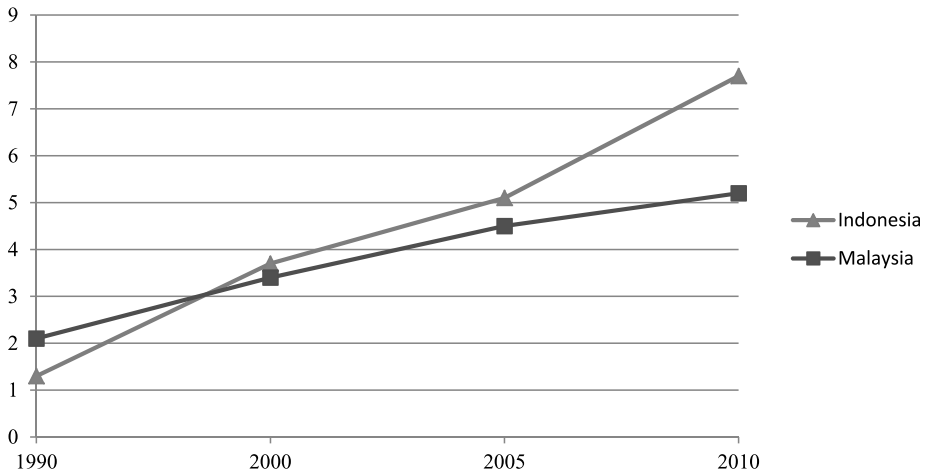


Figure 1
Total Land Area Under Oil Palm (million hectares)⁸

(WWF 2013, 21). Since the early 1990s, the total land area under oil palm in these countries has close to quadrupled (see Figure 1).

However, Indonesia and Malaysia are not only major producers of palm oil, they are also home to one of the world's most diverse and sensitive ecosystems. The Sumatra and Borneo rainforests are biodiversity hotspots, habitats to many endangered species such as the orangutan. They are also important carbon sinks, which combined contain about 16 MMT of carbon in living forest biomass. These precious ecosystems are under threat, and in particular, in Indonesia the situation is severe. According to a study recently published in *Science*, the country now has one of the highest deforestation rates in the world, with an annual forest loss of over 20,000 km² between 2011 and 2012 (Hansen et al. 2013). Environmentalists warn that if current deforestation rates continue, the Sumatra rainforest will disappear within twenty years.⁹

There is strong evidence to suggest that palm oil expansion is a key driver behind deforestation in Indonesia and Malaysia. Numerous studies have shown that processes of direct and indirect land-use change have caused deforestation and the conversion of carbon-rich peatlands into oil palm plantations (Wicke et al. 2011). Local authorities have often proven unable or unwilling to do something about the issue. Interviews with industry experts and media reports suggest that this is due to weak regulatory capabilities as well as to the palm oil industry's lobbying power. Palm oil is a major economic growth sector and foreign currency earner for the two countries. Because of their economic clout and close links to government, the well-organized palm oil industry

8. Source: RSPO 2013b, 36.

9. *The Guardian*, May 26, 2013.

associations form influential pressure groups. In the past, they often used this influence to resist stricter environmental regulation.¹⁰

The RSPO

In the late 1990s, news about the large-scale conversion of rainforest into oil palm plantations began to circulate among environmental groups in Europe and the United States. In particular, a strong campaigning network formed in the Netherlands. Greenpeace and Friends of the Earth addressed the environmental impact of palm oil production with Dutch banks and consumer goods manufacturers. In coalition with local groups, such as the Indonesian NGO network Sawit Watch, activists also began to directly target lead firms through naming-and-shaming campaigns, demanding that they stop sourcing and investing in palm oil from high-risk areas.¹¹ For many years now, the industry has been in the spotlight of Western activists, with major newspapers and broadcasters regularly reporting about palm oil in connection with deforestation, biodiversity loss, and climate change. Since 2004, the British *Guardian* alone has published over 100 articles and online publications related to palm oil. These factors have generated strong political pressures on food and retail companies in Europe to act on sustainability in the palm oil industry.

As part of a wider strategy to harness market forces for environmental protection, the WWF took a more collaborative approach. Following a model it had pioneered in the forestry and fishery sectors, the NGO sought to engage the industry's major players in a roundtable discussion about sustainable palm oil production. The turn toward agriculture followed a change in the WWF's overall forest conservation strategy, as the organization realized that in addition to poor forestry management, agricultural expansion was a major driver behind deforestation in the tropics. This led to the formation of the Forest Conversion Initiative, and soon palm oil was singled out as a priority sector. Initial talks to develop a sustainability standard for mainstream palm oil production were held with Unilever in 2002. Other firms and NGOs soon joined the group, and the RSPO was launched as a formal organization in 2004. Over the next couple of years, the roundtable participants developed the RSPO Principles and Criteria and rolled out the certification mechanism.¹²

With more than 1,000 full members from over fifty countries, the RSPO is the emerging focal institution for sustainability governance in the palm oil sector. Ten years after its creation, the organization claims to have certified 15 percent of global production under its scheme. In Malaysia and Indonesia,

10. Author's phone interview with the Director of the Forest Conversion Initiative at WWF-Switzerland, May 2013.

11. Author's phone interview with the International Coordinator of the Forest Conversion Initiative at WWF-Switzerland, May 2013.

12. Author's phone interview with the Director of the Forest Conversion Initiative at WWF-Switzerland, May 2013.

Table 3

Downstream Firms among RSPO Members from Top Five Palm Oil Importing Countries (2014)

Country	Downstream Firms	Palm Oil Imports (million metric tons)	Share of Global Imports (percent)	Annual Growth Rate (percent)
India	25	8.8	21	11
China	8	6.6	16	5
EU-27	462	6.3	15	2
Pakistan	3	2.7	6	8
Bangladesh	2	1.3	3	18

Source: Table was composed using data from Index Mundi 2014; RSPO 2014a.

the standard now applies to 1.8 and 1.5 million hectares of oil palm plantations, respectively (RSPO 2013a, 19). While these figures provide evidence for the market-transforming effect of the RSPO, a closer look reveals the initiative's strong Eurocentrism. Essentially, it operates on the basis of a North-South trade model, with lead firms from Europe and suppliers from Malaysia and Indonesia. In contrast, only few downstream firms from the new growth markets in Asia are among the members of the RSPO (see Table 3).

The EU also accounts for the bulk of global demand for certified sustainable palm oil (CSPO). In 2013, Europe imported about 2.5 MMT of CSPO (about 40 percent of its total palm oil imports). In contrast, demand for CSPO from India remains weak. In the same year, only 144 tons of CSPO were sold in this market, accounting for 0.0002 percent of India's total import volume.¹³ For obvious reasons, these figures constitute a problem for a scheme created to protect the rainforests of Borneo and Sumatra. While Europe has been the primary destination for CSPO, the booming demand from emerging markets for (conventional) palm oil is now the key driver behind agricultural expansion in Indonesia and Malaysia. The RSPO, however, has little uptake in these markets, undermining its effectiveness as a mechanism of global environmental governance. So why does the RSPO struggle to expand its operations in these countries? For India, the within-case analysis reveals two crucial factors: a fragmented industry dominated by domestic companies, in combination with weak institutional pressures for sustainability.

The Indian Market

Over the last decade, India's palm oil imports have risen strongly. This surge in demand is due to a confluence of factors, of which the most important are a

13. Calculated using data from International Trade Centre 2015; RSPO 2013a.

growing population, urbanization, and limited domestic production. Due to its versatility and cost-effectiveness, palm oil from South East Asia has become the primary edible oil source for the country. But India's import boom has not been without consequences. In particular, in Indonesia, which supplies about 80 percent of India's demand, it has had devastating effects for the country's tropical rainforests and wetlands. In a recent report, the environmental activist group Greenpeace identified India's hunger for palm oil as the key cause of deforestation in Indonesia (Greenpeace 2012). The problem from a private governance perspective is that the companies operating in the Indian market show little interest in the RSPO and its standard.

As was shown above, for the roundtable model to work effectively, big-brand companies are needed at the downstream end of the value chain. These companies possess incentives to act on sustainability and command the market power necessary to put pressure on upstream producers to change their practices. The level of corporate concentration and the share of branded products are high in Northern consumer markets. Beginning in the 1960s, a wave of corporate mergers and acquisitions led to a concentration of corporate power in the retail, processing, and trading stages of the agri value chain (Clapp 2012, 92–96). The situation is different in the emerging markets of the Global South. In the case of India, international retail, food, and trading companies are active, but their market share is relatively small. The main players are Indian companies and the industry is more fragmented, as the following analysis shows.

In India, about 90 percent of the imported palm oil is used for edible products (mostly cooking oil), and about 10 percent goes toward non-food-based usage, such as biodiesel, cosmetics, and detergents. In the edible-oils stream, two market segments can be distinguished: one for branded and one for unbranded products. Unlike in Northern consumer markets, the share of branded products in India is relatively small. In the case of palm oil, it is estimated to be about 11 percent, whereas the remaining 89 percent is sold unpackaged (Centre for Responsible Business 2014, 24). Both branded and unbranded palm oil is supplied by a group of thirty to forty companies, which collectively control about 70–80 percent of the market. Some of the top corporate players in this supply chain segment are Aclamar Oils and Fats, Amira Foods India, Andani Wilmar, Anik Industries, Cargill India, Grodrej Industries, Kamani Oils, and Ruchi Soya (Centre for Responsible Business 2014, 20). They import, refine, and process the palm oil and sell it to local wholesalers and retailers. But unlike Northern consumer markets, the retail end of the Indian palm oil supply chain is highly fragmented. In 2012, organized retail accounted for only 8 percent of total sales. Most Indians still shop in markets and small family-owned stores. In comparison, with a market share of 80 percent or more, organized retailers including Carrefour, Tesco, or Walmart dominate in the countries of the Global North (Singh 2014, 75). Figure 2 provides an overview of the Indian palm oil value chain.

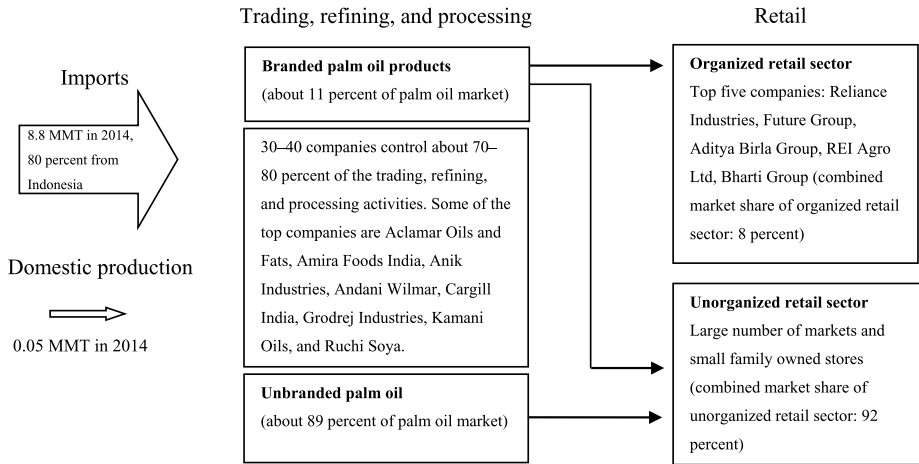


Figure 2
Palm Oil Value Chain in India (Food-Based, Downstream Activities)¹⁴

The high degree of fragmentation and the low importance of brands make it very difficult for the RSPO to establish a presence in this market.¹⁵ Its governance model works through leveraging the market power of global lead firms, but in India, not even the more visible companies have formulated clear sustainability agendas. With a few exceptions, Indian companies lack elaborate corporate social responsibility programs and sustainable sourcing strategies for CSPO. In this regard, a survey by the Centre for Responsible Business, a local NGO, of thirty-seven major companies with a footprint in the Indian palm oil market (including traders, refiners, and consumer goods manufacturers) found that “a large number of local businesses have not clearly articulated their sustainability vision nor have they set out any sustainability targets. Businesses that have a defined sustainability vision lack implementation” (Centre for Responsible Business 2014, 38). A look at RSPO’s certification register reveals that only eight companies operating in India have obtained certification. Out of the big trading companies mentioned above, only Adani Wilmar has announced plans to source 100 percent of CSPO, but it has not yet specified a clear timeframe or plan for implementation (RSPO 2014b).

A deeper analysis reveals that this lack of corporate commitment can largely be explained through weak institutional pressures for sustainability. In the countries of the Global North, powerful environmental movements with their origins

14. Sources: Centre for Responsible Business 2014; Index Mundi 2014; Singh 2014; The Economist, October 18, 2014; author’s phone interview with the Manager of Sustainable Business at WWF-India, February 2015.

15. Personal communication with a member of the RSPO secretariat, London, May 2014.

in the 1960s propelled sustainability issues to the forefront of political and public debates. Books like Rachel Carlson's *Silent Spring* and Paul Ehrlich's *The Population Bomb* created popular awareness of the environment and helped mobilize support and activism. In combination with other factors, these developments have given rise to political and economic pressures, creating an enabling environment for corporate mobilization and the emergence of big-brand sustainability.

In comparison, the institutional environment in India is a very different one. First, environmental protection is not yet a priority on the political agenda. This is evidenced by the fact that India continues to receive low scores in studies measuring the environmental performance of public policies. One example is Yale University's Environmental Performance Index, which measures how well countries protect ecosystems and human health from environmental harm. In its latest version, India was ranked only 155 out of 178 countries assessed (Hsu et al. 2014). Second, India's environmental movement remains weak in comparison. Although environmentalism has a long history in India and industrial accidents like the Bhopal disaster have had a mobilizing effect, many groups suffer from resource constraints. In addition, few Indian NGOs work on sustainability standards and certification. One interviewee explained that these are Western concepts and that there is little alignment between the agendas of transnational NGOs, their corporate partners, and local civil society groups.¹⁶ Finally, the market environment in which Indian palm oil companies operate is very different from those of more developed economies. In India, palm oil is also known as "poor man's cooking oil." The urban and rural poor are major consumers of the country's unbranded palm oil, which they use for the preparation of their daily meals (Centre for Responsible Business 2014, 33–40). In this market segment, consumers are highly cost-sensitive, and firms operate on very small profit margins. They compete over price, and market participants are unable to absorb the US \$30–\$50 price difference between a ton of CSPO and a ton of conventional palm oil.¹⁷

In sum, the analysis has shown that a fragmented industry and weak institutional pressures for sustainability make India a difficult environment for the RSPO and its governance model. The two scope conditions identified above are currently not present in this market. This, of course, might change over time, as the country continues on its development path. For example, in 2012 the government took steps to liberalize the retail sector and allow more foreign direct investments in the country. As a consequence, the proportion of organized retail is growing, and so is the importance of local and international brands (Chari and Madhav Raghavan 2012). Eventually, there might also be local demand for CSPO from India's growing middle class. Unfortunately, by

16. Author's phone interview with the Director of Action for Social Advancement, June 2013.

17. Author's interview with the Manager of Sustainable Business at WWF-India, via phone, February 2015.

then it could be too late for the rainforests in Sumatra and Borneo, which are vanishing at breathtaking speed.

Conclusion

Private governance institutions are being developed to mitigate the externalities of transnational production. One important group of arrangements in the agriculture sector is the roundtable initiatives of the WWF. With a focus on key agri commodities such as palm oil, soy, cotton, sugarcane, biofuels, and beef, their goal is to shift the entire sector toward more sustainable practices.

By studying a well-established and advanced initiative, the RSPO, this article has argued that the roundtable model is undermined by the rise of emerging markets and the accompanying shift in global economic power. Although countries like India and China account for a rapidly growing share of global agricultural imports, causing deforestation and biodiversity loss in producer countries, the roundtables have little uptake in these markets. They continue to operate on the basis of a North-South trade model, trying to leverage the market power of big-brand companies. The problem is that Southern lead firms are largely absent from these arrangements.

Informed by GVC analysis, this article has illustrated and inductively developed the argument. With its focus on corporate power, interfirm relations, and institutional environments, the GVC framework complements and integrates insights from existing theories of private governance. It thus allows for a more complete understanding of nonstate certification programs and how they are affected by processes of global economic change. Through an in-depth analysis of the global palm oil trade, particularly in India, I have shown that developed and emerging market value chains differ in important ways. Whereas big-brand companies dominate in the Global North, the industry in India is more fragmented, and brands play a minor role. In addition, institutional pressures for sustainability are still weak in this environment. This means that Indian firms operate under a very different incentive structure than do their Northern counterparts. In combination, these factors make it very difficult for the RSPO to establish a presence in this market.

Evidence is growing that the rise of emerging markets is challenging private governance in other industries as well (Nadvi 2014; Schleifer 2015). However, we still know little about this phenomenon. To address this gap, future work should focus on three areas in particular. First, studies are needed that will systematically analyze and compare processes of economic change across industries and how these transformations affect institutions of environmental governance. Second, we need to study institutional responses. What strategies are deployed in response to these challenges? Are there pockets of success, and can they be scaled up? Finally, we need to think about institutional alternatives. Does the changing global economic environment require new mechanisms of environmental stewardship, and what should these new mechanisms look like?

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