

PKS Certification System: Policy
Approved by the Third-Party Standards Review Committee

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Policy

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Drafted by

Agricultural Resource Certification Council

Relevant Standards
Organizational Requirements ST01
Due Diligence System Requirements ST02
Third-Party Certification Body Requirements ST03
Requirements Guidelines G01

Table of Contents

1. Objective and Rationale of Establishing the Certification Standards.....	3
2. Future Vision	3
3. Responsibilities and Missions of the Organizations	4
4. Principles.....	4
4.1. Governance.....	4
4.2. Social and Environmental Concerns	4
4.3. Management of Greenhouse Gas	4
5. Application of Standards.....	4
5.1. Application of Standards.....	4
5.2. Structure of the Standards	5
5.3. Review of the Documents on Third-party Certification Standards	6
6. The Scope.....	6
6.1. The Scope of Certification	6
6.2. The Scope of Traceability	7
6.3. The Scope of DD System.....	7
6.4. The Scope of GHG Emission Calculation.....	7
7. Definition of the Terms.....	7
7.1. The organization(s)	7
7.2. Traceability	7
7.3. PKS.....	8
7.4. Third-party audit	8
7.5. Site.....	8
7.6. Third-party certification body	8
7.7. Unacceptable supply source	8
7.8 Due Diligence (DD)	8
7.9. Due Diligence System (DDS)	9
7.10. Plantation area	9
7.11. FPIC	9
7.12. SG (Segregation)	9

1. Objective and Rationale of Establishing the Certification Standards

Under the Feed-in Tariff (FIT) scheme of Japan, which is based on the Act on Special Measures Concerning Procurement of Electricity from Renewable Energy Sources by Electricity Utilities (Amendment: Act No. 59 of June 3, 2016), many stakeholders have shown interest in or have questioned the legality, sustainability and traceability of Palm Kernel Shell (PKS) used as fuel for biomass power generation.

PKS has become a major source of fuel used for biomass power generation. The organizations that import and/or use PKS are socially responsible to proactively explore and address the issues raised by stakeholders about PKS import and use. It is with this background that the “Agricultural Resource Certification Council (ARC)” was established by power generators and trading companies within Japan that are interested in ensuring the sustainability of PKS, with the aim to create a third-party certification system to be applied in trading sustainable PKS.

To ensure fairness, neutrality and transparency, the drafts are to be finalized by the Third-Party Standards Review Committee, consisting of representatives from academia, consumer groups, thinktanks, financial policy experts and the timber industry. The drafts are also to be reviewed by the Technical Subcommittee, consisting of representatives from environmental groups and experts on life cycle assessment (LCA). The documents are to be issued as the Standards after an approval by the Third-Party Standards Review Committee on 23 October, 2020.

These Standards do not interfere with proliferation of other certifications relating to palm oil or food residue. They are aimed at encouraging organizations complying with the Standards as well as those organizations involved in relevant supply chains to shift towards a higher level of management standards.

2. Future Vision

Our future vision is to contribute to the Sustainable Development Goals (SDGs) in supporting human resource development, environmental protection etc. in the producing countries of PKS through the adoption of a third-party certification system for PKS.

3. Responsibilities and Missions of the Organizations

Those organizations using this third-party certification system for PKS are deemed to have responsibilities and missions to maintain the healthy material circulation in order to cooperate with Japan's environmentally-conscious energy policies and contribute to the development of a society based on a circular economy.

4. Principles

4.1. Governance

The organizations to be certified under this third-party certification system shall develop and continuously improve the management system that is credible to relevant stakeholders, including, first and foremost, ensuring traceability, as well as document management, education and training, internal auditing, etc.

4.2. Social and Environmental Concerns

The organizations to be certified under this third-party certification system shall adequately consider social and environmental concerns of producing regions and countries of PKS as well as Japan. These organizations shall seek to ensure the protection of valuable ecosystems, appropriate land use, elimination of illegal labor, protection of indigenous people's rights and conservation of a healthy environment.

4.3. Management of Greenhouse Gas

Given the significance of the impact of global warming, the organizations to be certified under this third-party certification system shall introduce a system that allows them to measure and regularly evaluate the level of Greenhouse Gas (GHG) emission. The organizations shall also make an effort to lower their annual GHG emission level in the business operation area subject to evaluation.

5. Application of Standards

5.1. Application of Standards

The organizations and individuals these Standards apply to may include, but not limited to below:

- 1) Mills processing Fresh Fruit Bunch (FFB) overseas (Oil Mills/CPO Mills)

- 2) Organizations and individuals that collect PKS overseas

3) Organizations in Japan that import PKS

4) Power generators that use PKS

5.2. Structure of the Standards

The Standards consist of documents below:

1) Policy (P01)

A comprehensive policy encompassing the rationale for establishing; the Rules; responsibilities, missions and visions for business operators; principles; structure of documents; definitions etc.

2) Organizational Requirements (ST01)

Requirements applied to the organizations or individuals trading only in legal and sustainable PKS from the point of planting to the sale and applying to be certified by a third-party certification body.

3) Due Diligence System Requirements (ST02)

Due Diligence System Requirements for the planting area for procured PKS, to be implemented by the organizations.

4) Third-Party Certification Body Requirements (ST03)

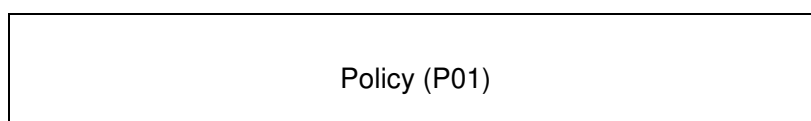
Requirements applied to the third-party certification body which conducts the conformity audit for the organizations to the Standards.

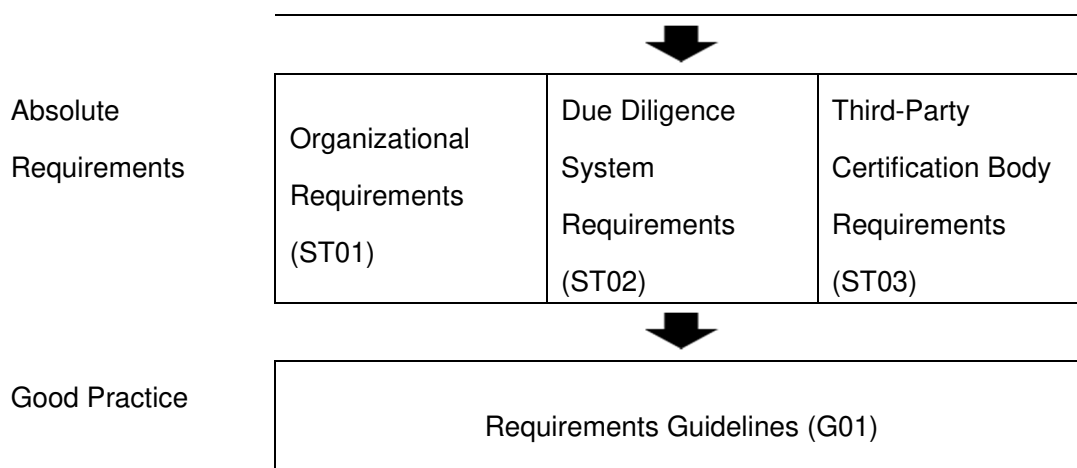
5) Requirements Guidelines (G01)

Containing good practices for organizations in implementing the requirements under the “Organizational Requirements (ST01)” and the “Due Diligence System Requirements (ST02)” which contain requirements for the organizations to conform to.

The following chart shows the relationships amongst different documents

Basic
Requirements





5.3. Review of the Documents on Third-party Certification Standards

ARC shall review the Standards once every two years in to reflect changing surrounding conditions. After the review, ARC shall summon advisory committees (the Third-Party Standards Review Committee and Technical Committee) and ask the committees to review the amended version. The amended version shall officially be issued after the approval by the Third-Party Standards Review Committee.

The organizations shall conform to the relevant Standards within one year after the new Standards take effect.

Furthermore, the organizations shall ensure conformity to the relevant Standards issued by certifying organizations and approving organizations within the period specified by these organizations.

6. The Scope

6.1. The Scope of Certification

The scope of proving conformity to these Standards encompasses the upstream supply chain from the organization. The organization shall manage all entities and individuals that are involved in trading PKS supplied to it, receive audit by a third-party certification body and include the upstream supply chain as part of their certification scope. The organization shall report to the third-party certification body in changing the scope of certification and shall operate accordingly within the scope changed after receiving the conformity evaluation for the new scope.

Furthermore, the organization shall conduct due diligence (DD) regarding the plantation area (Refer to 7. Terminology for the definition of the plantation area), and report its DD results to the third-party certification body.

6.2. The Scope of Traceability

In being certified by the third-party certification body, the scope of traceability to be established by the organization shall be the same as the scope of certification. With regard to their DD, the organization shall be able to trace back the plantation area, although this will be outside the scope of certification.

6.3. The Scope of DD System

The organization shall be able to trace back the plantation area using their DD system.

6.4. The Scope of GHG Emission Calculation

The organization shall carry out GHG emission calculation in the scope of boundary specified in the requirement. The scope of calculation shall be from the crude palm oil (CPO) mill and the power plant facility.

However, the economic value of PKS should be continuously monitored and the boundary shall be expanded if/when the price elasticity reaches 1 and exceeds 5% of the overall profit. Furthermore, given the current research tendencies it is necessary that the GHG emission calculation and emission calculation at the power plant shall be continuously reviewed.

7. Definition of the Terms

7.1. The organization(s)

An organization(s) that establishes the traceability of PKS, is responsible for the supply chain management and asks a third-party certification body to evaluate conformity to the Standard

7.2. Traceability

The processes for processing, manufacturing and distributing from the point of millers to the organization shall be clearly identified and traceable.

7.3. PKS

PKS stands for Palm Kernel Shell. It is the shell of palm kernel and an agricultural residue that is produced during the process of producing palm oil (some view it as a by-product).

7.4. Third-party audit

Audit by a third-party certification body that evaluates conformity to the relevant standards

7.5. Site

Locations and headquarters covered by the scope of certification. To be physically visited by a third-party certification body in carrying out their audit.

7.6. Third-party certification body

An entity that audits whether the organization conform to the standards and is free from conflict of interest and is neutral.

7.7. Unacceptable supply source

One of the below;

- 1) Plantations developed illegally
- 2) Plantations that are in violation of traditional rights or any other human rights
- 3) Plantations that have been developed by threatening the natural environment of High Conservation Value (HCV)
- 4) Plantations where genetically-engineered palm trees have been planted
- 5) Plantations where palm trees are planted by continuously developing vulnerable soil that is reaching the cultivation limits such as peatland.

7.8 Due Diligence (DD)

A series of actions to be taken in order to reduce risks in relation to PKS traded by the organization, which includes below;

- 1) Collecting Information:
Collecting information to identify risks that exist or may occur in the future

2) Identifying Risks:

Identification of risks that exist or may occur in the future based on information collected

3) Risk Mitigation:

Selection and implementation of mitigation measures for risks identified

Under the relevant requirements the organization shall ensure, at a minimum level, that their sourcing areas (or areas covered) are not the type of areas that are unacceptable. In some cases, the organization shall carry out DD regarding issues where other types of risks exist or may exist in the future.

7.9. Due Diligence System (DDS)

The system, personnel, documents and records, etc. established by the organization in order to carry out DD

7.10. Plantation area

Production areas where oil palm is harvested. The maximum size of plantation area subject to DD is specified in Requirements for Due Diligence System (ST02).

7.11. FPIC

FPIC stands for free, prior and informed consent. It is mainly used in the context of indigenous people's rights to be respected in developing land and resources.

7.12. SG (Segregation)

It means managing stocks separately. A certification model where certified PKS does not get mixed in with non-certified PKS in a supply chain so that only certified PKS reaches power plants. Under this certification the plantation area cannot be traced back, however, the product is guaranteed to be certified PKS.

Remainder intentionally left blank