

***oikos Sustainability Case Writing Competition 2006***

***2<sup>nd</sup> Prize***

# **Supply Chain Strategy and Sustainability: The Migros Palm Oil Case**

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Copyright © 2006 by the Authors. All rights reserved. This case was prepared by Jens Hamprecht and Daniel Corsten as a basis for class discussion rather than to illustrate the effective or ineffective handling of an administrative situation.

## Part A: 1999 - 2001

### Introduction

In the headquarters of Switzerland's largest retailer, Migros, a meeting room was booked on a long Friday night in April 2001. Fausta Borsani, the head of environmental and ethical projects at Migros, and Dr. Robert Keller, a senior R&D manager, were pondering over the further pursuit of the project they had initiated almost two years ago: purchasing sustainable palm oil for Migros' products. Previously, Migros had already succeeded in many project phases. It had ensured the support of a major NGO. Jointly, they had established draft criteria for sustainable palm oil. First talks with suppliers had already taken place, too. Now, the NGO recommended to have a second NGO join the project. Was this an advice Migros should follow? Wouldn't it render the entire project too complicated? Moreover, how should Migros communicate its palm oil project to the public? How to ensure that not only the environment but also Migros benefited from the project? The Migros board had already invested significant sums. By Monday morning, it demanded to be informed on the further project steps.

### How the project had begun

During a short lunch break on November, 10<sup>th</sup> 1999, Dr. Robert Keller was scanning the newspaper headlines. He had only few minutes left prior to a meeting with his senior R&D staff at the MIFA AG, Migros' own manufacturer of fats and detergents. Yet, when Keller was about to put the *Tages Anzeiger*, a leading Swiss newspaper, aside, he noticed an article that struck his interest. It was an article on the rain forest of Borneo, authored by Andreas Bänziger, a journalist researching news in Asia. Focusing on the hardship of the Penan, the native people of Borneo, Andreas Bänziger wrote the following:

Back in 1881, the Norwegian scientist and adventurer Carl Bock still described Borneo as an island that the monkeys could traverse by swinging from tree to tree, without ever placing a foot on the ground. Today, however, the native people of Borneo note that the monkeys have changed their habits. Rather than swinging from treetop to treetop, they now walk on the ground.

Who or what is to blame for this change? Certainly "the company", the corporation with the licence to clear 700 000 hectares of rain forest in Borneo, an area equalling one sixth of the area of Switzerland. [ ].

For months, the Penan have tried to stop the encroachment of the bulldozers, they have tried to fight for their right of living in the forest - until they were chased away

by the police with teargas<sup>1</sup>.

Yet, as the journalist further explained, placing the blame on the timber industry and its global customers only meant taking a myopic stance. There was a second player whose resource demands continued to threaten the rain forest: the palm oil industry. Large producers of palm oil awaited the clearing of the rainforest by “the company”, then bought the ground and set up palm tree plantations. This link between palm oil plantations and the deforestation of the rain forest, however, was largely unknown in Europe. Thus, the journalist further wrote:

The unsuspecting consumers are in Europe. The very same environmentally conscious citizens who demand an import boycott of tropic woods originating from an unsustainable production enjoy the rainforest for breakfast. They put it on their lips and use it for keeping their hands tender.

Dr. Keller quickly understood the allusion of this closing sentence. Holding a PhD in chemical engineering, he was very well aware of the various uses of palm oil. At the MIFA AG, where he headed the Research & Development department, palm oil was used for the manufacturing of various products, including margarine. Other Migros-owned factories made use of palm oil in cosmetics products. However, while Keller was an expert in the industrial applications of palm oil, the *ecological problems* associated with the production of this raw material were new to him<sup>2</sup>.

Robert Keller took the article aside and prepared for the R&D meeting. Yet, he was unsettled by the news. Migros' revenues from products that contain palm oil added up to over CHF 300 millions per year. How would Migros' customers respond to such an article? Could it put the reputation of the retailer Migros at risk? After all, Switzerland's largest retailer wholly owned the MIFA AG.

## Migros

Migros was founded as a cooperative by Gottlieb Duttweiler in 1925. At that time, a significant share of the Swiss working class was suffering from malnutrition. Duttweiler envisioned providing the market with products that would be more affordable. Given that Migros' retail prices were substantially below the market average, the consumer goods industry initially refused to deliver products to Migros. Duttweiler therefore set up his own factories, supplying the retail outlets with fresh food products, packaged food, as well as cosmetics articles, and washing powder.

Today, nine out of ten products sold by the retailer are manufactured by its own

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<sup>1</sup> Bänziger A. 1999. Statt Tropenholz liefert Borneo Margarine. Tages Anzeiger. November 22.

<sup>2</sup> Studer R. 2003. Interview with Dr. Robert Keller. Nachhaltigkeitsmarketing am Beispiel Palmöl. University of St.Gallen.

factories<sup>3</sup>. The business is still structured as a cooperative, cf. exhibit 1. In its mission statement, Migros continues to highlight that it seeks to take on a role model in the management of social and ecological issues. The orange “M” symbolizing Migros (see exhibit 2) is commonly judged as the most popular brand in Switzerland<sup>4</sup>. Migros prints a weekly magazine (“Migrosmagazin”) which is distributed free of charge to all 1.96m members of the Migros cooperative. The magazine thus reaches about 27% of the Swiss population.

With revenues of about 20bn Swiss Francs and 81.600 employees (2003) the cooperative is the largest retailer operating in Switzerland. Retailing makes up 70% of Migros’ business today. While maintaining its focus on the Swiss market, it has particularly diversified into consumer markets such as petrol stations (“Migrol”) and travel agencies (“Hotelplan”), cf. exhibit 3.

The MIFA AG, one of the 16 Migros-owned manufacturers, employs about 300 people, cf. exhibit 4. Its revenues of CHF 167 mn (2003), make it Switzerland’s largest producer of washing agents and margarines. Activities of MIFA and the other factories are supervised by a board member of Migros.

Retailing in Switzerland is characterized by affluent consumers valuing fair trade and protection of the environment<sup>5</sup>. Migros and its main competitor Coop enjoy significant market shares, jointly they account for over 50% of food retailing in Switzerland. Following the market entry of Lidl and Aldi in 2005, however, the retailers will need to defend these market shares.

## Palm Oil

At Migros, palm oil is primarily processed by the MIFA AG and the retailer’s bakery, Jowa. For the global consumer goods industry, palm oil is the second most important vegetable oil, second only to soybean oil. Worldwide, the production of palm oil reached 31.6 million metric tonnes in 2004, cf. exhibit 5. The commodity thus made up a 30% share of the worldwide production of vegetable oils.

Palm fruits provide the basis for two different types of oil: palm oil and palm kernel oil. The palm trees grow in tropic regions. Malaysia and Indonesia alone account for 80% of the global palm oil production. The production costs for palm oil vary from country to country but Indonesia is typically regarded as the lowest cost producer. Direct economic comparisons of palm oil with soybean oil are not straightforward as the oil of soybeans only is a byproduct of soybeans prepared for meals. The production

<sup>3</sup> Migros 2005. Die Industriebroschüre.

[www.migros.ch/Migros\\_DE/Content/UeberMigros/MigrosKonzern](http://www.migros.ch/Migros_DE/Content/UeberMigros/MigrosKonzern). Retrieved on August 2nd, 2005

<sup>4</sup> Wiegand M. 2005. Schweizer planen Abwehrkampf gegen Aldi. Financial Times Deutschland. June 28.

<sup>5</sup> Euromonitor 2004. Retailing in Switzerland. Market analysis.

costs for producing soybean oil are about 50% above those for producing palm oil<sup>6</sup>. The extent to which palm oil contributes to deforestation is subject of an academic debate, the social relevance of palm oil plantations, however, is rarely challenged cf. exhibit 6.

### **Migros responds to the newspaper article**

Returning from the R&D meeting, Robert Keller researched further on the palm oil story. He learned that throughout 1997, vast, uncontrolled fires had swept through the rainforests of Indonesia and Malaysia. There was evidence that these fires had been fuelled by corporations that had bought licences for crop cultivation in the pristine rainforests<sup>7,8</sup>. In response, WWF International had triggered a pilot campaign in Europe. Robert Keller realized that WWF Switzerland had set up a webpage in the spring of 1998, already<sup>9</sup>. Designed as an information platform, this website provided the Swiss consumers with information on how they could approach retailers and manufacturers for demanding a certified origin of palm oil. To Robert Keller, it only appeared as a matter of time until this internet platform, in combination with the coverage in the Tages Anzeiger, would fuel inquiries of Migros' consumers regarding the provenance of the retailer's palm oil.

Robert Keller felt compelled to respond. Eleven days after the publication of the article in the Tages Anzeiger, he submitted a letter to the editor of the newspaper<sup>10</sup>. While acknowledging that the article on Borneo had addressed an issue of vital importance, Keller pointed out that the palm oil exports to European consumer goods manufacturers did not contribute significantly to the ongoing deforestation of the rainforest. He wrote in his letter to the editor:

European consumption [of palm oil] only accounts for a small share of the global palm oil demands. In fact, the European consumption of vegetable oils, such as palm oil and palm kernel oil, has dropped throughout the last years<sup>11</sup>.

Nevertheless, while the above statement helped Migros to calm things down, the question remained whether a defensive approach was appropriate as the long-term strategy for answering demands for sustainable palm oil supply chains. Reflecting on this strategic choice, Keller says:

We had two alternatives at hand: either to pursue a defensive strategy or to get active.

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<sup>6</sup> Corley R. 2003. Oil palm: a major tropical crop. Burotrop. February.

<sup>7</sup> Aditjondro G. 2000. The Driving Force of Indonesia's Catastrophic Forest Fires. Eco-Politics Journal, 1 (1): 1-7.

<sup>8</sup> Gittings J. 1997. Smoke to choke Asia for months. The Guardian. September 23.

<sup>9</sup> [www.checkyouroil.org](http://www.checkyouroil.org), retrieved on April 21, 2005.

<sup>10</sup> Keller R. 1999. Nicht Palmöllexport gefährdet Tropenholz. Tages Anzeiger. November 22.

<sup>11</sup> Ibid.

We decided to choose the latter<sup>12</sup>.

Keller had already provided a hint of the pursuit of the “active approach” in his letter to the Tages Anzeiger in 1999. In the closing line, he indicated:

The destruction of the rainforest can only be averted by utilizing [its resources] in a sustainable manner. The cultivation of palm oil must be allowed. Nevertheless, we require more sustainable cultivation methods<sup>13</sup>.

Yet, what were those “more sustainable” cultivation methods? How should Migros pursue the “active approach” of changing its current palm supplies? Keller recalls the situation as follows:

At that time, it was clear that MIFA did not intend to boycott palm oil as a raw material since it represents a vital source of income for the producing countries. Furthermore, a boycott by MIFA or even by the entire Swiss consumer goods industry would not make a difference. Migros imports 3,000 tons of palm oil per year. The total palm oil imports to Switzerland only add up to 10,000 tons annually – a small figure in comparison to the 23 million tons of annual palm oil production worldwide<sup>14</sup>.

Clearly, Migros was looking for another solution than a boycott of palm oil.

### **Migros searches for a non-governmental organization (NGO) as a partner**

In the Tages Anzeiger article, the journalist had mentioned the Bruno Manser Fonds, a Swiss non-governmental organization. The founder of this NGO had been living with the Penans and had supported their interests. Robert Keller decided to contact this NGO in order to explore the options of Migros in sourcing sustainable palm oil. This contact, however, did not result in a long-term collaboration.

Yet, Migros did want to collaborate with an external partner in addressing the palm oil problem. As Fausta Borsani notes:

The way we commonly work at Migros [regarding issues of sustainability] is that we identify a problem or an issue, then we identify partners to address the problem, we build up trust, experience, and a partnership.<sup>15</sup>

Collaboration with an external partner clearly was in line with Migros' culture. Yet, which other party than the Bruno Manser Fonds could support Migros in this context? Robert Keller contacted managers at Migros who regularly worked on issues regarding sustainability. He learnt that Migros had been collaborating closely with the World

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<sup>12</sup> Studer R. 2003. Interview with Dr. Robert Keller. Nachhaltigkeitsmarketing am Beispiel Palmöl. University of St.Gallen.

<sup>13</sup> Keller R. 1999. Nicht Palmölexport gefährdet Tropenholz. Tages Anzeiger. November 22.

<sup>14</sup> Studer R. 2003. Interview with Dr. Robert Keller. Nachhaltigkeitsmarketing am Beispiel Palmöl. University of St.Gallen.

<sup>15</sup> Interview with Fausta Borsani. February 18, 2005.

Wide Fund (WWF) since 1997, when Migros began purchasing wood products certified by the Forest Stewardship Council. Back then, Migros had been a founding member of the WWF Wood Group Switzerland<sup>16</sup>.

Migros thus contacted the WWF Switzerland in early 2000 in order to explore the possibility of a partnership for the creation of a sustainable palm oil supply chain. By establishing contact with the WWF, Migros entered discussions with a partner that was highly respected in Swiss society. WWF International is based in Switzerland. In the past, the top managers of the WWF have frequently had Swiss nationality.

### Developing a sustainable palm oil supply chain

On May, 11<sup>th</sup> 2000, a first meeting of Migros and WWF managers was held in Zurich<sup>17</sup>. Robert Keller of Migros was joined by Willi Isele, Migros' purchasing manager for vegetable oils, and Andrea Ries, a member of the board of WWF Switzerland.

Prior to the meeting, Willi Isele and Robert Keller felt slightly uneasy. They did not really know whether Migros and WWF Switzerland could find a common understanding of the palm oil problem. Robert Keller describes these feelings as follows:

[If you are not experienced in working with NGOs], then you tend to think of them as organizations that fight the industry and its supporting lobbies.<sup>18</sup>

Were these judgements justified? Would WWF Switzerland indeed take a confrontative posture during the meeting with Migros? As the meeting took off, the concerns quickly vanished. The Migros managers learnt from the WWF that no NGO had developed criteria regarding the certification of sustainable palm oil to that date. In the meeting, the WWF openly acknowledged that no NGO really was in a position to tell the industry *how* they should cultivate palm trees in order to ensure their sustainability. Just like for all other vegetable oils, a standard on sustainable production still had to be designed.

Robert Keller and Willi Isele became interested in collaborating with the WWF on the palm oil issue. They agreed on another meeting with WWF's Andrea Ries in July 2000 – this time the meeting was to be held in the offices of the WWF. The relief and the confidence that Migros' managers felt after the meeting of May 11<sup>th</sup>, 2000 can be grasped in the meeting protocol of Migros. Summarizing the outcome of the meeting, Migros' managers noted:

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<sup>16</sup> [www.miosphere.ch/d/newsapp/index.php3?id=308](http://www.miosphere.ch/d/newsapp/index.php3?id=308), retrieved on April 22, 2005.

<sup>17</sup> Meeting protocol of Migros. May 11, 2000.

<sup>18</sup> Studer R. 2003. Interview with Dr. Robert Keller. Nachhaltigkeitsmarketing am Beispiel Palmöl. University of St.Gallen.

We were surprised, how cooperative the WWF is. They are seeking for a solution, they want to achieve a change, and they are not interested in a confrontation.

Motivated by the outcome of the first meeting, Robert Keller and Willi Isele requested from Migros' senior management the go ahead for collaboration on a joint project on sustainable purchasing of palm oil with the WWF.

In this very period, Migros also was in the process of redesigning the organization as well as the communication of its efforts in the management of social and environmental issues. On May, 9<sup>th</sup> 2000, Migros had launched the miosphere.ch webpage, a central access point for information on the retailer's social and environmental projects<sup>19</sup>. A position for a head of environmental and ethical projects had been set up in the Corporate Communications department. Fausta Borsani, who was an agricultural engineer by training, gained the appointment to this position. Fausta Borsani brought along extensive experience in the work of NGOs. Prior to joining Migros, she had worked for five years for the Stiftung für Konsumentenschutz, a Swiss NGO advocating consumer rights. Thus, she was very experienced in the culture and strategy of NGOs.

Fausta Borsani, Robert Keller, and Willi Isele formed the team for the palm oil project. Their skills seemed to fit one another perfectly. Keller provided the long-term experience in senior management and R&D at Migros, Willi Isele was knowledgeable about the palm oil purchases of Migros, and Fausta Borsani had a very good understanding of the thinking of NGOs.

Internally, the team gained support from the Marketing department for collaboration with the WWF. On July 4<sup>th</sup>, 2000, in a meeting with the WWF, Robert Keller officially confirmed to Andrea Ries that Migros' senior management had approved the collaboration with the WWF. Following the meeting, Andrea Ries began to inform her peers on the boards of other WWF country groups that a joint project on palm oil was initiated in Switzerland. For Andrea Ries and her colleagues, the Swiss market was to become a test-market for the implementation of a global standard for sustainable purchasing of palm oil.

Migros' members of the palm oil team devised a budget for the single project phases, including the development of the criteria and the identification of suppliers. The development of the criteria then dominated the work of Migros and the WWF throughout the following months. It was a very challenging process as the criteria ultimately had to be applicable and relevant to the palm oil production in several countries. As no standards on sustainable palm oil production existed worldwide, the project members had to consult various sources to develop an integral standard.

Still, by early November 2000, Migros and the WWF had jointly established a draft

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<sup>19</sup> The webpage was later renamed into engagement.ch.

list of seven criteria for palm oil production. Now, the viability of these criteria had to be assessed in practice. Migros thus asked its two palm oil suppliers to join Migros and the WWF in their next meeting.

### **Migros negotiates prices for sustainable palm oil with its suppliers**

Migros first invited both of its palm oil suppliers at the same time and asked them whether they could adhere to the criteria for sustainable palm oil production. Both suppliers suggested that they could, but they calculated that they would need to raise their prices for a ton of palm oil by 30%<sup>20,21</sup>.

Given these figures, Migros noted that it might simply be too costly to purchase palm oil complying with all seven criteria from the outset. Fausta Borsani said that

[our] objective has to be to render palm oil sourcing more socially and environmentally responsible while keep it affordable (thus: sustainable).<sup>22</sup>

In order to facilitate further price negotiations, Migros decided to conduct the subsequent talks with the two suppliers separately. Furthermore, the 2<sup>nd</sup> tiers, the owners of palm oil plantations, were directly included in these talks.

On a business fair in Nuremberg on February, 16<sup>th</sup> 2001, Fausta Borsani thus had a meeting with one of the palm oil suppliers as well as the 2<sup>nd</sup> tier, two brothers owning a palm oil plantation in Colombia. Fausta Borsani told the brothers that Migros would be willing to pay a surcharge for palm oil from their plantation even though the cultivation methods of the brothers did not fulfil all seven criteria, yet. In exchange for the surcharge, the brothers agreed to achieve an alignment of their operations to all seven criteria within the next three years. However, it was agreed that once the plantation of the brothers would fulfil all criteria, no further surcharge would arise to Migros.

Based on this business model, the three parties could agree on a surcharge that was already significantly smaller: thereof, the brothers were granted a 65% share. The remaining 35% of the surcharge resulted from increased logistics costs as the “sustainable” palm oil had to be separated from the produce of other plantations during transport and storage. Similar supply contracts were subsequently established with Migros’ second palm oil supplier and plantations in Ghana and Brazil.

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<sup>20</sup> Meeting protocol of Migros. November 16, 2000.

<sup>21</sup> Meeting protocol of Migros. December 14, 2000.

<sup>22</sup> Meeting protocol of Migros. February 16, 2001.

**Migros minimizes the costs for purchasing sustainable palm oil**

At \$230, the overall surcharge had now been lowered to a range that was more tolerable for Migros. As Migros had no intent to lower its margins, the retailer began to pursue two strategies to balance the increased purchasing costs<sup>23</sup>.

First, Migros raised the prices of margarine manufactured by MIFA. Hereby, care was taken to maintain price leadership. Consequently, the price of some product groups was raised significantly while the price of other margarine products was maintained, depending on the price gap between Migros products and those of competitors.

Second, Migros drew on the Research & Development skills of its food engineers and redesigned several product recipes. Wherever possible, palm oil was being replaced by another vegetable oil.

These steps allowed Migros to reduce its purchasing volume of palm oil by one third. Nevertheless, the extra costs for purchasing sustainable palm oil were still significant. The product demanded separate handling on the plantations and along the supply chain. In a retailing environment increasingly threatened by the market entry of low cost retailers, this was an unnerving thought. On the long run, it was unpredictable whether Migros could afford to pay surcharges that did not occur to other food manufacturers<sup>24</sup>.

The Migros board expected to be informed how the costs for purchasing sustainable palm oil could be further reduced in subsequent years. Hence, Fausta Borsani and Dr. Robert Keller were pondering whether they should improve the economies of scale in the palm oil supply chain and include further industry players in the project. While it would help them to reduce the costs, it might put Migros' potential differentiation with the palm oil project in question.

The decision was complicated by a request the WWF had made in a meeting this morning. The WWF suggested that an independent assessor should join the palm oil project to control that palm oil producers were complying with the new standard. The WWF did not have the resources to take on this responsibility. Fausta Borsani and Dr. Robert Keller now had to decide whether assessment by another NGO was in the interest of Migros. While the expected extra costs seemed acceptable, Migros had to consider whether it sought this additional collaboration.

In summary, Fausta Borsani and Dr. Robert Keller had to consider whether they should include further partners in the project. By Monday morning, the two Migros managers had to present the further pursuit of the project to the Migros board. By then,

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<sup>23</sup> Studer R. 2003. Interview with Fausta Borsani. Nachhaltigkeitsmarketing am Beispiel Palmöl. University of St.Gallen.

<sup>24</sup> Studer R. 2003. Interview with Dr. Robert Keller. Nachhaltigkeitsmarketing am Beispiel Palmöl. University of St.Gallen.

they also needed to make propositions on how to communicate the project to the Swiss market. The time was pressing. It was unknown whether Migros' main competitor in the Swiss market had already identified the palm oil issue as well and whether he was about to launch a similar project.

## Part B: 2001 - 2005

### Collaborating with an independent assessor

Migros agreed to have an independent assessor control the compliance with the new palm oil production standard. This approach was pursued as Migros sought to ensure that its project could not be criticized as "green washing" by competitors, NGOs or journalists. Furthermore, ensuring a critical control of ecological and social aspects was well in line with Migros mission. Fausta Borsani pointed out that

...at Migros, we do not engage in ethical projects for the sake of publicity; instead we get active, because we want to have a good conscience<sup>25</sup>.

Hence, Migros gave the WWF the go-ahead to identify an independent assessor. With the help of WWF UK, a suitable assessor, the Oxford based NGO Proforest, could be gained as an assessor of the palm oil plantations. By July 2001, MIFA could order the first supplies of sustainable palm oil that had been assessed by Proforest.

### Communicating Migros' project

Migros followed three major approaches in communicating the palm oil project to the public. First, Migros granted the WWF and other NGOs to present its palm oil project as a role model for other businesses and to demonstrate its leadership role in the issue: On April 6<sup>th</sup>, 2001, the WWF informed Migros on the plan of three global NGOs (the WWF, Greenpeace, and "Friends of the Earth") to conduct a joint campaign on the deforestation of the rain forests.<sup>26</sup> One focus of that campaign was the role of palm oil in the "life cycle of deforestation". Two further foci were placed on the link between paper production and deforestation and the "role of the Swiss banks in financing the ongoing deforestation"<sup>27</sup>.

While some Swiss businesses were soon to find themselves the target of that campaign, the Migros project could be presented as a best-practice example. Thus, while the campaign raised the pressure on Migros' competitors, it increased the strategic value of Migros' new palm oil purchasing policy.

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<sup>25</sup> Interview with Fausta Borsani. February 18, 2005.

<sup>26</sup> Meeting protocol of Migros. April 6, 2001.

<sup>27</sup> Ibid.

From the start of the campaign of the three NGOs onwards, Migros' palm oil project gained widespread acknowledgement. The praise that Migros earned for the project culminated in an award that the retailer received at the Johannesburg Summit of the United Nations in August 2002.

Backed by the public recognition that Migros now enjoyed for the palm oil project, Migros engaged in a second, more active approach to communicating the project: it reported about it in its own media.

To illustrate, in its annual report 2002, Migros published the account of a journey to the palm oil plantation in Ghana that was now supplying Migros. In the introductory paragraph of this account, the author first established the linkage between palm tree cultivation and the threat of deforestation in simple words cf. the right-hand side of Table 1. That article was structured in a similar manner as the Tages Anzeiger article from 1999; cf. the left-hand side of Table 1 and p.1.

<p>Tages Anzeiger article, 1999:</p> <p>The very same environmentally conscious citizens who demand an import boycott of tropic woods originating from an unsustainable production enjoy the rainforest for breakfast. They put it on their lips and use it for keeping their hands tender. ...</p>	<p>Migros annual report, 2002:</p> <p>We brush our teeth and the Orang-Utan dies. We enjoy an ice cream for dessert and the Sumatra-tiger is deprived of his habitat. We rub cream onto our skin and lead elephants and rhinoceros to misery....</p>
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**Table 1: A comparison of two texts<sup>28, 29</sup>**

In the following paragraphs, however, Migros' annual report did not only amplify the demands that the Tages Anzeiger article had raised. Migros also changed the nature of these demands since it added in its annual report how vital palm oil was for the entire consumer goods industry. Further articles in the "Migrosmagazin" also underlined that a sustainable purchasing of palm oil was morally desirable while a boycott of palm oil could not be a solution. Hence, one article in the Migrosmagazin cited workers on a plantation that supplies Migros as saying "without the palm oil plantation we would starve<sup>30</sup>".

Despite the campaign of the three global NGOs and the articles in Migros' own media, Fausta Borsani was well aware that any reputational advantage of Migros could only be short-lived as "people easily forget"<sup>31</sup>.

Thus, it was agreed that a national poster campaign would follow. That poster Migros

<sup>28</sup> Left-hand side of the table: Bänziger A. 1999. Statt Tropenholz liefert Borneo Margarine. Tages Anzeiger. November 22.

<sup>29</sup> Right -hand side of the table: Migros Jahresbericht 2002: 118.

<sup>30</sup> Migros Brückenbauer 2002. January 21: 35.

<sup>31</sup> Interview with Fausta Borsani. February 18, 2005.

represented Migros' third major approach in communicating the project.



Figure 1: Palm oil purchasing is a problem, Migros is working on a solution<sup>32</sup>.

The poster was designed to educate the public. It showed a picture of a cake in front of a rain forest. A large writing on the cake said: “why your dessert protects the rain forest”. The text underneath explained that palm oil production presented a threat to the rain forest and that Migros’ food production did not foster this problem. Dr. Robert Keller says that it was also essential to mention the collaboration with the WWF on the posters:

Being seen as the partner of the WWF is worth gold if you are talking about the credibility of such a project.<sup>33</sup>

In its closing lines, the text on the poster also communicated Migros’ next steps in the project: it informed the consumers that Migros had set up a “Roundtable on Sustainable Palm Oil” in order to raise the volume of sustainable palm oil production.

### Developing a global standard

With the approaches described above, Migros was acknowledged as the pioneer in purchasing sustainable palm oil. Following the award by the UN and the above project communication, efforts now began to focus on gaining the support of further industry partners. Migros sought to develop an industry standard that would be globally applicable. As Fausta Borsani put it:

Ten years from now, a sustainable production of palm oil should be business as usual.

We want to achieve a worldwide change of the palm oil production.<sup>34</sup>

Migros investigated several opportunities for letting sustainable palm oil become

<sup>32</sup> Cf. Exhibit 7 for a larger picture of the poster.

<sup>33</sup> Studer R. 2003. Interview with Robert Keller. Nachhaltigkeitsmarketing am Beispiel Palmöl. University of St.Gallen.

<sup>34</sup> Interview with Fausta Borsani. February 18, 2005.

“business as usual”. In early 2003, Willi Isele, Migros’ purchasing manager for palm oil, began to contact Swiss food manufacturers in order to discuss joint palm oil supplies. Furthermore, he and Dr. Robert Keller contacted Swiss industry organizations in order to suggest that their members jointly purchase sustainable palm oil, too<sup>35</sup>. On an international scale, Migros ensured that the sustainability of palm oil was put on the agenda of businesses and federations. Today, Migros is still “striving to win over other processors or producers of palm oil within the Food Business Forum, an independent global food business network, whose current chairman is Claude Hanser, the President of the Migros Board of Management.”<sup>36</sup>

However, Migros’ key strategy for developing an industry standard for sustainable palm oil remains the “Round Table on Sustainable Palm Oil” (RSPO).

### **Development of the Round Table on Sustainable Palm Oil (RSPO)**

In the summer of 2002, the WWF and Migros began preparations for an international roundtable of organizations interested in developing an industry standard. While both Migros and the WWF approached potential partners on an individual base as well as on conferences, care was taken not to let the preparatory roundtable appear as an event staged by Migros and the WWF. Instead, the round table was set up by an independent consultant, Reinier de Man, who also succeeded in gaining the support of Unilever, a major trader (Cargill) and a bank (Rabobank). These “new players” held joint meetings with WWF Switzerland, ProForest and Migros in September and December 2002. On these occasions, the logos of WWF and Migros did not appear prominently. The two organizations did not suggest that they had already developed the one standard that all other companies should now adopt, too. Instead, Migros simply presented its palm oil project, its standards, and the experiences it had gained to date<sup>37</sup>. Following the proposal of Reinier de Man, the participants of the preparatory round table agreed that the first meeting of an international round table should take place in August 2003. That round table was also to include governmental bodies, palm oil producers and traders, as well as further NGOs, retailers, manufacturers. Two working groups were set up for the preparation of this round table. In both working groups, Dr. Ruth Nussbaum from ProForest took on the role of an expert advisor<sup>38</sup>. An organizing committee was set up to supervise the work of the round table. Fausta Borsani of Migros was elected as its treasurer.

In the following months, the parties succeeded in inviting participants from several dozens organizations to the meetings of the RSPO. Each member of the round table

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<sup>35</sup> Meeting protocol of Migros. February 6, 2003.

<sup>36</sup> RSPO Annual Announcement of Progress, April 5, 2005, [www.sustainable-palmoil.org](http://www.sustainable-palmoil.org).

<sup>37</sup> Meeting protocol of RSPO, September 20<sup>th</sup>, 2002, [www.sustainable-palmoil.org](http://www.sustainable-palmoil.org).

<sup>38</sup> Meeting protocol of RSPO. December 17, 2002, [www.sustainable-palmoil.org](http://www.sustainable-palmoil.org).

supported these multiplication efforts<sup>39</sup>. Hence, Migros agreed to contact banks in Switzerland as the retailer enjoyed good relations with them<sup>40</sup>.

On the first meeting of the RSPO in Kuala Lumpur on August 21-22, 2003, a letter of intent was signed by the representatives of numerous stakeholder groups.

Fausta Borsani recalls how she was struck by the reputation that Migros enjoys. When she first met “new” participants of the RSPO in Kuala Lumpur, people typically did not have a precise idea of where Switzerland was on the globe; “Migros” and “Migros criteria”, however, were notions that were familiar to them<sup>41</sup>.

Fausta Borsani thought it very helpful that Migros had already gained experience in purchasing sustainable palm oil when engaging in talks with other businesses at the RSPO. Due to Migros’ experiences, she was in a position to tell other managers that

[products manufactured with sustainable palm oil] are in our stores, now. We are not talking about possibilities but reality instead.

In general, I think it is *very* important to demonstrate the feasibility of our propositions. You cannot keep talks [of the round table] on an abstract level. You need to demonstrate that [your propositions] can be realized.<sup>42</sup> (Emphasis in original)

Still, Fausta Borsani underlines that the work of the RSPO is based on consensus. All participants have to agree on the wordings of the criteria and any comment needs to be considered<sup>43</sup>. Indeed, the comments concerning a first draft of the criteria for sustainable palm oil production have been numerous to date, thus hinting to the acceptance of the RSPO as a legitimate institution. In January 2005, the participants of the RSPO posted a first draft of the criteria on the webpage of the Round Table. Over 800 comments regarding this draft were received throughout the following weeks. The participants of the Round Table considered each of these in turn, deciding either to ignore the comment or to change the draft accordingly.

Throughout 2005, hundreds of comments regarding the draft of the criteria have been considered. On November 23<sup>rd</sup>, 2005, the members of the Roundtable on Sustainable Palm Oil “adopted the Principles and Criteria for Sustainable Palm Oil Production with an overwhelming majority”<sup>44</sup>. The final version of the RSPO criteria has maintained a similarity to those criteria that WWF Switzerland, Migros and ProForest had already developed. As Fausta Borsani points out:

[The RSPO standard] is something like a development of the Migros standard. Migros standards are at the basis of all of this.<sup>45</sup>

<sup>39</sup> By May 2005, RSPO comprised 59 ordinary members and 20 affiliate members.

<sup>40</sup> Meeting protocol of the Round Table on Sustainable Palm Oil. January 19, 2004, [www.sustainable-palmoil.org](http://www.sustainable-palmoil.org).

<sup>41</sup> Interview with Fausta Borsani, February 18, 2005.

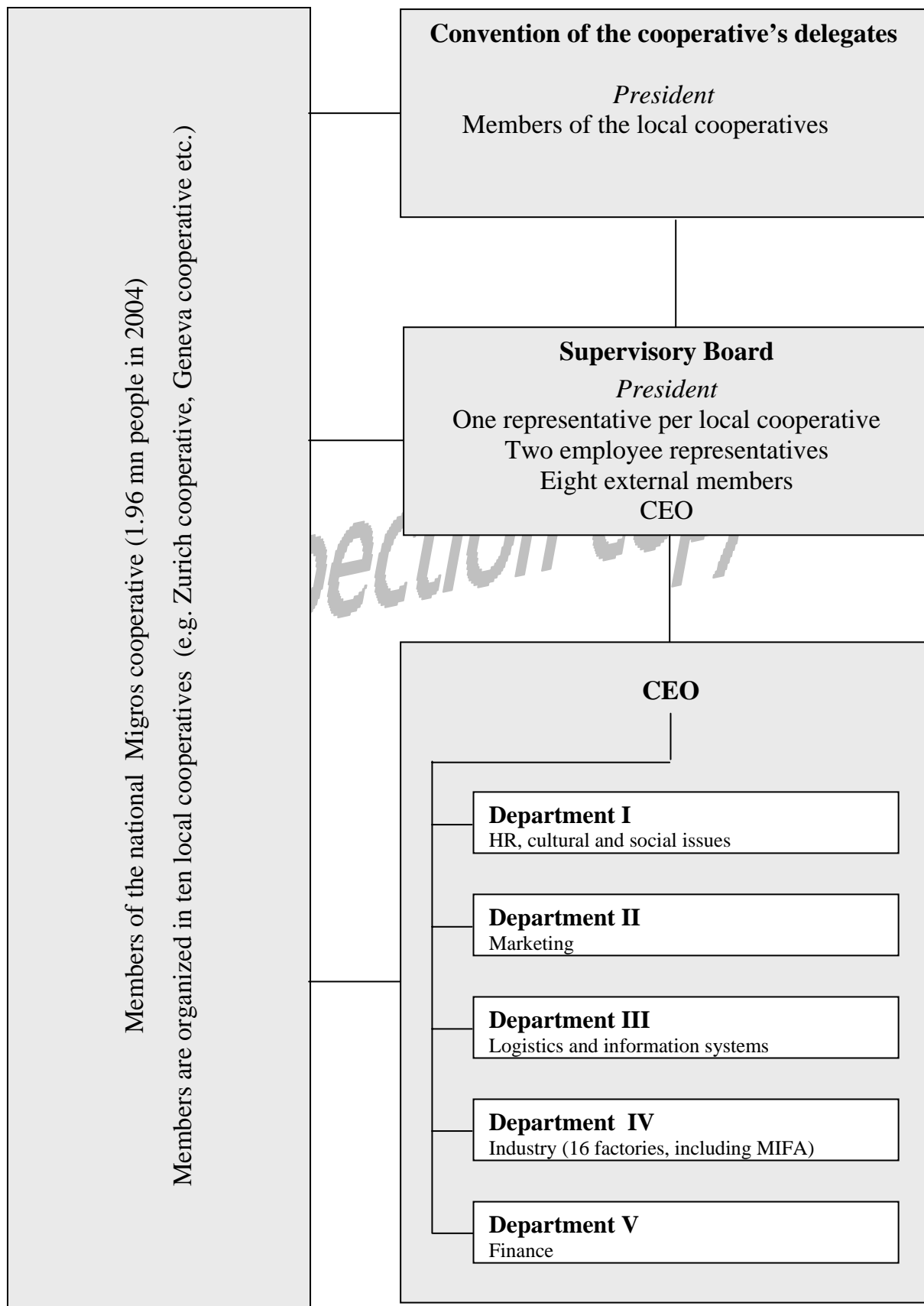
<sup>42</sup> Interview with Fausta Borsani, February 18, 2005.

<sup>43</sup> Ibid.

<sup>44</sup> Press release of the Round Table on Sustainable Palm Oil, November 23, 2005.

<sup>45</sup> Interview with Fausta Borsani. February 18, 2005.

## Exhibit 1: Structure of Migros



## Exhibit 2: Migros M

The orange M of Migros. The painting below (oil on canvas) is titled “M”. In this artwork, on display in the Migrosmuseum Zurich since 1986, the Swiss artist Jean-Frédéric Schnyder has embedded the retailer’s logo on a green background.

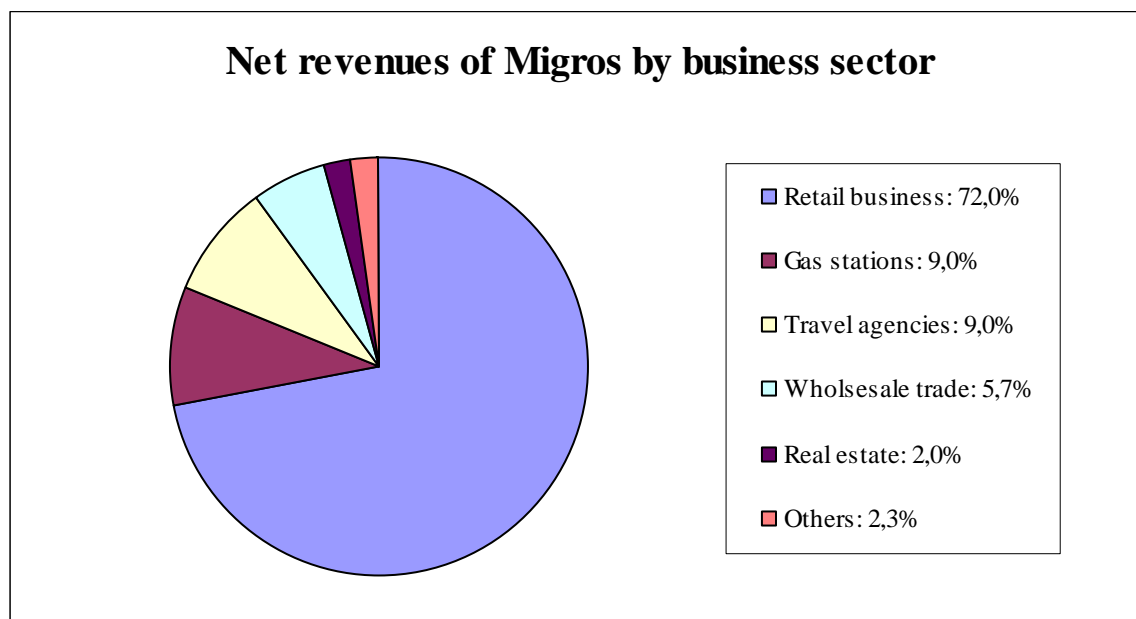


Source: Migrosmuseum, Zurich

## Exhibit 3: Migros Key Figures 2003

Figures in Swiss Francs (millions)

Revenues	20 013
Revenues (Retailing)	14 298
EBITDA	1 290
EBIT	484
Earnings	372
Cashflow	1 005
Free Cashflow	-162
Investments	1 319
Total Assets	16 588
Equity Capital	8 394
Employees	81 600



Sources: Migros Annual Report 2004

## Exhibit 4: MIFA Key Figures 2003

CHF = Swiss Francs

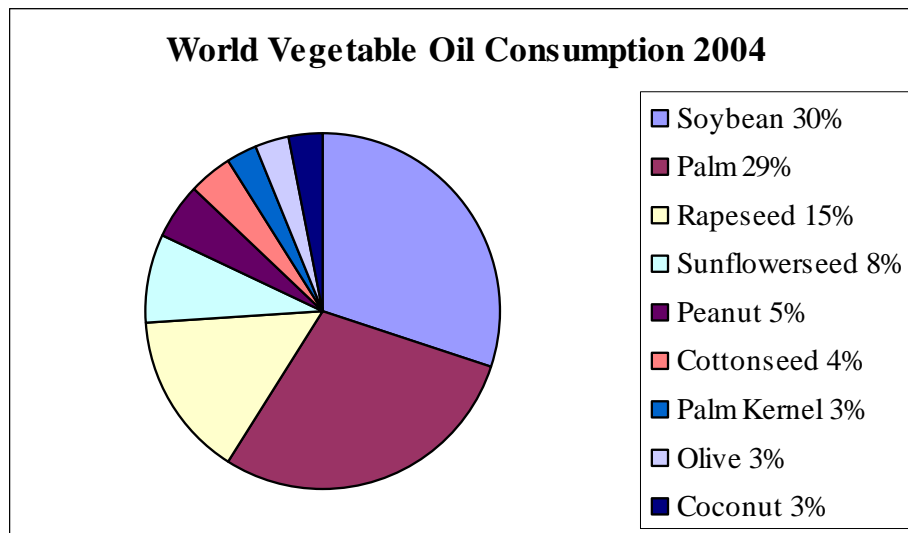
Net Revenues (mn CHF)	167
- thereof Migros outlets (mn CHF)	143
- thereof national customers (mn CHF)	1.8
- thereof export (mn CHF)	22.1
Assortment (products)	272
Number of innovations (products)	108
Employees	315

Source: Migros Annual Report 2004

*Inspection copy*

## Exhibit 5: Relevance of Palm Oil

Worldwide, palm oil is the second most important vegetable oil. Taken together, palm oil and palm kernel oil (both gained from the same plant) are even more important for the consumer goods industry than soybean oil.



Source: Palm World Annual 2004

## Exhibit 6: Sustainability of Palm Oil Production

RHV Corley, a consultant in plantation crops, characterizes the importance of palm oil in sustainable development as follows<sup>46</sup>:

In recent years various pressure groups have targeted the palm oil industry as responsible for a major part of the destruction of tropical forests. For example, the WWF recently stated on its web-site that “WWF research shows that together with illegal logging, forest conversion to palm oil is now the major threat to tropical rainforests in Indonesia”. Such claims do not stand up to rational scrutiny, though.

- In 1993, FAO estimated that 1.2 Mha of forest was being cleared annually in Indonesia; at that time, the oil palm area was expanding by less than 100 000 ha/year.
- Over the last twenty years, the oil palm area has increased by about 2.5 Mha, equivalent to about 2% of the total forest area in Indonesia (based on the National Forest Inventory, 1996).

It is clear from these figures that palm oil cannot be classed as a “major threat” to the Indonesian forest. It has been postulated that the demand for palm oil would double by 2020. If yields remain the same, this would require the present global area under palm oil of 6.5 Mha to be doubled. This possible expansion amounts to less than 3% of the expected forest loss. [...]

It is important not to lose sight of the fact that a perennial crop such as the oil palm can play a key role in sustainable development in many parts of the tropics. Because it is highly productive, oil palm can provide a family with a decent living from a smaller area of land than most other crops. [In Indonesia, it has been found that subsistence cultivation requires] about 37 ha per household of agricultural land and managed forest. [...] By contrast, an oil plantation employs about one worker per 8 ha, so 8 ha of intensively managed oil palms will comfortably support the worker and his family (and make a profit for his employer).

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<sup>46</sup> Corley R 2003. Oil palm: a major tropical crop. Burotrop. February.

## Exhibit 7: The Swiss Poster Campaign on Migros' Palm oil Project



## “Why your dessert protects the rain forest”

The text underneath the cake pictured on this poster is the following:

**We acknowledge that the link between a sweat cake and the rain forest may not be evident at first sight. But:** palm oil is an important raw material for the food industry. Unfortunately, a lot of rain forest is being cleared for the production of palm oil in order to make space for palm tree plantations. The damage to the environment is enormous. Therefore, Migros has approached the WWF and has set up criteria for sustainable palm oil production. Today, Migros processes oil from plantations that are dedicated to protect the rain forest, the animals, and the plants. For this pioneering

effort, Migros has been awarded with a price for sustainable development at the UNO conference on the environment in Johannesburg in 2002. Jointly with the WWF and other important actors of the palm oil industry, Migros has set up a Roundtable on Sustainable Palm Oil in order to continuously raise the production of sustainable palm oil and to protect the rain forest. Ain't it good to know you can do something for the rain forest while enjoying your dessert?

*Inspection copy*

## Exhibit 8: RSPO Members

The exhibit shows some of the 68 members of the Roundtable on Sustainable Palm Oil. RSPO is further supported by social advocacy NGOs such as Oxfam as well as NGOs advocating ecological issues, e.g. WWF.



### Roundtable on Sustainable Palm Oil

- Migros
- Cadbury Schweppes
- Ferrero
- Unilever
- Danisco
- Nutriswiss
- Fuji Oil
- The Body Shop
- Rabobank

*Inspection copy*

## Exhibit 9: Coop Switzerland



With revenues of 14 bn Swiss Francs in 2004, Coop Switzerland is the second largest retailer in Switzerland. In 2004, the retailer generated a Cashflow (EBITDA) of 1.17 bn Swiss Francs and earnings of 300 mn Swiss Francs. Of the retailer's total revenues, 69% are generated in the traditional retail segment. The other revenues are generated by Coop's DIY outlets, petrol stations and a chain offering consumer electronics. In total, the retailer employs 47.000 people.

Like Migros, Coop is structured as a cooperative. It publishes a weekly journal, Coop Zeitung, which is distributed to the 2.3 million members of the cooperative. In the governing structure of Coop, the members of the cooperative are represented in the convention of the cooperative's delegates. This convention complements the supervisory board and the board (as shown in exhibit 1).

While Migros focuses on selling private label products, Coop offers a larger variety of branded products. On average, the branded products of Coop are 15% more expensive than the private label products of Migros. Unlike Migros, Coop offers alcoholic beverages and cigarettes, two product groups that Migros traditionally does not sell. Coop prides itself with being a leader in the management of ecological and social issues, too. For example, throughout 2004, Coop only offered Fair Trade bananas in its stores. Migros, however, continued to offer both Fair Trade bananas as well as bananas made by mainstream producers.