



SUSTAINABLE PALM OIL

& RESPONSIBLE INVESTMENT



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PALM OIL: STILL A HIGH RISK INDUSTRY?

The palm oil industry is closely tied to our food system and contributes to feeding the world's population. While some palm oil companies' operations have been associated with significant environmental damage and human rights abuses, oil palm cultivation is an important contributor to many national economies. Palm oil producers are well-placed to provide fair employment, infrastructure, healthcare or education opportunities to their extensive workforces and their families, and some industry leaders have started paving the way.

But even as an increasing number of companies, buyers and investors have adopted more stringent sustainability policies, implementation is still slow and palm oil remains a high risk industry with ongoing and emerging scandals. Haze episodes cause thousands of premature human deaths (an estimated 100,000 fatalities in the course of the 2015 crisis). Tropical deforestation accounts for an estimated 10% of total global warming emissions, limiting progress

towards the Paris Agreement target to keep the global temperature rise to 1.5 °C. Addressing environmental, social and governance (ESG) risks in the palm oil sector is therefore an urgent and critical concern.

It is now time to engage with palm oil companies who are lagging behind and to raise the bar for the industry as a whole.

'The push for more transparency and corporate disclosure is no longer the sole concern of environmental and social NGOs. Investors have become more aware of the financial, operational, environmental and social risks posed by non-financial issues in palm oil production. This makes investors a driving force in bringing the laggards up to speed'

Joyce Lam
SPOTT Manager
Zoological Society of London

At the height of the fire season in September 2015, the Indonesian Environment Ministry investigated over 270 companies, of which 23 were struck with administrative sanctions and license revocations.¹ While more companies awaited sanctions, the Ministry also arrested seven senior corporate executives.²

THE INVESTMENT CASE

Palm oil has been considered a high risk commodity for over a decade. Illegal and environmentally damaging deforestation, land conflicts and human rights abuses by palm oil companies have been the targets of intense NGO campaigns and media attention. Such campaigns have led to reputational damage, as well as increased governmental scrutiny and regulatory pressure.

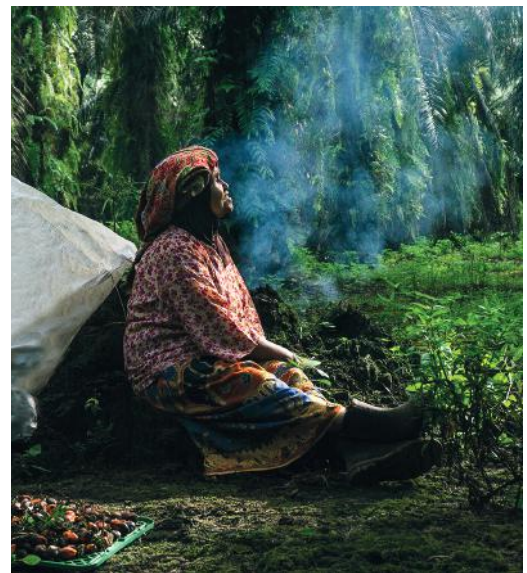
The resulting loss of social or legal licence to operate has ground activities to a complete halt in certain locations. In turn, this has translated into documented cases of companies losing clients, experiencing drops in share prices or

abandoning developments upon which future profits relied, at which point they are effectively considered 'stranded assets'.

Because of these risks, select investors exclude palm oil from their portfolios, while others resort to 'best in class' strategies. However, as some companies have been particularly responsive to the challenges brought up by NGOs, governments and investors, there is great opportunity for increased research and engagement to help companies adopt risk mitigation measures and for these leading companies to drive the sector forward to meet societal expectations.

'We elect directors to represent our interests and therefore have some influence over what they do in the name of shareholder value creation. As a consequence, we have a moral obligation to encourage and support generally accepted international standards of decency and responsible business conduct – wherever the businesses we own are operating.'

Steve Waygood
Chief Responsible
Investment Officer
Aviva Investors



THE ROLE OF CERTIFICATION

Given the high environmental and social risks posed by unsustainable practices in the palm oil industry, various voluntary certification standards and initiatives have been established to support more sustainable production.

The requirements of these schemes set out good practices in relation to sustainability. As practices are verified on the ground by third parties, these initiatives have become relied upon as proxies for the implementation of sustainability policies.

Certification has therefore been one of the main responses to address the negative impacts of the palm oil industry.

The Roundtable on Sustainable Palm Oil (RSPO) is one of the most widely used certification standards for palm oil. Many investors favour and encourage certification because it is currently the most comprehensive approach to address ESG issues in the sector. Nevertheless, some investors view the RSPO as a minimum requirement, and encourage palm oil companies to continuously improve their practices and to go beyond the RSPO.

WHAT CAN INVESTORS DO IN RELATION TO CERTIFICATION?

The ongoing improvement of standards can be supported by multiple stakeholder groups, including investors, to ensure that initiatives are robust and fit-for-purpose. For example, the RSPO benefits from the feedback of a Financial Institution Task Force (FITF) which includes 16 banking and investment organisations in its membership.

Long-term investors have a crucial role to play in the uptake of certification by companies by making certification part of their requirements and factoring it into their investment decisions. Many financial institutions already expect companies to reach 100% certification for their current and undeveloped landbank.

CHALLENGES OF CERTIFICATION

Although the legitimacy of certification schemes rests on the premise that practices are checked by third parties, schemes have been criticised for weak assessment, verification, auditing and oversight processes.³ While significant efforts by multiple stakeholders are being undertaken to improve the implementation of the initiatives' requirements, it is evident that certification schemes are not infallible. This is demonstrated by cases in which NGOs have called for the suspension of certificates or membership of companies in breach of standards. Many stakeholders are calling for increased stringency in palm oil certification standards and requirements, with some standards considered to be too weak. In certain contexts, there are contradictions between certification requirements and regulations. It is therefore important that companies continually engage with government agencies and civil society organisations on their certification requirements.

Holistic and effective implementation of standards requires significant buy-in and investment by companies, and the leaders in the sector are dedicating more resources and increasing their internal capacity to meet requirements. Certification can be costly and challenging for smallholders, and the supply of certified palm oil to buyers, while growing, is limited. Companies can finance and provide training to smallholders in their supply base to support the uptake of more sustainable practices and certification. Certain companies may be quite advanced in their journey towards certification and more sustainable practices, but may not yet be able to demonstrate this to their current or prospective investors.

With these issues in mind, long-term investors may wish to look for additional approaches for verification. It is therefore important that investors know the questions to ask companies, especially in the absence of certification.

PALM OIL SUSTAINABILITY INITIATIVES

The main international sustainability initiatives in the palm oil sector include:

- **The Roundtable on Sustainable Palm Oil (RSPO)**
- **The International Sustainability and Carbon Certification (ISCC)**
- **The Rainforest Alliance (RA) Sustainable Agriculture Standard (SAN)**
- **The Roundtable on Sustainable Biomaterials (RSB)**
- **Palm Oil Innovation Group (POIG)**

National standards:

- **Indonesian Sustainable Palm Oil (ISPO)**
- **Malaysian Sustainable Palm Oil (MSPO)**

In December 2015, Denmark, France, Germany, the Netherlands, Norway and the UK signed The Amsterdam Declaration in Support of a Fully Sustainable Palm Oil Supply Chain by 2020. This declaration, later endorsed by Italy, encourages all stakeholders to support the improvement and further development of sustainability standards towards sustainable palm oil production.

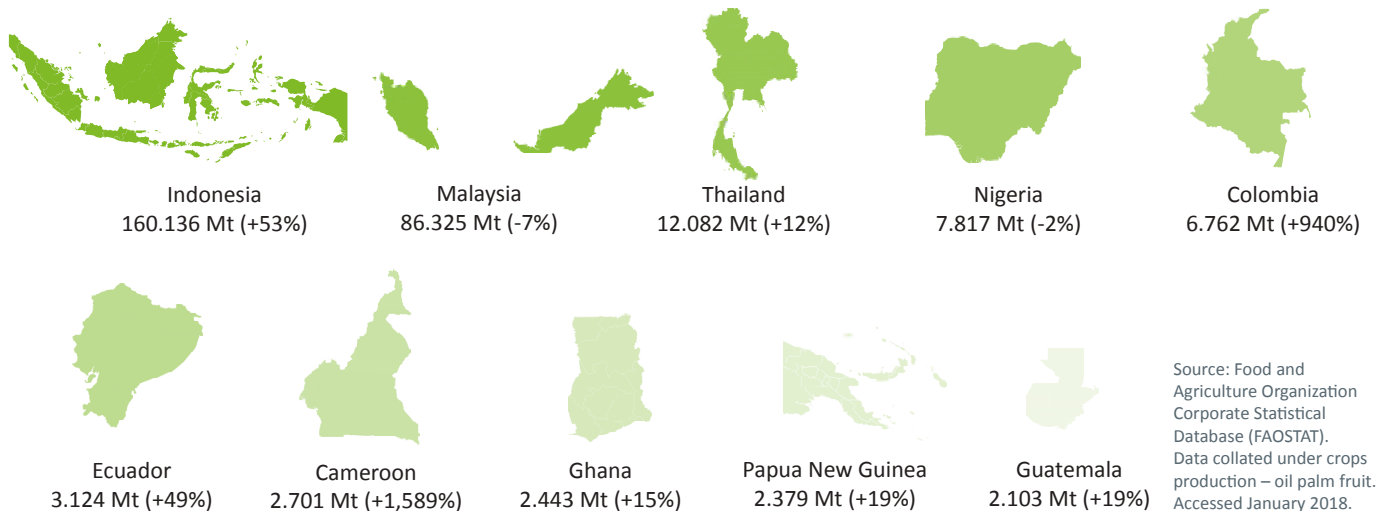


WHAT SHOULD LONG-TERM INVESTORS BE ASKING OF COMPANIES?

Due to the immense variety of products containing palm oil, from chocolate to cosmetics to animal feeds, supply chains are typically complex and involve many intermediaries. ESG issues which arise at plantation level follow the products all the way to the final customers, resulting in organisations calling for boycotts or brands specifically advertising that their products are palm oil free. This means that the risks associated with palm oil production are of concern not only to oil palm growers, but also to traders, intermediary and consumer-facing buyers, and their investors, no matter how far downstream in the supply chain they may be.

In this context, due diligence and engagement processes regarding palm oil production should not be limited to growers, but extend to traders and buyers.

GLOBAL TOP 10 OIL PALM FRUIT PRODUCING COUNTRIES IN METRIC MEGATONNES (2016), WITH PERCENTAGE CHANGE BETWEEN 2011 AND 2016



QUESTIONS FOR PALM OIL GROWERS, TRADERS & BUYERS

Whether a company has yet to initiate certification processes or whether it is already 100% certified, the questions below can guide ESG research and engagement processes with palm oil companies. These questions are intended to stimulate a high calibre discussion between investors and investee companies and include specific context for growers and for traders and buyers.

'Every engagement is different but one factor underpins all our engagement pertaining to palm oil: the use of the SPOTT assessment. We send a soft copy of the assessment to the investee companies ahead of the meeting with a note on why we value the SPOTT framework. This ensures we can use the time available efficiently to discuss the substance of the assessment alongside other lines of enquiry.'

Abigail Herron
Global Head of Responsible Investment
Aviva Investors

USING SPOTT TO INFORM ENGAGEMENT



SPOTT is a free, interactive website by the Zoological Society of London (ZSL) providing ESG data on commodity producers and traders, supporting financial and consumer goods sectors to monitor and manage the risks of commodity production. It provides company- and sector-specific data on the world's largest palm oil and timber, pulp and paper producers against over 100 ESG indicators on their operational disclosure and commitments to environmental and social best practice. ZSL conducts a thorough and independent review of publicly available reports and publications before contacting companies with their results. The repetition of assessments over time allows the assessed companies and their buyers, lenders or investors to be able to inform due diligence processes, track progress against their peers, or inform and identify priorities for engagement.

For more information, visit www.spott.org

DOES THE COMPANY HAVE A NO DEFORESTATION, NO PEAT, NO EXPLOITATION (NDPE) POLICY? IF NOT, WHY NOT?



For growers: An increasing number of oil palm growers have adopted No Deforestation, No Peat, No Exploitation (NDPE) policies to respond to a movement largely originated by NGOs, as well as buyers and investors who wanted to exclude unsustainable palm oil from their supply chains. NDPE policies can be considered as blanket commitments that seek to address some of the most pressing environmental, social and economic issues in the palm oil sector. Because companies who have adopted NDPE policies should cease operations or business relationships with growers that are found to cause deforestation, develop on peatlands and resort to exploitative practices, this commitment is only meaningful if applied across a company's entire supply chain.

For traders and buyers: Companies trading and purchasing palm oil (as well as their investors) rely on their upstream suppliers to abide by their NDPE policy when they have one. More importantly, by ensuring compliance with an NDPE policy, downstream stakeholders such as traders and buyers have a real opportunity to positively influence their supply chain and the sector as a whole.



HOW MUCH OF THE COMPANY'S OUTPUT OR SUPPLY IS CERTIFIED? IF NOT 100%, WHEN IS THE 100% TARGET SET FOR?

For growers: Palm oil certification (e.g. RSPO, ISCC, SAN, RSB) adds credibility to companies' sustainability claims and can provide assurance to buyers and investors that companies are mitigating and managing their environmental and social impacts. Certification also supports the traceability of materials, which can in turn help identify which products can be associated with sustainability claims and which cannot.

For traders and buyers: the degree of certification of a company's palm oil supply, and the certification model chosen, can indicate how far along it is in reducing its exposure to upstream ESG risks. However, different types of certification models offer different levels of protection against reputational risk, with identity preserved and segregated options being less exposed to upstream sustainability risks than the book and claim system. If the answer is not 100%, investors should enquire about time-bound plans to achieve this target, ask what sanctions have been applied to suppliers who are not able to comply, and check at a later stage in order to ensure the company continues to progress.

HOW MUCH OF THE COMPANY'S OUTPUT OR SUPPLY IS TRACEABLE? DOES THE COMPANY HAVE A TARGET FOR FULL TRACEABILITY?

For growers, traders and buyers: Traceability in itself does not equate to sustainability, but it is an important component in the implementation of sustainable sourcing commitments, as it links palm oil products to their producers (with potentially variable degrees of

sustainability commitments and risks) and, more importantly, to production on the ground. The palm oil supply chain is so complex that, without work to trace its origin, most companies do not have clarity on where their palm oil is sourced from. In addition, if a company cannot trace its products back to origin, the company cannot adequately assess potentially significant business risks. Oil palm producers should facilitate traceability, the verification of sustainability claims, and the fulfilment of commitments by increasing the transparency of their operations, including the location of their plantation and mill sites.

DOES THE COMPANY DISCLOSE ITS LANDBANK AND PUBLISH MAPS OF ITS CONCESSIONS?

For growers: Palm oil companies often operate across large areas of land and are entrusted to manage that land responsibly, yet analysis by ZSL⁴ shows that information on land holdings is not clearly reported by many companies. Mapping undertaken by companies can highlight potential overlaps or conflicts with other land uses, such as areas of high conservation value, protected areas and community lands. These potential overlaps should be taken into account if investors are to have a more representative perception of the risks associated with a company's land holdings and land use. The company could be holding land which may – or may not – be developed to full potential at a later stage, thus impacting a company's short- and long-term valuation and operations, and potentially leading to land assets becoming 'stranded'.

For traders and buyers: Traders and buyers should encourage suppliers to publish and regularly update their maps and details on their landbank to account for land use change.

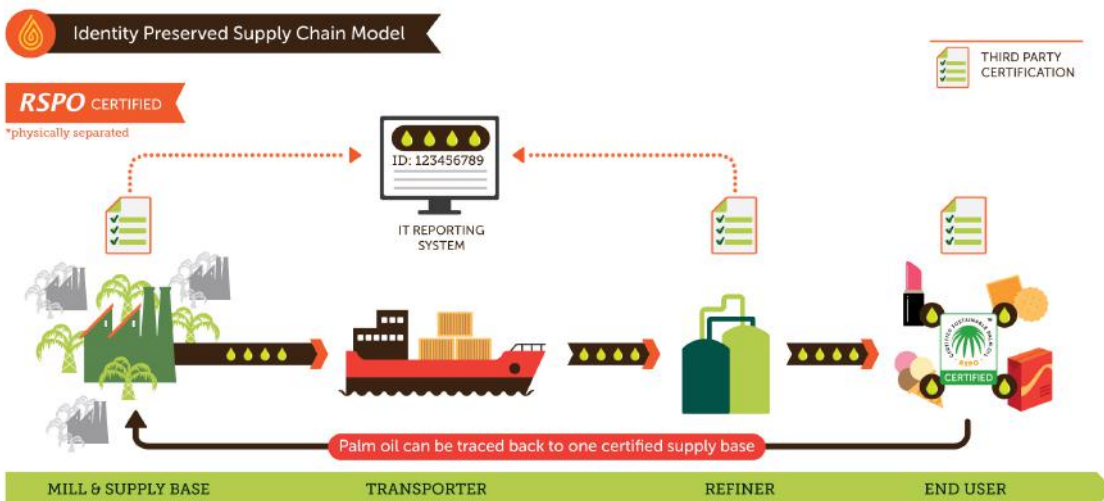
DOES THE COMPANY HAVE A COMMITMENT TO APPLYING FPIC PROCESSES?

For growers: Land is one the most important resources to a grower. Therefore, it is critical to ensure that there are no existing or potential conflicts regarding its use over the entire lifecycle of a plantation. In many countries where oil palm is grown, land ownership is often unclear. Many communities have customary rights but no recognised legal tenure. Communities using or occupying the land considered for development may rely on it for their most basic needs, including food, shelter, medicine and cultural heritage. As communities often lack legal titles to land, companies should engage with communities through free, prior and informed consent (FPIC) processes to identify customary rights holders and to prevent future claims which may delay or hinder a company's development plans or risk its social licence to operate in certain geographies altogether.

DOES THE COMPANY CONDUCT HCV, HCS AND IMPACT ASSESSMENTS PRIOR TO DEVELOPING NEW LAND?

For growers: High Conservation Value (HCV), High Carbon Stock (HCS) and social and environmental impact assessments (SEIA) all aim to identify the environmental and social values that are important and should be addressed and conserved prior to new development. As the palm oil industry often operates and continues to expand into highly biodiverse, carbon-rich landscapes that are critical for local and indigenous peoples, these assessments are instrumental to companies' due diligence processes. They also contribute to the implementation of commitments to no deforestation, greenhouse gas emissions

RSPO IDENTITY PRESERVED SUPPLY CHAIN CERTIFICATION MODEL



Source: Roundtable on Sustainable Palm Oil (RSPO). Available from rspo.org.



and local communities’ rights. Companies that fail to identify and protect high conservation values might violate local communities or indigenous peoples’ rights and risk exposure to legal challenges, reputational damage, or costly restoration and compensation measures.

For traders and buyers: Traders and buyers should commit to the HCS process as well as impact and HCV assessments being used in their supply chains.

DOES THE COMPANY’S SUSTAINABILITY POLICY APPLY TO ALL OF ITS SUPPLIERS?

For growers, traders and buyers:

Grower companies, traders and buyers should ensure that all of their suppliers within their extended supply chains meet their standards. Ensuring that all palm oil suppliers have sustainability policies in place is a critical first step in mitigating companies’ environmental and social impacts, and reducing their exposure to upstream sustainability risks. It is equally critical that the companies engage with their suppliers to ensure compliance.

HOW DOES THE COMPANY ENSURE THAT SUPPLIERS ARE COMPLYING WITH ITS SUSTAINABILITY POLICIES?

For growers, traders and buyers:

Supplier verification programmes, designed to check compliance with a company’s policies, help to ensure that suppliers, including indirect suppliers and

smallholders, mitigate their environmental and social impacts. Verification can be carried out through proactive engagement, when a supplier is first selected, when contracts are renewed, or through reactive engagement in response to allegations of misconduct. When engaging with companies, investors should ask whether the company has a transparent supplier verification process, or whether the company has a protocol for supplier non-compliance.⁵ A good starting point may be to ask a company to provide an example of how sanctions may apply to non-compliant suppliers.

DOES THE COMPANY MEASURE AND DISCLOSE INFORMATION ON ITS SUPPLIERS’ PERFORMANCE?

For growers: In addition to their own palm oil supply, some growers also source their palm oil from third party suppliers. If a grower sources a significant amount of palm oil from third party suppliers, they may have less control over how the palm oil plantations are managed, so it is particularly important to understand how much of the third party supply is in compliance with the grower’s policy. Investors can ask growers to disclose the percentage of their total palm oil supply from third parties, how much is already in compliance, and growers’ plans to ensure that the remaining supply will meet their sustainability commitments.

For traders and buyers: To drive improved verification measures, when engaging with companies, investors can ask whether traders and buyers disclose the percentage

of their palm oil supply that meets their sustainability policies. This creates shared responsibility across the supply chain, and incentivises support programmes for suppliers to meet companies’ sustainability commitments. The information on suppliers’ performance also provides an indication of whether the traders and buyers are on track to meeting their sustainability commitments, as they rely on their suppliers to fulfil them.

WHAT DOES THE COMPANY DO TO SUPPORT SMALLHOLDERS AND SUPPLIERS IN THE IMPLEMENTATION OF BEST PRACTICE?

For growers: Smallholders – defined by the RSPO as managing plantations of 50 hectares (ha) or less⁶ – account for a non-negligible 40% of the world’s palm oil production. Without adequate support programmes in place, smallholders may face risks such as price volatility, lower yields and crop disease, which can also ultimately impact companies’ sourcing. Additionally, providing support and training to a company’s smallholders may help companies ensure that the fresh fruit bunches (FFB) they source were produced in accordance with their policies.

DOES THE COMPANY HAVE A GRIEVANCE MECHANISM ACCESSIBLE TO A WIDE RANGE OF STAKEHOLDERS?

For growers: Palm oil companies rely heavily on the long-term development of valuable land, which risks being subjected to community claims, as well as a diverse workforce, whose concerns must be considered. As a result, a palm oil company needs a solid grievance mechanism, open and accessible to a wide range of stakeholders, including staff, suppliers, agents, contractors and neighbouring communities, with an option for anonymity. An effective grievance mechanism supports implementation of anti-corruption policies and enables early identification of risks from complaints that could be detrimental to shareowner value.

THE HIGH CONSERVATION VALUE (HCV) APPROACH

The HCV approach consists of identifying, managing and monitoring biological, ecological, social or cultural values of critical importance at the national, regional or global level. There are six types of HCV:

- HCV 1:** Concentrations of biological diversity.
- HCV 2:** Landscape-level ecosystems and mosaics.
- HCV 3:** Rare, threatened, or endangered ecosystems, habitats or refugia.
- HCV 4:** Basic ecosystem services.
- HCV 5:** Sites and resources fundamental for satisfying the basic necessities of local communities or indigenous peoples.
- HCV 6:** Values of national cultural, archaeological or historical significance.

For further information please visit www.hcvnetwork.org



CASE STUDIES

CASE STUDY ONE

THE FAR-REACHING ECONOMIC IMPACT OF THE 2015 HAZE CRISIS

The palm oil sector is infamously known for companies and smallholders resorting to slash-and-burn practices to clear forest for plantation development and replanting.⁷ Besides the significant impacts on biodiversity loss, emissions resulting from land clearance by burning are a major cause of air pollution. It is estimated that there were over 120,000 active fire alerts in Indonesia in 2015, compared to 80,000 in 2014.⁸ Fires have resulted in greenhouse gas (GHG) emissions of about 1.5 billion tonnes, so much so that, on several occasions during the 2015 haze season, Indonesia's daily emissions from fire exceeded the average daily emissions generated by the entire US economy.⁹ These fires resulted in various episodes of haze throughout the region, some of which were of extreme severity. The 2015 haze crisis resulted in an estimated 100,000 fatalities and thousands of premature deaths. Considering the negative effects on agriculture, forestry, trade, tourism and transportation, as well as the short-term effects of the haze, it was estimated that the forest fires of 2015 incurred costs approaching \$16bn to the Indonesian economy alone, equal to about 1.9% of its GDP.¹⁰

CASE STUDY TWO

NDPE COMPLIANCE AND CERTIFICATION: A MINIMUM ACCEPTABLE STANDARD

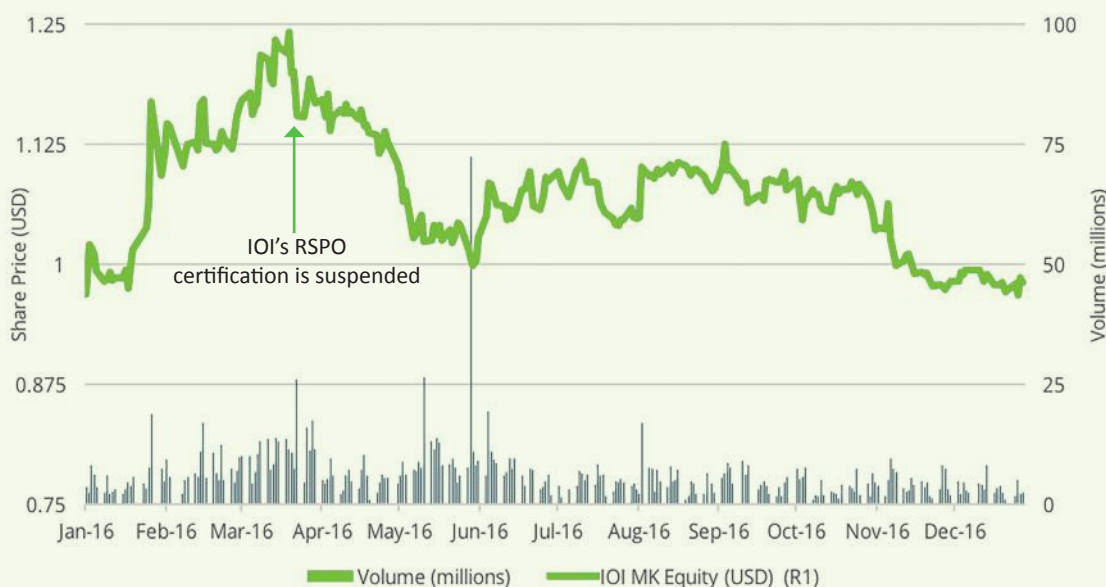
To address the negative impacts of palm oil production, various stakeholder groups have influenced market access to promote better practice:

- Faced with accusations of causing deforestation, contributing to climate change and creating harmful working and living conditions for local populations, many buyers and financial institutions have adopted No Deforestation, No Peat, No Exploitation (NDPE) policies. Under such policies, palm oil companies found to be non-compliant risk being excluded from NDPE supply chains.
- In April 2017, the European Parliament adopted a report calling on the Commission to phase out the use of palm oil driving deforestation by 2020 by adopting a single certification standard under which palm oil can be imported into the EU.¹¹ Under the EU Renewable Energy Directive (RED), only palm oil produced through the following voluntary schemes is considered to be compliant with the EU's biofuels sustainability criteria: RSPO (Roundtable on Sustainable Palm Oil) RED; ISCC (International Sustainability and

Carbon Certification); and RSB (Roundtable of Sustainable Biofuels) EU RED.

- Although the RSPO is a voluntary sustainability standard, in terms of market access, it is increasingly perceived as being a mandatory requirement. Suspension from RSPO certification and membership can send a clear signal to buyers and investors of significant non-compliance with the RSPO's requirements, which can result in supply chain exclusion and divestment. Recent cases of suspension from the RSPO have seen major financial and reputational losses to companies producing and trading palm oil such as IOI, whose share price fell by 17% (from MYR 5 in mid-March to close to MYR 4 in mid-May 2016) following the RSPO's decision to suspend the company's certification.¹²

IOI SHARE PRICE AND VOLUME (2016)



Source: Ceres and Climate Advisers. 2017. Engage the chain, Case study series: business risks from deforestation. IOI, p8.¹³



CASE STUDY THREE

IOI – GETTING AHEAD WITH DISCLOSURES

In 2016, following NGO complaints to the RSPO regarding land conflicts (2010), land clearing and development on peatlands (2015) by IOI subsidiaries, the RSPO found IOI group to be in breach of the RSPO Principles and Criteria and suspended its certification on 4 April 2016. This led major buyers such as Unilever, Mars, Kellogg’s and Procter & Gamble¹⁴ to suspend their contracts with the company, thus affecting its income and causing Moody’s to refer to IOI’s RSPO suspension to motivate a ‘negative’ outlook. According to a case study published by Ceres and Climate Advisors, IOI’s share price fell by 17% (from MYR 5 in mid-March to close to MYR 4 in mid-May 2016) following the suspension and the company underperformed in the FTSE Bursa Malaysia Asian Palm Oil Plantation Index MYR by 11.7% for the calendar year.¹⁵

IOI Corporation has now recovered and increased its SPOTT transparency score from 32.7% in June 2016 to 74.8% in November 2017. This was not only due to the reinstatement of its RSPO certificates in August 2016, but due to

further disclosures, namely through the publication of an updated group-level Sustainable Palm Oil Policy and a Sustainability Implementation Plan. The Sustainable Palm Oil Policy sets out the group’s commitment to achieve traceability across supply chains to mills and plantations and includes a 2020 time-bound plan. This commitment is valuable to IOI’s investors and stakeholders, as it obliges IOI to engage with its suppliers and apply its standards equally to all of them. This Sustainable Palm Oil Policy also sets out the group’s commitment to zero deforestation in, and protection of, HCV areas, High Carbon Stock (HCS) and peatlands, as well as commitments on human and labour rights. To take this further, IOI’s Sustainability Implementation Plan sets out clear timelines and milestones for the implementation of the aforementioned commitments.

While the financial impact of the suspension, which caused IOI to lose 27 clients at the height of the controversy still lingers,¹⁶ IOI’s continually improving transparency score on SPOTT indicates

that the company has opted to capitalize on further disclosure and accountability. While this does not guarantee immediate and fully compliant practice across the company’s extensive operations, IOI’s approach is conducive to dialogue and enables its stakeholders to hold them accountable to meet their commitments.

The importance of transparency and commitments in addressing ESG issues is highlighted by a note published on 8 May 2017 by credit rating agency Moody’s: *‘IOI’s increased transparency and commitment to sustainable palm oil production is credit positive and will strengthen the company’s existing off-take relationships within its specialty oils and fats downstream segment. (...) Compliance with RSPO principles and criteria is an important differentiating factor for palm-oil producers, providing a competitive advantage and profitability enhancement in the industry.’*¹⁷

For more case studies from Ceres and Climate Advisors, please visit: www.engagethechain.org.





CASE STUDY FOUR

GOVERNMENT PRESSURE: LEGAL ENFORCEMENT AND MORATORIA

The governments of palm oil producing countries have been responding to the environmental and social challenges posed by the development of the palm oil sector in several ways:

- Following the haze crisis of 2015, and in accordance with Indonesian legislation stipulating that companies are liable for fires occurring on their plantations, the Indonesian government took steps to hold companies suspected of illegal burning to account. If prosecuted and found guilty, companies in this situation may be liable to prohibitive fines. Examples of such interventions include PT Kalista Alam in the Aceh province which was fined 366 billion rupiah (US\$25.6 million)¹⁸ which, as of 2015, was the highest fine ever handed in relation to fires. That was, until an Indonesian court ruling handed Sampoerna Agro fines totalling 1.07 trillion rupiah (or more than US\$81 million dollars) in 2016.¹⁹
- As part of its 2020 strategy for reducing emissions, Indonesia put a moratorium in place prohibiting new oil palm plantation licenses in primary forests and peatlands. The moratorium, which was first decided in 2011 and was extended for the third time in May 2017, will run until May 2019. As other national governments may decide to follow suit to meet their own climate targets, it is important to consider how moratoria could impact the remainder of the companies that are yet to adopt no deforestation policies of their own accord.

A CALL TO ACTION

Considering the risks and challenges highlighted in this briefing, long-term investors should be mindful of how their exposure to palm oil investments might align with (or be in breach of) their own policies. Even though many investors, banks and other financiers have developed and adopted sector specific sustainability policies to address the risks associated with the palm oil industry, many are yet to follow, thus potentially creating 'leakage'. To create a level playing field for companies, investors therefore need to review and update their own requirements and engage with the companies which do not meet them. It is important that companies are asked to report on the issues presented in this briefing and that investors build these issues into their capital allocation due diligence frameworks, with time-bound plans for achieving progress, and scenarios to reassess the relationship if time-bound plans are not met (without adequate justification). Investors should also consider joining collaborative initiatives given the systemic nature of the problems inherent in palm oil production. Notable investor-led initiatives include the Principles for Responsible Investment's (PRI) Sustainable Palm Oil Investor Working Group, which calls on, and engages with, palm oil producers to make strong public commitments to cease deforestation, development on peatlands, and human rights violations.

Beyond their interactions with investees, investors can encourage their peers to join sustainability initiatives such as PRI and the UN Global Compact and adopt the Equator Principles and IFC Performance Standards. Finally, investors can also encourage policy makers, stock exchanges and governments to adopt and enforce more stringent sustainability and disclosure requirements.

ACRONYMS AND INITIALISMS

ESG	Environmental, social and governance	NDPE	No Deforestation, No Peat, No Exploitation
FFB	Fresh Fruit Bunches	NPP	New Planting Procedure (RSPO)
FITF	RSPO Financial Institutions Task Force	PRI	Principles for Responsible Investment
FPIC	Free, Prior, and Informed Consent	RED	Renewable Energy Directive
GHG	Greenhouse Gas	RSB	Roundtable on Sustainable Biomaterials
HCS	High Carbon Stock	RSPO	Roundtable for Sustainable Palm Oil
HCV	High Conservation Value	SAN	Sustainable Agriculture Network
ISCC	International Sustainability and Carbon Certification	SEIA	Social and Environmental Impact Assessment

ENDNOTES

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