

Dutch financial institutions support the transition to a sustainable palm oil industry

Palm oil is vital for economic development in various developing countries as approximately 40% of palm oil is produced by smallholder farmers next to large scale plantations¹. Especially the Indonesian and Malaysian economies have benefited significantly from the crop's production, and are now based in large part on exporting palm oil. In addition, with its high yield per hectare, palm oil is the cheapest source of vegetable oils and therefore an important food product for the low-income groups around the world. However, there are significant environmental and social issues when palm oil companies do not adhere to the highest standards. Ensuring sustainable cultivation requires investor engagement throughout the value chain, with clearly outlined expectations. AC-TIAM, NN Investment Partners (NN IP) and Robeco all invest in palm oil producing companies, commodity traders and consumer packaged goods companies using palm oil to produce food and household products.

Engagement vs divestment

As active asset managers, the undersigned investors focus on engagement with companies in the palm oil value chain to drive sustainability improvements. We conduct these dialogues both one-on-one with companies and in collaboration through the Principles for Responsible Investment (PRI) Sustainable Palm Oil working group. This group aims to collectively engage with all of the largest palm oil producing companies and has engaged with a large group of palm oil buyers in the past. The group represents 38 global investors with \$7.1 trillion assets under management. Engagement aims to make tangible improvements in environmental, social and governance (ESG) performance. By engaging in dialogue with companies facing sustainability risks, investors hold firms accountable for their social and environmental impact.

Relevance of palm oil globally

As thousands of consumer packaged goods sold in the supermarkets contain palm oil, it is the extensive palm oil value chain that ultimately drives demand for the commodity. It is evident that an undifferentiated divestment or exclusion approach neither contributes to much-needed sustainability improvements in the palm oil industry, nor does it recognize the nuances of varying practices and standards amongst companies in the same sector. Therefore our approach is focused on engagement that drives long term change in the palm oil industry.

Roundtable on Sustainable Palm Oil (RSPO)

We address these issues through an engagement program that considers the sustainability performance of individual companies at various stages of the palm oil supply chain and how they deal with the smallholder producers that sell palm oil to them for processing. We measure their performance against an objective set of expectations based on the standards of the Roundtable on Sustainable Palm Oil (RSPO) and on the development of No Deforestation, No Peat, No Exploitation policies by palm oil companies in the past five years. One of the sources we use is data collected by ZSL-SPOTT in their palm oil benchmark to assess progress of the companies in our investment portfolio. Established in 2004, the RSPO is a not-for-profit organization that aims to unite stakeholders from all sectors of the palm oil industry. The RSPO has established processes to develop, implement, verify, assure, and periodically review standards for the supply of sustainable palm oil. The RSPO has developed a set of environmental and social criteria companies must comply with in order to produce Certified Sustainable Palm Oil (CSPO). Many investors, including the undersigned, have engaged extensively with the RSPO to support the adoption of a revised set of principles and criteria in November 2018. This approach worked to achieve that previously identified gaps are resolved and that the principles and criteria now firmly integrated a key expectation

¹ http://daemeter.org/new/uploads/20160105233051.Smallholders_Book_050116_web.pdf



towards palm oil plantation owners – commitments to no deforestation, no development on peatland, and no exploitation of workers, also known as ‘NDPE’ policies.

As investors, we believe the principles and criteria are an important step forward in the pursuit of a sustainable palm oil industry. One of the issues we recognize, among others, is that there is room for improvement when it comes to transparency and commitment of RSPO companies that still source palm oil from non-RSPO members. Palm oil has a future as an effective oil crop with the highest yield per hectare compared to other edible oils, provided it is produced sustainably in terms of production practices, location and scale, and its area does not expand at the expense of high conservation value forests, peatlands and other natural habitats as also explained by International Union for Conservation of Nature (IUCN) in their latest report on the palm oil sector². We will therefore intensify and closely monitor our engagements with palm oil companies as well as the RSPO, with clear objectives to further increase the level of sustainability in the palm oil industry.

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² https://www.iucn.org/sites/dev/files/iucn_issues_brief_palm_oil_and_biodiversity.pdf