

## Investor Expectations on Sustainable Palm Oil

*The Investor Working Group on Sustainable Palm Oil (IWG) is a group of investment organisations<sup>1</sup> which are signatories of the United Nations-supported Principles for Responsible Investment (PRI) and who support the development of a sustainable palm oil industry. By 2014, 33 members of the Investor Working Group on Sustainable Palm Oil had signed a [position paper](#) highlighting their support for a sustainable palm oil industry. This investor expectation statement serves to update the previous position paper, outlining investors' expectations of companies operating across the palm oil value chain and restating investors' support for a sustainable palm oil industry. It has been signed and endorsed by 62 investment organisations representing approximately US \$7.9 trillion in assets under management.*

As investment organisations, we have a fiduciary duty to act in the best long-term interests of our beneficiaries and believe that environmental, social and governance (ESG) issues can affect the long-term financial performance of investee companies. We recognise the heightened yield and versatility that palm oil provides relative to its substitutes, as well as the contribution it makes to national development in the countries where it is grown. However, we are also concerned that the environmental and social issues associated with unsustainable palm oil production could have a material impact on companies across the palm oil value chain. It is to this end that we aim to support the continued growth of a sustainable palm oil industry.

The risks that companies associated with unsustainable palm oil face differ depending on their position in the value chain. Unsustainable palm oil production is associated with deforestation and land and labour rights issues, which we believe represent significant risks to our investee companies. Companies may be exposed to climate-related risks due to the association between unsustainable palm oil production and deforestation, a significant contributor to greenhouse gas emissions. Deforestation, as well as land and labour rights, can present significant reputational risks to investee companies, which can lead to a loss of their license to operate if not managed properly. Companies involved in unsustainable palm oil can also face market access risks by failing to meet the procurement contracts of their buyers. Finally, companies associated with unsustainable palm oil may face legal and regulatory risks which can manifest themselves through fines and penalties.

While there is no strict definition of what constitutes a sustainable palm oil industry, there are a number of significant industry initiatives that are helping to move the industry in a more sustainable direction. We support the Roundtable on Sustainable Palm Oil's (RSPO) role in promoting a more sustainable palm oil industry, and we encourage investee companies with material exposure to the industry to become members of the RSPO and apply the RSPO's Principles and Criteria. However, as a minimum first step, we expect companies across the palm oil value chain, including producers, refiners, traders, consumer goods manufacturers, retailers and banks, to adopt and implement a publicly available No Deforestation, No Peat and No Exploitation (NDPE) policy.

To help companies meet these NDPE commitments and mitigate the risks associated with unsustainable palm oil production, we expect companies to commit to full traceability of palm oil to the plantation level, and regularly report on progress and practices towards these commitments. In particular, we expect companies involved in the production of palm oil to map and disclose their palm oil concession areas. Finally, we strongly encourage these companies to make efficient

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<sup>1</sup> In this context, investment organisations refer to asset owners, investment managers and stewardship services providers.

investments to improve palm oil yield and productivity, in order to increase production and improve climate resilience without expanding production to new concession areas.

We expect companies' NDPE policies<sup>2</sup> to cover the following:

- 1) No deforestation
  - No conversion of High Conservation Value (HCV) areas;
  - No conversion of High Carbon Stock (HCS) forests;
  - No burning in the preparation of new plantings and re-plantings; and
  - A progressive reduction in greenhouse gas emissions associated with existing plantations.
  
- 2) No development on peat
  - No development on peat regardless of depth;
  - Implementation of RSPO Best Management Practices for existing plantations on peat; and
  - Where feasible, explore options for peat restoration.
  
- 3) No Exploitation of People and Local Communities
  - Respect and support the Universal Declaration of Human Rights;
  - Respect and uphold the rights of all workers including contract, temporary and migrant workers;
  - Facilitate the inclusion of smallholders into the supply chain;
  - Respect land tenure rights;
  - Respect Free Prior and Informed Consent (FPIC) of indigenous and local communities; and
  - Resolve all complaints and conflicts through an open, transparent and consultative process.

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<sup>2</sup> For producers, refiners and traders: A publicly available NDPE policy for all direct operations and all direct and third-party suppliers.

For downstream consumer goods manufacturers and retailers: A publicly available NDPE policy covering direct and indirect suppliers.

For banks: A publicly available NDPE policy to cover all financial services (including loans, credit and underwriting) provided to customers.

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