



European First Importer Survey

2018 Palm Oil Industry Scorecard

Public Version

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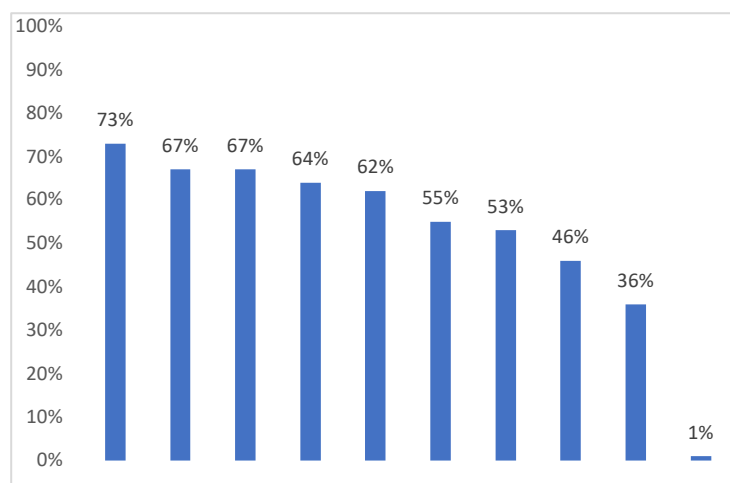
Executive Summary

In 2017 a group of European retailers came together to harmonise their efforts to understand, engage, and influence sustainable palm oil production in their supply chains. Over the past year the group has made great efforts to build upon the key findings from the last annual scorecard. In particular, it has evolved its methods and approach in critical ways to provide the foundation for further work and collaboration by:

- Expanding **the reach of the coalition** by removing 'retail' specific branding in the "Palm Oil Transparency Coalition" (POTC).
- Updating its terms of reference to include **requirements for reviewing practices** and reporting on actions taken.
- Developing prospective **NGO partnership opportunities** to add to the effectiveness of the consortium.
- Enabling two tiers of membership to be trialled to allow for **Affiliate member options** for those organisations that are not able to take action on the results in the same way others may be able to.
- Revising the 2018 scorecard criteria to reflect the developments and actions of producing companies in light of last year's findings.

The past year has been an eventful year for the palm oil sector. On the one hand, the moves by some companies to remove palm oil from their supply chain has increased the visibility of the impact of unsustainable palm production in the public mindset. On the other, the Roundtable on Sustainable Palm Oil (RSPO) took the landmark decision to adopt new principles and criteria that now include strengthened requirements for prohibiting deforestation. As RSPO remains the most viable mechanism for achieving chain of custody certification for sustainable palm oil, this achievement cannot be understated. However, with less than a quarter of palm oil currently RSPO certified, this improvement will not deliver a more sustainable industry on its own.

This report presents the key findings and conclusions from the 2018 'first importer' assessment of major suppliers of palm oil. As was the case in 2017, the ten companies assessed were selected on the basis of the highest volume suppliers to individual POTC members. Variability between importers remains significant in a 'like-for-like' comparison of responses.



Key highlights from the 2018 survey

- New exploitation policies and assessment methods are being developed and launched.
- Increasing disclosure of grievances in supply chains by importers, but many of these indicate the majority of grievances are being raised by international NGO investigations.
- Assessment of supplier conformance with importer and trader commitments is limited.
- Different approaches are adopted in ensuring compliance with zero deforestation commitments between internal and third-party suppliers.
- Acquisition and corporate ownership structures make single company assessments a challenge in determining improvement actions.
- Many producers/traders expect to miss their 2020 zero deforestation and exploitation targets.

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1. Introduction

The Palm Oil Transparency Coalition (POTC) is formed of companies working together to remove deforestation and exploitation from their palm oil supply chains in a non-competitive forum. In 2017 we launched our first collective assessment process with 3Keel to understand how the palm oil producers and traders in our supply chains are progressing and moving towards zero deforestation and exploitation oil palm production. Our initial assessment concluded that there were varying levels of performance amongst the importers assessed, however the policies of the companies were largely consistent with the definition of zero deforestation as agreed by the Consumer Goods Forum.

In 2018 the assessment was repeated following the similar method and approach as the first year. As a learning collective body, the questionnaire was revised according to critical areas of difference and highlights from the last report. These changes included the following areas in each of the four assessment areas:

- **Ambition** – Importer commitments and targets to sourcing and supplying certified responsibly sourced palm oil to Europe and the world.
 - Understanding of due diligence processes *prior* to contracts being issued
 - Non-deforestation environmental responsibility (e.g. pesticide use)
 - Surrounding community support
 - Public disclosure of palm supply chain
- **Targets** – Plans and timelines to achieve the specific commitments importers have set for themselves and the governance structure supporting their implementation.
 - Smallholder support
- **Progress** – Performance to date in achieving and verifying that their policies are being implemented.
 - Environmental and social impact assessments on plantations
 - Worker ID access
 - Local language employment terms and conditions
 - Number of ethical audits undertaken
- **Verification** – Steps being taken to provide confidence in the progress reported by the business. This includes increasing transparency, traceability, and engaging third parties to validate that policies are aligned with practices on the ground.
 - Australia supply disclosure
 - Grievance processes and disclosure thereof in a public venue

Highlights from each importer are provided in **Appendix I** of the POTC member's report and full importer responses have been provided separately to each POTC member using their confidential bespoke scoring criteria.

2. Key Themes and Findings

There has been tangible progress from some of the importers and traders this year following on from the 2017 assessment. Although there is still much work to go to move from 'clean supply chains' within Europe, to 'clean suppliers' that are seeking to improve the sustainability of the sector at large, the developments underway are welcome improvements.

Exploitation is beginning to be more actively managed.

Several companies provided tangible evidence that they are seeking to proactively engage in ensuring plantation workers are protected from exploitation. These efforts are mostly embryonic at this stage with three of the ten importers identifying specific programmes that are in the process of being implemented. Although most importers were able to identify instances of ethical reviews that took place in their supply base, these were often subsequent to *environmental* risks being identified. The new approaches being adopted by some importers are moving these reviews to separate assessments that will sit alongside other supplier risk assessments.

Third-party supply chains are not risk free.

A common theme amongst importers was the degree to which third party supply chains are monitored for compliance with their corporate policies and commitments. Although every company stated that the policies they have are applicable to all of their suppliers (e.g. as a code of conduct), few expected complete compliance with the policies or had sunset dates for zero tolerance for deviations thereof. Importers and traders therefore adopt a twin track approach to their policies: internal first tier producers which are required to comply, and third-party suppliers that are *asked* to comply. Almost all of the ten companies assessed had a minority part of their supply from their own plantations, so most of the supply through these companies is subject to a degree of risk. Without segregated or identity preserved RSPO certification, it is not possible to have a claim of being 'deforestation free'. This sentiment was shared by all importers and traders whereby none were able to provide assurance that their supply is, or will be in the near future, 100% deforestation free.

Company structures may mask organisational performance.

Some importers are captured in complicated ownership structures that make it difficult to identify, or exclude, material from some parts of the business reaching others. Two of the importers assessed present this challenge quite clearly in that they have potentially large proportions of their supply into Europe through low deforestation risk sources whilst at the same time being part of larger organisations where these practices and approaches are not widely adopted. Excluding the less risky aspects of their supply would be very difficult whilst at the same time undermining the good practices some parts of their business are doing. In terms of a scorecard, one must be careful in interpreting positive or negative performance for companies as a whole when the specific supply chain being considered may not be representative of the importer as a whole, negatively or positively.

Visible, but poor, performance

Increasing transparency for some of the importers has shown low levels of progress in achieving the ambitions set out in their policies. Those companies that have had the most mature discussions on their progress have had quite candid views of what the challenges are and how they are trying to unblock them. The challenges raised by the transparent companies, such as how third-party producers and traded volumes are covered by importer policies, are shared by other companies that are not as transparent when pressed as to how they are addressing these same challenges. Those that have not volunteered their approaches have not provided any information on the breadth and depth of these challenges in their specific supply chains, but they have acknowledged their presence within the supply chain.

3. Approach

The 2018 scorecard sought to improve the quality and rate of responses of importers by adopting an approach that minimised the time and effort for retailers and importers to engage in the assessment process. This approach is summarised in the seven steps below:



The overall approach is unchanged from 2017.

Step 1: Importer Identification

The top ten importers were originally identified by the POTC through a process of determining the top ten by volume from each of the original POTC members.

Table 1: Top 10 first importers across POTC members

	Number of companies									
	1	2	3	4	5	6	7	8	9	10
Grower										
Refiner										
Trader										
Ingredient Manufacturer										

Step 2: Questionnaire

The 2018 questionnaire built upon the findings of the 2017 review to identify emerging areas of risk and action. The following key changes were made:

Questions removed

- **Definition of zero deforestation** All importers and traders had harmonised definitions following the 2017 review. Instead of a detailed review of the various components that make up this definition, this section was changed to a single question concerning whether any definitional changes had been adopted between 2017 and 2018.
- **Supply tonnages** Very few importers and traders were able to provide specific tonnage responses regarding the volume of palm oil that is RSPO certified in each of their supply markets citing commercial confidentiality. This question was therefore changed to reflect the percentage of their total supply that is RSPO certified in each market which would not be subject to the same commercial concerns.

Additional questions

- **Governance** matters regarding environmental and social due diligence prior to new supplier contracts being issued and grievance processes in place for the communities and stakeholders in plantation regions.
- **Transparency** regarding the number of ethical audits undertaken by importers and expanding regional disclosure to Australia.

- **Environmental impact** associated with pesticides use and more broadly considering impact assessments for plantations.
- **Labour** Worker protections in place for things such as being able to access their identification documents and having these protections communicated in local language terms and conditions for employment.
- **Community** support for areas surrounding plantations.

Step 3: Research

Once the questions were agreed, 3Keel completed a desk-based review of publicly available information on each of the ten importers across four primary sources: (1) corporate reports; (2) company websites; (3) NGO and industry reports; and (4) Google key word searches. This review facilitated the pre-population of the importer questionnaire with expected responses given the availability of information. Evidence and/or justifications for any pre-populated responses were provided within the questionnaire for the importer to review and revise as appropriate.

Step 4: Importer Review

Each importer was given approximately 4 weeks to review, and add to, the pre-populated questionnaire with further information and evidence regarding their practices and progress towards achieving zero deforestation and exploitation commitments. During this time importers were encouraged to discuss the content, questions, or process with 3Keel prior to their submission.

Eight of the ten importers responded to the request for further information and/or reviewed the preliminary responses pre-populated in the questionnaire by 3Keel. The two companies that did not review their information were the same two new importers included for the first time in this assessment.

Step 5: Engagement

Following the review and submission of the final questionnaire responses by the importer, a direct face-to-face or teleconference was scheduled between the importer, a representative POTC member, and 3Keel. The purpose of these meetings was primarily to open a new channel for dialogue and engagement between the POTC and importers whilst seeking clarification and feedback on the primary areas of interest identified by 3Keel based on the questionnaire.

Step 6: Scorecard

Responses to the questionnaire were adjusted following importer engagements to reflect any changes or updates required considering new, or lack of, evidence supporting a relevant area. All data was then inserted into POTC member-specific scorecards that provide a performance review based on the individual POTC member's expectations of palm importer progress towards their commitments. Each POTC member provides unique weighting and issue identification flags depending on what is important to their business. For example, one POTC member may wish to flag wherever an importer has received an RSPO complaint against it whereas for another monitoring the RSPO status of its suppliers may not be a priority.

The scorecard works by classifying questions and responses in accordance with POTC member expectations:

Table 2: POTC member-specific scorecard variables

Question Rating	Scoring Implication	Response Classification	Scoring Implication
Critical	If response is below expectation , area is flagged as an issue to address. Performance indicator changed to red .	Below Expectation	Reduced company score.
Compliant	Company receives points relevant to the level of response provided.	Meets Expectation	Equivalent points provided to response value.
Preferred	Performance indicator for area changed to blue in summary tab if company is otherwise compliant with all retailer requirements.	Exceeds Expectation	

4. Survey Results: Ambition

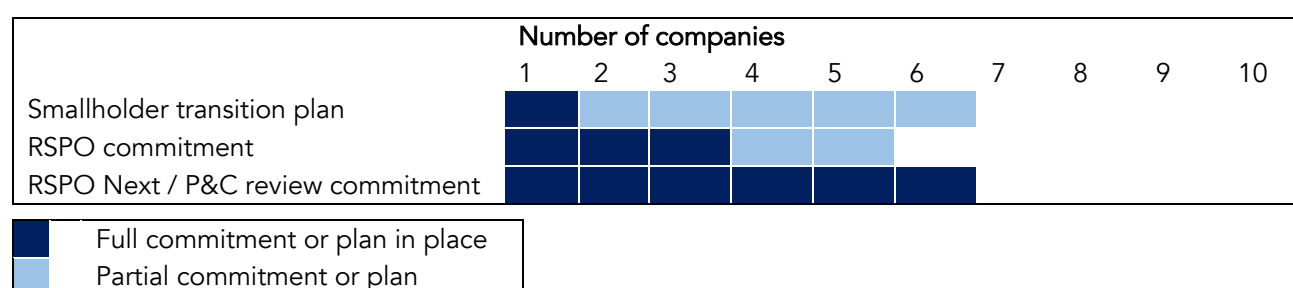
This section provides a review of how each company indicated its general ambition towards supporting zero deforestation and exploitation within the palm oil sector. Three areas are assessed:

- 1) **Certified Supply** – Commitments to source palm oil from sources that have achieved independent certification to RSPO and RSPO Next requirements.
- 2) **Environment** – Commitments align with recognised expectations for achieving zero deforestation and minimal negative impact.
- 3) **Exploitation** – Commitments to ensure plantations and supply chains operate fairly with workers and communities in accordance with international labour standards.

Certified Supply

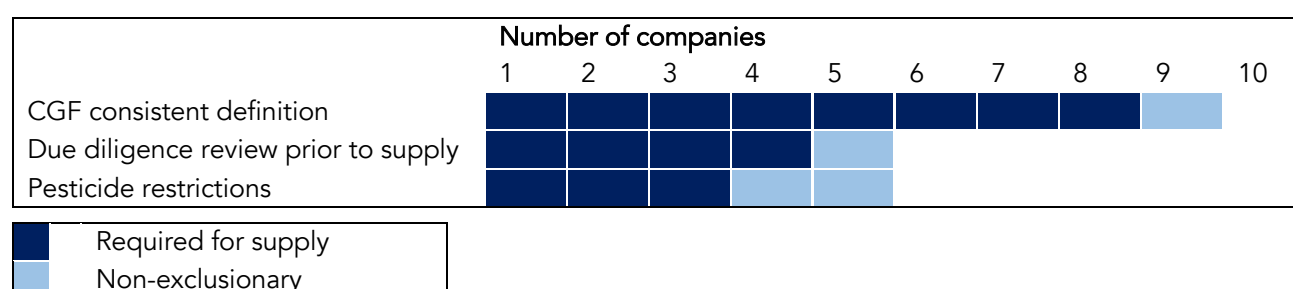
Importers were asked whether they were committed to 100% sustainable palm oil/palm kernel oil for all the palm oil that they use. Three importers are committed to sourcing only RSPO certified oils by 2020. Several importers indicated in the survey that they were committed to ensuring that the palm oil they used met the RSPO Next standard, usually providing links to zero deforestation policies as evidence but stating that they would not be pursuing supporting RSPO Next explicitly. Now that the new RSPO principles and criteria have been adopted it is expected that RSPO Next will disappear.

For action on smallholders, most importers referred to individual projects they were planning or that were on-going. Few importers reported dedicated smallholder support funds, with most referring to projects they were involved in that indirectly support them (e.g. providing capacity training). Where companies did have funds, the most common use cited by businesses in this area is paying for, or supporting, smallholders to achieve RSPO certification.



Environment

Almost all importers have zero deforestation policies consistent with the CGF definition of zero net deforestation. Several importers have Free Prior and Informed Consent (FPIC) for owned/managed plantations but not for third suppliers outside of supply chains that are RSPO certified. Only a few have restrictions in place specifically for pesticides use.

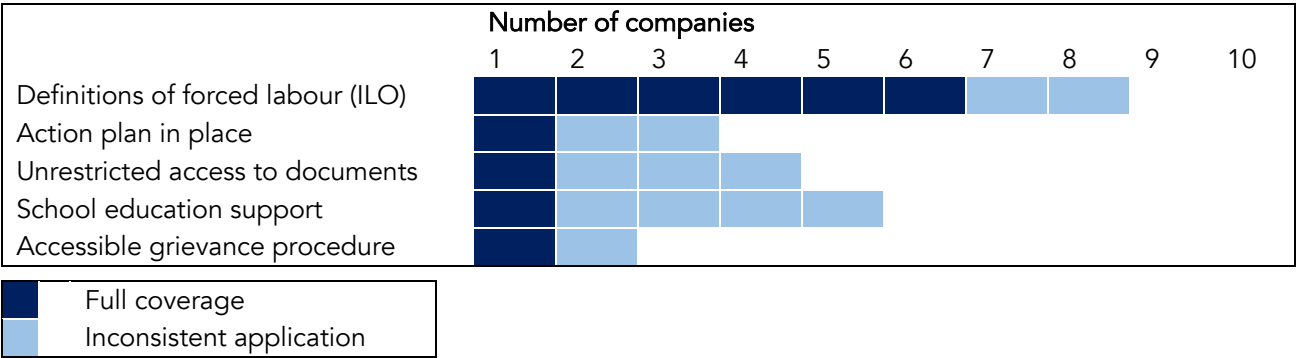


Exploitation

Most importers have policies on child and forced labour, though several of these policies lack definitions of the terms ‘child’ and ‘forced’ labour, or the definitions provided were not consistent with the ILO definitions.

Beyond having policies, only one importer has an action plan on child and forced labour. Others have some actions being taken to promote better labour practices, such as guaranteeing unrestricted access to documents for mill and plantation workers.

Support for education programmes is limited to certain areas and a few importers. Only one importer reports support for continued education programmes. Importers cite lack of plantations as justification for not engaging in education support in their indirect supply chains.



5. Survey Results: Targets

This section provides a review of the targets each company set for themselves in achieving their own commitments. Two areas are assessed:

- 1) **Zero Deforestation and Traceability** – Timelines for achieving a transparent supply chain that conforms to company policies on achieving zero deforestation.
- 2) **Accountability** – Internal and external accountability structures for ensuring that commitments are realised.

Zero Deforestation and Traceability

All companies have acknowledged that they are not going to achieve their zero deforestation goals by 2020. Although some may achieve transparency to mill by then, or have already achieved this, visibility to mill is different to attaining a zero-deforestation supply. This is particularly a challenge when companies apply the industry standard '50km' radius around mills for their risk assessments. This radius is outdated and does not capture the reality of infrastructure developed in deforested areas over the last decade. The origins of this radius are based upon poor road maintenance and the 24-hour window from harvest to processing required for oil palm. Modern roads have easily extended this radius to 200-250km.

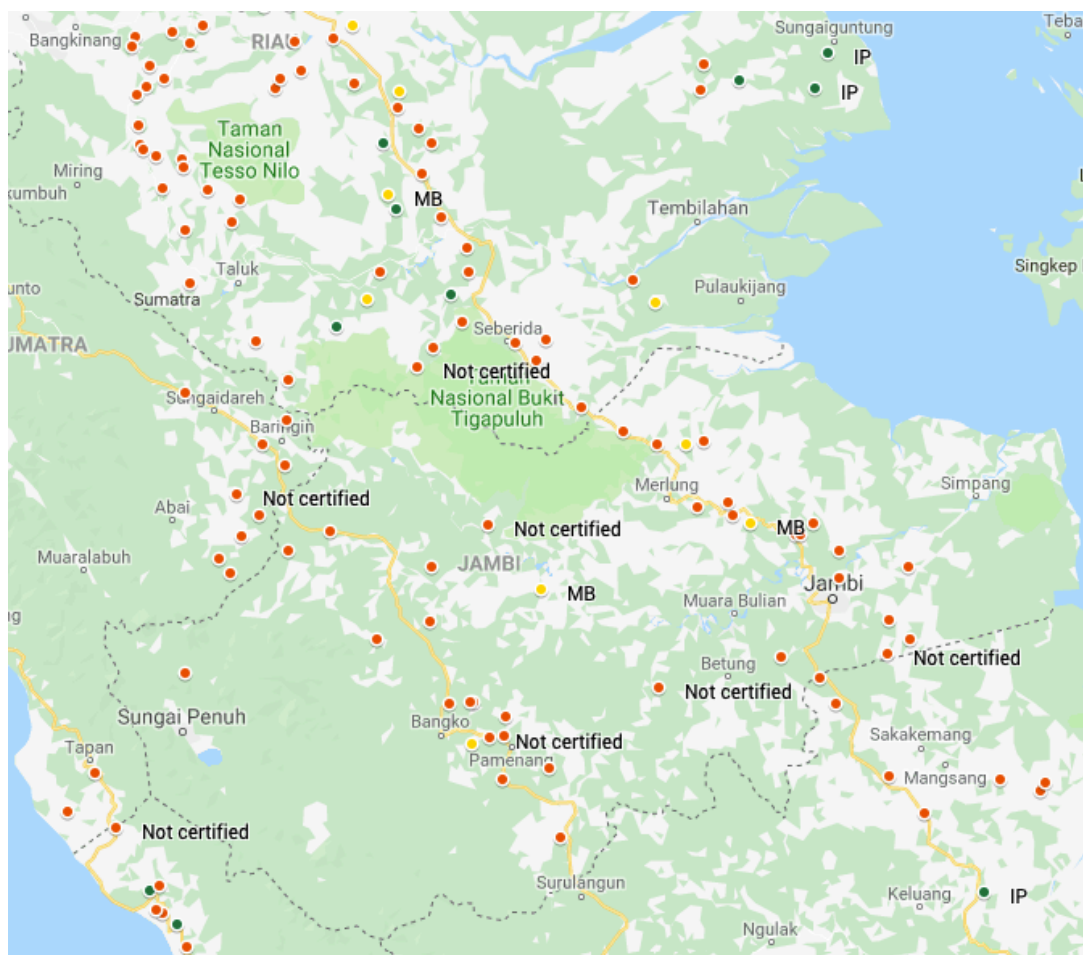
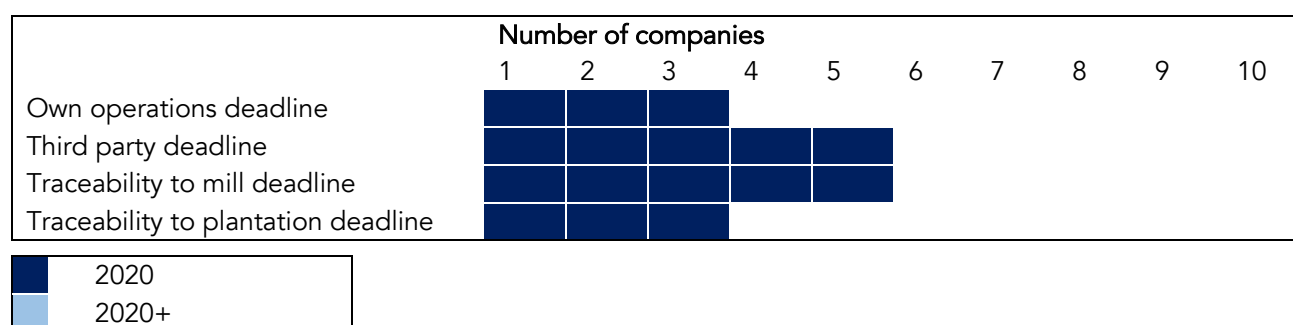
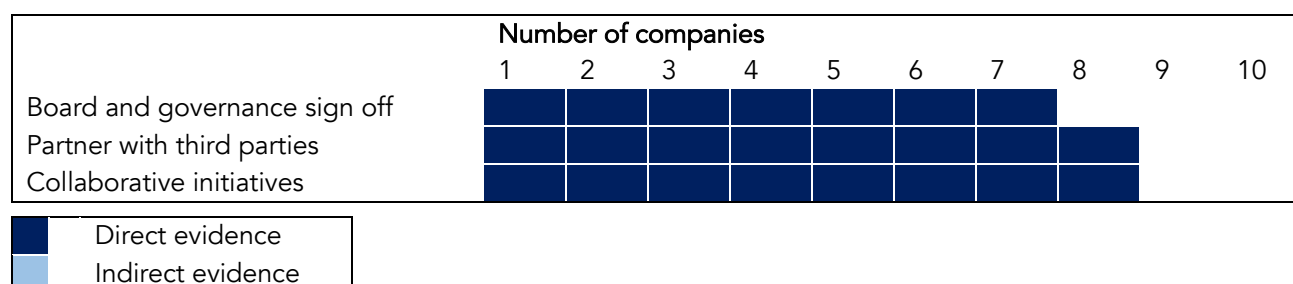


Figure 1 Map of Indonesia showing the growth of mills along major roads. The red dots indicate uncertified palm mills. Analysis by 3Keel using publicly available mill data from an importer included in this assessment.



Accountability

Many importers have board governance and sign off for their sustainability policies. Externally, most importers work with third parties to achieve some or all their PO/PKO commitments, normally either The Forest Trust (TFT) or ProForest. These organisations work with the importers to map their supply chains to mill level and provide risk assessments of mills using geospatial mapping to look for evidence of deforestation using the industry standard 50km radius.



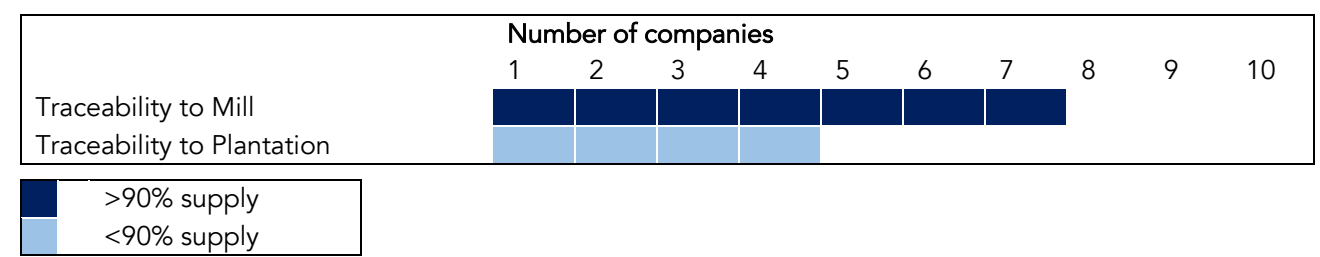
6. Survey Results: Progress

This section provides a review of how companies are measuring and disclosing progress towards their commitments. Three areas are assessed:

- 1) **Traceability** – Proportion of supply that is currently traceable to mill and plantation.
- 2) **Management Practices** – Use of grievance processes and risk management tools to monitor and respond to potential breaches of company policies.
- 3) **Public Standing** –External reports of environmental and social issues within named company supply chains.

Traceability

Most importers provided traceability to mill for European imports exceeding 98% of supply. Traceability to plantation is lower, around a third of supply, with the exception of one importer which reported traceability to plantation for more than 75% of European supply (but not for other regions or the group as a whole). Traceability to mill for American and Australian markets is slightly lower and not disclosed by all importers. Traceability to plantation for American markets is less than a quarter of total supply.

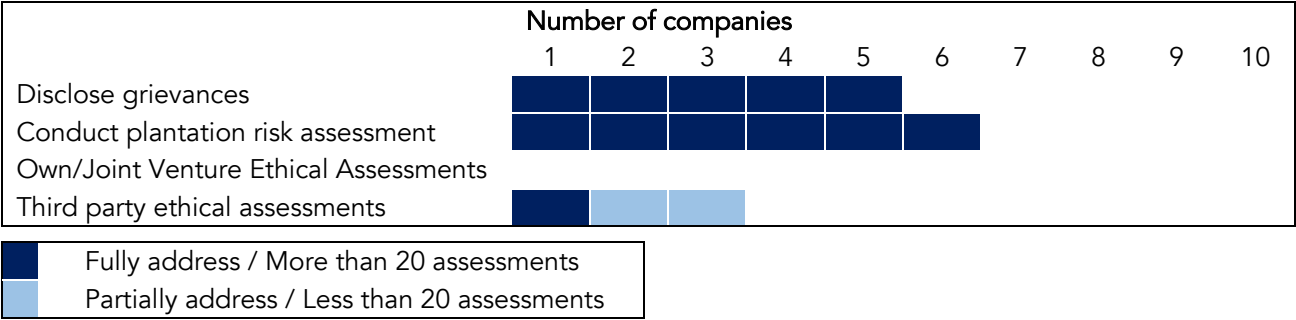


Management Practices

2018 saw the launch of more public reporting on grievances and actions being taken to address them by the companies. Several companies now have quarterly registers that clearly identify the complaint and action taken by the company. In some instances these logs demonstrate when a producer has been excluded from a supply contract whilst in other cases the ‘listen and engage’ approach has been used.

For the first time the POTC asked questions regarding specific assessments that have taken place to determine conformance with company zero deforestation policies. Outside of RSPO audits, the total number of audits is very low and/or not being disclosed by companies. In some cases the company believes that RSPO audits are the primary means of ensuring a clean supply and therefore they are not supportive of wider audits that may relate to company policies. However, this approach is challenged when a supply into that company is not 100% RSPO certified as there is a proportion of its supply chain that is not being audited against its own company policies at all.

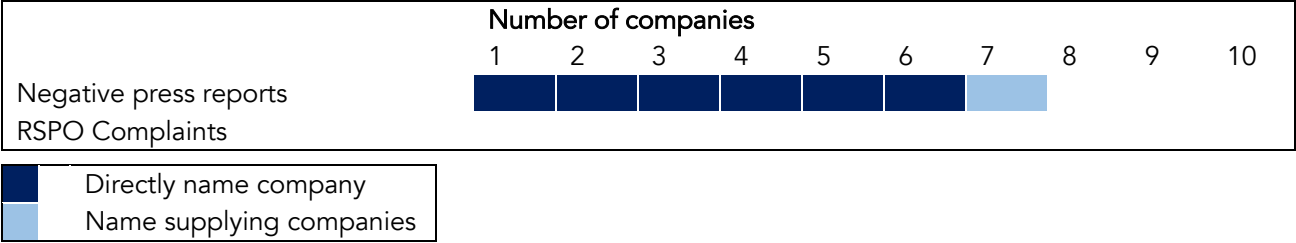
Third party supply chains are a particularly challenging area identified as a risk by virtually all companies surveyed. When challenged as to how they are supporting these suppliers comply with their standard the most common response was that an education process was underway to convey what the expectations are. No information or evidence was made available as to how the effectiveness of these sessions is monitored or measured.



Public Standing

Several of the importers have been mentioned in negative press reports. Although these reports are common, they are not always able to provide great insight into the specific actions or inactions of the company in question. All companies that had public grievance logs typically had these reports included with a description of their actions taken in light of them.

None of the companies reviewed this year have had new RSPO complaints lodged against them.



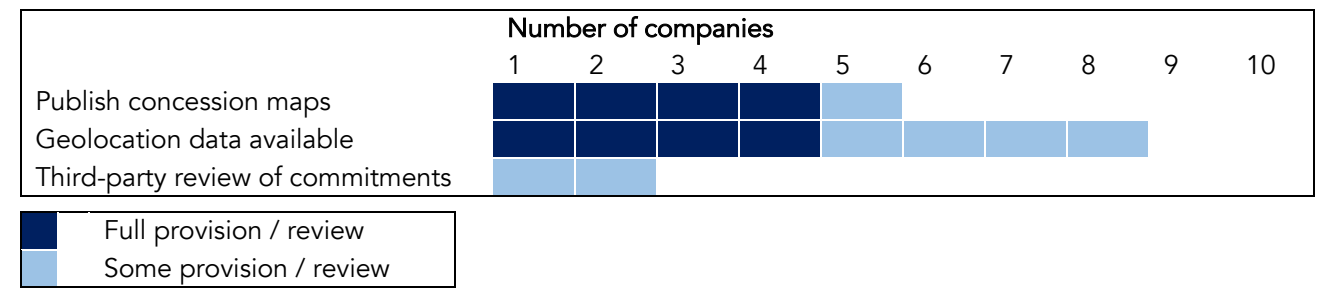
7. Survey Results: Verification

This section provides the results regarding to the degree of confidence companies can have in the attainment of zero deforestation policies.

In general, companies are not able to provide a guarantee that the palm oil they are supplying is free from deforestation or exploitation unless it is being delivered through an RSPO segregated or identity preserved supply chain. While RSPO mass balance can support RSPO certified production equivalent to their palm oil/palm kernel oil usage, given the nature of mass balance systems, mass balance on its own is not sufficient for verifying the physical supply chain is free from deforestation.

Short of physical certification through segregated systems, importers and traders continue to rely on two levels of assurance:

- 1) **Mill transparency** - visibility of mills enables a risk assessment to take place. On its own it does not provide a guarantee that deforestation has not occurred, but the presence of information will enable insight and decision making. Most importers have now attained sufficient traceability to enable this for much of their supply, however it is unlikely that plantation-level visibility will be achieved as easily. Some of the importers noted that plantation visibility is a long-term ambition and it will not be realised in the short term.
- 2) **RSPO certification** – audits that take place through RSPO are considered to be the highest form of assurance against deforestation. If a trader’s volumes are not RSPO certified it is not clear how much, if any, of their supply is reviewed to determine compliance with their zero deforestation policies beyond desk-based assessments.



8. Feedback

Importers provided the following feedback to the POTC during the 2018 review process:

Demanding RSPO certified palm oil is the main way that end users can promote sustainable production.

Similar to 2017, importers maintain that the best thing POTC members can do to stimulate greater uptake of sustainable practices in producing regions is by matching their commitments with RSPO purchases. They are keen to note that the physical availability of segregated palm oil and palm kernel oil in Europe is no longer a constraint but that the market has not yet kept pace with this development. Embracing POTC member policies of 100% segregated certified palm oil is therefore not viewed as an impossible feat given industry moves to create the supply.

Positive messages on sustainable palm oil are needed to be made by POTC members.

After a tumultuous year of negative headlines regarding palm production in Malaysia and Indonesia, combined with a UK retailer restricting palm oil in its own brand products, importers and traders are nervous that consumers and other stakeholders may not be aware of the positive impacts palm production can have when done responsibly. It is felt by importers and traders these positive impacts are not being communicated clearly. Caution should be taken when acting on this matter given the evidence provided through this assessment and the inability of traders to guarantee that the negative aspects highlighted in the media are not occurring in their own supply chains. Importers view POTC member organisations as the key to being the messenger of sustainable palm, including to others in their own sector, in order to avoid substitution with potentially more unsustainable alternatives.

Non-food manufacturers are not viewed by importers as being engaged on sustainable palm.

Multiple importers noted that their experiences with personal care and household product manufacturers were different to those in the food industry where sustainable palm oil is a higher priority. Further comments from one importer revolved around retailers also not taking much of an interest in addressing this part of their supply chain.

Clearer demands and expectations from POTC members are needed.

Manufacturers and retailers are not aligned on their expectations for their suppliers. Whilst some are pushing for segregated supply chains, on food or non-food, others are not engaged and/or have different timelines for achieving goals than others. This variability is present regardless of the size of the manufacturer or retailer. Closing the gap in end user demand will be key to transitioning the sector and there is more work, even in Europe, to get manufacturers and retailers on the same roadmap.

9. Conclusions and recommendations

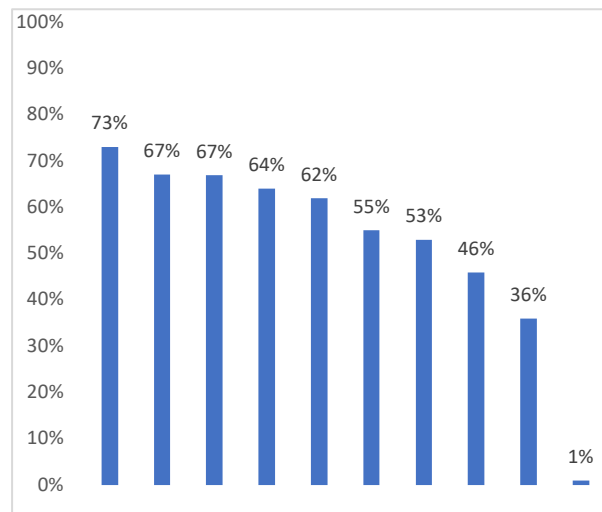
The following observations and considerations for future work for the POTC have been drawn from assessing the company responses and directly engaging with importers.

Conclusions

- **Importer performance remains variable.**

Few companies are achieving the ideal standard set out by POTC members. Although variability remains amongst the top ten importers, there has been a general shift upwards compared to 2017 despite the increase in more difficult questions for suppliers. The result of this change has been a slightly lower 'top end' with the middle flattening out.

Over the past year there has been some ramping up of policies in previously mid-range performing importers, whilst others that were leaders last year have fallen down a few spots as others moved ahead to address issues more broadly with new approaches and policies.



- **Third party supply chain engagement needs to be addressed and scored separately.**

A more nuanced approach to assessing importer actions to reduce the third-party supply gap is needed. This is particularly evident in the large number of traders that were included this year that did not have any direct connection to production. There are clear differences in the approaches companies are taking to manage these risks and the current questionnaire does not pay enough credence to these variables.

- **Non-RSPO supply chains remain exposed.**

There are higher levels of traceability to mills, but few companies have noted that audits or reviews are taking place in their supply chains beyond those carried out by RSPO on certified plantations. This gap leaves a potential risk of supply that is not certified leaking into POTC member supply chains. If segregated RSPO palm oil is not used, it is highly likely that uncertified material is present and from deforested regions.

- **Ethical supply chain programmes are increasing, but are not yet adequate.**

Companies are continuing to develop approaches and systems to address labour risks in their supply chains, but few have launched programmes outside of small-scale pilots.

Recommendations for the POTC

- **Contextualise 'hero' supply chains.**

Some companies have complex ownership structures that enable the whole company to receive credit for what a relatively minor part of their business is achieving.

- **Enhance performance indicator questions.**

POTC members can more clearly articulate their expectations for improved importer monitoring of their supply chain by specifying the indicators they expect to see.

- **Redouble efforts for POTC member presence in meetings.**

Fewer POTC members participated in face-to-face or phone meeting with importers. It is important POTC members are present to open a dialogue and keep importers engaged in finding solutions.

- **Push for extension of industry standard risk assessment radiuses to 250km around mills.**