

An aerial photograph of an industrial facility, likely a palm oil processing plant, situated on a rugged, rocky coastline. Several large, cylindrical storage tanks are visible, some of which are brown and others silver. The facility is built into the cliffside, with waves crashing against the base of the rocks. In the background, there are more industrial buildings and a road with some vehicles.

A big step
towards shared
responsibility

Photo credit: DAABON

Palm Oil **Innovation** Group



Shared responsibility



Photo credit: DAABON

A journey towards **responsible** palm oil

This publication is the third in a series of publications published in connection with the 10-year anniversary and conclusion of the Palm Oil Innovation Group.

The publications are an attempt to capture the efforts made by POIG's members, the impact of POIG's work on the RSPO and palm oil production and use in general. We want to share the lessons and questions still outstanding to achieve responsible supply chains that have broken the link between palm oil production and the destruction of forests and peatlands, the exploitation of communities and workers, and climate change.

A big step towards shared responsibility

The journey of the Palm Oil Innovation Group Retailers and Manufacturers

The Palm Oil Innovation Group (POIG) was established by a group of growers and NGOs who were expecting more from the Roundtable on Sustainable Palm Oil Principles and Criteria (RSPO P&C) 2013 review. Parallel to this initiative, many major retail and manufacturing brands expressed similar concerns with the lack of ambition of the RSPO. In 2014–15, there was a drive towards bespoke brand policies covering aspects not adequately included in the 2013 P&C review – often similar to the POIG Charter, such as No Deforestation, No Peat and No Exploitation (NDPE) and climate change.

While these brand policies made it clear that the marketplace was aligned to POIG's values

and mission, the original POIG Charter, like the RSPO P&C, was dedicated to requirements for growers, with no real guidance or requirements for manufacturing or retail brands, or for traders and processors.

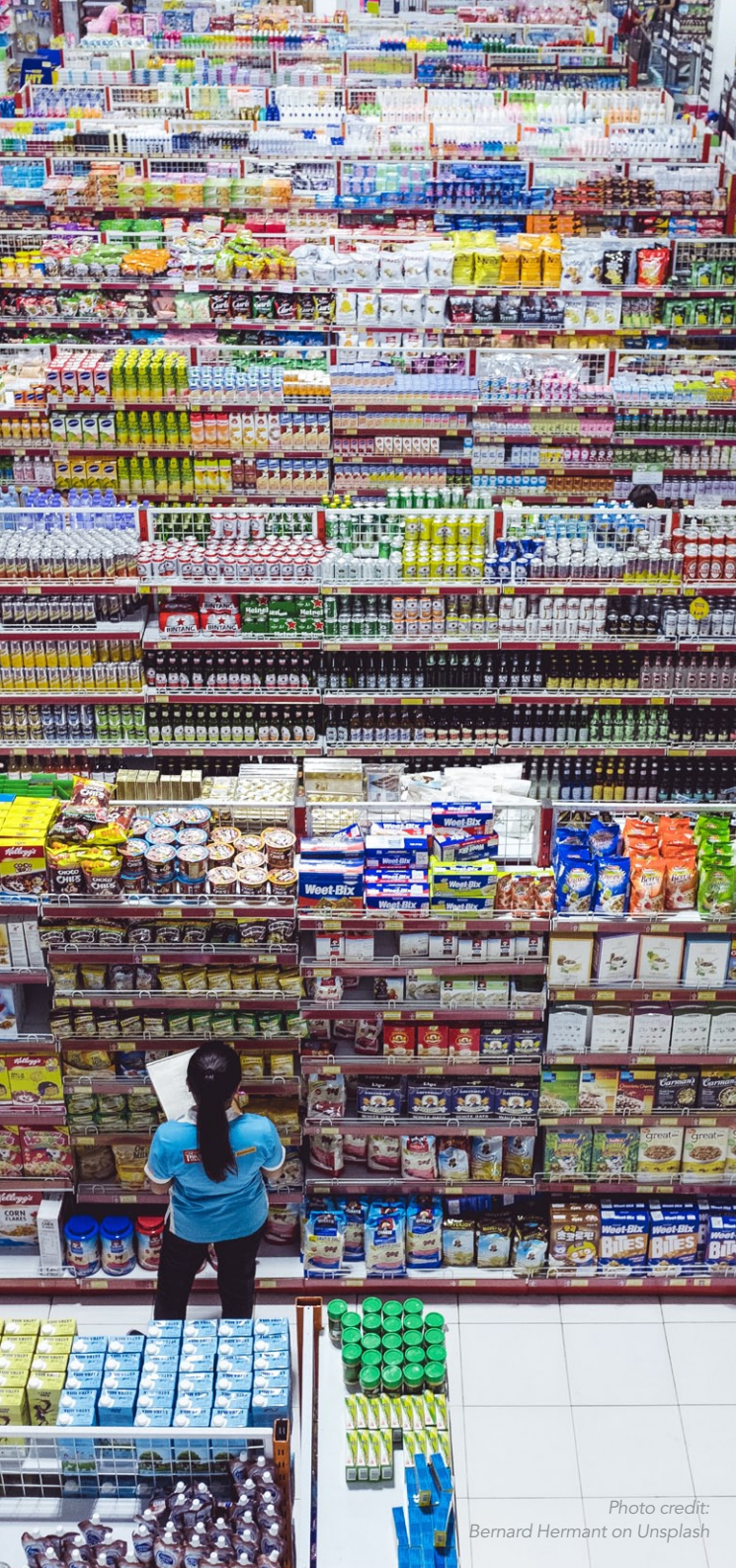
In addition, as a number of palm oil producers, including POIG growers were willing to raise the bar, there appeared to be little market incentive to do so. The continued strengthening of standards raised the cost of production, but less than half of certified oil was sold as certified, and less than a quarter¹ through physical supply chains. This lack of demand meant that there was the incentive for growers neither to increase efforts beyond certification, nor to put in place the infrastructure to segregate certified oil.

POIG saw an opportunity to create a more cohesive drive for higher standards, and at the same time create accountability for brands by widening the membership to include first retailers and manufacturers, and later traders and processors.

¹ RSPO 2016 Impact Report <https://rspo.org/wp-content/uploads/2016-impact-report-english1.pdf>



Photo credit: DAABON



Engagement with retailers and manufacturers

The process to develop a charter for retailers and manufacturers (RM) began in 2014. Unlike the POIG grower charter which built on the RSPO P&C, there was no existing framework for the downstream and marketplace environment, so the scope and content had to be built from scratch.

Since POIG had no existing retailers or manufacturer members, the Retailer and Manufacturer Charter Components (RMCC) were developed through a collaborative and open process, where a substantial group of global retailers and manufacturers were consulted and engaged constructively. Retailers and manufacturers were invited to workshops in Berlin and in Amsterdam to contribute to the early drafts. Given that the Charter Component document was still in a draft format, it was deemed premature to open POIG for membership from these sectors, as the commitments required had not been formalised. Instead, POIG established a more informal group of supporters, which included retailers Tesco, REWE and EDEKA, as well as manufacturers

Ferrero, Boulder Brands and Stephenson. These organisations pledged their support to the POIG grower Charter and efforts to include these standards into the RSPO P&C.

The process was actively supported by POIG NGOs involved in consumer campaigning: WWF, Greenpeace and Rainforest Action Network, which allowed the brands to get an insight into key issues to address to meet stakeholder expectations.

The Retailer and Manufacturer Charter Components (RMCC)

The RMCC was completed in 2015 (with minor updates in 2019) and was built around five principles:

- *Transparency and information exchange:* calling for sharing of challenges and bottlenecks to allow for a better understanding of the issues involved in sourcing certified sustainable palm oil (CSPO) and eliminate bottlenecks.



- *Responsible procurement policy and road-map*: requiring POIG RM members to have a timebound plan towards sourcing of physical CSPO and ultimately POIG-verified oil.
- *Supply chain engagement*: encouraging ongoing dialogue with the upstream supply chain to find solutions to sourcing challenges.
- *Communications*: developing market-facing, but robust communications on POIG and physical sustainable palm oil; and publicly communicating the rationale against a palm oil boycott.
- *Advocacy*: speak up for reforms of the RSPO audits, quality control and reporting procedures, and advocating for the phase-out of certificates in lieu of physical supply chains.

On the launch of the RMCC, POIG also opened membership to retailers and manufacturers, and welcomed the initiatives' first RM members Ferrero (Italy), Stephenson (UK), Danone (France) and Boulder Brands (US) at the end of 2015. L'Oréal (France) subsequently joined in 2016, and Barry Callebaut (Switzerland) in 2017. As in the case of POIG's grower members, the stated aim for POIG's RM members is to showcase innovations and lead by example to inspire the wider market to increase uptake.

A Retailer and Manufacturer Working Group (RMWG) was set up to guide the implementation of the RMCC and provide a sounding board and collaborative space for responsible

sourcing innovations. The RMWG included all RM members, as well as Greenpeace, Rainforest Action Network and WWF. The group was co-chaired by Ferrero and WWF. Representatives from POIG growers were engaged in the group as observers, contributing greatly to discussions around supply chain options and challenges.

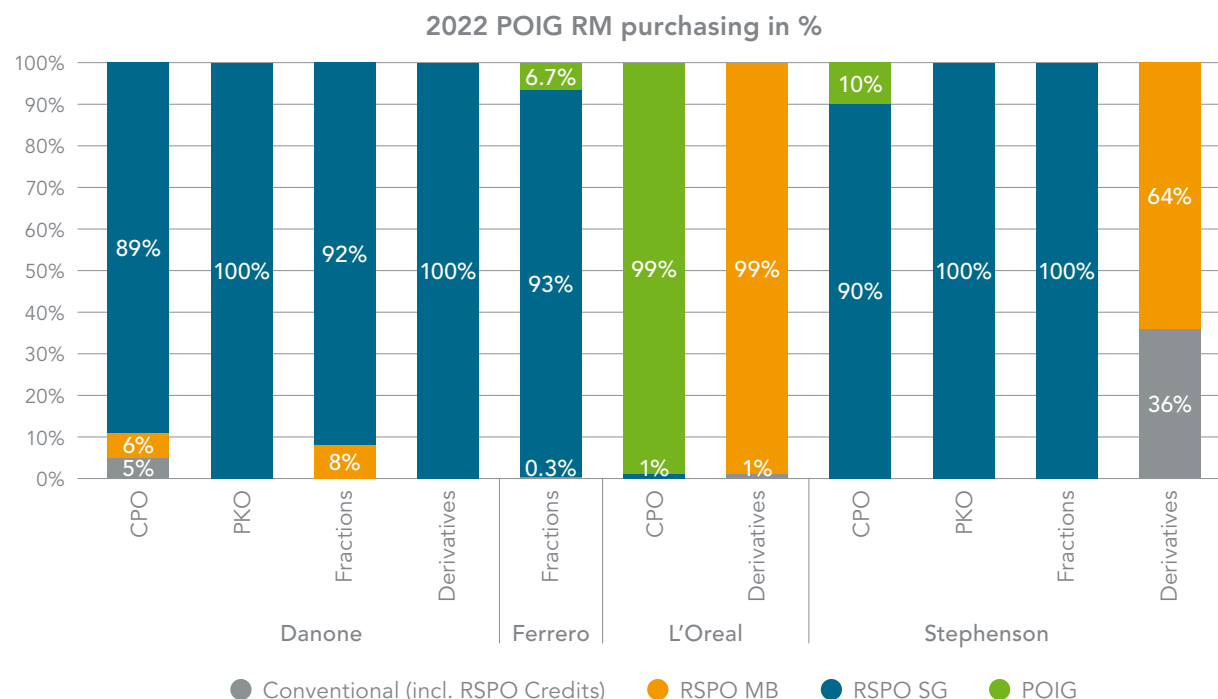
Key innovations in reporting to drive uptake

A critical aspect of the implementation of the RMCC was the requirement for ongoing disclosure of efforts to meet the charter requirements, including transparency around uptake and targets in an annual progress report. Members started reporting on their progress from the calendar year 2016, and these reports were used to identify areas for further improvements for each member.

However, throughout POIG's existence, the consultation around the RMCC, and indeed going back to the early days of RSPO certification, it was clear that the complexities of the palm oil

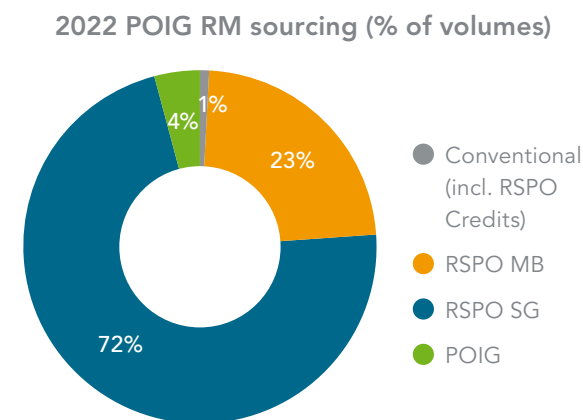
supply chain were often used as an argument against setting uptake targets. In group discussions, the issue of complex derivatives was often the strawman put up to illustrate the barriers to purchasing physical CSPO. As a group of highly dedicated brands and NGOs, the RMWG was determined to explore how to hold companies accountable while recognising the very real complexities of some supply chains.

In 2019, the group launched a reporting framework and RMCC indicators which sought to address this issue. Rather than overall uptake targets, members were asked to report separately on supply chains for crude palm oil (CPO), palm kernel oil (PKO), fractions and derivatives. In addition to this, members were required to set 100% uptake targets for each of these product categories, with the exception of derivatives, where a clear roadmap towards mass balance (MB) and ultimately segregated (SG) was required.



The new reporting framework and indicators were instrumental in driving performance with members, to share joint challenges, and to ensure that genuine efforts were made. Today, POIG's RM members use around 400,000 MT of palm oil products, and 99% of this is RSPO certified, 76% in a segregated form. Each RMWG member has developed a strong response and solutions to complex sourcing challenges. **L'Oréal** has co-founded an initiative to address the difficulties in sourcing certified derivatives, and has successfully converted

99% of the company's derivative use to mass balance, and 100% segregated CPO including 99% from POIG verified growers; UK soap manufacturer **Stephenson** has launched a new Palm Oil Policy and achieved 100% segregated CPO, PKO and fractions, as well as 64% MB derivatives; **Danone** now sources 88% of its palm oil from segregated sources, and has built a dedicated segregated supply chain in the US for CPO and PKO, and 99.7% of **Ferrero's** palm oil is certified and segregated, and includes 6.7% POIG verified palm oil.



In cases where the targets and timebound plans were not achieved, members were required to disclose the reason for the failure to comply, why it was inevitable, and when the member expects to be back on track. Over the years, such disclosures were made around issues such as quality/food safety requirements, import restrictions in India and export restrictions in Indonesia. In one case, the review led to a member leaving POIG, after the company's annual progress report raised questions around the continued reliance on RSPO certificates, and the company could confirm that a physically segregated supply chain was not a key priority to their sourcing endeavours.

A perspective from Stephenson

POIG's RMWG has been an incredible resource and a platform for collaboration for us in improving transparency and forming a stance for responsible palm oil use through a robust supply chain at Stephenson, from creating palm oil policy to identifying areas of improvement and strengthening our RSPO portfolio through reporting; and finding reputable suppliers to work with. As a result, we are proud of the progression, formed sustainability goals and robust knowledge in educating our customers about the benefits of responsible palm sourcing.

The biggest challenge remains – responsibly sourced palm oil adoption in the personal care market. So while Stephenson strongly believes in it, the market seems challenging, especially with the increased “greenwashing” claims in the personal care industry. However, we will continue to build on the strategy and initiatives to source palm oil and derivatives moving forward, and the goal remains to source 85% of derivatives and fractions RSPO MB or SG and continue sustainable sourcing of palm and palm kernel oils to RSPO SG standard.

Photo credit: Stephenson



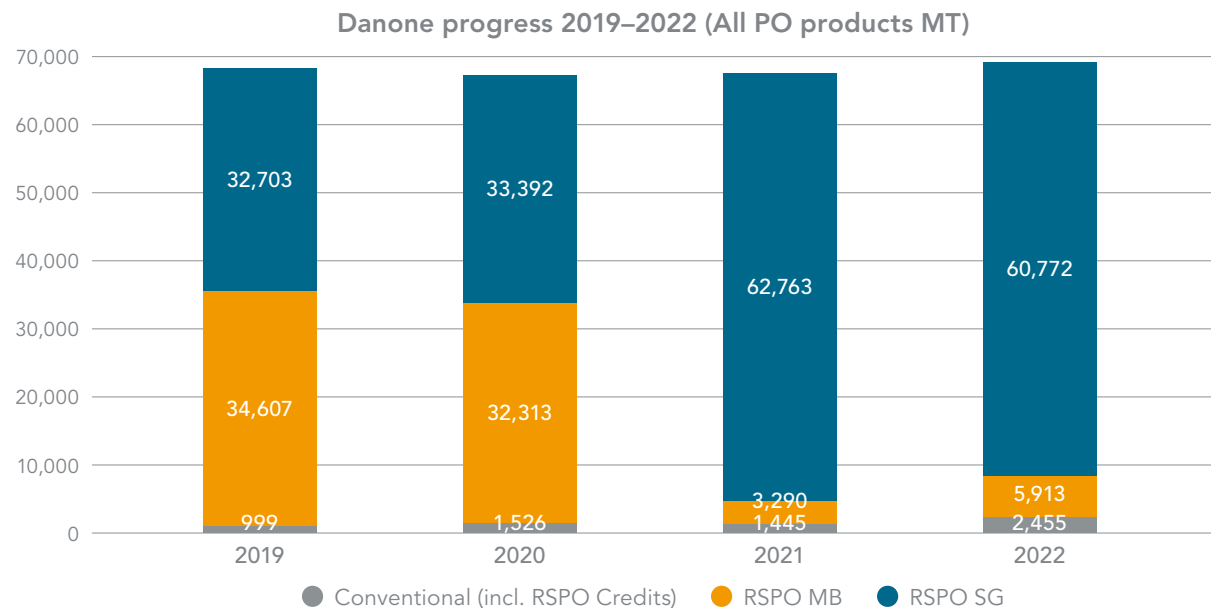
What retailer and manufacturer members achieved

Danone

Closing in on 100% segregated sustainable palm oil

Danone joined the Palm Oil Innovation Group in 2015. The company buys just over 67,000 MT of palm oil products annually. Danone supports the principles of POIG which brings together leading NGOs with palm oil producing companies, brands and other actors in the supply chain to share and develop leading practices to ensure that responsible palm oil becomes available in the market place.

At an early stage of its POIG journey, Danone identified the US market as a particular challenge to meet its targets. Following the acquisition of the US-based brand Whitewave, Danone faced difficulty in finding supplies of segregated palm oil for the North American market. Danone set up a unique partnership with two traders to create the first segregated palm supply in the United States, co-investing in dedicated infrastructure in ports that import palm oil for Danone. As a result, in 2022, Danone achieved 89% of CPO and a 88% of all palm oil products globally from segregated sources, up from 39% and 29.5% respectively in 2020.



Beyond the focus on traceability and segregated sourcing, Danone has focused on enhancing its grievance mechanism, to help lead a shift towards no deforestation and exploitation in supply chains. Danone acknowledges various issues, including human rights, that might affect the palm oil supply chain. Therefore, it has developed a grievance process, designed with the NGO Earthworm Foundation, to enhance transparency and its capacity to act. In 2019, Danone published on its website the grievance mechanism, to handle allegations of non-compliance with the Company's palm oil policy and is currently in the process of reviewing further enhancements. Danone issued its Renewed Forest Policy² in December 2022 committing to delivering verified deforestation and conversion free supply chains and moving towards a forest positive future. This policy applies to all priority materials Danone sources that are potentially linked to deforestation or land conversion. The Renewed Forest Policy also has specific targets and timelines for five priority commodities: palm oil, soy, animal feed, cocoa, and paper & board. Danone has adopted the following commodity-specific commitments for palm oil: 100% RSPO Segregated or Independent Smallholder Credits for all palm oil use by 2025; 100% traceability of palm oil to plantation by 2023; Top five direct suppliers will match Danone's commitments by 2025.

² <https://www.danone.com/content/dam/danone-corp/danone-com/about-us-impact/policies-and-commitments/en/2022/danone-renew-forest-policy-dec-2022.pdf>



Ferrero

Extending palm oil commitments to new acquisitions

Ferrero was among the first manufacturers to join POIG in 2015 and is one of the RMWG co-chairs. With purchasing volumes of almost 240,000 MT, Ferrero is POIG's largest purchaser of palm oil, all in the form of palm oil fractions. Ferrero started to source 100% segregated RSPO certified sustainable palm oil in 2015, and in 2022 6.7% of its purchases came from

POIG verified growers. Over the past years, Ferrero's biggest challenge has been to ensure that newly acquired US-based brands are able to adhere to the company's palm oil policy. In 2022 Ferrero came close to achieving this ambitious goal, with 99.7% segregated RSPO certified palm oil products.

FERRERO

Ferrero progress 2019–2022 (All PO products MT)

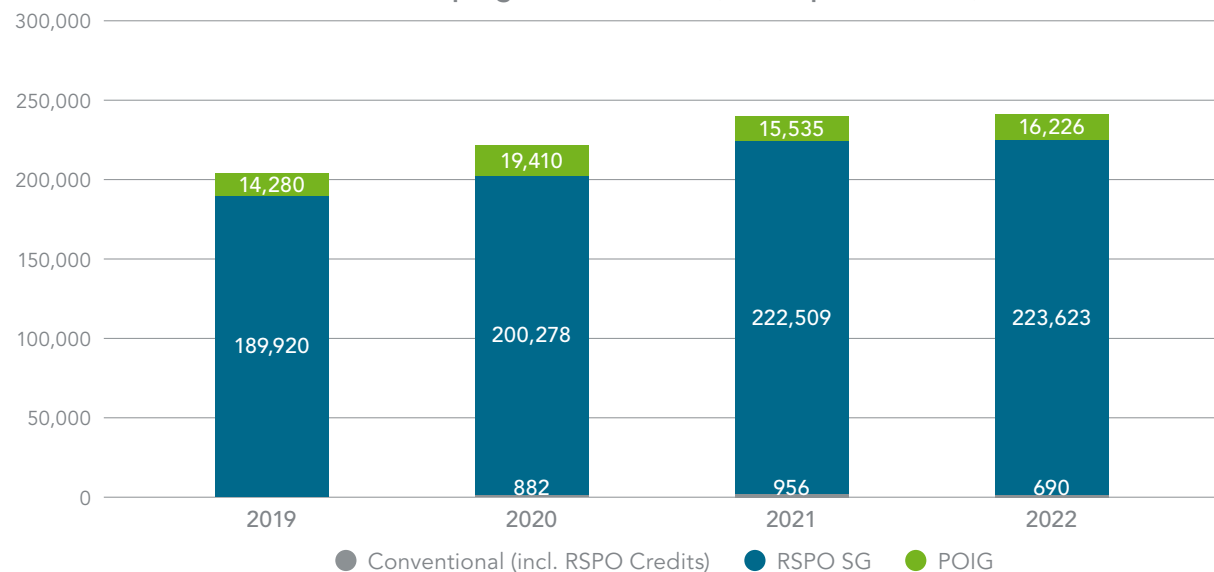


Photo credit: Ferrero



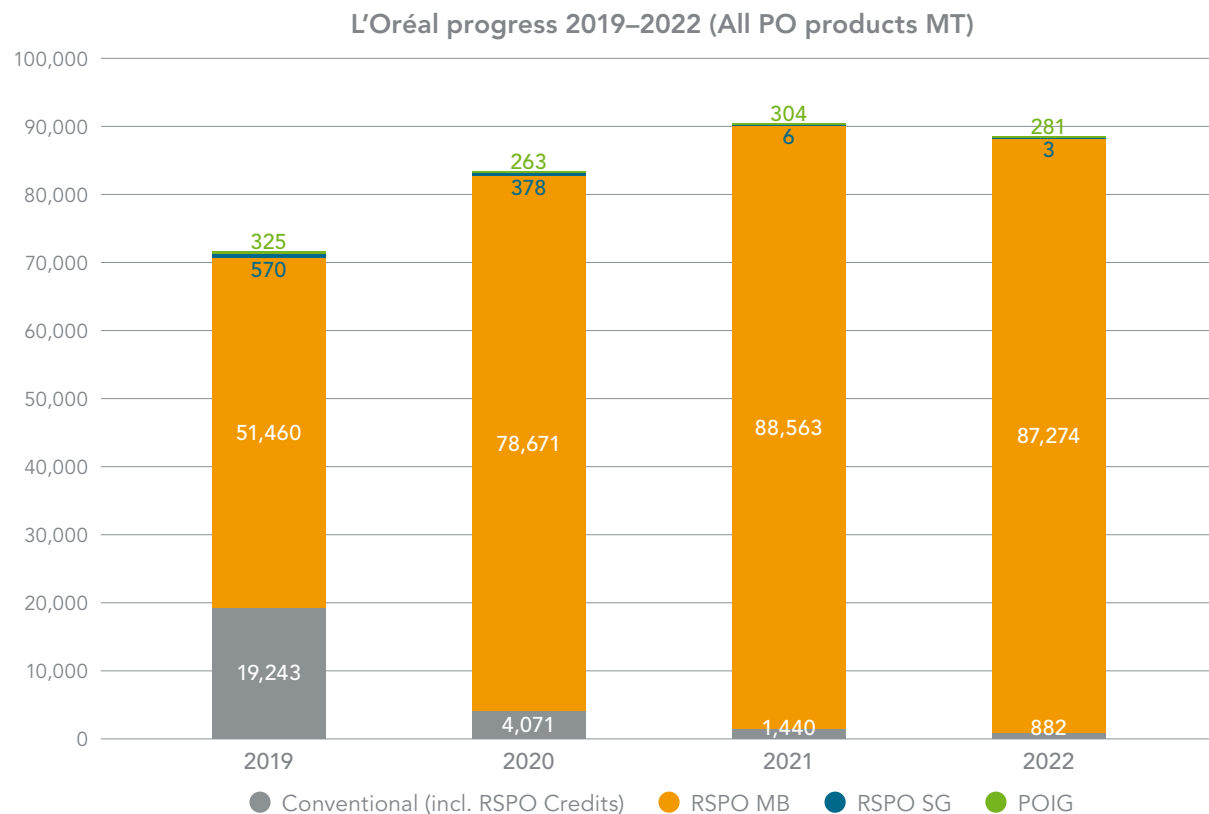
L'Oréal

Engaging supply chains to transform derivatives

Global beauty brand L'Oréal joined POIG in 2016. L'Oréal has worked with members of the RMWG to verify compliance of the mills to Zero Deforestation criteria and to develop and share a credible and verifiable benchmark that builds upon the RSPO. Being a POIG member has strengthened the company's dialogue with external stakeholders such as Forest Peoples Programme, WWF and RAN, to share key progresses, remaining challenges and discuss potential collective solutions.

L'Oréal purchases approximately 300 MT of CPO each year, but purchases derivatives in a quantity equivalent of up to 90,000 MT of palm oil. L'Oréal sources 100% RSPO SG certified CPO including 99% POIG verified oil, and 99% RSPO mass balance derivatives. This includes 25.4% of volumes which are produced by independent smallholders from sustainable field projects supported by L'Oréal in Indonesia and Malaysia and designed to be NDPE compliant.

L'Oréal's objective is to have 30% of its total derivatives volumes coming from sustainable field projects supporting independent smallholders in its key sourcing areas. As the final



off-taker, L'Oréal indirectly supports pluri-annual premium-based commitment from upstream intermediaries to purchase the smallholders' RSPO certified production. Through five projects, L'Oréal initiates a long-term business relationship with every actor of the value chain, which is inclusive for the independent smallholders, and disruptive with regards to the rules of a traditional commodity market. Those five

field projects impacted more than 13,800 beneficiaries in 2022 and covers 25.4% of the company's derivatives purchases in 2022.

In 2022, together with the support of Daemeter, L'Oréal assessed three field projects to ensure that those project are designed and operated according to NPDE principles.

The company's biggest challenge is the availability of physical sustainable palm oil derivatives. In 2019, L'Oréal became a founding member of [Action for Sustainable Derivatives \(ASD\)](#). L'Oréal will continue to find collective solutions with peers, convinced that a company cannot realistically address the challenges individually. L'Oréal will continue to share its methodologies throughout the sector and to encourage its direct suppliers to engage in ASD.

As part of the company's POIG commitments, L'Oréal aligned its Forest Policy commitment with the POIG Charter. In its most recent update of L'Oréal's 2030 Forest Policy the company committed to ensure that 100% of palm oil and palm kernel oil should be fully traceable to the production area. The 2021 supply chain mapping on palm derivatives allowed to trace back: 98% of raw materials up to refineries; 96% of raw materials up to mills; 48% of raw materials up to palm plantations.



Photo credit: Musim Mas

Stephenson

Strengthening ambition levels and policy

The Leeds-based soap manufacturer was among POIG's first manufacturer members. Placing sustainability at the heart of its product offering, the company was the first soap manufacturer to offer 100% segregated sustainable palm oil soap bases in 2010.

Stephenson operates in a competitive business-to-business marketplace and uses a relatively modest 6,340 MT of palm oil product of which 68% are complex fractions

and derivatives. Despite this, Stephenson has continued and managed to improve its performance against the POIG RM Charter year after year. Stephenson sources 100% segregated CPO and PKO including 8% POIG verified oil, and of its total palm oil products almost 76% is SG or MB. The company has set an ambitious target to increase this to 85% by the end of 2022 (currently 64%).

Over the last two years, Stephenson has evolved its approach to palm oil, launching a new palm oil policy and grievance procedure in January 2022 after consultation with other members of the RMWG, and has strengthened the sustainability team to achieve its ambitious targets.



Photo credit: Stephenson

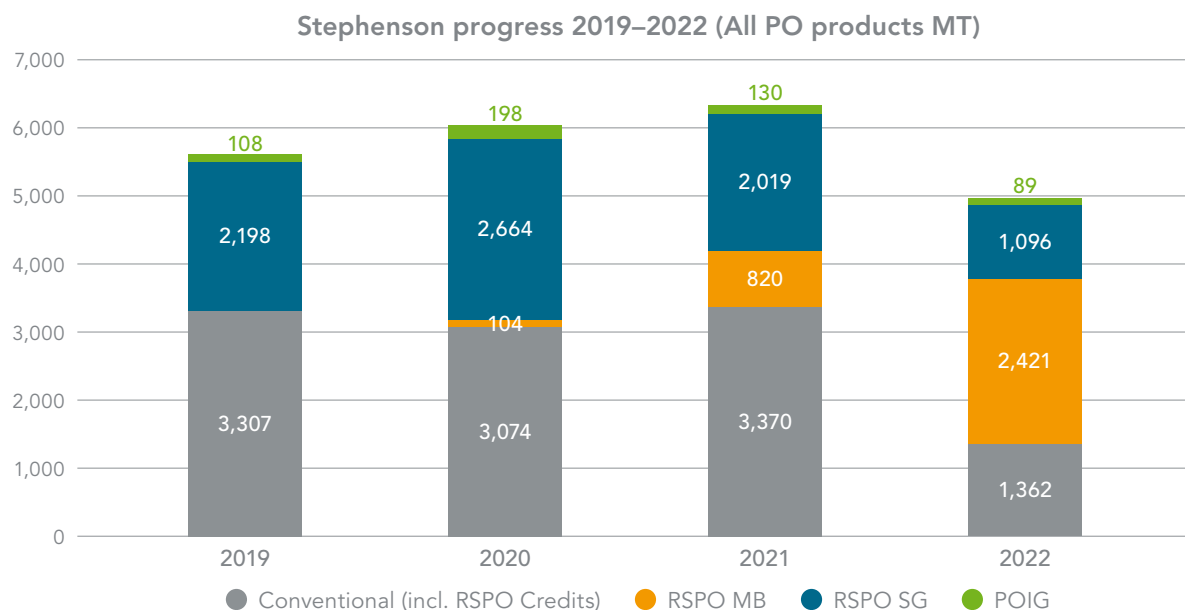




Photo credit: Ferrero

Mergers and acquisitions – wins and losses

POIG requires all linked member companies to take a uniform approach, and POIG commitments must be groupwide. Global businesses will change over the years, and despite the robust and ambitious policies adopted by members of POIG, changes in ownership can bring obstacles and complexities to policy implementation.

The acquisition by Danone of US brand Whitewave was a big challenge, as physical certified sustainable palm oil was not widely available. However, Danone succeeded in working in partnership with traders and was successful in securing SG CSPO.

Ferrero, which had a flawless record of sourcing 100% segregated CSPO since 2015, found similar challenges when the company made a series of US-based acquisitions starting around 2017, and has been working towards integrating most these brands into its sourcing commitments.

Unfortunately, POIG's only US-based member, Boulder Brands, had to leave POIG in 2016 when it was acquired by a large American food company which was not ready to adopt the POIG RMCC commitments.

Unfinished business and ongoing challenges

Traders and Processors Charter Components (TPCC)

Palm oil traders and processors are critical links between the efforts and investment undertaken by growers, and the availability of certified or verified oil in the marketplace. Without their engagement, retailers and manufacturers can face significant barriers to meet their sourcing commitments. This is especially true for markets outside Europe and the UK, and for complex supply chains involving fractions and derivatives. The initial growers who joined POIG had limited processing capacity, and were not typical of the large processors and traders dominating the market. When Musim Mas Group, whose primary operations are trading and processing, joined POIG, it was an opportunity to adopt robust and practical requirements for this sector. Guided by Musim Mas, and supported

by the other POIG growers, the Traders and Processors Charter Components were launched at the end of 2017. The TPCC were structured similarly to the RMCC and had the ultimate aim of ensuring 100% of traded and processed palm oil and palm oil products to be verified against POIG requirements.

However, when work on more detailed requirements and indicators were being developed, it became clear that due to the complexity of global palm oil supply chains, a larger and more diverse group of traders and processors would need to be involved in order to develop a robust and replicable framework. Consequently, POIG put a halt to the project, and it was decided to consolidate efforts to the RMWG where more resource from members was available.

Whatever happened to the retailers?

A significant gap for the RMWG efforts has been the lack of retailer members. While a number of European retailers contributed significantly to the development of the RMCC and signed up as supporting partners, no retailers signed up as permanent members. The unique perspective of retailers who have to deal with external brands as well as own brands, and experience in direct-to-consumer branding would have brought a valuable perspective to the initiative. Over the years, POIG members and Secretariat has engaged

extensively with the major European and North American supermarket chains and some other retailers. Despite these efforts, POIG was unsuccessful in attracting these members.

Low uptake of POIG verified palm oil

The original ambition in the RMCC was to work towards a significant uptake of POIG verified palm oil products, to showcase that there was a demand for palm oil which met a higher standard, while at the same time supporting the efforts and rewarding the efforts of POIG growers. However, despite significant efforts from all parties, POIG-verified oil has remained stable at around 4% of total palm oil purchases. The supply and demand in terms of product specifications and destination markets was the major challenge to the ongoing growth of POIG verified purchases.

Grievance mechanisms for complex supply chains

An ongoing issue for the POIG RM members has been how best to respond to grievances in their very large and/or complex supply chains. In the initial years, POIG addressed such grievances on an ad-hoc basis, by verifying and discussing the involvement of each member if and when they were linked to a highly publicised grievance case, such as the series of labour standards issues reported around 2017/18.

However, both brands and NGO members saw the need for stronger processes to ensure effective action and better accountability. When POIG launched its 2019 RM indicators, a key workstream was therefore planned to implement the requirements for robust and transparent grievance mechanisms:

- 3.2.1 Presence of a grievance mechanism which sets out clear exclusion criteria, including how such grievances are identified, and any actions taken reported in the annual progress report.
- 3.2.2 Within 6 months of adoption of these indicators (or within joining POIG), members must establish a public grievance mechanism and protocol for dealing with non-compliant suppliers with clear thresholds for suspension and reinstatement to the supply chain, and regularly publicly report on cases of non-compliance.

The workstream was commenced through a series of discussions and a benchmark of POIG members existing processes in 2021. However, due to lack of capacity and the eventual decision to conclude the POIG initiative, the work was not completed. Nevertheless, at the time of publication, all RMWG members have in place a grievance mechanism, and some parallel efforts are being developed by the Action for Sustainable Derivatives initiative, with the involvement of several POIG members.



Photo credit: Musim Mas



Palm Oil Innovation Group

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