

# abrdn Position Statement – Palm Oil

September 2021

For professional investors (in Switzerland for Qualified Investors) only. Not for use by retail investors.

## The issue

We acknowledge that the production of unsustainably sourced palm oil has significant negative impacts on the environment and on biodiversity.

Palm oil is found in many of the products we buy in supermarkets, from chocolate to cosmetics. The palm-oil tree grows under specific conditions found only in tropical regions between 10 degrees north and south of the equator. Over three-quarters of palm oil originates in Indonesia and Malaysia.<sup>1</sup> The palm-oil industry has created economic benefits for these two countries. In recent years, Nigeria, Thailand and Colombia have also emerged as global producers. But despite the benefits for emerging economies, unsustainable and negligent palm-oil production has tainted the industry and created significant risks for businesses exposed to palm oil in their supply chains.

We do, however, recognise that sustainably sourced palm oil is an important commodity for much of the global food industry.

## Benefits

Demand for palm oil is so high because it's productive, cheap and versatile.

Palm-oil trees are the most productive source of vegetable oil, yielding more oil per hectare than any other crop producing edible vegetable oil. Palm oil makes up approximately 35% of all vegetable oils, but is grown on just 10% of the land allocated to oil crops. Obtaining the same amount of oil from alternative sources would require more land and could shift many of the problems attributed to palm oil and its environments to other parts of the world, increasing the threat to new habitats.

Palm oil is also cheapest source of vegetable oil. This makes it important food product for low-income groups around the world. It is widely believed that palm oil is healthier than other oils, as it is naturally trans-fat free, while fortified palm oil can combat vitamin-A deficiencies.

The oil is one of the most globally versatile and widely applied substrate bases. It is thought to be found in nearly 50% of packaged products in supermarkets. Most palm oil is used in food production. It is also used in cosmetics, chemicals, pharmaceuticals and animal feed.

## Risks

### Poor practices

Demand for palm oil has led to an increase in production. However, this increase has come at the expense of the environment. The greatest impacts occur when palm-oil plantations are established, often through the destruction of virgin rain forest. For companies within the palm-oil industry, poor risk management could lead to operational risks, stranded assets, legal actions and consumer boycotts. For investors, exposure to these issues can come in the form of financial and reputational risks.

### Deforestation

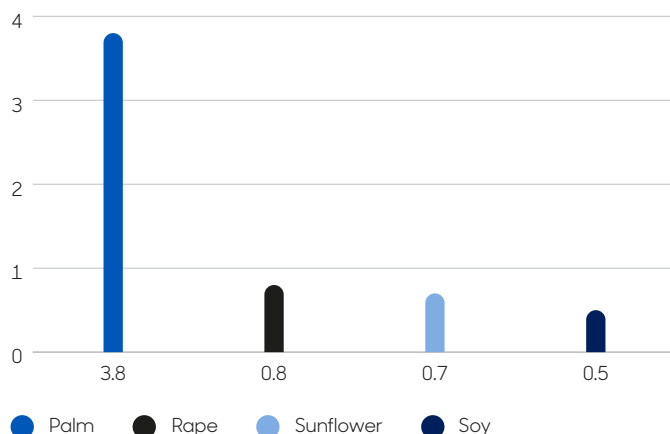
The most significant environmental consequence of unsustainable palm-oil cultivation is deforestation and the impact that has on biodiversity in ecologically sensitive regions. Palm oil is a major driver of deforestation, particularly in Asia. The impacts of deforestation include habitat loss for species like the orang-utan and Sumatran rhino, pollution and the removal of peatland as a critical carbon sink. Deforestation has been an important research topic for us. We have a particular focus on palm oil as one of core four commodities that drive the majority of the world's deforestation. As part of our engagement activities, we have signed the investor **statement** issued by the Principles for Responsible Investment (PRI) on deforestation and forest fires in the Amazon. We have also supported collaborative investor engagements with the PRI.

**"We encourage membership and certification of the Roundtable on Sustainable Palm Oil (RSPO) and Indonesian Sustainable Palm Oil (ISPO)."**

<sup>1</sup> <https://www.theguardian.com/news/2019/feb/19/palm-oil-ingredient-biscuits-shampoo-environmental>.



**Chart 1 – A highly efficient crop (Oil World 2016)**



Source: Palm Oil Alliance.

**Labour and human-rights violations**

There are also social challenges within the palm-oil value chain. Several companies have been linked to labour and human-rights violations. Major controversies include land grabbing, displacement of indigenous people, child labour and health consequences associated with air pollution from deforestation.

The environmental and social impacts of unsustainably sourced palm oil are significant for investors. Companies with exposure to illegal or negative practices in the supply chain undermine our efforts to invest for a better future. And shifts in consumer demand are likely to hit corporate reputational and profitability.

As a large global asset manager, we have an important role to play in encouraging the production and use of sustainably sourced palm oil. If abrdn avoided palm oil completely, other inefficient oils would take its place. We believe that this would be harmful as more land would be required within the tropical biome, resulting in increased deforestation alongside community exploitation and conflict.

Palm oil is a critical commodity, so a boycott is not the answer. Instead, we need to encourage and support the sustainable production of palm oil.

**How do we ensure palm oil is sustainably sourced?**

**01. Engagements to encourage sustainable practices**

In our actively managed investments, corporate engagement is essential to enable and support a sustainable palm-oil supply chain. Through engaging with companies exposed to palm oil, directly or indirectly through their supply chains, we can understand their their exposure to these risks and how they manage them. Engagements also provide us with the ability to influence and outline our expectations in relation to supply-chain transparency and audit of suppliers.

We encourage membership and certification of the Roundtable on Sustainable Palm Oil (RSPO) and Indonesian Sustainable Palm Oil (ISPO). Reputational and financial losses can occur if an investment is found not to meet the standards required by its membership of an organisation. We also encourage the implementation of No Deforestation, No Peat, No Exploitation (NDPE) sourcing policies. We want to steer our investments towards setting ambitious, time-bound targets to eliminate exposure to deforestation and human/labour-rights risks.

**02. We aim to ensure that the following are true of our palm-oil-exposed investments:**

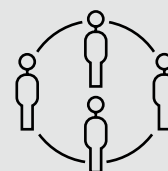
- They are not exposed to unresolved land-rights conflicts and ongoing controversies
- They have achieved or are committed to achieving RSPO/ISPO or other internationally recognised certification
- They are able to prove the legality of their operations and have complied with all laws and standards
- They have undertaken environmental-impact assessments.

**03. Voting and shareholder resolutions**

Where engagement has limited success, we use our influence through escalation via voting and support of shareholder resolutions. abrdn has a well-resourced stewardship team with dedicated proxy-voting capability that can provide thoughtful escalation on palm-oil sourcing and supply-chain matters.

**Sustainable investing at abrdn**

As a leading global asset manager, we believe that investing sustainably can help generate long-term value for our clients. How and where the world chooses to invest has critical implications for the well-being of society and our planet. Equally, investments that could have negative social and environmental impacts can pose risks for the investment performance we can deliver for our clients.



Environmental Social and Governance (ESG) considerations are an integral part of our decision-making when investing your capital. By understanding how ESG factors affect our investments, we believe that we can generate better outcomes for our clients, society and the wider world.

To help us achieve this, our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset classes. Dedicated ESG asset-class analysts provide an additional layer of expertise.

Please visit our **website** for more detail.

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