CDP
DISCLOSURE INSIGHT ACTION

RAISING AMBITIONS TOWARDS SUSTAINABLE PALM OIL IN INDONESIA

November 2020

CONTENTS

To read company responses in full, please go to https://www.cdp.net/en/responses

ABOUT THIS REPORT

This report is the third installment of CDP's analysis of the forests-related commitments and actions disclosed by companies connected to the Indonesian palm oil supply chain.

In 2020, 687 companies[1] responded to CDP's forests questionnaire, 144 more than the previous year. Globally, 178 companies reported the use of palm oil products in their value chains. This report focuses on the 125 that produced, sourced, or used palm oil products from Indonesia.

This is a significant year for the world's forests. The completion of the Convention on Biological Diversity's Aichi targets and review of progress against the Sustainable Development Goals has highlighted a concerning lack of implementation on deforestation and biodiversity commitments. As new goals come into place, this report provides a comprehensive update on the progress made by the corporate sector in delivering on their No Deforestation commitments, including changes to governance structures and supply chain engagement, and provides additional granularity on ecosystem restoration and multi-stakeholder initiatives.

1. Total includes all responding companies that completed the 2020 CDP forests questionnaire before September 7, 2020.

KEY FINDINGS

In only one year, the estimated financial impact of forests-related risks has doubled. In 2020, the potential impact totaled US$10 billion. As only 44% of companies provided financial information, this is likely to be a gross underestimate.

Forests-related opportunities are worth US$4.2 billion, of which 31% (US$1.3 billion) are very likely or virtually certain to be realized.

Transparency is increasing. In 2020, 30 percent more companies producing, sourcing or using Indonesian palm oil disclosed through CDP.

Increased transparency amongst downstream companies has yet to cascade to upstream producers in Indonesia. Of the palm oil companies located in Indonesia, only 9% reported their actions in a standardized way, providing limited visibility to assess implementation against corporate sustainability commitments on the ground.

Traceability to the plantation is critical for companies to effectively implement No Deforestation, No Peat, and No Exploitation (NDPE) commitments. As yet, not one company with a 2020 target to trace 100% of their supply to the plantation has hit its goal.

Despite being a new approach, 8% specify using Jurisdictional or Landscape Approaches to promote the implementation of their policies and commitments.

Greater participation in restoration is needed to improve the capacity of Indonesia's forests to act as a carbon sink and biodiversity store. Only 14% of companies are supporting or implementing ecosystem restoration or conservation projects in Indonesia.

SETTING THE CONTEXT

The world's forests are critical in mitigating climate change. Tropical forests contribute up to one-third of the mitigation needed to limit the global temperature rise well below 2 degrees Celsius[2]. Amongst the a host of ecosystem services they provide society, forests can provide a buffer to reduce the risk of zoonotic disease spillover[3]. In light of the ongoing Covid-19 pandemic, the need to protect and restore the world's forests has never been clearer.

Despite their significance, forest loss has continued at an alarming rate. Approximately 10 million hectares have been lost each year between 2015 and 2020[4]. Agricultural expansion continues to be the greatest driver of deforestation and forest degradation and has accelerated forest biodiversity loss. Between 2000 and 2011, the production and consumption of forest-risk commodities, such as cattle, soy, timber and palm oil, was responsible for 40% of tropical forest loss[5].

Indonesia is the fourth most biodiverse country[6] and the world's biggest palm oil producer. In Indonesian Borneo, one of the archipelago's most biodiverse islands and a key palm oil-producing region, unsustainable industrial production has led to the loss of 350,000 hectares of forest annually between 2005 and 2015[7] and threatened populations of ecosystem-critical species such as the Orangutan[8]. Indonesia's most recent 2019 fires burnt an area half the size of Belgium, more than 16,000 square kilometers, and released 708 megatons of carbon dioxide (CO_2) into the atmosphere[9 10].

Despite a poor track record, the past three years have seen an encouraging easing in the rate of forest loss. In 2019, Indonesia recorded a 5% decrease in primary forest loss compared to 2018[11]. Due to an existing REDD+ agreement with the Norwegian government, Indonesia will consequently receive US$56.5 million for mitigating the emissions of 11.2 million tons of CO_2 equivalent[12].

Global regulatory and market forces are creating an enabling environment for sustainable palm oil. The UN Principles for Responsible Investment (PRI), under the Working Group on Sustainable Palm Oil, has been driving investors to address deforestation in the sector. In 2019, 62 investors with approximately US$8 trillion in assets under management issued a statement supporting the sustainable palm oil industry[13].

Importer countries are facilitating the demand for sustainable palm oil with deforestation-specific regulation. The EU, as part of its forward-looking Biodiversity Strategy, is developing a legislative proposal and supporting measures to avoid or minimize the placing of products associated with deforestation or forest degradation on the EU market[14]. France has endorsed the Amsterdam Declaration supporting a

2. Shyamsundar, P., & Miller, M. (2019). How Much Does It Cost to Save Tropical Forests and Prevent Climate Change? Retrieved from https://blog.nature.org/science/science-brief/how-much-does-it-cost-to-save-tropical-forests-and-prevent-climate-change/
3. Jordan, R. (2020). Understanding spread of disease from animals to human. Retrieved from https://news.stanford.edu/2020/04/08/understanding-spread-disease-animals-human/
4. FAO & UNEP. (2020). The State of the World's Forests 2020. Retrieved from http://www.fao.org/state-of-forests/en/
5. Focali (2015). Agriculture commodity consumption and trade responsible for over 40% of tropical deforestation. Retrieved from http://www.focali.se/filer/Focali%20brief%202015-03%20Consumption%20Trade%20and%20Tropical%20Deforestation.pdf
6. Butler, R. (2019). Countries with the most species. Retrieved from https://rainforests.mongabay.com/03highest_biodiversity.htm
7. Gaveau, D. et. al (2016). Rapid conversions and avoided deforestation: Examining four decades of industrial plantation expansion in Borneo. Retrieved from https://www.nature.com/articles/srep32017
8. Meijaard, E. et. al (2018): Oil palm and biodiversity. Retrieved from https://portals.iucn.org/library/sites/library/files/documents/2018-027-En.pdf
9. Jong, H. N. (2020). As 2020 fire season nears, Indonesian president blasts officials for 2019. Retrieved from https://news.mongabay.com/2020/02/indonesia-forest-fires-widodo-jokowi-burning-2019-emissions/
10. Copernicus. (2019). A year in fire. Retrieved from https://atmosphere.copernicus.eu/copernicus-year-fire
11. WRI. Global Forest Watch. https://www.globalforestwatch.org/dashboards/country/IDN
12. Jong, H. N. (2020). Indonesia to receive $56m payment from Norway for reducing deforestation. Retrieved from https://news.mongabay.com/2020/05/indonesia-norway-redd-payment-deforestation-carbon-emission-climate-change/
13. United Nations Principles for Responsible Investment. (2020). PRI Investor Working Group on Sustainable Palm Oil. Retrieved from https://www.unpri.org/sustainable-land-use/pri-investor-working-group-on-sustainable-palm-oil/5873.article
14. European Commission (2020). Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. EU Biodiversity Strategy 2030. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1590574123338&uri=CELEX:52020DC0380

fully sustainable supply chain by 2020[15]. As part of their 'Climate Plan', they have committed to halt deforestation caused by unsustainable forests and agricultural commodity import by 2030[16]. And in 2020, the UK government pledged to prohibit companies from using commodities produced on illegally deforested land[17].

However, the Indonesian government's proposed Omnibus Bill, issued in October 2020, threatens to undermine recent progress. Whilst originally developed to streamline regulations and incentivize investment, many see this bill as a threat to human rights and forest protection[18] [19] due to the relaxation of environmental and social requirements[20]. In response, 36 global investors have urged the Indonesian government to defend forest and peatland conservation in its post-pandemic, economic recovery planning[21].

There is a clear business case to transform and increase the sustainability of the palm oil commodity supply chain. And increasing investor and consumer pressure, coupled with the risks of supply chain disruption, are driving changes in corporate behavior. Despite the financial losses associated with the Covid-19 pandemic and a possible easing of environmental requirements in Indonesia, it is vital companies do not lose sight of the long-term reputational and resilience gains that addressing supply chain sustainability provides.

15. Amsterdam Declaration. (2015). Towards Eliminating Deforestation from Agricultural Commodity Chains with European Countries. Retrieved from https://ad-partnership.org/wp-content/uploads/2018/10/Amsterdam-Declaration-Deforestation-Palm-Oil-v2017-0612.pdf
16. Gouvernement. (2018). Ending deforestation caused by importing unsustainable products. Retrieved from https://www.gouvernement.fr/en/ending-deforestation-caused-by-importing-unsustainable-products
17. Department for Environment, Food & Rural Affairs. (2020). World-leading new law to protect rainforests and clean up supply chains. Retrieved from https://www.gov.uk/government/news/world-leading-new-law-to-protect-rainforests-and-clean-up-supply-chains
18. Pandjaitan, M. (2020). Omnibus Law in Indonesia. Retrieved from https://www.legalbusinessonline.com/omnibus-law-indonesia-brought-you-iabf
19. Jong, H. N. (2020). Indonesia bill weakening environmental safeguards to pass in October. Retrieved from https://news.mongabay.com/2020/08/indonesia-omnibus-deregulation-bill-pass-october/
20. Greenpeace Southeast Asia. (2020). Warning: Omnibus Law is Threatening Indonesia's Sustainable Investment. Retrieved from https://www.greenpeace.org/southeastasia/press/43752/warning-omnibus-law-is-threatening-indonesias-sustainable-investment/
21. Green Century Funds (2020). Open letter to Omnibus Bill on Job Creation. The statement is endorsed by 36 investors representing approximately USD4.1 trillion in AUM. Retrieved from https://www.greencentury.com/wp-content/uploads/2020/10/Indonesian-Omnibus-Investor-Letter.pdf

TRANSPARENCY HAS NOT CASCADED UPSTREAM

An increasing number of companies producing, sourcing or using Indonesian palm oil products are choosing to disclose through CDP. 2020 saw a 30% increase in disclosing companies compared to 2019, from 96 to 125 companies. This commitment to transparency was predominantly driven by manufacturers (see Figure 1).

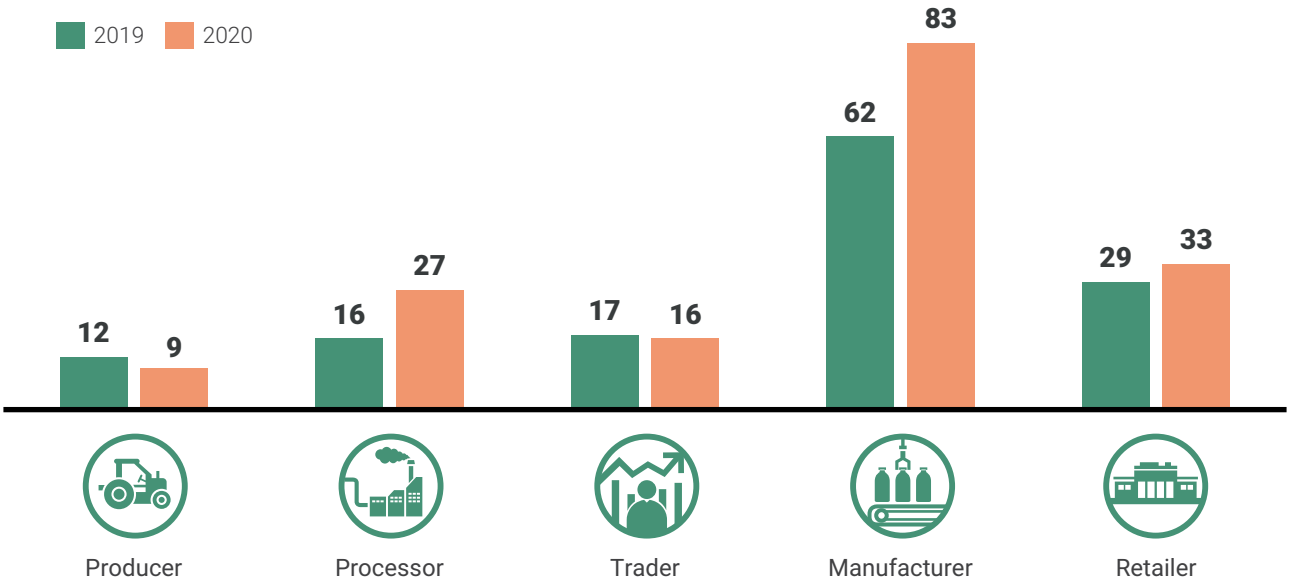


Figure 1 - Number of companies disclosing through CDP, broken down by supply chain stage[22]

Almost half the disclosing companies operate within the food, beverage & agriculture sector (49%), the remainder representing materials (25%), retail (18%), hospitality (5%) and other sectors (4%). The majority are headquartered in highly regulated, developed countries, including the United States, United Kingdom, Germany and France.

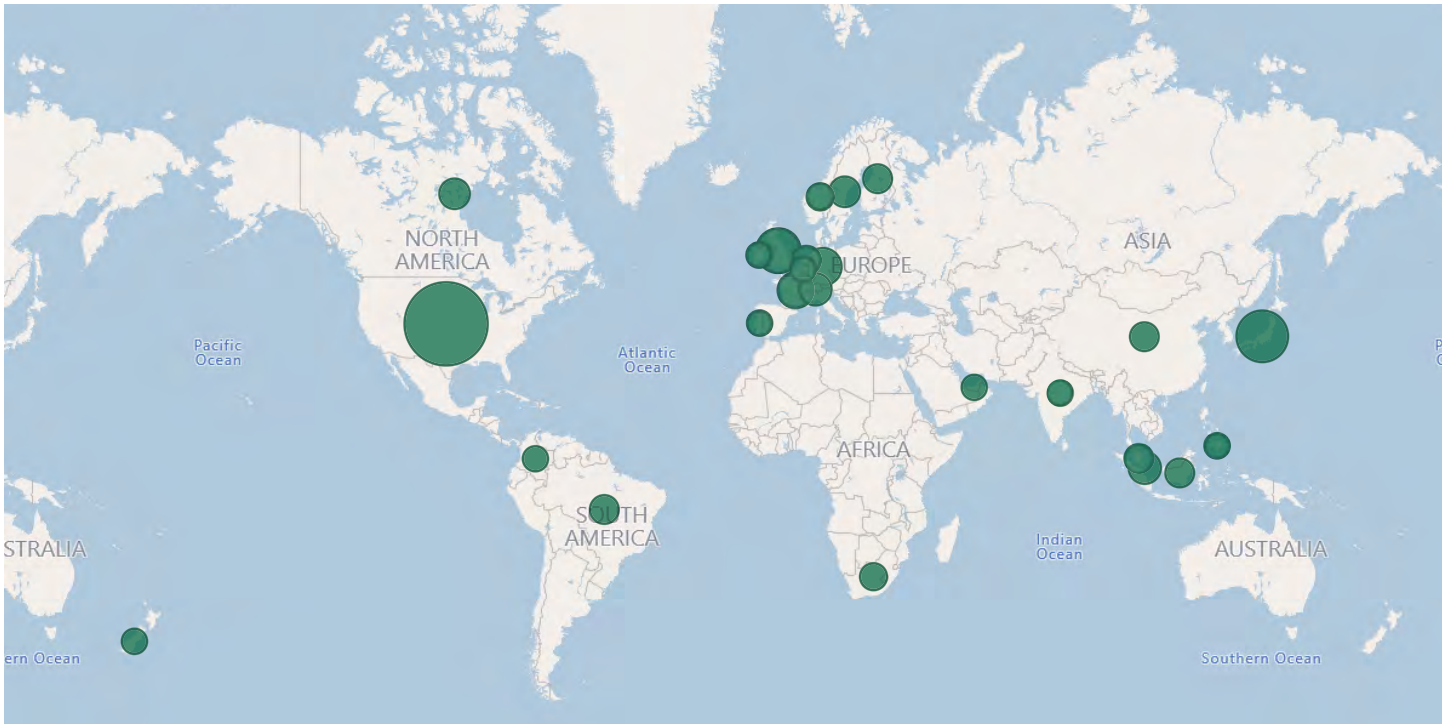


Figure 2 - Map of company headquarters

22. Based on the nature of their business a company can operate within several stages of the supply chain. The values in the graph do not represent distinct companies.

Despite the increasing level of palm oil-related disclosure, this commitment to transparency has yet to cascade to Indonesia's palm oil producers. In 2020, CDP invited 22 Indonesian-based, mostly publicly listed producers to disclose, of which only two responded.

In Indonesia, the total palm oil landbank has grown, from 14.2 million hectares[23] in 2018 to 16.4 million hectares in 2019[24]. However, companies providing landbank data through CDP disclosed control of only 1.4 million hectares[25]. The level of coverage has also dropped, from 2.6 million hectares in 2019, due to fewer producers disclosing through CDP this year.

This is concerning, as it means that 90% of Indonesia's palm oil concession area is not being reported on in a standardized and comparable manner, hampering investors, buyers and other stakeholders from accurately assessing risks related to the production and sourcing of palm oil products from Indonesia.

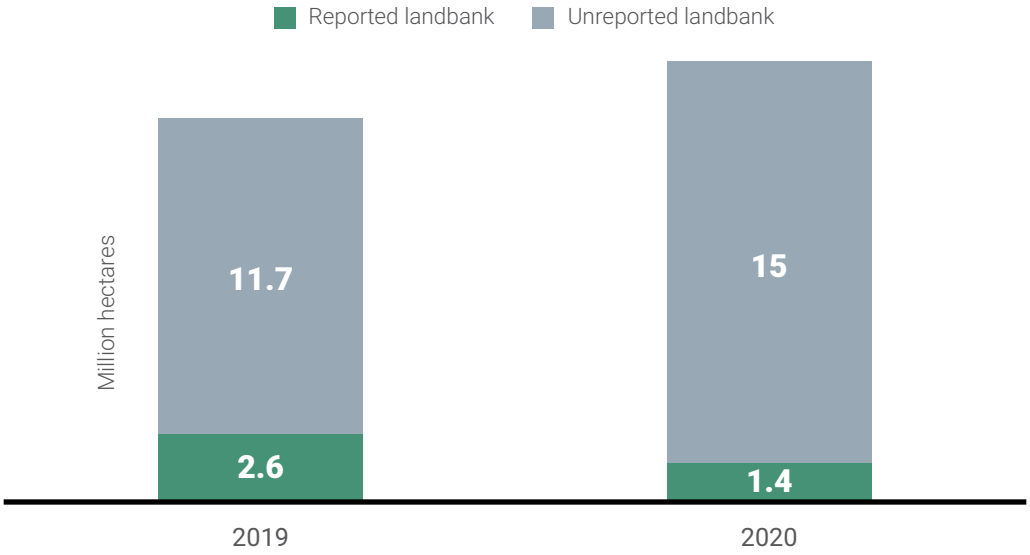


Figure 3 - The majority of Indonesia's palm oil concessions (by area) are not being reported on in a standardized and comparable way

23. Ministry of Agriculture of Indonesia (2018). Di Mana Lahan Sawit Terluas di Indonesia?. Retrieved from https://databoks.katadata.co.id/datapublish/2019/09/10/di-mana-lahan-sawit-terluas-di-indonesia
24. Coordinating Ministry for Economic Affairs of Indonesia (2019). Inilah 10 Provinsi dengan Lahan Perkebunan Sawit Terluas. Retrieved from https://databoks.katadata.co.id/datapublish/2019/10/21/inilah-10-provinsi-dengan-lahan-perkebunan-sawit-terluas
25. Includes owned land, concessions/lease and scheme/plasma smallholders.

THE RISKS ARE GREAT

Companies are increasingly aware of the risks in producing, sourcing or using unsustainable palm oil products. In 2020, 89% (111) of companies undertook a forests-related risk assessment as a first step in understanding and measuring the potential business impacts. Furthermore, 37% (46) reported that their internal process for identifying and assessing forest-related risks is integrated as an enterprise-level risk management framework and 41% (51) assess risk according to best practice[26].

Most companies (97) have identified at least one forest-related risk that has the potential to have a substantial financial or strategic impact to their business. **In total, companies reported more than US$10 billion in potential financial impacts associated with these risks.** Given that less than half of companies provided financial information, this is likely to be an underestimate of the true potential financial impact.

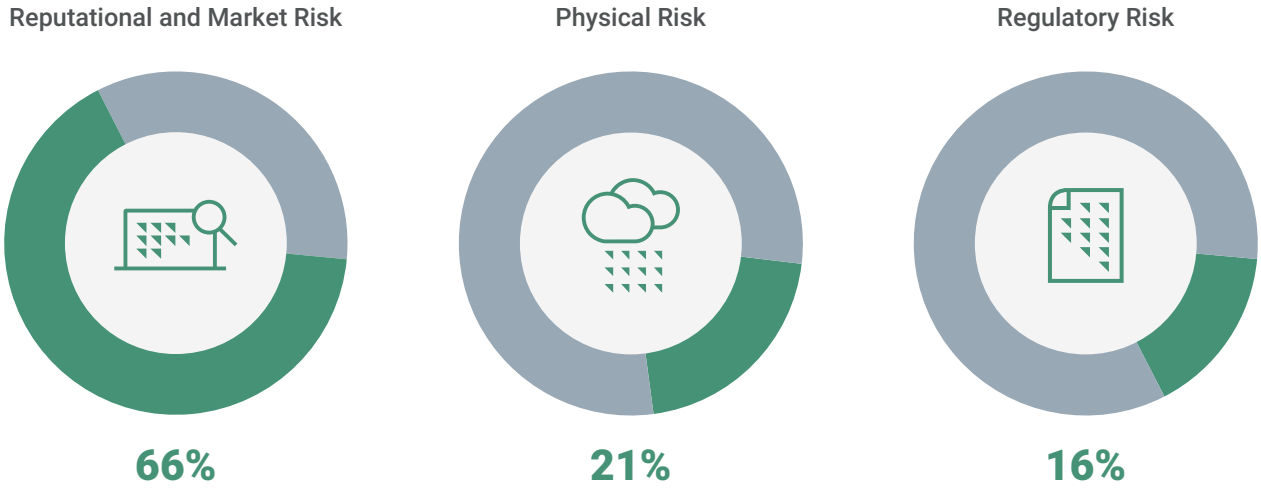


Figure 4 - Companies report greatest exposure to reputational and market forest-related risks

Reputational and market risks are the most common, reported by 66% (82) of companies. This is unsurprising given increasing pressure from investors and consumers for sustainable palm oil supply. **Brand damage is the greatest financial risk, with a potential financial impact totaling US$4.2 billion** (Figure 5). A recent survey by the Boston Consulting Group highlighted that consumers are more aware of environmental issues since the onset of the Covid-19 pandemic[27]. There is mounting pressure, particularly from the 25-44 age bracket, for companies to integrate environmental concerns into their products.

26. 'Best practice' is defined here as annually, or more than once in a year, and using a long-term horizon of greater than six years.

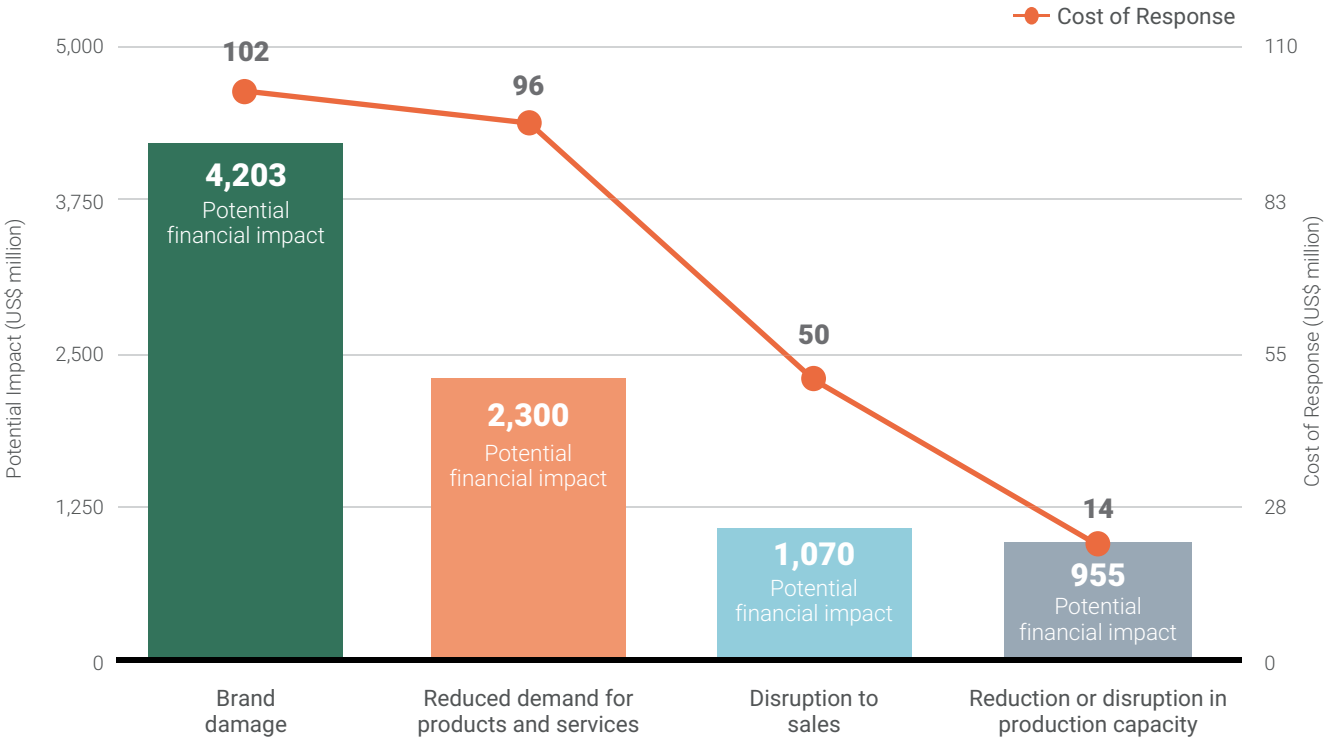


Figure 5 - The estimated cost of response is a fraction of the potential financial impacts companies face (US$ million)

Brand damage

Palm oil is one of **Unilever's** key agricultural raw materials and is present in many of their products. The company consumes just under 1 million tons of palm oil and its derivatives each year. Unilever is aware that NGO campaigns that associate their products with deforestation could lead to consumer boycotts, especially within developed countries. They have estimated this financial risk to be worth **US$185.7 million**, equivalent to 0.3% of their operational expenses[28]. To mitigate this threat to their brand, they are investing in sourcing RSPO-certified products to increase the supply of certified sustainable palm oil, alongside supply chain traceability programs and monitoring[29].

27. BCG. (2020). The Pandemic Is Heightening Environmental Awareness. Retrieved from https://www.bcg.com/publications/2020/pandemic-is-heightening-environmental-awareness
28. Figure based on Unilever Annual Report and Accounts 2019. Retrieved from https://www.unilever.com/Images/unilever-annual-report-and-accounts-2019_tcm244-547893_en.pdf
29. Unilever's response to the 2020 CDP forests questionnaire

In contrast, only 16% of companies report exposure to regulatory risks. This is counterintuitive given the tightening of regulations on palm oil and other forest-risk commodities, from both Indonesia and importer countries. This includes the extension of Indonesia's palm oil concession moratorium, in place since 2011[30]; the revised Indonesian Sustainable Palm Oil (ISPO) regulation; and an increasing number of international proposals such as the recent UK legislative proposal on the use of deforestation-free products[31]. The risks are real. In September 2020, reports of forced labor led to **FGV Holding Berhad's** palm oil shipment being blocked by the US Customs and Borders authority, leading to an immediate decline in company stock price[32].

The risks companies face depend on where they operate within the supply chain. Whilst reputational and market risks are identified across the supply chain, physical risks are predominantly reported by producers, likely due to their proximity and direct influence over production (Figure 6). This is a cause for concern as physical risks can also have a significant indirect impact on downstream companies. **Oriflame** - a manufacturing company - has recognized that extreme weather events and consequent reduction in palm oil supply could increase their production costs and make it harder to achieve their certification commitments[33].

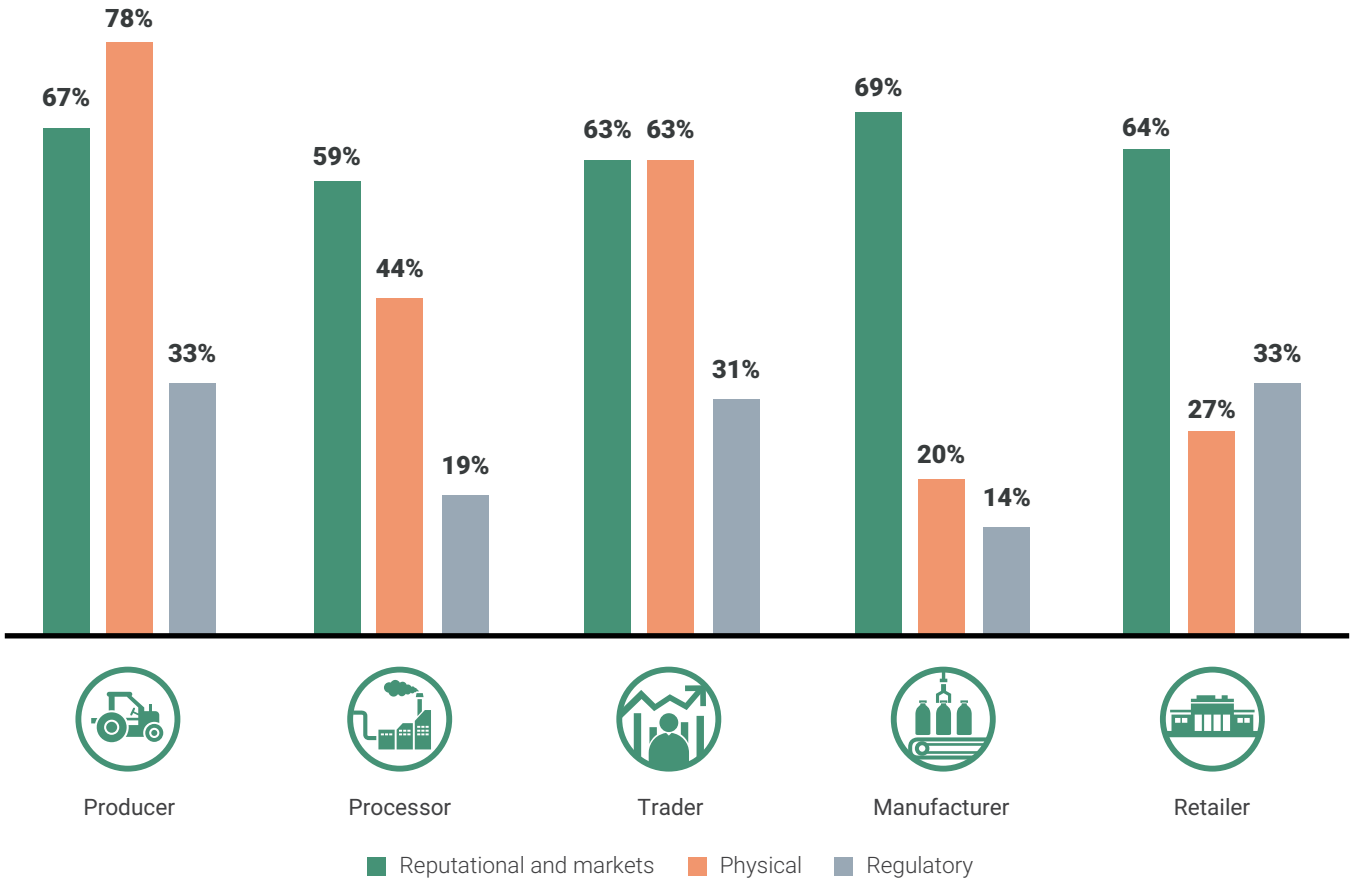


Figure 6 - Type of risk by supply chain stage

30. The Jakarta Post. (2020). Oil palm moratorium: The future offered. Retrieved from https://www.thejakartapost.com/academia/2018/12/15/oil-palm-moratorium-the-future-offered.html
31. Department for Environment, Food & Rural Affairs. (2020). World-leading new law to protect rainforests and clean up supply chains. Retrieved from https://www.gov.uk/government/news/world-leading-new-law-to-protect-rainforests-and-clean-up-supply-chains
32. Bloomberg. (2020, September 30). US Blocks Palm Oil Imports From Malaysia's FGV On of World's Top Producers. Retrieved from https://www.bloomberg.com/news/articles/2020-09-30/u-s-blocks-palm-oil-imports-from-one-of-world-s-top-producers
33. Oriflame's response to the 2020 CDP forests questionnaire

Companies are predominantly responding to perceived risks by increasing the use of sustainably sourced material, engaging with their suppliers and diversifying their supply (see Figure 7). **There is little to lose - mitigation responses cost an average of 3% of the potential cost of the corresponding risk.**

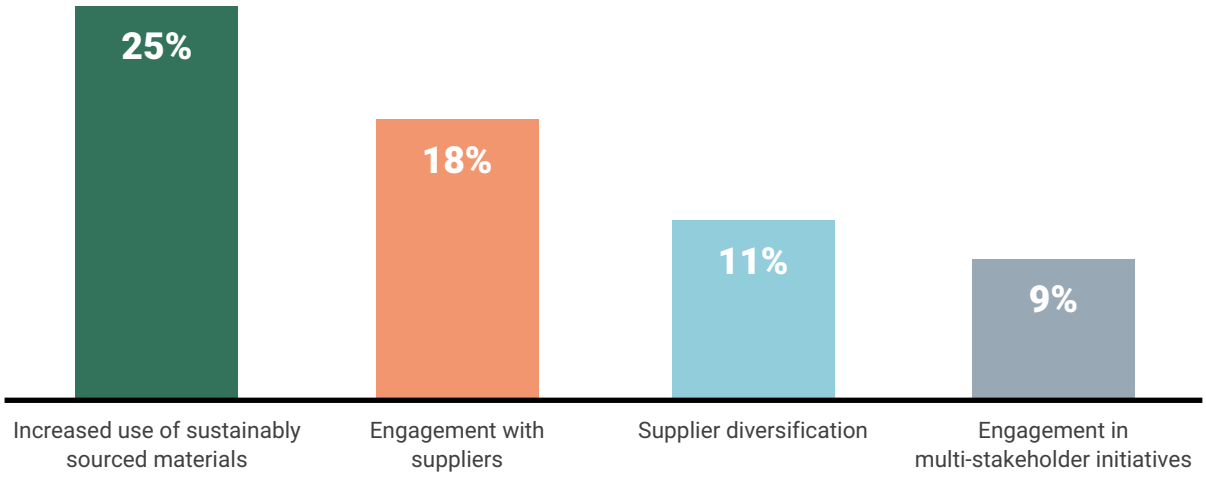


Figure 7 - How companies are responding to the perceived risks

Forest fire

PT. Austindo Nusantara Jaya (ANJ) is committed to zero land clearing by burning, in line with local and international regulations, RSPO, ISPO and ISCC principles. Despite this, fire remains a substantial material risk, especially in West Kalimantan. **ANJ estimates the potential cost of mitigating the risk is in the range of US$1-10 million, equivalent to 7% of their operating expenses[34].** Fire not only threatens the standing stock of palm within their concessions, but also endangers the lives of those living in its conservation areas. To mitigate this risk, ANJ conducts fire risk assessments to understand the nature of the risk across its managed landscapes and implements a proportional response, including: training fire-fighters and patrol teams, installing monitoring towers and fire warning signs, using satellite data and aerial drone patrols as an early warning system, and building awareness before and during the dry season[35].

Constraint to growth

Palm oil is one of the main ingredients in **Lions Corporation's** cleaning products, including laundry detergents and body washes. They are aware of the possible reputational risks should human rights abuses and environmental issues occur in the supply chain. Challenges such as illegal deforestation and infringement on community rights could reduce the supply of sustainable raw materials and impact sales. **The potential loss of sales opportunities is estimated at US$90 million, equivalent to 3% of 2019's net sales[36].** To manage this risk, Lion Corporation publishes a sustainable supplier procurement policy and procures certified palm oil[37].

34. Figure based on ANJ-group FY19 Financial Statements. Retrieved from https://anj-group.com/en/financial-report
35. Austindo Nusantara Jaya's response to the 2020 CDP forests questionnaire
36. Figure based on Lion Corporation 2019 Financial Highlights. Retrieved from https://www.lion.co.jp/en/ir/finance/result/
37. Lion Corporation's response to the 2020 CDP forests questionnaire

TURNING RISKS INTO OPPORTUNITIES

The majority of companies (95) have identified forests-related opportunities within their operations. Brand value and increased demand for certified material were the most frequently reported opportunities, highlighting the impact changes in consumer preferences are having on company strategy.

The opportunities for companies who choose to transform and remove deforestation from their palm oil supply chains are great. **From the 34 companies that were able to provide financial estimates, forests-related opportunities totaled US$4.2 billion, of which nearly 31% (US$1.3 billion) is very likely or virtually certain.**

And the financial value of forests-related opportunities is only likely to increase, driven by market incentives and growing consumer preferences for sustainable products. Research from New York University's Stern Centre for Sustainable Business shows that products marketed as "sustainable" are outpacing their standard counterparts[38].

Environmental, Social and Corporate Governance (ESG) investment is growing; US$130 billion worth of sustainable bonds were issued globally in the second quarter of 2020, the highest quarterly total since records began in 2015[39]. In 2019, agri-trader COFCO received a total of US$2.3 billion sustainability-linked loan facilities from 21 international banks[40]. COFCO will receive an interest discount should they meet their sustainability performance targets, which includes traceability. And since 2017, Wilmar has been receiving sustainability-linked loans that peg their interest rate against the company's ESG performance[41 42 43].

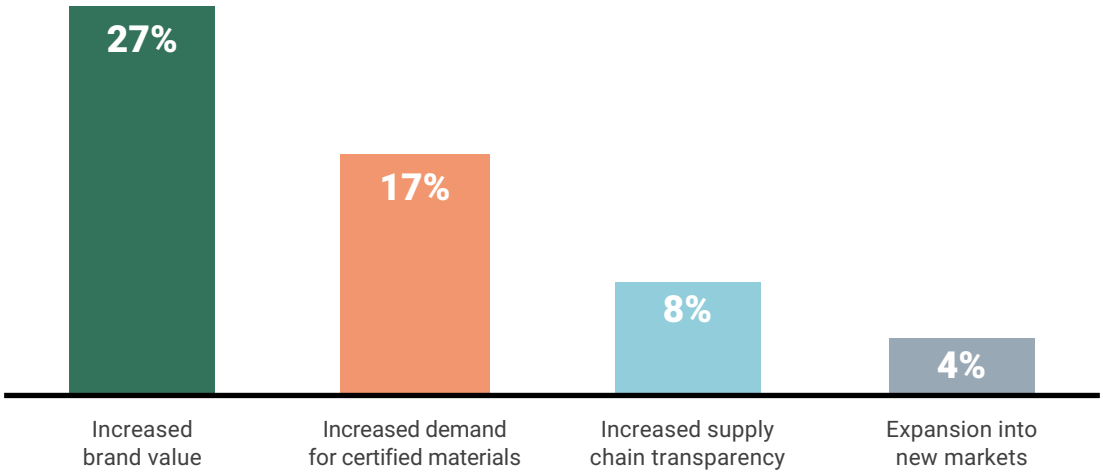


Figure 8 - Increased brand value provides the greatest opportunities

38. Kronthal-Sacco, R., & Whelan, T. (2020). CSB Sustainable Market Share Index™.
Retrieved from https://www.stern.nyu.edu/experience-stern/about/departments-centers-initiatives/centers-of-research/center-sustainable-business/research/research-initiatives/csb-sustainable-market-share-index
39. Refinitiv, 2020. Reports 2020 Q2 - Sustainable Finance Review.
Retrieved from https://thesource.refinitiv.com/thesource/getfile/index/a9687f16-6ee6-498a-a26b-0d5a3552b062.
40. COFCO international, 2019. COFCO International Successfully Completes USD 2.3 Billion Sustainability-Linked Facilities.
Retrieved from https://www.cofcointernational.com/newsroom/cofco-international-successfully-completes-usd-23-billion-sustainability-linked-facilities.
41. ING and Wilmar International, 2017. Wilmar And ING Collaborate on Sustainable Loan In Asia
Retrieved from https://www.wilmar-international.com/sustainability/wp-content/uploads/2017/11/Joint-Press-Release-Wilmar-and-ING-collaborate-on-sustainable-loan-in-Asia.pdf.
42. OCBC Bank and Wilmar International, 2018. OCBC Bank Partners Wilmar On Largest Sustainability-Linked Bilateral Loan by A Singapore Bank.
Retrieved from https://www.wilmar-international.com/docs/default-source/default-document-library/sustainability/resource/WIL_News_Release_dd8June2018_OCBC_Sustainability-Linked_Bilateral_Loan.
43. DBS, 2018. DBS And Wilmar Sign USD 100 Million Sustainability-Linked Loan.
Retrieved from https://www.dbs.com/newsroom/DBS_and_Wilmar_sign_USD_100_million_sustainability_linked_loan.

Markets

Carrefour estimates **the potential value from the sale of sustainable palm oil products to be worth US$140 million.** Carrefour is capitalizing on this opportunity by promoting sustainable palm oil products to cater for increasing customer awareness and concern over nutrition and environmental issues. To meet this demand for sustainable material, Carrefour is working towards third-party certification, building closer relationships with its suppliers and has included the RSPO trademark on its products to communicate their commitment to sustainable practices directly to their customers[44].

Products & services

Shiseido is capitalizing on the opportunity to increase brand value by increasing the use of sustainable palm oil in their products. **The value of this opportunity is worth US$275 million.** Shiseido had obtained certifications for 100% of their palm oil supply in 2018. As of 2020, they have received the RSPO Supply Chain certification for 17 of their own factories[45].

44. Carrefour's response to the 2020 CDP forests questionnaire
45. Shiseido's response to the 2020 CDP forests questionnaire

Efficiency

L'Oréal has identified **cost-saving opportunities associated with a resilient and sustainable supply chain to be worth US$51.5 million.** By working with direct and indirect suppliers to remove deforestation from their value chain, L'Oréal hopes to increase the stability of palm oil availability and price and ultimately create value for their stakeholders and brands.

In 2019, L'Oréal launched a partnership with the French Agricultural Research Centre for International Development (CIRAD) to explore the impact of the agricultural practices of independent smallholders on soil quality and plantation productivity. The aim is to provide individual recommendations to smallholder cooperatives to drive improvements in their practices whilst reducing their environmental impact through e.g. overuse or misuse of fertilizers and herbicides. This will ultimately improve farm profitability whilst securing L'Oréal a sustainable, resilient supply of palm oil[46].

46. L'Oréal's response to the 2020 CDP forests questionnaire

CORPORATE GOVERNANCE IS RAMPING UP

Corporate leadership on deforestation is critical in building a positive brand reputation and gaining consumer trust. According to the 2019 Edelman Trust Barometer, 76% of people want CEOs to take the lead in driving change instead of waiting for government action, whilst 56% agree that they are in a position to make a positive impact on environmental issues[47].

In 2020, 90% (102) of companies producing, sourcing or using palm oil products from Indonesia had board-level oversight on forest-related issues, primarily under the remit of the Chief Sustainability Officer. This is a significant improvement on the 80% (64) in 2018, indicating that forest-related issues are increasingly being raised at a strategic level.

To decouple deforestation from palm oil supply chains, strong corporate governance must be reinforced with a robust forest policy. Having forest-related policies that include a public No Deforestation, No Peat, and No Exploitation (NDPE) commitment is a necessary step to remove deforestation from corporate supply chains and keep in line with investor[48] and regulatory requirements. However, only 28% (35) of companies have a time-bound NDPE[49] commitment in place and most of these commitments are expiring in 2020. Processors and retailers are the greatest cause for concern: 74% (20) of processors and 76% (15) of retailers do not have a best practice NDPE commitment in place[50]. This represents a worryingly low level of intent to remove deforestation from corporate value chains.

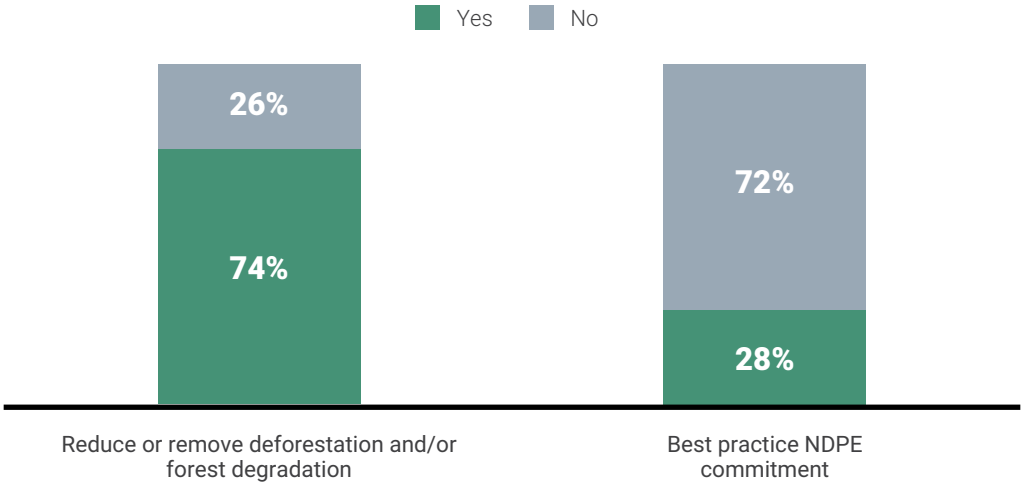


Figure 9 - Public commitments to removing or reducing deforestation and/or forest degradation outpace NDPE-specific commitments

47. Edelman (2019). 2019 Edelman Trust Barometer. Global Report. Retrieved from https://www.edelman.com/sites/g/files/aatuss191/files/2019-02/2019_Edelman_Trust_Barometer_Global_Report.pdf
48. United Nations Principles for Responsible Investment. (2020). PRI Investor Working Group on Sustainable Palm Oil. Retrieved from https://www.unpri.org/sustainable-land-use/pri-investor-working-group-on-sustainable-palm-oil/5873.article
49. Including a publicly available commitment to no conversion of natural ecosystems, or zero gross deforestation/no deforestation; no new development on peat regardless of depth; and Free, Prior and Informed Consent (FPIC) of indigenous people and local communities.
50. CDP defines NDPE 'best practice' here as inclusive of a time-bound commitment that applies to 100% of production/consumption and covers both direct operations and supply chains.

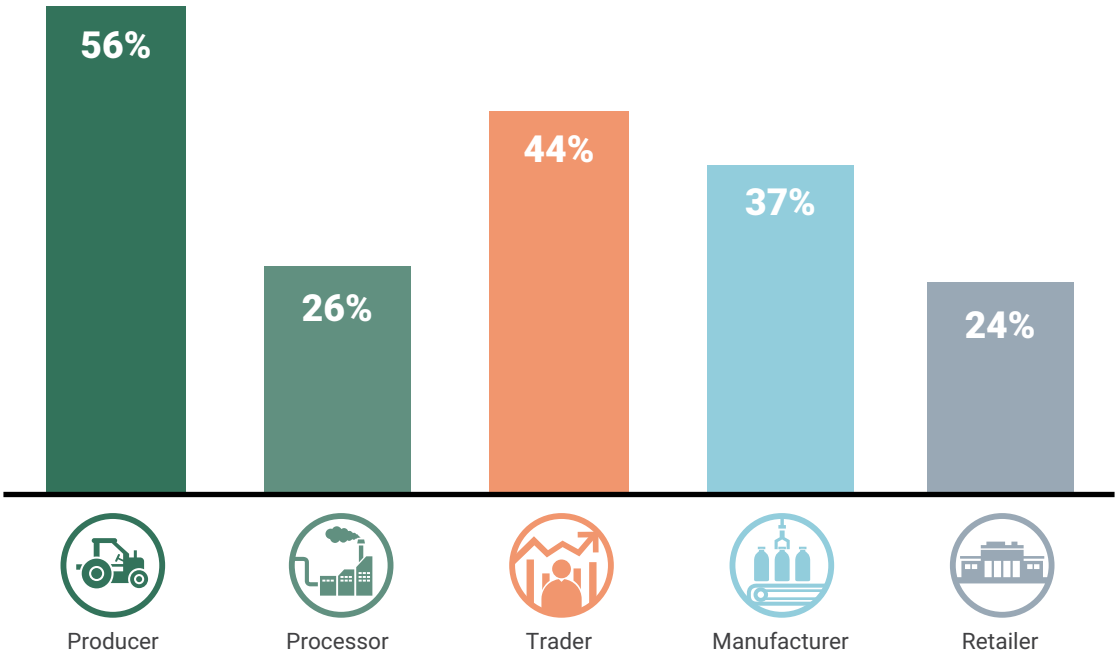


Figure 10 - NDPE commitments by value chain stage

Board level oversight

At **Yum! Brands** the Board of Directors has oversight over ESG issues. Briefs are prepared by the Chief Sustainability Officer and raised at annual meetings of the Audit Committee. This mechanism allows them to directly identify, evaluate, manage and track forest issues. Key topics for this reporting year include setting an updated sustainability strategy and reviewing progress against forest-related targets[51].

51. Yum! Brands's response to the 2020 CDP forests questionnaire

TRACEABILITY

Traceability is a critical activity needed to achieve a sustainable value chain, providing a degree of certainty that companies are not sourcing palm oil products from high-risk areas. Traceability has consequently become a prerequisite for many corporate sourcing policies.

In 2020, 80% (100) of companies reported having a traceability system in place to track the origin of their palm oil supply. **An increasing number of companies can trace their supply to the plantation level, from 10% in 2018 to 19% in 2020.** This has been matched by a decrease in the number of companies ending their commodity traceability at the mill (see Figure 11).

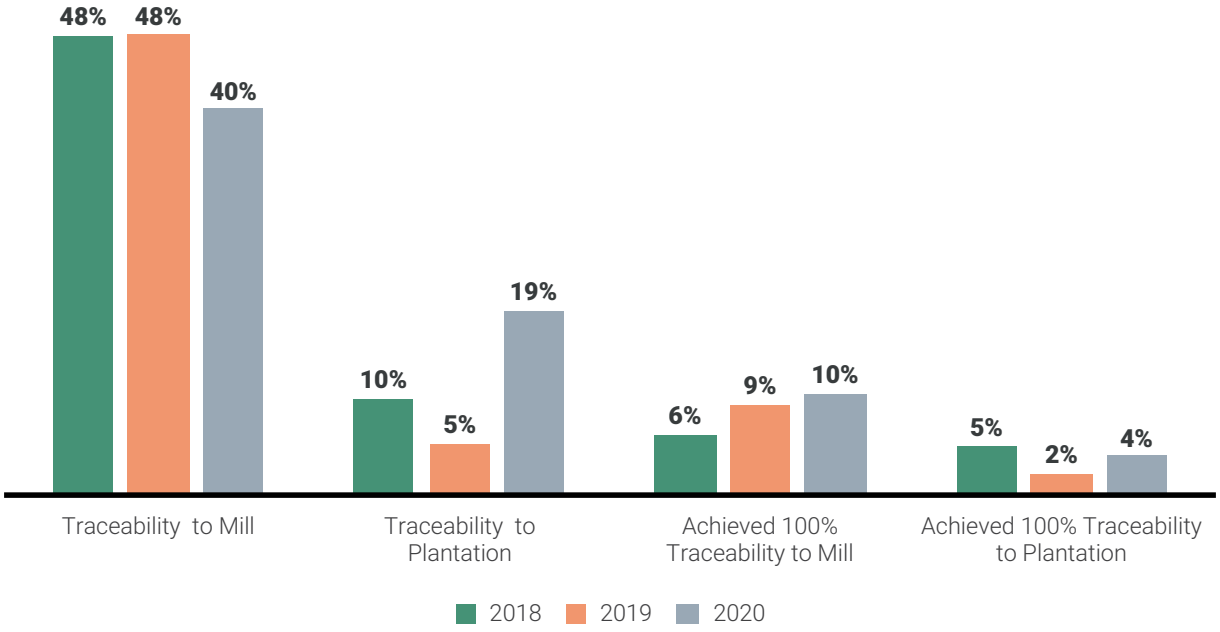


Figure 11 - Progress on traceability depth and coverage from 2018 to 2020

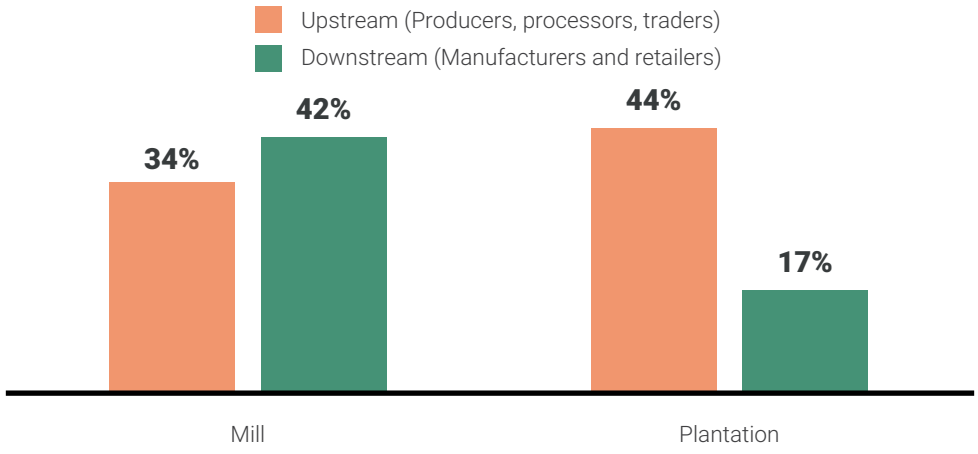


Figure 12 - Comparison of traceability depth by supply chain stage

Among manufacturers and retailers, only 42% (44) were able to trace their palm oil supply to the mill, whilst 44% (14) of upstream companies (producers, processors, and traders) traced their supply to the plantation (see Figure 12).

Progress towards 100% traceability is still lagging, particularly for downstream companies. However, upstream companies have shown considerable progress. In 2020, 13% (4) of upstream companies reported that they were able to trace 100% of their supply to the plantation level, compared to 5% in 2018.

Several companies are driving traceability improvements through ambitious target-setting. However, some will not hit their goals. Of 22 companies that set a target to achieve 100% traceability to the mill by 2020, only 23% (5) have met their goals[52]. The gap is even greater for traceability to the plantation. Of seven companies that set out to achieve 100% traceability by 2020, not one has reported success.

Greater implementation is therefore needed increase the level and coverage of traceability if companies are to successfully deliver on their No Deforestation commitments[53].

Investing in technology

Unilever is investing in satellite, geolocation, blockchain and AI tools to build new approaches to monitoring and transparency. All of their suppliers are required to provide traceability information up to the level of the mill, including both RSPO and non-RSPO certified volumes. Mill locations provide valuable insights on the plantations that fall within their sourcing area, including third-party plantations, associated and independent smallholders. In H1 2019, **Unilever achieved 97% traceability to the mill and has visibility over 1,600 mills in their extended supply chain, including direct and indirect suppliers[54].**

52. As CDP's disclosure cycle ends in mid-2020, targets ending in 2019 have also been included.
53. Jopke, D & Schoneveld, G (2018). Corporate commitments to zero deforestation. Retrieved from http://www.cifor.org/publications/pdf_files/OccPapers/OP-181.pdf
54. Unilever's response to the 2020 CDP forests questionnaire

CERTIFICATION

Certification schemes remain an important tool for transitioning to a responsible palm oil industry. In 2020, 90% (113) of companies used third-party certification to increase the sustainable production and/or consumption of their palm oil products.

The RSPO-certified production volumes reported are dominated by just a handful of producers and traders: 99% of the 5.6 million metric tons of RSPO-certified palm oil reported to CDP is produced by just eight companies, with **Wilmar** accounting for 57% of the total.

Several companies are committing to improve the sustainability of their palm oil production and supply through ambitious third-party certification targets. However, **of 35 companies that set a target to be 100% certified in 2020, only 29% (10) reported achieving this goal.**

RSPO Mass Balance remains the most common certification reported (see Figure 13). More stringent certifications such as RSPO Segregated and RSPO Identity Preserved are in the minority.

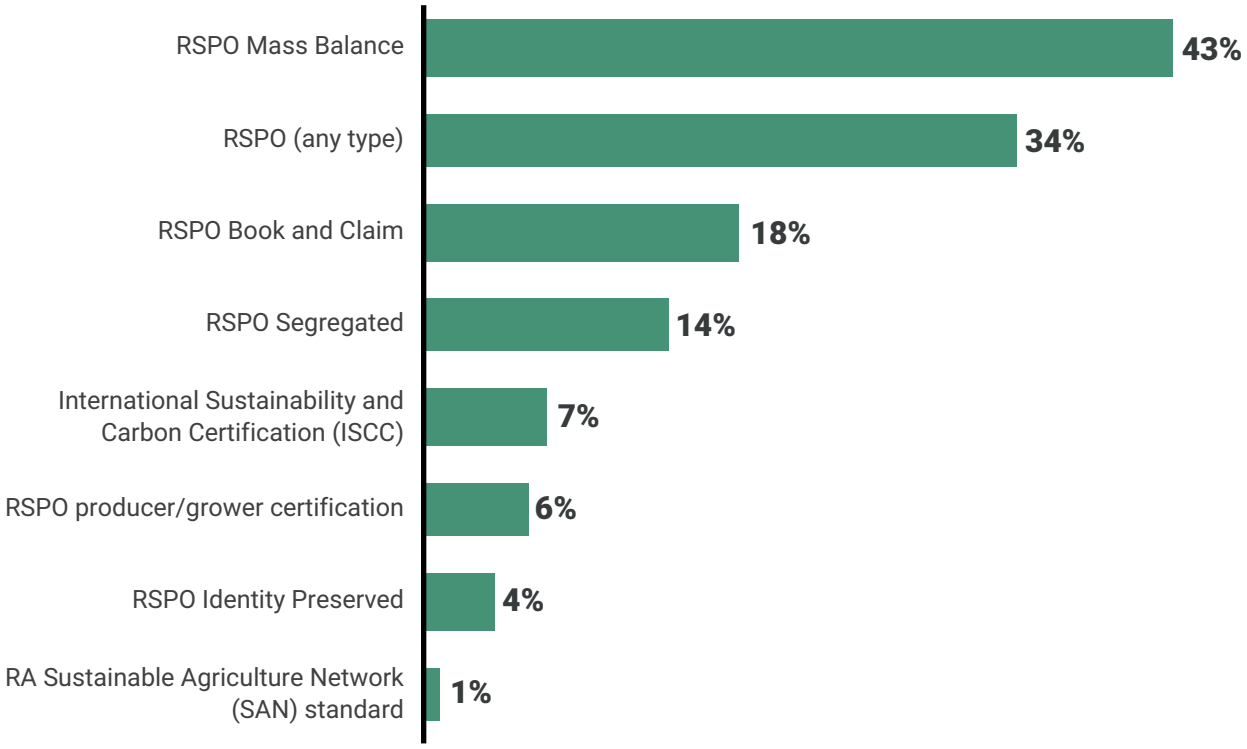


Figure 13 - Third-party certifications adopted in 2020

Certification target

Nestlé aims to achieve RSPO certification for 100% of its refined palm kernel oil products by 2023 with preference given to the more stringent RSPO Segregated and Identity Preserved approaches. To tackle traceability and supplier compliance challenges, Nestlé is supporting initiatives that are driving industry transformation and engaging with NGOs to develop tools and build capacity in their supply chains[55].

55. Nestlé's response to the 2020 CDP forests questionnaire

TRANSFORMING SUPPLY CHAINS

To successfully deliver on sustainability commitments, companies will need to consider the actions of all stakeholders within the palm oil supply chain. Whilst producers have a direct impact on how palm oil plantations are managed, downstream companies can influence supply chain transformation by leveraging their power of procurement.

As downstream companies often do not have direct oversight over commodity production through owned and managed concessions, they are reliant on supplier compliance with corporate policies, necessitating direct engagement beyond first-tier suppliers to gain visibility on commodity flow. However, **26% (32) of companies sourcing palm oil products from Indonesia are not working with their direct suppliers to improve their capacity to supply sustainable palm oil.** Only 33% (41) were able to engage with all of the suppliers in their value chain. And despite the sourcing risks of limited supplier engagement, just under 50% (48) of downstream companies have yet to engage with their indirect suppliers[56].

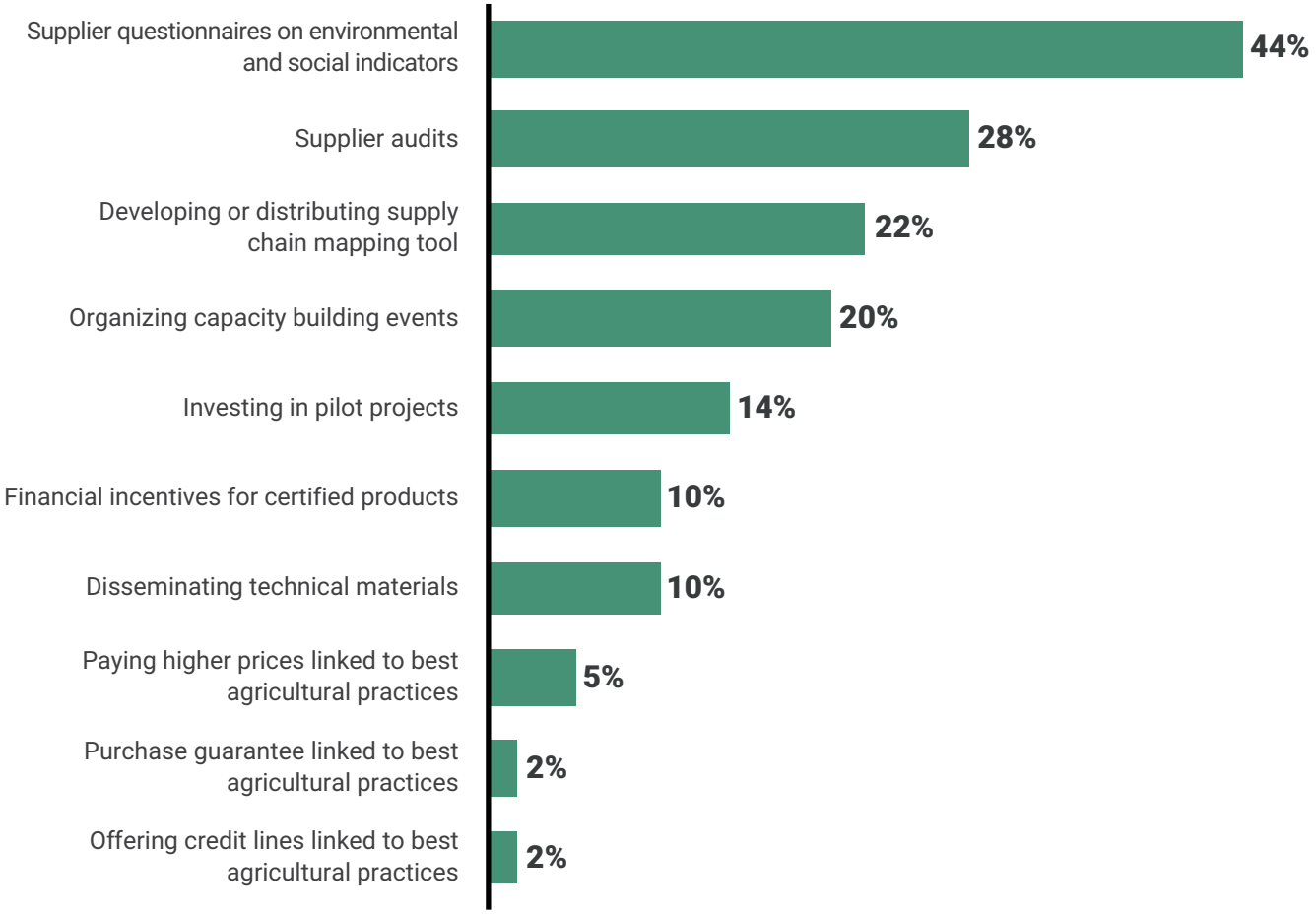
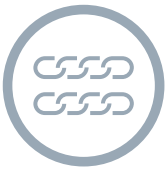


Figure 14 - Breakdown of direct supplier engagement approaches

56. 'Downstream' here refers to manufacturers and retailers responding to the 2020 CDP forests full-version questionnaire

Direct supplier engagement is mainly in the form of supplier questionnaires, assessing progress on predetermined environmental and social indicators, and supplier audits. There is a worrying absence of supplier financing of sustainable practices. Upstream palm oil producers are often unable to apply sustainable plantation management practices due to the costs associated with training, agricultural products and certification. Despite this, only three companies provided a purchase guarantee linked to best agricultural practices, and only two offered credit lines.



Supplier engagement

Symrise is engaging with 25 direct suppliers who handle major volumes in their palm oil supply through multi-stakeholder initiatives and capacity-building events. Over 81% of their strategic suppliers have participated in capacity-building events, including CDP's Supply Chain program, educational webinars and meetings. To further strengthen their engagement with suppliers and encourage sustainable practices, **Symrise offers financial incentives by paying higher prices for certified and verified sustainable raw materials.** This currently applies to RSPO Mass Balance certified materials, but their aim is to increasingly move to RSPO Segregated or RSPO Identity Preserved materials[57].

57. Symrise's response to the 2020 CDP forests questionnaire

SUPPORTING SMALLHOLDERS

Smallholders play a pivotal role in the palm oil supply chain. Collectively smallholders manage approximately 40% of Indonesia's plantations[58] - this is expected to rise to 60% by 2030[59].

Despite their influence, smallholders' capacity to produce sustainable palm oil is still lacking. This is especially true of independent smallholders. Unlike plasma smallholders - who benefit from training and capacity building associated with their contracts with specific mills - independent smallholders often struggle to obtain the resources and expertise needed to deliver best agricultural practices. Without materials such as high-quality fertilizers and seedlings, they risk low yields, whilst the prohibitive cost of certification restricts both their market access and their ability to ensure a sustainable supply of palm oil products. In 2017, less than 1% of land managed by independent smallholders was RSPO and/or Indonesia Sustainable Palm Oil (ISPO) certified[60].

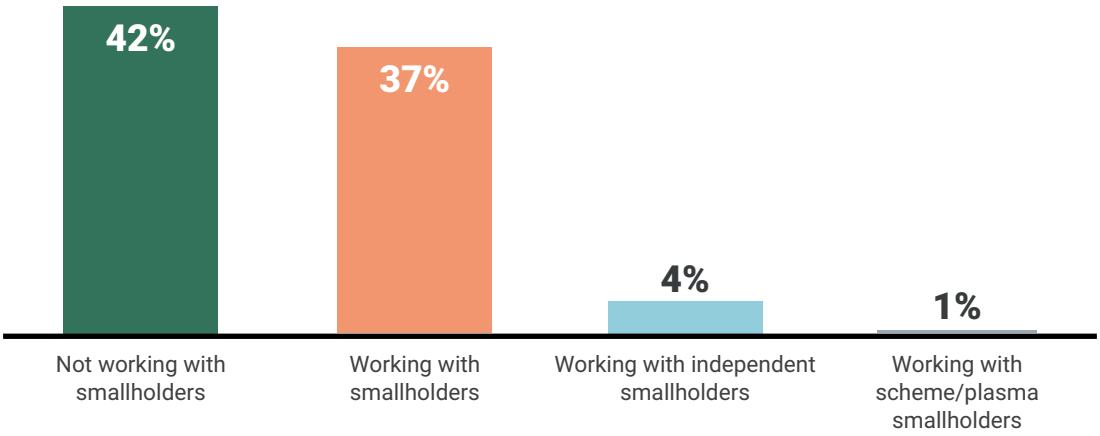


Figure 15 - Smallholder engagement is lacking

Of 113 companies[61], 42% (48) are yet to engage with smallholders to improve the sustainability of supply. Smallholder engagement by downstream companies provides an opportunity to increase the level of traceability over supply, minimizing the risk of sourcing from unsustainable sources. Furthermore, through the provision of agricultural inputs and capacity building, companies can potentially increase the quantity and quality of their supply.

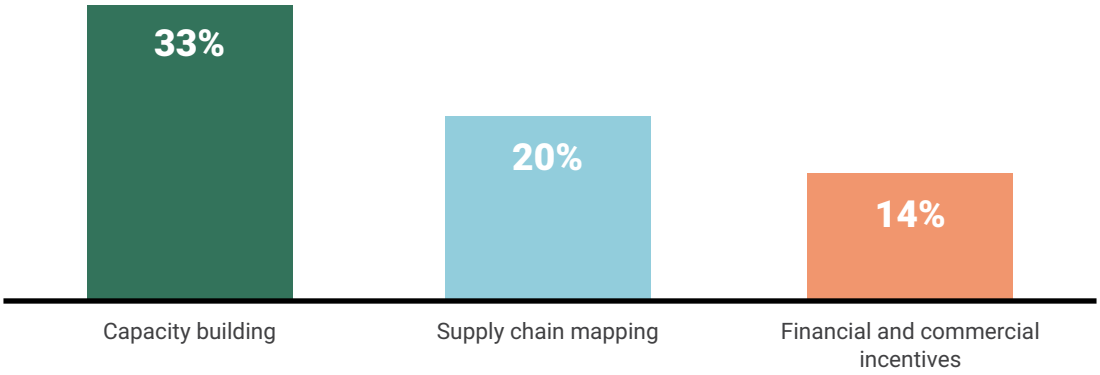


Figure 16 - Breakdown of smallholder engagement approaches

58. SNV. (2015). Smallholder palm oil farmers can farm sustainably, but external support is necessary. Retrieved from https://snv.org/update/smallholder-palm-oil-farmers-can-farm-sustainably-external-support-necessary
59. Saragih, B (2017): Oil palm smallholders in Indonesia: Origin, development strategy and contribution to the national economy. Retrieved from https://www.iopri.org/wp-content/uploads/2017/10/WPLACE-17-1.1.-OIL-PALM-SMALLHOLDER-Bungaran-Saragih.pdf
60. Suhada, T., Bagja, B., & Saleh, S. (2018). Smallholder Farmers Are Key to Making the Palm Oil Industry Sustainable. Retrieved from https://www.wri.org/blog/2018/03/smallholder-farmers-are-key-making-palm-oil-industry-sustainable
61. Companies responding to the full-version questionnaire

Companies are predominantly engaging with smallholders through capacity building activities and the provision of agricultural inputs. However, financial and commercial support is lacking. Only 14% (16) of companies provided financial and commercial incentives for sustainable palm oil production. Financial and commercial approaches linked to best agricultural practices, such as paying a higher price, providing purchase guarantees or long-term contracts linked to forest-related commitments, were some of the least utilized approaches.

Smallholder engagement

Neste Oyj is currently supporting a network of over 36,900 Indonesian palm oil smallholders. As certification is a prerequisite for Neste's suppliers, they are helping smallholders access certifications by building awareness and expertise in sustainable practices. Since 2017 they have co-funded the Wild Asia Group Scheme, focused on improving the sustainability of smallholder practices in Sabah, Borneo. **In partnership with Wild Asia and Kuala Lumpur Kepong Berhad, Neste has helped 339 smallholders get certified, representing 2,080 hectares of managed land[62].**

62. Neste Oyj's response to the 2020 CDP forests questionnaire

TACKLING SUPPLY CHAIN COMPLEXITIES THROUGH MULTI-STAKEHOLDER APPROACHES

The inherent complexity of palm oil supply chains is cited by 39% (49) of companies as a key barrier to eliminating deforestation and/or conversion of natural ecosystems from their value chains. Jurisdictional Approaches are a promising tool in addressing this challenge. This form of landscape approach brings together all relevant actors within a political administrative boundary to co-develop goals, align activities and share monitoring and verification[63].

As these initiatives consider all stakeholders in a landscape that feed into the supply chain, including smallholders, companies can benefit from increased levels of traceability whilst minimizing the risk of sourcing from irresponsible producers[64]. And due to the participation of jurisdictional governments, companies are exposed to reduced regulatory risk as they are more likely to be aligned to upcoming regulatory requirements.

In 2020, 81% (101) of disclosing companies participated in external activities and/or initiatives to promote the implementation of their forest-related policies and commitments. Of these, 70% (88) were involved in multi-partnership or stakeholder initiatives[65]. **Despite being a nascent approach, 8% (10) of companies had engaged specifically in a form of Jurisdictional Approach, predominantly through the RSPO Jurisdictional Approach to Certification and Produce, Conserve and Include (PCI).**

Several jurisdictional and landscape initiatives are under way in Indonesia. One notable example is the **Siak Pelalawan Landscape Program (SPLP)**, a coalition of eight companies, facilitated by **Daemeter** and **Proforest**, who are working together to support the transition to sustainable palm oil production in Siak and Pelalawan Regencies[66]. Further north, in Aceh Tamiang Regency, **Unilever**, **Musim Mas**, **PepsiCo** and others have been working closely with **IDH**, **the Sustainable Trade Initiative**, to support Aceh Tamiang in becoming a 'Verified Sourcing Area', a method that seeks to verify sustainability at the level of a jurisdiction[67]. And more broadly, across the provinces of Aceh and North Sumatra, a group of NGOs and companies have been working under the **Coalition for Sustainable Livelihoods** to drive local economic development, reduce poverty and improve natural resource management[68].

These initiatives are an encouraging early sign that Jurisdictional Approaches are being chosen by companies as a viable tool in addressing sourcing and sustainability challenges within their value chains. This year, in recognition of their potential, and to mobilize their uptake, CDP launched a project to create a standardized and consistent assessment of the quality of these initiatives by its stakeholders. Improved impact reporting over time will hopefully provide a clear business case to gain buy-in from public sector players such as sub-national governments.

63. Proforest. (2016). Introduction to landscape or jurisdictional initiatives in commodity agriculture. Retrieved from https://proforest.net/en/publications/responsible-sourcing-and-production-briefings/introduction-to-landscape-or-jurisdictional-initiatives-in-commodity-agriculture#:~:text=Landscape%20or%20jurisdictional%20initiatives%20are,commodities%20%E2%80%93%20at%20a%20larger%20scale.
64. Proforest. (2016). Introduction to landscape or jurisdictional initiatives in commodity agriculture. Retrieved from https://proforest.net/en/publications/responsible-sourcing-and-production-briefings/introduction-to-landscape-or-jurisdictional-initiatives-in-commodity-agriculture#:~:text=Landscape%20or%20jurisdictional%20initiatives%20are,commodities%20%E2%80%93%20at%20a%20larger%20scale.
65. CDP defines a 'multi-stakeholder initiative' as an initiative that is governed by different stakeholder groups, including private sector companies and their associations, civil society organizations (e.g. environmental and social NGOs) and possibly farmer organizations, government organizations and knowledge providers.
66. Proforest. (2018). Development of a Landscape Programme in Siak and Pelalawan, Indonesia. Multi-stakeholder collaboration to achieve sustainable land use. Retrieved from https://proforest.net/proforest/en/files/plbn_02_dec10_final.pdf
67. IDH The Sustainable Trade Initiative. (2019). PPI Compact signed: Aceh Tamiang to become sustainable production region as first step towards VSA. Retrieved from https://www.idhsustainabletrade.com/news/aceh-tamiang-to-become-sustainable-producing-region-as-1st-step-towards-vsa/
68. Conservation International: Coalition for sustainable Livelihoods. Improving smallholder productivity and sustainable development in Indonesia. Retrieved from https://www.conservation.org/projects/coalition-for-sustainable-livelihoods

Jurisdictional and Landscape Approaches

Golden Agri Resources (GAR) is currently supporting landscape approaches in Kapuas Hulu, Aceh Tamiang and Siak regencies. Siak's regency government has recently published a time-bound plan to develop the landscape into a 'Green Regency', striking a balance between environmental conservation and economic prosperity. As a member of the SPLP, GAR is currently working with the sustainable regency platform, *Lingkar Temu Kabupaten Lestari* (LTKL) and others to build a roadmap to support the transformation towards sustainable palm oil in Siak[69].

69. Golden Agri Resources' response to the 2020 CDP forests questionnaire

INVESTING IN ECOSYSTEM PROTECTION AND RESTORATION

The continuous destruction and encroachment on natural ecosystems increases the overlap between humans and wildlife, creating favorable conditions for pathogens and risks the onset of additional pandemics in the future[70]. In Indonesia alone, 9.5 million hectares of humid primary forest were lost between 2002 and 2019[71].

According to the latest report by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Service (IPBES), around 1 million species already face extinction[72]. Restoration, such as set-aside land and agroforestry, are often able to restore the natural function of ecosystems, increase biodiversity and improve their ability to provide essential ecosystem services. The New York Declaration on Forests and The Bonn Challenge have both highlighted the critical importance of restoring degraded forest landscapes. Recent analysis has shown that restoring 350 million hectares of degraded forest landscapes can potentially generate economic benefits in the region of US$0.7 - 9 trillion[73].

50 percent (56) of companies producing, sourcing or using palm oil products from Indonesia are supporting or implementing initiatives that focus on ecosystem restoration and/or protection within some part of their global operations. **And 14% (16) are implementing or supporting initiatives in Indonesia itself. As of 2020, a total of 22 initiatives have been reported, representing a total area of 17.8 million hectares under protection or restoration.**

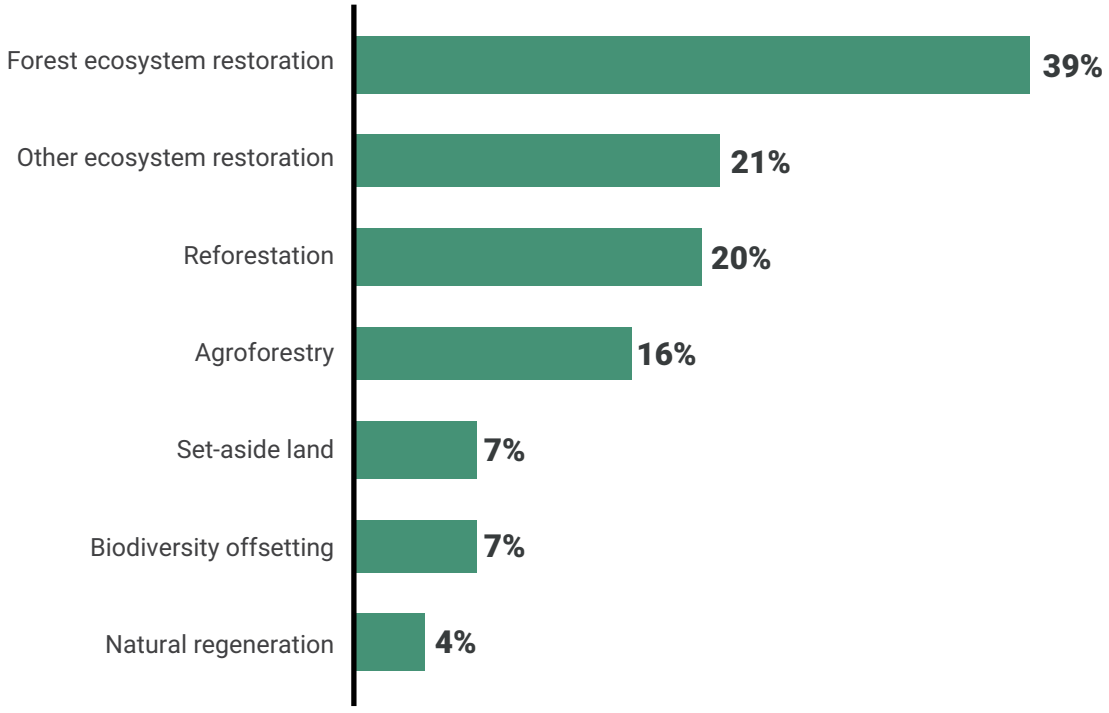


Figure 17 - Breakdown of conservation and restoration approaches reported by companies

70. Quinney, M. (2020). Covid-19 and nature are linked. So should be the recovery. Retrieved from https://www.weforum.org/agenda/2020/04/covid-19-nature-deforestation-recovery/
71. WRI. Global Forest Watch. https://www.globalforestwatch.org/dashboards/country/IDN
72. Intergovernmental Science-Policy Platform on Biodiversity Ecosystem Service. (2019). Report on the Plenary of Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services on the work of its seventh session. Retrieved from https://ipbes.net/sites/default/files/ipbes_7_10_add.1_en_1.pdf?file=1&id=35329&type=node
73. Verdone, M. and A. Seidl. (2017). "Time, space, place, and the Bonn Challenge global forest restoration target", Restoration Ecology, Vol. 25/6, pp. 903-911, Retrieved from http://dx.doi.org.

Figure 18 - Where restoration projects are taking place

Ecosystem restoration financing

Firmenich is currently engaging with the Livelihoods Carbon Funds (LCF), financing ecosystem restoration, agroforestry and rural energy projects to improve food security for rural communities and increase farmer revenues. This program provides upfront financing for project implementation and maintenance over 10 to 20 years. Firmenich and other investors will receive results-based payments in the form of carbon credits. **The program has 1 million beneficiaries and will see 130 million trees planted and 120,000 families equipped with efficient cookstoves. Over the next 20 years, this represents 10 million tons of CO_2 either sequestrated or avoided[74].**

74. Firmenich's response to the 2020 CDP forests questionnaire

CONCLUSION

Indonesia is a globally significant region for the supply of raw palm oil products. Its forests and biodiversity will continue to be threatened by market-driven and illegal agricultural conversion. For it to remain one of the most biodiverse countries in the world, the recent decline in the deforestation rate needs to be maintained.

With the investor, consumer and regulatory demand for sustainable palm oil, there is a clear business case for transforming corporate value chains. And companies are aware of the reputational and market risks that can come from continuing with business-as-usual. The recent Covid-19 pandemic has taught us all a lesson on the wider, societal risks at stake should we continue to erode natural ecosystems. To mitigate against these risks and access the financial opportunities that deforestation-free value chains offer, companies need to raise their ambition, pairing clear target-setting with collaborative implementation on the ground. Whilst there is strong board-level oversight on forest-related issues, specific NDPE commitments - particularly amongst downstream companies - are lacking. This low level of intent is reflected on the ground, with the majority of companies yet to support or implement ecosystem restoration and conservation projects.

Companies seeking to remove deforestation from their value chains are hampered by the inherent complexity of the palm oil supply chain. To increase the visibility over commodity flow, companies need to raise their level of ambition on traceability to the plantation and work with both their direct and indirect suppliers to address capacity gaps and ensure compliance with NDPE policies. This should include the provision of financial incentives to help scale sustainable practices and remove barriers to certification. Most crucially, greater disclosure is needed by Indonesian producers to provide granular information on the risks, opportunities and impacts within their managed areas, and facilitate greater accountability and collaborative action.

Multi-stakeholder methods such as Jurisdictional Approaches are still in their infancy, but there are early signs that companies are using these initiatives in tandem with certification tools to increase the sustainability of their supply. Such collaborations hold great promise in uniting cross-sector efforts to tackle deforestation and scale sustainable practices across Indonesia. Despite the economic and societal challenges of today's world, it's vital that companies do not lose sight of the opportunity gains these efforts will have in increasing their resilience and protecting the security of their palm oil supply.

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