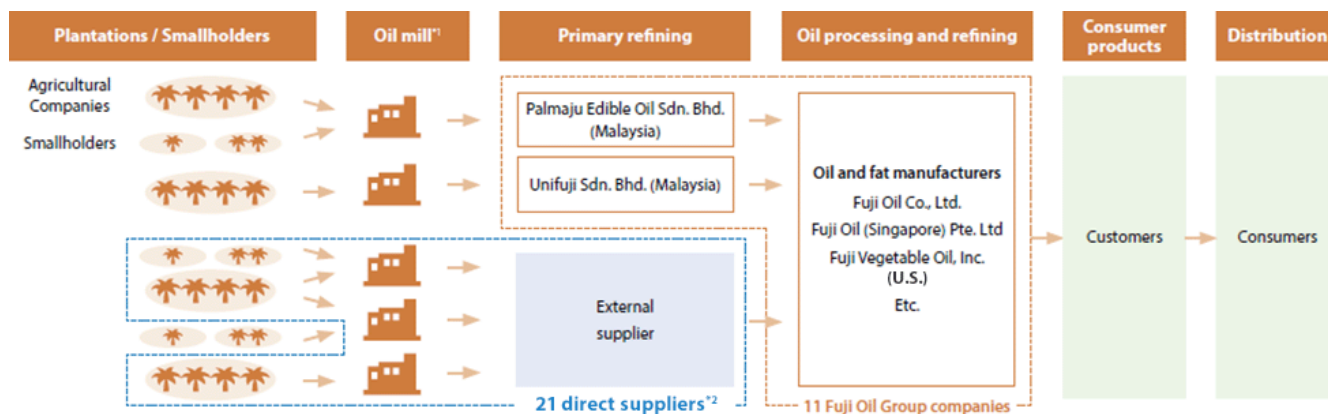


Sustainable Procurement of Palm Oil

Management information

Relevance to our business

Palm oil is extracted from the fruit of the oil palm, which grows in tropical regions like Southeast Asia. The Fuji Oil Group procures palm oil, mainly from plantations in Malaysia and Indonesia, as the key raw material for businesses like the vegetable oils and fats business. Palm oil is easier to process and has a higher yield per unit area than other vegetable oils. For this reason, palm oil is used in a wide range of applications, from foods to chemical products, and has the largest production volume among vegetable oil materials in the world. However, there have been concerns over environmental and social impacts tied to plantation development, such as deforestation and human rights violations, such as child labor and forced labor.



*1 More than 1,400 oil mills registered in July–December 2020 oil mill list.

Follow the link below to access our mill list.

> https://www.fujioilholdings.com/pdf/en/sustainability/supplychain_database/h2_2020_mill_list.pdf

*2 As of December 2020

Basic approach

In March 2016, we formulated the Fuji Oil Group’s Responsible Palm Oil Sourcing Policy. In this Policy, we commit to procuring palm oil produced in a responsible manner from suppliers who respect people and the global environment. We will continue to promote responsible palm oil procurement to ensure that palm oil becomes a sustainable raw material.

> The Responsible Palm Oil Sourcing Policy (PDF, 1.66MB)

Management system

The Chief Strategy Officer (CSO) oversees initiatives in this area. The subcommittee on palm oil of the Global Sustainable Sourcing Committee implements measures following our roadmap for 2030.

The ESG Committee,^{*1} an advisory body to the board of directors, has been monitoring the progress and results of initiatives as a material ESG issue.^{*2} The ESG Committee reports insights to the board of directors for review.

*1 Follow the link below to learn more about the ESG Committee.

> <https://www.fujioilholdings.com/en/sustainability/approach/>

*2 Follow the link below to learn more about material ESG issues.

> <https://www.fujioilholdings.com/en/sustainability/materiality>

Goals / Results

○ At least 90% complete △ At least 60% complete ✕ Less than 60% complete

Medium- to long-term goals	KPI		FY2020 Goals	FY2020 Results	Self-assessment
	2030	2025			
No deforestation, no peatland development and no exploitation (NDPE)	N/A	N/A	TTM*1 : 100%	100%	○
	TTP*2 : 100%	TTP: 75%	TTP: 60%	71%	○
	N/A	N/A	Carry out supply chain improvement initiatives and implement a Suspend and Engage Protocol as part of the operation of our grievance mechanism	<ul style="list-style-type: none"> Regularly updated our grievance list*3 through engagement with direct suppliers Suspended relationship with certain indirect suppliers that were not showing improvement 	○
	Labour Transformation Programme (LTP) implementation rate: 100% (all direct suppliers)	Labour Transformation Programme (LTP) implementation rate: 100% (all suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia))*4	20% (all suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia))	10% (all suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia))	△

*1 Traceability to mill

*2 Traceability to plantation

*3 Follow the link below to access our grievance list, with updated information on our response to grievances.

> https://www.fujioilholdings.com/en/sustainability/grievance_mechanism/

*4 An oils and fats manufacturer wholly owned by the Fuji Oil Group

Analysis

The first step to improvement in the palm oil supply chain is to identify where the palm oil is produced. Companies that procure palm oil have made significant progress in recent years on information disclosure, providing traceability to their oil mills and disclosure documents such as a mill list and grievance list. This has made it easier for stakeholders to obtain supply chain data or understand the level of engagement a company has with its suppliers.

At the Fuji Oil Group, we set an initial-stage target to realize 100% traceability to mill (TTM) by 2020. Becoming a member of the non-profit Earthworm Foundation and partnering with suppliers helped us to achieve this target.

We also introduced a traceability to plantation (TTP) score for major suppliers. Thanks to the cooperation of suppliers in improving TTP for our Group company Palmaju Edible Oil Sdn. Bhd. (Malaysia), we significantly improved the Group's TTP score. However, due to the complexity of our supply chain (including procurement from dealers), confidentiality of information and other factors, further improvement will likely take time, causing the Group's TTP score to rise at a slower pace.

Given the high percentage of smallholders involved in palm oil production, we recognize that there are many issues left to address, including rules on forest clearing, land rights, and the rights of production workers. It is important that we continue to secure resources for supply chain improvement initiatives and maintain awareness of the issues at stake.

Next step

Continued efforts to take even the smallest steps toward No Deforestation, No Peatland Development and No Exploitation (NDPE) are crucial for realizing sustainable procurement of palm oil. To address this issue, we set the following goals for FY2021 as a continuation

of the previous year.

- TTM: 100%
- TTP: 73%
- Conduct regular monitoring using satellite images to prevent deforestation; use results to improve the supply chain and respond to grievances.
- Implement Labour Transformation Programme (LTP) at suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia)

Specific initiatives

— Solution-based approaches to implementing the Responsible Palm Oil Sourcing Policy

Social issue	Solution-based approach	Location/scope
Global environment	Satellite-based monitoring	Indonesia, Malaysia
Human rights	Implement Labour Transformation Programme (LTP)	Malaysia
Global environment and human rights	Landscape Initiative	Aceh, Indonesia
	Scale up procurement of certified oil	Worldwide
	Grievance mechanism	Worldwide

Satellite-based monitoring

Since FY2020, the Fuji Oil Group has been obtaining satellite image data from the non-profit Aidenvironment to help us identify, monitor and verify deforestation that occurs in the Group's supply chain in places such as Indonesia and Malaysia. Viewing and analyzing this data is a crucial step toward addressing and stopping deforestation in the supply chain. The availability of this data allows us to explore solutions with suppliers and respond more effectively to grievances and communicate with NGOs and other stakeholders. Based on the data we periodically receive, we have been able to start investigating all allegations of deforestation brought to the Group, and identify whether each allegation pertains to the Group's supply chain or that of another company. Although it takes time to investigate all cases, we plan to incorporate the investigation results and update the information in our grievance list on a regular basis.

Implement Labour Transformation Programme (LTP)

The Fuji Oil Group launched a supply chain Labour Transformation Programme (LTP) in collaboration with the non-profit Earthworm Foundation, our partner for promoting palm oil sustainability. Over time, we plan to introduce this program at direct suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia). The scope of our LTP for suppliers includes the following eight elements.

1. Freedom of movement
2. Employment contract
3. Ethical employment
4. Grievance mechanism
5. Wages and working hours
6. Freedom of association
7. Health and safety
8. Worker housing

This program helps suppliers build capacity by carrying out the following activities to reduce human rights risks at suppliers' business and supply locations. These activities are typically done in a one-on-one, in-person format.

- Provide information and supportive documents to help suppliers with compliance
- Conduct practical training of dedicated staff and departments
- Raise suppliers' awareness of industry requirements
- Help suppliers apply international standards to their labor standards
- Help suppliers meet certification and customer requirements

Because in-person engagement is a core element of this program, implementation of the LTP has stalled due to the challenges of visiting suppliers during the COVID-19 pandemic. However, we plan to explore other options for carrying out these activities, such as by using remote methods.

Landscape Initiative

Tracing the palm oil we use back to their oil mills revealed that areas of Sumatra, Indonesia that are important in terms of natural ecosystems are exposed to deforestation risks. Since FY2018, the Fuji Oil Group has participated in the Areal Prioritas Transformasi (APT) Landscape Initiative*¹ to reduce and remediate these risks.

The APT Landscape Initiative is a multi-stakeholder initiative in which local governments, NGOs, companies, and farms work together to balance forest conservation with commodity production and good social practices in two precious tropical rainforest regions, Aceh Tamiang and Southern Aceh. These areas are exposed to the threat of farm development in Indonesia. In these target areas, participants in the initiative are carrying out the activities listed below, taking the landscape approach.*²

- Involve local governments in planning
- Map and protect HCV/HCS*³ areas to reduce deforestation
- Train smallholders on the cultivation of alternative commercial crops to improve their livelihoods and hold workshops on preventing deforestation
- Hold workshops and strengthen existing initiatives to promote NDPE implementation by oil mills and plantations

As of the end of 2020, the initiative has mapped around 1,000 hectares of HCV/HCS land. It has also held training on the goals and implementation of NDPE at 94% of plantations and oil mills in the region: Around 2,100 smallholder farms participated in the program. The initiative plans to broaden its scope going forward.

*¹ Follow the link below to learn more about the APT Landscape Initiative activities.

> <https://www.earthworm.org/our-work/projects/aceh-tamiang-sumatra-indonesia/>

*² An approach to improve the entire specific region with the participation of multiple stakeholders, such as NGOs, communities, and local governments, not limited to palm plantations

*³ High Conservation Value / High Carbon Stock


Promote procurement of certified palm oil

The Fuji Oil Group endorses the creation of a palm oil sustainable production and consumption system and has been a member of the Roundtable on Sustainable Palm Oil (RSPO) since 2004.

RSPO is the most widely recognized international certification system in the industry. RSPO is an NPO that unites stakeholders from the seven sectors of the palm oil industry to develop and implement global standards for sustainable palm oil. These standards include a set of environmental and social criteria which member companies must comply with in order to produce Certified Sustainable Palm Oil (CSPO). When they are properly applied, these criteria can help to minimize the negative impact of palm oil cultivation on the environment and communities in palm oil-producing regions.

The Fuji Oil Group has been implementing the RSPO's new Shared Responsibility rules and expanding the volume of CSPO we procure every year. There is still room for improvement — such as the fact that CSPO supply exceeds demand, and that complying with the standards is difficult for smallholders. However, even taking these factors into account, RSPO is an essential partner in our effort to expand certified palm oil and participation in the RSPO is valuable for the Group.

In 2020, CSPO accounted for roughly 32% of the palm oil handled by the Group. Contributing significantly to this increase was a growth in demand corresponding with an expansion in the supply capacity of Unifuji (Malaysia), a joint-venture with United Plantations Berhad. Going forward, we plan to step up efforts to meet customer requests by deepening our partnership with strategic suppliers of Palmaju Edible Oil Sdn. Bhd., also located in Malaysia, to increase procurement of CSPO.*

* Check our progress at www.rspo.org/ 



Grievance mechanism

In May 2018, we established and announced a grievance mechanism* in order to put our Responsible Palm Oil Sourcing Policy into practice. Our grievance mechanism enables our stakeholders to inform us of any human rights and environmental issues in the supply chain. This allows us to engage with direct suppliers and take appropriate corrective action in accordance with our Responsible Palm Oil Sourcing Policy.

In FY2020, we revised our grievance procedure — a procedure that specifies the process for handling grievances (complaints) raised against the Fuji Oil Group's global palm oil supply chain — based on the latest experience gained from operating our grievance mechanism. Specifically, we expanded the scope of our grievance mechanism, allowing us to respond to grievances on a group level — in other words, grievances against not only the alleged company but also all other palm oil companies operated by the parent of the alleged company. We also introduced a Suspend and Engage Protocol to enable a more robust response to all grievances raised against the Fuji Oil Group and Group suppliers.

How effective this expanded scope and monitoring is influencing other industries (such as timber and rubber) or indirect suppliers remains as an issue to be addressed. However, they do provide a framework and mechanism for addressing grievances raised against the Fuji Oil Group and direct and indirect suppliers of the Group.

The Fuji Oil Group Grievance Mechanism webpage (English) on the Group website was launched to offer transparency in handling grievances. The status of our response to the received grievances (complaints) is updated and disclosed to stakeholders at least once each quarter on this webpage.

We strongly believe these efforts will lead to a fair, just, honest and transparent resolution of activities suspected of violating our Responsible Palm Oil Sourcing Policy.

* Follow the link below to learn more about our grievance mechanism.

> https://www.fujioilholdings.com/en/sustainability/grievance_mechanism/

— Collaboration with academia, NGOs and industry

(1) Productivity improvement through breeding research

As palm oil consumption continues to grow globally, regions suitable for cultivation of oil palms remain very limited, requiring productivity and quality to increase through improvements in oil palm varieties and higher yield per unit area. Since 2011, the Fuji Oil Group has conducted joint research to improve palm productivity and quality with the Agency for Assessment and Application of Technology (Badan Pengkajian dan Penerapan Teknologi: BPPT), a government research organization in Indonesia, the world's largest palm oil-producing country. This has contributed to the development of palm research in Indonesia, including major improvements in tissue culture techniques that led to the production of superior oil palm seedlings and improved varieties. These findings have been published in the Indonesian Journal of Biotechnology & Bioscience (JBB). We intend to keep contributing to the development of the palm oil industry and to sustainable palm oil production by helping to solve global environmental problems such as the tropical rainforest decrease that results from palm plantations expansion.



BPPT Biotechnology Center, where breeding research is carried out



Researching tissue culture of palms

(2) Supporting smallholders in Sabah, Malaysia

Low-productivity plantations operated by small-scale farmers have been named as a contributor to the environmental and human rights issues of palm plantations. To help smallholders acquire the know-how for operating environmentally, socially and economically sustainable plantations, in January 2016 the Fuji Oil Group joined the Wild Asia Group Scheme (WAGS) carried out by suppliers and the NGO Wild Asia. This project provides smallholders in Sabah, Malaysia, with educational support for improving their farming practices to be more productive as well as considerate of the environment and human rights.

In the three years from June 2020 to May 2023, the Fuji Oil Group aims to help 390 farms acquire RSPO certification. In FY2020, the COVID-19 pandemic temporarily affected our ability to provide in-person training to farmers. During that time, however, Wild Asia continued to provide support over the phone and by other means. Through our efforts in FY2020, 33 smallholders acquired RSPO certification for the first time, and 84 maintained their certification. Acquiring RSPO certification means that these smallholders can produce palm oil in ways that are considerate of human rights and the environment.

In FY2020, we also began supporting the BIO Farm Project, a new project launched by Wild Asia. This project teaches cultivation methods that do not use chemical fertilizers, with the goal of raising smallholders' income and improving soil health on the plantation. By showing farmers how to make fertilizer from waste generated on the plantation, such as palm leaves that are trimmed, they can cut their use of chemical fertilizers — and therefore costs. The project is now in the pilot stage, providing education to a small number of farmers; in 2020, the project designated five farms as a BIO Farm, as defined by Wild Asia.

In FY2021, we plan to continue supporting the RSPO certification of smallholders and the BIO Farm Project.

(3) The Palm Oil Working Group, the Japan Sustainability Local Group of the Consumer Goods Forum

The Fuji Oil Group has participated in the Palm Oil Working Group since its inception in FY2017. The Working Group was set up in the Japan Sustainability Local Group of the Consumer Goods Forum (CGF), an international industry organization for consumer goods.

(4) Japan Sustainable Palm Oil Network

Fuji Oil Holdings Inc. has been a full member of the Japan Sustainable Palm Oil Network since FY2019, in support of its aim of promoting sustainable palm oil procurement and consumption throughout the Japanese industry.

(5) Palm Oil Collaboration Group

Since FY2020, Fuji Oil Holdings Inc. has been participating in the Palm Oil Collaboration Group, which brings together companies from every stage of the palm oil supply chain to accelerate effective implementation of NDPE commitments.

Topics: Education and awareness-raising activities for children

Appealing to consumers and the market is one of the key elements needed to promote sustainable procurement. Education for students who will play a leading role in shaping the future is essential. For this reason, we support the SDGs for School project* of the non-profit Think the Earth, by providing chocolate for on-demand lessons implemented under the project. Through these activities, we work to provide students with the opportunity to consider sustainable palm oil and a sustainable society.

* Follow the link below to learn more about the SDGs for School project.

> <http://www.thinktheearth.net/sdgs/>

Related documents

ESG Data Book (PDF 400KB) 