

Sustainable Procurement of Palm Oil

Policy

In March 2016, we formulated the Fuji Oil Group’s Responsible Palm Oil Sourcing Policy. In this Policy, we stated our commitment to No Deforestation, No Peatland Development and No Exploitation (NDPE) in our palm oil supply chain. We are procuring palm oil produced in a responsible manner from suppliers who respect people and the global environment.

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

Governance

The Group’s Sustainability Committee*¹ is an advisory body to the Board of Directors that is chaired by the President and CEO. It deliberates on and monitors the material ESG issue*² of Sustainable Procurement from a multi-stakeholder perspective, and reports the results to the Board. The Chief Strategy Officer (CSO) oversees the progress of initiatives for Sustainable Procurement of Palm Oil, a priority action within this material issue.

*1 Governance, Strategy, Metrics and Targets, Risk Management > Governance

https://www.fujioilholdings.com/en/sustainability/sustainability_management/

*2 Governance, Strategy, Metrics and Targets, Risk Management > Strategy, metrics and targets

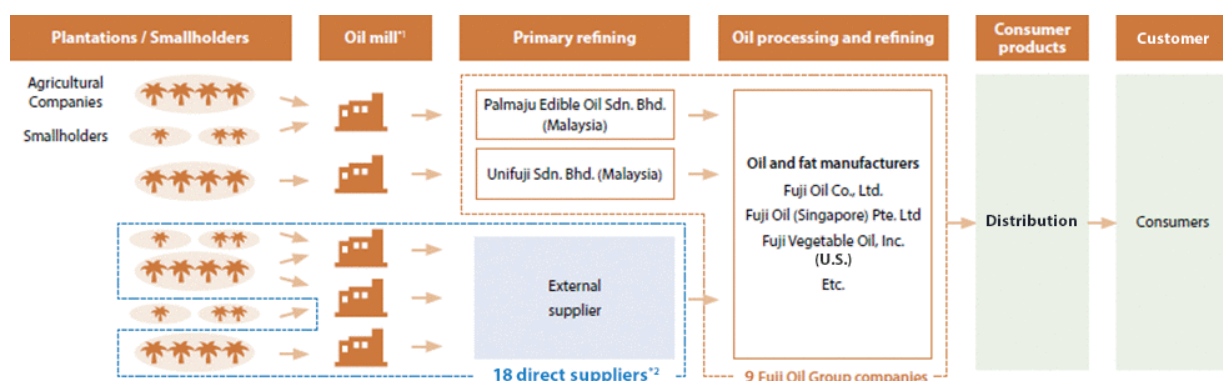
https://www.fujioilholdings.com/en/sustainability/sustainability_management/

Strategy


GRI : 2-6

Palm oil is extracted from the fruit of the oil palm, which grows in tropical regions such as Southeast Asia. Our Group procures palm oil, mainly from Malaysia and Indonesia, as the key raw material for our 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. On the other hand, there have been concerns over environmental and social impacts tied to plantation development, such as deforestation and human rights violations, including child labor and forced labor.

Under the Responsible Palm Oil Sourcing Policy, our Group has set medium- to long-term goals in order to work on improving various issues. These commitments apply not only to our operations, but also to our entire palm oil supply chain. By achieving our commitments, we fulfill our environmental and social responsibilities, thereby enhancing our corporate reputation and creating greater business opportunities.



*1 Our mill list (July to December 2023)

https://www.fujioilholdings.com/pdf/en/sustainability/supplychain_database/h2_2023_mill_list.pdf 

For the latest mill list, please refer to our supply chain data base.

*2 As of December 2023

Risk management

Sustainable Procurement Management > Risk management

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

Traceability

We need to foster better supply chain transparency in our journey toward achieving sustainable procurement. To this end, our Group is working on assessing our traceability, which enables us to prevent, minimize, mitigate and manage the environmental and social risks associated with palm oil production in our supply chain. It is vital to promote best management practices that are both sustainable and responsible. We collect and verify the traceability data of our palm oil supply chain once every six months to confirm that the raw materials we purchase are being produced responsibly. This is not only for our strategic business targets, but also our corporate social responsibility.

Sustainable sourcing makes it possible for us to meet stakeholder expectations, reduce supply chain risk, and ensure long-term partnership with our stakeholders such as customers and suppliers. It is also aligned with our Group mission of contributing to developing a sustainable society by providing safe and healthy foods. As of December 2023, we achieved 100% traceability to mill (TTM) and 95% traceability to plantation (TTP).



Annual dialogue with Malaysian government agencies to achieve better transparency of sharing TTP data

Satellite-based monitoring (Location/scope: Indonesia, Malaysia, Papua New Guinea)

Since FY2020, our Group has been working with the non-profit Earthqualizer to use satellite technology to identify, monitor, and verify the risk of deforestation in the Group's supply chain. Satellite images of plantations and surrounding areas are extremely useful in identifying, mitigating, and preventing deforestation. Based on the reports we receive twice a month from Earthqualizer, we manage all allegations related to deforestation submitted to the Group through our grievance mechanism in order to begin our investigations. When identifying whether an allegation made through our grievance mechanism is relevant to the Group's supply chain, traceability data is essential. If an allegation is found to be relevant through the results of matching our traceability data with the satellite images, we further investigate directly with the related supplier. We work closely with Earthqualizer to address cases of deforestation in the Group's supply chain, including handling grievances, establishing solutions with suppliers, and communicating with NGOs and other stakeholders. We incorporate the investigation results and update the information in our grievance list at least once a quarter.*

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

Supply Chain Transformation Program (Location/scope: Malaysia)

In 2017, the Fuji Oil Group launched a Labour Transformation Programme (LTP) at Palmaju Edible Oil Sdn. Bhd. (Malaysia) in collaboration with the non-profit Earthworm Foundation. This program provides tailored support for addressing human rights-related issues to all of the company's suppliers. LTP has been introduced to the company's direct suppliers, and is now being expanded to all indirect suppliers. The scope of the program includes the following eight elements.

1. Freedom of movement
2. Contract management
3. Ethical employment
4. Grievance management (through grievance mechanism)
5. Wages and working hours
6. Freedom of association
7. Health and safety
8. Accommodation



Meeting with supplier management through the program

Under this program, we provide the following support to our suppliers, to reduce human rights risks at their business and supply locations.

- 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 management
- Help suppliers meet certification and customer requirements

To maximize the impact and effectiveness of our engagement, these activities are typically done face-to-face with local factory and plantation managers. The program had been implemented online due to the COVID-19 situation, but in 2022 we resumed visits to suppliers and returned to providing support in person. As of March 2024, 74% of Palmaju Edible Oil Sdn. Bhd. (Malaysia) suppliers are covered by the program.

The program helps the company's suppliers build and develop better management systems, enabling them to improve labor management and address labor-related issues raised by stakeholders. The Group will continue working toward our goal of 100% LTP implementation across the supply chain to achieve zero exploitation — an urgent issue from the perspective of stakeholders.

Self-assessment tools (Location/scope: The Group's palm oil supply chain)

In cooperation with the non-profit Earthworm Foundation, the Group works on encouraging Palmaju Edible Oil Sdn. Bhd. (Malaysia) suppliers to conduct self-assessments. Using self-assessment tools, suppliers are able to assess and monitor their situation and sustainability performance. These are critical tools in the supply chain due diligence process, making it possible for us to reach out to suppliers more extensively and efficiently.

The following shows our progress in FY2023.

Rate of self-assessment questionnaire and action plan submission in FY2023

Palmaju Edible Oil Sdn. Bhd. (Malaysia)

- Direct suppliers: 100%
- Indirect suppliers: 76%
- Plantations: From 5 plantations

This initiative enables us to provide recommendations and support to help suppliers improve their business operations in line with the Group's policies. It also allows suppliers to share information about their own sustainability efforts and report on how well they are doing in meeting the requirements of the Group's Responsible Palm Oil Sourcing Policy.

Moving forward, we will strengthen our due diligence system by reporting progress on NDPE in our supply chain.

Engagement toward zero deforestation (Location/scope: The Group's palm oil supply chain)

The Group continuously engages with our suppliers to find the best approach to achieving zero deforestation together. Currently, we are taking the following approach.

- Continue working with existing suppliers to improve TTP
- Verify that there is no deforestation within the Group's supply area, by matching TTP and satellite data through a third-party organization
- Directly assist suppliers in obtaining TTP data
- Report potential deforestation risks to suppliers, request and monitor countermeasures

The Group is working toward zero deforestation, removing suppliers who do not actively engage with zero deforestation initiatives or who show insufficient progress on initiatives. Moving forward, we will continue to manage and maintain the supply chain to achieve this commitment.

Grievance mechanism (Location/scope: The Group's palm oil supply chain)

GRI : 2-25, 26

We established a grievance mechanism* in May 2018 in order to enhance the transparency and effectiveness of our Responsible Palm Oil Sourcing Policy. We maintain our grievance mechanism so that our stakeholders can raise concerns regarding any human rights and environmental issues within the Group and across our supply chain. This enables us to effectively involve stakeholders and appropriately take corrective actions in accordance with our Responsible Palm Oil Sourcing Policy.

Every quarter we report all the grievances we receive and our progress in addressing them via the grievance list posted on the Fuji Oil Holdings Inc. website. In FY2023, we registered 42 grievance cases (39 environmental and three social). Of these, 12 have been resolved, 12 are under monitoring and 18 have no record of purchases.

In FY2021, in addition to quarterly updates to the grievance list, we began issuing monthly grievance reports to specific customers and stakeholders. These grievance reports provide the latest progress status particularly on the most notable grievance cases.

We regularly review our grievance mechanism with the help of experts, and are striving to obtain the necessary and vital information to address the concerns of all stakeholders.

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

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

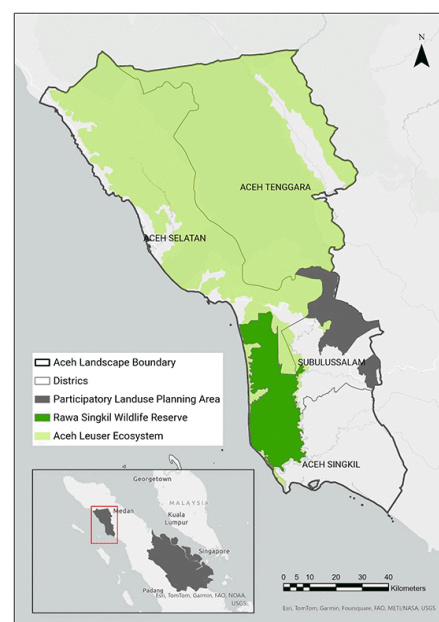
APT Landscape Initiative

GRI : 304-3

Indonesia: Aceh Landscape Initiative (Location/scope: Aceh, Indonesia)



Since 2018, our Group has been supporting a landscape initiative in the Aceh province of Indonesia, with the aim of showing the feasibility of ending deforestation in the country and maintaining a balance between production, protecting nature, and good social and labor practices for crop procurement. Indonesia is an important supplier in the Group's supply chain. We partnered with the Earthworm Foundation to keep working on this initiative.

The Indonesian island of Sumatra is home to the Leuser Ecosystem, one of the planet's most valuable tropical rainforests, and other natural wonders that make it a vital region in terms of natural ecosystems. Yet, palm plantation development and other factors make it vulnerable to deforestation risks. Our Group participates in the Areal Prioritas Transformasi (APT) Landscape Initiative* to reduce and remediate these risks. This program brings together governments, smallholders, local communities, the palm oil supply chain, companies, NGOs and experts in various fields to work toward improvement not only at palm plantations, but throughout the whole region. In 2021, the program expanded its scope across a vast region of about 3.9 million hectares, which covers around 70% of the northernmost province of Aceh in Indonesia. The region spans 12 regencies, with the Leuser Ecosystem at its center. The following are the program's actions in 2023.



Areas of landscape initiative

- Collaborated with the district government authorities of Subulussalam, Aceh Singkil and Aceh Selatan to develop a joint action plan for sustainable palm oil production and environmental management
- Protected a total of 22,704 hectares of forests both inside and outside plantations
- Identified 24,958 hectares of forest conservation areas
- Encouraged cooperation between local producers and downstream companies in the palm sector, by providing incentives to manage 1,270 hectares of forest

* <https://www.earthworm.org/our-work/projects/aceh-indonesia> 
<https://youtu.be/8fvj20TWaUQ> 

Malaysia: Southern Central Forest Spine (SCFS) Landscape program (Location/scope: SCFC, Malaysia)

From 2022, our Group has also been participating in a landscape initiative in the Southern Central Forest Spine (SCFS), our primary palm oil procurement region located in Peninsular Malaysia. The palm oil supply chain in the SCFS landscape*¹ is interconnected, making it vital to promote initiatives that unite multiple stakeholders within the landscape to achieve 100% TTP in cooperation with FFB dealers,*² improve labor practices, and promote coexistence between humans and wildlife around palm oil plantations. Below is our progress in FY2023.


Achieving 100% TTP/ Promoting coexistence between humans and wildlife around palm oil plantations

We worked with major mills to train over 40 dealers through traceability workshops to fill the gaps in data. To address sector-specific challenges, our landscape team has also initiated groundbreaking dialogues with refinery partners, the Malaysian Palm Oil Board (MPOB) and the Malaysian Sustainable Palm Oil (MSPO) (formerly known as Malaysian Palm Oil Certification Council: MPOCC), to explore ways to create an integrated and common traceability system and build a single platform for traceability data collection. Furthermore, we worked with smallholder communities and plantations to develop and test practical solutions to their challenges. For example, we joined a human-elephant coexistence program that aims to protect and restore forests. In the program, we provide training in using drones to monitor elephant movements during the day and at night, and are designing an early warning system that sends signals to mobile phones when elephants approach fences. These efforts have led to the expansion of the program's coverage area to 8,433 hectares, which is about five times larger than the original target. The landscape team has also expanded into five new villages, holding capacity building sessions focused on better management practices, compliance with MSPO standards, and income diversification for nearly 200 smallholders.

Improving labor practices

Get it Right, a joint initiative with the Malaysian Ministry of Human Resources and the Ministry of Plantation and Commodities, developed a guidance for companies to improve their labor standards. The collaboration of two key government agencies on labor practice issues gave a stronger message to suppliers and encouraged them to implement enhanced labor standards.

At the same time, cooperating with refineries has improved the grievance mechanism for oil mills participating on a trial basis, reinforcing a key element of responsible business practices.

*1 <https://www.earthworm.org/our-work/projects/scfs-malaysia> 

*2 Companies that intermediate between smallholders and oil mills, providing land management support to smallholders and selling fresh fruits bunches (FFB) to oil mills



Get it Right, a joint initiative with the Malaysian Ministry of Human Resources and Ministry of Plantation and Commodities

Metrics and targets

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

Medium- to long-term goals	KPI		FY2023 Goals	FY2023 Results	Self-assessment
	2030	2025			
No Deforestation, No Peatland Development and No Exploitation (NDPE)	Traceability to mill (TTM):100%	TTM : 100%	TTM : 100%	TTM: 100% achieved	○
	Traceability to plantation (TTP): 100%	TTP : 85%	TTP : 85%	TTP: 95% achieved	○
	N/A	N/A	Continue conducting constant monitoring using satellite images to identify, observe, verify and eliminate deforestation in the palm oil supply chain	Continued conducting constant monitoring using satellite images	○
	Labour Transformation Programme (LTP) implementation rate: 100% (all direct suppliers)	LTP implementation rate: 100% (all suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia))*	Implement LTP at suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia): 70%	LTP implementation rate to suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia): 74%	○

* An oils and fats manufacturer wholly owned by the Fuji Oil Holdings Inc.

Analysis

Ensuring traceability makes it possible to know the source and refinery of the palm oil we procure. In recent years, environmental and human rights regulations and reporting requirements have been getting more stringent globally, including in many palm oil consuming countries. This has led to more transparent reporting not just on traceability information and progress on sustainability issues, but also on other information such as progress on addressing grievances. Access to supply chain data have also made it easier for stakeholders to determine the level of involvement between companies and suppliers. At our Group, we set a target to realize 100% TTM by 2030. We achieved this target in 2019, and continued to maintain it throughout FY2023.

We also implemented a procedure to ensure TTP across our entire supply chain. While there are various challenges such as information confidentiality and supply chain complexities, including procurement from FFB dealers, we are working with a number of experts and consultants in order to enhance our strategies for improving our Group's TTP performance and achieve 100% TTP.

For the Labour Transformation Programme (LTP), we were able to start conducting site visits again, which had been temporarily suspended due to COVID-19. We exceeded our target as a result of resuming in-person visits and consultations with suppliers. Going forward, we plan to change the name of the program to the Supply Chain Transformation Program and carry out a wide range of initiatives that include improvements in other areas aside from working environment.

The challenge for smallholders, who account for around 30-40% of the entire palm oil production, is that they lack information on sustainable farming techniques and environmental considerations, as well as the funds to implement sustainable practices. There are still many issues left to address, including deforestation, land rights, and workers' rights. It is vital for us to increase our momentum and enhance public awareness of these issues as we work as a Group to strengthen our procurement strategy and improve our supply chain practices.

Next steps

Continued efforts toward NDPE are crucial for realizing sustainable procurement of palm oil. To address this issue, we set the following goals for FY2024 as a continuation of the previous year.

- TTM : 100%
- TTP : 85%
- Continue constant monitoring using satellite images to identify, observe, verify and eliminate deforestation in the palm oil supply chain
- Supply Chain Transformation Program at suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia): 80%

Specific initiatives

Promoting certified palm oil (Location/scope: The Group's palm oil supply chain)

In 2022, palm oil certified by the Roundtable on Sustainable Palm Oil (RSPO) accounted for roughly 58% of the palm oil handled by our Group, an increase of 17 percentage points year on year. In 2023, the volume continued to increase by 2 percentage points to 60% [mass balance (MB): 20%, segregated (SG)/ identity preserved (IP): 40%]. The growing demand for sustainable palm oil has been a major contributing factor to the increase in the Group's procurement volume of certified palm oil. The Unifuji (Malaysia), a joint-venture with United Plantations Berhad, a Malaysia-based oil palm plantation company, has maintained its production capacity, enabling us to secure enough palm oil supply to meet the demand in this growing market.

RSPO certification is a widely recognized international certification system in the palm oil industry. The Group has been a member of the RSPO since 2004, endorsing the establishment of a certification system for sustainable production and consumption of palm oil. 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 palm oil. When they are properly applied, these criteria can help minimize the negative impact of palm oil cultivation on the environment and communities in palm oil-producing regions. Our Group has implemented the RSPO's new Shared Responsibility (SR) rules and expanded the volume of certified palm oil we procure every year. However, we have been facing challenges in recent years, such as the fact that certified palm oil supply exceeds demand, and that acquiring certification is difficult for smallholders. With this in mind, since 2021 we have been taking active part in RSPO working groups to discuss solutions to these issues and reflect them in our product development.

Going forward, we plan to step up efforts to meet even more customer requests, particularly in the European market where demand is increasing, by deepening our partnership with Johor Plantations Group Berhad in Malaysia, *1 a strategic supplier of Palmaju Edible Oil Sdn. Bhd. (Malaysia).*2



*1 https://www.fujioilholdings.com/en/pdf/news/2024/240125_en.pdf

*2 For RSPO's progress, see:

<https://rspo.org/our-impact/>

Collaboration with NGOs and industry

GRI : 304-3

(1) Supporting smallholders in Sabah, Malaysia

Since January 2016, our Group has joined the Wild Asia Group Scheme (WAGS), managed by the Malaysian social enterprise Wild Asia, and supported its certification project and WAGS BIO regenerative agriculture project being conducted in the state of Sabah in eastern Malaysia. The scheme helps palm oil smallholders address the problems they face by providing support for improving farming practices

and meeting international standards.

The certification support project provides smallholders with the training for acquiring RSPO certifications. In an RSPO audit conducted in November 2023, 350 new WAGS smallholders received the certification. Since we started providing support to the project in January 2016, the Group has helped a total of 1,263 smallholders to obtain the certification through WAGS (as of March 2024).

The WAGS BIO project conducts practical training on regenerative agriculture with the goal of raising smallholders' income, mitigating their adverse impact on biodiversity, and conserving and restoring natural ecosystems around plantations. In FY2023, we continued to support training on regenerative farming methods and intercropping of ginger and other cash crops. The total number of plantations that meet the BIO farm standard through pesticide-free farming and other methods has reached 96 (as of March 2024). In another initiative, we provided training to farmers on producing biochar from oil palm leaves. The application of biochar is expected to improve soil quality, and the carbon stored in the soil should have a mitigation effect on climate change.



Farm development aid for intercropping ginger at a WAGS BIO farm



Applying biochar

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

Our 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.

(3) Japan Sustainable Palm Oil Network

Fuji Oil Holdings Inc. has been a full member of the Japan Sustainable Palm Oil Network since October 2019, in support of its aim of promoting sustainable palm oil procurement and consumption throughout the Japanese industry.

(4) Palm Oil Collaboration Group

Since June 2020, Fuji Oil Holdings Inc. has been participating in the Palm Oil Collaboration Group (POCG),* which brings together companies from every stage of the palm oil supply chain with the aim of accelerating effective action toward NDPE commitments. Currently, we are an active member of the Social Issues Working Group, which discusses and resolves human rights issues. The following are key areas that companies need to work on in the future.

- Human rights due diligence in management systems
- Responsible recruitment in Malaysia's palm oil industry, which is predominantly made up of migrant workers
- Protecting the rights of Indigenous Peoples and local communities

We will continue participating and contributing to the working group to develop effective solutions to achieve NDPE.

* <https://palmoilcollaborationgroup.net/> 

Related documents

ESG Data Book (PDF 2.85MB) 