

A man wearing a grey baseball cap, a dark blue jacket, and light blue jeans is working in a palm oil plantation. He is leaning over a large pile of harvested palm oil fruit (bunches) and appears to be using a tool to process them. The background shows lush greenery and palm trees.

AAK's progress report  
on sustainable palm oil  
– February 2019

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The Co-Development Company

**AAK**

# Reflections

AAK is serious about sustainable palm oil globally and across the different markets that we serve. Our commitment has resulted in positive progress in many areas, including supplier engagement and smallholder programs, but we also see continuing challenges in the implementation of our sustainable palm oil policy.

Being under the microscope and at the same time pushing for more proactive approaches to sustainable palm oil can at times be challenging. Responding to issues arising from stakeholders to tick the right boxes does not in itself take sustainable palm oil forward, although highlighting contraventions of policy along the supply chain is also valuable.

The small declines in percentage traceability to mill and plantation for the AAK supply chain of palm oil and related products as presented in our dashboard, are fundamentally disappointing. However, they also are a function of growth in areas where sustainability and traceability are more difficult to achieve, but no less important. This serves to emphasize the difficulties of transformation in regions where volume consumed is high, but palm oil sustainability is not a major issue yet.

China and India (together with Indonesia) are the countries which pose the biggest challenges. All three have local palm oil commodity markets, and together they comprise about 40 percent of global consumption (per Oil World)]. However, palm sustainability is a low priority for consumers in those countries, and in the case of Indonesia, central government, even though it has moved in the right direction, has a more limited reach than in other countries.

Changing global demand to more sustainably sourced products is still likely to be a long-term project, particularly for a complex issue which is less black and white than some may portray. It therefore makes sense that campaigners look to the other end of the supply chain (as they increasingly have done) and turn their attention to so called “leakage” producers and processors to try to isolate them and force changes to their sustainability policies and implementation methodologies.

For this to succeed a common understanding is required of which producers are involved in which supply chains.



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Currently there are several platforms emerging, including those overseen by WRI/Global Forest Watch (with support from the RSPO and Proforest), TFT and AidEnvironment, which seek to provide such an overview. In addition, satellite technology is becoming more prevalent, and will be a strong indicator relating to no deforestation and no planting on peat. Major first buyers play a key role, and Wilmar's recent announcement regarding mapping is a very welcome one. Social issues such as poor labour practices are less easy to risk assess, but no less important.

The RSPO is also a critical enabler. Its new principles and criteria, approved at the General Assembly in November, raise the bar higher and put the RSPO at the forefront of certification and validation models, but do also risk excluding smaller players, for whom implementation of this higher standard is more complicated to achieve. Hence small-holder certification progress is very important, especially the new and potentially significant developments, such as the stepwise approach and the potential for pre-financing.

Enforcement by the RSPO at both ends of the supply chain is essential to real progress. It is encouraging to see that the RSPO Complaints Panel resolution statistics are improving. The Panel has a tough role and will never satisfy all parties but is making improvements and having an impact.

We do see encouraging palm sustainability progress from major suppliers, and increased activity from consumer goods manufacturers demanding higher standards. Such companies need also to be held to account to deliver transformation, not only in their own products. Continuing efforts are required all along the supply chain.

We remain optimistic that palm oil can be produced sustainably by a much larger proportion of the industry than the 20% or so which has been certified by the RSPO for several years with little change. The problem is that in the end there must be a financial incentive or a regulatory requirement for such production, since not enough consumers or end manufacturers are yet willing to commit, and regulatory changes have been in many cases mis-judged or impacted by other local concerns.

Nevertheless, let's celebrate the good news, and there is plenty of it, as we strive for continuous improvement in the palm oil industry.

Tim Stephenson  
Director Finance & Global Trading, AAK AB

# Sustainable palm oil progress 2018

Overall we see a reduction in RSPO status and policy compliance on individual kpi's due to increased volumes in markets where supplier engagement and compliance has proven to be more difficult. This will be a key focus for 2019.

## Traceability

- A minor reduction in global traceability to mill origin to 96 percent;
- A reduction in traceability to plantation to 28 percent;
- Continuously improving the accuracy and completeness of mill data for biannual updates on the AAK website. The most recent update was published on 20 December 2018.

## Risk assessment

- Completed a qualitative risk assessment of all reported suppliers in Q1;
- Completed geospatial risk assessment of all mills.

## Supplier engagement

- 94 percent of AAK volumes are sourced from suppliers that signed up for the AAK Code of Conduct;
- 94 percent of AAK volumes are sourced from suppliers that either have signed AAK's Palm Oil Policy or have an aligned policy in place;
- 84 percent of our volumes sourced are from suppliers that are members of the RSPO;
- Proforest assessed three mills for our on-site verification program;
- Over 90 percent of our Indonesian volume is sourced from suppliers engaged in sustainability programs.

## Processes and tools

- Upgraded the AAK grievance management process and published a grievance addendum to the mill list on our website;
- Continue to step up monitoring of grievances with tier 1 suppliers.

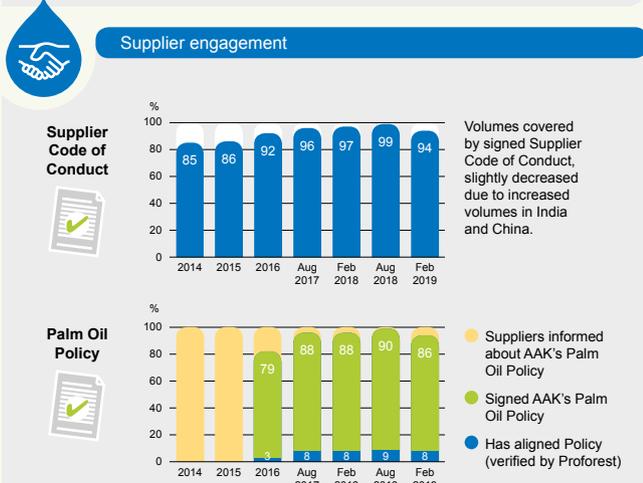
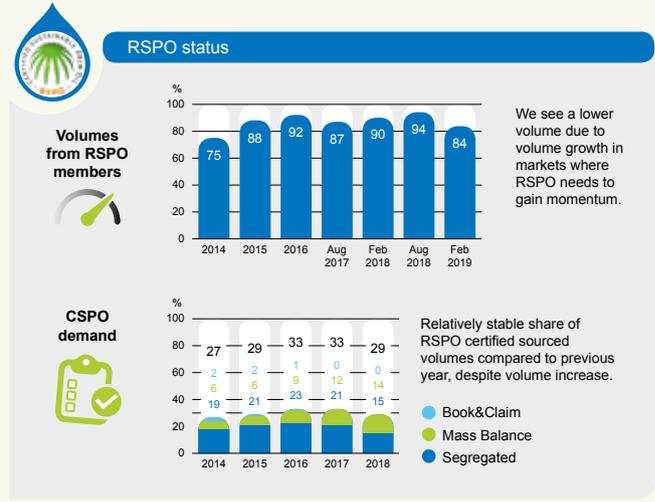
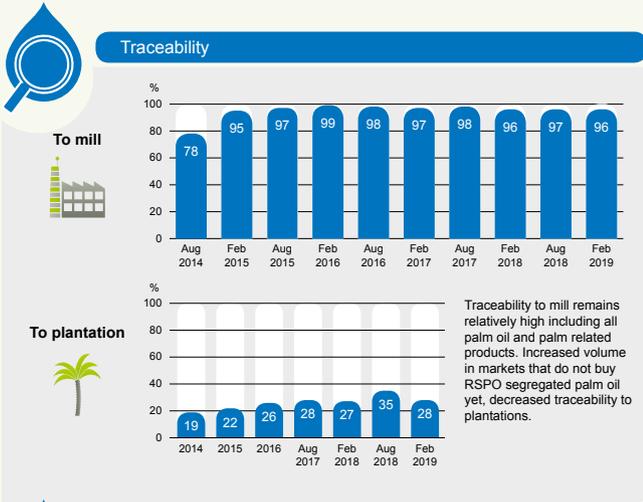
## Impact:

- Revisited seven of the target of ten mills that have gone through on-site verification assessment;
- Completed palm oil supplier engagement workshops and training on labor practices with participants from 22 high-priority mills;
- Continued direct and substantial financial support for the jurisdictional certification approach in Sabah, impacting thousands of smallholders.
- Signed new contract with Solidaridad to work on smallholder development in Mexico.





# Palm oil DASHBOARD



## Increased transparency

As part of our continuous improvement journey we have published our universe of mills list at our website. The mill list is updated twice a year. In addition, we have published a grievance addendum that lists the companies that we have recorded a grievance against. This list will be updated and published on a more regular basis and highlights grievances

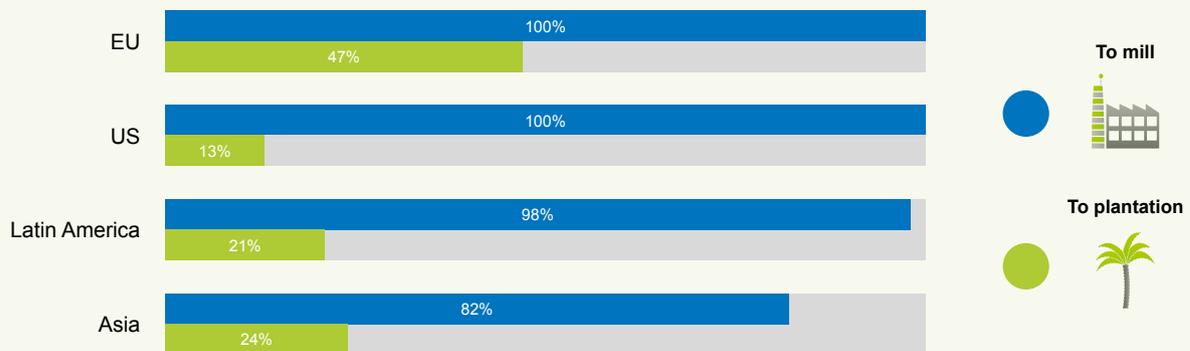
in AAK's supply base as well as those linked to group or parent companies. We believe that with this initiative we better meet increased transparency needs of our customers, their customers and other stakeholders. To access the list of mills please click here: [AAK Public Mill List](#). To access the grievance addendum please click [here](#).



## Regional charts



### Regional traceability to mill and to plantation



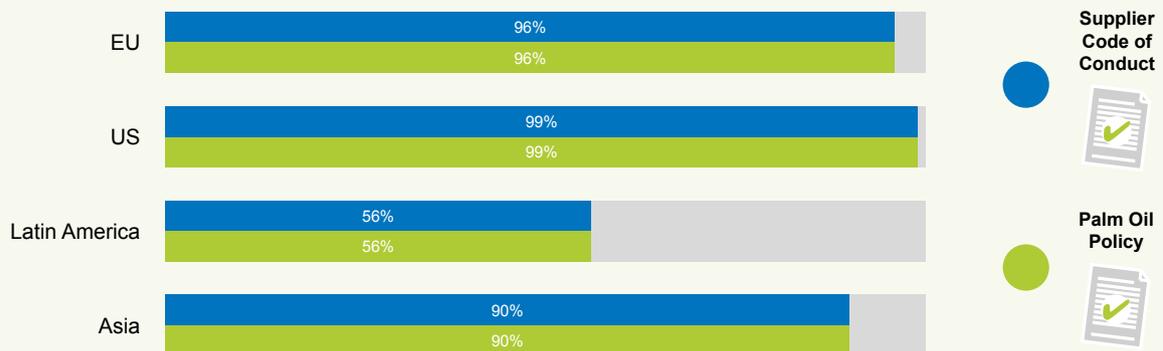
Overall traceability to mill remains at 100% for all products into the USA and European market.

Due to the increased volumes in India, China and Latin America and the number of new suppliers that AAK are

sourcing from, the global traceability percentages for mills have dropped from 97 to 96 percent and to plantation from 35 to 28 percent. For 2019 improving this will be a key priority as part of our continuous improvement approach.



### Regional distribution of volumes covered by signed Supplier Code of Conduct and AAK sustainable palm policy



Almost all of our volumes into the USA and Europe are coming from suppliers that have signed AAK's sustainable palm oil policy and have signed our supplier code of conduct.

In Asia and Latin America, we have grown volumes and added new suppliers, that are in the process of signing up to the AAK requirements.

# Supplier and smallholder engagement

## Supplier engagement and follow up mill visits

Engaging with suppliers to improve practices on the ground is essential for driving sustainable palm oil production, and is a key element of AAK's Sustainable Palm Oil Policy implementation program. AAK works with its partner Proforest to identify priority suppliers, and then works with them to improve practices in environmental management, labour and other social issues. For more information on the prioritization process, see our report from August 2017.

Our approach to engagement includes conducting outreach workshops with mills, where we help them to understand our Sustainable Palm Oil Policy and requirements to ensure compliance; technical training, where we train mill employees on specific aspects of our requirements, such as labour; and detailed site-assessments where the mill is visited, gaps are identified and action plans are created to improve practices.

In 2018, AAK supported one labour workshop, three full site assessments, and seven follow-up mill assessments in Peninsula Malaysia and Guatemala.

All of these activities are important ways of raising awareness and improving practices on the ground, but mill visits allow the most detailed understanding of progress and actions needed to improve. After each mill visit, a timebound action plan is developed with the mill to address any issues identified. Sometimes, mills may need ongoing support and guidance to improve.

Recognizing this, in 2018 AAK focussed on revisiting mills where site-assessments had been conducted in previous years. Our partner Proforest revisited seven mills to follow up on how they were doing on their timebound action plans. A number of mills were found to have made considerable improvements. Highlights include:

- The installation of effective Greenhouse gas (GHG) management and monitoring systems
- Development of policies on peat management, workers' rights and health and safety, and/or increased awareness of these policies among workers
- Development of clear grievance procedures for workers
- Improvements in workers' accommodation.

However, other mills were found to be struggling to implement necessary changes due to operational changes, and these mills will receive further visits in early 2019 to ensure that improvements are made.

Alongside the follow-up visits, in October 2018 AAK and Proforest conducted training in Peninsular Malaysia on human rights and workers' rights. A total of 42 participants (comprising mainly senior/ middle management or technical staff) from twenty-two mills were present.

In 2019, AAK will continue to engage with mills to drive implementation and transformation on the ground.



In November 2015 the Sabah State Government announced its intention to achieve 100% RSPO certification for palm oil across the entire state of Sabah for 2025. The commitment will be achieved through a jurisdictional approach to transform Sabah's palm oil production and supply chains, halting deforestation, restoring ecosystems, and securing sustainable livelihoods. AAK supports Forever Sabah which works with the smallholders in Sabah to realize the State Governments ambitions.

## Jurisdictional Certification – Sabah update

We reported in our last progress report that the baseline study had been completed on the 20 villages in the 4 pilot districts of Telupid, Tongod, Beluran & Kinabatangan (TTBK). Towards the end of 2018 I had the opportunity to join a field visit to two of the villages involved in the pilot and to understand first-hand the challenges faced by the smallholders as they strive to improve their livelihoods. The first village or Kampung that we visited was Liningkung in Telupid. The village leaders in the community hall explained why recognition via the Forever Sabah team was so important for them. Land tenure is a major issue. Half of the villagers have no running water due to the absence of land tenure with the water company unable to install the infrastructure to properties unable to prove legal ownership.



The village head explained that he had submitted his land application over 15 years ago. Despite chasing he had not received any response. He waited for 6 years before planting oil palm on the land to provide an income for his family. He still is unable to prove legal ownership and is unable to take out loans from the bank to invest in his smallholding. This is a situation shared with many smallholders across the region.

We departed Liningkung with a solid understanding that the villagers and smallholders are keen to work within a framework such as certification and can see the benefits for not only themselves but also the land they are custodians for. We headed South West to the next Kampung – Semundoh in Tongod. A very warm welcome was offered by the villagers – like Liningkung. As well as land tenure the villagers highlighted the impact of markets on the prices that they



could achieve for their fresh fruit bunches (FFB). They had experienced significant drops in prices being paid for FFB. They felt that there was no transparency and were at the mercy of local mills. Their hope was that certification could open up the market for their oil palm.

The field trip to the two Kampung was very rewarding and confirmed the enormity of the challenges faced to not only certify the pilot districts but the entire state of Sabah. It also demonstrated the true passion to overcome these challenges.



I also participated in a workshop in Kota Kinabalu organised by Forever Sabah – Implementation Dialogue. All the stakeholders attended including the Deputy Chief Minister of Sabah, who confirmed the state government's commitment to the jurisdictional certification process. The Sabah Government is a key stakeholder to give the smallholders we visited the absolute best opportunity to become RSPO certified and in doing so improve their livelihoods.

The workshop itself was conducted in a positive and vibrant manner. With the passion in the room translating the teams in the field and in turn to the smallholders themselves, collectively Sabah is setting itself up to pioneer the jurisdictional certification approach.

Bob Norman  
Sustainable Palm Oil Manager



## New Smallholder Project Mexico – Solidaridad

AAK has signed an agreement with Solidaridad to support 3 Social Agroindustries groups located in the Chiapas region in Mexico. Social Agroindustries is a term that refers to palm mills that are not only owned by smallholder cooperatives but operated and managed by them as well.

Solidaridad is an international network organisation specialising in partnerships to promote capacity building and programme implementation across multiple commodities. Solidaridad has been active in the region since 2016 when it established relationships with Mesoamerican Palm Oil Alliance (MAPA) and have since collaborated to strengthen administrative, productive, environmental and social elements in palm oil companies in four different states in Mexico. AAK's support will build upon that experience and will contribute to a more holistic process of capacity building to achieve improvements for the agroindustries.

*Madali Cruz, Field technician from Aceitera Chiapaneca la Palma, and Yazia Wilson, field coordinator for Solidaridad's MAPA Mexico, evaluating the progress of one of the demonstration plots.*

In the first phase, AAK's partnership with Solidaridad will focus on strengthening of the capacities of 3 groups in 2 specific areas: organizational strengthening and technical strengthening. Being able to work with smallholder co-operatives who not only produce the Fresh Fruit Bunches (FFB) but also process them through the palm mill allows AAK to support them at many more stages than traditional smallholder project work.

The ultimate aim is to prepare the groups to achieve RSPO certification and we look forward to providing an update in the next report.





## Stimulating market uptake

### AAK helping Chester become the UK's first Sustainable Palm Oil City

In June 2018 AAK joined zoos, wildlife conservationists, politicians and leading food brands at an event in Westminster to discuss the UK food industry's pledge to adopt sustainable palm oil by 2020. Chester Zoo and Chester MP Chris Matheson led the discussions and outlined their vision to make Chester the UK's first Sustainable Palm Oil City.

Opening the event, Science Director at Chester Zoo Simon Dowell stressed the 'transformative effect' of businesses working together to embrace sustainability. Chris Matheson MP spoke with feeling about a campaign that was rapidly gathering momentum and galvanised the room with his pride at the prospect of Chester becoming the first sustainable palm oil city but added the plea that "we can't do it alone".

Talking about the issues surrounding unsustainable production, Cat Barton, Field Conservation Manager at Chester Zoo, described sustainable palm oil as "the answer" along with more knowledge about sustainability, which is particularly low in the hospitality sector. "This is not just about Chester, we need to take it to the national supplier level, help restaurants engage with the project," she said.

Rachel Neale, Senior Marketing Manager at AAK who is responsible for a number of brands including Prep, spoke about the need to raise the profile of sustainable palm oil in the industry as the "world's highest yielding vegetable oil

crop, using far less land required by alternative oil crops" and "kickstart the conversation in food service about sustainable solutions". "AAK is a founder member of the RSPO and secured the first shipment of certified sustainable palm oil into the UK in 2008" she said. All our Prep High Performance Frying Oils have been made using RSPO-certified palm oil since 2016. We can help our customers on every step of their journey towards sustainability."

Inke van der Sluijs from the RSPO reinforced sustainable palm oil's potential for positive impact on the environment and local economies in the countries it is produced. She explained: "Global demand for vegetable oil is growing fast with palm oil the most widely consumed. It is used in everything once you start tracking. It is a very useful crop, but we have to produce it sustainably." Showing a world map identifying the areas where people live below the poverty line she also defined the positive economic impact of the palm oil industry in Indonesia and Malaysia. Reminding the audience: "Don't forget its economic value, it lifts people out of poverty." Emma Keller of WWF spoke about how palm is "on the public consciousness more than other commodities" and with it being already 78% sustainable in UK there is a real chance it could be the first to 100%. She concluded: "The public will only be assured when they see forests are being saved and good companies are being public about it."

## Key next steps for 2019:

### 1. Continuous improvement

- Focus on 100 percent traceability to mills, despite volume growth in less mature regions;
- Implement GFW Pro to pro-actively monitor deforestation in our mill supply base;
- Continued focus on medium- and high-priority suppliers and regions based on our supplier prioritization assessment in Q1;
- 100 percent of our suppliers signed up to the AAK Code of Conduct and either signed or have an aligned sustainable palm oil policy;
- Follow up on mill on-site verifications and one new mill assessment;
- Follow up on actions from audit re-visits;
- 100 percent of grievances covered by systematic action plans;
- Encourage collection and publication of concession maps by tier 1 suppliers.

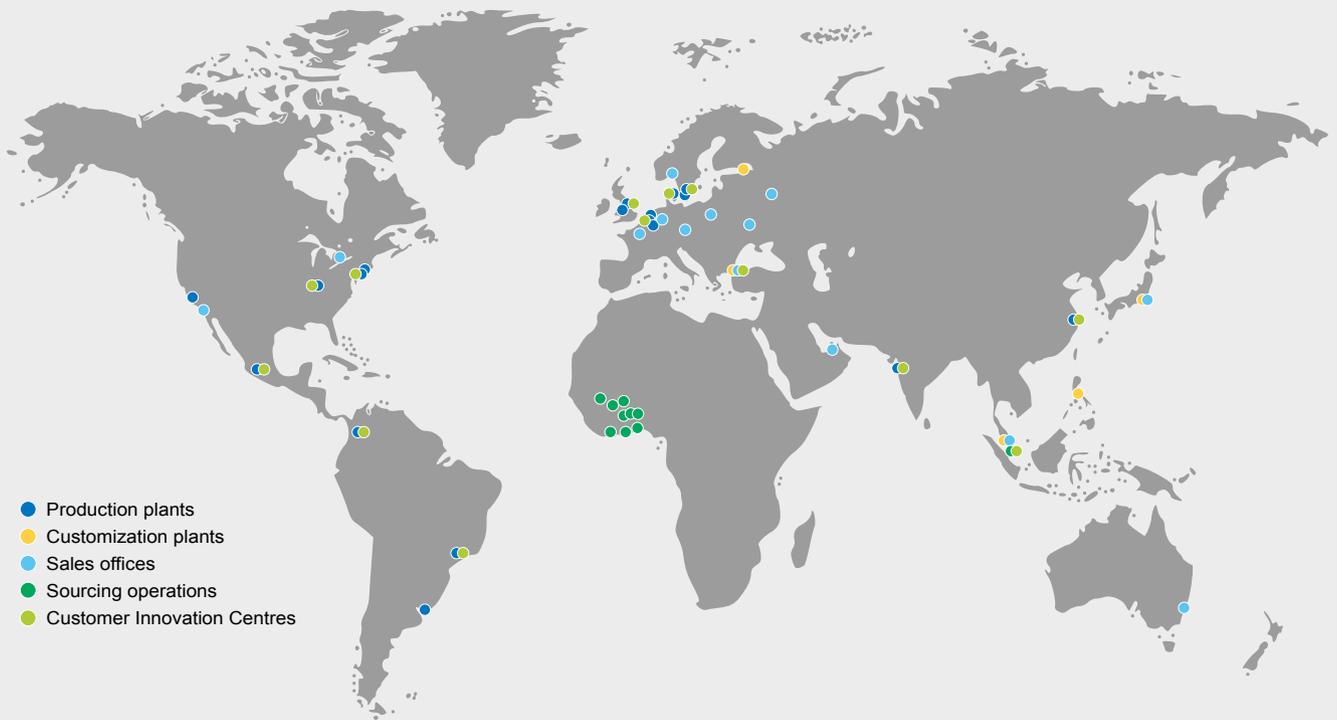
### 2. Supplier and smallholder engagement

- Execution of the action plan for labor workshops and training sessions, including a landscape/ jurisdictional approach;
- Continue to drive progress with the Forever Sabah engagement;
- Kick off new smallholder project in Mexico.

### 3. Stimulating market uptake

- Continue to contribute to the RSPO's mission, by active engagement in the board of governors and standing committees;
- Continue to be the trusted and knowledgeable partner for our customers in sustainable palm.





## We are AAK

AAK is a leading provider of value-adding vegetable oils & fats.

Our expertise in lipid technology within foods and special nutrition applications, our wide range of raw materials and our broad process capabilities enable us to develop innovative and value-adding solutions across many industries – Chocolate & Confectionery, Bakery, Dairy, Special Nutrition, Foodservice, Personal Care, and more.

AAK's proven expertise is based on more than 140 years of experience within oils & fats. Our unique co-development approach brings our customers' skills and know-how together with our own capabilities and mindset for lasting results.

Listed on the NASDAQ OMX Stockholm and with our headquarters in Malmö, Sweden, AAK has 20 different production facilities, sales offices in more than 25 countries and more than 3,600 employees.



We are AAK – The Co-Development Company.

**AAK**