

Malmö, May 26, 2020

On May 26, Swedish newspaper Expressen published an article on palm oil. For a variety of reasons, AAK decided not to participate in the article. But in line with our dedicated and transparent sustainability work, we want to share our view with our different stakeholders. Therefore, we here provide answers to the questions the newspaper sent us.

How does AAK control where the palm oil the company purchases comes from?

AAK's position in the supply chain is midstream. We buy most of our oil palm products from refineries in origin. We require our suppliers to comply with our [sustainable palm oil policy](#) and monitor progress in supplier scorecards and take relevant actions accordingly. Specific supplier requirements are:

- To sign AAK's Group Supplier Code of Conduct and AAK's Group Policy Sustainable Palm Oil or to have a verified and aligned policy in place
- To proactively monitor deforestation in their supply base
- To provide mill data and to drive progress in traceability to plantation
- To collect concession maps of their third-party supply base
- To manage grievances proactively
- To be or become member of the RSPO

What does the certification you use mean?

In the context of palm oil products, AAK supports the RSPO (Roundtable on Sustainable Palm Oil) standard. The [RSPO](#) is a not-for-profit organization that unites stakeholders from all sectors of the palm oil industry. It has developed and implemented a global standard incorporating a comprehensive set of environmental and social criteria for the production of certified sustainable palm oil.

Many of the factories you list as your suppliers lack certification. How come?

AAK is not listing factories in our public mill list, however, we assume mills are referred to.

AAK believes that supplier engagement and on-the-ground transformation is needed for the industry to become fully sustainable and we believe that the market should require RSPO certified products. But why then, isn't the globe fully converted to RSPO certified palm oil, making it necessary for AAK and others to also drive verification efforts for the non-certified part of our supply chain? There are several reasons:

- There are still companies and regions in the world not prioritizing to pay the premium and/or that are not aware of certified sustainable palm oil (or with bigger issues to address)
- There are still many medium and small growers that are not RSPO members, and many RSPO supply chain members sourcing from non-members
- The palm oil supply chain is characterized by a large number of smallholder growers
- Only around half of RSPO certified volumes is certified as segregated, which provides the required certainty for no deforestation

You obviously use palm oil that is not certified. How can you guarantee that your product is "sustainable", which is what you write both on your website and in your sustainability report?

AAK recognizes that certification is not the only solution for all palm oil producers and consumers around the world. In 2013, along with many other industry stakeholders, we developed our own sustainable palm oil policy, often referred to as NDPE (No Deforestation,

No Peat, No Exploitation). Engaging with suppliers who have developed and are implementing their own NDPE policies, next to RSPO certification, is an important element of the palm oil market transition to a sustainable one. We implement our palm oil policy in partnership with Proforest, a sustainable agricultural specialist.

Expressen has followed an illegal chain of palm oil from the Tesso Nilo nature reserve in northern Indonesia to various factories in the region, which is also described in a recent report by Greenpeace. Our on-site review shows that the Riguna Agri Utama (Peranap) and Mitra Unggul Pusaka factories handle illegal palm oil – and the Greenpeace report states that the factories Ukui 1 and 2 do as well. All of these are listed among your suppliers. Do you know that the factories you cooperate with use palm oil that has been produced at the expense of deforestation?

AAK does not source directly from any of the mills mentioned. According to our knowledge, the supply we get through our suppliers does not include illegal FFB (“Fresh Fruit Bunches”) from Tesso Nilo.

AAK requires our supplier(s) who have the direct relationship with the parent company of the mills mentioned to ensure that their NDPE policy is complied with. The parent company has confirmed to our suppliers that they have implemented a Traceability Master Database of its entire third-party supply chain, which enables them to monitor the source of incoming supply. The farmers sign a statement that binds FFB suppliers to source only from legal areas and to prevent the inclusion of illegal FFBs in their supply to the mills belonging to the group. This supplier also has achieved 100 percent FFB traceability to plantation since 2017.

Already in 2016, there were reports of illegal trade from Tesso Nilo. How come AAK still has not taken enough steps to ensure that the palm oil imported into Sweden does not originate in nature reserves?

As mentioned, AAK does not source directly from the mills so we work and engage with our suppliers, who in turn have the direct relationship with the mills, who in turn source from smallholders, FFB agents and dealers. Oil shipped directly to AAK Sweden from origin suppliers is not sourced from the Tesso Nilo area which has been ensured as part of our ongoing engagement and working with preferred suppliers.

Why did you recently change the details of “responsible sourcing of palm oil” on your website from 100 percent traceability to plantation 2018/2019 to 55 percent traceability in 2019?

When the target was set it appeared achievable. Through our proactive supplier engagement, the challenges of achieving 100 percent traceability to plantation became very apparent. The physical mapping of smallholders is a task that was underestimated. That is the reason AAK has changed the approach to focus more on a risk-based traceability and in high-risk regions traceability to the farmers is required. As Tesso Nilo is a high-risk region, full traceability is required and can therefore confirm that we don’t have illegal FFB in our supply.

You communicated already in 2014 that by 2019 AAK promised to have control over which plantations the palm oil you purchase comes from. You have still only achieved that goal by 50 percent. Why?

See answer above.

When in Indonesia, Expressen could easily map the illegal palm oil trade from Tesso Nilo – and link it to factories from which you purchase. Why haven’t you taken the time to check this yourself?

AAK has taken the time to check and is engaging with key suppliers regarding high-risk regions on a continuous basis.

AAK sources from many regions in Indonesia and Malaysia. We map our suppliers' mill lists and assess the risks together with our implementation partner Proforest on an annual basis. We are reliant on partnerships with suppliers that have an aligned perspective on sustainable palm and who are closer to the mills, the farmers/smallholders to monitor the supply base. Minimizing the impact of rogue FFB dealers/agents/brokers with implemented traceability systems is a key part of the requirements on our suppliers. We are constantly improving our systems and controls, and welcome further input and information where these have been breached.

How do you want to assure your customers that AAK will do enough in the future not to be part of deforestation in Indonesia, and elsewhere in the world?

We still believe that RSPO certification provides the best solution today for sustainable palm and the verification and assurance to no deforestation. The product then needs to contain RSPO certified and segregated material.

AAK regularly updates the market about its sustainable palm oil work. Twice a year, "progress reports on sustainable palm oil" are released. The latest one was published in April: <https://www.aak.com/siteassets/sustainable-growth/palm-progress-reports/AAK-s-progress-report-on-sustainable-palm-oil-April-2020>