

abrdrn Position Statement – Palm Oil

June 2024

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The issue

The production of unsustainably sourced palm oil has significant negative impacts on the environment and on biodiversity.

Palm oil is found in many of the products we buy in supermarkets, from chocolate to cosmetics. The palm oil tree grows under specific conditions found only in tropical regions between 10 degrees north and south of the equator. Over three-quarters of palm oil originates in Indonesia and Malaysia.¹ The palm-oil industry has created economic benefits for these two countries. In recent years, Nigeria, Thailand, and Colombia have also emerged as global producers. But despite the benefits for emerging economies, unsustainable and negligent palm-oil production has tainted the industry and created significant risks for businesses exposed to palm oil in their supply chains.

We do, however recognise that sustainably sourced palm oil is an important commodity for much of the global food industry.

Why is this important for investors

Opportunities

Demand for palm oil is so high because it is productive, cheap, and versatile.

Palm oil trees are the most productive source of vegetable oil, yielding more oil per hectare than any other crop-producing edible vegetable oil. Palm oil makes up approximately 40% of all vegetable oils but is grown on just 6% of the land allocated to oil crops.² Obtaining the same amount of oil from alternative sources would require more land and could shift many of the problems attributed to palm oil and its environments to other parts of the world, increasing the threat to new habitats.

Palm oil is also the cheapest source of vegetable oil. This makes it an important food product for low-income groups around the world. It is widely believed that palm oil is healthier than other oils, as it is naturally trans-fat free, while fortified palm oil can combat vitamin-A deficiencies.

The oil is one of the most globally versatile and widely applied substrate bases. It is thought to be found in nearly 50% of packaged products in supermarkets. Most palm oil is used in food production, however it is also used in cosmetics, chemicals, pharmaceuticals, and animal feed.

Risks

Poor practices

Demand for palm oil has led to an increase in production. However, this increase has come at the expense of the environment. The greatest impacts occur when palm-oil plantations are established, often through the destruction of virgin rain forest. For companies within the palm-oil industry, poor risk management could lead to operational risks, stranded assets, legal actions, and consumer boycotts. For investors, exposure to these issues can come in the form of financial and reputational risks.

¹ <https://palmoilalliance.eu/palm-oil-production/>

² <https://www.wwf.org.uk/updates/8-things-know-about-palm-oil>



Deforestation

The most significant environmental consequence of unsustainable palm-oil cultivation is deforestation and the impact that has on biodiversity in ecologically sensitive regions. Palm oil is a major driver of deforestation, particularly in Asia. The impacts of deforestation include habitat loss for species like the orangutan and Sumatran rhino, pollution, and the removal of peatland as a critical carbon sink. Deforestation has been an important research topic for us. We have a particular focus on palm oil as one of seven key forest risk commodities that drive the majority of the world's deforestation. More detail is found within our research on deforestation: **Deforestation – why it matters for investors** and our expectations for companies linked to forest risk commodities are provided in our **Deforestation Position Statement**.

Labour and human-rights violations

There are also social challenges within the palm-oil value chain. Several companies have been linked to labour and human-rights violations. Major controversies include land grabbing, displacement of indigenous people, child labour and health consequences associated with air pollution from deforestation.

The environmental and social impacts of unsustainably sourced palm oil are significant for investors. Companies with exposure to illegal or unethical practices in the supply chain undermine our efforts to invest for a better future. And shifts in consumer demand are likely to hit corporate reputation and profitability.

As a large global asset manager, we have an important role to play in encouraging the production and use of sustainably sourced palm oil. If abrdn avoided palm oil completely, other inefficient oils would take its place. We believe that this would be harmful as more land would be required within the tropical biome, resulting in increased deforestation alongside community exploitation and conflict.

Palm oil is a critical commodity, so a boycott is not the answer. Instead, we need to encourage and support the sustainable production of palm oil through our investment practices.

Our view and approach to investments

We aim to ensure that the following are true of our palm-oil-exposed investments:

- They are not exposed to unresolved land-rights conflicts and ongoing controversies.
- They have achieved or are committed to achieving RSPO/ISPO or other internationally recognised certification.
- They are able to prove the legality of their operations and have complied with all laws and standards.
- They have undertaken environmental-impact assessments.

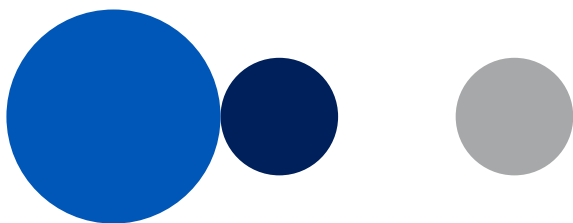
Engagement to encourage sustainable practices

In our actively managed investments, corporate engagement is essential to enable and support a sustainable palm oil supply chain. Through engaging with companies exposed to palm oil, directly or indirectly through their supply chains, we can understand their exposure to these risks and how they manage them. In instances where we assess the risk from an investment perspective to be too high, we may consider selling our holdings. Engagements also provide us with the ability to influence and outline our expectations in relation to supply-chain transparency and audit of suppliers.

We encourage membership and certification of the Roundtable on Sustainable Palm Oil (RSPO) and Indonesian Sustainable Palm Oil (ISPO). Reputational and financial losses can occur if an investment is found not to meet the standards required by its membership of these organisations. We also encourage the implementation of No Deforestation, No Peat, No Exploitation (NDPE) sourcing policies. We want to steer our investments towards setting ambitious, time-bound targets to eliminate exposure to deforestation and human/labour-rights risks.

Voting and shareholder resolutions

Where engagement has limited success, we use our influence through escalation via voting and support of shareholder resolutions. abrdn has a well-resourced stewardship team with dedicated proxy-voting capability that can provide thoughtful escalation on palm-oil sourcing and supply-chain matters.



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