Palm Oil Transparency Coalition 2024 Importer Assessment

POTC
PALM OIL TRANSPARENCY COALITION

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POTC members

POTC affiliates

NGO partners

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Introduction

What is the Palm Oil Transparency Coalition (POTC)?
The POTC is a pre-competitive coalition of retailers and consumer goods companies, aligned with the Consumer Goods Forum Forest Positive Coalition. The coalition's purpose is to assess how effectively shared key importers of palm oil within member supply chains are meeting their no-deforestation and exploitation commitments. It does so by annually surveying these companies on their relevant policies, action plans and implementation of those plans.

Assessing progress on palm oil sustainability
The POTC annual assessment engages with and challenges key palm oil importers on deforestation, climate challenges, and labour and land issues in their supply chains. Guided by two NGO advisory partners, WWF and Forest People's Programme, this assessment surveys importers' implementation, progress and reporting of actions within their own operations, third party supply and beyond. The POTC facilitates open and honest disclosure with palm oil importers in member supply chains.

This report outlines the findings from the 2024 assessment, highlighting industry-wide No-Deforestation, No Peat and No Exploitation (NDPE) trends in the palm oil sector.

The report aims to help members and importers understand what remaining challenges exist to reaching stated NDPE targets and plans. It highlights the insights gained from questionnaire responses and follow-on discussions with the importers.

While POTC members continue to rely on and commit to sourcing of RSPO volumes as minimum best practice, the coalition seeks to understand what actions first importers are taking across their supply base, regardless of certification status of the palm oil sourced. This year's assessment takes into consideration the global regulatory environment and the impacts of the European Union's Deforestation Regulation (EUDR) on palm oil sourcing practices.

The POTC facilitates open and honest disclosure with palm oil importers in member supply chains.

Our Approach

The coalition aims to make the process for importers as simple and efficient as possible. It avoids duplication by bringing companies together to share one survey, which can be used for further engagement. POTC refined its assessment process in 2023 by bringing together more than 10 assessment organisations to produce one core set of questions on which importers can be assessed. Further refinements were made by the Accountability Framework Initiative (AFi) and the Working Group for Aligning Palm Importer Performance Assessment. The 2024 POTC questionnaire was fully aligned with the outputs of the working group.

This streamlined process aims to: 1) provide a robust assessment of how importers are performing, 2) ensure importers spend less time on questionnaires and more time addressing supply chain practices and commitments.

There are three key steps in the POTC process: :

1. Importer selection

16 importers were selected for assessment by members based on known sourcing and interest.

2. Importer engagement

The questionnaire is prefilled from public information before sending to importers for filling with additional information and evidence. Following submissions, a call is arranged between the importer, interested members and 3Keel to provide greater clarity on the questionnaire response.

3. Importer assessment

The results of each questionnaire are assessed against a scoring method developed with input from advisory partners, to inform and highlight areas where importers are falling short of expectations on NDPE policies and practices. Outputs from the assessment are shared with POTC members, and insights from these are included throughout this report.

Companies Assessed in 2024:

AAK, ADM, agropalma, Apical, BASF, BUNGE, Cargill, EFKO, FUJI OIL, gar, LDC, MUSIM MAS, Olam, olenex, SD Guthrie, wilmar

What we found

Key themes

1. Half of importers assessed do not report publicly on Deforestation-Free (DF) volumes and methods for tracking are inconsistent.

2. The impact of legislation such as EU Deforestation Regulation (EUDR) and Corporate Sustainability Due Diligence Directive (CSDDD) is becoming apparent in importers' reviews of HRDD mechanisms, with lack of industry alignment on best practice.

3. Few importers have adequate, independent third-party reviews of their grievance mechanisms.

4. EUDR is likely to lead to pressure on 'compliant' mills regardless of delays to legislation.

Reporting progress towards DCF targets is still lacking

Twelve of the 16 importers assessed have a rapidly approaching Deforestation Free target-date of 2025, to which they have publicly committed (Figure 1). However, 50% are failing to report publicly on deforestation and conversion-free volumes (Figure 2).

NDPE IRF and DCF reporting: lack of transparency persists

Importers continue to use NDPE 'Delivering' volumes as a key metric. In certain cases, they supplement No Deforestation, No Peatland and No-Expolitation Implementation Reporting Framework (NDPE IRF) profiles with third-party verification and monitoring, as they lack on-the ground verification of supplier claims. However, this is not consistent across importers. There is a continued lack of disclosure as to how indirect volumes, which are not covered by the NDPE IRF profiles, are monitored and evaluated for deforestation and exploitation risk. Downstream companies could struggle to interpret the reporting against 2025 DCF targets, due to a lack of transparency and significant variance in the underlying methods and coverage of supply chains.

Traceability and DCF: exclusion risk

Importers cited preferential sourcing from suppliers who can provide full traceability to plantation as a tool to achieve their DCF targets. This is often made a condition for contracts, with suppliers who cannot comply being excluded. It is not clear whether this will deliver sector-wide clean and traceable supply chains. It could unintentionally cause low levels of deforestation and social issues to persist in untraceable supply because they are excluded from major importers' supply chains.

Alignment With AFi: what about conversion?

There is a lack of consistency in aligning deforestation commitments with best practice as outlined by AFI. Many commitments still don't include targets for reducing conversion. This is driven in part by the need to have a 2025 deforestation-free target in place to meet SBTi FLAG commitments. Several importers said they will review conversion after 2025. While it is positive to see increasing momentum towards target dates being met by 2025, there is a risk of reduced ambition in what is covered.

While most companies have a commitment to achieve deforestation-free supply chains, half are not publicly reporting on deforestation and conversion-free volumes

Figure 1: Does your company have timebound commitment for achieving your commitments on deforestation?

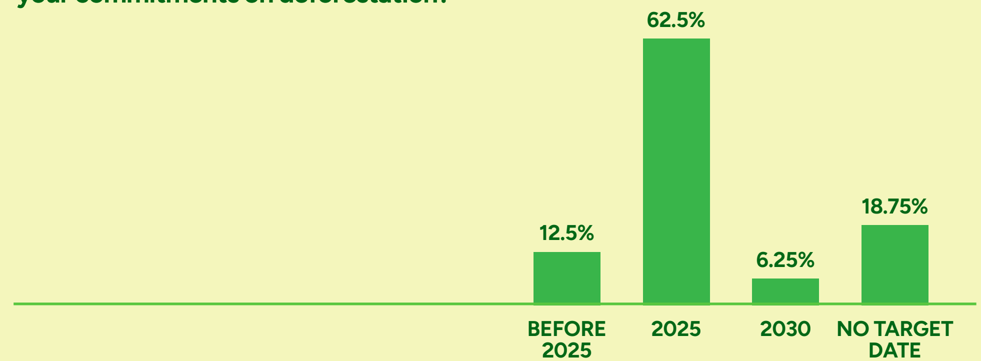
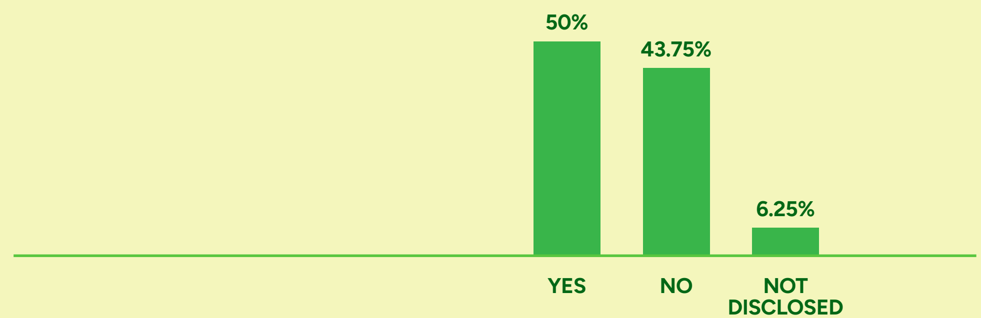


Figure 2: Do you publicly report on deforestation and conversion free volumes?



WHAT WE FOUND

Legislation raises the bar on human rights due diligence, but lack of alignment on 'good practice' means gaps remain

Expanding environmental and human rights due diligence legislation is gradually raising the bar on progress in these areas. The EU Deforestation Regulation (EUDR) and the Corporate Sustainability Due Diligence Directive (CSDDD) are driving companies to review and update diligence standards within their own and their third-party supply chains.

Specifically, importers are reviewing the ability of their Human Rights Due Diligence (HRDD) processes to adequately meet legislative requirements.

Of the 16 importers assessed, 13 conduct overall risk assessments as part of the HRDD process (Figure 3). However, only 50% of importers conduct a comprehensive consultation with relevant stakeholders, and a further 25% conduct this partially.

This is a crucial step in the HRDD process to ensure the effectiveness of actions taken to identify and remedy any harm caused by the company as defined by the Palm Oil Collaboration Group (POCG) HRDD guide.

There is a lack of agreement on what is 'good practice' for reporting on requirements of regulations such as the CSDDD. This is hindering importers' abilities to prepare adequately for the more stringent requirements of regulation to come. Where updates to roadmaps on HRDD are underway, indirect supply is still a key gap. There is limited disclosure on actions taken within indirect supply.

What is a HRDD process?

A Human Rights Due Diligence (HRDD) process provides companies with a systematic approach to respect human rights. It allows a company to proactively identify, address, prevent, mitigate and remediate human rights abuses, such as child labour, forced labour or excessive working hours, rather than having a responsive and less effective approach.

Comprehensive HRDD can support companies in delivering on their No Exploitation commitments in an NDPE policy (POCG , 2021).

Figure 3: Does your company conduct overall risk assessments for identifying existing and potential human rights risks that include all the human rights issues in third-party produced volumes?

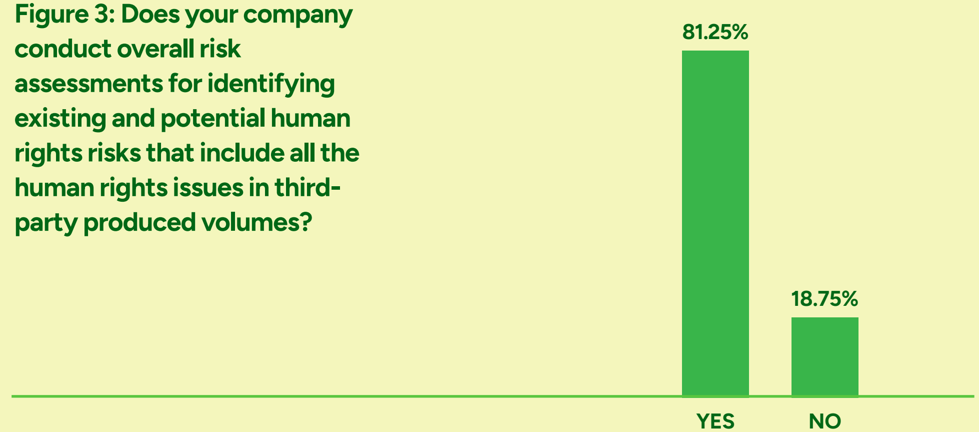
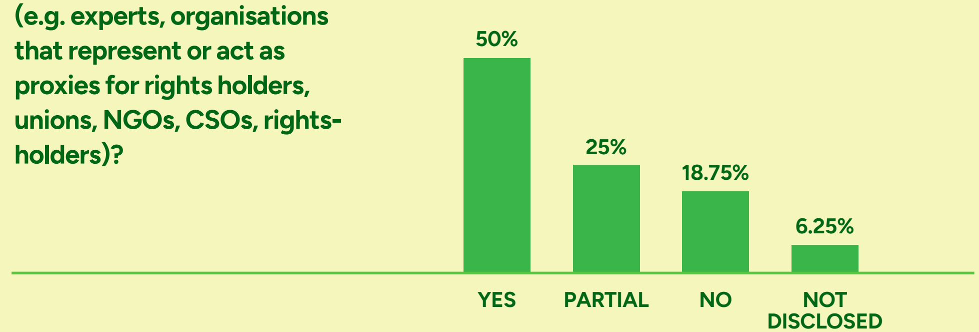


Figure 4: Does the assessment include engagement and consultation with relevant stakeholders (e.g. experts, organisations that represent or act as proxies for rights holders, unions, NGOs, CSOs, rights-holders)?



Importers lack comprehensive, independent third-party review of grievance mechanisms.

A robust HRDD mechanism relies on four pillars: identify, address and embed, track, and communicate (POCG, 2021). Fundamental to this is the ability to track the effectiveness of the processes and understand if negative human rights impacts are being addressed. This relies on a well-designed, easily accessible and regularly reviewed grievance mechanism. POTC asks importers to report on whether they have a publicly available, effective system to address grievances raised in the palm oil supply chain and allow reporting on progress made to address grievances.

This year for the first time, we asked how often importers analyse trust in their grievance mechanism, and if so, whether that review is conducted by a credible third party. While 12 of 13 importers who responded to this question have a public grievance mechanism in place, Figure 5 shows that only 31% do conduct this regular analysis. Figure 6 shows that of the five that do, four of them do this through a credible third party.

This lack of analysis calls into question the effectiveness of mechanisms to identify and address social and environmental issues within direct and indirect supply.

Finally, only 8 of 16 importers stated that they take action to communicate the operational grievance mechanism to relevant stakeholders (e.g., workers, local communities), which is key to ensure it is accessible for affected parties. This may include publishing the grievance mechanism in several languages and making sure that affected parties can raise a grievance anonymously.

Only 31% do conduct this regular analysis of trust in the grievance mechanism and of the five that do, four do this through a credible third party.

Figure 5: Does your company regularly conduct an analysis of trust in the grievance mechanism (at least every two years)?

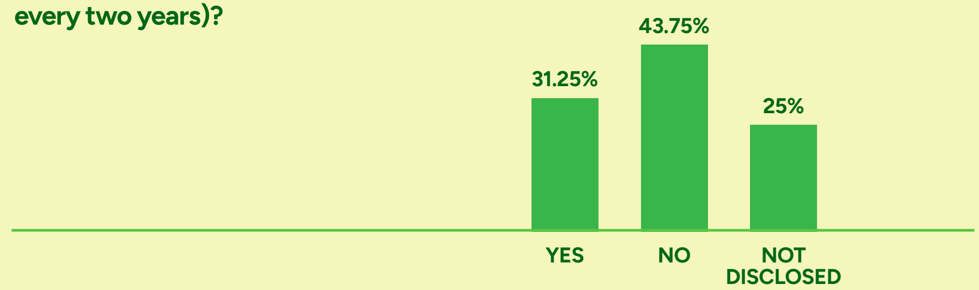
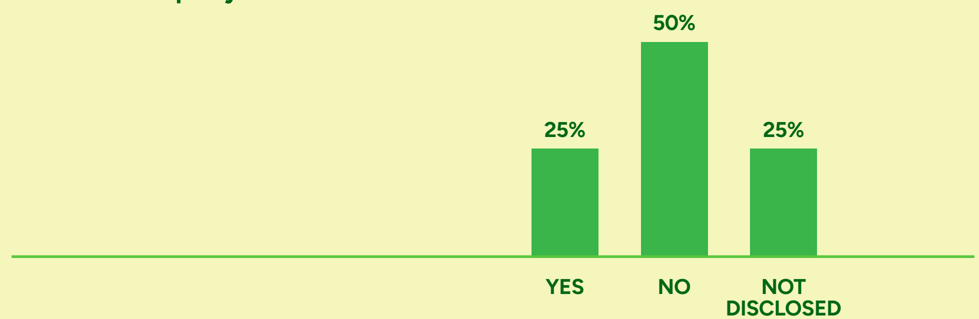


Figure 6: Does your company conduct a review of its grievance mechanism through a credible third party?



Risks to smallholders from pressure of EUDR requirements

In conversation with importers, several noted the risk of exclusion of smallholder volumes into Europe, due to mapping and land rights issues, a persistent theme from previous POTC assessments. Challenges with determining the legality of supply due to issues with land-titles are prevalent, as this is one of the provisions of the EUDR. Although the total exclusion of smallholder volumes into the EU is considered unlikely, there is significant risk that importers may start to reduce the number of smallholders in their operations.

Several importers intend to use sourcing of RSPO SG volumes as the basis of compliance with EUDR requirements, while acknowledging it falls short of meeting all the legislation's requirements. One company stated that they intend to deliver and maximise the flow of RSPO certified materials into their EU supply chain. This is being supplemented in many cases with polygon mapping through support from Earth Equalizer.

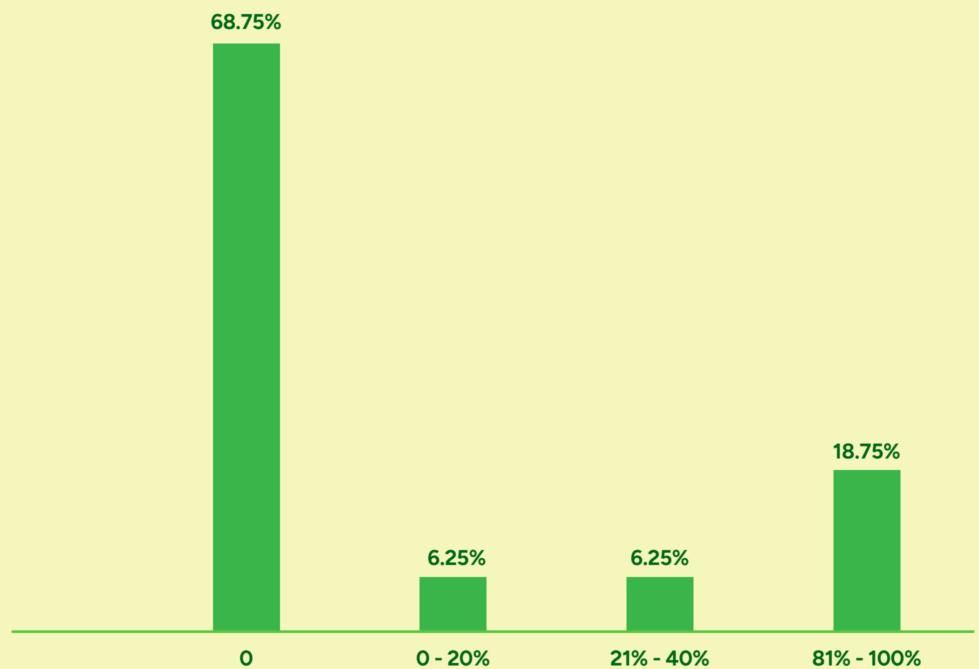
Several importers cited sourcing from specific 'EUDR-ready' refineries as the first step in compliance. 'It is not clear if these refineries will be able to meet this demand. There will likely be pressure on EUDR 'compliant' mills to deliver increased volumes.

Finally, there is reported variability across the supply base by region and supplier type in terms of collection of polygon data. Several importers noted that they may cease sourcing from suppliers who cannot provide polygon data. This may have broader implications for the palm oil industry. There is potential for clean, traceable supply chains to become more consolidated and shorter, while the risk of deforestation outside of these supply bases could continue.

Figure 7 shows the stated current levels of traceability to plantation and small holder plot level. Although this reflects the percentage across all markets, not just EU, it is stark that 11 of 16 importers do not have this information, and only three companies can provide over 80% traceability.

There is a risk of smallholder exclusion from palm oil volumes supplied into Europe

Figure 7: What % of your supply (direct and indirect) do you currently have geolocation data/ coordinates?



How importers are performing

Scoring Method Overview

Assessed **16 first importers** in POTC member supply chains on responses to **219 questions**, covering policies, actions plans, target dates, reporting and monitoring within own-plantations (where applicable), third-party sourced volumes and third-party traded supply.

Out of **219 questions**, companies were scored on **152 questions** (excluding questions regarding company operations and sourcing data).

Of these **152 questions**, importers were scored against whether they met or exceeded expected responses as set by NGO advisory partners. **70 questions** were determined as critical, with these receiving double weighting in the overall score determination.

Engaged importers making more progress year-on-year

Figure 8 shows the overall ranking of importers from highest to lowest scores on the POTC questionnaire assessment.

Year-on-year, importers who engage with the assessment and provide higher levels of disclosure tend to score more highly than .those who do not. Low performance is partially due to this lack of public disclosure and a lack of engagment may also indicate lower investment in the issues raised.

Importers who score highly on the assessment meet the expectations of POTC's advisory partners on the majority of questions deemed as critical, which receive double weighting in the overall score calculation.

Five importers failed to meet or exceed expectations for more than 50% of the quetsions, while the highest performing did so for 80 % or more

Figure 8: Overall importer ranking on the POTC assessment

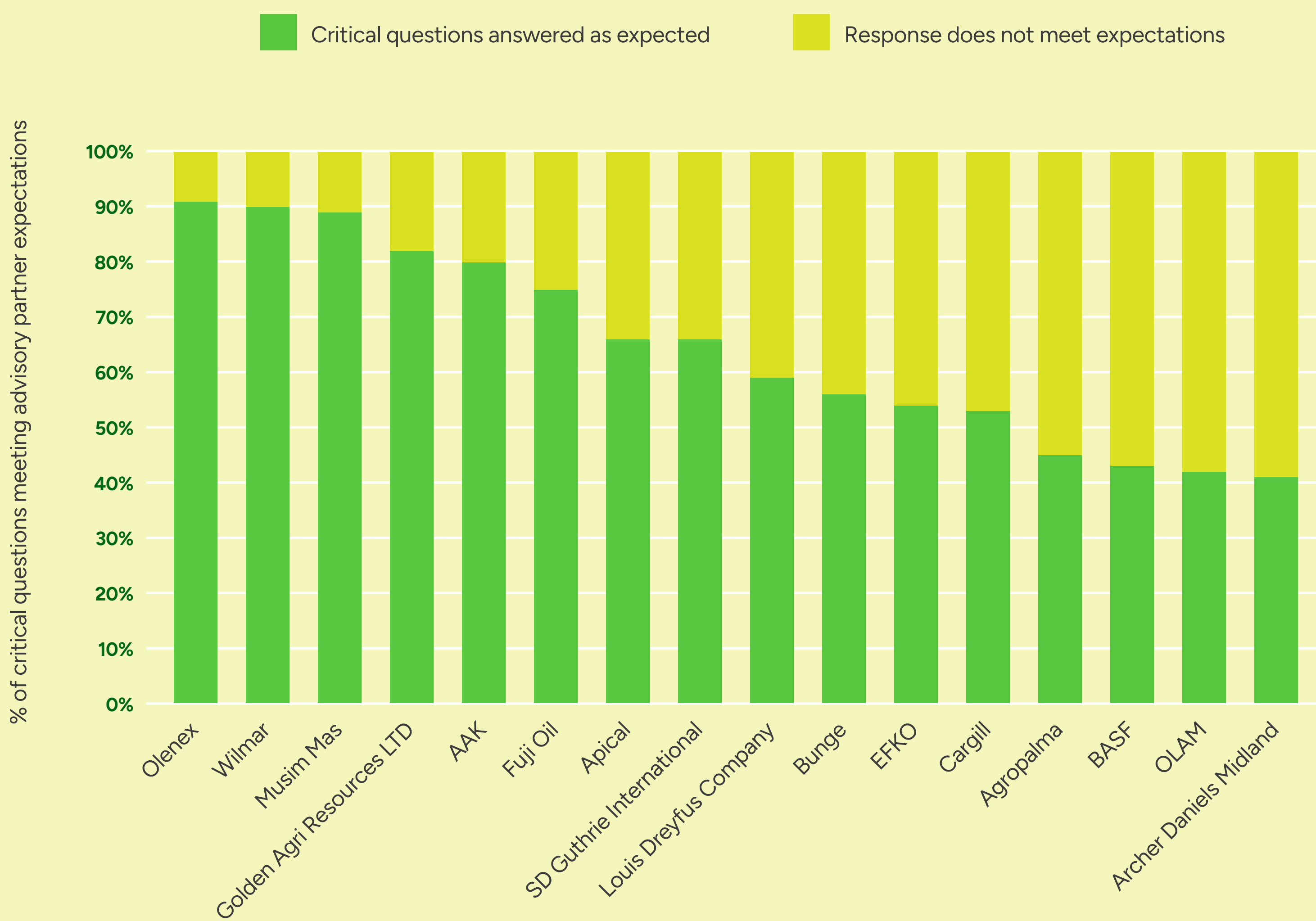
Importer Performance on Critical Questions

Figure 9 shows the importer ranking from highest to lowest specifically for performance on questions deemed by advisory partners as 'critical'.

These questions are scored with double weighting and span commitments, action plans, monitoring and reporting across both social and environmental elements of palm oil importer performance.

Several high performing importers are meeting or exceeding advisory partner expectations on between 80-90% of critical questions. However, more than half of all importers assessed are still failing to meet expectations on over 40% of the assessment questions.

Figure 9: Importer ranked performance on critical questions



Half of all importers assessed are still failing to meet or exceed advisory partner expectations on over 40 % of critical questions (70 in total).

10 areas where action is most needed to meet NGO expectations

Table 1 highlights the top ten critical questions where importers are failing to meet advisory partner expectations. There is a relatively even split between social and environmental issues. It is worth highlighting that 60% of these questions sit within the 'Implementation' section of the questionnaire. They focus on actions and progress towards meeting commitments rather than whether a company has a commitment or policy in place.

IMPLEMENTATION
MONITORING, REPORTING AND VERIFICATION
TARGET DATES

60% of top critical questions where importers are performing poorly sit under implementation of policies and commitments

Table 1: Top 10 critical questions where importers are not meeting advisory partner expectations

Theme	Question	% of importers not meeting expectations
Supplier Engagement	Have you engaged at least 80% of your tier 2 (and further upstream) suppliers on meeting your human rights and environmental sustainability requirements?	81%
Supplier Engagement	Are at least 80% of non-compliant suppliers engaged in improvement plans?	81%
Deforestation	Does your company have co-ordinate data for 80 % of volumes of plantations and smallholder plots you source from (directly/indirectly)?	81%
Deforestation	Do you publicly report on progress towards implementation of your responsible sourcing policy on a bi-annual basis?	81%
Grievances	Does your company conduct a review of its grievance mechanism through a credible third party?	75%
Governance	Does your company's board have an executive position that is formally focused on human rights issues?	75%
Climate	Does your company have an emissions reduction target date issued and validated under SBTi-FLAG?	69%
Grievances	Does your company regularly conduct an analysis of trust in the grievance mechanism (at least every two years)?	69%
Governance	Does your company's board have an executive position that is formally focused on deforestation and conversion issues?	69%
Human Rights	Does your company have a target date for achieving your commitments on human rights?	69%

What we recommend

Recommendations

FOR IMPORTERS :

1. Increase transparency on methodologies for reporting against 2025 DCF target dates, specifically for monitoring and reporting across indirect palm oil volumes.

2. Include conversion in any revisions of timebound target dates.

3. Reviews of existing Human Rights Due Diligence (HRDD) mechanisms should include robust and comprehensive consultation with relevant stakeholders at both the risk assessment and grievance mechanism stages.

4. Ensure efforts to meet the requirements of the EUDR continue to drive traceability across all supply chains, not just those supplying into Europe. Support the supply base, including indirect suppliers, to achieve traceability to plantation rather than restricting sourcing to those who can currently deliver on traceability.

FOR MEMBERS :

1. Review the critical areas where importers continue to fall short of advisory partner expectations and engage with them to encourage progress.

2. Engage with relevant importers within own supply chains to ensure transparent reporting against 2025 targets and to create a clear understanding of the expectations of customers further upstream.

3. Continue to push for progress on HRDD processes to identify and adequately address human rights risks within palm importer supply chains.

4. Engage critically with importers in own supply chains on reported traceability metrics, specifically looking beyond volumes supplied into Europe.

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