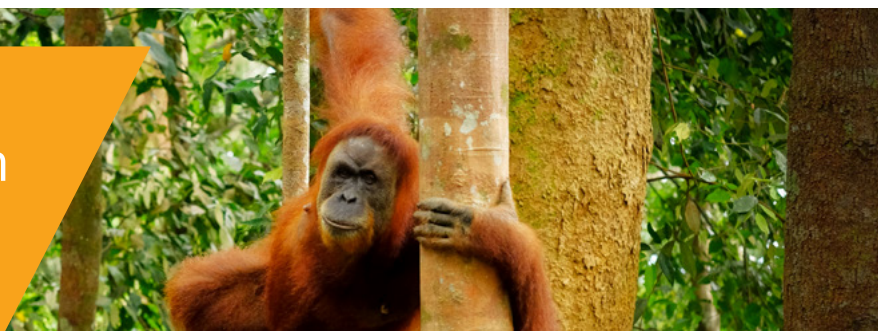


July 2020

Palm oil – our approach for investments



The issue

Aberdeen Standard Investments acknowledges that the production of irresponsibly 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 that fall within 10 degrees north or 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. Recently, Nigeria, Thailand, and Colombia have also emerged as global producers. Despite the economic benefits for emerging regions, unsustainable and negligent palm-oil production has tainted the industry and created significant risks for those businesses exposed to palm oil in their supply chains.

However, we recognise that responsibly sourced palm oil is an important commodity for much of the global food industry.

Benefits

The level of demand for palm oil is attributed to the commodity's productivity, value and versatility.

Palm oil is the most productive vegetable oil, yielding more oil per hectare than any other edible vegetable oil crop. Palm oil makes up approximately 35% of all vegetable oils, but is grown on just 10% of the land allocated to oil crops. To yield the same amount from alternative oils 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 the cheapest source of vegetable oil and therefore 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 estimated that it is found in nearly 50% of packaged products in supermarkets. The majority of palm oil produced is used in food production. It is also used in cosmetics, chemicals, pharmaceuticals and animal feed.

Risks

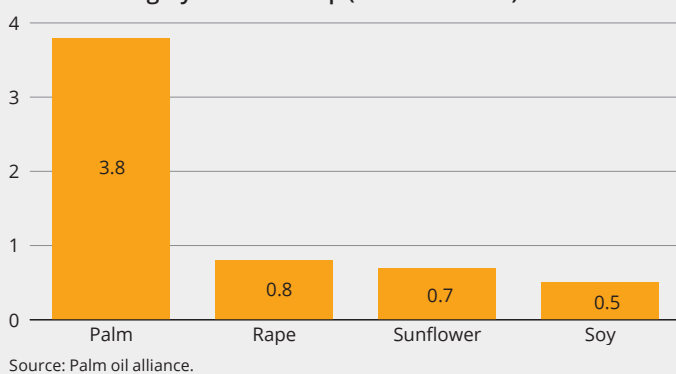
Poor practices

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.

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 orang-utan and Sumatran rhino, pollution and the removal of peatland as a critical carbon sink. Deforestation has been an important research topic for Aberdeen Standard Investments. We have a particular focus on palm oil as one of core four commodities that drive the majority of the world's deforestation. As part of our engagement activities, we have also signed the investor **statement** issued by the Principles for Responsible Investment (PRI) on deforestation and forest fires in the Amazon and supported collaborative investor engagements with the PRI.

Chart 1 - A highly efficient crop (Oil World 2016)



Labour and human-rights violations

Social challenges also exist within the palm oil value chain, with several companies being linked with 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 irresponsibly sourced palm oil are significant for investors. Companies with exposure to illegal or negative practices in the supply chain undermine our efforts to invest for a better future. Shifts in consumer demand are likely to hit corporate reputational and profitability.

¹ <https://www.theguardian.com/news/2019/feb/19/palm-oil-ingredient-biscuits-shampoo-environmental>.

² <https://theconversation.com/no-palm-oil-is-not-responsible-for-40-of-global-deforestation-78482>

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 Aberdeen Standard Investments avoided palm oil completely, other inefficient oils would take their place. We believe that this action 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 and a boycott is not the answer. We need to support and encourage sustainable palm oil production.

How do we ensure palm oil is responsibly sourced?

1. Engagements to encourage responsible practices

In our actively managed investments, corporate engagement is essential to enable and support a responsible palm-oil supply chain. Engagement with companies exposed to palm oil, directly or indirectly through their supply chains, allows us to understand their exposure and management of these risks. 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 an organisation. 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.

“We encourage membership and certification of the Roundtable on Sustainable Palm Oil (RSPO) and Indonesian Sustainable Palm Oil (ISPO).”

2. 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.

3. Voting and shareholder resolutions

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

Responsible investing at Aberdeen Standard Investments

As a leading global asset manager, we believe that investing responsibly can help generate long-term value for our clients. We offer an extensive and growing range of investment solutions, as well as the very highest levels of service and support.

When investing our clients' capital, ESG considerations are an integral part of our decision-making. By understanding how ESG factors affect our investments, we believe we can generate better outcomes for our clients, society and the wider world.

To help us achieve this, our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset classes to support this work. A further 30 dedicated ESG asset-class analysts provide an additional layer of expertise.

For more detail, please visit our [website](#).

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