



## Commodity Standards Update

The growth of the palm oil sector from 10 millions tonnes of production in 1990 to 50 millions tonnes in 2011 has created substantial economic growth and lifted millions of people, particularly in Indonesia and Malaysia, out of poverty. However, this growth has often come through rapid and poorly managed expansion of production. As a result, these poor practices have contributed to deforestation, species loss, large-scale greenhouse gas emissions, displacement of indigenous communities, social conflict and the loss of ecosystem services.

From 2010 to 2020, the volume of palm oil production is projected to increase by over 65%. How can we accelerate the industry's journey toward sustainability so that this projected expansion does not create further environmental degradation? This is a key issue that WWF seeks to address. The need for sustainable palm oil is increasingly recognized by consumers and governments alike—placing industry and the financial

community increasingly in the spotlight. This edition explores the challenges and opportunities of sustainable palm oil for the finance sector.

Assessing the role and the ability of investors to act, WWF surveyed top palm oil investors, examining their understanding of, and progress in dealing with, the challenges related to palm oil and sustainability. We invite you to delve into the findings from WWF's Palm Oil Investor Review.



**Jeanne Stampe**

[jstampe@wwf.sg](mailto:jstampe@wwf.sg)

Asia Finance and Commodities Specialist

[panda.org/finance](http://panda.org/finance)

## The Role of Financial Institutions in Sustainable Palm Oil

How is the finance sector responding to the rising demand from consumers and governments alike for a sustainable palm oil industry? Leading palm oil investors, Hermes Equity Ownership Services and Generation Investment Management, share their thoughts on the readiness of the investors to meet this demand and explore the role of financial institutions in advancing sustainable palm oil.

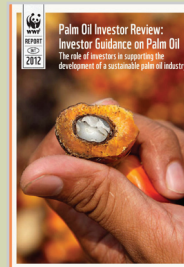
### Why is sustainability becoming increasingly important to investors? And what are the implications for their investee companies?

*"The investment community is facing growing calls globally to act as responsible asset owners and managers by investing and engaging with companies with the objective of pursuing long-term, sustainable value and delivering effective risk management. Leading pension funds and long-term investors have long understood that environmental, social and governance issues can impact a company's performance and risk, and as such, companies that fail to recognize these issues can be at a disadvantage in terms of long-term cost of and access to capital."*

—**Freddie Woolfe, Corporate Engagement Manager, Hermes Equity Ownership Services** and **Mark Mills, Partner, Generation Investment Management**

Investors are uniquely placed to influence investee companies to adopt sustainable practices through active engagement and exercise of proxy voting rights, and through directing their investment capital towards sustainable palm oil producers. As more investors start to understand the close link between sustainability and long term investment performance, companies should expect increased engagement and pressure from their shareholders to incorporate sustainability into their core strategy and operations.

### Investor Guidance on Palm Oil



Surveying 35 key palm oil sector investors to assess their views and management of the sustainability challenges inherent in the palm oil industry, WWF's Palm Oil Investor Review uncovered that environmental and social impacts of palm oil plantations could pose a material risk to investment in the fast growing sector.

According to investors, reputational risk, poor environmental performance and lack of company ESG disclosure pose the greatest challenges to greater investment into the sector.

WWF's Palm Oil Investor Review provides in-depth recommendations and guidance to assist investors in overcoming these challenges in order to guide the industry towards sustainable growth. For more information, please [download the full report](#).

## The Role of Financial Institutions in Sustainable Palm Oil (Cont.)

Can investors play this crucial role? What constraints do they face and what are implications for the future?

Current situation	Implications and trends for the future
87% of investors agree that environmental impacts from palm oil production may pose a material risk to investments.	A large majority experience growing demand for ESG screens from their institutional clients, thereby their focus on ESG issues is increasing.
Over two thirds of investors apply a responsible investment policy, however many policies do not extend beyond governance.	Over half of them would consider creating dedicated policies e.g. a broader sustainable land-use policy.
Investors face internal organizational constraints in addressing ESG risks such as the lack of internal ESG capabilities or firm-wide access to internal ESG analysts.	Several are actively looking at internal strategic options to address these constraints.
Reputational risk, poor environmental performance and lack of company ESG disclosure hinder some investors from investing in the sector.	Investors see the availability of key data, the strengthening of the RSPO, demonstrable progress by members toward certification and legislative changes that support the RSPO as the key factors to boost investment.
Investors see the Roundtable on Sustainable Palm Oil (RSPO) as the de facto standard for investment screens but recognise its limitations.	Investors want the RSPO to cover more issues such as corruption and have “more teeth”, to ensure that members meet their commitments towards sustainable palm oil.

### How can investors enhance their ability to drive sustainability?

The report provides in-depth recommendations, as highlighted below, on how investors can steer the industry towards greater sustainability.

Investors need to:

- Work within their organization to quantify their palm oil exposure, include palm oil in their ESG appraisals, commission and fund independent ESG research, and ensure that all fund managers can access internal ESG analysts.
- Work collaboratively within the investment community to engage with and support the RSPO, highlight gaps in information and tools, drive sustainability reporting criteria and be more receptive to issues of sustainability.
- Work externally and publicly to incorporate ESG issues into ownership policies and actively engage with investee companies across the supply chain to join the RSPO and disclose commitments and pressure stock exchanges to mandate minimum reporting requirements for high impact.

### What will WWF do to assist investors?

WWF sees the financial sector as an important lever to enable sustainable oil production and trade. We will continue to actively support the financial sector by providing information and guidance to the wider investment community on material ESG risks in the palm oil sector through workshops and road shows, the sharing of existing WWF guides and the development of new tools. Additionally, WWF will engage with investors one-to-one and collectively; provide frequent updates on relevant research and activities through the Commodity Update Quarterly Newsletter; and work with finance sector partners globally to ensure that they can incorporate the best ESG risk management tools in their transactions and to highlight opportunities to support sustainable palm oil businesses.

## Next Edition

In our next edition, we plan to officially present and discuss key environmental and social performance indicators for responsible investment in 11 high-impact, soft commodity categories, providing mainstream guidance for financiers and major buyers.