



AAK's progress report  
on sustainable palm oil  
– April 2020

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The Co-Development Company

**AAK**

# Reflection 2019, outlook 2020

It is with great pleasure we present this new progress report on sustainable palm oil.

Currently, many companies in the palm oil supply chain are assessing progress against very ambitious goals to end deforestation by the end of 2020. Since setting these goals, we have all learned more about the difficulty of meeting these ambitions and the complexity which lies behind such an apparently simple goal. As an industry, we are some way from successful elimination of deforestation, but nevertheless, enormous progress has been made, and we should be proud of that.

Successes include the updated RSPO Principles & Criteria, which meet the No Deforestation, No Development on Peatland and No Exploitation requirements (“NDPE”). RSPO certification provides the best assurance for meeting NDPE, in particular the no deforestation commitments. Companies which only buy RSPO segregated palm oil will meet the no deforestation commitments.

So why isn't the globe fully converted to RSPO certified palm oil, making it necessary for AAK and others to also drive our verification efforts for the non-certified part of our supply chain?

- 1) There are still companies and regions in the world not willing to pay the premium and/or not aware of certified sustainable palm oil (or with bigger issues to address)
- 2) There are still many medium and small growers that are not RSPO members, and many RSPO supply chain members sourcing from non-members

- 3) The palm oil supply chain is characterized by a large number of smallholder growers, and
- 4) Only around half of RSPO certified volumes is certified as segregated, which provides the required certainty for no deforestation.

2019 was also the year when customer requirements changed and became more diverse, putting different demands on AAK and other processors. We need to continue to balance meeting customer requirements with helping to manage industry transformation and meeting our own high sustainability objectives.

For AAK, the best way to drive progress is to combine efforts. We can achieve all requirements by stimulating RSPO uptake and providing the right level of verification for our total supply base, including the proportion that is not RSPO certified. The new NDPE Implementation Reporting Framework (“IRF”) will help us. You can read more about this initiative in the report.

In 2020, the concept of Shared Responsibility will come to the fore. This means increased volume requirements for all RSPO supply chain members, with implications for all consumer goods manufacturers and retailers. Also, processors and traders who are RSPO members must increase RSPO certified volumes by 2 percent every year.

The Covid-19 pandemic, has profoundly impacted everyone and the uncertainty has increased significantly. With this priorities may change, but we truly hope that 2020 will also mark major progress in no deforestation and our efforts to buy and sell more sustainable palm oil.

Caroline Westerik-Sikking  
Global manager sustainable oils

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# Achievements 2019



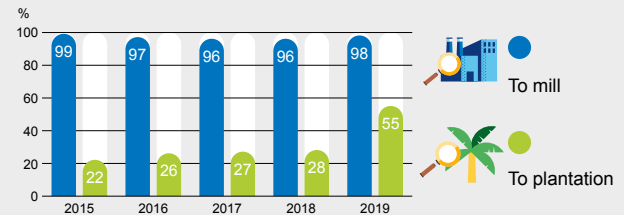
## Traceability

Traceability to mill origin has increased to 98 percent globally, compared to 96 percent in 2018.

We are very proud to see continued strong progress in traceability to plantations, from 39 percent in our previous report to 55 percent overall. Main reason is that most tier 1 suppliers prioritize traceability to plantation to monitor deforestation risks.

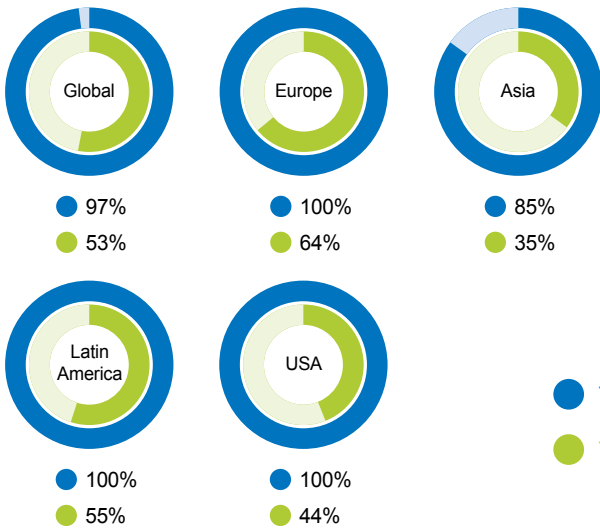
For Europe this specifically means a significant increase to 64 percent in palm and 66 percent in palm kernel.

Global Traceability to mill and Traceability to plantation

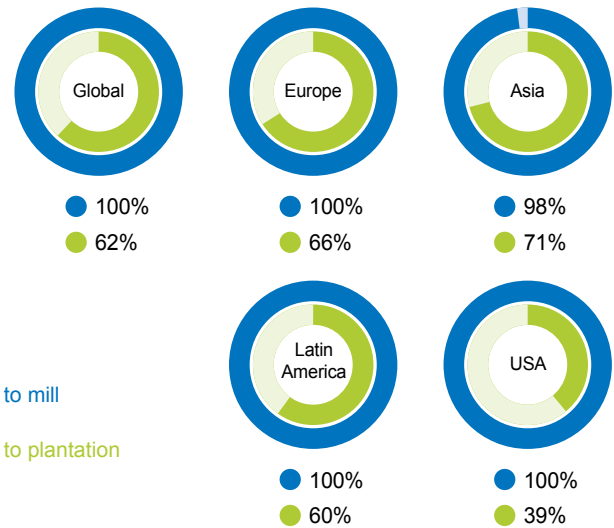


AAK analysis now covers traceability data split by Palm Oil and Palm Kernel globally and by region. The numbers speak.

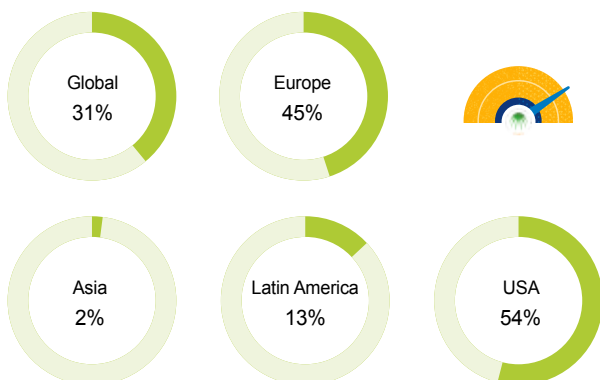
### Palm oil



### Palm kernel



## RSPO certified sourced volume



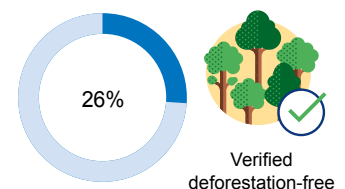
RSPO certified sustainable palm oil demand remains high within Europe and the USA and less so in other regions. Some individual AAK sites are moving towards 100 percent CSPO where availability and customer demand allow.

## Supplier engagement



## Verified deforestation-free\*

This indicator combines our RSPO-segregated volumes with estimates based on an equal weight from each mill in our supply base.



\* Estimated

# AAK's sustainable palm approach

For many companies, 2020 marks the target date for demonstrating deforestation-free palm oil supply chains. Ten years after this target was set, the complexity of the challenge has become apparent: the palm oil supply chain often involves thousands of companies and millions of growers. As such, we often have no direct relationship with the actors who can best initiate change.

## Understanding our supply base

Understanding our supply base is a critical step in furthering sustainability, providing the baseline by which we prioritize the action we take both within and beyond our supply chains. Thus, we work closely with our suppliers and stakeholders to obtain traceability data.

Achieving traceability to plantation (TTP) requires sector-wide efforts by companies and other stakeholders, which AAK acknowledges and commends. Palm oil supply chains involve millions of small producers, many of whom are not responsible for clearance. For that reason, AAK supports a risk-based approach to TTP, which maps plantation sites where there is a risk of deforestation at village level.

We believe that, while not perfect, the RSPO certification remains one of the most reliable ways to ensure palm oil production meets high environmental and social standards. The adoption of the new RSPO principles and criteria in November 2018 has further strengthened the value of this certification. We intend to increase our purchase of RSPO-certified volumes as part of our shared responsibility policy and to stay in line with end-user and customer demand.

Additionally, we monitor progress in our supply base in accordance with the framework laid out in the no deforestation, no development on peat, and no exploitation (NDPE) implementation reporting framework. One new and

important KPI for AAK, which we are developing together with Proforest, is to understand the percentage of verified deforestation-free volumes. This approach combines our RSPO-segregated volumes with estimates based on an equal weight from each mill in our supply base.

## Engaging with suppliers

Because of our position in the supply chain, our suppliers play a critical role in driving the implementation of our policies. This year, we have developed supplier score cards together with Proforest as part of our effort to strengthen our supplier engagement work. These score cards enable our internal organization and our suppliers to better understand the current status of where each supplier stands in regard to meeting the AAK sustainable palm criteria, as well potential gaps that need to be closed.

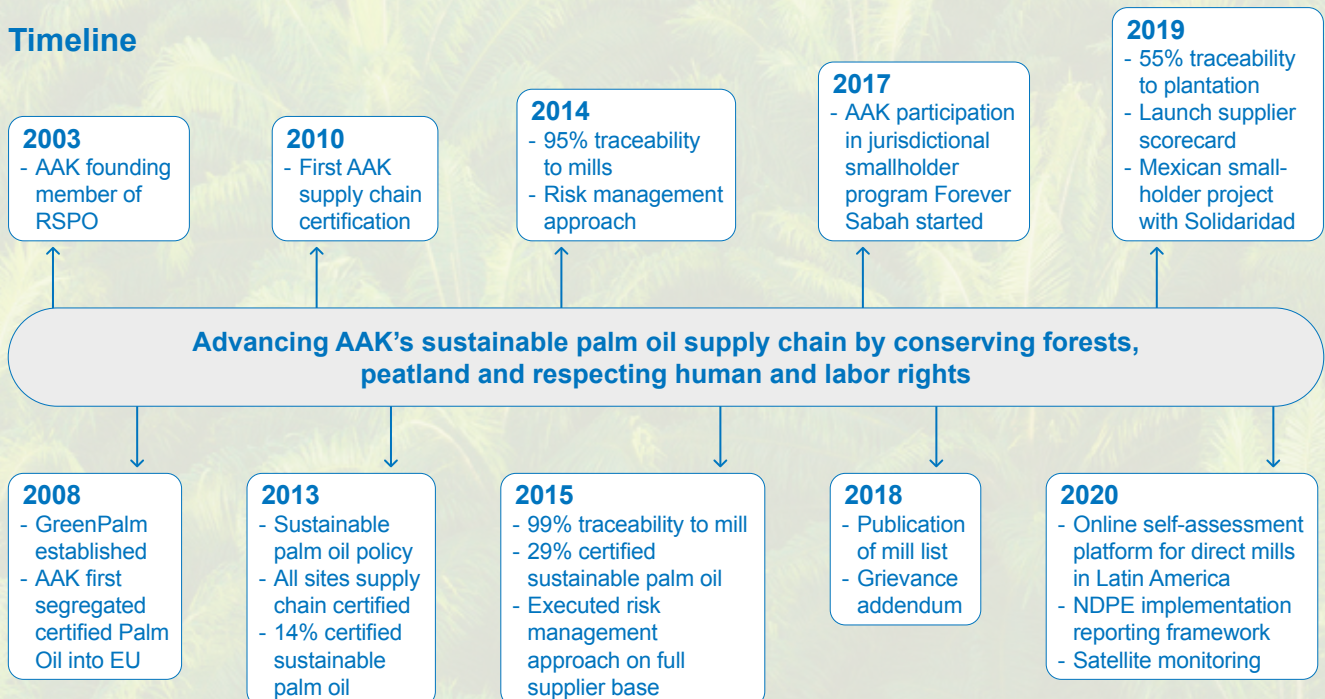
## Driving further impact beyond our supply base

Via our collaboration with Forever Sabah, AAK continues to support the jurisdictional certification approach in the Malaysian state of Sabah, where only 20 percent of the independent smallholders hold the title to their land.

We also support a unique project in Mexico together with Solidaridad, the objective of which is to develop the sustainability of three palm oil social enterprise cooperatives, with the ultimate ambition of achieving RSPO certification.

In order to build and deepen common understanding of issues, industry collaboration is necessary. AAK has had a seat on the board of governors since the founding the RSPO. This organization has played a foundational role in the understanding of sustainable palm production as well as in its contribution to sector-wide transformation.

## Timeline



# Reporting progress on implementation

Transparent reporting on KPIs and progress is a key part of AAK's approach to responsible sourcing and stakeholder engagement, and this report has described some of the initiatives that AAK is working on with partners and peers.

The implementation reporting framework (IRF) is the industry approach to reporting on no deforestation, no development on peatland and no exploitation (NDPE) progress, including deforestation free volumes. Accurate and transparent reporting on this requires the involvement of the entire sector, as only mills and mill groups know the proportions of the volume, they supply from areas that can be verified as deforestation free. The IRF therefore requires these groups to report on this information in a way that is transparent whilst meeting confidentiality requirements.

Nevertheless, AAK understands that there is a demand for Deforestation Free estimates sooner. To this end, AAK has developed a methodology to estimate the proportion that can be considered deforestation free in the supply base.

The methodology uses the mill list and publicly available information on mills and mill groups that have implemented methods to ensure and verify that their volumes are compliant with No-deforestation policies. This includes RSPO certification and concession monitoring, where concession boundaries linked to a deforestation monitoring platform showed no clearance since the 2015 cut-off date. The methodology incorporates assumptions on proportion of fresh fruit bunches a mill processes that come from their directly managed plantations (where volumes can more often be shown to be deforestation free) vs. third party suppliers to the mill, such as smallholders (where less work has

been done globally to demonstrate deforestation free), and assumptions on the amount that AAK receives from each of these mills reported in our supply base.

## Driving industry change

For companies to work effectively to drive change in the palm oil production base, monitoring and reporting of progress in the production base is essential. The RSPO certified volumes we purchase have the best guarantee available of meeting NDPE commitments, but to date there has been no way of measuring compliance in non-certified volumes. In complex global supply chains, achieving transparency on progress by companies several tiers away can be a challenge.

The No Deforestation No Peat and No exploitation Implementation Reporting Framework (NDPE IRF) is a monitoring and reporting tool developed by sustainability practitioners and major brands and processors of palm oil, facilitated by Proforest. It is a shared industry approach to reporting on progress in meeting NDPE commitments, based on a stepwise approach towards ensuring full compliance.

AAK has supported the development of the NDPE IRF since its inception in 2018, when we worked with one of our suppliers to be among the first to test the approach to monitoring and reporting on NDPE progress in the palm oil production base, with results presented at the RSPO Round Table in Kota Kinabalu in 2018. Since then, the IRF has become an accepted industry approach to monitoring and reporting and is being rolled out among refineries in 2020.

## Social risk assessment and action plan

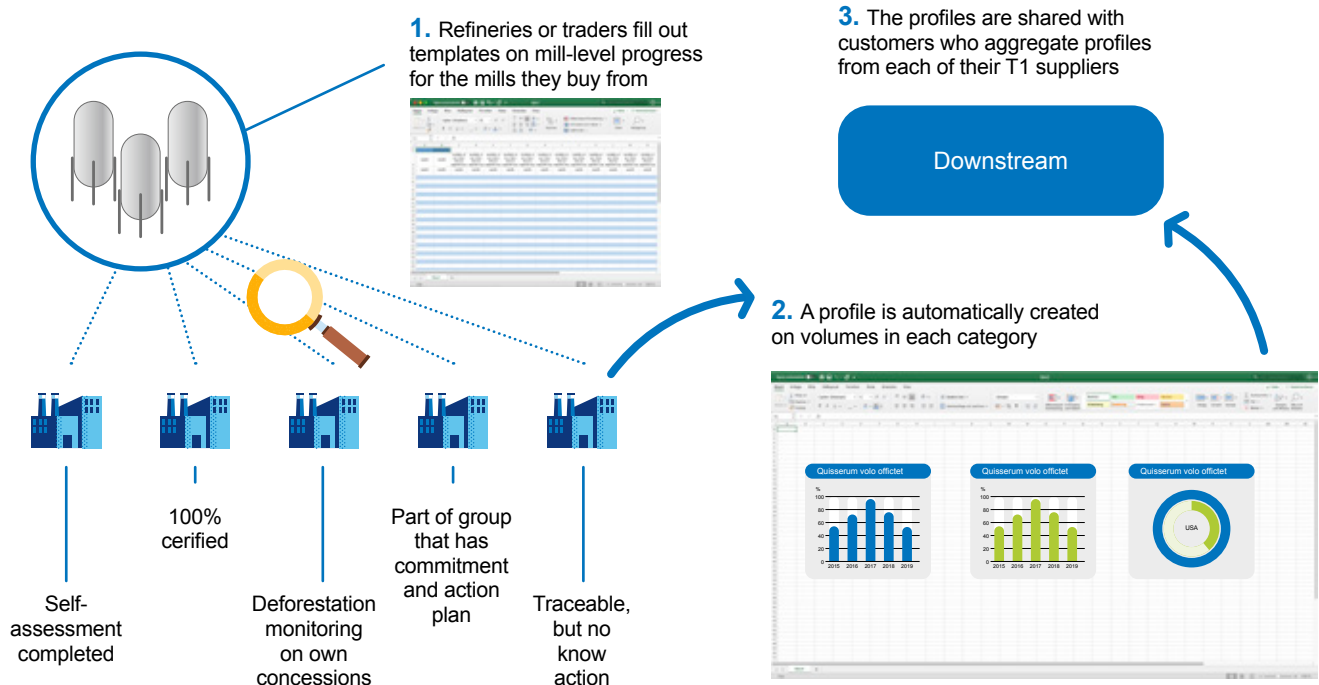
In 2018 and 2019 AAK helped support the development of a social risk methodology by Proforest. Understanding of risk in the production base has proved extremely helpful to companies in understanding issues a developing strategy to address them. However, to date, environmental risk assessments, especially for deforestation, are more advanced and geographically granular. Few comparable methodologies were available for understanding social risks.

While the reason for this is largely due to the nature of social issues, which require long-term research and trust-building to identify and understand, it was

nevertheless felt that sufficient information exists to build a comprehensive and comparative picture of social risk in the palm oil production base.

The first results were available in 2019 and have been used by AAK to understand in more detail the underlying drivers and occurrence of social issues. Moving forward, we will incorporate the methodology into our engagement plans in different regions, including the mill engagement platform and supplier scorecards. In 2020 we will work to develop a more detailed roadmap and action plan as well as explore potential partnerships to tackle to social issues in the palm oil supply chain.

## How it works: In detail



### What is the NDPE IRF?

The NDPE Implementation Framework is a tracking and reporting tool designed to help supply chain companies to systematically understand and track progress (or lack of progress) in delivering NDPE commitments across all their volumes.

As supply chain companies implement activities ranging from certification to supplier engagement and from landscape initiatives to smallholder support, the Implementation Framework provides a tool to systematically capture all the different activities which are underway to deliver these commitments and clarify how each activity contributes to progress towards full compliance.

The framework captures progress from early actions that create an enabling environment for sustainability, such as

workshops and policy development at group level, all the way through to implementation activities in the production base which deliver full compliance with commitments. Having a consistent framework for reporting on these activities, and particularly on the proportions of the total production base to which they apply, will allow individual companies and the industry collectively to identify gaps, monitor progress and drive improvement.

### What does it report on?

- ◆ No deforestation
- ◆ No peat
- ◆ No exploitation (Respect of labour rights and land rights in initial phase)

## A new sustainability team member

I joined the AAK team in 2015 working as a Trader in Global Sourcing & Trading Team located in Singapore. Originally focusing on all the sourcing and trading activities as well as upstream projects such as working with farmers directly and later, moving to look after sustainable palm oil in 2019. I have held a deep interest in the environment and find my sustainability role at AAK inspiring.

AAK is strongly committed to delivering the sustainability promises made to our stakeholders, which include shareholders, customers, and suppliers. AAK puts a lot of effort into improving our sustainability and responsible sourcing commitments and it is my role in the team to help make sure this happens.

The two main challenges are related to coordinating our global sourcing activities so we can improve our sustainability position and to deliver credible information for traceability to mill and plantation. Dealing with a large data bases and coordinating the global sourcing sustainability effort are the onerous part of the job. The highlight comes from analyzing the outcomes and being able to make recommendations on how to improve AAK's sustainability position.

This is a very rewarding role as the pay-off helps towards improving our planet."



Jass Khaw  
Trading Manager

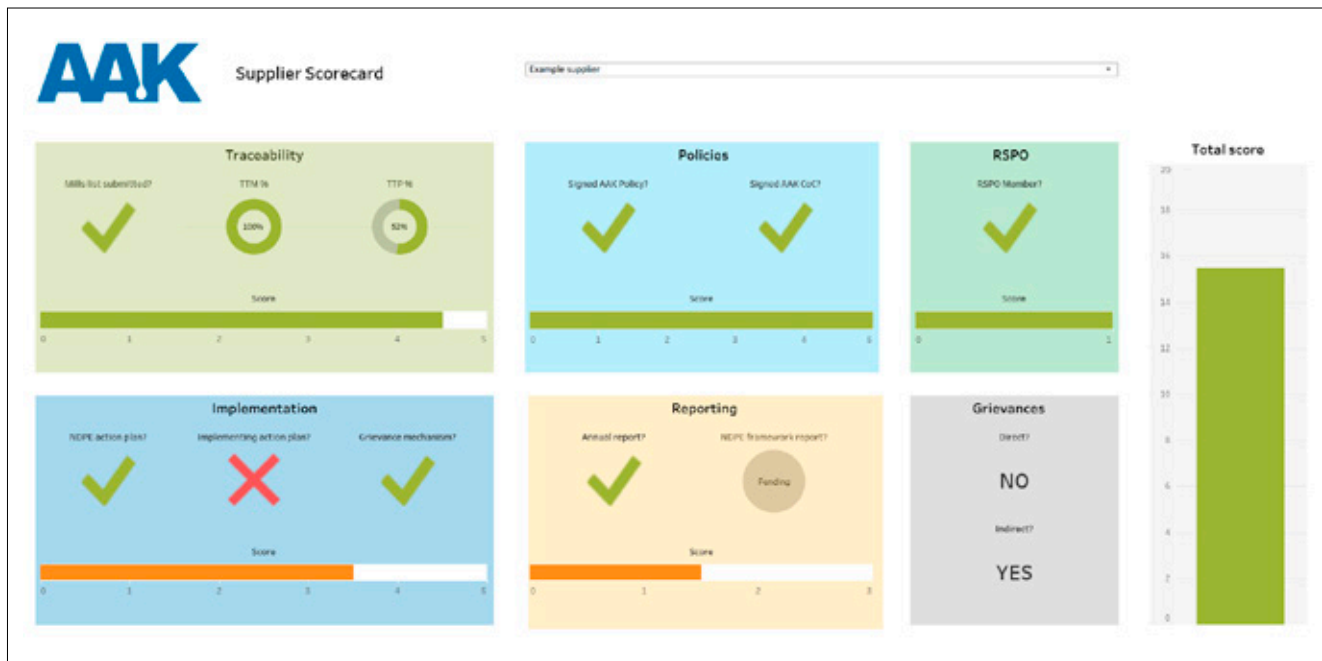
# Supplier scorecards

AAK is a midstream company, therefore our suppliers play a critical role in driving the implementation of our policies. This means making our expectations clear to all suppliers and working with them to meet these expectations. In 2019, AAK strengthened our supplier engagement work through the development of scorecards, direct mill engagement platform, and deep collaboration with key partner suppliers. Since our suppliers vary in their position and role in the supply chain, our work with them varies based on this

In 2019 AAK worked with Proforest to develop supplier scorecards for all our suppliers. The scorecards outline the actions that our suppliers need to take to meet responsible sourcing commitments. These include signing our supplier code of conduct, signing AAK's sustainable palm oil policy (or having their own), RSPO membership, progress on traceability to mill and plantation, implementation of policies through action plans and grievance mechanisms, and monitoring and reporting using the NDPE IRF (see figure below for an example).

To effectively use the scorecards to drive change, the involvement of multiple parts of AAK is essential, so in 2019 we worked across teams to build understanding of NDPE expectations and the use of scorecards to drive change with suppliers.

This year will see the further roll out and engagement of suppliers through the use of the scorecards, and in particular a launch in Latin America.



Example scorecard

# Mill engagement platform

A small number of our supply comes directly from mills. For these suppliers, we believe we have a role to play in working collaboratively to drive improvements. Over the last few years, AAK has conducted mill visits in Latin America and South East Asia to assess standards, identify gaps, and recommend strategies to close them. While these visits are useful for building a shared understanding of responsible production, transformation at scale requires ongoing engagement and easy access to information and tools to address

any issues. Recognizing this, in 2019, AAK worked with Proforest to develop an online mill engagement platform. This platform asks mills to fill out a self-assessment on their commitments and progress in driving sustainability and provides them with tools to implement strategies to close any gaps. For example, the platform provides guidance on how to protect HCV/HCS areas and respect workers' rights. 2020 will see the roll out of the platform.

AAK

Abastecimiento responsable (AR)

Fecha de tareas por hacer: 30 sep en 23:59

La sostenibilidad permite que nuestras aspiraciones crezcan

Estado del curso

Cancelar publicación

Publicado

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Ver flujo de información del curso

Nuevo anuncio

AAK

Nuestro enfoque de sostenibilidad

Involucrándonos con todas las partes interesadas

Para AAK, el crecimiento sostenible se trata de responsabilidad hacia todas las partes interesadas: las comunidades locales en donde operamos, clientes, empleados, inversionistas y proveedores. Por lo tanto, continuamos comprometidos con nuestros proveedores para impulsar y asegurar sostenibilidad en toda la cadena de abastecimiento.

Con el apoyo de **Proforest** e ponemos en esta plataforma, distribuidos en módulos, diferentes herramientas que permitirán medir su desempeño de sostenibilidad e implementar planes de mejora continua acorde a nuestros requisitos.

Acompañanos a continuar avanzando hacia la sostenibilidad

¡Comencemos!

Encuentre en el siguiente la ubicación de su planta extractora

En el siguiente botón encontrará varias opciones de capas sumadas.

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Plantas Extractoras

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Capas GFW (Global Fo...

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Pérdida de la cubierta ...

Ganancia Cubierta veg...

Cubierta vegetal (2000)

OPCIONES

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PALMERAS DEL ECUADOR

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# Nestlé and AAK: – Co-Development in the palm supply chain to drive transformation

Nestlé is committed to using 100% responsible sourced palm oil by 2020.

Responsible sourced for Nestlé means that they know where their products come from, how they are produced, and that they come from supply chains working towards alignment with the Nestlé Responsible Sourcing Standard, if not yet fully aligned.

As part of our Co-Development approach, AAK used the Nestlé 2018 supplier Responsible Sourcing Scores and assessments carried out by Proforest as a baseline to develop the gap closure action plan. The approach we have chosen was to look at the palm supply chains from a regional and supplier perspective.

Due to AAK's position in the supply chain, progress can only be achieved by close collaboration with our key suppliers.

We would like to highlight two specific AAK-Nestlé collaborative efforts that have contributed to progress:

- 1) Supply chain transformation: After assessing the responsible sourcing performance and challenges across supply chains, AAK and Nestlé developed roadmaps to meet the responsible sourcing criteria with 2 key suppliers of AAK. The roadmaps focused on context-specific challenges such as deforestation, labor rights, and smallholder inclusion. This process was carried out with close collaboration of the sustainability teams of AAK, AAK suppliers, supported by Proforest. The outcome in the end resulted in significant volumes for which action plans are in place and being implemented, improving traceability to plantation, and demonstrating reduced deforestation and exploitation risks.
- 2) We initiated an intensive, pro-active deforestation monitoring program in Malaysia and work with one of our suppliers to verify deforestation free status of supply chain origins, combining traceability to plantation data, Nestlé's Starling satellite monitoring, and on-the-ground investigations to document evidence that no conversion took place after the December 31st, 2015 cutoff date.



“Both collaborations are excellent examples of supply chain collaboration, between 4 tiers of our supply chain. These efforts increase our shared knowledge of deforestation risks and help to drive joint progress in addressing those risks. Isn't this what sustainability should be about?”

*Emily Kunen Global Responsible Sourcing Leader, Palm Oil & Seafood Nestlé*

Nestlé remains committed to achieving 100 percent deforestation free supply chains. As of April 2019, 77 percent of the key agricultural commodities Nestlé buys, including soy and palm oil, were verified deforestation-free. That figure will surpass 90 percent by the end of 2020. We will continue to work with smallholder farmers and large suppliers alike to be close to 100 percent deforestation-free within the next three years.

# AAK working with global retailers

Global retailers have huge influence over the food supply chain. Their values, policies and standards affect every aspect of food production and manufacturing. This is especially true of these two retailer groups, with whom AAK has for some time worked closely.

- ◆ Retail Palm Oil Group consists of 13 international retailers. It meets in compliance with competition law and is designed to ensure retailers are kept up to date with key developments in palm oil sustainability, have the information they need to ensure sustainable sourcing of palm oil, and that the retailer voice is represented at key industry forums and to relevant stakeholders. The group also has a representative on the RSPO executive board. AAK has worked with individual retailers from this group since 2008.
- ◆ The Palm Oil Transparency Coalition (POTC) is formed of businesses working together in a pre-competitive coalition to remove deforestation and exploitation from the palm oil production sector. AAK has taken part in the robust engagement and evaluation process for measuring the progress of the major First Importers of palm oil into international markets.

AAK has a long track record in developing working partnerships with product development, technical and sustainability teams within retailers. If retailers did not support the production of sustainable palm oil in their sustainability policies, or specify its use in their products, little progress would be made to achieve AAK policy's goals and, indeed, those in the wider industry.

The UK team has developed a sustainability workshop, which incorporates oils and fats training with a sustainability presentation giving a holistic view of sustainability in all oils. It highlights the many key advantages of producing palm oil sustainably.

These workshops are held at retailer HQs or at AAK's new Customer Innovation Centre in Hull.

Through a series of meetings, seminars and workshops over the past five years, the UK team has developed fruitful relationships with retailer sustainability teams, bringing long-term benefits to all parties.



# Supporting Smallholders

## Social Enterprise Cooperatives in Mexico with Solidaridad

During 2019 AAK supported Solidaridad to strengthen the capacity of three Social Agroindustries (CPO mills owned and operated by smallholder cooperatives) located in the Chiapas region of Mexico. The groups During the year the groups achieved the following at each of their mills:

- ◆ Improved the corporate management of the processing plants.
- ◆ Developed and implemented Standard Operations Manuals.
- ◆ Strengthened capacities in good management and processing practices.
- ◆ Improved RSPO P&C understanding and implementation capacity.
- ◆ Facilitated Internal Control Systems practices.

At the same time, over the past year, the social agroindustries have built their internal technical teams, in order to better support the needs of smallholders who provide them with fresh fruit bunches.

AAK has committed to continue its support of the three groups in 2020. The focus of this phase is to contribute to a holistic process of capacity building of the three agroindustries.



Farmer Field School will be developed to convey the content & methodology. Farmer Field Schools are structured around a demonstration plot and model plantations established and led by early adopters. The model covers 10 critical Best Management Practice training modules. The ambition is to reach all the producers, approximately 2,300 smallholders.

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## RSPO

## Jurisdictional Approach – Sabah

As AAK enters its fourth year partnering with Forever Sabah 2020 appears to be a pivotal year for the Jurisdictional Certification Approach. The 5-year countdown starts for the state to realise its ambition to be fully RSPO certified by 2025.

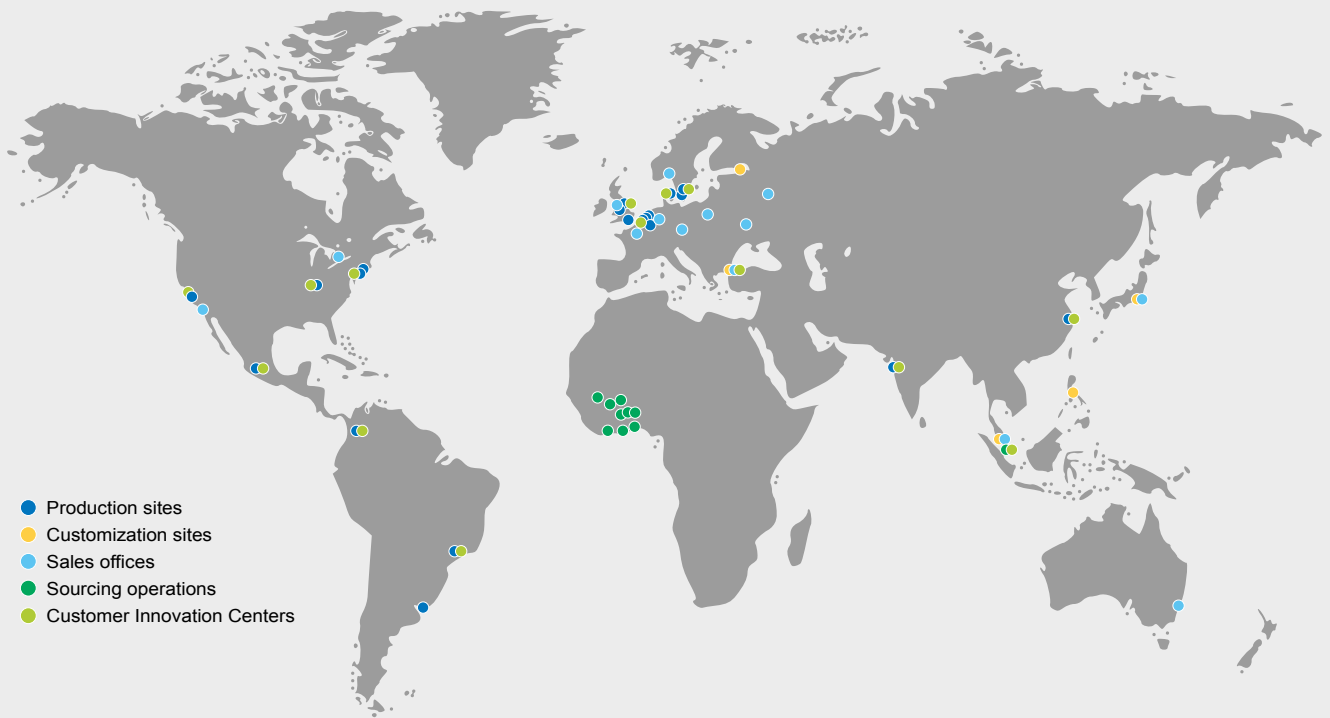
The preparation work supported by AAK for the smallholders in Sabah through Forever Sabah provides solid foundations for the certification process to start.

An essential body of work was the pilot study of the communities in 20 villages. A significant finding was that 80 percent of smallholders do not have land titles. A basic requirement of RSPO certification. Based on the studies it is estimated that there are 53,000 smallholders in Sabah.

This year the pilot villages in the four districts will test the preparatory work with the aim to certify the smallholders by the end of the year. Workstreams will include:

- ◆ Engage more villages in the Sandakan region on FPIC
- ◆ Organise communities – establishing 200 Village Committees
- ◆ Work with Land & Surveys Department to advance the land application process
- ◆ Host workshops to train the smallholder in the new villages
- ◆ Certify the smallholders in the pilot villages

2020 is a going to be a busy year in Sabah, proving the groundwork is sound for the certification of smallholder communities and rolling out the learnings to villages outside the original pilot areas.



## We are AAK

AAK is a leading provider of value-adding vegetable oils & fats.

Our expertise in lipid technology within foods and special nutrition applications, our wide range of raw materials and our broad process capabilities enable us to develop innovative and value-adding solutions across many industries – Chocolate & Confectionery, Bakery, Dairy, Special Nutrition, Foodservice, Personal Care, and more.

AAK's proven expertise is based on more than 140 years of experience within oils & fats. Our unique co-development approach brings our customers' skills and know-how together with our own capabilities and mindset for lasting results.

Listed on the NASDAQ OMX Stockholm and with our headquarters in Malmö, Sweden, AAK has more than 20 different production sites, sales offices in more than 25 countries and more than 3,800 employees.



We are AAK – The Co-Development Company.

