

Sustainability

Sustainable Procurement

SDGs of particular focus for achievement



Activity report FY2018

Sustainable Procurement of Main Raw Materials Priority theme

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Sustainability

Sustainable Procurement of Main Raw Materials

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Basic approach

Social issues related to the environment and human rights may arise at production sites for crops such as palm oil and cacao, which are key raw materials for the Fuji Oil Group. In addition, we consider stable procurement of high-quality and safe raw materials that have been produced in a sustainable manner to be important for fulfilling our responsibility to supply products. As a social entity, the Fuji Oil Group conducts environmentally, socially and economically sustainable procurement.

Objectives

Achieve "No Deforestation, No Peatland development,* No Exploitation" (NDPE) in the Fuji Oil Group's palm oil supply chain.

100% traceability to mills by 2020

*Peatland: A layer of land that fixes a large amount of carbon in the ground. Development on peat releases a large volume of greenhouse gas into the atmosphere.

Progress

Regarding the sustainable procurement of palm oil, based on the Responsible Palm Oil Sourcing Policy, we announced the establishment of a grievance mechanism (a complaint handling mechanism), and commenced its operation in May 2018. In addition, to ensure

transparency in our supply chain and effectively operate the grievance mechanism, in June 2018, we published a list of oil mills in our supply chain.

In March 2019, we created and launched the website section "Dash Board" to provide stakeholders with concise and timely information on the progress of the Responsible Palm Oil Sourcing Policy implementation. Our traceability from plantation to palm oil mill was 99% in the second half of FY 2018.

Furthermore, in August 2018 we formulated and announced the Responsible Cacao Sourcing Policy to promote the sustainable procurement of cacao. Based on this policy, we launched activities to support cacao farmers in Ecuador.

Our future plans for each key raw material are: For palm oil, we plan to respond to complaints received through the grievance mechanism and examine supply chain improvement activities. For cacao, we will expand our support for farmers. Regarding soybeans, we will start by re-clarifying our approach and promote efforts to reduce and correct human rights and environmental risks in the supply chain.

You can access the Dash Board using the following URL.

▶ https://www.fujioilholdings.com/en/csr/supplychain_database/

Promotion system

Promotion system

Fuji Oil Holdings established the ESG Committee as an advisory body to the Board of Directors to promote ESG management. The ESG Committee meets regularly to discuss important matters relating to ESG including sustainable procurement, and make reports and proposals to the Board of Directors.

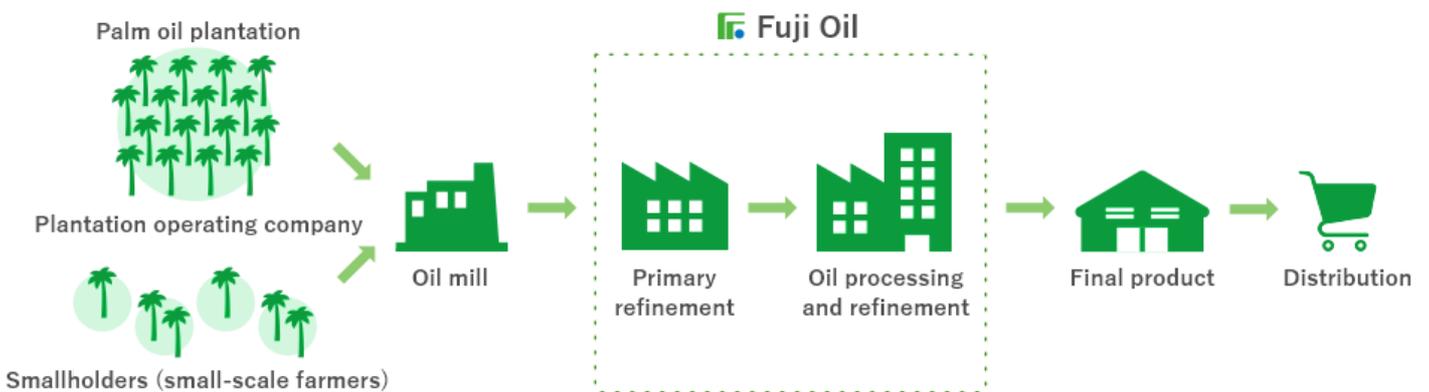
The Chief Strategy Officer (CSO) takes the lead in promoting the entire Group's initiatives for the sustainable procurement of major raw materials.

Incentives for Employees

As of 2016, we established a CSR category in our management awards program as prizes to recognize departments and group companies that have made excellent efforts to contribute to society through their business activities. In this category, we presented awards to the divisions in charge that have promoted measures for sustainable sourcing of palm oil and shea nuts.

Palm Oil

The palm oil supply chain and the position of the Fuji Oil Group



Basic approach

Palm oil and the Fuji Oil Group

Palm oil is oil extracted from the fruit of the oil palm, which grows in tropical regions such as Southeast Asia.

Palm oil is easier to process and has a higher yield per unit area than other vegetable oils. For this reason, palm oil is used in a wide range of applications from foods to chemical products. Palm oil has the largest production volume among vegetable oil materials in the world.

However, as the scale of the market continues to expand, there are concerns about environmental problems caused by plantation development and human rights issues such as child labor and forced labor in areas where palm plantations are located. The Fuji Oil Group has created new food cultures by pursuing palm oil's potential as a key raw material. We consider aiming for sustainable procurement of palm oil to be our responsibility to society.

Responsible Palm Oil Sourcing Policy

In March 2016, we formulated and announced the Responsible Palm Oil Sourcing Policy for the Fuji Oil Group. In this Policy, we commit ourselves to procuring palm oil produced in a responsible manner from suppliers who respect people and the global environment. We strive to conduct procurement in line with this Policy, in cooperation with our stakeholders. We will continue to promote responsible palm oil procurement to ensure that palm oil is accepted around the world as a sustainable raw material.

▶ [The Responsible Palm Oil Sourcing Policy PDF \(1.62MB\)](#) 

Specific initiatives

Overview of initiatives to achieve the policy

Initiatives	Aim
1.Traceability improvement	Understanding the supply chain
2.Supply chain improvement activities	Reducing risks within the supply chain, in cooperation with suppliers
3.Grievance mechanism	Early discovery and improvement of problems within the supply chain
4.Supply of RSPO-certified oil	Spread of palm oil produced in a sustainable manner
5.UNIFUJI	Strengthening the capability to supply sustainable palm oil
6.Cooperation with academia and industry	Effective improvement of human rights and environmental problems through collaboration with stakeholders

1. Understanding of the supply chain through improved traceability

To improve the supply chain, we consider it important to identify the region of production of palm oil purchased and used by the Fuji Oil Group. We are working with the non-profit organization Earthworm Foundation (The former name is The Forest Trust) and our suppliers to improve traceability* with an initial target of achieving full traceability from plantation to palm oil mill by 2020.

For the Group companies in China, where traceability was difficult due to the characteristics of commercial distribution in the region, we reviewed their supply chains as well as their engagement with suppliers. Due to these efforts, the Group's traceability from plantation to palm oil mill improved to 99% in the second half of FY 2018.

*Traceability: The act of, and framework for making apparent (i.e. traceable) the production history and distribution routes of food products to ensure their safety.

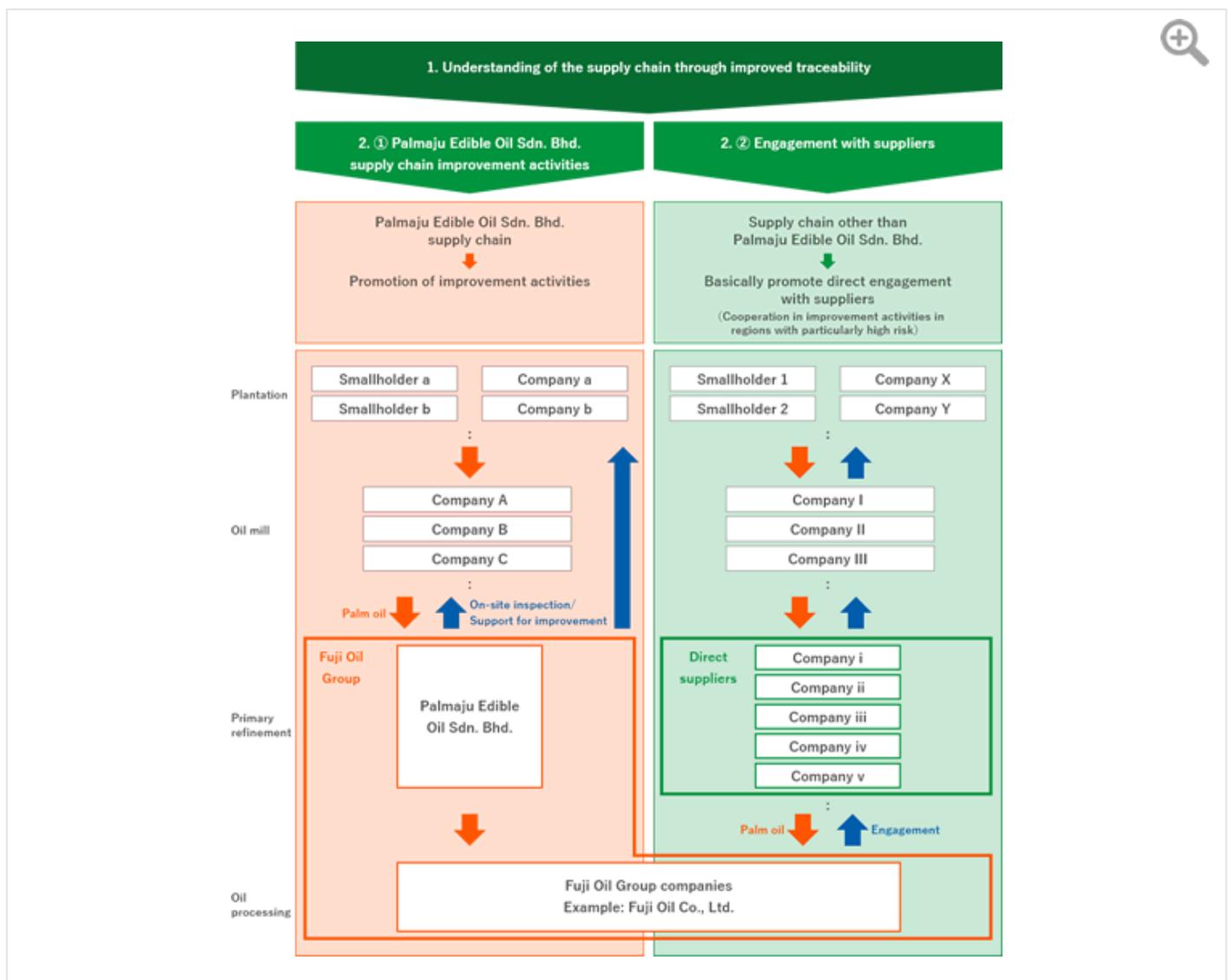
2. Supply chain improvement activities

Based on our Sourcing Policy, we are conducting supply chain improvement activities to resolve environmental and human rights issues at palm oil production sites (plantations).

- ① For our primary refining company (Palmaju Edible Oil Sdn. Bhd.), which is located closer in the supply chain to the palm oil production sites, we are rolling out supply chain improvement activities in cooperation with oil mills.
- ② For the supply chain other than Palmaju Edible Oil Sdn. Bhd., we will pursue improvements by promoting direct engagement with suppliers. In part of the supply chain, we started improvement activities in cooperation with suppliers. In FY 2018, we began improvement activities for plantation areas in Indonesia with a high level of environmental risk and started participating in the Ethical Recruitment Forum to protect the rights of migrant workers in Malaysia.

* Ethical Recruitment Forum: A project organized by the NPO Earthworm, aiming to end the exploitation of workers and communities in the Malaysian palm oil industry. Various activities have been implemented including development of human rights due diligence tools.

Overview of supply chain improvement activities



① Palmaju Edible Oil Sdn. Bhd. supply chain improvement activities

In October 2016, the Fuji Oil Group started supply chain improvement activities at the Group company Palmaju Edible Oil Sdn. Bhd. (Malaysia). First, we shared the Fuji Oil Group's Sourcing Policy with the company's suppliers (oil mills). Next, together with one of the suppliers, we conducted on-site inspections of the dealers and plantations related to our oil mill. The objective was to assess compliance with the Sourcing Policy and to provide support for improvement or corrections. Because of this support, in December 2017, passports were returned to more than 200 migrant workers and 300 migrant workers were able to conclude employment contracts in a language they could understand.

We held two seminars for all direct suppliers of Palmaju to communicate the Fuji Oil Group's approach and to provide self-assessment tools and know-how to resolve issues. In FY 2018, we received the completed self-assessment tools from seven oil mills and were able to understand their risks. In FY 2019, based on the results of the self-assessments, we will plan and implement specific improvement activities in cooperation with the suppliers to further improve our supply chain. Another plan for FY 2019 is to check the forest conservation status using satellite photographs.

Note: Our improvement activities have been covered in a video. See the following URL.

▶ <https://www.youtube.com/watch?v=sUWBgu07Tp8&feature=youtu.be> 

② Engagement with suppliers

We believe that to improve the Fuji Oil Group's entire palm oil supply chain, it is essential to engage with suppliers with whom the Group has direct business dealings. As part of such efforts, we promote suppliers' understanding of our Sourcing Policy and discuss with suppliers about supply chain risks and the grievance mechanism through which concerns can be raised and addressed in the event of problems.

In FY 2018, we received self-assessments from all of the Group's direct palm oil suppliers (22 refiners) and checked the progress of each supplier's efforts toward the No Deforestation, No Peat, No Exploitation (NDPE) Policy. We will continue to engage with direct suppliers and encourage them to cooperate in risk reduction.

In supply chains with high risks, we are implementing improvement activities with direct suppliers. As of the end of March 2019, we participate, together with direct suppliers, in the two programs of the APT Landscape Initiative in Indonesia and the Smallholders Support Project in Malaysia.

③ Landscape Approach

The tracking back to the oil mills revealed in Sumatra, Indonesia, important areas in terms of environment and biodiversity are exposed to deforestation risks. The Fuji Oil Group participates, since FY 2018, in the Areal Prioritas Transformasi (APT) Landscape Initiative to reduce and repair these risks.

The APT Landscape Initiative is a multi-stakeholder initiative in which local governments, NGOs, companies and farms work together to tackle deforestation issues in the three precious tropical rain forest regions exposed to the threat of farm development in Indonesia (Aceh Tamiang, southern Aceh, and eastern Riau). In these target areas, multi-stakeholders such as NGOs, communities and local governments are implementing activities to achieve the goals listed below, taking the landscape approach, which seeks to improve the entire community, not limited to palm farms.

- Involve local governments as program leaders.
- Create conditions for stopping deforestation within palm oil farm areas.
- Prevent deforestation due to farm development outside oil palm plantation areas, by providing alternative sources of income to smallholders and strengthening community-based forest conservation.
- Strengthen oil mills' and farms' current activities in promoting NDPE policy.

Our activities in FY 2018 include holding multi-stakeholder workshops, engaging with local governments, and conducting assessment of land use status.

④ **Activities to support smallholders in Borneo, Malaysia**

Inefficient palm plantation operation by some smallholders has been identified as one of the factors causing environmental and human rights problems. In January 2016 the Fuji Oil Group joined a smallholders support project called the Wild Asia Group Scheme (WAGS) to help these farmers gain expertise in environmentally, socially and economically sustainable plantation management, . This project, which was implemented by Wild Asia (an NGO) and our supplier, has provided educational support for four years with the aim of improving the productivity and working environment of smallholders in the supply chain of our group.

In addition, as one smallholder commented, by receiving instruction in the proper pesticides use, "the amount of pesticide used decreased, leading to lower costs." We will continue to emphasize dialogue with and support for local residents.

In FY 2018, 32 additional smallholders receiving our support acquired the RSPO certification. Since the Fuji Oil Group participated in the WAGS in January 2016, a total of 196 farmers acquired the RSPO certification and a total of 17,041 tons of RSPO-certified oil were produced.

The acquisition of RSPO certifications by smallholders means that they have become able to produce palm oil with consideration of human rights and the environment.

In FY 2019, we will continue to implement supporting activities, while maintaining close dialogue with local stakeholders.

3. Establishment of a grievance mechanism

In May 2018, we established and announced a grievance mechanism for processing complaints in order to put our Responsible Palm Oil Sourcing Policy into practice. Our grievance mechanism enables our stakeholders to inform us of any human rights and environmental concerns in the supply chain. This allows us to engage directly with suppliers and take appropriate corrective action in accordance with our Responsible Palm Oil Sourcing Policy.

For transparency in handling grievances, we have set up the Fuji Oil Group Grievance Web Page (English) on the Group website. We strive to update the status of progress at least once each quarter and disclose related information to our stakeholders on this web page.

See the Fuji Oil Group Grievance Mechanism webpage at the following URL.

▶ https://www.fujioilholdings.com/en/csr/grievance_mechanism/

4. Handling of RSPO*-certified oil

The Fuji Oil Group endorses the creation of a sustainable production and consumption system and is a member of the RSPO since 2004. Demand for RSPO-certified oil is increasing, mainly in Europe and the United States. In 2018, the sales volume of our group's products that use RSPO-certified oil increased to approximately 120,000 tons. This accounts for approximately 17% of the total volume of palm oil handled by the Group.

To meet the increasing demand for RSPO-certified oil, we are proactively implementing various measures among Group companies, including improvement of the supply chain and the acquisition of supply chain certification at business sites.

*RSPO: RSPO stands for the Round Table on Sustainable Palm Oil.

Check the status of our progress at:

▶ <https://www.rspo.org/> 



5. Establishment of UNIFUJI

Promoting sustainable palm oil sourcing and responsible product supply to customers and consumers are important themes of the Fuji Oil Group's business strategy. UNIFUJI SDN. BHD. is a joint venture with UNITED PLANTATIONS BHD., a partner that shares our intentions regarding sustainable palm oil. UNITED PLANTATIONS conducts sustainable plantation management in consideration with the human rights of its workers and the

environment.

Our joint venture partner UNITED PLANTATIONS is the world's first producer of RSPO-certified oil, and conducts sustainable plantation management in consideration of the human rights of its workers and the environment. UNIFUJI, whose plant was put into operation in FY 2018, secures high-quality, sustainable palm oil from UNITED PLANTATIONS plantation, and produces high-value-added palm oil products, using fractionation technology, which is a strength of the Fuji Oil Group. UNIFUJI's plant is located in the plantation and uses energy generated from biomass and wastewater.

6. Collaboration with academia, government and industry.

① Productivity improvement through breeding research

As palm oil consumption continues to grow globally, regions suitable for cultivation of the oil palm remain very limited, requiring productivity and quality increase through improvements in oil palm varieties and higher yield per unit area. Since 2011, the Fuji Oil Group has been conducting joint research to improve palm productivity and quality with the Agency for Assessment and Application of Technology (Badan Pengkajian dan Penerapan Teknologi: BPPT), a government research organization in Indonesia, the world's largest palm oil-producing country. This contributed to the development of palm research in Indonesia, including success in major improvements in tissue culture techniques that have led to the production of superior oil palm seedlings and improved varieties. We intend to keep contributing to the development of the palm oil industry and to sustainable palm oil production by helping to solve global environmental problems such as tropical rainforests decrease due to palm plantations expansion.



BPPT Biotechnology Center, where breeding research is carried out



Undertaking tissue culture of palms

② The Palm Oil Working Group, the Japan Sustainability Local Group of the Consumer Goods Forum

The Fuji Oil Group has participated in the Palm Oil Working Group since its inception in FY 2017. The Working Group was set up in the Japan Sustainability Local Group of the Consumer Goods Forum (CGF), an international industry organization for consumer goods.

Members from various business categories such as manufacturers of finished products and retail and wholesale companies participate in the Palm Oil Working Group to collect information and hold discussions aimed at achieving sustainable palm oil procurement in Japanese society.

③ Sustainable Palm Oil Conference

In November 2018, in support of its aim, we co-sponsored the Japan Sustainable Palm Oil Conference, an event intended to encourage Japanese society to consider sustainable palm oil sourcing.

Topics: Education and awareness-raising activities targeted at children

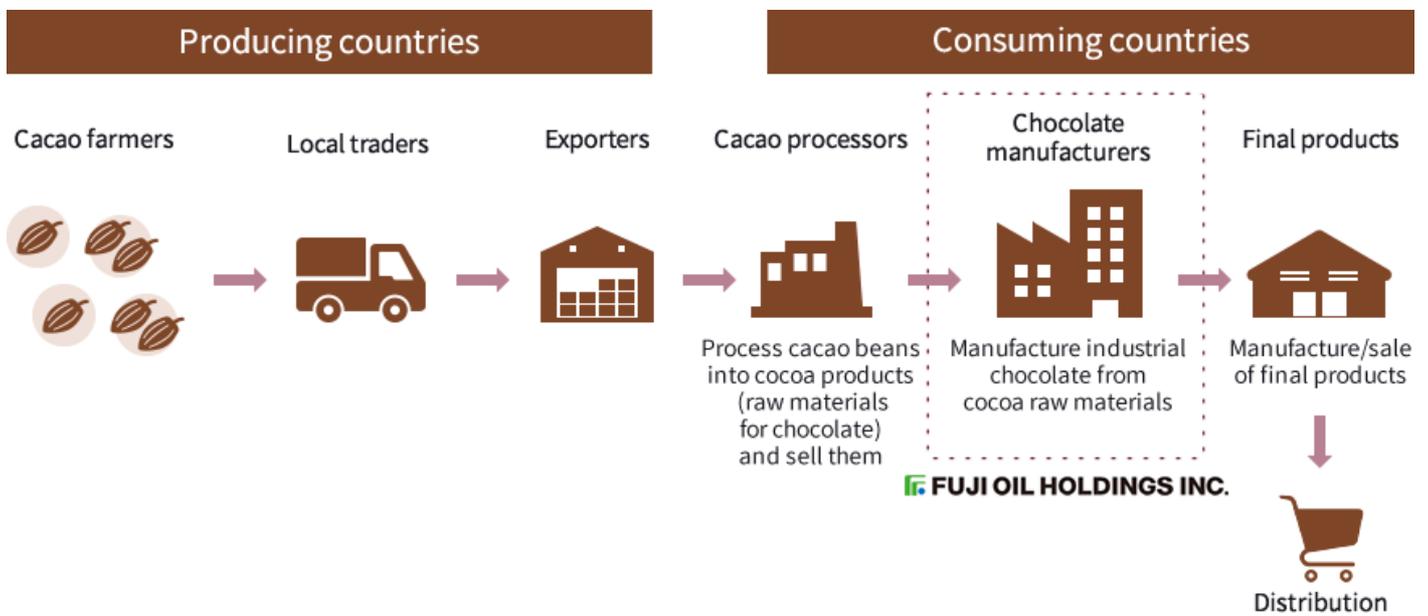
Appealing to consumers and the market is one of the key elements needed to promote sustainable procurement. Under the belief that education for students who will play a leading role in shaping the future is important, we support the "SDGs for School" project of the NPO Think the Earth by providing chocolate used in on-demand lessons implemented under the project. Through these activities, we work to provide students with the opportunity to consider sustainable palm oil and sustainable society.

For more detailed information, see the Social Contribution Activities section.

▶ https://www.fujioilholdings.com/en/csr/management/management_04/

Cacao

The cocoa supply chain and the position of the Fuji Oil Group



Basic approach

While the demand for chocolate is growing globally, there are concerns about the availability of cacao, the raw material of chocolate. A future tightening of the supply-demand balance is expected due to supply-side problems, including the aging of farmers, the abandonment of farming, the aging of cacao trees, the impact of climate change on production areas, and low productivity due to a lack of knowledge and materials. Also, a complex web of human rights and environmental issues including poverty, child labor, forest destruction, and soil contamination have been identified among cacao farmers, who are mostly smallholders.

The industrial chocolate business is one of the Fuji Oil Group's core competences, and cacao-derived materials such as cocoa liquor*, cocoa butter**, and cocoa powder*** are among the key raw materials of the Group.

In August 2018, the Group formulated the Fuji Oil Group Sustainable Cacao Sourcing Policy to continue delivering the joys of food through products using sustainable cacao. We aim to conduct sustainable cacao raw material sourcing based on this policy.

*cocoa liquor: A term used in chocolate/cocoa production factories; cocoa liquor is made by removing the shells of the cacao beans and grinding the nibs (inside the cacao beans) into a smooth, liquid state.

**cocoa butter: Vegetable oil obtained by pressing cacao beans

***cocoa powder: Dry powder made by grinding what is left after the cocoa butter has been removed from the cacao beans

▶ [Responsible Cacao Sourcing Policy \(138KB\)](#) 

Specific initiatives

Activities to support smallholders in Ecuador

Based on the Responsible Cacao Sourcing Policy, in December 2018 we started activities to support smallholders in Ecuador, together with the Group's direct suppliers. We aim to improve the productivity and quality of cacao beans, and raise the living standards of farmers and communities by providing farming support and education. Currently, our direct suppliers provide training for 68 farmers on farm management methods, soil management, and post-harvest processes (fermentation, etc.) The quality of the cacao beans largely depends on such soil management, production practices and post-harvest processes. It is expected that our farming support program will help increasing yields, thereby increasing farmers' incomes. We will also work to improve the quality of cacao beans by conducting flavor research on site.



Local farmers receiving technical guidance to make an organic insect repellent spray with a low burden on the soil and cacao

Support activities in Ghana

Ghana is one of the world's major producers of cacao beans. Since 2014, Fuji Oil Co., Ltd. has been using a portion of the purchase price of cacao beans to provide community support along its supply chain in Ghana. The Company constructed a well in 2014 and since 2016 it conducts research to improve yield for the communities receiving support.



Farming guidance for local farmers

In the yield-improvement research project, we selected a model plantation and measured yields of cacao cultivated under different conditions over the period from 2016 to 2018. The cacao yield at the model plantation from October to December 2017 increased by 18% compared to the same period a year earlier. Also, since February 2018, we provide farming education for local cacao producers in the vicinity of the model plantation. The training covers various topics, including farm management methods, pesticide management methods, and cacao harvesting and post-harvest management methods, farmland selection criteria (when starting a farm), and farm rehabilitation. We communicate to local farmers the know-how not only to improve yield, but also to improve the quality of cacao beans, and fermentation methods to bring out the rich flavor of Ghanaian cacao beans.

We will continue to support cacao producers with the aim of establishing a sustainable cacao production and consumption system.

Participation in the World Cocoa Foundation (WCF)

Fuji Oil Co., Ltd. is a member of the World Cocoa Foundation since 2012. The World Cocoa Foundation is a non-profit international membership organization whose vision is a sustainable and thriving cocoa sector – where farmers prosper, cocoa-growing communities are empowered, human rights are respected, and the environment is conserved.

The Commitment of World Cocoa Foundation



WCF's Commitment

- Profit** Fair and sufficient economic profit for farmers
- People** Empowering farmers to make choices that help develop strong, prosperous cocoa communities
- Planet** Promoting sustainable production practices that maintain and increase biodiversity and crop diversification

Handling of certified cacao raw materials

Fairtrade



FUJI OIL EUROPE(Belgium) obtained the Fairtrade certification, which aims at promoting raw materials and products purchase from developing countries. The company produces and sells products made from Fairtrade-certified raw materials according to customer requests.

UTZ



The Fuji Oil Kanto Plant (Japan), FUJI OIL EUROPE (Belgium), and WOODLANDS SUNNY FOODS PTE. LTD.(Singapore) hold the UTZ certification (an international certification program for sustainable agriculture) The Fuji Oil Group will promote the acquisition of UTZ certification to meet customer demand.

Soybeans

Basic approach

Soybeans are cultivated in a wide range of areas from the cool temperate zone to the tropics, but there are concerns in soybean production areas about issues such as deforestation for farmland cultivation and soil contamination in agricultural areas due to spraying of pesticides. With the conviction that soybeans will relieve the global food-supply crisis, the Fuji Oil Group has been at the forefront of companies pursuing the potential of soybeans as a food ingredient since 1957.

Our soybean processing and ingredients business uses soybean-derived raw materials such as defatted soybeans, whole soybeans and soybean protein. To contribute to building a sustainable society through the soybean processing and ingredients business, we will promote procurement activities that take the global environment and society into consideration.

Specific initiatives

Production area of soybeans procured by the Fuji Oil Group

In our soybean processing and ingredients business, we procure only soybeans produced in North America, China and Japan.

Procurement of non-GM soybeans

The Fuji Oil Group procures only non-genetically modified (non-GM) soybeans. In North America, both GM soybeans* 1 and non-GM soybeans are distributed in large quantities. Therefore, we conduct strict controls on soy bean produced in North America to ensure that non-GM soybeans shipped to us are cultivated, transported and stored separately from GM soybeans.

In China, is a major soybeans supplier for us. Although cultivation of GM soybeans is prohibited in China in recent years, GM soybeans grown outside China have been

imported as raw materials for oil extraction. Therefore, it is increasingly important to manage year by year non-GM soybeans by strictly separating them from GM soybeans. In China, we continue to respond to strict management requirements through close cooperation among Group companies while adopting management know-how from Fuji Oil Co., Ltd.

*Genetically modified (GM) soybeans: Soybeans that have been created through gene recombination to produce more stable yield by adding functions such as herbicide resistance.

Understanding stakeholders' expectations

In FY 2018, for the first time, we answered questions regarding soybeans in the Forests Questionnaire by CDP, an international organization that provides environmental assessments. By answering the questionnaire, we were able to find out what stakeholders expect of companies in the context of the sustainability of soybeans, such as the formulation and disclosure of a soybean procurement policy and the management of deforestation risks in the supply chain.

In FY 2019, we will work to understand stakeholders' expectations more deeply through dialogue with suppliers, customers and experts, and review our approach and specific initiatives regarding soybean procurement.

Shea Nuts*

Basic approach

Cocoa butter equivalents (CBE) are also diversifying too meet the diversifying demand for chocolate and food products that contain it, Shea butter, which is produced in Africa, is an indispensable raw material for making superior CBE. Shea butter has long been used in food products, but its popularity for use in cosmetics and other applications has also risen in recent years.

Shea nuts, from which shea butter is made, grow naturally in the wild. Shea trees are considered sacred in Africa, and shea nuts are harvested mainly by women. Shea butter is positioned as an important industry for local communities in terms of job creation and women's empowerment.

The Fuji Oil Group uses shea nuts, mainly in its vegetable fats and oils business. We hope to contribute through our business activities to the sustainable development of shea nut production areas from economic, social and environmental perspectives.

Group company International Oils and Fats Ltd. in Ghana carries out the nut-sorting process for shea butter in-house, thus adding value to products on-site (Ghana) and contributing to the local economy and the creation of employment opportunities.

*Shea nut: The shea nut is the seed of the fruit of the shea tree. Major producers include Nigeria, Mali, Burkina Faso and Ghana. Shea butter produced from the nuts is used in foods, cosmetics and soap.

Specific initiatives

Participation in the Global Shea Alliance (GSA)

The shea nut industry would be difficult to sustain without the harvesting work performed by what is claimed to be approximately 16 million women in West Africa. Therefore, achieving gender equality, securing living standards and ensuring worker safety at harvest are important. In addition, tree-cutting by local people for fuelwood is increasingly recognized as an environmental issue needing attention. Since these issues cannot be resolved by one company alone, discussions are being conducted in the Global Shea Alliance (GSA), which is made up of stakeholders in the shea nut supply chain. We network with stakeholders and gather information through the GSA. As part of such efforts, the Fuji Oil Group participated in the GSA General Meeting held in Accra, Ghana, in March 2019.



Shea tree

**Participation in a UNDP project
(regional reconstruction, advancement of women and promotion of
environmental protection through shea cultivation in Ghana)**

Fuji Oil Holdings and FUJI OIL EUROPE (Belgium) are considering participation in the Ghana Shea Landscape REDD ++ Project organized by the United Nations Development Programme (UNDP). This project is scheduled to promote multifaceted activities including creation of job opportunities, planting activities and support for community development so that the shea nuts industry can promote community revitalization and women's advancement and reduce negative impact on the environment.