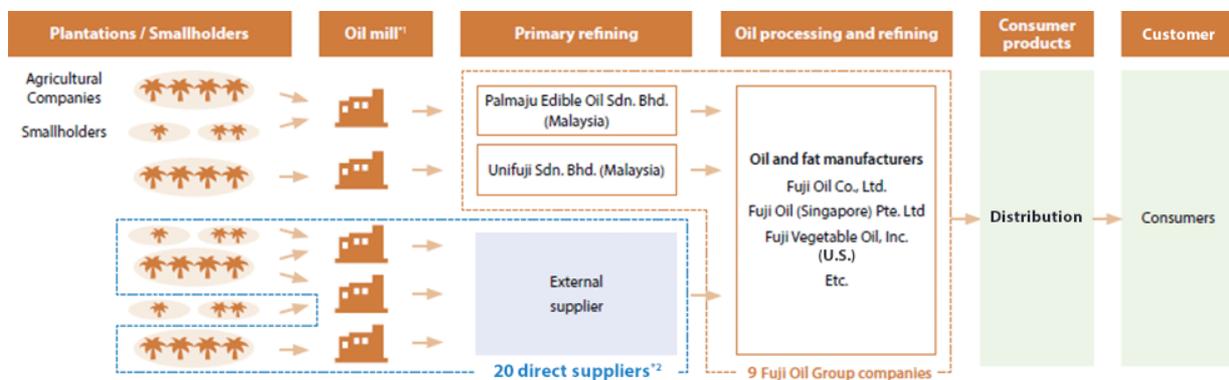


Management information

Relevance to our business

Palm oil is extracted from the fruit of the oil palm, which grows in tropical regions like Southeast Asia. The Fuji Oil Group procures palm oil, mainly from Malaysia and Indonesia, as the key raw material for businesses like the Vegetable Oils and Fats Business. 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, and has the largest production volume among vegetable oil materials in the world. On the other hand, there have been concerns over environmental and social impacts tied to plantation development, such as deforestation and human rights violations, such as child labor and forced labor.



*1 Our mill list

https://www.fujioilholdings.com/pdf/en/sustainability/supplychain_database/h2_2022_mill_list.pdf

Our supply chain data base

https://www.fujioilholdings.com/en/sustainability/supplychain_database/

*2 As of December 2022

Basic approach

In March 2016, we formulated the Fuji Oil Group's Responsible Palm Oil Sourcing Policy. In this Policy, we state our commitment to No Deforestation, No Peatland Development and No Exploitation (NDPE) in our palm oil supply chain. We will promote the procurement of palm oil produced in a responsible manner from suppliers who respect people and the global environment.

The Responsible Palm Oil Sourcing Policy (PDF, 1.66MB)

Management system

The Chief Strategy Officer (CSO) oversees initiatives in this area. The Sustainability Committee,^{*1} an advisory body to the Board of Directors, monitors the progress and results of initiatives as a material ESG issue.^{*2}

*1 https://www.fujioilholdings.com/en/sustainability/sustainability_management/

*2 <https://www.fujioilholdings.com/en/sustainability/materiality>

Goals / Results

○ At least 90% complete △ At least 60% complete ✕ Less than 60% complete

Medium- to long-term goals	KPI		FY2022 Goals	FY2022 Results	Self-assessment
	2030	2025			
No Deforestation, No Peatland Development and No Exploitation (NDPE)	Traceability to mill (TTM ^{*1}):100%	TTM: 100%	TTM: 100%	TTM: 100%	○
	Traceability to plantation (TTP ^{*2}): 100%	TTP: 85%	TTP: 85%	TTP: 93%	○
	N/A	N/A	Continue conducting constant monitoring using satellite images to identify, observe, verify and eliminate deforestation in the palm oil supply chain	Continued conducting constant monitoring using satellite images	○
	Labour Transformation Programme (LTP) implementation rate: 100% (all direct suppliers)	LTP implementation rate: 100% (all suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia)) ^{*3}	Implement LTP at suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia): 36%	Implemented LTP at suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia): 61%	○

*1 Traceability to mill

*2 Traceability to plantation

*3 An oils and fats manufacturer wholly owned by the Fuji Oil Holdings Inc.

Analysis

The first step to improving sustainability in the palm oil supply chain is ensuring traceability. This makes it possible to know where the palm oil we purchase and use was produced, and through which routes it was procured. In recent years companies that procure palm oil have begun disclosing not only traceability information such as traceability to mill (TTM) and traceability to plantation (TTP), but also other information such as their progress on addressing grievances. This has made it easier for stakeholders to obtain supply chain data or understand the level of engagement a company has with its suppliers. At the Fuji Oil Group, we set a target to realize full TTM by 2020. We reached 100% TTM in 2019, and continued to maintain it throughout 2022.

We also introduced a TTP system for all suppliers. While there are challenges such as information confidentiality and supply chain complexities, including procurement from dealers,^{*} we are working with the non-profit Earthworm Foundation and strengthening cooperation with various stakeholders to further our efforts in improving the Group's TTP score.

Regarding the Labour Transformation Programme (LTP), we exceeded our target after it became possible to resume supplier visits, which had been suspended until the middle of 2022. The smallholders that make up around 30-40% of all palm oil producers lack information on appropriate farming techniques and environmental considerations, as well as the funds to make their operations more sustainable. This has resulted in many issues left to address, including deforestation, land rights, and the rights of production workers. It is vital for us to maintain an awareness of these issues as we continuously work as a Group to strengthen our procurement strategy and improve our supply chain.

^{*} Companies that intermediate between smallholders and oil mills, providing land management support to smallholders and selling fresh fruits bunches (FFB) to oil mills.

Next Step

Continued efforts toward NDPE are crucial for realizing sustainable procurement of palm oil. To address this issue, we set the following goals for FY2023 as a continuation of the previous year.

- TTM: 100%
- TTP: 85%
- Continue constant monitoring using satellite images to identify, observe, verify and eliminate deforestation in the palm oil supply chain
- LTP at suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia): 70%

Specific initiatives

Solution-based approaches to implementing the Responsible Palm Oil Sourcing Policy

Issue	Solution-based approach	Location/scope
Global environment	Satellite-based monitoring	Indonesia, Malaysia, Papua New Guinea
	Engagement toward zero deforestation	The Group's palm oil supply chain
Human rights	Implement Labour Transformation Programme (LTP)	Malaysia
Global environment and human rights	Use self-assessment tools	The Group's palm oil supply chain
	Scale up procurement of certified oil	The Group's palm oil supply chain
	Grievance mechanism	The Group's palm oil supply chain
	Aceh and Southern Central Forest Spine (SCFS) Landscape Initiative	Aceh, Indonesia SCFC, Malaysia

Traceability

To reduce the environmental and social risks associated with palm oil production, it is vital to use production methods that are both sustainable and responsible. We verify palm oil traceability once every six months to confirm that the raw materials we purchase are being produced responsibly.

This is not only an ethical consideration, but is also based on strategic business targets. Sustainable procurement makes it possible for us to meet stakeholder expectations, reduce risk, and ensure our business continues in the long term. It is also in step with our Group mission of contributing to a sustainable society by providing safe and healthy foods.

In FY2022, we achieved 100% TTM and 93% TTP.



A meeting with FFB dealers about sharing TTP data

Satellite-based monitoring

Since FY2020, the Fuji Oil Group has been working with the non-profit Earthqualizer to help us identify, monitor and verify deforestation that occurs in the Group's supply chain. Satellite images of plantations and other areas are extremely useful in identifying, mitigating and preventing deforestation. Based on the reports received twice a month, we investigate all allegations related to deforestation submitted to the Group.

When identifying whether an allegation is relevant to the Group's supply chain, traceability data is essential. If an allegation is found to be relevant, we further investigate with the related supplier. We work with Earthqualizer to address cases of deforestation in the Group's supply chain, including handling grievances, establishing solutions with suppliers, and communicating with NGOs and other stakeholders. We incorporate the investigation results and update the information in our grievance list at least once a quarter.

Labour Transformation Programme (LTP)

In 2017, the Fuji Oil Group launched a supply chain Labour Transformation Programme (LTP) at Palmaju Edible Oil Sdn. Bhd. (Malaysia) in collaboration with the non-profit Earthworm Foundation. This program provides tailored support for addressing human rights-related issues to all of the company's suppliers. LTP helps suppliers build better management systems to improve the labor-related issues identified by suppliers. The program has been introduced at the company's direct suppliers, and is now being expanded to indirect suppliers. The scope of our LTP includes the following eight elements.

1. Freedom of movement
2. Employment contract
3. Ethical employment
4. Grievance management (through grievance mechanism)
5. Wages and working hours
6. Freedom of association
7. Health and safety
8. Worker housing and dormitories



A meeting with a supplier

This program helps suppliers build capacity by carrying out the following activities to reduce human rights risks at suppliers' business and supply locations. These activities are typically done face-to-face with local factory and plantation managers.

- Provide information and supportive documents to help suppliers with compliance
- Conduct practical training of dedicated staff and departments
- Raise suppliers' awareness of industry requirements
- Help suppliers apply international standards to their labor standards
- Help suppliers meet certification and customer requirements

The LTP had been implemented online because of the COVID-19 situation, but in 2022 we resumed visits to suppliers to provide support in person. As of March 2023, the program has been introduced at 61% of Palmaju Edible Oil Sdn. Bhd. (Malaysia) suppliers. The Group will continue working toward our goal of 100% LTP implementation across the supply chain to achieve zero exploitation — an urgent issue from the perspective of stakeholders.

Self-assessment Tools

To further strengthen supplier assessments, the supply chain at Palmaju Edible Oil Sdn. Bhd. (Malaysia) is managed using self-assessment tools. These tools make it possible to efficiently understand how suppliers around the world are doing. At the same time, they also enable us to provide recommendations and support to help suppliers follow Fuji Oil Group policies. The tools also allow suppliers to share information about their own sustainability efforts and confirm how well they are doing in meeting the requirements of the Group's Responsible Palm Oil Sourcing Policy. The following shows our progress in FY2022.

Rate of self-assessment questionnaire and action plan submission in FY2022

Palmaju Edible Oil Sdn. Bhd. (Malaysia)

- Direct suppliers: 100%
- Indirect suppliers: 86%
- Plantations: From 8 plantations

Fuji Oil Group

- Direct suppliers: 100%

Moving forward, we will strengthen our due diligence system for reporting progress on NDPE in our supply chain.

Engagement toward zero deforestation

In Malaysia, we continuously reach out and work with plantations, smallholders, oil mills and other stakeholders to deal with deforestation and other potential risks. To monitor risks of deforestation, we support suppliers in developing and improving their traceability systems. Palmaju Edible Oil Sdn. Bhd. (Malaysia) is aiming to achieve zero deforestation by maintaining 100% TTP in their supply chain and confirming there is no risk.

In 2022, we engaged with two suppliers in the southern part of Peninsular Malaysia, and afterwards their zero deforestation verification ratio improved by 40%. Anti-deforestation activities being conducted with another company are targeted to finish in 2023. We are also working with Earthworm Foundation on initiatives to raise TTP through the Southern Central Forest Spine (SCFS) Landscape Initiative. In 2022, we used satellite monitoring to verify that Palmaju Edible Oil Sdn. Bhd. (Malaysia) does not contribute to deforestation anywhere in its supply chain. Moving forward, we will continue to manage and maintain the supply chain to achieve our commitment to zero deforestation.

Promote procurement of certified palm oil

In 2022, palm oil certified by the Roundtable on Sustainable Palm Oil (RSPO) accounted for roughly 58% of the palm oil handled by the Fuji Oil Group, an increase of 17 percentage points year on year. Contributing significantly to this increase was a growth in demand for sustainable palm oil. The Unifuji (Malaysia) joint-venture with United Plantations Berhad has expanded its production capacity, enabling us to secure enough palm oil to meet demand in this growing market.

The Group has been a member of the RSPO since 2004, endorsing the creation of a palm oil sustainable production and consumption system. RSPO is widely recognized international certification system in the industry. RSPO is an NPO that unites stakeholders from the seven sectors of the palm oil industry to develop and implement global standards for sustainable palm oil. These standards include a set of environmental and social criteria which member companies must comply with in order to produce certified oil. When they are properly applied, these criteria can help minimize the negative impact of palm oil cultivation on the environment and communities in palm oil-producing regions.

The Fuji Oil Group has been implementing the RSPO's new Shared Responsibility (SR) rules and expanding the volume of certified oil we procure every year. There is still room for improvement — such as the fact that certified oil supply exceeds demand, and that complying with the standards is difficult for smallholders. With this in mind, since 2021 we have been taking active part in RSPO working groups to discuss solutions to these issues. In the RSPO Shared Responsibility Scorecard published in April 2023, the Fuji Oil Group was the only Japanese company to score the maximum 10 points, and of the 1,742 companies scored worldwide only 28 received 10 points. The scorecard shows the overall picture of SR performance based on commitments reported by RSPO member companies.

Going forward, we plan to step up efforts to meet even more customer requests, particularly in the European market where demand is increasing, by deepening our partnership with strategic suppliers of Palmaju Edible Oil Sdn. Bhd., located in Malaysia, to increase procurement of certified oil.*



* Our progress

<https://rspo.org/> 

Grievance mechanism

In May 2018, we established a grievance mechanism* 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 issues in the supply chain. This allows us to engage with suppliers and take appropriate corrective action in accordance with our Responsible Palm Oil Sourcing Policy, together with Earthworm Foundation. Every quarter we report our progress in addressing all grievances via the grievance list on the Fuji Oil Holdings Inc. website. In 2022 we registered 47 grievance cases (43 environmental and four social).

From FY2021, in addition to quarterly updates to the grievance list, we began issuing monthly grievance reports to specific customers and stakeholders. These grievance reports provide the latest progress status particularly on the most notable grievance cases. We regularly review our grievance mechanism with the help of experts, and are striving to obtain the necessary and vital information to address the concerns of all stakeholders.

We strongly believe these efforts will lead to a fair, just and transparent resolution of activities suspected of violating our Responsible Palm Oil Sourcing Policy.

* https://www.fujioilholdings.com/en/sustainability/grievance_mechanism/

APT Landscape Initiative

Indonesia: Aceh Landscape Initiative

Since 2018, we have been supporting landscaping efforts in the Aceh province of Indonesia, with the aim of showing the feasibility of dealing with deforestation in the country and maintaining a balance between commodity production, protecting nature and good social and labor practices for crop procurement. Indonesia is an important supplier in the Group's supply chain. We partnered with the Earthworm Foundation to keep working on this initiative.

The Indonesian island of Sumatra is home to the Leuser Ecosystem, one of the planet's most valuable tropical rainforests, and other natural wonders that make it a vital region in terms of natural ecosystems. Yet palm plantation development and other factors make it vulnerable to deforestation risks. The Fuji Oil Group participates in the Areal Prioritas Transformasi (APT) Landscape Initiative* to reduce and remediate these risks. The program brings together governments, smallholders, local communities, the palm oil supply chain, companies, NGOs and experts in various fields to work toward improvement not only at palm plantations, but throughout the whole region. In 2021, the program expanded its scope across a vast region of about 3.9 million hectares, which covers around 70% of the northernmost province of Aceh in Indonesia. The region spans 12 regencies, with the Leuser Ecosystem at its center. The following are the program's actions in 2022.

- Developed and executed a regional action plan for sustainable palm oil in the Subulussalam district with 13 stakeholders
- Conducted training on High Conservation Value (HCV) and High Carbon Stock (HCS) management for 23 companies, and HCV/HCS assessments of two companies (as of December 2022)
- Protected 33,481.67 hectares of forest in six villages
- Completed voluntary mapping and the land ownership survey process for 9,498.76 hectares in eight villages
- From the start of the Landscape Project to the end of 2022, conducted training for 740 farmers and supported alternative livelihood activities through two Farmer's Business Units (FBU)
- Provided support for improving worker's rights at four companies (with a total of around 900 workers)

* <https://www.earthworm.org/our-work/projects/aceh-indonesia> 

<https://youtu.be/8fvj20TWaUQ> 

Malaysia: Southern Central Forest Spine (SCFS) Landscape program

From 2022, the Fuji Oil Group has also been participating in a landscape program in the SCFS, our primary palm oil procurement region located in Peninsular Malaysia. The palm oil supply chain in the SCFS landscape is interconnected, making it vital to promote initiatives that unite multiple stakeholders within the landscape to achieve TTP in cooperation with FFB dealers, improve working conditions, and promote coexistence between humans and wild animals around palm oil plantations. Below is our progress in 2022.



Training on approaches to forest conservation and palm plantation management in a community

- Achieved 100% TTP at 26% of factories in the region
- Worked with companies and communities to decrease deforestation in highly protected areas by 67%
- Conducted capacity building with 206 smallholders from the start of the project to the end of 2022
- Conducted training on forced and child labor for 31 companies

Collaboration with NGOs and industry

(1) Supporting smallholders in Sabah, Malaysia

Since January 2016, the Fuji Oil Group has participated in the Wild Asia Group Scheme (WAGS), managed by the Malaysian social enterprise Wild Asia, and supported its certification project and WAGS BIO regenerative agriculture project being conducted in the state of Sabah in eastern Malaysia. The scheme helps palm oil smallholders address the problems they face by providing support for improving farming practices and meeting international standards.

The certification support project provides smallholders with the training for acquiring RSPO and Malaysian Sustainable Palm Oil (MSPO) certifications. In an RSPO audit conducted in March 2022, 229 WAGS smallholders received certification. WAGS field teams not only conduct training for farmers aiming for first-time certification, but also continuously support those seeking to maintain their certification. Since we started providing support to the project in January 2016, the Group has helped a total of 908 smallholders to obtain certification through WAGS (as of May 2023).

The WAGS BIO project conducts practical training on regenerative agriculture at oil palm plantations with the goal of raising smallholders' income, mitigating their adverse impact on biodiversity, and conserving and restoring natural ecosystems around plantations. In FY2022, we continued supporting training on organic farming methods and intercropping of ginger and other cash crops. There was also a broadening of WAGS partnerships, greatly increasing the number of new smallholders in the project by 50 farms. The total number of farms that meet the Wild Asia BIO Farm criteria through chemical-free farming and other methods also reached 70 (as of May 2023). In another initiative, we conducted tests in producing biochar from oil palm leaves, and spread the resulting product at some plantations. Distributing biochar is expected to improve soil quality, and the carbon that accumulates in soil should have a mitigation effect on climate change.

(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 FY2017. 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.

(3) Japan Sustainable Palm Oil Network

Fuji Oil Holdings Inc. has been a full member of the Japan Sustainable Palm Oil Network since October 2019, in support of its aim of promoting sustainable palm oil procurement and consumption throughout the Japanese industry.

(4) Palm Oil Collaboration Group

Since June 2020, Fuji Oil Holdings Inc. has been participating in the Palm Oil Collaboration Group (POCG),* which brings together companies from every stage of the palm oil supply chain with the aim of accelerating effective action toward NDPE commitments. Currently, we are an active member of the Social Issues Working Group, which discusses and resolves human rights issues. This working group established guidelines in FY2022 to manage and alleviate worker recruitment issues in the industry. The following are key areas that companies need to work on in the future.

- Human rights due diligence in management systems
- Responsible recruitment in Malaysia's palm oil industry, which is predominantly made up of foreign workers
- Indigenous peoples and local communities' rights

We will continue participating and contributing to the working group to develop effective solutions to achieve NDPE.

* <https://palmoilcollaborationgroup.net/>

Related documents

ESG Data Book (PDF 4.57MB) 