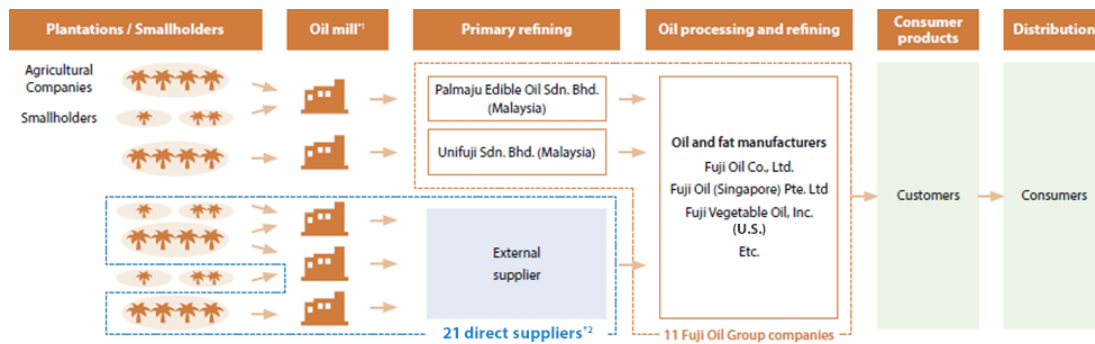


## Management information

### 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 plantations in 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. However, 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 More than 1,400 oil mills registered in July–December 2021 oil mill list. Follow the link below to access our mill list.

> [https://www.fujiioilholdings.com/pdf/en/sustainability/supplychain\\_database/h2\\_2021\\_mill\\_list.pdf](https://www.fujiioilholdings.com/pdf/en/sustainability/supplychain_database/h2_2021_mill_list.pdf)

Follow the link below to access our supply chain data base.

> [https://www.fujiioilholdings.com/en/sustainability/supplychain\\_database/](https://www.fujiioilholdings.com/en/sustainability/supplychain_database/)

\*2 As of December 2021

### 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) and to procuring palm oil produced in a responsible manner from suppliers who respect people and the global environment. We will continue to promote responsible palm oil procurement to ensure that palm oil becomes a sustainable raw material.

> [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 Follow the link below to learn more about the Sustainability Committee.

> [https://www.fujiioilholdings.com/en/sustainability/sustainability\\_management/](https://www.fujiioilholdings.com/en/sustainability/sustainability_management/)

\*2 Follow the link below to learn more about material ESG issues.

> <https://www.fujiioilholdings.com/en/sustainability/materiality>

## Goals / Results

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

Medium- to long-term goals	KPI		FY2021 Goals	FY2021 Results	Self-assessment
	2030	2025			
No deforestation, no peatland development and no exploitation (NDPE)	Traceability to mill (TTM)	TTM : 100%	TTM : 100%	TTM : 100%	○
	Traceability to plantation (TTP): 100%	TTP : 85%	TTP : 73%	TTP : 85%	○
	N/A	N/A	Conduct regular monitoring using satellite images to prevent deforestation; use results to improve the supply chain and respond to grievance list*1	The deforestation status at all our palm oil supply chains (Malaysia, Indonesia and Papua New Guinea) was constantly monitored in partnership with Earthqualizer. Monitoring reports were received about once every half month	○
	Labour Transformation Programme (LTP) implementation rate: 100% (all direct suppliers)	LTP implementation rate: 100% (all suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia))*2	Implement LTP in Palmaju Edible Oil Sdn. Bhd. (Malaysia): 8%	27% (all suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia))	○

\*1 Follow the link below to access our grievance list, with updated information on our response to grievances.

> [https://www.fujioilholdings.com/en/sustainability/grievance\\_mechanism/](https://www.fujioilholdings.com/en/sustainability/grievance_mechanism/)

\*2 An oils and fats manufacturer wholly owned by the Fuji Oil Group

### Analysis

The first step to improvement in the palm oil supply chain is to identify where the palm oil is produced. Companies that procure palm oil have made significant progress in recent years on information disclosure, providing traceability to their oil mills and disclosure documents such as a mill list and grievance list. 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 an initial-stage target to realize full traceability to mill (TTM) by 2020. We reached 100% TTM in 2019. Becoming a member of the non-profit Earthworm Foundation and partnering with suppliers helped us greatly in achieving this target. We maintained 100% TTM for palm oil and palm kernel oil during 2021.

We also introduced a traceability to plantation (TTP) system for all suppliers. Thanks to the cooperation of suppliers in improving the traceability, we significantly improved the Group's TTP score. However, due to the complexity of our supply chain (including procurement from dealers), confidentiality of information and other factors, further improvement will likely take time, causing the Group's TTP score to rise at a slower pace.

Given the high percentage of smallholders involved in palm oil production, we recognize that there are many issues left to address, including deforestation, land rights, and the rights of production workers. It is important that we continue to secure resources for supply chain improvement initiatives and maintain awareness of the issues at stake.

### Next Step

Continued efforts to take even the smallest steps toward No Deforestation, No Peatland Development and No Exploitation (NDPE) are crucial for realizing sustainable procurement of palm oil. To address this issue, we set the following goals for FY2022 as a continuation of the previous year.

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

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

Social issue	Solution-based approach	Location/scope
Global environment	Satellite-based monitoring	Indonesia, Malaysia, Papua New Guinea
	Engagement toward zero deforestation	Malaysia
Human rights	Implement Labour Transformation Programme (LTP)	Malaysia
Global environment and human rights	Aceh Landscape Initiative	Aceh, Indonesia
	Use self-assessment Tools for Transformation (T4T)	Malaysia
	Scale up procurement of certified oil	Worldwide
	Grievance mechanism	The Group's palm oil supply chain

#### Satellite-based monitoring

Since FY2020, the Fuji Oil Group has been obtaining satellite image data from the non-profit Earthqualizer to help us identify, monitor and verify deforestation that occurs in the Group's supply chain in places such as Indonesia and Malaysia. Powerful satellite data is extremely useful in preventing deforestation. Based on the reports received twice a month, we investigate all allegations related to deforestation submitted to the Group, and identify whether each allegation is relevant to the Group's supply chain. This is useful not only for responding to grievances and studying solutions with suppliers, but also for communicating with NGOs and other stakeholders. Although it takes time to investigate all cases, we incorporate the investigation results and update the information in our grievance list at least once a quarter.

#### Engagement toward zero deforestation

In Malaysia, we continuously reach out and work with plantations, farmers, oil mills and other stakeholders to deal with deforestation caused by palm plantation development. We develop and improve mechanisms to check for deforestation using satellite monitoring and TTP information. The aim is to ensure that oil mills supplying Palmaju Edible Oil Sdn. Bhd. (Malaysia) avoid deforestation in the procurement of palm fresh fruit bunches (FFB). This also involves FFB dealers, who mediate between smallholders and oil mills. In FY2021, we checked 83% of Palmaju Edible Oil's supply chain, which includes plantations and smallholders in the Peninsular Malaysia, and found that none of them was involved in deforestation.

The Fuji Oil Group is also preparing to engage for zero deforestation with suppliers in the southern part of the Peninsular Malaysia, which is also part of Palmaju Edible Oil's supply chain.

The Group will continue to work on increasing the traceability to plantations and making improvements to achieve zero deforestation and solve environmental problems.

#### Labour Transformation Programme (LTP)

In 2017, the Fuji Oil Group launched a supply chain Labour Transformation Programme (LTP) in collaboration with the non-profit Earthworm Foundation, our partner for promoting palm oil sustainability. LTP identifies labor-related issues in suppliers and helps suppliers build management systems to address these issues. We are gradually introducing this program at direct suppliers of Palmaju Edible Oil Sdn. Bhd. (Malaysia). The scope of our LTP for suppliers 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

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

Because of the COVID-19 situation, we implemented the LTP online for 27% of all direct suppliers.

In 2022, we plan to resume visits to suppliers and wrap up the planned initiative. The Group will continue working toward our goal of 100% LTP implementation rate across the supply chain to achieve zero exploitation — an urgent issue from the perspective of consumers, governments and international opinion.

### **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 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 Fuji Oil Group's supply chain. We partnered with the non-profit Earthworm Foundation to keep working on this initiative.

Tracing the palm oil we use back to their oil mills revealed that areas of Sumatra, Indonesia that are important in terms of natural ecosystems are exposed to deforestation risks. Since FY2018, the Fuji Oil Group has participated in the Areal Prioritas Transformasi (APT) Landscape Initiative\* to reduce and remediate these risks. 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 one of the world's most valuable rainforests — the Leuser Ecosystem — at its center. This program was designed as a multi-stakeholder collaboration between the local governments, NGOs, businesses, farms and other stakeholders, working together to improve not only the palm plantations but also the entire designated region. Following this landscape approach, the initiative includes the following actions.

- Sign eight memorandums of understanding focused on environmental and social issues with the governments, local businesses, communities, National Land Agency (BPN) and other stakeholders
- Conduct training and engage with stakeholders conducting High Conservation Value (HCV) and High Carbon Stock (HCS) assessments and implementing land use plans (LUP), to better identify and manage conservation areas
- Develop land use plans to protect over 8,000 hectares of forests, and identify and protect 575 hectares of HCV/HCS land
- Conduct training on Best Management Practices (BMP), Good Agricultural Practices (GAP) and alternative livelihood activities for 589 agricultural workers
- Conduct training on proper labor standards for 11 businesses and provide direct benefits to 574 workers by improving labor practices
- Register 2,749 hectares of public land and land ownership to 407 people in two villages
- Resolve disputes between stakeholders for more than 2,700 hectares of land

\* Follow the link below to learn more about the APT Landscape Initiative and Aceh Landscape Initiative activities.

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

### **Use self-assessment Tools for Transformation (T4T)**

The Fuji Oil Group uses the self-assessment Tools for Transformation (T4T). T4T broadens the transformation of the Group's supply chain. It also helps palm oil suppliers to conduct self-assessments of their efforts, enabling them to understand how well they are doing in meeting the requirements of the Group's Responsible Palm Oil Sourcing Policy. At the same time, through T4T, we can quickly provide suppliers with practical recommendations, and make sure that they are advised on the activities needed to meet the Group's policies. This tool is useful for both our suppliers and the Group, allowing us to assess the current state of suppliers in terms of meeting the Group's policies. The following shows our progress in 2021.

#### **Rate of self-assessment questionnaire and action plan submission**

- Direct suppliers: 100%
- Indirect suppliers: 85%
- Plantations: From 24 plantations

Through this activity, we have deepened our understanding of our suppliers' operations and ensured that we can implement continued improvements to achieve our NDPE commitment. Moving forward, we will maintain communication with each supplier and at the same time check on the progress of their action plans.


## Promote procurement of certified palm oil

In 2021, Certified Sustainable Palm Oil (CSPO) accounted for roughly 41% of the palm oil handled by the Fuji Oil Group, showing an increase of nine percentage points year on year. Contributing significantly to this increase was a growth in demand corresponding with an expansion in the supply capacity of Unifuji (Malaysia), a joint-venture with United Plantations Berhad.

The Group has been a member of the Roundtable on Sustainable Palm Oil (RSPO) since 2004, endorsing the creation of a palm oil sustainable production and consumption system. RSPO is the most 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 CSPO. When they are properly applied, these criteria can help to 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 rules and expanding the volume of CSPO we procure every year. There is still room for improvement — such as the fact that CSPO supply exceeds demand, and that complying with the standards is difficult for smallholders. However, even taking these factors into account, RSPO is an essential partner in our effort to expand certified palm oil and participation in the RSPO is valuable for the Group.

Going forward, we plan to step up efforts to meet even more customer requests by deepening our partnership with strategic suppliers of Palmaju Edible Oil Sdn. Bhd., also located in Malaysia, to increase procurement of CSPO.\*

\* Check our progress at [www.rspo.org/](http://www.rspo.org/) 



## Grievance mechanism

In May 2018, we established and announced 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 direct suppliers and take appropriate corrective action in accordance with our Responsible Palm Oil Sourcing Policy, together with our partners.

In FY2021, in addition to quarterly updates to the grievance list, we began issuing monthly grievance reports to internal and external stakeholders. The grievance report provides key customers and stakeholders with the latest progress status particularly on the most notable grievance cases. We believe that disclosing our progress in addressing grievances makes our grievance mechanism more transparent and helps us fulfill the Group's commitment to responding to grievances raised against the Group and its supply chain.

We also launched the Fuji Oil Group Grievance Mechanism webpage (English) on the Group website. The status of our response to the received grievances is updated and disclosed to stakeholders at least once each quarter on this webpage.

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

\* Follow the link below to learn more about our grievance mechanism.

> [https://www.fujioilholdings.com/en/sustainability/grievance\\_mechanism/](https://www.fujioilholdings.com/en/sustainability/grievance_mechanism/)

## Collaboration with academia, NGOs and industry

### (1) Supporting smallholders in Sabah, Malaysia

Palm oil production is supported by a large number of smallholders. Engaging such smallholders in sustainable production is one of the major challenges for the palm oil industry. Since January 2016, the Fuji Oil Group has worked with other companies in the Wild Asia Group Scheme (WAGS), a support organization for smallholders organized by the Malaysian social enterprise Wild Asia. The aim is to help smallholders acquire the know-how for managing plantations in an environmentally, socially and economically sustainable manner. We provide support to a certification support project and a regenerative agriculture project (WAGS BIO) in Sabah (eastern Malaysia). The certification support project provides smallholders with the training and technical skills for acquiring RSPO and Malaysian Sustainable Palm Oil (MSPO) certifications, therefore improving their farm management practices. The WAGS BIO project conducts training on cultivation methods for farmers, with the goal of raising smallholders' income as well as improving soil health and biodiversity of agricultural lands. Work on this project also helps promote the activities of the certification support project.

In FY2021, as a result of strengthening collaboration with our local partners in the palm oil supply chain, we were able to increase the number of smallholders participating in the certification support project. From May to December 2021, 196 farms joined the certification support project as new members. Since we started providing support to the project in January 2016, the Group has helped a total of 703 smallholders to obtain certification through WAGS. Going forward, we plan to continue collaborating with various stakeholders to promote and support certification for smallholders in Sabah.

In the WAGS BIO project, we continued to conduct training at the pilot stage on organic farming methods for participating smallholders in FY2021. For example, we provide the technology for producing organic fertilizers utilizing oil palm leaves and damaged fruits that have been discarded after cutting at plantations. We also provided some farmers with ideas for intercropping to plant cash crops, such as ginger and timber trees, between oil palm

fields. Through this regenerative farming approach that utilizes such organic farming methods, we aim to reduce or stop the use of chemical fertilizers and improve soil health while improving farm productivity and profitability. As of December 2021, 12 farms in Sabah met the BIO Farm criteria defined by Wild Asia. In FY2022, we will continue training farmers for the BIO project, enlist the participation of new farmers, and investigate the effects on soil health and productivity.

## **(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 FY2019, 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 addresses human rights issues. This working group created the Human Rights Due Diligence Library of Tools in FY2021 to support member companies in their implementation of human rights due diligence. It also identified the following three 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.

\* Follow the link below to learn more about the Palm Oil Collaboration Group.

> <https://palmoilcollaborationgroup.net/>

## **Related documents**

ESG Data Book (PDF 2.76MB) 