PALM OIL FINANCE

FACTSHEET

How investment in Palm Oil drives destruction – and what investors need to do to prevent it

The rapid expansion of the global palm oil industry into the world's remaining tropical forests is leading to massive rainforest destruction, climate disruption, species extinction and the violation of human rights, workers' rights and the rights of indigenous peoples. Between 2010 and 2015, the world lost 16 million acres of forest per year, mainly due to the expansion of palm oil and other commodities in the tropics.[1]

Photo: STP plantation burning in Central Kalimantan, Indonesia. Credit: Walhi

Since the global financial crises of 2007-2008, land and the commodities grown on it have become both huge investment opportunities, and huge sites of conflict and ecological destruction. Among the land-based commodities leading the charge, palm oil, with its incredibly broad range of consumer uses, has been more attractive to investors than most. Palm oil is used in thousands of consumer branded products around the globe and is now the world's most widely traded and used vegetable oil. Palm oil's rise in the last two decades, however, has come at the expense of millions of hectares of rainforests that have been destroyed for plantations in Southeast Asia (mainly Indonesia and Malaysia). Remaining forests and peat lands – carbon rich wetland ecosystems – continue to be cleared in the region at alarming rates, and the industry is rapidly expanding into rainforest regions of Africa and Latin America, where it's also causing serious human rights impacts, from impoverishment to land-grabbing to murder.

The palm oil industry employs as many as 3.5 million workers in Malaysia and Indonesia, many of whom are victims of serious labor exploitation. Workers are trafficked into bonded labor; forced to work and live under extreme conditions, with limited legal recourse; suffer from abuse or the threat of abuse; or are victims of child labor. These exploitations constitute modern forms of slavery. Palm oil from Indonesia and Malaysia has made the U.S. Department of Labor's List of Goods Produced by Child Labor or Forced Labor.[2]

Finance and palm oil

Loans, bonds and investments in palm oil expansion have been on a steady rise for a decade, amounting to tens of billions of dollars per year. Since 2008, major financial institutions have invested more than $20 billion in the palm oil industry.[6] These institutions, therefore, are complicit in the social and environmental devastation wrought by the palm oil sector.

Company profile: FELDA Global Ventures

Felda Global Ventures, a Malaysian company, is the world's largest producer of crude palm oil, with operations in 10 countries.[3] Felda is a member of the Roundtable for Sustainable Palm Oil and supplies a number of multinational companies including Cargill, Nestlé and Procter & Gamble. In July, 2015, a Wall Street Journal investigation reported serious allegations of abuses of migrant workers' rights at Felda Global Ventures palm oil plantations in Malaysia.[4] Allegations involved links with human traffickers, violence, exploitation and lack of payment of workers. After the report, a coalition of NGOs called on the Malaysia government, the RSPO and those international companies to open an investigation into the allegations.[5] Felda has denied all allegations. Cargill, Nestlé and Procter & Gamble have said they were unaware of the abuses and will investigate. As of this writing, we are unaware of any legal investigation.

Of the tens of billions currently invested in palm oil, more than 10 percent is in the form of shares managed by investment firms in the United States. Most of these financiers are shielded from the Environmental, Social and Governance impacts of their investments and the associated financial, legal, ethical and reputational risks. That is to say, by and large, they take no responsibility for the destruction their investments cause. Despite ample and ongoing evidence of the destructive nature of the palm oil industry and the irresponsible practices of specific growers and traders in which they may be invested, only one U.S. bank considers palm oil a 'high-risk' sector, and none of the top U.S. investment firms have clear policies to prevent investments in deforestation and land grabbing. Absent any guidance from government regulators, or from financiers' own internal policies, this investment has enabled a surge of palm oil expansion across the tropics, destroying habitats and fueling conflict.

Global agencies and academics are increasingly in agreement that private finance is a key driver of deforestation and human rights abuse;[7] even the Organization for Economic Cooperation and Development – a group of the world's largest economic powers – has agreed that financiers are "directly linked" to the human rights and environmental impacts caused by their financing, regardless of the size of their investment – and therefore bear responsibility for resolving them.[8]

Business and human rights

The Universal Declaration of Human Rights clearly states that "every organ of society" has human rights obligations. This includes business enterprises and therefore investment firms. The UN Guiding Principles on Business and Human Rights (Guiding Principles) were adopted by the UN Human Rights Council on 2011 to provide a framework for private companies, including financial firms, to safeguard human rights. This is expressed in the three pillars, protect, respect and remedy: the state has a duty to **protect** against human rights abuses; businesses have a responsibility to **respect** human rights, and victims of human rights abuses have the right to effective **remedy**.

The Guiding Principles provide a blueprint for companies to demonstrate respect for human rights and minimize the risk of harm to people, and to assess business respect for human rights. The Guiding Principles are endorsed by the United States, which cosponsored the Human Rights Council resolution that approved the Guiding Principles and has vowed to support their implementation.[9] There is no law requiring investment firms to disclose their social and environmental impacts. Unlike for some industries in which third-party certification processes exist to monitor the respect for certain standards by companies that claim to follow, say, fair labor or sustainable production standards through their supply chain, no such mechanism exists for financial firms. The firms that do have social and environmental policies tend to tailor them to meet the interests of their audiences and investors.

Who are the U.S. financiers of palm oil?

In 2014, Friends of the Earth reviewed the ESG policies of the top U.S. investors in palm oil. We contacted each of the firms, but none responded – so the information below is based on publicly available information. It is noteworthy that some of these firms do have explicit ESG policies, and some claim to take ESG issues into account in their investment analysis. But when it comes to explicit policies governing their investments in palm oil, they all come up short.

Among the largest financiers of palm oil in the U.S. are the asset management arm of JPMorgan Chase, the pension funds CalPERS and TIAA-CREF, and mutual fund managers Vanguard, Van Eck, Fidelity and Dimensional Fund Advisors. While some of these financial institutions have public commitments to take into account environmental, social and governance concerns, they all have significant gaps in their policies and practices regarding investments that impact land, forests, and human rights. These gaps mean, from the side of communities and the planet, they may continue assaulting forests and land rights now and into the future; from the side of the institutions themselves, this means they continue to be exposed to reputational, legal, financial and environmental, social and governance risks.

What do financiers need to do?

Despite widespread agreement on the socio-environmental impacts of the palm oil industry, it has proven difficult to get its financiers to take decisive action. Many financiers in the U.S. have relatively small investments in palm oil compared to their overall financial holdings; such relatively small stakes, combined with the long distance in the "investment chain"[10] between the investor and the impacted lands and communities, shield investors from risk, and, indeed, from any awareness of the social and ethical impacts of their investments. But, as key drivers of these impacts, investors need to take responsibility, through policy commitments, transparency and accountability.

In order to address the ills of the palm oil sector, financiers, including investors and banks, need to:

1. **Disclose** their exposure to deforestation and land risk in palm oil and other soft commodities.
2. **Commit** to a deforestation and landgrab-free investment policy.
3. **Exclude** bad actors and **advocate** for responsible financing.
4. **Repair the damage** and **ensure justice** for affected communities through accountability processes, and support companies that restore ecological damage as part of their commitment to forests.

Top U.S. Financiers of Palm Oil

Current ranking among U.S. equity investors with stocks in palm oil production, by dollar amount invested*

1 BlackRock $8.73 billion

No explicit commitment to preventing deforestation or land grabbing.

BlackRock's professes adherence to a particular vision of ESG, but has no public position on palm oil, forests, land grabs or human rights.[xxxix]

2 Vanguard $2.88 billion

No explicit commitment to preventing deforestation or land grabbing.

Vanguard has no publicly available ESG policies, and no public position on palm oil, forests, land grabs or human rights.

3 J.P.Morgan Asset Management $581.17 million

No explicit commitment to preventing deforestation or land grabbing.

JP Morgan Chase has a reasonably strong Environmental and Social Risk Management policy for its commercial and investment banking, which recognizes palm oil as a high risk sector; but no such policy guides its asset management.

4 Fidelity Investments $538.40 million

No explicit commitment to preventing deforestation or land grabbing.

Fidelity Investments has no publicly available ESG policies, and no public position on palm oil, forests, land grabs or human rights.

5 TIAA CREF $433.65 million

No explicit commitment to preventing deforestation or land grabbing.

TIAA-CREF has public commitments to ESG, but no public position on palm oil, forests, land grabs or human rights.[xl]

6 Northern Cross $410 million

No explicit commitment to preventing deforestation or land grabbing.

Northern Cross has no publicly available ESG policies, and no public position on palm oil, forests, land grabs or human rights.

7 Dimensional (Dimensional Fund Advisors Ltd.) $369.26 million

No explicit commitment to preventing deforestation or land grabbing.

Dimensional Fund Advisors has no publicly available ESG policies, and no public position on palm oil, forests, landgrabs or human rights.

8 CalPERS $106.90 million

No explicit commitment to preventing deforestation or land grabbing.

CalPERS is proud of its sustainable investment approach, but it has no public position on palm oil, forests, land grabs or human rights. [xli]

9 VanEck $56.15 million

No explicit commitment to preventing deforestation or land grabbing.

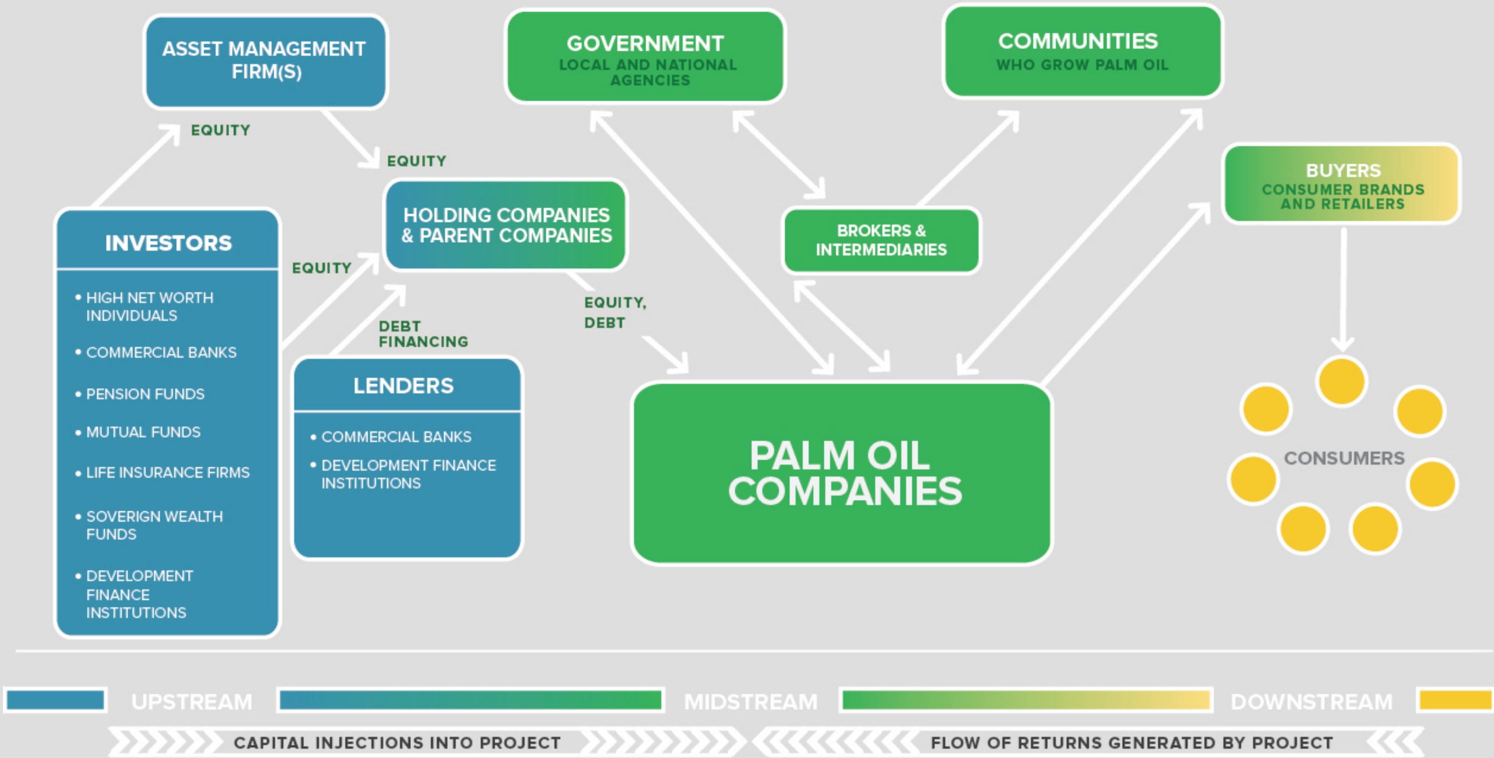
Van Eck has no publicly available ESG policies, and no public position on palm oil, forests, land grabs or human rights.

10 Prudential $52.11 million

No explicit commitment to preventing deforestation or land grabbing.

No explicit commitment on palm oil, forests, or human rights.

*Based on financial data from Q4 2015



Graphic adapted from *Understanding agricultural investment chains: Lessons to improve governance*, Lorenzo Cotula and Emma Blackmore, 2014.

Greater transparency, through appropriate **disclosure**, is necessary to ensure that communities and civil society groups know who is financing operations on their land. Without a minimum level of transparency that reveals which companies – including investment firms – are connected to forestry and agriculture activities in their area, communities have no capacity to hold companies accountable to their policy commitments.

Disclosure is one aspect of broader ESG **commitments** investors need to make to show that they have zero-tolerance for land-grabbing and deforestation.

Such commitments, if taken seriously, will inevitably lead investors to **exclude** certain companies from their portfolios. While U.S. investment firms tend to shun the notion of exclusion lists, and to see divestment as nearly unthinkable, exclusion of bad actors is a crucial element of a firm's ESG commitment, providing a real incentive for market transformation. Far and away the leading example of this approach is the $880 billion USD Norwegian Sovereign Wealth Fund,[11] which has excluded dozens of palm oil companies from its portfolio, most recently in mid-2015.[12]

Policies also need to include consideration for **repair** of social harm through robust and independent accountability processes and of ecological damage by ensuring that companies are held responsible for restoration of damaged lands. Without appropriate grievance and redress mechanisms, policies fail to serve their function to mitigate social, environmental, material and reputational risks. Investment firms should understand and actively support the development of grievance mechanisms and processes for redress under the United Nations Guiding Principles on Business and Human Rights. This means that any company working in high-risk forest areas and territories claimed by local communities should adopt clearly articulated, time-bound and documented processes for responding to community complaints, including land-related issues. These processes should include mutually agreed upon grievance mechanisms, a capacity to directly support access to remedy or other forms of redress, and independent third party environmental, social and human rights assessments.

Endnotes

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8. http://www.bsr.org/en/our-insights/blog-view/what-the-oecd-guidelines-mean-for-investors (accessed September 3, 2015)
9. See US Department of State 2013 (Stating among other things that "The U.S. government takes seriously the state duty to protect human rights set forth in the first pillar of the Guiding Principles.")
10. Lorenzo Cotula and Emma Blackmore. Understanding agricultural investment chai ns: Lessons to improve governance. International Institute for Environment and Development (IIED). At: http://pubs.iied.org/pdfs/12574IIED.pdf? (accessed September 2015)
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