



ASD

ACTION FOR SUSTAINABLE DERIVATIVES



Annual Update on Progress

NOVEMBER 2021

Preparing for Action on Palm Derivatives



www.sustainablederivatives.org

Summary

Action for Sustainable Derivatives (ASD) is an industry-led collaboration aimed at achieving responsible production and sourcing of palm oil derivatives

In its second year (2020-2021), ASD has leveraged its foundational work to build maturity and further establish the role of the derivatives market in addressing environmental and social issues of palm production.

ASD has again proven that a centralized, collective approach to supply chain mapping is an efficient and effective way to gain visibility of the risks and opportunities in palm production for oleochemical manufacturers and corporate end-users of derivatives. The initiative has built momentum for action with growing membership and coverage of the derivatives market, and the development of a framework for collective action to engage the supply chain and drive sustainability impact on-the-ground.

As ASD moves into its third year of operation with 23+ members, representing approximately **one million tons of palm derivatives**, the initiative plans to deploy joint actions to further progress the market towards responsible and sourcing of palm oil derivatives.

In Year 2, ASD has mapped nearly double the volume covered in its first year, and transparency results for the entire ASD membership have significantly improved, including an achievement of 86% transparency to mills. Results confirm similarities in the supply base, with 78% of all mills identified present in all ASD companies' supply chains.

ASD has further developed and built on its common understanding and prioritization of environmental and social risks in its supply base. ASD continues to refine its methodologies and tools and develop management approaches that are specifically tailored to the complex challenges of the derivatives sector.

The supply chain is fragmented, and derivative users are often multiple processing steps away from production areas. Volumes purchased are relatively small, leaving individual buyers with limited leverage over the activities and performance of palm players. ASD is supporting companies to be aligned in their approach, creating a unified voice of influence and a platform for collective action in collaboration with wider sustainable palm initiatives.

This Annual Update on Progress provides details on ASD's progress, including the following milestones:

- **Individual & collective transparency to source** for its member companies
- **Prioritization of supply chain players** and production hotspots for collective engagement
- **Collective No Deforestation, No Peat, No Exploitation (NDPE) guidance** for members to develop and support their own policies
- **Grievance management and support** over systemic challenges in the complex palm oil supply chain
- **A defined plan to support impact projects on the ground** in priority landscapes, including the launch of the first on-the-ground project and preparation of a new Impact Fund
- **Extending ASD's scope of work** with the development of a pilot project on coconut derivatives

This report further outlines how ASD is gearing itself to take further action in Year 3. ASD invites new companies to join us and interested stakeholders to co-build and co-implement solutions with us.

For more information, or to join ASD, please contact Ariane Denis, ariane.denis@transitions-dd.com or Edwina McKechnie, emckechnie@bsr.org.

825K tons of palm-based materials mapped

10-20% of palm kernel oil-based oleochemicals markets

2020 2021

18 **23** ASD members

¹ Segmentation: 65% palm kernel oil, 35% palm oil

² Based on 2019 volumes: 90% transparency to refineries, 81% to mills



Recognition and partnerships

ASD has been recognized for our achievements so far, including winning the Partnerships Category of the **ICIS World Surfactants Awards** in May 2021.

ASD recognizes the significant work of stakeholders active in the sustainable palm production sector, particularly upstream, and the opportunity to align with and leverage these practices through collaboration, rather than duplicating efforts.

ASD overview

Action for Sustainable Derivatives (ASD) was launched in late 2019 to bring together companies in the cosmetics, home, health and personal care, and oleochemicals industries to collectively address key environmental and social challenges in palm oil and palm kernel oil derivatives (palm derivatives) supply chains.

ASD's vision is to achieve and promote palm derivatives sourcing that is free from deforestation, respects human rights, and supports local livelihoods. ASD pursues this vision through three workstreams that make up ASD's mission:



Transparency and monitoring

Increasing transparency and establishing a common framework to **focus efforts** and **proactively monitor risks** along the global derivatives supply chain



Supply and market transformation

Building a roadmap towards change through **joint efforts** to drive **market transformation** and **supply chain alignment on NDPE principles**



Positive impact

Generating positive **impact on the ground** in priority production landscapes

During the first two years of its journey, ASD is proud to have made significant strides in laying the groundwork that will enable the initiative to take further action towards its vision, through its defined impact-oriented approach.



Transparency & Monitoring

Collective transparency and risk monitoring: Significant progress

Transparency is increasingly a global expectation. Disruptions to global supply chains, as a result of COVID-19, have heightened the need for better transparency and assessment of risk to build future resilience.

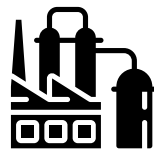
In its first year of operation, ASD successfully completed the major undertaking of reaching transparency to source collectively for the annual purchase volumes of members. This is a significant achievement given that the supply chain is long and ramified, with many processing steps and fragmented players at each of these steps. Generally four to ten intermediaries stand between end users and the mills in the field. Spot sourcing practices and trading add even more opacity to the process. End users often have limited to no information on the mills and plantations where their palm derivatives are coming from, and mapping their supply chains would be highly resource intensive.

In its second annual transparency investigation, ASD is proud to announce a large increase in the scope of its investigation, achieving:

- Collective transparency to source for **825,000 tons** of palm-based materials – **almost double the volume covered in year one**.³
- This represents **~1%** of the global palm production, **~8-10%** of the global palm-based oleochemicals market (in terms of volumes), and **~10-20%** of the palm kernel oil-based oleochemicals market.
- This total volume was sourced from **2,003 mills**, identified as potentially linked to ASD members' collective supply chains.
- Results confirm similarities in the supply base of members for a second year, with **1,570 mills** (78% of all mills) identified as present in all ASD members' supply chains, and 823 mills – representing 80% of total ASD member volumes.⁴

ASD contacted 230 suppliers and distributors, including 183 direct suppliers of which more than 150 were responsive and transparent, and investigated more than 700 palm-based ingredients. This work achieved:

- **90% transparency to refineries and crushing facilities** for collective volumes;
- **86% transparency to mills** – up from 81% in last year's palm transparency investigation; and
- **36% transparency to plantations** – up from 19% in last year's investigation and compared to a historical sector average of 1-25%.



Refineries and crushing facilities

90%



Mills

86%



Plantations

36%

ASD has also provided individual company supply chain mapping reports.

Transparency learnings and next steps

Transparency achievements were, in part, enabled by the trust and maturity built in the supply chain by ASD with derivative users and their suppliers to scale ASD's traceability model. It is also a result of the work done and trust gained since 2014 through transparency investigations carried out by Transitions for L'Oréal and other members. Suppliers newer to the process have noted the benefits of a harmonized request, streamlined process, and centralized organization from ASD, in comparison to the often fragmented and varying requests and enquiries from clients.

ASD has further improved transparency results by leveraging learnings from the first year of collective supply chain mapping. ASD has taken a targeted approach with suppliers and key markets via webinars and one-to-one engagements to clarify, align and raise awareness on the ASD transparency requirements.

³ Segmentation: 65% palm kernel oil, 35% palm oil.

⁴ Total volume of palm-based materials mapped was sourced from 2,003 mills. 823 of these represent 80% of traceable volumes – 234 of which represent an additional 10% of traceable volumes (medium probability of actual connection with the supply chain); 946 of which represent the last 10% of traceable volumes (low probability of actual connection with the supply chain). 1,570 (78%) of the total 2,003 mills were common to all ASD members.



Transparency & Monitoring

230 Suppliers and distributors

700 ingredients investigated

transparency average was between 1-25%. This is notably due to an increased level of engagement from producer groups on this topic.

The next annual supply chain mapping investigation will commence in December 2021 for all ASD members and will be based on 2021 purchased volumes. As the ASD membership grows, so too does its scope of coverage of the global oleochemicals market, moving towards a sector norm for harmonized, collective transparency.

Identifying priorities

With an aggregated and anonymized collective sourcing list, ASD has overlaid existing environmental and social risk data and assessment methodologies to determine collective risk hotspots. Each ASD member also receives an individual report detailing the relative weighting of its own confidential supply base to risk, at both the geographic and facility level (e.g. refineries, crushers, producer groups).

From a collective standpoint, ASD has been able to provide two outputs to inform its strategic framework for action:

- Identification of priority supply chain players (refineries, crushers, and producer groups) to focus **engagement** efforts to improve practices (*see page 6*); and
- Identification of priority landscapes to focus **investment on field projects** addressing underlying issues influencing responsible practices (*see page 7*).

ASD members continue to engage and align with existing initiatives such as the NDPE Implementation Reporting Framework (IRF) to consolidate compliance profiles of refineries and crushers. While ASD's various layers of risk assessment constitute a first step for prioritizing and focusing efforts, in its third year ASD will also be trialing tools that can enhance this effort with more proactive monitoring of grievances and alerts on an on-going basis.



The lack of full 100% transparency to refineries in year 2 results is due to the volumes linked to non-respondent suppliers and volumes out of scope of the investigation (4%). These are volumes that were not covered by the investigation because they are fragmented over many small suppliers. The lack of 100% transparency to mills is explained by the use of spot trading and shadow sourcing practices, still common among large players.

Transparency to plantations, however, showed a considerable increase from previous years where the sector



Supply & Market Transformation

Supplier engagement: Shifting to action

ASD has made strides to equip members to manage risk and engage the supply chain, both bilaterally and as a collective group. ASD has developed **NDPE Policy Guidance** for derivatives users, leveraging the Accountability Framework, to support members in progressing their own, aligned policies. This coming year there will be further efforts to cascade those policies in supply chains, identifying tactics to support progress on NDPE with prioritized supply chain players.

For the second year, select ASD members engaged 89 direct suppliers through the **Sustainable Palm Index (SPI)** evaluation of direct suppliers' performance on achievements and commitments to progress sustainable procurement practices. The SPI consists of an evaluation scorecard for the different actors of the palm oil and palm kernel oil derivatives supply chain, to inform action plans with suppliers and form the basis of further engagement over the coming year.

In collaboration with Chanel Fragrance & Beauty, L'Oréal, RSPO & JASPON and WWF Japan, ASD held a supplier workshop in Japan to engage with key players on ASD's transparency and mapping approach and build stronger relationships with suppliers in this region. This led to significant improvements in supplier participation and transparency results in Japan. ASD plans to carry out similar engagements in key markets such as China and North America in 2022 to further improve transparency levels, build relationships, and communicate expectations around responsible practices and NDPE policies.

ASD will continue to identify opportunities for collaboration with wider initiatives and downstream users of palm, adding a unified voice of the derivatives sector to engagements aimed at improving conditions all along the derivatives supply chain.

Grievance management

This past year saw continued reports of grievances in palm production, including an Associated Press report on gender-based violence and associated US Customs and Border Protection Withhold Release Orders on palm imports. ASD takes these issues very seriously and in response issued a collective statement on human rights articulating its roadmap to proactively address these issues.

ASD members are often multiple supply chain tiers away from grievances in palm production, but are essentially linked to almost every mill and, thus, any relevant



89 suppliers
assessed
by SPI

grievances. Understanding and acting on grievances therefore remains challenging. Prioritizing and focusing on where members can collectively have the most influence and impact is crucial.

To streamline this process moving forward, ASD has developed a **grievance prioritization methodology** based on severity, connection to ASD supply chain and exposure. This methodology, which will be reviewed by external independent experts, will be applied to a comprehensive list of grievances, resulting in a focused list of high priority grievances to engage on.

To prepare for action, ASD launched the **Grievance Taskforce**, a member-led group to review priority grievances, identify and activate collective action and monitor performance on an on-going basis, in compliance with Anti-Trust regulations. This coming year, with the support of the Grievance Taskforce, ASD will develop a grievance response management guidance with the actions companies could take, individually and collectively, to properly respond to grievances.



Positive Impact

Positive impact on the ground: Beyond risk mitigation

ASD has identified **14 priority landscapes** in the catchment area of priority mills (see graphic below), with high collective ASD volumes and valuable natural ecosystems. ASD is preparing to jointly support positive impact in these priority landscapes, going beyond risk mitigation and reducing footprints, working as a lever for positive change. ASD will do so through its support of existing projects on-the-ground.

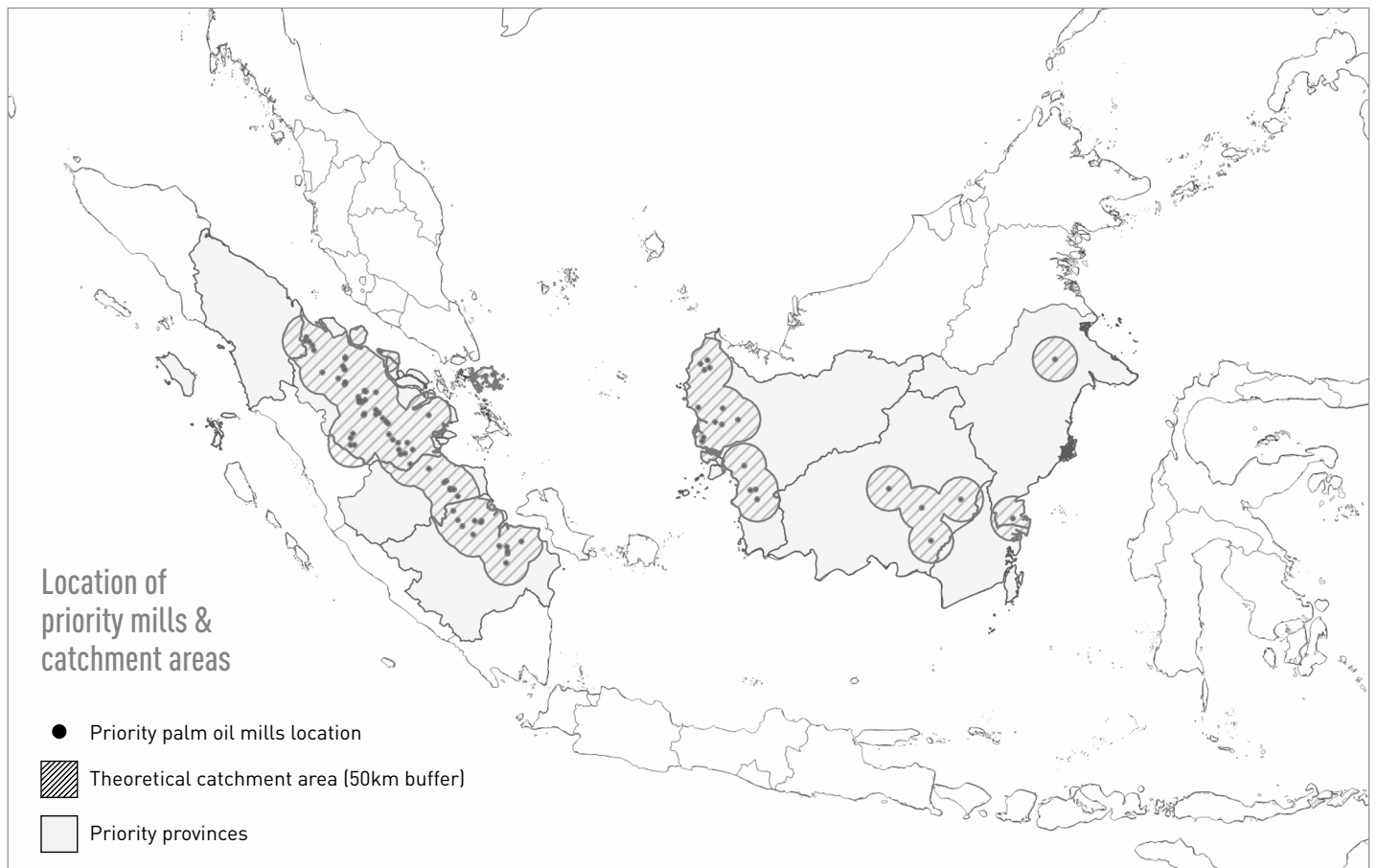
ASD carried out an extensive mapping of more than 100 projects in Indonesia and Malaysia, and prioritized these based on an agreed set of criteria: location relevancy; multi-stakeholder governance; integrated approach; project needs, impact and scale-up potential. This resulted in the identification of a number of priority projects which ASD members are interested in supporting.

With support from The Estée Lauder Companies Charitable Foundation, ASD has supported the Inobu Mosaik Initiative, a sustainable landscapes project focused on community-based restoration, fire-free agricultural livelihood

14 priority landscapes identified

development, and RSPO certification of smallholder farmers in Central Kalimantan, Indonesia. The project has helped to progress the development of ASD's approach to collectively supporting impact on-the-ground.

Another large undertaking this past year was the exploration of options for a vehicle through which ASD would manage, govern, and distribute collective resources to address issues of responsible and inclusive production on the ground through a pooled funding approach. Further details of this will be made available next year.





About ASD

ASD is a collaborative initiative co-managed and co-facilitated by **BSR** and **Transitions**, two organizations with extensive experience and expertise in supply chain sustainability and business collaborations. It is a sector-wide initiative that brings together companies in the cosmetics, home, health and personal care, and oleochemicals industries to collectively tackle supply chain issues around palm derivatives.

ASD facilitates the sharing of information, data, constraints, and solutions to accelerate wholesale transformation of the palm derivatives sector. ASD also acts as an operational platform providing tools, methodologies, and concrete opportunities for its members to partner on specific topics. ASD's activities are rooted in its impact vision, mission, and strategic framework.

Founding concept and collective approach

The production and distribution of palm oil present significant environmental and social challenges. Corporate users of palm and palm kernel oil-based derivatives are seeking solutions to gain visibility over and accelerate the compliance of their upstream supply chains with deforestation-free and responsible sourcing principles.

However, the complexities of the palm derivatives supply chain, and the limited leverage of downstream users with relatively small purchasing volumes compared to other sectors, present significant barriers to progress. The overlapping bilateral approaches of downstream users

lead to significant duplication of efforts, which are often resource-intensive and prohibitive for smaller players. Transparency to source has therefore historically been limited, and the significant collective influence of the palm derivatives sector is yet to be fully utilized.

ASD members work together to harmonize approaches, standardize tools and methodologies, and mutualize efforts, recognizing that this collective approach creates efficiencies and redirects resources from supply chain mapping to environmental and social impact. Taking a sectoral approach allows for economies of scale, participation of smaller derivatives sector players, and an aligned derivatives sector voice in the supply chain.



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ASD

ACTION FOR SUSTAINABLE DERIVATIVES

Get involved

ASD is excited and motivated by its progress to date, as the collaboration moves from building momentum to taking collective, pre-competitive action to address complex challenges together.

ASD's ultimate goals rely on comprehensive sector-level participation and industry collaboration. We therefore invite new companies to join us and interested stakeholders to co-build and co-implement solutions with us.

For more information or to join ASD, please contact Ariane Denis, ariane.denis@transitions-dd.com or Edwina McKechnie, emckechnie@bsr.org.

Participating companies

