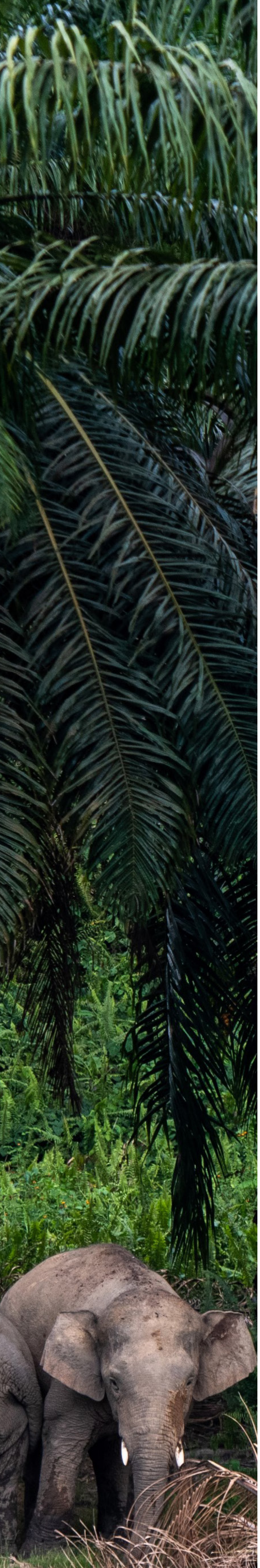


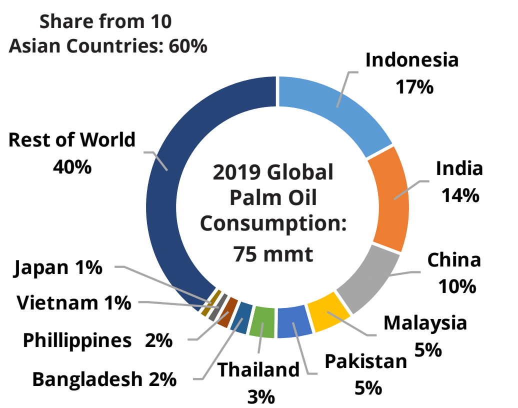
Commodity Market Intelligence Update No. 6

Asia's Consumer Goods Sector:

The Missing Link in Sustainable Palm Oil Demand

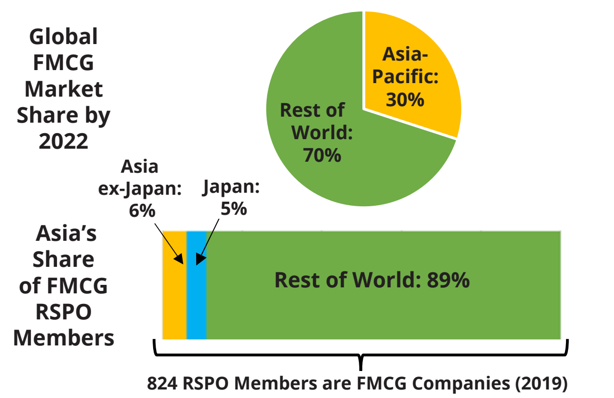
With global demand for palm oil set to double by 2050, Asia will continue to lead the world as both the largest palm oil producing and consuming region. Last year, ten Asian countries, including major producers Indonesia and Malaysia, consumed 60% the world's palm oil (Figure 1), and this share is set to grow. With nearly 90% of the next billion people entering the middle class projected to be in Asia, the region's growing demand for consumer goods will put strong pressure on palm oil production. Based on public disclosures of Asia's largest consumer goods manufacturers for which palm oil is a key raw material, few are taking steps to mitigate deforestation risks in their supply chains. Unless steps are taken to improve palm oil sourcing practices of Asia's manufacturers and retailers, the region's growth story could exacerbate already pressing environmental challenges along palm oil supply chains.

Figure 1
Global Palm Oil Consumption By Country



60% of all palm oil is consumed in Asia, with Indonesia and Malaysia producing 85% of global supply. Growing demand for palm oil has fed unsustainable production practices in producing countries, including deforestation and degradation of natural habitats, carbon emissions, and transboundary haze. Source: USDA, January 2020.

Figure 2
Asia's FMCG Market Share and RSPO Membership



Asia's FMCG sector (which is expected to have a 30% global market share by 2022) is underrepresented in the Roundtable on Sustainable Palm Oil. The RSPO develops and implements global standards for sustainable palm oil including eliminating deforestation and conversion of natural ecosystems from palm oil supply chains. Source: Accenture, RSPO.

A versatile vegetable oil, palm oil is widely used in fast-moving consumer goods (FMCG), including packaged foods, spreads, cooking oils, and personal care products. Asia is home to hundreds of FMCG companies who are both active in palm oil supply chains and, when publicly listed, able to be influenced by their investors. With lower levels of transparency and disclosure than their European and North American peers, and lower representation in the RSPO (Figure 2), Asia's growing FMCG sector may be contributing to demand for palm oil that is not produced sustainably.

Investor engagement with Asia's consumer goods manufacturers can help drive a shift to more sustainable practices. Globally, pressure is mounting on investors to align their portfolios with the goals of the Paris Agreement, including in climate-sensitive sectors like food and agriculture. A sample of 75 Asian consumer goods companies across 11 countries (Figure 3) shows 85% are publicly traded (and open to influence from their investors), and 60% are headquartered in countries important to palm oil production and demand. Further analysis of 29 of these companies (Figure 4), selected for their likelihood of being large buyers of palm oil, reveals that only 10 companies monitor their suppliers' environmental performance, 9 have commitments to source 100% sustainable palm oil, and just 6 have no-deforestation commitments.

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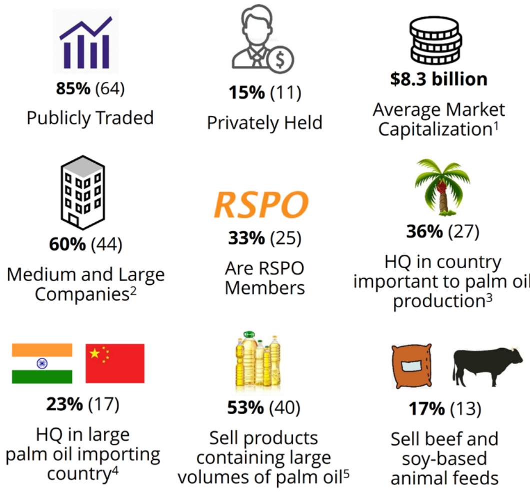
February 2020

Figure 3
Profile of Asia's Consumer Goods Manufacturers



Source: Bloomberg, RSPO, and author's calculations. 75 companies from CHN, IND, IDN, JPN, MYS, PHL, SGP, KOR, TWN, THA, VNM 1) See definition in Figure 4 caption. 2) Market Cap>$2 billion USD 3) IND, MYS, SGP 4) IND, CHN 5) Cooking oil, instant noodles, & snack foods

Figure 4
Large Asian Consumer Goods Manufacturers Sourcing Palm Oil

Country	Company	Market Cap (Billion USD)	Headquarters
China	Yili Industrial Group	24.4	Hohhot
	Dali Foods	9.2	Quanzhou
	Tingyi Holding Corp	7.5	Tianjin
India	ITC Ltd.	42.1	Kolkata
	Britannia Industries Ltd	10.5	Bengaluru
Indonesia	Indofood	4.8	Jakarta
	Mayora Indah	3.5	Jakarta
Japan	Ajinomoto Co Ltd*	10.1	Tokyo
	Yamazaki Baking Co Ltd	3.9	Tokyo
Malaysia	PPB Group	6.1	Kuala Lumpur
Philippines	San Miguel Food & Beverage	10.3	Pasig City
	Universal Robina Corp	6.8	Pasig City
Thailand	Charoen Pokphand Foods*	7.5	Bangkok
	Thai President Foods Ltd	1.9	Bangkok

*Subset of 29 public Asian manufacturers likely to have large footprints in palm oil that WWF's Asia Sustainable Finance team has found are ideal for investor engagement. Source: WWF, Bloomberg. Market Cap is a measure of a company's size, given by the total value of its stock. *RSPO member.*

This suggests an urgent need for Asia's consumer goods manufacturers to define expectations for the management of environmental issues across their supply chain, ensure they are ambitious enough to eliminate deforestation, and disclose progress in meeting these commitments. Investors in Asia's consumer goods manufacturers can push for a more sustainable palm oil industry by engaging their portfolio companies on:

- Joining and actively participating in RSPO and the Consumer Goods Forum
- Improving transparency by disclosing against CDP's forest program disclosure framework
- Disclosing progress on sourcing only RSPO-certified and NDPE* compliant palm oil
- Measuring and disclosing key metrics to track progress toward zero deforestation and conversion

**No Deforestation, No Peat, No Exploitation*

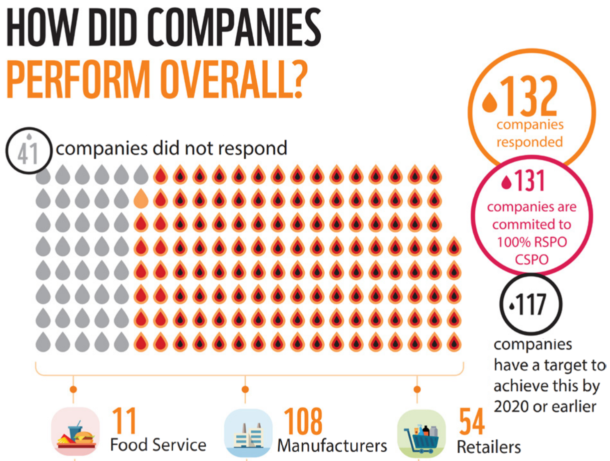
Key Companies Update (all commodities)

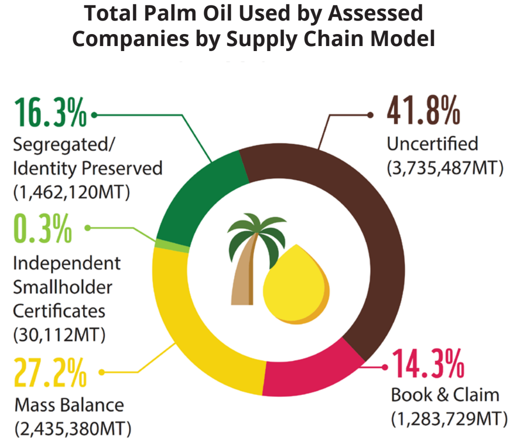
China's ongoing outbreak of African swine fever (ASF), which cut production of the country's most consumed meat by over 20% in 2019, as well as food safety concerns from coronavirus, are providing expansion opportunities for Brazilian beef producers as China seeks alternative animal proteins. China's imports of Brazilian beef rose 53% in 2019 (to 494,000 tonnes) compared with the previous year as the number of Brazilian facilities cleared to export beef to China more than doubled to 37. Supported by higher export demand, JBS, Brazil's largest beef exporter, has signed an agreement with WH Group, a large retailer and food producer with 33 factories in China, to supply over $700 million of meat products a year to the Chinese market. Currently, 28% of JBS' export revenue is from China. Minerva, Brazil's second largest beef exporter who earned 27% of its export revenue from China in 2019, plans to raise $327 million to potentially finance expansion of its Latin American operations. To provide insight into the dynamics of Brazil's cattle sector, Trase has mapped the location of 7,671 processing plants in Brazil, including those owned by JBS, Minerva, and Marfrig, its three largest meatpackers.

Global commodities trader Archer Daniels Midland (ADM) has sold its palm oil business in Brazil to Reflorestadora Moju Acará, a local company with 9,000 hectares of oil palm planted in the Brazilian state of Parà. ADM manages 14 oil palm plantations in Parà, totaling 7,400 hectares. While ADM will no longer grow oil palms, the company remains active in Brazilian soy, corn, wheat, and cotton, and will continue to process and sell palm oil globally. ADM has a No Deforestation, No Peat, No Exploitation (NDPE) policy, but does not disclose the volume of palm oil it trades, and less than 20% of its palm oil is traceable to the plantation.

Launched: Palm Oil Buyers Scorecard

WWF's Palm Oil Buyers Scorecard, launched in January 2020, examines 173 major companies across 19 countries, assessing what global brands are doing both within and beyond their supply chains to reduce the adverse impacts of sourcing unsustainable palm oil from vulnerable tropical ecosystems.

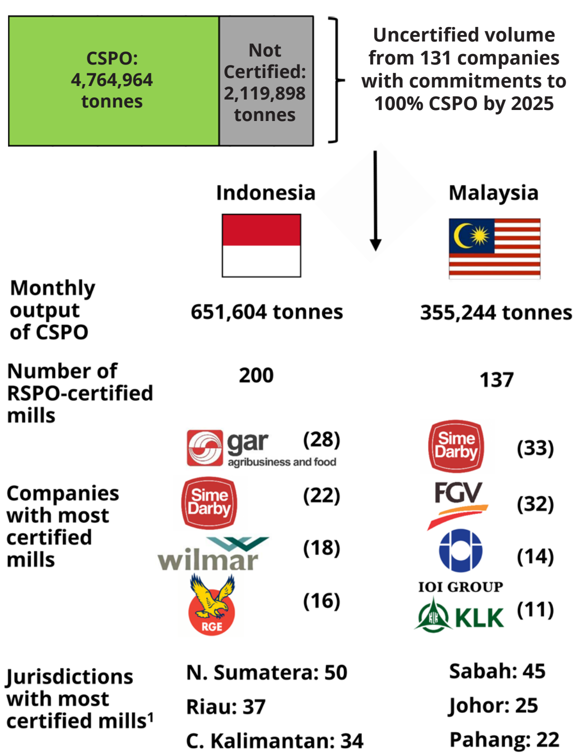


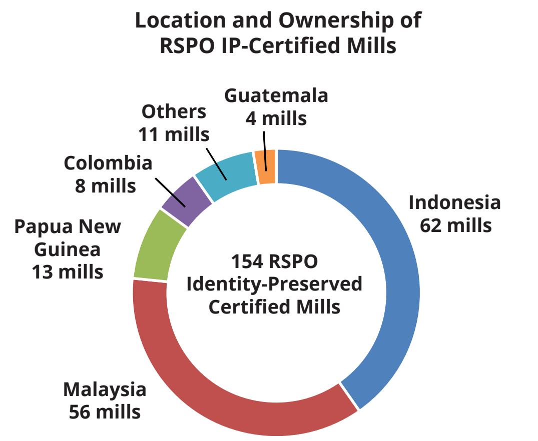


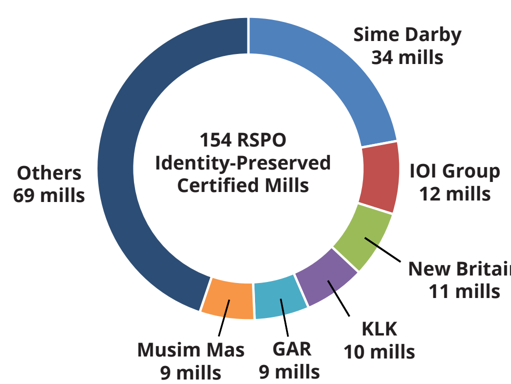
Source: WWF Palm Oil Buyers Scorecard. MT is metric tonnes. See here for more information on RSPO supply chain models.

Closing the Uncertified Gap

The scorecard reveals that, of 117 companies who've committed to source 100% certified sustainable palm oil (CSPO) by 2020, just over half are achieving this goal. An additional 14 companies have commitments to source 100% CSPO by 2025 and still need to make progress. The annual volume of palm oil purchased by these 131 committed companies that is still uncertified totals over 2 million tonnes. Companies can fulfill their pledge by sourcing from 414 RSPO-certified mills in 26 countries and ensure their supply chain is deforestation-free by purchasing only Segregated and Identity-Preserved palm oil.







Source: WWF Palm Oil Buyers Scorecard, Universal Mill List.
Note: Globally, 414 RSPO-certified mills produce 1.2 million tonnes of CSPO per month. New Britain is a subsidiary of Sime Darby Plantation.
1) The seven companies shown operate 102 RSPO-certified mills in these six Indonesian and Malaysian jurisdictions, which account for 30% of all RSPO-certified mills in Indonesia and Malaysia.

Commodity Market Intelligence Updates examine trends and emerging issues in forest-risk agricultural commodity supply chains. For more information, contact Owen Hauck at owen.hauck@wwfus.org.