

## EdenTree SRI Expert Briefing – April 2016

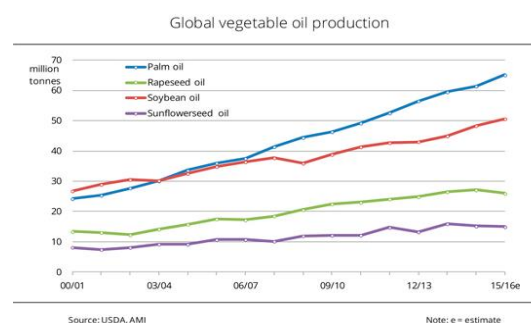
# Palm Oil: The Issues for Responsible Investors

### **Q. What is Palm Oil and how is it derived?**

**A.** Palm Oil is a plantation crop extracted from the pulp of the oil palm. A versatile vegetable oil, it can only be grown in the tropical areas of Asia, Africa and South America in a narrow band around the Equator. However, nearly 90% of production comes from just two countries: Indonesia and Malaysia<sup>1</sup>. Smaller harvests come from Thailand, Colombia, Nigeria, Papua New Guinea and Ecuador. Around 140 oil palms can be grown per hectare, with fruit first harvested after three years of growth<sup>2</sup>. Peak production is between seven and 18 years after which yield declines. Owing to its versatility, high yield and relative cheapness, demand has soared in recent years. Since 1980, palm oil production has increased tenfold with an estimated 13-14m hectares now committed to Palm, producing around 56.2m tonnes of Palm Oil in 2013<sup>3</sup>. By comparison, the second largest global vegetable oil, soya, accounts for 110m hectares, but produces far less in volume terms at around 42.5m tonnes of soya oil<sup>4</sup>.



The fruit of the Oil Palm



Palm Oil is one of 17 major oils and fats produced globally and accounts for around a third of global vegetable oil demand, with soya at around 26%<sup>5</sup>. As the graph suggests, Palm's trajectory is towards production of nearly 70m tonnes by the end of 2016<sup>6</sup>.

### **Q. How is Palm Oil used?**

**A.** Palm Oil is among the most versatile of vegetable oils; semi-solid at room temperature, the oil is to be found in approximately 50% of food and non-food products sold in high-street supermarkets. In particular Palm can be found in personal care products and cosmetics (shampoo, soap, makeup etc.) in confectionary snacks, ice cream, margarine and spreads, animal feed, pharmaceuticals, and industrial applications such as greases, lubricants and candles. Its long-lasting properties make Palm particularly suitable as a frying fat in hot climates. Palm accounts for around 35% of the world's vegetable oil market and is a more affordable staple in poorer economies<sup>7</sup>.

### **Q. How does Palm compare in terms of yield?**

**A.** Palm can be harvested all year round, with trees yielding on average 10 tonnes of fruit per hectare or 3.74 tonnes of oil, far higher than alternative crops such as corn, soya, rape-seed, or sunflower<sup>8</sup>. This means substantially higher yield is obtained from less land than equivalent alternatives. In addition to oil, the Palm tree yields palm kernel and expeller (cake) which can be used in applications such as bio-fuel and animal feed.

### **Q. What is Palm's nutritional value?**

**A.** Palm Oil's primary use is in food preparation and as an ingredient. Palm Oil is among the richest known sources of Vitamin E (natural tocotrienols) which helps lower 'bad cholesterol' levels. Palm is also high in natural Vitamin A (carotenoids) that stimulates the immune system. Mildly refined Palm Oil (red palm) has up to 17 times more carotenoids than carrots. Palm Oil is cholesterol and trans-fat free<sup>9</sup>.

### **Q. Why is demand for Palm Oil increasing?**

**A.** Over 85% of Palm Oil is consumed in the developing world. Its versatility as a cheap frying fat has seen consumer demand soar. India and Indonesia consume 16.2m tonnes of Palm Oil annually or nearly 30% of the annual crop. The EU block is the third largest consumer at 6.6m tonnes where it is mainly used as a food and

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household product ingredient<sup>10</sup>. Demand is being driven by an increasing population, a growing global middle-class, its extensive use in edible and non-edible applications in developed markets, and as a versatile feedstock for biodiesel production. Demand last matched supply in 2010-11, since which time, growth has comfortably outstripped supply.

### **Q. How can supply be increased?**

**A.** Once mature, there is very little change in yield from a palm plantation; production can only be increased by committing more land to palm oil use.

### **Q. Where is the extra land coming from?**

**A.** Given palm is a tropical crop requiring specific growing conditions, production is centred on a very few countries with Indonesia and Malaysia accounting for 85% of world palm production. Indonesian growth has been particularly strong, with production increasing from 12m tonnes in 2003/04 to 33m tonnes in 2015 and overtaking Malaysia to become the world's largest producer<sup>11</sup>. Malaysian production grew more modestly, from 13.4m tonnes in 2003/04 to 20.5m in 2015<sup>12</sup>. Of 27 Palm producing countries measured by the US Department of Agriculture (2015), none show any potential for matching Indonesia and Malaysia in terms of volume. Thailand, Colombia and Nigeria, the next three largest Palm nations, produced just 4.3m tonnes between them in 2015<sup>13</sup>.

### **Q. Is there an alternative to Palm Oil?**

**A.** There are, as yet, no synthetic alternatives to Palm Oil. Natural alternatives such as soy have similar environmental implications and require even larger land areas for planting. The efficiency of Palm makes it more valuable than alternatives such as oil seed rape which cannot be produced in sufficient quantities. With global population forecast to rise to 9.4bn by 2070, Palm Oil has a key role to play in alleviating poverty and in feeding the planet.

### **Q. What are the risks for responsible investors?**

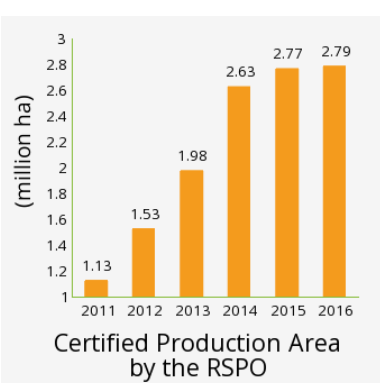
**A.** The sourcing of Palm Oil has been mired in controversy given poor controls in Indonesia to prevent tropical deforestation in the rush to convert land with high conservation value to Palm. In so doing, widespread ecological devastation including forest fires, soil erosion and loss of biodiversity has ensued. The indigenous Orang-utan population in Indonesia has declined to fewer than 50,000 because of Palm production, and is now threatened with final extinction unless land clearance is substantially halted. Other consequences of land clearance include the draining of irreplaceable peatland (a valuable carbon sink) with a resulting climate change impact. In Indonesia, whilst some Palm crops were laid down on former rubber plantations, the majority were laid down in primary forest; the cost of planting being partly met from the sale of timber. Peat forests have been particularly devastated as these provide easier, more cost effective sites for clearance.

### **Q. Can Palm Oil production ever be sustainable?**

**A.** The reputational risks from rainforest clearance and the consequent ecological



impact has resulted in attempt by business, NGOs and governments to work towards making Palm Oil sustainable by certifying the supply chain; with better management, Palm Oil can provide strong social and economic benefits for host countries and for consumers. At the heart of change since 2004, is the **Round Table on Sustainable Palm Oil (RSPO)**, the organisation spearheading a drive towards social, environmental and economic good practice in the Palm supply chain via a global certified standard. The RSPO has certified nearly 3m hectares producing 13.5m tonnes of Palm Oil as sustainable. This represents 21% of global supply; over half (51%) came from Indonesia, 42% from Malaysia<sup>14</sup>.



### **Q. What should responsible Investors look for and what is EdenTree's approach?**

**A.** Palm Oil presents challenges and opportunities for the responsible investor. In production terms, it remains an industry in search of respectability. We view plantations in Indonesia to be an acute ethical risk owing to the historically poor regulatory system that has allowed wide-scale land clearance via 'slash and burn' deforestation. Large areas of prime forest remain at risk in Indonesia from illegal clearance with the concomitant

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impact for biodiversity and climate change. As a minimum we would expect RSPO certification across a company's operations. In Malaysia we are more positive, although problems still exist; the system of land registry and title is stronger, and forest clearance has been less pronounced. Under Federal forest laws, more than 75% of Malaysia's remaining forests are designated 'permanent forest estate' to be retained under either protected status (no logging) or production (sustainable timber harvesting). Palm Oil expansion is now focused on Sabah and Sarawak with peninsula Malaysia unable to support further development. Companies working wholly within Malaysia, in our view, enjoy a stronger regulatory environment that encourages better practice. We would still look for RSPO certification, or a commitment to be working towards it. Help comes from investor tools such as **SPOTT**, (Sustainability Palm Oil Transparency Toolkit) pioneered by ZSL, which provides interactive company scorecards across seven indicators including environmental management, zero burning, GHG emissions and traceability. In the supply chain, we look for companies committed to sustainable sourcing. The best companies have set firm targets for meeting 100% certified supply of Palm within a reasonable timeframe. At EIM we believe it is possible to invest responsibly in Palm Oil, but care is needed.



### The EdenTree SRI Team



We have a specialist in-house Socially Responsible Investment (SRI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of [Amity Funds](#). Headed up by Neville White, Head of SRI Policy & Research, and supported by Associate Fund Manager Ketan Patel and Responsible Investment Analyst Esmé van Herwijnen, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. For investors, it's an added layer of assurance that client money is being invested in companies that are operating in a responsible and sustainable way. Our ethical and responsible investment process is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.



### EdenTree – Ethical Investment Specialist

Since launching the [Amity UK Fund](#) in 1988, EdenTree has taken a leadership role in managing ethical investments through our research, engagement and strong fund performance. Consequently, we were delighted to receive the Moneyfacts Award for Best Ethical Investment Provider 2015, the seventh consecutive year of winning this award. We were particularly pleased to win as it is voted for by the Adviser community. We were also awarded Money Observer Best Ethical-SRI Bond Fund for the [Amity Sterling Bond Fund](#); the [Amity UK Fund](#) won Best Equity Fund in the 2014 Money Observer Ethical/SRI category, and we were nominated for an award in the category of Best Thought Leadership Paper on Sustainable Investing, in the Investment Week Sustainable Investment Awards 2014. Today we offer six SRI funds under our Amity under our Amity brand, four retail funds and two for charity investors, covering the major markets and investment classes.

### Further information

For further information on EdenTree's SRI range of Amity Funds please contact your EdenTree Business Development Manager, visit [www.edentreeim.com](http://www.edentreeim.com) or call our IFA support team on 0800 011 3821.

#### Sources:

- <sup>1</sup> US Department of Agriculture
- <sup>2</sup> [www.wilmar-international.com](http://www.wilmar-international.com)
- <sup>3</sup> [www.greenpalm.org](http://www.greenpalm.org)
- <sup>4</sup> [www.greenpalm.org](http://www.greenpalm.org)
- <sup>5</sup> [www.greenpalm.org](http://www.greenpalm.org)

- <sup>6</sup> US Department of Agriculture
- <sup>7</sup> [www.greenpalm.org](http://www.greenpalm.org)
- <sup>8</sup> [www.greenpalm.org](http://www.greenpalm.org)
- <sup>9</sup> UN University/Sime Darby
- <sup>10</sup> [www.simedarby.com](http://www.simedarby.com)

- <sup>11</sup> US Department of Agriculture
- <sup>12</sup> US Department of Agriculture
- <sup>13</sup> US Department of Agriculture
- <sup>14</sup> [www.rspo.org](http://www.rspo.org)

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