

Public Summary Report:

Neste Oil Palm Oil Supplier Assessments

Results of Phase One of the Neste Oil-TFT collaboration

April 29, 2014



Introduction

In April 2013, Neste Oil announced an industry-leading policy to work proactively with its biomass suppliers to prevent deforestation. Neste Oil's No Deforestation Guidelines (NDGs) send a strong message to the palm oil industry. That message is that deforestation is no longer acceptable, and that Neste Oil aims to buy only from suppliers who are protecting High Conservation Value (HCV) and High Carbon Stock (HCS) forests and peatlands, respecting community rights, and supporting smallholders across their operations.

The full NDGs are available for download on Neste Oil's website,¹ and compliment Neste's other sustainability efforts, including their 2013 success in achieving 100% certification of their palm oil purchases by ISCC and/or RSPO, using the mass balance or segregation traceability methods.²

Neste Oil is a member of TFT, a global non-profit organisation working to help companies eliminate deforestation and exploitation from their supply chains. TFT helped Neste Oil to develop its NDGs, and from June 2013 to February 2014, TFT and Neste Oil undertook the first phase of their partnership to implement the NDGs in Neste's palm oil supply chains. (The partnership focuses on palm oil because that represents half of the company's feedstocks for renewable HVO diesel production.)

As part of this work, TFT analysed the social and environmental practices of Neste Oil's eight palm oil supplier companies, as well as 44 supplier mills representing about 74% of Neste Oil's 2012 palm oil purchases. This public report includes a brief overview of the methodology we used to complete this desktop assessment, a summary of our findings, and an overview of the activities we will undertake in the second phase of the Neste Oil-TFT partnership.

Scope and Methodology

It should be noted that Neste already had very detailed information about its supply chain, thanks to their sustainability team's detailed vetting of each supplier company, including visits by Neste staff to many supplier mills to assess field practices. The scope of TFT's collaboration was thus to build on this knowledge, looking first at the suppliers' policies and practices across their entire operations to determine how much these already aligned with Neste's guidelines, and then at the mills in Neste Oil's certified supply chain to identify where there might be risks of non-compliance with Neste Oil's policies and thus opportunities for collaboration.

The aim of the corporate-level supplier assessment was to determine how well each Neste Oil supplier lines up with Neste Oil's NDGs in terms of *policies* (for instance, do they have policies to protect peatlands and the rights of workers and communities?) and *practices* (how

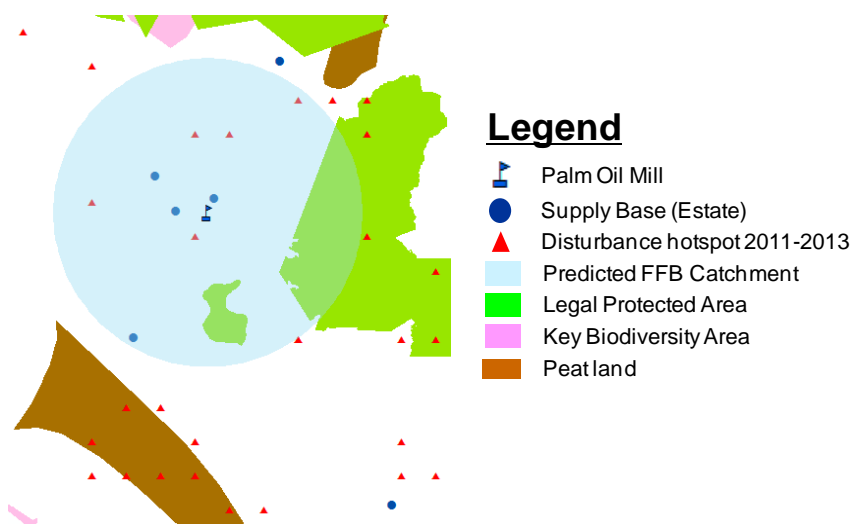
¹ <http://www.nesteoil.com/default.asp?path=1,41,12079,12082,17611,21954>

² <http://nesteoil.com/default.asp?path=1;41;540;1259;1260;20492;22757>

well are those policies implemented in the field?) For this portion of the assessment, TFT relied almost entirely on publically-available information including Roundtable on Sustainable Palm Oil (RSPO) Annual Communication of Progress Reports, the RSPO Complaints database, the supplier's Sustainability and Annual Reports, publically-available company policies, media articles, and reports published by NGOs, think-tanks, or academic entities. Some suppliers also provided internal company policies.

The purpose of the mill-level desk assessments was to identify which of the 44 mills might be at risk of non-compliance with Neste Oil's NDGs, using maps, satellite images, media reviews, and interviews with local specialists. For environmental issues, we focused on the potential for mill-related conversion of HCS forests, peatlands and HCV areas. The desktop assessment of risks of such conversion was divided into two phases:

1. An assessment of each mill's theoretical Fresh Fruit Bunch (FFB) catchment area and its proximity to national and international protected areas, unprotected areas that are recognised as containing a biodiversity value, peat soils and land cover disturbance sites. The figure below shows a sample of the mapping used to assess these risks.



2. An evaluation of mitigating factors such as the establishment date of the mill and the rate of sustainability certification, which might increase or decrease the risk of conversion of areas identified in step 1, or the risk of an existing disturbance being associated with the mill's own palm fruit sources.

For social issues, our analysis focused on the potential for violations of the right to Free, Prior, and Informed Consent of communities, to expansion of plantations onto land they use, and the potential presence of child or forced labour. A combination of government-level data, information from NGOs, and certification information can provide a broad picture of comparative social risks among mills, although in the desk research phase the assessment of social risks could not be done at the same level of detail as environmental risks. We did not look at issues which do not vary greatly among countries or regions, including for instance workers' health and safety conditions, wages, and working hours, since they would not help us to differentiate risk levels among the mills.

Main findings and recommendations

Neste Oil has done an excellent job regarding due diligence and supplier vetting; none of the mills selling certified material into Neste Oil supply chains was identified as having a high risk for undesirable land use change. We found only one mill which may have an active community dispute, although it should be noted that this mill is not involved in any active RSPO grievance cases or legal disputes. Of the 44 mills analysed, eleven mills were identified as warranting further field investigation due to the following factors: a relatively low level of RSPO certification of estates delivering fresh fruit bunches (FFB) to the mill, a high amount of external FFB sourcing, and recent establishment of the mill. The field investigation will focus on further verification of producers' practices to prevent unwanted land use change and handling of social issues.

We should note that this **does not mean** that those producers supplying to these mills are converting HCV areas or violating workers' rights; rather that based on desk-only research, these mills have a relatively higher potential of having such sorts of violations. Field visits would be necessary to assess the true risk of these practices occurring, and indeed our recommendation is for TFT staff to visit those eleven mills later this year to evaluate actual practices. These mill-level site visits should be seen as opportunities for Neste Oil to help suppliers reduce the risks associated with third-party palm fruit sourcing and also to support smallholder adoption of best practices.

Regarding the overall corporate policies and practices of Neste Oil's suppliers, currently two suppliers match Neste Oil's NDGs, with policies which closely follow those of Neste Oil and which cover not only their own plantations but also third parties from whom they buy. For those two suppliers, we recommend that Neste Oil support them in implementing these policies.

For the other six suppliers, we recommend that Neste Oil encourage them to continue to work to:

- 1) **Further develop social policies** regarding forced labour, child labour, and the right to Free, Prior and Informed Consent. Many suppliers have some related policies, but they are often vague, and generally do not cover subcontractors or third-party suppliers.
- 2) **Create public, corporate-wide policies not to develop new plantations on peat lands, and not to buy from suppliers who do.**
- 3) **Adopt a corporate-wide policy to not convert HCS forests.** Our recommendation is for each supplier to pilot-test such a policy in a concession which has yet to be

developed, using the methodology developed by Golden-Agri Resources, TFT, and Greenpeace.³

TFT recommends Neste Oil carries out further risk-mapping of points in its supply chain where oil from certified mills is possibly being mixed with uncertified oil, for instance in tank farms in the harbours. In such cases the certified oil is being delivered to Neste Oil through the mass balance traceability system and is thus compliant with European regulatory requirements. However the uncertified oil which might be mixed with certified oil from Neste Oil's suppliers might not be compliant with Neste Oil's policies and international standards, and thus further risk mapping is recommended.

Next steps

TFT, Neste Oil, and Neste Oil's suppliers are currently meeting to discuss the findings in detail and to develop joint action plans to implement the resulting recommendations, including field visits to those mills identified as warranting further field investigation in order to assess practices on the ground. Our aim is that by September 2014, TFT and Neste Oil teams will have completed all of the mill visits and that each supplier will have made concrete advances in developing and implementing policies that match Neste Oil's No Deforestation Guidelines.

TFT's approach will be collaborative, as Neste Oil's eventual aim is not to de-list any suppliers, but to work together to eliminate deforestation and exploitation from the industry. As we implement Phase 2 of our partnership with Neste Oil, TFT might identify suppliers who really don't want to work together to improve practices and fight deforestation, and eventually recommend that Neste Oil no longer purchase from them. However, our shared goal is to all move together down the path towards a responsible palm oil industry.

³ Available here:

http://www.goldenagri.com.sg/pdfs/misc/High_Carbon_Stock_Forest_Study_Report.pdf