

BlackRock Investment Stewardship's approach to engagement with the palm oil industry

As part of the investment process on behalf of its clients, BlackRock assesses a range of factors that might affect the long-term financial sustainability of the companies in which we invest. BlackRock Investment Stewardship ("BIS") is focused on engaging companies to encourage the adoption of business practices that support the long-term value creation on which our clients depend to meet their financial goals. BIS' [Global Corporate Governance & Engagement Principles](#) explain our view that sound practices in relation to the material environmental and social ("E&S") factors inherent in the business model can be signals of operational excellence and management quality. E&S factors relevant to the long-term economic performance of companies are typically industry-specific, although in today's dynamic business environment some, such as regulation and technological change, can have a broader impact.

As we note in our [engagement priorities](#), we expect companies to disclose how the material E&S factors in their business model might affect their long-term strategy and operations. We also expect disclosures explaining how relevant risks are assessed and how the board and board committees oversee management's approach to enterprise risk management. The following describes our engagement work in relation to issues facing the palm oil industry.

Sustainable palm oil as an investment issue

Over the past 20 years, palm oil has become a ubiquitous commodity. Oil and oleochemicals extracted from the fruit and seed of the oil palm tree are widely used in products, ranging from cooking oil and dairy substitutes to cosmetics and biofuels. It is estimated that over half of all packaged goods sold in western supermarkets contain palm oil.¹

Due to its high productivity relative to other oil crops and versatility in both food and non-food applications, palm oil production has nearly tripled during the last 20 years, estimated to surpass 70MT in 2019. Production is heavily concentrated in Southeast Asia, with Indonesia and Malaysia accounting for approximately 85% of global output.²

While its production is credited with improving living standards for many, a number of environmental and social issues ranging from deforestation and biodiversity loss to disputed land use and labour practices have been raised. Consequently, the possibility of regulatory measures and shifts in consumer demand may present risks to the long-term sustainability of companies.

To address these issues, industry stakeholders including producers, downstream consumers, regulatory bodies, and non-governmental organizations (NGOs) have begun promoting and certifying sustainably produced palm oil.³ Such production is done in accordance with social and environmental criteria that minimize the negative impacts of palm oil. Criteria include not clearing primary forests or areas of significant biodiversity or fragile ecosystems, protecting the rights and lands of local communities, reducing the use of pesticides and fires, and fair treatment of workers. The Roundtable on Sustainable Palm Oil (RSPO), founded in 2004 by a group of producers, downstream consumers and conservation organizations is perhaps the most well-known. The governments of Malaysia and Indonesia have also launched their own certification schemes

¹ Source: "Palm Oil Uses", European Palm Oil Alliance, <https://www.palmoilandfood.eu/en/palm-oil-uses>

² Source: "Global Supply, Demand and Price Outlook of Oil & Fats in 2018/19", Oil World, www.oilworld.biz

³ Source: "Palm oil producers are certified through strict verification of the production process to the stringent RSPO Principles & Criteria for Sustainable Palm Oil Production by accredited Certifying Bodies, and can be withdrawn at any time in case of infringement of the rules and standards", <https://rspo.org/certification>

– the Malaysian Sustainable Palm Oil (MSPO) and Indonesian Sustainable Palm Oil (ISPO) – as mandatory national standards to be applicable to the smallholder level by the end of 2019 and 2020, respectively.

BlackRock’s engagement on palm oil

In light of these ongoing industry risks and opportunities, and consistent with our long-term value focus and “engagement-first” approach, BIS has engaged with a number of industry participants, predominantly held in our equity index portfolios. Third party index providers determine the companies included in a particular index. Clients will hold all companies in an index fund in which they have chosen to invest their assets. Investors cannot selectively divest individual companies from an index fund, regardless of financial performance or other factors. As a result, we believe we have a responsibility to engage with companies, including voting at shareholder meetings, on behalf of clients, to promote governance and business practices consistent with long-term value creation.

Our Asia-Pacific team reported on its engagements in its [Q1 2019 quarterly report](#). At the time of its publication, we engaged constructively with three Indonesian, two Malaysian, one Korean, and one Liberian palm oil producer(s). Our engagements were part of an ongoing, multi-year effort to further our understanding of, and encourage companies to better address, the environmental and social risks associated with the palm oil industry. While most of these companies are members of the RSPO and have publicly committed to various traceability and certification targets, we learned through our engagements that progress towards full compliance of standards and procedures for certified sustainable palm oil remains a challenge for the industry.

Our engagements focus on the following questions and objectives:

- In the context of corporate strategy, how the board assures itself that management is adapting and innovating in its practices to meet sustainable palm oil standards
- The board’s collective expertise in and experience of the issues and thus its ability to oversee management’s sustainability policies and how they are applied
- How the board monitors the implementation by management of those policies and what key performance indicators (KPIs) the company measures to evaluate the efficacy of its sustainable palm oil program
- How the company assesses and responds to environmental, social, and reputational risks relating to the production of palm oil
- An understanding of the company’s commitment to achieve full traceability as well as sustainable palm oil certification, and the timeframe in which they may achieve it
- The governance framework in the company to fully integrate other relevant sustainability targets including handling of grievances submitted by employees, communities, and other industry and company stakeholders

We recognize that palm oil production is a complex issue. Companies seeking to appropriately manage the inherent risks and opportunities may require time to implement policies and practices. BIS will continue to engage with palm oil producers, downstream buyers, and other relevant stakeholders to promote sustainable palm oil practices, as part of fulfilling our fiduciary duty to protect and enhance the value of our clients’ assets.

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