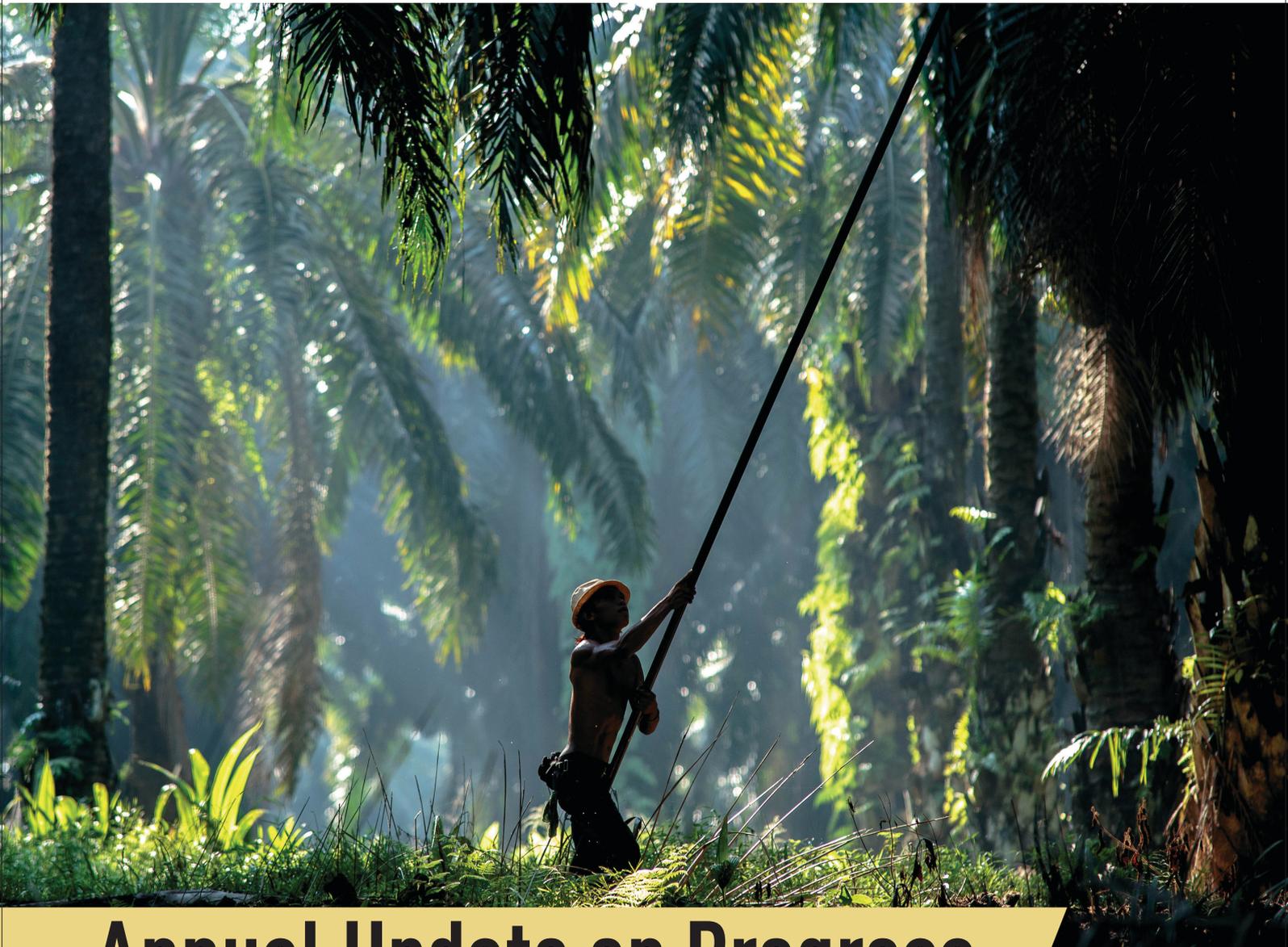




ASD

ACTION FOR SUSTAINABLE DERIVATIVES



Annual Update on Progress

NOVEMBER 2022

Driving Action on Derivatives



www.sustainablederivatives.org

Summary

Action for Sustainable Derivatives (ASD) is an industry-led collaboration aimed at achieving sustainable production and sourcing of palm oil derivatives, and expanding into coconut and soy-based derivatives.

ASD is a sectoral initiative that aims to transform supply chains by increasing transparency, monitoring risks, engaging the sector, and generating on-the-ground impacts. In its first two years, ASD established a foundation for work in palm derivatives supply chains, including an organizing framework, collective engagement mechanisms, and momentum towards action. In its most recent year of operation (Year 3), ASD began deploying joint action to engage the palm derivatives supply chain, market, and transformation in key production areas. In response to new regulations, ASD also amended priorities to track developments and prepare members for compliance.

As it moves into its fourth year, the initiative will accelerate action towards environmentally and socially sustainable palm derivatives supply chains. This will include active grievance management and market engagement to build verified deforestation-free supplies in compliance with No Deforestation, No Peat, No Exploitation (NDPE) principles, upcoming regulations and national sovereign decisions, and civil society expectations.

As the initiative has well-proven efficacy of concept and steady momentum within palm derivatives, ASD began expanding its work to other commodities – including coconut derivatives and soy derivatives. Next year, the initiative will consolidate collective and individual strategies for action on these other commodities.

Transparency: In its third consecutive year of supply chain mapping, ASD has again achieved even greater visibility for oleochemical manufacturers and corporate end-users of derivatives, thanks to process efficiencies and increased supplier engagement from the centralized approach. ASD has mapped volumes representing 11% of the global palm-based oleochemicals market. Results confirmed that supply base does not significantly change year over year, with 86% of all mills identified as present in all member companies' supply chains.

Monitoring & Grievances Management: With a high number of environmental and human rights violations linked to



1.03M tons of palm-based materials mapped

11%

of global palm-based oleochemicals market

2021

2022

23

26

ASD members



palm production, accurate risk monitoring and operational grievance management are key to building a sustainable supply chain. In Year 3, ASD strengthened its grievance management and governance systems on several fronts. This includes providing operational and strategic guidance to members, coordinating approaches with key stakeholders and experts, and supporting ASD Members in individually engaging suppliers on high priority grievances. ASD is also developing an enhanced monitoring approach to proactively identify and follow up on grievances, alerts, and non-compliance with deforestation-free requirements.

Supply & Market Transformation: ASD is supporting member companies in creating an aligned approach for sector and supply chain engagement, with the goal of securing verified deforestation-free supplies and cascading down requirements. ASD creates a unified voice of influence for derivatives users and a platform for coordination, support and alignment with wider sustainable palm initiatives and coalitions.

Positive Impact: Positive change on the ground requires significant resourcing, and individual companies can only achieve limited impact. In Year 3, ASD launched an Impact Fund through which companies can pool resources to collectively support jurisdictional projects in key sourcing regions. In the coming years, ASD will continue to prioritize action on the ground and explore opportunities for more direct supply chain connection, also to support in company compliance with growing regulation.

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

- **Individual & collective transparency to source and risk assessment** for its member companies
- Investigation and implementation of **enhanced monitoring systems**
- **Grievance management support**, including establishment of regular stakeholder coordination activities and development of grievance management guidelines
- Development of **Supplier Engagement Toolkit** as a key resource for members to leverage in their independent engagement activities
- **Sector-level engagement** to promote stronger supply chain control mechanisms
- **Tracking of new regulations** and draft framework for compliance
- Launch of **on-the-ground impact work**, including a jointly funded field project via the ASD Impact Fund and a HERrespect program
- Kick-off of **Member Lead Program**, wherein members can drive the agenda and activities on topical workstreams with recommendations and coordination from ASD Secretariat
- **Extension of ASD's scope of work**, with coconut derivatives underway and the launch of a pilot project on soy derivatives

This report reviews key progress in Year 3 (2022), and ASD's plans for further action in Year 4 (2023). 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, contact Ariane Denis, ariane.denis@transitions-dd.com or Ricki Berkenfeld, rberkenfeld@bsr.org.

ASD Overview

Launched in 2019, **Action for Sustainable Derivatives** (ASD) brings 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 supply chains. ASD's mission is to achieve and promote palm derivatives sourcing that is free from deforestation, respects human rights, and supports local livelihoods.

ASD has revised its **Framework for Action** to accommodate changing needs. The revisions are as follows:

1. Grievances monitoring and management has always been part of ASD's work, integrated into the other workstreams. Given the growing importance and urgency of this work, ASD felt it was the appropriate time to treat **grievance-related activities as its own workstream** with its own roadmap.
2. The Supply & Market Transformation workstream has evolved to encompass ASD's work engaging the sector and supply chain in aligning on a common **framework towards accessible deforestation-free, NDPE-compliant solutions**.
3. ASD launched a new governance system with designated **Member Leads** for priority topics which warrant active participation from companies (e.g., participation in key activities, decision-making, or external representation). These priority topics are: grievance management, RSPO engagement, and connecting the derivatives supply chain with verified sources.

Recognition and Partnerships

ASD has been recognized publicly for our achievements so far, including being shortlisted for the Supplier Collaboration & Innovation category of the **2022 World Procurement Awards** and the Sustainability category of the **2022 ICIS World Surfactant Awards**.



ASD has also been recognized as a driving initiative in the palm sector by the **Roundtable on Sustainable Palm Oil** (RSPO), the **European Palm Oil Alliance** (EPOA) and **IDH** in their **Sustainable Palm Oil: Europe's Business** report.

ASD's Framework for Action includes four workstreams:



Transparency & Risk Assessment

Increasing transparency and consolidating a **common framework to focus efforts**



Monitoring & Grievances Management

Leveraging dynamic monitoring systems and **actively managing non-compliance**



Supply & Market Transformation

Engaging the sector and supply chain towards **accessible deforestation-free solutions**



Positive Impact

Scaling up **long term collective action** in key production landscapes



Transparency & Risk Assessment

Accelerating progress for collective transparency

Transparency remains a global expectation and necessary input in addressing deforestation and human right pressures in the palm sector, especially as new regulations require companies to confirm responsible supply.

ASD continues to progress on creating a global, transparent mapping of members' palm derivatives supply chain. The palm oil and palm kernel oil derivatives supply chains are uniquely complex and fragmented, presenting a particular challenge for end users to confirm where their palm derivatives are sourced. The highly resource intensive nature of supply chain mapping in this context reinforces the need for a collective approach to achieve efficiencies. In Year 3, ASD succeeded in advancing its transparency results and confirming the palm derivatives supply chain structure.

In its third annual transparency investigation, ASD is proud to announce an increase in the scope of its investigation, achieving:

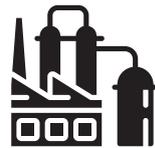
- Collective transparency to source for **1,030,000 tons** of palm-based materials¹ – almost a **25% increase of the volume covered in Year 2**.
- This represents about **1.4% of global palm production**, around **11% of the global palm-based oleochemicals market** (in terms of volumes), and **10-20% of the palm kernel oil-based oleochemicals market**.
- This total volume was sourced from **2,008 mills** identified as potentially linked to ASD members' collective supply chains.
- Results confirm similarities in the supply base of members for a third year, with 1,728 mills or **86% of all mills identified as present in all ASD members' supply chains** and 1,029 mills representing 90% of total ASD member volumes.²

ASD contacted more than 300 suppliers and distributors, including 230 direct suppliers of which more than 170 were responsive and transparent. This work achieved:

- **94% transparency to refineries and crushing facilities** for collective volumes – up from 90% in last year's palm transparency investigation
- **92% transparency to mills** – up from 86% last year
- **38% transparency to plantations** – up from 36% last year

¹ Segmentation: 63.5% palm kernel oil, 37.5% palm oil.

² Total volume of palm-based materials mapped was sourced from 2,008 mills. 1103 of these represent 90% of traceable volumes – 186 of which represent an additional 5% of traceable volumes (medium probability of actual connection with the supply chain); 714 of which represent the last 5% of traceable volumes (low probability of actual connection with the supply chain). 1,728 (86%) of the total 2,003 mills were common to all ASD members.



Refineries and crushing facilities

94%

up from 90% in 2021



Mills

92%

up from 86% in 2021



Plantations

38%

up from 36% in 2021

ASD has also provided individual company supply chain mapping reports.

Key Learnings and Next Steps

After multiple years of investigations, ASD has built trust and maturity in the supply chain, resulting in greater cooperation among suppliers in the investigation process. Suppliers increasingly recognize the benefits of ASD's harmonized and centralized approach to transparency, which minimizes duplicative efforts and increases efficiency relative to previously fragmented and varying requests.

Improved transparency results in Year 3 are the result of a more targeted engagement strategy with suppliers and key markets, building on learnings from past transparency investigations. ASD works closely with supply chain actors to clarify and align on transparency requirements through various outreach methods, including webinars and one-to-one meetings. As the transparency exercise continues to increase in scope, ASD plans to implement a similar engagement strategy in other key markets, such as China and North America.



Transparency & Risk Assessment



ASD has not yet achieved 100% transparency to refineries due to volumes linked to non-respondent suppliers and volumes out of scope of the investigation, such as volumes fragmented over many small suppliers. The lack of 100% transparency to mills can be attributed in part to the use of spot trading and shadow sourcing practices, still common among large players. Due to increased levels of engagement from producer groups, the 38% transparency to plantations has remained much higher than the sector average, which is typically between 1-25% transparency.

The next annual supply chain mapping investigation will commence in December 2022 for all ASD members, based on 2022 purchased volumes.

In the meantime, ASD will be exploring opportunities for process evolutions to achieve transparency more efficiently. ASD recognizes that transparency is a necessary input to sustainable supply chains, and believes there is opportunity to optimize the allocation of resources towards more action and impact.

Identifying Priorities

As part of the annual transparency investigation, ASD overlays existing environmental and social risk data to the collective supply chain to assess risk hotspots. Such collective risk hotspots include:

a) supply chain players (refineries, crushers, producer groups) who are at high risk of ESG issues and should be prioritized for engagement efforts via **Supply & Market**

2,008

mills identified as potentially linked to the collective supply chain

Transformation work (see page 8);
b) landscapes that are at high risk of ESG issues and should be prioritized for field project activities via **Positive Impact** work (see page 9).

In addition, each ASD member receives an individual report outlining the relative weighting of its own confidential supply base to risk, at both the geographic and facility level (e.g., refineries, crushers and producer groups).

ASD has been trialing tools that can enhance this risk assessment effort with more proactive monitoring of grievances and alerts on an ongoing basis (**see page 7 on Enhancing Monitoring**).



Monitoring & Grievance Management

Addressing non-compliance

Despite commitments of most palm industry players to NDPE principles, reports of grievances in palm production persist with high frequency, consequence, and urgency. ASD members are often multiple layers away from grievance issues in the supply chain, yet are potentially linked to almost every mill and, therefore, every grievance. Understanding and acting on grievances therefore remains challenging. Further, oncoming regulations, including the EU directive on Corporate Sustainability Due Diligence and Deforestation-Free Products will require companies to be able to monitor their supply chain and resolve non-compliance.

ASD takes grievance issues very seriously, and has recently reorganized its **Framework for Action** (see page 4) to ensure proactive monitoring and grievance management activities are prioritized. These activities have already been a notable part of the ASD scope of work, and are now being treated as their own workstream to clarify the unique attention placed on these activities.

Enhancing Monitoring

An enhanced monitoring approach will improve ASD's ability to proactively monitor grievances and alerts on an ongoing basis, locate areas and actors that are not compliant with NDPE expectations, and identify the percentage of volumes that are compliant including their origin (mills and plantations) and links to refineries.

In its third year, ASD investigated seven satellite monitoring tools. ASD piloted the platforms most fitting to ASD needs, and is working with providers to define specific proposals. Next year, a significant portion of ASD members will begin using **Nusantara Atlas, the selected platform for individual monitoring**.

Grievance Management

When grievances arise, ASD will immediately act. The process starts with leveraging ASD's **Grievance Prioritization Methodology**. The methodology considers severity, exposure, and connection to ASD supply chain in order to prioritize the grievances to engage on.

Priority grievances are further investigated. This past year, ASD began conducting regular **alignment calls** to discuss priority grievances with key stakeholders – including civil society organizations and technical partners. These calls



aimed to share insights on the latest palm grievances and discuss best approach for resolution of those grievances, including clarification of expectations of the supply chain and downstream players. From these discussions, ASD built a number of proposed action plans for companies to leverage in responding to a specific unresolved grievance.

ASD has developed **Grievance Mechanism Guidelines** to support member companies in independently implementing effective grievance management. The guidelines were built from existing key stakeholders' frameworks to ensure alignment with the rest of the sector.

ASD has learned that companies playing an active role in supply chain engagement is more effective than ASD secretariat representation. As such, ASD has begun piloting a member lead program to drive activities in grievance management.



Supply & Market Transformation

Enhancing capacity for compliance



Parallel to the development of several regulations in Europe and North America aimed at reducing environmental and social risks in international supply chains, ASD is developing a **framework of solutions to achieve compliance** and engaging suppliers, sectorial initiatives, social society and expert organizations to ensure alignment.

The framework proposes a robust transparency and risk monitoring process in conjunction with options to connect companies to verified deforestation-free sources (e.g., via certification and chain of custody, connection to field initiatives or verified landscapes, connection to upstream players with verified practices). Among these options, ASD recognizes that their availability to date or robustness to guarantee full compliance with NDPE principles and the law might not be fully accessible yet. In the coming year, ASD will take actions to support the development of these options, grow the supply of verified deforestation-free volumes, and investigate connection to the derivatives supply chain.

Among these proposed options is **certification**. Despite a strong demand for certified segregated palm oil derivative volumes, the logistical efforts are complicated and expensive, especially for complicated derivatives supply

chains with multiple transformation stages. As a result, oleochemicals users significantly rely on **Mass Balance (MB)** certified products or the **Book & Claim (B&C)** system. The lack of traceability and control mechanisms on the conventional part of the volumes which enter the derivatives supply chain through these schemes remain a priority issue which ASD is actively engaging on. Following the submission of **RSPO resolution GA18-2c** by select ASD members along with WWF and the Zoological Society of London (which was adopted during the 2021 General Assembly), ASD is engaging RSPO on constraints to access certified sustainable palm oil and opportunities to enhance the robustness of the MB model. ASD is tracking an active study to assess the model's limitations.

The lack of traceability and control mechanisms on the conventional part of the volumes which enter the derivatives supply chain through these schemes remain a priority issue

Market Engagement

ASD is supporting members in both direct and indirect supplier engagement to support initiative objectives. This includes the development of a **Supplier Engagement Toolkit** (draft in progress), which integrates existing tools for engagement and responsibilities for companies in the palm derivatives sector.

In addition, for the third year, 10 ASD members, engaged 115 direct suppliers through the **Sustainable Palm Index (SPI)** evaluation of direct suppliers' performance in relation to commitments, processes and achievements 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, which ASD members can use to engage with suppliers, incentivize progress, and make procurement allocation decisions.

ASD continuously identifies opportunities for further **collaboration with wider initiatives** and downstream users of palm, building a unified voice of the derivatives sector. ASD engages with regional initiatives, such as NASPON, JaSPON, FONAP, and SASPO. ASD plans to achieve deeper engagements in China and North America to enhance transparency and communicate expectations and requirements for responsible practices. ASD also plans to coordinate with other sector players such as retailers.

115 suppliers engaged by SPI



Positive Impact

Driving impact via collective action in priority landscapes



hopes to expand the project portfolio supported by the Impact Fund and grow impact.

In Year 4, ASD will investigate mechanisms for members to connect their supply chains to on-the-ground projects, such as through the purchasing of independent smallholder credits, or by establishing direct links between the projects and mills in members' supply chains. To best capture impact and outcomes, the ASD team will work to establish impact claims and verification approach for collective impact projects. On an ongoing basis, ASD is looking for ways to continue optimizing the governance and management of the Impact Fund.



Map of Indonesia. The orange highlighted region is where the Kaleka Mosaik Initiative is taking place. Source: Kaleka Mosaik Initiative

ASD is very proud to have **launched its Impact Fund** in March 2022, aimed at driving positive impact in priority production landscapes, moving beyond risk mitigation, and working as a lever for positive change. Developed in partnership with the **Tides Foundation**, the ASD Impact Fund enables ASD members to pool funding and collectively support projects on the ground.

The ASD Impact Fund kicked off its impact work with support for the **Kaleka Mosaik Initiative**. This five-year project aims to sustainably restore the landscape and drive economic growth in two of the largest palm-producing districts in Central Kalimantan, Indonesia (see map), from which contributing ASD members source an average of 2% of their palm derivatives. Project activities include certification of smallholder farmers, incentivizing community conservation of natural forests, community-based restoration and forestry, enhancing use of fire-free agriculture, encouraging protection of natural forests, and restoration of forests. The **Kaleka Mosaik Initiative** was selected to receive Impact Fund support by ASD members after an extensive project mapping, prioritization and engagement process.

ASD's support of on-the-ground projects is a strategic opportunity to achieve responsible sourcing of palm oil derivatives by generating local transformation and building volumes of sustainable supply. In the coming years, ASD

Combating gender-based violence in Indonesian palm production

Given the high rates of gender-based violence in palm production, select ASD members funded a **HERrespect Pilot** in Indonesia, aimed at preventing and responding to gender-based violence and sexual harassment in palm oil concessions in Indonesia. Programmatic activities will aim to promote more gender equitable attitudes and relationships among workers, supervisors and management in selected concessions.

The pilot will be conducted over the course of about one year in a handful of plantation sites connected to ASD members, with intent that learnings will inform a plan to scale and expand the model.

For more information on HERrespect programs, visit herproject.org/programs/herrespect.

+ Expanding to Additional Commodities

ASD has proven efficacy of concept and achieved steady momentum within palm derivatives, and is making progress expanding work to other commodities. ASD started this exploration with **coconut derivatives and soy derivatives** as two commodities of interest for a significant number of ASD members.

For each commodity, ASD launched a pilot project to build a stronger understanding of the supply chains. The pilot projects entail a supply chain mapping to locate production areas and identify key players; an assessment of environmental and social risks associated with production; and a mapping of existing solutions to mitigate identified risks. The intent is to then determine how to best move forward – what a collective approach should look like, or even guidelines for individual strategies if that is determined the better solution.

The **coconut pilot** launched in May 2021 and completed in July 2022. Because there is a lack of maturity in the sector in terms of traceability and sustainability certifications, ASD determined that active engagement in priority production landscapes is a relevant way to achieve impact. ASD will pursue this pathway by designing a responsible field project in partnership with an on-the-ground implementor for ASD members to collectively support, as interested. ASD is



also engaging in ongoing discussions with the Sustainable Coconut Roundtable to ensure alignment with the broader sector on supply chain engagement activities.

The **soy pilot** launched in May 2022, so the potential collective approach is yet to be determined.

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. ASD acts as an operational platform, facilitating the sharing of information and providing standardized tools, methodologies, and concrete opportunities to mutualize efforts towards its mission.

The ASD theory of change is that a collective, harmonized approach among the downstream palm derivatives supply chain creates efficiencies, allowing companies to redirect 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.





ASD
ACTION FOR SUSTAINABLE DERIVATIVES

Get involved

ASD is excited and motivated by its progress to date, as the collaboration accelerates collective, pre-competitive action to address complex challenges together, including building our members' ability to achieve compliance with new regulations.

ASD's goals rely on comprehensive sector-level participation and industry collaboration. **We therefore invite palm derivatives buyers and oleochemical companies to join our membership.**

ASD recognizes the significant work of stakeholders active in the sustainable palm production sector, particularly upstream. We remain closely connected to complementary organizations to align, collaborate, and avoid duplicating efforts; and **we encourage 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 Ricki Berkenfeld, rberkenfeld@bsr.org.

Participating companies

