

# Sustainability Due Diligence Report

**Name of Company:** Palm Ventures

**Country:** Indonesia

## **Description of Entity/Business**

Palm Ventures is both a palm oil producer and trader, headquartered in Jakarta. The company manages plantations in Riau, Jambi, South Sumatra, East Kalimantan, and Papua. Its primary business activities include cultivating oil palm trees and producing crude palm oil, palm kernel and crude palm kernel oil.

## **I. Controversies evaluation**

The company's operations of palm oil products were allegedly linked to rainforest destruction in the province of Riau, where the company's plantations are located, according to the 2018 investigative report. It was found that deforestation was occurring in Riau, Indonesia, with approximately 26,000 hectares of rainforest and peatland being destroyed over the 5-year period as no deforestation commitment was made.

In an attempt to resolve the situation, the company has committed to restoring 50,000 hectares of forest in Riau and declared that the remediation work would be monitored closely with publicly available maps of the restoration areas.

The recent media report also accused the company of having sourced palm oil from unsustainable mill suppliers and operating shadow companies to sell products to market with no zero-deforestation policies.

After facing public criticism, Palm Ventures mentioned in the report that it would make improvements to its traceability system and vowed to no longer purchase palm oil from suppliers found to be violating their policies, but evidence of responsible practices and transparency in the supply chain is still insufficient and ineffective.

On the SPOTT platform, Palm Ventures are currently ranked 70 (out of 97 companies) on the transparency of their ESG performance. The company received a total of 25 points (out of 100 points) and has dropped by 2 points as compared to the previous assessment.

The controversies negatively impact the company's reputation, thereby risking supply chain non-compliance with high-profile companies such as Nestle, Unilever, and PepsiCo. Therefore, to ensure its adherence to sustainable palm oil standards and due diligence processes, the company needs to promptly develop action plans to address the issues.

## II. Risk Assessment

To mitigate risks, Palm Ventures determined the likelihood that a particular risk does occur and the impact if that risk occurs. As the company aims to be a high-quality palm oil products provider and compliance with international standards is crucial to be part of the global supply chain, it is assumed that the company is unwilling to accept much uncertainty and hence risk-averse strategy should be implemented.

Identified risks that should be removed include climate change, natural disasters, deforestation & peatland destruction, biodiversity loss, disease or infestation of plantations, transparency & accountability, water management, and occupational health & safety, whereas community engagement should be encouraged.

		Impact		
		Low	Medium	High
Likelihood	High		- Climate change	- Natural disasters
	Medium		- Deforestation & Peatland destruction - Biodiversity loss - Disease or infestation of plantations - Transparency & accountability	- Water management
	Low		- Community engagement	- Occupational health & safety

risks to be removed risks to be reduced

This section will identify mitigating plans by the company and provide further comments on the company's efforts.

ESG Risks	Mitigating Efforts by the Company	Comments
<b>Deforestation &amp; Peatland destruction</b>	Zero-deforestation commitment and Reforestation commitment to the affected areas in the Sustainability Policy in 2021.	Despite the existing commitment, Palm Ventures still has a long way to go in mitigating future deforestation risks
<b>Biodiversity loss</b>	Wildlife monitoring at plantation locations	There is no detailed information on biodiversity loss mitigation and protected fauna conservation.
	Mangrove protection project to provide migrant bird habitat	The only initiative mentioned in the company's sustainability report. However, clearer improvements can be made to conservation efforts for more vulnerable species and local fauna in need of protection.

<b>Human rights abuses</b>	Land tenure rights and rights of indigenous commitments	There is no detail on how these commitments would be actioned and what mechanisms were in place to achieve their no exploitation goals.
<b>Community engagement</b>	Community empowerment and livelihood improvement	There is no detailed strategy or a clear set of community engagement targets. Hence, a more structured and focused approach is required to ensure local communities are adequately engaged in Palm Ventures' business operations.
<b>Diversity, equity, and inclusion</b>	No evidence identified in the company's sustainability report	Gender diversification within the company should be encouraged.

#### Recent Controversies:

Select the category below that you feel best describes the severity of the company's recent controversies:

Major ☒

Minor ☐

No Controversies ☐

Palm Ventures is likely to face both financial and legal repercussions due to illegal deforestation and operations. In-place zero-deforestation policies and an effective traceability system will bring about transparency and more streamlined supply chain operations necessary to fulfil business obligations and compliance in the global supply chain.

Therefore, the company is required to improve their management of ESG issues and meet recognized sustainability standards to become a client of CIMB.

### III. Gap analysis

#### Action Plans:

#### Recommendation on a potential client:

Recommend ☐

Recommend with Action Plans ☒

Not Recommend ☐

To implement effective action plans, a gap analysis will be performed to identify current and future states, as well as recommendations for improvement.

ESG Risks	Current State	Recommended Future State
<b>Deforestation &amp; Peatland destruction</b>	Newly established Zero-deforestation commitments	<ul style="list-style-type: none"> <li>• Zero-deforestation commitments to be extended to monitoring deforestation in supplier operations.</li> <li>• Collaboration with stakeholders such as the Peat Restoration Agency.</li> </ul>
<b>Biodiversity loss</b>	Animal/wildlife monitoring and Mangrove protection project	<ul style="list-style-type: none"> <li>• Biodiversity policy must be implemented and extended to all suppliers.</li> </ul>
<b>Transparency &amp; accountability</b>	80% of mills, 63% of plantations, and 60% of smallholders obtained RSPO certification	<ul style="list-style-type: none"> <li>• A time-bound strategy for achieving 100% RSPO certification</li> <li>• A formal strategy for achieving ISPO certification at all plantations and mills in the company's portfolio must be established.</li> <li>• Traceability system must be improved, including sharing the names and locations of all company-owned mills and third-party mills within the company's supply chain.</li> <li>• Future sustainability reports must be aligned with standardized sustainability reporting frameworks such as the Global Reporting Initiative (GRI) and be easily accessible to the public.</li> <li>• A new Board member who has technical ESG expertise should be nominated to assist with accountability and ensure that these requested actions are effectively implemented.</li> </ul>
<b>Diversity, equity, and inclusion</b>	No evidence of gender diversity	<ul style="list-style-type: none"> <li>• Gender diversity targets by appointing women to senior management roles &amp; the Board</li> </ul>