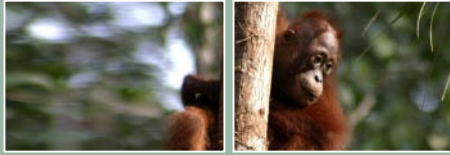


Inspired thinking



Insight encourages companies to source sustainable palm oil

Introduction

In September 2005, Friends of the Earth UK and several other environmental non-governmental organisations produced a report entitled 'The Oil for Ape Scandal' which highlighted how palm oil production is destroying rainforests and threatening the survival of many species that depend on them, including the orang-utan. The report encouraged companies and investors to play an active part in helping to develop more sustainable forms of palm oil production and provided recommendations for palm oil producers, palm oil buyers and investors, as well as the UK, Indonesian and Malaysian governments. This report follows others in recent years highlighting this increasingly important issue.

Insight has long been concerned to ensure that companies manage their supply chains in a responsible and sustainable manner, be that with respect to upholding good working conditions in factories or with respect to sourcing raw materials, from cocoa or coltan, so as to minimise damage to the environment. To demonstrate our concern on the issue of palm oil, we asked companies in which we invest that we thought likely to use palm oil what steps they were taking to move towards sourcing sustainably produced palm oil.

Why is palm oil an issue?

Palm oil is the world's second largest oil crop, with over 28 million tonnes produced per year to meet the increasing global demand for edible oils. The past few decades have seen an expansion of palm oil production particularly in Malaysia and Indonesia. Palm oil is an

important and versatile raw material for both food and non-food industries and its cultivation contributes to the economic development of producing countries and to the diets of millions of people. However, palm oil plantations are established by converting large areas of primary tropical forests with high conservation value, destroying the rich biodiversity of these fragile and important ecosystems, therefore causing significant environmental damage.

In our view, it is important that companies are able to guarantee a legal and sustainable palm oil supply, both to avoid reputational risks related to being targeted by environmental groups campaigning on this issue and to demonstrate their commitment to minimising the environmental damage related to their businesses.

Insight's engagement on palm oil

Accordingly, we identified companies in which we have a shareholding that fall within sectors that typically use palm oil. These include: chemicals, food and drug retailers, and food producers. We asked eight companies the following specific questions:

- Do you use palm oil in your manufacturing processes, and if so, how much annually in volume terms?
- Do you know from which countries, and from which plantations, you source the palm oil you use?
- Do you have a policy committing the company to sourcing palm oil sustainably?
- Are you aware of the Roundtable on Sustainable Palm Oil (RSPO) and would you consider joining it?

Box 1: The Roundtable on Sustainable Palm Oil (RSPO)

The RSPO was formally established in 2004. It is an association of companies, governments and other organisations that are willing to commit to promote the growth and use of sustainable palm oil through co-operation within the supply chain and open dialogue with a wide range of stakeholders.

The RSPO is working to:

1. Research and develop definitions and criteria for the sustainable production and use of palm oil,
2. Undertake practical projects to facilitate the implementation of sustainable best practice,

3. Develop solutions to practical problems related to the adoption and verification of best practice for palm oil plantation establishment and management, procurement, trade and logistics,
4. Acquire financial resources from private and public funds to finance projects under the auspices of the Roundtable on Sustainable Palm Oil,
5. Communicate the Roundtable's work to all stakeholders and to a broader public.

Organisations wishing to become members of the RSPO are required to submit an application form to the RSPO Secretariat. The application is reviewed by the Executive Board and membership either granted or rejected.

For more information, see www.sustainable-palmoil.org

Company responses

We are encouraged by the positive response that we have received from the majority of the companies we approached. One company – Yule Catto – confirmed that it does not use any palm oil in its manufacturing processes. However, the remaining companies – both minor and major users of palm oil – are clearly aware of the issues related to its production and have taken action. J Sainsbury, Marks & Spencer, RHM, Reckitt Benckiser and ICI have recently submitted formal applications for membership to the RSPO. Tesco and Associated British Foods are keeping in close touch with the RSPO, industry associations and campaigning organisations. More specifically:

- Marks & Spencer confirmed that suppliers providing the majority of its palm oil, including their largest supplier Arhus, are members of the RSPO.
- Tesco stated that almost all of the palm oil used by manufacturers of their own brand products is bought from three main suppliers who are members of the RSPO. The company is identifying the sources of palm oil that is not bought from its main suppliers to ensure that they meet the necessary sustainability criteria.

- RHM sources a significant amount of palm oil, especially as it has recently substituted palm oil for trans-fats in many of its products. Its main suppliers are members of the RSPO.
- Reckitt Benckiser has confirmed that its current suppliers of soap noodles – a primary ingredient in soap, incorporating palm oil – are members of the RSPO.

Conclusion

Destructive palm oil sourcing is clearly an issue of concern to companies, investors, governments and stakeholders – and orang-utans! Insight is reassured and pleasantly surprised that the UK companies we invest in that use palm oil are well aware of this issue and are taking action to address it. This seems to indicate that their programmes to ensure responsible and sustainable sourcing of materials used in their manufacturing processes are working well. We are optimistic that the RSPO, with the wide-ranging stakeholder support it has secured, will be successful in facilitating more palm oil sustainable production.

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