

# **Annual Update on Progress**

Strengthening Action and Advancing Proactivity on Derivatives



# **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 other derivative commodities.

ASD aims to transform supply chains by increasing transparency, monitoring and managing risks, engaging the supply chain and sector, and generating on-the-ground impacts. Last year, ASD began deploying joint action to engage the palm derivatives supply chain and market, and to transform key production areas, after two years of establishing foundations, mechanisms, and momentum for action. ASD is now completing its fourth year of operation (2023), and continues to mature its collective approach significantly.

ASD is strengthening its approach to action through more proactive grievance monitoring and management, deepening engagement with supply chain players, and scaling impact on-the-ground. This includes continued tracking of regulatory developments, and supporting members to prepare for compliance. As ASD moves into its fifth year of operation (2024), the initiative will continue to strengthen and accelerate this action and impact towards sustainable palm derivatives supply chains, including exploring opportunities to raise ambition on topics like human rights and climate.

tons of palm-based materials mapped

of global palm-based oleochemicals market



ASD member growth

2021

2022

2023

ASD has also been expanding its work to other commodities, including building mechanisms for action on coconut and soy derivatives, and exploring possible expansion into additional commodities, notably sugarcane and castor oil.

ASD has grown to 31 members in 2023, which has strengthened the initiative. It has increased the number of suppliers we're connected to, given us greater leverage in supplier engagement, reinforced exposure in new markets (e.g., Japan, US), and expanded the diversity of ASD member positions in the supply chain.

**Transparency:** In its fourth consecutive year of supply chain mapping for oleochemical manufacturers and corporate derivatives end-users, ASD has mapped volumes representing 11% of the global palm-based oleochemicals market. Visibility to refinery and mill levels remained consistent with the prior year. Visibility to the upstream plantation level notably improved thanks to process efficiencies, increased supplier engagement all along the supply chain and strengthened legislations. ASD is currently investigating options to enhance its approach to achieve greater efficiencies and transition more resources to action and impact. See page 5 for more information.

Monitoring & Grievances Management: With a high number of environmental and human rights violations linked to palm production, accurate risk monitoring and operational grievance management are key to building a sustainable supply chain. In 2023, ASD moved towards more proactive grievance monitoring through use of satellite monitoring tool Nusantara Atlas. Such enhanced monitoring is also an effort to move towards compliance with verified deforestation-free sourcing needs from regulations. ASD continued its grievance management support through continued stakeholder alignment approaches, providing operational and strategic guidance to members to individually engage suppliers on high priority grievances. ASD is also strengthening its support on grievance management by developing plans for collective grievance management. See page 7 for more information.



Supply & Market Transformation: ASD aims to create a unified voice of influence for derivatives users, and a platform for engaging with the full sector towards the common goal of securing NDPE-compliant supplies in derivative supply chains. This includes: assessment of direct suppliers and cascading sustainability expectations; relationship-building with traders to identify opportunities for collective action; coordinating with wider sustainable palm initiatives to ensure alignment; and engaging RSPO towards a more robust mass balance model. See page 8 for more information.

Positive Impact: Positive change on the ground requires significant resourcing, and individual companies can only achieve limited impact. ASD's Impact Fund - through which companies can pool resources to collectively support jurisdictional projects in key sourcing regions - has been active for almost two years. Currently in its second year of collective support to Kaleka's Mosaik Initiative, ASD has an established relationship with Kaleka and can achieve deeper

on-the-ground engagement, including the possibility for companies to purchase independent smallholder credits from the project. In the near-term, ASD plans to expand the portfolio of projects it supports. See page 9 for more information.

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

- Individual & collective transparency to source
- Proactive monitoring of deforestation grievances through a year-long pilot of Nusantara Atlas understanding of % deforestation-free volumes.
  • Ongoing stakeholder coordination calls on
- priority grievances, and proposal developments
- Tracking of regulation developments, including the EU Deforestation Regulations (EUDR). EU Forced Labor Law and EU Corporate
- RSPO engagement to promote robustness of the mass balance certification model.
- Trader engagement to discuss possibilities for
- Demonstrated positive impact on-the-ground
- ASD's approach to addressing **human rights** and
- Defined pathway forward on coconut derivatives livelihoods; and proposed next steps for collective sectoral engagement on **soy derivatives**.

  Initial exploration of **additional commodities** of

This report reviews key progress in Year 4 (2023), and plans for further action in Year 5 (2024). ASD invites new companies to join us and interested stakeholders to cobuild and co-implement solutions with us.

For more information, or to join ASD, contact Lenaig Benjamin, lenaig.benjamin@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 & personal care, homecare, healthcare, and oleochemicals industries to collectively address key environmental and social challenges in palm oil and palm kernel oil derivatives supply chains.

ASD's vision is to achieve and promote palm derivatives sourcing that is free from deforestation, respects human rights, and supports local livelihoods.



ASD works towards this vision through our framework for action. **ASD's framework for action includes four workstreams** as defined below. These four workstreams are underpinned by collaboration management and informed and supported by stakeholder engagement.



In 2024, ASD would like to develop a framework – aligned with the broader sector – for better tracking of progress towards its vision and against its framework for action (e.g., via key performance indicators).



# Transparency & Risk Assessment

### Accelerating progress for collective transparency

Over the past four years as an initiative, ASD has continuously progressed on creating a global, transparent mapping of members' palm derivatives supply chains.

ASD recognizes that achieving transparency is a necessary input in addressing deforestation and human rights pressures in supply chains, especially as regulations require companies to achieve visibility upstream and confirm responsible supply. The highly resource intensive nature of supply chain mapping in the context of the complex and fragmented derivatives supply chain reinforces the need for a **collective approach**. ASD also sees transparency as a means to an end, not the end itself; it is a required **foundation that allows us to take action**.

As such, ASD is proud to provide members with supply chain mappings to refinery, mill, and plantation levels, and related sourcing area mappings, while improving those results year over year. ASD develops both a collective and individual company report that includes supply chain key insights, risk assessment and player prioritization. While many companies are still working through the initial steps of figuring out traceability of their palm derivatives, ASD's approach has this already established and allows members to move towards risk mitigation and positive impact action.

In its fourth annual transparency investigation, ASD increased the scope of its investigation, achieving:

- Collective transparency to source for 1,100,000 tons of palm-based materials<sup>1</sup>
- This represents **about 1.4%** of global palm production, **about 9.2%** of global palm kernel oil, and **about 11%** of the global palm-based oleochemicals market.
- This total volume was sourced from 2,069 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 1,703 mills or 82% of all mills identified as present in all ASD members' supply chains and 1,172 mills representing 90% of total ASD member volumes.

ASD contacted more than 400 suppliers and distributors, including 306 direct suppliers of which 192 were responsive and transparent. This work achieved:

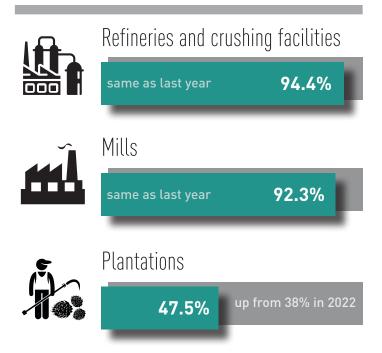
• 94.4% transparency to refineries and crushing facilities for collective volumes – the same as last year's transparency investigation

- 92.3% transparency to mills the same as last year's transparency investigation
- 47.5% transparency to plantations up from 38% last year

#### Key learnings and next steps

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

ASD continues to take steps to **engage suppliers more closely to improve transparency results**, largely through informational webinars and one-to-one meetings. ASD plans to target specific key markets where there is an identified need to build relationships with the supplier basis.





### **Transparency & Risk Assessment**



ASD is particularly happy to see **enhanced transparency to plantations**, which can be attributed to continuous engagement of players year over year that creates familiarity with the process, as well as strengthened legislations that support our requests.

Progress on transparency to refineries and mills was stagnant this year. For refineries, this continues to be due to

- 1. volumes linked to non-respondent or non-transparent suppliers, especially for new suppliers engaged for the first time this year, and
- 2. volumes out of scope of the investigation, such as volumes fragmented over many small suppliers. For mills, this continues to be due to the use of spot trading and shadow sourcing practices.

The next annual supply chain mapping investigation will commence as usual in December 2023 for all ASD members, based on 2023 purchased volume. ASD is in the process of exploring opportunities for **process evolutions to achieve transparency more efficiently**.

- This includes discussions with other service providers to align processes and consider opportunities for automation or other efficiencies, freeing up resources towards more action and impact.
- ASD continuously looks for opportunities for improvement of outputs. This includes any possibilities to minimize confidentiality towards more transparency on supply chain steps, and to enhance the deliverable format to better navigate towards more sustainable practices.
- Finally, ASD is in discussions with external stakeholders to ensure sector alignment in key areas. This includes engagements with reporting frameworks that require reporting on supply chain visibility to align expectations

**44** 2,069

mills identified as potentially linked to the collective supply chain

with feasibility; and with other service providers to avoid duplicative requests of suppliers and identify synergies where possible.

#### Identifying priorities

As part of the annual transparency investigation, ASD overlays existing environmental and social risk data to the collective supply chain mapping to identify collective risk hotspots. This risk assessment maps geographical level, mills, and grievances, which we use to prioritize action. High risk provinces are then prioritized for field projects in **Positive Impact** work (see page 9); high risk grievances are prioritized for management in **Monitoring and Grievances Management** work (see page 7).

In addition, each ASD member receives an individual report outlining the relative weighting of its own confidential supply base to risk, also applied to province, mill and grievance.



# 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. Upcoming regulations in the EU – including the Directive on Corporate Sustainability Due Diligence and the Deforestation-Free Products law – will require companies to be able to monitor their supply chain and resolve non-compliance. 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. ASD supports its members in identifying, analyzing, and assessing cases' severity, giving the right level of information to take actions on priority grievances.

#### Proactive monitoring

This year, ASD piloted a partnership with The Tree Map, founder of the **open-source geo-platform Nusantara Atlas**, with the objective to map and monitor deforestation linked to palm production in Southeast Asia. Twenty ASD members joined this initiative. Participating companies can identify where in their supply chains forests are kept standing and where they are or have recently been converted to palm, and can monitor the evolution and resolution of environmental grievances. Such information allows companies to effectively engage suppliers, verify claims, and leverage precise data in the journey towards deforestation-free sourcing.

#### 2023 key achievements:

- Supported Nusantara Atlas to expand their scope to the Malaysian peninsula region. Nusantara Atlas covers 92.6% of global ASD volumes (the portion of members' volumes that comes from Indonesia and Malaysia).
- Developed of a robust methodology to assess the deforestation linked to palm oil and identify Deforestationand Conversion-Free volumes linked to ASD members' supply chain.
- Analyzed annual deforestation caused by palm oil plantation expansion (from 2000 to September 2023)
- Established ability to identify mills within ASD members supply chain that are potentially linked to deforestation
- Established ability to monitor cases of deforestation in real time and added these alerts to the ASD grievance management process

In 2024, ASD will conduct a second project phase with the tool. The main objective will be to support ASD members'

due diligence process in line with regulations and other future requirements. Nusantara Atlas will give members' the ability to identify volumes linked to deforestation, and will issue alerts as soon as a case of deforestation has been identified. ASD members will thus be able to be proactive in resolving cases of deforestation and engage the supply chain accordingly.

Satellite monitoring tools are a valuable approach for proactive monitoring of deforestation, but there remains a gap in being able to identify human rights violations within members' supply chains more actively. Social grievances are more qualitative and longer-term in nature and monitoring cannot be automated. In 2024, ASD will investigate how to improve this process.

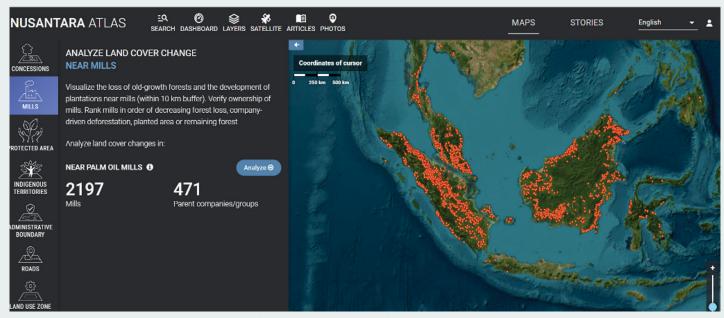
#### **Grievance management**

ASD has a grievance resolution process led by members. When grievances arise, ASD's first step is to leverage its Grievance Prioritization Methodology. The methodology – developed with consultation of external independent





### Monitoring & Grievance Management



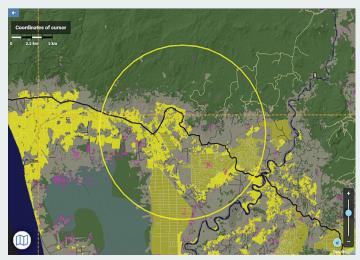
2,197 palm oil mills have been geo-referenced (99% of all existing mills) in the Nusantara Atlas

experts – considers severity, exposure, trade restriction, and connection to ASD supply chain to prioritize the grievances to engage on.

Priority grievances are further investigated. ASD hosts regular **alignment calls with key stakeholders** to discuss priority grievances – including civil society organizations and technical partners. These calls aim 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 builds proposed action plans for each specific unresolved priority grievance, for companies to leverage in individual grievance management efforts.

ASD recognizes several **challenges in individual grievance management**. There is a duplicative and time-consuming effort for companies to individually reach out to suppliers and follow-up regularly to keep it a top-of-mind priority. Suppliers then face multiple demands, and responses end up being standardized and lack detail, if they come at all. Individual companies have limited leverage to effect change. As such, ASD is in the process of developing plans to **address grievances collectively** in compliance with anti-trust laws for 2024. This would involve streamlined, coordinated exchanges and follow-ups with suppliers.

As additional support to members, ASD has **Grievance Mechanism Guidelines** for independently implementing effective grievance management. The guidelines were built from existing key stakeholders' frameworks to ensure alignment with the rest of the sector.



Mapping deforestation in real time



Verification using satellite images (Landsat, S2)



# Supply & Market Transformation

### Enhancing capacity for compliance with regulations



Regulations are shifting the landscape of palm supply chain sustainability, and creating a new sense of urgency for downstream users of palm to ensure full compliance with NDPE principles. Regulations of particular focus to ASD include the EU Directive on Corporate Sustainability Due Diligence, EU Deforestation Regulation, and the potentially impending EU Forced Labor Law. To support members towards compliance, ASD is tracking developments on these regulations and working to understand how they apply to ASD members. ASD is also mapping how its activities support members towards compliance with these regulations, in particular the EUDR, while also ensuring that ASD's strategy remains focused beyond compliance - on practices improvement.

#### Market engagement

To work towards the ASD vision, ASD is leading engagement with various stakeholders. For one, this includes direct supplier engagement through the Sustainable Palm Index (SPI) evaluation – a scorecard for ASD members to evaluate their direct & indirect suppliers of palm derivatives on their commitments, processes and achievements to progress sustainable procurement practices. ASD members use the results to engage their suppliers in meaningful dialogue, support them towards progress, and inform business decisions. In the fourth annual evaluation, 10 ASD members engaged 112 direct suppliers through the SPI. Direct supplier engagement and support activities have also included inputting into supplier-oriented toolkits and guidance on palm sustainability.

This year, ASD also began engaging vertically integrated traders to identify opportunities to work together towards achieving NDPE- and EUDR-compliance on oleochemical volumes. ASD's collaboration with these indirect suppliers may include integrating their due diligence and evaluation tools to ASD strategy, collaborating in grievance identification and management, and collaborating in implementing action at field level. ASD looks forward to further building these relationships and moving towards collective actions.

ASD looks for opportunities to enhance participation in RSPO, to track their work and to represent the derivatives voice. Despite a strong demand for certified segregated palm oil derivative volumes, the logistical efforts remain complicated and expensive, making it highly difficult to achieve. As a result, oleochemicals users must significantly rely on Mass Balance (MB) certified products. However, there is a lack of traceability and control mechanisms on the conventional part of the volumes which enter the derivatives supply chain through these schemes - this is a priority issue which ASD has been actively engaging with RSPO on. Engagement activities include coordinating comments on RSPO's Principles & Criteria open consultation and attending the RSPO Roundtables to represent derivatives. ASD plans to get more deeply involved in RSPO working groups, which some of our members joined in 2023, and engage in any other RSPO revisions of their supply chain standard.



# **Positive Impact**

### Scaling impact via collective action in priority landscapes

ASD believes that on-the-ground projects are an instrumental part of a comprehensive approach to transforming supply chains. Field projects offer an opportunity to move beyond risk mitigation and work as a lever for positive change, addressing environmental and social issues very directly where they are occurring. And they are a strategic opportunity to achieve responsible sourcing of palm oil derivatives by generating local transformation and building volumes of sustainable supply.

ASD's Impact Fund, developed in partnership with the Tides Foundation, enables ASD members to pool funding and collectively support projects on the ground. Through the Fund, ASD members intend to provide \$1.5 million to support the Kaleka Mosaik landscape initiative over five years (through 2026). The project aims to sustainably restore the landscape and drive economic growth in two of the largest palm-producing districts in Central Kalimantan, Indonesia, a province from which contributing ASD members sourced an average of 7.5% of their palm derivatives in 2022.

In April 2023, ASD completed its first full year of supporting the **Kaleka Mosaik Initiative** and is proud to have achieved the following impacts:

- Completion of a blueprint document of agri-food business clusters for regional economic development based on community-based agroforestry commodities, designed to provide the roadmap for districts to pursue green development by increasing the value of sustainably produced or harvested crops;
- 500 hectares of forest in one village protected through a social forestry scheme;
- 614 farmers from five villages achieving RSPO / ISPO certification;
- 90 hectares of land replanted in two villages, with 50 hectares multi-cropped with high economic value species;
- 204 forest farmers from five farmer groups in two villages SVLK certified (Timber Legality Verification for sustainable timber); and
- One village (Sapundu Hantu) provided with alternatives to promote fire-free agricultural practices.

ASD looks forward to sharing learnings from a field visit to Central Kalimantan in November 2023, and to reporting additional impact progress at the end of Year Two (April 2024).

This year, ASD has also launched an opportunity for ASD Members to **purchase RSPO independent smallholder** 



Restoration taking place in Mendawai Seberang as part of the Kaleka Mosaik Initiative

**credits (RSPO ISH)** from the Kaleka project. Through offmarket deals, ASD members can buy credits directly and privately from the producers of the project and decide on a fair price. Independent smallholders will earn premiums for their sustainability efforts, making the RSPO ISH credit market more sustainable and inclusive.

Now that the Impact Fund is well-established and efficiently managed, ASD is focused on scaling its impact work and **expanding its project portfolio**. ASD is in the process of conducting a project mapping to identify a second project to support through the Impact Fund.

### Combatting gender-based violence in Indonesian palm production

Given the high rates of gender-based violence in palm production, select ASD members have been funding ASD Respect in Palm – a pilot project led by BSR aimed at preventing and responding to gender-based violence and sexual harassment in palm oil concessions in Indonesia. The pilot has developed a customized workplace training program tailored to the palm context which provides women and men an overview of the concepts of gender norms, communication, and harassment. With the support of local partners, the trainings are currently underway and aim to equip participants with the tools to prevent violence and harassment in their workplaces and broader communities

# Expanding to Additional Commodities

ASD has proven efficacy of concept and achieved strong momentum within palm derivatives, and is making progress expanding work to other commodities.





#### **Coconut derivatives**

In 2021-2022, ASD conducted a pilot project to build a stronger understanding of the supply chain, including production areas, key players, ESG risks, and existing solutions. 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. In 2023, ASD has been designing a responsible field project in partnership with IRDF. This project will promote resilient livelihoods for smallholder coconut farmers in Davao, Philippines, through their empowered participation in coconut oil supply chain and adoption of sustainable farming practices. The project design is being finalized and will kick off soon.

For a more comprehensive effort around coconut, ASD is supportive of the Sustainable Coconut Partnership (SCP). The ASD Secretariat is tracking and participating in SCP's activities. In fact, ASD's field project will be part of SCP's Impact Accelerator to ensure alignment with broader sector efforts towards sustainable coconut.



### Soy derivatives

In June 2023, ASD completed a pilot to map the soy derivatives supply chain, including production areas, key players, ESG risks and existing solutions. This pilot highlighted a lack of transparency in the soy supply chain beyond crushers, and particularly in North America. For possible future activities, ASD will look to coordinate efforts on trader engagement with other sectoral industry working groups and stakeholders, beyond the derivatives supply chain.



#### **Other**

ASD plans to explore one or more additional commodities to bring into the scope of work, based on members' interests and where similar collaborative efforts do not exist. The additional commodities are to be determined – considerations include castor oil and sugarcane.

## **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.

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.



# What Our Members Say About ASD



### **Paula Kasprzyk**, Sustainable Materials Procurement Manager, **Avon** International

"ASD delivers consistent technical expertise, quality of work, and an increasing scope to address all relevant topics in the world of cosmetic derivatives. ASD's participation and representation in global forums such as the Roundtable on Sustainable Palm Oil (RSPO)'s Principle & Criteria (P&C) consultations and Sustainable Palm Oil Dialogue (SPOD) is also a great value to its collective membership."



### **Jonathan Mauricio**, Raw Material Purchasing Manager, **Clarins**

"As a founding member, at Clarins, we take immense pride in all the achievements and the journey we have undertaken together since 2019. Thanks to the unwavering commitment of all stakeholders, we have been able to enhance the traceability of the palm oil supply chain, establish an effective grievance monitoring mechanism, and

steer the sector towards deforestationfree sourcing, with positive socioenvironmental impacts. Let us, collectively, persist in this direction."



### **Laurent Schubnel**, Group CSR Leader, **Gattefossé**

"The complexity of the palm and palm kernel oil supply chain, combined with our limited weight in the overall palm oil market, make it difficult for us, alone, to have a positive impact on this supply chain. ASD is therefore a wonderful opportunity to better know the supply chain, clearly identify the risks and opportunities, understand the grievances and regulations. More importantly, acting all together give us more strength to make the overall palm oil supply chain more sustainable."

### HAL≣ON

### **Ben Thornton-Jones**, Director, Sustainable Supply, **Haleon**

"No company can make meaningful, sustainable change alone and we

strongly believe in the power of collaboration. This is why we hugely value our membership of ASD as it has helped us to unlock interaction with our peers, greater transparency of our complex palm oil-linked supply chain, evaluate our suppliers compliance to leading standards and invest in positive impact programmes."

#### **SEPPIC**

### **Jérôme Loeuil**, Biobased Derivatives Sustainable Sourcing, CSR Manager, **SEPPIC**

"We face huge challenges due to consumer expectations, collaborators' wishes, and increasing regulations. Reinforcing biobased supply chains is a collective approach for cosmetic ingredients suppliers as well as cosmetics brands. ASD innovates though collaborative methodologies, pooling of services, and technological verifications by satellite monitoring. ASD is decisive for the sector, for the palm supply chain, and for other future challenges."



# **Get Involved**

ASD is excited and motivated by its progress to date. The collaboration has been driving pre-competitive action to address complex challenges together, and has taken steps to take more proactive action in aims of raising ambition in the space.

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: Lenaig Benjamin, lenaig.benjamin@transitions-dd.com, or Ricki Berkenfeld rberkenfeld@bsr.org.



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# **Participating Companies**

Beiersdorf





























































