



**CORPORATE SOCIAL RESPONSIBILITY**  
**SECTOR POLICY – PALM OIL**



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# Preamble

As part of its commitment to corporate social responsibility, BNP Paribas has developed a consistent policy regarding its financial services and asset management activities for the palm oil industry.

Development of oil palm plantations can have several adverse impacts on local communities, climate change and ecosystems. However, the environmental and social issues in the palm oil sector mainly depend on the way palm oil is produced and milled. Responsible palm oil can indeed limit these impacts. By contrast, palm oil production is a major source of income and provides a livelihood to millions of people in developing countries. It also serves as an important source of nutrition for families in many countries worldwide<sup>1</sup>.

Responsible players and sustainability practices exist in the palm oil sector, and as a global financial institution BNP Paribas is convinced that they should be supported. Such an approach can bring long-term benefits to its customers and to the society at large. Several initiatives have been launched in order to raise awareness and to mitigate environmental and social issues of palm oil production, one of the most prominent being the Roundtable on Sustainable Palm Oil (RSPO).

The RSPO was established in 2004, at the initiative of palm producers, agri-businesses, end users and NGOs. In 2007, the RSPO Executive Board approved a certification protocol that details requirements for applicants and certification bodies and published a set of Principles and Criteria, which have been revised in April 2013.

RSPO certification brings concrete answers to the main CSR issues of the palm oil industry, but one has to take into consideration that it is a long and costly process. By following the RSPO principles and criteria, palm oil companies commit to transparency, compliance with applicable laws and regulations, use of appropriate best practices, environmental responsibility, conservation of natural resources and biodiversity, responsible consideration of employees, of individuals and communities affected by growers and mills, as well as responsible development of new mills. The RSPO certification of an asset (typically part of a plantation or a mill) implies having set out a time-bound plan to achieve full RSPO certification of all assets.

BNP Paribas believes that the RSPO has made, and is still making, a major contribution to the adoption of sustainability practices within the palm oil sector, through its wide-reaching, consensus-based, and multi-stakeholder approach. BNP Paribas is also a RSPO member.

BNP Paribas is aware that some companies have taken further steps to lead on the sustainability path by taking unilateral or joint commitments to no deforestation, no development on peat lands, and no development when consent of affected populations has not been obtained. BNP Paribas is fully supportive of these commitments and encourages the diffusion of these practices to other actors.

As a participant to the Soft Commodities Compact<sup>2</sup>, BNP Paribas is committed to participate to the alignment of the banking industry practices with the objective of achieving zero net deforestation by 2020 in the palm oil sector.

BNP Paribas will consider new developments in this sector and might amend this policy to take them into account. Therefore, BNP Paribas will continue, under certain conditions set out in this document, to finance and invest in the palm oil sector as it believes that it can be produced in a sustainable way.

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<sup>1</sup> See for example: *“Key Sustainability Issues in the Palm Oil Sector – A Discussion Paper for Multi-Stakeholders Consultations”*, Cheng Hai Teoh, for the World Bank Group, 2010.

<sup>2</sup> The Soft Commodities Compact is a joint initiative from the Banking Environment Initiative (BEI) and the Consumer Goods Forum (CGF) launched in April 2014. It covers palm oil, timber products, soy and beef.



# Sector Policy

## 1. Objective

This policy defines a set of rules and procedures regarding activities of the BNP Paribas Group entities, aimed at encouraging palm oil companies to develop the production of sustainable palm oil.

## 2. Scope

**Geographical limits:** worldwide

**Geography:** all BNP Paribas Group entities.

**Palm Oil Companies:** this policy applies to companies directly involved in the upstream and downstream palm oil value chain and for which it represents a significant part of their activities. Upstream companies refer to oil palm plantations and mills. Downstream companies refer to refiners and traders. Other companies further down the value chain (producers or traders of palm oil derivatives, or manufacturers and retailers of ingredients and products containing palm oil) are not in the scope of this policy. This policy also applies to the development of new palm oil projects (plantations and/or mills).

**BNP Paribas Group entities:** this policy applies to all business lines, branches, subsidiaries and joint ventures of which BNP Paribas has the operational control. When BNP Paribas establishes new joint ventures in which it has a minority stake, it will strive to include these standards as part of the joint venture agreement.

**Financial products & services:** this policy applies to all activities of BNP Paribas (lending, debt and equity capital markets, guarantees and advisory work, etc.). It covers all new clients and new financing agreements. Financing agreements that predate this policy will be reviewed accordingly upon their renewal or as they are due for review. BNP Paribas commits to promote the set of rules encompassed in this policy in any joint venture or outsourcing agreement.

**Asset management:** this policy applies to all BNP Paribas entities managing proprietary assets. BNP Paribas entities managing third-party assets (with the exception of index-linked products) reflect this policy and develop standards adapted to their businesses which will exclude any stock or issuer that do not comply with their standards. External asset managers are actively monitored and strongly encouraged to implement similar standards.

## 3. Rules and Standards of the Policy

BNP Paribas expects Palm Oil Companies to comply with existing applicable environmental and social laws and regulations, as well as with international conventions ratified by the countries in which they operate.

As part of its internal compliance process, BNP Paribas implements strengthened oversight and control measures to identify, inter alia, governance risks (including corruption), for all new clients and transactions.

In addition to compliance with laws and regulations, this policy sets specific criteria applicable to Palm Oil Companies which are split in two categories: mandatory requirements and evaluation criteria.



Mandatory requirements are to be understood as sine qua non: those have to be met without exception before BNP Paribas considers providing financial products and services to Palm Oil Companies.

In addition to these mandatory requirements, evaluation criteria have been identified to develop the analysis performed by BNP Paribas on Palm Oil Companies. Based on the results of such complementary due diligence, BNP Paribas reserves its right to call for additional requirements or decline its involvement even if the mandatory requirements are met.

## 3.1. Upstream Palm Oil Companies

### 3.1.1. Mandatory requirements

In order to avoid adverse environmental and social impacts, BNP Paribas requires that Upstream Palm Oil Companies (plantations and mills):

- Do not use child or forced labour;
- Have a policy in place to obtain the free, prior and informed consent (FPIC) of the local communities affected by new oil palm plantations<sup>3</sup>;
- Have a formal grievance mechanism in place to identify and address concerns from their stakeholders<sup>4</sup>;
- Do not develop new oil palm plantations on:
  - UNESCO World Heritage Sites;
  - Wetlands on the Ramsar list;
  - Alliance for Zero Extinction sites;
  - IUCN Category I-IV areas.
- Have a policy in place to conduct a High Conservation Value (HCV) assessment before any new plantation development, taking into account Key Biodiversity Areas;
- Have a policy and detailed operational procedures in place to protect the HCV areas identified within a license area, over the long term. New palm oil plantation developments should not result in the irremediable loss of one or more of the six high conservation values;
- Have at least the following policies in place, in order to minimize GHG emissions:
  - A no-burn policy, in line with the recommendations of the ASEAN Policy on Zero Burning or other regional best practice;
  - A policy not to develop new oil palm plantations on peatlands;
  - Peatland management procedures to minimize peat degradation for existing oil palm plantations located on peatlands;
  - A policy to minimize the use of artificial fertilizers;

<sup>3</sup> In line with Criterion 7.5 of the RSPO Principles and Criteria for the Production of Sustainable Palm Oil, 2013.

<sup>4</sup> In line with Criterion 6.3 of the RSPO Principles and Criteria for the Production of Sustainable Palm Oil, 2013.



- A policy to reduce GHG emissions from palm oil mills<sup>5</sup>.
- Do not use pesticides that are categorized as WHO Class 1A or 1B, or that are listed by the Stockholm or Rotterdam Conventions;
- Have a policy in place to minimize the use of pesticides (incl. paraquat);
- Have a policy in place to protect workers' health and safety conditions, and disclose their safety track record (work accidents, fatalities...);
- For palm oil mills: Have a time-bound plan for putting in place a system to track the origin of fruit supply and ensure that the supply source(s) do not contradict the requirements listed above.

### 3.1.2. Evaluation criteria

BNP Paribas will also assess whether Upstream Palm Oil Companies (plantations and mills):

- Have a policy to increase yields, in order to minimize land use;
- Have a policy to use degraded land or young scrub for new plantations, as an alternative to forested land;
- Have a policy related to smallholders (if relevant to its operations), covering aspects such as training on key environmental and social issues, yield improvement and RSPO certification;
- Have been regularly and repeatedly criticized for its environmental, social or governance performance on material issues, and whether it has taken actions to address them.

BNP Paribas strongly encourages Upstream Palm Oil Companies to integrate High Carbon Stock (HCS) analysis when developing new plantations, and to work with the relevant experts in that field.

Recognising the importance of multi-stakeholders voluntary approaches such as the RSPO, BNP Paribas also recommends that Upstream Palm Oil Companies:

- Become active members of the RSPO, e.g. by regularly reporting on progress and participating to working groups;
- Work towards full RSPO certification for their palm oil operations (plantations and mills), as evidenced by a time-bound action plan;
- For palm oil mills: Engage with third-party suppliers to achieve full RSPO certification of the supply base.

<sup>5</sup> Such as through (i) the implementation of methane (CH<sub>4</sub>) capture from palm oil mill effluent (POME) and (ii) the reduction of fossil fuel use through implementation of more efficient processes and/or substitution with other energy sources (e.g. residues such as fiber and shell, methane captured from POME).



## 3.2. Downstream Palm Oil companies

BNP Paribas encourages Downstream Palm Oil Companies (i.e. refiners and traders) to:

- Become active members of the RSPO and maximize the use of RSPO-certified palm oil;
- Ensure the traceability of their palm oil supply;
- Set up policies to source or trade palm oil originating from plantations that do not contradict the requirements listed in section 3.1.1 of this policy.

## 4. Group-level implementation mechanisms

BNP Paribas is aware that developing and implementing sustainable management standards and practices takes time and is challenging for palm oil companies.

As necessary, BNP Paribas will seek an expert advice to carry out the analysis required on certain palm oil companies. Based on the information made available, BNP Paribas ultimately decides whether or not to provide financial products and services and/or to invest. In case of insufficient or conflicting information, a dedicated committee or the BNP Paribas General Management Committee will be consulted.

BNP Paribas aims at implementing the policy consistently across financial products & services and asset management. Operational tools and awareness workshops will be rolled out to ensure that Group's staff is able to implement this policy.

## 5. Financial Products and Services

The information related to the above mandatory requirements and evaluation criteria will be obtained from palm oil clients and potential clients by BNP Paribas' relationship managers or business lines.

BNP Paribas will review regularly the performance of palm oil companies against the policy. If BNP Paribas becomes aware that a client operates outside the requirements of the policy, a dialogue will be engaged with the client in order to find an acceptable solution to improve the situation in a timely manner. If this dialogue is unfruitful BNP Paribas may decide not to pursue any new business with such client and will place existing business under review taking into account existing contractual agreements.

## 6. Asset Management

Regarding asset management and in order to respect its duty to manage independently clients' assets, specific implementation mechanisms should be put in place by the entities involved.

## 7. Policy disclosure and follow-up

BNP Paribas' stakeholders will be informed of the existence and the content of this policy, which will be posted on BNP Paribas' website. Furthermore a copy will be provided to our clients and potential clients as part of the due diligence process or upon discussion of any financial product or service to be provided subsequently to the official release date of this policy.



BNP Paribas will review this policy regularly, and may update it to make sure it remains in line with international good practices for the palm oil sector.

BNP Paribas welcomes any constructive feedback and comments on this policy.

## 8. Disclaimer

In order to comply with regulations and to implement the principles defined in its internal procedures and sector policies, BNP Paribas does its best to gather information, particularly from palm oil companies, on their sustainability policies and practices. BNP Paribas bases itself on the information gathered from palm oil companies and its partners. However, it is dependent on the quality, accuracy and up-to-datedness of such information.





# Sector Glossary

The following definitions apply in this policy:

**ASEAN Policy on Zero Burning:** In response to the land and forest fires that affected the ASEAN region in 1997/98, the ASEAN Environment Ministers agreed to adopt the policy on zero burning at the 6th ASEAN Ministerial Meeting on Haze in April 1999, and to promote its application by plantations in the region. Guidelines for the implementation of this policy have been developed to provide advice to plantation owners, managers, supervisory staff and contractors on the application of the zero burning technique for oil palm plantations development ([http://haze.asean.org/?wpfb\\_dl=163](http://haze.asean.org/?wpfb_dl=163)).

**Greenhouse gas (GHG) emissions:** In the palm oil sector, GHG emissions are mainly the result of:

- Land use change (deforestation, peatlands drainage, vegetation burning), and the use of fossil fuels in palm oil mills, leading to emissions of carbon dioxide (CO<sub>2</sub>)
- Production, transport and application of artificial fertilizers, leading to emissions of CO<sub>2</sub> and nitrous oxide (N<sub>2</sub>O)
- Anaerobic decomposition of organic material in palm oil mill effluents, leading to emissions of methane (CH<sub>4</sub>)

**High Carbon Stock (HCS) Forests:** HCS forest definitions have been developed since 2011 through multi-stakeholder field-based research in Indonesia and Africa, with the aim of developing a pragmatic and strong operational method to identify land that is forest and should be conserved, and land that is degraded and can be developed. HCS forests are those identified as High, Medium, Low Density and Regenerating Forests under the following vegetation strata characteristics:

- High Density Forest: Remnant forest of advanced secondary forest close to primary condition
- Medium Density Forest: Remnant forest but more disturbed than High Density Forest
- Low Density Forest: Appears to be remnant forest but is highly disturbed and recovering
- Regenerating Forest: Mostly young regrowth forest but with occasional patches of older forest.
- Young Scrub: Recently cleared areas with some woody regrowth and grass-like ground cover
- Cleared/Open Land: Very recently cleared land with mostly grass or crops and few non-crop woody plants.
- Young Scrub and Cleared/Open Land areas may be developed.

At the time of writing, multi-stakeholder research and pilot studies are underway across a number of geographies to refine the methodology and identify HCS areas that can and should be protected.

**High Conservation Value (HCV) areas:** The areas necessary to maintain or enhance one or more High Conservation Values defined as follows<sup>6</sup>:

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<sup>6</sup> HCV Resource Network (<http://www.hcvnetwork.org/about-hcvf/the-six-high-conservation-values>).



- Concentrations of biological diversity including endemic species, and rare, threatened or endangered species, that are significant at global, regional or national levels. *(e.g. the presence of several globally threatened bird species);*
- Large landscape-level ecosystems and ecosystem mosaics that are significant at global, regional or national levels, and that contain viable populations of the great majority of the naturally occurring species in natural patterns of distribution and abundance. *(e.g. a large tract of Mesoamerican flooded grasslands and gallery forests with healthy populations of Hyacinth Macaw, Jaguar, Maned Wolf, and Giant Otter, as well as most smaller species);*
- Rare, threatened, or endangered ecosystems, habitats or refugia *(e.g. patches of a regionally rare type of freshwater swamp);*
- Basic ecosystem services in critical situations, including protection of water catchments and control of erosion of vulnerable soils and slopes *(e.g. forest on steep slopes with avalanche risk above a town);*
- Sites and resources fundamental for satisfying the basic necessities of local communities or indigenous peoples (for livelihoods, health, nutrition, water, etc.), identified through engagement with these communities or indigenous peoples *(e.g. key hunting areas for communities living at subsistence level);*
- Sites, resources, habitats and landscapes of global or national cultural, archaeological or historical significance, and/or of critical cultural, ecological, economic or religious/sacred importance for the traditional cultures of local communities or indigenous peoples, identified through engagement with these local communities or indigenous peoples *(e.g. sacred burial grounds within a forest management area or new agricultural plantation).*

**Key Biodiversity Area:** KBAs incorporate information from the IUCN Red List of Threatened Species, BirdLife International's Important Bird Areas, Plantlife International's Important Plant Areas, IUCN's Important Sites for Freshwater Biodiversity, and sites identified by the Alliance for Zero Extinction. KBAs are identified at the national, sub-national or regional level by local stakeholders using the two globally standard criteria of vulnerability and irreplaceability, and therefore must contain:

- One or more globally threatened species;
- One or more endemic species which are globally restricted to the site or surrounding region;
- Significant concentrations of a species (e.g. important migratory stops, nesting sites, nurseries or breeding areas); and/or
- Globally significant examples of unique habitat types and species assemblages.

For more information: <http://www.biodiversitya-z.org/content/key-biodiversity-areas-kba>

**Local communities:** People living in or near a site intended to be converted into a palm oil plantation, and who can be adversely affected by such a development.

**Paraquat:** Paraquat is the trade name for one of the most widely used herbicides. It is quick-acting and non-selective, killing green plant tissue on contact. It is toxic to animals and human beings, and linked to development of Parkinson's disease. In the United States, paraquat is classified as "restricted use", which means that it can be used by licensed applicators only. In the European Union, paraquat has been forbidden since 2007.

**Palm oil mill / palm oil mill effluent:** A palm oil mill processes fresh fruit bunches coming from oil palm plantations and produces crude palm oil (CPO). The CPO is usually then sold to traders or



refiners (i.e. downstream palm oil companies) for further processing. Palm Oil Mill Effluent (POME) is the liquid waste resulting from the CPO production process, highly acidic and with high biological and chemical oxygen demand.

**Peatland:** A soil that contains at least 65% organic material, is at least 50 cm in depth, covers an area of at least 1 ha, and is acidic in nature (Driessen, 1978; Wösten & Ritzema, 2001).

**Rotterdam Convention:** The Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade is a multilateral treaty to promote shared responsibilities in relation to importation of hazardous chemicals, signed in 1998 and effective in 2004. The convention promotes open exchange of information and calls on exporters of hazardous chemicals to use proper labelling, include directions on safe handling, and inform purchasers of any known restrictions or bans. Signatory nations can decide whether to allow or ban the importation of chemicals listed in the treaty

(<http://www.pic.int/TheConvention/Chemicals/AnnexIIIChemicals/tabid/1132/language/en-US/Default.aspx>), and exporting countries are obliged to make sure that producers within their jurisdiction comply.

**RSPO Principles and Criteria (2013):** The RSPO Principles and Criteria for Sustainable Palm Oil Production are the standard against which palm oil producers can be certified. Each of the following eight principles is declined into criteria (<http://www.rspo.org/resources/key-documents/certification/rspo-principles-and-criteria>):

- Principle 1: Commitment to transparency
- Principle 2: Compliance with applicable laws and regulations
- Principle 3: Commitment to long-term economic and financial viability
- Principle 4: Use of appropriate best practices by growers and millers
- Principle 5: Environmental responsibility and conservation of natural resources and biodiversity
- Principle 6: Responsible consideration of employees and of individuals and communities affected by growers and mills
- Principle 7: Responsible development of new plantings
- Principle 8: Commitment to continuous improvement in key areas of activity

**Stockholm Convention:** The Stockholm Convention on Persistent Organic Pollutants is an international environmental treaty, signed in 2001 and effective from May 2004, that aims to eliminate or restrict the production and use of persistent organic pollutants (POPs).

The list of such substances can be found below:

<http://chm.pops.int/TheConvention/ThePOPs/ListingofPOPs/tabid/2509/Default.aspx>

**UNESCO World Heritage Sites:** Designated cultural and natural heritage areas around the world that are considered of outstanding value to humanity and which are listed under the World Heritage Convention (<http://whc.unesco.org/en/list>).



**Wetlands on the Ramsar list:** These wetlands are defined as “Sites containing representative, rare or unique wetland types” or “Sites of international importance for conserving biological diversity” listed in the Convention on Wetlands adopted in Ramsar, Iran in 1971 (<http://www.ramsar.org/>).

**WHO Class Ia or Ib** pesticides correspond to the pesticides that pose the greatest risks to human health according to the World Health Organization’s Recommended Classification of Pesticides by Hazard ([http://www.who.int/ipcs/publications/pesticides\\_hazard/en/](http://www.who.int/ipcs/publications/pesticides_hazard/en/)), Ia being “extremely hazardous” and Ib being “highly hazardous”.

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