

DESPITE LOW COMPLIANCE COST AND AVAILABLE SUPPLY, BRANDS ARE TAKING PALM OIL RISK

- **Supply currently exceeds demand:** Only 52% of certified palm oil was purchased in 2012-2013.
- **Compliance costs are low:** We estimate the cost of implementing even the most stringent traceability standard to be on average 0.05% of total revenue for 70 companies analyzed.
- As target sourcing commitment dates approach, reputational risks increase for companies falling short of commitments. **47%** of the largest global companies that rely on products that typically use palm oil **have not made any commitment to responsible sourcing** from suppliers certified by the Roundtable on Sustainable Palm Oil (RSPO) standards. Of those who made such commitments, **51% will not be able to meet their 100% certification goal by 2015** even under the least stringent traceability requirement (GreenPalm).
- Of the top 10 largest users of palm oil, six companies – **Procter & Gamble, PepsiCo, Colgate, Reckitt, McDonald's, and Kao** - are unlikely to meet the target of 100% certification by 2015 even if purchased through the least stringent supply chain system.
- **North American retailers** have the greatest opportunity to protect brand value at the lowest cost, yet most of them have not made any commitment to sourcing certified palm oil. Wal-Mart is a notable exception

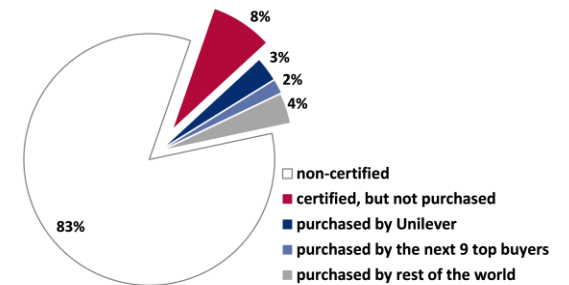
FIGURE 1 Companies' commitments and progress towards achieving RSPO certification goals



SELECTED COMPANY HIGHLIGHTS

	Less stringent commitment:	More Stringent
Have already achieved certification	Johnson & Johnson, Kellogg, L'Oreal, Marks & Spencer, Tesco, Unilever	-
On track to achieve certification by target year	Heinz, Nestle, Metro, Sainsbury	Heinz, Kellogg, Metro, Sainsbury
Unlikely to achieve certification by target year	Colgate-Palmolive, McDonald's, PepsiCo, Procter & Gamble, Wal-Mart	Johnson & Johnson, PepsiCo, Unilever
No time-bound commitment	Campbell, Clorox, Costco, Yum! Brands	McDonald's, Mondelez, Nestle, Procter & Gamble

FIGURE 2 – Global Palm Oil Market – purchasing of certified palm oil



Supply exceeds the demand: only 17% of the globally produced palm oil is certified to RSPO sustainability criteria, only half of that amount is purchased by palm oil users.

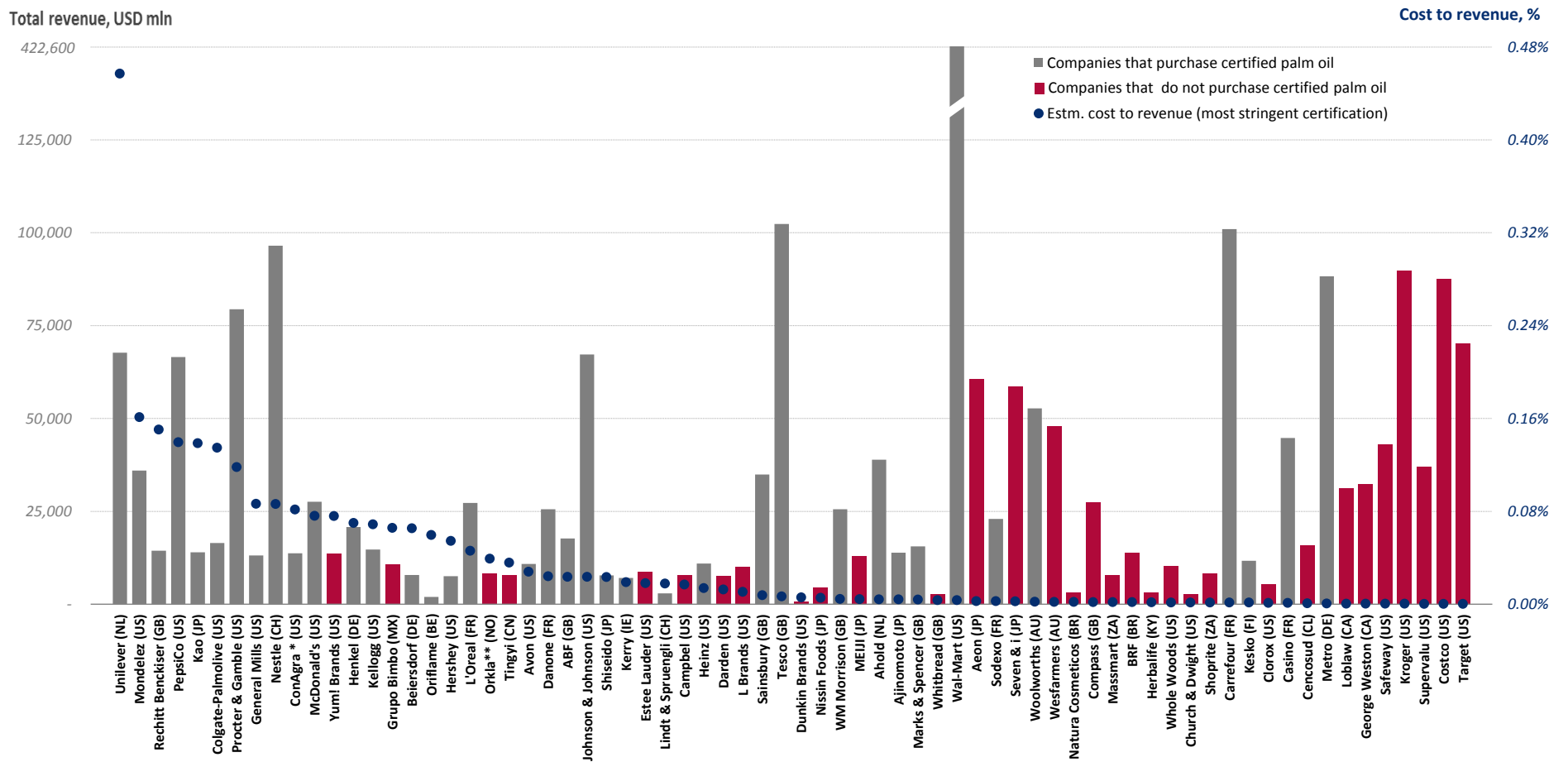
FIGURE 3 – Cost of certification for the top 10 palm oil buyers

	Scenario 1 Less Stringent (GreenPalm)		Scenario 2 More Stringent (Segregated)	
	Cost, USD	% of Revenue	Cost, USD	% of Revenue
Unilever (NL)	9,141,630	0.014%	309,291,815	0.457%
Procter & Gamble (US)	2,772,000	0.003%	93,786,000	0.118%
PepsiCo (US)	2,743,200	0.004%	92,811,600	0.140%
Nestle (CH)	2,460,000	0.003%	83,230,000	0.086%
Mondelez (US)	1,714,392	0.005%	58,003,596	0.161%
Colgate-Palmolive (US)	655,554	0.004%	22,179,577	0.135%
Reckitt Benckiser (GB)	641,370	0.004%	21,699,685	0.150%
McDonald's (US)	620,016	0.002%	20,977,208	0.076%
Kao (JP)	572,136	0.004%	19,357,268	0.139%
Johnson & Johnson (US)	466,800	0.001%	15,793,400	0.023%

Compliance cost is low: with Segregated palm oil currently traded at USD 200 premium, even the more stringent certification would on average account for less than 0.15% of revenue for the top 10 buyers.

FIGURE 4 Brand Visibility vis-à-vis Cost of Compliance

Description: We use **total revenue** as a proxy for assessing the size and visibility of companies globally. Large revenue volumes of retailers correspond to high level of visibility of companies in the set, and hence high exposure to risk of being scrutinized by media and public over sourcing practices. The **cost-to-revenue** figure refers to our estimate of the certification cost under the most stringent supply chain system (identity preserved or segregated palm oil) for the volume of palm oil purchased by companies and not yet certified to the most stringent standard. Please note that for companies that do not report palm oil purchasing volumes and do not have or do not disclose certification volumes, we estimate purchasing volumes based on the product portfolio composition, reliance on private label products, and location of operations.



*ConAgra reports purchasing only 79 tons of palm oil. However based on our review of the company's product portfolio, we estimate the actual volume to be between 35,000 to 55,000 tons.

** Orkla, a Norwegian confectionary company, made a commitment to RSPO certification but at the time of the report publication did not have any reported purchasing volumes of certified palm oil.

Source: *RSPO Annual Communication on Progress, company disclosure, media reports, MSCI ESG Research*

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¹ As of September 30, 2013, as reported on January 31, 2014 by eVestment, Lipper and Bloomberg