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[1].

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 address environmental and social issues and ensure a gradual shift towards good practices on the palm oil sector, one of the most prominent being the Roundtable on Sustainable Palm Oil (RSPO).

By following the RSPO Principles and Criteria as part of the certification process, 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. RSPO members usually have a time-bound plan for full certification of all their operations.

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 multistakeholder approach. BNP Paribas is also a RSPO member.

An increasing number of companies have taken further steps by taking “No Deforestation, No Peat, No Exploitation” (NDPE) commitments, applicable to their entire supply chains. BNP Paribas is fully supportive of these commitments and encourages the dissemination of these best practices to other actors in the palm oil sector.

As a participant to the Soft Commodities Compact[2], 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.

[1] 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

[2] 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

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" refers to crude palm oil production (plantations and/or mills).
- "Downstream" refers to crude palm oil refining and/or trading.

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

BNP Paribas requires that Upstream Palm Oil Companies (plantations and mills):

- Be RSPO members (or have a time-bound plan to become RSPO members);
- Have published an up-to-date communication on progress;
- Have a time-bound plan for full RSPO certification of their operations.

In addition, BNP Paribas requires that Upstream Palm Oil Companies:

- Have a policy in place prohibiting the use of child or forced labour;
- Have a human resources policy in place covering key labour issues of the sector – incl. no human trafficking, payment of minimum wage, maximum working hours, and the right to freedom of association and collective bargaining – covering all workers including contract, temporary, casual and migrant workers (as applicable);
- Have a policy in place to protect workers' health and safety conditions, and disclose their safety track record (work accidents, fatalities…);
- Have a policy in place to obtain the free, prior and informed consent (FPIC) of indigenous and local communities, prior to developing new oil palm plantations;
- Have a formal grievance mechanism in place to identify and address concerns from their internal and external stakeholders;
- Have a policy in place to conduct High Conservation Value (HCV) assessments before developing new oil palm plantations, and to protect the HCV areas identified within their concessions;
- Have a policy in place to conduct High Carbon Stock (HCS) assessments before developing new oil palm plantations[3] , and to protect the HCS forests identified within their concessions.
- 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 the following policies in place, in order to minimize GHG emissions:
  - No-burning for the development of oil palm plantations;
  - No development of new oil palm plantations on peatlands, regardless of depth;
  - Implement best management practices for existing oil palm plantations located on peatlands;
  - Minimize the use of artificial fertilizers;
  - Reduce GHG emissions from palm oil mills[4] .
- Do not use, except in very specific and exceptional situations, pesticides that are categorized as WHO Class Ia or Ib, or that are listed by the Stockholm or Rotterdam Conventions;

[3] As of the publication date of this Policy, the HCS Approach resulting from the convergence process that ended in November 2016 is considered as the best available methodology: https://highcarbonstock.org/what-is-the-high-carbon-stock-approach/

[4] Such as through (i) the implementation of methane (CH4) 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 fibre and shell, methane captured from POME).

- Have a policy in place to minimize the use of pesticides, and have a time-bound plan to terminate the use of paraquat;

BNP Paribas requires that Upstream Palm Oil Companies have a time-bound plan to ensure that all their third-party suppliers of fresh fruit bunches are compliant with their sustainability commitments and policies.

BNP Paribas also requires that Upstream Palm Oil Companies have a time-bound plan for public reporting on the implementation of their sustainability commitments, and for the independent verification of such reporting.

It should be noted that several of the above requirements are consistent with the "No Deforestation, No Peat, No Exploitation" (NDPE) commitments taken by an increasing number of palm oil companies.

3.1.2 EVALUATION CRITERIA

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

- Have a time-bound plan for full RSPO certification of their fresh fruit bunches supply base (or similar verification mechanism for smallholders5);
- Have a policy to increase yields of oil palm plantations;
- Are working with smallholders on good agricultural practices, yield improvement and RSPO certification (or similar verification mechanism), through the provision of technical assistance and training;
- Have adopted the necessary tools and practices to monitor implementation of their no deforestation commitments, notably throughout their supply chain;
- Have submitted to the RSPO concession maps for all the countries in which they operate, where permitted by law;
- Have a policy in place covering fire prevention, monitoring and suppression on the land they manage and in the vicinity of their estates;
- Have been regularly and repeatedly criticized for their environmental, social or governance performance on material issues, including through complaints submitted to the RSPO Complaints System, and whether they have taken actions to address such issues.

3.2 DOWNSTREAM PALM OIL COMPANIES

3.2.1 MANDATORY REQUIREMENTS

BNP Paribas requires that Downstream Palm Oil Companies (i.e. refiners and traders):

- Be RSPO members (or have a time-bound plan to become RSPO members);
- Have published an up-to-date communication on progress;
- Have a time-bound plan to achieve full RSPO certification of their operations.

[5] According to the RSPO, smallholders are "farmers who grow oil palm, alongside with subsistence crops, where the family provides the majority of labour and the farm provides the principal source of income, and the planted oil palm area is less than 50 hectares"

3.2.2 EVALUATION CRITERIA

BNP Paribas will assess whether Downstream Palm Oil Companies (i.e. refiners and traders):

- Have a time-bound plan to trade and/or process only RSPO-certified palm oil;
- Are working to improve the traceability of their palm oil supply;
- Have a time-bound plan to ensure that their palm oil suppliers are compliant with the following standards:
  - No development in HCS forests
  - No development in HCV areas,
  - No burning for the development of new plantations
  - No development on peat, regardless of depth
  - No use of child/forced labour
  - Respect land tenure rights, incl. the free, prior and informed consent of indigenous and local communities
  - Have a human resources policy covering all workers (no human trafficking, payment of minimum wage, maximum working hours, and the right to freedom of association and collective bargaining)
- Have been regularly and repeatedly criticized for their environmental, social or governance performance on material issues, including through complaints submitted to the RSPO Complaints System, and whether they have taken actions to address such issues.

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:

Free, Prior and Informed Consent (FPIC) is the principle that a community has the right to give or withhold its consent to proposed projects that may affect the lands they customarily own, occupy or otherwise use[6].

According to the RSPO Principles & Criteria 7.5: "*No new plantings are established on local peoples' land where it can be demonstrated that there are legal, customary or user rights, without their free, prior and informed consent. This is dealt with through a documented system that enables these and other stakeholders to express their views through their own representative institutions*".

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_2)
- Production, transport and application of artificial fertilizers, leading to emissions of CO_2 and nitrous oxide (N2O)
- Anaerobic decomposition of organic material in palm oil mill effluents, leading to emissions of methane (CH4)

High Carbon Stock (HCS) Forests: Initial work on the HCS methodology has started in 2011 through multistakeholder field-based research in Indonesia and Africa, with the objective 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 Young 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
- Young Regenerating Forest: Mostly young regrowth forest but with occasional patches of older forest.
- 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.
- Scrub and Cleared/Open Land areas may be developed.

Following 12 months of discussions, in November 2016 the two different HCS methodologies that had been developed in parallel have been merged into the High Carbon Stock Approach (HSCA).

[6] http://www.forestpeoples.org/guiding-principles/free-prior-and-informed-consent-fpic

High Conservation Value (HCV) areas: The areas necessary to maintain or enhance one or more High Conservation Values defined as follows[7]:

- 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 nonselective, 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.

[7] HCV Resource Network https://www.hcvnetwork.org/

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 (2020): 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 (rspo-principles-criteria-for-production-of-sustainable-palm-oil-2018revised-01-february-2020-with-updated-supply-chain-requirements-for-mills.pdf, et RSPO Supply Chain Certification Standards 2020):

- Principle 1: behave ethically and transparently
- Principle 2: operate legally and respect rights
- Principle 3: optimise productivity, efficiency, positive impacts and resilience
- Principle 4: respect community and human rights and deliver benefits
- Principle 5: support smallholder inclusion
- Principle 6: respect workers' rights and conditions
- Principle 7: protect, conserve and enhance ecosystems and the environment

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 (https://www.who.int/publications/i/item/9789240005662), Ia being "extremely hazardous" and Ib being "highly hazardous".

About this document

Sectoral policies are an integral part to the BNP Paribas risk management framework, which is critical to its long-term business interests and required by its regulators.

They reflect BNP Paribas' commercial and independent approach to managing, in particular, financial risks and potential impacts related to the activities of clients or investees in sectors that are of heightened sensitivity from an environmental and social perspective.

They also help direct the Group's financing and investment activities towards areas where it can deliver the best service to its clients.

Each client and transaction is assessed on a case-by-case basis in line with BNP Paribas' risk appetite, strategy and commercial interests.

The application of the provisions set out in this policy remains subject to compliance with applicable laws and regulations.