Case Study on Improving Management of Human Rights Risk in the Extended Palm Oil Supply Chain

A Collaboration between Wilmar International Limited (‘Wilmar’) and Verité, with support from Mars, Incorporated

September 2020

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INTRODUCTION

In recent years, as high-profile stakeholder actions and consumer campaigns have increasingly shined an international spotlight on human rights issues in the palm oil sector, various frameworks and initiatives have emerged through which industry has sought to address these issues. In 2013, for the first time, forced labor standards and indicators were included in the Principles and Criteria (P&C) of the Roundtable on Sustainable Palm Oil (RSPO) certification standard. Around the same time, the concept of “NDPE” (No Deforestation, No Peat, No Exploitation) gained traction as a framework for sustainability commitments by major palm oil companies and buyers, focusing attention on the critical issues of deforestation, destruction of peatlands, and exploitation of human populations. In 2018, focused stakeholder engagement led the RSPO and its varied members to more fully address human rights risks by incorporating additional and strengthened human rights standards into the most recent revision of the RSPO P&C, which reflect an improved understanding of the issues. New mandatory basic standards such as the Malaysia Sustainable Palm Oil (MSPO) and Indonesian Sustainable Palm Oil (ISPO) frameworks are also beginning to shape the social practices of palm oil producers in key markets.

The advent of these human rights standards is in itself an important development, but standards require strong internal implementation structures within companies in order to result in meaningful changes in the lives of workers and communities. In Verité’s experience, effective human rights programs require companies to have a strong understanding of the various types of internal and external human rights risks associated with the sector in question, as well as both the specific risk profiles of the countries of operation and the different risks associated with the various production processes involved.

In addition, companies must have the ability to grasp how gaps and weaknesses in their internal systems can exacerbate these risks so they can determine where new or better controls need to be placed. To do this, companies must be willing to make themselves vulnerable, be ready to look unflinchingly at their own limitations, and be open to having frank conversations internally and with external stakeholders. Companies must also learn how to develop approaches to human rights prevention and risk mitigation that are grounded in full consideration of the root causes of the issues. In Verité’s experience, this has sometimes been a challenge in the palm oil sector, despite companies’ efforts to incorporate “social” issues in a more holistic and comprehensive way, since many companies’ sustainability programs were first established to address environmental issues and key responsible parties may lack sufficient capacity to address human rights issues effectively.
The Pilot

Verité and Mars, Incorporated have a multi-year strategic partnership supporting Mars’ global human rights programming. As part of this collaboration, Mars asked Verité to work with Wilmar, one of its palm oil suppliers, to help Wilmar improve its human rights performance. In particular, both Mars and Wilmar identified a need to strengthen the company’s ability to manage human rights risk within their extended (upstream) supply chain in Malaysia, where Wilmar refineries largely source from mills and plantations not owned by the company. With open willingness on the part of Wilmar to engage, the project kicked off in the fall of 2017 and continued through 2019.

The work involved Verité analyzing Wilmar’s operations, identifying critical system gaps and risk sources, training the company to take more active control of its approach to risk management, and, importantly, closing the gap between practices in its own operations and those of its extended suppliers. The program included a detailed assessment of Wilmar’s own supplier responsibility and monitoring systems, and an evaluation of how these function in the context of a small subset of upstream mills and plantations to which Verité was granted access. In addition, the collaboration involved development of new risk assessment tools and the delivery of a range of capacity building activities designed to strengthen Wilmar’s internal implementation structures and enhance its sustainability team members’ ability to understand issues and devise and own solutions themselves.

This case study documents this journey, highlighting the challenges faced, lessons learned, and good practices identified, as well as some key outcomes of the collaboration.

Human Rights Risk in the Extended Supply Chain

Palm oil refineries constitute the first tier of the palm oil supply chains of consumer goods companies like Mars. Many of the human rights risks and issues associated with refineries tend to be at least somewhat visible to and understood by the companies owning them, as well as to their buyers. This visibility often also holds true for the mills and plantations that are owned and operated directly by Tier 1 supplier companies. In Verité’s extensive experience auditing palm oil facilities in the region, vertically integrated mills and plantations are more likely to be certified, more frequently surveilled, and their compliance programs better managed than those operating independently of major supplier companies. However, some palm oil refineries, including the Wilmar-owned refinery evaluated in this case study, source as much as 80 to 90 percent of their oil from external suppliers, and only 10 to 20 percent from their own mill and plantation operations. For some refineries like the one in this case study, the majority of their crude oil supply comes from externally-owned mills, some of which
may operate estates of their own, but which can also be “independent mills” that only purchase fresh fruit bunches (FFBs) from independent small plantations and smallholders. The Wilmar refinery noted above sources 100% CPO from external mills, as Wilmar has no mills or plantations in Peninsular Malaysia, where the refinery is located. Verité has found that refineries typically do not establish exclusive or binding contracts with independent mills, much less the plantations and smallholders providing FFBs to them, and thus lack direct leverage with which to exert influence over their practices and operations. Indeed, mills often do not want exclusive or binding contracts with refineries, preferring to retain their independence to decide to whom they sell.

Verité’s clients in the sector report that independent mills can pose one of the most critical and challenging sources of human rights risk for palm oil companies. Such mills are often relatively small in scale and managed by local actors who are poorly integrated into international responsible sourcing conversations, and may be uninterested in or uninformed about certification schemes such as RSPO. In some instances, such suppliers may comply with legal mandates and buyers’ responsible sourcing requirements, but Verité has observed instances where this has not been the case.

As part of the assessments carried out in Malaysia by Verité, some mill and plantation companies have confirmed to Verité auditors that prior to implementation of the legally mandatory Malaysian Sustainable Palm Oil (MSPO) certification scheme, they were not subject to strict government monitoring or inspections, and their business relationships with their buyers rarely came with conditions to adhere to social responsibility standards. Indeed, a surplus of refinery capacity nationally in Malaysia means that mills always have other buyers available and can simply choose to stop supplying to a refinery if it becomes too demanding about social and human rights standards. An additional challenge is that Malaysia depends heavily on migrant workers for its supply of labor in the palm oil sector. Such a structural situation has been associated with heightened risk of forced labor and human trafficking, among other serious human rights abuses in the country generally, and in the palm oil sector specifically.

Verité has a long-standing auditing practice in Malaysia and has conducted numerous assessments of palm oil mills and plantations in refineries’ extended supply chains in the country. These investigations have documented employer practices that violate workers’ rights, with managers reporting they are prioritizing cutting costs and retaining workers to ensure that contracts are fulfilled on time. Practices such as withholding passports, withholding wages in the form of forced savings, charging recruitment fees and costs, imposing deposits, and monetary penalties are all deployed by managers to ensure that workers do not run away from undesirable palm oil worksites. Such “worker-retention” practices are sometimes coupled with exploitative management practices such as excessive overtime hours, long work shifts, and production quotas, to
ensure that workers’ labor is maximized. Employers often make minimal investments in workers’ accommodations, and sometimes even exploit the limited access to food and water on remote plantations as an opportunity to earn additional money by charging wage deductions for basic needs. Abuses such as these lie at the heart of recent regulatory, legal, and consumer pressure on palm oil companies and buyers, and they lend urgency to the need for Tier 1 palm oil suppliers to strengthen their ability to manage upstream supply chain risk in the sector.

**Existing Risk Management Approaches**

In Verité’s experience, non-vertically integrated palm oil refineries often face a basic dilemma in managing upstream human rights risk. They need to maintain relationships with independent mills and plantations in order to meet volume requirements while also ensuring that their own and their customers’ social standards and commitments are upheld. Some companies have begun to implement initiatives to address this challenge, deploying tools like risk screening platforms and conducting ground-level monitoring, supplier training, and capacity building. In most cases, however, even those Tier 1 palm oil suppliers that have initiated such activities have typically outsourced them to third-party service providers and consultants in order to enable them to concentrate on meeting sustainability requirements within their own operations. In consequence, parallel sustainability systems have tended to evolve — one for the company’s own operations and another for its extended suppliers. As stakeholder demands and trade regulations increasingly require not only full transparency but also clear demonstration that significant efforts are being made to manage risks and address issues in the entire supply chain, companies can no longer dissociate their operations from those of their extended suppliers.

**A Systems Approach to Managing Labor and Human Rights Risks in Extended Supply Chains**

At the core of Verité’s approach to addressing labor and human rights risks in supply chains is the principle that companies must internalize their commitment to upholding human rights throughout all aspects of their organization. Efforts and resources must not only be centralized in a sustainability team, but also embedded within key functions such as operations, production, and sourcing and procurement. Verité’s experience has shown that to ensure social standards are sustained over time requires that mechanisms be established for companies to assess performance and promote continuous improvement both internally and with their suppliers. Very often, this requires a process of strengthening companies’ internal implementation practices by taking stock of gaps in existing compliance systems and building internal capacity to identify, understand, and address human rights issues effectively.
Using this approach as a foundation, the key objectives for the Mars-funded engagement with Wilmar were to (1) develop internal implementation structures to manage upstream human rights risk; (2) strengthen existing controls; and (3) continuously improve systems. Specifically, this involved the following key program components:

- a comprehensive program assessment of Wilmar’s operations and management systems;
- identification of critical system gaps and risk sources;
- enhancement of the Wilmar sustainability team’s capacity to understand issues and identify solutions themselves;
- enhancement of Wilmar’s capacity to monitor, engage, and evaluate suppliers through field assessments, corrective action plan development, and corrective action verification; and
- facilitating Wilmar to develop a comprehensive human rights policy framework, and to review and strengthen existing tools for supplier management.

**Program Assessment of Wilmar Systems and Processes**

The Verité pilot engagement with Wilmar began in 2017 with a two-level assessment. One level, a comprehensive review and evaluation of Wilmar’s program to manage its extended suppliers, was carried out through review of documents and interviews with relevant staff throughout the company. The second level involved field assessments of labor conditions and management practices at those Wilmar external suppliers that agreed to participate in the pilot exercise. The field assessments of the suppliers were conducted to create a baseline understanding of any issues to be addressed, but also to understand the processes through which Wilmar engages its suppliers to address issues and identify relevant gaps or limitations of these processes.

Over the course of the comprehensive program assessment, Verité noted that many good practices were already in place at the company. At the global program level, Wilmar’s top management has a strong commitment to social sustainability, and Wilmar’s sustainability policy covers the entire supply chain, including third-party suppliers that it purchases from or trades with. Some important structures were already in place to identify, understand, and address critical issues. In particular:

- Wilmar has a transparent sourcing network and comprehensive traceability. It has mapped its supply chain and made it available to the public.
- Wilmar has conducted a risk assessment of existing suppliers, identified high-risk suppliers, and developed a program to address these risks.
- Wilmar has developed procedures and guidelines that include social sustainability requirements to screen and evaluate new suppliers.
• Wilmar has engaged with communities affected by its supply chain and other relevant stakeholders.

• Wilmar employs a risk-based approach to due diligence through programs such as the Aggregator/Refinery Transformation (ART) program and use of the Supplier Reporting Tool (SRT). Wilmar also engages with NGO partners such as Aidenvironment Asia (as of November 2019 known as Earth Equalizer) and CORE (a collaboration between Proforest and Daemeter Consulting) among others, to monitor, respond to, and identify issues that could be linked to suppliers at the plantation, mill, or group level.

• Wilmar has worked with external consultants such as Earthworm Foundation (previously The Forest Trust), Business for Social Responsibility (BSR), and Verité to hold various series of workshops to increase awareness among its medium and small suppliers on issues such as wages, employment contract status, grievance mechanisms, child protection and prevention of child labor, and labor rights.

• Wilmar has an updated public grievance platform in place to report and track issues, complaints, and stakeholder actions.

However, areas to strengthen practices also emerged, namely:

• The various initiatives, activities, and engagements categorized under “social compliance” could be better integrated. Before 2019, there was no clear human rights strategy framework, for instance, on which human rights objectives and a timeframe or workplan could be based.

• Wilmar’s standards could be clearer on labor issues with high reputational risk to the company. In particular, the company has lacked sufficiently detailed policy guidance for its suppliers related to issues such as excessive work hours, health and safety training, and oversight of the recruitment and hiring practices of labor contractors. Although Wilmar has an established policy stating that it will terminate its business relationship with suppliers seriously violating its NDPE policy (https://www.wilmar-international.com/docs/default-source/default-document-library/sustainability/resource/no-deforestation-no-peat-no-exploitation-policy.pdf?sfvrsn=e09ab362_2) it did not have a clear roadmap for doing so in practice.

• Verité noted that many of the activities and projects launched by Wilmar, especially those touching on the extended supply chain, were done with reliance on expertise provided by third parties, leaving Wilmar without a sufficiently strong sense of ownership of or sufficient visibility into the objectives and implementation of the programs and initiatives in place. The consistency of oversight and management of external consultants’ work on labor and human rights issues varied, and the establishment of clear KPIs on the
part of the sustainability team with regard to the performance of their external consultants was identified as a need.

- Verité noted an opportunity for improvement in Wilmar’s framing/understanding of social issues, their root causes, and how risks relate to one another. While existing systems for assessing and identifying human rights risks were often able to surface issues of concern, their root causes and connections to management practices were not always sufficiently analyzed, understood, or communicated well to the suppliers being assessed.

- Strategic plans, tools, and mechanisms being used by Wilmar managers to address labor concerns, while often good in theory, were not always implemented effectively. Recommendations to suppliers about corrective actions, including those to be taken to remediate labor-related findings, were not always clearly articulated or were communicated in ways that could be construed to contradict Wilmar’s own internal practices.

- There were opportunities to increase emphasis on preventive interventions, such as employers taking full control of the recruitment process, including in the workers’ countries of origin, and to shift from “fire-fighting” immediate problems to establishing practices that diminish the risks over the long-term.

**Verité Capacity Building with Wilmar**

To address the areas identified as opportunities for improvement in the systems assessment, Verité designed a series of capacity-building activities to help improve Wilmar’s understanding of risk sources, improve its internal risk management systems, and develop the necessary skills and controls to manage human rights risks in its supply chain more effectively, and to become less reliant on third parties for supply chain oversight.

Initially, the plan was to develop the capacity of Wilmar’s team members who were engaged directly with external suppliers for the refinery selected for the pilot project, but following Verité’s assessment of Wilmar’s program, the engagement was expanded to involve sustainability managers for Wilmar’s own operations in Malaysia and parts of Indonesia. This approach was taken because it became clear that there was a need to ensure consistent awareness of No Exploitation and of specific auditable standards among as many of Wilmar’s relevant sustainability personnel as possible. The process of developing a strong and unified system for supply chain sustainability needed to start with the important step of aligning the internal understanding of the issues and standards related to human rights.

Two formal trainings were conducted. The first focused on standards and requirements relevant to human rights; the second focused on implementation strategies, with an emphasis on building skills for data gathering and reporting for use in internal social
controls. In addition, Verité provided consulting support to Wilmar sustainability personnel throughout the project to help them strengthen their due diligence processes and systems for monitoring and promoting continuous improvement by their suppliers. Verité helped Wilmar staff map the priority human rights risks in their supply chain in relation to the relevant initiatives and processes already in place, and provided sample risk mapping tools to supplement those Wilmar was already using. Verité also assisted Wilmar to develop corrective action reporting templates for use with suppliers, and provided coaching on how to engage suppliers and communicate findings and expectations constructively and clearly.

With Verité’s support, Wilmar then undertook the work of facilitating its participating mills in a process of corrective action plan (CAP) development to address the areas highlighted during the baseline assessments. When one mill in the program failed to demonstrate adequate commitment to addressing the issues raised and complying with Wilmar’s requirements, Wilmar took this into consideration in their review of business relations with the specific company. Wilmar worked with the remaining suppliers to support them in CAP implementation, with Verité providing coaching as needed. In 2019, a second visit to the suppliers previously assessed was conducted by Verité in order to validate the status of corrective actions taken by them, and to evaluate the Wilmar team’s success at engaging the participating suppliers on human rights issues and monitoring their social performance effectively. By this time, the supplier that had previously failed to demonstrate adequate commitment to Wilmar’s requirements had shifted course and expressed a willingness to cooperate in Wilmar’s supplier responsibility process and remediate the issues raised. That supplier was then assessed as well, as part of the process of meeting Wilmar’s compliance policies.

**Facilitation of a Human Rights Framework for Wilmar**

One key program activity involved Verité’s facilitation of Wilmar to develop a comprehensive human rights strategy framework. This entailed reviewing Wilmar’s human rights objectives implicit in its NDPE and other policy commitments; mapping the priority risks to which Wilmar’s operations were exposed; assessing those risks against legal and industry obligations and other stakeholder requirements; and then articulating those findings and risks in a formal framework delineating Wilmar’s approach to human rights. Having a comprehensive human rights framework in place should enable Wilmar’s human rights initiatives to be better defined and more responsive to the risks the company needs to manage going forward, as well as better oriented to the company’s human rights goals.

The process undertaken to develop the framework is depicted below:
Facilitating Wilmar’s Human Rights Framework Development

The outcome of this facilitation process was the 2019 publication of the Wilmar Human Rights Framework (https://www.wilmar-international.com/docs/default-source/default-document-library/sustainability/policies/human-rights-framework.pdf), a six-page public document detailing Wilmar’s key focus areas for human rights, and its specific approaches to respecting specific labor rights, including standards for forced labor, freedom of association, child protection, occupational health and safety, and non-discrimination/equal opportunity. The Framework also clearly states Wilmar’s policies and implementation approaches related to sexual harassment, violence and abuse, and reproductive rights for women; its respect for community and indigenous rights; and its approach for smallholder farmers. The document specifically recognizes the importance Wilmar places on workers’ rights to raise grievances and obtain remedy. Final sections clearly explain the company’s expectations of its suppliers and the mechanisms by which it will hold them accountable for compliance with its policies.
Outcomes of the Pilot

At a program level, a number of key improvements were achieved in Wilmar’s systems to manage human rights risks:

A Human Rights Framework has been developed to ensure that Wilmar’s efforts to address, respect, protect, and promote human rights are grounded in its key principles, and oriented toward long-term solutions rather than reactive ones.

A markedly higher level of awareness and stronger ability to detect and address risks has been developed among Wilmar team members. Adjustments have also been made in Wilmar’s third-party compliance sustainability team composition for better efficacy. Supplier monitoring leads are equipped with core competencies required by the job. Training needs have been identified, trainings are planned, and a continuous improvement track for the staff has been established.

Specific procedures and protocols addressing root causes of issues have been developed. For example, a Supplier Reporting Tool (SRT) platform is in place, which enables Wilmar to flag risks and communicate its human rights expectations and requirements of suppliers. Processes to verify and monitor flagged risks are being implemented. No Exploitation Protocols have been developed, and critical stakeholders have been consulted.

At the supplier level, marked improvements were also observed. Whereas the suppliers initially held a strong resistance to being assessed, and even more so to being required to address issues, by the end of the engagement, suppliers had a better understanding of the standards and expressed a willingness to cooperate. Assessments conducted in the follow-up field visits found that recommendations and changes suggested by Wilmar had been taken on board, policies had been developed, and a more standardized and systematic approach to managing workers had been implemented. Although suppliers progressed at different speeds, Verité and Wilmar observed improvements in areas such as formalizing recruitment procedures, implementing written contracts for workers, upgrades to living conditions, and reduction in working hours. Interviews with workers (about 90 in all) indicated an increased level of satisfaction with their working conditions.

More work needs to be done, and additional systems need to be put in place, but Wilmar’s team is now better equipped to oversee those improvements. The findings demonstrate that meaningful improvements in human rights can be made in the extended palm supply chain when refineries directly engage in oversight of independent suppliers and embed human rights objectives in management systems at all levels.
Lessons Learned and Future Directions

The positive experiences described in this case study were facilitated by a number of important enabling factors.

The changing regulatory framework, higher expectations reflected in the MSPO, and strengthened RSPO standards have significantly helped to raise awareness and increase supplier openness to human rights oversight. Wilmar leveraged MSPO-related Malaysian government assessments in its supplier engagements, encouraging suppliers to view the exercise with Verité as a means to gauge their readiness for MSPO and other customer requirements. For Wilmar and palm oil companies like it, the clearer and higher standards set by the RSPO for its members drive good practice and increase motivation to address upstream supply chain risk through effective supplier management.

The support of a committed buyer such as Mars also played a big role in advancing Wilmar’s capacity. A key aspect of this pilot initiative was the co-creation by Mars, Verité, and Wilmar of a maturity matrix tool for use in assessing the level of development of various elements of Wilmar’s human rights-related management systems. This “management systems roadmap” helped structure the work Verité and Wilmar have done together, and continues to provide a way for all three parties to understand the progress achieved and work yet to be done. In addition to providing financial support and encouragement for the collaboration with Verité, Mars also communicated to Wilmar that it understood the complexity of the challenges its palm oil suppliers face, and that it wants to act as a catalyst in helping Wilmar and other Tier 1 suppliers address their vulnerabilities and needs at the structural level of their sustainability management systems and team capabilities, including in their ability to manage risk in the extended supply chain.

In Verité’s experience, progress on these issues also requires the participation of willing partners both at the Tier 1 level and in the extended supply chain. In this specific case, Wilmar was willing to subject itself to an assessment of its human rights program by Verité. Wilmar also managed to convince some of its independent suppliers to participate in the pilot project and, as a result of this exercise, deepened its relationship with them.

A key insight gained in the course of this work is that the core capacity needed by a Tier 1 company to manage upstream supply chain risk is less a matter of specific technical protocols or tools, and more one of being able to communicate with upstream suppliers in a supportive and consistent manner, and own the process of monitoring and enforcing standards upstream. The success of this project has hinged on Wilmar’s improved ability to analyze human rights problems, identify the tools it needs to solve
them, and know where and how to get or develop these tools — more so than on the specific content of any given tool itself.

For Verité, these findings suggest that strengthening the capacity of Tier 1 suppliers in the palm oil sector to improve their ability to address human rights risk in their extended supply chains will require two kinds of commitment and investment. One is for the companies to embrace and undertake a process of comprehensive programmatic review and improvement to address limitations in their own internal management systems for upstream supplier engagement and oversight. This kind of in-depth self-evaluation and improvement can be done with or without the assistance of a third-party facilitator like Verité, but having the support of one or major buyers would be extremely helpful to provide the framework and motivation to undertake such efforts.

And two, Tier 1 suppliers need access to effective tools their sustainability teams can use to engage their extended suppliers to drive good business practices and reduce human rights concerns. In this project, Wilmar and Verité worked together to develop many of these tools. In the next phase of this program, Mars is supporting Verité to draw on the work with Wilmar to create a generic, open-source set of tools for extended supply chain risk management for use by palm oil companies.

This case study has made clear that the effectiveness of management tools largely depends on having sustainability teams that understand and internalize their purpose, and new practices that are embedded within well-conceived and comprehensive management systems.
Endnotes


