

EOS Case Study

November 2020

POSCO

Following divestment by a major pension fund and criticism from NGOs due to deforestation resulting from its palm oil operations in Indonesia, POSCO INTERNATIONAL strengthened its policies and processes. EOS introduced the company to two critical NGOs, leading to a successful collaboration culminating in commitments to adhere to internationally recognised standards and to restore forest areas.

Background

POSCO is a South Korean conglomerate with operations including steel manufacturing, chemicals and natural resources. Through its subsidiary POSCO INTERNATIONAL, the group is engaged in a range of business activities including trading, resource development, and production and processing. POSCO INTERNATIONAL produces palm oil through its Indonesian subsidiary PT. Bio Inti Agrindo (PT. BIA). Following divestment of POSCO INTERNATIONAL (then POSCO DAEWOO) by a major pension firm in 2015 and severe criticism of the company by NGOs over the deforestation related to the palm oil development in Indonesia, EOS at Federated Hermes started engagement with POSCO INTERNATIONAL and POSCO group on sustainable palm oil.

The flexibility and yield efficiency of palm oil makes it a valuable commodity. However, plantation practices can cause deforestation which destroys natural habitats, affects the human rights of indigenous groups and local communities, and contributes to climate change. This has led to consumer boycotts, increasing the risk of palm oil substituted with other oil crops that are produced at lower yields per unit area, which may result in higher land use to meet the market demand for oil crops. If forests or peatland already held by producers cannot be developed to produce palm oil without violating buyers' increasing no deforestation, no peat, no exploitation (NDPE) procurement policies, the land risks becoming a stranded asset as it cannot be viably developed, severely affecting the balance sheet of palm oil companies.

Engagement objective



Environmental:

Producing sustainable palm oil in Indonesia

Sustainable Development Goals:



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Engagement with EOS helped us to accelerate our work in developing sustainable palm oil commitments and in adopting international best practice. Being able to demonstrate sustainable practices to preserve tropical forests and combat climate change will contribute to the long-term success of our company.

– Joyce Eun Jeong Seo, Manager, Sustainable Management, POSCO INTERNATIONAL



Our engagement

EOS started engaging with POSCO in 2011 over human rights concerns at a proposed integrated steel plant in Orrisa, India. The company acknowledged the challenge of mining rights in 2014 and terminated the project in 2016. We also engaged with POSCO INTERNATIONAL on a gas project in Myanmar and child labour cases related to cotton picking in Uzbekistan. Lack of progress in our engagement led us to recommend a vote against one of POSCO's board directors in 2016. In the same year, we started the dialogue on palm oil, asking for the Indonesian Sustainable Palm Oil (ISPO) certification of plantations in Indonesia.

After several attempts to engage with POSCO INTERNATIONAL on the issue of sustainable palm oil in 2016, we met the executive team at the company's office in May 2016 on environmental and human rights issues. The company focused on legal compliance but acknowledged its performance fell below international expectations. We recommended the company to have a dialogue with the Roundtable on Sustainable Palm Oil (RSPO). Later that year, the company confirmed it began a discussion with the RSPO and asked for our input on its code of conduct and commitments. We recommended the company demonstrate its leadership in sustainable palm oil through collaboration with experts and an ongoing assessment of its environmental responsibilities.

Engagement intensified further in 2017 with six engagement meetings with the company. In the spring of 2017, PT. BIA published its first ESG report, which included a stakeholder interview of our EOS senior engager urging POSCO group to influence PT. BIA to adopt an NDPE policy. Soon after, we met an environmental NGO that had approached institutional investors to raise its concerns over POSCO INTERNATIONAL's palm oil production. EOS, in turn, met with POSCO INTERNATIONAL's general manager of agro-resources and vice president of communications, encouraging them to meet with the NGO. A joint engagement meeting with the company took place in July 2017, also joined by another NGO, which resulted in a robust discussion about the company's potential commitment to NDPE and contribution to reforestation.

We maintained a steady engagement throughout 2018, pressing POSCO INTERNATIONAL on the need for better practices and highlighting not only the financial risks but also the reputational risk for the whole business, despite the small size of the palm oil business within POSCO group. We broadened the conversation in 2019 and engaged with POSCO group's sustainability team on the issue of climate change. In 2020, we spoke with POSCO INTERNATIONAL twice to monitor the company's progress in implementing the NDPE policy and commitments.

Changes at the company

In October 2016, we were pleased to hear that POSCO INTERNATIONAL had followed our suggestion to adopt international best practices in its palm oil business and had begun a discussion with the RSPO to develop its sustainable palm oil strategy and set a target to obtain the ISPO certification by 2018. Shortly after, the company reached out to inform us that it had a positive outcome from its first ISPO assessment. The company referenced our suggestions in the revisions to its code of conduct, with a revised statement on taking on a leadership role in the sustainable palm oil business through collaboration with experts in the fields of environmental and social management.

Further progress came in 2018 as the company became a member of the RSPO and committed to a plan to obtain the ISPO certification by 2020. In August 2019, POSCO INTERNATIONAL achieved the ISPO certification. We also saw a gradual improvement of climate-related governance in POSCO group and an openness to engage to respond to our concerns.

More encouragingly, the company committed to an NDPE policy in March 2020, promising the preservation of areas of high conservation value and high carbon stock. To compensate for prior deforestation, the company promised to implement a

programme outside its concessions on a scale that corresponds to the size of developed plantation. The commitments were developed in collaboration with an NGO, demonstrating how engagement can bring stakeholders together to achieve the sustainability agenda.

Timeline of EOS engagement



Next steps

We continue to monitor the company's implementation of the NDPE policy and commitments, and the human rights aspect of its palm oil production. This includes the process of securing free, prior and informed consent for new concessions and a continuous dialogue with local stakeholders.



Hanah Chang
Engagement
EOS

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Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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