

Fact sheet

Palm oil in Dutch banks' investment funds

The results of the report on 'Investment Funds. The untold story about the link between Dutch banks and industrial palm oil companies'

PHOTO: ED WRAY

By SOMO, commissioned by Milieudefensie

Private investors have been unknowingly and unwittingly investing money in deforestation for years. By investing in funds offered by ABN AMRO, ING and Rabobank they are filling the coffers of undesirable palm oil companies without being informed by the bank. This is revealed in a new report by SOMO, commissioned by Milieudefensie.

Without informing their customers, ABN AMRO, ING and Rabobank invest their customers' money in investment funds including controversial palm oil companies. The investment funds these banks offer include at least 30 different palm oil companies. Banks rake in commission, while investors are unwittingly filling the coffers of palm oil companies. Even palm oil companies that are far from complying with the sustainability policy for palm oil that banks adopt, are offered to private investors in investment funds. Milieudefensie calls on banks to halt all forms of funding of the palm oil industry.

Banks support more palm oil companies than originally thought

In July 2018, Milieudefensie published the *Draw the Line - a black book of the shady investments by Dutch banks in palm oil* report. It outlined the structural problems related to 14 palm oil companies that are financially supported by the three major Dutch banks. The new report *Investment Funds - The untold story about the link between Dutch banks and industrial palm oil companies*, reveals that the banks are involved in financing even more palm oil companies. In principle, the palm oil companies in the funds on offer are not assessed using any sustainability criteria that the banks apply to loans provided to palm oil companies. This means the banks even help the worst offending palm oil companies raise capital to expand.

Investing in deforestation via the funds

Banks' private customers are increasingly encouraged to invest their savings instead of leaving them in a savings account. By investing in a company's shares the company's value increases. The more a company is worth, the easier it is for the company concerned to acquire loans to, for example, develop new palm oil plantations.

This is how investing in an investment fund works

An investment fund may include dozens, hundreds or even thousands of companies. The funds are put together by companies such as BlackRock, Vanguard, Robeco and Nationale Nederlanden. Sometimes an investment fund is compiled by a bank, as ABN AMRO does for its customers.

When a customer wants to invest, ABN AMRO, ING and Rabobank offer a selection of investment funds from which the customer can choose. The bank may also play an active role as an adviser or manager of the entire investment. Once the customer has chosen a fund, whether or not as a result of the bank's advice, the fund purchases shares in a number of companies with the customer's money. The investor's money is then spread between the companies involved in the fund. The fund thus automatically becomes co-owner of the companies in the fund.

Banks are avoiding their responsibility

The banks are legally obliged to assess the financial risks the customer faces. Yet they avoid their responsibility related to sustainability in the investment funds. They do not supply their customers with information about the companies included in a fund, or about the impact of these companies on man and the environment. Their sustainability policy for palm oil does not apply, or hardly does, to this investment method. Consequently, the banks earn money from palm oil companies that cut down the rainforest and steal land from the population. And the customer investing becomes embroiled in a controversial sector without his or her knowledge.

How many funds include palm oil companies?

This study investigated whether 81 palm oil companies appear in the funds offered by ABN AMRO, ING and Rabobank.

ABN AMRO

ABN AMRO offers 56 funds that include 23 different palm oil companies. This is 10% of all the funds offered by ABN AMRO. In April 2018, the market value of the shares in palm oil companies in all these funds amounted to over 1.5 billion euro.

ABN AMRO even awarded some of these funds a 'sustainability indicator'. What's more, ABN AMRO MeesPierson offers another 16 funds that include palm oil companies.

ING

ING offers 85 funds that include 21 different palm oil companies. In April 2018, the market value of the shares in palm oil companies in all these funds amounted to over 1.8 billion euro.

Rabobank

Rabobank offers 61 funds that include 22 different palm oil companies. In April 2018, the value of the shares in these palm oil companies amounted to almost 1.4 billion euro. Five investment funds with a sustainability claim even include palm oil companies. The 'ACTIAM Verantwoord Index Aandelenfonds Pacific' fund holds shares in six different palm oil companies: First Pacific, Golden AgriResources, Itochu Corp, Jardine Matheson Holdings, Noble Group and Wilmar International.

Examples of funds including palm oil

One fund is highlighted for each bank, to demonstrate that each fund often includes many palm oil companies. Many of these palm oil companies are not assessed with regard to the sustainability policy for palm oil adopted by the bank.

ABN AMRO

The 'Vanguard FTSE AllWorld UCITS ETF fund (US)' offered by ABN AMRO MeesPierson includes at least 19 different palm oil companies. In April 2018, the market value of the shares in these palm oil companies was estimated at 3.6 million euro. This means that investors in this fund collectively invested 3.6 million euro in these palm oil companies. The fund, and therefore the investor, earns money from the injustices carried out by these 19 palm oil companies. ABN AMRO receives an amount when investments are made in this fund.

ING

The 'Vanguard Pacific Ex Japan Stock index fund (US)' includes shares in four palm oil companies. The market value of the shares in these palm oil companies was estimated at 32 million euro. Foreign divisions of ING also offer funds involved in palm oil, such as the 'iShares MSCI Emerging Markets ETF' offered by ING Australia. This fund includes shares in at least 13 palm oil companies. In April 2018, the market value of the palm oil shares in this fund was estimated at over 356 million euro. ING receives an amount when investments are made in these funds.

Rabobank

The 'Vanguard Emerging Markets Stock Index Fund (US)' includes shares in over 18 palm oil companies. In April 2018, the market value of the shares was estimated at over 559 million euro. Rabobank receives an amount when investments are made in this fund.



PHOTO: MILIEUDEFENSIE

Regulation of the financial sector

There is currently no legal obligation for investment funds or their providers (such as ABN AMRO, ING and Rabobank) to prevent companies that have a devastating impact on man, animals or the environment being included in the funds they offer. No law obliges them to guarantee that investments are sustainable. This report reveals that banks are not able to make their investments more sustainable. Consequently, ABN AMRO, ING and Rabobank are avoiding their responsibility in terms of transparency, accountability and sustainability.

In March 2018, the EU launched the 'sustainable finance' action plan. One element of the plan involves a proposal to draft legally binding rules for investment funds to take sustainability into account. It is still unclear whether this action plan will also effectively lead to new legislation. The new regulation primarily concerns transparency, and does not yet make it compulsory for banks and funds to actually invest their money more sustainably.

Recommendations

The report paints a disconcerting picture of how banks have their investment customers unwittingly invest in deforestation due to a lack of information. Milieudefensie proposes the following recommendations, among others, to prevent this happening in the future. (The full list of recommendations can be found in the report.)

Recommendations for Dutch banks:

- Stop all forms of funding for the industrial palm oil sector. This applies to direct finance for palm oil companies as well as indirect finance (via investment funds);
- Guarantee that none of the investment funds offered include shares in palm oil companies;
- Require investment funds to only engage in financial relationships with companies that strive to achieve a positive impact on man and the climate. This should guarantee that banks assume their responsibility for the contents of the funds they offer;
- Be transparent about the companies with shares in the investment funds offered. Make information about the sustainability impact of the fund and individual companies publicly available.

Recommendations for the Dutch government:

- Support existing and new legislative proposals that should lead to sustainability criteria and assessments being integrated in investment choices. Only legislation can enforce an end to funds that have a negative impact on man, animals and the environment;
- Support the legislative proposal for making transparency compulsory with regard to sustainable investments and sustainability risks.

Recommendations for individual investors:

- Tell your bank to stop financing the palm oil industry and offering investment funds that include shares in palm oil companies. Visit www.trekdegrens.nl;
- Demand sustainable investment funds that do not include any shares in palm oil companies.

How banks are facilitating the devastation of the rainforest in Sumatra through funds

To illustrate the report, we show how the money of private investors ends up funding deforestation and land grabbing. We tell the shocking story of the original inhabitants of the village of Pungkat (Sumatra, Indonesia) that are losing their income and area in which they live as a result of Dutch investments in palm oil.

ABN AMRO, ING and Rabobank offer funds that include shares in First Resources, one of the largest palm oil producers in Indonesia. ABN AMRO and ING both offer two funds that include shares in this company. Rabobank is the frontrunner with at least nine investment funds that include shares in First Resources. Insofar as we know the banks do not provide direct loans to First Resources, and the company thus avoids the sustainability test that banks usually apply when providing credit.

First Resources has planted 210,001 hectares of oil palms in Indonesia. First Resources holds a 49% share in the Indonesian palm oil company PT Setia Agrindo Jaya (PT SAJ), which is the owner of the Indonesian palm oil company PT Setia Agrindo Lestari (PT SAL). Since 2008, First Resources has been a member of RSPO. However, PT SAL and PT SAJ are not RSPO certified.

Since June 2014, the village of Pungkat has been involved in a conflict with PT SAL. The conflict began when the residents of Pungkat found out that the palm oil company PT SAL was planning to expand its palm oil plantation to 17,000 hectares of wetland area, where several villages, including Pungkat, are located. According to the villagers this violates the agreement that no palm oil plantations could be developed on the land. This is because in 2011, the then president of Indonesia forbade deforestation and clearing of wetland areas. Nevertheless, a year later, in 2012, the regency in the province of Riau, granted PT SAL a permit to use 17,000 hectares to expand the palm oil plantation.



PHOTO: ED WRAY

Hernawati, shop owner in Pungkat, Indonesia

"The rainforest is of great value, it provides us with wood, water and fish. It is our source of income. If the palm oil company stays in the forest, we will no longer have any wood, no clean water and no fish to eat. I want the palm oil company to leave. We must preserve the source of our income for our children's future. And that is building boats. Just like our grandparents did. It is our last hope."



PHOTO: ED WRAY

Hamdalis, boat builder in Pungkat, Indonesia

"In the past it was easy for me, being a boat builder. There was always work. We could do our work then. [...] We still had it good from 2000 until 2013. We still had plenty of wood until the palm oil company PT SAL came to Pungkat in 2014. The rainforest where we sourced our wood has been wiped out. It is now a palm oil plantation. Where do we get our wood from now?"

The activities of the palm oil company PT SAL cause many problems for the residents of Pungkat. The drinking water is polluted due to the rainforest being cut down and the construction of the plantation. The village is totally dependent on the water, which originates from the wetlands. Moreover, 80% of the village depends on the wood that the rainforest provides. The villagers have been boat builders for generations. By cutting down the rainforest their source of income risks disappearing completely.