

Ferrero to stop buying palm oil from Malaysia's Sime Darby over labor concerns

Friday 19 August 2022, by [Reuters](#) (Date first published: 15 April 2022).

(1st UPDATE) Ferrero's move is a further reputational blow for Sime Darby and for Malaysia, which faces mounting allegations of labor abuses of migrant workers in various industries

KUALA LUMPUR, Malaysia – Italian confectionary giant Ferrero said it will stop sourcing palm oil from [Sime Darby Plantation](#) after the United States found the Malaysian planter used forced labor, in a reputational blow for the palm producer and for Malaysia.

[Labor practices](#) across the Southeast Asian country have come under scrutiny in the past two years, with six companies including Sime Darby [banned by US customs](#) over [forced labor allegations](#).

Palm oil, the most widely used vegetable oil, is a key ingredient in Ferrero Rocher chocolates and Nutella spread, giving the iconic products their smooth texture and shelf life.

"On 6th April, we have requested all our direct suppliers to stop supplying Ferrero with palm oil and palm kernel oil sourced indirectly from Sime Darby, until further notice," Ferrero told Reuters by email.

"Ferrero will comply with the US Customs and Border Protection's decision," it said.

Although Ferrero buys relatively little of the edible oil from Sime Darby, its move – following [similar halts by Cargill, Hershey, and General Mills](#) – could hurt Sime Darby's standing as a leader in sustainably produced palm oil.

Sime Darby told Reuters it has taken steps in the area of human rights and that all its stakeholders who are committed to sustainability can be assured of its commitment and leadership in the industry. Ferrero is not a customer, it added.

"We are also in regular communication with all key stakeholders, particularly customers who have their own commitments," it said.

Sime Darby's shares were down 4% on Friday afternoon, April 15, weaker than the main Malaysian stock index, which was 0.3% lower.

"It's very critical that Sime move fast to further alleviate any concern following the departure of some of these key customers," said Ivy Ng, regional head of plantations research at CGS-CIMB Research, adding that other buyers could also suspend purchases as the labor concerns drag on.

Ferrero, responding to queries this week from Reuters about suppliers receiving its requests to stop buying from Sime Darby, said it does not buy directly from the Malaysian firm, which it said supplies 0.25% of its palm oil volumes.

More halts

Following a 2020 decision to ban imports due to the presence of “forced labor indicators” at Sime Darby, US customs said in January it had sufficient evidence of forced labor and that the firm’s goods were subject to seizure.

Ferrero said its products and brands in the United States had stopped sourcing from Sime Darby in January 2021.

Sime Darby has promised “sweeping changes” to its governance and some labor practices following the US finding.

Palm oil is one of the world’s cheapest and fastest-growing vegetable oils, used in products from food to cosmetics to biodiesel. But the industry has faced scrutiny over the years for widespread deforestation in Southeast Asia and exploitation of migrant workers.

[Migrant workers](#) from countries like Indonesia, India, and Bangladesh account for around 80% of the palm oil labor force in Malaysia, the world’s biggest producer of the commodity after neighboring Indonesia.

Ferrero says it uses only certified sustainable palm oil. It sources 85% of its palm oil from Malaysia, which traditionally has a better reputation for its sustainability than Indonesia.

US commodities trading giant [Cargill](#), in a move not previously reported, said in March it had suspended purchases from Sime Darby pending more information on the firm’s measures to address the labor allegations.

Cargill said on its website that Sime Darby had taken “very constructive and potentially transformative” steps, but it needed more information to determine whether the planter was meeting the trader’s sustainability standards.

Sime Darby said its supply of bulk products to Cargill in India has been taken up by other customers. “We value all our customers and are certainly in discussions with Cargill,” it said.

Cargill declined to say how much palm oil it sources from Sime Darby.

Last year, US food company General Mills said it has issued global “no buy orders” on Sime Darby while chocolate maker Hershey asked suppliers to ensure no Sime Darby oil enters its global operations.

Reuters

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