

Nestlé Action Plan on the Responsible Sourcing of Hazelnuts from Turkey



24th February 2012

Executive Summary:

As part of Nestlé's Responsible Sourcing Programme, in 2011 we started collaborating with the Fair Labor Association (FLA) to assess the working conditions in the extended hazelnut supply chain in Turkey vs. the Nestlé Supplier Code, the FLA Code of Conduct, ILO Conventions and Turkish law. The assessment team visited a total of 26 farms, 3 tent settlements established by the Turkish government and 15 grower accommodations provided by farm owners. Almost 400 interviews were conducted with farm workers and other stakeholders — from local government and union organizations to growers, labor contractors and crackers. Some of the findings include:

1. Presence of illegal foreign workers;
2. Lack of employment records;
3. Compensation discrimination;
4. Harassment;
5. Under-age workers; and
6. Lack of supply chain transparency

The FLA report has established a valuable evidence base that will benefit Nestlé and also other buyers, the Turkish hazelnut export sector, government and civil society in developing effective strategies for concrete improvement in labour conditions where shortcomings have been identified.

The FLA report has made short- and long-term recommendations:

For the Government:

1. Creation/enforcement of labor law for agricultural activities employing less than 50 workers;
2. Improvement of coordination among local authorities;
3. Regulation of recruitment processes related to seasonal migrant labor;
4. Addressing the issue of migrant worker transportation; and
5. Raising awareness among all stakeholders about child labor risks and the creation of educational, cultural and sporting facilities in government-provided accommodations.

For International Buyers:

1. Adoption of and adherence to a Code of Conduct in the agriculture sector;
2. Inclusion of a Code of Conduct in supplier contracts;
3. Monitoring throughout the supply chain to ensure adherence in a multi-year process;
4. The creation of annual targets with specific key performance indicators;
5. Possible consolidation of the supply chain;
6. Bottom-up approach, incl. raising awareness and increasing capacity at village & farm level;
7. Development of public-private partnerships to eradicate child labor;
8. Creation of management systems to identify and respond to non-compliances / risks;
9. Training for stakeholders throughout the supply chain.

Nestlé Action Plan:

Nestlé supports all recommendations put forward in the FLA report. Together with the FLA we have developed a multi-year action plan to integrate the recommendations into our sourcing strategy, supported by KPIs and timelines to track progress. We will provide regular updates on progress in implementing the plan. Nestlé also reaches out to relevant private and public stakeholders to engage in collaborative action to promote sound labour practices in the Turkish hazelnut sector as a whole.

1. The Nestlé Supplier Code and independent supplier audits

a) The Nestlé Supplier Code:

All suppliers with whom we deal directly have signed the Nestlé Supplier Code¹, which contains non-negotiable minimum requirements on business integrity, sustainability, labour standards, safety & health, environment, supplying farmers and audit & termination of supply agreements.

b) Independent supplier audits against the Nestlé Supplier Code

Suppliers with whom we deal directly are being audited against the Nestlé Supplier Code by independent third party (Intertek, SGS, Bureau Veritas). In 2010/2011, a total of 2'000 Nestlé suppliers have been audited by independent third party. By 2015, about 10'000 Nestlé suppliers will have been audited worldwide.

Where cases of non-compliance with the Code are detected, Nestlé and 3rd party auditors help vendors to close gaps and improve their practices based on a corrective action plan. Nestlé monitors the implementation of the corrective action plan and reserves the right to terminate business with suppliers who are either not able or not willing to become fully compliant.

c) Independent audits of Nestlé hazelnut suppliers

In 2010 and 2011, all five Nestlé approved hazelnut suppliers in Turkey have been audited by independent 3rd party. The audits demonstrated compliance of all suppliers with the Nestlé Supplier Code at the level of their business operations, i.e. hazelnut cracking and processing.

2. Nestlé collaboration with the FLA to assess the extended hazelnut supply chain

In order to gain a complete picture of the labour practices in the extended hazelnut supply chain in Turkey, Nestlé in summer 2011 started collaborating with the Fair Labor Association (FLA) to conduct an assessment of the working conditions of the seasonal workers engaged in the hazelnut harvest on Turkey's Black Sea coast, back to the farm level. The FLA assessment report is available at the Nestlé website (www.nestle.com) and the FLA website (www.fairlabor.org).

a) *Risks and non-compliances at harvest level*

The assessment team primarily assessed and found risks and non-compliances against the applied labour standards at the beginning of the supply chain, i.e. in hazelnut harvesting.. Identified risks and non-compliances relate to the following standard elements: Employment relationships, non-discrimination, harassment or abuse, under-age workers², health, safety and environment, hours of work, and compensation.

¹ www.nestle.com/Common/NestleDocuments/Documents/Library/Documents/Suppliers/Supplier-Code-English.pdf

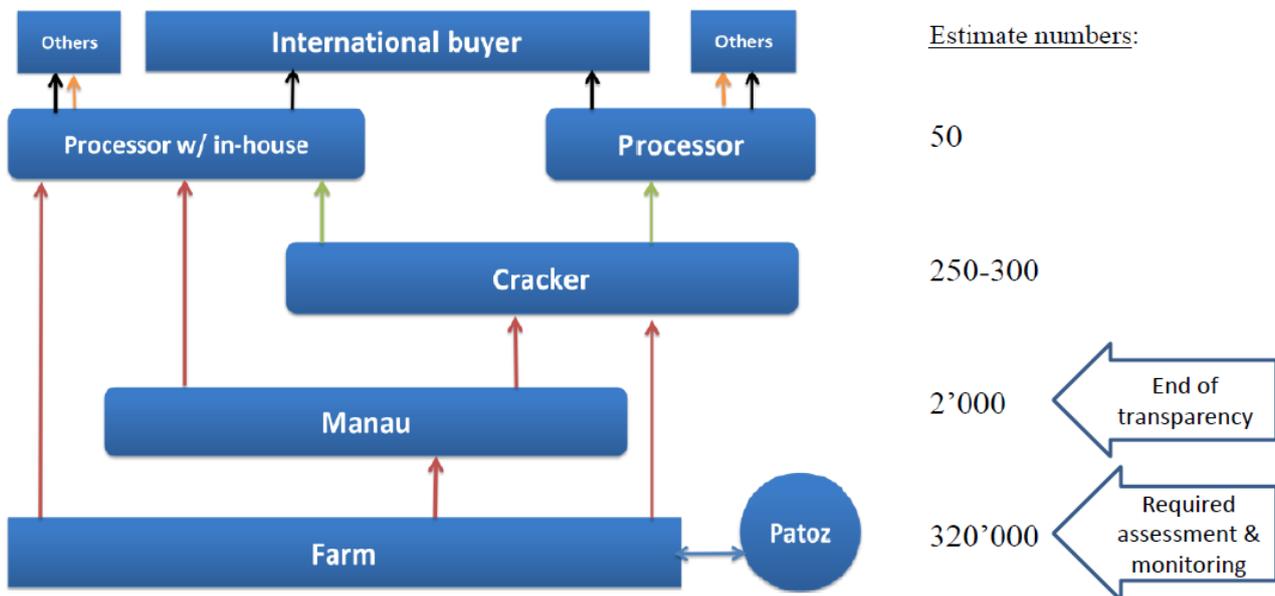
² The term « under-age worker » takes account of the differences in the minimum age set in ILO Convention Nr 138, Turkish legislation and the FLA Code of Conduct. Underage workers refer to all workers who are under 16 years of age.

b) No transparency in the extended hazelnut supply chain

A key challenge experienced by the FLA assessment team is the lack of transparency in the extended supply chain back to the hazelnut gardens. Nestlé and other international buyers source hazelnuts from processors, some of which have their own in-house cracking facilities. There are about 50 hazelnut processors and about 250-300 crackers in Turkey. These processors/crackers source from about 2'000 so-called "manau" who collect the hazelnuts from the growers (hazelnut gardens), mix them according to size and quality, not by their source, and then sell them to the crackers/processors. Some growers sell directly to the processors who have in-house cracking facilities. It is estimated that there are about 320'000 hazelnut gardens in Turkey. Visibility in the upstream supply chain ends at the level of the manau.

Given this lack of transparency, the assessment team selected a sample of farms in the collection regions of identified manau. The team visited a total of 26 farms, which differ according to their geographic location and the demographic characteristics of the workers. It was not possible to determine whether the assessed farms supply Nestlé or not. Along with the farms, the assessment team visited the workers accommodation and interviewed other stakeholders in the supply chain.

Graph: Map of the Turkish hazelnut supply chain



- c) *There is a need to transform the hazelnut supply chain to establish transparency and to monitor labour practices back to the harvest level*

Given the existing supply chain structure in Turkey, it is today not feasible to link a monitoring scheme for labour practices in a specific hazelnut garden to an individual processor supplying international buyers. Transparency ends at the level of the manau and the processor cannot identify the hazelnut gardens that need to be assessed and monitored. In order to do so, it is necessary to transform the existing hazelnut supply chain together with all supply chain partners to establish transparency back to the hazel gardens, groups of gardens or villages, i.e. to a level that can be assessed and monitored.

3. Nestlé Action Plan for its extended hazelnut supply chain in Turkey

Nestlé welcomes and supports all recommendations put forward in the FLA report. In order to integrate the FLA findings into our sourcing strategy and actions, Nestlé together with the FLA has developed the below multi-year action plan to implement each of the FLA recommendations, supported by Key Performance Indicators (KPIs) and timelines to track progress over time. Nestlé will provide regular updates on the progress made in the implementation of the action plan.

In line with Nestlé's overall strategic approach to responsible sourcing, our action plan for the extended Turkish hazelnut supply chain consists of the following three strategic pillars:

1. Working with our partners along the Nestlé supply chain
2. Engaging at the industry level to drive sector-wide improvement
3. Engaging with public authorities

1. Working with our partners along the Nestlé supply chain

- a) Nestlé has a Supplier Code in place, which forms part of all contracts with our suppliers. The Code includes, amongst others, minimum requirements on labour standards. Nestlé's suppliers with whom we deal directly are audited against the Code by independent 3rd party (***FLA recommendations 1 and 2***).
- b) In the extended hazelnut supply chain, currently the biggest obstacle in the implementation of a systematic assessment and monitoring scheme for labour practices is the lack of transparency in the upstream value chain back to the growing gardens. Mixing of hazelnuts from different sources takes place at different stages of the supply chain. Today it is not possible for Nestlé's suppliers to track their hazelnuts back to the growing gardens that supply the manau who supply the crackers and themselves.

Nestlé's first priority for action in our own supply chain is therefore to work with our suppliers to establish transparent supply chains to Nestlé, up to harvest level (**FLA recommendation 3**). Nestlé will also work with suppliers to develop and install adequate assessment and monitoring systems at the harvest level for hazelnut supplied to Nestlé, supported by mechanisms for timely remediation, (**FLA recommendation 8**).

To this end, Nestlé in Q1/2012 will start working with all its hazelnut suppliers in Turkey to seek their formal commitment to:

- i. establish, as appropriate with the support of Nestlé and the FLA, transparent supply chains to Nestlé subject to adequate assessment, monitoring and remediation systems at harvest level;
- ii. start mapping supply chains to Nestlé and to define, by end 2012, a transformational action plan for each supply chain to achieve transparent supply chains to Nestlé by 2014 by the latest, whilst demonstrating significant progress towards transparency by 2013
- iii. start developing and installing, as appropriate with the support of Nestlé and the FLA, adequate assessment, monitoring & remediation systems for supply chains to Nestlé by 2014 by the latest whilst demonstrating significant progress by 2013
- iv. in view of the 2012 and 2013 harvests, Nestlé & the FLA to work with suppliers to systematically cascade the Nestlé Supplier Code up the supply chain, leveraging amongst others the role of the manau, and to raise awareness at the harvest level. This may include the training of manau and other supply chain actors. The experience gained in this process will feed in to the action plans to be agreed with suppliers by end 2012.

Further business with suppliers will depend on the above commitments and on continuous and measurable progress. If sufficient progress is not being made or there is lack of commitment from the suppliers, Nestlé reserves the right to suspend or terminate contracts with suppliers.

Until transparent supply chains have been established and adequate assessment & monitoring systems and remediation mechanisms put in place, Nestlé will work with the FLA and our suppliers to conduct audits at farm level vs. the Nestle Supplier Code, based on a representative sample of farms. Where non-compliance is detected, remedial action will be taken.

- c) Nestlé will work with the FLA to provide support to suppliers who today are not able to meet the Nestlé requirements in terms of transparency, assessment, monitoring and remediation, but who commit to becoming compliant within the set timeline. This will include the training of internal & external stakeholders as appropriate (**FLA recommendation 9**).
- d) As stated in FLA recommendation 3 to international buyers, establishing transparent supply chains with adequate monitoring systems cannot happen overnight and requires a multi-year process. Nestlé will provide regular updates on the progress made in the implementation of the action plan, based on the following Key Performance Indicators (**FLA recommendation 4**):

KPI 1	% of Nestlé suppliers committed to building transparent supply chains subject to adequate assessment, monitoring and remediation systems
KPI 2	% of Nestlé hazelnut volumes derived from transparent supply chains
KPI 3	% of Nestlé hazelnuts volumes derived from transparent supply chains subject to an adequate assessment, monitoring and remediation systems

Updates on our progress against these KPIs will be placed on the Nestlé website (www.nestle.com).

- e) Nestlé will evaluate opportunities to consolidate its hazelnut supply chain where this can help improve transparency and support responsible practices (**FLA recommendation 5**).

2. Engaging at the industry level to drive sector-wide improvement

Nestlé's existing and future activities in our hazelnut supply chain are outlined in the previous section. At the same time, the findings of the FLA report are of relevance for the entire Turkish hazelnut sector and other international buyers. Addressing the root causes of poor labour practices in the sector cannot be achieved by any single company in isolation. Actions by individual companies have to form part of a sector-wide commitment and action plan, involving all relevant stakeholders, including supply chain partners, public authorities and civil society organisations.

Nestlé reaches out to private and public stakeholders to explore opportunities not only for sharing knowledge and experience in this field, but also for concrete collaborative action, which should include fostering a bottom-up approach to raise awareness and build capacity at the farm level and to develop strategies for addressing the practical difficulties that families face when working in hazelnut harvesting (**FLA recommendations 6 and 7**).

To facilitate this process, Nestlé supports the establishment, by H1/2012, of an industry-wide multi-stakeholder roundtable on responsible hazelnut sourcing from Turkey. It should bring together relevant public and private stakeholders, incl. supply chains partners, government authorities and civil society organisations. Nestlé proposes that the roundtable should, amongst others:

- a) Identify the root causes of poor labour practices in hazelnut growing in Turkey;
- b) Map relevant existing public and private initiatives and identify areas for further improvement;
- c) Develop a sector wide hazelnut supplier code and multi-year action roadmap;
- d) Facilitate the development of private public partnerships, as appropriate, in identified priority areas

In Q1/2012, Nestlé will reach out to relevant stakeholders to propose the establishment of this roundtable by H1/2012.

Nestlé has been engaging with other international buyers of hazelnuts through CAOBISCO (the Association of the Chocolate, Biscuit and Confectionery Industries of the European Union) ³ and the Federation of the Dutch Food Industry (FNLI)⁴ and with the Turkish hazelnut expert sector through the Turkish Hazelnut Promotion Group (FTG)⁵. Via these organisations, Nestlé will seek further engagement with Turkish government authorities and relevant NGOs.

Nestlé has also worked with industry associations to develop an industry-wide Responsible Sourcing Code for hazelnuts together with an implementation plan the aim of which is that all buyers should source only from suppliers committed to compliance with the industry-wide Code. The finalization of this Code and the development of an implementation plan should be among the items to be addressed by the roundtable.

3. *Engaging with public authorities*

The FLA report also includes a range of **recommendations (1 – 5)** to the Government, which include, amongst others, the creation and effective enforcement of labor legislation for agricultural activities employing less than 50 workers.

Nestlé has initiated a dialogue with the Turkish public authorities on this topic and is ready to collaborate at local and national levels to help facilitate progress towards improving labour conditions in the hazelnut sector. The government is also a key stakeholder in view of the proposed development of a roundtable where further collaborative action will be discussed.

* * * * *

Stakeholder feedback on the Nestlé Action Plan:

In support of a transparent and participatory process, Nestlé and the FLA welcome any constructive feedback, insights, and concrete suggestions from relevant stakeholders (supply chain partners, NGOs, public authorities) that can help drive collaborative strategies and actions to promote sound labour conditions in the Turkish hazelnut sector. Please send your feedback by 31st March 2012 to Hilary Parsons, Public Affairs at Nestlé (hilary.parsons@nestle.com) and Richa Mittal, Director, Agriculture and Strategic Projects, Fair Labor Association (rmittal@fairlabor.org).

³ www.caobisco.com

⁴ www.fnli.nl

⁵ www.ftg.org

FLA recommendations	Nestlé actions	2012	2013	2014
1. Development and adherence to a Code of Conduct	Nestlé has a Supplier Code in place, which includes requirements on labour standards.	In place	In place	In place
2. Including this Code of Conduct in the contract with suppliers	The Nestlé Supplier Code (NSC) forms part of all contracts with our suppliers. Nestlé's vendors are audited against the Code by independent 3 rd party (SGS, Intertek, Bureau Veritas). In 2010/11 2'000 supplier audits have been conducted. By 2015, 10'000 supplier audits will have been conducted. All five approved Nestlé hazelnut suppliers in Turkey have been audited by 3 rd party. The audits confirmed compliance of all suppliers with the NSC.	Continued 3 rd party audits of Nestlé vendors vs. NSC	Continued 3 rd party audits of Nestlé vendors vs. NSC	Continued 3 rd party audits of Nestlé vendors vs. NSC
3. Establishment of visibility and monitoring systems back to harvest level in a multi-year process	In 2012, will start working with all its hazelnut suppliers to seek formal commitment to: <ul style="list-style-type: none"> i. establish, as appropriate with the support of Nestlé & the FLA, transparent supply chains to Nestlé subject to adequate harvest-level assessment, monitoring and remediation systems ii. start working with Nestlé without delay to map supply chains to Nestlé and to define, by end 2012, a transformational action plan for each supply chain to achieve transparent supply chains to Nestlé by 2014 by the latest, whilst demonstrating significant progress towards transparency by 2013 iii. start developing & installing, as appropriate with the support of Nestlé & the FLA, assessment, monitoring & remediation systems for supply chains to Nestlé by 2014 by the latest whilst demonstrating significant progress by 2013 	Commitment from suppliers. Supply chain mapping launched with all suppliers. Work with suppliers to build transparent supply chain solutions. By end 2012, definition of transformational action plans with all suppliers. Tracking vs. KPIs 1 and 2	Implementation of transformational action plans with all suppliers. Significant improvement in supply chain transparency. Tracking vs. KPIs 1 and 2	Transparent supply chains established with all suppliers. Tracking vs. KPIs 1 and 2

	<p>v. in view of the 2012 and 2013 harvests, Nestlé and the FLA to work with suppliers to systematically cascade the Nestlé Supplier Code up the supply chain, thereby leveraging amongst others the role of the manau, and to raise awareness at the harvest level. This may include the training of the manau and other supply chain actors. The experience gained in this process will feed in to the action plans to be agreed with suppliers by end 2012.</p> <p>Further business with suppliers will depend on the above commitments and on continuous and measurable progress. If sufficient progress is not being made or there is lack of commitment from the suppliers measures, Nestlé reserves the right to suspend or terminate contracts with suppliers.</p>	<p>Cascading the NSC up the supply chain.</p> <p>Awareness raising and FLA assessments at harvest level.</p> <p>Training of internal and external stakeholders.</p>	<p>Cascading the NSC up the supply chain.</p> <p>Awareness raising and FLA assessments at harvest level.</p> <p>Training of internal and external stakeholders.</p>	
<p>4. Definition of key performance indicators (KPIs)</p>	<p>Nestlé will monitor and report on progress in implementing this action plan vs. the following key performance indicators (KPIs):</p> <ul style="list-style-type: none"> – KPI 1: % of Nestlé suppliers committed to building transparent supply chains subject to adequate assessment, monitoring and remediation systems – KPI 2: % of Nestlé hazelnut volumes derived from transparent supply chains – KIP 3: % of Nestlé hazelnuts volumes derived from transparent supply chains subject to adequate assessment, monitoring and remediation systems 	<p>Tracking vs. KPIs 1-3</p>	<p>Tracking vs. KPIs 1-3</p>	<p>Tracking vs. KPIs 1-3</p>
<p>5.Potential consolidation of supply chains</p>	<p>Nestlé to evaluate opportunities to consolidate hazelnut supply chain where this can help increase transparency. To be tracked vs. KPI 1</p>	<p>Tracking vs. KPI 2</p>	<p>Tracking vs. KPI 2</p>	<p>Tracking vs. KPI 2</p>

<p>6. Awareness raising and capacity building at the village and farm level</p>	<p>Nestlé supports the establishment of a multi-stakeholder roundtable including relevant stakeholder, i.e. supply chain partners, government authorities and NGOs. This roundtable should, amongst others, define and implement strategies to raise awareness and build capacity at the village and farm level.</p> <p>See recommendation 7.</p>	<p>Definition of a multi-stakeholder roadmap; Activities to be defined with all relevant stakeholders.</p> <p>Yearly reporting on progress.</p>	<p>Definition of an implementation plan; identification of resources;</p> <p>Yearly reporting on progress.</p>	<p>Impact Assessment</p> <p>Yearly reporting on progress.</p>
<p>7. Private public partnerships</p>	<p>Actions by individual buying companies have to form part of a sector-wide strategy and action plan.</p> <p>Nestlé supports the establishment of a multi-stakeholder roundtable. It should bring together all relevant stakeholders, incl. supply chains partners, government authorities and civil society.</p> <p>Proposed objectives of the roundtable:</p> <ul style="list-style-type: none"> – Identify root causes of poor labour practices – Map existing public and private initiative and identify areas for further improvement – Develop a sector-wide supplier code and multi-year action roadmap – Facilitate development of private public partnerships, as appropriate, in priority areas <p>In Q1/2012, Nestlé will reach out to relevant stakeholders to propose the establishment of the roundtable by H1/2012.</p> <p>Nestlé will engage other industry players through CAOBISCO and FNLI and the Turkish hazelnut export sector through FTG and through these channels will seek the engagement of the Turkish government authorities and civil society NGOs.</p>	<p>In Q1/2012, Nestlé to reach out relevant stakeholders to propose establishment of multi-stakeholder roundtable by H1/2012.</p> <p>Definition of Round Table multi-stakeholder roadmap;</p>	<p>Definition of an implementation plan; identification of resources;</p> <p>Implementation of Roundtable Roadmap</p> <p>Reporting on progress vs. Roundtable Roadmap</p>	<p>Implementation of Roundtable Roadmap</p> <p>Impact Assessment</p> <p>Reporting vs. Roundtable Roadmap</p>

<p>8. Development of management systems in the upstream supply chain</p>	<p>In 2012, Nestlé will start working with all its suppliers to seek their formal commitment to:</p> <ul style="list-style-type: none"> i. establish, as appropriate with the support of Nestlé & the FLA, transparent supply chains to Nestlé subject to adequate harvest-level assessment, monitoring and remediation systems ii. start developing & installing, as appropriate with the support of Nestlé & the FLA, assessment, monitoring & remediation systems for supply chains to Nestlé by 2014 by the latest whilst demonstrating significant progress by 2013 vi. in view of the 2012 and 2013 harvests, Nestlé and the FLA to work with suppliers to systematically cascade the Nestlé Supplier Code up the supply chain, leveraging amongst others the role of the manau, and to raise awareness at the harvest level. This may include the training of the manau and other supply chain actors. <p>Remediation mechanism: Where non-compliance is detected, remedial action has to be taken in a timely manner. If sufficient progress is not being made or there is lack of commitment from the suppliers, Nestlé reserves the right to suspend or terminate contracts with suppliers.</p>	<p>Commitment from all suppliers.</p> <p>Work with suppliers to develop harvest-level management, assessment, monitoring & remediation systems for supply chains to Nestlé</p> <p>By end 2012, definition of transformational action plans with all suppliers.</p> <p>Tracking vs. KPI 3</p>	<p>Implementation of transformational action plans with all suppliers.</p> <p>Significant progress in installing harvest level assessment, monitoring & remediation systems for all supply chains to Nestlé</p> <p>Tracking vs. KPI 3</p>	<p>Farm-level assessment, monitoring & remediation systems in place for all supply chains to Nestlé</p> <p>Tracking vs. KPI 3</p>
<p>9. Training of internal and external stakeholders</p>	<p>With the support of FLA, Nestlé will provide support to those suppliers and sub-suppliers who today are not able to meet the Nestlé's requirements in terms of transparency, monitoring and remediation, but who commit to becoming compliant within the defined time-line. This will include the identification and training of relevant internal stakeholders and supply chain partners.</p>	<p>Define training requirements of internal and external stakeholders</p> <p>Reporting vs. KPIs 1-3</p>	<p>Training of internal and external stakeholders</p> <p>Reporting vs. KPIs 1-3</p>	<p>Training of internal and external stakeholders</p> <p>Reporting vs. KPIs 1-3</p>