

Nestlé's Labor Rights Action Plan for Palm Oil

Last updated: April 2021

1. BACKGROUND

Definition

For the purpose of this document, labor rights designate both legal rights and human rights relating to labor relations between workers and employers. These rights are codified in national and international labor and employment law, including the International Covenant on Economic, Social and Cultural Rights and the eight International Labour Organisation (ILO) fundamental conventions. Regarding Labor Rights in Agricultural Supply Chains, the ILO Convention No. 181 on Private Employment Agencies and ILO recommendation 115 on Workers Housing are of particular relevance.

As it pertains to issues related to labor rights in palm oil, the following seven basic labor standards are of particular relevance according to Verité's research¹:

- 1. Ethical recruitment
- 2. Prohibition of all forms of forced or compulsory labor, including trafficking in persons
- 3. Prohibition of child labor
- 4. Prohibition of discrimination and violence
- 5. Fair wages and benefits
- 6. Humane working hours
- 7. Freedom of association

Context and trends

Palm oil plantations and mills require labor-intensive processes. These are often established on vast landholdings in remote locations. Workers are vulnerable to

¹ Verité Palm Oil Producers' Toolkit on Labor Rights, available at <u>www.palmoiltoolkit.org</u>

adverse working conditions that can include long working hours, low wages, inadequate social security, unsafe working conditions, unreasonable movement restrictions, and limited access to communication. Payment systems and wage structures can contribute to child and forced labor risks and unequal treatment of women workers while employment arrangements sometimes limit workers' ability to organize and collectively advocate for better conditions. Risks are compounded for workers recruited unethically, in particular migrants who may pay excessive fees and expenses to get the job and may not be provided the right papers and immigration status to allow them to work legally and safely in the host country.²

According to research by Verité, in countries that rely heavily on migrant labor, practices such as retention of passports and other valuable documents and withholding or underpayment of wages are common. Undocumented or irregular migrants, who are at risk of deportation or harassment by authorities and local citizens, also face systemic restrictions on freedom of movement and heightened vulnerability to forced labor.

2. NESTLE'S POSITION AND ACTION

Why is this issue relevant and important for us?

Human rights abuses, including labor rights violations, are unacceptable. We take our responsibility to ensure human rights are respected and upheld throughout our value chain very seriously. Safeguarding the rights of people who work in our supply chains helps build a resilient, stable and sustainable supply chain. It is an essential part of how we, as a business, live our values. This is more important than ever as the COVID-19 pandemic has exacerbated some of the vulnerabilities facing workers, in particular migrant workers, in the sector.³

We are committed to respecting and promoting human rights, including labor rights, in our entire supply chain, and we expect the same of our suppliers. Nestlé's overarching commitment to labor rights in our supply chains is documented in our

² Verité Palm Oil Producers' Toolkit on Labor Rights, available at <u>www.palmoiltoolkit.org</u>

³ See for example, Fair Labor Association, "COVID-19 and Migrant agriculture workers in the palm oil sector in Malaysia: Recommendations for protecting workers", < protecting-palm-oil-workers-malaysia.pdf (fairlabor.org)>.

<u>Responsible Sourcing Standard</u> (RSS), which defines the requirements and ways of working that we apply together with our suppliers to ensure the sustainable longterm supply of materials and services to Nestlé. It sets out basic non-negotiable standards as well as important and urgent sustainability practices that we ask our suppliers, their employees, agents and subcontractors to respect and to adhere to at all times when conducting business.

Nestlé <u>sources</u> palm oil from 88 suppliers, originating from at least 1,672 mills in 21 countries. Most of the palm oil that we source originates in Malaysia and Indonesia, however there are also origins across Latin America, Africa, and other parts of Asia. Labor rights abuses are prevalent across the palm oil sector in many of these countries and we aim to prevent and address these issues and their root causes wherever they occur.

Relevant commitments and policies

Nestlé Corporate Business Principle Nestlé Responsible Sourcing Standard

Our vision and position

Our vision is one of a sustainable palm oil sector, where nature is protected and restored, where human rights, including labor rights, are respected, where workers and smallholder farmers are offered decent work and livelihoods.

We are committed to respecting and promoting human rights, including labor rights, throughout our supply chain. We are working towards a palm oil supply chain where all workers, at all tiers of production, work and live in safe and healthy conditions, are provided contracts detailing their working conditions, are paid fairly, have the right to associate freely and collectively bargain and have access to grievance mechanisms.

To realize this vision, we are working to prevent and address labor rights abuses at two complementary levels by: 1) Taking action in our supply chain with our partners and our suppliers, to assess, address and remediate labor rights risks and, 2) Helping tackle root causes through collective action and engagement with all relevant stakeholders, including workers, non-governmental organizations (NGOs) and governments.

It is only by combining these two levels of intervention that we will be able to make a difference. Actions in our supply chain need to be supported by key local and regional stakeholders (including governments, multilateral organizations, peer companies, suppliers and NGOs) in order to be scaled up and have a long-lasting impact. Our engagement efforts with key stakeholders need to be fact-based, backed up by the experience, insights and the expertise we and our partners develop through our field interventions.

Our actions to date

Our approach to addressing labor rights in our palm oil supply chain builds on several years of experience. Between 2010 and 2017, our approach was based on conducting site assessments against our Responsible Sourcing Standard and working together with our suppliers and partners to develop time-bound action plans to address the gaps found while reviewing progress regularly. We also supported suppliers, mills, plantations and smallholders in our supply chain to address specific labor rights risks, such as forced labor and child labor, through issues-specific, targeted interventions.

In 2017, we commissioned the Danish Institute for Human Rights and Earthworm Foundation to conduct a <u>labor rights assessment</u> of Nestlé's Indonesian palm oil supply chains. Based on the recommendations coming from this assessment, Nestlé developed its first comprehensive *Action Plan on Labor Rights in Palm Oil Supply Chains* in 2018. This was implemented by working with expert organizations on labor rights and suppliers to systematically assess labor risks in the upstream of our supply chains, complementing existing analyses of our suppliers' operations.

This action plan also led to the development of guidance and pilots on specific issues, knowledge sharing, and deployment of new tools. These include:

- <u>Guidelines for Fair Target-Setting and Wage Policies in Oil Palm Plantations</u> developed by our partner Earthworm Foundation

- <u>Child Risk Assessment Framework</u> and <u>Mitigating the Risks of Child Labor in</u> <u>Oil Palm Plantations</u> developed by Earthworm Foundation
- <u>Human Rights Based Due Diligence Tool on Ethical Recruitment</u> developed by Earthworm Foundation
- <u>Third-party worker helpline</u> to enable workers to safely report on concerns related to working conditions and recruitment practices, co-developed by the Responsible Business Alliance and ELEVATE
- Verité's Palm Oil Producers' Toolkit on Labor Rights

In 2018, Nestlé commissioned Verité to conduct a <u>Management Systems</u> <u>Assessment</u> of how we manage labor rights challenges in our palm oil supply chain globally. In 2019, Verité deepened this assessment by conducting in-depth reviews of two of our suppliers in order to understand how Nestlé Responsible Sourcing Standard translates to practices throughout the supply chain. Verité conducted comprehensive labor and occupational health and safety assessments of seven mills and 11 in Indonesia and Malaysia that collectively employ over 4,000 workers, including interviews with over 200 workers. The results and recommendations made in this assessment led to the revision of our labor rights approach in palm oil as laid out in the following sections.

Our approach going forward

1) Taking action in our supply chain with our partners and suppliers

Our work to date has made progress in the sites in certain segments of our supply chain. It has also generated new tools and approaches, which can be deployed for further impact. Our approach going forward is focused on the systematic deployment of our labor rights requirements through our supply chain to more comprehensively cover workers across all parts of our supply chain and reach transformation at scale.

Implementing a Program Assurance Framework for Labor Rights in Palm Oil

Building on ten years of experience in addressing labor rights challenges in the palm oil sector, we developed, together with our partner Verité, a Program Assurance Framework to increase the reach and impact of our labor rights work. This builds on the Verité Palm Oil Producers' Toolkit on Labor Rights, which we have supported. The objective of the Program Assurance Framework is to cascade our policy throughout our palm oil supply chain via the implementation of effective management systems for assessing, addressing, and remediating labor rights issues.

This Framework was piloted with one of our key suppliers in 2020. We provided capacity building to their field team to help them understand the root causes of the issues and develop solutions that address labor rights risks and ensure compliance with legislation and with our Responsible Sourcing Standard.

In 2021, we are testing the Framework with additional suppliers. Based on this experience, we will make the necessary adjustments before rolling it out across our full supply chain starting in 2022 as part of our strengthened supplier management system for establishing a responsibly sourced palm oil supply chain.

Development and deployment of issue-specific guidance and tools

Over the years, we have directly and indirectly supported the development of a number of guidelines and tools aimed at helping palm oil buyers and producers to understand and address specific labor-related issues.

Going forward, we will be using these to demonstrate and scale on-the-ground solutions with palm oil plantations and mills in our supply chain to immediately address salient labor rights issues, starting with those identified as high-risk as part of our supplier engagement prioritization (see *2021-2025 Action Plan* section below). We will train management teams at sites on the use of these tools and document these efforts to capture and share lessons learned. The demonstration of these solutions in practice will be further scaled via the implementation of our Program Assurance Framework and through our industry collaborations.

2) Tackling root causes through collective action

Labor rights violations are endemic to the palm oil industry. In order to systematically address them, strong and collective action is needed to transform the industry and raise standards.

We are committed to better understanding and helping tackle the root causes of this serious issue in close collaboration with workers, governments, multilateral and non-governmental organizations, peer companies, certification bodies, individual experts, and our partners.

Participating in landscape initiatives

To make progress on labor rights and scale up impact, we must take, collectively, bolder and more urgent action. This is why we will be incorporating labor rights components in at least four landscape initiatives we are involved in 2021 as well as support the development of a landscape level monitoring and reporting framework for labor rights.

To address labor risks in these selected landscapes, Nestlé and its partners will work with various stakeholders to determine priority issues in the local palm oil supply chain and collaborate to deploy solutions that can be scaled to improve conditions for workers across the landscape.

Each landscape initiative will tackle the context-specific labor rights issues, which can include fair wages and decent working conditions in Indonesia; ethical recruitment and better protection of migrant workers' rights in Malaysia as well as improvement in children's well-being including preventing child labor in both regions.

Collaborating through industry associations

We actively participate in various industry associations and multi-stakeholder platforms looking to address sustainability challenges in the palm oil sector in a collaborative manner. The most relevant ones in terms of labor rights are the following:

 The Consumer Goods Forum (CGF)'s <u>Human Rights – Working to End</u> <u>Forced Labor Coalition</u>, in particular its Palm Oil and Responsible Recruitment Working Groups. Through the Palm Oil Working Group, we will be collaborating with selected palm oil suppliers to develop and deploy Human Rights Due Diligence (HRDD) systems from the refinery to the plantation level. The Responsible Recruitment Working Group will seek to support responsible recruitment practices in selected countries through industry collaboration.

The Palm Oil Collaboration Group (POCG)'s <u>Social Issues Working Group</u> brings together companies in multiple parts of the supply chain and fosters collaboration to address human rights issues, including labor rights, on the ground. The group plans to develop a repository of approaches on HRDD and identify gaps in the tools currently available; develop collaborative actions to address forced labor risks in Malaysia; and support effective remediation mechanisms in relation to land rights in Indonesia.

We are also members of the <u>Leadership Group for Responsible Recruitment</u> of the Institute for Human Rights and Business (IHRB) and the <u>Responsible Labor Initiative</u> (RLI).

Advocating for an enabling environment

In addition, to drive transformation across the sector, we are also leveraging our participation in industry and multi-stakeholder platforms, in particular the Consumer Goods Forum and <u>AIM</u>, to advocate for the development of the regulations, policies, programs and incentives that are needed to create a conducive environment for the respect of labor rights.

3. 2021-2025 ACTION PLAN

Our Palm Oil Labor Rights Action Plan 2021-2025 is organized around actions that we will take to assess, address, and report on labor rights risks across our palm oil supply chain and is driven by the priorities laid out above. As we test new tools and approaches in 2021, we will take stock of what we learn and refine our approach in 2022. This action plan will therefore be updated to reflect these learnings and ensure our approach remains strong and relevant going forward.

Assess: Our risk exposure

Salient labor rights issues in palm oil

In 2018, we identified the following labor rights issues as particularly salient following an <u>assessment of labor rights impacts</u> in Nestlé's palm oil supply chain carried out by the Danish Institute for Human Rights. We continue to address those in priority:

- Forced labor
- Informality of employment
- Children in plantations
- Wage and work hour violations
- Discrimination and harassment
- Non conformances related to worker accommodations and occupational health and safety

Supplier engagement prioritization

As part of our Program Assurance Framework outlined above, we will prioritize suppliers we need to engage based on the following segmentation approach.

First, our supply chains, that is palm oil refineries and their upstream mills and producer base supplying Nestlé, are assessed and segmented against a risk profile based on:

- 1) Country risks⁴ and volumes we purchase.
- 2) Labor supply chain risks based on the workforce profile in the supply chain.⁵
- 3) Operational risks based on policies, procedures, and controls in place.

This risk assessment is based on responses provided in a self-assessment questionnaire, supplemented by on-the-ground assessments of a sampling of sites. This will lead to the following segmentation.

⁴ Based on reliable third-party data, like US Department of Labor Trafficking in Person report, UNDP Human Development Index or ITUC Freedom of Association country ranking

⁵ We will capture the number permanent vs. temporary workers as a way to also capture the proportion of foreign, seasonal, contractual, outsourced workers, etc.

Supply chain segmentation model

High Labor Supply Chain Risks & Low	High Labor Supply Chain Risks & High		
Operational Risks	Operational Risks		
Refinery has low operational risks due to:	Refinery has high operational risks due to:		
- Significant leverage and control on mills	 Low leverage and control on mills and 		
and estates.	estates.		
- No red flags on labor compliance in its own	- Red flags on labor compliance in its own		
operations.	operations.		
Refinery has high labor supply chain risks due to:	Refiners has high labor supply chain risks due to:		
- High percentage of temporary workers.	- High percentage of temporary workers.		
Low Labor Supply Chain Risks & Low	Low Labor Supply Chain Risks & High		
Operational Risks	Operational Risks		
Refinery has low operational risks due to:	Refinery has high operational risks due to:		
- Significant control and leverage on mills	 Low leverage and control on mills and 		
and estates.	estates.		
- No red flags on labor compliance in its own	- Red flags on labor compliance in its own		
operations.	operations.		
Refinery has low labor supply chain risks due to:	Refinery has low labor supply chain risks due to:		
- High percentage of permanent workers.	- High percentage of permanent workers.		

Operational Risks

In a second step, our suppliers' management system capacity to address labor rights risks in their supply chains is assessed based on the HRDD Model Analysis Tool available in the Verité Palm Oil Producers' Toolkit on Labor Rights. This approach ranks suppliers' HRDD systems according to maturity level as follows:

- *HRDD Maturity Level 1 Getting Started*: Building blocks of a compliance system is in place, in the form of policies, governance structure, understanding of risks inherent in the industry or sector, and identification of external and internal experts.
- HRDD Maturity Level 2 Basic good practice: Basic understanding of labor rights standards and basic compliance mechanisms, effective communication of policies, initial risk assessment of relevant workforce, initial training needs assessment, and efforts are focused on correcting priority issues; might need targeted baseline audits to verify scope of corrective action and remediation.

- HRDD Maturity Level 3 Advanced: Risk sources have been identified and continuously mitigated, but may not be completely eliminated yet, embedding of human rights policies in contracts or service agreements, adapting approach based on initial learnings with focus on continuous improvement and implementing a formal reporting and review of supplier progress, which may be subjected to verification audits.
- HRDD Maturity Level 4 Robust: System in place to assess, address, and report against core labor issues. No core labor rights violations, risk source have been identified and eliminated, plans to go beyond legal compliance and evolve prevention measures based on lessons learned, with effective system in place to regularly monitor relevant issues, including through worker voice mechanisms and tools, and ongoing measurement of results.

Taken together the supply chain & operational risks and the HRDD Maturity Level assessments will segment our supply chains based on their overall labor rights risks and provides direction on our engagement strategy, actions and monitoring. For example:

Risk Assessment	HRDD Maturity Level	Engagement level
High labor supply	Low maturity of HRDD	HRDD capacity building + supplier
chain & high	systems	action plans to better address salient
operational risks		issues & support for addressing
		salient rights issues
High labor supply	High maturity of HRDD	Program assurance assessments and
chain & low	systems	system improvement plans at refinery
operational risks		level, in addition to issue-focused
		assessments + corrective action
		monitoring at the level of the mills
		and estates
Low labor supply	High maturity of HRDD	Monitoring
chain & low	systems	
operational risks		

Note that this segmentation approach will be tested in 2021 and will be refined based on our learnings.

Address: Our priority actions

Priority	y Activity Area of Timeline		
		Focus	
Implement the	Assess / Carry out supply	Supply	2021: Test this approach with 5
Program	chain segmentation to	chain	suppliers
Assurance	prioritize suppliers and		2022: Refine the approach based on
Framework	determine engagement		learnings
	priorities		2023: Apply approach to all suppliers
	Address / Engagement	Supply	
	plans:	chain	
	Strengthen suppliers'		
	Corrective Action Plans to		
	incorporate best practice in		
	addressing assessment		
	findings		
	Monitor / Report:	Supply	
	Monitoring system in place	chain	
	to track progress against		
	strategic Key Performance		
	Indicators.		
Deploy issue-	Deployment of the	Plantations	2021: Guidelines piloted at two
specific guidance	Guidelines for Fair Target-		independent plantations supplying to
and tools	Setting and Wage Policies		one of our suppliers
	in Oil Palm Plantations		2022: Systematically include
			assessment against Guidelines in
			plantation assessments & monitoring
			2023: Monitor that all suppliers are
			aware of Guidelines and are cascading
			them or equivalent ones to their
			suppliers
	Deployment of <u>Human</u>	Mills &	2021:
	Rights Based Due Diligence	plantations	 Tool piloted with one independent site
	Tool on Ethical Recruitment		(mill / plantation) in Malaysia as part

Nestlé: Taking action in our supply chain with our partners and suppliers

			of a broader landscape initiative. Trial
			will include field visits, development
			of a corrective action plan, resource
			development, and a verification visit
			• Train at least 30 staff members from
			at least five suppliers on the tool
			 Build assessors' capacity to assess
			sites for unethical recruitment and
			forced labor following 2019
			responsible recruitment assessment
			training
			2022:
			 Systematically include assessment of
			use of Tool (or equivalent one) in
			plantation & mill assessments &
			monitoring
			 Train top ten high-risk suppliers on
			use of tool and support deployment
			 Communicate about the tool to all
			suppliers in Malaysia
			2025:
			Monitor that all supply chains assessed
			as at-risk of unethical recruitment use
			this Tool or equivalent one
In	nplementation of <u>Child</u>	Plantations	2021:
<u>Ri</u>	isk Assessment		Train at least 30 staff from at least five
<u>Fr</u>	ramework		suppliers on the use of this Tool
			2022:
			• Train top 10 high-risk suppliers on
			use of the Tool and support them in
			its deployment
			• Use of this Tool (or equivalent) is
			systematically included in plantations
			assessments & monitoring
			 Communicate to all suppliers in
			countries with risks of child labor

		about the teel or other equivelent
		about the tool or other equivalent
		guidance
		2025:
		Monitor that all our suppliers and their
		supply base assessed as at-risk of child
		labor use this Tool or equivalent one
Deploy the <u>Verité Palm Oil</u>	Supplier	2021:
<u>Toolkit</u>		Pilot the deployment of the Toolkit with
		one of our suppliers to increase the
		capacity of its extended upstream
		suppliers to diagnose and remediate
		high-risk labor issues by:
		- Supporting capacity building of our
		supplier's leadership team to use the
		Toolkit
		- Developing a guide for refineries to
		engage with their upstream mills
Provide an effective and	All supply	2021:
safe communication	chain	Expansion of the Suara Kami Helpline
channel for workers to		to all Sime Darby Plantation workers
voice issues		2022-2025:
		Incorporate lessons learned and
		opportunities from the Suara Kami
		Helpline roll-out into industry
		collaborations to ensure all palm oil
		supply chain workers have access to
		worker voice mechanisms, starting in
	Toolkit Toolkit Provide an effective and safe communication channel for workers to	Toolkit Toolkit Provide an effective and safe communication channel for workers to

Priority	Area of	Activity	Timeline
	focus		
Leverage existing engagement in landscape initiatives to improve working and living conditions for farmers, workers,	Landscapes	Incorporate assessing, addressing, and reporting on labor rights within four multi- stakeholder landscape initiatives. Develop a landscape level monitoring and reporting framework for labor rights.	2021 2021
and their families ⁶ .			
Industry	CGF's Human	We will actively participate in shaping the	2021-2025
Collaboration	Rights – Working	Palm Oil Working Group's Human Rights	
	to End Forced Labor Coalition	Roadmap that will be published in 2021.	
		We will also actively shape the work related to	
		supporting the development of responsible	
		recruitment markets, with an initial focus in	
		Malaysia as an important destination country	
		for migrant workers in the palm oil sector.	
	POCG's Social	We will actively participate in the	2021
	Issues Working	development of a library of tools for	
	Group	implementing HRDD into management	
		systems for palm oil supply chains. Our	
		contribution will be to share information about	
		the tools we are testing and/or implementing	
		as well as the learnings we are gathering.	
Advocating for an	Support	We will continue to contribute to the	2021
enabling	mandatory HRDD	European Union's discussions on mandatory	
environment	legislation in	HRDD through our active involvement in	
		industry associations, in particular <u>AIM</u> .	

Collective action: Helping tackle root causes with all relevant stakeholders

⁶ These landscape initiatives go beyond addressing labor rights. However, for the purpose of this Action Plan we are only referring to actions and activities related to labor rights.

importing		
countries		
Support the	We will leverage our participation in the	2021-2025
adoption and	Consumer Goods Forum's Human Rights	
enforcement of	Coalition to engage relevant stakeholders,	
measures to	including governments in producing country,	
eliminate forced	d to enable the adoption and enforcement of	
labor in produc	ing measures to eliminate forced labor. Our	
countries	objective is for the Coalition to adopt a	
	government engagement plan and we will use	
	our voice to this end.	

Report on KPIs, overall performance and challenges

We are committed to transparently communicating about the progress we make in implementing this action plan, as well as share our learnings and the challenges we face. We will be publicly reporting on this in our annual Palm Oil Responsible Sourcing Progress report.

For reporting years 2021 and 2022, we will be reporting on the following key performance indicators (KPIs) in relation to this action plan:

- Percentage of suppliers assessed at each maturity level of HRDD system according to Self-Assessment Questionnaire, drawing on the HRDD Model Analysis Tool of the Verité Palm Oil Producers Toolkit
- 2. Percentage of suppliers assessed with HRDD systems in place covering their entire supply base, including:
 - a. Percentage of suppliers assessed that have published a human rights policy that includes a commitment to uphold labor rights
 - b. Percentage of suppliers assessed that have shared list of salient issues
 - c. Percentage of suppliers assessed that have a management process in place to assess, address, and report on labor rights risks
- Percentage of palm oil volumes 'Delivering' & percentage of palm oil volumes 'Progressing' vs. the NDPE <u>Implementation Reporting Framework</u> (NDPE IRF) for No Exploitation

In parallel, we will be developing more impact focused KPIs, including for our landscape related work, and will start reporting on those as of 2023.

4. GOVERNANCE

The governance of this Action Plan will be led through the <u>Nestlé ESG and</u> <u>Sustainability Council and its Responsible Sourcing Workstream</u>.

5. OUR PARTNERS

For the purpose of this work, our main implementing partners will be Earthworm Foundation, Verité and Business for Social Responsibility (BSR).

In addition, we will be sharing our learnings and exploring paths to scale impact through our participation in the Consumer Goods Forum's Human Rights – Working Towards Ending Forced Labor Coalition, the Palm Oil Collaboration Group (POCG)'s Social Issues Working Group, the IHRB Leadership Group on Responsible Recruitment, and the Responsible Labor Initiative.