



RESPONSIBLE
SOURCING

Palm Oil Responsible Sourcing at Nestlé 2018 Progress Report



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Our Ambition and Commitments

We rely on agricultural ingredients for our products. **In 2010, Nestlé committed to using 100% Responsibly Sourced palm oil by 2020.**

For us, “responsibly sourced” means that we know **where our ingredients come from** and that they are produced in a manner that **respects people and the planet**. The [Nestlé Responsible Sourcing \(RS\) Standard](#) describes the requirements and ways of working that we apply together with our upstream supply chain, focusing on critical social, environmental, economic and animal welfare challenges that can affect supply, livelihoods and sustainability in our sourcing activities. 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.

Because effective management of risks requires industry-wide change, Nestlé is also committed to driving innovation and industry transformation.

When produced responsibly, palm oil can support millions of livelihoods globally and reduce pressure on forests and sensitive ecosystems since it is a uniquely efficient crop, producing more oil per land area than any other equivalent vegetable oil crop.

Our Approach and Progress to Date

Our approach: To address social and environmental challenges in our palm oil supply chains, we partner with our suppliers and third party experts, such as The Forest Trust (TFT) and Verité, to map our supply chains back to the origins, assess the sites in our supply chain, and develop and implement innovations to transform the supply chains on-the-ground.

We drive our responsible sourcing operations with the objective of continuously improving the sustainability practices of our upstream supply chain suppliers, all the way up to smallholder farmers and our preferred way of working is to partner on transformation. However, where suppliers are not committed and do not demonstrate progress, we move away.

Measuring progress: We measure our progress in two key areas: traceability to plantation and mill, and performance against our Responsible Sourcing Standard.

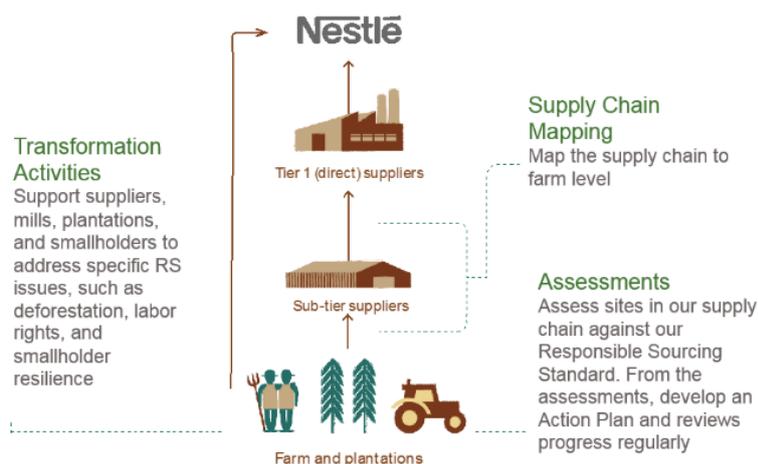


Figure 1. How we work on responsible sourcing of palm oil through our upstream supply chains

Why traceability? Responsible sourcing starts with knowing where our ingredients come from. We began tracing our palm oil supply chains to the mill in 2010 and in 2016 we increased our focus to the plantation level [see definition at right]. To make traceability to plantation information truly actionable, it is important to know not only the location of the plantation, but the boundaries of the concession areas in which our palm oil grew. In 2019, our focus will be to obtain concession maps from our suppliers and use satellite imagery to verify no deforestation occurred in these areas.

What do we mean by Responsibly Sourced? We consider palm oil to be Responsibly Sourced when it is independently verified as aligned with our Responsible Sourcing Standard. Because we believe committed suppliers can transform supply chains to meet our requirements and supporting this transformation is key to achieving a responsible palm oil industry, we also consider palm oil from supply chains that have shown substantial evidence of progressing towards our requirements as responsibly sourced, supported by a robust time-bound action plans and/or traceability to Roundtable on Sustainable Palm Oil (RSPO) certified [Segregated \(SG\) or Identity Preserved \(IP\) supply chains](#).

Nestlé Definition of Traceability

Traceable to Mill

- Name of Mill
- Name of Parent Company
- GPS coordinates
- Certification status

Traceable to Plantation

- Estates:
 - Name of Plantation
 - Parent Company name
 - GPS coordinates
 - Certification status
- Dealers/collectors:
 - Dealer names
 - % of overall FFB tonnage mill receives from dealer
 - Estate info (see above)
 - Smallholder info (see below)
- Smallholders:
 - No. of smallholders
 - % of FFB tonnage mill receives from smallholder annually

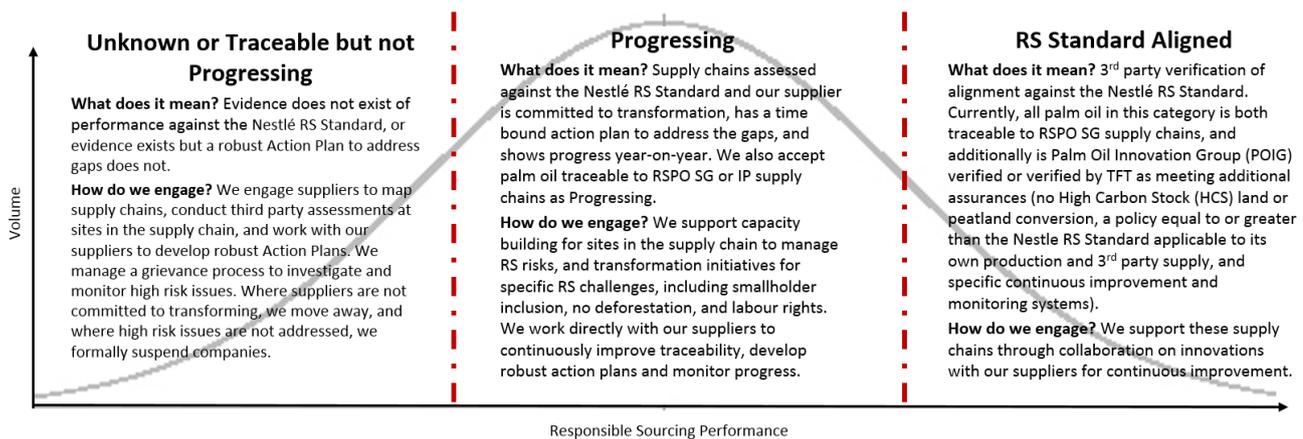


Figure 2. Depiction of how Nestlé categorises palm oil supply chain performance against the Nestlé Responsible Sourcing Standard requirements. Palm Oil that is Progressing or fully Aligned with our RS standard is considered to be Responsibly Sourced.

Performance in 2018:

In 2018, 54% of the palm oil volumes we sourced were traceable to plantation, 91% traceable to mill, and 64% Responsibly Sourced. Behind these figures, the volumes fully aligned with our RS Standard increased from 6% in 2017 to 25% in 2018.

We also conducted a review of all palm oil supply chains with action plans as evidence of Progressing status and worked with our suppliers to strengthen their action plans to ensure all were time bound with clear annual progress indicators that we will monitor progress against. We also worked with five suppliers to develop time-bound action plans for previously unknown supply chains. Where progress against action plans was not made or time bound targets were not included, we removed these volumes from the Progressing status. Of the 33% volume not yet responsibly sourced, 28% is traceable to mill. Although not yet Responsibly Sourced, we are working with a number of these suppliers on their transformation journey and will review their progress in 2019.

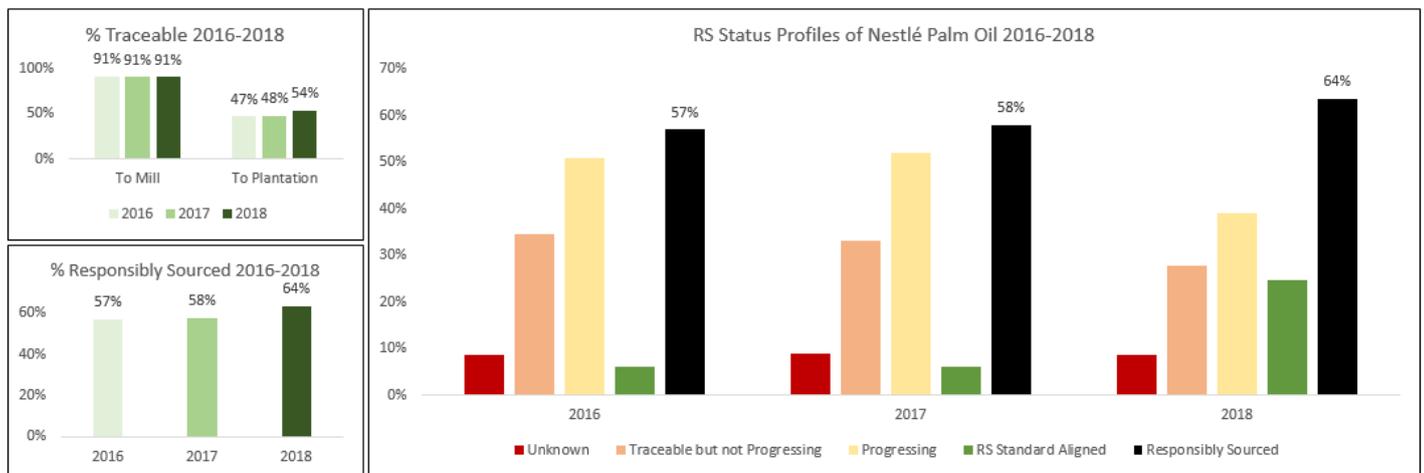


Figure 3. Progress in traceability and responsibly sourced performance from 2016-2018

Commitment to Transparency

In February, we were the first company to make publically available a list of our Tier 1 suppliers' names and a list of the mills that supply us further upstream in the palm oil supply chain, each listed with their country of origin. These [suppliers](#) and [mills](#) represent 91% of the total volume of palm oil we sourced in 2017. In 2019, we will further increase the information we share through a Transparency Dashboard available on our website.

In May 2018, after a review of high risk suppliers in our supply chains, we suspended several additional upstream suppliers who violated our RS Standard. We made publically available a [list of 10 suspended companies](#), which were removed from our supply chains by September 2018. We continue to work to engage suppliers with allegations of violations of our RS Standard, including those which have been suspended.

Commitment to Engaging our Suppliers and Industry

Direct Supply Chain Engagement: Via our implementation partner, TFT, we engaged directly with our suppliers and sites in our supply chain in 2018, conducting assessments, developing action plans, and monitoring sites previously assessed to review progress and strengthen their action plans. To address specific challenges, we partnered with TFT and others on targeted transformation activities. In Cameroon and Nigeria, TFT and Proforest jointly held a training in April for our West African suppliers on our Responsible Sourcing Standard to develop capacity for its implementation and open communication channels to discuss challenges. In East Kalimantan, Indonesia, we funded in depth transformation work via TFT with multiple suppliers, including trainings, intensive facilitation, and field work to develop successful models of transformation that can later be used to inspire change with others. To develop tools available industry wide for this work, we also funded TFT's [work](#) to develop [Tools 4 Transformation](#), including seed funding for a digital Self-Assessment Questionnaire and post Self-Assessment follow up visits. The following figure shows areas where our Responsible Sourcing on-the-ground initiatives in palm oil took place in 2018.



Figure 4. Locations of Nestlé Palm Oil Responsible Sourcing Transformation Activities in 2018

Working with the Roundtable on Sustainable Palm Oil (RSPO): RSPO has an important role to play in driving industry change towards sustainable palm oil. We recognise the importance of maintaining our membership and sharing our experiences to help make this happen. In August 2018, we submitted a time-bound plan to achieve 100% RSPO certified sustainable palm oil by 2023. The plan focuses on increasing traceability primarily through segregated RSPO palm oil and is on top of our existing commitments to responsibly sourced palm oil.

We also actively participated in the consultation process to strengthen RSPO's Principles and Criteria (P&C). We believe that their revised version adopted in November 2018 addresses key gaps that we have been calling out, including requirements related to no conversion of High Carbon Stock (HCS) forests; no planting on peat of any depth; and stronger Free Prior and Informed Consent (FPIC), community protection, and labour criteria. The focus must now be on translating this higher standard into effective implementation. The assurance mechanisms, in particular the audits and the complaints system, need to be strengthened to ensure a robust implementation of the Standard. To contribute in this way, in 2018, we became an Expert Panel member of RSPO's Assurance Taskforce. We will continue to play a leading role within the RSPO to help drive positive change across the entire palm oil sector.

Working with the Consumer Goods Forum (CGF): We are also working with members of the CGF as part of their Palm Oil Working Group. In 2018, we contributed to the work developing an industry position on the RSPO P&C revision. With other members of the CGF, it commissioned a new [research report](#) published in November by the Fair Labor Association (FLA). The report assesses the forced labour situation in the palm oil sector in Malaysia and Indonesia. We actively participated in the development of a CGF high-level [action plan](#) based upon the FLA's recommendations laid out in the report.



Working with the High Carbon Stock Approach (HCSA) Steering Group: Because [ending deforestation](#) can only be solved through collaboration, we joined the [HCSA Steering Group](#) in October 2018. Our ambition is to help make the HCSA the norm in forest conservation. We will do so by bringing in our experience working with smallholder farmers, by working in diverse and complex supply chains, and by applying the tools and technologies we all need – to help make deforestation history.

Commitment to No Deforestation and No Peat Development

In 2010, [Nestlé committed to ending deforestation in our supply chain by 2020](#). Since 2010, we worked across our supply chains to make no deforestation a reality. Based on our no-deforestation work, in February 2018, we [disclosed publicly](#) that our palm oil supply chain is **58% deforestation free** (as part of cross-commodity verification of 63% deforestation free volumes).

Our experience addressing no deforestation and no peat development shows that solutions require a combination of tools: satellite monitoring, on-the-ground verification, traceability to low-risk origins, and conservation initiatives.

In 2018, we expanded our partnership with Airbus and TFT's Starling Initiative, using **satellite imagery and radar** to monitor deforestation. Starling was developed by Airbus and The Forest Trust (TFT) as a global verification system evidencing that no deforestation is taking place throughout the supply chain.

We began 2018 by conducting four Starling pilots:

- In [Mexico](#), Starling was piloted to monitor land use change across a 240,000 hectares landscape dominated by smallholder farmers who produce a diversity of crops, including palm oil. The area has lost around 60% of forests in the last 30 years. The pilot provided a detailed understanding of present and historic land use, which will serve as the basis for a landscape-scale High Carbon Stock Approach (HCSA) process conducted in partnership with another brand.
- In [Ecuador](#) and [Nigeria](#), the work focused on helping to pinpoint deforestation hot spots in time to take action, overcoming the challenges of cloudy weather. Starling data was used to establish a plan to protect forests and guide patrols on the ground about changes in land use.
- In [Malaysia](#), we funded TFT to draft a deforestation profile report for the state of Johor with vulnerable forest areas and stakeholder mapping to prioritise sites for intervention. These pilots tested the application of Starling for data and analytics, and allowed us to develop a decision tree when using Starling alerts to engage companies in our supply chain.

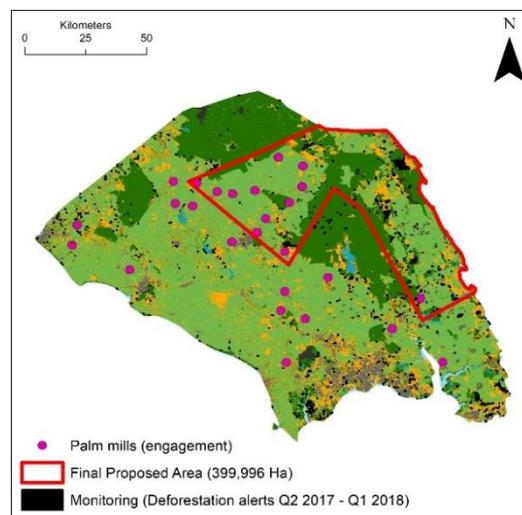


Figure 5. Starling satellite monitoring over Johor, Malaysia



Figure 6. Ground verification of deforestation alerts from satellite imagery

As of December 2018, we are using Starling for [global coverage](#) of our entire palm oil supply chain.

This year, we also supported **three landscape initiatives**, i.e. multi-stakeholder efforts for sustainable land use planning, in [Indonesia](#). In Aceh Tamiang, an area coinciding with the Leuser Ecosystem, the [district government signed a Memorandum of Understanding \(MOU\)](#) with the initiative. A coalition of brands and producers conducted land use mapping and identified areas to designate for conservation. With the MOU signed, the work will be used to **inform the government land use planning** process. As part of this work, areas were selected for reducing deforestation through smallholder engagement, and TFT completed an [analysis](#) of legal options for protecting forests in areas zoned for agriculture, a pervasive challenge in this sector globally.

Lastly, to end deforestation, we recognise the importance of actively supporting conservation efforts for vulnerable forests and areas rich in biodiversity, particularly where conservation objectives and development mandates come into conflict.

- In 2015, a supplier in **Peru** had plans to develop two concessions that were granted for agricultural development, totalling about 35,000 hectares of land, which contained standing forest. Developing these areas would have violated Nestlé's no deforestation policy. Nestlé funded a conservation study for these areas and our supplier decided to conserve the forest. This year, we are supporting an effort to ensure that the area remains conserved through the development of a production-protection model, supporting the creation of economic activities that respect the protection of conservation areas, and pay for the ongoing protection of the conservation area.
- The La Encrucijada Biosphere Reserve in southern **Mexico** protects critical mangrove and wetland habitats. It is also home to hundreds of families who produce a variety of crops, including palm oil. Nestlé is working with TFT to support land use planning in the Reserve in order to ensure that native ecosystems are protected from palm oil encroachment.
- In Borneo, elephants are an endangered species, facing habitat loss, which draws them out into agricultural areas for their survival. Elephants come [into conflict](#) with palm oil smallholders as they search for food, a danger to both elephants and farmers. Through our smallholder project with TFT Rurality in **Sabah, Malaysia**, we are bringing together smallholders, the government, and local conservation organisations to develop tools for humans and elephants to coexist. This year, the project made news when [elephant tracking technology](#) located an elephant to be translocated from a plantation to a wildlife reserve.
- In **Malaysia**, we also continue to run the reforestation [RiLeaf initiative](#), with total riparian forest plantings now numbering 707,000. This initiative will continue until 2020 with a [target](#) of 1,000,000 riparian forest plantings by that year.

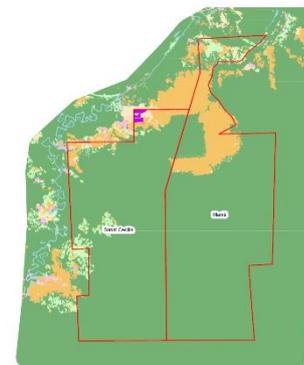


Figure 7. Preliminary land cover analysis of conservation areas in Peru



Figure 8. Rurality project staff and partners demonstrating elephant tracking technology

Commitment to No Exploitation

In March 2018, the **Labour Rights Impact Assessment** conducted by the Danish Institute for Human Rights (DIHR) and TFT in our Indonesian palm oil supply chain in 2017 was [published](#) along with our [Action Plan](#) on Labour Rights in Palm Oil Supply Chains. Throughout 2018 we progressed in implementing this Plan to move towards no exploitation in our palm oil supply chains.

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All sites visited during the Assessment were engaged during 2018 to share the assessment results, conduct trainings, and develop mill-level Action Plans. TFT conducted three workshops with one of the mills, to implement their Action Plan, with an additional workshop scheduled for February, 2019. This mill will then share lessons learned and best practices with other mills in the area. This work will inform a scale-up of engagement across the supply chain.



To improve our supplier management systems to more effectively address labour rights, we commenced a partnership with Verité in 2018 to:

VERITÉ
Fair Labor. **Worldwide.**

- Measure our exposure to high-risk labour issues;
- Develop our supplier management approach for labour risks upstream; and
- Increase capacity of suppliers to diagnose and remediate high-risk labour issues

This will be complemented by field-assessments in our supply chains in 2019, and will result in a set of recommendations for Nestlé and our suppliers.

In parallel, we implemented activities this year to address specific labour challenges.

Worker voice and grievance mechanisms

- In November 2018, we launched a worker helpline with our supplier, Sime Darby Plantation, in Malaysia, with an ambition to expand coverage beyond our supply chains to the industry, as described in the box below.
- In Brazil, we supported TFT to implement grievance mechanisms with local mills through engagement to develop protocols, trainings, and monitoring indicators. We will monitor the implementation of these mechanisms in 2019 with an eye to applying the lessons learned throughout our supply chains.

Launch of a Worker Helpline in Malaysia

In 2018, we partnered with our supplier, [Sime Darby Plantation](#), to create a helpline for palm oil workers in Malaysia to report human and labor rights abuses. Co-developed by the [Responsible Business Alliance](#) and solution developer [ELEVATE](#), the helpline uses the cutting-edge Laborlink platform to enable workers to safely report on working conditions, recruitment, safety and other rights issues.

We believe technology can help us address some of the most stubborn problems we face today. This project is open to whatever channel the worker prefers – SMS, Facebook Messenger, or a toll-free phone number and is a two-way channel. Built on our Corporate Business Principles and [Responsible Sourcing Standard](#), it allows us to ensure reported issues are handled through clear protocols and are consistently followed up.

Looking to the future, we aim to help others in the industry to adopt the helpline and extend this tool to thousands more workers in Malaysia.

Ethical recruitment

- Through our membership with the Responsible Business Alliance's [Responsible Labor Initiative](#) (RLI), which we joined in 2017, we connected two of our suppliers with ethical recruitment programs, with opportunities to train labour agents in our palm oil supply chain.
- Through TFT, we supported development of a **Human Rights Based Due Diligence Tool on Recruitment**, including resources for companies to assess the cost of recruitment for both workers and the employer, for improved supplier transparency into recruitment processes.
- To address ethical recruitment at an industry level, Nestlé participated in the [2018 Global Forum on Responsible Recruitment](#) organised by the Consumer Goods Forum and the Institute for Human Rights and Business (IHRB) in Singapore in June, speaking on the issue in the palm oil sector. This event culminated in the launch of a CGF Call to Action on Forced Labour and Unethical Recruitment.
- In July, Nestlé became a member of the Institute for Human Rights and Business (IHRB)'s [Leadership Group on Responsible Recruitment](#).



Call to Action

Business Leaders Join Forces to Call for the End to Forced Labour and Unethical Recruitment

As partners in the fight against forced labour, and in collaboration with governments, United Nations agencies, and civil society organisations, we are today calling for businesses around the world to play their part in ending this global scourge. The Consumer Goods Forum (CGF), in alignment with the International Labour Organization (ILO), the International Organization for Migration (IOM) and supported by the Institute for Human Rights and Business (IHRB), stand united in our commitment to respect human rights and to strive to end all forms of forced labour in line with ongoing efforts such as the United Nations Guiding Principles on Business and Human Rights and other international frameworks including the United Nations Sustainable Development Goals.

With an estimated 25 million victims of forced labour today, we acknowledge the need for multi-stakeholder collaboration to end this global issue. No one company, industry or government can solve this problem alone. As such, we are calling on members of the CGF and all businesses around the world to take action today with key institutions and partners, and:

Register with grave concern the scale of this global problem and emphasise the need to accelerate action at both national and international levels to eliminate it.

Recognise that important progress has been made in countering the problem worldwide; but that significant challenges remain across countries and industries;

Acknowledge the intersection of forced labour with international labour mobility, unethical recruitment practices and the unique vulnerability of migrant workers;

Acknowledge that governments have the responsibility to protect human rights, including ensuring that national laws and regulations protect against forced labour;

Understand that business has a responsibility to respect human rights in its value chains and own operations and can cleav

Figure 9. CGF Call to Action on Forced Labour and Unethical Recruitment



Children In Plantations

Key workshop findings

Participants shared that some children and young persons are involved in:



Children in plantations

Thousands of children live on palm oil plantations in Sabah, Malaysia, often undocumented and without access to basic services such as education and schooling. Nestlé and Wilmar supported TFT to study this issue, resulting in [publication of findings](#). TFT then led a [multi-stakeholder engagement](#) on the issue, meeting with NGOs in Sabah and conducting a consultation with Suhakam, the Malaysian Human Rights Commission for Government representatives and NGOs. The output of this and further stakeholder engagement will be a Child Risk Framework for Nestlé and our suppliers to use.

Access to clean water

In July, Nestlé launched a clean water access project in Papua New Guinea (PNG) with our palm oil supplier, New Britain Palm Oil Limited (NBPOL), TFT. NBPOL's [Forest Policy](#) calls not only for the conservation of forest, but also the provision of community needs under a One-Hour Principle. This principle aims that all workers in the supply chain have access to potable water, health care, and a primary school within one hour's walk. More than 60% of the population of PNG does not have access to clean water.

Nestlé decided to invest in this project with the aim of creating shared value through realizing rural development benefits in local communities as a result of the production activities, and the aim of supporting the implementation of Nestlé's [Caring for Water initiative](#). Nine community water pumps were installed in 2018. An additional 20 pumps have been purchased and preparatory work completed for installation in 2019. The focus of the Nestlé-TFT-NBPOL work going forward will be on skills development for local community members in pump maintenance and pump monitoring.



Figure 10. Clean Water Pump in Papua New Guinea

Building capacity of our suppliers in human rights and conflict mitigation

- We funded non-profit organization, the Consensus Building Institute, through TFT to conduct a training for one of our suppliers in **Guatemala** on a new company policy on no violence and no intimidation as part of the implementation of their Sustainability Action Plan.
- In **Cameroon**, TFT held trainings through their [Centre of Social Excellence](#) with employees in our supply chain on workers' rights, free prior and informed consent, communication with local populations, and conflict resolution and mediation. Following this training, our supplier is supporting additional staff to continue on a more in depth training through the same Centre.

Commitment to Smallholder Inclusion

Smallholders are an important piece of the palm oil supply chain, producing around 40% of the world's palm oil. It is important to recognise that pressure to move towards higher responsible production standards could come at the cost of excluding smallholders from our supply chains, putting at risk millions of livelihoods in rural communities. To ensure their inclusion, Nestlé is supporting nine palm oil smallholder projects globally. These projects aim to enable sustainable livelihoods for farmers while producing responsible palm oil for Nestlé. Seven of these are through the TFT Rurality initiative, an approach to engaging smallholders that focuses on helping farmers develop their own capacity through strategic use of market links and supply chains.

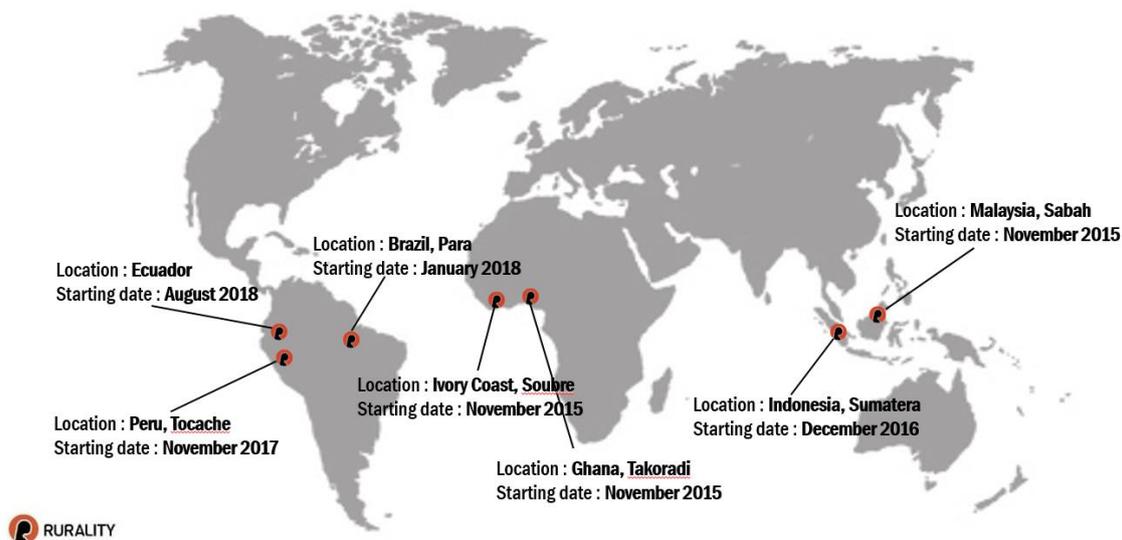


Figure 11. Locations of Nestlé funded Rurality projects in 2018

In **Malaysia**, three village groups were recognized in 2018 by the Wildlife Department in Sabah for monitoring elephants as part of the Human-Elephant Conflict mitigation strategy. Additionally, the farmers here face a challenge with income and investment. To enable more sustainable businesses, sharing sessions on agriculture tools were conducted for farmers to access and prepare themselves for investing in efficient harvesting tools. Income diversification activities were advanced through newly established groups to market local handicrafts and explore other opportunities such as selling of local fruits and livestock integration.



Figure 12. Sub-district Head, at a land tenure study public consultation at the sub-district level as part of the Rurality project in Indonesia

In **Indonesia**, Rurality completed a land tenure study and participatory mapping of three villages where oil palm fresh fruit bunches are sourced from. The objective was to understand historical land use in the region, the land tenure system, and indication of areas of overlapping legal status. Using these facts, the project engaged with government agencies at all levels (district, provincial and national) to find solutions for legal land use status. As a pilot, the project submitted 78 land plots owned by 55 farmers to the government of Indonesia as land object for agrarian reform. Additionally, Rurality initiated the establishment of farmers groups to ease the organisation of agricultural technical trainings. Food crops, such as shallots and rice, have been developed as an additional source of income.

In **Ghana**, Rurality completed over 230 individual on-farm visits, 4 large and 12 small group trainings on oil palm best agricultural management practices, and 13 trainings on diversification of livelihood activities, supporting access to information, inputs, and services, and improved business management practices, leading to measurable increases in farmers' adoption of key practices in 2018.

In **Ivory Coast**, farmer cooperatives were strengthened and individual farmers were trained and empowered through plantation mapping. Over 4,000 plantations were GPS referenced, an activity initiated by Rurality and then handed over to cooperatives. A prototype of a cell phone app was developed for the project to improve payment, weight, and transaction transparency between farmers, cooperatives, and mills. Monitoring visits quantified the implementation of practices learned in trainings and visits to model plantations were conducted to inspire farmers. Lastly, trainings were conducted on specific high risk issues: chemical management and the preservation of Niégré protected Forest.

Our Rurality projects in Latin America started more recently and 2018 was dedicated to their diagnostic phase to identify priority issues and rural dynamics necessary to design the project plan. In **Peru**, the diagnostic exercise was completed and will inform a landscape-level action plan. In **Ecuador**, an MOU was signed with our supplier, La Fabril, and two Field Officers were recruited. The diagnostic began in August. In **Brazil**, more than 70 interviews were conducted as part of the diagnostic, with a particular focus on mapping planned expansion areas to identify whether a conservation assessment will be needed. This diagnostic is also completed and in 2019, the action plan will be implemented.

Outside of Rurality, Nestlé **Malaysia** is running the **UpLeaf** initiative to build smallholder and outgrower capacity for responsible production. Thirty new participants were engaged this year, resulting in a total coverage of 280 small smallholders and outgrowers, producing 15000 MT of crude palm oil on 5000 hectares of land.



The WISSH program, a smallholder training initiative in **Honduras** with our supplier, Wilmar, completed its third and final year in 2018. Through WISSH, 3,300 smallholders were trained on six different sustainability topics, representing about 23% of the smallholders in Honduras. The trainings occurred over 488 training sessions, where more than 25% of participants attending over 5 trainings. 100% of participants stated that the trainings led to greater productivity. In October, Nestlé participated in a closing event that was held for a final evaluation of the program.



Figure 13. WISSH smallholder training participants

For additional information We appreciate your continued engagement on the responsible sourcing of palm oil at Nestlé. If you have any questions, comments, or suggestions, please contact us at creatingsharedvalue@nestle.com.