

# PROGRESS REPORT

## *On Responsible Sourcing of Pulp & Paper*



### RSG Criteria

- Compliance with local and national regulations and laws
- Protection of High Carbon Stock (HCS) forests
- Protection of High Conservation Value (HCV) sites
- No development on peat, regardless of depth

The **Nestlé Responsible Sourcing Guideline (RSG)** was developed to complement the Nestlé Supplier Code and defines the social and environmental sustainability requirements that Nestlé aims to see implemented in its upstream value chain back to the primary production level. Category specific requirements for pulp & paper, focusing on virgin fibre and deforestation, were initially developed in 2011 with the support of our delivery partner, The Forest Trust (TFT). While focusing initially on virgin fibre, the RSG reinforces Nestlé's

specific commitments on deforestation and forest stewardship, rural development and water stewardship, all of which have a high priority in the implementation of Nestlé's traceability and responsible sourcing ambition for pulp & paper. All Nestlé suppliers are required to meet the RSG requirements. However, we recognize that supply chain transformation cannot be achieved overnight, so we support those who are working towards meeting our RSG and showing measurable progress in doing so.

### Traceability & Responsible Sourcing Targets

**In practice**, Nestlé's commitment to responsible pulp & paper, focusing first on virgin fibre, involves two steps:

- 1) Achieving traceability of the supply chain all the way back to the fibre source.
- 2) Demonstrating responsible sourcing by a successful

assessment by TFT against the RSG requirements. Although this is a global programme, in order to achieve maximum impact and momentum it has been necessary to prioritise countries in 'waves', selecting countries to work in on the basis of factors such as high volume and potential sustainability risks. Countries selected to date are as follows:

- 2011 - 2015: Wave 1: USA, Europe, Brazil, China, Indonesia, Malaysia, India
- 2013-2016: Wave 2: Thailand, Vietnam, Central West Africa (CWAR)
- 2015-2017: Wave 3 planned: Chile, Japan, Taiwan, Mexico

**Target: 60% Traceable – December 2014**

Nestlé understands that in order to be able to ensure responsible sourcing of our pulp & paper we need to firstly understand the supply chains, achieve traceability to the fibre source to identify forests and plantations.

**Target: 60% Responsibly Sourced – December**

Once traceability to the supply base has been achieved, the next step is to implement the Nestlé Responsible Sourcing Guideline on the ground by working with suppliers in assessing practices and implementing the better if required.

**Our approach, regardless of the country, is essentially the same:**

1. Supply chain mapping to identify the country and forests from where the converters, paper mill and pulp mills source the virgin<sup>1</sup> fibre. This is done through assessment visits of each of the processing sites to determine and verify this information;
2. Risk assess<sup>2</sup> the origin of the fibre to determine the level of compliance against the RSG requirements to identify high and medium priority sources to conduct a RSG assessment;
3. Assess the high and medium priority sources to determine compliance with the requirements of the RSG;
4. Where a forest source does not fully meet the requirements, an action plan with the company is established to work towards closing out the gap to fully meet the RSG; and,
5. Monitoring of suppliers and raw material inputs.

**<sup>1</sup> Virgin fibre**

The scope of the work is on virgin fibre as this is where there are direct links to deforestation. As such, where recycled fibre is identified no further action is currently taken

**<sup>2</sup> Risk assessments**

The risk assessment is conducted using the Fibre Analysis Tool (FAT), which takes into consideration; corruption, deforestation, water stress, certification of the fibre source.

**Example of a typical pulp and paper supply chain from forest to Nestlé**



This approach of transparency enables us to better know our supply chains and going forwards source only pulp and paper that meet our “no deforestation” requirements, or at the very least sourcing pulp and paper from suppliers who are making measurable progress to meeting those requirements. When companies in our supply chains do not comply and/or are not willing to engage/change, we have taken, and will continue to take, all necessary measures to exclude them from our supply chains, monitoring progress to determine whether to engage with them again or not, (see Asia Pulp and Paper case study).

Achieving transparency and traceability throws up challenges. Pulp and paper supply chains vary considerably between countries (see supply chain case study), and packaging origination may change very fast (reformulation of paper recipe). Nonetheless, our determination to live by our principles and willingness to collaborate with others is delivering results. Going forward we are looking to further expand the number of countries engaged in the programme to reinforce our commitment towards no-deforestation.

## Case Studies

The following cases studies aim to help demonstrate the diversity in our supply chains.

### Supply Chain Diversity

We are working in 10 different countries to determine both transparency back to forest source and compliance with the RSG. The pulp and paper supply chains in these origins are inherently different from one place to another.

#### Nestlé operations engaged in our pulp and paper RSG work



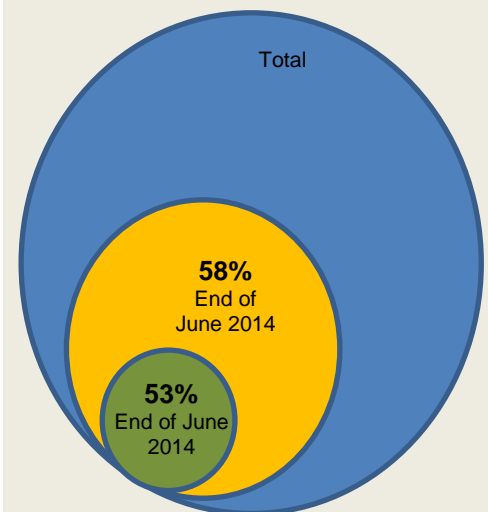
### Brazil

For example, in Brazil pulp and paper companies are predominantly integrated. This means that they own the forests, as well as the pulp and paper mill and the converting factories that supply us with the fibre based packaging products. This helps to secure information about supply chains and raw material, because the data is internalized by one company, which helps in preparing site visits and any follow up action required. Brazilian pulp and paper companies are also typically certified, which is complementary to the RSG and helps demonstrate compliance with many of its requirements.

### China & Malaysia

These supply chains are incredibly complex as the fibre used by the Chinese or Malaysian converters is often grown elsewhere and sourced through middlemen and traders from paper and pulp mills in different countries. These pulp and paper mills might also be sourcing the fibre raw material from other countries, hence achieving traceability and access to these upstream processing sites and forests is much more complex. Our ability to influence suppliers decreases further upstream in our supply chains and in the instances where we are faced with suppliers who are not cooperative and do not support the approach then we look for more willing alternatives.

## RESULTS TO DATE



Blue: Total **Volume** in scope  
 Orange: **Traceable**  
 Green: **Responsibly Sourced**  
 (Assessed and engaged in continuous improvement, compliant, or certified against an approved sustainability scheme and recycled)

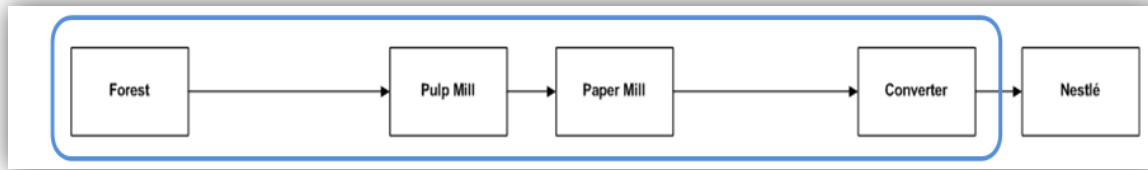
Since 2011, TFT has worked to establish transparency in our supply chains by working with our key converters and upstream suppliers of paper, pulp and fibre products.

By June 2014, 125 visit assessments had been made by TFT and Nestlé.

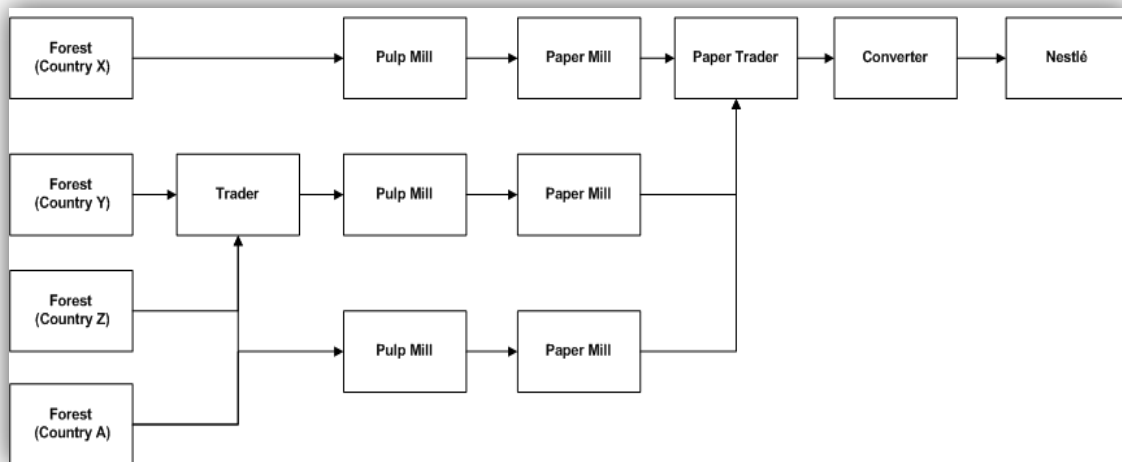
This work has revealed significant differences in the flow of raw material and the number and type of players involved. As a result we now recognize that a one size fits all approach is insufficient. What is needed are individual solutions.

- **58%** of our volume is traceable back to supply base. Traceability within specific countries is highly variable.
- **53%** of our volume is Responsibly Sourced, which means that plantations and forests have been RSG assessed and are now engaged in continuous improvement as required.
- The responsibly sourced volume also includes volumes certified against approved schemes and recycled material..

**Example of vertically integrated supply chain e.g. Brazil**



**Example of vertically non-integrated supply e.g. China**



It's a common misconception that the pulp and paper industry sources its raw material only from large scale industrial plantations converted from natural forest. Whilst a new study by Food and Agriculture Organization of the UN (FAO) has shown that plantations, which make up less than 7% of the world's forest area, produce one third of the world's industrial round wood, small scale farmers also play a very important role in the industry. This is particularly evident in south east USA, where small scale family forests are the main source of raw material for one of the largest pulp and paper producing regions in the world. These small scale family forests therefore have a large influence in shaping mill fibre procurement but also represent challenges due to the large number of suppliers and hurdles to certification.

**India & Indonesia**

These countries use large volumes of recycled fibre in the production of packaging for our products. Whilst this is not an issue in terms of direct links to deforestation, there are other issues to consider, for example the social conditions of waste collectors and sorters.

We are examining the prevalence of recycled material in our different Nestlé operations and the potential risk to determine how we shall deal with this issue in our supply chains.

This shows the context in which we are working and presents us with specific challenges to operating in different Nestlé operations and securing solutions that allow traceability back to the virgin fibre source and continual improvement towards our "no-deforestation" commitment.



*Example of paper waste bales used to produce the recycled content of our products*

**Asia Pulp & Paper (APP)**

Asia Pulp and Paper Group (APP) is one of the world's largest pulp and paper companies. For over a decade, non-governmental organization (NGO) campaigns accused APP of large-scale natural forest clearance, endangering animal habitats and ignoring indigenous community land rights. This led to several large international brands, including Nestlé, cancelling contracts with them.

In February 2013, partly in response to our and other brands' disengagement, APP announced its Forest Conservation Policy (FCP) and committed to Zero Deforestation throughout its supply chain. This included an immediate moratorium on all further natural forest clearance by all of its Indonesian suppliers. Since then, APP has engaged in a series of assessments of its Indonesian suppliers' concessions to identify High Carbon Stock forests, areas of High Conservation Value and forested peatland, all of which will be protected. APP is also addressing land conflicts and ensuring community engagement in all future developments, using the FPIC process (Free, Prior and Informed Consent). The company has also committed to addressing its legacy by pledging to support the protection and restoration of one million hectares of

forest in Indonesia. TFT and other implementation partners have been working hard with APP to implement the FCP and demonstrate compliance by transparently reporting progress.

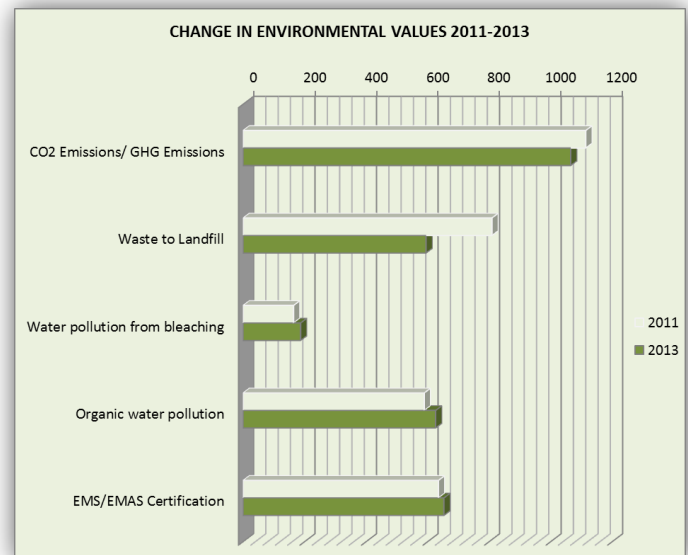
Nestlé supports this continued improvement towards responsible forest stewardship. Reacting to this positive development, we have engaged in a pilot project with APP for product orders from a number of sites using fibre sourced only from APP's plantation and recycled sources. When pre-determined, mutually agreed criteria are fully met by APP and supported by third party evidence from a certification body at each link in the supply chain, Nestlé will look to re-engage APP fibre in our products. Click [here](#) for full details of APP's Forest Conservation Policy.

## Europe

Our Zone Europe Fibre Packaging Procurement Team developed a user-friendly self-assessment tool for paper producers that aimed for fibre supply chain transparency and for environmental data gathering.

The first Pulp and Paper Responsible Sourcing exercise was launched in autumn 2011 and received an incredible 100% response rate. For environmental management, a scorecard model was applied and time-bound action plans were agreed with paper and board suppliers by our Procurement Team while TFT started providing verification of fibre supply chains and forest practices.

In 2013, the exercise was re-launched and we included all our European Co-Packers and Co-Manufacturers who use paper packaging for Nestlé products.



## Change in Environmental Values 2011 – 2013

Based on scores on environmental emissions collected in 2011, paper industry players with below average scores were challenged to submit development plans. As a result, in 2013 there was a marked reduction in the overall CO<sub>2</sub>/ GHG emissions & Waste to Landfill values. However, in 2013 suppliers were asked to include emission values from purchased market pulp in addition to their own emission values and this is the reason for the supposed slight increase in Water Pollution from Bleaching and Organic Water Pollution values.

## TFT ROLE IN SUPPORTING OUR APPROACH



We have been working with TFT to improve our understanding of our entire pulp and paper supply chain. This includes our first tier suppliers and goes right back to the forest, finding out exactly what is happening in the field and working with suppliers to address any issues.

A key element of success of TFT's support is the nature of the engagement that is developed with the supplier: trust is built between Nestlé buyers, the supplier and TFT teams to find solutions. It is a joint effort conducted in a constructive spirit and TFT helps ensure that there is a safe space for a Nestlé buyer and its supplier to open up, face the issues and innovate to solve them. TFT also visits the processing sites and forests and relevant stakeholders to assess how suppliers are performing from an environmental and social point of view, formulate practical recommendations and monitor their implementation.



TFT staff conducting a forest based assessment

This process is complemented by information from local NGOs, local authorities and other operators to give a full and balanced overview of what is happening on the ground. This mix of information sharing, collaboration and field work is what allows us to progress towards our objective of deforestation-free pulp and paper.