

PROGRESS REPORT

On Responsible Sourcing of SUGAR



RSG Criteria

- Legal Compliance
- Labour practices
- Conversion of natural vegetation
- Environmental impacts
- Land use rights
- Creation of shared values

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 sugar (sugarcane and sugar beet) were initially developed at the end of 2011 with the support of our delivery partner, Proforest, and with review by relevant NGO stakeholders including WWF, Oxfam, Conservation International and Solidaridad.

It also reinforces Nestlé's specific commitments on child labour in agricultural supply chains, water stewardship and on deforestation,

all of which have a high priority in the implementation of Nestlé's traceability and responsible sourcing programme for sugar.

Traceability & Responsible Sourcing Targets

In practice, Nestlé's commitment to responsible sugar supply chains involves two steps:

- 1) Achieving traceability of the supply chain all the way back to the sugar mill. In some cases this is relatively straightforward and only involves one or two steps before Nestlé purchases the raw material. In other situations, this can be extremely challenging as there are many traders and intermediaries involved.
- 2) Demonstrating responsible sourcing by a successful assessment by Proforest against the RSG requirements, or alternatively through certification under a suitable scheme. 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:

- 2012 - Wave 1: Brazil, Mexico, India
- 2013- Wave 2: Australia, Thailand, EU (focus on Cane Imports)
- 2014 - Wave 3: Indonesia, Malaysia, Central America, US (incl. cane imports)

Engagement with our suppliers has allowed us to understand the complexity and specific characteristics of the supply chains in each country and to share the objectives of the programme with the main suppliers. Crucial to the effective implementation of this programme is the active partnership between the Nestlé procurement teams in the different countries and our implementation partner, Proforest. Joint teams from Nestlé and Proforest work closely together, supporting engagement with the suppliers and discussing implementation strategies for each country.

30% Traceable – December 2014

Nestlé understand that in order to be able to ensure responsible sourcing of our sugar we need to firstly understand the supply chains, achieve traceability to mill and identify the farmer supply base.

20% Responsibly Sourced – December 2014

Once traceability to mill and supply base level has been achieved, the next step is to implement the Nestlé Responsible Sourcing Guideline on the ground, working with suppliers and mills to create shared value through the supply chain.

RSG Site Assessment Programme

Site assessments	Conducted to date	Scheduled for 2014
Brazil	✓	✓
Mexico	✓	✓
India	✓	
EU Cane origins		✓
Thailand	✓	✓
Central America		✓
US Cane origins		

Working with a wide variety of supply bases

One of key challenges faced is the diversity of supply bases that we encounter and how to develop the most appropriate implementation and continuous improvement strategy. Supply bases can vary from being mainly mill-owned plantation or large plantations where the mill may have a significant role or responsibility to many thousands of smallholders with plots of less than a hectare who are not bound to a specific mill. In some cases there may also be very strong relationships with associations or co-operatives.

Any strategy that is developed needs to take into account all of these variables and needs to have input from all relevant stakeholders in order for it to be effective.

Assessment results Wave 1 countries

India

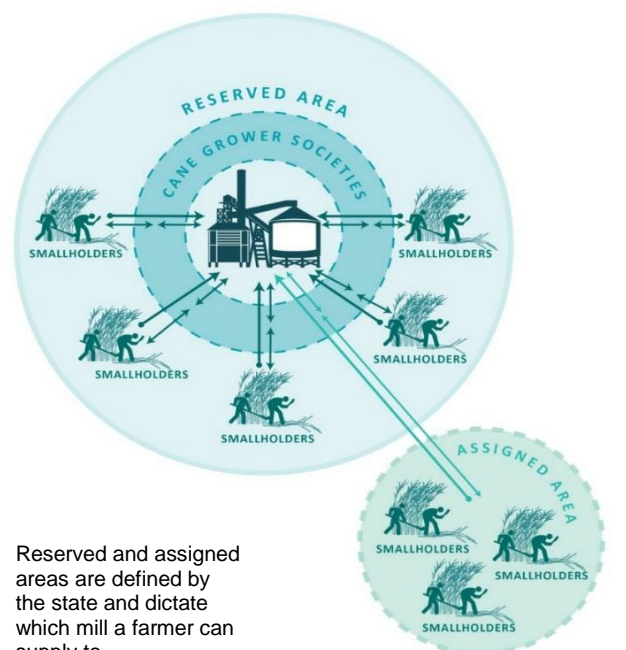
The diagram illustrates the basic relationship in Uttar Pradesh, India between the mill and its supply base. This model varies per state. The number of smallholders supplying to a mill can reach 10s of thousands, with holding sizes of as little as 0.5ha or less.

Positives

- Engagement of suppliers
- Smooth execution of RSG assessments

Challenges

- Use, storage and disposal of chemicals
- Water usage
- Economic situation in Indian Sugar Industry

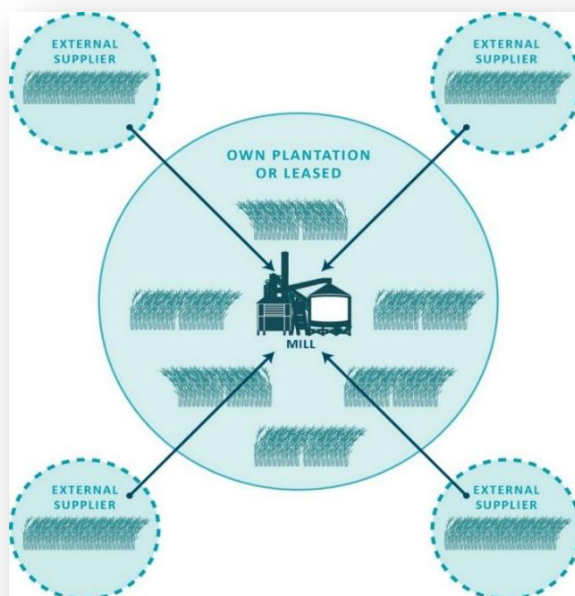


Assessment results Wave 1 countries

Brazil

Sugarcane in Brazil is produced in large scale plantations which are owned or managed by the sugarcane mill or which are owned by a supplier. Production usually takes place within 30km of the mill.

Overview of sugar supply chain profile



Positives

Suppliers' openness to learn and improve

Challenges

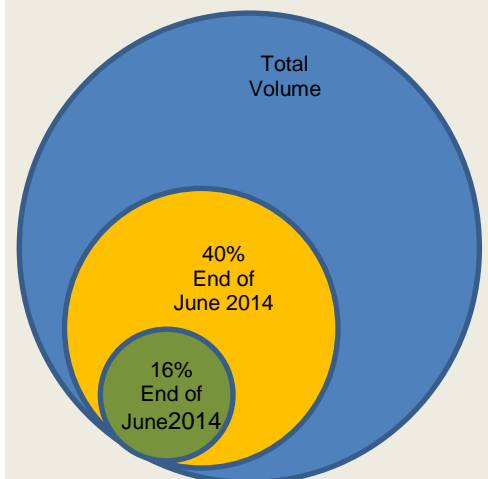
Compliance with the Brazilian Forest Code

Supplier Engagement in Brazil



Copersucar is a major trader of sugar in Brazil and an important supplier to Nestlé Brazil. Copersucar has actively supported the Nestlé programme since engagement in 2012, providing traceability to their partner mills, acting as a communication channel and being involved in supplier workshops. Copersucar partner mills have been part of the site assessment programme since 2013 and willingness to be open and transparent has been demonstrated at all levels, from mill staff to farm laborers.

RESULTS TO DATE



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

The RSG implementation programme is built upon strong relationships with suppliers, to enable sustainability challenges to be addressed with close collaboration. To this end, supplier workshops and/or specific supplier meetings have been held in all Wave 1 and Wave 2 countries, to build understanding and commitment for Nestlé's shared value objectives.

The programme has involved implementation of desk-based research and communication activities in order to gather traceability information, together with an intensive series of RSG site assessments of sugar mills and farms in order to evaluate progress against the RSG requirements.

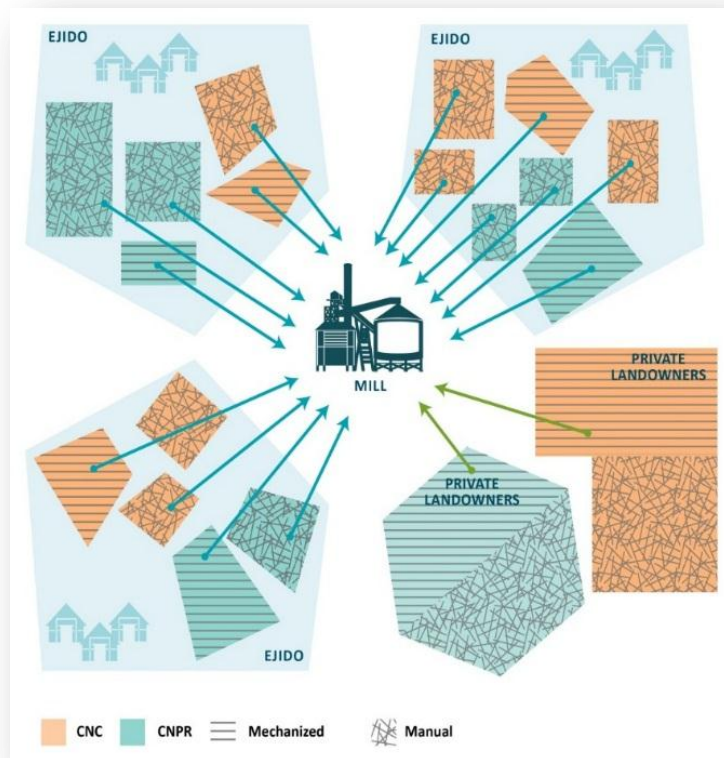
- **40%** of our volume is traceable back to mill and supply base. Traceability within specific markets is highly variable for sugar cane. Whilst there is good transparency for local beet supply in Europe, there is a large amount of complexity and lack of transparency for sugar cane imported into Europe and when key suppliers are traders.
- **16%** of our volume is Responsibly Sourced, from mills and farms which have been RSG assessed and are now engaged in continuous improvement.
- The responsibly sourced volume also includes volumes certified against approved schemes.

Assessment results Wave 1 countries

Mexico

The sugarcane industry employs a huge number of people in various roles: sugarcane growers, seasonal sugarcane cutters, transport workers, mill workers and administration staff. There are two main types of sugarcane growers in Mexico; small private land owners and ejidatarios (communal landowners). The communal land tenure system, implemented as a result of the Mexican Revolution of 1917, means that units of cane production are in general very small, particularly in comparison to holdings in countries such as Brazil.

Overview of sugar supply chain profile



- Ejidos: Communal land areas
- Ejidatarios: Smallholders within ejidos – a Mexican communal land tenure system
- Private landowners: smallholders who own their land

Positives & achievements

- Engagement of smallholders
- Market level ownership

Challenges

- Migrant workforces
- Expansion into natural vegetation

Supplier Engagement in Mexico

Beta San Miguel



In 2012, Nestlé Mexico began the process of engaging with BSM on the Responsible Sourcing and Traceability Programme. BSM have reacted enthusiastically and collaboratively throughout the whole process, providing traceability data, supporting initial exploratory site assessments, attending supplier workshops and committing to full site assessments at all their supplying mills. BSM and Nestlé Mexico are continuing to work positively together to develop strategies to improve practices across their supply bases.

Common Challenges

There are a range of challenges which can be found in many of the countries that we are sourcing sugar from, and we are actively working with suppliers and partners to address these. The most widespread and serious challenges concern working conditions for sugarcane laborers, usually during harvest.

Workforce

The sugarcane harvest in some locations involves a temporary migratory workforce that lives and works in sugarcane growing areas during the harvest period. This factor accounts for a significant proportion of the potential social risks within the sugar supply chain.

Living conditions

- Limited access to sanitation, potable water, privacy
- Overcrowding
- Lack of education as to how to use and maintain the facilities provided



Working Conditions

Inappropriate use, storage and disposal of chemicals is a challenge to solve in many of the origins that we are supplying from.

Creating Shared Value

Creating shared value (CSV) is key to the way that Nestlé does business. CSV begins with the understanding that for our business to prosper over the long term, the communities we serve must also prosper.

This programme has a role to play in this business model and CSV interventions are an important part of the overall positive impact. CSV programmes to complement the RSG continuous improvement work with supplies are under consideration in the following areas:

- Practical programmes to assist farmers in the implementation of best management practices, specifically in terms of minimising water consumption
- Addressing the root causes of incidences of child labour and poor working conditions in the sugar cane workforce, particularly where there is migrant labour
- Developing and communication of best practice tools to enable small farmers to avoid deforestation and adverse impacts on High Conservation Values (HCV) in the landscape.



Proforest's role in supporting our approach



Since the end of 2011, Nestlé have been working with Proforest to develop robust responsible sourcing guidelines for sugar and credible and appropriate strategies for implementation of those guidelines.

Proforest's ability and experience working at all levels of the supply chain, from growers to retailers, and with other key stakeholders (such as NGOs, policy makers, and sustainability initiatives) mean that they are in a unique position to be able engage effectively at all levels, to perform site assessments and to support implementation and monitor improvement plans.

The RSG site assessment programme is implemented through a combination of staff resources from Proforest's regional offices, together with a network of local delivery partners that have long-term collaboration partnerships with Proforest in the specific origin countries, and who can provide additional in depth local knowledge to bring to the RSG implementation process.

