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## 1. MDLZ principles and position for palm oil

In 2013, we set out a set of principles for palm oil production and committed to deliver an action plan to deliver a sustainably sourced palm oil supply.

The principles are highlighted below in our position statement on palm oil and deforestation, also published on our website.

We believe these principles should be universal and accessible to all. Our focus is to work with palm oil suppliers to deliver our requirements for sourcing palm oil in sustainable ways that do not cause deforestation and, in doing so, to help influence their approach across their broader supply. Our priority has been to participate in efforts to achieve sector-wide palm oil transformation, rather than to pursue a segregated supply from the existing pool of sustainable plantations.

### **Palm oil and deforestation:**

We source palm oil predominantly from Malaysia and Indonesia, and to a lesser degree from Colombia, Brazil, Mexico and West Africa. Currently, we purchase less than 0.6% of worldwide production as the market is very fragmented.

We are concerned about the potential long-term environmental and social impacts of palm oil production, including deforestation and human rights.

We are taking steps to ensure that the palm oil we buy is produced on legally held land, does not lead to deforestation or loss of peat land, respects human rights, including land rights, and does not use forced or child labor.

Specifically, palm oil development should not take place in Primary Forest, High Conservation Value (HCV) areas, High Carbon Stock (HCS) forests, or use fire in plantation operations. [See section 6 and definitions annex]

We have reviewed our approach with our palm oil suppliers and are publishing this action plan to give priority to supplies that meet these principles, and eliminate supplies that do not. The plan requires suppliers to achieve 100% traceability to the mill level by the end of 2015. In addition, suppliers must publish sustainable sourcing policies that meet our principles and implementation timelines by the same date.

We work with WWF to evaluate options and will report on our progress and findings annually.

While we recognize its limitations, the Roundtable for Sustainable Palm Oil (RSPO) provides the most widely supported approach to developing and enforcing standards for sustainable palm oil production. We're purchasing RSPO palm oil, covering 100% of our use since 2013 through a combination of RSPO-certified oil and Greenpalm certificates that support sustainable production.

We have supported the United Nations Development Programme (UNDP), the Government of Indonesia, and other partners to develop the Indonesia Sustainable Palm Oil (SPO) Initiative. The initiative aims to develop national capacity to promote and scale up sustainable palm oil by strengthening smallholder farmers, supporting national policy reform and reducing deforestation through public-private partnerships. The SPO is working to establish a national multi-stakeholder palm oil platform to develop strategies to address smallholder capacity building; environmental management and monitoring; governance and mediation of land titles; and strengthening the ISPO standard.

## 2. Supplier engagement

To achieve change in the palm oil sector, we need to engage our suppliers.

While our dealings with individual suppliers are generally cooperative, in 2010 we ceased buying from a supplier following allegations of illegal forest clearance in its palm oil operations. Since then, we have engaged other suppliers, with the threat that we will withdraw our business where necessary.

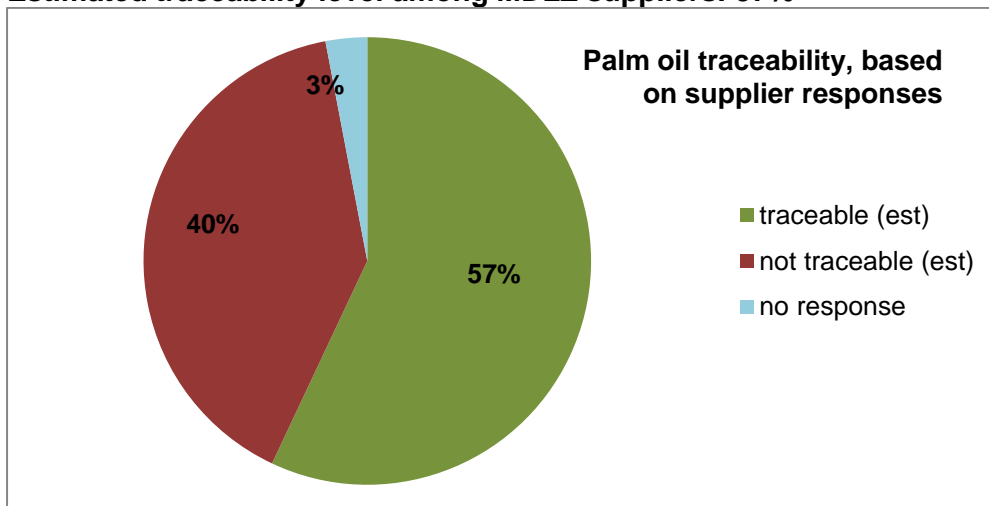
In the past year, we have carried out a structured program of supplier engagement which is the foundation for this action plan, including a traceability survey [see below], sustainability capability assessment and ongoing direct engagement.

We have been encouraged by our suppliers' responses to this engagement and their willingness to respond to queries. The dialogue has shown that further work is needed to improve traceability and to increase the number of suppliers with comprehensive sustainability policies addressing the principles outlined in our palm oil position statement [section 1]. These areas will become the focus of our transition plan to secure physical supplies of sustainably sourced oil.

### Case study: 2013 traceability survey

- For each supplier, we compared their declared percentages of traceable oil with volumes sold to MDLZ, to provide an estimated volume of traceable oil.
- These totals were added to create a cumulative total of traceable oil for our overall purchase.
- Suppliers representing 97% of our supply participated.
- Palm kernel oil excluded on basis of complexity and low usage (c8%).

### Estimated traceability level among MDLZ suppliers: 57%



### 3. Timeline to achieve a physical supply of sustainably sourced palm oil

We believe the palm oil sector is at a tipping point that enables us to accelerate our existing commitment to give priority to supplies that meet our sustainability principles, and eliminate supplies that do not.

We will embed our sustainability requirements into our procurement process and commercial negotiations so that we can give preference in volume allocations to suppliers who are taking steps to implement our action plan and exclude those that do not.

2010	Joined the Board of the Roundtable for Sustainable Palm Oil (RSPO) NB: Cadbury was a founder member in 2004.  Published intention to achieve RSPO coverage by 2015, through a combination of RSPO-certified oil and Greenpalm certificates that support sustainable production.
2011	50% RSPO coverage
2012	70% RSPO coverage
2013	100% RSPO coverage – two years ahead of schedule.
Q4 2013	Traceability survey: we asked our palm oil suppliers to provide top-line transparency of the proportion of their in-bound palm oil bought from traceable supply chains.
Q2 2014	Sustainability capability assessment: we asked suppliers to complete a detailed assessment of their sustainability policies and implementation.

Ongoing	High-level meetings with key suppliers and ongoing contacts between sustainability and procurement teams address: <ul style="list-style-type: none"><li>- suppliers' overall approach to sustainable palm oil</li><li>- follow-up questions from the capability assessment</li><li>- allegations in reports by advocacy groups of environmental or social misconduct by plantation companies</li><li>- suppliers' engagement in sector dialogue seeking to address gaps in current sustainability standards, such as defining High Carbon Stock</li></ul>
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end-2015	Suppliers' in-bound oil to be 100% traceable to the mill level  Suppliers to have published policy to address: <ul style="list-style-type: none"><li>- MDLZ principles</li><li>- verification and reporting procedures</li><li>- group and joint-venture operations, suppliers and oil traded on the open market.</li></ul> We require all suppliers to be able to demonstrate policy implementation by year-end 2015, or to have time-bound plans in place. At that time we will confirm the deadline for full implementation, and will expect it to be as soon as feasible after 2015.
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## 4. Innovation opportunities

We also encourage our suppliers to pursue innovation opportunities, such as the examples listed below.

### **Productivity**

Palm oil has the highest yield per hectare of land of any oil suitable for food production. Palm oil plantations provide 39% of global vegetable oil while occupying just 7% of the land used for oil production.

Despite this, forest clearance to meet growing palm oil demand continues. Yet palm oil has the capacity to be even more productive and to meet growing demand from the existing land area.

Our supplier assessments will recognize suppliers who provide data showing productivity improvements in their supply base.

### **GHG reduction**

Halting deforestation will yield a significant reduction in greenhouse gas emissions from the palm oil production sector. We support efforts to encourage new plantings on degraded lands as one of the best means to reduce clearance of forested land.

In addition, more can be done to improve management practices on existing plantations and palm oil mills to reduce GHG emissions.

Our supplier assessments will recognize suppliers who are taking steps to track, report and reduce greenhouse gas emissions from deforestation and plantation or mill operations.

### **Smallholder and community engagement**

Smallholders are a key part of the supply base. For example, in Indonesia and Malaysia, smallholders account for 35-40% of the total area of planted oil palm and as much as 33% of the output<sup>1</sup>. Smallholders may be independent, or linked to larger plantations. The challenges of smallholder production are many, including low productivity, lack of training and land tenure problems. We will continue to monitor efforts by the Indonesian government to register smallholders under its ISPO standard, which requires legal land holding and compliance with regulations.

Communities surrounding palm oil plantations may also face challenges linked to land rights, labor rights or food security.

Our supplier assessments will recognize suppliers who can provide data about the proportion of palm oil sourced from smallholders and details of programs to engage and support smallholders and communities.

## 5. Reporting

We will report annually on progress towards implementing this action plan. Progress will be tracked against metrics addressing RSPO volumes, traceability to mill, and supplier policies and compliance.

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<sup>1</sup> FAO report: Towards better practice in smallholder palm oil production

## 6. Engagement and advocacy

We are active in the debate about the transition to a sustainable palm oil sector, through our membership of the RSPO Board and the Consumer Goods Forum; as well as engagement with numerous stakeholders including palm oil suppliers, WWF, UNDP, the Tropical Forest Alliance, national governments and environmental and social NGOs.

Key themes that we are addressing include:

**i) RSPO standards and implementation:** As a member of the RSPO, we report on our palm oil procurement and strategy via the RSPO's Annual Communication of Progress (ACOP). As a member of the RSPO board, we are also in a position to influence the evolution of its Principles and Criteria for the production of sustainable palm oil. While we recognize its limitations, the RSPO provides the most widely supported approach to developing and enforcing standards for sustainable palm oil production.

- *As the palm oil sector reaches a tipping point in the transition to sustainable production, the RSPO has an opportunity to step up through improving standards and building confidence in its enforcement and remediation processes.*

**ii) Other initiatives to improve practices:** a number of initiatives have sought to embed practices that go beyond current RSPO standards. These have included efforts to define criteria for **high carbon stock**, while implementing a protocol to suspend contentious development in the short term; and rule out new developments on **peat soils of any depth** or the use of **fire** in plantations. All these issues are addressed by RSPO but with limitations or exceptions that have been perceived as loopholes.

- *We urge our suppliers and other stakeholders to reach consensus on these issues as soon as possible, so that we can align our criteria.*

**iii) Increased transparency** is vital to ensure best practices are being adopted and to build trust in the sector. As a first step, we are asking suppliers to implement traceability to the mills where fresh fruit bunches (FFB) are first processed into crude palm oil. While we recognize that traceability to the plantation or smallholder level can be extremely difficult we expect mills to be able to track and verify practices within their FFB supply base over time.

- *We encourage continued dialogue between our suppliers and other stakeholders to address this question.*

Organizations we have engaged with include:

The **United Nations Development Programme (UNDP)**, the Government of Indonesia, and other partners developing the Indonesia Sustainable Palm Oil (SPO) Initiative. The initiative aims to develop national capacity to promote and scale up sustainable palm oil by strengthening smallholder farmers, supporting national policy reform and reducing deforestation through public-private partnerships. The SPO is working to establish a national multi-stakeholder palm oil platform to develop strategies to address smallholder capacity building; environmental management and monitoring; governance and mediation for land titles; and strengthening the ISPO standard.

The **Consumer Goods Forum**: as a member of the CGF board and sustainability steering committee, we signed its 2010 deforestation resolution in which members pledged to mobilize resources within their respective businesses to help achieve zero net deforestation by 2020. Work to implement the resolution focuses on four key supply

chains generally acknowledged as the biggest drivers of deforestation: soy, oil palm, beef and paper and pulp.

We have participated in global public policy debates on deforestation, including the Oslo REDD+ Exchange in October 2013 and the Tropical Forest Alliance conference in Jakarta in June 2013. We also supported the World Bank BioCarbon Fund's Sustainable Forest Landscapes initiative:

<http://www.worldbank.org/en/news/feature/2013/11/20/biocarbon-fund-initiative-promote-sustainable-forest-landscapes>

## Annex: Definitions

Deforestation	Development for agriculture or plantation forestry in areas covered by primary forest, HCV, or HCS.
- Primary Forest	Areas of undisturbed natural forest.
- High Conservation Value (HCV) areas	Areas necessary to maintain or enhance one or more of: species diversity, ecosystems and ecosystem services, community needs or cultural values.
- High Carbon Stock (HCS) forests	Areas with high levels of carbon embedded in existing vegetation and soil.
Peat	Soil containing more than 65% organic matter. Any depth.
Use of fire	Burning in the preparation of new plantings, re-plantings or any other developments.
Land rights	Respect for land tenure rights of indigenous and local communities and the principle of Free Prior and Informed Consent
Does not use forced or child labor	Respects and recognizes the rights of all workers and protects against child labor.
Verification	RSPO certified or equivalent, plus credible third-party verification of criteria outside recognized standards