

Palm Oil Responsible Sourcing at Nestlé 2020 Progress Report

Report Summary

In 2020, Nestlé sourced approximately 453,000 MT of palm oil and palm kernel oil, achieving 70% traceability to plantation, 96% traceability to mill, and 85% Responsibly Sourced palm oil. To support transformation, we directly engaged our supply chain on work around 47 refineries of origin in eight countries. We focused on addressing deforestation and peat development, exploitation, and smallholder inclusion.

To address **deforestation and peat development** we monitored our global palm oil supply chain with [Starling](#) satellite monitoring system to identify deforestation cases and risks, and to prioritize actions. Using this approach, at the end of 2020, we were able to verify that 70% of the palm oil we sourced came from lands not deforested after December 31, 2015. We are committed to verifying 100% no deforestation by 2022. Key lessons learned in this work are summarized in our [Transparency Dashboard](#). Going forward, we will move from a no-deforestation strategy to a 'forest-positive' strategy: we will buy from suppliers who not only do not source from deforested lands, but who are actively conserving and restoring forests while promoting sustainable livelihoods and respecting human rights. As a first step in building this strategy, we undertook a [Forest Footprint](#) pilot exercise in 2020. We additionally scaled up our conservation and reforestation work, with an emphasis on landscape-level strategies and livelihoods initiatives, with a focus in Malaysia, Indonesia, and Mexico.

To address **exploitation**, we continued to implement our [Action Plan on Labor Rights in Palm Oil Supply Chains](#). We worked with Verité on developing a Program Assurance Framework to ensure that No Exploitation requirements are cascaded throughout our supply chain to all stakeholders and ensure that we effectively assess, address and monitor labor rights risks. This Framework will be finalized and rolled out in 2021. In 2020, we supported the expansion of a worker help line with a supplier in Malaysia to reach three new regions and nearly 3,000 new workers. We also supported the development and roll out of guidance and tools covering topics of fair targets and payments, children in plantations, ethical recruitment, and conflict management.

To ensure **smallholder inclusion** in our supply chains and support them to adopt sustainable production practices and enable resilient livelihoods, Nestlé continued to support seven palm oil smallholder projects in Indonesia, Malaysia, Côte d'Ivoire, Brazil, Peru, Ecuador, and Mexico. Six of these projects are through the Earthworm Foundation's Rurality initiative, an approach to engaging smallholders that focuses on helping them develop their own capacity through strategic use of market links and supply chains. The seventh project is in Mexico, implemented by Proforest.

To address the key challenges in our palm oil supply chains and help transform the entire sector, we continued to increase our collaboration with industry partners and multi-stakeholder platforms, such as the High Carbon Stock Approach Steering Group, the Palm Oil Collaboration Group, and the Consumer Goods Forum, among others.

As we move into 2021, we will continue to carry out this work, with an increased focus on transitioning from a no deforestation strategy to a forest positive one, on reducing GHG emissions and achieving net zero GHG emissions palm oil supply chains, on holistically addressing human rights through a No Exploitation Program Assurance Framework, and on integrating our smallholder inclusion work into more holistic supply chain and landscape strategies.

This report provides further information on our progress and these initiatives to date, covering activities that took place in 2020.



Members of Nestlé's Executive team, participating in palm oil responsible sourcing activities in Mexico. After observing the elimination of illegal palm oil within a Biosphere Reserve, Nestlé, together with the local community planted mangrove seedlings to reforest the area (visit took place prior to Covid-19 outbreak).



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Our Ambition and Commitment

We rely on agricultural ingredients for our products. In 2010, Nestlé committed to using 100% Responsibly Sourced palm oil by 2020. 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. As of the end of 2020, 85% of our palm oil supply is considered Responsibly Sourced. The size of the challenge we face is significant, requiring a delicate balance of pursuing ambitious sustainability requirements along with smallholder inclusion and support for transformation with committed suppliers. We have made significant progress through close collaborations with our suppliers and we will continue to drive these improvements as part of our beyond 2020 ambitions.

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 suppliers throughout our 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 action, Nestlé is also committed to driving innovation and industry transformation through partnerships with industry associations and multi-stakeholder platforms.

Our Approach and Progress

Our approach: To address social and environmental challenges in our palm oil supply chains, we partner with our suppliers and expert organizations, such as Earthworm Foundation and Verité. These organizations help us map our supply chains back to the origins (i.e., plantations in the case of palm oil), assess and verify the sites in our supply chain (e.g., refineries, mills, plantations) against our RS Standard or equivalent standard, and develop and implement innovations to transform practices on-the-ground.

We drive our responsible sourcing operations with the objective of continuously improving the sustainability practices in our upstream supply chain, all the way up to the farm level, and our preferred way of working is to partner on transformation and build the capacity of our suppliers to improve over time. However, we take decisive action in the event that a supplier does not comply with effectively managing identified risks or meeting agreed deadlines for action plans.

Measuring progress: We measure our progress in three key areas: traceability to plantation and mill, verified deforestation free origins, and performance against our Responsible Sourcing Standard.



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

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 Traceability definition in the text box]. In 2020, we achieved 70% traceability to plantation, 96% traceability to mill. To be able to monitor any land use change linked to palm oil in our supply chain, it is important to know not only the location of the plantation, but as well the boundaries of the concession areas in which the oil palm tree grows. Since 2019, we started going beyond requesting Traceability to Plantation, to requesting concession maps to enable the use of satellite monitoring to verify no deforestation. Through our engagement with suppliers and support from partners we have identified over 8,000 sourcing area boundaries (“concession maps”) in our supply chains.

Verified Deforestation Free: Using satellite monitoring of sourcing areas, combined with data from our traceability efforts, field assessments, and volumes known to have sustainability certification, enabled us to verify 70% deforestation free origins [See Verified Deforestation Free definition in text box] in 2020. [Challenges remain](#) to gather the evidences needed for 100% verification, in particular with small and medium mills sourcing from independent smallholder farmers. Work will continue to identify additional plantations connected to our supply chain and ensure that the palm oil we source is not connected to deforestation. We are confident to have fully verified deforestation free origins in our global supply chain by 2022.

Responsibly Sourced: We consider palm oil to be Responsibly Sourced when:

- It is verified as aligned with our Responsible Sourcing Standard by an independent assessor or audit body (such as Earthworm Foundation); or
- It originates from supply chains that have shown substantial evidence of progressing towards our Responsible Sourcing Standard requirements, supported by a robust time-bound action plan. We include this in our definition of Responsibly Sourced 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 [see Figure 2].

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

Definition of Verified Deforestation Free

Deforestation Free

- Not expanding or producing on:
 - Areas converted from High Carbon Stock (HCS) forests and habitat such as peatland, wetlands, savannas after 31st December 2015, as defined in the High Carbon Stock Approach Toolkit
 - Peatlands of any depth, except where farming practices protect peat
 - IUCN protected areas categories I-IV, UNESCO World Heritage Sites and wetlands on the Ramsar List.
 - Identifying, protecting and avoiding producing on High Conservation Values (HCV) lands in and around the producer territory after 31st December 2015,

Methods of Verification

- On-the-ground assessments by non-governmental organization partners (HCSA/HCV assessments)
- Certified RSPO SG/IP origins
- Traceable to plantations that are verified as deforestation free via satellite monitoring systems such as Starling
- NDPE Implementation Reporting Framework (IRF) “Delivering” volumes verified by a 3rd party

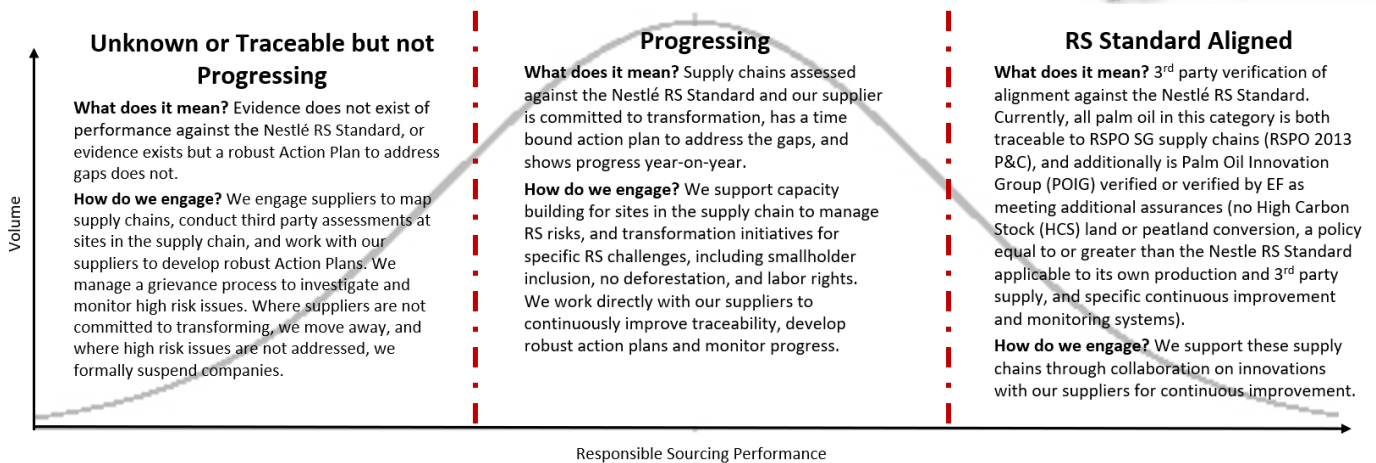


Figure 2. Depiction of Nestlé categorization of palm oil supply chain performance against the Nestlé Responsible Sourcing Standard requirements. Palm Oil in both “Progressing” or “RS Standard Aligned” is considered to be Responsibly Sourced.

Performance in 2020:

In 2020, **70%** of the palm oil volumes we sourced were traceable to plantation, **96%** were traceable to mill, **85% Responsibly Sourced**, and **70%** verified deforestation free. The palm oil we sourced came to us through 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.



Figure 3. Map from Nestlé’s Starling Satellite monitoring platform indicating the locations of palm oil mills identified in our supply chain. Numbers in the circles represent number of mills in each region.

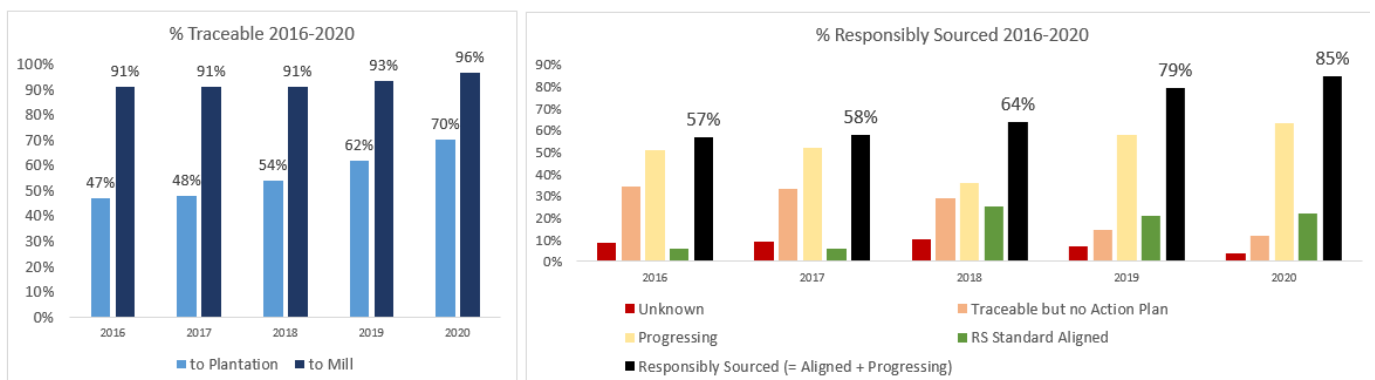


Figure 4. Progress in traceability and Responsibly Sourced performance from 2016-2020

Commitment to Transparency

In 2020, we published our third annual [list](#) of Nestlé palm oil Tier 1 (direct) suppliers' names and the mills that supply us further upstream, each listed with their country of origin. The mills in this list represent the 93% of volume that was traceable to mill in 2019.

Aligned with our commitment to supply chain transparency, we continued to update our palm oil [Transparency Dashboard](#) with the information that we are learning from our traceability and no deforestation verification work. The aim of the Transparency Dashboard is to update stakeholders about our progress in achieving a verified deforestation-free palm oil supply chain and to share the learnings and challenges we face along the way. The 2020 updates include [data on deforestation alerts](#) received through Starling satellite monitoring in different supply chain origins, an overview of how we respond to these alerts, and where we see the need for collective action and engagement.

We additionally sought virtual forums this year to further share our experience and to highlight where we see the need for collaboration. Examples include:

- In June, we presented our work with Starling Satellite monitoring systems and our effort to verify our supply chain as deforestation free in a [webinar organized by Earthworm Foundation](#).
- In October, we organized, together with Earthworm Foundation, a [webinar](#) in the context of the EU Green Week to explore the role of satellite monitoring in our due diligence process.
- In November, with our Peruvian palm oil supplier, Grupo Palmas, and our partner Earthworm Foundation, we presented our joint work on creating a sustainable production landscape in Tocache, Peru at the Innovation Forum's Sustainable Landscapes and Commodities Forum, an excerpt of which was made publicly available via an Innovation Forum [Podcast](#).
- In December, we published the results of our initial Forest Footprint exercise, a key first step in moving from a no-deforestation strategy towards a Forest Positive strategy, with a [summary of the work](#) and [details of the analysis](#) itself.
- Following our "Leading the Way" 2019 score on the [WWF Palm Oil Buyers Scorecard](#), we published an elaboration of our approach, roadblocks and solutions, and Post-2020 actions in a [WWF Palm Oil Buyers Scorecard Case Study](#) this year.



Figure 5. Earthworm Foundation webinar on company progress towards 2020 deforestation-free palm oil supply chains.

Throughout the year, we investigated and closely monitored allegations raised of violations of our RS Standard by companies in our supply chain. In 2020, we logged 44 grievances. About 90% of the grievances took place in Malaysia and Indonesia. Twenty-nine grievances were allegations linked to deforestation or peat development, seven to land disputes, seven to human rights violations, and one to corruption. These grievances were raised by civil society, media, suppliers, and by our own satellite monitoring systems. We suspended five companies from our supply chains in 2020, which are listed on our [website](#), in addition to companies previously suspended.

Where possible, we continue to engage companies suspended to undertake actions to address and remediate grievances and commit to sustainable practices. In 2020, we ended one of our previous suspensions due to progress made to address past issues and ensure sustainable production going forward. In 2018, we had stopped sourcing palm oil from Olmeca (REPSA) following non-compliance with our RS Standard. Since then, we continued to engage them on a regular basis and developed a joint time-bound action plan to address the main issues that led to the suspension. Since then, we saw good progress from the company and ended our suspension in October 2020. We continue to engage and monitor REPSA's progress against their action plan.

Supply Chain Transformation

We continued to engage directly with suppliers and sites in our supply chain in 2020, including engagement on time-bound roadmaps for 47 refineries at origin, which represent the most significant refineries by volume in our supply chain. 40 of these roadmaps meet our requirements while the rest are in the process of meeting them. To address specific challenges, we supported targeted transformation activities as described in the sections below.



Figure 6. Locations of Nestlé Palm Oil Responsible Sourcing Transformation Activities in 2020

No Deforestation and No Peat Development

In 2010, [Nestlé committed to ending deforestation in our supply chain by 2020](#). Since 2010, we have been working across our supply chains to make no deforestation a reality. The foundations for this work are our supply chain mapping (knowing where our palm oil comes from), continuous monitoring of forest related risks such as through field assessments and satellite monitoring, and close supplier engagement to investigate and address those risks.

In 2019 we began [global satellite monitoring](#) coverage of our palm oil supply chain with Starling. This tool was developed by Airbus and Earthworm Foundation as a global monitoring system allowing us to verify that no deforestation is taking place in our supply chain. In 2020, we utilized Starling to conduct an in-depth analysis of every single point of origin identified in our supply chain, including over 8,000 concession boundaries and 50km radius area around over 1,600 mills, to determine whether the origins were verifiably deforestation free or whether further supplier engagement and investigation was needed.

Using this approach, at the end of 2020, we were able to verify that 70% of the palm oil we sourced came from lands not deforested after December 31, 2015. We are committed to verifying 100% no deforestation by the end of 2022. The delays in meeting this commitment come from the need to balance no deforestation verification and support for smallholder livelihoods. Removing parts of our supply chain where insufficient information is available for such verification would also mean increasing smallholder vulnerability and potentially increasing pressure on forests. Additionally, we faced challenges due to Covid-19, limiting our ability to conduct ground verification.

The granular analysis conducted enabled us to have in-depth supply chain engagement with our suppliers. Rather than discussing overall approaches to address deforestation as in the past, we were able to hone in on the most challenging issues and locations and start to work through the issues together.

Some of the key lessons learned in this work are summarized in our [Transparency Dashboard](#), and include that:

- Deforestation is still occurring in palm oil producing regions where we source and barriers to supply chain transparency and traceability are slowing down effective responses.

Fact Box: Starling Satellite Monitoring

Through the Starling Satellite monitoring platform for our palm oil supply chain monitoring, we have access to mapping and monitoring of 5.8 million square kilometres across 22 countries and 113 provinces/states globally. For context, this requires the use of 479,000 satellite images or almost 2,500 Terabytes of data. With just one computer to process this data, it would take 186 years!

- Deforestation frontiers are dynamic, so it is important to have a real time monitoring tool to keep on top of changing trends and patterns of deforestation.
- Deforestation increasingly occurs in small-scale patches and outside of concessions.

In 2020, on the basis of these lessons learned, we scaled up resources for data collection, analysis, and supplier engagement to be able to act more rapidly on Starling alerts. However, understanding and responding to deforestation that has happened already, even in real time, is not enough. This is the rationale for moving towards a **Forest Positive strategy** post-2020.

Moving from a no-deforestation strategy to a ‘forest-positive’ strategy means that we will buy from suppliers who not only do not source from deforested lands, but who are actively conserving and restoring forests while promoting sustainable livelihoods and respecting human rights. As a first step in this strategy, we undertook a [Forest Footprint](#) exercise in 2020, with the pilot analysis covering our supply chain in Aceh, Indonesia. For this exercise, we asked: How can we better understand risks within our supply chain related to forests and peatlands conservation? How can we better understand risks to the rights of Indigenous Peoples and communities? How can understanding all of these risks help us design effective, forward-looking forest-positive strategies? This exercise helped us better understand our exposure to risks of *future* deforestation and land rights conflicts in Aceh. 89,667 hectares of forest and peatland banks exist within palm oil concessions in this region and could be at risk of potential future clearances. An additional 1.45 million hectares of forested land suitable for palm oil cultivation is located within 50km of mills in our supply chain. Therefore, engaging our suppliers and the producer groups further upstream on their commitments to protect these areas is essential.

In 2020 we scaled up our **conservation and reforestation** work, with an emphasis on landscape-level strategies and livelihoods initiatives. Such initiatives are critical to deliver on a forest-positive strategy and must work holistically in our sourcing landscapes together with no-deforestation initiatives to achieve net-zero greenhouse gas emissions.

- In 2020, Nestlé completed the planting of one million trees in **Sabah, Malaysia** under Project RiLeaf. As a next phase, Nestlé announced a [commitment to plant three million trees](#) over the next three years under Project RELeaf, a reforestation initiative in palm oil producing landscapes in Sabah and Peninsular Malaysia. The focus will be to restore riparian zones and forest ecosystems, contributing to establish wildlife corridors and mitigate human-animal conflict, and to protect critical water supplies.



Figure 7. RiLeaf project replantings

- Nestlé continued to support two landscape initiatives in **Aceh, Indonesia** with Earthworm Foundation and several other companies, aimed to end deforestation via multi-stakeholder sustainable land use planning and support for local communities. In [Aceh Tamiang](#), despite limitations due to Covid restrictions, forest-frontier communities continued to advance in their Leuser Ecosystem conservation strategy through the maturation of demonstration plots and community-led expansion of techniques learned through the initiative’s capacity building work. Progress was made in promoting local entrepreneurship and forest-friendly enterprises. In several villages where oil palm replanting is underway, intercropping was tested and deployed to afford farmers a source of income while they wait for the oil palms to mature, to reduce pressure to encroach in the nearby forests. To further build farmer resiliency and incomes, demonstration plots and agricultural trainings were conducted, including by the initiative supported Women’s Farmer Group, which was able to purchase several cattle from the proceeds of selling the demonstration plot outputs. In [Southern Aceh](#), although several activities were postponed due to Covid-19 restrictions, persistent multi-stakeholder coordination and notable leadership from a local partner led to significant progress being achieved with a producer with large scale recent deforestation, leading to an expected public commitment to no deforestation.

While Q4 2020 satellite data is still being processed to enable the final assessment of 2020 deforestation trends, robust analysis of data from Q1-Q3 2020 points to a continuation of a significant, multi-year trend in declining deforestation rates in both Aceh Tamiang and Southern Aceh, with modest projected upticks from the multi-year lows reached in 2019 in at least one of the two landscapes. While deforestation rates continue to decline landscape wide, deforestation continues to take place within the fragile Leuser Ecosystem, which points to the value of and need for continued multi-stakeholder efforts to address drivers of deforestation.

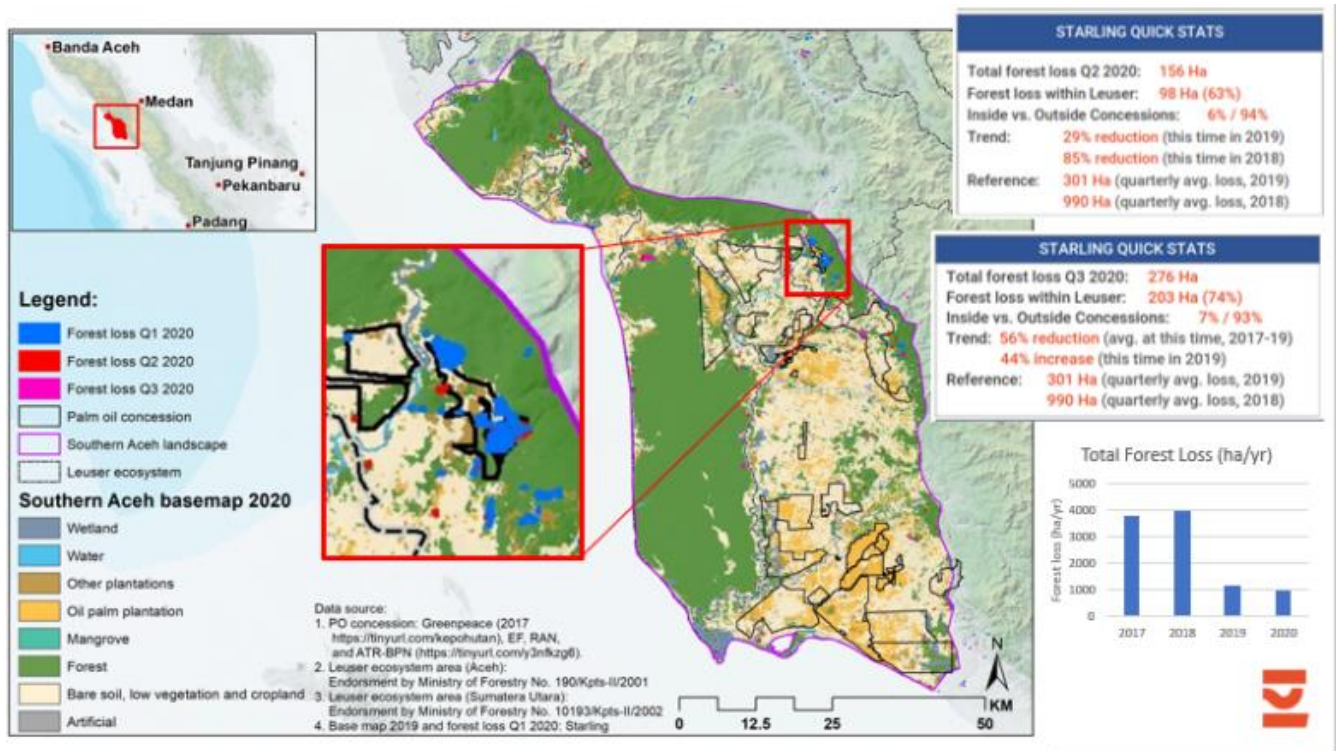


Figure 8. Satellite monitoring over Southern Aceh Landscape project

- In **North Sumatra, Indonesia** in a Rurality project with Earthworm Foundation, in 2020, 58 villages **completed Participatory Conservation Planning (PCP)** for long-term sustainable land use planning that delivers sustainable livelihoods and forest conservation. Resulting from this, the participating communities committed to conserve 34,991 hectares of forest. The project supported 24 villages to develop Land Use Plan maps, facilitated discussions on the design of conservation plans in eight villages, and supported four villages to rehabilitate their forest areas. (Additional information on this initiative and other smallholder projects with a forest protection element can be found in the [Smallholder Inclusion](#) section below).
- **La Encrucijada Biosphere Reserve in southern Mexico** covers an area of 60,000 hectares that contains mangroves, wetlands, and marshes, sequestering an estimated 40 million metric tons of carbon dioxide. It is also home to hundreds of families who produce a variety of crops, including oil palm. Nestlé, Grupo Bimbo, palm oil supplier Oleofinos, Earthworm Foundation, and La Encrucijada Biosphere Reserve Staff are working together on a conservation initiative for this Biosphere that includes farmer resilience, conservation and restoration (including eliminating invasive palm oil and replanting native species),

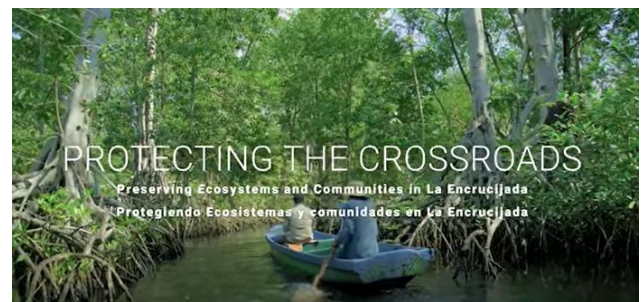


Figure 9. [Video](#): Preserving Ecosystems and Communities in La Encrucijada

and land use planning (including reconciling 3,000 hectares of oil palm production in conservation areas). Through this work, in 2020 the project completed five-year farm management plans with 52 farmers supplying four different mills; partnered with local financiers, El Buen Socio, to develop credit and savings schemes to support smallholders with replanting; partnered with government subsidy program, Sembrando Vida, to measure the economic impacts of their oil palm – cocoa intercropping experiment; created an Action Plan for eradication of invasive palm; and reforested 15 hectares of mangrove forests through community nurseries, directly benefitting 180 local community members. Completion of additional activities such as piloting agroforestry productive systems and diversifying revenue sources were postponed until 2021 due to Covid-19 restrictions on gatherings.

- Since 2018, Nestlé has partnered with Earthworm Foundation for forest protection in the **municipalities of Marques de Comillas and Benemérito in the Mexican state of Chiapas**. Deforestation in this area is driven by smallholder farmer expansion, with 50% of forest cover lost since the 1980s due to small scale conversion to agriculture. In 2018 alone, more than 2,000 hectares of forest were lost due to clearing of five to ten hectare patches. The remaining forest provides critical biological connectivity with neighboring protected areas and ecosystem services to local communities. In order to protect forest and respect Free, Prior, and Informed Consent (FPIC) in the communal land tenure context (known locally as “ejidos”), a smallholder High Carbon Stock Approach (HCSA) trial was submitted and approved in 2019. During 2020, we strengthened partnerships with the two palm oil mills sourcing from the area and identified pilot *ejidos* for engagement based on forest cover identified through our preliminary HCSA map. Due to Covid-19 restrictions on travel and gatherings, the land-use planning with these *ejidos* was postponed to 2021.

Towards sustainable production and protection landscapes in Peru

Nestlé has been working with our palm oil supplier, Grupo Palmas, and our partner Earthworm Foundation, in Tocache Peru on a [sustainable landscape initiative](#) since 2017. The work focuses on developing mechanisms to identify and protect key conservation areas while promoting sustainable production practices and improved livelihoods for the communities and farmers who live in the landscape. Hear more about this work from Nestlé, Grupo Palmas, and Earthworm Foundation in this [Innovation Forum Podcast](#), from a session at Innovation Forum’s Sustainable Landscapes and Commodities Forum in 2020.



Figure 10. Flyer for the Nestlé, Grupo Palmas, Earthworm Foundation session on Building a Resilient Landscape in Tocache, Peru

To address the drivers of deforestation and ensure sustainable forest conservation, we must collaborate with other stakeholders, including industry peers. We work on this via our industry collaborations within the Palm Oil Collaboration Group, the Consumer Goods Forum’s Palm Oil Working Group, and the High Carbon Stock Approach Steering Group, further described under [Industry Partnerships](#).

No Exploitation

In 2020, we continued to implement our [Action Plan on Labor Rights in Palm Oil Supply Chains](#), which originated with the Labor Rights Impact Assessment conducted by the Danish Institute for Human Rights (DIHR) and Earthworm Foundation in our Indonesian palm oil supply chain in 2017, followed by a 2019 assessment done by Verité for our global palm oil sourcing.

A Program Assurance Framework to assess, address and monitor labor rights risks: In 2020, Nestlé’s collaboration with Verité focused on developing a Program Assurance Framework to ensure that No Exploitation requirements are cascaded throughout our supply chain to all stakeholders and ensure that we effectively assess, address and monitor labor rights risks. To make this a reality in our supply chains, we worked with Verité to pilot an initiative with one of our key suppliers to increase the capacity of their extended upstream suppliers to diagnose and remediate labor rights risks in their plantations and mills. 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 No Exploitation policies. In 2021, we will test our Nestlé Program Assurance Framework with several suppliers, before rolling it out across our full supply chain.

Recognizing that the labor rights challenges we face must be addressed at an industry level, Nestlé, in collaboration with other companies, supported the development of a toolkit developed by Verité that will help palm oil producers to assess their current systems and practices against labor standards. It will be available publicly in 2021.

Worker Voice: 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. The helpline was co-developed by the Responsible Business Alliance and ELEVATE, an independent business risk and sustainability professional services firm. The helpline is a third-party worker support line that enables workers to safely report on working conditions, recruitment, safety and other rights issues. Workers can contact the helpline through a toll-free number, SMS, or chat messages, and is available in seven languages (Malay, English, Bangla, Tamil, Hindi, Nepali, and Bahasa Indonesia).

In 2020, on-site training continued to be conducted in Sime Darby Plantation’s operations. The helpline expanded to cover workers in Sime Darby’s operations across three regions of Malaysia, reaching 2,976 new workers at mills and estates. Trainings on the help line provided support to foreign migrant workers from India, Indonesia, Bangladesh, Nepal, Sri Lanka and Myanmar, and included Malaysian workers as well. In total, 248 calls were received in 2020, over 70% of them in Bengali or Nepali. The helpline was promoted via onsite trainings among community leaders and push messages via digital marketing and materials such as posters and stickers shared with factories. By the end of 2021, it is projected to cover all Sime Darby Plantation workers and reach a total of 26,751 foreign migrant workers, majority of whom are from Indonesia, India, Bangladesh, and Nepal.



Figure 11. Sticker of the Suara Kami helpline distributed to workers

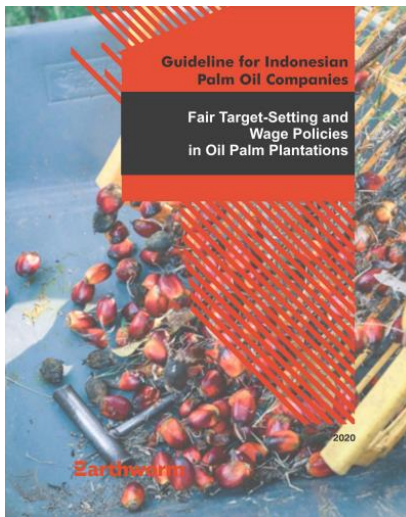


Figure 12. 2020 Guideline published on fair target-setting and wage policies in Oil Palm Plantations

Targets and Payment Systems:

Plantations often have target-based payment systems where workers are paid based on daily targets that may be unrealistic. This system can result in payments below minimum wage, excessive working hours, or bringing family members, including children, to assist. Building on a project with Earthworm Foundation to improve these systems in 13 companies in our upstream supply chain, in 2020 we supported the development of a guideline for [Fair Target-Setting and Wage Policies in Oil Palm Plantations](#). This document aims to enable small and medium sized

palm oil companies in Indonesia to set appropriate targets and fair compensation policies for their workers. Additionally, 26 companies in our upstream (beyond Tier 1) supply chain participated in a training session and focus group discussion on the topic. In 2021, we will pilot the Guideline (along with the [Fair Employment of Casual and Temporary Workers](#) and [Mitigating the Risks of Child Labour in Oil Palm Plantation](#) resources) with two companies in our indirect supply chain.

Concretely changing social practices in our supply chain: An update of our deep dive

In 2019, we reported on a deep dive with one of our supplier's operations (one mill and one estate) in Indonesia with Earthworm Foundation. At this site in 2019, 51 casual and temporary workers obtained permanent contracts, the work target setting systems were upgraded, and improvements were made to housing, personal protective equipment, and various social services. In 2020, 30% of casual workers were registered, resulting in receipt of health insurance through a state health program. Additionally, all casual workers have a year-long work contract and can now join a union on site and have access to representation. Between February 2018 and February 2020, 159 casual workers were promoted to permanent worker status, and all workers (including harvesters and plantation maintenance workers) are guaranteed a daily minimum wage after completing standard working hours even if targets are not completed. The learnings helped inform the Fair Target-Setting and Wage policy guidance, which will be deployed throughout our supply chain in 2021. Work will also continue at this site.

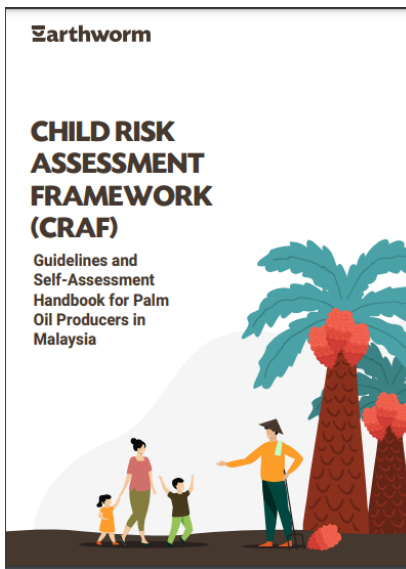


Figure 13. 2020 Guideline published on Child Risk Assessment Framework for Palm Oil Producers in Malaysia

Children in Plantations:

Palm oil workers in Malaysia are predominantly migrants moving to plantations with their families. Therefore, thousands of children live on palm oil plantations, often undocumented and without access to basic services such as education and schooling. In 2020, we continued the work started in 2018 with Earthworm Foundation to support the protection of these children. This year, a [Child Risk Assessment Framework](#) was finalized and published. The aim of the Framework is to support palm grower companies to develop policies and procedures related to child protection, identify, address and remediate risks faced by children in palm oil plantations; and review whether measures taken are adequate. The Framework covers topics ranging from education, to childcare, maternity protection, healthcare, nutrition, birth registration, and child sexual exploitation prevention. A training model on the use of the Framework was also developed and will be rolled out with select suppliers in 2021.

In 2020, Nestlé continued to support our supplier, Wilmar's program to protect children living in plantations, in collaboration with Business for Social Responsibility (BSR). In 2020, the program held a series of stakeholder consultation workshops focused on Implementing Wilmar's Child Protection Policy for Indonesian plantation companies, government representatives, trade unions, and industry associations. Following the workshops, Wilmar published its [Child Protection Policy Implementation Manual](#). The next phase of the program will be a pilot of the manual's approach and further refinement with the aim to adapt the manual for more generic applicability outside of Wilmar's supplier base.



Ethical Recruitment: Ethical recruitment practices to address deception in recruitment and debt bondage remained a focus of our palm oil responsible sourcing work in 2020, however, several activities were delayed due to Covid-19 restrictions.

To support our suppliers with the adoption of the [Human Rights Based Due Diligence Tool on Ethical Recruitment](#), we funded the development of supplier training modules and a supplier performance matrix. The performance matrix will allow our suppliers to track and measure progress as it relates to improvements in their recruitment practices. The piloting of the tool will take place in 2021.

Promoting social excellence: In Guatemala, we continue to collaborate with GREPALMA (the Palm Grower Association of Guatemala), Advisors Social License to Operate (ASLO), and Earthworm Foundation to strengthen the social practices within the industry. In 2020 we worked to strengthen the social commitments within GREPALMA’s internal standard (known as the “Sello GREPALMA”) and develop an implementation plan to address priority issues related to labor and human rights. Ultimately the aim is for Guatemalan palm oil companies to embed the concept of social license to operate within the industry, meaning that key local stakeholders such as industrial palm companies and farmers and communities co-exist peacefully in the same landscape. In 2020, five companies joined this collaboration and a benchmarking between social aspects of GREPALMA’s internal standard and international best practice was completed. Based on identified gaps and priorities, an implementation plan for strengthening labor and human rights practices within the Guatemalan palm industry was developed and implementation will kick-off in 2021.

Smallholder Inclusion

To ensure the inclusion of smallholders, who produce an estimated 40% of global palm oil and help build their resilience while ensuring production practices that respect forests and people, Nestlé is supporting seven palm oil smallholder projects across regions we source from. These projects aim to enable sustainable livelihoods for farmers while helping them produce responsibly. Six of these projects are through the Earthworm Foundation Rurality initiative, an approach to engaging smallholders that focuses on helping them develop their own capacity through strategic use of market links and supply chains. The seventh project is implemented by Proforest in Mexico. In 2020, the field work was adapted to find new ways to reach out to the communities as a result of Covid-19 movement restrictions. Progress with these initiatives is detailed below.

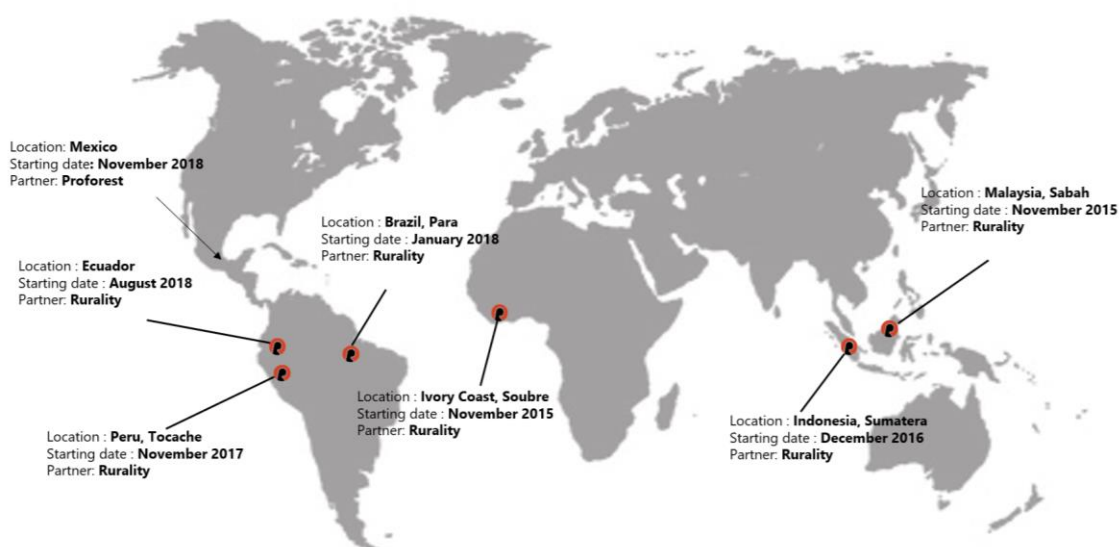


Figure 14. Locations of Nestlé funded palm oil smallholder projects in 2020



Figure 15. Diversification training workshop in North Sumatra, Indonesia

In **North Sumatra, Indonesia**, the Nestlé and Golden Agri-Resources (GAR) Rurality project started in 2016. Since the beginning of the project, a total of 10,676 farmers have been engaged in multiple activities to improve farm incomes and livelihoods of farmer families. Two corner stones of our project include the provision of technical support on oil palm cultivation, including the application of good agricultural practices, and the development of diversification programmes. The technical support on oil palm cultivation to smallholder farmers is provided jointly by the GAR and Rurality technical field teams. In 2020, 384 farmers benefitted from training and coaching activities. The average yield increase resulting from improved practices lies between

20 and 50% (for productive trees of 11 years of age and compared to a 2018 baseline). The project's diversification program reached 603 oil palm farmers. Of these farmers, 285 farmers have started diversifying their source of income with activities like rice farming and ginger intercropping. Data indicates that the average income increase per household from sale of diversified products reached 10% in 2020.



Figure 16. Farmer training in Sabah, Malaysia

In **Sabah, Malaysia**, the Rurality field teams adapted ways of working under the strict regional Covid-19 lockdown to strengthen relationships between supply chain actors through the creation of WhatsApp groups involving more than 440 farmers, mills, government, extension workers and NGOs. Two hundred participants took part in five webinars on crop deliveries, government aid, Covid-19, farm productivity, wildlife conflict management, sustainability practices, and income diversification opportunities. In 2020, the Rurality project supported 61 smallholders to obtain Malaysian Sustainable Palm Oil (MSPO) Certification via (Covid-safe) farm visits, smallholder gatherings, and trainings. Since the project began in 2016, 291 farmers were supported in the MSPO process and 85 have already been certified. Lastly, the project continued to address the Human-Elephant

Conflict resulting from elephants entering farms and plantations. The Human-Elephant Conflict Mitigation Committee, initiated by Rurality, is made up of the Sabah Wildlife Department, smallholders, plantation owners and local NGOs. In 2020, the Committee continued to collaborate in patrolling, field survey, elephant relocation, establishment of wildlife corridors, and community awareness events. The committee activities resulted in the translocation of two elephants from plantations areas into forest reserve. A buffer zone bordering the forest reserve was identified for the planting of natural elephant food, that may keep the elephants in the reserve. The Committee now monitors 7,580 hectares of land.



Figure 17. Awareness session on forest rehabilitation and preservation with the neighbouring community of Monts Kourabahi Forest Reserve, Cote d'Ivoire

The Rurality project in **Soubré, Côte d'Ivoire**, grew in 2020 towards operations covering a broader landscape level. The project increased collaboration with local stakeholders, such as SODEFOR (the National Forest Agency) as well as actors from the cocoa supply chain. Along with SODEFOR and cocoa cooperatives, Rurality raised awareness among communities on forest rehabilitation and preservation of two forest reserves (Monts Kourabahi and Niégré Nord), and the implementation of agroforestry on cocoa farms, with oil palm. The Rurality team fully mapped 578 farms and provided trainings to technicians in the region to improve traceability to plantation. The project continued to support community projects to increase resilience and diversify livelihoods, including food crop cultivation and implementation of Best Agricultural Practices, reaching 684 farmers since 2017. Participating farmers applying these practices showed between 10% and 50% productivity

improvement. Rurality field teams provided social entrepreneurship and Best Agricultural Practice training to 18 mill and cooperative extension workers and 12 lead farmers, who in turn reach 4,000 palm oil smallholders.

In **Peru**, the Rurality project focused on carrying out a High Carbon Stock (HCS) and High Conservation Value (HCV) trial study at a landscape level in an area with a high concentration of smallholder farms. Four HCS and HCV indicative studies were submitted to HCSA for review in 2020. In parallel, a strategy was developed with our suppliers in the region to engage all farmers identified on HCS and HCV areas. The project supported 107 farmers to develop HCS and HCV management plans on their farms in 2020. To build sustainable livelihoods and to scale impact, the Rurality team engaged stakeholders beyond the palm oil industry, including in the cocoa sector. The project also provided guidance on good agricultural practices, diversification, financial management, and development of integrated farm management plans to 150 technicians from public and private entities. Virtual trainings and individual coaching through WhatsApp groups and Skype to smallholder associations, mills management and technical teams to adapt to the restricted travel situations.



Figure 18. Farmer training in Peru



Figure 19. Rurality field team discusses a holistic farm plan with a farmer in Ecuador

In **Ecuador**, an oil palm disease is threatening the livelihoods of smallholders who depend strongly on income from oil palm. To address this key challenge and strengthen smallholder resilience in 2020, the Rurality project in Ecuador trained 136 farmers and 10 technical experts from palm companies on the implementation of good agricultural practices, livelihood diversification and environmental protection. Due to Covid-19, the engagements were primarily implemented via phone calls with farmers and partner companies, and through e-materials like electronic posters and leaflets distributed to smallholder farmers.

The Rurality project in **Brazil** in 2020 focused on carrying out an HCS and HCV trial study at a landscape level in Tomé Açu, in the Brazilian Amazon, an area with over 2,000 palm oil smallholders. The Rurality field team designed the study, engaged stakeholders, and began the fieldwork in 2020. Based on these studies, the project will develop a jurisdictional landscape approach, and will include financial incentives for conservation, and geospatial monitoring. Throughout the year, capacity building workshops were held with 113 farmers to address previously identified challenges such as financial management and oil palm agricultural practices via the promotion of agroforestry systems. To have a broader impact in the region, the Rurality team also supported technicians via online courses with a focus on integrated farm management.



Figure 20. Class of the “Financial Management” course in Brazil

In Chiapas and Tabasco, **Mexico**, the Mexico Palm Oil Holistic Program is a collaborative effort from Nestlé, PepsiCo, [Oleopalma](#), RSPO, [Proforest](#), and [Femexpalma](#) to support the sustainable development of the Mexican palm oil sector. This program was launched in 2017 and Nestlé joined in 2018 with the objective to increase the smallholders’ resilience to market changes and develop new tools that will help conserve forests, while improving livelihoods. The program goals are to achieve sustainability in the Mexican palm oil sector, create the business case for the inclusion of smallholders in responsible supply chains, and to implement best practices to prevent deforestation and exploitation.



Figure 21. Training conducted with Oleopalma smallholders in Mexico

In 2020, the project successfully completed the preparation for five smallholder groups to achieve RSPO certification under the eligibility phase of the new RSPO Independent Smallholder standard, by completing the legalization of the smallholder groups, a simplified HCV study, a Land Use Change Assessment (LUCA) and an FPIC study. Beginning of 2021, 153 smallholders will be able to earn RSPO credits and will complete the RSPO membership process. In September 2020, Femexpalma published [a blog about our work on this initiative](#). More information is available on the [Holistic Program website](#). In parallel, the Proforest and Oleopalma teams provided technical support to five smallholder groups through trainings to implement best social and environmental practices, and improve crop production.

Looking forward, the project will scale up this work to impact additional mills in the region and by sharing the lessons learned with more smallholders’ associations.

Innovation Accelerator

In 2020, we supported an Innovation Accelerator project developed by the Innovation Forum that seeks to understand why smallholder-based agricultural supply chains remain faced with low farmer incomes, human rights abuses and environmental degradation. The research project was carried out in 2020 exploring different supply chains, including palm oil. The project sought insights from political science and development economics to explore the wider societal dynamics of communities and countries in which supply chains exist. The report is available from [Innovation Forum - Innovation Accelerator: Building resilient smallholder supply chains](#).

Industry Partnerships

To address the key challenges in our palm oil supply chains, we cannot work alone, and therefore we continue to increase our collaboration with industry partners to achieve lasting change and sector-wide transformation.

High Carbon Stock Approach (HCSA) Steering Group: Nestlé joined the HCSA Steering Group in October 2018 with the ambition to help make the HCSA Approach, which is a core part of the Nestlé Responsible Sourcing Standard, the norm in tropical forest conservation. In 2020, we continued our work to advance the application of the HCSA toolkit through the following initiatives:

- In Mexico, following the launch of our 2019 landscape-scale HCSA trials with Earthworm Foundation over a 240,000 hectare landscape, we initiated a further piece of work to apply HCSA at scale. The ambition is to produce a publicly available indicative land cover map covering the four palm oil producing states in Mexico. This map could then be used as the basis for further field work to identify HCS forest at the farm level, accompanied by approved protocols to guide farm and ejido (a communal land structure) level engagement. A proposal for this second trial was submitted to the HCSA Steering Committee in 2020. Together, we envision that these HCSA trials will provide solutions to the methodological and cost barriers associated with ensuring zero deforestation in Mexico, where smallholders dominate the palm oil sector.
- In Tocache, Peru, we are building off of the Rurality smallholder project there and a pilot indicative HCSA study conducted in 2019 that identified 62,500 hectares of forest of which 12,695 hectares are inside smallholder sourcing areas. We worked with our suppliers in the region to build smallholder HCS forest identification protocols as well as HCSA Holistic Farm Plans, to support smallholders to improve their resilience while also conserving forest. The acceptance of this methodology by local stakeholders and applicability of this toolkit at the farm level served as an inspiration to replicate the HCSA trial in 2021 to the four main hubs in the Peruvian Amazon that are at the center of agricultural expansion: Tocache and Huayabamba in San Martin, Pucallpa in Ucayali, and Yurimaguas in Loreto.
- To enable the use of the HCSA Approach by smallholders, we continued to support the trialling of a simplified HCS-HCV approach for smallholders by SPKS, an HCSA member and smallholder and farmer support organization based in Indonesia. SPKS conducted field trials in West Kalimantan, Indonesia between December 2019 and January 2020 to test the draft version 3 of 'A Simplified Approach to Identify, Manage and Monitor HCS forest and HCV areas: A Practical Guidance and Checklist for Smallholders.' Four villages participated in the trials. The draft version 4 of the Simplified Approach for smallholders was updated based on lessons learned from these trials. Due to Covid-19, some aspects of the simplified approach were not yet fully tested and will continue in 2021.

Roundtable on Sustainable Palm Oil (RSPO): We continue to increase our sourcing of RSPO certified palm oil, with a preference for the physically segregated RSPO SG certification, towards our commitment of 100% RSPO certification by 2023. In 2020, we reported our 2019 certified sourcing: 102,155 MT of RSPO SG palm oil and palm kernel oil (22%) and an addition 118,280 MT Book & Claim Credits (26%). We will report our 2020 numbers in 2021 in line with the RSPO Annual Communication of Progress (ACOP) reporting cycle, and it will include continued progress towards our RSPO commitments plus the purchase of RSPO Independent Smallholder Credits.

Consumer Goods Forum (CGF): As a Board member of the CGF, an industry association bringing together manufacturers and retailers, we are actively involved in its initiatives seeking to address challenges in the palm oil sector. As part of the Forest Positive and Human Rights – Working to End Forced Labor Coalitions of Action, we are actively participating in the Palm Oil Working Group, which seeks to address both environmental and human rights challenges at industry level. In 2020, this group released a [Version 1.1 Palm Oil Roadmap](#), focused on actions to address deforestation, while the [human rights roadmap](#) is being finalized. Our aim in participating in this work is to drive collaborative action to accelerate efforts to remove commodity-driven deforestation and human rights abuses from individual supply chains and transformational change in key commodity landscapes through the following actions:

1. Management of our individual supply chains to ensure supply bases meet the roadmap's commitments
2. Engagement with suppliers for them to implement the same commitments across their entire commodity operations
3. Monitoring production bases, actively identifying and responding to conversion
4. Engagement in landscapes, working collaboratively with other actors to support forest conservation and restoration with positive outcomes for local communities

5. Promotion of transparency and accountability, committing to regular reporting against agreed on indicators

Palm Oil Collaboration Group (POCG): As a member of the [POCG](#), we work together with other palm oil buyers, traders, and producers, to accelerate effective implementation of No Deforestation, No Peat, No Exploitation (NDPE) commitments, including by:

- **Co-convening the Production and Protection Beyond Concessions (PPBC) [Working Group](#).** This working group aims to develop industry collaboration with different stakeholders, including industry, local government and civil society, to address deforestation risks and alerts outside of concession areas and implement conservation and livelihood actions to address those drivers at scale. Deforestation outside of concessions constitutes the majority of deforestation alerts near our supply chain and require a different approach compared with addressing alerts inside concessions where supply chain links are known and direct commercial relationships exist.
- **Implementing the No Deforestation, No Peat, No Exploitation Implementation Reporting Framework ([NDPE IRF](#)).** The NDPE IRF is a reporting tool designed to help companies systematically understand and track progress in delivering NDPE commitments in their palm oil supply chains. This tool is critical to align the industry around a common reporting approach, and to report not just the achievement of NDPE compliance, but the progress in driving transformation towards compliance. In 2020 we engaged several suppliers in generating NDPE IRF profiles representing the supply chains that we source from, including seeing the first profiles be independently verified via the first version of the verification protocol developed this year. We aim for this to become a standard reporting tool for all of our palm oil suppliers, enabling us to report using the tool for the Nestlé palm oil supply base.

Palm Oil Transparency Coalition: Nestlé became a member of the [POTC](#), a pre-competitive coalition to remove deforestation and exploitation from the palm oil industry in 2020. As part of POTC, we work collaboratively with the other member companies to assess the first importers of palm oil on their approach to address deforestation and exploitation, in order to promote transparency and encourage progress beyond certification.

Tropical Forest Alliance (TFA): As a member of TFA we were actively involved in the development of a [position paper](#) calling on the European Union (EU) to adopt a smart mix of measures to address deforestation. This was signed by more than 50 organizations, including businesses, industry bodies and civil society organizations and calls on the EU to consider measures such as:

- Partnerships between the EU and producer countries
- Demand-side measures, including due diligence
- Dialogue with other consumer countries
- Sustainable finance and investment
- Robust verification systems

Looking Forward

We remain committed to working with our suppliers to ensure that all palm oil we source is traceable to the plantation and verifiably aligned with No Deforestation, No Peat, and No Exploitation policies.

As we move into 2021, we will continue to carry out our Responsible Sourcing work, with an increased focus on:

- Transitioning from no deforestation strategies to forest positive ones;
- Achieving net zero greenhouse gas emissions;
- Holistically addressing labor rights, community rights, and land rights through a No Exploitation Program Assurance Framework; and
- Integrating our smallholder inclusion work into more holistic supply chain and landscape strategies.

Forest Positive and Net Zero GHG Emissions Palm Oil: Our Forest Positive palm oil strategy will accelerate progress to verify deforestation free supply chains, expand the use of Forest Footprint analyses to assess and address the future risk of deforestation and land rights conflicts, and scale up the implementation of conservation and restoration activities in vulnerable and degraded landscapes. This work will accelerate under our September 2019 corporate [Climate Pledge](#) and our December 2020 [Net Zero GHG Emissions Roadmap](#). Alongside new partnerships and initiatives, farm-level assessments, sustainability certifications and satellite monitoring systems will continuously address forest cover loss and land use change. Where deforestation and forest degradation has happened, we have ambitious reforestation plans and are set to plant at least 3 million trees in key palm oil sourcing landscapes by 2021. This is the start of a much larger global conservation and restoration strategy to sequester carbon and deliver important ecosystem services in the landscapes we source from. Our ambition is to make conservation and restoration standard practice throughout our supply chains.

Beyond our efforts to protect and restore critical forest landscapes in our palm oil origins, we will engage our suppliers to measure and report on the GHG footprints of our supply chains. We will partner with our suppliers on GHG emissions reduction and removal projects, focusing on peat restoration, methane gas capture at palm oil mills, and best agricultural practices to improve yields and ensure efficient use of fertilizers or alternative inputs.

No Exploitation Program Assurance Framework: In 2021, we will test our Program Assurance Framework with several suppliers, before rolling it out across our full supply chain. We will also continue to address salient issues, focusing on the roll out of tools to address children in plantations, fair targets and payment systems, ethical recruitment, and resolve community conflict. As part of our Forest Positive strategy, we will increase our focus on assessing and addressing community conflict risks and land rights topics in our supply chain. We will also increase our efforts to make access to worker voice systems a reality for all workers in our supply chains.

Smallholder Inclusion: In 2021 we will focus on innovations for scaling up our approach to supporting smallholders in our supply chain. We will transition our smallholder focused projects and partnerships to more holistic strategies that integrate smallholder livelihoods, forest protection and restoration, and human rights topics across landscapes from which we source.

Need for further collaboration: Our decade of work on palm oil responsible sourcing has shown us the need for industry partnerships to collaborate on addressing the most complex challenges all companies continue to face. We are engaging in partnerships and advocacy opportunities to:

- Drive the streamlining of tools, including monitoring systems, progress reporting, and forward-looking risk analyses such as the Forest Footprint;
- Increase supply chain transparency, including traceability to plantation, HCS-HCV analyses, information about company ownership structures, and producer engagement;
- Collaborate on meaningful, on-the-ground action, including capacity building for mills and farmers, support for smallholder farmer inclusions and resiliency, support for recovery and re-entry plans with companies responsible for past deforestation, and support for landscape-level initiatives.

Effective collective action and collaboration on the ground as well as engagement with governments at national and regional levels will be critical to achieving our ambitions.

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@Nestlé.com.