

## **Palm Oil Industry Context**

The rapid expansion of palm oil production has been fueled by exponentially increasing demand from companies and consumers that prize its versatility and varied uses in both food and non-food sectors. In 1995, global production of palm oil was 15.2 million MT<sup>1</sup>. In 2018, global production was approximately 73 million MT<sup>2</sup>. The oil palm tree itself can live from 25 to 30 years, produces fruit year-round, yields four to ten times more oil per unit of land than other vegetable oils, such as soy or rapeseed, and requires fewer inputs like fertilizer or pesticides<sup>3</sup>.

However, despite the oil palm's inherent good qualities, the industry remains beset by a variety of environmental and social issues. Parts of Southeastern Asia have been cleared of huge swaths of biodiversity rich tropical rainforest land to turn into palm oil plantations<sup>4</sup>. These plantations, on average are not very efficient. The current global average yield for one hectare of oil palm trees is 3.5 tons of oil. The full yield potential of one hectare is 11 to 18 tons of oil<sup>5</sup>. This has created a push for more land to be converted. Even though most large plantations have stopped deforesting, many producers continue to source oil carrying fresh fruit bunches (FFB) from third-parties that are potentially harvesting from land that has been illegally cultivated within protected ecosystems (such as the Leuser ecosystem in Indonesia) or other illegally developed areas. Lack of traceability to plantation and FFB source, insufficient engagement with smallholders, and the need for investment and support to share best practice cultivation information at scale continue to keep the industry from realizing its goals of making sustainable production a reality.

Oil palm operations are labor intensive and large operations require a substantial workforce to carry out all of the tasks<sup>6</sup>. Even many smallholder operations hire workers to help manage the cultivation and harvest of their palm oil plots. In Indonesia, the majority of plantation workers are those whom have migrated from neighboring provinces. In Malaysia, the majority of the workforce is comprised of foreign migrant workers. Both groups are at high risk for exploitation due to the remote location of plantations, limited mobility of workers, lack of contractual agreements, unrealistic production quotas, irresponsible recruitment practices and overall lack of enforcement of legal protections<sup>7</sup>. This has resulted in issues such as forced labor, child labor, lack of protection from toxic pesticide exposure and less than minimum wage remittance in multiple locations, even some certified by groups such as the Roundtable for Sustainable Palm Oil (RSPO)<sup>8</sup>.

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<sup>1</sup> [http://mpoc.org.my/upload/WorldPalmOil\\_SupplyDemandPriceProspects\\_MalaysianIndonesianIndustry\\_FullReport.pdf](http://mpoc.org.my/upload/WorldPalmOil_SupplyDemandPriceProspects_MalaysianIndonesianIndustry_FullReport.pdf)

<sup>2</sup> <https://www.statista.com/statistics/613471/palm-oil-production-volume-worldwide/>

<sup>3</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4375979/>

<sup>4</sup> <https://www.scientificamerican.com/article/harvesting-palm-oil-and-rainforests/>

<sup>5</sup> [Natural Diversity in the New Millennium](#)

<sup>6</sup> <https://laborrights.org/sites/default/files/publications/NLFGottwaldPalmOil.pdf>

<sup>7</sup> [https://www.theconsumergoodsforum.com/wp-content/uploads/2018/11/201811-CGF-FLA-Palm-Oil-Report-Malaysia-and-Indonesia\\_web.pdf](https://www.theconsumergoodsforum.com/wp-content/uploads/2018/11/201811-CGF-FLA-Palm-Oil-Report-Malaysia-and-Indonesia_web.pdf)

<sup>8</sup> <https://laborrights.org/sites/default/files/publications/NLFGottwaldPalmOil.pdf>

Even though environmental and social issues continue to be present in the palm oil industry, progress has been made in key areas. Supply chain transparency has been increasingly adopted by those involved in the palm oil industry and is continuing to evolve and expand. Opaque ownership structures and land holdings are being publicly disclosed more often, leading to more accountability of organizations and groups at the highest levels of operations. Demand for sustainable palm oil continues to increase from both consumers and customers, further incentivizing producers to continue improving sustainable practices and management processes. And millions of people are able to earn their living from the palm oil industry, particularly in areas that have lacked economic opportunities in the past.

### **Kellogg Company Approach**

Kellogg uses less than 0.1% of the global palm oil produced. Despite our relatively small footprint in this commodity, as a global, plant-based food company, we have a responsibility to engage our suppliers, our supply chain and our industry to drive faster and more effective action to protect the environment and advance the cause of human rights. Of course, we cannot achieve these goals alone. This is why we are working on multiple fronts to make sustainable palm oil the norm, not the exception.

Since 2009, Kellogg has been on a journey to responsibly source palm oil. We have continued to evolve our strategies and actions to ensure that we are incorporating best practices and learnings from our own experiences, our suppliers, peer companies, industry organizations and from civil society. To that end, Kellogg is updating our palm oil action plan to reflect key interventions that can drive impact at scale.

### **Impact Incubator**

While we support and utilize certified palm oil, we believe that certification is only part of the solution to tackling issues within the palm oil industry like deforestation, human rights violations, and increasing support for smallholders and forest communities. Smallholders have been shouldering a great deal of blame recently for supply chain issues, such as deforestation, but are still not being provided the support needed to transform their practices to be more sustainable and efficient. Even though they contribute roughly 40% of globally produced palm oil<sup>9</sup>, smallholder and forest communities continue to be underrepresented and under supported. Due to lack of access to inputs such as fertilizer and high-quality seedlings and lack of resources for best management practices such as pest control and cultivation techniques, smallholder operation's yields are 50% lower than large-scale commercial companies<sup>10</sup>.

While various initiatives have been rolled out to bring smallholders into the fold of sustainable production, the reality is that there needs to be more done to directly engage with these groups. That's why Kellogg is developing an Impact Incubator to work specifically with smallholders and forest communities in partnership with trusted NGOs and local stakeholders. This work will focus on

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<sup>9</sup> <https://www.wri.org/blog/2018/04/intensification-smallholder-farmers-key-achieving-indonesia-s-palm-oil-targets>

<sup>10</sup> <https://www.wri.org/blog/2018/04/intensification-smallholder-farmers-key-achieving-indonesia-s-palm-oil-targets>

combatting deforestation, supporting forest restoration, and providing direct support to smallholder farmers and forest communities.

Through the Impact Incubator, we are ensuring that bespoke programs support small scale, regionally located farmers and communities. Wherever possible, we will seek to scale solutions and activities. Engagement and collaboration with these groups will be the foundation for developing these programs. This will be done with respect for the autonomy of smallholders and communities and with recognition to their right to economic self-determination, while seeking to strike a balance between profitability and environmental and social protections.

## **Certification & Supply Chain Management**

### ***Certification – Own Operations***

In our own operations, we are committing to work toward sourcing 100% RSPO physically certified palm oil by the end of 2025. As of 2019, 85% of our supply was physically certified with the remaining 15% of procured volumes covered through the purchase of RSPO credits. We will replace our RSPO credit coverage by converting these volumes to RSPO physically certified segregated or mass balance. Through this commitment, we are supporting the need for increased demand of certified material to continue incentivizing suppliers to produce sustainable, certified palm oil.

We will also be refining our sourcing practices to build stronger alliances with key suppliers to foster investment and coordination to achieve long-term, sustainable transformations.

### ***Supply Chain Management***

Beginning in 2020, we will work with the Palm Oil Transparency Coalition (POTC)<sup>11</sup> in addition to our current supply chain management partner, Proforest<sup>12</sup>. With the support of these partners, we aim to move beyond data collection and feedback on policies and practices to action-oriented supplier engagement. For our larger suppliers, we will engage through POTC, in coordination with other members, to reduce redundancy in data collection and verification and to increase alignment. For our small- to medium-size suppliers, we will continue to engage through Proforest surveys and scorecards and begin incorporating direct support opportunities for remediating identified issues. This approach will allow us to better utilize both our internal and external resources to make sure we are driving the right behaviors and meeting the needs of our suppliers, while ensuring continuous improvement and compliance with our expectations and requirements.

We will also begin rolling out a new requirement for suppliers: participation in the No Deforestation, No Peat, No Exploitation (NDPE) Implementation Reporting Framework<sup>13</sup>. This reporting tool is designed to help companies, customers, and suppliers to systematically track progress in delivering NDPE commitments. This tool will be incorporated into our overall monitoring and management program for supply chain operations.

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<sup>11</sup> <https://www.palmoiltransparency.org/>

<sup>12</sup> <https://proforest.net/en>

<sup>13</sup> <https://ndpe-irf.net/>

In addition to these new engagement models, we will continue to execute the foundational parts of our current supply chain management and risk mitigation programs, including requiring suppliers to:

- Be members of RSPO;
- Adopt, implement and report on NDPE policies and actions;
- Adhere to our Global Supplier Code of Conduct, which includes expectations regarding business integrity, quality, health and safety, labor standards, sustainability and land use and management practices<sup>14</sup>;
- Adhere to the Kellogg Co. Policy on Deforestation;
- Adhere to Free, Prior and Informed Consent of Indigenous Peoples<sup>15</sup>;
- Adhere to, and advance, the CGF Priority Industry Principles<sup>16</sup>;
- Report current traceability to mill and plantation while working toward 100%
- Support Kellogg requests for collaboration, information, or action related to sustainability issues.

While not a formal requirement, in recognition of barriers within various national laws, we also encourage suppliers to disclose all concessions coordinates, agreements and/or operating permits.

We also reaffirm our alignment to definitions outlined in the High Carbon Stock Approach (HCSA)<sup>17</sup>. These include, but are not limited to, high conservation areas (HCV), primary forest, secondary forest, high forest cover land (HFCL), degraded land, etc. We will work with our suppliers and their supply chains to halt any and all new development of High Conservation Value and High Carbon Stock areas, utilizing the HCSA process as a basis.

### ***Grievance Tracking and Reporting***

To provide further transparency in our operations and processes, we have updated our grievance management and reporting procedures. This includes a revised position for instances of removal or suspension and time bound actions. *These timings are, however, dependent upon the complexity and breadth of the grievance as some issues will require additional time.*

Moving forward, we will require that any suspensions or removals affect the totality of the supply chain operations of the offending “group.” Previously, we required that the affected site(s) be removed from our supply chain. This shift is aligned with the industry move toward driving responsible, sustainable practices for a supplier’s full operation rather than just in those areas of their operations that are within our supply chain.

Updated Grievance Management Procedure:

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<sup>14</sup><http://crreport.kelloggcompany.com/download/Kellogg+Company+Global+Supplier+Code+of+Conduct+2018+FI+NAL.pdf>

<sup>15</sup> <https://www.ohchr.org/Documents/Issues/IPeoples/FreePriorandInformedConsent.pdf>

<sup>16</sup> <https://www.theconsumergoodsforum.com/initiatives/social-sustainability/key-projects/priority-industry-principles/>

<sup>17</sup> <http://highcarbonstock.org/wp-content/uploads/2017/05/HCSA-Toolkit-v2.0-Module-1-Introduction-190917-web.pdf>

1. When a grievance is reported, assess Kellogg's exposure and contact all affected Tier 1 suppliers for response to allegations and context of supply chain connections - *4-week maximum*.
2. Update grievance tracker for external reporting with the group, location, and issue - *Immediate upon verification of complaint and exposure assessment*.
3. If verified, affected supply chain actor must provide time-bound action plan for remediation either directly to Kellogg or to the T1 supplier(s) and issue a public response to the grievance complainant - *4-week maximum*.
4. If the action plan fails to address the issues, or is not executed to satisfaction, notification will be given to affected T1 suppliers requesting a 6-month suspension of the group from supply chains - *2-week maximum upon receipt of action plan*.
5. If needed, create work plan with affected T1 suppliers regarding timeline for full group removal – *3-month maximum for full removal, process to be determined on a case-by-case basis*.
6. After a 6-month suspension, upon the group's full removal, Kellogg and T1 supplier(s) shall review progress against original grievance and determine next steps: reinstatement, suspension extension, or permanent supply chain removal. Next step assessment to be based on third-party verification of remediation to original grievance – *1-month maximum for internal review, assessment and communication of next steps to relevant parties*.
7. All actions are to be updated as soon as possible in the live grievance tracker, outlining the issue, supplier and remediation actions, including timeline for review or expected completion.

This process will only be circumvented for grievances that identify an immediate threat to the safety of affected individuals because of severe health and safety issues, threats of violence or any actions that have caused physical harm to affected parties, including workers, communities and/or human rights defenders. In those cases, an immediate suspension will be enacted against the group and supply chain removal will begin immediately. We will also assess how to best facilitate or support affected parties to achieve remediation regardless of supplier status.

### **Industry Engagement**

Beyond our own operations and our supply chain, we will continue to engage with, and actively participate in, cross-functional industry and sector groups such as the RSPO, the Consumer Goods Forum, NASPON and the Tropical Forest Alliance. In 2019, we were the first manufacturing company to join the Palm Oil Transparency Coalition (POTC). We will also continue our work and partnership with Proforest. In addition to these groups, we will continue to collaborate with our suppliers, peers and civil society to ensure a broad representation of stakeholder voices and viewpoints are taken into account to inform our actions.

Also, moving forward, we will prioritize Jurisdictional and Landscape Approaches that seek to align all stakeholders, such as government, businesses, producers, suppliers, smallholders, communities, industry groups, civil society, etc., around shared goals and outcomes to achieve true transformational and sustainable change. See our [Global Policy on Deforestation](#) for more information.

## **Conclusion**

Despite its challenges, the palm oil industry has the potential to be a force for good, environmentally and socially. With continued action, investment and participation from all of its actors, the palm oil industry can move toward a norm of sustainability through operations that support people, the planet and prosperity. We look forward to working with others to build our solution and collaborate to realize our collective ambitions.