UNILEVER PALM OIL POSITION PAPER

CONTEXT

Unilever purchases nearly 3% of global palm oil production, or 1.5 million tonnes of the total global supply of 55 million tonnes. Unilever is also the largest end user of physically certified palm oil in the Consumer Goods Industry; this includes segregated and mass balance volumes. Whilst relatively small, this makes the company the single largest end user of oil palm in the world and with this scale comes a responsibility and opportunity to transform our own supply chain and to positively influence the wider palm oil sector of which we are a part.

We refer to this as market transformation and we are working toward it in two ways. Firstly, we are setting high standards and driving these through our supply chain. This is primarily being achieved through our Sustainable Palm Oil Sourcing Policy, the contents of which we revised with stakeholders in late 2015. The revised policy sets out our ambitious requirements for suppliers including our sustainable sourcing and compliance targets and the ambition to impact smallholder farmers in our supply chain.

As part of this, we are also directing investment in our supply chain in order to enable the types of market transformation that we wish to see. We have invested €130 million in a new palm oil refinery at Sei Mangkei, in Northern Sumatra, Indonesia. This investment will allow us to work more effectively toward 100% physically certified palm oil, to improve traceability and to bring more smallholders into the supply chain.

Secondly, we are actively using our influence to raise standards across the industry. This means identifying levers of change and influencing them in support of our market transformation goal to achieve zero net deforestation in palm oil, and other commodities, by 2020.

By levers of change, we refer to things such as certification, financing, government and industry engagement – systems, tools and mechanisms through which change is affected.

Unilever's role in market transformation stretches back well over a decade. In 2004 we led the founding of the Roundtable on Sustainable Palm Oil (RSPO) and since then we have been using our influence to help drive systems change through a variety of industry initiatives and collaborations. These include the Consumer Goods Forum, the Tropical Forest Alliance, and the New York Declaration on Forests.

These initiatives have helped to raise the bar across the whole industry, but much more needs to be done to turn pledges into action on the ground, at scale. This must include a heightened effort to deliver on our own supply chain commitments and targets.

CHANGING POLICY AGENDA

Through the work of both its advocacy and procurement teams, Unilever continues to engage on a wide range of supply chain and public policy issues related to deforestation and palm oil. The agenda is evolving rapidly and over the last twelve months a number of issues have come to the fore for a variety of reasons, whether through stakeholder pressure, events on the ground or through constant improvement and learning.

Unilever needs to set out a clear position on these issues if it is to avoid the pace of developments overtaking its ability to respond. Arguably some of the friction with the NGO community over the last two years has resulted not from disagreements with Unilever's level of ambition, but because of a lack of external understanding around the company's position and point of view on a range of critical issues.

The purpose of this position paper is to provide space for Unilever to set out its point of view on those issues. In doing so, Unilever is seeking to better define what exactly it is hoping to achieve both through its own supply chain and through its market transformation activities.

The contents of this draft paper have been developed by sustainability consultants, Robertsbridge, following interviews with Unilever individuals from across the advocacy and procurement teams. Interviews were designed to solicit perspectives and positions and to identify areas of alignment, differences of opinion and potential policy/action gaps that need to be addressed. These areas were discussed in detail at a workshop on February 25th, 2016, which brought together senior colleagues from Unilever's procurement, advocacy and communications teams.

POLICY AND POSITIONING

1. No-deforestation versus Zero Net Deforestation

Unilever believes development objectives must work hand in hand with environmental goals, if broader market transformation is to succeed, both in Indonesia as well as other development markets from which we source.

There is some disagreement between external stakeholders on whether the world should be aiming for zero 'net' deforestation by a particular year (an approach developed by WWF and endorsed by many companies) versus an alternative approach (commonly known simply as 'Zero Deforestation' or 'No' Deforestation, favoured by Greenpeace and other groups, and adopted by some major growers). Neither approach is fully defined and lessons are being learned around the world on the implementation of both frameworks.

Unilever believes that the WWF definition of net is useful, especially for industry forums such as Consumer Goods Forum (CGF), which has adopted it as a goal. We have used our leadership in the CGF to bring other companies to the no-deforestation agenda. The zero net concept also offers opportunity in the context of Produce and Protect models and we are working to explore those as part of our commitment to market transformation.

Similarly, the New York Declaration on Forests, which called for ‘no deforestation by 2030’ is useful because it brought new parties to the table, especially governments and it introduced the concept of forest restoration for the first time in such a call to action.

Unilever supports both the CGF and the NYD for these reasons. They are valuable in bringing multiple parties to the table. However, as Unilever, we can demonstrate clear leadership and support for No Deforestation in our insistence on the use of the High Carbon Stock Approach or the adoption of a palm oil development moratorium, by our suppliers, until there is convergence on a single standard (see more detail below).

We believe that any successful model for transformational change must pursue positive social and economic impact for palm oil farmers and smallholders whilst at the same time as protecting forests and local communities.

2. High Carbon Stock (HCS) Approach versus HCS Science Study

Unilever is advocating for the convergence of the two methodologies on High Carbon Stock (HCS) to provide one clear and ambitious standard for growers, traders and buyers.

Unilever recognizes the HCS approach developed by TFT and Greenpeace in collaboration with a number of partners. This is currently being utilized by a growing number of producers on concession developments in fragmented landscapes. We also recognize the recent HCS Science Study developed by the Sustainable Palm Oil Manifesto group uses a different methodology of carbon neutrality. Unilever is now using its influence to advocate for the convergence of the two methodologies to provide a single clear and ambitious standard for growers, traders and buyers on implementing their “no deforestation” commitments.

Until convergence is achieved – through field testing – we expect companies to adopt either the HCS approach toolkit, to commit to field trails of both methodologies or to commit to a moratorium on oil palm development. Unilever believes that different approaches will be required in different countries, depending on the degree and condition of forested land available for development. Any emergent single standard that has undergone field testing should recognize this reality.
Unilever’s ultimate aim is to ensure that all stakeholders can align around a widely agreed and shared way of applying the concept that is both meaningful and practical. Our suppliers will be required to use this aligned methodology. A globally agreed standard for HCS will then need to be re-integrated into the RSPO (and other certification schemes), alongside High Conservation Value (HCV) and Free Prior and Informed Consent (FPIC) for indigenous peoples and local communities.

A specific body, the HCS Convergence group, has been established to find agreement on a common set of rules for the implementation of “no deforestation” commitments. It is comprised of members from both methodologies, and it has agreed to trial the two methodologies in different landscapes. This work is expected to take place in 2016.

3. Smallholders

Unilever is globally committed to improving the livelihoods and incomes of smallholder farmers and is working to do this across all of its major commodity supply chains, including palm oil where we see enormous opportunities for social and economic empowerment that goes hand in hand with forest protection.

Developing an effective strategy and approach on smallholders is central to Unilever's market transformation and long-term procurement objectives. In Indonesia and Malaysia, smallholders are responsible for around 35-45% of total palm oil production. Despite their significant role in oil palm supply, the majority of those smallholders, particularly independent smallholders, are invisible to the global supply chain. If Unilever is to meet rising palm oil demand, whilst at the same time delivering on its supply chain and eliminating deforestation goals, an effective *and scaled* approach to smallholders will be required.

Unilever is working to achieve this in two ways:

a. Through advocacy and market transformation

Unilever is using its influence and procurement power to bring together governments, public investments and the private sector to raise new sources of capital and finance required for large-scale smallholder interventions. In Indonesia, smallholders face a highly complex set of structural challenges on the ground, including, among others, land rights and entitlement, legality, and low capacity and yields. No one company acting alone has the expertise or financing to tackle these issues at the scale needed to deliver transformational change. A multi-stakeholder, landscape management approach that goes beyond traceability and a plantation-by-plantation approach, is therefore needed. We also see opportunity to align smallholder interventions with Produce and Protect models.

b. In our own supply chain

Working with partners, Unilever is developing action plans to support and empower 25,000 smallholder farmers in the landscapes around its Sei Mangkei palm oil facility in North Sumatra. Through a partnership with PTPN III, RSPO and IDH, we have already started working with 600 independent smallholder farmers and now intend to scale up this programme across priority landscapes around Sei Mangkei to potentially benefit 25,000 farmers. This represents around 10% of the smallholder supply-shed in Sei Mangkei.

We will focus our efforts on three interventions, including: 1) **Farm impact** – to improve natural resource and farm practice management and increase farmer productivity, 2) **Securing Land Rights**– support towards ensuring legality through land title and community land rights, and 3) **Increase earnings per hectare** for Fresh Fruit Bunches by facilitating market access and supporting certification. Whilst certification is important, the end goal is smallholder empowerment. As such, we do not expect to certify 25,000 smallholder farmers.

In mature palm producing areas across Sumatra, as much as 30% of these areas are in need of replanting.

4. Roundtable on Sustainable Palm Oil (RSPO)

Unilever views the RSPO system as a key driver of market transformation for a more sustainable palm oil industry. As a leader in the industry, we are using our scale and leverage to increase the consumption of certified palm oil. Since 2008, we are the largest consumer of physically certified palm oil in the industry.

RSPO

Unilever was a founder member of the Roundtable on Sustainable Palm Oil (RSPO) in 2004 and we continue to view the RSPO system as a key driver of market transformation but we also realise that the organisation has much room for improvement and advocate for it to be strengthened. The RSPO Principles & Criteria and New Planting Procedure form the basis of our Sustainable Palm Oil Sourcing Policy and our target to source all of our palm oil from physically certified sources by 2020 will be met through RSPO Mass Balance, RSPO Segregated or equivalent sources.

RSPO NEXT

RSPO Next is an important development as the new standard integrates the best practices embodied in the RSPO principles with the level of ambition demonstrated by leading company approaches – working towards stronger commitments on No Deforestation and responsible new developments. It would also reduce costs for all stakeholders by using the same supply chain controls and systems that are already an established part of RSPO certification. Unilever believes that the successful implementation of the RSPO Next voluntary standard can play a significant role in the critical next stage of the journey to eliminating deforestation in the extended supply chains by 2020 and the broader goals as set out in the New York Declaration on Forests – to halve deforestation by 2020 and end it by 2030.

5. Engaging Producer Governments

Unilever believes that engaging political and business leaders at the regional and local level will be key to any successful sustainable development plan for the palm oil industry. It is also vital to get sub national support for Public Private Partnerships to deliver 'produce protect' models.

Ending deforestation is often seen as in conflict with economic development. Unilever's view is that the two can and must go hand in hand. Local partnerships that benefit communities, industry and government have shown some promise, and we believe more initiatives of this kind are needed in order to realise the economic, social and environmental goals required for a sustainable palm oil sector.

Produce and Protect

We recognize that Unilever's deforestation ambition involves not only protecting HCV, high carbon stock and tropical peat forests, but also ensuring that the net quantity, quality and carbon density of forests is maintained when land use changes in the wider landscapes in which our suppliers operate.

Unilever and its suppliers cannot end deforestation without the wholesale transformation of supply chains towards more sustainable models. To achieve this, businesses, governments, civil society and the people who live and work in forested landscapes need to work in partnership to achieve sustainable development whilst valuing and conserving forests.

We view a landscape management approach as a promising route forward and call this 'Produce Protect'. In December 2015, Unilever signalled an intent to prioritise our commodity sourcing from areas that have designed and are implementing jurisdictional forest and climate initiatives. This will bring together the power of global agricultural supply chains and strong government commitments to reduce greenhouse gas emissions from forests and other landscapes while advancing economic development.

6. Peatland Restoration

Unilever supports the recent Indonesian Government moratorium on peatland development and announced this at the Tropical Forest Alliance 2016 General Assembly in Jakarta with a number of other organisations. Indonesia's peatland areas and their forests store vast volumes of carbon; their degradation, whether through drainage, deforestation and/or burning, is one of the largest sources of Indonesia's GHG emissions. The moratorium will prevent the further expansion of plantations into forested peatland areas and it aligns closely with one of the core supplier requirements of our palm oil sourcing policy; *no development on peat regardless of depth*.

We are also highly supportive of the formation by the Government of Indonesia, in January this year, of the new Peatland Restoration agency (BRG) which aims to restore up to 2million hectares of peatland damaged by the forest fires in 2015. We believe the industry must work hard to support the efforts of the BRG, through the following:

- Support efforts to map peatland areas by publishing concessions maps and making these available to the BRG and One Map initiatives. Unilever will advocate for greater supplier transparency on concession mapping.
- Provide all necessary support to enable the restoration of peatland areas damaged by the fires, as set out in the action plans to be developed by the BRG.
- Support ongoing efforts by the Government and BRG to protect and monitor Indonesia's remaining areas of undeveloped peatland.

7. Forest Fires

We are using our influence to support multi-stakeholder, cross-sectoral initiatives which seek to address the root causes and drivers of forest fires in Indonesia.

The Indonesian forest fires and the subsequent haze crisis which afflicted South East Asia late last year had a devastating impact on Indonesia's economy, environment and the health of the wider region including in Singapore where the effects of the haze were most acutely felt.

The cost of the fires to the Indonesia economy were estimated by the World Bank to be $15.72bn – or 1.9% of the country's GDP[1]. Daily CO2 emissions resulting from the fires were calculated to have exceeded the average daily emissions from all U.S economic activity and, over a three week period alone, CO2 emissions surpassed the total annual CO2 emissions of Germany[2].

Unilever views the annual cycle of forest fires as a serious [man made] challenge to Indonesia's ongoing development, as well as to our own sustainable palm oil sourcing and broader market transformation objectives. We therefore have a responsibility to use our influence in pursuit of urgent solutions to the problem. We believe this can be best achieved through an integrated mix of

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[1] http://www.bbc.co.uk/news/business-35109393

[2] http://www.wri.org/blog/2015/10/indonesia%E2%80%99s-fire-outbreaks-producing-more-daily-emissions-entire-us-economy

regional and national policy making, public and private sector investment and cross-sector collaboration.

Unilever believes that its efforts must focus on the following:

a. Support to landscape multi-sectoral initiatives that seek to address the root causes of forest fires as well as strengthen local governance, spatial planning and enforcement measures. Initiatives should include activities which provide alternatives to fire-based agriculture used by smallholders and local communities in Indonesia.

b. Supporting the Indonesian Government to improve the regulation and management of plantations on Indonesia's peatland. Over 50% of Indonesia's 2015 fires were on peatland. Drained and poorly managed peatland makes the landscape more prone to forest fires. Unilever supports the Indonesian Government moratorium on peatland development (this is a supplier requirement within our Sustainable Palm Oil Sourcing Policy) and believes that the industry must now work to support the wider efforts of Indonesia's newly established Peatland Restoration Agency (BRG) as well as Indonesia's One Map initiative – Unilever is actively involved in both.

8. Transparency and Traceability

Sourcing Targets

Unilever is accelerating its target to achieve 100% physically certified palm oil to end 2019
In 2015, we were the largest end user of physically certified sustainable palm oil – no other company uses more. We also were the largest end user of traceable certified oil in tonnage terms but not as a percentage of our total use as a company.
We are accelerating our target of achieving 100% physically certified oil to 2019 and will be publishing a time-bound implementation plan with 30% by 2016, 50% by 2017, 80% by 2018, and 100% by 2019.
As we look at increasing our percentage of sourcing physically certified oil, we are carefully assessing the role of certificates in our supply chain.

Traceability to known sources

Unilever is committed to 100% traceability for all of the crude palm oil and derivatives that we buy. Traceability is defined as the ability to trace back to a known catchment area that is attached to a mill, including dedicated plantations, plasma smallholders and independent smallholders. We will work with our suppliers and industry partners to develop a similar traceability system for palm kernel oil and its derivatives.

Mill locations are indicative of where palm fruit is processed and also where palm plantations are located. As a highly perishable fruit, fresh fruit bunches must be processed within 24 hours of harvest, which companies have estimated limits plantation sourcing to a 50 km radius around the mill (noting that this differs with road density and quality). Therefore, analysing the area immediately surrounding a mill can reveal useful information regarding management practices of plantations that fall within its sourcing area, including from third party plantations, and associated and independent smallholders.

Enhanced third party verification

Supplier verification is the cornerstone of good supply chain practices – we need to ensure that suppliers are who they say they are and do what they are supposed to do. Therefore we are enhancing our verification process. We will work with our suppliers to assess risk associated with supplier mill locations, reviewing the area supplying the mill against environmental and social risks as a basis for further engagement, including independent verification assessments.

Grievance Procedure

We require all our suppliers and their third-parties to comply with the principles set out in our Sustainable Palm Oil Sourcing Policy.

Unilever's Grievance Procedure sets out our procedure for dealing with supplier grievances and cases of non-compliance with our sourcing policy. Our approach is always to engage with our supplier if a grievance has been raised against them, and where we can to help them address any weaknesses in their policy or practices. If any of our suppliers are subsequently proven through an audit or a grievance verification mechanism to have violated the stated principles, and if that supplier does not acknowledge and immediately remediate – or create a credible time-bound plan to remediate the concern in a fashion that is acceptable to Unilever, Unilever will suspend or eliminate palm oil purchases from the supplier in question.

Our Responsible Sourcing Policy (RSP) also requires our suppliers to ensure that workers have access to fair procedures and remedies. Grievance mechanisms at the local supplier level can help prevent the escalation of issues due to early identification and remediation. Should issues not be able to be remediated at the local level, they should be escalated to, for example, the RSPO to allow workers another means of redress.

No Burning Policy (Forest Fires)

We expect our suppliers to comply with our no-burning policy as set out in our Sustainable Palm Oil Sourcing Policy.

Through our partnership with the World Resources Institute (WRI) we are using the Global Forest Watch Commodities (GFW Commodities) mapping tool to improve traceability and assess risk in the supply chain. We will use GFW Commodities to monitor suppliers for compliance against our no-burning policy. Suspected cases of non-compliance will be addressed through our Grievance Procedure.

9. Human Rights including labour rights

Unilever is working to uphold high human and labour rights standards in its palm oil supply chain, as well as to advance standards across the wider industry as part of its market transformation efforts.

The abusive use of vulnerable workers - including migrant labour- in the agricultural sector and palm oil plantations, is rife. This includes not only poor, unsafe working and living conditions but forced labour conditions due to the confiscation of identity documents, compulsory overtime, deliberate non-payment of wages, illegal or abusive deductions and high transaction fees charged by recruitment agencies, driving workers further into debt. The working conditions and rights of other landless workers must also be respected.

Our Responsible Sourcing Policy (RSP) sets out mandatory requirements on human rights including labour rights for our 76,000 supplier partners. The requirements of the RSP are an integral component of our Palm Oil Sourcing Policy and we expect all suppliers to comply with these requirements. They cover a range of social issues relevant to our oil palm supply chain, including those mentioned above and the application of the principle of free, prior and informed consent (FPIC), zero tolerance of land grabbing and the protection and promotion of land rights, including the right of women to land ownership and access.

We are cognisant of the challenges our suppliers face in seeking to comply with international human rights standards. Our view is that these challenges will only be effectively addressed in the long-term through strengthened governance, greater institutional capacity and industry wide action. An example of this was our work to strengthen the human rights elements of RSPO Next.

As part of our market transformation agenda, we wish to see (and are supporting) action in those areas which we believe to be the most pressing and where capacity building needs to be built. These include:

- **Industry wide action on the issue of forced labour in supply chains:** Unilever is working with others through the Consumer Goods Forum which resulted, in January, in a new CGF Board-approved Resolution on Forced Labour. This will pave the way for a specific framework enabling the industry to work together to address issues of shared concern.

- **Indonesia's One Map initiative:** Unilever continues to the support the development of the One Map initiative, which will provide the basis for more effective spatial planning by bringing much needed clarity on land licensing, boundaries as well as land use claims.

10. Frontier Markets

Unilever's Sustainable Palm Oil Sourcing Policy applies to all of the palm oil Unilever buys, as well as throughout Unilever's global operations, including our investments in plantations and refining, and to all our suppliers, including traders and their third parties.

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