

CUTTING DEFORESTATION OUT OF THE PALM OIL SUPPLY CHAIN

COMPANY SCORECARD



GREENPEACE

INTRODUCTION

Right: Just a patch of forest remains between palm oil plantations.

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Below: Deforestation is pushing orangutans to the brink of extinction.

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Bottom: Indonesian police designated this new palm oil plantation a crime scene.

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In recent years, the world's biggest companies have woken up to the environmental costs associated with palm oil and the other commodities they buy. Nowhere are those costs more evident than in Indonesia, which has lost 31 million hectares of forest, an area almost the size of Germany, since 1990.¹ Indonesia's plantation sectors – pulp, palm oil and timber – are driving this catastrophic forest destruction.

Many consumer goods companies, along with the commodity traders that supply them, have committed to remove deforestation from their supply chains. These commitments are promising, but forest destruction is actually increasing in Indonesia.² In fact, Indonesia is reported to have surpassed Brazil as the country with the world's highest rate of deforestation.³ Greenpeace analysis indicates that the palm oil industry is a leading cause of deforestation and peatland destruction.⁴ The situation is made worse by deep-seated, systemic problems, including legal barriers and the absence of published concession maps that show who controls forested land.





Smoke rising from smouldering peatland in a palm oil concession. Fires in drained peatland are a perennial problem.
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This all presents a serious challenge to companies that source commodities from Indonesia. They have promised their customers and other stakeholders that they will ensure the palm oil they buy is not linked to deforestation. Yet our analysis shows that companies have yet to take control of their supply chains and are unable to say with any confidence that the palm oil they use is not driving the destruction of rainforests, threatening endangered species or contributing to social conflicts in Indonesia.

In 2015, Indonesia was wracked by the worst forest fires for almost twenty years. The disaster, the result of decades of forest and peatland destruction, thrust Indonesia's plantation industries into the global spotlight. The fires shrouded Southeast Asia in a thick, choking smoke that is expected to have lasting health impacts across the region and on many days in October and November emitted more greenhouse gases than the entire United

States.⁵ Sutopo Purwo Nugroho, the head of Indonesia's National Disaster Mitigation Agency, described the crisis as 'a crime against humanity of extraordinary proportions'.⁶

As public outcry over the scale of the fires grew, Indonesia's president Joko Widodo announced ambitious new plans to mitigate against future fires by protecting Indonesia's peatlands.⁷ This includes a new Peat Restoration Agency tasked with enforcing a moratorium on further peatland development, as well as the restoration of land burned during the 2015 fires. However, many of the systemic barriers to corporate 'no deforestation' policies, such as the lack of public land tenure maps, also stand in the way of the government delivering its vision of peatland protection. Companies must seize this opportunity to solve the problems in their supply chain, by working with the Indonesian government on transparency and legislative reform.

FAILED PROMISES

GETTING THERE

ON TRACK



 RESPONSIBLE SOURCING
 TRANSPARENT REPORTING
 REFORMING INDUSTRY
 ENDING DEFORESTATION

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PROGRESS TOWARDS DEFORESTATION-FREE SUPPLY CHAINS IS SLOW

In December 2015, Greenpeace surveyed 14 global consumer goods manufacturers with 'no deforestation' policies in place, including snack food, confectionary and personal care companies. We wanted to understand the practical actions that these companies are taking to implement their policies, and the impact those actions are having on the ground in Indonesia.

The responses we received reveal there is a considerable amount of work to be done before companies have deforestation-free supply chains. None of the companies we surveyed are able to say with any certainty that there is no deforestation in their palm oil supply chain. Most companies are unable even to say how much of their palm oil comes from suppliers that comply with their own sourcing standards.

Furthermore:

- Only one of the 14 companies surveyed – Ferrero – can trace nearly 100% of its palm oil back to the plantation it is grown on.
- Most companies have yet to start obtaining independent third-party verification to demonstrate that their palm oil is produced by companies operating in compliance with their own 'no deforestation' policies.
- None publish a full list of their palm oil

suppliers, although some do publish lists of top suppliers.

- None publish a list of suppliers that they have ceased purchasing from due to finding evidence of rainforest clearance, or other breaches of policy.

At the same time, there are substantial differences in company performance, even from companies within the same sector. Several of the companies we spoke to have yet to fully trace their palm oil back to the mill – a critical milestone on the way to tackling deforestation. Many are still relying on false solutions such as GreenPalm certificates, instead of taking meaningful steps towards ensuring that the physical oil they buy is not linked to forest destruction.

Some companies are making significant progress. A few have changed their purchasing and are trying to take control over their supply chain by predominantly buying physically certified Roundtable on Sustainable Palm Oil (RSPO) palm oil. Others are succeeding in tracing large volumes of the oil they buy back to the plantation where it was grown. While neither of these actions is proof that suppliers are not responsible for deforestation, each can be an interim step towards understanding and remedying supply chain problems.

HOW EACH COMPANY WAS ASSESSED

To understand how much progress each company has made towards a deforestation-free supply chain, we considered three criteria:

- **Responsible sourcing** – the practical steps each company is taking towards ensuring that the palm oil it buys is not linked to deforestation.
- **Transparency** – how open each company is about its palm oil suppliers, including how it is tackling suppliers that breach its ‘no deforestation’ policy.
- **Industry reform** – how each company is supporting wider industry reform.

We then assessed the actions that companies are taking, giving each a qualitative score based on its performance across each criterion, including an assessment of publicly available policies and reports. Finally, each company received an overall score. We weighted ‘Responsible sourcing’ higher than ‘Transparency’ and ‘Industry Reform’, although all three are important.

Responsible sourcing

Given the rate of deforestation in Indonesia, we expect to see strong action from companies to ensure their suppliers are protecting rainforests and peatlands. This includes:

- tracing palm oil (or palm oil derivatives) to known sources, first to the mill and then to the plantation;
- confirming that suppliers are complying with ‘no deforestation’ commitments by obtaining independent third-party verification to best practice standards – the standards of the Palm Oil Innovation Group (POIG)⁸ or equivalent;
- having a clear process for dealing with non-compliant suppliers and taking action against those that are found to have breached ‘no deforestation’ policies, including excluding those that don’t change their behaviour;
- phasing out GreenPalm certificates in favour of obtaining physical certified RSPO palm oil, as an interim step towards independent third-party verification to best practice standards.

A company is said to be on track towards meeting its ‘no deforestation’ policies if it is making considerable progress towards tracing its palm oil to the plantation where it was sourced, if it has started to obtain independent third-party verification that its suppliers are complying with its ‘no deforestation’ policy,

and if the majority of its palm oil is physically certified. Purchasing physically certified oil (Segregated or Identity Preserved) is seen as an interim step towards full third-party verification of 'no deforestation' commitments, using the High Carbon Stock Approach (HCSA) Toolkit⁹ and the standards of the POIG Charter.¹⁰

A company is considered to be making some progress towards meeting its 'no deforestation' policies if it is primarily sourcing Mass Balance palm oil, if it is identifying and engaging non-compliant suppliers, and if it is tracing the majority of its palm oil to the mill and using this information for mill-based risk assessments.

A company is considered to be failing where it is making slow progress towards tracing its palm oil to the mill, it is still reliant on GreenPalm certificates, is relying on RSPO certification as verification of their 'no deforestation' policies and can show no other meaningful action to reduce its exposure to deforestation.

Transparency

Deforestation in Indonesia (and elsewhere) is exacerbated by the absence of transparency regarding land tenure and corporate ownership. This makes it difficult to be certain that palm oil producers have stopped clearing forests. The Indonesian government has again promised to publish land tenure information through its OneMap initiative, but this is still several years away from completion.

In the absence of official geospatial information on suppliers, companies should push suppliers to publish concession maps covering their entire operations, which is now a requirement of RSPO membership. They should also publicly disclose supplier information – including mills, plantations and refineries – and require suppliers to do the same. Companies that are transparent about all or some of their suppliers score highest on our survey. Those that do not publish their supplier information but are willing to share it with civil society stakeholders are making decent progress.

Companies that refuse to provide any information about their suppliers are considered to be failing.

Industry Reform

Companies cannot break the link between deforestation and commodity production without going beyond their own supply chains and pushing for sectoral reform. We expect to see companies working together to establish and enforce high minimum standards for palm oil production. These include:

- Supporting the HCS Approach as the one credible methodology for identifying and protecting tropical forests in Indonesia. Consumer goods companies whose 'no deforestation' commitments explicitly include implementation of the HCS Approach (as opposed to alternative methodologies such as the industry-led Sustainable Palm Oil Manifesto High Carbon Stock Study¹¹) are upholding strong industry standards to halt deforestation.
- Joining the POIG to help build the business case for responsibly-produced palm oil grown to the highest standards.
- Clearly stating that 'no deforestation' standards apply across suppliers' entire operations, including third-party suppliers and joint venture partners, and not just to the physical oil a company buys.

In future, successful implementation of the HCS Approach and insistence that policies must apply across suppliers' entire operations should be seen as crucial indicators of a company's progress towards implementing its 'no deforestation' policy.

There are a few industry-wide initiatives that we believe have some potential to transform the palm oil sector: the New York Declaration on Forests (NYDF),¹² membership of the Tropical Forest Alliance,¹³ membership of the UNDP Sustainable Palm Oil Initiative,¹⁴ or taking a leadership role in the Consumer Goods Forum's palm oil working group. Our assessment of participation in these is cumulative and focuses on leadership actions across the industry, so companies participating in more than two of these multi-stakeholder bodies are seen as making decent progress towards industry transformation.

Companies with very little or no participation are failing in this category.

RESULTS

Colgate-Palmolive: Failing



Responsible sourcing: Failing



Transparency: Failing



Industry Reform: Failing



COLGATE-PALMOLIVE

Colgate-Palmolive, a US personal care manufacturer whose brands include Speed Stick, has a policy that excludes deforestation across multiple commodities, not just palm oil. However, there is weak evidence that its palm oil is deforestation-free. Colgate remains reliant on GreenPalm certificates, which do nothing to ensure that the palm oil it buys is not linked to deforestation.

Colgate cannot trace any of its palm oil back to the plantation, and even though more than half of its palm oil is traceable to the mill, that is insufficient progress when compared with other companies in the sector. Colgate does not disclose any information about its suppliers, nor has it joined any industry transformation initiatives.



Danone: Decent



Responsible sourcing: Strong



Transparency: Failing



Industry Reform: Strong

Danone, a French food company whose brands include Dannon and Cow & Gate, is making strong Responsible sourcing. Its palm oil volumes are 100 per cent traceable to the mill, but not yet to the plantation. Its supply is 100 per cent RSPO Segregated. Some suppliers are audited, although this is not a requirement of its policy.

As a member of the POIG, Danone should continue its role as an industry leader by disclosing a complete list of known suppliers and sub-suppliers, including the location and names of mills, plantations and refineries. It should also publish a time-bound action plan to have its suppliers third-party verified against best practice standards.

Ferrero: Strong



Responsible Sourcing: Strong



Transparency: Decent



Industry Reform: Strong

FERRERO

Ferrero, the Italian manufacturer of Ferrero Rocher and Nutella, purchases palm oil volumes that are both fully traceable to plantation level and fully RSPO Segregated. It is a member of the POIG, with an explicit commitment to the HCSA. Ferrero should disclose a complete list of known suppliers

and sub-suppliers, including the location and names of mills, plantations and refineries.

The next step is for Ferrero to publish a time-bound action plan to have its suppliers third-party verified against a high standard, such as those contained in the POIG Charter.



General Mills: Decent



Responsible sourcing: Decent



Transparency: Strong



Industry Reform: Decent

General Mills, a US manufacturer whose brands include Betty Crocker and Cascadian Farm, has near full traceability to mill, but does not trace oil to the plantation level. The majority of its RSPO-certified oil is Mass Balance, but its palm oil is not verified by an independent third-party to best practice standards.

General Mills publicly discloses its top three suppliers and we encourage it to go further by disclosing a complete list of known suppliers and sub-suppliers, including the location and names of mills, plantations and refineries. It participates in a few initiatives to transform the industry, but should take on additional leadership by requiring compliance across suppliers' entire operations.

IKEA: Decent



Responsible sourcing: Strong



Transparency: Failing



Industry Reform: Failing



IKEA, a Swedish company that uses palm oil in its candles and in some food products and snacks, has a near fully RSPO Segregated supply, and a phase-out strategy for the small remainder of palm oil covered by GreenPalm certificates. IKEA should now focus on ensuring that its suppliers are going beyond RSPO by obtaining credible, third-party verification to POIG or equivalent standards.

IKEA is a member of the UNDP Sustainable Palm Oil Initiative, but needs to increase its support for industry transformation. We recommend it discloses a complete list of known suppliers and sub-suppliers, including the location and names of mills, plantations and refineries, and apply its 'no deforestation' policy to its suppliers' entire operations.

Johnson & Johnson

Johnson & Johnson: Failing



Responsible sourcing: Failing



Transparency: Failing



Industry Reform: Strong

Johnson & Johnson, a US manufacturer of personal care brands including Neutrogena and Aveeno, has little understanding of the risks in its supply chain. Its traceability to the mill is poor. Johnson & Johnson needs to accelerate its traceability programme and move beyond the RSPO to meet its 'no deforestation' commitment. However, it has excluded a supplier due to concerns over non-compliance.

Its policy explicitly references the HCS Approach and it participates in some initiatives to achieve wider sectoral reform. Johnson & Johnson does not publicly disclose its supplier list. It should disclose a complete list of known suppliers and sub-suppliers, including the location and names of mills, plantations and refineries.

Kellogg Company: Decent



Responsible sourcing: Decent



Transparency: Strong



Industry Reform: Failing

Kellogg Company, a US food manufacturer whose brands include Pringles and Pop-Tarts, has some traceability to plantation and high traceability to mill, alongside a strong transparent and time-bound procedure for working with non-compliant suppliers, plus public disclosure of their top three suppliers.

However, the majority of the palm oil it sources is RSPO Mass Balance.

The company should be requiring independent third-party auditing to best practice standards rather than relying on RSPO to verify its 'no deforestation' commitments, and its policies and monitoring need to apply across its suppliers' entire operations. Kellogg Company is a signatory to the NYDF, but it should increase participation in other initiatives to transform the industry.

Mars: Decent



Responsible sourcing: Decent



Transparency: Strong



Industry Reform: Strong

Mars, a US confectionary manufacturer, has a strong policy that requires compliance across suppliers' entire operations, not just the palm oil they supply to Mars. It has good traceability of its palm oil supply to mills, but needs to continue traceability work to the plantation and start obtaining

independent verification that its suppliers comply with its 'no deforestation' policy. It publicly discloses its top four suppliers, but should now publish a complete list of known suppliers and sub-suppliers, including the location and names of mills, plantations and refineries.

Mondelez: Decent



Responsible sourcing: Decent



Transparency: Failing



Industry Reform: Strong



Mondelez, a US-based snack food manufacturer whose brands include Cadbury, Nabisco and Oreo, has a strong policy that requires its suppliers to comply with its 'no deforestation' policy for all its operations at group level, rather than solely for the physical oil they sell to Mondelez. Additionally, it is proactively excluding non-compliant suppliers.

However, Mondelez is still reliant on GreenPalm certificates. The company needs to phase out GreenPalm, improve its traceability to the plantation, and obtain independent third-party verification that its suppliers are meeting its 'no deforestation' policy. It should also disclose a complete list of known suppliers and sub-suppliers, including the location and names of mills, plantations and refineries.



Nestlé: Strong



Responsible sourcing: Strong



Transparency: Strong



Industry Reform: Decent

Nestlé, the Swiss food and beverage giant whose brands include Dreyer's and Toll House, has substantial traceability of its palm oil to the plantation level, notable given its high volume of supply. It is participating in initiatives to reform the palm oil industry and publicly discloses three of its suppliers.

Nestlé should show further leadership by disclosing a complete list of known

suppliers and sub-suppliers, including the location and names of mills, plantations and refineries, and ensure its policy is applied across its suppliers' operations. Nestlé is working with implementation partners to determine whether its suppliers meet its palm oil policy. The next step is to publish a time-bound action plan to have its suppliers verified by an independent third party.

Orkla: Decent



Responsible sourcing: Decent



Transparency: Decent



Industry Reform: Strong



Orkla, the Norwegian consumer food company that also owns global brands such as MTR margarine in India, has relatively low traceability to mill, and a low proportion of RSPO certified oil. However, it is proactively engaging its suppliers and deselecting those without credible 'no deforestation' policies.

Orkla also supports the HCS Approach and references it in its sourcing policy. The company should now publish a complete list of known suppliers and sub-suppliers, including the location and names of mills, plantations and refineries, and make progress on obtaining independent third-party verification to best practice standards.



PepsiCo: Failing



Responsible sourcing: Failing



Transparency: Decent



Industry Reform: Strong

PepsiCo, the US-based snack food manufacturer whose brands include Frito-Lay, has no evidence that its palm oil is deforestation-free. It is almost entirely reliant on GreenPalm certificates and its traceability to mill is below its competitors.

PepsiCo should immediately phase out GreenPalm and obtain

independent verification that its suppliers are complying with its 'no deforestation' policy. It should publish a complete list of known suppliers and sub-suppliers, including the location and names of mills, plantations and refineries, and require its suppliers to apply its policy across their operations.

Procter & Gamble: Decent



Responsible sourcing: Decent



Transparency: Decent



Industry Reform: Strong



Procter & Gamble, the US-based consumer goods company whose brands include Head & Shoulders and Olay, has strong progress on traceability to the mill, though it has not yet begun plantation-level traceability. It has an explicit commitment to the HCS Approach and has joined the HCS Approach Steering Group.

Procter & Gamble should now ensure its suppliers comply with its 'no deforestation' policy by obtaining third-party verification to best practice standards. It should also publish a complete list of known suppliers and sub-suppliers, including the location and names of mills, plantations and refineries, and report on non-compliant supplier engagement.



Unilever: Decent



Responsible sourcing: Decent



Transparency: Decent



Industry Reform: Strong

Unilever, the British-Dutch consumer goods company whose brands include Dove soap and Flora margarine, remains reliant on GreenPalm certificates and has low traceability to mill when compared with other companies in its sector. However, it has recently built a fractionation plant in North Sumatra to gain full traceability to plantation of that supply.

Unilever needs to rapidly phase out Greenpalm and obtain third-party verification that its

suppliers are meeting its 'no deforestation' commitments. It should publish a complete list of known suppliers and sub-suppliers, including the location and names of mills, plantations and refineries, and apply its policy across its suppliers' operations. Unilever actively supports the HCS Approach Steering Group but has also supported the competing Sustainable Palm Oil Manifesto HCS Study. It should therefore make clear that it expects suppliers to use the HCS Approach when implementing its policy.

CONCLUSION AND SOLUTIONS

As we embarked upon our survey, it was clear that the companies we spoke to had good intentions. Some are making a concerted effort to create change on the ground. At the same time, major brands are still a long way from being able to demonstrate that the palm oil they buy is not driving deforestation in Indonesia. Most do not anticipate being deforestation-free until 2020. This is nowhere near urgent enough, given how rapidly Indonesia's forests are being converted to palm oil plantations.

This year must mark a turning point for the palm oil industry. So far, companies have been focusing on tracing the palm oil they buy to the mill and then to the plantation where it was grown. That is just the first step towards addressing the problems in companies' palm oil supply chains. In 2016, companies need to start actively monitoring their suppliers for deforestation, peatland destruction, labour issues and social conflicts – and should take swift action against persistent offenders.

Brands cannot do this alone. Working with a second-party implementation partner can help a company understand the risks in its

supply chains, and we encourage companies to consider engaging consultants to help them meet the goals that they have set. However, we still expect all companies to obtain independent third-party verification to best practice standards, such as those contained in the POIG Charter, and report transparently on their progress. In the coming months, we expect all companies to publish a clear protocol for tackling suppliers that are unwilling to conform to these standards.

Last year's forest fires started a much-needed conversation about how Indonesia should manage its plantation sectors. President Jokowi and senior government ministers have called for peatland protection and forest restoration as part of a package of measures aimed at preventing another disaster. This will only succeed if companies that buy palm oil are prepared to back these reforms and work with the government to make the plantation sector more transparent and accountable. Thinking longer term, companies need to work together on a common vision for forest restoration and best practice in peatland management, and on special measures to support smallholders and create incentives for forest conservation.

COMPANIES MUST:

- 1. Have** a credible 'no deforestation' policy that requires suppliers to use the High Carbon Stock Approach (or an equally robust methodology) to implement forest protection commitments, and includes no development on peat regardless of depth and no exploitation of communities or workers.
- 2. Publish** a time-bound implementation plan for delivering your 'no deforestation' policy, including:
 - a. clear milestones for transparency
 - b. traceability to plantation
 - c. phasing out GreenPalm
 - d. a public protocol for dealing with non-compliance suppliers
 - e. third party verification against a credible multi-stakeholder standard for implementing 'no deforestation' policy (Palm Oil Innovation Group or equivalent).
- 3. Require** suppliers to publish concession maps for their entire operations and for all of the operations of the third-party producers in their supply chain. Have a time-bound plan to phase out any producers in your supply chain that won't publish maps for their entire operations. Make supply chain transparency a contractual requirement for any new palm oil contracts.
- 4. Commit** to measure your suppliers' compliance with your 'no deforestation' policy at a group level and give a clear signal to your suppliers.
- 5. Work** with suppliers and other stakeholders on a private sector plan to help protect Indonesia from forest and peatland fires.

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Endnotes

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14. THE UNDP SPO is a sustainable palm oil initiative between consumer companies and the government of Indonesian. Greenpeace does not consider the standards they are working on strong enough but it is a model for industry to help the Indonesian government normalise sustainable palm oil production