



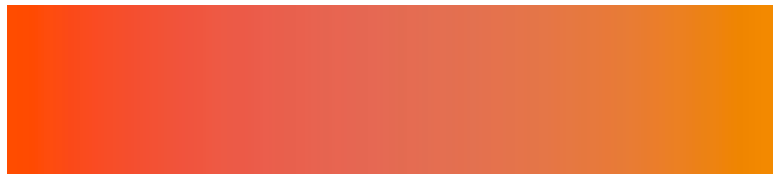
performance  
WITH purpose



**PEPSICO**

# PALM OIL PROGRESS REPORT

JUNE 2018





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# PROGRESS



As part of our commitment to sourcing sustainable and responsible palm oil, PepsiCo's progress highlights in 2017 include the following:

- Achieved 32% RSPO physically certified sustainable palm oil, exceeding our interim target of 30% for 2017, with the aim of hitting 50% by the end of 2018 and 100% by the end of 2020
- Increased traceability to the mill to 94% at the end of 2017, up from 65% in 2015, with the aim of achieving traceability to plantation by 2020
- Piloted our third-party traceability-to-mill system assessment process with Cargill
- Disclosed a complete list of our [2018 direct suppliers](#) and our [2017 mill list](#)
- Continued to identify and address risks associated with smallholders, worker rights, deforestation/peatlands and land rights
- Published a formalized [grievance mechanism](#) for our agricultural supply chain
- Implemented our supplier scorecard to build capability and promote partnership and continuous improvement among suppliers
- Achieved 100% RSPO membership among direct suppliers (not including Venezuela)
- Updated and consolidated our commitments in our [Global Policy on Sustainable Palm Oil](#), reflecting our goal for a supply chain free of deforestation, peat development and exploitation by the end of 2020
- Announced our [participation in Oxfam's FAIR Company-Community Partnerships project](#) to enhance livelihoods in Indonesian palm oil producing communities
- Launched our program to boost sustainable palm oil production in Mexico, in collaboration with Femexpalma, Oleofinos, Oleopalma, the Roundtable on Sustainable Palm Oil (RSPO) and smallholder farmers

# STRATEGY

## OVERVIEW

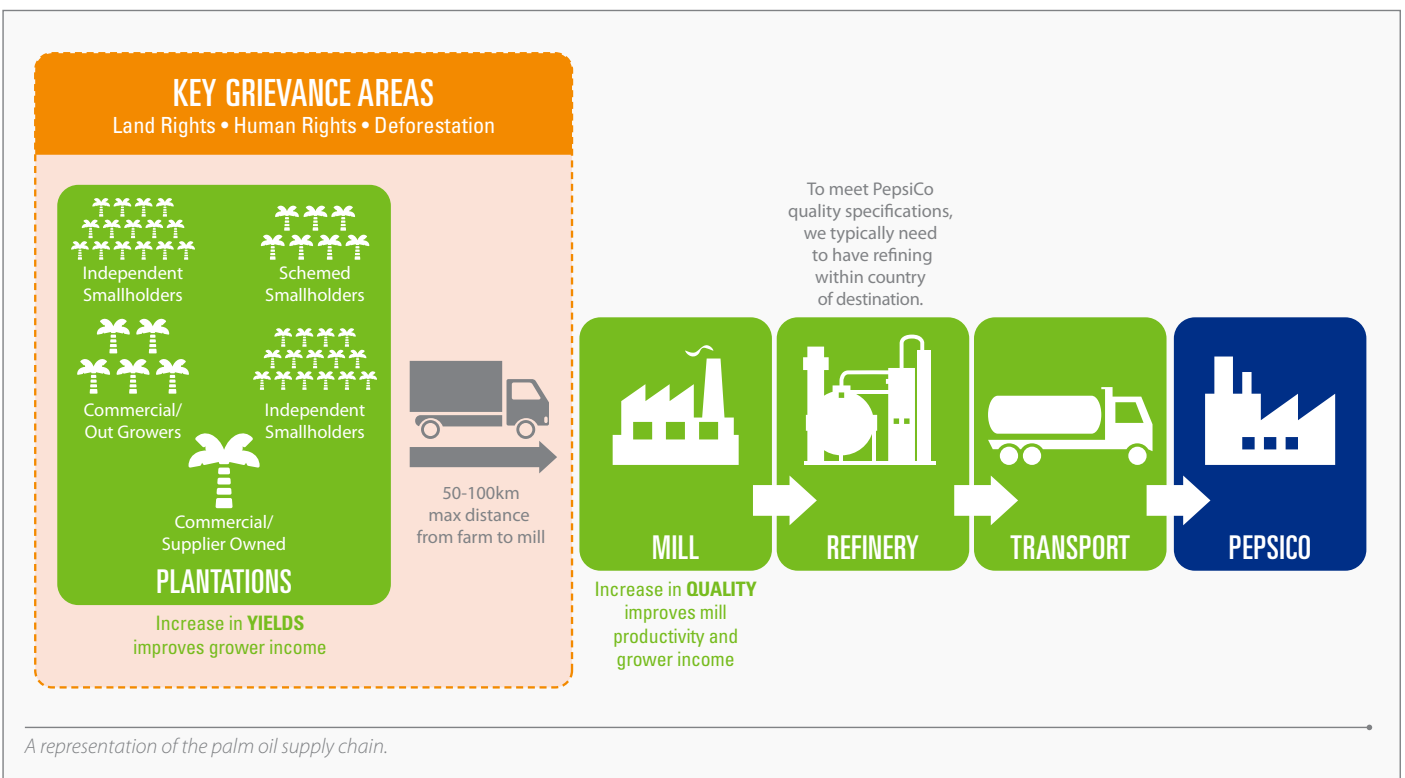
Through our Performance with Purpose vision, PepsiCo is working to transform how we do business in an effort to deliver strong financial returns in a way that is responsive to the needs of the world around us. We recognize we have an opportunity to use our global scale and resources to help influence positive change across our entire value chain – starting with the way our product ingredients are grown and sourced.

We work with farmers in our global supply chain to help them incorporate industry-leading policies, practices and technologies, which are designed to make our food system more sustainable and productive. Palm oil, the most widely used edible oil in the world, is a key area of focus. While PepsiCo is one of the largest global buyers of palm oil in the consumer products industry, our purchase in 2017 represented less than 1% of the global supply, which we use primarily in snack manufacturing because of its wide availability and shelf stability. In the United States, we use almost no palm oil, but it is used in Asia and other markets. We have a complex global supply chain with 39 direct suppliers sourcing from more than 1,500 mills and tens of thousands of farmers who grow the palm.

PepsiCo aims to source 100% Roundtable on Sustainable Palm Oil (RSPO) physically certified sustainable palm oil by 2020 while helping to lift production standards across the palm oil sector. To help us achieve these objectives, we are implementing a strategy built on four pillars:

1. **Risk management**  
How we understand areas of concern and opportunity in our supply chain.
2. **Supplier engagement**  
How we engage with suppliers to communicate expectations and improve performance.
3. **Positive impact**  
How we work collaboratively to help transform the wider industry.
4. **Transparency and stakeholder engagement**  
How we report on our progress and engage with the broader stakeholder community.

This report, our third annual Palm Oil Progress Report, details our actions and progress under each of these pillars.





*Nursery of young palm plants in Indonesia.*

Our strategy is informed by our understanding of the key sustainability challenges facing palm oil, including deforestation, biodiversity loss and human rights abuses. We are also mindful of the economic benefits provided by palm oil production, including rural economic development and improved livelihoods for farmers. As we seek to expand these benefits while reducing any potential harms, it is important that we address standards in our own supply chain, while addressing systemic issues through collaboration with suppliers, peer companies, civil society, governments and certification bodies to help sustainable production become the norm and human rights to be respected.

Certification of palm oil is part of our strategy, and we are working to source 100% RSPO physically certified sustainable palm oil by 2020. We recognize, though, that certification is only one part of a holistic approach to building a sustainable palm supply chain. We augment certification with a risk assessment process that allows us to better understand our supply chain and prioritize actions and investments, including our approach to supplier engagement, impact programs that we support, and our reporting and stakeholder engagement.

## POLICY

Our strategy is underpinned by a series of policies that are embedded in our business and supply chain. In 2015, we published a comprehensive set of commitments and an action plan for sustainable palm oil as part of a broader suite of related global policies dealing with human rights, forestry stewardship, land rights and our Supplier Code of Conduct.

After three years of progress on our action plan, PepsiCo updated its approach by integrating our commitments in our Global Policy on Sustainable Palm Oil with an associated implementation plan looking out through

2020, which we published in June 2018 concurrent with this Progress Report. The updated policy provides our long-term vision for a sustainable palm oil sector and updates our commitments to no deforestation, no development on peatlands, and no exploitation of indigenous peoples and local communities (“NDPE commitments”). Attached to the policy is our implementation plan through 2020, which provides an understanding of how we translate our policy vision into specific actions and results.

Our policies and commitments apply to all palm and palm kernel oil that we use globally and covers our entire supply chain, from direct suppliers to production sources, as well as all of PepsiCo’s operations, subsidiaries, joint ventures, brands and products worldwide. We believe that fulfilment of these policies and commitments will make our supply chain more secure and support stable social, economic and environmental conditions for producers, mills and the communities they support.



*Fresh fruit bunches (FFBs) being harvested.*

For additional related information, please see the following PepsiCo documents and links:

- [Global Policy on Sustainable Palm Oil](#)
- [Global Human Rights and Salient Issues Statement](#)
- [Forestry Stewardship Policy](#)
- [Land Use Policy](#)
- [Palm Oil Traceability Protocol](#)
- [RSPO Annual Communication of Progress \(ACOP\)](#)
- [Performance with Purpose 2025 Agenda](#)
- [PepsiCo Global Supplier Code of Conduct](#)



# RISK MANAGEMENT



*HCV assessment being carried out in Indonesia.*

PepsiCo takes a proactive approach to risk management as part of our overarching strategy to sustainably source palm oil. Traceability and physical certification are cornerstones of our risk management work, providing us with critical information about our supply chain. By applying a rigorous risk assessment process, we are able to focus our attention on regions with potential for policy noncompliance and prioritize our engagement efforts and investments in positive impact programs.

In 2017, our global purchase of palm oil was approximately 450,000 metric tonnes (MT), of which palm kernel oil comprised about 5,000 MT. Our top suppliers were Cargill, Oleofinos and Wilmar, and the top three countries from which PepsiCo sourced palm oil were Indonesia, Malaysia and Mexico.

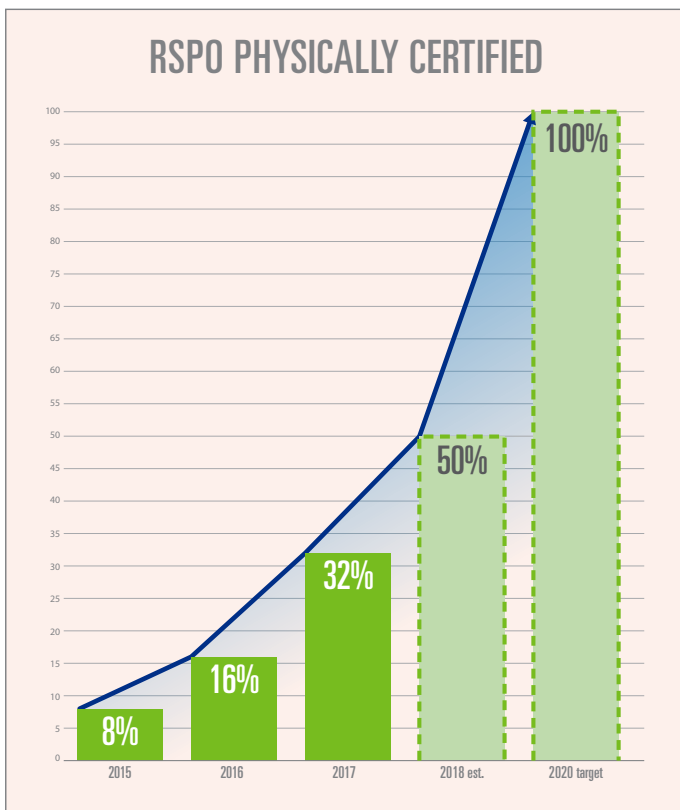
The market for palm oil is highly fragmented, and the majority of palm oil does not receive sustainability certification. This is why, in order to meet our sustainable palm oil goals, we must strive to use our position in the global supply chain to promote industry-wide collaboration and action.

## ROUNDTABLE ON SUSTAINABLE PALM OIL (RSPO) CERTIFICATION

Since joining RSPO in 2009, PepsiCo has supported the organization and actively worked with our suppliers to promote the benefits of membership, including benefits to the environment, workers, local communities and business. We also support RSPO Next, an advanced certification scheme that incorporates additional protections for forests, peatlands and human rights, and we look forward to an overall strengthening of the RSPO standard based on the extensive review process that RSPO intends to complete in 2018. At the end of 2017, 100% of our direct suppliers were RSPO members.<sup>1</sup>

In 2017, we achieved 32% RSPO physically certified sustainable palm oil, exceeding our interim target of 30% for the year. This performance has improved from 16% in 2016 and 8% in 2015. For 2018, we have set an interim objective to achieve 50% on our journey to 100% by the end of 2020.

<sup>1</sup> Data excludes suppliers in Venezuela where the current political environment prevents accurate information collection.



PepsiCo progress towards 100% RSPO certified palm oil.

## RISK ASSESSMENT

We understand that RSPO certification alone is not sufficient to guarantee compliance with our policy, which is why we conduct risk assessments to identify regions that have the highest likelihood of noncompliance and prioritize our efforts to raise standards accordingly.

PepsiCo has developed an understanding of key environmental and social risks associated with sourcing palm oil from multiple sources, including:

- Feedback from assessments and audits conducted as part of our sustainable sourcing and sustainable agriculture programs.
- Proforest, an organization with expertise in managing natural resources sustainably, provides ongoing feedback as part of a partnership agreement. Additionally, we commissioned internal reports from them on the structure of the palm oil industry and associated social and environmental risks in several geographies around the world.
- Engagement with direct and indirect suppliers.
- Participation in collaborative forums on palm oil such as the Roundtable on Sustainable Palm Oil, Consumer Goods Forum, and the IDH Landscapes Working Group.

- Feedback from civil society through direct meetings and workshops.
- Risks discovered and addressed through our grievance mechanism.
- Reports by civil society and other organizations.
- Experience and knowledge of PepsiCo employees.

From these sources we have established that the following risks are most significant to our palm oil supply chain:

- **Smallholder Production**

Approximately 40% of palm oil is grown by smallholder farmers.<sup>2</sup> Delivering a sustainable palm oil supply chain requires that we engage and help build capability, working with our direct suppliers, civil society and others.

- **Worker Rights**

As with other agricultural commodities that rely on seasonal labor and workers meeting “piece-rate” quotas, there are a number of risks for workers in the supply chain. This includes rights of temporary workers, working hours and pay, forced labor and underage labor.

- **Deforestation/Peatlands**

Indonesia has the fifth highest deforestation rate globally, with over 20 million hectares of forest lost between 2001 and 2015. In addition, Indonesia contains approximately 36% of the world’s tropical peat; maintaining the remaining peatlands is a significant priority for managing the related environmental and other impacts.<sup>3</sup>

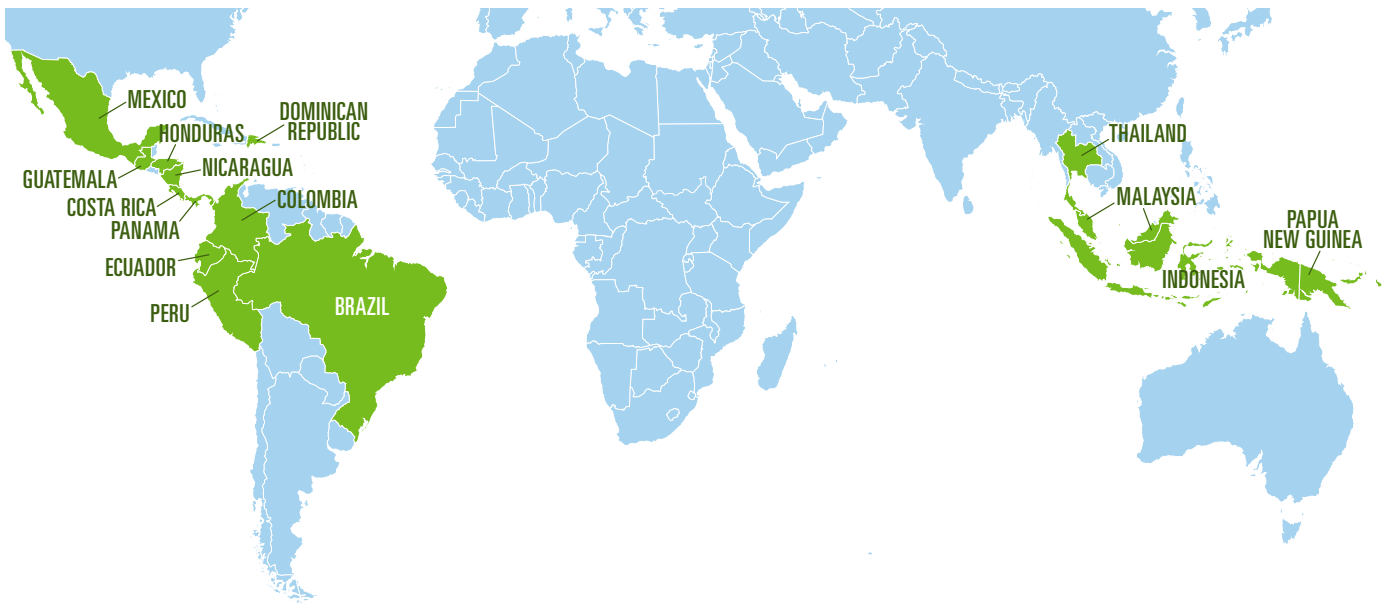
- **Land Rights**

There is growing potential for land rights disputes as new plantations are established. While some laws are in place, enforcement is patchy and certification schemes are not well established, meaning that companies need to have policies in place and work on implementation on the ground.

Our policies and programs aim to minimize and mitigate risk, identify and address challenges as they arise and provide a clear process for rights holders to raise concerns.

<sup>2</sup> <https://www.rspo.org/smallholders>

<sup>3</sup> Proforest briefing: Oil palm in Indonesia, March 2017



PepsiCo sourcing countries for palm oil, 2017.

## TRACEABILITY

Supply chains can be long and complex, often involving multiple tiers of suppliers and thousands of intermediaries. Building better information systems is therefore an important step to achieving our goals and prioritizing opportunities for improvement.

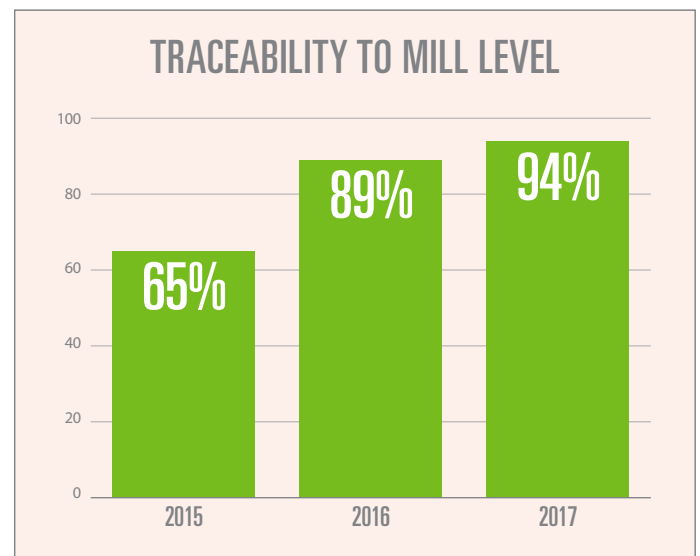
PepsiCo worked with Control Union and Proforest to develop and implement [PepsiCo's Palm Oil Traceability Protocol](#). The Protocol was distributed to all direct suppliers along with a recommended reporting template, which requires the names of all palm oil and palm kernel oil mills, their location coordinates and the percentage of PepsiCo's volume that is traceable to the mills. Additionally, we implemented a training program in both English and Spanish, and we maintain a helpdesk with Control Union to provide ongoing assistance to ensure timely and accurate data is collected.

We continue to make progress toward our goal of 100% traceability to the mill, and at the end of 2017 we estimated that approximately 94%<sup>4</sup> of the palm oil we used was traced to specific mills, up from 89% in 2016 and 65% in 2015.

While we have information on the remaining 6% of mills, we do not currently believe the quality of data is sufficient. In locations such as India and China, for example, the complexity of the supply chain can make it very difficult

<sup>4</sup> Traceability figures exclude Venezuela where local political and economic volatility prevent accurate tracking.

for suppliers to provide timely, complete data. We will continue working with our suppliers to increase visibility of the mills in our palm oil supply chain through various engagement efforts, including our mill traceability data verification protocol, which was launched in 2017.



PepsiCo progresses towards 100% traceability to mill level.

The work we have completed on mapping our mills also provides the basis for extending our traceability efforts to palm oil farms and plantations, and our goal is to do this by 2020. In 2017, we established a definition that is currently used by the IDH-led Landscapes Working Group and supported by Proforest. In 2018, we will use this





A fresh fruit bunch (FFB) harvested in Indonesia.

## CASE STUDY: THIRD-PARTY VERIFICATION PILOT

PepsiCo is taking our commitment to traceability one step further by pursuing third-party verification of our mill-level data. By adding third-party verification to our traceability process, we gain an independent view on the accuracy and credibility of the information we collect. In 2017, we launched the verification process described in our Palm Oil Traceability Protocol, and going forward our direct suppliers will be required to undergo an independent third-party review of the data that is sent to PepsiCo.

In November 2017, Cargill became the first of our suppliers to try our traceability data system assessment process. The pilot, which set out to verify mill traceability data provided by Cargill Pakistan from January through December, 2016, included a two-day on-site audit administered by Control Union. During the audit, Control Union conducted interviews and document verification to assess Cargill's traceability process, procedures, methods of data collection, and data management, among other criteria.

*"As the first company to pilot PepsiCo's traceability verification program, our collaboration with PepsiCo over the past year has been critical to increasing transparency and advancing long-term sustainability in our supply chain. The program has helped us refine our traceability process and develop new standards, which can be widely adopted to benefit the industry."*

– *Shih-Shun Chong, Sustainability Manager,  
Cargill Global Edible Oil Solutions APAC*

definition in the interim for plantation-level traceability, and will refine and review it after we launch our pilot and stakeholders have an opportunity to weigh in.

**Proposed Definition:** At a mill level, volumes can be defined as traceable to plantation when the following information is available:

- **Estate information (>50ha)**  
Estate names, parent company names, certification status, percent of overall FFB tonnage to mill and a GPS coordinate as a representative location of the source.
- **Dealers**  
Dealer names and percent of overall FFB tonnage to mill.
- **Smallholders (<50ha)**  
Number of smallholders, certification status and percent of overall FFB tonnage to mill.

To learn more about how we're working to achieve our goal of 100% traceability, see the [Supplier Engagement section](#) of this report.

# SUPPLIER ENGAGEMENT



Natasha Schwarzbach, Sustainable Commodities, PepsiCo and Daniel Arancibia, Co-Director, Latin America, Proforest, (PepsiCo's implementing partner) visit a palm plantation in Mexico.

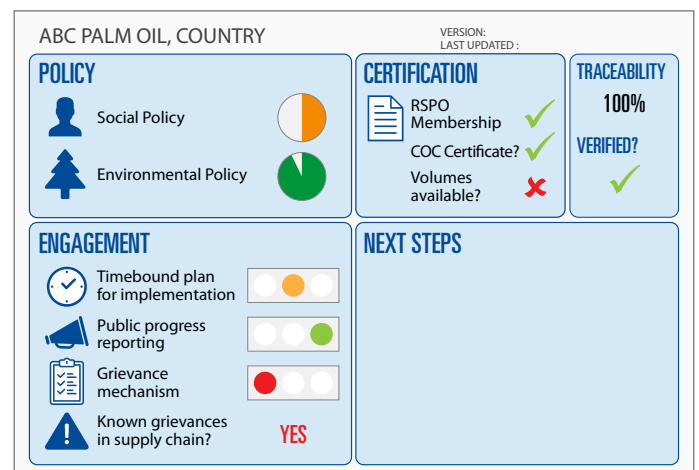
To achieve our sustainable sourcing goals, we need to maintain proactive engagement with all of our direct suppliers. Engaging with our suppliers allows us to identify risks of non-conformance and necessary corrective actions to address issues that arise, as well as foster continuous improvement. We do this through our newly developed Supplier Scorecard, our Supplier Code of Conduct and our agricultural grievance mechanism.

## SUPPLIER SCORECARDS

In 2017, we created the criteria, methodology and initial evaluation that led to our first Supplier Scorecards. This tool was built to address a range of opportunities. It provides a means to track and encourage progress of our suppliers towards putting in place policies and programs to enhance performance and capability in sustainable palm.

The tool has proven valuable in establishing a baseline and identifying the range of opportunities across our

supply base. We can identify more capable partners who are poised to help drive industry leading actions, as well as suppliers at the other end of the spectrum where we can focus capability building efforts to improve their foundational programs. Throughout 2018, we will share the



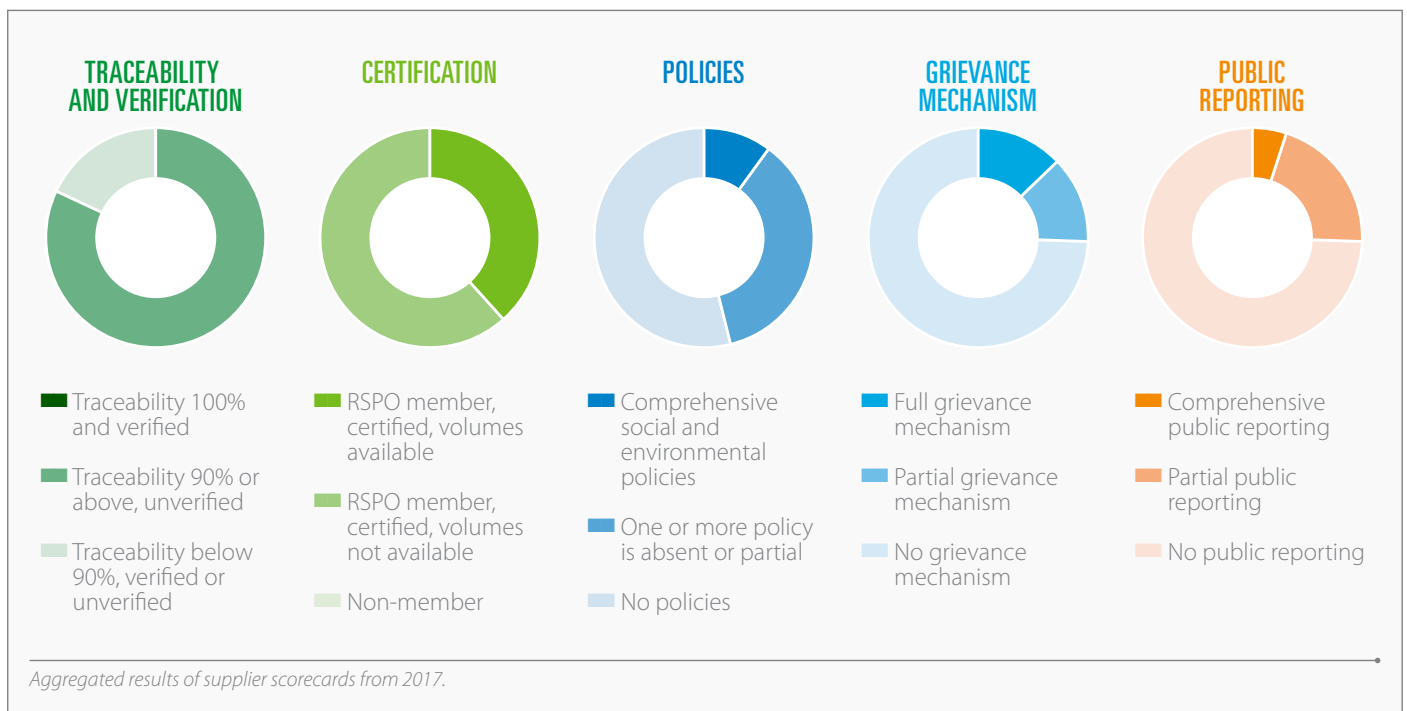
Representation of PepsiCo's Supplier Scorecard.

assessments with suppliers and work with them to develop time-bound action plans unique to each situation.

For the 39 direct suppliers<sup>5</sup> we scored in early 2018, we have aggregated performance across traceability and verification, certification, policies, grievance mechanisms and public reporting.

Moving forward, through the use of training and tools, we will support our suppliers on key activities such as developing policies, time-bound action plans and grievance mechanisms.

of Conduct through third-party auditing of our most business-critical direct suppliers, contract manufacturing and co-packing locations across 68 countries. Through this program, these direct suppliers are responsible for demonstrating compliance with PepsiCo's expectations through activities that include completion of Supplier Code of Conduct training, scored site-level Self-Assessment Questionnaires, and participation in on-site audits, as required, based on the Sedex Members Ethical Trade Audit (SMETA) 4-Pillar or equivalent protocols. When non-compliance is found during an on-site audit, a corrective action plan with a timeline for remediation



## SUPPLIER CODE OF CONDUCT

Our objective is for all direct suppliers to understand and support delivery of PepsiCo's policies and commitments. This includes all suppliers understanding and acknowledging our Supplier Code of Conduct, which outlines our global expectations in the areas of labor practices, health and safety, environmental management and business integrity. PepsiCo continues to incorporate our Supplier Code of Conduct in its palm oil contracts and purchase orders, and suppliers have access to an online training module as part of our Sustainable Sourcing Program and also on our public [website](#).

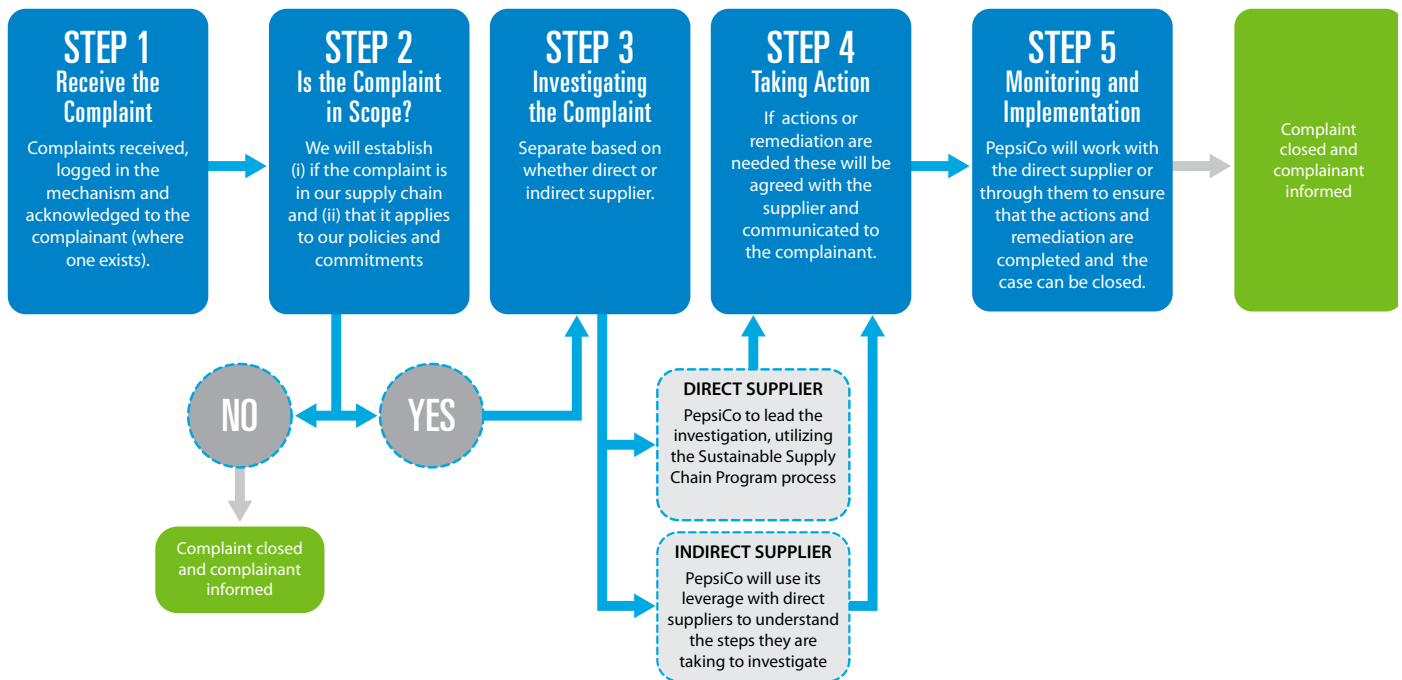
Our Sustainable Sourcing Program (SSP) assesses risk and monitors supplier compliance with our Supplier Code

is put in place by the supplier and verification of issue closure is conducted through a follow-up review by an approved third party auditing firm.

In 2017, 65% of our direct suppliers of palm oil completed SSP Supplier Code of Conduct training, and 14 on-site audits were conducted or recognized with only three major areas of noncompliance. The major noncompliance findings related to fire safety, days without rest and unavailable payroll records. All sites with noncompliance findings have submitted Corrective Action Plans and will be reassessed during upcoming follow-up audits to verify the issue is closed.

<sup>5</sup> Based on parent company. Companies that have multiple subsidiaries in different countries are accounted for once for scorecard analysis.

## GRIEVANCE MECHANISM



Representation of PepsiCo Grievance Mechanism for PepsiCo's agricultural supply chain, published in 2017.

In July 2017, we formalized a grievance mechanism for our agricultural supply chain to complement our existing program and processes to prevent, identify and manage environmental and social concerns throughout our value chain. This allows third parties to raise concerns that our environmental and social goals and policies may not be upheld within our agricultural supply chain. Our approach is set out [here](#).

At the end of 2017, 10 open grievances were registered in our system, including legacy grievances from preceding years. Two grievances were closed during 2017. One complaint about a direct supplier led us to discontinue the supply contract given the seriousness of the allegations and their failure to address them substantively and quickly enough. Another supplier was found not to be in our supply chain, so that complaint was also closed. Of the remaining complaints, one applies to a direct supplier and nine to indirect suppliers.

For the 10 that remain open, the majority of concerns relate to production in Indonesia. Most have a combination of environmental and social concerns, primarily deforestation and labor rights issues.

We have engaged our direct suppliers who source from the companies at the center of the complaint to:

- Validate the allegations;
- Demonstrate the importance we attach to addressing the concerns raised;
- Understand corrective action steps already taken and planned in the future; and
- Influence those actions and monitor progress towards completion and ultimately address the complaint.

Significant attention has been paid to a complaint raised against IndoAgri Resources, a palm oil producer in Indonesia that is also a subsidiary of Indofood, a large food manufacturing company with which we have a joint venture to manufacture some of our food products in Indonesia. In January 2018, we published a [detailed update](#) on the steps we have taken to resolve this complaint, as well as our future plans to use our leverage so that the concerns are addressed satisfactorily.

# POSITIVE IMPACT



*PepsiCo Vice President for Sustainable Agriculture, Christine Daugherty meets a farmer taking part in our holistic program for sustainable palm oil in Mexico.*

Alongside our actions to address risks in our own supply chain, PepsiCo is looking to play an active role in the wider transformation of the palm oil sector. We are working with expert organizations and investing in collaborative relationships that seek to address systemic issues in the key markets from which PepsiCo sources palm oil.

## CAPACITY BUILDING

Capacity building is an important tool to drive impact on the ground and help supply chains meet the requirements of sustainable sourcing through RSPO certification and other programs. To achieve this we are engaged in collaborative initiatives that involve key actors, including end users, suppliers, producers, civil society, industry, government and third-party experts.

In 2017, we identified opportunities to participate in the Oxfam FAIR Partnerships program in Indonesia and a joint project including RSPO, Oleopalma, Oleofinos,

Femexpalma, Proforest and various palm oil smallholder producer associations in Mexico (see case studies in the [Collaboration section](#)).

Training and development are important elements of capacity building. In Mexico, for example, PepsiCo determined that one of the challenges to responsible production of palm oil is the limited knowledge and application of the High Conservation Value (HCV) approach to forest protection. One of PepsiCo's policy requirements relies on the HCV approach, which is a framework for identifying the most important social and environmental values in a production landscape so that production planning can maintain and protect the assets in these areas. These assets include significant elements such as rare and threatened species, areas of high cultural importance, critical water resources, and communities.

PepsiCo is investing in implementation of the HCV approach through large-scale assessment, adoption of the global



methodology and development of local capacity. At the end of 2017, PepsiCo, Femexpalma and Proforest organized the first HCV Lead assessors course, accredited by the HCV Resource Network under its Assessor License Scheme (ALS). As part of this initiative, PepsiCo awarded scholarships to 15 professionals from Costa Rica, Mexico, Colombia and Guatemala to be trained on the HCV approach. Ten of the participants were women, and the program stands as an example of our continued efforts to build local capabilities in Mexico and Latin America to help see that growth in palm oil cultivation is managed sustainably. In 2018, this program will expand to cover 52,000 hectares and will include smallholders as well as medium and large producers.

## SMALLHOLDERS

Approximately 40% of the world's palm oil is produced by smallholders.<sup>6</sup> Their participation in the shift to sustainable palm is critically important and requires industry-wide collaboration to remove barriers so that certification can be achieved in markets particularly dependent on smallholders, such as Indonesia and Mexico.

In 2017, Oleopalma was awarded a grant under the RSPO Smallholders Support Program for sustainable palm oil in Mexico, for which PepsiCo provides matched funding. The objective of the work—which launched in February 2018—is for Mexican smallholders to achieve RSPO independent group certification, while positively contributing to their livelihoods and ensuring a sustainable supply of certified palm oil.

<sup>6</sup> <https://www.rspo.org/smallholders>

## COLLABORATION

# CASE STUDY: OXFAM

## WORKING WITH OXFAM TO SUPPORT SMALLHOLDER FARMERS

In February 2018, PepsiCo committed to participate in Oxfam's FAIR Company-Community Partnerships project in Indonesia. The project promotes a model for sustainable palm oil that benefits women, smallholder farmers, local communities, the environment, and participating companies. FAIR Partnerships address sustainability, human rights, and economic development issues holistically through a multi-stakeholder, inclusive, and landscape based approach.

## ABOUT FAIR COMPANY-COMMUNITY PARTNERSHIPS

The rapid expansion of oil palm has often been accompanied by devastating loss of forests and exploitation of local communities. [FAIR Company-Community Partnerships](#) offer an alternative vision and business model for palm oil production. FAIR is an acronym that stands for 1) Freedom of choice; 2) Accountability; 3) Improvement of benefits; and 4) Respect for rights.

At the core of the project is the promotion of rights and development aspirations among women, small-holder farmers, and host communities, while ensuring environmental protection and implementation of companies' commitments to human rights, land rights, and zero deforestation/climate protection. The initiative will operate as a multi-stakeholder platform that brings together companies across the palm oil value chain, local communities, local governments and a range of civil society organizations. PepsiCo is the first palm oil buyer to publicly commit its participation and will be joined by others as the project progresses. Participating companies are expected to invest financially, contribute expertise to the process, learn, and share best practices.

PepsiCo is contributing funds for the first 18 months of project implementation amounting to nearly 15% of the project budget. Other funding will be provided from a number of foundations and institutions, including the David and Lucile Packard Foundation, and other private sector participants. PepsiCo will also contribute relevant business perspective to the initiative as well as share the lessons in its own supply chains and with its sector peers.

*"Multi-stakeholder collaboration is needed to ensure that palm oil production benefits women, smallholder farmers, and local communities and that our policies and commitments on human rights, deforestation, and land rights are more than just words on paper. The FAIR Company-Community Partnerships presents a unique vision for achieving this. We look forward to working with Oxfam and others through this project to benefit communities in Indonesia and applying the learnings more widely as we continue to advance our sustainable palm oil program."*

– **Michele Thatcher**, Chief Human Rights Officer Senior Vice President, and Chief Counsel Global Human Resources, PepsiCo, Inc.

*"As one of the world's largest buyers of palm oil, PepsiCo's participation in FAIR Company-Community Partnerships demonstrates leadership in the development of an alternative business model for palm oil production that seeks to truly benefit women and smallholder farmers. PepsiCo's participation also demonstrates the company's efforts to put its human rights and sustainability commitments into practice."*

– **Irit Tamir**, Director, Oxfam America's Private Sector Department



## COLLABORATION

# CASE STUDY: MEXICO



## BUILDING THE HOLISTIC PALM OIL SUSTAINABILITY PROGRAM IN MEXICO

Mexico is one of PepsiCo's largest sourcing regions for palm oil. We see Mexico as an opportunity to demonstrate how the palm oil industry can develop in a sustainable way that provides benefits for local communities and the environment. In Mexico, palm oil is grown predominantly by smallholders and in states that have few drivers for economic development. Local production is lower than local demand and PepsiCo determined that, by boosting local palm production in a sustainable way, we can help to support livelihoods, create new opportunities and contribute to economic development. We have taken a leading role in bringing together companies, civil society, government and associations to develop and implement a program to achieve this.

We have launched a holistic program for sustainable palm oil in Mexico that engages and involves the entire supply chain: from the national palm oil federation Femexpalma, to our supplier Oleofinos, to Oleopalma and the smallholders in their supply base.

The program operates at three different levels: at the sector level (with Femexpalma), in the PepsiCo Supply Base (with Oleofinos) and with smallholders (with Oleopalma). We are working with Femexpalma to consolidate its role in representing and supporting the sustainability of the palm oil sector. This involves strengthening the expertise of the team so they can provide expert advice and support to its members through capacity building and applied research. PepsiCo is also investing in piloting studies and adapting global approaches to the Mexico context, specifically in Environmental and Social Impact Assessments (ESIA) and High Conservation Values (HCV).

In 2017, PepsiCo published a [response](#) to the "Land tenure and other human rights issues in the oil palm and sugarcane sectors in Mexico" report. The report provided a deeper understanding of the challenges and opportunities within Mexico's oil palm sector, and our response details our approach to HCV, building local capacity, engaging with industry and inclusion of smallholders.

In 2018, with support from PepsiCo, Femexpalma will release guidelines for producers on:

- Environmental and social impact studies, including ways to address and implement Free, Prior and Informed Consent (FPIC)
- Awareness and adoption of RSPO Principles and Criteria
- Development of practical guides for producers and mills on sustainability

With regard to smallholders, the first RSPO Smallholders Support Fund grant for Mexico was launched in February 2018. This three year program is expected to benefit more than 2,200 people and their communities over the next three years. The program will operate in four of the main palm oil producing regions in the country: Palenque and Nueva Esperanza in Chiapas, and Jalapa and Tenosique in Tabasco.

Through the initiative, smallholders will be supported directly in an effort to promote the growth and use of products made with sustainable palm oil produced in Mexico under credible global standards. The program has set out specifically to achieve the following objectives:

- Ensure that all producers involved can obtain the RSPO Certification
- Improve the quality of life for producers and protect their land rights, while fully preserving forests and biodiversity
- Share the knowledge of the benefits of sustainable production with 1,000 producers and 1,200 field workers who will participate in the training initiatives
- Serve as a model of sustainable development for the palm oil industry in Mexico

# TRANSPARENCY AND STAKEHOLDER ENGAGEMENT



*The PepsiCo team meets with leaders of an Indonesian palm growing community.*

Communicating directly with our stakeholders is a critical step in continuing to build trust and receive important feedback on our programs. We do this through our reporting efforts, one-on-one meetings, participation in forums and working groups and through ongoing disclosure of key information.

## REPORTING AND DISCLOSURE

PepsiCo's [Performance with Purpose](#) agenda includes a comprehensive sustainability reporting effort across a wide array of topics, including palm oil. We are committed to transparency, and PepsiCo provides regular, detailed information on progress toward delivering on these Performance with Purpose goals, all of which is publicly available to stakeholders on our [website](#).

This Palm Oil Progress Report is our third palm oil report. We have gained a significant amount of experience and learning over the three years since our original action plan was published, and this report continues to enhance our communication, illustrating the purpose, structure and results of our work. It is part of an annual calendar-

year reporting cycle and is synchronized with our Annual Communication of Progress to the RSPO. We plan to continue publishing this report in the May/June timeframe.

We plan to also provide periodic updates on our web site related to developments in our approach or the palm oil sector generally. For example, in March 2018 we increased our transparency efforts by disclosing a complete list of our [2018 direct suppliers](#) along with our [2017 mill list](#). This disclosure leveraged our ongoing work on traceability, and we have welcomed the trend toward greater transparency around our supply chain, which plays an important role in helping to address deforestation and human rights challenges.

## STAKEHOLDER ENGAGEMENT

We meet directly with stakeholders on a frequent basis and welcome the opportunity to listen to their concerns, receive input and advice about our programs and explain our approach to supporting the development of a sustainable palm industry. Given the impacts associated with some palm oil cultivation, we understand that



stakeholders want PepsiCo to move as fast as possible, which is why we have developed a dedicated, cross-functional, global team with deep expertise in an effort to execute our strategy and accelerate progress toward our goals. We are open to engaging with any organization that is willing to work constructively with us.

The following are some examples of our engagement efforts over the past year:

### **NGO community**

PepsiCo speaks regularly with NGOs with missions ranging from environmental conservation to protection of human rights. During the RSPO Roundtable (“RT15”) conference in Bali, for example, PepsiCo hosted a discussion with 13 different organizations – both local and global – that are dedicated to preserving forests and biodiversity, and protecting human rights associated with palm oil production in South East Asia. During the event, PepsiCo sought insight and advice from participants on the role that brands can play in addressing these supply chain concerns. Moving forward, we are working to incorporate the feedback we received into our sustainability programs. For example, participants expressed an interest in increased transparency; systematic engagement with direct suppliers through our new supplier scorecard; implementation of our grievance process with clear and consistent expectations for corrective action; and communication on the progress PepsiCo is making towards implementing our NDPE commitments, along with the on the ground impacts. We value the input we received during this session and look forward to hosting similar events in the future.

### **FEMEXPALMA Mexico Congress**

PepsiCo was an active participant of the 1st Annual Palm Oil Congress in Mexico in March 2018. The Congress included over 600 attendees representing palm producers, palm oil milling and refining companies, private bankers, developers, consumers and suppliers. Various Mexican government authorities were also included. PepsiCo participated in a panel discussion on building a sustainable palm oil supply chain in Mexico and formally launched our Smallholder Improvement Program.

### **Consumer Goods Forum (CGF)**

We continued our participation in CGF’s palm oil working group and contributed to the group’s efforts to develop an industry point of view on the RSPO Principles & Criteria update as well as the Indonesian National Action Plan on Palm Oil – both of which involved significant public review and comment in 2017.

### **Sustainable Landscapes Working Group**

PepsiCo is an active member of the Sustainable Landscapes Working Group, which is convened and facilitated by IDH, The Sustainable Trade Initiative. The Working Group is comprised of key stakeholders representing brands, suppliers and NGOs, among others. In 2017, the focus of the Working Group was to define a landscape approach to draw together governments, civil society organizations and companies from various sectors to work towards common sustainability goals. Building on the discussions and work completed in 2017, in 2018 PepsiCo is looking to lead efforts to publish the definition of traceability to the plantation. Additionally, in collaboration with a supplier, PepsiCo is planning to conduct an on the ground pilot of plantation-level traceability, putting theory into practice.

### **AIM-Progress**

PepsiCo is an active member of AIM-Progress. In 2017, we co-chaired the Leadership Team and co-led the human rights work stream. AIM-Progress focuses on improving sustainability within supply chains through mutual recognition and capacity building. In October 2017, we co-sponsored a supplier capability building event in Kuala Lumpur, Malaysia with over 150 participants which focused on topics including strengthening internal and external grievance mechanisms; reducing risks associated with labor; and sustainable land use. The day included testimonials from two palm oil suppliers, Sime Darby and Wilmar, in addition to sessions led by ELEVATE, The Forest Trust, the International Organization on Migration (IOM) and Verite.

### **Tropical Forest Alliance (TFA) 2020**

In 2017, PepsiCo joined the Tropical Forest Alliance (TFA) 2020 and attended the General Assembly in Brasilia, Brazil. As a member, PepsiCo supports the TFA 2020’s mission to foster public-private partnerships in which partners take voluntary actions, individually and collaboratively, to reduce tropical deforestation.

# CONTINUING OUR PROGRESS



PepsiCo's Palm Oil Action Plan is a multi-year program designed to enable our company to play its part in the long-term transformation of the palm oil industry. We take this work seriously, and since our last progress report our palm oil team was able to initiate and complete substantial threads of work that set the stage for further progress in 2018 and beyond. As we publish this Progress Report, we note the following priority items currently in our pipeline of work, and we look forward to sharing progress on these and other items in the future:

- **Physical Certification**  
In 2018 we plan to continue our acceleration of physically certified palm oil in all our markets to propel us towards our goal of 100% by the end of 2020.
- **Plantation-Level Traceability**  
In 2018 we expect to publish a definition for plantation-level traceability, implement pilots of the protocol with our more capable suppliers and begin collecting plantation-level traceability metrics for the next reporting cycle.
- **Supplier Scorecards**  
We are deploying our Scorecards with all suppliers and will naturally progress to targeted action plans for continuous progress. We will work from the established baseline to co-create tactics that effectively build capability with our suppliers, and advance progressive industry initiatives with our most capable partners.
- **Mill Traceability Data Verification**  
We will continue to implement the data verification process described in our Palm Oil Traceability Protocol across our direct supplier base to help all direct suppliers work towards completing an independent third-party review of the data that is sent to PepsiCo.
- **Grievance Mechanism**  
We will address grievances and continue using the mechanism to investigate complaints as they arise.
- **Impact Programs**  
We will continue to look for opportunities to address supply chain concerns in our priority origins through on the ground impact programs, and by working collaboratively with all actors across the supply chain and the industry.
- **Stakeholder Engagement**  
We plan to build on the momentum from the RT15 in Bali in an effort to enhance relationships and build collaborations.
- **High Conservation Value**  
We are Investing in HCV assessments in Mexico covering over 50,000 hectares to support sustainable palm production among smallholders, medium and large producers.