

PALM OIL PROGRESS REPORT

STRATEGY AND APPROACH

BACKGROUND AND CONTEXT

As one of the world's leading food and beverage companies, a steady, sustainable supply of crops is central to our business. Sustainable agricultural practices are also critical to meeting the increasing demand for food as the global population grows. PepsiCo sources more than 25 crops across 60 countries and supports over 100,000 jobs throughout our agricultural supply chain. We're using this global scale to drive progress toward more sustainable agricultural standards and practices around the world. Our goal is for PepsiCo to be a catalyst for change, in the field, because we recognize that transforming how we grow food is an essential part of building a more sustainable food system.

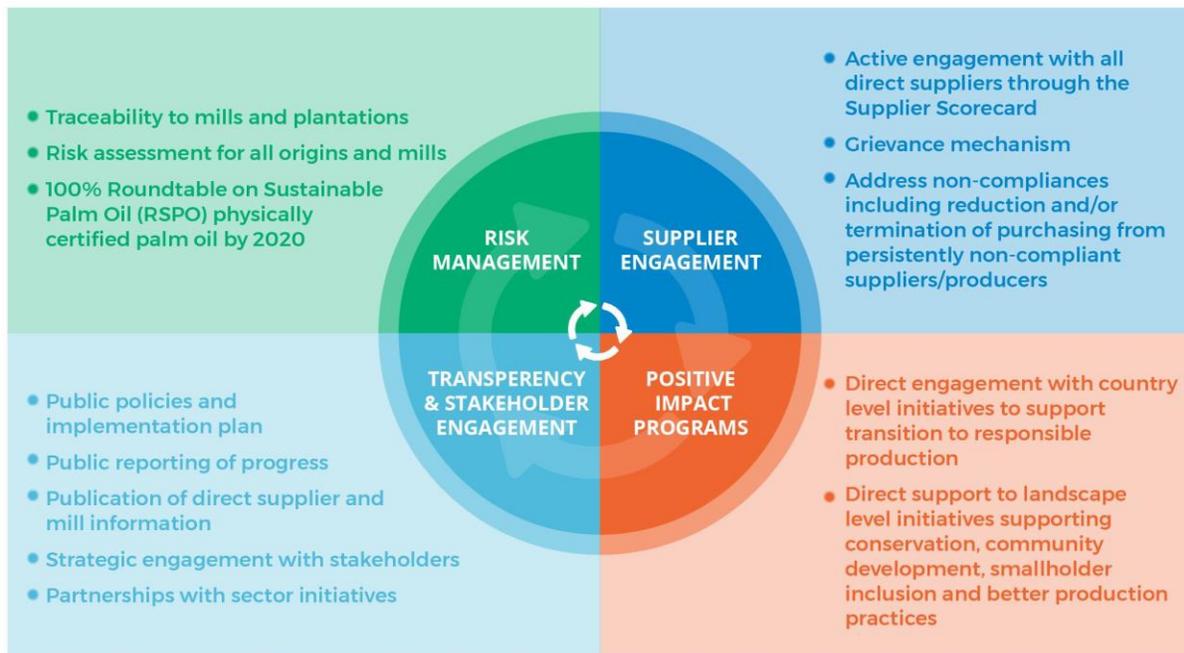
Palm oil, the most widely used edible oil in the world, is a key area of focus. While PepsiCo is one of the largest global buyers of palm oil in the consumer products industry, our purchase in 2019 represented less than 1% of the global supply. It is used primarily in our snack food manufacturing because of its wide availability and shelf stability. We use palm oil in Asia and other markets where it is readily available and relatively close to the production base. In the United States, however, very little palm oil is used because we rely on other edible oil crops that are widely grown in North America. We have a complex global supply chain with 39 direct suppliers sourcing from more than 1,600 mills and tens of thousands of farmers who grow the palm.

In 2019, our global purchase of palm oil was almost 485,000 metric tons, of which palm kernel oil comprised approximately 2,000 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.

STRATEGY

We are implementing a strategy built on four pillars, reflecting our goal to have a supply chain with no deforestation, no peatland development and no exploitation (NDPE). Our aspiration is to deliver this by the end of 2020 through:

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.



Our strategy is informed by our understanding of the key sustainability challenges facing palm oil, including deforestation, biodiversity loss, the role of smallholder farmers, and respect for human rights. The pillars, and work undertaken within them, are interconnected, as progress on each issue furthers our ability to deliver our goals in other areas. For example, our risk assessment processes allow us to better understand our supply chain and prioritize actions and investments.

We are also mindful of the economic benefits provided by palm oil production, including rural economic development and improved farmer livelihoods. As we seek to expand these benefits and reduce any potential harm, it is important that we address standards in our own supply chain, while also addressing systemic issues through collaboration with suppliers, peer companies, civil society, governments, and certification bodies to help sustainable production to become the norm and for human rights to be respected.

POLICIES

Our strategy is underpinned by a series of policies that are embedded in our business and supply chain. In 2018, we published our updated Global Policy on Sustainable Palm Oil, which outlines our commitment 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](#). The 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, workers, and local communities (“NDPE commitments”). Attached to the policy is our implementation plan to 2020, which provides readers with an overview of how we translate our policy vision into specific actions and results. We review our policies and commitments on a continuous basis.

In February 2020, we published an update to our [Global Policy on Sustainable Palm Oil](#), reflecting engagement with civil society, developments in the palm oil sector and further understanding of challenges and opportunities to meet our goals for sustainable palm oil. The update strengthens our policy, including by:

- Extending the scope of the policy to include all palm oil produced by suppliers that provide palm oil to PepsiCo, not just the oil that we receive;
- Making clear our commitment to independent verification as a key part of delivering an NDPE palm oil supply chain;
- Clarifying our requirement for suppliers to respect human rights, in line with the UN Guiding Principles on Business and Human Rights and other internationally recognized frameworks; and
- Expanding our commitment to a no-deforestation cutoff date of December 31, 2015.

We will review our policy and update our Implementation Plan during 2020 as we continue to drive progress in our own supply chain and contribute to a more sustainable palm oil industry.

RISK MANAGEMENT

Delivering a NDPE supply chain requires us to have a comprehensive approach to risk management based on traceability, assessing risks and applying physical certification and verification. This enables us to focus our attention and resources on issues and regions of greatest risk to prioritize our actions, engagement efforts, and investments in the most meaningful way.

Risk management can be challenging given the highly fragmented nature of the palm oil market and the fact that the majority of palm oil does not receive sustainability certification. Nevertheless, we strive to use our position in the global supply chain to catalyze action within our own value chain and promote industry-wide collaboration and action.

Since our last palm oil report, we have continued to manage risks in our supply chain, including by:

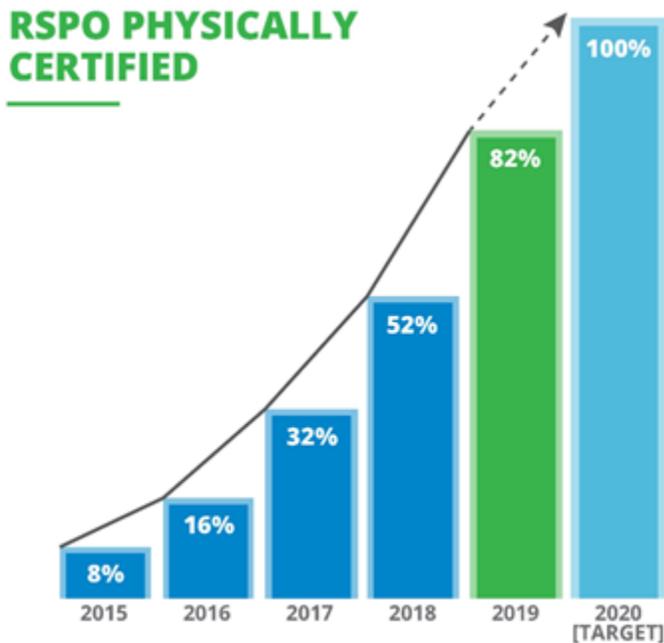
- Achieving 82% Roundtable on Sustainable Palm Oil (RSPO) physically certified sustainable palm oil, exceeding our interim target of 80% for 2019. We aim to achieve 100% by the end of 2020;
- Supporting the inclusion of smallholders within and outside of our supply chain, including by investing in 12,177 MT of RSPO Smallholder credits in 2019;
- Attaining approximately 97% traceability to mill by the end of 2019;
- Implementing our Palm Traceability to Mill Verification Protocol, with 100% of our direct suppliers’ self-reported mill data independently verified;
- Increasing the number of suppliers reporting traceability to plantation based on our Traceability to Plantation Protocol to 31 (41% of our volume);

- Leading the development of the NDPE Implementation Reporting Framework, which is creating an industry-wide approach to measure progress towards NDPE volumes; and
- Driving an industry-wide approach to independent verification of NDPE with agreed objectives and standards that have broad industry and civil society support including by coordinating a workshop at RSPO RT 17.

CERTIFICATION AND VERIFICATION

ROUNDTABLE ON SUSTAINABLE PALM OIL (RSPO) CERTIFICATION

PepsiCo became an RSPO Member in 2009, and since then, we have been actively working with suppliers to promote the benefits of this membership, which includes to the environment, workers, local communities, and business overall. In 2018, PepsiCo also participated in the revision of the 2013 principles and criteria (P&C's) which strengthened the RSPO Standards including on smallholder inclusion. 100% of our direct suppliers have been RSPO members since 2017.



Additionally, PepsiCo is a member of RSPO's No Deforestation Task Force and Shared Responsibility Working Group. In October 2019, the RSPO's Board of Governors approved new rules recommended by the Task Force, calling for all members of the RSPO to do their part to "Mobilize, Act and Transform" to fulfill RSPO's mission. PepsiCo will continue to represent consumer goods manufacturers on the working group as the substantial member in 2020.

Our goal is to reach 100% RSPO physically certified palm oil by the end of 2020. In 2019, we achieved 82%, an improvement over our 2017 and 2018 figures of 32% and 52%, respectively. In addition, we also procured 12,177 MT of Independent Smallholder Credits (see the Assessing Risk section for more information).

We are also supporting steps to measure and verify sustainable palm oil volumes through the NDPE IRF group and we are convening engagement with industry and civil society on independent verification.

NDPE IRF

Since 2017, PepsiCo, working with Cargill and other companies throughout the industry, has convened the "Palm Oil Collaboration Group" to discuss key sustainability issues and challenges in the topic (see Transparency and Stakeholder Engagement section for further information). The group has been able to develop and roll out the No Deforestation, No Peat and No Exploitation Implementation Reporting Framework (NDPE IRF), an industry-wide reporting tool for companies.

The framework recognizes that RSPO certification is the strongest guarantee of delivery, and encourages and supports certification, but also allows companies to report on volumes that are at different stages of progressing towards delivery, where certification has not yet been achieved.

Ahead of the RSPO's Roundtable 2018 RT meetings, the group agreed to develop an approach to monitoring and reporting on progress against NDPE commitments over three phases, Phase 1: Proof of concept; Phase 2: Trialing at scale; and Phase 3: Full implementation.

During 2019, significant progress was made on the first two phases and in November 2019, PepsiCo and Cargill hosted a meeting where the companies agreed to move forward with the IRF as a tool to comprehensively report on progress across the supply base. Tools were developed on the allocation process, including guidance on creating and communicating volume profiles.

We will be undertaking a global roll out of the IRF to suppliers in 2020, and the framework is now also available in Spanish. For more information, please visit the [NDPE IRF](#) website.

INDEPENDENT VERIFICATION AND SUSTAINABLE PALM OIL

PepsiCo recognizes the important role that independent verification currently plays and will continue to play in delivering NDPE commitments on palm oil. Independent verification is essential for credibility by providing assurances that information and claims on compliance and progress towards NDPE are accurate. Independent verification tools, methodologies, and approaches are evolving rapidly, and we are committed to working with our peers, suppliers, and civil society to develop and deploy the most effective approaches, including in PepsiCo's supply chain.

Our aim is to support an industry-wide approach to independent verification of NDPE with agreed objectives and standards that have broad industry and civil society support. We believe this approach should be underpinned by the use of a credible methodology and third-party verifiers as well as appropriate transparency.

While PepsiCo strongly supports the RSPO and the certification process, we understand that RSPO certification alone is not currently sufficient to ensure independently verified compliance with our policy and NDPE commitments on palm oil. We aim to work with others to address existing gaps, which, following the adoption of strengthened standards through the updated RSPO Principles and Criteria in 2018, primarily relate to the verification process. A key goal is that RSPO certification can offer credible independent verification of NDPE in the future. In parallel, we want to develop approaches which can be used for uncertified production areas or are in progress towards certification, such as through landscape initiatives.

We will inform this work with our experiences to date (e.g. our approach to verification of mill data) and build on successful examples of verifying delivery of NDPE practices. Simultaneously, we are exploring various tools and approaches to independent verification of NDPE beyond mill and plantation level audits. PepsiCo, along with others, are discussing and testing the use of new and complementary independent verification approaches and technologies, such as satellite monitoring of deforestation and peatland clearance, social risk assessments, and worker monitoring systems.

ASSESSING RISKS

We assess risks in our supply chain and the palm oil industry more generally to identify geographic areas and issues that have the highest likelihood of incidence of noncompliance. This helps us to prioritize our efforts to raise standards. In addition to formal risk assessments, we also rely on other sources of information, including:

Engagement with direct and indirect suppliers.

- Feedback from assessments and audits conducted as part of our sustainable sourcing and sustainable agriculture programs.
- Participation in collaborative forums.
- Feedback from civil society including through reports and direct engagement.
- Experience and knowledge of PepsiCo employees.
- Working with Proforest (and organizations with expertise in managing natural resources sustainably).
- Risks discovered and addressed through our grievance mechanism.

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, who are vulnerable to other risks in the palm oil industry.
- **Worker Rights:** Risks for workers in the supply chain include rights of temporary workers, working hours and pay, forced labor, and child labor.
- **Deforestation/Peatlands:** Indonesia contains approximately 36% of the world's tropical peat, and had the third highest loss of primary rain forest in 2018. From 2001 to 2018, over 9 million hectares of natural forest were lost.
- **Land Rights:** There is growing potential for land rights disputes as new plantations are established.

PepsiCo engages in industry platforms designed to tackle risks, including the World Resource Institute's [Global Forest Watch \(GFW\) Universal Mill List](#) and the [GFW Pro platform](#), to identify risks at the mill and plantation level.

SMALLHOLDER INCLUSION

Smallholder engagement and participation in the shift to sustainable palm oil is critically important and requires industry-wide initiatives and collaboration, especially in the largest and most fragmented production markets.

We are committed to supporting the inclusion of smallholders in our supply chain including by investing in RSPO Smallholder credits, which are an effective way to support independent smallholders that are outside our supply chain, giving farmers more options in the marketplace. In 2019, PepsiCo purchased 12,177 independent smallholder credits and received an award from FORTASBI (Forum of Sustainable Oil Palm Smallholders in Indonesia) in recognition of the support that PepsiCo's sourcing of RSPO independent smallholder credits had made to the livelihoods of farmers in cooperatives in South Sumatra.

We are also supporting smallholders through our suppliers to ensure that PepsiCo's palm oil policies are implemented in a way that supports them (see Supplier Engagement section), and through our investment and participation in on-the-ground programs (see Positive Impact section).

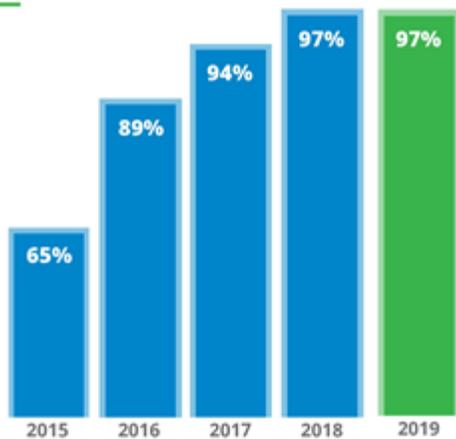
TRACEABILITY

Palm oil supply chains are 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.

TRACEABILITY TO MILL

We continue to strive towards 100% traceability to the mill in our supply chain, and to ensure high standards of traceability reporting. At the end of 2019, our suppliers reported approximately 97% of our palm oil volumes were traceable to the mill level. Since the start of the program, mill traceability has increased by nearly 30%. 100% of our Tier 1 suppliers' mill traceability data has been independently verified.

TRACEABILITY TO MILL LEVEL



While we have information on the remaining approximately 3% of mills, we do not currently believe the quality of data is sufficient, as the supply chain complexity in countries like India can complicate the ability of 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.

TRACEABILITY PROTOCOL

PepsiCo worked with external experts including Peterson 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. We also implemented a training program in both English and Spanish and maintain a helpdesk. The protocol is also the basis for independent verification undertaken by suppliers to verify the quality of the management systems used to collect their supply chain data.

Progress in 2019 included:

- **Delivering virtual training to 27 auditors from various certification bodies around the globe, including Control Union, Bureau Veritas, SGS, and TUV Nord;**
- **Developing internal processes to ensure quality and harmonization among different consumer brands and auditors, including training materials and webinars in multiple languages;**
- **Providing suppliers with a tool through which they can uniformly measure and communicate external traceability commitments, as well as the quality and accuracy of the data received and passed further in the chain.**

Cargill noted that:

"PepsiCo sets a high bar in demonstrating shared responsibility and partnering with suppliers to drive change on the ground, such as through smallholder engagement in Indonesia, and supporting industry alignment and understanding through the Palm Oil Collaboration Group. In particular, they have supported suppliers to refine and improve their traceability data collection processes, as well as the accuracy and completeness of the data, through the PepsiCo Palm Traceability Protocol. Cargill welcomed the development of this tool and has since adopted and integrated the protocol into its own systems."

TRACEABILITY TO PLANTATION

PepsiCo is also committed to driving traceability to plantation (TTP) in our supply chain (definition, below) by working together with our direct suppliers to further understand the production base. Based on our Traceability to Plantation Protocol, 31 suppliers representing 41% of our volume reported traceability to plantation. In 2019, through our engagement with suppliers and sector initiatives such as the NDPE IRF, PepsiCo will continue to support TTP in our supply base.

Interim Definition from the Traceability Working Group (TWG)

At the mill level, volumes can be defined as traceable to plantation with the following information:

- **Estate information (> 50ha):** Estate names, parent company names, certification status, % of overall fresh fruit bunch (FFB) tonnage to mill, and a GPS point coordinate as a representative location of the source
- **Dealers:** dealer names and % of overall FFB tonnage to mill
- **Smallholders (< 50ha):** number of smallholders, certification status, and % of overall FFB tonnage to mill

SUPPLIER ENGAGEMENT

Engaging with our suppliers is critical for delivering our commitments and helping to realize a sustainable palm oil industry. We work with suppliers throughout our value chain through commercial relationships, collaborative initiatives, and specific programs with our direct suppliers. Specifically, we seek to foster continuous improvement through our Supplier Scorecards and to identify risks of non-compliance and necessary corrective actions to address issues that arise through our agricultural grievance process. We also continue to provide transparency by publishing our direct suppliers and mill lists for our palm oil supply chain on an annual basis.

Since our last palm oil report, we have continued to engage suppliers, including by:

- **Improving overall performance scores for our suppliers based on our supplier scorecards by an additional 22% since 2018 and a total of 61% since the 2017 baseline;**
- **Building capacity of 34 direct suppliers to enable them to create, improve, and implement No-deforestation, No-peat development and No-exploitation (NDPE) policies, through webinars delivered in both English and Spanish; and**
- **Continuing to manage grievances raised by third parties through our Grievance Mechanism for our Agricultural Supply Chain, and initiated a review led by an expert organization of our grievance process to identify improvements.**

SUPPLIER SCORECARDS

Our Supplier Scorecards provide a means to track and encourage progress of our suppliers towards sustainable palm production. The scorecard engages suppliers on traceability and verification, certification, policy and implementation, grievance management, and transparency, to identify areas for improvement for suppliers and ways in which PepsiCo can support them. We can therefore 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. In 2019, we continued to share the assessments with suppliers and are working with them to develop time-bound action plans unique to each situation.

Through our Supplier Scorecard methodology implemented among the 53 direct suppliers that we sourced from in both 2018 and 2019, we have seen marked improvement across the scorecard criteria. The average supplier performance score improved by an additional 22% since 2018 and a total of 61% since the 2017 baseline, from 3.9 in 2017 to 6.1 out of 10 in 2019.

SUPPLIER SCORECARD METRICS ACROSS OUR PALM OIL SUPPLIERS - 2018 AND 2019



Utilizing the information from the scorecards, we were able to continue our engagement with suppliers and support capability building to help improve practices. In 2019, we delivered this through a variety of engagement methods including one-on-one sessions with subject matter experts and live webinars, with a particular focus on policy development. 34 suppliers participated in these engagements, which were delivered in multiple formats with webinar trainings recorded for future access.

Higher performing suppliers (in the top 25%) were approached to partner with us on industry leading protocols and practices, such as traceability to mill verification and NDPE policy compliance through participation in the NDPE IRF (see Risk Management section for more details).

In 2020, capability building activities will expand further to cover additional topics where our suppliers require support in improving practices. This will include webinars and workshops on the NDPE IRF and other topics as necessary, as well as continuing targeted one-on-one engagement to facilitate improvements.

GRIEVANCE MANAGEMENT AND REMEDY

We recognize that our policies and programs may not prevent all adverse impacts in our value chain. In line with the UN Guiding Principles for Business and Human Rights (UNGPs), we aim to provide effective remedy where we have caused or contributed to those impacts and to use our leverage to encourage our suppliers and partners to help enable remedy where we find impacts directly linked to our business operations, goods, or services.

In July 2017, we formalized a grievance mechanism for our agricultural supply chain to complement our existing programs and processes to prevent, identify, and manage environmental and social concerns throughout our value chain. The mechanism 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](#).

We engage 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.**

At the end of 2019, a total of 18 grievances were registered in our system, including legacy grievances. The majority of concerns relate to palm oil production in South East Asia. Most have a combination of environmental and social concerns, primarily deforestation and labor rights issues. A total of three of the grievances have been closed, while we continue to monitor eight other grievances in implementing measures to address the issues raised. The other seven remain open and we continue to engage with suppliers, peers who share these grievances, and others to make progress. We expect to publish more detailed information on grievances and our grievance management in 2020.

For further information on our work in addressing palm oil challenges in Indonesia, including a long running grievance about Indofood, please see [PepsiCo Sourcing of Palm Oil from Indonesia](#).

In 2020, we will continue to address existing and new grievances, as well as complete the review of our grievance process to ensure it is meeting its objectives, as outlined below.

GRIEVANCE MECHANISM REVIEW

Our grievance mechanism for our agricultural supply chain complements our existing programs, and enables us to more effectively manage grievances related to key commodities and work with our suppliers and external stakeholders to address challenges as they arise, including by taking commercial action, where appropriate.

Through our management of the mechanism over the past three years, we have gathered insights and identified several areas where we can improve our grievance process to help us more effectively use our leverage in encouraging our suppliers and business partners to provide remedy.

We are therefore currently undertaking a formal review of our grievance approach for our agricultural supply chain to better understand these challenges and to identify ways to strengthen our grievance process in line with the UNGPs. The review is

being led by an organization with expertise in the UNGPs and grievance mechanisms, and we expect the review to be completed by the end of Q2 2020. The review will examine (i) the best role for PepsiCo to play when grievances are presented, (ii) how we can further encourage systematic grievance management and resolution throughout our supply chain and with peers, and (iii) how we can best support the improvement of external grievance systems, such as the RSPO complaints mechanism. External stakeholder input, including from affected parties and civil society organizations, will be an important part of the review.

Anticipated outcomes from the review include:

- **Enhancements to our grievance mechanism to improve its effectiveness and efficiency in line with the UNGPs;**
- **Improved coordination with others that share the grievance in question, including peer companies and suppliers;**
- **Formal guidance for managing non-compliances with suppliers and business partners, including criteria by which actions up to and including suspension, and requirements for re-entry of suppliers would occur;**
- **Public disclosure of grievances linked to PepsiCo's agricultural supply chain, including actions taken by PepsiCo, and its suppliers and business partners to address them; and**
- **A statement on the role and expectations of satellite monitoring in identifying and addressing non-compliances in our supply chain.**

POSITIVE IMPACT

PepsiCo is committed to engaging in on-the-ground initiatives with industry, civil society, and others that support the transition to responsible production and play an active role in the wider transformation of the palm oil sector. These include both landscape projects that support conservation, restoration, community development, smallholder inclusion, and responsible production practices and issues-based programs that tackle specific challenges.

Since our last palm oil report, we have continued to participate and invest in positive impact programs, including:

- **Through the Coalition for Sustainable Livelihoods (CSL), we are helping to bring together multi-stakeholder working groups to address key areas of concern;**
- **Through the Production, Protection, Inclusion model in Aceh Tamiang program, we are supporting at least 500 smallholders in Aceh Tamiang district by improving production and sustainability practices and restoring 300 hectares of rainforest;**
- **Through the Landscape Program in Siak and Pelalawan, Indonesia, contributing to the development of a draft five-year plan and on an ongoing focus on implementation activities;**
- **Through our holistic program for sustainable palm oil in Mexico, we have launched nine demo farms to share and provide knowledge, as well as demonstrate productivity and livelihood improvements; and by expanding our work on issues-focused initiatives, including deforestation monitoring and strengthened protections for children living on plantations.**

LANDSCAPE PROGRAMS

COALITION FOR SUSTAINABLE LIVELIHOODS (ACEH & NORTH SUMATRA, INDONESIA)

PepsiCo is a founding member of the Coalition for Sustainable Livelihoods (CSL). CSL is a group of civil society and private sector organizations with a shared interest in sustainable development, active investments in Aceh and North Sumatra, and a desire to work collaboratively with government. The coalition members have agreed to work collectively to achieve common objectives for smallholder livelihoods, sustainable agricultural production, and conservation in North Sumatra and Aceh, with a focus on the Leuser Ecosystem.

In 2019, the Coalition developed five working groups to address the key thematic areas requiring attention: governance, metrics, growth, and one for each district initiative: Aceh Tamiang and Tapanuli Selatan. The working groups were successfully conducted from August to October 2019, leading to draft recommendations for action and investment on how CSL should move forward on each topic.

PRODUCTION, PROTECTION, INCLUSION IN ACEH TAMIANG

As part of its role in the CSL, PepsiCo has been supporting the development of the Aceh Tamiang district initiative and implementation of the landscape plan that the coalition has formulated. In late 2019, the district government formally adopted the plan and signed an agreement to work together towards specific targets on deforestation, livelihoods, and productivity in partnership with local stakeholders (a production-protection-inclusion model). In support of this plan, PepsiCo is investing in partnership with PT Mopoli Raya, Forum Konservasi Leuser (FKL), and IDH in the restoration of 300 hectares of forest and supporting at least 500 smallholders to become more productive and sustainable. PepsiCo is currently implementing this partnership work on the ground, while also supporting the development of a government-led landscape management body and working with other stakeholders to develop an effective monitoring system and response protocol to deforestation alerts.

For more information, please see our [Statement on Working Together to Preserve the Leuser Ecosystem](#).

SIAK–PELALAWAN LANDSCAPE PROGRAM (RIAU, INDONESIA)

In Riau, PepsiCo is one of seven companies that are working together on a landscape program for sustainable palm oil in the districts of Siak and Pelalawan. The goal of the program is to create sustainable landscapes across both districts which will produce deforestation and exploitation-free palm oil and maintain or enhance key conservation areas. This will build upon existing local efforts and multi-stakeholder platforms to advance a shared vision of sustainable and inclusive palm oil production models.

In 2019, the partners made significant progress, including the development of a draft five-year plan for coalition support to the landscape. In 2020, the Coalition will focus on implementing activities within the workplan, including providing support to local communities, engaging mills, improving traceability, and coordinating on deforestation monitoring.

An [agreement](#) was also signed between the coalition and the Siak District Government to support the government’s plan for sustainable governance of the district.

OXFAM FAIR PARTNERSHIP

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 Company-Community Partnerships address sustainability, human rights, and economic development issues holistically through a multi-stakeholder, inclusive, and landscape-based approach.

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. PepsiCo is the first palm oil buyer to publicly commit its participation and will be joined by others as the project progresses. We are contributing funds for projects and providing relevant business perspectives to the initiative, as well as sharing the lessons in our own supply chains and with our sector peers.

Building on continued interest from PepsiCo and following the geographic priorities as directed by the Indonesian government, Oxfam has redirected its focus to local economic development needs in Sulawesi. Taking this into account, it achieved significant progress in 2019. In 2020, the project is expected to begin implementation in the new location.

MEXICO HOLISTIC PALM PROGRAM – “UN MÉXICO PALMERO SUSTENTABLE!”

Mexico is one of the largest suppliers of palm oil for PepsiCo. In 2016, we created a holistic and inclusive palm oil sustainability program for Mexico in collaboration with Oleopalma, Femexpalma, and Proforest, and expanded in 2018 and 2019 with RSPO and Nestlé, respectively. Through the holistic program, PepsiCo will engage with all levels of the supply chain to support the adoption of good sustainable practices.

At the national level, we are working with Femexpalma to consolidate its role in representing and supporting the sustainability of the palm oil sector, including through capacity building of Femexpalma’s members. At the supplier level, we are engaging with Oleofinos, PepsiCo’s main supplier, to improve transparency and traceability of Oleofinos palm.

PepsiCo is also working with RSPO and Oleopalma to support smallholder farmers in Mexico to achieve RSPO independent group certification. Additionally, we have partnered with Proforest to provide technical guidance and support locally. The program's objectives are as follows:

- **Improve productivity and livelihoods of smallholders through capacity building and knowledge sharing.**
- **Ensure an efficient, inclusive, and collaborative supply chain;**
- **Secure sustainable palm oil through increased implementation of best agricultural practices;**
- **Improve the quality of life for producers and protect their land rights, while also preserving forests and biodiversity; and**
- **Serve as a model for sustainable development for the palm industry in Mexico.**

Of the approximately 7,000 oil palm producers in Mexico, 95% of palm oil groves are less than 30 hectares and represents approximately 85% of national fruit production. Inclusion of smallholders is fundamental to meet growing domestic demand. The productivity rates of smallholders in Chiapas and Tabasco are among the lowest globally and have the potential to double. To help address this challenge, and with an ambition to further expand the existing capacity-building component of the Smallholders Program, nine demo farms were launched in 2019. The farms enable the demonstration of the positive impact of sustainable agricultural practices, including nutrient management, productivity, quality, and livelihoods. For further information on the program, please see the site [here](#) and the video below.

ISSUES PROGRAMS

MONITORING DEFORESTATION: WORLD RESOURCES INSTITUTE RADD

In 2019, PepsiCo joined other major palm oil producers and buyers to support and fund the development of a new, publicly available radar-based forest monitoring system known as Radar Alerts for Detecting Deforestation (RADD). This partnership between Bunge, Cargill, Golden Agri-Resources (GAR), Musim Mas, Nestlé, PepsiCo, Sime Darby Plantation, Unilever Mondelez International, and Wilmar will make it easier for companies and other stakeholders to see deforestation happening in near-real-time and with greater accuracy. The RADD system is currently being developed for Indonesia and Malaysia, and the preliminary results indicate that the system can detect tropical deforestation several weeks earlier than optical-based systems. With this information, producers can quickly mobilize follow-up actions on the ground and work to improve the sustainability of commodity supply chains.

Throughout the RADD system development over the next two years, partner companies will periodically receive alerts about detected deforestation events and will provide crucial feedback to improve the system. The open nature of the system will enable companies – in addition to governments, civil society organizations, and concerned stakeholders – to monitor forests using the same information source and standards.

CHILD PROTECTION AND SAFEGUARDING (BUSINESS FOR SOCIAL RESPONSIBILITY (BSR) LED COALITION

In 2019, PepsiCo, joined other major companies including Wilmar, Colgate Palmolive, Nestlé, Procter & Gamble, and Nestlé and to work with BSR on a [program](#) to protect the rights of children living in oil palm plantations. The program will run through 2020 and includes developing a Child Protection and Safeguarding Implementation Manual, as well as a series of capacity-building workshops for palm oil producers.

TRANSPARENCY AND STAKEHOLDER ENGAGEMENT

Communicating and engaging directly with our stakeholders, including peers, suppliers, communities, investors, civil society, governments, certification bodies, and others is a critical step of our due diligence, in continuing to build trust and to receive important feedback on our strategy and programs. We do this through several avenues, including our reporting efforts, one-on-one meetings, participation in forums and working groups and collaborations that seek to tackle the systemic issues underpinning many of the environmental and social challenges facing the sector.

Since our last palm oil report, we have continued to report and engage stakeholders, including by:

- **Updating our Global Policy on Sustainable Palm Oil to reflect our commitment to No Deforestation, No Development on Peatlands and No Exploitation of Indigenous Peoples, Workers and Local Communities (“NDPE commitments”);**

- **Continuing to disclose the direct suppliers and mills from which we sourced; Taking a leading role in the Palm Oil Collaboration Group and the development of a sector approach to measuring NDPE volumes through the NDPE IRF;**
- **Playing an active role in industry platforms such as the Consumer Goods Forum (CGF) and AIM – Progress; and**
- **Engaging with civil society through formal meetings and ongoing dialogue, contributing to our updated policy, grievance review, and our approach to independent verification.**

REPORTING AND DISCLOSURE

This Palm Oil Progress disclosure is our fifth year of reporting and builds on comprehensive reports in 2017 and 2018. It is part of an annual reporting cycle, which also includes Annual Communication of Progress to the RSPO. For our latest report, we have moved to an online format to reduce duplication and allow for regular updates to our approach and programs. In 2019, we published our annual update of our direct supplier and mill lists, which provide transparency of our supply chain.

The information on this website is supplemented by related issues featured on our Environmental, Social, and Governance (ESG) Reporting website, including on human rights, deforestation, climate change, land rights, agriculture, and sustainable sourcing.

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 to execute our strategy and accelerate progress toward our goals.

During the RSPO Roundtable (“RT17”) conference in Bangkok, for example, PepsiCo and Cargill hosted the latest in a series of discussions with a wide range of civil society 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.

The meeting with civil society covered a range of issues including measuring progress on delivering on NDPE commitments; independent verification and how it can be used to drive better outcomes; and human rights, including worker rights and land rights within palm oil production.

These discussions are part of a broader series of workshops, which over the last two years have become central in guiding our approach to developing and implementing actions, both individually and collaboratively with others. We have been working with our partner Proforest, and with other companies and key stakeholders to provide more structure to the ongoing discussions through the Palm Oil Collaboration Group (see Collaboration section) and its associated working groups, specifically:

- **The NDPE Implementation Reporting Framework working group, which is developing a tool with input from a range of stakeholders. The Framework has been taken up across the palm oil sector to provide a consistent way of reporting on progress towards full delivery of NDPE commitments. See [NDPE IRF](#) for more information.**
- **The Production and Protection Beyond Concessions (PPBC), formerly known as the Deforestation Outside Concessions, working group focuses on production and protection of outside concessions. The group brings together companies, technical specialists, and civil society to discuss how to work together to promote livelihoods while protecting forests in palm oil production landscapes.**
- **The Social Issues working group looks at opportunities to collaborate and work more effectively across the sector to address systemic human rights issues, with a focus on worker rights and land rights.**
- **A working group is reviewing independent verification to build a better understanding of how it can be made more effective and drive real change.**

PepsiCo also speaks regularly with NGOs with missions ranging from environmental conservation to protection of human rights. Among the issues raised in 2019 were:

- **The scope of our policy and the request to apply our policy to companies in our supply chain at the company-wide level. Our updated palm oil policy applies to companies at the company-wide level;**

- **The need for greater confidence in the independent verification that standards are being met throughout the palm oil supply chain. PepsiCo co-led the development of a workshop with industry and civil society at RT17 to discuss the role of independent verification, and is committed to convene and participate in follow-up meetings;**
- **Greater clarity and visibility on our agricultural grievance process. These views have been accommodated into the review of our grievance process, led by an expert external organization.**

COLLABORATION

To deliver systemic change we have increased our efforts to engage in and lead collective discussions and actions with peer companies and suppliers. These initiatives include:

PALM OIL COLLABORATION GROUP

Since 2017, PepsiCo has taken the lead in convening the ‘Palm Oil Collaboration Group’ to discuss key sustainability issues and challenges in the palm oil space with companies and other stakeholders in a pre-competitive manner, specifically, human rights and social issues, independent verification of progress, addressing deforestation outside concessions, and monitoring and reporting on progress.

CONSUMER GOODS FORUM (CGF)

PepsiCo is an active member of the Consumer Goods Forum, including work streams on deforestation and palm oil. We are an original signatory to the CGF Forest Positive Coalition, which was launched in 2019. The coalition will focus on systemic change underpinned by the two pillars of its theory of change – supply chain management and integrated land use approach – developed with significant input from both supply chain companies and other stakeholders. The Forest Positive Coalition of Action will:

- **Accelerate efforts to remove commodity-driven deforestation from our individual supply chains;**
- **Set higher expectations for traders to act across their entire supply base;**
- **Drive more transformational change in these key commodity landscapes; and**
- **Transparently report on progress to ensure accountability.**

RSPO SHARED RESPONSIBILITY TASKFORCE

PepsiCo is an active member of the Shared Responsibility Task Force, and on October 31, 2019, the RSPO’s Board of Governors approved landmark rules calling for “Shared Responsibility,” and for all members of the organization to do their part to “Mobilize, Act and Transform” to fulfill the RSPO’s mission. PepsiCo will continue to participate in the Shared Responsibility Task Force in 2020.

FEDERACIÓN MEXICANA DE PALMA DE ACEITE (FEMEXPALMA)

Founded in 2016, Femexpalma represents palm growers and extractors and seeks to be a catalyst for sustainable oil palm cultivation in Mexico. PepsiCo is supporting Femexpalma to implement sustainability across the palm growing regions in Mexico and further promote the RSPO by providing technical support and capacity building.

JURISDICTIONAL EXCHANGE NETWORK (FORMERLY THE SUSTAINABLE LANDSCAPES WORKING GROUP)

PepsiCo has been an active member of the group since 2017. The objective of the group was to support members in developing and implementing approaches to sustainable landscapes. In late 2019, it was agreed to integrate this group under the Tropical Forest Alliance (TFA) umbrella as part of the TFA's "jurisdictional exchange network". PepsiCo supports this integration and continues to be active.

AIM – PROGRESS

PepsiCo is a member of AIM – Progress, a forum of leading Fast Moving Consumer Goods (FMCG) manufacturers and common suppliers, assembled to enable and promote responsible sourcing practices and sustainable supply chains. The key objective is to build capability so that member organizations and their suppliers have the knowledge, confidence, and ability to develop and execute robust responsible sourcing programs. They do this through focusing on the issues that matter, such as respect for human rights, prioritizing practical action, not just conversation, to create lasting change in global supply chains, and through collaboration between brands and suppliers (with due respect for anti-trust legislation) to drive convergence in approaches to responsible sourcing.

TROPICAL FOREST ALLIANCE (TFA)

The TFA is a multi-stakeholder partnership platform, initiated to support the implementation of private-sector commitments to remove their deforestation from their palm oil, beef, soy, and pulp and paper supply chains. Hosted by the World Economic Forum, PepsiCo is a partner of the TFA and supports its mission, goals and objectives, including through active involvement in programs and initiatives to end commodity-driven tropical deforestation.

INTERLAKEN GROUP

PepsiCo is a member of the Interlaken Steering Group, an informal network of individual leaders from influential companies, investors, CSOs, government, and international organizations. The purpose of the Group is to expand and leverage private sector action to secure community land rights. Together they develop, adopt, and disseminate new tools and advance new “pre-competitive” mechanisms to accelerate private sector learning on responsible land rights practices.