

# Palm Oil Action Plan Progress Report

September 2016

Respect for human rights, sustainable sourcing and zero deforestation are paramount to PepsiCo and our work in sustainable agriculture. Working with our global farming supply chain, we are committed to incorporating industry leading policies, practices and technology. We continue to engage with external experts and third-party organizations to inform and advance our efforts.

In furtherance of this work, PepsiCo made significant commitments to source sustainable palm oil and in October 2015 published its first Palm Oil Action Plan. This update is the first of regular periodic reports to demonstrate the progress we are achieving toward meeting our commitments.

Sustainably-sourced palm oil can provide significant benefits. It contributes to the economic growth of many developing countries and improvement in the livelihoods of farmers. One hectare of palm oil can produce 4-10 times more oil than other edible oil crops while requiring less agrochemical inputs, so palm oil can also have environmental benefits.

PepsiCo's global Forestry Stewardship and Land Use policies and specific palm oil commitments are readily available to the public on our website:

<https://www.pepsico.com/Sustainability/performance-with-purpose>.

## Progress Highlights and Challenges

- As of July 2016, we estimate that approximately 72% of the palm oil we are forecasted to use for the year has been traced to the mill, up from 65% as reported in our first action plan. Over the rest of 2016 and beyond, we will work to support our suppliers in an effort to achieve 100% traceability and plan for independent verification. To achieve mill traceability, we worked with Control Union on a Traceability Protocol to be used by direct suppliers to report mill information back to PepsiCo. A training program on how to use the protocol was implemented for suppliers. We also established a traceability helpdesk with Control Union to provide ongoing assistance.
- Using the information collected on mill traceability, an initial supplier-level risk assessment of the PepsiCo supply base has been undertaken by Proforest. Specific interventions are being planned to engage with mills where there is a high risk of non-compliance with PepsiCo's policies. Five assessment visits are planned for the second half of 2016, starting in July and including mills in Mexico, Indonesia and at least one other country. In cases where gaps may exist, we will perform an audit and participate in ongoing engagement with suppliers to achieve continuous improvement.
- A protocol has been developed for mill engagement visits using the checklist developed by the Traceability Working Group coordinated by the IDH Sustainable Trade Initiative. This checklist has been developed with input from a wide range of companies and other stakeholders and provides a common template, which should make it easier to share information and results.
- Our Global Supplier Code of Conduct clarifies our global expectations in the areas of business integrity, labor practices, associate health and safety and environmental management. To further re-enforce our expectations, we are endeavoring to include in all new PepsiCo contracts for the direct procurement of palm oil a specific reference to PepsiCo's Forestry Stewardship and Land Use Policies as well as the principles contained within PepsiCo's Palm Oil Commitments, which require that a supplier not knowingly source material in violation of the aforementioned policies and develop and maintain a process to ensure that its supply chain understands and adheres to similar principles.
- PepsiCo increased our use of mass balance physically certified palm oil in 2015 to 8% of our volume, as compared to 5% in 2014. We are developing a plan to significantly ramp up the physically certified volume to achieve our goal of 100% by 2020. In addition, PepsiCo has begun work on our Chain of Custody Certification for palm oil, including a pilot market exercise this year.
- As of the end of Q2 2016, approximately 91% of PepsiCo's direct suppliers are members of the Roundtable on Sustainable Palm Oil (RSPO), accounting for approximately 96% of our forecasted direct palm oil volume.

- As stated in the first action plan, PepsiCo's palm oil policy and commitments apply to all of its brands and products worldwide. Our contracts with suppliers provide a basis to verify compliance with our policies, such as the ability to request on-site audits. However, as joint venture (JV) relationships vary, PepsiCo is developing an approach on how to work most effectively with our JV partners. For example, in 2015, PepsiCo started this work with IFL, its snack food JV in Indonesia. IFL has committed that all PepsiCo snack foods produced by the JV will be made with 100% certified sustainable palm oil by the end of 2016.

We are aware of allegations of human and labor rights violations brought against some of the palm oil plantations under the ownership of Indofood, our partner in the IFL JV. A letter from PepsiCo's chairman and CEO conveyed PepsiCo's concerns to Indofood and expressed her expectation that Indofood is taking such allegations as seriously as PepsiCo does. We have had significant engagement with IFL and IndoAgri Resources (IndoAgri), the palm oil subsidiary of Indofood, on multiple occasions to review our Palm Oil Action Plan as well as the palm oil commitments made by IndoAgri and considered specific areas for alignment. Since beginning this work, IndoAgri has further developed its policy commitments and program on palm oil. We are committed to continuing this engagement to address any outstanding issues.

- In 2016, PepsiCo joined the Palm Oil Working Group of the Consumer Goods Forum to collaborate and accelerate sourcing of sustainable palm oil. Additionally, we met on multiple occasions with Greenpeace, Oxfam, World Wildlife Fund, RAN and other NGOs to discuss our efforts, exchange information and consider ways to achieve shared objectives.

The continued implementation of policies, ongoing engagement and constructive discussion with our business partners and JVs remain important components of our proactive palm oil strategy. We are encouraged by the progress we've made but recognize that further work is needed. We continue to expand or enhance our policies and commitments over time as science evolves, supply chains mature and tools, practices and processes improve. For more information, please refer to the Specific Commitment Updates below.

## Specific Commitment Updates

### **Ensure all direct suppliers are Roundtable on Sustainable Palm Oil (RSPO) Members by end of 2016.**

Why? To support RSPO and its efforts to improve sustainability across the palm oil industry.

#### Status:

PepsiCo has been in regular communication with our suppliers on the benefits of RSPO membership to their business and the environment. As a result of this engagement, as of the end of Q2 2016 approximately 91% of PepsiCo's direct suppliers are members of RSPO, accounting for approximately 96% of our forecasted direct palm oil volume.

### **Map supply chains to the mill of origin to ensure traceability by end of 2016.**

Why? To better understand the palm oil supply chain.

#### Status:

As of July 2016, we estimate that approximately 72% of the palm oil we are forecasted to use for the year has been traced to the mill, up from 65% as reported in our first action plan. Over the rest of 2016 and beyond, we will be working to support our suppliers in an effort to achieve 100% traceability and to plan for independent verification. To achieve mill traceability, we worked with Control Union on a new Traceability Protocol to be used by direct suppliers in reporting mill information back to PepsiCo. The Protocol was distributed to all direct suppliers this year together with a recommended reporting template. A training program was implemented for suppliers on how to use the Protocol, and we established a traceability helpdesk with Control Union to provide ongoing assistance, all of which helps ensure timely, accurate data. The first round of quarterly data was received earlier this year, and PepsiCo and our partners have performed a detailed assessment.

### **Map supply chains from mills to farm/plantation level by the end of 2020.**

Why? To better understand the palm oil supply chain to manage system.

#### Status:

As PepsiCo gains further insight into the mills that supply our palm oil, this should provide the basis for an understanding of how we extend our traceability work to palm oil growers, which could number in the tens of thousands. We have found that some of our suppliers are already working on this farm mapping challenge, and we will collaborate and support these efforts. At this time, we are exploring ways of working with suppliers to gather farm information with particular attention to independent and smallholder farmers for which information is difficult to obtain. PepsiCo is

engaging with suppliers this year, beginning in Mexico, to perform the initial groundwork to explore data collection. This will help to establish the structure of broader farm mapping efforts in 2017, and the development of a protocol to provide clarity in our expectations and support progress towards achieving this objective.

**Source 100% physically certified sustainable palm oil by end of 2020.**

Why? To ensure that the palm oil we are sourcing is ultimately physically certified as sustainable.

**Status:**

PepsiCo increased our use of mass balance physically certified palm oil in 2015 to 8% of our volume as compared to 5% in 2014. We continue to ramp up physically certified volume. For the remainder of our palm oil, we have achieved certification using Green Palm credits, which we see as an initial step to support market development. Our 2016 palm oil volume and certification methods will be publicly reported to RSPO as part of the Annual Communication on Progress. In addition, PepsiCo has begun work on our Chain of Custody Certification for palm oil, including a pilot market exercise this year.

**Actively assess risk of our global palm oil suppliers and source countries and engage with those suppliers operating in high-risk regions to carry out on-the-ground assessments of practices.**

Why? To proactively work with our suppliers to identify and mitigate risks.

**Ensure that PepsiCo's palm oil sources will be in compliance with PepsiCo's Forestry Stewardship Policy, which includes adherence to principles regarding High Carbon Stock (HCS) Forests, High Conservation Value (HCV) areas, and no new development of peat lands.**

Why? To ensure our suppliers understand and uphold the principles of our Forestry Stewardship Policy.

**Ensure that PepsiCo's palm oil sources will be in compliance with PepsiCo's Land Use Policy, which includes adherence to the principle of Free Prior and Informed Consent (FPIC).**

Why? To ensure our suppliers understand and uphold the principles of our Land Use Policy.

**Work with suppliers to ensure that PepsiCo's palm oil policies are implemented in a way that supports the inclusion of smallholders.**

Why? To increase the level of locally sourced oil, raise the income levels of our smallholder sources and do so in a sustainable manner.

**Status:**

Using the information collected to date on mill traceability, Proforest has undertaken an initial supplier-level first risk assessment of the PepsiCo supply base. Discussions are beginning with suppliers about risks identified within their supply base. Specific interventions are being planned to engage with mills where there is a high risk of noncompliance with PepsiCo's policies in the second half of the year. Five assessment visits are planned for the second half of 2016, starting in July and including mills in Mexico, Indonesia and at least one other country. This will be led by Proforest and done in collaboration with our suppliers, building on their direct relationships with the mills. At the same time, planning is underway to begin engaging with suppliers on longer term programs to support mills and producers in addressing risks of deforestation and human rights issues, and to support smallholders in an effort to help them improve their livelihoods while ensuring they are not excluded from the supply base. There will be a strong focus on coordinating our efforts in this area with the efforts of other companies, as well as working with civil society organizations and government.

**Implement a third-party audit program for Forestry Stewardship and Land Rights policies for our palm oil supply chain.**

Why? To obtain a better understanding of our palm oil supply chain.

**Status:**

A protocol has been developed for mill engagement visits using the checklist developed by the Traceability Working Group (TWG) coordinated by the IDH Sustainable Trade Initiative. This checklist has been developed with input from a wide range of companies and other stakeholders and provides a common template, which should make it easier to share information and results, and cross-checked with PepsiCo policies. PepsiCo is committed to looking at ways to share this type of supplier audit information with other users to reduce the burden on producers and accelerate the implementation of good practices.

**Request our palm oil suppliers to report on greenhouse gas emissions through the CDP Supply Chain, or similar program.**

Why? To work with our suppliers to reduce the GHG impact of the palm oil supply chain.

**Status:**

PepsiCo annually reports its GHG emissions through the CDP and has established a strong relationship with the CDP Supply Chain project. In 2016, all of PepsiCo's palm oil suppliers were requested to report their greenhouse gas emissions to CDP this year. We will have first-year results in September.

**Suppliers will be encouraged to adopt high standards for palm oil sustainability throughout their systems.**

Why? To encourage our suppliers to implement enhanced standards for sustainability throughout their operations regardless of their customer base.

**Status:**

PepsiCo shared our Palm Oil Action Plan with all of our direct suppliers, including the requirement that direct suppliers must be members of RSPO, and increased their awareness of environmental and social standards in the palm oil industry. Through our traceability work, we have shared our Traceability Protocol and worked with suppliers on mapping to the mills. Also, we are endeavoring to include in all new PepsiCo contracts for the direct procurement of palm oil a specific reference to PepsiCo's Forestry Stewardship and Land Use Policies and the principles contained within PepsiCo's Palm Oil Commitments, which will require that a supplier not knowingly source material in violation of the aforementioned policies and develop and maintain a process to ensure that its supply chain is informed of, and adheres to similar principles. The supplier also agrees to report at least annually on this process to PepsiCo.

**Leverage the PepsiCo Sustainable Farming Initiative to support implementation of sustainable agriculture practices that enable farmers to increase production on currently farmed land and minimize impacts on the surrounding area.**

Why? To encourage growth of sustainable palm oil with minimal need for expanding land under cultivation and minimal impact on surrounding areas.

**Status:**

We are continuing to share information, best practices and challenges as we stay in dialogue with our suppliers on the lessons from our Sustainable Farming Initiative and how it can help the palm oil sustainability efforts.

**Ensure PepsiCo's palm oil supply chain understands PepsiCo's expectations under our Supplier Code of Conduct (SCoC).**

Why? To ensure our suppliers understand PepsiCo's expectations that its suppliers follow PepsiCo's Supplier Code of Conduct

**Status:**

It is our practice to incorporate PepsiCo's Supplier Code of Conduct in palm oil contracts and purchase orders. Suppliers have access to our Supplier Code of Conduct training module (available on our website at <https://www.pepsico.com/Sustainability/performance-with-purpose>). Suppliers have access to our "Speak Up" line which is available and communicated to our suppliers, enabling any suspected violations of PepsiCo's Code of Conduct to be raised to us, in addition to leveraging the suppliers' own grievance processes. In addition, first tier suppliers who have gone through our Business Continuity Planning are subject to the PepsiCo Sustainable Sourcing Program, a formal risk assessment, third party audit and mitigation process that focuses on compliance with our Supplier Code of Conduct in the areas of Human Rights, Environment, Health & Safety, and Business Integrity.

**Engage with appropriate industry and other groups to improve our understanding of concerns within the palm oil industry and to achieve our goals.**

Why? To support industry efforts to improve sustainability within the palm oil industry.

**Status:**

In 2016, PepsiCo joined the Palm Oil Working Group of the Consumer Goods Forum (CGF) and participates in CGF's Environmental and Social Steering Committees, which recently met in Jakarta to emphasize the issue of sustainable palm oil, seeking to develop and support solutions. This engagement is providing opportunities to gain insights on actions that are working, share learnings from the progress we are achieving on our Action Plan, and collaborate and accelerate sustainable palm oil with a focus on mill and producer traceability. Additionally, we met on multiple occasions with Greenpeace, Oxfam, World Wildlife Fund, RAN and other NGOs to discuss palm oil concerns, exchange information and consider ways to collaborate on our shared objectives. For example, we reviewed our traceability work with Greenpeace and shared with them our Palm Oil Traceability Protocol. This new protocol was developed by PepsiCo in collaboration with Control Union, a global inspection/certification services provider, and is used by PepsiCo's suppliers for reporting the mills from which our palm oil is sourced.

**PepsiCo will apply its palm oil policy and commitments to all its brands and products worldwide.**

**Why?** Ensure that all PepsiCo brands and products meet our company's standards on palm oil sustainability, regardless of the source of production.

**Status:**

As stated in the first action plan, PepsiCo's palm oil policy and commitments apply to all of its brands and products worldwide. Our contracts with suppliers provide a basis to verify compliance with our policies, such as the ability to request on-site audits. However, as joint venture (JV) relationships vary, PepsiCo is developing an approach on how to work most effectively with our JV partners. For example, in 2015, PepsiCo started this work with IFL, its snack food JV in Indonesia. IFL has committed that all PepsiCo snack foods produced by the JV will be made with 100% certified sustainable palm oil by the end of 2016.

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**Ask suppliers to identify the use of derivatives in our ingredients.**

**Why?** To better understand the supply chain beyond the direct palm oil, which is the major use of palm by PepsiCo.

**Status:**

Our dialogue with suppliers started in 2015. Based on these discussions, we have made preliminary estimates on the extent to which palm oil derivatives exist in our supply chain. This is a challenging analysis, but we believe that the volumes are very low, likely to be less than 1% of our palm oil use. We will continue to try to refine this analysis.

**Periodically report on our progress against our policies, commitments, and this action plan.**

**Why?** To communicate regularly and transparently on our intentions, progress and challenges.

**Status:**

We will continue to report on our Palm Oil Action Plan on a periodic basis. For more information, please visit <https://www.pepsico.com/Sustainability/performance-with-purpose>.

**Source 100% certified sustainable palm oil (CSPO) by 2015.**

**Why?** To ensure that the palm oil we are sourcing is certified as sustainable.

**Status:**

Completed, largely through the use of Green Palm credits; this was an initial step to support market development as PepsiCo transitions to physically certified sustainable palm oil.