

Responsible Sourcing Implementation Framework

Measuring and reporting NDPE volumes for palm oil

Update 3, November 2018

1 Background

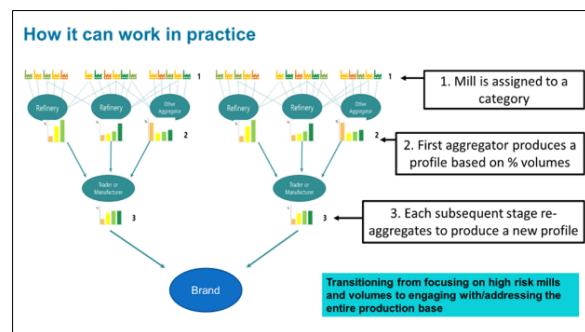
Since June 2018 a group of companies and other stakeholders have been collaborating to develop an approach to monitoring and reporting on progress with delivering NDPE commitments for palm oil volumes they use (see Updates 1 and 2 for further background). This Update summarises the results of the first ‘proof of concept’ pilot studies and the outcomes of discussions at workshops convened by PepsiCo and Cargill at the RSPO RT in Sabah together with planned next steps.



2 Results of the pilot studies

Based on the approach already outlined in Update 02, three pilot case studies were undertaken.

- Case study 1 was for two refineries in SE Asia buying directly from mills
- Case study 2 was for a refinery in Europe buying from mills and aggregators
- Case study 3 was for a trader in Europe to explore the pros and cons of implementing the approach further downstream



2.1 Pilot 1: Two SE Asia Refineries

Two refineries in SE Asia: Deforestation, Peat and Labour

Refinery 1

Deforestation

Peat

Labour

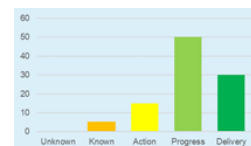
Refinery 2

Deforestation

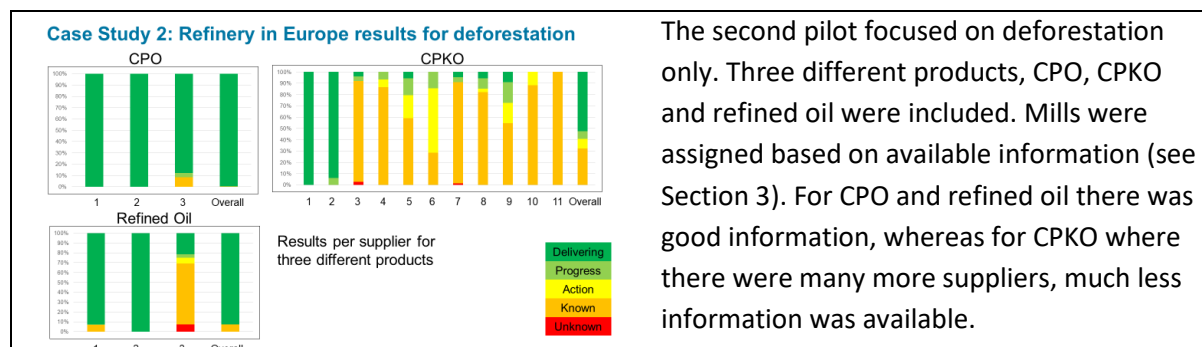
Peat

Labour

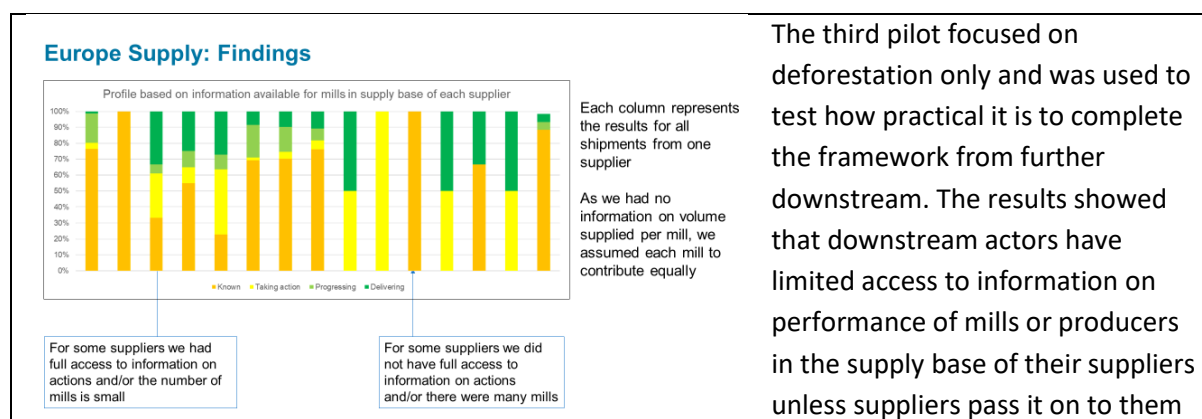
Criteria were developed for deforestation, peat and labour to assign all the mills in the supply base of each refinery to one of the four possible implementation framework categories (delivering, progressing, taking action or known). The assignment of mills was based on available information which was reasonably comprehensive as the refineries engage directly with the majority of the mills that supply them.



2.2 Pilot 2: Refinery in Europe



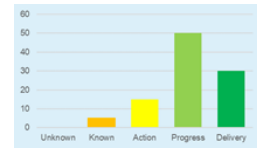
2.3 Pilot 3: Trader in Europe



3 Findings and further discussion

The initial findings from the pilots were:

- ✓ For refineries (or other aggregators buying directly from mills) **the Framework works well** and provides a much clearer picture of progress being made and remaining gaps.
- ✓ Assigning a mill to a category is a **useful starting point**, but it will be necessary to move to production of FFB as the supply base to each mill can be quite heterogeneous.
- ✓ It is **straightforward to move information** through the supply chain from refineries to downstream users using the profiles created.
- ✓ Downstream traders are **reliant on their upstream suppliers** as they don't have full access to information on performance and actions at mill level, nor data on the volume supplied from each mill, confirming that it is better to create profiles starting at refineries or other first aggregators that buy directly from mills and move this information downstream.
- ✓ The framework provides an **effective tool** to monitor progress delivering NDPE commitments and can also be useful to help guide or influence actions to support change.



- ✓ Information on **actions being taken** to implement NDPE commitments is reasonably easy to obtain ('taking action' category), but information to confirm mills are 'progressing' or 'delivering' is less readily available.

Key discussion points which were highlighted by the pilots and which were the focus of the discussion at the workshops at RSPO RT are:

Allocation of category: Who allocates mills or FFB to a category – is allocation done by the mill, by individual buyers based on their own information, by individual buyers based on shared information or by a third party on behalf of everyone? The consensus was that this should be done by the mill itself, but in practice it probably has to be the refinery initially, preferably based on information provided by the mill through a self-assessment or mill visit.

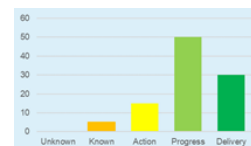
Allocation of categories to FFB: There was general agreement in the discussion that although allocating mills to a category is a useful starting point, the actual production base for each mill tends to be heterogeneous. Therefore, it will be necessary to progress to allocating categories for FFB production in order to integrate information on concessions (including monitoring systems being developed) as well as independent traders and smallholders (which links to TTP) that supply mills.

Recognising actions in the landscape: As various landscape approaches and initiatives develop, it will be important to capture progress made in a landscape which is not led by an individual mill or the producers supplying it.

Verification: Downstream companies and external stakeholders will expect some form of verification to provide credibility. Further thought is needed to clarify what is needed, who does it and how it links to other activities like verification of traceability to mill and plantation. There was general agreement that once the mill is allocating its own categories, some form of verification will be needed to maintain credibility. Ideally this should be independent and consistent, but initially may be done by customers.

Information: as expected, discussions about delivering the framework highlighted the crucial need for information and the many questions around who generates, maintains, shares and owns this information. In general, there seemed to be a consensus that the goal should be that each mill owns its own information, and that this is made available to downstream actors via some type of shared platform (*cf* the AIM-PROGRESS platform for supplier audits). However, there was also recognition that this might take some time (though see box on a 'Snapshot') and in the interim more *ad hoc* approaches will be needed which might vary somewhat between companies. Aligning on these approaches (eg the content of self-assessment questionnaires) may help.

Costs and benefits: there was discussion about who covers the costs of collecting and analysing data versus who benefits. For example, if a refinery pays to carry out the work to assign a mill to a category, can the mill use the results for other customers who then benefit without contributing to the cost. Possible solutions proposed were (a) mills gradually see benefits in undertaking the work themselves and provide it to all customers, (b) collaboration among companies so that a group of companies shares the costs and benefits



Narrative: we need a strong narrative for mills, mill groups and local governments on the advantages of this type of approach, and particularly on how it can benefit (or at least not harm) smallholders, independent local traders and local companies.

Awareness, education and support: there was general agreement that making progress will require a greater focus on awareness raising, training and support for mills and the producers supplying them. Many refiners and traders already have programmes to do this which should allow for sharing of lessons, while the suite of emerging jurisdictional and landscape initiatives may also be able to contribute. However, it is clear that major challenges remain for smallholder producers, and for many smaller plantation companies that lack resources and incentives (see below) to understand and implement better practices. Nevertheless, the implementation framework approach should make it easier to understand the scale of support needed.

Incentives: it will be important to think of ways to incentivise mills to participate as experience to date indicates that it is difficult to get them to engage or report, particularly individual mills which do not belong to a larger group (and which may constitute up to a third of all mills in some places).

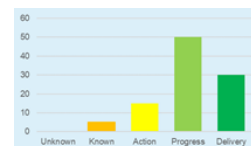
Unintended consequences: Two possible issues were identified. Firstly, more clarity on which mills doing best on delivering NDPE may contribute to a 'two-tier market' with responsible refiners and traders prioritising 'green mills' with the remaining mills moving to supply markets without sustainability requirements. Secondly, human rights laws in some consuming countries make companies liable if they know that there are issues in the supply chain (but not if they don't) making greater transparency something of a risk.

Creating a snapshot of where we are now

One of the main things to come out of the discussions, particularly with the publication of the Universal Mill List (UML)*, was a shared view that it would be very useful to have a 'snapshot' of progress in engaging mills on NDPE. We know that many companies have invested in activities such as self-assessment requests, mill visits, action planning, awareness raising and training on specific issues. However, past attempts have shown that it is not straightforward for companies to share all the information they have on the performance of suppliers (mill self-assessment results, mill visit reports, contents of action plans, training records etc) for reasons of confidentiality, cost and competitive advantage. However, there seemed to be some consensus that it would be very useful to know how many of the 2000 mills on the UML have had some type of engagement and, crucially, how many have not had any intervention so far.

This might be possible if companies are prepared to share information on what they have done to be compiled in a shared spreadsheet which provides 'yes/no' type information (eg has there been a mill visit, has there been an action plan agreed etc). This could be entirely anonymous or linked to a 'for further information contact XX'. We will be following up on this over the next few weeks.

**The Universal Mill List is a consolidated list of nearly 2000 CPO mills hosted by Global Forest Watch, built from the combined databases of Proforest, Daemeter, WRI and Rainforest Alliance launched in Nov 2018*



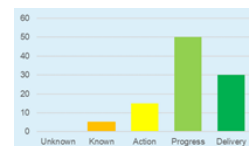
4 Categories and criteria

There was very useful discussion during and after the workshops on the framework categories and the criteria used to assign mills to those categories, with a particular focus on the criteria for deforestation. This may need to be refined further as we move from linking mills to categories to linking FFB to categories, but as discussed above, the first stage will be to focus on mills.

4.1 Categories

Based on the discussions and inputs from multiple participants at the workshop, and aligning with the approach of TFT, it is suggested to add an additional category. Currently, a single category of ‘taking action’ includes everything from initial awareness raising to the development of an action plan. Therefore, this category will be split with an ‘awareness’ category to identify mills where awareness raising has begun, but they are not yet really engaged or committed to implementing NDPE sourcing and a ‘commitment and starting action’ category where mills have begun to engage. This means there are now a total of six categories, but only four of these require criteria, as summarised below.

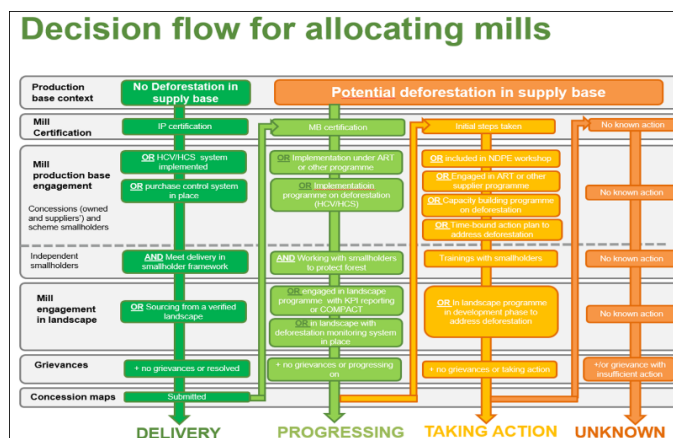
Unknown	This category should not be needed for refineries or other aggregators buying direct from mills, but may be necessary for downstream actors who still have volumes from unknown sources. No criteria are needed other than ‘unknown’
Known	This category will be used mainly by downstream actors, confirming that traceability to mill (an important KPI for many companies) has been achieved, even if no further progress has been made in engaging the mill or understanding whether it is delivering NDPE volumes
Awareness	This new category aims to capture those mills where there has been initial engagement such as a request for a self-assessment or attendance at a workshop or training event, but no further action or commitment by the mill
Action	This category will capture mills where there is actual commitment or the beginning of action to deliver NDPE such as policy commitments, agreement to publish concession maps or development of an action plan
Progress	This category will capture mills where any challenges to achieving NDPE have been identified and actions are underway which should lead to full delivery of commitments within a reasonable time frame
Delivery	This category will capture mills buying FFB and producing volumes which deliver on the no deforestation, peat and exploitation commitments made in NDPE commitments



4.2 Criteria

During the workshop, there was detailed discussion about the criteria which should be used to allocate a mill to a category for deforestation. This was framed around a proposed decision flow (see right).

There were many extremely useful comments and suggestions on the detailed content of the deforestation criteria, as well as more general suggestions relevant to all criteria, including peat and exploitation. Key points raised included:



Using certification and monitoring tools

- Indicators should reflect and include ISPO and MSPO certification and other similar local requirements and processes
- Where MB certification is used as an indicator, consider and clarify whether 10% MB is the same as 90% MB and if not, what is the threshold.
- The indicators for deforestation should include reference to and be aligned with data collected through deforestation monitoring tools like WRI Radar and Starling.

Landscape initiatives

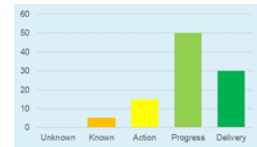
- Further details and clearer criteria are needed on the required level of involvement in a landscape programme and status of the programme. How do you treat a good mill in a bad region, and a bad mill in a good region.

Grievances

- Grievances should be included in the criteria so that in general an open grievance against a mill should lead to a 'downgrade' in its category.
- Consider whether and how to include actions to resolve a grievance. Who decides when a mill can go back to its original category? Is this monitored separately and against which criteria?
- Need to discuss further how to take into account a grievance at the group level. Should it be included in the indicators

Access to data

- Some companies would like to make their own interpretation of the criteria and therefore would like to see a shared database of all mill data so that they can use it to allocate mills to categories based on their own interpretation. Others believe that refineries are in the best position to interpret indicators and allocate to a mill to a category pass this on to downstream actors.



- For any database of shared data or mill allocations need to consider who has access to and owns the data, and the consent of the mills to share the data.

Action planning

- Include thinking on timeframes between categories, e.g. timebound timeframe between Taking Action and Progressing

Presentation

- Consider using colours other than red and green which may drive sourcing towards 'green' categories resulting in the unintended consequence of reducing efforts and support for the mills that have had no level of engagement and so need it most badly.

These comments, together with subsequent discussions with various stakeholders, are now being reviewed and integrated, also taking into account the additional category proposed in section 4.1 above. This next iteration will be shared in Update 4 early in the new year to get input. Anyone who would like to contribute to the work of compiling and integrating comments would be very welcome and should let us know. Otherwise we will be asking for feedback on the next version very soon!

As noted above, it was highlighted that there is a need to move beyond allocating a mill to a category to allocating FFB to a category based on the actual production practices as this varies within the production base of each mill depending on the producer. This will be particularly important for deforestation and peat commitments as companies increasingly use remote sensing to monitor supplier concessions and are thus able to confirm whether there has been any deforestation or expansion on peat for these producers. However, it was also recognised that the mill is a useful starting point for the process.

5 Next steps

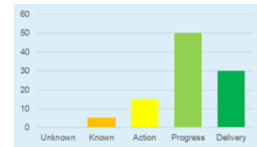
There seems to be growing momentum around using the framework as a tool to build greater transparency on progress, while also helping to highlight and address remaining gaps and challenges. The next steps discussed and/or agreed for the end of 2018 and early 2019 are:

1. **Further trials:** More companies will begin to trial the approach including GAR, Musim Mas, BLC and Unilever. Others including Cargill, Sime Darby, Kellogg, AAK and PepsiCo will continue to build on the work they have already done, helping us to think about some of the issues outlined above.

Action: *Anyone wanting to be part of the group testing the approach please let us know*

2. **Criteria for allocation:** There will be further development and discussion about the criteria for allocating mills to categories for deforestation, peat and exploitation with a new version circulated for comment in early 2019.

Action: *Anyone wanting to contribute to the development of criteria please let us know*



- 3. Creating a snapshot:** We will continue discussing with companies that have been working with mills the potential to develop a 'January 2019 snapshot' of the current situation as discussed in Section 3.
- 4. Further engagement with stakeholders:** We now have a large group of companies who are engaged with the development process and we will continue to work with them. There has also been considerable informal and bilateral engagement with civil society organisations, but we need to have much greater engagement to raise awareness and to get input on the development and deployment of the approach, particularly resolving the various issues that need to be addressed for credible progress to be made.
Action: Anyone who has suggestions for individuals or organisations who should be included in more formal engagement please let us know. It would also be very useful to hear about bilateral discussions any of you are having.
- 5. Preparing for Phase 2 Engagement and scale up:** In 2019 we plan to move into Phase 2 early in the new year. The focus of this second phase will be on further refining the criteria, scaling up the use of the Implementation Framework in a growing number of supply chains and consulting more widely on the approach and methodology of the tool. We will be preparing for this over the next couple of months.
Action: Anyone who wants to help lead the planning for Phase 2 please let us know.