

SUSTAINABLE PALM OIL PROGRESS REPORT 2014



Unilever



INTRODUCTION

Our Sustainable Palm Oil Policy, launched 12 months ago, comprises of three main components: halt deforestation, protect peat land and drive positive economic and social impact. At the same time, Unilever announced a commitment to trace the palm oil we directly buy to the mills where it was processed. Knowing where our palm oil originates is an important pre-requisite for positive change, and for understanding the changes needed to transform Unilever's palm oil supply chain. These starting points help us to work with each of our suppliers to achieve our 2020 ambition of sourcing all our palm oil from traceable and certified sources.

I want to inform you about the recent progress we have made on our sustainable palm oil journey. By the end of 2014, all of the palm oil directly sourced for our food business in Europe will be traceable to certified plantations. We can now demonstrate traceability to a consumer product and this is no small feat as we were told this was impossible five years ago. Our decision to source the palm oil used in our foods business in Europe from segregated sources was the result of an extensive tender to consolidate our sourcing to a few selected long-term palm oil suppliers for the European region.

We have also made good inroads toward traceable and certified palm oil for our Australian and Brazilian markets. These are small yet significant achievements. The remainder of our palm oil volumes, where supply chains are currently too complex to achieve traceable and certified supply, will continue to be covered with GreenPalm certificates.

To make progress on traceability, we started using the palm oil traceability reporting platform KnownSources. As a first step, we asked our suppliers to trace the palm oil we buy back to identified palm oil mills. We have GPS coordinates for the location of each mill, allowing us to assess deforestation risks and social risk parameters.

Overall, we can now report that 58% of the palm oil in our supply chain is traceable to known mills. We have visibility of over 1,800 crude palm oil mills, which we estimate to represent more than two-thirds of the total number of crude palm oil mills that exist in the sector.

While this is good progress, we recognise that we need to do more to reach 100% traceability, and go further in working with our suppliers to identify how we source palm oil that is traceable back to the plantation on which it was grown.

The palm oil supply chain is very complex and at the same time, largely opaque. This journey to traceability is not an easy one. However, our progress has reinforced our determination to bring the rest of the palm oil industry on board to collectively commit to traceability and make the industry a more transparent one to then drive its transformation to sustainability.

Dhaval Buch
Chief Procurement Officer

At Unilever, we believe that a profitable and sustainable palm oil sector must achieve the right balance of social, environmental and economic objectives. It is a shared responsibility among governments, the private sector and civil society to work towards a shared solution to halt deforestation and drive positive economic and social impact for people and local communities.

The second half of this report provides a brief update on our actions to drive market transformation, our progress creating transparent supply chains, and the opportunities and challenges we see ahead for Unilever as well as the wider business community.

We also present some of the lessons we have learned over the last twelve months. Smallholder farmers, for example, are a critical part of Unilever's supply chain and we are firmly committed to improving their livelihoods and incomes. We see the importance of sourcing palm oil from smallholders and will prioritize purchasing from suppliers that have volumes that can be traced to known smallholders. The biggest challenge we face is increasing the productivity of smallholders in the sector, and ensuring that the socio-economic benefits of growing palm are felt by smallholders and local communities. We will continue working with our stakeholders including NGOs, suppliers and governments to address these, and other, challenges.

No one company can protect forests on its own. Governments, business and civil society must work together. So we are proud to play our part in the Consumer Goods Forum (CGF), where we co-chair the CGF working group charged with delivering the CGF Board Resolution to help achieve zero net deforestation by 2020, and collaborative initiatives such as the Tropical Forest Alliance 2020 (TFA). This is a partnership between the CGF, the governments of Norway, USA, UK, the Netherlands, Indonesia and Liberia, and a large number of NGOs with the goal to eliminate deforestation from supply chains of consumer goods companies. To get to even greater scale we need to align the actions of business with the public policy agenda, and so we were deeply engaged in support of the New York Declaration on Forests announced at the UN Climate Summit in September.

Our vision is that, by 2020, we will achieve a transformation of the palm oil sector in which the entire industry will move to 100% sustainable palm oil. We are convinced that through our engagement and partnerships with stakeholders we can and will make this happen.

Jeff Seabright
Chief Sustainability Officer



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CHAPTER 1:

UNILEVER AND SUSTAINABLE PALM OIL

1.1 Unilever's campaign for sustainable palm oil

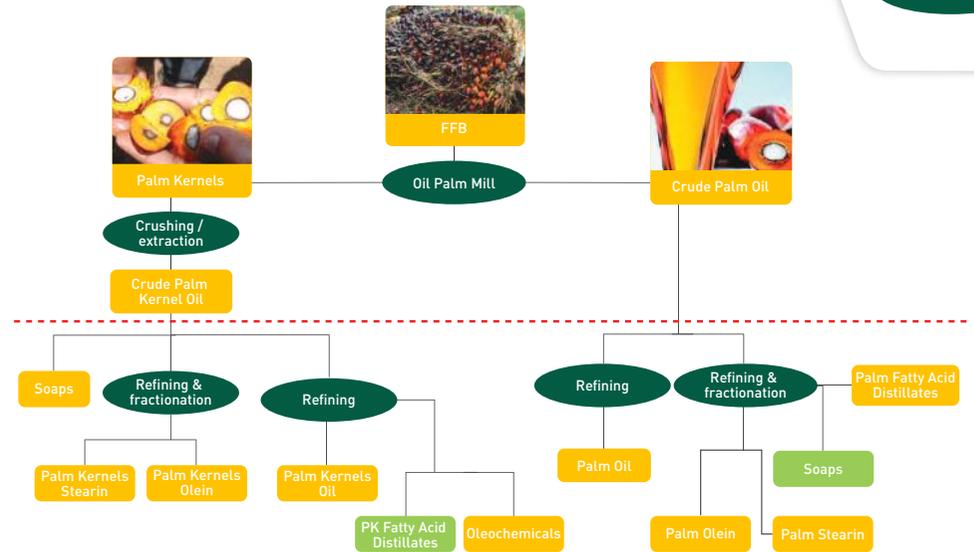
Palm oil is a versatile and important vegetable oil, which is used as an ingredient in both food and non-food products. The oil palm tree gives the highest yield per hectare of any vegetable oil and is the most land-use efficient vegetable oil crop. While palm oil has many positive attributes, there is a strong link between the way in which it is grown and deforestation. Deforestation is a major contributor to climate change, accounting for up to 15% of global emissions. Over half of the world's deforestation is linked to land conversion to produce agricultural raw materials. Unilever is determined to work with the palm oil industry to drive deforestation out of its supply chain.

Unilever is one of the world's largest buyers of palm oil for use in products such as margarine, ice-cream, soap and shampoo. It purchases 0.5 million tonnes of crude palm and palm kernel oil, and a further 1 million tonnes of derivatives and fractions annually, which is about 2.6% of global production.



Palm Oil Process: from Fruit to Derivatives

The flow chart below details the various streams of sourcing and extraction that make up the palm oil process. The functions above the dotted line depict the process from harvesting of fresh fruit bunches (FFB) to the production of crude palm oil and Crude Palm Kernel Oil. The functions described below the dotted line indicate the levels of refinement involved in the production of palm oil derivatives and fractions.

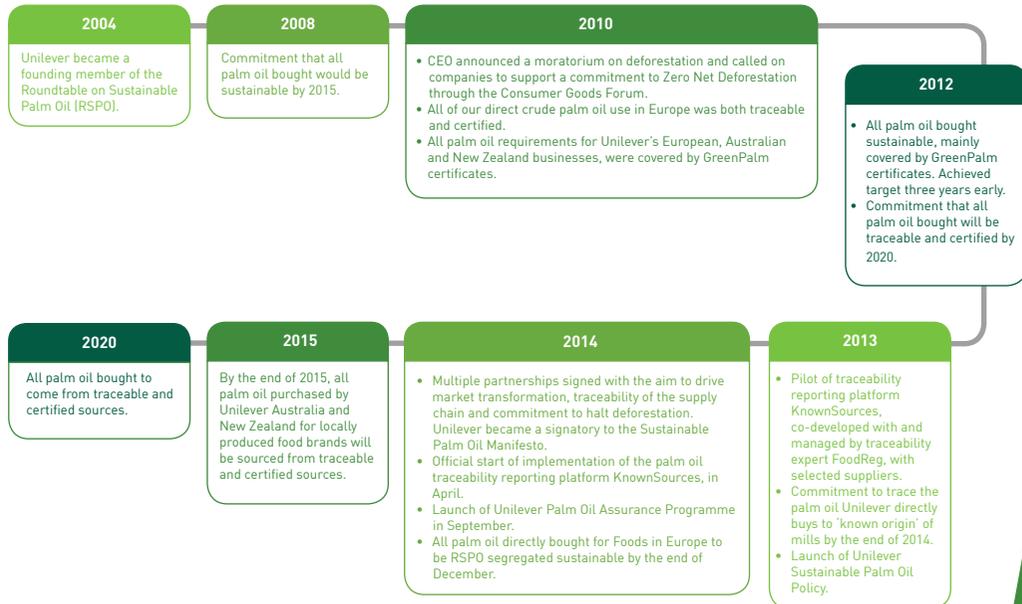


Key Materials purchased

Other materials

Process

Unilever's Sustainable Palm Oil Journey



1.2 Importance of traceability to bring Unilever's Sustainable Palm Oil Policy to life

Building on the Roundtable for Sustainable Palm Oil (RSPO) Principles & Criteria (P&C) as a foundation, Unilever's Sustainable Palm Oil Sourcing Policy is designed to drive market transformation by working with key suppliers and the wider industry to halt deforestation, protect peat lands and drive positive economic and social impact for people and communities. These principles are vital to create a sustainable palm oil industry.

NO DEFORESTATION



PROTECT PEAT LANDS



POSITIVE IMPACTS FOR PEOPLE



To achieve progress on these three key principles it is crucially important to accelerate traceability of palm oil as a starting point. Knowing the origins of our palm oil is crucial to understanding and planning for the changes that are needed.

We are taking the following steps to implement a transparent and traceable palm oil supply chain:

- Trace palm oil back to an identified "universe" of palm oil mills.

"Universe" of palm oil mills means that the origin of palm oil used in the manufacturing of our products is known to an identified universe of originating mills. This requires that our direct suppliers disclose the universe of mills for the palm oil volumes received into their processing sites that supply Unilever directly. This is important to understand the sustainability credentials of the palm oil growers supplying these mills.

- Risk identification of associated plantations within a 30-50km radius of the crude palm oil (CPO) mill

The visibility of originating mills will enable Unilever to build joint roadmaps with our suppliers to identify environmental and social risks in associated plantations and ensure that they can comply with our sourcing policy, and eventually attain RSPO certification.

- Accelerate important sourcing supply sheds to sustainability

By having visibility of our originating mills, we can prioritise clusters where we have a high concentration of mills to determine how we accelerate these geographical supply sheds to sustainability. Unilever will collaborate with key stakeholders including suppliers, NGOs and governments to accelerate the transformation of these supply sheds to sustainability.

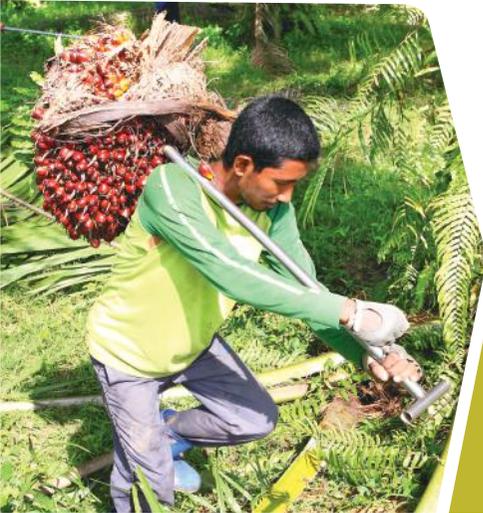
- Support inclusive business models for smallholders

Taking a supply shed approach presents an opportunity to identify smallholders within the supply shed to determine the best approaches to increase their yields. Such interventions both support an inclusive business model for smallholders, and make a positive impact on eliminating deforestation.

CHAPTER 2:

PROGRESS IN 2014

2014 has been a defining year for shaping our ability to create a more transparent palm oil industry. Unilever is working with a number of key partners to develop tools for accelerating traceability and identifying risks. We have achieved considerable progress. However, there is still more to do.



2.1 Enabling critical markets to accelerate

Europe and Australia/ New Zealand are leading the way with consumers demanding more sustainable palm oil. Back in 2010, all the palm oil requirements of our European business, as well as our Australian and New Zealand businesses, were covered by GreenPalm certificates. By the same year, all of our direct crude palm oil use in Europe was both traceable and certified.

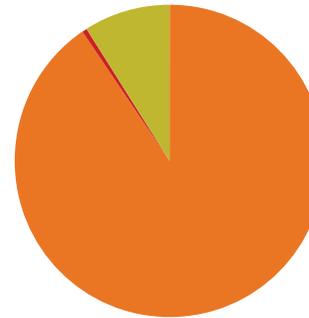
By the end of 2014:

- All palm oil bought for Unilever's food business in Europe will be traceable certified (RSPO segregated sources). This commitment expands beyond crude palm oil, to include all palm kernel oil, palm oil fractions and blends and represents 9% of Unilever's annual global volumes;
- Two of our global personal care factories will start using RSPO mass balance certified palm oil;
- Remaining volumes of Unilever's palm oil use will be covered with GreenPalm certificates.

Moving towards traceable certified palm oil in Europe has not been straightforward, as the majority of the palm oil we use in the region is in the form of blends, fractions and derivatives e.g. palm stearin. Our decision to convert the region to traceable certified resulted in a tender to consolidate our sourcing to a few selected long-term suppliers for the region. All of the palm oil sourced for our foods business in Europe is now traceable to certified plantations. These are small yet significant achievements, but we recognise that on a global scale, the availability of segregated palm oil supply chains is limited as demand is currently very low in regions outside of Europe.

While the sourcing of traceable and certified palm oil for Unilever's food business in Europe is an important accomplishment, we recognise that bringing more transparency upstream from mill to move associated plantations to sustainable practices will be the most impactful difference that Unilever can make.

Progress on Traceable Certified Palm Oil



GreenPalm certificates 90.5%

Mass Balance 0.5%

Segregated 9%

2.2 Co-developing a traceability reporting platform

Driving market transformation for sustainable palm oil requires that we start by identifying where efforts to improve sustainable practices are most needed. Unilever's view is that this process (of identifying where improvements are needed) starts at the source, where fresh fruit bunches are being processed. Without this, the origins of our palm oil are unknown and plans to implement sustainable practices are impossible. Knowing the source requires a traceability system.

So Unilever has partnered with traceability systems experts FoodReg to develop the KnownSources tool. The tool enables a consistent means of reporting traceability and origin of supply. It also incorporates a built-in function that allows for the sharing of traceability information between inter-connected companies within a specific supply chain. This functionality enables the creation of networks where traceability data is shared in the security of the system, reducing the duplication of individual companies each identifying their own supply chains.



2.3 Progress on KnownSources

In April 2014, Unilever started the implementation of KnownSources with our suppliers. As of September 2014, Unilever has visibility of approximately 1,800 CPO mills. 95% of the reported mills are in Indonesia and Malaysia, with the remaining 5% spread across the rest of Southeast Asia, Latin America, Africa and South Asia. This visibility will not only benefit Unilever, but the whole industry as we intend to make public the dataset of mills.

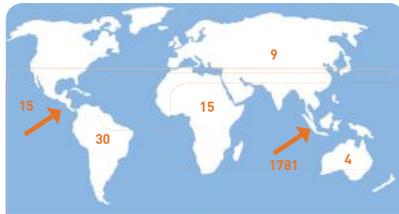


Figure 1 – Global Distribution of CPO Mills in Unilever's supply base

- 2054 CPO mills reported in Known Sources data base
- 1844 CPO mills can be geo-located to a specific country
- 95% of reported suppliers (1772 of 1844) occur in Indonesia (824) and Malaysia (948)

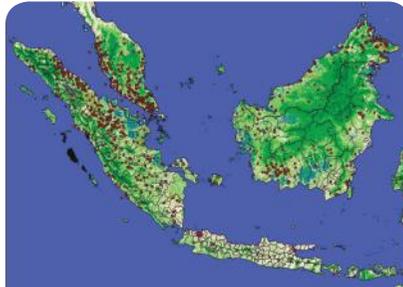


Figure 2 – Distribution of Unilever's CPO mill supply base in Indonesia and Malaysia

Progress on traceable known sources

Based on the interim results of data provided by our suppliers at the end of September 2014, 58% of the palm oil reported in our supply chain was traceable to a universe of palm oil mills. The data was provided by 108 suppliers responsible for 79% of our palm oil volumes on the KnownSources system. Through this process, we have changed the way we are doing business and have begun delisting suppliers who are unwilling to work with us on traceability.



Palm Products Purchased Between Jan – Sep 2014

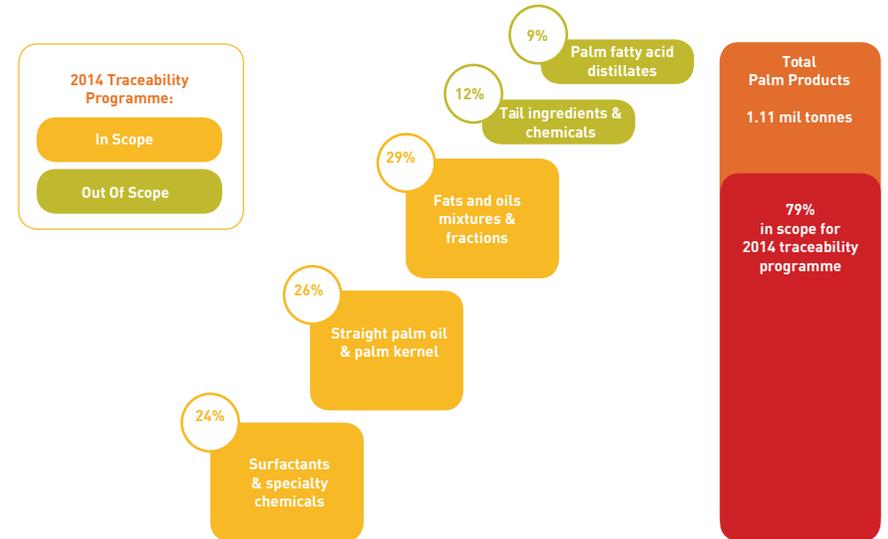


Figure 3 – Representing the breakdown of Unilever's consumption of palm oil. Our 2014 traceability programme covers 79% of our total volumes. Currently exclusions include the derivatives of palm fatty acid distillates, which are by-products of the refining process, and tail ingredients and chemicals. These represent very small volumes in our products. These materials are processed by third party manufacturers.

Palm Product Traceability Jan – Sep 2014



Figure 4 - represents the breakdown of % traceable volumes and that which is unknown.

Co-developing a supply base risk Profiling Methodology

Unilever appointed a third-party consortium of Proforest, Daemeter and Rainforest Alliance to implement our Palm Oil Assurance Programme. The intention of the assurance programme is to start identifying areas where Unilever can jointly work together with our suppliers at ground-level to meet our Sustainable Palm Oil Policy commitment by 2020 or earlier.

A risk methodology was developed, which allows prioritisation of focus areas based on combined risk factors and the non-compliance with Unilever's policy. The parameters include:

- a. Forest cover including primary forest cover
- b. Peat land extent
- c. Deforestation between 2000-2012
- d. Deforestation trends
- e. Fire hotspots
- f. Identified number of mills supplying Unilever in the focus area

The outcome of the risk methodology will enable us to identify risk factors in Unilever's supply base, such as those influencing the future likelihood of deforestation, peat land development and fires. The mapping of areas of highest risk will allow us to focus on mitigating risks in relevant supply sheds where there are large concentration of CPO mills by engaging suppliers to improve practices. The Consortium is also working with other stakeholders, including World Resources Institute (WRI), with whom Unilever signed a partnership earlier this year, to align risk assessment methods. The risk assessment methodology will be ready to pilot from the end of this year and will ultimately be a publicly available resource.

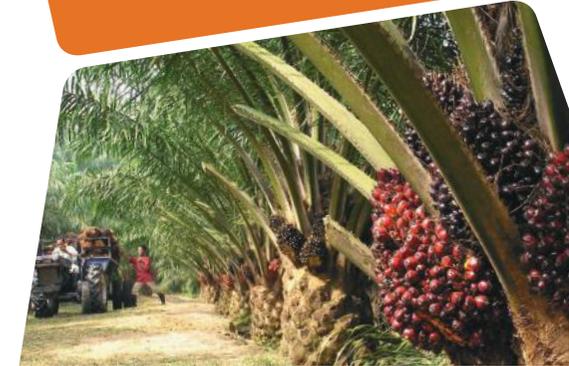
Unilever is working with the consortium to expand the risk methodology to input social parameters and develop tools and approaches for detecting, mapping and addressing social issues in our supply chain. This with the aim of informing strategies to improve social performance of our suppliers. Consortium members have begun to develop a common social and environment risk assessment methodology that will be ready to pilot from the end of this year.

CASE STUDY Cikarang Factory Indonesia

Unilever's factory in Cikarang, in West Java, Indonesia, uses palm oil as an ingredient for the manufacturing of spreads, savoury products and cooking oils for the Indonesian domestic market. Palm oil supplied to our Cikarang factory comes from three Indonesian suppliers. As part of our goal towards creating a traceable and certified supply of sustainable palm oil we have taken a detailed look to understand the traceability of palm oil into this factory.

Working in close partnership with our suppliers, and using the FoodReg system, our analysis indicated that up to 80 CPO mills collectively supply our Cikarang factory. We were able to break the number of mills down per supplier. This data was used to inform the initial phase of risk analysis work in priority regions.

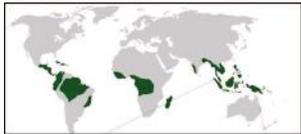
Unilever's plan is to widen this analysis to mill level for all regions and landscapes from which we source palm oil. Having this level of traceability will give Unilever visibility of its complex supply chain, after which we and our suppliers can identify areas of joint partnership in order to ensure compliance with our Sustainable Palm Oil Policy and contribute to transforming the sector.



TIER 1 Global Exposure & Risk Assessment

Tier 1 Risk Assessment aims to provide:
[a] global summary of CPO mills in each country and high level profile of risk factors (e.g. forest, deforestation, peat, fires) and [b] sub-national occurrence of mills in different geographies, using Indonesia as a case study.

A

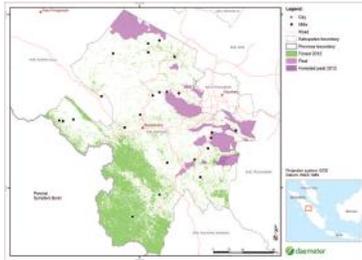


B



TIER 2 Mill Based Risk Profiling in Targeted Geographies

Tier 2 Risk Assessment provides summary of CPO mills and associated risk factors (e.g. forest, deforestation, peat, fires) in different provinces and districts of Indonesia.



TIER 3 In-depth Mill Based Risk Analysis for Targeted Suppliers

Tier 3 Risk Assessment provides in-depth description of risk factors (e.g. forest, deforestation, peat, fires) within potential supply sheds of selected suppliers operating in priority regions identified in Tier 2 risk profiling.



2.4 Lessons learned on Traceability

Since the roll-out of our palm oil traceability programme at the end of 2013, and our suppliers' tireless efforts inputting data on where their raw materials come from into the KnownSources traceability platform:

- we have been able to understand what percentage of our purchased materials can be identified as from a known source (CPO mill).
- within our Palm Oil Assurance Programme, the data on CPO mills as provided by our suppliers has allowed us to analyse and identify sustainability risks where the palm oil is being produced.

We have identified several major difficulties that make traceability of palm oil particularly challenging. We take this opportunity to share the ways in which we are tackling the challenges as we believe these are applicable throughout the industry:

While traceability is the necessary starting point to transform our supply chain, we operate in a highly complex supply chain with a high reliance on small traders and processors who are prevalent across South Asia, Latin America, the Middle East and North Asia. We need to work together to drive awareness of the positive impact of traceability in the long-term among all members of the industry. This is a critical step to achieving our collective goal of a sustainable palm oil industry. By using KnownSources as a means for traceability reporting, we have a robust system in place with clear definitions.

Readiness of the industry for traceability reporting

During the implementation of the KnownSources tool, it has become clear to us that some of our suppliers have limited visibility of the origin of their materials. We found that much more time is needed for readiness in the industry to allow for origin information to cascade through the various points in the supply chain. Gaining supplier trust is also critical. Despite KnownSources being an independent and confidential tool, a lot of assurance is needed to make suppliers feel comfortable to disclose sourcing data into the system.

We recognise that these challenges need to be addressed in partnership with our suppliers, peers, and other players in the industry. Recognition of these complex issues by the wider sustainability community would also be helpful to create a more constructive environment for driving traceability and transparency of the supply chain.

Purchases through commodities trading

Many companies trade palm oil like a commodity as part of a margin maximization sourcing strategy. This involves an agreement between buyers and sellers, where the price is fixed before the physical exchange of the commodity. However, the market has evolved to include multiple trades, primarily as a means of price risk management and as a strategy to maximize margins. The price and shipment date is fixed in advance of delivery and palm oil may have gone through numerous trading hands before the delivery of the physical oil.



Figure 5 - Schematic depiction of phased approach for risk assessment of CPO mills feeding into Unilever's supply chain.

These transactions do not require a specification of palm oil origins, and thus the physical oil purchased through this process cannot be identified to its originating mill. Companies who buy palm oil through commodities trading therefore have limited ability to report on mill origin. This has been an issue for some of our suppliers who purchase palm oil this way, mainly in India and China.

Unilever estimates that between 15-20% of global palm oil transactions are traded this way and it is common practice for many large companies to hedge price risk as part of a procurement strategy.

Government controlled palm oil purchases

In some countries, the purchase of palm oil is protected nationally and is a controlled market. Often, sales must also go through specific government-run companies. This means that there is no option to select suppliers that can provide sustainable or traceable palm oil. In this situation, requiring the reporting of traceability or even sustainability can be difficult or impossible as there is no ability to obtain the information. This causes some limitations to some of our suppliers in reporting traceability, and has affected traceability reporting in some countries in Latin America.

Oleochemicals and derivatives

Oleochemicals derived from palm and palm kernel oil are used in several Unilever Home and Personal care products, for example shampoos and detergents, and make up one fifth of our palm based oleochemicals purchases. Oleochemicals are manufactured by industrial processing of crude palm oil or crude palm kernel oil in complex manufacturing plants, often involving multiple stages of conversion.

These complex conversion steps are often carried out in sequential operations often involving multiple stakeholders. This makes it extremely difficult to achieve traceability of oleochemicals.

For some chemical producers that do not have vertically integrated operations (i.e. do not have their own crude palm oil mills and plantations), it is therefore difficult to identify the crude palm oil mill origin for fatty acids or alcohols that they purchase. While they may know that the materials were of palm origin, obtaining origin information requires cooperation from their suppliers and the suppliers before them to provide the required origin information. For many of the smaller companies that produce chemicals, traceability information is particularly difficult to obtain. For traceability to be the norm for chemicals, it would require the entire chemical industry to make available origination information at every stage (such as in the dairy industry).

Traceability of palm kernel

Palm kernels are sourced from very wide catchment areas and also have longer storage times, allowing them to be transported across longer distances from source. Palm kernels are passed through numerous traders before being crushed into oil, which makes it difficult to estimate the traceability of the supply base of palm kernels back to known crude palm oil mills. Our suppliers have identified this as a big challenge for traceability that needs to be tackled collectively.

Unilever is investing in a palm kernel oleochemical facility in North Sumatra to help us get closer to achieving traceability in our oleochemical supply chain. The facility is expected to be operational in the first quarter of 2015.



2.5 Segregated supply chains resulting in two tier markets

The global scale of segregated palm oil supply chains are still far from becoming a norm. The demand for segregated certified palm oil comes mainly from Europe. The companies at the front of adopting segregated certified supply chains end up paying a very high cost for segregated palm oil, and they represent only a small segment of palm oil users. There is a real risk that the market will be split if the majority of companies are not concerned about obtaining segregated sources. This is evident by the low interest for sustainable palm oil coming from markets in India, China and the domestic market in Indonesia (making up half of the global palm oil market).

Wilmar's progress on traceability

Wilmar is an important supplier of palm oil to Unilever. In December 2013, Wilmar made a commitment to an integrated policy of "No Deforestation, No Peat and No Exploitation" in an effort to accelerate the market transformation for responsible palm oil. With this pledge, Wilmar has worked towards ensuring both the Group's plantations and companies from which it sources will provide products that are free from links to deforestation or human rights abuse. Core to this policy is a commitment to map out a traceable supply chain back to source by end 2015.

Since starting its supply chain mapping exercise, Wilmar has made good progress improving the visibility of its palm oil supplies. The locations of the mills are required in order to conduct an assessment of the potential risk in relation to forest reserves, peat soils, deforestation events and other environmental and social factors. This process helps identify priorities for supplier engagement to discuss Wilmar's policy and its implications with mill owners and their fresh fruit bunch (FFB) suppliers. It also provides greater visibility on the plantation estates, small growers and smallholders in terms of locations, planted and undeveloped areas, existing issues and remedial actions or changes required in order to comply with Wilmar's policy.

Currently, data on traceability back to plantations is largely sourced from Wilmar-owned plantations and RSPO-certified plantations. Wilmar is starting to work with third-party mills to obtain data on their suppliers, including plantations, small growers and smallholders. There are significant challenges associated with the latter categories given the large numbers involved and also the common use of 'agents' who collect FFBs from multiple smallholders. Additionally, the current mapping exercise focuses on crude palm oil and palm kernels, and with the complex and fragmented nature of the multi-tiered palm oil supply chain, traceability for palm derivatives in complex blends for the oleochemical industry will pose another major challenge. Wilmar is working on ways to overcome these challenges.

A case study of Wilmar's Sandakan refinery catchment area in Sabah, East Malaysia, visits have been made to four mills, 13 plantation estates, 10 small growers and 14 smallholders, as well as five FFB collecting centres. Two other mills and a sample of their FFB suppliers will be visited in the coming quarter. Wilmar hopes to share the aggregated outcomes of all of the visits of all of the 52 mills supplying the Sandakan refinery to raise awareness of common issues in the region and steps that can be taken to address them.

The objective remains to encourage transformation throughout the industry, and while traceability is a component of this, it is not an end in itself.

Wilmar believes that aligning the expectations and definitions of sustainability and traceability in the market would also help accelerate the sustainability progress.

CHAPTER 3:

MARKET TRANSFORMATION

Unilever is determined to drive deforestation out of our own supply chains, and have targets in place to source 100% of our agricultural raw materials sustainably by latest 2020.

In palm oil, we want to work with key stakeholders in the industry to transform both our own supply chain and the sector as a whole. We do not expect our suppliers to be fully compliant with our sourcing policy today, but we do require that they declare to us the origin of mills and demonstrate a willingness to work together to achieve the goals set out in our policy.

We focus on partnerships that support our commitment to source all palm oil from traceable and certified sources by 2020.

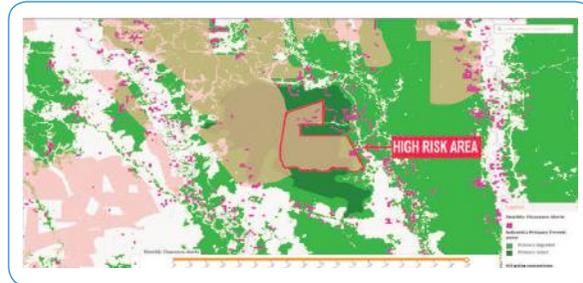


Partnerships:

World Resources Institute

Unilever recently signed a partnership with the World Resources Institute to use the [Global Forest Watch](#) Commodities (GFW Commodities) platform to monitor forest cover change around commodity supply chains and processing facilities. The focus of the partnership is to advance traceability and transparency in the deforestation linked commodity sectors and develop risk assessment tools to strengthen Unilever's risk management efforts for tracking deforestation. Unilever expects to show transparency in our palm oil supply chain using the GFW Commodities tool by end this year.

World Resources Institute and Unilever are partnering to reduce deforestation in key commodity supply chains



Creating opportunities for smallholders

Unilever is firmly committed to smallholder farmers by improving their livelihoods and incomes. Smallholder farmers are a key part of Unilever's supply chain. We see the importance of sourcing palm oil from smallholders and will prioritize purchasing from suppliers that have volumes that can be traced to known smallholders.

We have had some success in getting smallholders, especially those who are contractually linked to mills, certified to RSPO standard. This work has largely been driven by the plantation companies. However, we have had less success scaling up the certification of independent smallholders. Many of the large oil palm producers and traders do not have an effective model of engaging directly with independent smallholders, who are largely invisible in the supply chain. Meanwhile smallholder expansion is increasing, especially in frontier areas bordering national parks, potentially leading to deforestation.

The main barriers to sustainable certification for smallholders include the steep learning curve with no immediate "pay-off" and the lack of "funnels" for smallholder supply to the global supply chain. This means that certified smallholders are not able to sell their fresh fruit bunches as certified.

Our traceability mapping will enable us to identify key sourcing mills with large smallholder bases. By working with identified long-term Unilever suppliers in a specific supply area, Unilever can start to identify smallholder supply sheds to deliver the required palm oil volumes to Unilever's manufacturing sites. In return we will actively partner with suppliers to help achieve smallholder certification, improve yields and achieve higher incomes.

Unilever is involved in two pilot partnerships focused on smallholders:

Partnering with [Solidaridad](#), an NGO headquartered in the Netherlands, to support the integration of smallholder farmers into the Unilever supply chain in Ghana, Nigeria and the Ivory Coast. The partnership supports smallholder producers to obtain RSPO certifications.

The project is currently focused on Nigeria and Ghana. Solidaridad are partnering with Proforest in the region to assist palm oil companies and their supplying smallholders to become RSPO certified; during 2014, Benso Oil Palm Plantations (BOPP) became the first Ghanaian company to be certified.



Partnering with IDH, the Sustainable Trade Initiative, and PT Perkebunan Nusantara III Persero (PTPN III), a government-owned palm oil plantation company, to develop a programme to help independent smallholders located in North Sumatra to increase their productivity and quality, access to finance and achieve RSPO certification.

The programme will start with a prototype consisting of 182 independent smallholders with around 1,270 hectares of land. The plan is to scale up and roll out the programme to include the rest of PTPN III's independent smallholders sourcing base.

We believe that focusing on the transformation of supply sheds and the opportunity to improve smallholder yields, will lead to more effective programmes to support the inclusion of smallholders into sustainable supply chains. Any intervention aimed at reaching large numbers of smallholders in the palm oil industry must involve the participation of governments (national and local district level) and the private sector. Unilever is therefore keen to work with industry partners to develop effective models for engaging with smallholders.



Advocacy

We can only end deforestation if all parties join forces. If we meet all of our own sourcing targets but no-one else follows us, we will have failed. So we are heavily involved in leading initiatives to drive market transformation at both a consumer goods industry level and at a multi-sectoral level.

At an industry level, in 2010 Unilever helped gain agreement on a commitment to Zero Net Deforestation by 2020 by the [Consumer Goods Forum \(CGF\)](#). The CGF includes all the world's major consumer goods manufacturers, retailers and service providers, with combined sales of \$3 trillion.

At a multi-sectoral level, Unilever co-founded the [Roundtable on Sustainable Palm Oil](#) in 2004 and has helped lead the formation of the [Tropical Forest Alliance 2020 \(TFA 2020\)](#) a public-private partnership between the CGF and the governments of the US, UK, the Netherlands, Norway, Indonesia and Liberia as well as civil society organizations. The TFA 2020 is committed to reduce, and eventually eliminate, the deforestation associated with the sourcing of palm oil, soy, beef, pulp and paper.

Through the TFA 2020, the CGF and our own work with suppliers, we are committed to transforming the market and seeking the elimination of deforestation linked to palm oil.

Most recently, Unilever helped facilitate the New York Declaration on Forests announced at the UN Climate Summit in September, where over 170 governments, companies and NGOs across the world pledged to cut forest loss in half by 2020 and end it by 2030, reducing carbon dioxide emissions by billions of tonnes.

A critical element in driving change and eliminating deforestation is a shared definition of what constitutes High Carbon Stock (HCS) forest, and the establishment of HCS thresholds that take into account environmental concerns as well as socio-economic factors in developing and emerging economies. To this end, Unilever supports the [High Carbon Stock Study](#). This is a panel of internationally renowned, independent scientists who are undertaking research that will help define a standard for High Carbon Stock (HCS) forests. This scientific work is being led by Professor John Raison, Chief Research Scientist at the Commonwealth Scientific & Industrial Research Organisation (CSIRO) and is being undertaken under the auspices of the Sustainable Palm Oil Manifesto group.

Zero deforestation overall will only be achieved if and when governments focus their efforts to change their land use policies and create incentives for reducing deforestation. Supply chain commitments such as from consumer goods companies can play a crucial role in securing and deepening those gains. However, if these commitments are pursued separately from policy frameworks, they risk falling short of their potential.

CHAPTER 4:

CONCLUSION

Unilever's campaign to halt deforestation, protect peat land and drive positive impact for people and communities will continue. Our work since the mid-1990s has seen good progress, but 2014 has been a defining year for shaping our ability to create a more transparent palm oil industry with the aim of transforming our own supply chain to a traceable and sustainable one. We hope that the lessons we have learned will help to rally the wider industry to seek solutions that will lead to a broader transformation of the sector.



The main outcomes of our traceability work in 2014 to-date have been the following:

- A significant number of mills in our supply base, 1844, have been made transparent to Unilever. We estimate this to represent more than two-thirds of the entire palm oil crude palm oil mill base.
- We have greater visibility and better understanding of where untraceable sources come from, and where we will need to work with our peers to accelerate greater transparency in supply chains such as the traceability of palm kernels and oleochemicals.
- 95% of our palm oil is sourced from Malaysia and Indonesia. We have developed a risk methodology for understanding the risks associated with sourcing regions and are working in partnership with WRI and our assurance partners to monitor, track and mitigate those risks that are identified in our supply chain.

We believe this represents good progress, but we also recognise that we need to do more to accelerate our efforts.



WATCH THIS SPACE

The next sustainable palm oil progress report will be published in May 2015. It will coincide with the anniversary of the Unilever Sustainable Living Plan, and will provide our full 2014 traceability achievements against our targets.

For more information about Unilever, please visit www.unilever.com

Additional Information:

FoodReg is a specialist traceability solutions provider that has implemented traceability solutions for food safety, standard compliance, process efficiency, marketing and brand assurance and sustainability monitoring. They have experience in the agro-food industry including palm oil and fruits and vegetables. Unilever started working with FoodReg to co-develop a palm traceability reporting platform in 2013, and is subsequently supporting them in making this an industry wide platform.

Proforest, Rainforest Alliance and Daemeter formed a consortium for the purpose of delivering an assurance programme for Unilever focusing on supply chain mapping and traceability assessments, risk assessments including spatial analysis and mapping, sustainability compliance assessments. For more information click [here](#).

Disclaimer: data presented in this report is based on numbers provided by our suppliers in the KnownSources system by September 2014. Verification of the FoodReg tool is still ongoing by the consortium (Proforest, Daemeter and Rainforest Alliance). This data has not been audited.