

Proactive Supplier Monitoring: Supplier Group NDPE compliance

Introduction

Wilmar International Limited (Wilmar) is the world's largest processor and merchandiser of palm and lauric oils, with oil palm plantations in Indonesia, Malaysia, and West Africa. We recognize we have the responsibility and ability to steer the industry towards more responsible and sustainable practices. In December 2013, we made a commitment to drive sustainable practices and accelerate transformation in the palm oil industry, by announcing our No Deforestation, No Peat, No Exploitation Policy (NDPE Policy). The NDPE Policy extends across Wilmar's entire supply chain, including our joint ventures and third-party suppliers, differentiating it from commitments that have been made by other companies.

With over 1000 direct suppliers in our supply chain, we have invested substantial resources in developing extensive programmes to socialise and implement our NDPE policy across our supply chain. As part of our full verification framework for supplier compliance, in addition to the ART approach at refinery level, the Supplier Reporting Tool, and Grievance mechanism. Wilmar also launched the Supplier Group Compliance (SGC) verification programme in December 2013, to proactively monitor risk of association at supplier group level.

The SGC verification programme, was developed and is executed with support from [Aidenvironment Asia](#). Today, the SGC verification programme monitors more than 11 million hectares, which covers 117 parent groups **representing approximately 1,500 individual plantations** and close to 500 mills, spanned across Malaysia, Indonesia and Papua New Guinea.

Approach

Whilst our [Grievance List with Progress Updates](#) sheds some insight into the nature and impact of the SGC programme (also referred to as Wilmar's Proactive Supplier Monitoring), the results of the monitoring was originally intended to provide Wilmar with internal information to help identify issues in real time and engage as quickly as possible with suppliers. This has resulted in many cases being resolved before escalating to public grievances. Many of the grievance cases that we have logged to date were already being handled prior to becoming public information.

The SGC verification programme complements our work on traceability to mill and mill assessments under the ART approach. The scope of the SGC program is broader as it considers the supplier company group (i.e. parent company group with all subsidiaries) with whom Wilmar has a business relationship through procurement of palm oil products.

In order to provide more transparency to this process, we will as of September 2018, be providing monthly updates on this monitoring that we do on supplier groups on our sustainability dashboard.

As part of our contribution to the industry's transformation to sustainability, Wilmar accepts its 'accountability by association'. This means that Wilmar will intervene if a supplier, or a company linked by ownership, is involved in activities that are non-compliant with NDPE policy, even when we do not procure palm oil from the particular mill or plantation, or do not intend to do so in future.

Given our pivotal role in the value chain, we recognise our ability to influence our third-party suppliers to be NDPE policy compliant throughout all their operations. In practice, this means that we engage our supplier's management in dialogue about potential non-compliance, and we advise them to issue Stop Work Orders (SWO) to relevant management units pending 1) implementation of the suppliers' own NDPE policy, 2) conduct of High Conservation Value (HCV) or High Carbon Stock (HCS) studies, 3) initiation/ conduct of conflict mediation and/or other corrective measures.

The SGC programme helps us screen our suppliers at company group level, document cases on potential non-compliance, engage our suppliers in dialogue about requirements for compliance and to monitor commitments made.

Monitoring Methodology

(1) Screening

The SGC program departs from our publicly available supplier mill list, whereby we have already reported parent companies, which are Wilmar's business partners at company group level. Considering that our mill lists comprises nearly 1,000 mills and hundreds of parent companies, the first step of the SGC programme is the verification of the parent group association by Aidenvironment.

Another step is to collect, process and analyse spatial, corporate, policy and other data to map out the plantation industry and the landscapes in which it operates. This involves the gathering of thematic data such as: concession boundaries, forest land maps, soil maps, land use planning maps, endangered species habitat maps, community claimed lands and government allocations for social forestry and the like.

The screening furthermore involves the continuous checking of land use change in forested and peat areas, and when change is detected, research commences to determine whether the development could be associated with our suppliers.

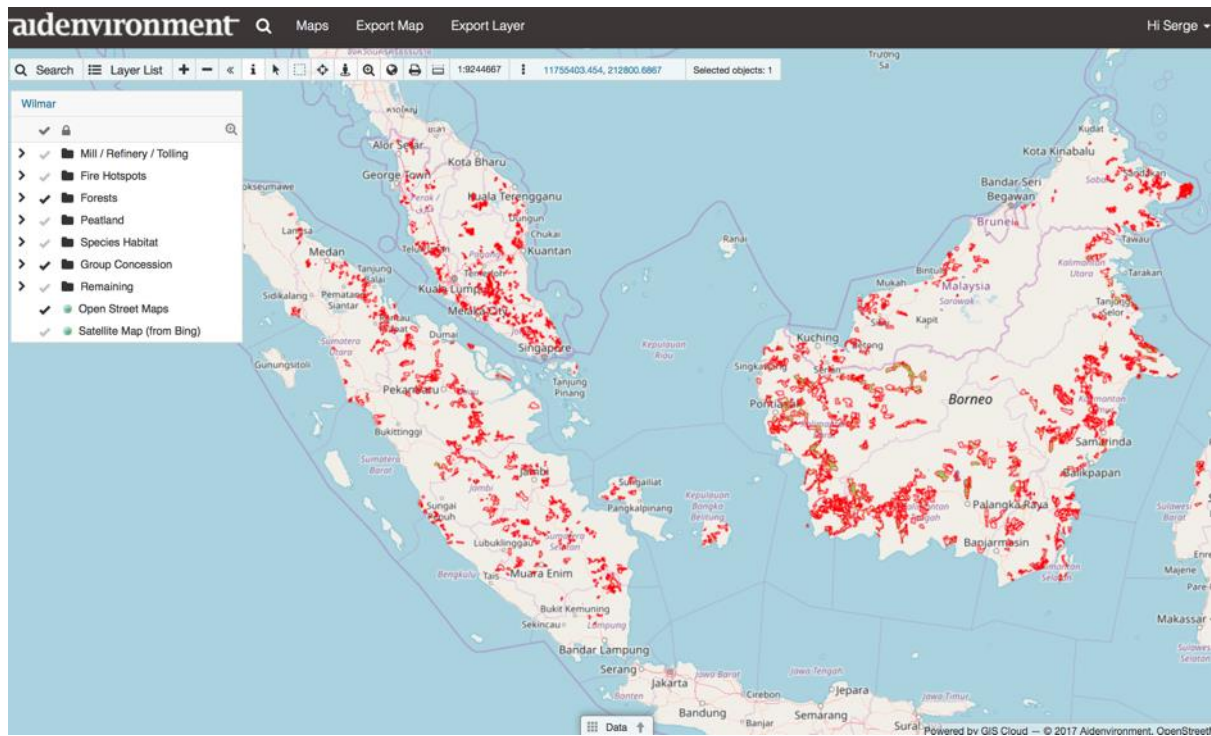


Figure 1 Snapshot of the Webgis platform

The base layers derived from the screening work is uploaded on an online platform, Webgis, which is managed by Aidenviroment. The platform is secured with login requirements and is made available to Wilmar for internal use to establish a baseline for compliance verification. Publication of the screening maps by Wilmar is not possible as the dataset is owned by Aidenvironment and in addition, the base data requires continuous verification and updating.

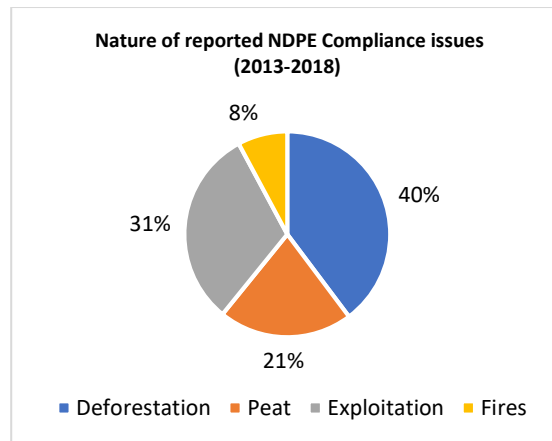
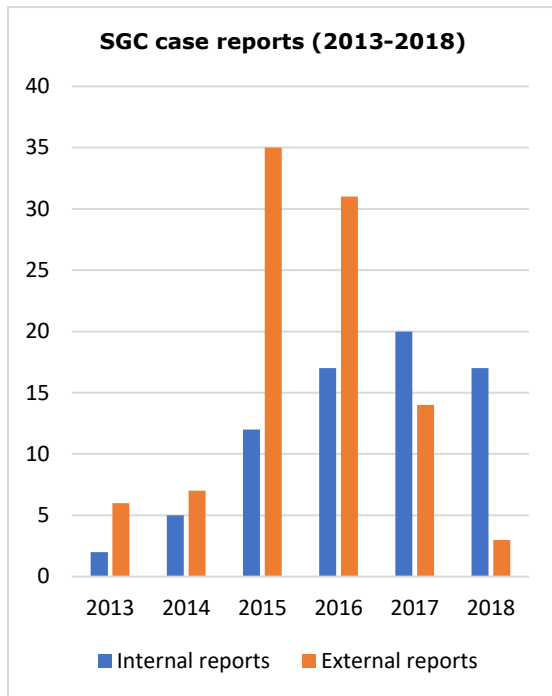
(2) Compliance verification

Aidenvironment has been assisting Wilmar with group level compliance verification studies since December 2013. The studies typically involve the analysis of company group ownership structure, compilation of the group's land bank map and presentation of evidence on potential non-compliance with our NDPE policy. To demonstrate non-compliant land development in forest and peat, desktop study (historical and current satellite imagery as well as thematic map layers) may be complemented with field visits. Local media reports are reviewed to identify risk associated with land rights, labour relations, pollution and Occupational Safety and Health (OSH).

Aidenvironment identifies and prioritises the supplier groups that will be subject to compliance verification each year.

Contributing to our grievance procedure

The studies complement and help to verify the considerable number of externally raised complaints and grievances which are brought forward, primarily by environmental and conservation non-governmental organisation (NGO) and social rights NGOs.



Since 2013, Aidenvironment has prepared 46 case reports and 27 follow up monitoring reports, which Wilmar used to engage our suppliers.

Supplier engagement

We follow up on all SGC case reports and external case reports through bilateral engagement with our suppliers at company group (i.e. owner/management) level. For the cases which are already registered and investigated through the RSPO platform, we will let the RSPO investigation run its course, while we continue to engage with the suppliers for progress update. The process can take weeks to several months, depending on the nature of the complaints. In the case of forest clearance, we will request the supplier to issue a SWO to the management unit, until HCV and/or HCS studies are commissioned and reviewed. In the case of peat development, any land clearing is halted immediately. In cases of social non-compliance, measures are taken that the situation does not escalate further whilst conflict resolution / mediation is taking place. Field visits were often conducted to assist our suppliers to close the gaps in their operations.

We strive to continue the dialogue, offer training and guidance, conduct assessments and monitor progress, in order to change our suppliers' behaviour towards more sustainable practices. However, in instances, where suppliers repeat non-compliant behaviour or appear unmotivated to comply with our NDPE policy, we will suspend trade with the supplier whilst complaint proceedings are ongoing. We have thus far suspended 16 suppliers at a group level, as they failed to convincingly improve its policies and/or actions, supply chain exclusion at a group level has been imposed. This has resulted to more than 1.0 million MT loss of supply to our operation. Out of these 1.0 million MT of volume, only around 10% comes from our direct supplier, the remaining 90% volume was lost due to our supplier's group activities outside our supply chain.

Impact

The SGC program has triggered more than 50 supplier engagements at group level which resulted in a variety of outcomes. Most engagements yielded positive responses and resulted in greater awareness and improved policies and practices. In many cases, our supplier compliance assessment and engagement are independently preceded or enforced by work done by other buyers, government agencies and NGOs.

Example of Supplier Group Compliance monitoring and engagement:

Suppliers that have committed to SWO in specific locations are subject to immediate scrutiny to ensure there are no further forest clearance and new peat development. For example, following external and internal compliance reports, supplier engagement and intense monitoring, forest clearing in the concession below was halted early 2016 after the company, Kencana Agri Group committed to its own NDPE policy.

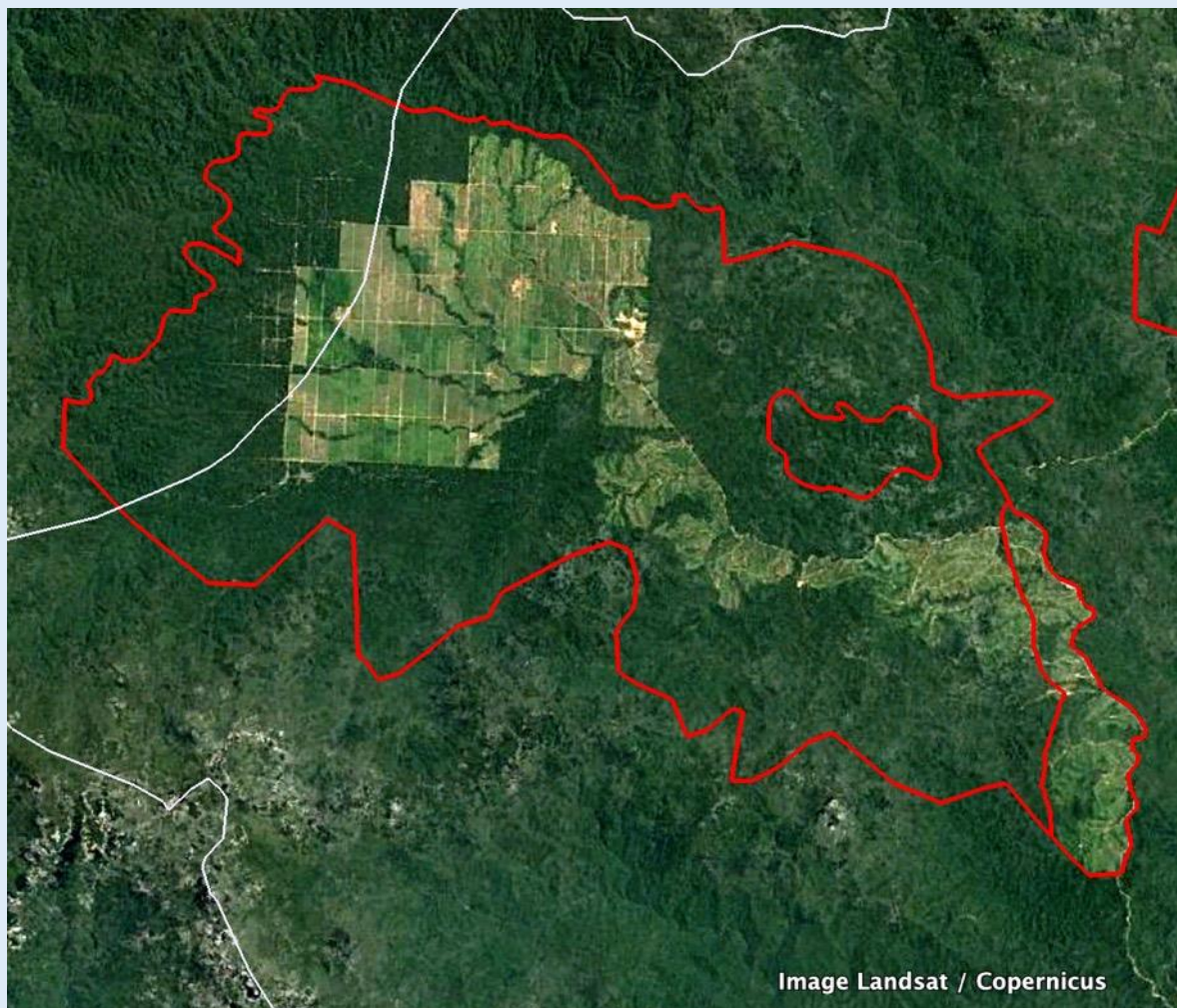


Figure 2 Kencana Agri concession as viewed on the Webgis platform