Palm Oil is an important raw material for Kerry Group and its customers. Despite the well documented challenges within the industry, we recognise the crucial role that palm oil plays in the social and economic development in some regions of the world. Therefore, we remain committed to the responsible sourcing of this commodity from producers and suppliers who share our views on sustainable production and who can demonstrate compliance with the Group’s requirements.

Palm Oil Sourcing

Since the publication of the Group’s Palm Oil Policy in July 2016, Kerry has made significant progress in understanding and mapping the origin and supply chain of its global palm oil volumes and important derivatives like oleochemicals. As Kerry has no direct interaction with palm oil mills, plantations, suppliers or growers of fresh fruit bunches, we have conducted our engagement with direct suppliers who represent more than 95% of our total global volumes. These suppliers are processors and/or refiners, some of whom own mills and plantations, while others buy palm oil from the market for further processing in their own facilities. In 2018, as part of our ongoing assessment, we continued to engage our suppliers on the criteria below.

- Forest protection (policy/management/independent verification). No development on HCS/HCV/zero burning.
- Protection of peatlands (policy/management/independent verification). No development regardless of depth.
- Improvement of livelihood (policy/management). Protect/ respect the position and rights of smallholders and indigenous communities.
- Traceability (policy/management/independent verification). Ability to trace volumes back to mills and/or plantation and smallholder.
- Transparency of policy and progress update frequency (policy/independent verification). Ability and willingness to share data publicly.

In 2018, we have had regular engagement with 11 suppliers who supply us more than 90,000 tonnes annually, representing approximately 90% of our total global volumes. We continued to source all palm oil volumes used within our consumer foods division, Kerry Foods, through RSPO physical certification systems or using RSPO Next Credits. In 2018, we reached our target to use only physically certified sustainable palm oil in all Kerry Foods’ branded products, in line with the commitment in the Group’s palm oil policy. Group wide 37% of our total volumes across all regions are certified under a physical RSPO supply scheme. We provide the option of certified sustainable palm oil to all our B2B customers and continue to promote its uptake globally.

We note the ongoing concerns regarding labour conditions and the use of migrant workers and this continues to be a focus area for us in our discussions with suppliers. Our understanding of the sustainability impacts within our supply chain has been aided by continued progress on traceability for both palm oil and palm kernel oil.

Palm Oil Use

Figure 1: Kerry Taste & Nutrition (tonnes)

- 30,000 Palm Oil
- 38,500 Palm Products
- 20,250 Palm Kernel Oil

Figure 2: Kerry Foods (tonnes)

- 2,800 Palm Oil
- 7,330 Palm Products
- 780 Palm Kernel Oil
Traceability

In 2018, we continued to work towards improving the traceability of the volumes which we purchase. In that 12-month period, over 97% of our total volumes were traceable to the mill, while 51% was traceable back to the plantation. As we progress our responsible sourcing activities, we are happy to disclose that 95% of Kerry's volumes in 2018 were sourced from the following suppliers:

- Aarhus Karlshamn
- Bunge Loders Croklaan
- Cargill
- COFCO International
- Companhia Refinadora
- Daabon
- Felda IFFCO
- Industrializado Oleofinos
- Lipidos Santiga (indirectly)
- Olenex
- Sime Darby
- Wilmar International

Working with Smalholders

The Group's palm oil policy makes a clear call out with regard to the improvement of livelihoods. At Kerry, we understand that the inclusion of smallholders is vital to ensuring that the economic benefits of palm production are shared with local communities. With smallholders accounting for up to 40% of total palm oil volumes, they are a key stakeholder in creating a more sustainable industry.

In 2018, Kerry launched the ILHAM program in partnership with Bunge Loders Croklaan and IOI plantations to support smallholder farmers. Based in Sabah, Malaysia, the ILHAM program is designed to improve production practices at both farm and mill and support smallholders to improve their yields through in-depth soil analysis and the efficient use of biofertilizer. The programme aims to boost the productivity of up to 500 small-scale growers and support them in the implementation of more sustainable agricultural practices. The programme will also assist both small growers and the Fortuna mill in preparing for certification requirements.

For Kerry, it will provide a more direct influence on practices at mill and farm level in the project area and alongside our broader requirements on palm oil, will deliver a positive impact for communities and workers within our supply chain.

Conclusion

Like many users, Kerry is working to support more sustainably produced palm oil and we continue to make progress on the traceability and sustainability of our volumes. Although the industry has embraced many of the well-known challenges and is working towards continuous improvement, there are still many outstanding issues in producing countries where further improvement is required. We believe that these can only be tackled through the constructive participation of all industry stakeholders, including government in the producing countries. As a member of RSPO, Kerry will continue to play an active role in the process and will seek to promote improvements that support sustainable production practices.