

# Nestlé, Nature and People

Annual Report 2021

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### Our Work Around the World

In 2021, Earthworm Foundation continued to help Nestlé implement its <u>Responsible Sourcing Standard</u> and started developing work related to Nestlé's new Produced Sustainably KPIs, despite limitations caused by the COVID-19 pandemic.

Our partnership involves working in countries around the world on palm oil, pulp & paper, and cocoa; as well as on soil regeneration. Our main objectives for 2021 were to increase traceability, improve smallholder resilience and continue working on the transformation of landscapes Nestlé sources from.



Cocoa
In 1 country



Palm oil
In 4 countries



Pulp & paper In 10 countries

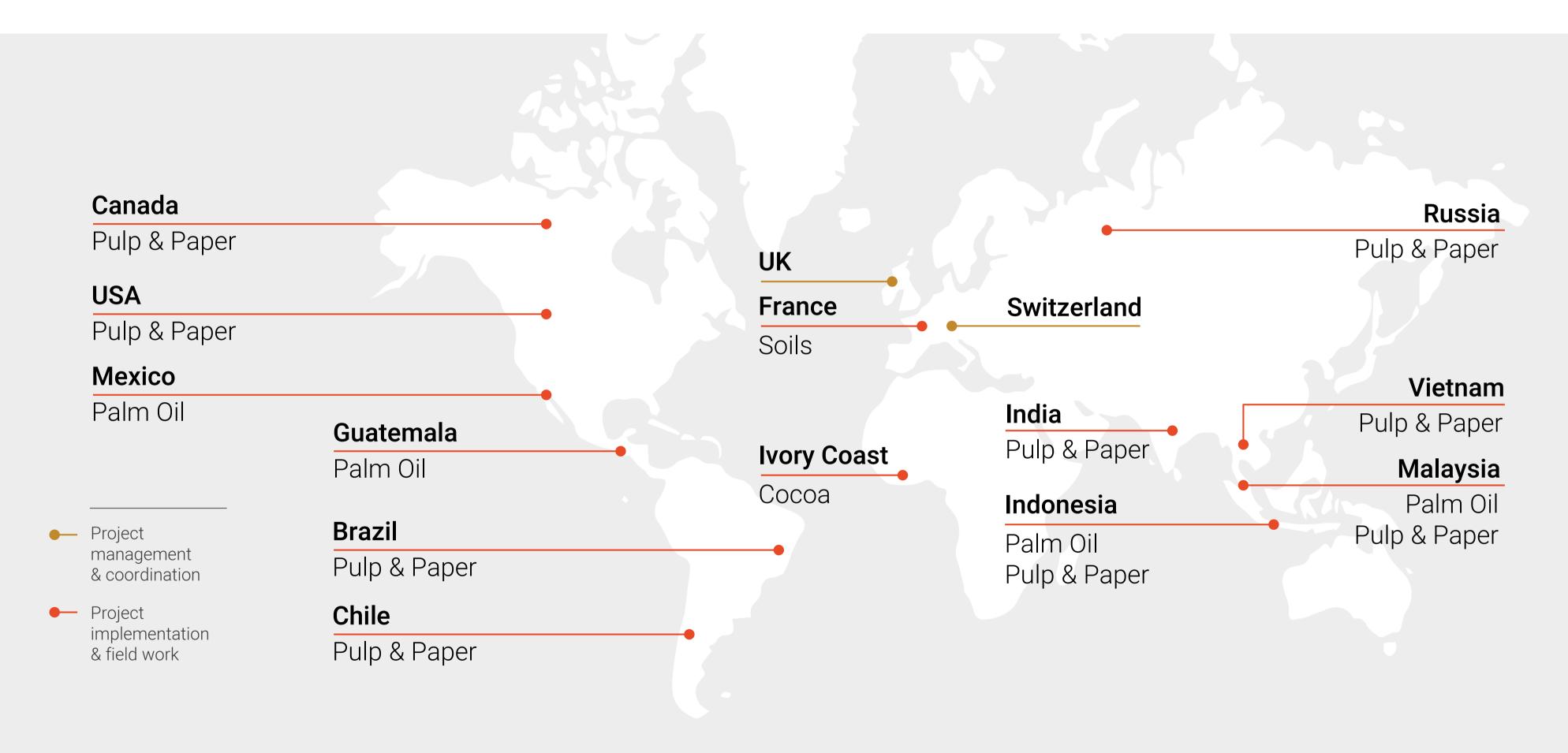


**Coconut**Early stages



Soils
(cereals, potatoes,
sugar beet & vegetables)
In 1 country

### Our Work Around the World





### **⊆** | Global Numbers: Palm Oil (1)





#### 1,778 Global mills

In 2021, Nestlé sourced 467,744 MT of palm oil from 58 suppliers, originating from 1,778 mills in 24 countries.

Supply chain mapping allowed us to trace 97% of the volume back to the mill and 68% to the plantation level.

See this report for results.



#### 91% assessed deforestation-free

In 2021, Starling satellite monitored over 9,000 concession boundaries in Nestlé's palm supply chain to assess if the origins were deforestation-free or if further supplier engagement and investigation was needed. At the end of 2021, 91% of Nestlé's palm oil source was assessed as deforestation-free (after the cut-off date of December 2015).



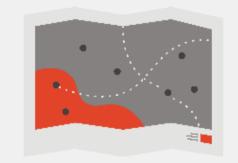
#### **Nestlé's Forest Footprint**

Scaling up Nestlé's Forest Footprint exercise has enabled us to identify areas of standing forest, peatland and customary lands inside palm concessions and in areas suitable for palm expansion in Indonesia (North and East Kalimantan, and Sumatra island). The analysis identified over 1.5 million hectares of forest standing inside palm concessions, of which over 0.2 million hectares are located within concessions connected to Nestlé's supply chain.



### **⊆** | Global Numbers: Palm Oil (2)





#### **3 Landscape Projects**

In Indonesia and Malaysia, Nestlé continued to support 3 Earthworm Landscape projects in Aceh, East Kalimantan and Peninsular Malaysia. In 2021, these have led to some of the following direct impacts:

- In Aceh, more than 8,000 hectares of forest is under protection.
- In Aceh and Peninsula Malaysia, more than 600 smallholder farmers are engaged in transformation activities.
- In Aceh and Peninsula Malaysia, 74 workers were directly impacted by project activities; while 547 workers were indirectly impacted.



#### **People**

In 2021, Nestlé supported two projects in Indonesia to test Earthworm's guidelines for fair target setting and employment of casual workers. As result, one site promoted over 93 casual workers to permanent status.

To address risks for children in plantations, Nestlé and Earthworm conducted training for 16 upstream palm oil companies in Malaysia to help them develop and implement child protection interventions. 10 upstream suppliers were also trained on ethical recruitment of migrant workers.

In Guatemala, Nestlé and Earthworm continued to collaborate with GREPALMA to strengthen their social practices around key human rights risks within the local palm oil industry.



#### **Forest Protection & Restoration**

Nestlé and Earthworm continued to work on forest conservation and restoration while supporting smallholder resilience through different projects in 2021.

In Mexico, we continued to work with a range of stakeholders in La Encrucijada biosphere reserve to create a land use plan reconciling 3,000 hectares of oil palm production in conservation areas, supporting 50 oil palm farmers with productive diversification and agro-silvopastoral systems.

Earthworm collaborated with Proforest to create an indicative High Carbon Stock (HCS)-High Conservation Value (HCV) map for four Mexican states, including existing palm oil production areas, potential expansion areas and potential conservation areas.



### **⊆** | Global Numbers: Pulp & Paper (1)





#### **10 Countries**

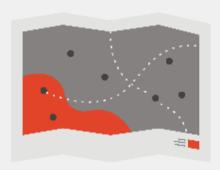
Directly engaging suppliers sourcing from 10 priority countries with various field projects.



### 246 Pulp Mills

Biggest traceability success to date with visibility back to 249 direct suppliers and 246 pulp mills (for the virgin fibre portion) supplying from 47 different countries of harvest.

This increase in traceability visibility is key to tackling remaining deforestation risks in the supply chain.



### **4 Landscape Projects**

In USA, Canada, Indonesia and Russia, Earthworm and Nestlé have collaborated with other companies and NGOs since 2019. Starling satellite monitoring is used to monitor logging in key forest landscapes, implement field activities when relevant and drive discussions with suppliers and other local actors. To date, this had led to:

- The continuous monitoring of a protected Intact Forest Landscape in Russia.
- The training of an indigenous community in Canada to map HCV areas on their land.
- The monitoring of forest cover trends in the South East of USA.
- The monitoring of deforestation in the GSK landscape in Sumatra and support for restoration activities on the ground.



### **□** | Global Numbers: Pulp & Paper (2)





### People

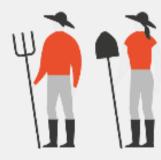
7 projects in as many countries related to improving social practices, livelihoods of workers and community rights. For example:

- Assisting an indigenous community in creating a protected area for their own governance in Canada,
- Creating a social enterprise for recycled paper workers in Brazil.



#### **Strategy and KPIs**

In addition to continuing work on a deforestation-free strategy, in 2021, Earthworm and Nestlé have developed strategies for Nestlé's new Produced Sustainably KPIs, as well as for salient human rights issues. Earthworm is a key partner in helping Nestlé to achieve their commitments, which have changed from "doing no harm" to "doing good".



#### **Rurality Programme in Vietnam**

Through our **Rurality** programme in Vietnam, we have:

- Coached 235 farmers on best management practices;
- Monitored 160 farmers on-site from the 2021 tree-planting activity, with a low mortality rate of 10%;
- Planted 264,000 high quality seedlings, helping re-establish 52 km<sup>2</sup> of riparian zones in partnership with One Tree Planted.



### **2021** Pulp & Paper Highlights



#### **Sweden (Degradation)**

Healthy Forest Landscapes (HFL) diagnostic rolled out in Northern Sweden to monitor trends in forest cover, carbon, biodiversity and community wellbeing.

#### **Canada (Human Rights)**

Ongoing HCV assessment to identify and protect the most valuable carbon, biodiversity and social attributes valued by the Tsay Keh Dene First Nation.

#### **Brazil (Human Rights)**

- 150 forest industry professionals trained on Social Management System and Social License to Operate through CSE;
- 4 recovered fibre cooperatives incorporated into Social Franchise model and trained on worker welfare through remote platform.

### **Malaysia (Human Rights)**

- 30 participants from 12 converting companies trained remotely on Ethical Recruitment;
- 3 prioritised converter companies received follow up engagement on Ethical Recruitment.

#### **Russia (Degradation)**

- 10 wild reindeer strapped to monitor their migration pathways through the Dvinsky Landscape:
- 2 communities supported in building capacity for alternative livelihoods;
- Dvinsky Landscape pitch supported through Consumer Goods Forum.

#### **Vietnam (Community Rights** and Livelihoods)

- 235 farmers trained individually on best management practices and income diversification;
- 264,000 high quality seedlings planted; helping re-establish 52 km<sup>2</sup> of riparian zones in partnership with One Tree Planted.

#### **Indonesia (Deforestation)**

- As part of the Riau Landscape 20 hectares have been re-planted, with a further 20 hectares of degraded forest in the process of being restored through natural regeneration;
- 7 villages surrounding Giam Siak Kecil Biosphere, covering 78,000 hectares, were covered by a participatory mapping exercise and forest conservation workshop.

### Starling - Satellite Monitoring

Palm oil: In 2021, we continued our work to scale up use of the Starling satellite monitoring platform in Nestle's palm oil supply chain. This work included in-depth supplier engagement to gather sourcing information on the mills in the supply chain, and overlaying this information with deforestation alerts generated by the platform.

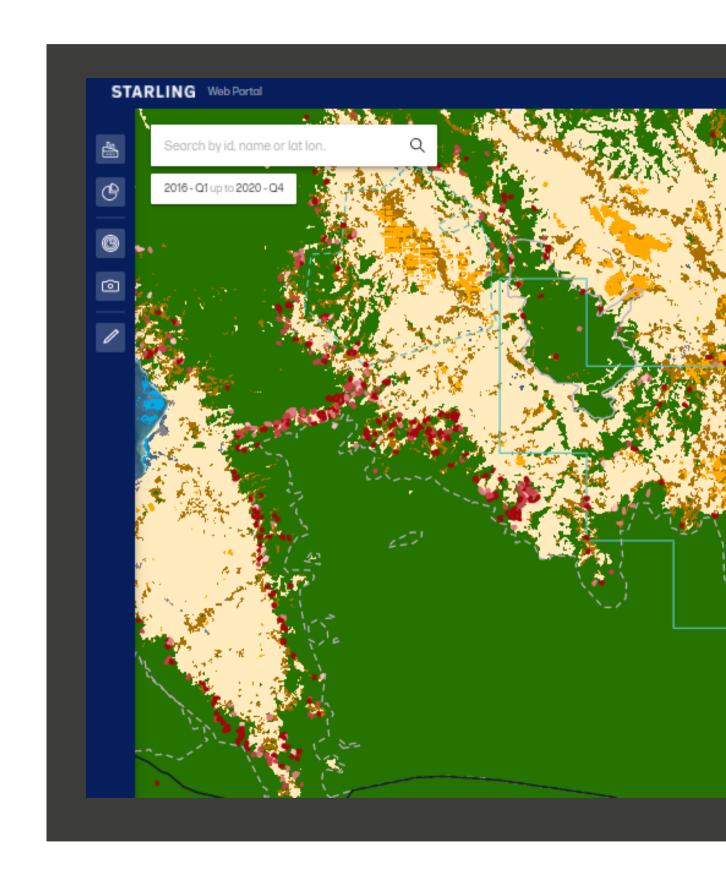
We now have over 9,000 concession boundaries uploaded and monitored, across SE Asia, Latin America and West Africa. This data indicates that just over 90% of Nestle's palm oil supply chain is assessed as deforestation-free, after December 31, 2015.

We also identify where mills are sourcing from smallholders, to diversify our approach in balancing 'No Deforestation' assessments with supporting sustainable livelihoods. Nestlé's transparency dashboard provides more information on the achievements to date.

Pulp and paper: Following the base-mapping in 2019, in 2021, we continued monitoring four key regions in Canada, Indonesia, Russia and the USA. This monitoring enabled collaboration with local stakeholders to protect intact areas in Russia and Canada; and raise alerts of deforestation events in the Giam Siak Kecil Reserve in Indonesia.

In South Eastern USA, we are prioritising areas for monitoring and subsequent interventions through engagement with Nestlé's suppliers on conservation and habitat restoration.

Cocoa: Starling technology is deployed over the Cavally Forest in Ivory Coast to track deforestation levels and better deploy forest patrolling activities.



## Human Rights

Throughout 2021, Nestlé supported and participated in Earthworm's Respect work to promote labour and human rights in palm oil supply chains. Specifically, Nestlé was involved in:

- Two pilot projects In Indonesia to test guidelines on fair target-setting and wage policies, as well
  as guidelines on fair employment of casual and temporary workers. From these two pilot
  projects, over 93 casual workers were promoted to permanent status. These promotions now
  guarantee workers a minimum wage, social security benefits, regular working hours, and full
  leave and rest entitlements. At the other site, data collection on workers' productivity and
  plantation yield is ongoing; and will be used to determine fair work targets for harvest workers.
  This will impact workers' ability to earn minimum wages and bonuses, and have regular working
  hours.
- In Malaysia, training 16 upstream suppliers to IOI Corporation Berhad on strengthening child protection in the palm oil supply chain.
- In Malaysia, training 10 upstream suppliers to Wilmar International Limited on ethical recruitment, especially on helping companies understand and identify social issues arising from unfair recruitment practices; including risk of deception and debt bondage.
- In Guatemala, collaborating with GREPALMA (the Palm Grower Association of Guatemala) to strengthen social commitments within their standards and develop an implementation plan to address priority labor and human rights issues. In 2021, training was carried out on FPIC (Free, Prior and Informed Consent) and protection of human rights defenders.



### Cavally Forest Landscape

In July 2020, Nestlé and Earthworm Foundation, kicked off the three-year Cavally Forest Landscape Project; in collaboration with the Ministry of Water and Forests (MINEF) and the Ivorian Forest Protection Agency (SODEFOR). The Cavally Forest covers 67,541 hectares. Key achievements in 2021 include:

#### 'No Deforestation' in action:

Through satellite monitoring with Starling, mixed patrolling efforts between SODEFOR and community members, and awareness raising, deforestation has dropped to only 167 hectares. In 20201, this represented 0.002% of total area within the Cavally Forest Reserve. This is compared to 620 hectares in 2020 and 787 hectares in 2019.

#### Community based replanting:

366 hectares replanted over 20 plots within the Cavally Forest Reserve; using 75,919 seedlings. In preparation for 2022 reforestation efforts, partnerships were formed with over 400 community members for nursery and replanting activities.

#### Natural regeneration:

777 hectares naturally regenerated between January 2020 and December 2021; thanks to efforts within the forest reserve. Exact figures are to be ground-truthed over the course of 2022.

#### Resilient farmers:

Partnerships with over 300 community members for income diversification activities and cocoa productivity coaching.



### Forest Footprint

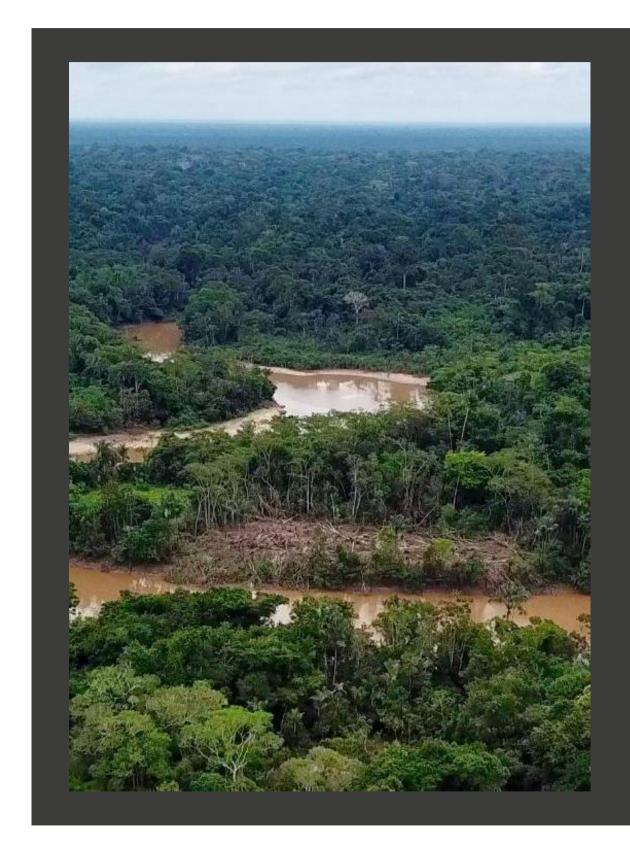
The Forest Footprint consists of mapping areas of standing forest, peatland and customary lands that have been impacted or at risk of expansion from raw materials sourced by a company.

Earthworm Foundation worked with Nestlé to build on the Forest Footprint pilot focused on their palm supply chain in Aceh, mapping their Forest Footprint over East and North Kalimantan and Sumatra island, including new ingredients such as pulp & paper, cocoa and coffee.

With the vision of designing forward looking strategies to proactively address the conservation of critical ecosystems and protection of customary land rights inside and around Nestlé's supply chain, we have worked on:

- Consulting with Nestlé's internal stakeholders and different expert organisations to understand what dataset and methodological adaptations we should consider to refine the analyses, and integrate new ingredients and ecosystems within the analyses.
- Engaging with a palm refiner and an upstream palm oil company to understand existing challenges and opportunities around forest and peat conservation inside and outside concessions in East Kalimantan.
- Developing a Forest Footprint Collaboration with Nestlé and two other Earthworm Foundation members to create momentum in supplier engagement within North Sumatra to address the findings of the Forest Footprint exercise.

Forest Footprint activities in 2022 will focus on understanding how to roll out Nestlé's global Forest Footprint plans for 2023.



### Southern Central Forest Spine (SCFS) Landscape

In January 2021, Nestlé joined the Southern Central Forest Spine (SCFS) Landscape in Peninsular Malaysia as a lead sponsor. The SCFS Landscape's vision is to create a sustainable model for balancing production, forest conservation, resilient livelihoods and good labour practices. In 2021, the following key progress was achieved:

- At the end of 2021, **26% of PO mills** (equaling 28 mills) in the SCFS Landscape were 100% traceable to plantations.
- 195 workers were engaged through activities that will to improve migrant workers' welfare. The main activity was to conduct a pilot of the Ethical Recruitment Human Rights-Based Due Diligence (ER HRDD) tool.
- Two new partnerships with the Malaysian Palm Oil Board and the Malaysian Palm Oil Certification Council were formed to unlock transformation in the palm oil sector.
- Five villages were identified as candidates for smallholder livelihood improvement programmes.
- Two working groups were created that will accelerate progress in the landscape by involving relevant actors on two key issues. Firstly, a group focused on traceability and secondly, a group focused on creating a workers voice tool in the landscape.



### Aceh Landscape

In 2021, the Aceh Landscape in Indonesia was formed and Nestlé joined a coalition of financial supporters as one of two lead sponsors. The project grew out of the former Priority Transformation Area programme, which covered a sub-section of the current Aceh Landscape. In 2021, the following key progress was achieved:

- Eight Memorandums of Understanding were signed with the government agencies, companies, and village authorities.
- 8,060 hectares of forest inside and outside concessions were protected together with local government and two communities.
- In 2021, **517 farmers** were trained in best management practices. 55 of these farmers started replanting old oil palm plantations and another 72 implemented alternative livelihood strategies on their farms.
- 74 casual workers were given permanent contracts and 547 workers gained better wage transparency at a palm oil plantation company in the landscape.
- 407 people, owning 2,749 hectares of land, were supported to strengthen their land rights through participatory mapping and the registration of land claims.



### East Kalimantan Emerging Landscape

The East Kalimantan Landscape covers the districts of Berau and Kutai Timur in the East Kalimantan province in Indonesia. In 2021, Nestlé provided seed funding to Earthworm Foundation to build a foundation for a landscape project by engaging key actors, building relationships and starting to establish activities on the ground. In 2021, the following key progress was achieved:

- Through networking with governmental agencies, three Memorandums of Understanding were signed with the East Kalimantan provincial government, and Paser and Kutai Timur district governments. An engagement with the Berau district government is ongoing.
- Based on field visits and satellite sensing, categorised the drivers of deforestation and recommended follow-up actions. A training workshop with representatives from two sub-district governments and nine villages was held on how to conduct sustainable land-use planning for cocoa development. In addition, Earthworm Foundation provided technical support to the East Kalimantan provincial government in the issuance of two Governor Regulations on HCV criteria and HCV management, and monitoring for non-forest areas.
- A Memorandum of Understanding was signed between a local palm oil producer, a plantation company and Earthworm Foundation to develop a smallholder livelihood improvement programme.
- A local plantation company provided permanent contracts to 29 temporary workers and committed to reducing casual workers from 43% to 30%. In addition, staff from a local palm oil company were trained on workers' rights.



### Riau Landscape

In 2021, Nestlé joined the Riau Landscape project as a financial contributor. The landscape is dominated by the oil palm, and pulp and paper industries; while remaining peat domes and forests are important to protect. While the global pandemic impacted the project, having local field staff in the landscape proved critical to making progress. In 2021, the following key progress was achieved:

- One collective action plan on sustainable business and livelihoods was implemented with private sector and government partners.
- 91,687 hectares of forest are being protected inside and outside concessions together with communities, companies and the government.
- Through a partnership with the Riau government, 603 farmers began to replant 1,104 ha of oil palm plantations and started diversification activities.
- 15 palm oil and pulp & paper companies were trained on labour issues in the Pelalawan district. In 2022, the training programme will be scaled up to cover all companies in the district.
- Through a partnership with local government agencies, 11 communities were helped to resolve conflict and conduct land-use planning.





### **■** | Mexico & Guatemala

#### Mexico Collaborative Project with Proforest

In 2021, Earthworm Foundation and Proforest collaborated to produce two large-scale datasets to identify likely High Conservation Value (HCV) and High Carbon Stock (HCS) areas across the main palm producing states in Mexico - Chiapas, Veracruz, Tabasco and Campeche. The work consisted of using different land cover datasets to analyse the likelihood of HCS and HCV presences and combine these results to produce an indicative HCS map and HCV probability map.

A final step in this work was to analyse the results against the location of palm oil mills to prioritise engagements on the ground. These engagements will seek to validate the presence of High Conservation Value (HCV) and High Carbon Stock (HCS) areas and support local oil palm growers to establish land-use plans that protect the identified values.

#### Guatemala Social Performance Project

In Guatemala, Earthworm Foundation and GREPALMA, the local palm industry organisation, have created a Social Performance Project. The project creates opportunities for the private sector and civil society to build trust and lay the foundation towards closer collaboration.

Over 2021, the project made the following progress:

- Capacity-building modules were carried out on FPIC (Free, Prior and Informed Consent) and human rights defenders for both companies and NGOs.
- Guidelines were developed to orient and assess participating companies on their progress on human rights defenders.



### Living Soils, France

The objective for 2022 is to work with the first and second wave suppliers to help more than **300 farmers** linked to Nestlé's supply chain transition towards regenerative agricultural practices. This represents around 22% of their total volume sourced in France.



In September 2019, Nestlé committed to achieving zero net greenhouse gas emissions by 2050. Almost 70% of the group's emissions come from the way raw materials are produced. This is why Nestlé is currently supporting farmers in France, through the Living Soils programme, in their transition to regenerative agriculture, which promotes carbon storage.

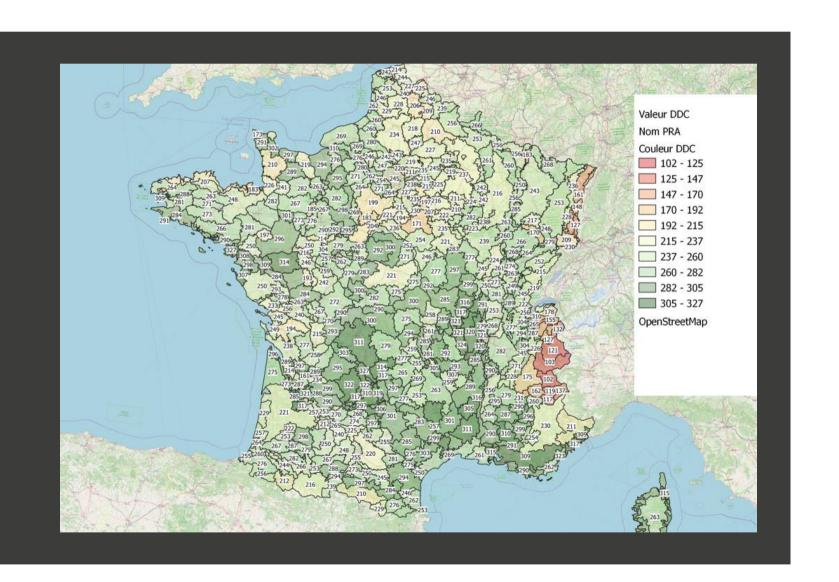
This programme is conducted in partnership with Earthworm and agronomic and technical teams from five agricultural cooperatives and traders, including the Carré Group, the Noriap and Uneal cooperatives, the Soufflet Group and the Vivescia Cooperative. The support of these partners is essential to the realisation of this project.

In December 2020, Nestlé committed to ambitious targets of 20% of volumes in regenerative agriculture by 2025 and 50% by 2030. We began engaging **five suppliers** in September 2020. Over 2021, we measured soil health and conducted farm diagnostics in **184 farms**; covering farmers producing wheat and potatoes. This represented **30,000 hectares of land**, which required **700 soil analyses** to monitor soil health and biodiversity.

These first results translated in the willingness to extend the approach to new suppliers and set up new trainings and field visits for technicians and farmers. At the end of 2021, we began engaging new suppliers such as Eureden Cooperative, Cosucra and two sugar-producing cooperatives.

### **Remote Sensing for Healthy Soils**

Maintaining plant cover for most of the year is the primary protection mechanism against soil erosion. It also increases the soil's organic matter. This is generally the first lever that can be activated on the farm to improve soil quality.



To observe the duration of cover in the plots, the Living Soils Programme has relied for nearly two years on data from technical partner and start-up Kermap, an expert in identifying agricultural crops using satellite imagery.

This technology allows for effective data collection, notably to gather information such as identification of main crops, cover crop typology and living plant coverage rates.

In addition to monitoring the evolution of plant cover, many other objective indicators can be constructed using image processing combined with field expertise. Objective and precise indicators for the entire territory are already available, while research and development continues.

### Key Successes

- Use of Starling Satellite Monitoring of deforestation in palm oil supply chains continued to bring evidence to support stakeholder engagement. For pulp and paper, Starling data helped with discussions with companies, NGOs and indigenous communities in the Russian and Canadian Boreal, as well as in Indonesia.
- Launching the Cavally Forest Landscape work to protect the Cavally Forest Reserve, one of Ivory Coast's most precious forests, which has been under deforestationpressure linked to the cocoa industry. Of note is the unique collaboration between a key chocolate player in Nestlé, the Ivorian government and Earthworm Foundation.
- 2021 was a year of increased multi-stakeholder collaboration through Earthworm's landscapes involving palm oil, pulp and paper and cocoa, where collaboration with NGOs, local governments, communities and farmers are increasingly helping farmers to adapt their practices while also improving their livelihoods.

- Adapting to the challenges of Covid-19 meant gradually increasing our field presence while maintaining our remote work systems set in place in 2020, where necessary.
- Developing strategy documentation to support Nestlé's commitments to responsible sourcing, such as new Key Priority Indicator calculation methodologies, strategies for addressing human rights, salient issues in the supply chain and more.
- Launching the Climate Project in 2022 in four locations; with the objective to implement sustainable practices that comply with carbon project crediting periods and permanence requirements, while upholding the rights of local farmers and communities that will be at the center of project implementation.



### Challenges & Learnings

# Challenges

- Nestlé's large, global palm oil, and pulp and paper supply chains require consistent, tailored engagement of many suppliers and stakeholders to generate impact.
- Obtaining more detailed mill to plantation data to fully leverage the power of satellite monitoring for deforestation has increased tremendously in the last year but is still difficult, in some instances.
- Scaling up solutions identified to address environmental and social challenges will require new thinking and approaches; which is why Earthworm is moving towards more holistic landscape approaches in 2021.
- Nestlé continued to progress towards its 'No Deforestation' commitment in palm oil, and pulp and paper. The learnings from the past decade revealed the need for a more holistic and forward-looking strategy to protect and restore forests. Nestlé remains committed to achieving deforestation-free supply chains by the end of 2022.
- Restrictions due to COVID-19, although less impactful than in 2020, still restricted field work in certain areas. When possible, alternatives were found to engage with suppliers remotely and adapt workplans accordingly to address priorities.

# Learnings

- The **strength and trust** in the Nestlé-Earthworm partnership allows for close, frank and fruitful dialogues. This is key to addressing the complex social and environmental issues associated with responsible sourcing.
- In 2020, we saw the importance of setting clear milestones from the start of our workplans to reach our objectives; and this continued to be the case in 2021.
- Nestlé's commitment to reaching their Responsible Sourcing goals translates into concrete actions and changes at the origins of their supply chains. This shows that these very difficult targets are achievable.
- Innovation is key for sustainable supply chains, and is prioritised in our work together. It requires taking risks and trying new approaches, which can be uncomfortable but is essential to meeting our shared goals.
- Regulation stay updated on regulation and potential implications, e.g. EU due diligence and traceability, human rights, deforestation and forest degradation – to stay agile, build them into our workplans, and leverage transformation.

### **⊆** | Goals for 2022

# Where we're going:



Achieve 100% deforestation-free goals in palm oil, and pulp & paper



Increase positive impact and collaboration through multi-stakeholder landscape projects including smallholders, governments, industry and civil society for a wider impact



Support in strategy development and building tools to address new Produced Sustainably KPI



Continue to build knowledge, identify transformation opportunities, and collaborate in coconut supply chains



Increase scope of work on the Forest Footprint



Innovate, Collaborate, Transform



Conduct pre-feasibility studies for targeted greenhouse gas emissions reductions and removals projects within Nestlé's supply chains (Climate Project)

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