2018 PALM PROGRESS REPORT

SHARING BEAUTY WITH ALL

THE L’ORÉAL SUSTAINABILITY COMMITMENT
INTRODUCTION

L’Oréal has set very ambitious targets leading to a sustainable transformation of its entire business and value chain. One of these targets is the “Zero Deforestation Policy”.

L’Oréal has committed that in 2020 latest, none of its products can be linked in any way to deforestation. Since 2007, L’Oréal is implementing action plans for the sustainable supply of agricultural commodities that might lead to deforestation, such as palm oil, soya oil and wood-fiber based products.

In 2018, 100% of the paper used for product use instructions, 99.9% of the cardboard used for product packaging and 93% of the paper and cardboard used in POS were sustainably certified. The goal is to have 100% certified board and paper for packaging and promotional material by end of 2020.

L’Oréal uses low volumes of soya oil (323 tonnes in 2018), mainly as an emollient in skincare products. In 2018, 96% of soya oil used by L’Oréal and sourced from Latin America (Brazil and Paraguay) have been certified as sustainable (fully traceable and organically grown). The soybean derivatives used by the Group (30 tons per year) are sourced from zones classified as posing no risk of deforestation.

In 2018, for the third year running, L’Oréal was awarded an ‘A’ score by CDP, the highest possible level of performance on Forest Conservation. In 2018, 32 suppliers of paper, palm oil and soy took part in the second edition of the Forest Disclosure Project Supply Chain, a CDP programme.

Regarding palm oil, L’Oréal wants to explain in detail the actions and innovation implemented for 100% sustainable and responsible sourcing of palm oil and palm derivatives in this report. It is a major concern for L’Oréal and all its stakeholders. Consumers, clients, NGOs, public institutions, governments and suppliers are concerned by the environmental and social stakes linked to palm oil.

And in order to be accountable to its stakeholders on the targets, efforts and achievements in the sustainable sourcing of palm oil and palm derivatives, a year and a half from end 2020, L’Oréal has decided to publish a second edition of its Palm Oil Progress Report.

CONTEXT

In 2018, around 70 million tonnes of palm oil have been produced with 85% coming from two countries: Indonesia and Malaysia. Palm oil production is at the heart of major environmental impacts and complex social and economic realities.

ENVIRONMENTAL STAKES

Palm oil production is an important source of deforestation, which is a main contributor to biodiversity loss and climate change: according to the experts of the Intergovernmental Panel on Climate Change (IPCC), around 18% of worldwide greenhouse gas emissions come from deforestation. In Indonesia, palm cultivation has been the leading cause of forest clearing. Each year, hundreds of hectares of primary forests burn, pollute the air, threaten species and natural habitats and destroy peatlands that are crucial carbon sinks for the planet.

SOCIAL STAKES

At the same time, there is another social and human reality: 40% of the palm oil is produced by small-scale farmers. For them it is a crucial source of income. In Indonesia, growing palm oil can enable a family to escape from poverty in one generation. And considering the constantly growing worldwide demand, market opportunities for palm oil production are guaranteed.
If L’Oréal uses less than 370 tonnes of palm oil each year, it purchases derivatives in a quantity equivalent to 71,000 tonnes of palm oil, equally split between palm oil derivatives (from the pulp of the palm fruit) and palm kernel oil derivatives (extracted from the kernel of the same fruit).

Palm derivatives are ingredients mainly used in soaps, candles or detergents for example. L’Oréal purchases palm derivatives products such as glycerol, fatty acids or fatty alcohols that have emollient or foaming properties in formulas.

L’Oréal’s palm oil consumption remains low: its “palm footprint” is 0.1% of the global palm production. Even though L’Oréal is a minor player in this market in terms of volume, the Group, as number one of the cosmetics sector, wants to be among the most responsible companies in the world and to lead by example on the issue of palm oil.

Since 2007, L’Oréal is a member of the Roundtable on Sustainable Palm Oil (RSPO), and since 2012, 100% of its palm oil and palm derivatives are certified sustainable by RSPO.

In 2016, the Group also joined the Palm Oil Innovation Group (POIG) composed by leading NGOs as well as progressive palm oil producers and users, to contribute creating and promoting innovations in the palm sector.

RSPO is a minimum pre-requisite that all L’Oréal’s suppliers must fully respect. And RSPO remains also one of the most collaborative and multi-stakeholder platform to drive progress in the whole sector.

In spite of the recent revision of the RSPO - Principles & Criteria, certification still shows its limits in guaranteeing shortly a responsible and deforestation-free palm production, especially when it comes to palm derivatives.

Therefore, L’Oréal is going one step further to reach its Zero Deforestation ambition by 2020 the latest.
CHALLENGE # 1
ENSURE COMPLIANCE OF SOURCES

THE SPECIFIC COMPLEXITY OF TRACING PALM DERIVATIVES BACK TO MILLS

Beyond sustainable certification, tracing derivatives back to their source is a real challenge but a critical first step in ensuring compliance with L’Oréal’s Zero Deforestation goal.

The industrial processing of derivatives involves a wide range of stakeholders leading from palm oil to mills and beyond, much more complex than the ones concerning palm oil. This complexity stems from the fact that between the palm plantations and the ingredients used in L’Oréal’s products, there are many transformations and intermediaries: millers, crushers, grinders, refiners, fractioners, traders and oleo-chemicals manufacturers.

To deal with this complexity, since 2014, L’Oréal has implemented an innovative tracing initiative within the oleochemistry sector, aiming at mapping the whole supply chain and tracing the derivatives all the way back to their source.

To date, this research has enabled L’Oréal to trace 98% of its derivatives volumes back to refineries, 88% back to mills and 25% back to plantations, achieving an unequalled level of traceability in this highly complex supply chain. Through this initiative, since 2014 more than 75 suppliers (direct and indirect) have benefitted from a customised support on traceability, getting access to skills and expert feedback to increase knowledge and understanding of their own supply chain of palm derivatives.

L’Oréal still faces challenges to trace 100% of derivatives back to mills, due to the nature of trading activities, the remaining opacity of certain upstream intermediaries, or the difficulty to access data on concessions mapping. These are challenges that a company cannot realistically address individually. L’Oréal will continue its efforts to find innovative solutions with peers.

TRANSPARENCY ON THE SUPPLY CHAIN

In order to achieve greater transparency, since July 2018 L’Oréal publicly discloses the full list of its direct suppliers, as well as all the mills indirectly connected to its palm oil derivatives supply chain.

Following an in-depth harmonization work allowed by the Global Forest Watch Pro platform, in high-risk profile areas in terms of deforestation, illegal production, greenhouse gas emissions, fires or impacts on water L’Oréal proactively deploys, alongside with its upstream indirect suppliers, local investigations and independent due diligences in order to confirm the compliance of the refineries and crushers identified, including their supply base (local mills and plantations), to its Zero deforestation policy.

In 2019 such verification work will be extended to mills in L’Oréal’s supply chain via the use of the No Deforestation, No Peat, No Exploitation (NPDE) Implementation framework.

PROACTIVE RISK MAPPING

The identification of the provenance of its sources provides L’Oréal with the basis for a preliminary risk assessment, field-level verification and suppliers engagement.

In total in 2018, more than 98% of the volumes of palm derivatives sourced by L’Oréal originate from Indonesia and Malaysia. A non-significant proportion is also coming from Thailand, Papua New Guinea and Cambodia.

In Indonesia and Malaysia, the Top 5 provinces where the palm oil/palm kernel oil feedstocks entering palm derivatives supply chain have been produced are: Riau (15%), Central Kalimantan (11%), North Sumatra (11%), Sabah (9%), East Kalimantan (6%).

Based on the data collected in 2018, 37% of the mills identified as indirectly connected to L’Oréal’s supply chains are located in low risk areas according to the Global Forest Watch Pro platform. In high-risk profile areas in terms of deforestation, illegal production, greenhouse gas emissions, fires or impacts on water L’Oréal proactively deploys, alongside with its upstream indirect suppliers, local investigations and independent due diligences in order to confirm the compliance of the refineries and crushers identified, including their supply base (local mills and plantations), to its Zero deforestation policy.

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A VERY COMPLEX SUPPLY CHAIN

The supply chain mapping on palm derivatives allowed to trace back:
• 98% of raw materials up to the level of refineries;
• 88% of raw materials up to the level of mills;
• 25% of raw materials up to the level of palm plantations.

2018 KEY FIGURES

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CHALLENGE # 2
INCLUDING THE FIGHT AGAINST DEFORESTATION IN THE SUPPLIERS MANAGEMENT

TRANSFORMING THE PURCHASE POLICY

L’Oréal commits to ultimately work with suppliers enforcing responsible practices along palm oil and palm kernel oil supply chains. Promoting and supporting the most innovative and progressive suppliers, especially those who will overpass the challenges associated with the complexity of palm derivatives supply chains, requires adapted tools and metrics.

In 2016, L’Oréal upgraded its evaluation scorecard for suppliers of palm oil and palm kernel oil derivatives, by creating a Sustainable Palm Index, a yearly scorecard aimed at measuring the specific commitment, progress and achievements of its palm derivatives suppliers regarding compliance with L’Oréal’s expectations on NDPE/Zero Deforestation.

The Sustainable Palm Index is now fully integrated into the suppliers’ performance rating, to enable purchasing teams worldwide to take informed decision and align business decisions with supplier’s commitments and practices.

Based on the aggregated scoring, action plans are set up with suppliers, going from business promotion and development of partnerships for the most advanced suppliers, to business reduction or ultimately disengagement unless immediate plan of progress is implemented.

L’Oréal’s Sustainable Palm Index has been made public and available to all companies and business partners in the sector at the beginning of 2017, in order to support efforts made to ensure sustainable palm oil sourcing.

All L’Oréal’s direct suppliers have been evaluated using this new matrix. To date, 82% of its direct suppliers fully reach L’Oréal’s expectations.

To go further in assessing and controlling compliance of indirect suppliers, especially crushers and refiners, L’Oréal supports Zoological Society of London and Transitions in the development of a new add-on of the SPOTT platform so as to identify a positive list of compliant upstream players, at group level, notably refiners and crushers, who are in line with L’Oréal’s requirements for NDPE/ZD.

The Sustainable Palm Index combines a set of 15 criteria weighted depending on the supplier’s rank in the chain, namely:

- Proportion of physical supply compliant to RSPO
- Proportion of supply originating from transparent sources (at refinery, mills, plantations level)
- Proportion of supply compliant to the principles of Zero Deforestation
- Existence of a time-bound action plan to prioritize, assess and mitigate risks in the chain
- Existence of a process to manage suppliers non-compliance
- Existence of a time-bound action plan towards transparent supply chains
- Company’s membership to RSPO
- Existence and scope of a publicly stated Zero Deforestation policy including No Deforestation, No Peat, No Exploitation commitments
- Company’s involvement into forward looking initiatives (such as POIG, HCSA, AFi, etc.)
- Proportion of supply compliant to NDPE/Zero Deforestation

DEALING WITH NON COMPLIANT SUPPLIERS

According to its Palm Alert procedure in place, as soon as informed about a potential breach to its Zero Deforestation policy, L’Oréal immediately cascades information to its direct and indirect suppliers so as to mobilize them to investigate further along their supply chains, set up clear, time-bound milestones to bring their concessions into compliance with No Deforestation, No Peat, No Exploitation principles and take appropriate business decision, going up to business disengagement if progress are not met within a maximum period of 6 months.

For L’Oréal, supplier disengagement is a last resort. The Group remains convinced that engaging with suppliers, while staying demanding, is the most efficient lever for sector transformation.
Small-scale independent farmers represent 40% of the world’s palm oil production. They often suffer from low yields, lack of knowledge on efficient agricultural practices, difficult access to global markets, and they could sometimes illegally increase the size of their plantations.

To tackle these issues, L’Oréal’s strategy is to connect certified smallholders to the market demand for “Zero Deforestation” Palm and as the final off-taker, L’Oréal indirectly supports pluriannual premium-based commitment to purchase the smallholders’ RSPO certified production.

In 2015, L’Oréal launched the “SPOTS” Project”, a first pilot project targeting to support 500 smallholders by end of 2020, in the Beluran district in Malaysia. This project involves L’Oréal’s direct supplier Clariant, in collaboration with the intermediary supplier Global Amines, the upstream producer Wilmar and the Malaysian social enterprise Wild Asia.

The aim of the project is:
- to ensure traceability of supplies,
- to promote RSPO certification,
- to support the adoption of sustainable production practices,
- to improve the living conditions of small-scale producers.

By the end of 2018:
- 369 small independent farmers joined the SPOTS project, and among them 179 farmers indirectly connected to L’Oréal’s chain obtained the RSPO certification (73% of the target achieved);
- 225 training sessions were conducted alongside small palm producers to provide them with knowledge about the RSPO certification system, best management and sustainable agricultural practices, waste management, soil health, etc.;
- since 2015, 21,357 metric tonnes of RSPO certified palm oil were generated by the 369 beneficiaries of the project.

Following the encouraging results of SPOTS project, in 2018 L’Oréal collaborated with the NGO SNV (Netherlands Development Organization) to implement a second project in the region of Berbak in Jambi, on the Indonesian island of Sumatra which aims to support 12,500 smallholders over 5 years.

L’Oréal ambitions to cover 40% of its physical sourcing from projects with independent smallholders (18% of volumes covered in 2018). In total, 13,000 small producers will benefit from these initiatives.

Through these projects L’Oréal initiates a long-term business relationship with every actor of the value chain, which is inclusive for the independent smallholders, and disruptive with regard to the rules of a traditional commodity market.

In 2017, L’Oréal launched a four-year peatland restoration project in Borneo, Indonesia, with one of its palm oil derivative suppliers. For many years, Indonesian peatlands have been illegally drained and burned, in order to be converted into agricultural land. This phenomenon has two major consequences - it unleashes large quantities of greenhouse gases and encourages the spreading of fires in the dry season. To eliminate this issue, the project plans to train local village communities on sustainable farming practices in dedicated fields. The initiative will also re-wet 2,000 hectares of land, in order to regenerate local biodiversity. To date, 356 hectares of peat swamp forests have been replanted, and 1,430 hectares have benefited from natural assisted regeneration. In 2018, this project contributed to preventing the emission of more than 30,464 tonnes of CO₂ equivalent.

By 2020, L’Oréal will continue to support ecosystems protection and restoration, notably in Sumatra (Indonesia).
L’ORÉAL ACTION PLAN FOR THE UPCOMING YEARS

In spite of progress made, L’Oréal acknowledges that challenges remain until its 2020 target, and that the Group needs to continue its efforts as an individual company, as well as collectively by engaging with its direct and indirect suppliers to fulfill its environmental and social commitments. Five levers have been identified.

CONTINUE TO INCREASE THE PHYSICAL PROPORTION OF SUSTAINABLY SOURCED FEEDSTOCK

Despite a chronic lack of market availability for RSPO physically certified palm kernel oil derivatives L’Oréal will continue to encourage suppliers to move towards physical certification of their sources. As a committed POIG member, L’Oréal aims to be able to disengage from RSPO Book and Claim certificates by end of 2020. RSPO Mass Balance scheme combined with responsible and sustainable local sourcing projects should deliver 100% of L’Oréal’s volumes by end of 2020.

PURSUE THE EFFORT TO ACHIEVE FULL TRACEABILITY

In 2019 and beyond, the supply chain mapping will continue to be updated and publicly reported. A specific effort will be engaged with the Group’s direct suppliers to achieve 100% transparency at refinery and mill levels and to verify compliance of these key players with the Zero Deforestation policy.

REINFORCE RISKS MONITORING AND COMPLIANCE PROCEDURES

The proactive monitoring and compliance control of a whole supply chain in a commodity market is not a challenge that a company can realistically address individually. Only a collective and aligned monitoring mechanism and compliance control should help to efficiently end deforestation. According to its 2020 Zero Deforestation ambition, the Group will continue its efforts to find solutions with peers. In 2019 and beyond L’Oréal will lead and actively contribute to sectorial pre-competitive approaches.

CONTINUE TO DEVELOP BUSINESS WITH THE MOST COMMITTED AND TRANSPARENT SUPPLIERS

The most committed direct suppliers will be promoted through increased volumes, new products lines, longer-term contracts or any relevant business incentives. For indirect committed suppliers (e.g. refineries or plantations), L’Oréal will facilitate the allocation of sourcing towards them. For the suppliers who are not demonstrating willingness or capacity to change, L’Oréal will establish action for progressive business reduction, and ultimately disengagement by end 2020.

CONTRIBUTE TO RAISE CONSUMERS AWARENESS IN MAJOR MARKETS

L’Oréal will continue to raise awareness among consumers on the importance of sustainable sourcing of palm. L’Oréal has notably joined the China Sustainable Palm Oil Alliance with CFNA and WWF as well as the Indian Sustainable Palm Oil Coalition, to contribute raising awareness on the topic on these two markets, which are today major palm importers with a very low RSPO certified materials uptake.
GLOSSARY

CERTIFIED SUSTAINABLE SOURCE

A certified sustainable source is a feedstock that has been grown on a plantation or collected from a forest, that has been managed and voluntarily and independently certified in accordance with a responsible code of practices or standards. Among the multiple multi-stakeholders standards available:

- FSC and PEFC apply to any wood based products;
- RSPO applies to Palm;
- RoundTable on Responsible Soy applies to Soy;
- Organic and Fair Trade standards may also apply to a wide range of productions.

DERIVATIVES

A chemical compound derived from palm oil by further processing or blending, such as: fatty acids, fatty alcohols, fatty methyl ester, surfactants or glycerin.

HIGH CARBON STOCK FOREST (HCS)

HCS forests stand for areas of tropical natural forests that should be conserved (to reduce greenhouse gas emissions from deforestation), as they hold large stores of carbon in the above-ground tree biomass.

Conserving High Carbon Stock forest within a Zero deforestation land use management allows delineating areas to be protected and those potentially available for plantation development.

To date, the High Carbon Stock Approach methodology is the leading methodology for putting no deforestation into practice.

HIGH CONSERVATION VALUE (HCV) AREA

HCV area is an area which must be appropriately managed to maintain or enhance the identified High Conservation Values. A High Conservation Values is a biological, ecological, social or cultural value of outstanding significance or critical importance. Since 2009, the RSPO New Planting Procedure does not allow new plantations on HCV areas.

INDEPENDENT SMALLHOLDERS

Smallholders are farmers growing palm oil, alongside with subsistence crops, with a planted palm oil area of less than 50 hectares. There are two types of Smallholders: independent smallholders free to choose how they utilize and manage their lands and type of crops, and schemed smallholders contractually bound to mill, or schemes estates to which they are structurally linked. As of mid-2016, smallholders produce up to 40% of the world’s palm oil, but independent smallholders continue to suffer from lower yields. L’Oréal is developing projects supporting specifically independent smallholders.

THE INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE (IPCC)

IPCC is the leading international body for the assessment of climate change. It was established in 1988 to provide the world with a clear scientific view on the current state of knowledge in climate change and its potential environmental and socio-economic impacts.

PALM OIL INNOVATION GROUP (POIG)

The Palm Oil Innovation Group (POIG) aims to build on RSPO standards both by innovating on how to implement existing standards as well as by tackling additional critical issues such as human, land and labour rights violations. POIG has developed an auditable framework to enable market recognition for palm oil produced by companies operating in compliance with the POIG Charter and verification indicators, which build on the RSPO Principles & Criteria (P&C) to prevent deforestation, expansion on peatlands of any depth, to uphold human and labour rights, and limit climate change.

PEATLANDS

Peatlands are swamp soils composed of dead vegetation accumulated over thousands of years. They store high amount of carbon, and when they are cleared or drained they release huge amounts of greenhouse gases and become very vulnerable to fires.

ROUNDABLE ON SUSTAINABLE PALM OIL (RSPO)

The Roundtable on Sustainable Palm Oil is a multi-stakeholder association gathering 2,500 members – palm oil producers, processors and traders, consumer goods manufacturers, retailers, banks and investors, environmental and social non-governmental organizations (NSOs) – that promotes the production and use of sustainable palm oil and develops global standards for sustainable palm oil.

The RSPO has developed a set of environmental and social criteria which companies must comply with in order to produce certified sustainable palm oil. When they are properly applied, these criteria can help to minimize the negative impact of palm oil cultivation on the environment and communities in palm oil-producing regions. 21% of the global palm oil production is today RSPO certified.

RSPO BOOK AND CLAIM MODEL

It is a certificate trading system (based on the exchange of GreenPalm certificates) where the product manufacturer purchases a certificate issued by a plantation owner, to support the certification of its production. Companies purchasing GreenPalm certificates contribute to the production of RSPO-certified palm oil without direct link with their physical supplies.

RSPO MASS BALANCE MODEL (MB)

RSPO Mass balance model allows mixing certified sustainable palm oil and non-certified palm oil, mainly to avoid the costs of segregating the two (as in Segregated). Even if refineries are authorized to sell only the same amount of Mass Balance palm oil as the amount of certified sustainable palm oil purchased, there is no absolute guarantee that the end product contains palm oil from certified sustainable plantations.

RSPO SEGREGATED (SG)

RSPO segregated certified sustainable palm oil is physically separated from non-certified palm oil throughout the supply chain. This model is one of the most demanding, and today 100% of palm oil used by L’Oréal is certified through this model.

This option is technically or economically difficult to implement particularly in the case of palm derivatives.

Sources

www.rspo.org ; www.poig.org ; http://highcarbonstock.org ; www.wwf.org