

# 2015 PALM OIL PROGRESS REPORT

## SHARING BEAUTY WITH ALL

THE L'ORÉAL  
SUSTAINABILITY COMMITMENT

L'ORÉAL



# INTRODUCTION

L'Oréal has taken to 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 2015, 100% of paper used and 99.8% of the cardboard used for boxes were certified sustainably sourced. The goal is to have 100% certified board and paper for packaging and promotional material by 2020.

L'Oréal uses low volumes of soya oil as an emollient in skincare products. In 2015, 100% of soya oil from Brazil was sustainably sourced, free from deforestation. The next step is now to address soy-based derivatives so that 100% are sustainably sourced by 2020.

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 oil 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.

Thus, L'Oréal has decided to publish a Palm Oil Progress Report in order to be accountable to its stakeholders on the targets, efforts and accomplishments in the sourcing of palm oil and palm oil derivatives.

# CONTEXT

In 2014, around 55 million tons of palm oil have been produced with 80% 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

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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 10% 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

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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 an 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.

So, how can a company purchase responsibly in this context?



# L'ORÉAL AND PALM OIL

## L'ORÉAL PALM OIL CONSUMPTION

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If L'Oréal uses **less than 380 tons of palm oil** each year, it purchases **derivatives in a quantity equivalent to 60,000 tons 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).

This consumption remains low: L'Oréal's "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.



PALM OIL

PALM KERNEL OIL

## L'ORÉAL SOURCING POLICY ON PALM OIL

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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 sustainably sourced, mainly covered with RSPO certificates.

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.

Acknowledging the limit of the current available certification in guaranteeing a deforestation-free and responsible palm production, especially when it comes to palm oil derivatives and palm kernel oil derivatives, L'Oréal is going one step further to reach its Zero Deforestation ambition by 2020 the latest.

Since 2014, L'Oréal created and deployed with an unprecedented approach within the oleo-chemicals sector, an ambitious traceability initiative, to trace derivatives back to the plantations, or at least to mills, as a first step towards sustainable sourcing.

### 2015 KEY FIGURES

- **100%** of the palm oil directly used in L'Oréal's products are certified through the RSPO Segregated model
- **100%** of palm and palm kernel-based derivatives used by L'Oréal are certified by RSPO:
  - few volumes of derivatives with the RSPO Segregated model (13 tons);
  - 26% based on the Mass Balance model;
- the remaining volumes being covered by the Book and Claim model (GreenPalm certificates).

# *CHALLENGE # 1:* **ENSURE TRACEABILITY OF DERIVATIVES**

## **THE SPECIFIC COMPLEXITY OF PALM DERIVATIVES**

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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.

The industrial processing of derivatives involves a wide range of stakeholders leading to long and ramified supply chains, 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.

Tracing derivatives back to the source is a real challenge but a necessary first step to ensure sustainable sourcing. It is the only possible way: L'Oréal has to know where its suppliers purchase from and thus decided to engage all partners of its supply chain in an ambitious traceability initiative, in order to make full transparency possible.

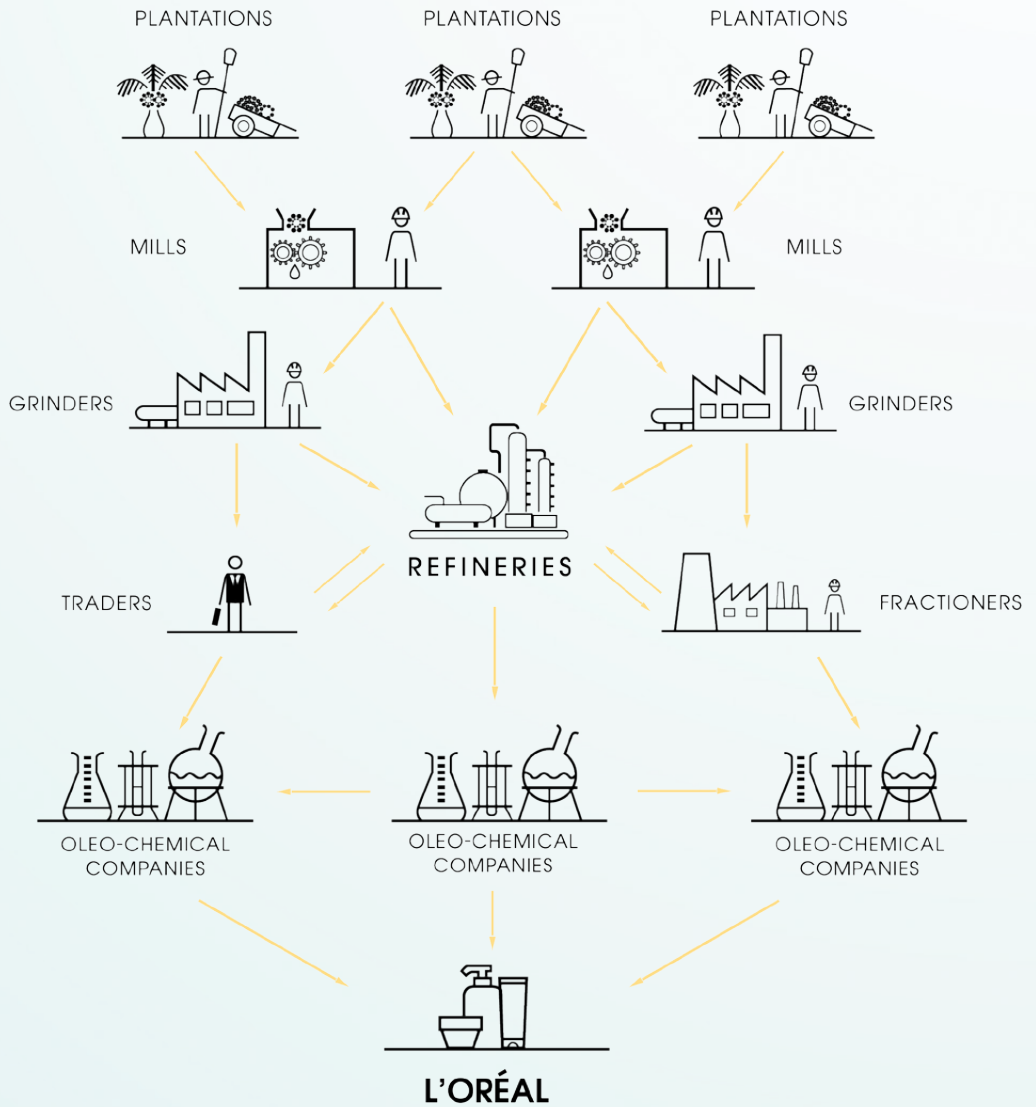
The first outcomes of this initiative are really encouraging and demonstrate that tracing derivatives back to the plantations, at least to the mills, is feasible and is a powerful lever to foster transparency along the supply chains.

## **2015 KEY FIGURES**

The supply chain mapping  
on palm derivatives allowed to trace back:

- **80%** of raw materials up to the level of refineries;
- **50%** of raw materials up to the level of mills;
- **12%** of raw materials up to the level of palm plantations.

# A VERY COMPLEX SUPPLY CHAIN





## MAPPING THE GEOGRAPHICAL ORIGIN OF SOURCING

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In total, more than 97% of the volumes of palm derivatives sourced by L'Oréal originate from Indonesia and Malaysia. A non-significant proportion is also coming from Brazil, Colombia, Guatemala, Papua New Guinea and Thailand.

In Indonesia and Malaysia, there are 18 provinces where the palm oil/palm kernel oil feedstocks entering palm derivatives supply chain would be produced. The Top 10 provinces are: Peninsular Malaysia (26%), Sabah (16%), North Sumatra (11%), Riau (10%), Sarawak (5%), West Kalimantan (4%), South Kalimantan (3%), East Kalimantan (3%), Jambi (2%) and Central Kalimantan (2%).

Considering palm oil expansion is the primary cause of deforestation in tropical regions, there are only few areas dedicated to palm production that can be considered as "low risk" as of today. At the opposite, 30% of the identified sourcing areas demonstrate a high risk profile in terms of deforestation, illegal production, greenhouse gas emissions, fires or impacts on water.

Based on the data collected in 2015, L'Oréal deploys in 2016, alongside with its upstream suppliers, investigations in order to confirm the compliance of the refineries identified, including their supply base (local mills and plantations), to Zero deforestation.





## **METHODOLOGY OF AN INNOVATIVE INITIATIVE TO TRACE DERIVATIVES AND CREATE TRANSPARENCY**

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L'Oréal committed to ensure that by the end of 2015, 100% of palm oil and major palm derivatives should come from known sources, as an intermediary target towards its Zero Deforestation ambition. For L'Oréal's suppliers, this means that all supplies should be traceable back to plantations, or at least back to the mills.

Recognizing there is a higher level of complexity when it comes to ensuring the sustainable sourcing of palm derivatives, L'Oréal engaged in May 2014 in a pilot investigation of its supply chains. The objective was to map out the sourcing areas for indirect palm oil and palm kernel oil purchases, and to highlight potential risks related to these supplies.

With the support of its consulting partner Transitions, L'Oréal engaged a dialogue with more than 75 direct and indirect suppliers (surfactant & oleo-chemicals manufacturers, refineries, crushing plants, mills) to collect data on supply chain flows and practices. The Group also worked in collaboration with more than 10 external stakeholders (NGOs, experts, scientists, etc.) to design an appropriate methodology for assessing the environmental and social risks related to the production of palm in the sourcing areas, at province level.

In the first phase of the investigation, L'Oréal's most strategic direct and indirect suppliers representing the majority of the Group's total purchases were consulted. The objective was to develop a methodology for tracing back the raw materials in the whole supply chain. In the second phase, this methodology was provided to the rest of the suppliers through a new toolkit, which enabled them to conduct the investigation by themselves, always in a co-building and collaborative approach.

Through this process, 100% of L'Oréal's suppliers have been empowered with the skills and feedback to increase knowledge and understanding of their own supply chain for palm derivatives.

# *CHALLENGE # 2:* **INVENT A NEW BUSINESS MODEL WITH INDEPENDENT SMALLHOLDERS**

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 to illegally increase the size of their plantations.

In 2015, L'Oréal launched the "SPOTS Project", a first pilot project targeting to support 500 smallholders by 2020, in the Beluran district in Malaysia. The "SPOTS 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 more than 500 small-scale producers.

The strategy is to connect certified smallholders to the market demand for "Zero Deforestation" Palm and as the final off-taker, L'Oréal subscribes a 5 year premium-based commitment to purchase the smallholders' RSPO certified production.

In 2015, L'Oréal purchased already 1,155 tons of oil produced by the first 72 smallholders registered in the program.

Through this pilot project 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.

## TRANSFORM THE PURCHASE POLICY

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In order to increase business with the most committed and transparent suppliers, L'Oréal improved the scorecard which is used to assess its palm derivatives suppliers. The objective is to create a "Sustainable Palm Index" that will integrate new evaluation criteria based on the suppliers' commitments and achievements in terms of supply chain knowledge, sustainable sourcing practices and compliance with a Zero Deforestation policy. The outcome and rating of the Sustainable Palm Index will be used as due diligence guidelines by L'Oréal's Procurement teams for the selection of suppliers in the general procedure for call for tenders and business allocation.

In order to maximize the relevance of this tool, L'Oréal will publish its new scorecard. L'Oréal wants to share it and to make it available for any company, business, partner of the palm sector, so as to inspire and support the effort of all stakeholders to commit to sustainable palm sourcing and achieve Zero deforestation.





# L'ORÉAL ACTION PLAN FOR THE UPCOMING YEARS

Following the supply chain investigation work, L'Oréal has defined a roadmap to transform its sourcing model and meet its Zero Deforestation target by 2020. Five major levers have been identified:

## *PURSUE THE EFFORT* **TO ACHIEVE FULL TRACEABILITY**

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In 2016 and beyond, the mapping will be updated and a risk assessment will be conducted at district level. This will allow a robust supply chain monitoring as per L'Oréal's commitment. A specific effort will be engaged with the Group's direct suppliers to achieve 100% transparency at refinery level and to verify compliance of these key players with the Zero Deforestation policy.

## *INCREASE THE PROPORTION OF* **SUSTAINABLY SOURCED FEEDSTOCK**

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L'Oréal will continue to increase progressively the percentage of physically sustainable feedstock in its palm derivatives supply chains. RSPO Mass Balance scheme combined with responsible and sustainable local sourcing projects should deliver 40% of the volumes by 2016.

Acknowledging the lack of physically certified derivatives on the market, L'Oréal will continue to use GreenPalm certificates favoring the support to independent smallholders' plantations. L'Oréal will also experiment new production standards (RSPO Next, Palm Oil Innovative Group, etc.).

## *DEVELOP SUSTAINABLE SOURCING PROJECTS* **AT LANDSCAPE LEVEL, TO SUPPORT INDEPENDENT SMALLHOLDERS**

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Jointly with business partners and local stakeholders, L'Oréal will develop projects focused on POISH (Palm Oil Independent Small Holders) which aim by improving productivity to better respect the environment and reduce their input costs. To deliver a concrete impact on the ground, such projects will not only contribute positively to the livelihoods of underprivileged communities and smallholders, but will also demonstrate significant contributions to the reduction of greenhouse gas emissions at landscape level.

To facilitate connection with business, such projects will be located in the key "hotspots" of the supply chain and will seek, as much as possible, to integrate the mills and suppliers already identified by the investigation.

## *DEVELOP BUSINESS WITH THE MOST* **COMMITTED AND TRANSPARENT SUPPLIERS**

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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.

## *INNOVATE* **AND EXPLORE NEW SOLUTIONS**

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L'Oréal is exploring the possibilities of implementing more innovative practices for a sustainable palm production by joining multi-stakeholders platforms that go beyond the current RSPO model and offer additional guarantees aligned with L'Oréal Zero Deforestation ambition, like the High Carbon Stock Approach methodology.



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Find out more:

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