



GREENPEACE



Sum
Of
+ Us

[Union of
Concerned Scientists

July 23rd, 2014

Ms. Indra Nooyi
Chairman and Chief Executive Officer
PepsiCo
700 Anderson Hill Road
Purchase, NY 10577

Dear Ms. Nooyi:

On behalf of Rainforest Action Network, Greenpeace, International Labor Rights Forum, SumOfUs.org and Union of Concerned Scientists, we would like to thank PepsiCo for engaging with our organizations to discuss ways in which PepsiCo can take action to address the social and environmental impacts of its global supply chains.

We are encouraged by PepsiCo's recent adoption of its *Forestry Stewardship Policy, Palm Oil Specific Commitments* and *Land Policy*. However, it is our view that a number of clarifications to strengthen these policies and associated implementation plans are still needed to ensure that PepsiCo's impact and capacity to drive much needed changes in its global supply chains is realized.

We are writing to outline our recommendations, that once adopted, will assist PepsiCo in achieving and accelerating its shift towards deforestation and conflict free supply chains. These recommendations are tailored to addressing critical issues in palm oil and pulp and paper supply chains as the consumption of these two commodities is driving the destruction of forests and peatlands and human rights abuses of Indigenous Peoples, local communities and workers in key production regions, such as Indonesia and Malaysia in SE Asia and increasingly in Africa and Latin America.

Specific text recommendations and definitions can be found in the Annex documents.

It is our hope that PepsiCo will adopt our recommendations on the scope of PepsiCo's policies; supplier requirements on human and labor rights, burning, and reduction of greenhouse gas; full traceability; definitions; and a time-bound implementation plan.

Clarify the scope of the policies.

Both the Forestry Stewardship Policy and Palm Oil Specific Commitment should apply to all of PepsiCo's operations and its suppliers operations.

PepsiCo's Forestry Stewardship Principles

PepsiCo's Forestry Stewardship Principles should be expanded to explicitly include upholding workers' rights, land tenure rights and resolving conflicts in accordance with international human and labor rights laws, norms and existing PepsiCo policies; clearly state no development on peatlands regardless of depth; prohibit burning; and include support for smallholders across the operations of producer companies in its global supply chain.

Fully Traceable Global Supply Chains

In order to be able to provide guarantees to its customers that the raw materials Pepsi sources are grown in accordance with its policies, PepsiCo must achieve full traceability to the plantations or farms where the raw materials in its global supply chains were grown.

Independent Verification of Suppliers Compliance Across All Operations

PepsiCo cannot rely on certification audits against the standards used by certifying bodies in commodity specific certification schemes, including the RSPO, to fully verify suppliers' compliance with PepsiCo's Forestry Stewardship Principles and policies. Independent verification procedures to address these gaps will allow PepsiCo to publicly demonstrate that it has achieved its goals of eliminating sources associated with deforestation, expansion on peatlands and human and labor rights violations from its global supply chains. This will build trust and confidence in customers and allow the company to demonstrate that it lives up to its values.

In order to achieve its goals PepsiCo should set a clear deadline for compliance with these policies. Its global palm oil commitment should be aligned with the new benchmarks for achieving verified responsible palm oil supply chains by 2016.

Elimination of suppliers in breach of PepsiCo's Policies

It is crucial that PepsiCo states its intention to eliminate any supplier who is not compliant with PepsiCo's supplier requirements and policies across its operations.

Any suppliers associated with any new development on peatlands, regardless of depth or area, or clearing High Carbon Stock forest areas across all operations, violating legitimate land tenure rights of local communities to Free, Prior and Informed Consent, violating labor rights, and/or failing to establish effective mechanisms to resolve conflicts must be suspended or eliminated from PepsiCo's global supply chain. It is crucial that PepsiCo communicates to its suppliers that

any new development should be limited to Young Scrub and Cleared/Open Lands, consistent with the other requirements of its policies and Codes of Conduct, and noting that further guidance on assessment and implementation methodologies will be provided through the work of a credible HCS Science Review Group that includes NGOs and companies actively implementing the HCS Approach.

Time-Bound Implementation Plan

A comprehensive procurement policy must outline clear, time-bound performance goals and reporting, auditing and verification measures that will be adhered to in order to guarantee its proper and effective implementation. As it stands right now, publicly available materials do not allow an understanding of the actions PepsiCo will undertake to guarantee the policy and commitment are implemented. This creates uncertainty for both NGOs and suppliers.

These recommendations will strengthen and clarify the intent of PepsiCo's Forestry Stewardship Policies and Palm Oil Commitments. We would welcome opportunities to discuss our recommendations further in person or in further calls with our respective organizations.

Sincerely,

Ginger Cassady
Forest Program Director
Rainforest Action Network

Sharon Smith
Campaign Manager, Tropical Forest & Climate Initiative
Union of Concerned Scientists

Joao Talocchi
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CC:

Mr. Allan Hofman. Senior Vice President, Global Public Policy and Government Affairs.

Mr. Paul Boykus. Vice President Global Public Policy.

Mr. Robert ter Kuile. Senior Director Sustainability.

Annex 1: Recommendations

SCOPE

Recommendation 1: The scope of both the Forestry Stewardship Policy and Palm Oil Specific Commitment should state:

The provisions of these policies apply to:

- *All PepsiCo operations worldwide, including those of its subsidiaries, regardless of stake, and joint ventures.*
- *All direct suppliers from whom PepsiCo purchases products and all their suppliers, at the company group level.*

Recommendation 2: The scope of the Palm Oil Specific Commitment should state:

All palm oil – including, but not limited to, crude palm oil (CPO), palm kernel oil (PKO) and any derivatives, fractionations or ready-made products - will be sourced exclusively from suppliers that have been independently verified to be compliant with PepsiCo’s supplier requirements across their entire operations at the company group level, including all third party suppliers from whom they source palm oil fruit or products.

PepsiCo’s Forestry Stewardship Principles

Recommendation 3: We recommend that PepsiCo strengthen its Forestry Stewardship Principles as follows:

PepsiCo will source all palm oil exclusively from suppliers that have been independently verified to be compliant with the following requirements across their entire operations, including all palm oil products sourced from third party suppliers:

- *Compliance with applicable legal requirements of each country in which we operate and from which we source.*
- *No development on High Carbon Stock (HCS) Forests or High Conservation Value (HCV) Areas.*
- *No development on Peatlands of any depth and originating from growers using best management practices on existing peat soils.*
- *Respect and uphold human rights, including land tenure and fundamental workers’ rights, resolve conflicts, and adhere to the Free, Prior, and Informed Consent (FPIC) Principles in accordance with international laws and norms¹, and*

¹Including the Universal Declaration of Human Rights; United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP); IFC Performance Standards, FAO Voluntary Guidelines on Tenure and Food Security; the Guiding Principles on Business and Human Rights; Implementing the United Nations “Protect, Respect and Remedy” Framework by John Ruggie; ILO Core Conventions; ILO Multilateral

as defined and outlined in the PepsiCo Land Use Policy, Global Supplier Code of Conduct and Supplier Code.

- *Reduce and publicly report on greenhouse gas emissions from all sources.*
- *Prohibit burning in the preparation of land, replanting and other developments.*
- *Support the inclusion of smallholders by assisting them to achieve compliance with these principles, and increase benefit sharing in accordance with PepsiCo's Global Sustainable Agriculture Policy.*

Fully Traceable Global Supply Chains

Recommendations 4: The Palm Oil Specific Commitment should state:

PepsiCo will implement systems that allow for fully traceable supply chains to the plantations of origin to ensure the sources of all palm oil fruit are known, documented and grown in accordance with the Forestry Stewardship Policy by 2016. It will build a fully traceable and transparent palm oil supply chain that will allow the identification of the plantation of origin and associated parent companies for all palm oil it supplies by 2016.

Independent Verification of Suppliers Compliance Across All Operations

Recommendation 5: We recommend that PepsiCo strengthen its Forestry Stewardship Policy by adding the following commitment to independent verification.

PepsiCo should develop its own set of indicators to address gaps between PepsiCo policy and the standards of relevant certification schemes, and appoint credible and transparent independent verifiers to assess compliance of its suppliers at a company group level to these policies.

Recommendation 6: The Palm Oil Specific Commitment should state:

PepsiCo will source all palm oil exclusively from suppliers that have been independently verified to be compliant with the Forestry Stewardship Principles (as per the principles outlined in recommendation 3) across their entire operations, including all palm oil products sourced from third party suppliers, by 2016.

Elimination of suppliers in breach of PepsiCo's Policies

Recommendation 7: The Palm Oil Specific Commitment should state:

PepsiCo will engage our suppliers to verify that their palm oil production, procession and trading practices comply with our Forest Stewardship and Land Policies. If an audit or other highly credible source confirms that a direct or third party supplier is non-compliant, and if that supplier does not

remediate the risks of non-compliance, PepsiCo will suspend or eliminate palm oil purchases from the supplier in question.

Time-Bound Implementation Plan

Recommendation 8: The Palm Oil Specific Commitment should state the time-bound performance goals that PepsiCo's will work towards to achieve its commitments to source exclusively from suppliers that have been independently verified to be compliant with the Forestry Stewardship Principles, Palm Oil Commitment and Land Policy across their entire operations, by 2016. The implementation plan should include commitments to the following actions:

- *Publish a comprehensive map of our global palm oil supply chain by 2015.*
- *Build a fully traceable and transparent palm oil supply chain that will allow the identification of the plantation of origin and associated parent companies for all palm oil it supplies by 2016.*
- *Undertake a global risk-assessment to identify suppliers at risk of non-compliance with our Forest Stewardship Policy, Land Policy, and Global Supplier Code of Conduct across all our operations by 2015. This assessment will include, but not be limited to, risk assessments for our top three palm oil sourcing countries: Indonesia, Malaysia and Mexico and geographies directly in or outside the geographies in PepsiCo's physical supply chain.*
- *Develop comprehensive auditing procedures and independent verification measures and undertake a comprehensive third party audit and verification program for our global palm oil supply chain by 2016. This program will commence in 2014 with third party audits and independent verification of the global operations of our three primary suppliers: Oleofinos, Aarhus and Wilmar.*
- *Develop criteria that will be used as the basis for the suspension or elimination of palm oil suppliers from our global supply chain.*
- *Develop Standard Operating Procedures (SOPs) to assist the implementation of each Forestry Stewardship Principle including SOPs for FPIC; SOPs for HCS, HCV and Social Impact Assessments; and SOPs to ensure worker recruitment and employment practices respect and uphold the rights of vulnerable populations including migrant workers², temporary workers³, and women workers.*
- *Engage with appropriate industry, affected parties, and other groups to improve our understanding of deforestation and human and workers' rights abuse issues, adapt our policy, and achieve our goals.*

² Employment contracts for migrant workers must clearly state the employee's rights and responsibilities in a language that the employee understands, including contract duration, wage rate, legal overtime maximums, benefits, deductions, living conditions, and termination policy. It should also require the employer to pay all fees associated with recruitment, the renewal of documents, and transportation. Employees must have complete control over their finances and personal identity documents, with access to lock boxes.

³ The use of temporary workers, day laborers, and third party employment agencies must be accompanied by basic safeguards, including: written employment contracts which clearly state the worker's rights and responsibilities in a language they understand, including contract duration, wage rate, legal overtime maximums, benefits, deductions, and termination policy. In addition, temporary workers should receive basic protective equipment at company expense and access to free health care for employment-related injuries.

- *Provide open, balanced, transparent and accountable grievance and dispute resolution mechanisms for workers and other affected parties to report and seek redress for breaches in our suppliers operations.*
- *Leverage our Supplier Code of Conduct (SCoC) and purchasing contracts as a means of communicating PepsiCo's requirement of compliance with our Forest Stewardship Policy and associated commitments to our suppliers.*
- *Annually report on our performance against this policy and its associated time-bound commitments to ensure transparency and encourage our suppliers to do the same.*
- *Advocate for public policy, regulation and improved governance for protecting rainforests, peatlands, climate, biodiversity and human and labor rights.*

High Carbon Stock (HCS) forests

Recommendation 9: PepsiCo's Forestry Stewardship Policy and Palm Oil Specific Commitment on HCS should additionally recognize areas of primary forests as High Carbon Stock (HCS) forests. We also recommend that PepsiCo requires its suppliers to utilize The High Carbon Stock Approach to assess and identify land that is HCS forest. HCS forests should be protected as a part of new oil palm plantation development in all operations including the entire operations of third party suppliers.

High Conservation Value (HCV) areas not High Conservation Value (HCV) forests:

Forest and non-forest areas of High Conservation Value must be afforded protection under the scope of these policies. It is critically important that the scope of PepsiCo's policy includes a clear requirement for PepsiCo and all its suppliers to conserve and maintain High Conservation Value (HCV) areas across all six classes of HCV.

Recommendation 10: PepsiCo's Forestry Stewardship Policy and Palm Oil Specific Commitment should refer to *High Conservation Value (HCV) areas* instead of *High Conservation Value Forests*.

ANNEX 2: DEFINITIONS

High Conservation Value (HCV) areas

High Conservation Value areas includes forest and non-forest areas that contain biological, social or cultural values that are significant or critically important and need to be conserved including rare, threatened or endangered species and their habitat. See: <http://www.hcvnetwork.org/>

Peatlands

Peatlands/ Peat soils of any depth and area that contain more than 65% organic matter, *pending further review to ensure conformity with internationally accepted scientifically-robust definitions in order to promote consistency and comparability in implementation and reporting.*