



16. Supplier selection and engagement

SPOTT indicators: Does the company disclose...

117) Process used to prioritise, assess and/or engage suppliers on compliance with company's policy and/or legal requirements?

118) Suspension or exclusion criteria for suppliers?

119) Number or percentage of suppliers assessed and/or engaged?

Relevant SDGs



Context

In order to effectively implement their corporate sustainability commitments, companies should ensure that suppliers meet their standards. Companies, as well as their buyers, may be exposed to upstream sustainability risks when companies do not clearly communicate their objectives to suppliers, and do not specify how their policies apply to them.

Ensuring suppliers meet companies' expectations can be proactive, when a supplier is first selected or when contracts are renewed. Engagement of suppliers may also be reactive, when there are ongoing issues associated with suppliers' operations, or if allegations are made against them. Engagement plays a crucial role in ensuring a company's supply chain is sustainable and also helps to mitigate risks perceived by buyers and investors.¹

For instance, a company with an NDPE (No Deforestation, No Peat, No Exploitation) policy that receives palm oil from a supplier that drained peat for oil palm development, should engage this supplier to ensure compliance with its policy and clarify its expectations. Engagement may include evidence-based assessments of suppliers' practices and the prioritisation of those suppliers most likely at risk of violating company policies. In some cases, engagement may be ineffective and companies may find severing business ties a pragmatic fix.²

Obligations and expectations

In some jurisdictions, companies are obliged to perform due diligence assessments of their suppliers. For example, under the UK Modern Slavery Act 2015, targeted UK-based companies must ensure that no slavery is taking place in any of their supply chains and produce a report on this for each financial year.

Moreover, research³ shows that companies making 'zero deforestation' claims may be held liable under EU consumer protection law where their claims can be deemed false or misleading. It is, therefore, essential to engage the entire supply chain to prevent such claims as responsibility ultimately lies with the company trading and advertising in the EU.

¹TFT 'How brands can drive palm oil change'. [Accessed 3 October 2017].

Available from: tft-earth.org/stories/blog/brands-can-drive-change-palm-oil-supply-chains/

²WWF-India (2017). Palm lines: Envisioning a sustainable future for the Indian palm oil industry. [Accessed 3 October 2017].

Available from: wwfindia.org/?16721/New-report-outlines-vision-for-Palm-Oil-Sustainability-for-India

³ClientEarth. 2017. Voluntary 'deforestation free' commitments - Application of the Unfair Commercial Practices Directive. [Accessed 2 October 2017]. Available from: documents.clientearth.org/library/download-info/voluntary-deforestation-free-commitments/

GAR's approach to supplier selection and engagement

"To ensure that the palm oil industry increasingly adopts responsible practices, we are working closely with our own supply chain to help suppliers improve their practices.

"As a first step, we embarked on a programme to map our supply chain, first to the mill and then to the plantation. Beyond traceability, GAR is using the increased interaction with suppliers to spread responsible palm oil practices and build their capability to adopt these practices. We are doing this systematically through a series of site visits and engagement, which allows us to understand the challenges our suppliers face. This information is used to design intervention strategies such as targeted training, workshops and a supplier support helpline allowing us to share best practices.

"We have the option to drop suppliers uninterested in this transformative journey, but we believe that engagement and dialogue continues to yield the best results."

**Shuling Lim, Head of Sustainability Communications
GOLDEN AGRI-RESOURCES**

WWF-India: Supplier engagement for buyers

"In our engagement with Indian industries importing palm oil, WWF-India found price premiums, associated with sustainable palm oil, to be one of the key factors inhibiting uptake of sustainable palm oil in India.

"WWF-India believes the SPOTT approach is a good first step for companies who want to work with suppliers that are more transparent regarding their operations, while aiming for full RSPO certification and CSPO uptake in the long run."

**Bhavna Prasad, Director - Sustainable Business
WWF-INDIA**

Challenges

- Depending on the nature of a supplier, engagement processes can be resource-and time-intensive.
- Companies may find it difficult to engage with potentially problematic suppliers as the latter might be reluctant to discuss their practices.
- Companies may be reluctant to exclude suppliers, and the exclusion of suppliers might create supply issues without necessarily addressing the suppliers' poor practices, thus displacing the problem.

Best practice for supplier selection and engagement

There are several steps that palm oil companies should follow in order to implement best practice:

- Companies should ensure that their suppliers are aware of and trained on compliance with their policies.
- Policies should extend to independent FFB suppliers and large-scale growers.
- Companies should establish a supplier compliance/suspension committee.
- While some stakeholders might demand swift action towards suppliers suspected of wrongdoing, it is important to highlight that exclusion does not necessarily deliver the best outcomes in sustainability terms. To answer stakeholders' concerns, companies should document engagement proceedings in a systematic manner and establish time-bound plans for compliance in collaboration with suppliers.
- In cases where suppliers are continuously non-compliant, companies may wish to cease business with them, and certain groups of suppliers could be prioritised when necessary. Exclusion criteria should be clearly defined.
- Agreements should be in place with suppliers which stipulate that plantation activities must be carried out in accordance with company policies. Companies should monitor implementation of agreements through continuous engagement.
- To facilitate supplier identification and prioritization, companies may consider collaborating with reputable third parties.

Recommended resources

- WWF-India (2017). Palm lines: Envisioning a sustainable future for the Indian palm oil industry. [Accessed 1 October 2017]. Available from: wwfindia.org/?16721/New-report-outlines-vision-for-Palm-Oil-Sustainability-for-India
- Ceres. 2017. Reporting Guidance on Responsible Palm. Available from: ceres.org/resources/reports/reporting-guidance-responsible-palm

Other SPOTT indicator framework factsheets in the series

This document is part of a series of factsheets in the publication: *From disclosure to engagement: A guide to the SPOTT indicator framework for assessing palm oil producers and traders*. Below is a full list of the factsheets:

- Factsheet 1: Sustainability policy and leadership
- Factsheet 2: Landbank and maps
- Factsheet 3: Traceability
- Factsheet 4: Deforestation
- Factsheet 5: Biodiversity
- Factsheet 6: HCV, HCS and impact assessment
- Factsheet 7: Peat
- Factsheet 8: Fire
- Factsheet 9: Greenhouse gas emissions
- Factsheet 10: Water
- Factsheet 11: Chemical and pest management
- Factsheet 12: Community and land rights
- Factsheet 13: Labour rights
- Factsheet 14: Palm oil certification
- Factsheet 15: Smallholder support
- Factsheet 16: Supplier selection
- Factsheet 17: Governance and grievances

About SPOTT

SPOTT is an online platform promoting transparency and accountability to drive implementation of environmental and social best practice for the sustainable production and trade of global commodities. SPOTT assessments score some of the largest palm oil producers and traders on the public availability of corporate information relating to environmental, social and governance (ESG) issues.

Reframed as the **Sustainability Policy Transparency Toolkit** in 2017, SPOTT now supports transparency for other industries that pose some of the greatest risks to the environment, with SPOTT assessments of timber, pulp and paper companies launched in November 2017.

For more information, visit [SPOTT.org](https://spott.org) or contact SPOTT@ZSL.org.

About ZSL

Founded in 1826, the **Zoological Society of London (ZSL)** is an international scientific, conservation and educational charity whose mission is to promote and achieve the worldwide conservation of animals and their habitats.

Our mission is realised through our groundbreaking science, our active conservation projects in more than 50 countries and our two Zoos, ZSL London Zoo and ZSL Whipsnade Zoo.

Published: November 2017