

Responsible Procurement Approach

Version 2017





1 Introduction

The responsible procurement of raw materials has been an important topic within Royal Agrifirm Group for a long time. It was mainly focused on the implementation of an advanced system for feed safety, but is now moving into another phase. In this document Royal Agrifirm Group presents its new risk-based approach to responsible procurement of feedstuffs and grains. It explains why and how Royal Agrifirm Group will proactively cooperate with its supply chain partners to ensure responsible procurement of all main raw materials, and describes progress made towards the objectives. The approach presented has been prepared and implemented in close cooperation with two independent companies.

1.1 Reasons for a new approach to responsible procurement

With a growing world population and increasing prosperity, demand for food, feed, and biomass for other purposes will increase in the coming decades. This growing demand will in turn put increasing pressure on natural resources such as fertile land, biodiversity and water. The agricultural sector faces the challenge of producing raw materials in a sustainable way, to manage the world's natural resources responsibly.

Royal Agrifirm Group is committed to play its part in this global challenge.

One way in which Royal Agrifirm Group has an impact on agricultural production is through the procurement of responsibly produced raw materials for its feed solutions and crop caring solutions. This policy document of the Royal Agrifirm Group explains the specific approach that has been developed, together with the procurement department of Royal Agrifirm Group Feed, for agro commodities for producing compound feed.

Feed safety and business integrity are essential aspects of Agrifirm's operation and procurement. For decades, feed safety has been the

highest priority for Royal Agrifirm Group, and generic control systems have been initiated such as GMP+ and SecureFeed. Monitoring and control of feed safety standards is at the core of the company's operational guidelines, and is part of its existing procurement policy. Along with principles and agreements for feed safety and ethical trade, a new aspect in the procurement policy of Royal Agrifirm Group Feed is the setting up of a system for responsible production and processing practices in areas of origin of other raw materials for compound feed.

When it comes to the procurement of responsible raw materials for feedstuffs and grains, historically Royal Agrifirm Group has always been a very active stakeholder. For many years, Royal Agrifirm Group has been closely involved in initiatives regarding responsible soy and responsible palm oil; two raw materials of great importance to the feed industry. Both soy and palm oil are the subject of intense debates regarding nature conservation, environmental impact and human rights. Much has been learned from various initiatives taken in the soy and palm oil supply chains.

Being an intermediary actor in the supply chain, Royal Agrifirm Group believes that it is important to work together on this approach with suppliers and stakeholders. This includes a commitment to close cooperation with supply chain partners and stakeholders in order to take the right measures to make agricultural production more responsible through a shared vision. Generally speaking, when talking about responsible procurement, the following actions will be executed by Royal Agrifirm Group: gathering the right information; implementation of thorough regional risk analyses, if feasible; fostering the implementation of meaningful mitigation actions, if necessary; initiating supply chain cooperation; and supporting the creation of structural dialogues on impactful measures towards responsible production of agro commodities. Royal Agrifirm Group is convinced of the importance to work on this ambition together with

suppliers to realise true change in countries of origin.

1.2 Ambition and scope of The Royal Agrifirm Group responsible procurement approach

The use of responsibly produced raw materials is an important element of The Royal Agrifirm Group CSR policy, which is built around six pillars. Progress on these pillars is frequently reported, following the internationally recognised principles of the Global Reporting Initiative (GRI). In the current version of GRI, an organisation is challenged to focus on the sustainability subjects on which it has the biggest impact ('material subjects'). This is what Royal Agrifirm Group aims for concerning all its activities, and also for its responsible procurement approach. For the pillar 'responsible raw materials' following ambition for 2020:

Working on responsible raw materials

By 2020, all major commodities will be part of The Royal Agrifirm Group sustainable procurement policy. The specific risks of producing all these commodities are defined for specific origination regions and will be linked to an action plan of Royal Agrifirm Group.

Royal Agrifirm Group is aware they will have the greatest positive impact on 'responsible raw materials' by first directing energy and resources towards the most strategic raw materials in terms of their shared volume in the total raw materials

portfolio. This volume-based focus is also very clearly linked to the 'material' activities of The Royal Agrifirm Group feed organisation.

In the initial phase, the scope of the program will be started with all purchases of Royal Agrifirm Group Feed NWE (North-West Europe), because of their relatively large contribution to the procurement of raw materials (3.5 million tonnes (this is about 70% of the total compound feed produced by Agrifirm)).

For Royal Agrifirm Group Feed (Netherlands), the following raw materials are included, based on the criterion that a raw material accounts for at least 2% of the macro ingredients for Royal Agrifirm Group Feed (Netherlands), which is approximately 90% of total volume of feed ingredients (this is based on 2015 figures, which are expected to be representative for several years).

- > Corn
- > Wheat
- > Rapeseed extract
- > Barley
- > Palm kernel expeller
- > Soybean extract
- > Wheat feed meal
- > Citrus pulp/Sugar beet
- > Sunflower meal

Generally speaking, a dominant production region can be identified for each of the raw materials. Based on The Royal Agrifirm Group own procurement experiences, these are:

- > South America
- > Baltics
- > Asia

- › North-West Europe
- › Central/Eastern Europe
- › USA/Canada
- › Australia

Remark: The use of raw materials by The Royal Agrifirm Group clients – the farmers – is not part of this specific strategy, neither is the search for alternative raw materials (e.g. alternative protein sources).

In 2016, Royal Agrifirm Group started with its first region-based risk assessments of wheat, rapeseed and corn, after the realisation that assessments based on continents were too broad. For example, significant data found about an issue in the EU is not sufficiently specific to draw conclusions about the political, economic, social or environmental situation in the supply chain of the specific raw materials. To enable specific supplier discussions, Royal Agrifirm Group made a more detailed overview of relevant countries of origin. Figure 1 shows an example for the raw materials wheat, rapeseed and corn.

When looking at country level, it's necessary to realise that sourcing areas will change over time. For this reason, the countries of origin of other raw materials are not listed in this policy document. Together with The Royal Agrifirm Group main suppliers, the countries of origin will be updated and checked once every two years.

1.3 The Royal Agrifirm Group vision on responsible procurement

The feed industry has a long tradition of managing risks in the often long supply chains of many agro commodities that are mixed in one compound feed product (meal or pellets). Based on several incidences, the feed industry developed comprehensive risk management systems for feed and food safety. These systems, which have been implemented worldwide, have two major aspects to deliver control: the gate keeper and a standardised way of risk management called HACCP (Hazard Analysis and Critical Control Points). It can be easily imagined how many different contaminants need

to be controlled to secure a safe and nutritious supply chain. This leads to numerous criteria on maximum levels or absence of contamination, which in practice would be uncontrollable if applied to every batch of raw materials delivered to feed factories. As a very pragmatic approach, HACCP has been developed and implemented in the same way for the whole supply chain: all criteria apply to all raw materials and every single batch delivered to feed factories and/or farmers. However, the control of criteria is based on risk analysis and focuses on the point of entry into the supply chain. For that the gate keeper is appointed, with the major responsibility of ensuring the absence of contaminants.

In the last decade, interest has grown for a responsible supply chain. Social and environmental risks need to be mitigated from the supply chain. NGOs played a valuable role in addressing issues in the supply chain close to consumers; namely with retailers and major branded food products. As a consequence, the ap-

proaches have focused on single raw materials (coffee, tea, fruits, cocoa, etc.) and certain regions in the world. To support these developments, influential roundtables have been set up for intermediate products, like the roundtable of responsible soy and palm, amongst others. Certification of these single raw materials is the answer to these challenges, and this is taking place around the world.

Interestingly Royal Agrifirm Group, as purchaser of raw materials, noticed that other raw materials were also purchased from the same areas, as pointed out in the roundtables, but no questions are raised concerning the societal and environmental challenges with these raw materials. Moreover, risk analysis on societal and environmental risks for the different commodities and regions does not exist. In its approach to responsible procurement, Royal Agrifirm Group is developing methodologies and actual risk analysis, in close collaboration with experienced parties, and in a process of stakeholder evaluation. It is The Royal Agrifirm Group vision

that the approaches of feed and food safety, and managing food safety risks, will merge with the approaches of managing societal and environmental risks. In the long run, responsible procurement can be defined as:

- › Developing and implementing criteria for food safety, societal and environmental risks, either based on legislation, widely accepted standards or company own regulations.
- › Implementing an independently verified system of risk analysis, based on international standards, and using transparently available data or other trustworthy data sources.
- › Implementing mitigation actions on critical control points with suppliers, who act as gate keepers.

This systematic approach will develop to be a new market standard, and will make use of standardising bodies and data sources. Implementing this systematic approach will ensure that The Royal Agrifirm Group supply chain will meet the highest standards, and will contribute to the implementation of a new global standard for responsible procurement.

Commodity/ Region	Country 1	Country 2	Country 3	Country 4	Country 5	Country 6	Country 7
Wheat	Netherlands (region NW-EU)	Germany (region NW-EU)	UK (region NW-EU)	Belgium (region NW-EU)	France (region NW-EU)	Hungary (Central/ East EU)	Poland (Central/ East EU)
Rapeseed	Netherlands (region NW-EU)	Germany (region NW-EU)	UK (region NW-EU)	Belgium (region NW-EU)			
Corn	Ukraine (Central/ East EU)	Romania (Central/ East EU)	Russia (Central/ East EU)	Brazil (South- America)	Argentina (South- America)		

› Figure 1





2 The Royal Agrifirm Group responsible procurement approach

This chapter briefly explains The Royal Agrifirm Group new responsible procurement approach and introduces its basic elements: the generic risk assessment, the specific risk assessment and stakeholder involvement in those processes. The leading idea behind the new approach is to know the risks on societal and environmental issues in The Royal Agrifirm Group supply chain and start cooperation with suppliers to jointly work on these issues.

2.1 Combining regions and crops

The basic idea behind this new approach is that there is a great deal of public and protected information available about sustainability risks in a particular agricultural region. These risks can be specific to a supply chain or more generally to a crop. Analysing these risks using publicly available data can help structure the dialogue with suppliers regarding the relevant, specific issues that may play a role in the region in which the supplier procures an ingredient.

2.2 The advantages of the new approach for supply chain partners

Royal Agrifirm Group has initiated the responsible procurement approach because it sees substantial advantages in a structured risk-based approach to procurement of raw materials. Royal Agrifirm Group is convinced that this is a very positive and constructive approach that has additional advantages for its suppliers, clients (farmers) and its clients' clients (the meat, dairy and egg sectors, manufacturers of A-brands and retailers).

The approach as described in this document has the following advantages for Royal Agrifirm Group:

- › Strengthen cooperation and trust between Royal Agrifirm Group and its suppliers.
- › Take co-responsibility of certain sustainability problems and solve these at the appropriate level.
- › Involve local stakeholders to provide them with up-to-date and realistic data about local situations.
- › Improve farming practices to increase productivity and make farming more sustainable.

- › Substantiate decision-making of the procurement department concerning responsibility aspects of supply chains.
- › Proactively identify and mitigate sustainability issues in the supply chain.

The added value for The Royal Agrifirm Group suppliers is that they can:

- › Improve and strengthen the relationship with their customers.
- › Obtain a structured method to analyse sustainability risks in their supply base.
- › Share responsibility with the next link in the supply chain.
- › Implement measures that are supported by local stakeholders

The added value for The Royal Agrifirm Group clients – the farmers – is that they can:

- › Make use of a transparent and reliable system to realise their ambitions to apply their responsible procurement principles to raw materials for feed.
- › Avoid cost-ineffective measures for responsible raw materials for feed by integrating those with existing systems for risk management (feed safety systems).
- › Refer their customers – the downstream partners² who are increasingly challenged on sustainability in their supply chains – to Royal Agrifirm Group to receive information about the responsibility of their feed ingredients.

The added value for the clients of The Royal Agrifirm Group clients – downstream chain partners – is that they can:

- › Concentrate on aspects other than responsibility issues in their supply chains (at least concerning the feed part).
- › Gain sound insight into the process used by Royal Agrifirm Group to arrive at responsibly sourced ingredients.

2.3 The steps in The Royal Agrifirm Group approach

Before describing the risk assessment and stakeholder involvement in detail in chapters 3 and 4, the following introduces the various steps taken in the process.

Step 1: Generic region-based risk assessment

First, a generic risk assessment is made for The Royal Agrifirm Group main procurement regions and major raw materials. The objective is to arrive at a systematic analysis of the most relevant responsibility risks for a specific crop in a specific region. In the first analyses carried out, a third-party auditor expert is invited to implement the process of a generic region-based assessment, based on two sub-steps:

- a. A desk study based on public information.
- b. Expert judgement of local auditors.

Step 1a: A desk study based on public information

All data sources used as an input for

the generic risk assessment are well documented. See paragraph 3.3a for more information on the methodological criteria for a desk study.

Step 1b: Expert judgement of local auditors

To make the generic risk assessment of the countries of origin valuable and useful, more specific information is needed about the agricultural perspective. To add agro-specific information to the analysis, the third-party auditor expert is asked to provide 'expert judgement'. For each of the relevant countries, the following judgement steps are performed:

- › Local auditors are asked to provide input, based on their practical experience in the specific countries.
- › Regional coordinators (level of continents/areas) are asked to compare the assessments they received from the local auditors, and verify remarkable differences based on their regional experience and knowledge. See paragraph 3.3b for more information.

Step 2a: Discuss supply chain specific situation with the suppliers

The generic assessment is shared and discussed in detail with the supplier(s) at meetings organised for every raw material. In those cases where the supplier does not recognise certain issues that have been identified in the generic assessment, discussions are held as to whether he has additional information that demonstrates the issue does not occur or occurs less in the specific region or supply base. In case of agree-

² Egg, dairy and meat industry, producers of A-brands and retailers.

ment on certain risks, a discussion is started on prioritising these risks.

Step 2b: Select priorities

When the one-on-one supplier meetings are finished for a minimum volume share of 80% of each ingredient, the next step is taken. When this substantial part of the supplier conversations has taken place for a specific raw material/region combination, an overview of the most important priorities can be discussed with a broader range of local stakeholders. After that phase, Royal Agrifirm Group ranks the different issues and prioritises them, partly based on the distinction of essential and responsibility topics and partly based on 'sphere of influence' analyses (see paragraph 5.4).

Step 3a: Discuss risk mitigation options with the supplier(s)

The next step is to investigate possible measures to mitigate the high-priority responsibility risks with suppliers.

Step 4a: Draw up and implement an action plan

An action plan is developed, preferably in close co-operation with suppliers, in such a way that the direct effect of mitigation measures can be verified by external stakeholders.

Step 3b/4b: Connection with relevant stakeholders

To challenge and discuss the appropriate local measures for a high priority responsibility risk, sessions are held with local stakeholders at

various stages of the process. These stakeholders are invited to share their thoughts about the impact and effectiveness of the proposed measures.

Step 5: Monitoring and control

All action plans that Royal Agrifirm Group agreed upon with suppliers are summarised in an overall action plan for responsible procurement (Appendix 4). In this overall document, Royal Agrifirm Group also accounts for the overall impact of those plans on the entire supply base of the main raw materials (see section 1.2). Once every two years, all generic and specific risk assessments will be updated, and the contribution of risk mitigation plans evaluated.



3 Methodology and data

This chapter presents the methodology used to prioritise responsibility risks. It first describes how Royal Agrifirm Group arrived at a framework covering all relevant responsibility issues, and then explains how so called 'essentials' were selected, including an elaboration of the data sources used in the generic risk assessment and presentation of the risk calculation method.

3.1 Establishing a framework of relevant responsibility issues

A framework for assessing all relevant responsibility issues is first established. This framework helps to direct the data search, ensures that no issues are left outside the scope of the analysis and ensures that the risk assessment is carried out in a similar manner for all crops, regions and years.

Wherever possible, internationally established and recognised definitions are used, with ISO 26000 (Figure 2) – a well-known and widely accepted international standard on responsible production – the starting point.

Using ISO 26000, concrete responsibility items per category are listed. For example, for human rights, the list includes child labour,

forced labour, discrimination etc. For the environment, topics listed include water depletion, water pollution, soil erosion, soil quality decline, invasive species, waste, illegal agrochemical, etc.

3.2 Determining 'essential topics' and 'responsibility topics'

Royal Agrifirm Group considers it very important to have a structural dialogue with suppliers and relevant stakeholders about the responsibility issues and mitigation options. The aim is to have a complete list of all responsibility risks, while recognising that certain responsibility issues should be addressed with high priority. These so called 'essential topics' are derived from the OECD-FAO Guidance for Responsible Agricultural Supply Chains and are based on a number of Conventions and Treaties that are generally accepted as 'ways to conduct business in a responsible and ethical manner', particularly the 8-core ILO Conventions. The 'essentials' are clearly defined in Appendix 1 and deal with themes such as forced labour, child labour, discrimination, remuneration,



> Figure 2: The ISO 26000 responsibility categories



protection of the right of workers to organise themselves and to carry out collective bargaining, and the protection of land and water rights.

To ensure that all 'risks' that could occur in the production of raw materials are covered, several responsibility standards, programs and codes were analysed, such as SAI, UN Code of Conduct, Global Gap, etc. The remaining 'responsibility topics' were formulated in such a way that they:

- Describe a concrete risk – in other words they are phrased negatively.
- Guide the third party that conducts the risk assessment about what kind of information to search for.
- Do not, or as little as possible, describe (positive mitigation) measures.

➤ Are specific enough to make sure that when measures are discussed in a later phase of the process, they measures can be connected to the specific responsibility problems.

Section 3.4 explains how and why a number of responsibility items are aggregated into 'overarching responsibility problems'. Soil depletion, soil pollution, soil compaction and soil erosion do for instance add up to the risk category 'soil' and a similar example can be given for biodiversity or water.

Although Royal Agrifirm Group has done their utmost to arrive at a consistent and complete system, suggestions from (local) stakeholders to add new issues are welcome.

3.3 Data collection

3.3a: Desk study

The risk assessment process starts with a generic risk assessment using publicly available data. The generic risk assessment is carried out for all of the various raw material-region combinations. To avoid unnecessary duplication, a general analysis of the responsibility issues in a specific region is first made, which will be the starting point for the risk assessment of various crops in that region.

For the first analyses, the generic risk assessment is carried out by an independent third party. The process of data collection, validation, aggregation and analysis must be transparent and reproducible. Therefore all data sources used in the generic risk assessment must be registered.

Frequency category	Frequency score
Never happens, almost never happens <i>(judgement auditor: this is not happening, no issue for agriculture in the specific)</i>	20%
Happens occasionally <i>(judgement auditor: this can happen in some situation/ at some farms, but only occasionally)</i>	40%
Happens regularly <i>(judgement auditor: this can happen in more situation/at more farms, frequent enough to take into consideration)</i>	60%
Happens often <i>(judgement auditor: this is happening often/ at more farms)</i>	80%
Happens very often <i>(judgement auditor: this is happening very often at big scale)</i>	100%

➤ Figure 3

The information for the generic risk assessment is gathered from a wide range of public sources. Wherever possible, official data by governments or international institutions such as the World Bank or FAO are used, for example World Bank Open Data, FAOSTAT, EUROSTAT or databases managed by local authorities. Furthermore, indices or tools created by universities or NGOs are used, such as Yale's Environmental Performance Index, the Corruption Perception Index, commodity.globalforest-watch.org and LandMark. Appendix 2 provides an overview of possible data sources for each ISO category.

The third party carrying out the generic risk assessment is explicitly instructed not to include supplier-specific information in the generic assessment. Supplier-specific information is obtained in one-on-one conversations with suppliers and included in the specific risk assessment.

3.3b: Expert judgement

To specify the information collected via the region-based desk studies, local auditors receive an empty questionnaire. Based on their experience with field audits in the specific country, these local auditors rank the expected risk score for all relevant essential and responsibility items (see Appendix 1: Essential topics (orange) and sustainability topics (light green)). Their reference point is national legislation. For the selection of the auditors, the auditing company looks at years of experience – specifically in the arable farming sector. For each of those items, the auditor is asked to indicate the expected risk score, based on the frequency categories from 20%-100%. The auditors are instructed to make a clear distinction between the 40% risk category (and thus not included) and the 60% risk category (and thus included). The auditors are requested to give a motivation for the score, by describing the problem that results

in high risk scores and/or the presence of well-known and implemented regulations or market standards in case of low risk scores.

Since the scores are based on the judgement of one person, a regional coordinator verifies the results. These are people who have auditing experience in several countries, and understand cross-cultural differences in the specific region (e.g. NW-EU). Specific risk scores or cross-country differences that are not clear or remarkable according to the regional coordinator, are cross-checked with the local auditors.



3.4 Risk calculation method

To indicate the possible risk of occurrence of an issue in a country of origin, the following frequency scoring is used (Figure 3).

“Essential topics” do have one indicator per topic, but the ‘responsibility topics’ can have variable number of topics. To make them comparable an average number for an ‘responsibility topic’ is being calculated.

For each topic the score per indicator can vary between 20%, 40%, 60%, 80% and 100% (being the riskiest). For the ‘responsibility to-

pics’, an average score is calculated based on an average of all indicators. If an overarching theme scores 50% or higher, all topics related to this theme will be on the priority list.

As we are referring here to an essential topic, it is good to realise that a score of 40% does not lead to a direct priority, but that it is important to monitor and check whether this assessment is still realistic for the generic situation in a region.

Overall, it is good to keep in mind that the risk score is judged by one individual person and the difference

between the frequency categories 20% versus 40% and 60% versus 80% can be very arbitrary. The difference between 40% and 60% is the major discrepancy that is indicated by local auditors and leads to a certain list of priority topics (a score of 60% or higher). For this reason the auditors are carefully briefed to be extra thoughtful when assigning an item to the 40% or 60% category.

Frequency category	Score on an essential topic ‘X’	Score on a responsibility topic ‘Y’		
		Indicator ‘a’	Indicator ‘b’	Indicator ‘c’
Never happens, almost never happens (<i><5x per year</i>) (20% probability)				
Happens occasionally (<i>5-10x per year</i>) (40% probability)		40%		40%
Happens regularly (<i>>1x per month</i>) (60% probability)	60%			
Happens often (<i>>3x per month</i>) (80% probability)			80%	
Happens very often (<i>>1x per week</i>) (100% probability)				
Overall score	60%	Sum of 40%, 80%, and 40% divided by 3 indicators = 53,33%		
Decision	> 50%: <i>On the priority list for further discussion with supplier</i>	> 50%: <i>On the priority list for further discussion with supplier. N.B. If indicator a or c would have scored lower, the theme would not have been on the priority list, but indicator b would have been part of further discussion.</i>		

> Figure 4: Critical thresholds for responsibility risk scores



4 Insights into regional risk assessments

This chapter in The Royal Agrifirm Group policy document describes the insights gained from the development of regional risk assessment of the countries that Royal Agrifirm Group sources from. It is expected that the type of insights that go along with the first assessments will be illustrative for the rest of The Royal Agrifirm Group responsible procurement journey.

4.1 Insights on the methodology

As explained in Chapter 3, several methodological steps were conducted to come up with robust regional risk assessments. Assessments started for the countries that are the growing areas for the first three raw materials; wheat, corn and rapeseed extract. When performing those risk assessments and discussing them with suppliers and stakeholders (see Appendix 3), the strengths and weaknesses of

the methodology were discovered. It is good to be aware of possible strengths and weaknesses, and take them into consideration during the next steps.

Strengths:

- > The analysis of countries that are not in the ‘traditional’ focus of business and society when it comes to responsible sourcing (e.g., some European countries), resulted in outcomes that ‘surprised’ Royal Agrifirm Group as well as suppliers

and stakeholders. The regional assessment resulted in information about possible risks that were not yet on the radar.

- > The third party auditor experts are very well aware of the most common risks in arable farming in a specific country. They had no problems with the idea to generate one evaluation, for a region that is reaching a country level.
- > Royal Agrifirm Group is not the only company looking for third

party insights on regional hotspot topics. When talking with supply chain partners, there was considerable recognition and endorsement for The Royal Agrifirm Group way of working.

- The regional risk assessments were also a good starting point for discussions with suppliers, because they helped to assign shared interests and/or differences in points of attention.
- Although the focus was on specific crop-region combinations, no inter-crop differences were discovered for a certain country. The advantage of asking auditors for their expert judgement will be their focus on a whole crop rotation of arable farmers.

Weaknesses and dealing with weaknesses:

- Royal Agrifirm Group is well aware that a regional risk assessment of a country is the result of one expert vision. In the approach, the methodological risk of interpretation problems was ensured by adding the extra step of cross-country checks between the different auditors. However, it cannot be assumed that an auditor has detailed knowledge and experience on all topics. The regional stakeholder sessions planned for the first half of 2017 (see paragraph 5.3) have two objectives related to this weakness:
 - Verification of the risk assessment and the selected high-risk themes by including the

vision of local experts with various backgrounds on high-risk themes in their country.

- Validation of the risk assessment and the selected high-risk themes, by completing the analysis with information and experience of local experts.
- The risk of referring to situations that are not average for the whole arable sector within a country is inherent in asking a certifying organisation to contribute its experience. Obviously the auditor will have a fairly broad range of examples in mind, from small companies that are starting with a standard, to highly professional and large companies. There is always a risk of missing the perspective of companies that are ignoring national regulations and are not in an auditor's sight. This possible weakness is minimised in various ways:
 - The regional stakeholder sessions used to verify the high-risk issues, might also address this issue.
 - Certainly, another important question for Royal Agrifirm Group and its supplier is whether those companies are in the supply chain. When proof is gained that the farmers in the supply chain are checked regarding compliance with national regulations and/or other quality or sustainability standards, there is no reason to doubt about the priorities of the regional risk assessments.
 - When filling out the risk

assessment, an auditor has to choose between five 'frequency' categories to indicate the 'seriousness' of a possible issue for a country. Those categories are rather theoretical, since they are divided into relative probability changes of 20% (occurs never or almost never at farms) to 100% (occurs very often at farms). The response of Royal Agrifirm Group and the independent third party who carried out the assessments is as follows:

- Since essential topics are included when they have a risk score of >50% and responsibility topics when several indicators for a problem score >50%, auditors are instructed to be extra critical when considering assigning issues to the 40% or 60% frequency category. In case of any hesitation, auditors are asked to assign an issue to the 60% category, to prevent missing out high risks due to methodological reasons.

4.2 Outcomes of regional risk assessments and determination of priorities

In 2016 Royal Agrifirm Group started with the first implementation steps of its approach. The auditors who provided the regional risk assessments for the countries of origin of the first three raw materials, delivered their findings and judgements, resulting in an overview of high risk (category 60% - 100%) and medium/low risk (20% and 40%) for each

country. Those overviews provided considerable insight; they enabled the identification of differences and similarities between countries and even continents, and helped to distinguish focal points (e.g. social topics versus environmental topics).

The Royal Agrifirm Group most important observations based on the twelve countries assessed in 2016 are as follows:

- For most countries, no more than four high-risk issues were identified.
- For four countries, no or one high-risk issue was identified.
- Those countries (three) with more than four high-risk issues often have interrelated high-risk topics, especially when it comes to the responsibility topics. Those interrelated issues were often connected with agricultural practices or cross-sectoral and cultural habits.

Overall, the outcomes of the assessments confirm The Royal Agrifirm Group vision on the added value of the method which enables a focus on those critical control points within

a supply chain/country that are occurring very often at farms. Just like management systems that help to minimise safety risks, implementing a system to control societal, environmental or governmental risks will enable industry partners to manage risks better.

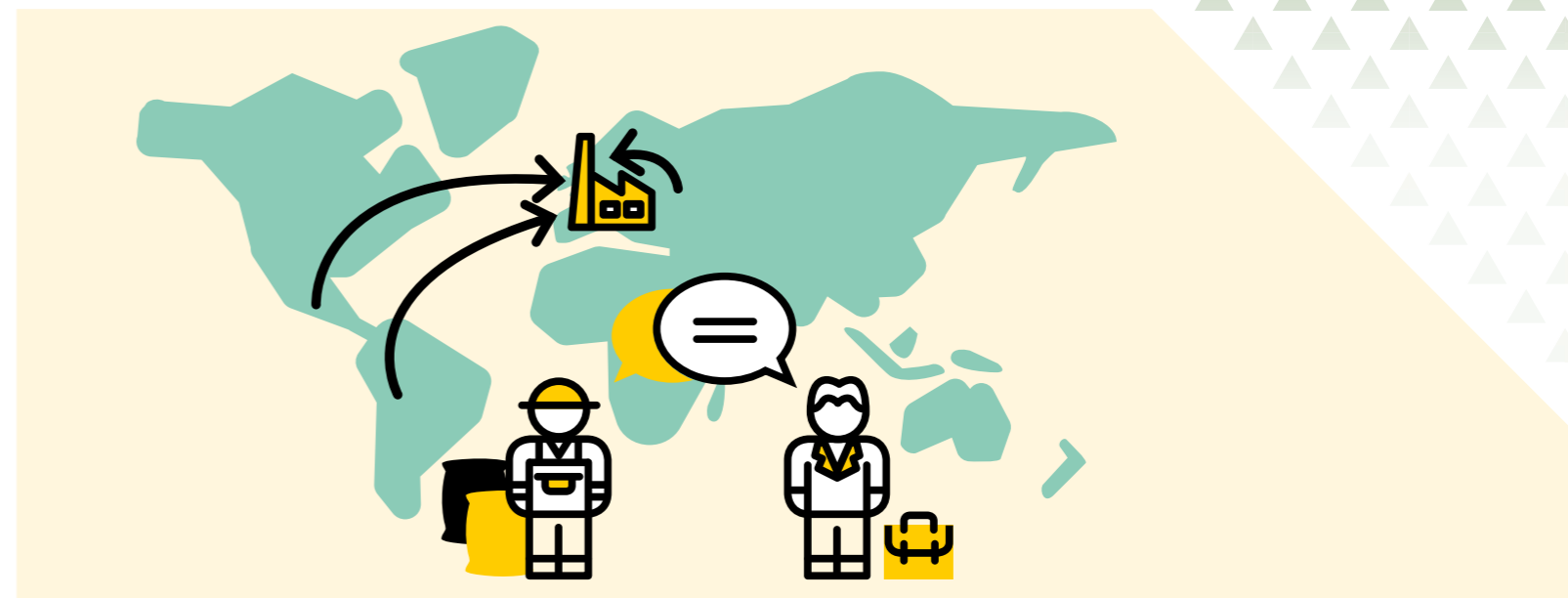
To mitigate high risks from a supply chain, it is also important to know the causes of an issue that occurs at many farms. Based on The Royal Agrifirm Group first regional stakeholder assessments and the stakeholder session with its national stakeholder board, three types of issue were identified:

- **Type I issue:** A problem that is restricted to the activities in the supply chain and is clearly correlated to incorrect or lacking actions with the supply chain. An example is a problem with safe working conditions.
- **Type II issue:** A complex problem that is supply chain related, but only possible to mitigate by cooperating with local stakeholders. An example concerns risks related to storage and processing practices of

residual agro chemicals. In some countries there are no collective systems available for the storage and collection of those residual agro chemicals which makes it difficult for farmers to organise this independently/ without further collective action.

- **Type III issue:** A very complex local problem that is not possible to solve within the supply chain and depends entirely on the willingness to change of governments, industries etc. An example is a problem with cultural deep-rooted problems with discrimination of a specific group of inhabitants.

Paragraph 5.4 gives greater understanding of the dilemmas and questions that come along with the outcomes and future measures on regional risk assessments.





5 Stakeholder involvement

5.1 Finding a balance between transparency and confidentiality

Many important aspects play a role in the procurement of raw materials: price, origin, technical specifications, quality, safety and responsibility characteristics are all variables in the decision-making process. Royal Agrifirm Group acknowledges the importance of transparency and stakeholder involvement to arrive at credible and trustworthy solutions for responsible procurement. At the same time the delicate balance between various trade-offs – see the items mentioned above – cannot always be carried out in full transparency. To arrive at solutions that can count on support within Royal Agrifirm Group and its suppliers, the right balance must be found between transparency and confidentiality. This involves being transparent about the methodology, the risk assessment process, the data sources used and the actual mitigation measures taken, while not sharing supplier-specific information.

The involvement of relevant stake-

holders is greatly appreciated, as their knowledge and experience is invaluable in 'new' approaches such as the one proposed here. Stakeholders are involved on two different levels: in the strategic dialogue about the approach itself and in specific stakeholder dialogues with experts of the countries of origin, about the priorities and measures to mitigate certain responsibility risks in a region.

5.2 Strategic dialogues on the new approach

In the past year that Royal Agrifirm Group has been implementing the first steps in its responsible procurement approach, an invitation was given to the representatives of a number of internationally operating NGOs, consulting companies and food processing companies to discuss the transition towards a risk-based approach. The outcomes of the last meetings (in November 2016 and January 2017) can be found in Appendices 3a and 3b. Those were the same stakeholders at the ones involved in the first stakeholder board meeting in 2015 (Appendix 3c).

The insights gained are deemed to be extremely relevant for a proper decision-making process when it comes to dilemmas as described in paragraph 5.4. Royal Agrifirm Group is grateful for the willingness of stakeholders who are involved in its policy-making process to cooperate in an open and honest way.

5.3 Dialogues in the countries of origin

Local stakeholders play an important role in the stepwise, regional, risk-based approach. In the process of assessing, prioritising and developing mitigation measures, Royal Agrifirm Group will organise local stakeholder sessions to include the right knowledge and experience regarding a region-raw material combination or specific high-priority topics, to:

- Make sure not to miss relevant responsibility risks in a certain region.
- Set priorities that are recognised as logical by the relevant stakeholders.
- Come up with mitigation

measures that are accepted and supported.

- Look for alignment with existing regional approaches.

In 2017, two first visits to countries of origin of wheat, rapeseed meal and corn will be organised.

5.4 Identifying and answering dilemmas

Based on the regional risk assessment for the first three raw materials, Royal Agrifirm Group has some concrete high-risk issues to focus on in detail. This avoids remaining in the analysis phase and enables good decisions when it comes to the follow-up of priority risks. During The Royal Agrifirm Group stakeholder sessions (see Appendix 3) and supplier meetings, brainstorming started on next actions, and discussions centred around dilemmas that will follow the decision-making process:

Sphere of influence and decisions on change

Depending on the seriousness of a problem and the relation of this problem to the supply chain, there will be a higher or a lower need to take the lead in change. Paragraph 4.2 already described the different types of issues that can be distinguished for high-risk issues:

- **Type I issue:** A problem that is restricted to the activities in the supply chain and is clearly correlated to incorrect or lacking actions with the supply chain. This is typically an issue that needs to be solved within the

supply chain, and high risks on occurrence of such an issue should be subject to a concrete action plan of Royal Agrifirm Group and/or The Royal Agrifirm Group suppliers. They should have absolute priority and should not take too much time.

- **Type II issue:** A complex problem that is supply chain related, but can only be solved by cooperating with local stakeholders. It is typically a high-risk issue that has a good potential to be mitigated but needs further analysis and discussions with other industry partners or local stakeholders about the development of action plans.

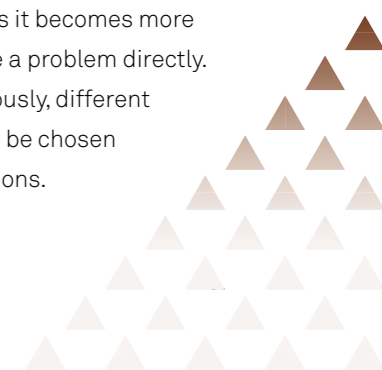
- **Type III issue:** A very complex local problem that will not be possible to solve within the supply chain or with supply chain partners, and implies a limited sphere of influence. Depending on the seriousness and range of a problem or interrelated problems, there will be a need to take action, whether it seems to be impossible or not. In the case of a very serious and widespread problem, the first action might be to see whether there are initiatives that can be supported in some way. When there are no networks to connect with – which are not anticipated because the raw materials Royal Agrifirm Group uses are agro commodities – there will be limited options for change.

Doing good versus do no harm

Discussions with stakeholders involved many debates about 'doing good' versus 'do no harm'. The approach of Royal Agrifirm Group is typically a 'do no harm' approach, since the aim is to mitigate high risks from the supply chain. Action plans will have the intention to solve problems or to prevent the frequent occurrence of an issue in the future. Nevertheless, in some situations, a 'do good' approach will fit better. In the case of type III issues, which cannot be solved within one supply chain or a supply chain partner, there will be added value of connecting to existing programs, standards, initiatives etc.

Legal compliance issues

Non-compliance with law and regulations can be considered as a problem in itself. Obviously, existing inspection and audit procedures should reduce the risks of non-compliance of farmers. However, the detection of high risks that result from regional risk assessments indicates non-compliance with law, since the auditors had national legislation as their reference point. The action and response of Royal Agrifirm Group will again depend on the type of issue being dealt with. In the case of type I issues there is a clear need for Royal Agrifirm Group and the supplier to investigate the problem in the supply chain and mitigate the risks as soon as possible. In the case of type II and type III problems it becomes more difficult to solve a problem directly. As stated previously, different scenarios could be chosen for those situations.





6 Milestones and monitoring

This chapter discusses the project planning in more detail. It is important to mention that experience must be gained with this new approach to have a better idea of the time and effort involved in all the various steps. Therefore the objectives mentioned below are not cast in concrete.

6.1 Overview of all milestones

Figure 6 provides a graphical representation of the various steps to be taken through to 2020. During 2014 and 2015 a solid methodology was developed and stakeholders were involved. The first phase of the methodology (generic assessment and first supplier discussions) was tested in three pilot projects focusing on wheat, corn and rapeseed. In 2016, experience was gained with the stakeholder conversations at the local level and the generic risk assessments were completed for the next raw material-region combinations. In the years up to 2020 Royal Agrifirm Group will run through all steps for the nine major raw materials and seven regions. In 2020, all major raw materials will be included in the responsible procurement policy.

6.2 Results in 2016 and January 2017

In 2016, Royal Agrifirm Group achieved the following results, in line with the targets as formulated over 2016:

- According to target, the country-specific risk assessments for the first three major raw materials – wheat, rapeseed and corn – were completed for 14 different countries / production areas.
- The outcomes were discussed with the major suppliers of those three raw materials (accounting for more than 80% of the volume) and those meetings resulted in a common view on the main priorities within the countries of origin.

➤ A first local stakeholder session is being prepared in the eastern part of the EU. The first step in preparing a regional stakeholder meeting is getting in touch with knowledgeable local stakeholders. Challenges associated with this are the findability of local NGOs, and the possible language and cultural barriers when discussing certain topics. An independent third party has been requested to provide help with this process.

➤ National stakeholder sessions on 21 November 2016 and 10 January 2017 (see Appendices 3a and 3b).

6.3 Planned process milestones 2017/2018

- Perform regional risk assessments: Continue the process of regional risk assessments for barley, sunflower extract and sugar beet pulp. Obviously there will be quite some overlap with the origination countries that were assessed in 2016. There will be five new regional risk assessments for: Australia (added for the origination countries of rapeseed), Bulgaria (also for corn), Serbia (also for corn) and Austria.
- Connect with suppliers: For the next raw materials, the majority (80%) of suppliers will be updated.
- Perform stakeholder consultation: In 2017/2018 two regional stakeholder consultation rounds will be conducted in Eastern Europe. They will be used for verification of risk assessments. Moreover, the credibility of such regional stakeholder sessions for the verification of priorities will be evaluated.
- Act upon priorities: Develop action plan(s) to mitigate high-priority risks based on essential issues, countries of origins, and a 'theory of change' analysis.

6.4 Monitoring of progress: Once every two years

Because changes of situations might occur, all 'finished' content processes related to working on risks for specific raw materials will become part of regular monitoring processes as described above. This enables Royal Agrifirm Group to anticipate in a timely manner any changing risks, or different options to realise impact with measures.



Appendix 1: Essential topics (orange) and sustainability topics (light green)

Item	Definition	Based on
1. Organisational governance		
Conflict / high-risk areas	Conflict / high-risk areas are those environments in which a significant proportion of the population is acutely vulnerable to death, disease and disruption of livelihoods over a prolonged period of time.	FAO (http://www.fao.org/docrep/013/i1683e/i1683e03.pdf)
Weak governance areas / areas with a high presence of corruption	Weak governance, whether in formal land administration or customary tenure arrangements, means that the land rights of the poor are not protected.	FAO (http://www.fao.org/3/a-a1179e.pdf)
Areas with a high violation of tenure rights (severe conflicts over land or water)	Weak governance reduces security of tenure. Illegal transfers may cause legitimate owners or occupiers to lose their rights. Informal transfers and informal ownership are not protected by law, and the protection offered by customary tenures may be weakened through external pressures, and may not be extended to newcomers.	FAO (http://www.fao.org/3/a-a1179e.pdf)
Vulnerable natural resource areas (indicators: food insecurity, water shortages or environmental degradation)	Community-based natural resource conflicts may occur at the local level, but often involve regional, national or even global actors. They range from conflicts among local men and women over the use of land, to conflicts among communities disputing control over woodland, or fishers disagreeing about the devices used for fishing.	FAO (http://www.fao.org/docrep/008/a0032e/a0032e04.htm)

2. Human Rights

Occurrence of child labour	Child labour refers to situations in which children (younger than 15*) carry out work that is mentally, physically, socially or morally dangerous and harmful to children and interferes with their schooling by: depriving them of the opportunity to attend school; obliging them to leave school prematurely; or requiring them to attempt to combine school attendance with excessively long and heavy work. * A declaration of 14 years is also possible for a specified period of time. Laws may also permit light work for children aged 13–15 (not harming their health or school work).	Minimum Age Convention, 1973 (No. 138) Worst Forms of Child Labour Convention, 1999 (No. 182)
Violation of the minimum wage	Violating the minimum age refers to a situation in which the minimum age of 15 years is ignored. Countries are free to specify a minimum age for labour, with a minimum of 15 years. A declaration of 14 years is also possible for a specified period of time. Laws may also permit light work for children aged 13–15 (not harming their health or school work).	Minimum Age Convention, 1973 (No. 138)
Forced labour	Forced labour refers to situations in which persons are coerced to work through the use of violence or intimidation, or by more subtle means such as accumulated debt, retention of identity papers or threats of denunciation to immigration authorities	Forced Labour Convention, 1930 (No. 29) Abolition of Forced Labour Convention, 1957 (No. 105)

Item	Definition	Based on
Forced labour	Forced labour refers to situations in which persons are coerced to work through the use of violence or intimidation, or by more subtle means such as accumulated debt, retention of identity papers or threats of denunciation to immigration authorities	Forced Labour Convention, 1930 (No. 29) Abolition of Forced Labour Convention, 1957 (No. 105)
Discrimination	Discrimination refers to situations in which certain individuals are placed in a position of subordination or disadvantage in the labour market or the workplace because of their race, colour, religion, sex, political opinion, national extraction, social origin or any other attribute which bears no relation to the job to be carried out.	Equal Remuneration Convention, 1951 (No. 100) Discrimination (Employment and Occupation) Convention, 1958 (No. 111)
Violation of the freedom of collective bargaining	Violation of the freedom of collective bargaining refers to a situation in which employers and their organisations and trade unions cannot establish fair wages and working conditions. It also provides the basis for sound labour relations. Typical issues on the bargaining agenda include wages, working time, training, occupational health and safety and equal treatment	Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) Right to Organise and Collective Bargaining Convention, 1949 (No. 98)
Violation of equal remuneration principle	Violating freedom of association refers to a situation in which employees cannot form or join organisations of their own choosing.	Equal Remuneration Convention, 1951 (No. 100) Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

3. Labour practices

Fair compensation	Violating fair compensation refers to a situation in which the level of minimum wages is not appropriate in relation to national practice and conditions, include (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment	Protection of Wages Convention, 1949 (No. 95) Minimum Wage Fixing Convention, 1970 (No. 131) Equal Remuneration Convention, 1951 (No. 100) -
Violating safe employment practices	Violating safe employment practices refers to a situation in which workers are not protected from sickness, disease and injury arising from their employment. E.g. no adequate first aid/ medical assistance tools, protective clothing and tools, no clear instructions for hazardous tasks (risk assessment), etc.	Safety and Health in Agriculture Convention, 2001 (No. 184)

Item	Definition	Based on
Violating working hours	Violating working times refers to a situation in which workers do not have a daily and weekly rest periods, and annual holidays. We talk about serious situations in which employees carry out excessive hours of work (normal working hours do not exceed 48 hours, weekly overtime does not exceed 12 hours) and inadequate periods of rest and recuperation, which damage workers' health and increase the risk of work accidents.	Forty-Hour Week Convention, 1935 (No. 47) Reduction of Hours of Work Recommendation, 1962 (No. 116) http://www.ilo.org/empent/areas/business-helpdesk/faqs/WCMS_DOC_ENT_HLP_TIM_FAQ_EN/lang--en/index.htm

Item	Definition
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4. Business Integrity

Smallholders	Trading opportunities for local smallholders are hindered
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5. The environment

Climate _ Ozone	Products that are classified as destructive to the ozone layer are (still) being used
Climate _ Burning	There is illegal burning of crop residues, waste or vegetation
Water _ Depletion	Water sources are depleted by agricultural practices (e.g. irrigation) causing the availability of natural water for neighbouring communities, farmers and future generations for drinking and irrigation to be threatened
Water_ Pollution	Surface and/or ground water are polluted by chemical residues, fertilizers, mineral oil or other sources of contamination
Soil _ Quality decline	Soil quality is threatened, there are for instance problems with soil compaction, loss of organic matter, macro nutrients, pH, salinity, etc.
Soil_Erosion	Soil erosion is a serious problem. Erosion can be caused by the circumstances in the region (water, wind, steep slopes), poor farm management practices (tillage, lack of crop rotation, covering crops, etc.) or the removal of native vegetation/ forest
Soil_ Contamination	Soils are contaminated by a surplus or incorrect usage of agrochemicals, fertilizers, or improper disposal of waste
Waste _ Pollution	Waste ends up in the environment causing pollution of soil, water and air, caused by an inadequate storage and disposal of fuel, batteries, tires, lubricants, sewage and other waste
Pesticides_ Illegal use	Banned agrochemicals are found in the environment or at the property of farmers (or there is evidence of a black market for such chemicals)

Item	Definition
Pesticides_ Pollution of the environment	Agrochemicals are found in and threaten the environment (soil, air and water), caused by either incorrect use (timing and dosing) storage or disposal of agrochemicals
Pesticides_Negative health effects people	Agrochemicals threaten the health of employees or people in the surroundings of the farm, for instance by aerial spraying, drift, etc.
Pesticides_ Resistance	The (incorrect) use (timing and dosing) of agrochemicals causes problems with pesticides resistant pests and weeds
Fertilizers_ Illegal use	Forbidden fertilizers are found in the environment or at the property of farmers (or there is evidence of a black market for such fertilizers)
Fertilizers _ Pollution of the environment	The (incorrect) use (timing and dosing) or storage of fertilizers causes threats to the environment
Fertilizers _Negative health effects people	The (incorrect) use (timing and dosing) or storage of fertilizers causes threats for employees or people in the areas surrounding the farm
Deforestation	Lands are illegally deforested
Biodiversity_Decline in species	The number of animal and plant species is decreasing
Biodiversity_High conservation value areas	There is no preservation of high conservation value areas
Biodiversity_ Invasive species	Invasive species and new pests threaten the local biodiversity
Biodiversity_ Hunting	Hunting of rare, threatened or endangered species takes place on the property
Biodiversity _ Origin of seeds	Traditional crop varieties are threatened or smallholders have limited access to quality seeds and/or propagation materials

6. Consumer issues

7. Community involvement & development

Community_Grievance mechanism	Local communities or indigenous peoples have no possibility to discuss (or complain) developments in their lands with land owners / farmers.
Community_ Free prior informed consent	Local communities or indigenous peoples are not consulted when developments that impact their livelihoods are planned
Community_ Neighbouring production systems	The production systems of one farmer negatively impacts the production system or land use of neighbours

Appendix 2: Data sources per sustainability category

Organisational governance	Human rights	Labour practices	Environment	Business integrity	Community involvement and development
Corruption perception index	ITUC Global Rights Index	ITUC Global Rights Index	EUROSTAT	Corruption perception index	LandMark Map
LandMark Map	Amnesty international reports per country	Amnesty international reports per country	Global Invasive species database		FAO Indigenous Peoples Map
'Freedom in the world' https://freedom-house.org/	'Freedom in the world' https://freedom-house.org/	ILO STAT (ILO) Country profiles	FAOSTAT		
CIA 'The world factbook'	World report on child labour		Data.worldbank.org		
			FLUDE Forest data explorer		
			(Commodity) Global Forest Watch		
			Environmental Performance Index		
			WWF's Water Risk Filter		
			Map of Agriculture		
			FAO Country profiles		
			Forestry Risk Profiles		

Appendix 3a): Report of stakeholder session of 10 January 2017 (part II)

Royal Agrifirm Group shared and discussed its progress on responsible procurement in 2016 and the corresponding dilemmas during a separate stakeholder dialogue with the NGOs: Gert van der Bijl, Solidaridad (S), Heleen van den Hombergh, IUCN NL (I) and Martine Willems, Rainforest Alliance (RA). This second meeting was organised separately, because of the unplanned absence of several NGO representatives from the meeting of 21 November 2016 (see Appendix 3b (because of illness, other last minute priorities). Comments were received on different aspects of The Royal Agrifirm Group approach and the current results, which is for the greater part integrated and answered in the revised policy document and the objectives for 2017.

Dilemma 1: Selection (and deselection) of issues within a certain country based on the performed region-based risk assessments.

According to plan, in 2016 Royal Agrifirm Group asked an independent certification agency to analyse the societal, environmental and governmental risks in the countries of origin of the first three major raw materials (wheat, corn and rapeseed) of Royal Agrifirm Group Feed (Netherlands). For the analysis, internationally accepted Conventions and Treaties, existing sourcing standards and programs and national legislations were taken as reference. In a first regional risk analysis, public resources were used (see Appendix 2 for examples of sources). In a second phase, final judgement of the expected appearance of issues (risk score) for the agricultural/commodity specific situation was performed by local auditors of the certification agency. The risk scores were summarised in country factsheets that were shared on a confidential basis with the participants of the stakeholder sessions.

Question: What do you think about the outcomes of the regional risk assessments?

- > I: The regional risk assessments resulted in some interesting information; some of which was unexpected but still useful. It shows that the focus on replacing the 'import of Latin American Soy' with European alternatives is also a mitigation measure that should be the subject of a risk assessment.
- > S: The regional risk assessments provide valuable insights. However, you don't know whether the outlined situation is representative for the whole country, because the supplier database of an auditor might give a distorted view.
- > RA: Law is the reference point of the auditors who filled in the regional risk assessments. However, you cannot just assume that all relevant topics are included in regulations.
- > I & S: You can also check the situation in a country by benchmarking against certification schemes. Those are already very frequently used in many countries and they originate from a history of non-compliance with legislation. In The Royal Agrifirm Group methodology you are aiming for selecting priorities in a region. However, the advantage of integrated schemes is that they build on 'continuous improvement' for a complete system/company. Moreover, the development of those schemes took many years to evolve and, although they have received a lot of criticism lately, there is not yet a better method for guaranteeing responsible production. Why don't you benchmark the risk on those topics against the formulations of those existing schemes?
- > S: Pro-active advice for the next phase of developing action plans:
For each of the assessed countries, an action plan will be most effective when you do this in close collaboration with other customers and feed and food producing companies. Then also take into consideration existing farmers' schedules, in order to prevent adding a new system or question on top of everything that already exists.

Question: Are the regional risk assessments robust enough overall to exclude the 'low risk' items?

- > I: In The Royal Agrifirm Group approach, you preselect risks within a region, before introducing measures. However, those risks will be subject to change. Moreover, when you will start with the implementation of The Royal Agrifirm Group regional approach, the focus on a limited set of issues might result in a perverse effect; other issues might be ignored in the long term.

- > S & I: The Royal Agrifirm Group selection of essential topics is a point of discussion: within the list of selected essentials, you do not distinguish between serious and less serious issues like, respectively, 'forced labour' and 'exceeding working times'. Besides, some 'responsibility' topics that are part of The Royal Agrifirm Group risk assessment fade into the background while they should be considered as very serious essential topics, e.g. 'illegal deforestation', 'invasive species' and 'waste by pollution'.

- > RA: RA finds the current basis of the risk evaluation quite narrow. Conclusions are drawn on the basis of very limited information. Also in this respect, additional consultations are needed.

Question: Are those regional risk assessments valid for defining the activity program of Royal Agrifirm Group on a selection of 'high risk' items?

- > S: You do not always need to certify everything, there should be other methods for responsible procurement. The Royal Agrifirm Group method which is focused on distinguishing the situation between countries, is a plausible way. Still you should take a careful look at the topics that you exclude within a region, knowing that the study that is behind it is based on the evaluation of one auditor with a limited supplier base.

Response from Royal Agrifirm Group

- > With respect to the limitation of the risk assessment, see: Chapter 4 (page 14-15) and Paragraph 5.3 (page 16)
- > With respect to continuous improvement/ existing certification schemes, see: Paragraph 5.4 (page 17)
- > With respect to changes over time, see: Paragraph 6.4 (page 18)
- > With respect to perverse effect due to focus points: Royal Agrifirm Group is aware of the fact that all subjects should be taken into account and have to stay on the agenda with the suppliers, but that at the same moment focusing is necessary to achieve tangeable results

Dilemma 2: Acting based on your sphere of influence/the theory of change, leads to the (temporary) disregard of specific issues/countries that can be defined as 'impossible/ extremely difficult' to influence within the supply chain.

This dilemma discussion was conducted by presenting three realistic scenarios based on the outcomes of the region-based risk assessments.

Question: What is your vision on the strategy of Royal Agrifirm Group to start with investigating labour/social issues in countries X and Y?

- > S & RA: One-to-one interviews will give you good insights into the agendas of local stakeholders. We are looking forward to the outcomes.

- > I: I can imagine that local stakeholder discussion will help you in the verification of the regional risk assessments.

Question: What is your view on the suggestion of Royal Agrifirm Group to (temporarily) stay away from intense interventions in countries where the predicted 'sphere of influence' will be extremely low (due to political or geographical circumstances) and when you are the only frontrunner in the industry who stops sourcing from those countries?

- > RA: In situations in which Royal Agrifirm Group has limited influence, it would be a good option to see if it would be possible to address issues together with other companies in platforms, roundtables et cetera.

- > I: Certification will be the most realistic solution in these types of countries where Royal Agrifirm Group has limited influence and many risks pop up.

- > S: You should discuss those outcomes with other companies who are active in those countries. They might give you access to non-public information about the background of problems.

Response from Royal Agrifirm Group

- > With respect to the mentioned options to create a bit more influence in countries where the political or geographical circumstances are limiting company influence, see: Paragraph 5.4 (page 17)

Appendix 3b): Report of stakeholder session of 21 November 2016 (part I)

21 November was the officially planned stakeholder board meeting, but due to circumstances all earlier involved NGO representatives could not be present. For this reason, on 21 November Royal Agrifirm Group shared and discussed its progress during 2016 and corresponding dilemmas with the following parties: Unilever (U), FrieslandCampina (FC), Newforesight (NF), Stichting Natuur & Milieu (N&M) – the new representative in this group – and Jannic (trade expert, Mr. Jan Nicolai (JN)). Comments were received on different aspects of The Royal Agrifirm Group approach and the current results, which is for the greater part integrated and answered in the revised policy document and the objectives for 2017. For the NGOs, a second meeting was organised for 10 January 2017 (see Appendix 3a).

Dilemma 1: Selection (and deselection) of issues within a certain country based on the performed region-based risk assessments

According to plan, in 2016 Royal Agrifirm Group asked an independent certification agency to analyse the societal, environmental and governmental risks in the countries of origin of the first three major raw materials (wheat, corn and rapeseed) of Royal Agrifirm Group Feed (Netherlands). For the analysis, internationally accepted Conventions and Treaties, existing sourcing standards and programs and national legislations were taken as reference. In a first regional risk analysis, public resources were used (see Appendix 2 for examples of sources). In a second phase, final judgement of the expected appearance of issues (risk score) for the agricultural/commodity specific situation was performed by local auditors of the certification agency. The risk scores were summarised in country factsheets that were shared on a confidential basis with the participants of the stakeholder sessions.

Question: Are the regional risk assessments robust enough overall to exclude the ‘low risk’ items?

- > NF: It is very important that you don't look away from complex issues in your supply chain. It also seems to be plausible that you can apply an 80/20 rule to the outcomes of your regional risk assessment; based on the method you used for the regional based risk assessments, the broad outlines will be true. As long as you don't use the results to 'overclaim' your performance (be honest about the aspects you keep out of scope), there is nothing wrong with focusing.
- > U: Be careful with what you claim. The situation in individual supply chains can differ in a good and bad sense compared to the generic situation in a country.
- > FC: The analyses should not give you the freedom to ignore aspects that are not ranked as high priority.
- > FC & U: Royal Agrifirm Group could test the quality of the risk assessments by comparing them with other independent sources of information, e.g. trend analyses of banks (funders of crop yields) or expert judgements of Agricultural Councils.

Question: Are those regional risk assessments valid for defining the activity program of Royal Agrifirm Group on a selection of ‘high risk’ items?

- > U: Unilever also performed region-based risk assessments in a comparable way. However, we think the expert judgement of auditors should not be used for the motivation to select/focus your activities. First of all, because of the mentioned discrepancy between the supply chain specific situation and the country specific situation, and secondly because it does not give any view on the priorities/'no go areas' you have as a company.

- > JN: The region-based risk assessment is a plausible method. However, for Royal Agrifirm Group it is now more relevant to test the impact and possible limitations of your approach by selecting some high-risk topics and start investigating if and how you can influence them together with one or two of your suppliers. Moreover, it is good to realise that you can't keep a dilemma/problem endlessly on your agenda, so you should be clear about what topics you will be highly concerned with and what topics won't be on your list of priorities.
- > FC: In your method, you already distinguish essential and responsibility topics, and issues on essential topics are more substantial for you. When you decide to focus on high-risk (essential) topics, try to avoid becoming too instrumental in your motivation for focusing on those topics. First of all, you should not lose sight of the global perspective of trends: issues like global warming, poverty, biodiversity etc. are familiar topics for other parties and the selection of just one or several items with a country is less distinctive. Secondly, the broader perspective is also more attractive to communicate about; action plans on stimulating biodiversity would be very positive to initiate.
- > JN: It would be very interesting to know if/what would be 'show stoppers' for Royal Agrifirm Group. Do you think you can base this type of decision on the regional based risk assessments?

Response from Royal Agrifirm Group

- > With respect to claiming 'low risks' based on the risk assessments: Royal Agrifirm Group agrees with the stakeholders that it is very important to be very good aware of the supply chain specific situation when we communicate about progress.
- > With respect to the instrumental approach of the risk assessment versus global trends and developments: Royal Agrifirm Group considers this remark to be very relevant. A broader perspective will be considered when narrowing down the risk assessments into action plans.
- > With respect to the recommendation to elaborating on some high risks in order to test importance for Royal Agrifirm Group and supply chain partners: Royal Agrifirm Group is intending to start discussing and working on concrete action plans for priorities that came from the analyses of wheat, corn and rapeseed in 2017.

Dilemma 2: Acting based on your sphere of influence/the theory of change, leads to the (temporary) disregard of specific issues/countries that can be defined as 'impossible/ extremely difficult' to influence within the supply chain.

This dilemma discussion was conducted by presenting three realistic scenarios based on the outcomes of the region-based risk assessments.

Question: What is your vision on the strategy of Royal Agrifirm Group to start with investigating labour/social issues in countries X and Y?

- > N&M: It is always respectable to formulate 'at all times positive measures', which are based on the high-risk items you are able to influence. The things you can't influence; share your dilemmas/limitations on those topics that are also high risk in a country.
- > Trade expert: It is recommended to start testing the options to mitigate high risks, for one or two clear issues, so it's very good to focus on one or two examples. Since the given examples also link to issues that are mainly the responsibility of your supplier (e.g. safe working practices), those are interesting and feasible examples.
- > U: It is very important to know what you're looking for: do those analyses of the countries give enough content but also motivation to use it for action plans to improve the situation within those countries? This also depends on what will interest your client? Does your client want to know more about the situation in those countries and what ambition level of Royal Agrifirm Group is appreciated?
- > FC: We would appreciate an active role of Royal Agrifirm Group, since they would take care of undesired problems in the supply chain on which we have no/limited information. When Royal Agrifirm Group starts exploring options to improve the situation in those countries, the process will bring dynamics in those dossiers and will possibly lead to the building of consortia.
- > U: When you start experimenting with developing agendas for social issues in the countries, you still need to be very careful with the scope of your ambitions. The mentioned problems with discrimination in one of the countries for example, will be an illusion to 'solve' within your supply chain. For other human rights or labour condition issues it is also good to decide how strict you will be with non-compliance situations.

Question: What is your view on the suggestion of Royal Agrifirm Group to (temporarily) stay away from intense interventions in countries where the predicted 'sphere of influence' will be extremely low (due to political or geographical circumstances) and when you are the only frontrunner in the industry who stops sourcing from those countries?

- > NF: You should distinguish some criteria that enable you to categorize problems in a way that is connected to your sphere of influence/the way you can institutionalize them. For example:
 - Type I problem: A quite clear/simple problem that is created in the supply chain/business setting. Think for example about a problem with safe working conditions and/or working hours. Those types of problem should and can be solved by cooperating with your supply chain partners.
 - Type II problem: A complex problem that is supply chain related, but only possible to mitigate by cooperating with local stakeholders.
 - Type III problem: A very complex local problem that will not be possible to solve within the supply chain and completely depends on the goodwill of other industries, governments, etc. As an individual

company you can only influence this problem by initiating coalitions for dilemma sharing and working on a collective theory of change.

- > JN: When you have information that such a broad range of essential and responsibility items is associated with high risks, you might also start doubting whether feed safety is covered in the way you would require in the Netherlands/North-West EU. However, stay alert when you decide to stop sourcing from this country; when you are the only frontrunner in the industry that starts sourcing from this country you possibly will add costs in your supply chain because of this unique procurement agreement.
- > FC: When you consider the situation of such countries, you should wonder it matters to keep the trade relationship. Why would you seek all this misery? You should investigate whether you really need this country. When you conclude that you need this country, your only way to influence an improvement of the situation is to share your dilemma with other supply chain partners and start the debate with such a country about the criteria that need to be complied with to be able to export to the EU in the future.
- > U: Also Unilever had dilemmas about staying or leaving extremely problematic regions/countries. However, NGOs almost begged us to stay in areas where limited improvement is experienced for topics like deforestation, overfishing and even child labour. When you stop sourcing in those areas, the problems won't disappear and the question is whether there will be change at all in the future. In the type of regions where this dilemma arose for Unilever, we for example started Round Tables.

Response from Royal Agrifirm Group

- > With respect to the remark that Royal Agrifirm Group should also think of what you are looking for/ what will be your motivation for change: Royal Agrifirm Group already distinguished essential versus responsibility topics, but still considers it to be relevant to discuss the real 'no go areas' (or the 'show stoppers' like mentioned by JN at dilemma 1/ page 22) internally.
- > With respect to the mentioned options to create a bit more influence in countries where the political or geographical circumstances are limiting company influence, see: Paragraph 5.4 (page 17)

Appendix 3c): Report of stakeholder session of 2 December 2015

On 2 December 2015 Royal Agrifirm Group organised the first stakeholder session on the Royal Agrifirm Group responsible sourcing policy. This first session comprised the conceptual approach of the methodology that was challenged against the experience and vision of three non-governmental and three business parties. The objective of the session was to include the insights of those parties in the process steps for the coming years. Royal Agrifirm Group shared its conceptual approach with the following parties: IUCN NL, Rainforest Alliance (RA), Solidaridad, Unilever, FrieslandCampina (FC) and a business expert on agro commodity markets. Comments were received on various aspects of the methodology that have been (partly) included in the final approach. For each point of discussion, the following remarks can be categorised.

Conceptual setup and formulation of the region-based risk matrix (draft version December 2015)

Input from stakeholders

- › Concerning the criteria used: There are already widely accepted definitions and wordings relating to degrees of impact. Adhere as closely as possible to generally accepted definitions.
- › For some topics, there is no degree of unacceptability, e.g. concerning child labour. The nuance is not needed in the impact, but in selecting the mitigation actions.
- › Quality standards are intended to mitigate risks. Through due multi-stakeholder dialogue, risk topics have been discussed and addressed. Such frameworks (think of the well-elaborated criteria) also serve for investigating possible risks on new chains and in new areas.
- › Do not force yourself into five levels of impact; a high level of detail does not always contribute and deliver more. For social topics in particular, fewer impact levels are needed to classify social risks.
- › Probability is not the same as frequency, the fact that the impact does not occur (yet) does not mean that there is no chance of major incidents. Think, for example, about the impact of nuclear energy. This would also apply to climate change (with events such as droughts, floods).
- › Take into account that public or private regional risk assessments are available already.

Response from Royal Agrifirm Group

- › We have reconsidered the impact categories of our draft (version December 2015) region based risk matrix, which was built on criteria of existing standards and programs, but the impact categories were a free translation and 'forced' into five categories.
- › To make a clear link with existing internationally accepted definitions, we redefined our impact categories (and frequency categories) by referring to internationally acknowledged resources/institutes and took a critical look at specific topics that require less nuance when it comes to 'acceptable' versus 'unacceptable' impacts.
- › Existing quality standards/frameworks to assess the responsibility risk that we want to take into consideration for our main agro commodities, do not exist in a form we can directly integrate/apply to our procurement operations, because criteria are formulated in terms of required actions and/or mitigation measures, and not in terms of neutral issue definitions.
- › We acknowledge certification as an option to mitigate risks and consider this as a valuable method when those existing and suitable standards are relevant for the specific situation.

Level of transparency regarding risk assessments and progress reports

Input from stakeholders

- › There is no dilemma between credibility and transparency. Share what is publicly available and share your methods and the process, but do not share names of suppliers, etc.
- › There is nothing wrong with sharing dilemmas.
- › From assessment to actions is the most important thing to communicate about.
- › Be aware of the engagement that is needed; do not go too deeply in detail.

Response from Royal Agrifirm Group

- › The stakeholder dialogue strengthened us in our approach: sharing our confidential supply chain information is not necessary, as long as our impacts of supply chain cooperation are material and can be verified.

The way of working together in the supply chain

Input from stakeholders

- › Who is the partner in the supplier chain for Royal Agrifirm Group: the producer or the supplier?

Response from Royal Agrifirm Group

- › In our supply chains for raw materials, we aim to buy our products as much as possible from suppliers who are producer or closely connected to the producer. Our efforts to cooperate on responsible raw materials start with good collaboration with the supplier. Obviously, we need a link with the producer as well, to actually change things in the areas of origin.

Position of the responsible sourcing in broader context of Royal Agrifirm Group policy

Input from stakeholders

- › What is the relationship between responsible raw materials and the other pillars of the CSR strategy?
- › How does it relate to your quality standards? Combine quality and CSR.
- › Risk-driven approach does not give added value for your clients and members. What is the market value of your approach?

Response from Royal Agrifirm Group

- › Our responsible sourcing policy is clearly built on the pillar 'responsible raw materials'. However, monitoring results and realising progress can result in new supply chain partnerships that not only result in mitigating risks, but (in the long run) can also result in adding value with programs/measures that are related to market and consumer demands.
- › Obviously, responsible sourcing is not an isolated approach within our procurement policy. The policy is completely integrated in a broader set of procurement standards, such as safety risks, nutritional value and price of a raw material.

Overall comments on the conceptual approach

Input from stakeholders

- > You selected nine products, based on the main volumes. But are you sure that some other (smaller) products could not provide higher risk? Look at the other products at a high level to avoid missing an important issue.
- > Supply chain approach is based on the B2B market, but governments are often needed to achieve improvement.
- > Train your staff, buyers and suppliers.
- > You cannot change the world. It is a way of thinking, therefore be transparent and achieve as much as possible.

Response from Royal Agrifirm Group

- > We will take those remarks into serious consideration with the implementation of our policy. With respect to the remark about the selection of the nine products: we will take this seriously, but expect that material impact is important by implementing our strategy.

Appendix 4: Royal Agrifirm Group action plan

Based on risk assessments of an independent third party auditor and consultation with suppliers and stakeholders, there will be high-priority issues in certain countries, that should be on top of The Royal Agrifirm Group responsible procurement agenda. There will be different type of actions/measures, depending on the specific situation for a country or even for a specific raw material. In this Appendix, the existing action plans of Royal Agrifirm Group for responsible procurement are described.

Soy bean meal

Royal Agrifirm Group sources large volumes of soy bean meal from South American countries. Other crops like corn are also sourced from those countries. For this reason Royal Agrifirm Group performed regional risk assessments for the relevant sourcing regions within those countries that can be used for the development of the Royal Agrifirm Group action plans. However, for the responsible procurement of soy bean meal, Royal Agrifirm Group decided to completely connect to existing schemes and programs that exist and are acknowledged for this commodity. Those initiatives exist already for such a long period of time and are so well integrated in the supply chains, that a new approach or specific action plan would not be of use:

Question: What do you think about the outcomes of the regional risk assessments?

- > Within Nevedi (the Dutch Feed Industry Association), Royal Agrifirm Group endorses the covenant for the Dutch market that refers to the FEFAC Guidelines for responsibly produced soy. In 2015, the Federation of European Compound Feed Manufacturers (FEFAC) published its benchmark standard. This benchmark compares different standards for sustainable soy on the basis of the FEFAC Soy Sourcing Guidelines. For the upcoming years, Royal Agrifirm Group is committed to continue with the procurement of soy according to the schemes and continuous improvement programs that will be required by the FEFAC approach.
- > The Royal Agrifirm Group Feed factories in the Netherlands covered the complete volume of used soy bean meal, that does not fall under market agreements, by purchasing soy that is produced according to standards that are accepted within the FEFAC Sourcing Guidelines and the Nevedi Covenant. The Covenant is integrated in the GMP+ FRA (Feed Responsibility Assurance) Module. Every year, Royal Agrifirm Group also purchases RTRS credits for specific market requirements.
- > The feed factory of Royal Agrifirm Group in Belgium is following the approach of the Belgium Feed industry federation BEMEFA. The Belgian Compound Feed sector developed its own standard for Responsible Soy that is also compliant with the FEFAC Soy Sourcing Guidelines.
- > Royal Agrifirm Group Feed is in Germany following the main market development towards non-GM (ProTerra certified soy), that is also in compliance with the FEFAC Soy Sourcing Guidelines. In Germany, the demand for non-GM IP soybean derived feedstuffs is essentially driven by the poultry sector: about 50% of the production of poultry compound feed is non-GM.

Palm oil

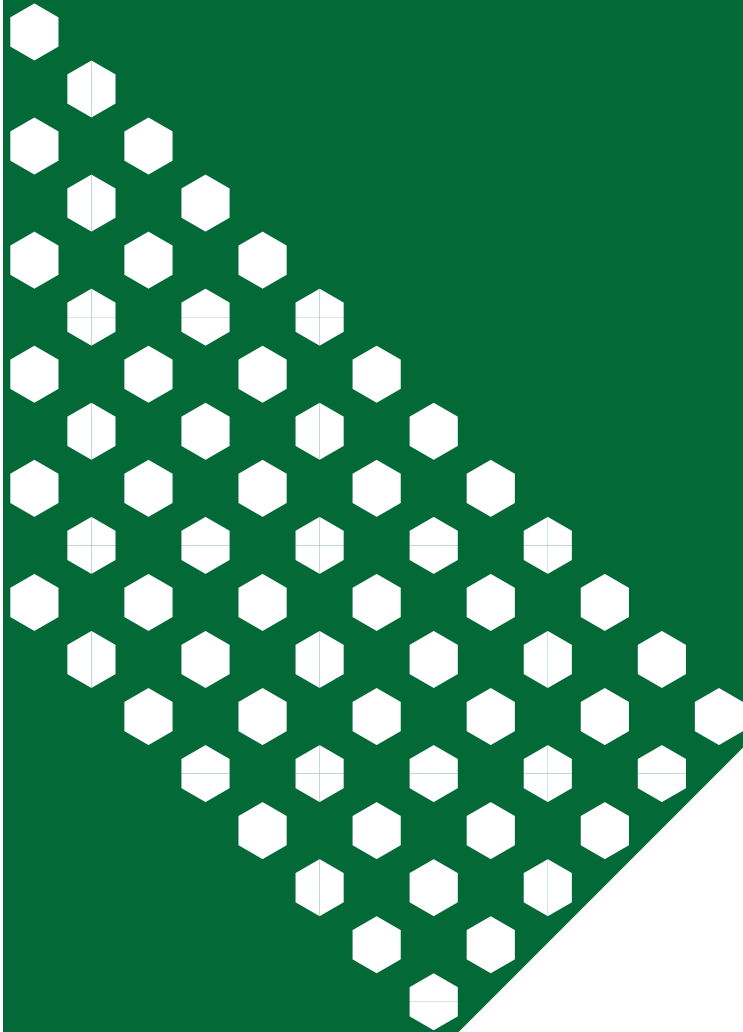
Royal Agrifirm Group sources relatively small volumes of palm oil products from Asian countries. In 2015 and 2016, the Dutch animal feed sector collectively and responsibly procured the volume of palm oil products required for the Dutch market with Green Palm certificates.

- › In the upcoming years, the Dutch compound feed sector (members of Nevedi) is committed to arrange the responsible procurement of palm oil products (according to the RSPO standard) privately.

N.B. Palm Kernel Expeller (PKE) is used in much larger volumes and obviously comes from the same countries of origin as the palm oil products. However, the performance of regional risk assessment for the countries of origin of palm will also be performed in a later phase of the responsible procurement approach (in the commodity list of 2018).

Fish oil / meal

- › The responsible procurement of fishmeal, is arranged on the International Standard for Integrated Sustainability which is as well integrated in the GMP+ FRA (Feed Responsibility Assurance) Module.



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