royal agrifirm group

Responsible Procurement Approach

Version 2022

Introduction

The procurement of responsibly produced raw materials for compound feed, feed solutions and crop caring solutions is a key element of Agrifirm' sustainability policy. Over the past decades, Agrifirm has been one of the key players in the Dutch feed sector that implemented strategies for the responsible sourcing of key commodities, such as soy and palm oil. Learning from this experience, Agrifirm realized that rather than focusing on specific commodities it is important to look at the actual sustainability risks in a region and hence all different commodities from that region. With that realization, Agrifirm created a holistic responsible procurement policy in 2016, based on regional risk-assessments and intense supplier engagement. The underlying principle is that by knowing the sustainability risks in a specific production region, the company can deepen its engagement with suppliers to jointly mitigate these risks.

Scope and ambition

Royal Agrifirm Group has operations worldwide and buys a large number of ingredients in almost all parts of the world. Since 2021, all Agrifirms operations are covered by the responsible procurement policy[1]. Not all ingredients bought are in scope. The prioritization of the commodities under the responsible procurement policy is based on volume, strategic importance (e.g. palm oil) and societal scrutiny (e.g. fish meal).

From 1 January 2021, the following commodities (always >75% of procurement volume) are in scope of our responsible procurement policy:

- Palm oil, palm pit oil, MCFAs, PKFADs.
- Soy bean meal, soy bean cake, soy bean flour, soy beans toasted, soy bean oil, soy protein concentrate, soy hulls.
- Corn, corn oil and corn by products such as corn gluten.
- Wheat and wheat by products such as wheat bran, wheat middling's and wheat bran flour.
- Sunflower including derivates.
- Rapeseed including derivates.

Since palm kernel expeller (PKE) is a by-product of palm fruits, little impact is expected to be made by including this product in the scope of the responsible procurement strategy. Hence, in consultation with our stakeholder board (App.4), it was decided to exclude palm kernel expeller (PKE) from the updated procurement strategy.

In 2021, we assessed that 62% of all our prioritized commodities was sourced in a responsible manner. Based on this baseline and our strategic priorities for the upcoming years, we've set the following targets in cooperation with senior management and our Supervisory Board.

- **2022:**
  70% our commodities for feed are procured in a responsible way.
- **2023:**
  75% of our commodities for feed are procured in a responsible way.
- **2024:**
  80% of our commodities for feed are procured in a responsible way.

After expanding the responsible procurement policy to all Agrifirms operations, also those located in high-risk countries such as Ukraine or Brazil are now in scope. An approach for sourcing low-risk commodities in such a high-risk context is developed with our local experts.

Our approach

The approach is based on a regional risk-assessment, verification via supplier engagement and targeted action. The specific steps are briefly elaborated below, a more detailed method section is added as an annex.

Risk-assessment

A risk-assessment framework was created using the ISO 26.000 standard, the SAI-FSA and expert knowledge. For selected country and crop combinations, the risk-assessment framework was filled-in based on publicly available data and the expert knowledge of an independent third-party with local presence and auditing experience.

Verification of the results

The risk-assessments were discussed with our suppliers, to understand whether the generic risks identified in a country are also present in our specific supply chain. In high-risk cases, suppliers verified the risk-assessment for their supply base using the FSA-SAI methodology in a so called 'verification project'.

Targeted action

In case the generic risk assessment and the verification project, show that there are issues or risks within our supply chain we jointly discuss the next steps. As each situation is very specific and grounded in local contexts, action plans and mitigating measures with each suppliers will differ. It can vary from:

- implementing a continuous improvement plan with yearly milestones;
- to only source from 'own farmers' and exclude third party farmers for a certain period (third party supply is often more risky);
- or agree on annual certification[2].

Engagement, collaboration and continuous improvement are key elements of our procurement approach. Only when a supplier doesn't want to jointly address the issues or in case of serious ongoing legal non-compliances and/or violation of our Corporate Governance Code, we will terminate the relation.

[1] Since 1 Jan. 2022 Bonda is also covered by the Responsible Procurement Policy.

[2] All soy standards recognized by FEFAC in its 2022 benchmark are accepted, just as ISCC (for all crops) and RSPO (for palm oil).

Commodity specific approach

In addition to our generic responsible procurement policy, a specific policy is developed for **soy** and **palm oil**. We partner with our supply chain partners upstream and downstream to guarantee the supply of 100% physical deforestation and conversion-free soy whilst investing in the regions at risk of deforestation and conversion. Please find more information about our approach to deforestation free soy in our *protocol for sourcing physical deforestation and conversion-free soy*.

For palm oil, we focus on certifying palm oil and its derivates in line with the RSPO standard. As mentioned above, following the advice of the stakeholder board (app.4), palm kernel expeller (PKE) is left out of the scope.

Stakeholder involvement

Every year, we have an in-depth discussion with our stakeholder board about the progress of our responsible procurement policy. This stakeholder board includes experts from various civil society organizations, financial institutions, academia and industry. In addition, annual supplier engagement is an integral part of our procurement policy.

Monitoring and evaluation

The progress of our procurement policy will be reported in our annual integrated report. This report is validated by our external accounted and includes a commodity overarching key performance indicator (kpi) for responsible procurement[3].

This kpi is defined as the % volume (tonnes) of in scope commodities for feed that is procured in a responsible way, meaning:

- originating from low risk countries;
- or from high risk countries but mitigation measures are taken:
  - certification of the commodity;
  - verification of the joint supply chain;
    - and no risk or issues were prevalent;
    - or issues and risk were prevalent and a joint action plan was implemented and completed.

[3] Focusing on commodity specific KPIs is not meaningful because we are a small player in volatile commodity markets.

Contact information

For more information about the responsible procurement policy, contact Gesineke Borghuis (g.borghuis@agrifirm.com).

Appendix 1: Methodology

This appendix introduces the methodology for our responsible sourcing strategy in more detail. The methodology was developed in 2016 and finetuned and updated ever since.

Stepwise approach

To identify, prioritize and mitigate the risks in our supply chains, we have implemented the following steps:

1. We developed a generic risk assessment for all countries where we source the commodities in scope of the policy.
2. Based on the generic region-risk assessments, we prioritized[4] certain crop-sourcing regions and engaged with suppliers on the risk assessments.
3. Based on the conversation with the suppliers, we jointly decided on next steps.

Step 1: Generic risk assessment

The following activities are executed to arrive at a generic risk-assessment.

Preparation of a risk-assessment framework

In order to ensure robust and consistent risk-assessments for different countries, we have developed a risk-assessment framework. The framework includes the risks that could be present in our supply chains. These potential risks are taken from the ISO 26000 standard, a well-known and widely accepted international standard on responsible production. To ensure that all risks that could occur in the production of agricultural commodities are covered, several responsibility standards, programs and codes (e.g. SAI, UN Code of Conduct and Global Gap) were analyzed in addition to the ISO-standard. The framework includes indicators that cluster into overarching topics.

Identification of essential and responsibility risks

The framework includes the notion that certain issues should be addressed with higher priority. These priority topics are derived from the OECD FAO Guidance for Responsible Agricultural Supply Chains. We use the term 'essential topics' in our framework. Other risks are called 'responsibility topic'. Essential risk topics have a higher priority to immediately address. Responsibility topics are topics that allow for (or need) continuous improvement. Please find the overview of the essential risk and responsibility risk topics and indicators in App.2.

[4] The prioritization of our commodity-sourcing region will not be made available as it is commercially sensitive information.

Execution of the risk assessments: desk research

Desk research was conducted to arrive at a first understanding of risks in a specific country. Official data by governments or international institutions such as the World Bank or the FAO are used. In addition, indices or tools created by universities and NGOS are used. Please find a complete overview of the data sources used in App.3.

Execution of the risk assessments: expert judgment

Although for some risks, ample public data sources are available, for others this data is lacking. For that reason, and to include the latest insights in the risk assessment, local auditors are involved in the finalization of the risk-assessment. These local auditors, with experience with field audits in the specific crop-region combination, were asked to rank the risk for all relevant essential and responsibility topics. Their reference point is national legislations. The auditor is asked to indicate the expected risk score, based on their experience in practice on the frequency of occurring. The first draft of the risk assessment is cross-checked by other auditors to ensure that the basis of our responsible procurement approach is robust and trustworthy.

Update

In our past responsible procurement policy, we included the step: validation the regional risk assessment of a crop-country combination with local stakeholders. Based on our experiences, this can be a valuable step, but it is often a pitfall. The discussion and efforts may shift on agreeing on the risk-assessment instead of taking action. We've carried out the validation steps in Poland and Hungary and decided that our efforts should be focused more on our own supply chain. At the level of our own supply chain, we see a lot of value in involving local stakeholders.

Risk calculation

In order to calculate the risk frequency of a certain topic, an average score for that topic is calculated based on the score of the underlying indicators. If the average score of a topic exceeds 50%, that topic is considered 'high risk'. Regions are considered high risk, if three or more topics are high risk or if one or more essential topics are high risk. This calculation method focuses our efforts on essential topics ánd regions with high risks on responsibility topics.

Furthermore, all indicators that have a frequency score of +60% are topic of discussion with the supply chain partners. This ensures that no topic is left behind. The generic risk assessments provide us with the guidance to focus on country-crop combinations that have most risks/ issues. Please notice that we haven't carried out generic risk assessments for all country-crop combinations yet. This means that the risk of a few combinations is unknown; they are counted as 'not responsible' unless the SAI Platform Legal Compliance Assessments marked them as 'low risk'.

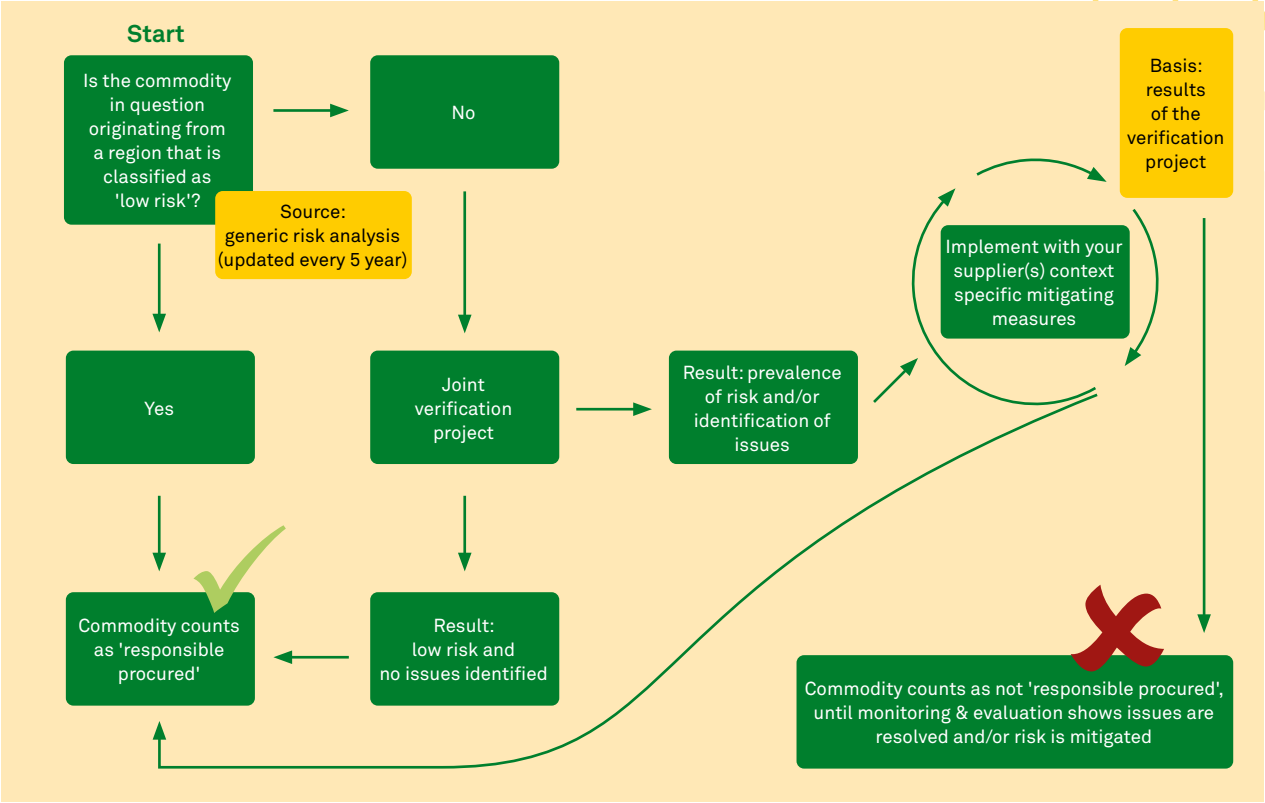
The figure on the net page shows our the proces we use to decide whether or not to a county/crop combination is considered low-risk (and hence responsible) or high-risk.

Step 2: Supplier engagement

The following activities are executed to identify which risks are present in our own supply chains and to determine our priorities with our suppliers.

Supplier dialogue

The risk assessments executed under step 1 provide an accurate insight into the risks in a specific country for a specific commodity. These risk-assessments are the starting point for further dialogues with our supplier. During these dialogues we verify whether the supplier recognizes the risks (or not), already implemented mitigating measures or has proof that the risks are not present in our joint supply chains. The purpose of these dialogues is to identify whether certain risks or issues are prevalent in our supply



chain and obtain additional (verified) information on risks or issues. These dialogues can result in two things:

- In case of no risks or suspicion of issues, we perceive the supply chain of this particular supplier from this region as 'responsibly'. No additional activities are nee ded and we continue to work with the supplier.
- In case of risks and/or suspicion of issues: we will develop a verification project (executed by a third party auditor) that zooms in on the specific risks/issues within the region and supply chain. The purpose of this verification project is to understand the extent and nature of the risk.

Joint verification projects

In the case risks do exist in our joint supply chain, we will work with our suppliers on a verification project, carried out by a third party auditor with local know-how. The verification will focus in our joint supply chain on the specific issues and risks that are determined in the generic risk assessment. The FSA SAI methodology is used as guidance to sampling, combining self-assessments and farm audits. The results of the verification project will be discussed with all project partners (buyers, suppliers, audit company). The purpose of this verification project is to understand the extent and nature of the risk. Based on the outcomes, we will ask our supplier to jointly collaborate on the identified issues with an action plan and we will set a timeline for improvement including monitoring (see step 3).

Step 3: Next steps: additional action

The following activities are executed to take action to mitigate risks in our supply chains.

Mitigating risks

In case the generic risk assessment and the verification project, show that there are issues or risks within our supply chain we jointly discuss the next steps. As each situation is very specific and grounded in local contexts, action plans and mitigating measures with each suppliers will differ. It can vary from:

- implementing a continuous im provement plan with yearly milestones;
- only source from 'own farmers' and exclude third party farmers for a certain period (third party supply is often more risky);
- or agree on annual certification/ verification. We accept all FEFAC SSG compliant standards (2021 version, also included in Transparency Tool), ISCC and RSPO.

Appendix 2: Methodology

This appendix introduces the essential risk and responsibility risk topics and indicators used in the risk-assessment framework; the basis to decide whether or not to a county/ crop combination is considered low-risk (and hence responsible) or high-risk.

Please find in the tables below the essential risk topics and indicators (red) and the responsibility risk topics and indicators (green). Essential risk topics have a higher priority to immediately address. Responsibility topics are topics that allow for (or need) continuous improvement.

Appendix 2: 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
4. Business Integrity	
Smallholders	*Trading opportunities for local smallholders are hindered*
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 3: Data sources per sustainaibility 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://freedomhouse.org/	*'Freedom in the world' https://freedomhouse.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		

Koninklijke Coöperatie Agrifirm U.A.

Landgoedlaan 20
7325 AW Apeldoorn

Postbus 20000
7302 HA Apeldoorn

T 088 488 10 00
F 088 488 18 00

info@agrifirm.com
www.agrifirm.com

CSR-F001-1222EN