



RESPONSIBLE SOURCING

in Arla Foods

Arla is dedicated to operate and develop our business in a sustainable and responsible manner, while at the same time adding value to people's lives. Arla acts responsibly and strives to source and produce all our products with this aim in mind and do so in the most sustainable way possible while ensuring safe products of high quality throughout our global supply chain.

INTRODUCTION AND PURPOSE

We recognise that our supply chain is one of our most important levers in creating a positive impact in the world. Consequently, we recognise that our suppliers have a major impact on our sustainability performance and brand reputation. In order to fulfil the growing expectations of our stakeholders, including customers, farmer owners, employees, NGOs¹ trade associations, labour unions, government observers, for example we pay close attention to our suppliers' environmental, social and ethical practises.

¹ NGO: Non-Governmental Organisations

The purpose of this document is to outline our ways of working, which we apply to our upstream supply chain in relation to responsible sourcing.

Our main goal is to improve environmental, social and ethical aspects by using our leverage and building a strong and resilient supply chain with our suppliers

DEFINITION

Responsible sourcing is our approach to implementing Arla Foods' Code of Conduct in all our external supplier relations.

We define "sourcing" as identifying suppliers for a particular product or service, as well as evaluating, contracting and engaging with them.

We define "suppliers" as all our external suppliers.

SCOPE

Arla is a dairy cooperative, and the main component of our products is milk. Our farmer owners are our internal suppliers, which we source milk from and we have different approaches for internal and external suppliers in Arla. In responsible sourcing our main focus is on products and

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services supplied by external suppliers. Our commitments and specific requirements on particular product and service categories are based on our assessments of identified risks and impacts.

INTERNAL SUPPLIERS

All milk supplied by our farmer owners is managed carefully across countries through strict quality requirements at farm level, defined in the Arlagården® programme to which all Arla owners must comply. We know high food safety and quality standards are key to our customers, consumers and other stakeholders across markets.

We continuously work with our farmer owners to ensure the best milk quality possible. This is established through quality settlement, contracts for milk and our milk quality advisory service.

We maintain product excellence through milk quality and food safety standards. We follow up on milk quality and food safety by using KPIs, continuous improvement actions and surveillance programmes. [Click here](#) to read more about Arla's sustainable dairy farming.

EXTERNAL SUPPLIERS

External suppliers are all Tier 1 suppliers and contract manufacturers of Arla. In other words, all suppliers with a direct commercial relationship with Arla via the global procurement department.

Arla sources various types of materials in the form of ingredients, packaging materials, non-product related materials and services.

Responsible sourcing principles apply to all our external suppliers. These rules also apply to our joint ventures in which Arla has a management role.

CODE OF CONDUCT FOR SUPPLIERS

Arla has implemented Arla Foods Code of Conduct “Our Responsibility” which covers all aspects of our business and is at the heart of every decision we make. We expect our suppliers to comply with the requirements set in “Our Responsibility” and for this purpose we have issued Arla [Code of Conduct for Suppliers](#).

Arla Code of Conduct for Suppliers sets out our requirements towards our suppliers in the following areas:

1. Legal requirements, sanctions and watch lists
2. Gifts, benefits and business ethics
3. Human rights
4. Child labour
5. Equal opportunities and forced labour
6. Trade unions, working hours and wages
7. Health and safety

GENERAL PRINCIPLES FOR ARLA'S EXTERNAL SUPPLIERS

Arla requires that suppliers sign our contract which controls the legal and commercial terms and includes Arla Code of Conduct for Suppliers. We expect our suppliers to acknowledge and accept their responsibility by doing that.

We also expect our suppliers to use all reasonable efforts to ensure their agents and sub-contractors also fulfil the requirements set out in these documents.

All products related and selected non-product related category suppliers are required to go through an approval process. Suppliers which complete Arla's approval process successfully, become Arla's preferred suppliers. This approval process includes assessments and audits of suppliers against Arla's expectations in relation to food safety, product quality and responsible sourcing principles including





environmental, social and human rights aspects. Preferred suppliers are Arla's first choice suppliers.

We also require compliance with any of the recognised certification schemes of GFSI² for all product related categories and we monitor and evaluate our suppliers according to the risk associated with the supplier and/or product category on an ongoing basis.

COMPLIANCE WITH RESPONSIBLE SOURCING PRINCIPLES

LEGAL COMPLIANCE

Suppliers must at all times comply with, or exceed, the requirements of all applicable laws, rules and regulations in the countries in which, they conduct business.

MANAGEMENT OF RISKS

We expect that our suppliers adopt a due diligence approach, conduct risk assessments to identify the potential risks related to business ethics, human and labour rights, health, safety and environment and establish appropriate systems to identify, prevent, mitigate or manage the risks and ensure compliance. Suppliers shall maintain documentation to demonstrate compliance.

CONTINUOUS IMPROVEMENT

Arla expects its suppliers to ensure compliance with or exceed their obligations as set out in Arla Code of Conduct for Suppliers and use all reasonable efforts to establish good management systems to facilitate continuous improvement within business ethics, human and labour rights, health, safety and environment.

We also expect our suppliers to improve continuously by setting objectives and making plans to achieve the identified improvements.

BREACH OF SUPPLIER'S OBLIGATIONS

Our contracts with suppliers stipulate that in the event a supplier being in breach of any of its obligations under Arla Code of

² GFSI: Global Food Safety Initiatives

Conduct for Suppliers, Arla is entitled to terminate its cooperation with the supplier.

CATEGORY SPECIFIC COMMITMENTS & REQUIREMENTS

We have identified three ingredients with particular sustainability challenges; soy, palm oil and cocoa and these are the focus of our work to source responsibly. We are dependent on using these materials in our products or in our supply chain. We believe we can use our purchasing power to contribute to these categories being more sustainably produced, in close dialogue with key stakeholders. We are increasingly concerned about the social and environmental aspects for service categories such as manpower, catering, cleaning, security and logistics due to the changing social landscape. We are developing new approaches towards these categories in order to ensure business integrity.

PALM OIL

Palm oil has many uses and benefits, and palm oil-based products and ingredients are used in some Arla products, although quantities may vary over time. Arla is committed to responsible and sustainable palm oil sourcing to the benefit of consumers, environment and local communities.

We want to strengthen our commitment to work towards a more sustainably producing palm oil supply chain, which includes no deforestation, no new development on peat lands, full traceability to the mills including the supplying group of plantations and respect for workers', local communities' and human rights.

Since 2011 we have been working actively to live up to our commitments.

SCOPE & PRINCIPLES

Arla purchases palm oil from suppliers who are members of RSPO³ and who source their raw material from producers who are also members of RSPO. Arla does not purchase palm oil directly from mills or local manufacturers, only Tier 1 suppliers' refineries.

Arla's ambition is to use only RSPO segregated certified palm oil-based products and by the end of 2018 we were 98 percent of the way to achieving this.

If we cannot fulfil this commitment, e.g. due to lack of availability, we have to purchase palm oil products according to Mass

³ RSPO: Roundtable on Sustainable Palm Oil

Balance or buy RSPO credits for all palm oil used.

Palm oil in purchased additives will be certified segregated palm oil by the end of 2019 at the latest.

REQUIREMENTS TO SUPPLIERS

- Palm oil supplied to Arla must be from a supply chain in which each member of the chain (manufacturers, refineries, mills and plantations, etc.) operates in compliance with local laws and regulations.
- All our palm oil suppliers are members of RSPO and source their raw material from producers who are also members of RSPO.
- All suppliers shall be in compliance with additional criteria, which include no deforestation, no new development of peat land and with full traceability to the mill, including supplying group of plantations.
- All suppliers shall also respect and support the universal declaration of human rights of all workers and community rights in their supply chain.
- Suppliers of palm oil are requested to progress on achieving certification of their plantations and

mills, as well as refineries and processing plants. We expect them to report progress towards their goals in ACOP⁴.

MONITORING & FOLLOW UP

Procurement of palm oil follows Arla's sourcing process.

Assessment of suppliers, monitoring of development, follow up and handling of deviations is managed according to these processes.

Compliance of the suppliers with the before described principles leads to RSPO certification of the oil purchased and it is monitored on a yearly basis.

We share our progress in achieving our ambition publicly on an annual basis in our communication of progress report to RSPO and our responsibility report.

Here you can read Arla's [Palm oil sourcing statement](#).



⁴ ACOP: Annual Communication of Progress

COCOA

We are committed to working with our suppliers to ensure our business practise contribute positively to cocoa farmers and their communities. Since 2009 we have been working actively to live up to our commitments. We value the knowledge and recommendations of NGOs on the local conditions in the areas from which we source our cocoa and we adapt our commitments according to these recommendations.

Arla and Cocio do not purchase cocoa directly from local cocoa producers but from Tier 1 suppliers which are European cocoa/cocoa products manufacturers.

SCOPE & PRINCIPLES

Arla and Cocio use only UTZ certified cocoa in Arla branded products.

REQUIREMENTS TO SUPPLIERS

- Cocoa supplied to Arla shall always be UTZ certified for Arla branded products.

- UTZ standard operates through two sets of guidelines. UTZ Code of Conduct which covers the growing and harvesting process and UTZ chain of custody which covers the products after.
- UTZ chain of custody certification is required for each link in the supply chain, from the cocoa leaving the farm until it arrives at Arla.
- UTZ certification at farm/producer level is achieved by compliance with UTZ Code of Conduct. All producers receive a regular check from independent auditors and if they are approved, this means that farmers can sell their products as UTZ certified and products are monitored by UTZ traceability system.
- UTZ Code of Conduct consists of control point concerning the below topics and based on a model of continuous improvement.



- Good agricultural practices (farm establishment, rehabilitation and maintenance, soil management and fertilization, integrated pest management and crop protection and harvest and post-harvest product handling).
- Cocoa communities (ensuring healthy and safe production practices, respecting the workers' rights).
- Natural resources and bio-diversity (preserving soil, water, forest and biodiversity).
- Effective implementation of the UTZ Code of Conduct (organization, risk-based implementation and producer training).
- Product flow control.
- Social responsibilities (accountable and transparent management structure, education, first aid and emergency health care).
- Internal control system (management of the internal control system, internal standard and contracts, internal inspections and registration of producers and record keeping).

MONITORING & FOLLOW UP

Arla and Cocio rely on third party independent verifiers to inspect cocoa supply chains.

Procurement of cocoa and cocoa products follows Arla's sourcing process.

Assessment of suppliers, monitoring of development, follow up and handling of deviations is managed according to these processes.

Only UTZ certified cocoa and cocoa products are accepted for use in Arla branded products. Compliance with this is monitored on a yearly basis.

Compliance of the suppliers with the above described principles are followed by means of UTZ certifications of the cocoa and follow up meetings with relevant cocoa suppliers.

We share our progress in achieving our ambition publicly on an annual basis in our responsibility report.

Here you can read Arla's [Cocoa sourcing statement](#).

SOY

The majority of the soy used in Arla's value chain is used in feed for the dairy cows. Small amounts of soy-based ingredients are used in products.

Soy is grown in several areas of the world, for example USA, Canada, Brazil and Argentina. A major amount of the soy used

in Europe is grown in South America. We are concerned about the impact soy production has on the environment as well as on local communities. Therefore, since 2010, we have been working actively to promote responsible soy production.

Arla does not purchase soy directly from producers but our farmer owner purchase soy from suppliers of animal feed. In addition to this, Arla purchases soy-based products through Tier 1 suppliers in Europe.

SCOPE & PRINCIPLES

All soy fed to cows producing milk for Arla is either organic, Pro Terra-certified, RTRS⁵ certified or covered by RTRS credits and criteria.

The fulfilment of our ambitions depends on the availability of responsibly produced soy as well as the establishment of competitive substitute products.

REQUIREMENTS TO SUPPLIERS

- Soy used to manufacture products must be produced according to RTRS or Pro Terra principles.
- If certified soy is not available, it is expected that RTRS certificates are bought for the equivalent volume of the soy used to produce the product.

- RTRS responsibly sourced soy is produced according to the below principles:
 - Legal compliance and good business practice (compliance with all applicable local and national legislation, respect to land and use rights, continual improvement).



- Responsible labour conditions (no child and forced labour, no discrimination and harassment, respect for workers' rights, safe and healthy workplace, freedom of association, legal wages and working hours).
- Responsible community relations (open dialogue with local communities, no conflicting land uses, grievance mechanism, fair

⁵ RTRS: Roundtable on Responsible Soy

employment opportunities for local population).

- Environmental responsibility (risk assessment approach to minimize and mitigate negative impacts, pollution is minimized, and waste is responsibly managed, reduce emissions sequestration of greenhouse gases, responsible soy cultivation, on-farm biodiversity and preservation of native vegetation).
- Good agricultural practice (Quality of surface and ground water, maintained natural vegetation and water-courses, soil quality, reduced phytosanitary products, management of agrochemicals, legal biological control agents, controlling of invasive species and pests, controlled origin of seeds).

MONITORING & FOLLOW UP

Procurement of soy-based ingredients follows Arla's sourcing process.

Assessment of suppliers, monitoring of development, follow up and handling of deviations is managed according to these processes.

Only soy products that are produced according to RTRS/Pro Terra principles can be used in Arla branded products.

Compliance with this is monitored on a yearly basis.

We share our progress in achieving our ambition publicly on an annual basis in our progress report to RTRS and our responsibility report.

Here you can read Arla's [Soy sourcing statement](#).

SOURCES USED

- United Nations Global Compact – Ten Principles
- The Universal Declaration of Human Rights
- United Nations Guiding Principles on Human Rights and Business
- Social Accountability Standard – SA8000® Standard
- RSPO Supply Chain Standards
- RTRS Supply Chain Standards
- UTZ Good Inside – Code of Conduct and Chain of Custody
- UK Modern Slavery Act
- Arla Foods Code of Conduct
- Arla Code of Conduct for Suppliers.

