

## **Drivers of Land Use Planning**

P&G uses palm oil, palm kernel oil and derivatives of each. Palm kernel oil is a by-product of palm oil production. When palm fruit is harvested from oil palm trees it is sent to a palm oil mill where the fruit is pressed to produce (crude) palm oil. Inside of the palm fruit are small seeds called “palm kernels”. These kernels are often collected by palm oil mills and sold/sent to palm kernel crushing mills where the seeds are crushed to produce palm kernel oil. A palm kernel crushing plant can collect kernels from many different palm oil mills and kernels can be stored for long periods of time. These factors make the palm kernel oil supply chain very complex and make it difficult to trace individual palm kernels to their source.

The distinction between palm oil and palm kernel oil is important because the ultimate objective of our efforts is to prevent deforestation associated with palm production and ensure responsible sourcing of palm oil. Economic modeling and our in-depth understanding of how scheme and independent smallholders are compensated have led us to conclude that palm oil production is the major driver for land use planning decisions within palm industry. Palm kernel oil is a by-product and the production of palm kernel oil has little to no impact on land use planning decisions being made by palm plantation owners and small holders.

We continue to hold all our suppliers, palm oil and palm kernel oil, to the same standards and expectations. If there is an allegation vs. one of our suppliers, we act with equal vigor to ensure resolution regardless if they supply palm oil or palm kernel oil. However, our increased understanding of what is driving land use planning decisions, in combination with the increased complexity of the palm kernel oil supply chain, has led us to take a more aggressive stance on palm oil regarding both verification and timelines as palm oil more directly impacts land use planning decisions, and we can see a viable path for doing so. We continue aggressive action on palm kernel oil but with slightly different timing that reflect additional complexity and challenges of the palm kernel oil supply chain.