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## Responsible Sourcing Policy for Palm-based Material Suppliers

### **RESPONSIBLE SOURCING COMMITMENTS**

At Stepan Company (“Stepan”) we believe that chemistry can provide solutions to benefit the environment, promote human well-being, and meet the needs of a growing population. We take seriously our responsibility to operate in a manner that ensures the safety, security and well-being of our people and the communities where we operate. We also understand the importance of working to promote social and environmental responsibility throughout our supply chain.

For some of our products, Stepan utilizes palm kernel oil derivatives and other naturally derived oils as raw materials that deliver excellent performance. We recognize the impacts of expanded oil palm plantations on local communities and on the environment, and we work to source these materials responsibly through a combination of efforts. Since our first RSPO supply chain certification in 2014, Stepan has continued to increase our capacity to offer Mass Balance certified ingredients to our customers globally. In addition, Stepan has partnered with customers, NGO’s, and suppliers to increase the traceability of our palm supply chains as part of the industry-wide effort to identify those supply chains at highest risk for deforestation, development on peat, and exploitation of people and local communities.

Stepan’s Third Party Code of Conduct and our Responsible Sourcing Guidelines for Palm-based Material Suppliers outline criteria with which we expect our suppliers to comply. We aim to work collaboratively with our supply chain partners to achieve alignment with these criteria. We are aware of the complexities within the palm material supply chain and recognize that compliance will require ongoing efforts at improvement. We look forward to working with suppliers who share our commitment to achieving more sustainable and responsible supply chains.

In addition, we believe that one of the most effective ways to deliver consistent, far-reaching transformation in the palm industry is to expand production and uptake of RSPO certified material.

The RSPO system provides for:

- 3<sup>rd</sup> party verification of compliance with established criteria,
- A mechanism for raising and addressing grievances,
- A system for tracing material,
- A system for training and supporting smallholders in their transition to best practices, and
- A process for transparently engaging all stakeholders in the oil palm value chain.

Stepan will continue to support industry needs for additional action consistent with this policy.

## NDPE\* COMMITMENTS

Stepan Company requests that our PO/PKO derivative suppliers work toward, and that our PO/PKO derivative suppliers ensure their own suppliers work toward:

- Operating in compliance with the principles outlined in Stepan’s **Third Party Code of Conduct**;
- Ending deforestation through the protection and conservation of High Conservation Value (HCV) <sup>1</sup> and High Carbon Stock (HCS) <sup>2</sup> areas, as defined in the most current High Carbon Stock Approach (HCSA) <sup>3</sup> Toolkit;
- No new development, draining, or burning of peatlands, regardless of depth;
- Managing current and retired palm plantations in accordance with the RSPO’s most current Principles and Criteria, the RSPO Manual of Best Management Practices for Existing Oil Palm Cultivation on Peat<sup>4</sup>, or comparable standards;
- Reducing the carbon footprint of their operations;
- Implementing a Free-Prior-Informed Consent (FPIC) process, supporting the rights of local and indigenous people to allow or deny operations planned on their lands;
- Implementing policies and practices that respect the rights of all workers as outlined in Stepan’s **Third Party Code of Conduct**, including women, contract and temporary workers, and migrant workers;
- Providing a safe work environment and appropriate training and personal protective equipment to minimize or prevent worker exposure to harmful chemical, biological, and physical agents;
- Enabling a transparent, impartial, consultative process for grievance and conflict resolution; and
- Supporting efforts to establish traceability to mill and plantation according to time-bound commitments.

1 High Conservation Value (HCV) as defined by the HCV network: <https://www.hcvnetwork.org/about-hcvf/the-six-high-conservation-values>.

2 High Carbon Stock (HCS) forests as defined at <http://highcarbonstock.org> by the HCS Steering Group.

3 HCSA Toolkit and the Unified HCS and HCV <http://highcarbonstock.org/agreement-on-unified-approach-to-implementing-no-deforestation-commitments/>

4 RSPO Manual on Best Management Practices (BMPs) for existing oil palm cultivation on peat. <http://www.rspo.org/key-documents/supplementary-materials>

## SUPPLY CHAIN TRANSPARENCY AND GRIEVANCE PROCESS

- We will continue to engage our direct suppliers to support requests for traceability of our palm -based material supply chains.
- We will record and track grievances raised to our attention from customers, the RSPO, NGO’s, or other mechanisms, according to the process below.
- In the event that we learn of non-conformances with this policy in our palm-based derivative supply chains, we will formally engage with the relevant direct supplier to present the grievance and request the following:
  - Acknowledgement of the grievance and identification of non-conformance(s) by location(s);
  - Evidence either of current compliance or actions underway to address the non-compliance or proposed corrective actions and reasonable timeframe for implementation; and
  - Follow-up report after corrective actions implemented.
- We will integrate compliance with this sourcing policy into our latest Purchase Terms and Conditions in all our Purchase orders.
- Stepan will look for our key direct palm-based material suppliers to demonstrate alignment with this policy through their own commitments and initiatives, such as:
  - A public NDPE\* commitment, and
  - A supply chain assessment or grievance process, or
  - RSPO supply chain certification.
- For suppliers that are not in compliance with our Responsible Sourcing Guidelines, or that are not demonstrating clear progress toward meeting them, we reserve the right to take corrective action, including potential termination of business.

**\*NDPE: No deforestation, no development on or burning of peat, and no exploitation of people or communities.**