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BUSINESS

Food Companies Scramble to Cut Palm Oil From Supply Chains

McDonald's push poses major test of industry's ability to trace, eliminate contentious materials



Palm oil will present special challenges in the supply chain because it is used in different ways in different products. *PHOTO: GETTY IMAGES/ISTOCK*

By **ERICA E. PHILLIPS** And **BETSY MORRIS**

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The roster of food companies that want to eliminate palm oil from their products is getting longer. But actually reaching that goal will require an enormous effort across their supply chains.

“Once a company goes into the palm oil supply chain, it gets incredibly complex,” says Alexis Bateman, a research associate with the MIT Center for Transportation and Logistics. The company “can have multiple different products that contain the material and then palm oil can come from several different derivatives—from fruit bunches, from the tree, from the palm kernel.”

A McDonald's Corp. announcement in April that a "comprehensive" supply chain sustainability plan will focus on reducing deforestation in its beef, poultry, coffee and palm oil sourcing will provide perhaps the biggest test of companies' ability to trace and eliminate contentious materials from their products.

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The fast-food giant joins Dunkin' Brands (Dunkin' Donuts, Baskin-Robbins) and Yum Brands Inc. (KFC, Pizza Hut, Taco Bell), in pledging to source only sustainable palm oil. It's part of a broad, new effort by food providers to target ingredients to meet demands from health- and socially-conscious consumers.

Just this month, Chipotle Mexican Grill Inc. said it would stop using genetically modified ingredients in its fast food restaurants. And PepsiCo Inc. announced it would drop the artificial sweetener aspartame from Diet Pepsi.

McDonald's under new Chief Executive Officer Steve Easterbrook is vowing to make big changes after the company has foundered in recent earnings reports. Since Mr. Easterbrook took the helm, McDonald's has also pledged to raise its workers' wages and use only chicken raised without antibiotics.

Palm oil will present special challenges in the supply chain, however, because it is used in different ways in different products.

Even if a company has only one major supplier, this doesn't necessarily solve the problem. "That's only a tier one supplier," Dr. Bateman says. That supplier may have multiple sub-tiers of suppliers, and they can have myriad sources of palm oil—say, thousands of small independent farmers—with many traders in between, all of them potentially adding palm oils at various points in the supply chain.

“The inputs come at different points in the supply chain and they may get supplies from different sources,” she says. That may be a mill that takes in fresh fruit bunches and separates them and processes the oil, or a kernel-crushing plant. These might mix palm from different sources.

“When you try to do the traceability backwards—trying to figure out sustainability—in some cases it’s not feasible,” she says.

For instance, she says, there are thousands of small independent farmers in the country of Malaysia alone, according to the Malaysian palm oil board.

Still, the move by such a large chain represents an important step to address growing concerns about palm oil production.

According to a recent report by the Union of Concerned Scientists, the packaged food and personal care sectors made “significant improvements” over the past year in their use of palm oil—a common ingredient in everything from cosmetics to cooking oil to snack foods. But a “large majority” of fast food companies “continue to ignore consumer demand for deforestation-free and peat-free palm oil.”

Write to Erica E. Phillips at erica.phillips@wsj.com

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