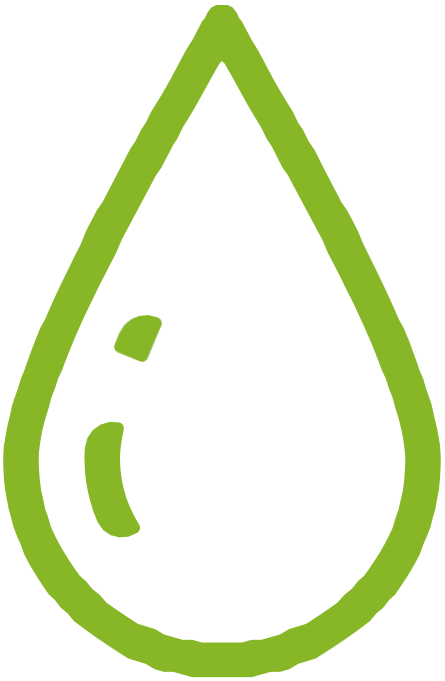
Position Paper

Water Policy



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1. Context

Water is an essential commodity for survival – both for humans and for nature. Water is absolutely indispensable to maintain the huge abundance of species that exist on our planet, both as a habitat and as an essential element for life. Over two thirds of the Earth's surface are covered in water; however, for the most part, this water is salt water in the seas and oceans. For humans and for most animals, salt water just cannot be used. It is fresh water that is needed.

70%
of water consumption is used for agriculture.

In 2010, access to clean water was proclaimed a fundamental human right by the United Nations. However, fresh water accounts for only 0.01% of the overall amount of water that exists on Earth. And what's more, fresh water reserves are not distributed evenly throughout the world. A lack of this resource, therefore, affects some regions far more than others. Added to this is the matter of seasonal variations: long periods of drought in the summer months cause groundwater and water course levels to drop, even in regions with plenty of water. On the other hand, exceptional rainfall can cause flooding.

While the world's population has almost quadrupled in the last century, water consumption has more than doubled. More than anything else, the increasing production of food, textiles and other consumer goods brings about a shortage and a grossly unfair distribution of this resource. Climate change too also places extra pressure on regions with limited water resources. In the future, a lack of water will affect an increasingly large percentage of the population. Accordingly, the risks associated with water will increase – in other words, situations where there is a high probability of damage caused by water.

With an average 47 liters for each euro of turnover, the retail sale of food products consumes a much greater quantity of water than other sectors[1]. Water-related risks therefore play an important role: the reduced availability of water represents a risk especially for the upstream supply chain. This holds true in particular for primary agricultural production which is responsible overall for 70% of global water consumption. Furthermore, pesticides and fertilizers are used in agriculture which have detrimental effects on water quality.
In this situation, the retail sale of food products has a duty to use a resource like water very carefully, both in terms of consumption and possible contamination. For this reason, the responsible use of fresh water constitutes a key policy area in Lidl's sustainability strategy.

In the water policy described here, we intend to outline the use of fresh water in the production and processing of our food products, fruit and vegetables, flowers and plants, health and beauty products, household products and non-foods.

2. Our Responsibility

For Lidl, the more sustainable use of water resources isn't a task for some time in the future, but a key issue for the here and now. By means of various measures, we are helping to conserve fresh water throughout the entire value-creation chain and to reduce the consumption and pollution of water in our supply chains.

For us, it is particularly important to protect and preserve natural water resources throughout the world. Through our water management, we are committed to the conscious use of fresh water. In our range, there are several items associated with water-related risks in their respective countries of origin. These include the amount of water used in production, the availability of water in the respective regions and the quality of water which may be compromised by pollution. The products in question are mainly agricultural products, but also processed foods and non-food items.

In order to assume our responsibilities, we are developing a water strategy with the aim of effectively reducing water-related risks in our supply chains. With this in mind, we are working in close collaboration with stakeholders in their respective countries of origin. In addition to our suppliers, civil society organizations and experts also form part of this collaboration, such as the Alliance for Water Stewardship[2]. We are constantly developing existing initiatives and partnerships and are embarking on new collaborations.

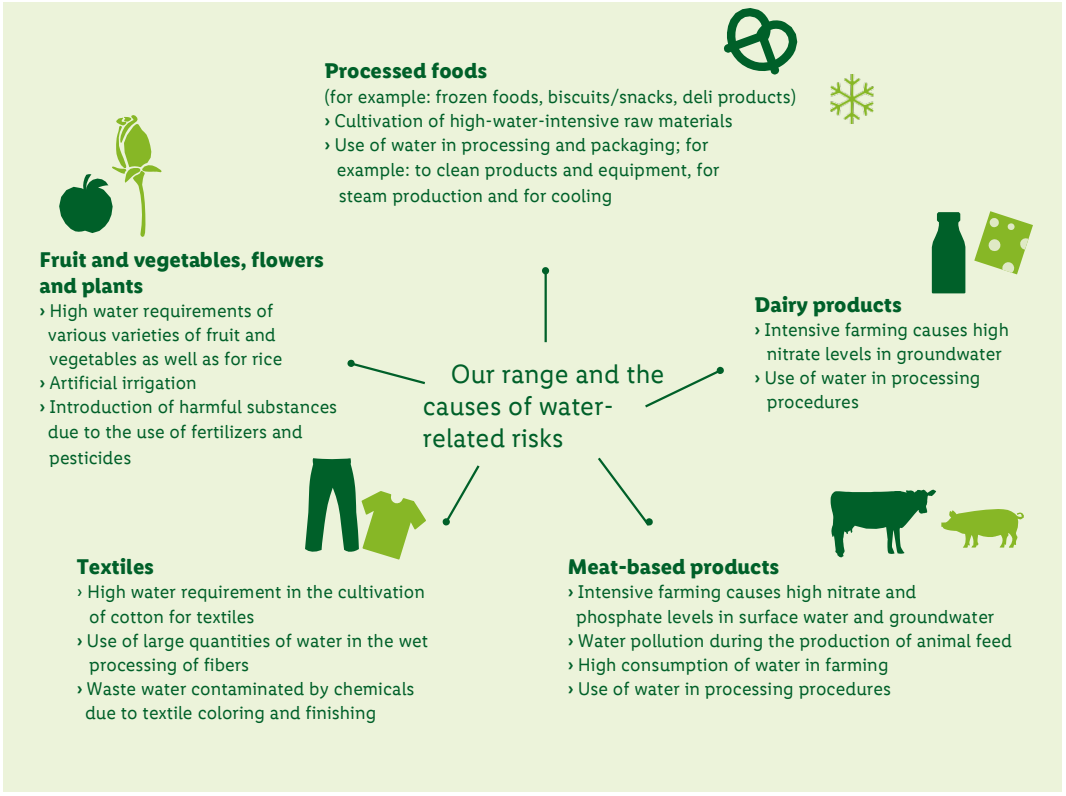
3. Strategy for the More Sustainable Use of Water

Lidl's management strategy for business due diligence[3] sets out clear guidelines for the systematic implementation of the company's sustainability strategy, thereby ensuring that it is applied consistently. To achieve this, a circular process is required, toward which our management strategy for the more sustainable use of water is oriented: first and foremost, risks and opportunities ('hotspots') are identified using specific analysis. On the basis of identified hotspots, objectives and measures are drawn up to reduce potential water-related risks to a minimum. During the implementation stage, the effectiveness of the measures is constantly checked, improving them where necessary. And we are transparent when it comes to providing information about our successes and failures.
The individual stages of the process are described in detail below.

3.1 Hotspot Analysis: Fresh Water

To identify water resource hotspots in our agricultural supply chains, in 2019 we carried out a specific analysis. This analysis allowed us to identify the product groups with greatest (negative) effects on sustainability. As water-related risks in the supply chain range from water pollution due to agricultural practices (spreading fertilizers and pesticides) to the water intensity (water footprint) of the cultivated product, we analyzed our range based on two factors: water consumption and water pollution*.

* Subgroups of goods were considered in the analysis in accordance with Lidl's internal categorization.



To summarize, with regard to the fresh water policy area, it was observed that unprocessed fruit and vegetables and certain processed foods make up the subgroups of products with the highest water-related risk. Hotspots are found, in particular, in primary agricultural production and are due to irrigation in farming regions with a severe lack of water, as well as the use of fertilizers and pesticides.

As well as water-related risks in our supply chain, we constantly measure water consumption in our stores. However, compared to consumption throughout the supply chain, in-store use is very low; for that reason, we will concentrate on our supply chain in this position paper.

For us, the results of this analysis represent a starting point for a more in-depth analysis of the hotspots in our range and for the development of targeted objectives and measures which will now be described below.

4. Our Measures

In the purchasing sector, Lidl has the opportunity to actively promote change, thereby helping to conserve water resources, for example, by increasing the percentage of certified products in our range. In this way, we support recognized certification initiatives and, at the same time, guarantee minimum standards for sustainable production practices.

Working with certified suppliers and creating “Save Water” communication initiatives (which suggest ways in which customers can save water) therefore represent fundamental steps toward greater sustainability. While conducting a certification analysis in collaboration with an external research institute, we identified different supplier certification that guarantees maximum protection for the water resource policy area. We also analyzed which quality label offers the best protection for this policy area. Some of our range is certified in accordance with the ambitious Bio and Rainforest Alliance specifications. This allows us to create a sustainable product offering, whereby the management of water-related risks is also considered. The Rainforest Alliance quality seal, for example, sets out strict guidelines for using a resource like water economically.

Aiming for the More Conscious Use of Water in the Supply Chain:
Membership of the Alliance for Water Stewardship

In 2018, Lidl joined the Alliance for Water Stewardship (AWS) multi-stakeholder partnership platform. The AWS International Water Stewardship Standard is the first international standard to measure the use of water resources in a given area, based on social, environmental and financial criteria. In this way, the AWS intervenes at company level and it applies both to industry and to agriculture. The standard offers companies a reference framework in order to understand, plan, apply, evaluate and report on water resource management measures at their facilities. Membership allows us to take a step toward our objective of more sustainable use of water resources.

4.1 Measures Taken in our Supply Chains

4.1.1 Fruit and Vegetables

Improving the Use of Water Resources

With the mandatory acceptance of the GLOBALG.A.P. standard, all Lidl farm partners document their competence in good agricultural practices, which also covers aspects relating to water consumption[4]. Together with farmers, we also check that the GLOBALG.A.P. Sustainable Program for Irrigation and Groundwater Use (SPRING) module[5] is being properly applied, which focuses in particular on aspects relating to water resources.

Reducing Water Pollution

Together with fruit and vegetable producers, Lidl adopted an agreement back in 2006, establishing a reduction in the use of pesticides. In order to achieve this shared objective, a reference limit was agreed for the amount of residue from active ingredients that could exist; this was set at one third of the maximum amount permitted by law[6]. In this way, fewer pesticides will end up in the environment.

Evaluating Measures

Based on initial experiences, we will evaluate and test further purchasing measures in the next step. Examples of the integral parts of the evaluation process are:

In-depth analysis: For a more in-depth analysis of water-related risks, on the one hand, we use the water stress index developed by the World Resources Institute (WRI) for the agricultural sector at national level. On the other hand, we use specific water indicators for individual products, based on data from the Water Footprint Network (WFN). Using both of these approaches allows us to evaluate water-related risks for the various country-product combinations. The results serve as a basis to classify the water-related risk of a

product in the supply chain. In this way, we create the foundations for adopting risk-based measures to reduce water-related risks.

Management of water-related risks: To address water-related risks, we use certification such as GLOBALG.A.P. SPRING or the AWS International Water Stewardship Standard. To check up on our strategic approach, Lidl introduced a pilot project in the summer of 2020.

4.1.2 Flowers and Plants[7]

To minimize water consumption and pollution in the production of flowers and plants on sale in our stores and to ensure good agricultural practice (for example, using efficient irrigation), since the start of 2020, we only accept products that comply with the GLOBALG.A.P. Chain of Custody. About 90% of our flowers and plants are certified by GLOBALG.A.P., Fairtrade or Milieu Project Sierteelt (MPS – an environmental project for ornamental plants) (updated: August 2020).

4.1.3 Textiles

Improving the Use of Water Resources

In order to reduce water consumption in the production of our textiles, we have adopted the following standards: Cotton made in Africa (CMiA), Organic Content Standard, Global Organic Textile Standard (GOTS), Better Cotton Initiative and Fairtrade. Organic cotton consumes less water and, at the same time, uses fewer fertilizers than traditional cotton[8]. CMiA-certified cotton is grown exclusively with rainwater. This means that we can save over 2100 liters of water compared with the world average for every kilogram of cotton fiber[9]. In addition to the use of organic cotton, the GOTS also covers criteria on the use of water in the processing of raw cotton into cloth. GOTS, therefore, obliges certified production sites to set objectives to reduce their consumption of water. Products with Fairtrade certification are also manufactured in accordance with criteria on water consumption.

For this reason, by 2022, Lidl will purchase 100% of its cotton from sustainable sources, in compliance with Cotton made in Africa standards, the Organic Content Standard, the Global Organic Textile Standard, the Better Cotton Initiative and Fairtrade.

Reducing Water Pollution

In order to remove dangerous chemicals from textile supply chains, in 2014, Lidl signed up to Greenpeace's DETOX campaign[10]. The goal is to get rid of potentially worrying chemicals, reduce waste water pollution caused by production and, in doing so, reduce the impact on humans and the environment. To this end, Lidl is pursuing a strategy which plans to replace hazardous chemicals with other substances that are less damaging to the environment and safe for human health, for example, water-based pigment pastes for printing, PFC-free finishes and synthetic leather made without dimethylformamide (DMF).

At least once a year, independent institutes check that textile and footwear manufacturers are not using dangerous substances. In addition to this indirect testing, random checks are carried out and waste water samples are taken annually from companies involved in the supply chain.

Just like the rest of the industry, Lidl also purchases the majority of its non-food range from independent manufacturers in Asia. Despite considerable progress and economic growth, social and environmental conditions in Asia are different. This is why, in this case, we pay special attention to the implementation of recognized minimum standards and, within this framework, we have set out three key objectives:

- Promoting the safe use of chemicals
- Reducing the use of energy, water and chemicals
- Ensuring environmentally friendly waste disposal and proper waste water management.

To achieve these objectives with our local suppliers, in collaboration with GIZ (*Gesellschaft für Internationale Zusammenarbeit* – a German agency for international collaboration), we have organized the PURE training project (*Projekt für Umwelt- und Ressourcen-Effizienz* – a project spearheading environmental and resource management efficiency). Over 400 employees from 80 textile manufacturing companies in China and Bangladesh have taken part in training in internationally recognized environmental and safety standards. Overall, some 67,000 workers have been involved. The main topics included improving waste water management and creating a suitable chemical management system. In this way, we are ensuring that, in the long term, the groups of chemicals stated in the Lidl Detox Commitment are removed from production. Through this project, it has been possible to reduce water consumption in participating manufacturing companies by about 5.8 million cubic meters[11].

As a member of the Leather Working Group and *Bündnis für nachhaltige Textilien* (Partnership for Sustainable Textiles), Lidl is committed to reducing water consumption and the responsible management of chemicals in textile supply chains. Furthermore, Lidl is taking its first steps toward the introduction of recyclable products, for example, by using biodegradable textiles certified to Cradle to Cradle® standards. Their strict criteria also cover the responsible use of water resources.

Going forward, together with our suppliers, we will also continue to promote the further development and strengthening of our environmental, chemical and waste management systems, as well as drawing up lists to remove hazardous chemicals.

4.1.4 Food Raw Materials

We are also working to reduce water-related risks in the field of food raw materials. 45% of our coffee range, for example, is certified by the Rainforest Alliance/UTZ, Fairtrade or Bio (updated: February 2020). All three standards include various measures to protect

water resources. 100% of cocoa used in all Lidl own-brand products in its permanent range comes from farming that is certified according to internationally recognized standards, such as Fairtrade, Rainforest Alliance/UTZ and Bio.

87% of our range of teas is certified to Fairtrade, Rainforest Alliance/UTZ or Bio requirements (updated: February 2020). We are planning to have certification for 100% of these products by the end of 2022. The palm oil used in our products is 100% certified according to the Roundtable on Sustainable Palm Oil (RSPO) standard. By favoring certified raw materials, Lidl is making an important contribution to protecting water resources[12].

4.1.5 Health and Beauty Products and Household Products

Generally speaking, plastic doesn't degrade in the environment. For this reason, water pollution caused by the introduction of microplastics in the Health and Beauty and Household Products sectors represents a huge problem. We have been fiercely committed to this issue since 2015: we believe that reducing microplastic emissions, of any origin, is extremely important. We foster a unified European legal framework which also provides a clear definition of microplastics. Together with our cosmetics and bodycare product suppliers, we have approved the following agreement: to stop using microplastics in the formulation of our own-brand cosmetics by 2021[13].

However, it is not only these primary microplastics that pose a threat to water resources; secondary microplastics are also hazardous. These are produced by the mechanical crushing of plastic packaging materials and by improper disposal. The task of remedying this situation falls under the remit of Lidl's plastic reduction strategy which sets out practical objectives to reduce the use of plastic in packaging materials. The REset Plastic strategy provides the Schwarz Group with an integrated, international procedure that is divided into five action areas: REduce, REdesign, REcycle, REmove and REsearch. By 2025, we intend to use 20% less plastic and to make 100% of our own-brand packaging recyclable. In this way, we are contributing to a reduction in the quantity of packaging waste and are reducing the risk of plastics of various sizes, including microplastics, from entering the environment.

4.2 Measures Taken in our Stores

Compared to the supply chain, water consumption is very low in our stores. However, we also want to introduce measures in this area to further reduce our water consumption. To analyze our water consumption at company level and to identify potential for improvement, in some reference stores, we have implemented the systematic collection of data linked to a central monitoring system. According to the information collected, most of the company's water consumption is used for cleaning its stores. This is why we are constantly working to improve these processes. Furthermore, we are training our employees and making them aware of the importance of using water responsibly.

4.3 Communications

Lidl is transparent in the way that it reports on the results and progress of its measures to reduce water consumption and pollution. It is our intention to provide information for everyone—from producers to customers—and therefore to set out the conditions to implement identified measures. In this context, we are creating a special "Save Water" webpage, aimed at making customers aware of the challenges on the issue of water and to provide recommendations on how to act to save water both at home and in other situations.

5. Sources:

1 https://www.adelphi.de/de/system/files/mediathek/bilder/Umweltatlas%20Liefer-kette%20-%20adelphi-Systain.pdf (updated: March 2017).

2 https://a4ws.org

3 See also Due Diligence Policy

4 https://wwf.de/fileadmin/fm-wwf/Publikationen-PDF/WWF-WaterRisk-Studie-EN.pdf (updated: October 2017)
https://wwf.de/fileadmin/fm-wwf/Publikationen-PDF/WWF-Studie-Water-Stewardship-in-Landwirtschaftsstandards.pdf (updated: July 2015)

5 https://www.globalgap.org/uk_en/for-producers/globalg.a.p.-add-on/spring/

6 See also Position Paper on the Responsible Sourcing of Fresh Fruit and Vegetables

7 For more information, see also Position Paper on the Responsible Sourcing of Plants and Flowers

8 https://link.springer.com/chapter/10.1007/978-3-319-66981-6_8 (updated: July 2018)

9 https://cottonmadeinafrica.org/en/news/cmia-cotton-saves-water-and-greenhouse-gas-emissions/ (updated: November 2014)

10 https://www.greenpeace.org/international/act/detox/

11 See also Lidl Detox Commitment 2020 Report

12 For more information, see also
Position Paper on the Responsible Sourcing of Tea and Coffee
Position Paper on the Responsible Sourcing of Cocoa

13 For more information, see also Position Paper on Microplastics