

Palm oil sustainability assessment of Indofood Agri Resources



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Colophon

Report: Palm oil sustainability assessment of Indofood Agri Resources

Commissioned by: Rainforest Foundation Norway, Rainforest Action Network.

Authors: Albert ten Kate, Adriani Zakaria.

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Cover photo: IndoAgri Kedang Makmur estate, East Kalimantan

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Aidenvironment

Barentszplein 7

1013 NJ Amsterdam

The Netherlands

+ 31 (0)20 686 81 11

info@aidenvironment.org

www.aidenvironment.org

Contents

Executive Summary	4
1. Basic facts about Indofood	7
1.1 Indonesia's largest food company	7
1.2 Indofood companies	7
1.3 Ownership structure	8
2. Oil palm business	9
2.1 The number 3 private palm oil company in Indonesia	9
2.2 Oil palm planted area	9
2.3 Oil palm expansion	10
2.4 IndoAgri's palm oil customers	11
2.5 Indofood's joint ventures	13
3. Sustainability assessment	15
3.1 Methodology	15
3.2 Sustainability policy	15
3.3 Metau forest	18
3.4 Lonsum and its land disputes	23
3.5 Fires	25
3.6 Greenhouse gas emissions	28
3.7 Conserving biodiversity	29
3.8 Salim group clearing orangutan habitat	30
4. Stakeholders demanding sustainability	32
Conclusion	34
Glossary and explanation of terms	35
References	36

Executive Summary

Oil palm business and ownership structure

PT Indofood Sukses Makmur (Indofood) is Indonesia's largest food company. Its revenue for 2014 was IDR 63.6 trillion, equivalent to USD 5.1 billion. The company is one of the world's largest instant noodle producers. Noodles generated 31% of Indofood's revenue, followed by wheat flour and pasta at 25% each, and palm oil and its derivatives at 15-20%.

Indofood's operations are controlled by Anthoni Salim, the third richest Indonesian according to American magazine Forbes. Anthoni Salim also has stakes in businesses other than Indofood, some of which are also involved in oil palm plantations.

The palm oil arm of Indofood, Indofood Agri Resources Ltd. (IndoAgri), is the third largest private palm oil company in Indonesia in terms of Crude Palm Oil (CPO) production. The company's oil palm plantations covered a total area of 246,000 ha in Sumatra and Kalimantan as of 31 December 2014.

IndoAgri's oil palm business operations are conducted by Indonesian subsidiaries PT Salim Ivomas Pratama (Salim Ivomas) and PT PP London Sumatra Indonesia Tbk (Lonsum). Both subsidiaries are listed on the Indonesia Stock Exchange, while IndoAgri itself is listed on the Stock Exchange of Singapore.

IndoAgri has been expanding quite aggressively over the past seven years with around 12,000 ha of new oil palms planted annually. Most of this expansion has taken place in the provinces of South Sumatra and East Kalimantan.

IndoAgri's revenue for 2014 can be broken down as follows:

- Approximately 20% was derived from sales of CPO and palm kernel. Its main customers were the traders/processors Musim Mas Group, Wilmar International, IOI Corporation and Golden Agri-Resources Limited.
- Around 30% was derived from so-called related parties; companies under Indofood or the wider influence of Anthoni Salim.
- Its customers for the remaining 50% could not be identified, through supermarkets and minimarkets probably account for a significant share. IndoAgri is Indonesia's market leader in cooking oil, and has large sales to food and personal care goods manufacturing giants including Unilever, Nestlé, PepsiCo and Procter & Gamble.

Sustainability assessment

For this report, a sustainability assessment was performed focusing on IndoAgri's policies and practices on the ground with regard to deforestation, peatland conversion, biodiversity, fire frequency and land disputes in its own plantations. The assessment's possibilities were limited by the fact that many estate boundaries in South Sumatra could not be determined.

Key findings of the sustainability assessment are as follows:

- Following Wilmar's adoption of its No Deforestation, No Peat, No Exploitation policy in December 2013, major private palm oil growers, processors and traders have all adopted policies aligned with the principles of No Deforestation, No Peat, No Exploitation (NDPE). These policies, which apply explicitly to companies' entire supply chains, including third-party suppliers, mean these

companies officially require Indofood to comply with a robust set of responsible production requirements follow their example and encourage Indofood to adopt the same policy.

- Although variations exist between policies and some are stronger than others, signatories to NDPE policies commit themselves to:
 - Stopping clearance of all High Conservation Value (HCV) areas and High Carbon Stock (HCS) areas forests as well as peatlands (regardless of depth);
 - Recognizing and respecting land tenure rights and the rights of local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments;
 - Complying with the core conventions of the International Labour Organisation (ILO) and upholding the wider United Nations Guiding Principles on Business and Human Rights.
- IndoAgri is currently the largest private palm oil company in Indonesia yet to adopt an NDPE policy. It has made commitments to protect primary forests, peatlands and HCV areas. It also commits to respect the principle of FPIC with regard to land purchases from local villages. However, the company has yet to commit to the protection of High Carbon Stock (HCS) forests, and also has no official policy for complying with the United Nations Guiding Principles on Business and Human Rights or the ILO core conventions.
- IndoAgri has a sourcing policy with regard to its CPO suppliers. In 2015, it will inspect the operations of its suppliers, which account for 28% of its CPO output. IndoAgri demands compliance from its suppliers with regard to all relevant Indonesian laws and regulations, as well as the preservation of primary forests and HCV areas. However, it has no strict requirements regarding FPIC and peatlands, which makes IndoAgri's sourcing policy less ambitious than the policy governing its own plantations with regard to sustainability, and clearly less ambitious than NDPE policies.
- IndoAgri had announced its goal of 100% RSPO certification for its own estates by 2016. At present, 35% of its CPO production is RSPO certified. During the meeting on 26 August 2015, the company stated it would have certificates for all of its own estates by 2017. This revised goal is still very ambitious.
- In 2013 and 2014, Lonsum cleared a total of 1,000 ha of previously untouched tropical rainforest (primary forest) in West Kutai district in East Kalimantan (Kedang Makmur estate). This was in direct contrast with IndoAgri's policy to protect primary forest and a clear infringement of RSPO requirements and NDPE policies.
- Lonsum's track record is one of many land disputes. Over the past two years Lonsum has been involved in at least six reported land disputes with communities. Many of these conflicts, usually involving hundreds of hectares, have been going on for years. In one case, Lonsum is engaging seriously in mediation activities to resolve the issue. In most cases, however, public information does not show Lonsum making any serious efforts to reach agreements with villages. During the meeting on 26 August 2015, the company stated that three of the six land disputes had been resolved.
- IndoAgri has, in the past, planted oil palms on 18,000 ha of peatland. Its drainage of peatlands alone causes greenhouse gas emissions totalling more than 1.1 million tonnes of CO₂ annually, equivalent to the annual carbon emissions of 450,000 cars.
- IndoAgri was one of the first companies to reveal (a proportion of) its greenhouse gas emissions, which it did in its sustainability report for 2014.
- IndoAgri has planted no oil palms on peatland since announcing its policy to refrain from planting on peat in 2013.

- Hotspots (indicators of fire locations) for all of IndoAgri's estates in Kalimantan for the year 2014, showed one concession to have had more fires than any other. The Kedang Makmur concession accounted for 90 hotspots, and satellite imagery from October 2014 showed a 150-200 ha burnt and burning area inside the concession. During a field trip on 30 May 2015 Aidenvironment also noticed many burnt trees within Kedang Makmur estate, at different locations than the area of 150-200 ha. All in all, IndoAgri's fire prevention and response can be considered suboptimal for the Kedang Makmur concession in 2014.
- IndoAgri reports a total 23,000 ha of HCV areas across its plantations. This figure is equivalent to 9.5% of its oil palm planted area. The company has disclosed no information on the location of these areas, and publishes little regarding its conservation activities. This makes the value of IndoAgri's conservation efforts difficult to assess.
- In the period 2012-2015, PT Gunta Samba, an oil palm business subsidiary of the Salim Group, and not part of IndoAgri, has cleared thousands of hectares of orangutan habitat in East Kutai district in East Kalimantan province. As these plantations may be owned by IndoAgri in the future, they were included in the sustainability assessment. IndoAgri has bought plantations from the wider Salim Group in the past. In 2007, it acquired a 60% stake in 86,000 ha of concession areas from the Salim Group.

On 14 August 2015, we sent a draft version of the sustainability assessment to IndoAgri for review. A meeting between representatives of IndoAgri and Aidenvironment followed on 26 August 2015. During this meeting the company put forward a number of comments and suggestions regarding the draft version of the sustainability assessment. We have addressed these comments and suggestions as much as possible in this final report.

Falling short on sustainability demands from stakeholders

Indofood business partners already adopting NDPE policies include Wilmar, Musim Mas, Golden Agri-Resources, Nestlé, Procter & Gamble, Unilever and PepsiCo. These companies have adopted policies requiring all their suppliers to comply with responsible production and sourcing policies. The message is: No Deforestation, No Peat, No Exploitation. IndoAgri stands in violation of these policies, and risks being terminated as a supplier or business partner. If IndoAgri were to lose one or more of its major customers, this could have a serious impact on its net income and share value.

IndoAgri's controlling companies also risk being excluded from investment by the world's largest sovereign wealth fund, the Norwegian Government Pension Fund Global (the Fund). The Fund is a major player in the field of Socially Responsible Investing (SRI). It has already divested from 27 palm oil companies due to their "unsustainable production practices" and excluded six palm oil companies on account of "severe environmental damage".

PT Indofood Sukses Makmur (Indofood) was dropped by the Fund in 2012, while Lonsum was dropped in 2011. Since the end of 2010, and maybe before, the Fund had no stakes in Salim Ivomas. Yet, the Fund is a significant shareholder in Indofood-related companies, First Pacific Company Ltd. and PT Indofood CBP Sukses Makmur (ICBP). The market value of the Fund's investments in these two companies amounted to NOK 419 million (equivalent to USD 55.9 million) at the end of 2014. IndoAgri fails, especially due to its tropical deforestation, to meet the Fund's requirements on preventing severe environmental damage. In addition, IndoAgri does not live up to the Fund's expectations with regard to transparency and adhering to international sustainability standards.

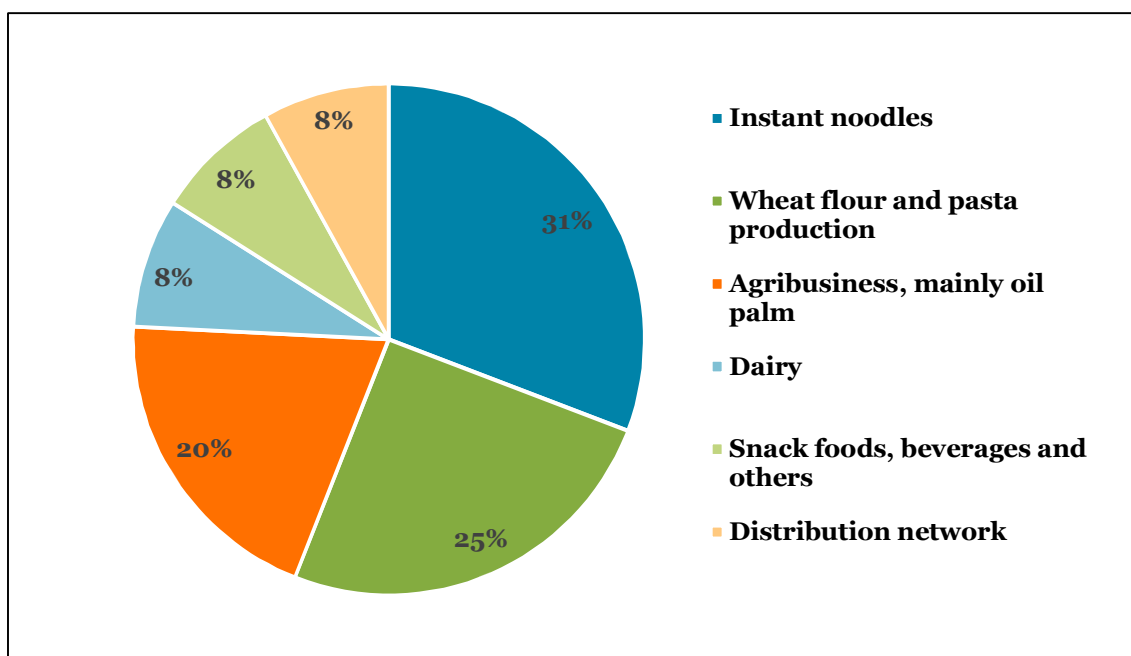
1. Basic facts about Indofood

1.1 Indonesia's largest food company

Indofood, Indonesia's largest food company, is a vertically integrated company. It produces and processes raw materials, manufactures food products, and distributes/sells consumer products. Indofood's 2014 revenue amounted to IDR 63.6 trillion (equivalent to USD 5.1 billion).¹

Indofood is one of the largest instant noodle producers in the world. Noodles generated 31% of its revenue in 2014, followed by wheat flour and pasta production at 25% (excluding inter-segment sales) and agribusiness at 20% (excluding inter-segment sales).² Indofood's revenue from agribusiness is dominated by the sales of palm oil and its derivatives, such as cooking oil, margarine and shortening.

Figure 1. Breakdown of Indofood's revenue for 2014 by business group³



1.2 Indofood companies

Indofood is the common name for the IDX-listed company, PT Indofood Sukses Makmur. It has a business group called Consumer Branded Products (CBP), which accounted for 47% of Indofood's revenue in 2014. CBP is taken care of by the IDX-listed subsidiary, PT Indofood CBP Sukses Makmur (ICBP). Its divisions include noodles, dairy products, snack foods and beverages.⁴

Indofood's subsidiary, Bogasari, a non-listed company, is primarily a producer of wheat flour and pasta with business operations supported by its own shipping and packaging units. Bogasari accounted for 25% of Indofood's revenue in 2014.⁵

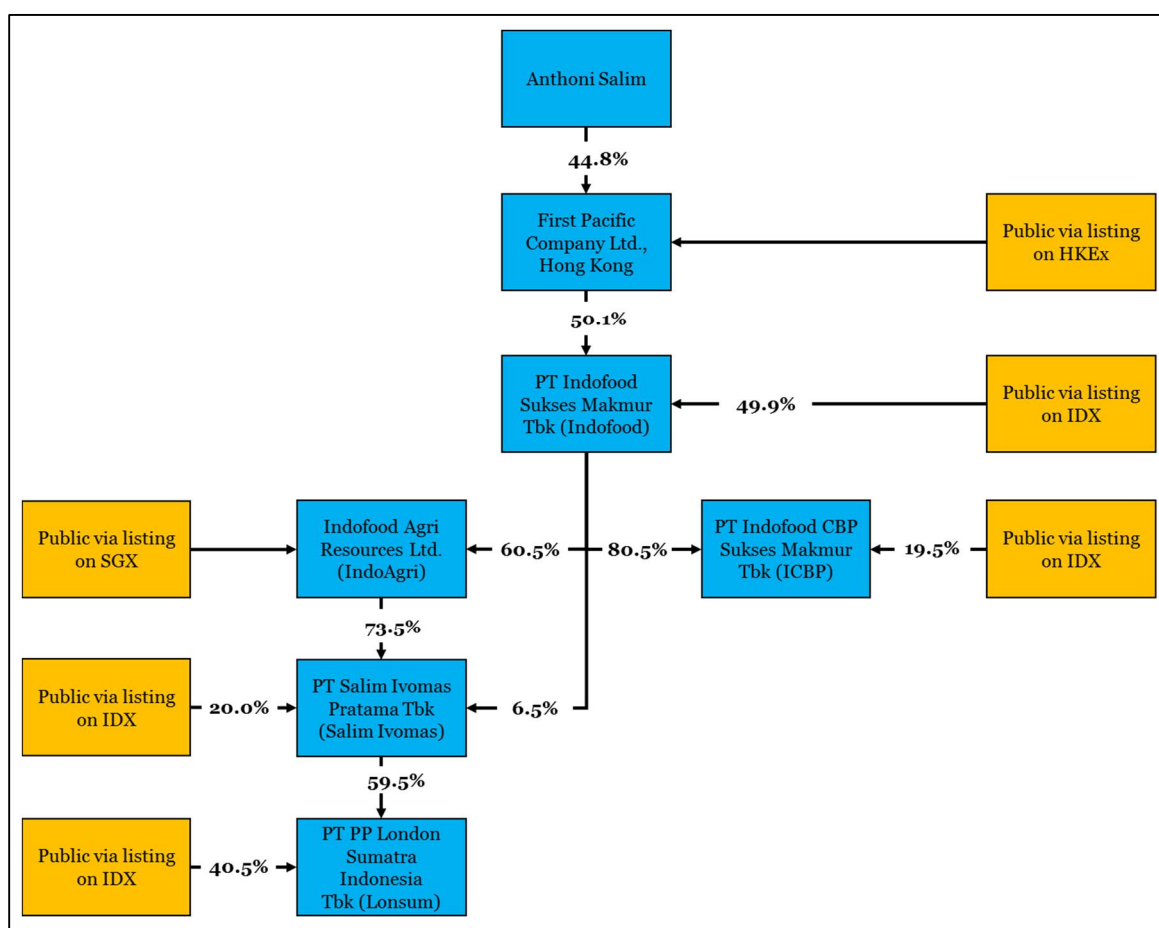
The agribusiness is led by the SGX-listed company, Indofood Agri Resources Ltd. (IndoAgri). Both of IndoAgri's operating subsidiaries, PT Salim Ivomas Pratama (Salim Ivomas) and PT PP London Sumatra Indonesia (Lonsum) are listed on the IDX.

1.3 Ownership structure

Anthoni Salim holds economic interest in, and directly and indirectly controls the Hong Kong listed First Pacific Company Ltd. First Pacific has a 50.1% economic interest in Indofood and a 60.5% economic interest in IndoAgri.⁶ In December 2014, Anthoni Salim was ranked the third richest Indonesian by the American magazine Forbes, with a personal wealth of USD 5.9 billion.⁷ He also has stakes in businesses unrelated to First Pacific, including oil palm businesses.

Equities with interest in Indofood and IndoAgri can be bought on three stock exchanges: Hong Kong, Singapore and Jakarta. The ownership structure of Indofood and IndoAgri is shown below.

Figure 2. Simplified ownership structure for Indofood⁸



2. Oil palm business

2.1 The number 3 private palm oil company in Indonesia

Indofood's agribusiness group, IndoAgri, booked revenues of IDR 15.0 trillion - equivalent to USD 1.2 billion - as of 2014.⁹ Oil palm is its dominant crop, followed by sugar cane, rubber and other commodities. IndoAgri is the third largest private palm oil company in Indonesia in terms of Crude Palm Oil (CPO) production.¹⁰

IndoAgri has two divisions: Plantations and Edible Oils & Fats. The Plantations division covered a planted area of 300,100 ha as of 31 December 2014, 246,000 ha (82%) of which was planted with oil palm. The company's palm oil mills, which produce Crude Palm Oil (CPO) from harvested Fresh Fruit Bunches (FFB), also come under the Plantations division.

IndoAgri's Edible Oils & Fats division owns and operates five CPO refineries across Indonesia, with total annual CPO production capacity of 1.4 million tonnes. These refineries are located in the cities of Jakarta, Surabaya, Medan and Bitung.¹¹

2.2 Oil palm planted area

Indonesia

As of 31 December 2014, IndoAgri's oil palm planted area in Indonesia covered 246,000 ha. Table 1 provides a geographical breakdown of IndoAgri's oil palm plantations. Figures for some provinces include oil palm and rubber plantations, as it was not possible to determine the exact area for oil palm from IndoAgri's annual report. About two thirds of its oil palms are located in Sumatra, while the rest are in Kalimantan.¹²

Table 1. IndoAgri's oil palm planted area at the end of 2014¹³

Province	Planted area (ha)	%
South Sumatra*	80,500	31
Riau, Sumatra	57,000	22
North Sumatra*	39,300	15
East Kalimantan*	48,300	18
West Kalimantan	29,000	11
Central Kalimantan	8,800	3
Total	262,900	100

* includes rubber plantations

2.3 Oil palm expansion

Over the last seven years, IndoAgri's oil palm planted area has increased by 84,000 hectares or an average of 12,000 hectares annually. Figure 3 shows these increases by year. From 2015 onwards IndoAgri expects to continue its expansion. Its 2014 annual report states: "We will continue to expand our oil palm acreage by achieving 5,000 to 10,000 hectares of new plantings annually".¹⁴

Figure 3. IndoAgri's oil palm planted area expansion over the last seven years¹⁵

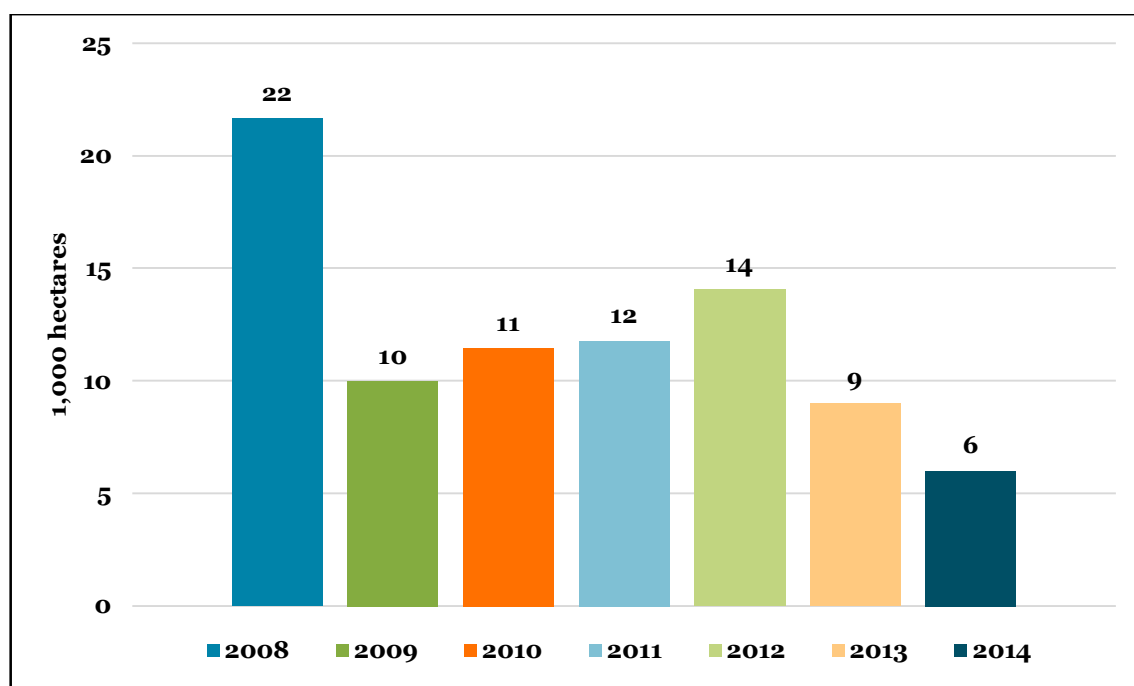


Table 2 shows where IndoAgri has been expanding its oil palm planted area over the last seven years. In 2012, 2013 and 2014 most new plantings took place in East Kalimantan (12,000 ha) and South Sumatra (10,000 ha).¹⁶

Table 2. Expansion from 2008-2014 by province¹⁷

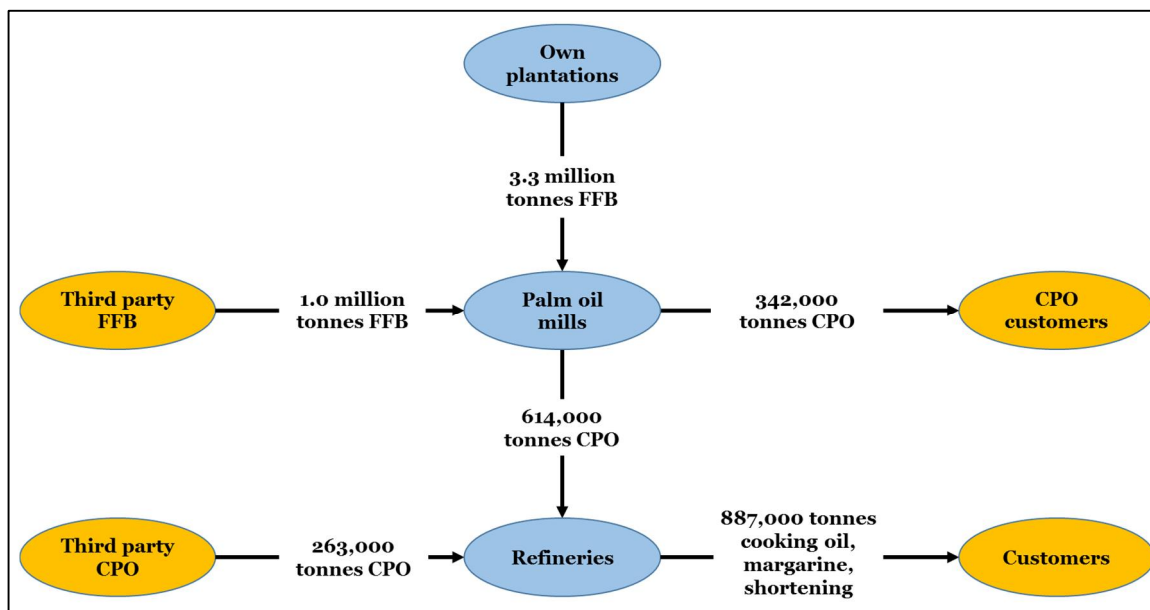
Province	Increase in planted area (ha)
South Sumatra	37,000
East Kalimantan	29,000
West Kalimantan	10,000
Central Kalimantan	8,000
Total	84,000

2.4 IndoAgri's palm oil customers

Crude Palm Oil flow chart

Figure 4 below shows the flow of IndoAgri's most important raw material, Crude Palm Oil (CPO) inside and outside the company. IndoAgri's 2014 sales comprised 342,000 tonnes of CPO and 877,000 tonnes of cooking oil, margarine and shortening.¹⁸ It booked revenues of IDR 15.0 trillion - equivalent to USD 1.2 billion - as of 2014, 90% of which was generated on the domestic market.¹⁹

Figure 4. IndoAgri Crude Palm Oil flow chart for 2014²⁰



CPO customers

CPO and palm kernel customers generated almost IDR 3 trillion or 20% of IndoAgri's revenue in 2014.²¹ The main traders/processors Musim Mas, Wilmar, IOI and Golden Agri-Resources were IndoAgri's main CPO/palm kernel customers that year.

In 2014, Musim Mas purchased IDR 566 billion worth of CPO and/or palm kernel from IndoAgri's subsidiary PT PP London Sumatra Indonesia (Lonsum).²² In the first half of 2015, Musim Mas purchased IDR 346 billion worth from Lonsum.²³ Disclosures by Wilmar, IOI and Golden Agri-Resources showed these companies to be the main customers of IndoAgri's subsidiaries, Salim Ivomas and Lonsum in 2014.²⁴

Sales to related parties

After eliminating the revenue generated by CPO customers, some IDR 12 trillion of earnings from other customers remained to be checked. Though also including sales from sugar and rubber operations, the majority of this IDR 12 trillion was made up of IndoAgri's sales of cooking oils, margarine and shortening.

IndoAgri sold IDR 4.3 trillion worth to related parties in 2014. These were companies within the larger Indofood group, or under the wider influence of Anthoni Salim.²⁵ Table 3 below shows the main related parties constituting IndoAgri customers in 2014.

Table 3. IndoAgri sales to related parties in 2014²⁶

Company	Sales volume (IDR trillion)	Activities	Ownership
PT Indofood CBP Sukses Makmur (ICBP)	1.8	Consumer Branded Products. ICBP's purchases from IndoAgri are intended for manufacturing purposes	80.53% owned by Indofood
PT Indomarco Adi Prima	1.4	Distribution	100% owned by Indofood
PT Indomarco Prismatama ²⁷	0.4	Retail company, 10,593 Indomaret stores in Indonesia	Controlled by Anthoni Salim
PT Indolakto	0.2	Dairy	68.57% owned indirectly by ICBP
Shanghai Resource International Trading Co. Ltd ²⁸	0.2	Trading company	Controlled by Anthoni Salim
PT Inti Cakrawala Citra ²⁹	0.2	12 wholesale centers (Indogrosir) in main cities	Associate of Anthoni Salim
PT Indofood Fritolay Makmur	0.1	Snack foods	51% owned by ICBP, 49% by PepsiCo
Sales to related parties	4.3		

Other customers

Customers representing almost half of IndoAgri's above revenue were traceable. Though the rest, for the large part remain uncertain, we know the vast majority of revenue was generated from cooking oil, margarine and shortening sales inside Indonesia.

According to a recent report by Euromonitor International, IndoAgri maintains its leadership within the category of oils and fats sold in Indonesia. The report puts the IndoAgri's share of the market at 44%. According to the report six brands remain the favourites of most families in Indonesia: Bimoli (cooking oil by IndoAgri), Filma (cooking oil by PT Smart, a subsidiary of Golden Agri-Resources), Blue Band (margarine by Unilever), Simas (margarine by IndoAgri), Tropical (cooking oil by PT Bina Karya Prima) and Sania (cooking oil by Wilmar).³⁰

IndoAgri's cooking oil brand Bimoli is the market leader in Indonesia.³¹ The brands Bimoli and Simas are available in most minimarket, supermarket and hypermarket chains in Indonesia. The retail sector appears to be a huge customer of cooking oils and margarine from IndoAgri. There are, however, no figures available to substantiate this claim, except for the fact that Indonesia's largest minimarket chain, Indomaret, generated 2.7% of IndoAgri's revenue in 2014.³²

Photo: Bimoli on a supermarket shelf



© Aidenviroment, 31 August 2015, Yogya supermarket, Jalan Jenderal Sudirman, Bogor, West Java

Procter & Gamble and Unilever

Procter & Gamble and PT Unilever Indonesia are large customers of ICBP considering their trade payables of IDR 54 billion and 31 billion respectively as of 31 December 2014, and IDR 46 billion and 54 billion respectively as of 31 December 2013.³³ However, the extent to which these purchases relate to palm oil is unclear.

PT Unilever Indonesia is one of the leading Fast Moving Consumer Goods (FMCG) companies in Indonesia. It generated revenue of IDR 34.5 trillion in 2014, 94% of which was from Indonesia. Its lines of business involve the manufacturing, marketing and distribution of consumer goods including soaps, detergents, margarine, dairy-based foods, ice cream, cosmetic products, and tea-based beverages and fruit juice. The majority of its palm oil is used in margarine (Blue Band), ice cream (Wall's among others), soaps and homecare products such as Pepsodent tooth paste.³⁴

2.5 Indofood's joint ventures

PepsiCo

The Snack Foods division of PT Indofood CBP Sukses Makmur (ICBP) comprises two business units: snack foods and biscuits. Its snack foods business operates under the joint venture company PT Indofood Fritolay Makmur, with ICBP holding 51% of shares, and Pepsico the remaining 49%. Most of its snack food products are made from potato, cassava, soybean or sweet potato. Products are marketed under the brand names Chitato, Lays, Qtela, Cheetos, JetZ, and Chiki, of which the names Lays and Cheetos are licensed from PepsiCo. The biscuits unit is managed solely by ICBP. The Snack Foods Division registered a total sales value of IDR 2.0 trillion in 2014, though specific revenues for each of the two business units was not disclosed.³⁵

ICBP and the Japanese beer, soft drinks and food company Asahi completed the acquisition of PT Pepsi-Cola Indobeverages (PCIB) in September 2013. In 2012, PCIB had revenue of IDR 714 billion. PCIB was renamed PT Prima Cahaya Indobeverages, and is now the exclusive bottler for PepsiCo, Inc. in Indonesia.³⁶ ICBP owns a 49% stake in the renamed company.³⁷ At the closing of the acquisition, PepsiCo granted Asahi/Indofood exclusive rights to produce, sell, and distribute non-alcoholic beverages under PepsiCo's brand names (Pepsi, 7 Up, Mirinda and Tropicana Twister) in Indonesia. This agreement will expire five years from the effective date of 12 September 2013.³⁸

PepsiCo is the world's largest globally distributed snack food company. The snack food giant consumes approximately 457,200 mt of palm oil annually.³⁹ PepsiCo has committed to sourcing palm oil that is not associated with deforestation, development of peatlands, the use of fire or the exploitation of the rights of communities or workers.⁴⁰

Photo: Chitato chips for sale along a street in Bogor



© Aidenvironment, 31 August 2015, Jalan Ciremai Ujung, Bogor, West Java

Nestlé

Indofood CBP Sukses Makmur (ICBP) has a 50/50 joint venture with Nestlé called PT Nestlé Indofood Citarasa Indonesia (NICI). NICI resides under ICBP's Food Seasonings division, which manufactures culinary products for both the Indofood Group and for NICI. NICI was set up initially to market culinary products, including soy sauce, chilli sauce, tomato sauce and instant seasonings under the brand names Indofood, Piring Lombok, Indofood Racik and Maggi (the latter is licensed from Nestlé). The Food Seasonings division booked a total sales value of IDR 1.15 trillion in 2014.⁴¹

Wilmar

On 17 March 2015, Wilmar and First Pacific - Indofood's parent company - completed the 50-50 acquisition of Goodman Fielder, a leading company producing and marketing food products across Australia, New Zealand and the Asia Pacific region. In the half year up to 31 December 2014, Goodman Fielder booked total revenues of USD 1.1 billion.⁴²

3. Sustainability assessment

3.1 Methodology

Aidenvironment assessed the compliance of IndoAgri's policies and practices against the standards set by the Roundtable on Sustainable Palm Oil (RSPO) and by the signatories of No Deforestation, No Peat, No Exploitation (NDPE) policies. The first draft of the report was submitted to IndoAgri on 14 August 2015, and a due hearing meeting with the company took place on August 26.

The assessment focused on deforestation, peatland conversion, conservation, fire frequency and land disputes. These issues are key sustainability elements for palm oil companies, covering the main impacts on climate change and biodiversity, and representing key factors in social impacts. The assessment did not include wider human rights issues, such as benefits to communities and working conditions on IndoAgri's plantations. There have been reports of labour abuses on IndoAgri's plantations⁴³, but during the course of this assessment these have not been further analysed. Other sustainability issues, such as waste treatment at palm oil mills, pesticide use and tax avoidance were also not assessed. During the meeting on 26 August IndoAgri has stated that the report does not represent a comprehensive review of its approach to sustainability, despite the implication from the title of the report.

The methodology involved tracking and mapping plantation locations from several documents, and using Landsat satellite imagery and overlays to check for signs of deforestation, peatland conversion, hotspots (fires) and clearance of habitats for endangered species. This was accompanied by desk research and occasional enquiries to NGOs. The assessment's possibilities were limited by the fact that many estate boundaries in South Sumatra could not be determined. During the 26 August meeting, IndoAgri said it could not disclose the locations of these plantations due to government regulations.

During the meeting on August 26 the company put forward a number of comments and suggestions regarding the draft version of the sustainability assessment. We have addressed these comments and suggestions as much as possible in this final version of the sustainability assessment. The company has not responded to the draft version in writing.

3.2 Sustainability policy

RSPO progress

Lonsum has been an RSPO member since 4 November 2004, while Salim Ivomas became a member on 23 September 2007.⁴⁴ On 16 September 2013, the CEO and deputy director of IndoAgri sent out an internal decree setting the goal to achieve RSPO certification for 100% of IndoAgri's estates by 2016, and for 100% of its associated smallholders and outgrowers by 2019.⁴⁵

IndoAgri's certified sustainable palm oil (CSPO) production stood at 332,000 tonnes, or 35% of its total CPO production at the end of 2014.⁴⁶ Its certified mills and estates are all located in Sumatra, and most of these estates were planted more than ten years ago.⁴⁷

During the meeting on 26 August 2015, IndoAgri stated that all of its estates will have undergone RSPO assessments by the end of 2016, but that it might take another year for the RSPO to review those assessments and provide certificates. This implies that IndoAgri would achieve RSPO certification for 100% of its estates by 2017, and not 2016 as stated in its 2014 sustainability report.⁴⁸ It also means IndoAgri will have to be serious about getting RSPO assessments carried out as soon as possible, as

relatively few RSPO certification assessments were announced for Lonsum or Salim Ivomas on the RSPO website in the period January 2015 - August 2015.⁴⁹

So far, IndoAgri has filed no proposals under the RSPO New Planting Procedure (NPP). This is striking, as the company planted around 29,000 ha of oil palm on several estates in the period 2012 – 2014.⁵⁰ It is hard to imagine that work had already commenced for all these estates on 1 January 2010, which would exclude IndoAgri from the necessity of filing proposals.⁵¹ During the meeting on 26 August 2015, IndoAgri gave no further explanation as to why no NPP proposals have so far appeared on the RSPO website.

Public notifications (proposals) include a summary report of assessments conducted with regard to social impacts, FPIC and HCV areas. Every proposal is open for public comments for 30 days. More than 130 notifications have been published by major palm oil companies since March 2012. By not filing proposals, IndoAgri makes it hard for stakeholders to assess the value of its policy statements on FPIC and HCV in its development of oil palm plantations. The company has also disclosed little other documentation on how it puts these principles into practice.⁵²

The emergence of NDPE policies

Since late 2013, a group of global private palm oil traders/growers/processors have adopted a No Deforestation, No Peat, No Exploitation (NDPE) policy. These companies account for the vast majority of palm oil traded worldwide. A wave of similar NDPE commitments has been made by many global food processing and personal care companies. The biggest of these, in terms of palm oil use, are Unilever, Procter & Gamble and Nestlé.⁵³

Signatories to the NDPE policy commit themselves to:

- Stop clearing all High Conservation Value (HCV) and High Carbon Stock (HCS) areas as well as peatlands (regardless of depth).
- Recognizing the right of local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments.
- Complying with the core conventions of the International Labour Organisation (ILO) and upholding the wider United Nations Guiding Principles on Business and Human Rights.⁵⁴

The NDPE policy applies explicitly to the companies' entire supply chains, including third-party suppliers. Indofood business partners already adopting NDPE policies include Wilmar, Musim Mas, Golden Agri-Resources, Nestlé, Procter & Gamble, Unilever and PepsiCo (see Chapter 4 and sections 2.4 and 2.5). This means these companies officially require Indofood to follow their example and adopt the same policy.

IndoAgri policy versus NDPE policy

In its sustainability reports for 2013 and 2014, IndoAgri lists the protection of primary forest, peatland and High Conservation Value (HCV) areas as one of its sustainability principles. Furthermore, IndoAgri respects the principle of FPIC with regard to land purchases from local villages.⁵⁵

IndoAgri has yet to take a stance on High Carbon Stock (HCS) forests. In addition, the company has no official policy on compliance with the United Nations Guiding Principles on Business and Human Rights or the ILO core conventions. However, the company has made statements with regard to the prohibition of all forms of child or forced labour, freedom of association and the elimination of discrimination.⁵⁶

Presently, IndoAgri is one of the largest private palm oil growers in Indonesia without an explicit NDPE policy. The largest private palm oil grower in Indonesia comprises Golden Agri-Resources (GAR), which has a NDPE policy since February 2014.⁵⁷

As shown earlier in Figure 4, IndoAgri purchased 263,000 tonnes of Crude Palm Oil (CPO) in 2014. This was 28% of the company's CPO output. IndoAgri has a Palm Oil Sourcing Policy for its CPO suppliers, whereby they should comply with all relevant Indonesian laws and regulations, and preserve primary forests and HCV areas. Compared to IndoAgri's policy for its own plantations, there are no strict requirements regarding FPIC and peatlands.⁵⁸ In its 2014 sustainability report, IndoAgri states that suppliers representing about 90% of its CPO supply from third parties have acknowledged its Palm Oil Sourcing Policy. In 2015, IndoAgri will engage an accredited auditor to inspect the suppliers' operations for improvement opportunities. The CPO suppliers will be required to rectify any discrepancies in order remain suppliers to IndoAgri.⁵⁹

In addition to third-party CPO suppliers, other parties, mostly smallholders, supplied 1.0 million tonnes of Fresh Fruit Bunches (FFB) to IndoAgri in 2014. IndoAgri has implemented a supply chain tracking system to trace FFB supplied by smallholders in South Sumatra. It aims to trace all of the FFB processed in its factories to determine how smallholders cultivated and grew them.⁶⁰ The company has set a goal to achieve RSPO certification for 100% of its associated smallholders and outgrowers by 2019.⁶¹

IndoAgri uses some Paraquat to control weed growth, but commits to phase it out by 2018. Paraquat is listed as a Class 1 pesticide by the World Health Organization (WHO).⁶²

Overview

Table 4 below shows a simplified overview of IndoAgri's sustainability policy versus the requirements of NDPE policies and the RSPO Principles and Criteria.

Table 4. Simplified overview of IndoAgri's sustainability policy versus NDPE requirements and RSPO Principles and Criteria

Requirement	IndoAgri policy		NDPE requirements (all suppliers)	RSPO Principles and Criteria
	Own plantations	Third-party suppliers		
Conserving HCV areas	✓	✓	✓	✓
No cultivation on peatland	✓	-	✓	✓
Conserving primary forest	✓	✓	✓	✓
Conserving HCS areas	-	-	✓	-
Compliance with UN Guiding Principles on Human Rights and ILO core conventions	±	-	±	±
Respecting FPIC	✓	-	✓	✓

3.3 Metau forest

Lonsum clearing 1,000 ha of primary forest

Principle 7.3 of the RSPO Principles & Criteria states:

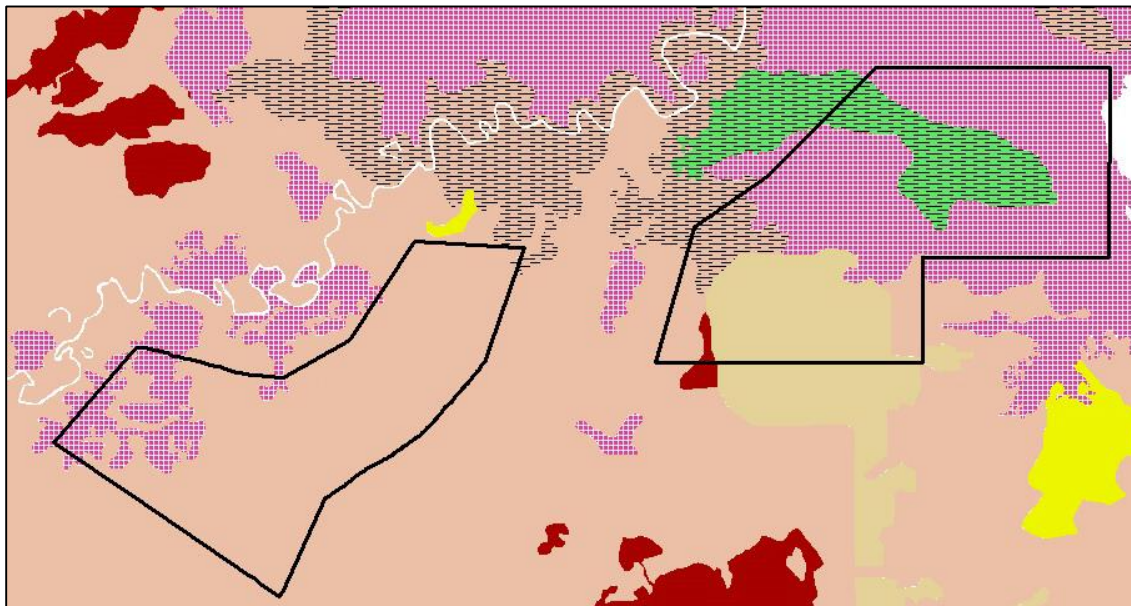
“New plantings since November 2005 have not replaced primary forest or any area required to maintain or enhance one or more High Conservation Values.”⁶³

In the years 2013 and 2014, Lonsum cleared 1,000 ha of previously untouched tropical rainforest in West Kutai district in East Kalimantan. This clearance was a clear infringement of RSPO requirements and NDPE policies.

In the 1970s, the area was a protected primary forest.⁶⁴ In 2003, the area was not a logging concession.⁶⁵ Satellite imagery from the period 2001–2012 shows no signs of logging in the forest during this period.⁶⁶ In 2010, the Indonesian conservation NGO, Yayasan Konservasi RASI conducted a field survey in the area. It found many species in the primary swamp forest, and said it still contained “big trees that could accommodate different habitat types as places to take shelter, rest, nest, feed and breed”.⁶⁷ The area was designated primary forest in Indonesian Ministry of Forestry land cover maps for 2011 and 2013.⁶⁸ This all leaves little doubt that the area was indeed primary forest until it was cleared.

Figure 5 below shows a part of the land cover map of the Indonesian Ministry of Forestry for 2013. The boundaries of Lonsum’s Kedang Makmur estates in West Kutai district in East Kalimantan are shown in black. The green fillings represent primary forest.

Figure 5: Primary forest within Lonsum’s Kedang Makmur estates



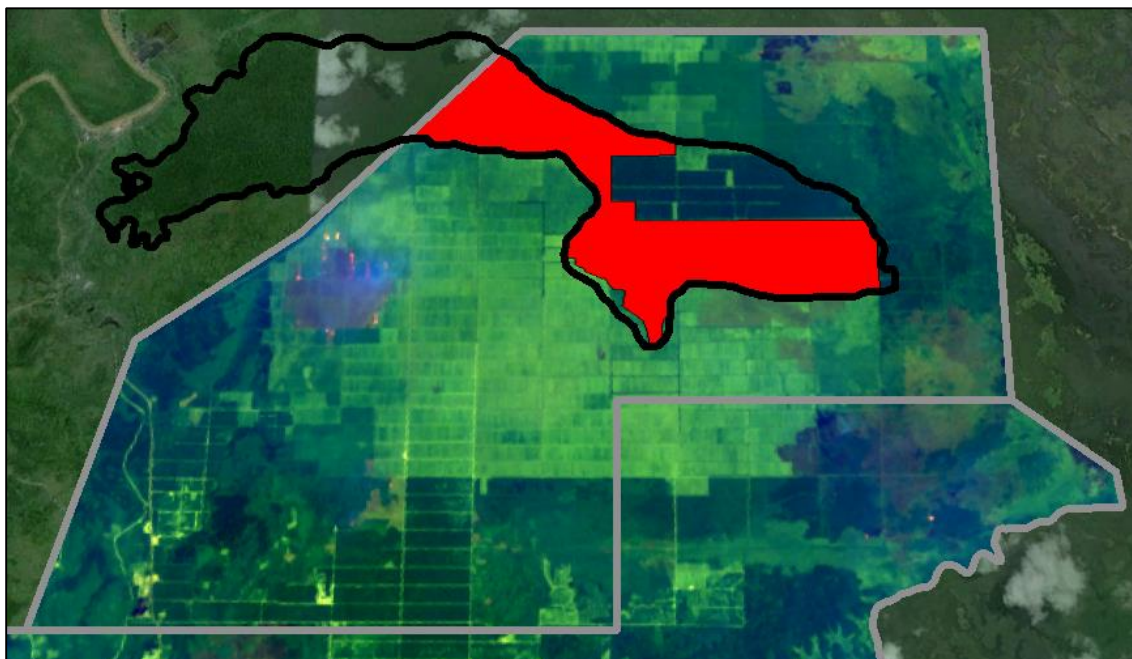
Source: Indonesian Ministry of Forestry, Land Cover map 2013, <http://bit.ly/1LgoeyN>

During the meeting between IndoAgri and Aidenvironment on 26 August 2015, IndoAgri stated that its HCV-assessment had shown the area to be secondary forest. The HCV-assessment has not been disclosed by IndoAgri, so this could not be verified. IndoAgri also showed a Moratorium map of 2011, on which the area was no longer primary forest. Aidenvironment has replied by stating that these maps are prepared for local and national government staff involved in permit issuance. These maps only

indicate primary forest and peat in areas for which no permit has yet been issued. IndoAgri stated that this map formed the legal baseline for it to plant the area. However, clearing primary forest may not be illegal, but it does infringe on RSPO requirements and NDPE policies.

Figure 6 shows the Lonsum concession boundary (in grey), the primary forest boundary (in black), and the primary forest area cleared in 2013 and 2014 (red fill). During the meeting on 26 August 2015, IndoAgri stated that the uncleared primary forest (top right inside the primary forest boundary) would function as a High Conservation Value (HCV) area. Landsat imagery from July/August 2015 shows the approximately 400-ha area had not been cleared at that time.⁶⁹

Figure 6. Forest clearance in Kedang Makmur oil palm estate in 2013 and 2014⁷⁰



The Metau forest

The 1,000 ha of cleared primary forest by Lonsum was part of a 2,500 ha of primary lowland swamp forest, 1,400 ha of which was located inside the Lonsum concession. The primary forest formed the centre of the larger Metau forest area, which is located directly west of the 15,000 ha Lake Jempang.⁷¹ Land cover for the whole Metau forest area, which amounts to 5,300 ha, can be broken down as follows: primary swamp forest 47%, swamp shrub 40% and swamp 13%.⁷²

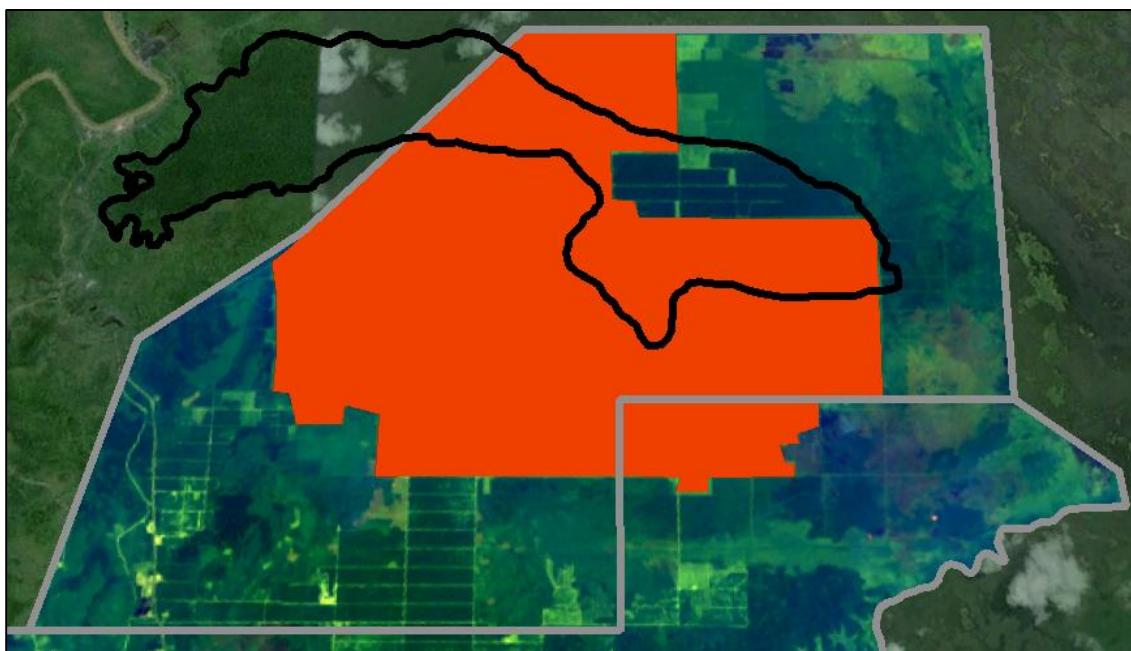
Metau forest and Lake Jempang constitute part of the Middle Mahakam Wetlands (MMW), one of the largest wetlands in Kalimantan. The MMW region is an extremely important breeding and resting place for birds.⁷³

Yayasan Konservasi RASI studied the ecology of the Metau forest in 2010. During 24 days of field observations RASI recorded wildlife species such as lesser adjutants, egrets, eagles, storks, monkeys, deer, and monitor lizards.⁷⁴ The forest was also home to terns, pangolins, civets and snakes.⁷⁵ The primary forest was identified as an important breeding ground for the lesser adjutant, with breeding colonies of up to 300 birds. The birds were feeding in the freshwater swamp forest west of Lake Jempang. The lesser adjutant (*Leptoptilos javanicus*) is listed as vulnerable on the IUCN Red List of Threatened Species.⁷⁶

To the inhabitants of villages surrounding Metau forest, the area functions as a customary forest (*hutan adat*). It is unclear whether or how Lonsum applied the principle of FPIC, as the company has provided no information in this regard.

Figure 7 shows that Lonsum cleared most of the wider Metau forest area in 2012, 2013 and 2014. The cleared area - indicated by orange fill and partly outside the Metau forest area - totals 4,600 ha. The boundaries of the rectangles in the picture are drainage canals, or cleared forest in the case of the primary forest conservation area. The areas inside the rectangles are not (yet) deforested or have already become oil palm plantations. The grey lines indicate the boundaries of Lonsum's Kedang Makmur and Isuy Makmur concession areas.

Figure 7. Metau forest area cleared by Lonsum in the 2012-2014 period⁷⁷



Deteriorating water quality and increasing incidence of floods and drought

Muara Ohong is a village of approximately 800 people located between the present Lonsum operations and Lake Jempang. For nearly two years the villagers have been unable to use the Ojong River as a source of drinking water. The fish in community ponds have died as a result of pollution in the river; a severe loss to this community, which is reliant on its fisheries. Lonsum's ongoing operations are thought to be the cause of the pollution. In March 2015, the secretary of the West Kutai District Environment Agency confirmed that the river had been polluted for almost two years. "It does not contain hazardous waste, but we still urge people not to consume the water," the secretary said.⁷⁸ In recent months many villagers have moved from Muara Ohong to a more suitable area, due to the poor water quality.⁷⁹

In December 2013, the Governor of East Kalimantan wrote a letter to the West Kutai District Head (*Bupati*) asking him to warn Lonsum to stop planting oil palm in the Metau swampland, to assign local authorities to audit the company's operations, and to make sure the region functions as a water conservation area.⁸⁰ Apparently the Governor's letter was to no avail, as Lonsum continued clearing after it had been sent to the *Bupati*.

The presence of forest decreases extreme incidences of flooding and drought. Therefore, the clearance of the Metau forest for oil palm plantations may lead to more extreme water levels in Lake Jempang.⁸¹ In addition, local Dayak communities are already experiencing negative impacts from the coal mining

operation and palm oil plantations in the area. Flooding is increasingly frequent and extreme during the rainy season, making it difficult for local communities to grow crops, as their fields are submerged.⁸²

Photo: Lesser adjutant near Lake Jempang



© Yayasan Konservasi RASI

Photo: Clearing in the primary forest area that was designated a conservation area.



© Aidenvironment. Date: 30 May 2015. Coordinates: S 0°24'26.56"; E 116°3'11.66"

Photo: Clearing and drainage canal - leftover primary forest visible in the distance



© Aidenvironment. Date: 30 May 2015. Coordinates: S 0°25'13.86"; E 116°3'10.99"

3.4 Lonsum and its land disputes

Lonsum has had a series of land disputes in the past, including some severe conflicts with communities, which have not infrequently led to violence. Examples are the violent suppression of a protest against Lonsum's rubber operations in South Sulawesi in 2003, where two people died and another 20 were injured; and the major land dispute with Dayak communities in East Kalimantan in 1998, which resulted in Lonsum's base camp being burned down and nine Benuaq Dayaks from Karbaniiq being imprisoned.⁸³

Over the last two years Lonsum has been involved in at least six land disputes with local communities. Many of these conflicts, usually involving hundreds of hectares, have been going on for years. Persistent problems have been the government issuing permits on land, including customary village land, and, in the past, Lonsum apparently not implementing the principle of obtaining Free, Prior and Informed Consent (FPIC) from communities before commencing with its clearing and planting operations. Evidently, Lonsum's clearing and planting may have taken place before the principle of FPIC was adopted as a standard in the palm oil industry.

Descriptions of the six land disputes are given below. In one case, Lonsum is engaging seriously in mediation activities to resolve the issue. During the meeting between IndoAgri and Aidenvironment on 26 August 2015, IndoAgri stated that land disputes 3, 4 and 6 below had been resolved. The company also stated that it was unable to provide details of the resolution, due to the confidential nature of the agreements.

1. South Sumatra, Gunung Bais estate - 133 ha

Lonsum is involved in a land dispute with Muara Rengas transmigration village over its Gunung Bais estate, in Musi Rawas district, South Sumatra. Villagers are demanding the return of their land, which Lonsum has planted with oil palm. According to the villagers Lonsum had promised not to clear the land. In January 2015, village representatives met with a Musi Rawas parliamentary commission.⁸⁴ By late April 2015, Lonsum had failed to accept several invitations from the commission to resolve the issue. The commission then opted to take the case to a higher level, to the Musi Rawas District Head. The disputed land amounts to 133 ha.⁸⁵ By late June 2015, the dispute had still not been resolved, so a local ad hoc team led by the Head of Transmigration would try to settle the dispute in the first week after Ramadan, which ended on 17 July 2015.⁸⁶ However, by the end of August 2015 still no settlement had been reached; so on 25 August the community blockaded the road, thereby hindering Lonsum's activities.⁸⁷

2. South Sumatra: Kencana Sari and Arta Kencana estates - around 500 ha

For many years now, Lonsum has been embroiled in conflicts with villages surrounding its Kencana Sari and Arta Kencana estates in Lahat district, South Sumatra:

- The villages of Cempaka Sakti, Sukoharjo and Suka Makmur claim Lonsum took over an area of 373 ha, once belonging to them as smallholders in 2003/2004. In February 2015, reportedly the National Land Agency (BPN) would be measuring land with the local government to establish definitive boundaries for each party.⁸⁸ On 13 March 2015, five villagers from Suka Makmur were beaten up by Lonsum security personnel. The following day hundreds of people from seven villages went to the Lonsum office to demand an explanation.⁸⁹
- The villages of Cekar, Batu Urip and Datar Serdang are in dispute over 32 ha of land planted by Lonsum inside or outside its concession area. In September 2014, the district government acted as mediator. Lonsum claimed it was the legitimate owner, and that it cooperated with the communities through Corporate Social Responsibility (CSR).⁹⁰ By December 2014 the issue had yet to be resolved.⁹¹
- Areas subject to claims by villagers in Muara Tandi and Tanah Pilih amount to 100 ha.⁹²

3. North Sumatra: Sei Merah estate - hundreds of farmers evicted

In October 2013, due to a land dispute over Lonsum's Sei Merah oil palm estate in Deli Serdang district, North Sumatra, military and police personnel evicted hundreds of farmers from land on which they had built settlements. The farmers were living on an area of 360 hectares, which their families had used for generations. They claimed to have certificates of land ownership, but Lonsum also claimed ownership and had repeatedly tried to take over the land. The official reason for the eviction was that the farmers had no building permits for the settlements.⁹³

4. South Sulawesi: Balombissie rubber estate - 2,500 ha

In August 2013, around 3,500 farmers in Bulukumba district, South Sulawesi demanded the return of approximately 2,500 ha of their Kajang tribal land. The farmers set up 40 tents and prohibited Lonsum from tapping latex from rubber trees. They demanded the Governor of South Sulawesi and the National Land Agency (BPN) review or revoke Lonsum's Right to Exploit (*Hak Guna Usaha*, HGU) permit.⁹⁴ Lonsum currently controls 5,800 ha planted with rubber. The decades-long case resulted in two people dying and 20 others being injured in 2003, when a protest against Lonsum was violently suppressed.⁹⁵

5. North Sumatra: Rambung Sialang estate

In February 2010, the Indonesian Institute for Policy Research and Advocacy (ELSAM) published a report about Lonsum's alleged human rights violations in the village of Pergulaan in Serdang Bedagai district, North Sumatra. Farmers had been trying to maintain a 166-ha area of Lonsum's Rambung Sialang estate. However, with help from police personnel, Lonsum uprooted villagers' cassava, corn and groundnut crops in 2007, and prohibited them from grazing their cattle or goats. The company also dug a deep, wide trench between the village and the disputed land. Other recorded human rights infringements included terminating the jobs of workers involved in demonstrations to retain the land, arbitrary working systems and hours, unusual payment practices, poor work safety conditions, and the absence of health allowances.⁹⁶

In April 2009, an RSPO complaint was filed against Lonsum, alleging that the FPIC process was flawed with regard to Pergulaan village. The conflict has yet to be resolved, but through mediation progress is being made. In June 2015, it was agreed that: 1) Lonsum would conduct a Social Impact Analysis (SIA) in Pergulaan village; 2) The SIA report would be the main reference for "CSR Khusus" (Special Corporate Social Responsibility) and the disbursement of compensation; 3) Compensation would be disbursed after completion of the SIA; 4) Lonsum would prioritize Pergulaan villagers as staff/workers/suppliers; and 5) A land grant from Lonsum for the expansion of Pergulaan village would be disbursed after the completion of the village- and district-level elections.⁹⁷

6. North Sumatra: Begerpang estate - 220 ha

In January 2015, it was reported that Lonsum had appropriated and was controlling around 220 ha of land in Deli Serdang district, North Sumatra, claimed by local communities. Lonsum states it has an HGU for the area in its Begerpang estate. The dispute came under discussion in the Deli Serdang parliament.⁹⁸ No further news on any progress in the matter could be found during desk research.

3.5 Fires

Kedang Makmur concession

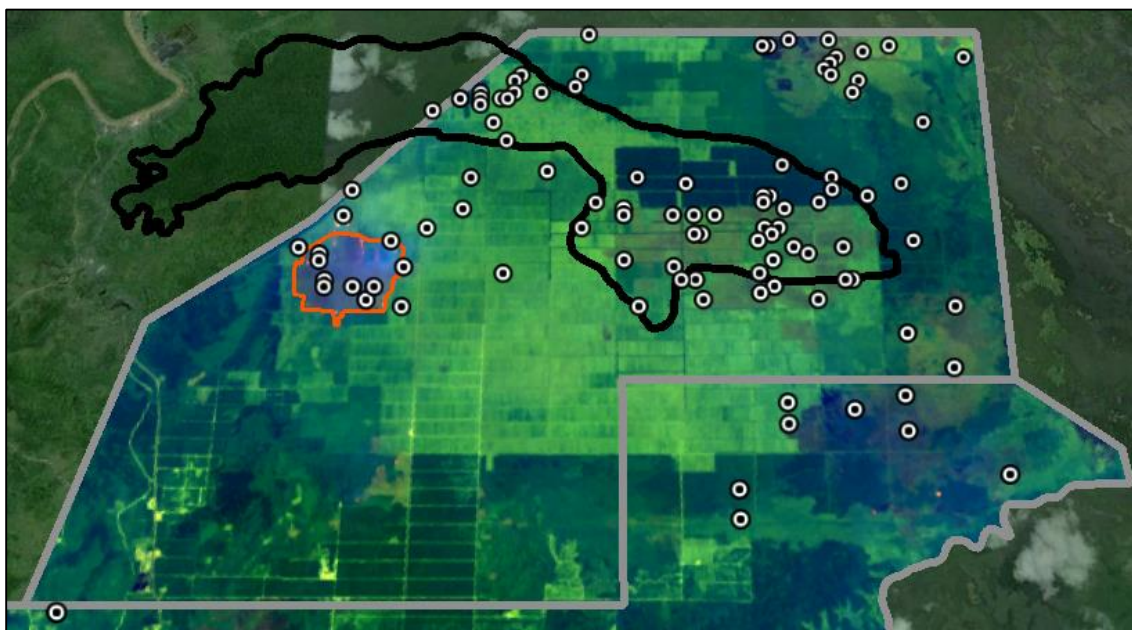
IndoAgri has a policy of not planting on peat. As described in Section 3.3, Lonsum cleared over 5,000 ha in the Kedang Makmur and Isuy Makmur concession areas in 2012, 2013 and 2014. This area is not classified as peatland but is dominated by organosol soil.⁹⁹ It does have high organic content, but would likely not meet the official peat standard of >65% organic matter. When drained the organic matter decays and contributes to climate change.

Burning of biomass for land clearing and burning of drained peat is the second largest source of greenhouse gas emissions (after oxidation) in peat swamp areas.¹⁰⁰ The process of establishing an oil palm plantation on peatland is often accompanied by fire. Disturbed peatlands are fire prone because of the build-up of dry, flammable fuels through drainage, and the lower humidity resulting from a reduced tree canopy. Fire ignitions may be accidental or intentional.¹⁰¹

Hotspots (indicators of fire locations) for the year 2014 were retrieved for all of IndoAgri's estates in Kalimantan.¹⁰² In 2013, there were only 6 hotspots inside the Kedang Makmur concession.¹⁰³ However, Figure 8 below shows there were 90 hotspots inside the concession in 2014, likely resulting from the peat-like nature of its soil. This number was higher than the total number of hotspots in all of IndoAgri's other estates in Kalimantan during that period. Typically, almost all hotspots were registered in the August-October period during the dry season.

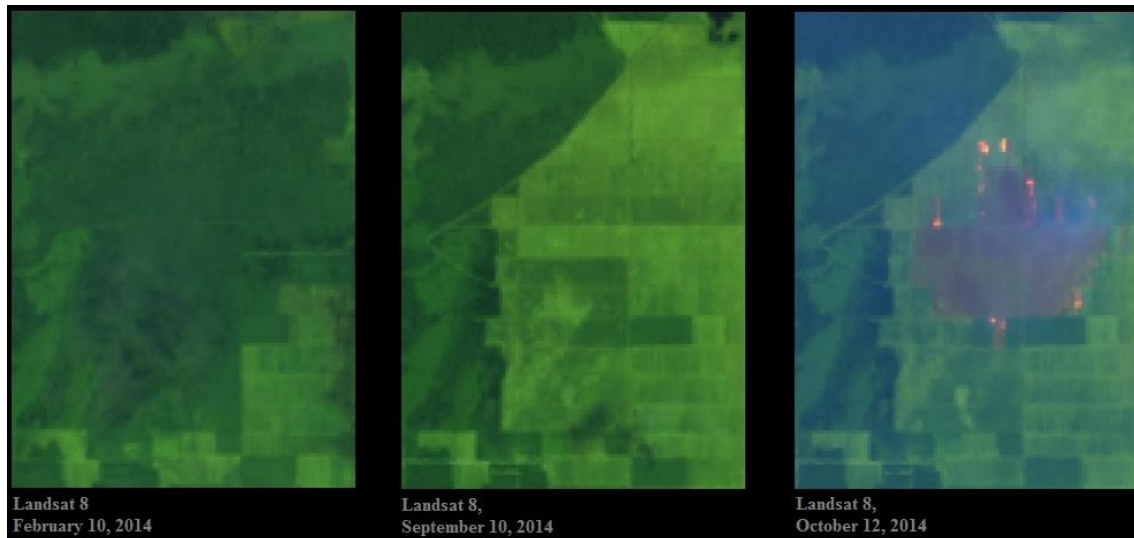
The registered hotspots form an indicator for fire frequencies, but not every hotspot is a fire. During the meeting on 26 August 2015 IndoAgri stated it made daily use of NOAA18 system to remotely monitor hotspots, and that it had registered far less hotspots for Kedang Makmur estate. Aidenvironment used images from the Terra and Aqua satellites and so two images per day are registered, as opposed to a single NOAA image. This explains some of the discrepancy.

Figure 8. Hotspots (fires) inside the Kedang Makmur estate during the second half of 2014



It is not possible to draw a firm conclusion on fire frequencies from registered hotspots only. However, Figure 8 also showed a burnt and burning area of 150-200 ha inside the concession area (outlines in orange). The satellite imagery in Figure 8 came from 10 October 2014. IndoAgri did not comment on this 150-200 ha area during the meeting on 26 August 2015, or later. Figure 9 below shows a sequence of Landsat imagery of the area, which was still forested in February 2014 and was burning in October 2014.

Figure 9. Sequence of Landsat imagery burning area within Kedang Makmur estate



During a field trip on 30 May 2015 Aidenvironment also noticed many burnt trees within Kedang Makmur estate, at different locations than the area of 150-200 ha. Below three pictures of burned trees are shown, as evidence of active burning. The first picture was one kilometre apart from the third picture, while picture two was taken between the locations of picture 1 and 3.

To conclude, there are three pieces of evidence with regard to fire frequencies within the Kedang Makmur concession in 2014: the 90 hotspots, the satellite image of 10 October 2014 showing a burning and burnt area of 150-200 ha, and pictures of burnt trees. All in all, IndoAgri's fire prevention and response can be considered suboptimal for the Kedang Makmur concession in 2014.

Photo: Burnt trees inside Lonsum's Kedang Makmur estate



© Aidenvironment. Date: 30 May 2015. Coordinates: S 0°25'9.53"; E 116°3'10.95"

Photo: More burnt trees inside Lonsum's Kedang Makmur estate



© Aidenvironment. Date: 30 May 2015. Coordinates: S 0°24'47.08"; E 116°3'11.21"

Photo: Burnt tree inside Lonsum's Kedang Makmur estate



© Aidenvironment. Date: 30 May 2015. Coordinates: S 0°24'37.12"; E 116°3'11.58"

3.6 Greenhouse gas emissions

Oxidation of cultivated peatlands

The oxidation of cultivated peatlands often constitutes palm oil companies' largest contribution to climate change. Though IndoAgri has prohibited the planting of oil palm on peatlands since 2013, the company does cultivate peatlands it cleared before making this commitment. Our research confirms that no new peatland development has taken place since 2013. Table 5 provides an overview of IndoAgri's current cultivation of oil palm on peatlands.

Table 5. Peatlands cleared by IndoAgri¹⁰⁴

Company	Province, district	Cleared	Hectares
PT Mentari Subur Abadi	South Sumatra, Musi Banyuasin	2006-2009	10,300
PT Gunung Mas Raya (Sungai Rumbia estates)	Riau, Rokan Hilir	Before 2006	3,200
Budi Tirta Estate	South Sumatra, Musi Banyuasin	Mostly 2006-2008	3,100
PT Gunung Mas Raya (Sungai Bangko 1 estate)	Riau, Rokan Hilir	Before 2006	700
PT Cibaliung Tunggal Plantations	Riau, Rokan Hilir	Before 2006	600
Total			17,900

When peatlands are drained, the stored carbon reacts with oxygen in the air to release carbon dioxide into the atmosphere. The oxidation process leads to yearly CO₂ emissions of 35 to more than 80 tonnes of CO₂ per hectare (depending on peat type, drainage depth, soil temperature and other factors). Minimizing drainage is important to reduce greenhouse gas emissions. However, even with optimal drainage of 40-60 cm in the field, oil palm plantations will still have a significant carbon footprint of about 60 tonnes of CO₂/ha/year.¹⁰⁵ This would bring IndoAgri's annual emissions (excluding N₂O emissions) through peatland drainage to 1.1 million tonnes of CO₂ for its 17,900 ha of cleared peatlands. This is equivalent to the annual CO₂ emissions of 455,000 cars.¹⁰⁶

IndoAgri's calculation

IndoAgri was one of the first companies to reveal (a proportion of) its greenhouse gas emissions. It did so in its 2014 sustainability report, and made use of the RSPO Palm GHG Calculator.¹⁰⁷ The company calculated that in 2014, its RSPO certified mills and estates emitted 2.64 tonnes of CO₂ equivalent per tonne of CPO and palm kernel produced. The main contributing categories were peat emissions at 33%, methane emissions from palm oil mill effluent (POME) at 26%, and a category comprising land conversion minus crop sequestration at 21%.¹⁰⁸

Extrapolation of IndoAgri's calculation, which represented only some of its mills and estates, would put its total greenhouse gas emissions in 2014 at 3.1 million tonnes of CO₂ equivalent.¹⁰⁹ The peat emissions (33% of 3.1 million tonnes) would then roughly match Aidenvironment's calculation of 1.1 million tonnes of CO₂. However, during the meeting on 26 August 2015, IndoAgri stated there was a larger proportion of peatlands relating to the mills and estates for which it had calculated its GHG emissions, meaning any calculation by IndoAgri on peat emissions from all of its estates would be lower than the calculation done by Aidenvironment. During the course of this assessment it remained unclear where the discrepancy lies.

3.7 Conserving biodiversity

IndoAgri currently reports a total 23,279 ha of HCV areas across its plantations, equivalent to 9.5% of its oil palm planted area. These HCV areas - 4,225 ha in Sumatra and 19,054 ha in Kalimantan - include riparian areas, reservoirs, bamboo gardens, swamps, burial grounds, and important heritage and cultural sites. IndoAgri has not disclosed publically which estates these HCV areas are located in.¹¹⁰

In 2014, the company engaged RSPO-accredited assessors to evaluate the HCV areas in all of its oil palm estates. Furthermore, IndoAgri states that its HCV areas have been demarcated and undergo constant monitoring, and that the company communicates regularly with employees and local communities on the importance of HCV areas and the restriction of activities in these locations.¹¹¹

IndoAgri has identified 19 species listed on the IUCN Red List of Threatened Species inside its HCV areas, 9 of these are listed as endangered and 9 as critically endangered.¹¹² Table 6 below provides an overview of the endangered and critically endangered species found in IndoAgri's HCV areas.

Table 6. Overview of endangered species in IndoAgri HCV areas¹¹³

Type	Common name	Scientific name	Status IUCN Red List
Mammals	Sunda pangolin	<i>Manis javanica</i>	Critically Endangered
Mammals	Sumatran tiger	<i>Panthera tigris ssp. sumatrae</i>	Critically Endangered
Mammals	Mitred leaf monkey	<i>Presbytis melalophos</i>	Critically Endangered
Plants	Balau tree	<i>Shorea seminis</i> v. Slooten	Critically Endangered
Plants	Borneo camphor	<i>Dryobalanops aromatica</i> Gaertn	Critically Endangered
Plants	Light hopea	<i>Hopea mengerawan</i> Miquel	Critically Endangered
Plants	Red balau	<i>Shorea belangeran</i>	Critically Endangered
Plants	Light red meranti	<i>Shorea smithiana</i> Symington	Critically Endangered
Plants	Keruing tree	<i>Dipterocarpus elongatus</i> Korth	Critically Endangered
Birds	Milky stork	<i>Mycteria cinerea</i>	Endangered
Mammals	Sumatran gibbon	<i>Hylobates agilis</i>	Endangered
Mammals	Siamang gibbon	<i>Symphalangus syndactylus</i>	Endangered
Mammals	Proboscis monkey	<i>Nasalis larvatus</i>	Endangered
Reptiles	False gharial	<i>Tomistoma schlegelii</i>	Endangered
Plants	Resak	<i>Cotylelobium burckii</i> Heim	Endangered
Plants	Dark red meranti	<i>Shorea cf. pauciflora</i> King	Endangered
Plants	Keruing tree	<i>Dipterocarpus cornutus</i> Dyer	Endangered
Plants	Borneo camphor	<i>Dryobalanops beccarii</i> I	Endangered

3.8 Salim group clearing orangutan habitat

IndoAgri clearing orangutan habitat

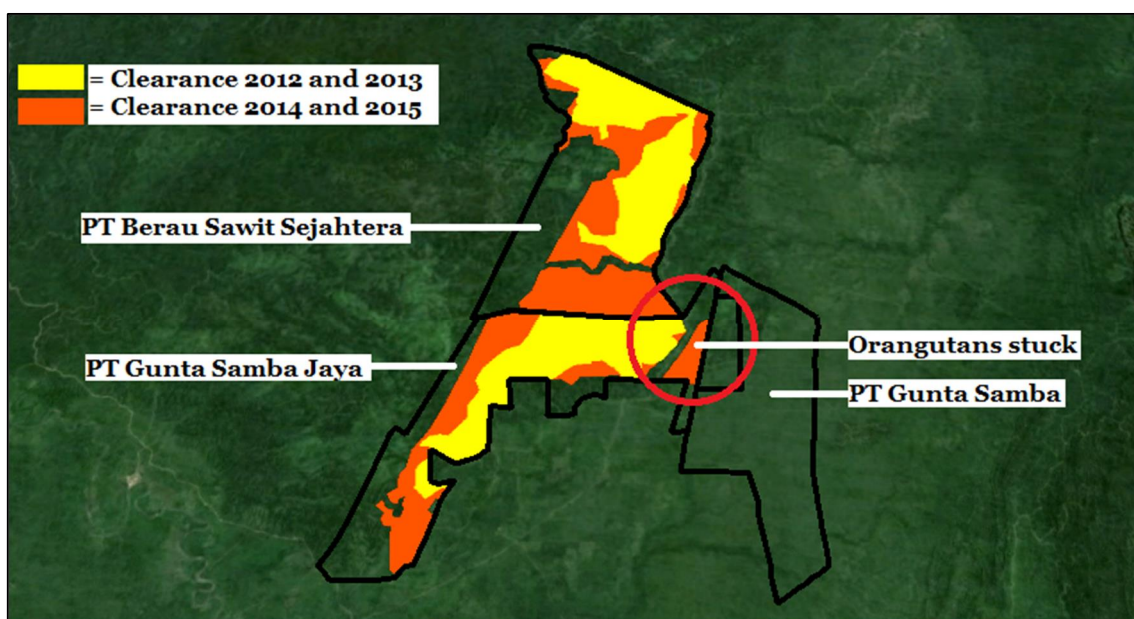
In February 2013, the Centre for Orangutan Protection (COP) raised attention to the clearing of orangutan habitat inside the PT Gunta Samba Jaya (PT GSJ) concession area in Kong Beng sub-district, East Kutai district, East Kalimantan. COP filed a complaint against IndoAgri at the Roundtable on Sustainable Palm Oil (RSPO) suspecting PT GSJ was a subsidiary.¹¹⁴

A video posted on YouTube by COP shows orangutans wandering through the trees in 2010 and clearing taking place in 2012/2013.¹¹⁵ In October 2012, an orangutan of approximately 1.5 years old was evacuated by COP and the East Kalimantan Natural Resources Conservation Agency (BKSDA). According to a local farmer the baby orangutan had been separated from his mother two months earlier when bulldozers were clearing the PT GSJ concession area. Later, on 24 January 2013, a one-year-old orangutan baby was rescued.¹¹⁶

The orangutan is an endangered species according to the IUCN Red List of Threatened Species.¹¹⁷ Clearing of orangutan habitat is a clear infringement of Principle 5.2 of the RSPO Principles & Criteria, which states: “The status of rare, threatened or endangered species and other High Conservation Value habitats... shall be identified and operations managed to best ensure that they are maintained and/or enhanced”.¹¹⁸

IndoAgri met the RSPO complainants on 19 March 2013. It agreed, among other things, to stop clearing land, to identify an HCV area, and to develop a conservation action plan and follow it up.¹¹⁹ Surveys by biodiversity teams from the Borneo Orangutan Survival Foundation from 7-12 April 2013 and BKSDA from 5-8 May 2013, both recommended enlarging the PT GSJ conservation area from the 370 ha that had been prepared¹²⁰ to approximately 600 ha.¹²¹ On 21 July 2013, COP conducted a field trip and found 5 orangutans stranded in the concession area. The forests around them had been cleared.¹²² Figure 10 illustrates the area where the orangutans were found in 2012 and 2013.

Figure 10. Indofood and Salim group concession areas where orangutans were stranded in 2012 and 2013



In April 2014, COP reported that the palm oil company PT Berau Sawit Sejahtera (PT BSS), operating adjacent to PT GSJ, was damaging orangutan habitat. COP asked the Ministry of Forestry to act immediately to stop potential crime against orangutans. COP also sent a copy of the report to the RSPO as it suspected PT BSS of relations with IndoAgri.¹²³

In May 2014, COP reported that a Ministry of Forestry team had completed a verification report on PT BSS. The results showed orangutan habitat being cleared for oil palm plantations. The coordinates COP reported were inside the PT BSS concession area. The RSPO Secretariat also moved quickly asking for more details regarding the report. Unfortunately, by that point the landscape had already completely changed.¹²⁴

Was it IndoAgri?

Both PT GSJ and PT BSS are part of the Gunta Samba Group, an oil palm business controlled by Anthoni Salim and **not part** of IndoAgri. The adjacent PT Gunta Samba (PT GS) concession, where no clearing of orangutan habitat was detected, is controlled by IndoAgri. In 2007, IndoAgri bought a 60% stake in PT GS from the wider Salim Group, which retained the remaining 40%.¹²⁵

IndoAgri's plantation business, controlled by Anthoni Salim, often connects with plantation businesses from the wider Salim Group, also controlled by Anthoni Salim. The acquisition of PT GS in 2007 was part of a much larger deal, where IndoAgri acquired 60% stakes in concession areas totalling 86,000 ha from the Salim Group.¹²⁶ According to Indonesian Palm Oil Association (GAPKI) membership files, the plantation companies PT Gunta Samba (IndoAgri), PT Gunta Samba Jaya (PT GSJ) and PT Berau Sawit Sejahtera (PT BSS) are all managed from the same address.¹²⁷

PT GSJ is owned by a company called PT Andhika Wahana Putra (PT AWP).¹²⁸ Between 2009 and 2010, Indomaret made several purchases of convertible bonds bearing no interest on the aggregate amount of IDR 428 billion, issued by PT AWP, a company engaged in oil palm plantation business. The bonds would be convertible to shares representing 50% of PT AWP's share capital. However, the bonds were expected to be redeemed in the fourth quarter of 2013. The shareholders of Indomaret are PT Indoritel Makmur Internasional, PT Indomarco Perdana, PT Lentera Bumi Mas and Sinarman Jonatan, which own 40.0%, 55.6%, 3.1% and 1.3% of Indomaret, respectively. PT Indoritel Makmur Internasional, PT Indomarco Perdana and PT Lentera Bumi Mas are all controlled by Anthoni Salim.¹²⁹

4. Stakeholders demanding sustainability

Indofood business partners with NDPE policies

Over the past year and a half, several major palm oil traders/processors have adopted No Deforestation, No Peat, No Exploitation (NDPE) policies. These commitments apply to a company's entire supply chain, including plantations operated by their own subsidiaries and third-party suppliers. The policies prohibit clearance of High Conservation Value (HCV) areas and High Carbon Stock (HCS) forests, as well as peatlands (regardless of depth) for palm oil expansion. In addition, they require that human and labour rights be upheld in accordance with the core conventions of the International Labour Organization (ILO),¹³⁰ and that local communities have the right to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments. Many consumer brand companies in the food and personal care product industries have made similar NDPE commitments in the last two years.

IndoAgri is the third largest private palm oil company in Indonesia in terms of Crude Palm Oil (CPO) production.¹³¹ It is currently also the largest private palm oil company in Indonesia yet to adopt an NDPE policy. The largest private palm oil company in Indonesia, Golden Agri-Resources, had already adopted a NDPE policy in February 2014.¹³² The second largest private palm oil company in Indonesia is Astra Agro Lestari. It has just, in September 2015, adopted a NDPE policy.¹³³

Table 7 below shows NDPE-signatories among Indofood's business partners and their business relations to Indofood.

Table 7. Indofood business partners with NDPE policies

Company name	Business relation to Indofood
Wilmar ¹³⁴	CPO/palm kernel customer. Goodman Fielder, a 50/50 joint venture with First Pacific
Musim Mas ¹³⁵	CPO/palm kernel customer
Golden Agri-Resources ¹³⁶	CPO/palm kernel customer
Nestlé ¹³⁷	PT Nestlé Indofood Citarasa Indonesia (NICI), a 50/50 joint venture with PT Indofood CBP Sukses Makmur (ICBP)
PepsiCo ¹³⁸	<ul style="list-style-type: none"> • PT Indofood Fritolay Makmur (51% owned by ICBP, 49% by PepsiCo) • Asahi/Indofood has exclusive rights to produce, sell, and distribute non-alcoholic beverages under PepsiCo's brand names (Pepsi, 7 Up, Mirinda and Tropicana Twister) in Indonesia.
Procter & Gamble ¹³⁹	Customer of PT Indofood CBP Sukses Makmur (ICBP)
Unilever ¹⁴⁰	Customer of PT Indofood CBP Sukses Makmur (ICBP)

The Norwegian Government Pension Fund Global

The world's largest sovereign wealth fund, the Norwegian Government Pension Fund Global (the Fund), is a major player in the field of Socially Responsible Investing (SRI). Increasingly, the Fund sees companies and sectors with "unsustainable social and environmental practices" as a risk to its long-term financial objectives, and has completed strategic sales of equities in the palm oil, coal and mining

sectors. By the end of 2013, the Fund had divested from 27 palm oil companies on account of their “unsustainable production practices”.¹⁴¹ PT Indofood Sukses Makmur (Indofood) was dropped by the Fund in 2012, while PT PP London Sumatra Indonesia (Lonsum) was dropped in 2011.¹⁴² Since the end of 2010, the Fund has no longer had any stakes in PT Salim Ivomas Pratama (Salim Ivomas).

Section 1.3 of this report shows the ownership structure of Indofood and IndoAgri. Presently, the Fund is a significant shareholder in the Indofood-related companies, First Pacific Company Ltd. and PT Indofood CBP Sukses Makmur (ICBP). The market value of the Fund’s investments in these two companies amounted to NOK 419 million (equivalent to USD 55.9 million) at the end of 2014.¹⁴³

Parent companies are held responsible for the actions of their subsidiaries, so even though the Fund is no longer investing in IndoAgri and its Indonesian subsidiaries, there is a risk of Indofood-related companies being formally excluded from the Fund. A recent exclusion by the Fund shows the risks faced by IndoAgri are real. On 17 August 2015, it announced the exclusion of four more companies on account of their oil palm planting causing “severe environmental damage” in Indonesia.¹⁴⁴ These companies were the Korean Daewoo International Corporation, its parent company POSCO, and the Malaysian companies Genting Berhad (the parent company of Genting Plantations) and IJM Corporation Berhad. As of 31 December 2014, the market value of the Fund’s investments in these four companies amounted to NOK 68 million, NOK 1,485 million, NOK 306 million, and NOK 345 million respectively.¹⁴⁵

In addition to the Fund’s risk analysis and exercise of ownership rights, the Parliament of Norway has established guidelines for observation of companies and exclusion from the Fund.¹⁴⁶

Companies found by the Fund’s independent Council on Ethics to cause “severe environmental damage” or “serious or systematic human rights violations” may be excluded from the Fund. In its assessments of other palm oil companies, the Council on Ethics has given weight to the scale of forest or peatland conversion, and to the loss of biodiversity value.¹⁴⁷

In March 2015, Norges Bank Investment Management (NBIM) - responsible for managing the Norwegian Fund - released an update on its expectations of investee companies with regard to climate change risk management. The issue of tropical deforestation was included in this report, which reads:

- “Companies with direct or indirect impact on tropical forests should disclose information about the climate impact of their operations and their tropical forest footprints. Companies should also disclose how they monitor their impact on tropical forests over time. Finally companies should disclose whether and how they seek best practice and adhere to international standards for sustainable production of agricultural commodities or sustainable management of forests.”
- “Companies engaged in activities with a direct or indirect impact on tropical forests should assess impact through, for example, life-cycle analysis, and have a strategy for reducing deforestation as a result of their own activities or from their supply chains”.¹⁴⁸

Conclusion

IndoAgri's business policies and practices are increasingly at odds with the ongoing transformation towards sustainability and responsible sourcing in the palm oil sector. It has not joined the recent wave of No Deforestation, No Peat, No Exploitation (NDPE) policies endorsed by many of its business partners and the major growers and traders. It is currently the largest private Indonesian palm oil grower yet to adopt an NDPE policy, and it is making slow progress on RSPO certification. These developments could very well have a negative effect on IndoAgri's business portfolio. The company is placing some of its long-term commercial relationships at risk, and potentially limiting its future access to international markets.

IndoAgri and its controlling and related companies are subject to significant reputational risks associated with deforestation, biodiversity loss and land disputes.

IndoAgri should adopt an NDPE policy rapidly, adhering to the new benchmarks for responsible production, including: protection of High Conservation Value areas and High Carbon Stock forests (as defined by the HCS steering group), protection of peatlands of any depth, no burning, compliance with international norms on human and labour rights, recognition of communities' right to give or withhold their Free, Prior and Informed Consent, transparency and traceability. This policy should apply to all of IndoAgri's global operations, third-party suppliers and joint venture partners, and the company should seek independent and credible third-party verification of compliance with its policy.

The Indofood-related companies First Pacific Company Ltd. and PT Indofood CBP Sukses Makmur (ICBP) risk being formally excluded by the world's largest sovereign wealth fund, the Norwegian Government Pension Fund Global (the Fund), on account of the Fund's commitment to not investing in companies causing "severe environmental damage". Even without a formal exclusion order, the Indofood-related companies may be dropped from the Fund because of the business risks attached to the social and environmental impacts of IndoAgri's operations. The market value of the Fund's investments in Indofood-related companies amounted to USD 56 million at the end of 2014. If the Fund excludes these companies, a host of other institutional investors may follow its lead.

In conclusion, it is clear that "business as usual" operations in the palm oil sector are no longer acceptable. As momentum builds to break the link between palm oil and deforestation, climate pollution, social conflict and human and workers' rights abuses, Indofood needs to decide: will it adopt the policies and practices required to lead the transformation of the palm oil sector in Indonesia?

Glossary and explanation of terms

BKSDA	Natural Resources Conservation Agency (<i>Balai Konservasi Sumber Daya Alam</i>)
BPN	National Land Agency (<i>Badan Pertanahan Nasional</i>)
CBP	Consumer Branded Products
CO ₂	Carbon dioxide
COP	Centre for Orangutan Protection
CPO	Crude Palm Oil
FFB	Fresh Fruit Bunches
FPIC	Free, Prior and Informed Consent
GHG	Greenhouse gas
HCS	High Carbon Stock. The current industry HCS-standard defines High Density, Medium Density, Low Density and Regenerating Forests, and excludes oil palm in these forest types. The categories Scrub and Cleared/open land are considered low carbon stock and potentially suitable for oil palm plantation development. The standard was developed by Golden Agri-Resources (GAR), The Forest Trust (TFT) and Greenpeace and is overseen by the HCS Steering Group. ¹⁴⁹
HCV	High Conservation Value. HCV does not stop short at the protection of species and ecosystems. The RSPO has identified and defined six categories of HCV areas. ¹⁵⁰ HCV areas also include critical ecosystem services for water catchment and erosion control, sites fundamental for satisfying the basic necessities of local communities or indigenous peoples, and sites with a high cultural value.
HGU	Right to Exploit (<i>Hak Guna Usaha</i>)
ICBP	PT Indofood CBP Sukses Makmur Tbk.
IDR	Indonesian Rupiah
IDX	Indonesia Stock Exchange
ILO	International Labour Organization of the United Nations
IndoAgri	Indofood Agri Resources Ltd.
Indofood	PT Indofood Sukses Makmur Tbk.
IUCN	International Union for the Conservation of Nature and Natural Resources
Lonsum	PT Perusahaan Perkebunan (PP) London Sumatra Indonesia Tbk.
NBIM	Norges Bank Investment Management
NDPE	No Deforestation, No Peat, No Exploitation
NGO	Non-Governmental Organization
NPP	New Planting Procedure
RASI	Rare Aquatic Species of Indonesia
RSPO	Roundtable on Sustainable Palm Oil
Salim Ivomas	PT Salim Ivomas Pratama Tbk.
SGX	Singapore Stock Exchange
SIA	Social Impact Analysis
The Fund	Norwegian Government Pension Fund Global
USD	United States Dollar

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