

# Sustainability Policy

## Progress Report

4 Dec 2014 - 31 Mar 2015

# Sustainability Commitments

**Bring benefits to the community.**

**No deforestation of High Conservation Value (HCV) areas and High Carbon Stock (HCS) forest.**

**No development of peatland regardless of depth.**

**Fully comply with local, national and international laws.**

**Establishment of traceable supply chains.**

# Musim Mas Sustainability Policy

Quarterly Report on Progress ( December 2014 - March 2015 )

## Introduction

Musim Mas first published its Sustainability Policy in December 2014. The Policy took immediate effect from 4<sup>th</sup> December 2014. It covers all aspects of sustainability and is applicable to the whole Group as well as to all third-party stakeholders. Details can be found on the [corporate website](#)<sup>1</sup>.

The main commitments in the policy are:

- Protect High Conservation Value (HCV) Areas and High Carbon Stock (HCS) Forests including peatlands.
- Respect all community rights and social issues especially those which affect the workforce and smallholders.
- Comply with all local, national and international laws. This includes certification issues where appropriate.
- Ensure transparent and traceable supply chains – Musim Mas is committed to traceability back to palm oil mills by the end of 2015 and to plantations by the end of 2016.

There is also a commitment to continually measure and monitor progress in achievement of each of the policy requirements and to continually update the policy to comply with any new sustainability requirements and developments.

This report is the first preliminary statement of progress for each sustainability goal described in the Policy. It will be updated quarterly.

<sup>1</sup><http://www.musimmas.com/sustainability/sustainability-policy>



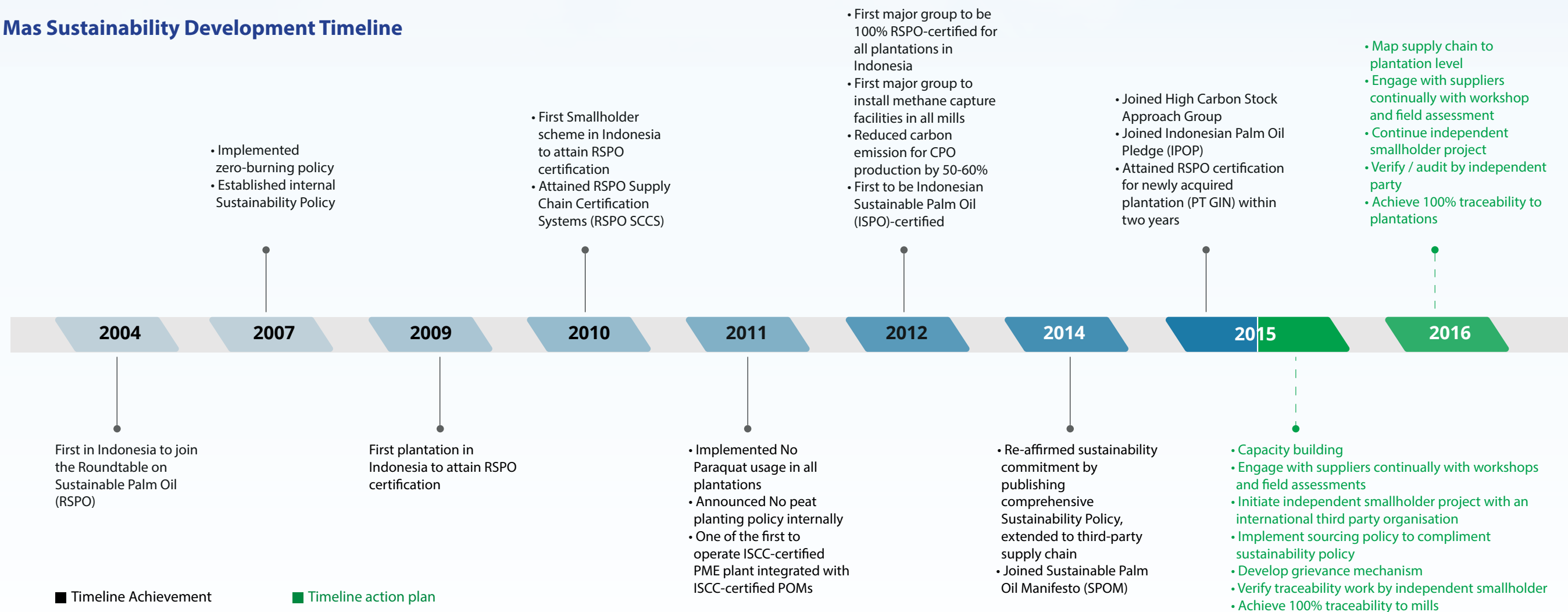
# Musim Mas Group Sustainability Progress

It is clear that progress can only be made in sustainability if it becomes an engrained part of company procedures. Musim Mas has been at the forefront of sustainability procedures within its own plantations and palm oil mills. It is firmly committed to the Roundtable on Sustainable Palm Oil (RSPO) principles and, as testimony to this commitment, it was the first company in Indonesia to achieve certification on 6th January 2009. Also in September 2012 it was the first to achieve 100% RSPO Certification for all Palm Oil Mills with Plantations and all its Scheme Smallholders. In addition to RSPO certification, Musim Mas is also one of the first companies to receive the Indonesia Sustainable Palm Oil (ISPO) certification in 2012. Other than RSPO and ISPO certification, Musim Mas Plantations have also gone through ISCC certification which includes accounting for GHG reductions as one of its requirements.

In 2015, Musim Mas will have one of its newly acquired plantations certified with RSPO as part of the commitment stated in the policy. We have also carried out a HCS study on one of our concessions in Kalimantan in collaboration with TFT which is at the final stage of review. The report will be published once completed.



## Musim Mas Sustainability Development Timeline





# Third-party Supply Chain Mapping

Whilst we continue to ensure that our own plantations are operated sustainably, we also are required to ensure that all the palm oil and products, which comprise the feed material to our refineries and to our oleochemicals and processing plants, are produced responsibly and sustainably.

Traceability has been utilised as a tool to assess environment and social risk in the supply chains of many commodities such as coffee, cacao and now oil palm. Traceability is not sustainability. However it serves as an essential precursor to achieving a fully sustainable supply chain. For example using traceability techniques to list and map out the entire supply chain, high risk suppliers in terms of environment and social prospects can be determined. Plans can then be developed to work as a matter of priority with these suppliers before damage to the environment or social issues become irreversible.

We have employed a two stage approach to map the supply chain to our processing facilities:

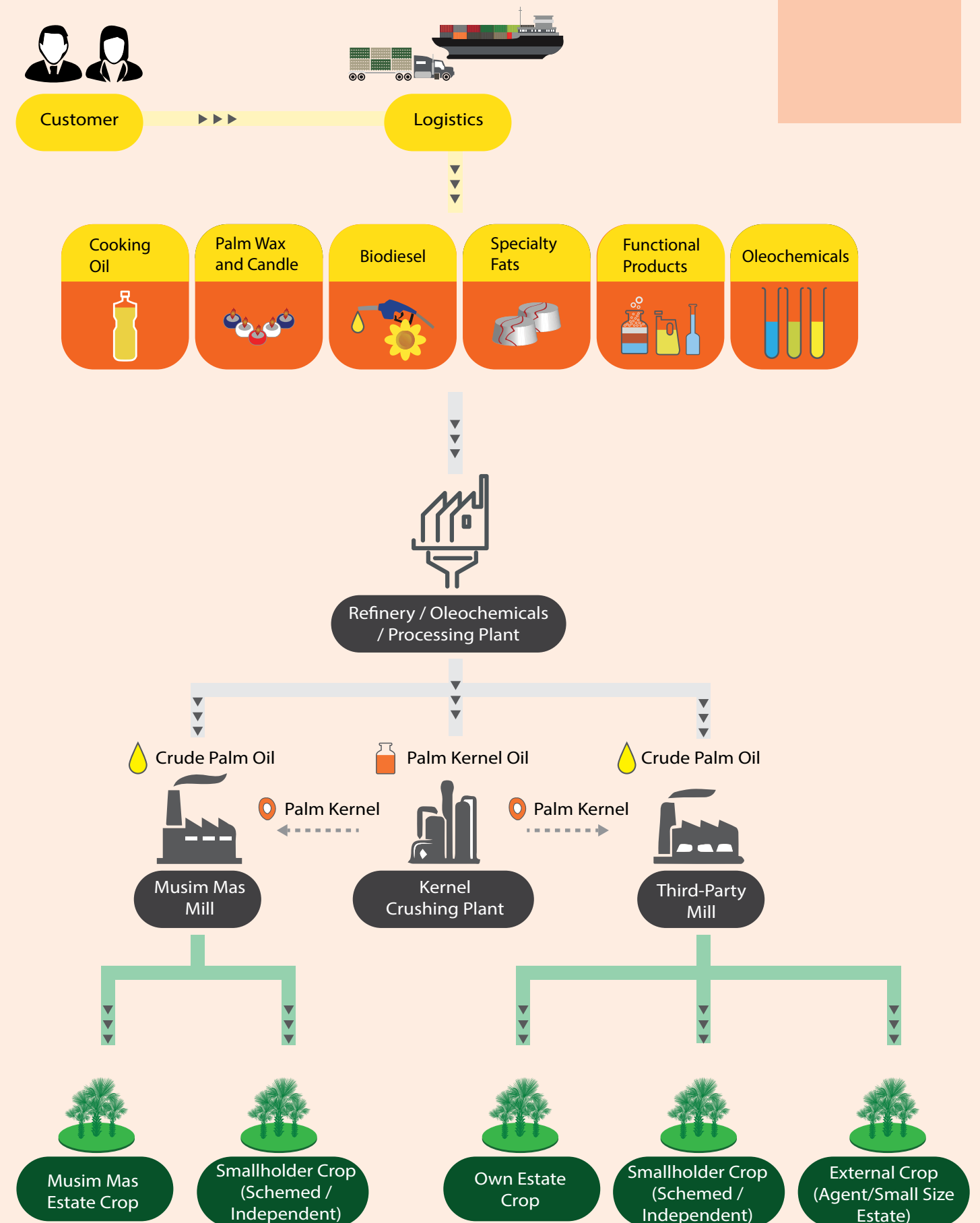
Traceable to Mills – to be achieved by 2015

Traceable to FFB – to be achieved by 2016

## What we plan to do

1. Grade all supplying mills according to various risk factors and then classify each supplier as low risk or high risk/ non compliant in the near future.
2. Rate the supply and address any uncertain issues arising from the grading.
3. Communicate our company policy to all suppliers and set priority for high risk/ non compliant suppliers.
4. Review the existing procurement procedures and policies to align with our sustainability policy.
5. Provide training for all high-risk suppliers on issues regarding community engagement, labour and identification and management of conservation areas.
6. Work out a compliant timeline procedure and get a commitment to this timeline from all suppliers. If necessary, work together with them to ensure compliance.
7. Make it clear to suppliers that we will not purchase from plantations with new development after Musim Mas publishing its sustainability policy that irreversibly do not meet our sustainability policy (for example planted on HCS area).

# Palm Oil Supply Chain





# Progress of Traceability

## Traceable to Mills (to be completed by end of 2015)

We are currently in the progress of mapping our third-party suppliers to the processing palm oil mills and have so far achieved significant results. We are proud to announce that we can trace 99% of our CPO and PK supplies to our processing plants. We anticipate that by second quarter of 2015, 100% of the CPO and PK supply to our processing plants will be fully traceable to the palm oil mill. However, since the suppliers are not fixed, especially new suppliers, it might not be possible to maintain 100% traceability at all times. In the longer term 100% traceability will become possible by reviewing and improving our sourcing policies. We will report progress periodically in future progress reports.

### **Traceability platform (To mill) used in Musim Mas supply chain model**

- Mill name / supplier name
- Mill coordinates / supplier coordinates
- Mill parent company / supplier parent company
- Certification status of mill / supplier, or verification status (in future)
- Volume of each product type (to calculate % traceable of total oil)

We have published our CPO and PK suppliers on [our website](#)<sup>2</sup> since February 2015. However we stress that we are still in the process of verifying this information for each supplying mill.

By publishing the list, we hope to receive feedback from industry peers, NGOs and other stakeholders to help us identify priority issues and suppliers who may have potentially breached our sustainability policy (e.g. Musim Mas working with Rainforest Action Network (RAN) on suppliers located within Leuser Ecosystem). This feedback has helped us to take further steps to evaluate the risks and opportunities across our supply chain and move forward. Our ultimate objective is NOT to immediately cut off problematic suppliers but rather to assist them to achieve our levels of sustainability. However, for suppliers who breach our policy repeatedly, we will terminate engagement but only after a thorough transparent assessment at ground level.

A grievance mechanism is being established and will be published by the second quarter of 2015.

In our future progress reports, traceability back to the mill will be reported for supplies to each processing plant (Refinery, Oleochemicals/ Biodiesel, Kernel Crushing Plant etc). We will also verify our information using an independent third-party to ensure transparent accountability. It is essential that each verifier is truly independent body who does not have other arrangements with Musim Mas.

## Traceable to Plantation (to be completed by end of 2016)

The planning process to trace supplies back to the source of oil palm Fresh Fruit Bunch (FFB) is currently under development. While some palm oil mills only process FFB crop from in-house plantations, the majority of palm oil mills in Indonesia also process FFB crop from third-party plantation and from smallholders (both schemed and independent). This is a complicated process which needs careful planning if the end 2016 deadline is to be achieved. We hope that we can achieve early traceability to palm oil mills so that we can focus on traceability to FFB for those suppliers who are located in high risk areas. Field and ground assessments will be an important part of this task. This issue will be reported in future progress reports.

### Challenges

Even though we have managed to achieve considerable progress in traceability to palm oil mills, it is not without challenges. We would like to share our experience and feedback from our stakeholders in this area:

1. Not all third-party suppliers are cooperative and comfortable to provide detailed traceability information.
2. Third-party suppliers sometimes request for incentives.
3. The nature of the business with the supplier is important. Apart from suppliers who have long-term contracts and partnership with the company, most CPO and PK trading is done through "open tender". While committed companies may decide to reduce or cut off repeat offenders, the oil will still be purchased by companies that either do not have or are not enforcing a sustainability policy.
4. It is potentially very dangerous that when practicing traceability, the company may involuntarily exclude smallholders. Many problems may arise as smallholders are more difficult to manage/handle. These problems may include the huge number of small farmers who might potentially be involved in complex legal issues in Indonesia, inadequate land certificate (some may claim the possession of land with 'Surat Tanah' approved by the Village Head), poor planting materials, poor yield, poor agronomic practices, no knowledge on conservation, focus more on short-term with no long-term strategy planned except to only to maintain their livelihood. These issues must be solved however difficult that might be. It cannot be sustainable to exclude smallholders.

<sup>2</sup><http://www.musimmas.com/sustainability/progress-on-policy/list-of-suppliers>



# Stakeholder Engagement

## Smallholders

### Case study of independent smallholder project

As discussed in previous sections, smallholders play a significant role in palm oil industry. In Indonesia and Malaysia, which account for 90% of the world's palm oil production, smallholders account for up to 40-50% of the planted area, producing approximately four million tonnes of palm oil which equates to about nine percent of total global palm oil production.

Given the smaller scale of their operations (with planted areas of less than 50 hectares), smallholders are usually disadvantaged by limited financial resources, limited access to technology and limited best operational procedures. Hence, the resultant low yields and less environmentally desirable practices make it difficult and costly for them to achieve RSPO certification.

Musim Mas is collaborating with an international third party organisation to assist independent smallholders who have been supplying FFBs to our subsidiary – PT Siringo Ringo (Siringo Ringo) in Rantau Prapat, Sumatra, Indonesia. Siringo Ringo has an independent smallholder supply base that makes up ninety percent of the total FFB supply.

The initiative aims to assist independent smallholders to increase land efficiency, raise productivity of their oil palm trees and enhance FFB extraction rates through sharing of technology and imparting best management practices. The desired outcome is that of enhancing these independent smallholders' overall profitability and importantly, achieving RSPO certification.

Although these independent smallholders are not contractually bound to continue supplying their FFBs to Siringo Ringo, we have decided to proceed with the project based on the merits of the programme to bring benefits to the local communities and to ensure the inclusion of smallholders in the supply chain. We believe that by attuning to best management practices and ultimately attaining RSPO certification, these independent smallholders will be able to effectively partake in the global sustainable palm oil movement.

We will be reporting in more detail in future issues on the progress of this project.

## Suppliers

### Progress on engagement with Pati Sari

In the November 2014 report titled "The Last Place on Earth: Exposing the Threats to the Leuser Ecosystem" published by the Rainforest Action Network (RAN), PT Pati Sari was listed as one of the companies sourcing for its Fresh Fruit Bunches (FFB) from PT Mestika Prima Lestari located within the delicate Leuser ecosystem. For earlier engagement with Pati Sari, please see our [corporate website](#)<sup>3</sup>.

We have achieved positive progress in mapping the supply base of Pati Sari to the supplying farms. GPS coordinates of about 70% of the external FFB suppliers to Pati Sari have been mapped. We are now working with Pati Sari to complete the remaining suppliers.

The next step forward will be working to verify the legal documents of the land ownership and development progress. We will also study the land use change using Landsat imagery to confirm if the plantations were developed prior or before the declaration of the president decree 1998. A third-party verifier and NGO will be invited to collaborate on this work.


## Non-Governmental Organisation (NGO)

### Engagement with Rainforest Action Network

A meeting was held with the Rainforest Action Network (RAN) in Medan, Indonesia on 10th February 2015 to discuss issues pertaining to the Leuser Ecosystem. Musim Mas and RAN reached a consensus on taking collective action to secure the protection of the Leuser Ecosystem whilst taking into account the livelihoods of the local community and the competitiveness of the palm oil industry in Aceh.

At the meeting, we reiterated our stance and commitment towards purchasing of responsible palm oil from Aceh and have taken the opportunity to utilise RAN's information as a springboard for enhancing our traceability efforts through supply base checks and implementing remedial action as necessary.

Musim Mas looks forward to continuing its engagement with NGOs such as RAN and other stakeholders to establish solutions for improvement of the environment and local communities in a balanced and sustainable manner.

In a separate meeting set up by Aceh Bappeda (Regional Development Planning agency), RAN, GAPKI (Indonesian Palm Oil Association) and a few of its members including Musim Mas, and Indonesia NGO Greenomics, information was presented that a majority of the palm oil plantations operated in Aceh are located outside the official government boundaries of The Leuser Ecosystem. With regard to the companies operating inside legal permits, others do not and some parties are responsible for the clearing and burning of critical forests and peatlands. All parties agreed to work together to improve the oil palm industry in Aceh whilst at the same time conserving The Leuser Ecosystem. 

<sup>3</sup><http://www.musimmas.com/sustainability/progress-on-policy/stakeholder-engagement/suppliers/engagement-with-pati-sari>





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