

GAR Tarahan Refinery Sustainability Overview Report

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EXECUTIVE SUMMARY

Since mid-2015, Golden Agri-Resources (GAR) in partnership with The Forest Trust (TFT) has been carrying out the Aggregator Refinery Transformation (ART) programme. The ART provides a framework for refiners, millers and growers to collaborate in overcoming industry-wide challenges and changing common practices to deliver responsible palm oil products to producers, retailers and end customers. The ART programme starts with the Traceability to Mill (TTM) exercise, where the mills that the refiner/aggregator buys from are mapped and identified (through legal name, geographic coordinates, percentage of volume and certification status). GAR & TFT also conduct a Mill Prioritization Process (MPP) based on an analysis of spatial issues associated with mill catchment areas. This is based on landscape analysis to identify the physical situation of mill, such as its distance from national parks, protected forests; as well as the non-physical context, such as social and other environmental issues reported in the public domain. GAR then conducts site visits to the identified high priority mills for field verification and to help them develop action plans to improve compliance with the GAR Social and Environmental Policy (GSEP).

In 2016, GAR published the first report on the implementation of ART in the [Belawan Refinery Sustainability Overview Report](#). The report describes the profiles of Belawan Refinery suppliers. This document reports on the ongoing progress of ART based on site visits to 17 mills which supply GAR's Tarahan Refinery. The GAR Traceability Declaration Document states that 53 mills (2015) and 116 mills (2016) supplied the Tarahan Refinery. The 17 mills chosen represent 15 percent of all suppliers in 2016.

This report describes the result of the gap analysis conducted by the Site Visit Team, which consists of GAR and TFT staff, and recommends priority areas for improvement in each mill specifically and for all of Tarahan Refinery suppliers in general.

The ART programme develops GAR's third-party suppliers' capacity to comply with the GSEP which has four pillars:

1. Environmental Management
 - No development of and the conservation of High Carbon Stock forests
 - No development of and the conservation of High Conservation Value area
 - No development of and the conservation of peatlands of any depth
 - No burning for new planting, re-planting or other development
 - Continuous yield improvement to reduce pressure on new land development without intensification of the use of chemical pesticides and fertilisers
 - Report and reduce greenhouse gas emission
 - Improve waste management
2. Social and Community Engagement
 - Respecting the right to free, prior, and informed consent for indigenous peoples and local communities and recognizing the need for food security in new developments
 - Positive economic, social and community development.
3. Work Environment and Industrial Relations
 - Recognising, respecting and strengthening the rights of workers
4. Marketplace and Supply Chain
 - Traceable & Transparent supply chains
 - Support to suppliers
 - Due diligence and grievance procedures
 - Compliance with all relevant national laws and international certifications principles and criteria

GAR recognises that suppliers will need time to adapt practices to comply with GAR policies. As GAR recognises the immediate need to ensure no further clearance of HCV areas, HCS forests and peatlands

in the GAR supply chain, GAR requires all suppliers and partners to immediately shift development activities away from HCV, HCS and peatlands areas.

Across the 17 mills, 18 estates and 12 smallholders assessed, all faced challenges in fulfilling most of the principles set forth in the GSEP due to:

- **Lack of understanding of sustainability as a strategic asset.** Suppliers had yet to fully embrace sustainability as a key differentiator in the market place and link their organisation's values to triple bottom line concerns: social, environmental and financial.
- **Absence of sustainability systems and policies.** Whilst suppliers had developed some procedures related to sustainability, they were often developed merely to pursue compliance with regulation or other acceptable norms.
- **Limited structural organisational support.** Lack of internal leadership to catalyse and integrate sustainability within their organisation has prevented suppliers from adopting a clear vision and necessary focus to embrace sustainability.

To assist suppliers to comply with the GSEP, GAR in collaboration with suppliers, TFT and related stakeholders are collaborating in transformation programmes that support suppliers to adopt sustainability practices. They will also work together on monitoring and evaluations. GAR will lead broad and deep engagement initiatives to enable suppliers to systematise sustainability practices within their business management and operations. Broad engagement initiatives such as SMART SEED will target all suppliers in the supply shed, whilst deep engagement initiatives will target suppliers who have already been visited.

1. INTRODUCTION

Following its rollout at GAR's Belawan Refinery, ART was implemented across the Tarahan Refinery's supply shed and all of GAR's Indonesian downstream facilities. Tarahan refinery under PT Sumber Indah Perkasa, is one of eight GAR's downstream facilities located in Lampung Province, Indonesia.

GAR has identified third party mills supplying to Tarahan (105 mills in 2015, 116 mills in 2016 and 89 mills in Q2 2017). Through the Mill Prioritization Process (MPP) some of the mills were categorised as "high priority mills". The 17 suppliers visited represent 15 percent of all suppliers in 2016. Through these site visits, GAR collected data and information which highlighted the challenges faced by suppliers in fulfilling the requirements of the GSEP. GAR also used this opportunity to establish an open dialogue with its suppliers to find practical solutions to improve suppliers' practices in line with the GSEP.

This report contains an overview of the findings from the 17 completed site assessments. It then sets out a number of recommendations on how they can be addressed to catalyse transformation across Tarahan's entire supply shed.



Figure 1. Supplier of GAR's Tarahan Refinery

2. METHODOLOGY

2.1 Mill Prioritization Process (MPP)

Prior to the site assessment, a prioritisation process was carried out across all mills supplying GAR's Tarahan's refinery to select a representative sample to visit.

MPP is an analysis of spatial issues associated with mill catchment areas and non-spatial issues reported in the public domain. Spatial factors include: legal status, biodiversity value, presence of peat and forest disturbance/loss within a mill's likely catchment area. The non-spatial elements in the MPP are the mill's own policies, RSPO and ISPO certification status, supplying volume to the refinery and publicly reported information (PRI) such as NGO and media reports. MPP also includes landscape analysis to address some issues.

Table 1. Selected mills, location and date of site visit based on MPP

No	Mill Name	Location	Date of Site Visit
1	Mill A	South Sumatera	18 – 23 October 2015
2	Mill B	South Sumatera	18 – 23 October 2015
3	Mill C	West Kalimantan	29 February – 4 March 2016
4	Mill D	Bengkulu	4 – 8 April 2016
5	Mill E	South Sumatera	2-4 May 2016
6	Mill F	West Kalimantan	23-27 May 2016
7	Mill G	West Kalimantan	22-26 August 2016
8	Mill H	West Kalimantan	6-9 September 2016
9	Mill I	South Sumatera	18-21 October 2016
10	Mill J	Bengkulu	18-22 October 2016
11	Mill K	Bangka	25-28 October 2016
12	Mill L	West Kalimantan	5-9 December 2016
13	Mill M	Lampung	13-15 December 2016
14	Mill N	East Kalimantan	16-19 May 2017
15	Mill O	East Kalimantan	10-14 July 2017
16	Mill P	West Kalimantan	24- 28 July 2017
17	Mill Q	Lampung	11-15 Sept 2017

2.2 GAR Requirements

Suppliers visited were evaluated against criteria aligned with the principles set forth in the GSEP. All indicators for mill, estates and smallholders have been derived from GSEP. In total 29 indicators for mill, 33 indicators for estate and 21 indicators for smallholder have been developed:

1. Environmental Management

GAR's Policy Objectives:

- There is a documented and publicly available policy stating that HCS forests, HCV areas and peatlands shall not be cleared and there is evidence of this being implemented in suppliers' operations
- The supplier needs to demonstrate that in areas for new plantations/developments, HCS forests, HCV areas, and peat areas are identified, and the patches are marked for conservation. The peatland management must follow best practice as suggested by the Indonesian Government.
- Environmental management is conducted by suppliers to avoid, reduce and minimise negative environmental impacts such as GHG (greenhouse gas) and pollutant emissions, organic and non-organic waste, fire, biodiversity loss, water and soil pollution, soil degradation, and use of hazardous pesticides.

The five verification indicators for mill, nine indicators for estate and seven indicators for smallholders were developed based on the GSEP.

2. Social and community engagement

GAR's Policy Objectives:

- Respecting the right to free, prior, and informed consent (FPIC) for indigenous peoples and local communities and recognising the need for food security in new developments

- There is no evidence of any violation of the Universal Declaration of Human Rights towards workers, contractors, indigenous people, local communities or anyone affected by the Company's operations
- Positive economic, social and community development
- A conflict management and grievance handling system is in place for local stakeholders to raise grievances to third party suppliers

The seven verification indicators for mill, six indicators for estate and three indicators for smallholder were developed based on the GSEP.

3. Work Environment and Industrial Relations

GAR's Policy Objectives:

- There is no evidence of any violation of the Universal Declaration of Human Rights towards workers or contractors
- There is no breach to national laws and local regulations related to labour and human rights
- There is no evidence showing the supplier (including contractors) uses or promotes the use of child, forced or bonded labour, including human trafficking.
- An internal grievance mechanism accessible for workers to lodge complaints to the company

The 13 verification indicators for mill, 13 indicators for estate and nine indicators for smallholders were developed based on the GSEP.

4. Marketplace and supply chains

GAR's Policy Objectives:

- Understanding the supplier's supply chain. The supplier is aware of its FFB sources and has traceability systems in place.
- Support to suppliers and ensure that smallholders are treated fairly in the supply chain and receive support to comply with GAR's sustainability policy
- Legal Compliance whereby suppliers have all legally required documents (licenses, permits, land titles, certification, and any other available and relevant evidence) and has a system in place to ensure it meets all local and national regulations and laws.

The four verification indicators for mill, five indicators for estate and two indicators for smallholders were developed based on the GSEP.

Table 2. Total Indicators used for verification for each entity:

GAR'S COMMITMENT/GSEP	NUMBER OF INDICATORS		
	MILL	ESTATE	SMALL HOLDER
Environmental Management	5	9	7
Social and community engagement	7	6	3
Work Environment and Industrial Relations	13	13	9
Marketplace and supply chains	4	5	2

2.3 The role of site assessments in transforming GAR's supply chain

Site visits are not designed to act as an audit but as a collaborative exploration of how nodes in a supply chain operate and interact with each other. The emphasis is on open discussion with suppliers and on finding practical solutions to achieve compliance with the GSEP.

Site visits are conducted over three to four days by a team of three to four members from GAR and TFT with expertise in but not limited to ISPO and RSPO certification system, HCV toolkit, HCS approach, implementation of FPIC and Human Rights, Social Impact Assessment and Traceability.

3. SUPPLY CHAIN OVERVIEW OF FINDINGS

This section provides a summary of the findings collated from the 17 site visits of suppliers to GAR's Tarahan refinery.

3.1 Supply chain structure findings

Tarahan's supply shed is composed of third party suppliers that are predominantly located in Kalimantan. Through the prioritisation process, suppliers selected for a site visit were located in West Kalimantan, East Kalimantan, Bengkulu, South Sumatera, Bangka Belitung and Lampung Province (Figure 1).



Figure 2. Location of majority of suppliers visited

Each of the 17 site visits included engagement with mills and Fresh Fruit Bunch (FFB) suppliers and comprised: 17 mills, 18 estates and 13 smallholders. Site visits also included observing seven agents, as middle men in FFB transactions between farmers and mills. A breakdown of the types of entities visited is captured in Figure 3. The majority of mills visited (82 percent) were affiliated with a large parent company. Visits that were carried out at estates were often integrated with the mill and 75 percent of smallholders/small growers visited had a concession area below 25 hectares.

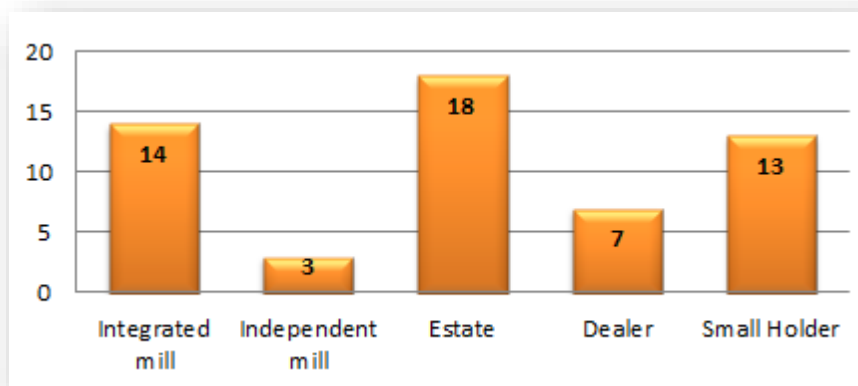


Figure 3. Types of entities visited

All entities visited have a complex supply chain of vertical integration and independent suppliers that feed FFB into mills which supply Crude Palm Oil (CPO) to Tarahan.

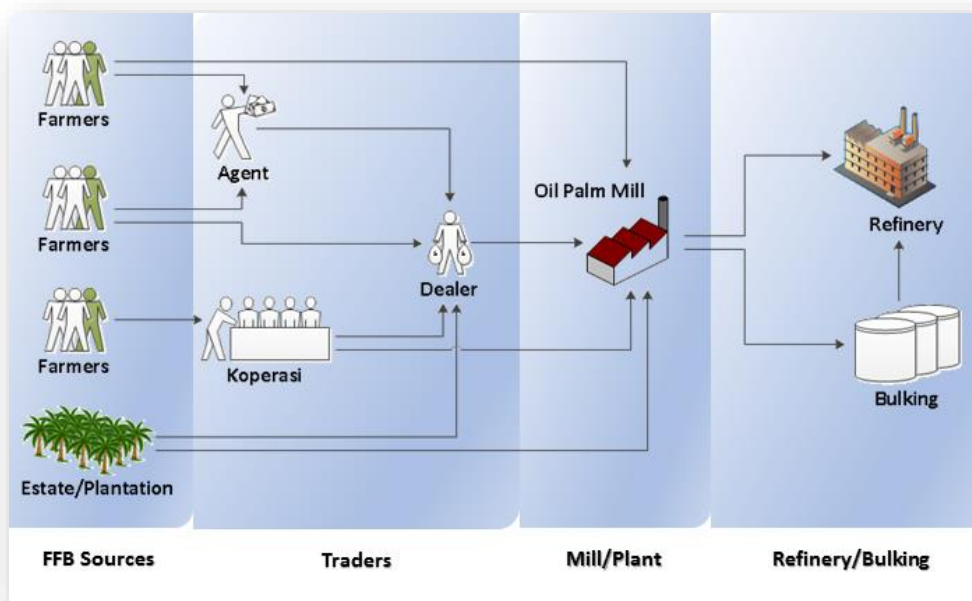


Figure 4. Supply Chain Map

Table 4. Mill Supply base overview

MILL	% OF TOTAL SUPPLY BASE				
	OWNED ESTATE (GROUP)	ASSOCIATED SMALLHOLDER	PLANTATION COMPANY	INDEPENDENT SMALLHOLDER	DEALER/AGENT
Mill A	80	20	0	0	0
Mill B	80	20	0	0	0
Mill C	58	5	30	0	7
Mill D	32	68	0	0	0
Mill E	95	5	0	0	0
Mill F	5	15	20	30	30
Mill G	40	60	0	0	0
Mill H	87	0	0	0	13
Mill I	100	0	0	0	0
Mill J	0	0	12	0	88
Mill K	80	10	0	0	10
Mill L	60	15	20	5	0
Mill M	0	0	50	0	50
Mill N	88	12	0	0	0
Mill O	10	0	40	0	50
Mill P	86	0	0	0	14
Mill Q	0	0	12	1	87

Information gathered through the site visits showed that 52 percent of FFB was sourced from integrated estates or estates under same company group with another 11 percent from other companies and 14 percent from associated smallholders. In other words, 77 percent of FFB was sourced from companies and smallholder managed by company which are easier to trace/map. It is also easier to develop sustainable transformation programmes for companies than dealers and independent smallholders.

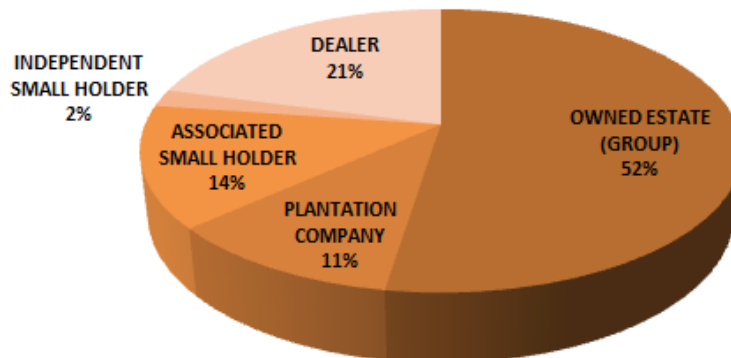


Figure 5. Overview of Mills Supply Base

3.2. Supply chain sustainability findings

3.2.1. GSEP1: Environmental Management

Overview

Protecting HCV areas is a challenge for estates. Most estates had yet to demonstrate practices that contribute to the protection of sensitive ecosystems, which include HCS forests, HCV areas and peat lands. Some estates were found to have potential HCV areas such as river banks and steep slopes. Protecting such ecosystems require estates to first identify such areas, develop management plans to protect them and carry out monitoring to ensure they are protected in line with the estates' commitments.

The next section describes the supplier estate compliance with GSEP's immediate requirement, which is to shift development away from HCV, HCS and peat areas.

a) Conservation of HCS forests

Fifty percent of 18 estates visited have undeveloped land bank, but neither HCS forest protection or study is being carried out by the estates.

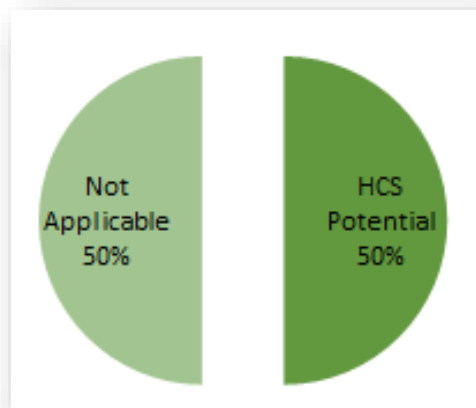


Figure 6. HCS Conservation

b) Clearance of HCV areas

Only 25 percent of 18 estates have adopted the HCV approach; developed policy to protect HCV area; and conserved the identified HCV areas (see Figure 7).

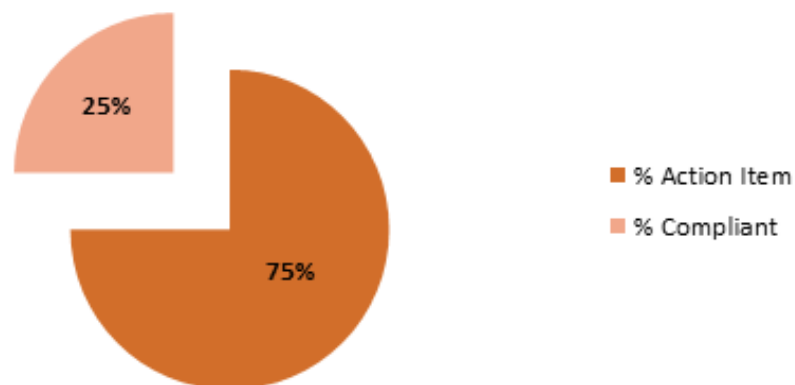


Figure 7. HCV Conservation

c) No new development on Peatland

Fourteen estates (78 percent) are located on mineral soil (see figure 8). At the time of the site visit, the four estates that possess peat areas were not developing new plantations. However, this is due to the current government moratorium on new development of peat lands and these companies currently do not have a policy of no development on peat.

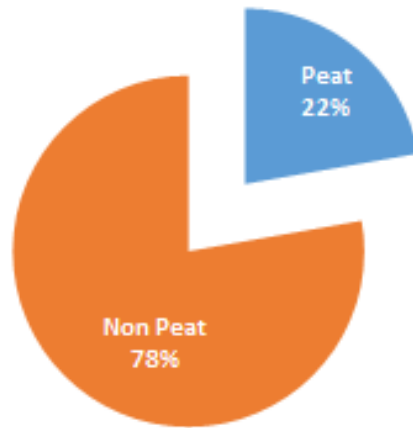


Figure 8. Peat findings

d) Other Environmental Management Issues

Mills:

Management of hazardous and poisonous waste is stressed in GSEP. However, 71 percent of the palm oil mills were significantly challenged in this area (see Figure 9). They need to install Temporary Hazardous and Poisonous Waste Storage and manage it as stated in the regulations. Hazardous and poisonous waste is stored over a length of time in sub-standard storage. Two mills have problems managing their liquid waste and lab studies indicate that the waste is contaminating the surroundings.

Solid waste management, especially managing Empty Fruit Bunch (EFB) is a common problem found in the mills visited.

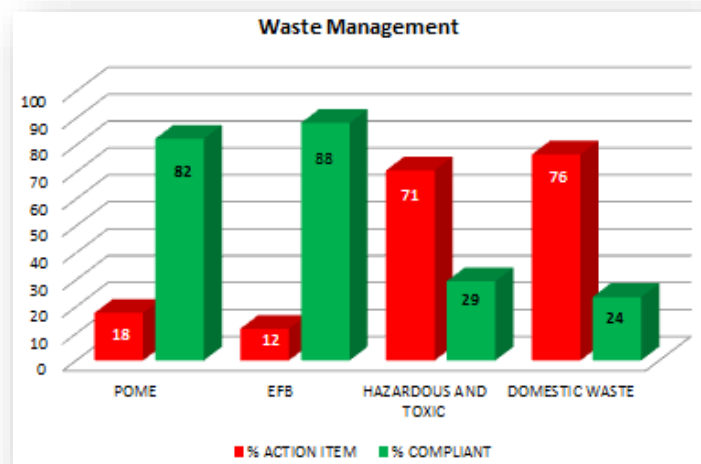


Figure 9. Performance of Mill: Waste Management

Across all mills visited, a majority had secured their environmental documentation and carried out management and monitoring plans based on their legal environmental documentation. Thirty-five percent of the mills need to improve their environmental management and monitoring in accordance with the Environmental Management and Monitoring Plan Document (RKL-RPL) (see Figure 10). Other mills need to develop written procedure to manage the environment, identify influencing environmental aspects, develop environmental protection policy, and implement the management and monitoring plan.

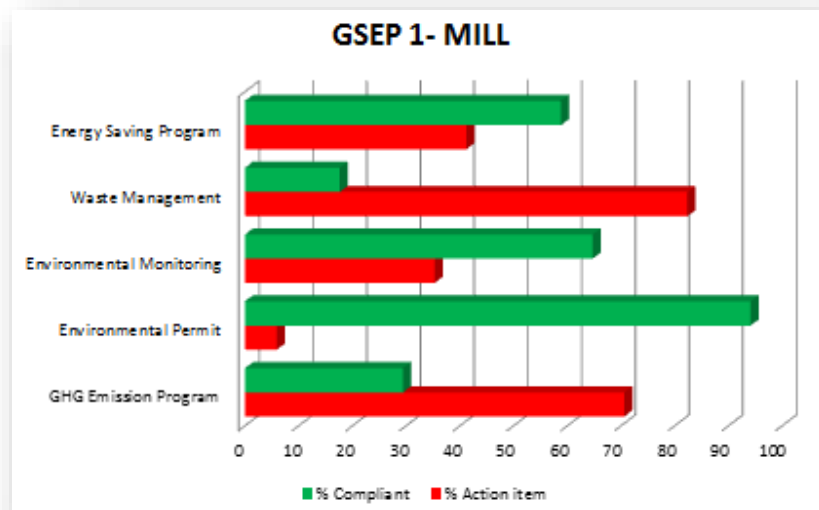


Figure 10. Performance of Mill: Environmental Management

The mills are struggling to identify and to report GHG emissions with 69 percent of the mills visited unaware of their GHG emissions. Thirty-one percent of suppliers have identified and monitored all sources of GHG emissions in their operations and GHG emissions will be reduced progressively in all operations through the implementation of best management practices and action plans to achieve targeted reductions.

All mills visited have implemented some form of energy saving programmes through reusing waste as fuel, for example, using shell and fibre to heat boilers. However, 41 percent have no documented and formalised energy efficiency mechanisms, energy saving mechanisms or renewable energy programme. The mills must improve the documentation of energy use, so that they are able to analyse energy efficiency.

Estates:

Waste management is the main problem in estates, especially in managing hazardous and domestic waste. Ninety percent of estates were significantly challenged in this area. The estates must provide and manage Temporary Hazardous Waste Storage in line with regulations, such as using correct symbols, labels, Personal Protective Equipment etc. Domestic waste is not separated into organic and non-organic waste. Some of the estates simply burn the waste and have no waste management procedure (see Figure 11).

All the suppliers have implemented no burning in land clearance, although they have yet to formalise this in written policy. Their fire-fighting system must be improved to prevent and handle land/forest fires.

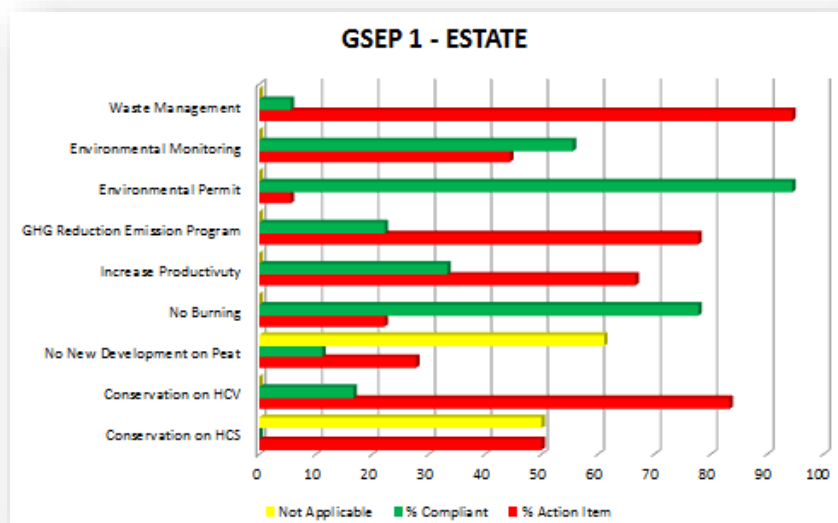


Figure 11. Performance of Estate: Environmental Management

Sixty-seven percent of the estates need to improve their integrated pest control and to reduce pesticide use, to increase yield and while reducing expansion of planted area (see Figure 11). Most of the estates are still applying herbicide which contains Paraquat. They have not identified/measured GHG emissions or developed adaptation and mitigation plans.

Smallholders:

Smallholders need to obtain their environmental permits. Almost all smallholders do not have environmental management statements.

Smallholders are not applying best management practices in peat lands. They claim that they do not use fire to clear land but this is difficult to verify as the oil palm trees were planted seven years ago. The farmers are aware that they should not clear land with fire because it has bad influence on health. Almost 50 percent of farmers do not have equipment to handle fire on land (see Figure 12).

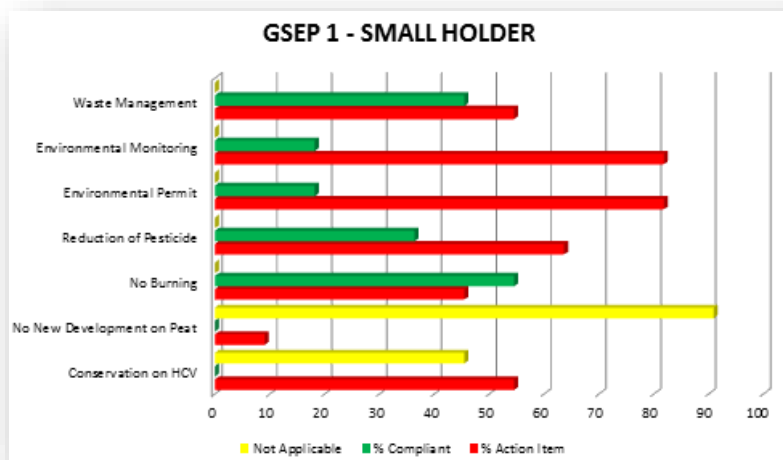


Figure 12. Performance of Smallholder: Environmental Management

The smallholders are still applying herbicide containing Paraquat.

Forty-five percent of the farmers' land is not inside HCV areas (see Figure 12), but the rest are potentially located in HCV areas, such as riparian and slope areas, and has already been planted with oil palms.

3.2.2. GSEP 2 - Social and Community Engagement

Overview of Mills and Estates:

Not all mills and estates have complied with GSEP Principle 2: Social and Community Engagement (see Figure 12 & 13). GAR did not find any evidence of human rights violations during the site visit. However, most of the companies do not have formal human rights policies. All the mills and estates have developed varying degrees of corporate social responsibility. However most of them are simply responding to proposals from the community. About 50 percent of the mills and estates have not developed CSR SOPs based on participatory Social Impact Assessment (SIA). The rest of the mills have developed community development programmes with budget lines.

Mills and estates have significant challenges in constructively engaging with local, national and international stakeholders. Only 35 percent of mills and 17 percent of estates have systematic communication with stakeholders.

Two-thirds of mills and estates do not have formal grievance and conflict resolution mechanisms.

Mills:

Sixty-five percent of the mills said that they had involved farmers in sustainable palm oil through cultivation training, but this is not formally documented between the mills and farmers (see Figure 13). GAR did not find any issue regarding land tenure rights in mills.

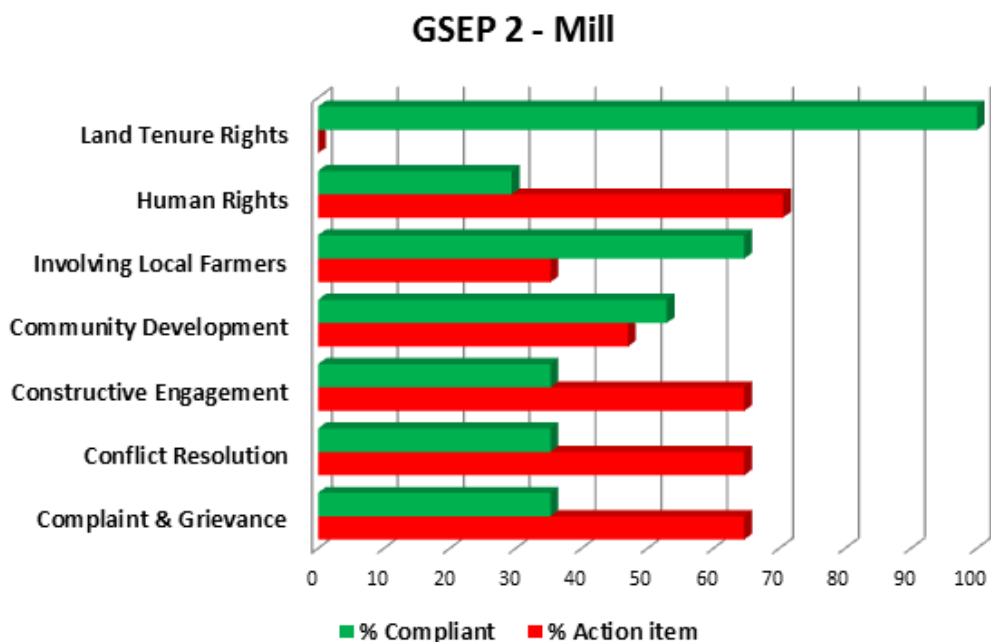


Figure 13. Performance of Mills: Social and Community Engagement

Estate:

The estates have not conducted land tenure studies to resolve land conflicts in their concessions. Forty-four percent of the estates have land disputes, since they were not aware of or did not apply FPIC procedures during land acquisition (see Figure 14).



Figure 14. Performance of Estate: Social and Community Engagement

Smallholder:

We did not find any conflicts or violations of human rights between farmers and the workers (see Figure 15).

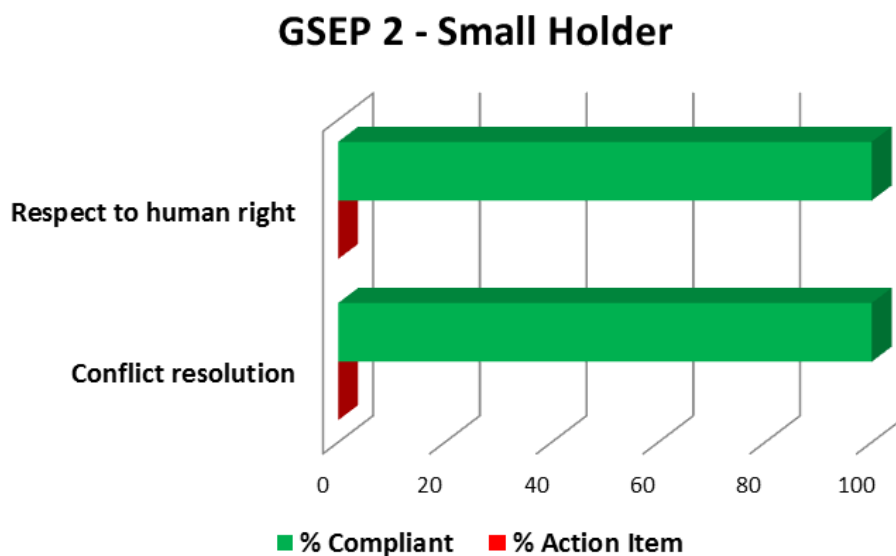


Figure 15. Performance of Smallholder: Social and Community Engagement

3.2.3. GSEP 3 - Work Environment and Industrial Relations

Overview

Mills, estates and smallholders have poor or no management systems to adequately ensure Occupational Health and Safety (OHS) (see Figure 16, 17, 18). More than half the mills, estates and smallholders have not complied with GAR OHS policy. Implementation of OHS in mills, estates and smallholders are limited to providing Safety and Health Equipment for workers some of which is sub-standard. The equipment provided is not consistent with HIRADC guidelines (Hazard Identification, Risk Assessment and Determining Control).

Most mills do not have documented OHS procedures and there is no management of hazard sources or emergency equipment. Mills and estates do not have personnel in charge of OHS, emergency drills are not carried out and heavy equipment operators are not licensed. Smallholders are operating in similar conditions. They are practicing unsafe chemical waste treatment and ignoring the use of Safety and Health Equipment.

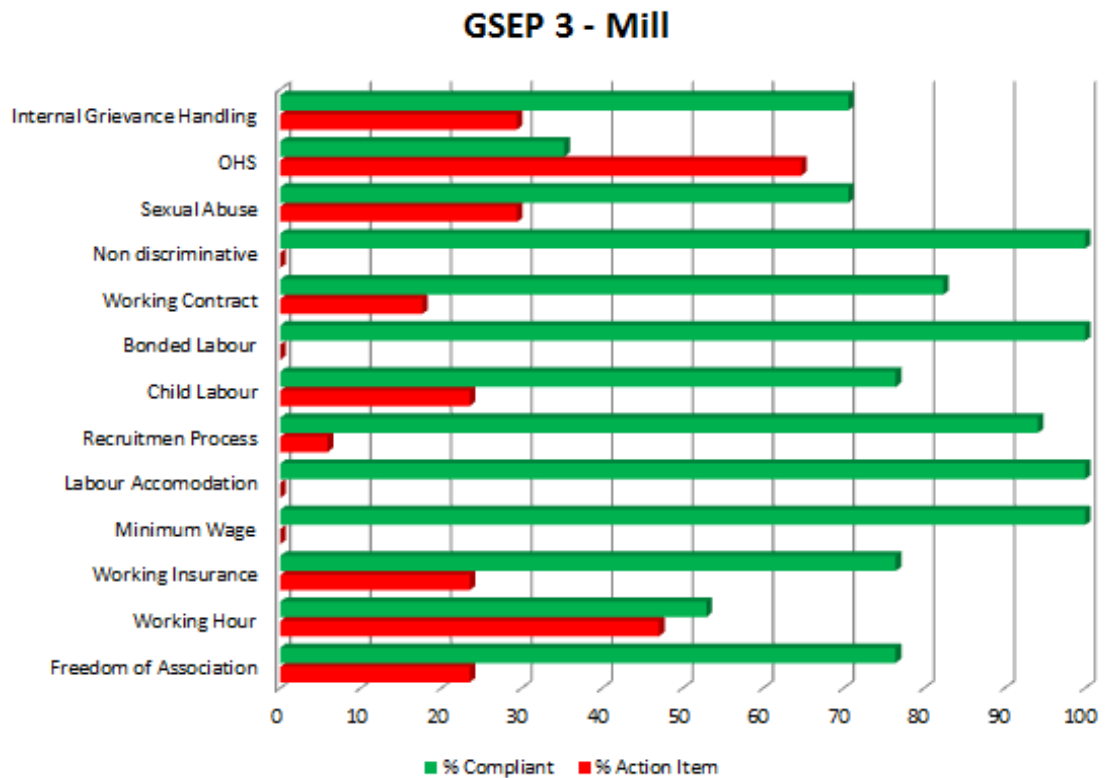


Figure 16. Performance of Mill: Work Environment and Industrial Relations

GSEP 3 - Estate

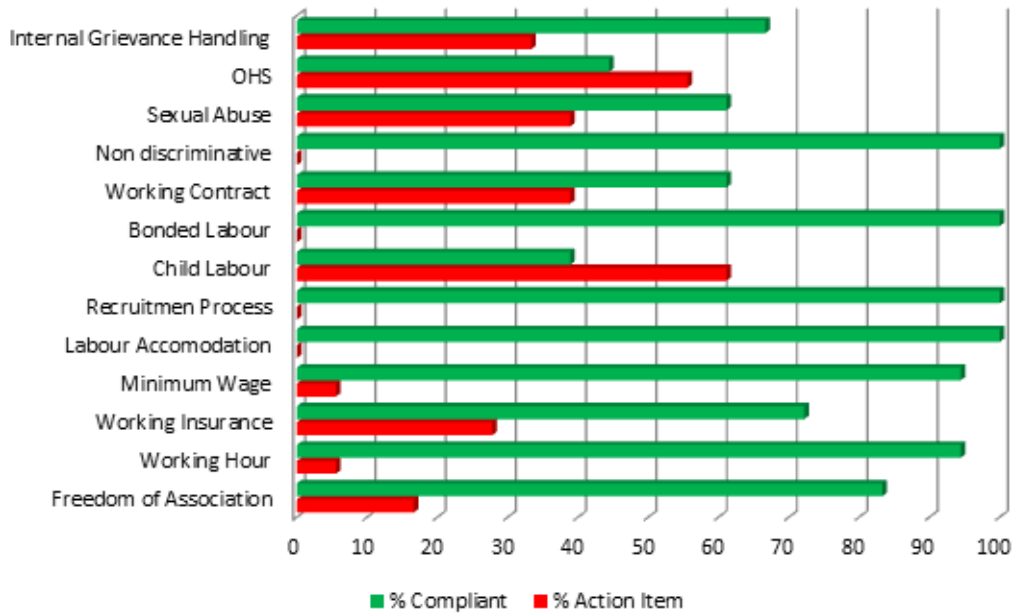


Figure 17. Performance of Estate: Work Environment and Industrial Relations

Practices to strengthen the rights of workers have not yet been fully adopted at the mill and estate level (see Figure 16 & 17). Other areas where there are challenges included: commitments on workers’ rights; contracts for casual workers; lack of policies relating to forced or bonded labour and child labour; lack of policies addressing harassment and abuse; lack of mechanisms to handle workers’ grievances and ensuring freedom of association.

The length of work hours is an issue at the mill level. Almost 50 percent of mills visited have issues with overtime – which according to the Labour Law should be no more than three hours per day or 14 hours per week. Workers are also not protected by safety insurance (see Figure 16).

We did not find any issues related to minimum wage. Mills, estates, and smallholders pay their workers above minimum wage. We also did not detect issues related to discrimination, forced labour or unethical recruitment.

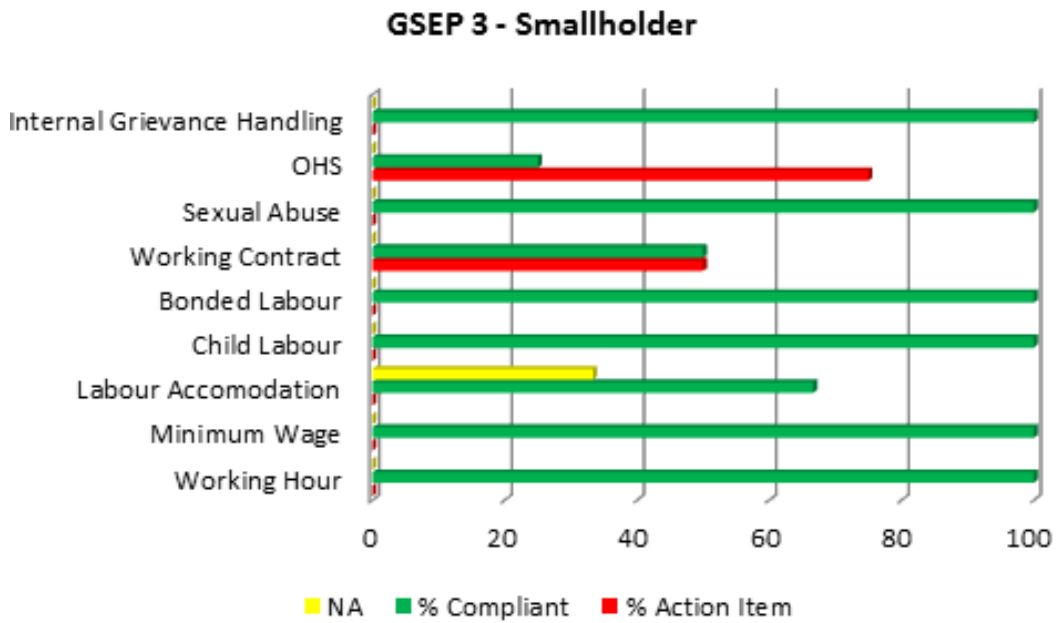


Figure 18. Performance of Smallholder: Work Environmental and Industrial Relations

3.2.4. GSEP 4 - Marketplace and Supply Chain

Overview

The main issue amongst mills is the lack of mapping and traceability. The second major issue is lack of compliance with regulations and the law.

Mills:

Palm oil mills have not mapped their supply chain and do not fully know the origin of their FFB. They have not yet developed traceability processes which would enable them to collect information on the exact location and land use history of their suppliers. All mills do not have procedures for traceability as per GAR's requirement, but 35 percent of the mills are fully traceable because they only source FFB from own estates or plasma plantations (see Figure 19).

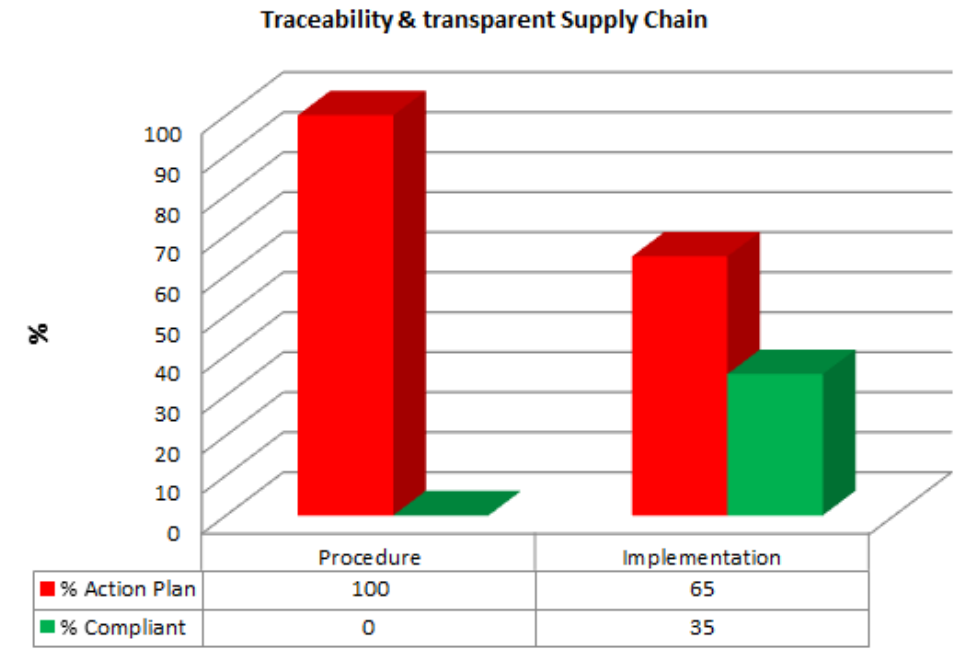


Figure 19. Performance of Mills: Marketplace and supply chain

Although palm oil mills had fulfilled legal requirements to establish their company and operational activities and environmental and labour regulations, legal compliance was identified as the second most common issue.

This was mainly because most mills (and estates) have not yet established management systems to ensure they meet all local and national regulations and laws (See Figure 20 & 21). Another key finding was that some palm oil mills had not yet secured temporary hazardous waste storage permits, occupational health and safety licences, collective labour agreements, and Indonesian Sustainable Palm Oil (ISPO) certification. Mills also face challenges in handling external grievances and need to better support their suppliers to help them adopt responsible practices.

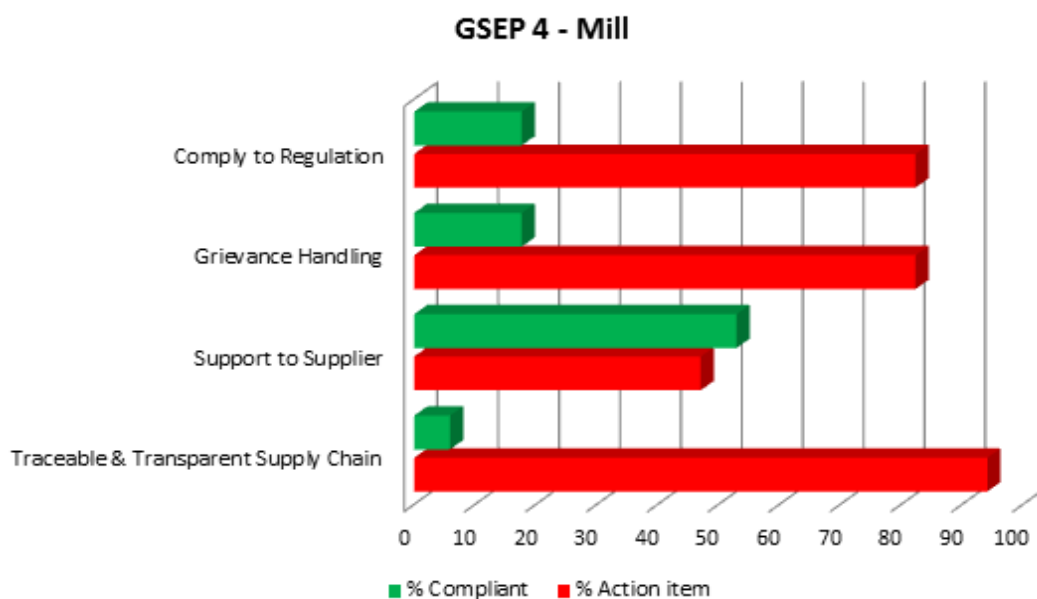


Figure 20. Performance of Mill: Marketplace and Supply Chain

Estates:

We found that all estates have obtained company permits, but they face challenges in complying with legal aspects of labour, OHS and land permits.

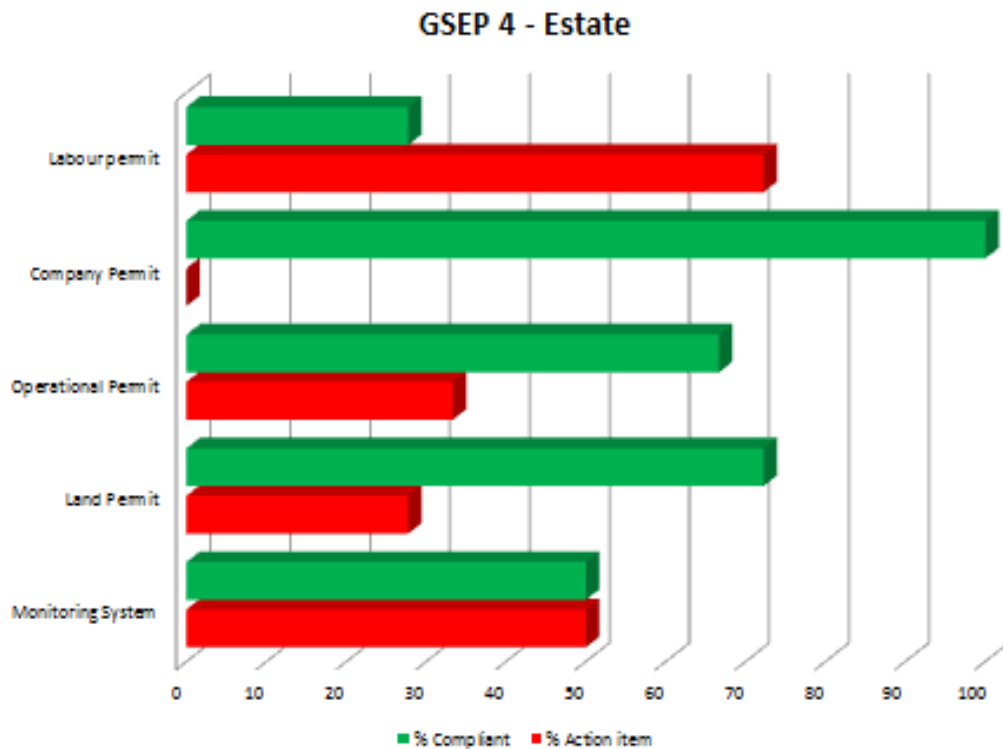


Figure 21. Performance of Estate: Marketplace and Supply Chain

Smallholders:

Sixty-seven percent of smallholders have secured land permits as most of the farmers participated in the transmigration programme and get their land from government. However, they did not have Letter of Plantation Registration (IUP – B/STD – B) (see Figure 22).

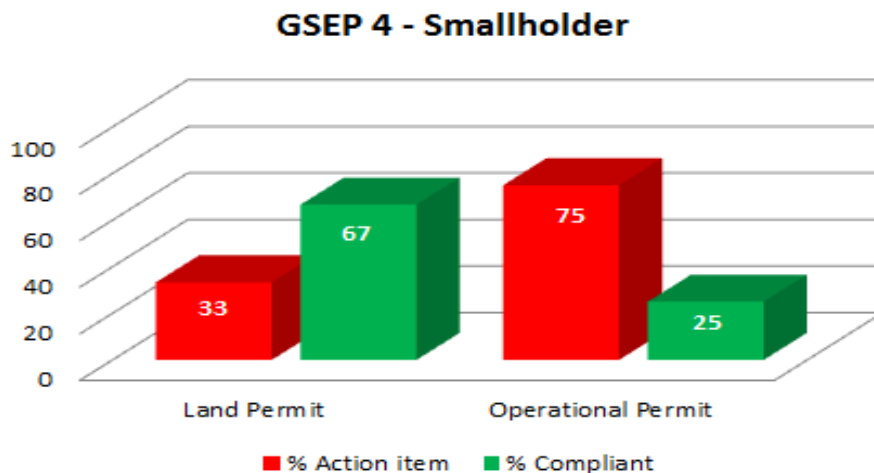


Figure 22. Performance of Smallholders: Marketplace and Supply Chain

4 RECOMMENDATIONS

Table 4. Recommendation for GAR Suppliers and supply chain

PRINCIPLE	ISSUE	ENTITY			RECOMMENDATION
		MILL	ESTATE	SMALL HOLDER	
Environmental Management	<ul style="list-style-type: none"> ▪ Conservation of HCS ▪ Conservation on HCV ▪ Best practices in peat management ▪ Waste management ▪ Implementation of environmental management and monitoring ▪ GHG emissions reduction ▪ Applying hazardous pesticide ▪ Environmental permit 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ▪ GAR to conduct socialisation on the importance of HCS and HCV conservation and coordinate HCS and HCV training for suppliers (<i>Estate</i>) ▪ Mills and estates to develop policy on HCS and HCV conservation and assign dedicated staff ▪ GAR to conduct best management practices training/workshop on peat collaboration with expert and government authority (<i>Estate</i>) ▪ GAR to share information how to handle waste (POME, EFB, hazardous, poisonous and domestic waste) and GHG emission reduction programme (<i>Mill, Estate, SH</i>) ▪ <i>Mills and estates</i> must commit to implementation of waste management, environmental management and monitoring with reference to regulations and GHG emissions reduction programme ▪ Reduce the use of hazardous pesticide (<i>Estate, SH</i>) ▪ GAR to discuss with stakeholders to help farmers get environmental permit
Social and community engagement	<ul style="list-style-type: none"> ▪ Land tenure rights ▪ Constructive engagement with stakeholders ▪ Conflict resolution, complaint and grievance handling ▪ Involving local farmer ▪ Community development ▪ Human rights 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ▪ GAR to conduct workshop on FPIC for suppliers and suppliers must commit to FPIC implementation in handling land acquisition/land conflict ▪ Mills and estates to develop policy and procedure for stakeholder engagement and transparency ▪ Develop mechanisms on conflict resolution, complaint and grievance handling and implement them (<i>Mill, Estate</i>) ▪ GAR to support mills to assist farmers in adopting responsible practices for e.g. by giving incentives for outstanding programmes for smallholders ▪ Mills and estates should create needs-based community development programmes based on social impact assessment, not only in response to ad-hoc community proposals ▪ Mills and estates must formalise policies on respect to human rights

Work Environment and Industrial Relations	<ul style="list-style-type: none"> ▪ OHS ▪ Working hours (overtime) ▪ Worker insurance for casual worker ▪ Contract for casual workers ▪ Lack of policies relating to forced or bonded labour and child labour ▪ Lack of policies addressing harassment and abuse ▪ Lack of mechanisms to handle workers' grievances and freedom of association 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ ✓ 	<ul style="list-style-type: none"> ▪ Mills, estate and smallholders must maintain OHS systems to ensure workers wellbeing ▪ GAR to conduct OHS audit on suppliers (mill and estate) to encourage OHS implementation. GAR to tightly monitor OHS system infraction especially in cases of fatality. ▪ Mills and estates ensure no violation of regulations on overtime, worker insurance and to have written contracts for casual worker ▪ Create policies related to forced or bonded labour and child labour (Mill, Estate) ▪ Create policies on addressing harassment and abuse (Mill, Estate) ▪ Create mechanisms to handle workers' grievances and ensure freedom of association (Mill, Estate)
Marketplace and supply chains	<ul style="list-style-type: none"> ▪ Traceability of FFB ▪ Legal compliance ▪ Supply chain grievance handling 	<ul style="list-style-type: none"> ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ 	<ul style="list-style-type: none"> ✓ 	<ul style="list-style-type: none"> ▪ Mills to develop FFB Traceability process ▪ Mills to identify FFB source along supply chain ▪ GAR to support with training on Traceability to Plantation to group suppliers ▪ Mills and estates to establish management systems to ensure they meet all local and national regulations and laws ▪ Mill to develop supply chain grievance handling procedure

5 OVERARCHING ISSUES FACED BY ALL SUPPLIERS

We found that all 17 mills, 18 estates and 12 smallholders assessed had challenges in fulfilling most of the principles set forth in the GSEP. This is largely due to:

- **Lack of understanding of sustainability as a strategic asset.** Suppliers had yet to fully embrace sustainability as a key differentiator in the market place and link their organisation's values to triple bottom line concerns: social, environmental and financial. Push factors from market players related to socialising sustainability policies across suppliers as well as pull factors such as offering rewards for sustainable practices, have also not yet been optimally rolled out.
- **Absence of sustainability systems and policies.** While suppliers had developed some procedures related to sustainability, they were often developed merely to pursue compliance with regulation or other acceptable norms. Suppliers had not yet developed integrated sustainability policies that move beyond basic regulations or institutionalised them into their operational practices.
- **Limited structural organisational support.** Lack of internal leadership to catalyse and integrate sustainability within their organisation has prevented suppliers from adopting a clear vision and the necessary focus to embrace sustainability. Suppliers demonstrated an insular culture and an unwillingness to collaborate with their peers to find multi-stakeholder solutions.

For suppliers to close gaps in complying with the GSEP, embedding all three elements into their modus operandi is essential. As a start, building an appreciation of sustainability as a competitive advantage for the business is an essential first step to allow the other building blocks to come into play. Engaging with suppliers in forums that present a consistent message of sustainability as a means to greater access to markets and providing financial incentives will encourage suppliers' perceptions to shift away from regarding sustainability merely as a means of managing risk. As suppliers harness the value of sustainability as a strategic asset, they should be supported with policy tools and templates, as well as capacity building activities delivered by relevant experts, to further encourage and institutionalise sustainability into their business processes. In parallel, CEOs and owners need to take a lead and ensure that sustainability takes root in their organisations. Establishing all three elements within suppliers' operations should ensure their transformation journey will not be shortlived and will continue to contribute long term benefit in both sustainability and business performance.

6 NEXT STEPS

To assist suppliers to comply with the GSEP, GAR will be leading broad and deep engagement initiatives to enable suppliers to systematise sustainability practices within their business management and operations. Broad engagement such as SMART SEED will target all suppliers in the supply shed, whilst deep engagement initiatives will target suppliers who have already been visited. GAR will make available the following support mechanisms for suppliers:

- **SMART SEED** held annually to provide a platform for suppliers to reflect on strategic sustainability issues and participate in technical training sessions that will support suppliers to improve their social and environmental performance towards compliance with the GSEP.
- **Create Toolkits and Templates on SMART website** that can be replicated and integrated into suppliers' own business processes related to legal compliance, peat management, HCV, HCS,

environmental impact management, Occupational Health & Safety, Free Prior and Informed Consent (FPIC) and traceability.

- **SMART LEAF (Learning, Engagement and Action Forum) and SMART SPOT (Sustainable Palm Oil Training).** GAR to conduct training and technical workshop to promote and facilitate learning for suppliers on topics related to legal compliance, ISPO, peat management, environmental impact management, HCV, HCS, social impact, CSR, sexual abuse and harassment, grievance, conflict management, Occupational Health and Safety, FPIC and traceability.
- **Collaboration for Transformation (CFT)** with targeted suppliers to support sustainability practices and find solutions together.
- **GAR is improving supplier risk assessment** especially in determining problems or issues in industrial relations and occupational safety and health. GAR will start this process in areas which supply the most CPO and PK and progress to other areas.

To monitor and evaluate the progress of suppliers' transformation journey, suppliers will be assessed annually through follow-up visits and supplier self-assessments. This approach was launched prior to the publication of this report and GAR will be collecting feedback from its suppliers. GAR will also roll out thematic surveys geared towards issues in which suppliers are most challenged. Thematic surveys will assist GAR to better understand how its interventions are supporting suppliers to integrate sustainability into their business management and improve their practices in the field. Success stories of suppliers' transformation journeys will also be published by GAR to further inspire and create synergies within its supply base and accelerate collaborations in finding practical solutions. GAR hopes and expects that together with their suppliers, they will be able to progress towards implementing responsible palm oil practices at scale.