

# **GAR Lubuk Gaung Refinery & Dumai Bulking Station Sustainability Overview Report**

**Prepared by:  
GAR Supply Chain Sustainability Division**

**Reviewed by:  
The Forest Trust**

**September 2018**

## TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	3
1. INTRODUCTION.....	5
2. METHODOLOGY.....	6
3. OVERVIEW OF FINDINGS.....	7
4. RECOMMENDATION.....	15
5. OVERARCHING ISSUES FACED BY ALL SUPPLIERS.....	17
6. NEXT STEPS.....	17

## EXECUTIVE SUMMARY

This is the third in the series of Sustainability Overview Reports compiled by the GAR Sustainability Supply Chain Division. Reports on [GAR's Belawan Refinery](#) and [GAR's Tarahan Refinery](#) were previously published on GAR's Sustainability Dashboard following visits to those areas. This report highlights the results of site visits to assess suppliers of the Lubuk Gaung Refinery and Dumai Bulking Station, using the Agregator Refinery Transformation (ART) approach developed by The Forest Trust (TFT).

In 2016, GAR Lubuk Gaung Refinery was supplied by 189 Palm Oil Mills (POM) and as of Q4 2017, there were 185 suppliers. Dumai Bulking Station was supplied by 97 POMs in 2016 and 98 POMs as of Q4 2017.

Using the ART approach, we selected and visited 17 POMs as representative samples of the Lubuk Gaung Refinery supply base and 12 POMs as samples for Dumai Bulking Station supply base. Of these, eight mills supply to both Lubuk Gaung and Dumai. This report describes the result of the gap analysis conducted by the Site Visit Team, which consisted of GAR and TFT staff; and recommends priority areas for improvement in each mill specifically, and for all suppliers of Lubuk Gaung Refinery and Dumai Bulking in general. Site visits were conducted from 2015 to 2017. As part of the site visits, the team also visited 24 estates, 26 smallholders and 15 dealers which form the supply base of 21 POMs.

The [GAR Social and Environmental Policy \(GSEP\)](#) (which applies to our suppliers) 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.

The 21 mills, 24 estates, 26 smallholders and 14 dealers show similarities to the suppliers visited in the Belawan and Tarahan Refinery supply sheds. All suppliers face 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 comply 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 and related stakeholders, are developing transformation programmes to help suppliers adopt sustainability practices. We are also continuously monitoring and evaluating their capacity to comply with the GSEP. 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, such as **SMART LEAF (Learning, Engagement and Action Forum)** and **SMART SPOT (Sustainable Palm Oil Training) and Collaboration for Transformation (CFT)**. GAR will 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 handling, conflict management, Occupational Health and Safety, FPIC and traceability.

# 1. INTRODUCTION

Following its rollout at GAR's Belawan and Tarahan refineries, ART was implemented across the Lubuk Gaung Refinery and Dumai Bulking Station supply shed. 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 consumers. Lubuk Gaung Refinery and Dumai Bulking Station are facilities under GAR's subsidiary, PT Ivo Mas Tunggal and part of GAR's eight downstream facilities. Both are located in Riau Province.

As part of its Traceability to Mill process, GAR has identified third-party mills supplying to Lubuk Gaung (168 mills in 2016 and 165 mills in Q4 2017). Dumai Bulking Station was supplied by 83 third - party POMs in 2016 and 87 POMs as of Q4 2017. The team visited 17 supplier mills representing 10 percent of Lubuk Gaung third-party suppliers in 2017; and 12 mills representing 14 percent of Dumai Bulking Station third-party suppliers in 2017. This includes eight suppliers which supply both Lubuk Gaung Refinery and Dumai Bulking Station.

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 practices in line with the GSEP.

This report contains an overview of the findings from the 21 completed site assessments. It also sets out a number of recommendations on how issues can be addressed to trigger transformation across Lubuk Gaung and Dumai's entire supply base.



Figure 1. Total mills visited by province

## 2. METHODOLOGY

### a. Mill Prioritisation Process (MPP)

A sample of POMs was selected using the Mill Prioritisation Procedure which is an analysis of spatial issues associated with the mill catchment areas and non-spatial issues. 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, volume supplied to the refinery and publicly reported information such as NGO and media reports. MPP also includes landscape analysis to address some issues.

GAR prioritises POMs which are categorised as high risk for site visits and encourages them to transform their business practices. However, the process and speed of transformation is determined by the willingness of suppliers to participate in the initiative.

### b. GAR Requirements

Suppliers visited are evaluated against GSEP criteria. All indicators for mill, estates and smallholders are derived from the GSEP. In total 29 indicators for mills, 33 indicators for estates and 21 indicators for smallholders have been developed:

#### 1) Environmental Management

GAR's policy objectives:

- 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 has to follow best practice management as recommended by the Indonesian Government.
- Environmental management is conducted by suppliers to avoid, reduce and minimise negative environmental impacts such as greenhouse gas (GHG) and pollutant emissions; organic and non-organic waste; fire; biodiversity loss; water and soil pollution; soil degradation; and use of hazardous pesticides.

#### 2) Social and community engagement

GAR's policy objectives:

- Ensuring the right to Free, Prior, and Informed Consent (FPIC) for indigenous peoples and local communities are respected and recognising the need for food security in new developments.
- 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 involving third party suppliers.

#### 3) Work Environment and Industrial Relations

GAR's policy objectives:

- No evidence of any violation of the Universal Declaration of Human Rights for workers or contractors.
- No breach of national laws and local regulations related to labour and human rights.

- 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.

#### 4) Marketplace and Supply Chains

GAR's policy objectives:

- Understanding the supplier's supply chain - the supplier demonstrates awareness of its FFB sources and has traceability systems in place.
- Support for suppliers and ensuring that smallholders are treated fairly in the supply chain and receive support to comply with the GSEP.
- Legal compliance whereby suppliers have all legally required documents (licenses, permits, land titles, certification, and any other available and relevant documentation) and has a system in place to ensure it meets all local and national regulations and laws.

**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

#### c. The role of site assessments in transforming GAR's supply chain

Site visits are not designed to act as audits 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. OVERVIEW OF FINDINGS

The following is a summary of the findings from the site visits.

### 3.1 Supply chain structure findings

The Lubuk Gaung Refinery and Dumai Bulking Station supply shed is composed of third-party suppliers that are predominantly located in Sumatra. Through the prioritisation process, suppliers selected for site visits were located in Riau (10 mills), Jambi (five mills), West Kalimantan (two mills), North Sumatera (two mills), Bangka Belitung (one mill) and West Sumatra (one mill) (Figure 2). Eight suppliers supply to both Lubuk Tanjung refinery and Dumai Bulking Station.

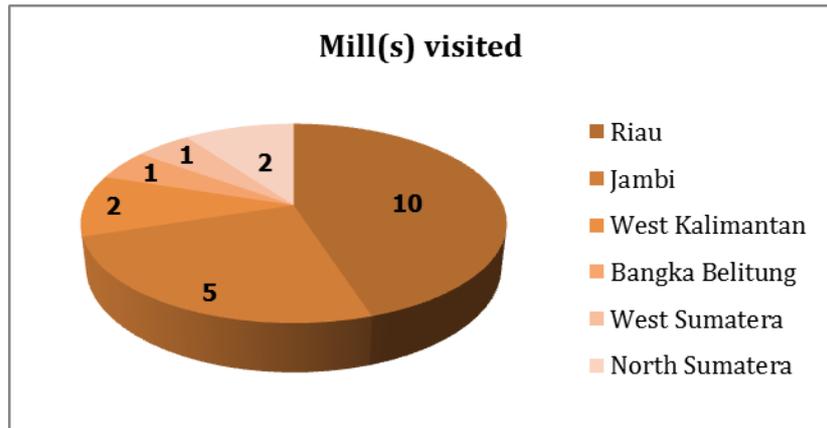
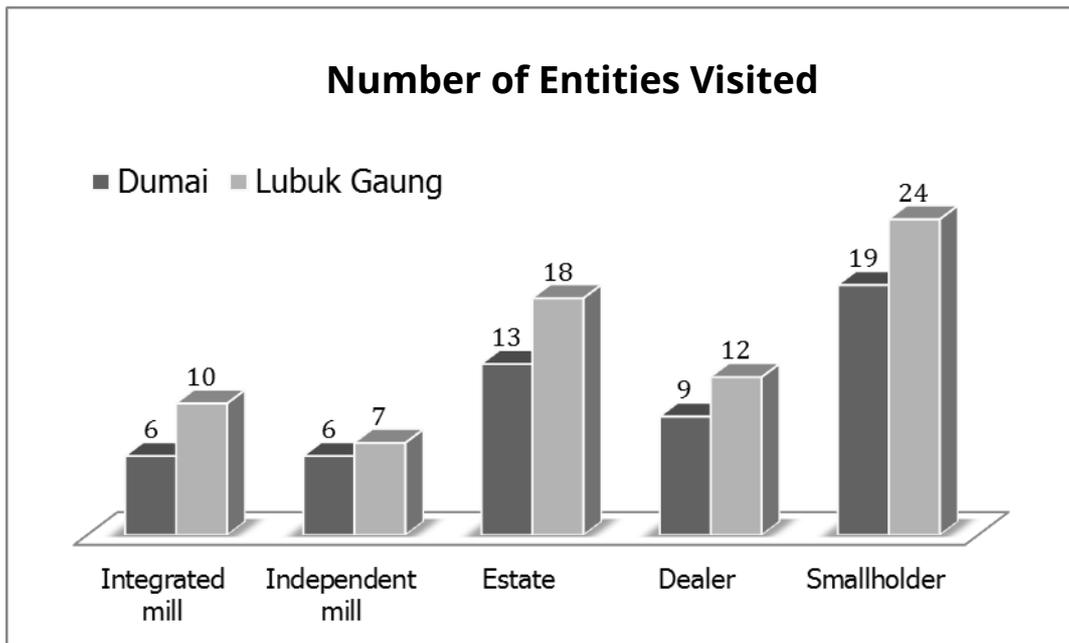


Figure 2. Majority of suppliers visited were based in Sumatera

Each of the site visits included engagement with mills and Fresh Fruit Bunch (FFB) suppliers which comprised 24 estates and 26 smallholders. Site visits also included observing 15 dealers/agents, as middle men in FFB transactions between farmers and mills. A breakdown of the types of entities visited is shown in Figure 3. The majority of mills visited (82 percent) were affiliated with a large parent company. Estates visited were often integrated with the mill. Most of the smallholders (75 percent) visited had a concession area of below 25 hectares.



Note: Eight mills visited supply both Lubuk Gaung and Dumai. Seven estates, six dealers and 17 smallholders visited supply to same mills.

Figure 3. Profile 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 Lubuk Gaung and Dumai.

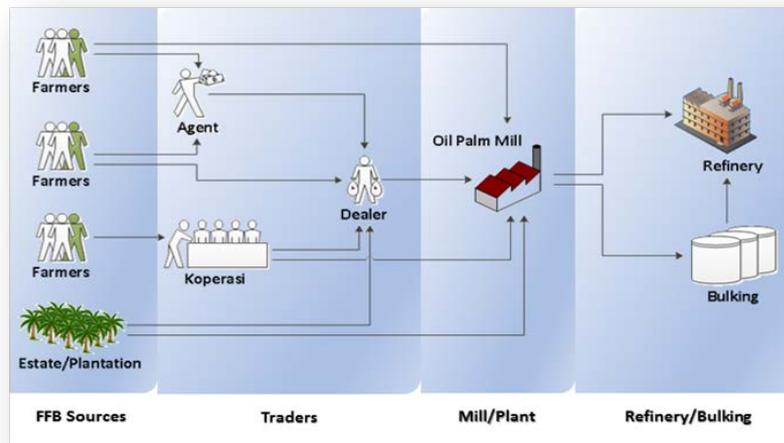


Figure 4. Supply Chain Map

## Supply Base Overview

### a. Dumai Bulking Station

Information gathered through the 12 site visits here showed that 35 percent of FFB was sourced from integrated estates or estates under same company group with another three percent from other companies and 11 percent from associated smallholders. In other words, 49 percent of FFB was sourced from companies and smallholders managed by the company which are therefore easier to trace and map. It is also easier to develop sustainable transformation programmes for these companies compared with dealers and independent smallholders who supply the other 51 percent.

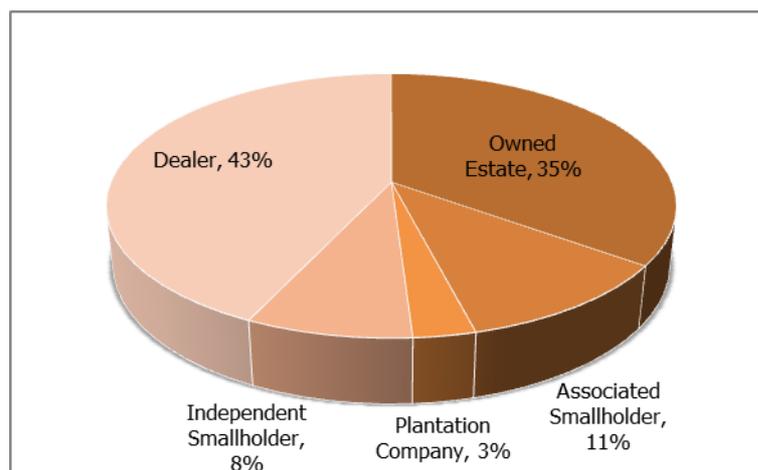


Figure 5. Mills FFB Supply Base Overview of 12 mills visited of Dumai Bulking Station

### b. Lubuk Gaung Refinery

Results from 17 site visits showed that 38 percent of FFB was sourced from integrated estates or estates under the same company group with another six percent from other companies and six

percent from associated smallholders. The ratio of FFB sourced from companies and smallholder managed by a company and dealers and independent smallholders is 1:1.

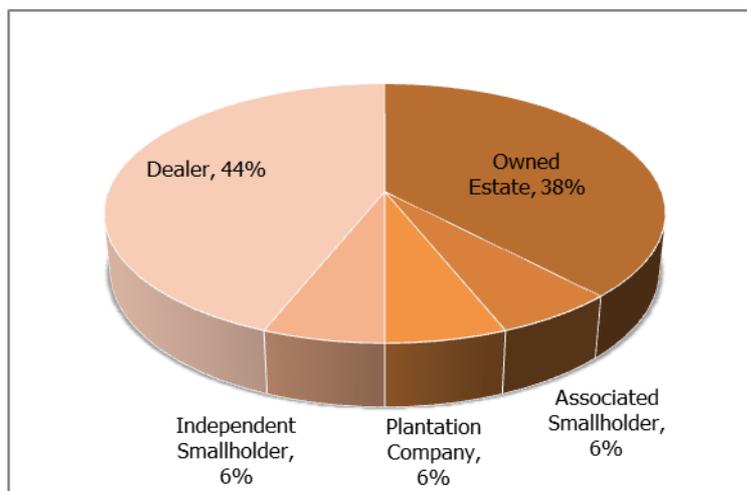


Figure 6. Mills FFB Supply Base Overview of 17 mills visited of Lubuk Gaung Refinery

## 3.2. Supply chain sustainability findings

### 3.2.1. GSEP1: Environmental Management

#### Estate:

Conservation of HCS is not a main challenge for the Lubuk Gaung and Dumai supply shed. Only two estates possess land banks, representing 11 percent of Lubuk Gaung Refinery and 15 percent of Dumai Bulking Station supply base. The landbanks not yet developed are small landbanks. Virtually none of the estates have adopted the HCS approach. The team shared the importance of conserving HCS forests and conducting HCS studies before land clearing on non peat area.

Some estates, especially independent ones, lack understanding for the need for HCV studies and conservation of HCV areas. Most of the HCV areas found in the estates are riparian. One of suppliers in Riau reported elephants in their estate which they left alone. Workers are aware of protected fauna. However, the estates need to improve HCV protection by conducting HCV studies followed by monitoring and protection.

Peatland best management practices which requires water level measurement and installation of subsidence poles are considered a challenge for the suppliers. 38 percent of estates related to Dumai and 44 percent related to Lubuk Gaung are located in peatlands. These suppliers need to improve peatland management in line with Ministry of Forestry and Environment regulations.

All estates claimed that they did not use fire to clear land. They are aware that there are restrictions against using fire in land clearing. But 23 percent of the Dumai supply shed and 39 percent of Lubuk Gaung supply base needs to improve their internal systems to prevent and suppress fires. They do not have sufficient emergency resources to anticipate and suppress fires. They do not regard this as a priority because their oil palms are mature and they do not need to carry out replanting or opening of new land.

61 percent of the Dumai supply base need to improve efforts to improve/maintain productivity without pesticide use and improve Integrated Pest Management, while 38 percent of the Lubuk Gaung supply base needs to improve in this area. Estates use certified seed, but there is poor implementation of Integrated Pest Management such as using natural predators to reduce pesticide use. For most estates, pesticide application is the only way to eradicate pests and disease. Nearly half the estates

actively use pesticide such as paraquat or other pesticides categorised by WHO as 1A, such as Brodifacum. Only a few estates have trained workers to use chemicals and pesticides like paraquat. We observe that most of the estates do not comply with hazardous waste management standards and others reuse pesticide containers without required permits.

The team found that 38 percent of the estates in the Lubuk Gaung supply base and 44 percent in the Dumai supply base do not have environmental permits. Most of those estates belong to independent farmers whose estates can be larger than 100 hectares. Estates which are operated by companies already possess environmental permits. However, 46 percent of the Dumai supply base and 67 percent of the Lubuk Gaung supply base did not conduct fully environmental monitoring and management as stated in the permit documents.

More than half of estates are not aware of the importance of reducing GHG emission, and are not monitoring or calculating their GHG emissions. There is also little effort in energy saving. GAR needs to disseminate information about the importance of tackling GHG emissions and improving energy use and efficiency.

#### **Mills:**

Most of POMs are not aware of importance of tackling GHG emissions and/or how to monitor and calculate emissions. This is not unusual as 75 percent of the Lubuk Gaung supply base and 76 percent of the Dumai supply base visited have neither ISPO or RSPO certificate, which would have raised their awareness of the necessity to reduce GHG emissions. GAR faces huge challenges to ensure that supplier mills are contributing to GHG emission reduction.

One mill was unable to show environmental permit documents and is not conducting environmental management and monitoring. Improvement of monitoring and environmental management is also indicated for 58 percent of Dumai supply shed and 65 percent of Lubuk Gaung supply shed to reduce the negative environmental impacts of POMs.

75 percent of POMs visited in the Dumai supply base face challenges in waste management, and 59 percent of POMs related to Lubuk Gaung have similar challenges. The biggest challenge is how to manage domestic waste, followed by hazardous waste, liquid waste, and solid waste management. Most of the POMs do not provide facilities to separate organic and inorganic waste, and they tend to burn the waste. The common issues related to liquid waste management include not applying land application procedures; absence of permits and scheduled waste water checks; and not meeting minimum quality standards. In terms of hazardous waste management, it is common to see storage period beyond what is permissible or safe; lack of hazardous waste storage permits; and lack of emergency facilities. Empty Fruit Bunches have to be managed properly to avoid water leachate polluting land and water and some of the POMs have solved this by draining the leachate into a liquid waste pond.

#### **Smallholders:**

Almost all smallholders do not have environmental management permits and need to obtain them. Smallholders are not applying best management practices in peatlands.

They claim that they do not use fire to clear land but this is difficult to verify as the oil palm trees have been planted for many years. The farmers are aware that they should not clear land with fire because it has a detrimental effect on health. Farmers only have simple equipment to deal with fires, such as poles made from palm fronds known as "gepyok" in Bahasa Indonesia.

### **3.2.2. GSEP 2 - Social and Community Engagement**

GAR is committed to respecting the rights of indigenous and local communities through the FPIC process. Of the estates visited, only two possess land banks. Verbally, most estates claimed that they have conducted FPIC process, but lack supporting documentation. Only receipts of compensation were produced. Some estates acknowledge that while the FPIC process is a new concept they recognize that it will help prevent conflict in the future.

#### **Mill and Estate**

Not all mills and estates have complied with GSEP Principle 2: Social and Community Engagement. 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 implemented varying levels of corporate social responsibility. The suppliers for Dumai Bulking Station shed are more advanced and have allocated budgets for community development. Only 33 percent are responding to ad-hoc proposals from the community. About 65 percent of the mills and estates of Lubuk Gaung suppliers' visited have not developed CSR SOPs based on participatory Social Impact Assessment (SIA). The rest of the mills have developed community development programmes with clear budget lines.

As with other GAR refineries' supply base, the mills and estates in this area face significant challenges in constructively engaging with local, national and international stakeholders. Only 25 percent and 29 percent of Dumai dan Lubuk Gaung supply shed have systematic communication with stakeholders.

GAR did not find any issue regarding land tenure rights in mills.

However, two-thirds of mills and estates do not have formal grievance and conflict resolution mechanisms. 50 percent and 65 percent of the mills visited in Dumai and Lubuk Gaung supply sheds said that they had involved farmers in sustainable palm oil through cultivation training, but this is not formally documented.

All mills visited are being transparent in determining FFB prices, both for scheme and independent smallholders. We found no complaints regarding FFB purchasing processes.

#### **Smallholder**

We did not find any conflict and violations of human rights with farmers' workers.

### **3.2.3. GSEP 3 - Work Environment and Industrial Relations**

#### **General findings (Mill, Estate and Smallholder)**

More than half of the suppliers have written policies to recognise, respect, and strengthen labour rights in line with international frameworks and best practices, such as the ILO Declaration on Principles and Basic Rights in Working Place.

Only 20 percent of the mills supplying Dumai and Lubuk Gaung are implementing Occupational Health and Safety (OHS) procedures consistently. Generally, mills, estates and smallholders have poor or no management systems to adequately ensure OHS. More than half of the mills, estates and smallholders are not in compliance with GAR's OHS policy. Implementation of OHS in mills, estates and smallholders is limited to providing Protective Personal Equipment (PPE) for workers, some of which is sub-standard. The PPE provided is not consistent with HIRADC guidelines (Hazard Identification, Risk Assessment and Determining Control).

The most significant OHS implementation issue is poor enforcement of the use of PPE in the mills, estates and amongst smallholders; incomplete Safety First equipment in mills; inconsistent

monitoring/checking of emergency equipment; lack of OHS and Emergency Response training; and lack of documentation of work accidents.

Some of mills and estates do not possess documented OHS procedures and there is no management process for hazards or provision of emergency equipment. Some of mills and estates do not have OHS personnel; 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 proper use of PPE.

Practices to strengthen the rights of workers have not yet been fully adopted at the mill and estate level. Other areas where there are challenges include: commitments on workers' rights; working contracts for casual workers; lack of policy statements relating to forced or bonded labour and child labour; lack of policy statements 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. About 67 percent of the Dumai supply base and 47 percent of Lubuk Gaung supply base provide safety insurance for their workers.

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

Some of the suppliers need to improve their worker housing facilities such as access to water and improving the workers' barracks to be semi-permanent or permanent building.

23 percent of the Dumai supply shed and 40 percent of the Lubuk Gaung supply shed do not provide written policies on freedom of association and collective bargaining for their workers. Usually, the estates are unaware that these freedoms are guaranteed by law. We did not find such issues with the POMs.

#### **3.2.4. GSEP 4 - Marketplace and Supply Chain**

Almost all POMs visited have not mapped their supply chain and do not fully know the origin of their FFB. They have not developed traceability processes which would enable them to collect information on the exact location and land use history of their suppliers. None of the mills have traceability procedures as required by GAR, but one mill which supplies to both Dumai dan Lubuk Gaung is fully traceable as it only receives FFB from its own estate or plasma.

Although POMs have fulfilled requirements to establish their company and operational activities in line with environmental and labour regulations, legal compliance was identified as the second most common issue after traceability.

This was mainly due to the fact that the majority of mills and estates had not yet established management systems to ensure they meet all local and national regulations and laws. Another key finding was that some palm oil mills had not yet obtained temporary hazardous waste storage permits, OHS 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.

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

All smallholders visited have secured land permits such as land title certificate (SHM), Surat Keterangan Tanah (SKT) issued by head of village and Surat Keterangan Ganti Rugi (SKGR) issued by

head of subdistrict. However, they did not have oil palm plantation registration(IUP – B/STD – B) and environmental permits (SPPL).

## 4. RECOMMENDATION

Table 4. Recommendation for GAR Lubuk Gaung and Dumai Bulking StationStation' Suppliers and supply chain

PRINCIPLE	ISSUE	ENTITY			RECOMMENDATION
		MILL	ESTATE	SMALL HOLDER	
Environmental Management	<ul style="list-style-type: none"> <li>▪ Conservation of HCS</li> <li>▪ Conservation on HCV</li> <li>▪ Best practices in peat management</li> <li>▪ Waste management</li> <li>▪ Implementation of environmental management and monitoring</li> <li>▪ GHG emissions reduction</li> <li>▪ Applying hazardous pesticide</li> <li>▪ Environmental permit</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>▪ GAR to conduct socialisation on the importance of HCS and HCV conservation and coordinate HCS and HCV training for suppliers (Estate)</li> <li>▪ Mills and estates to develop policy on HCS and HCV conservation and assign dedicated staff</li> <li>▪ GAR to conduct best management practices training/workshop on peat in collaboration with experts and government authority (Estate)</li> <li>▪ GAR to share information how to handle waste (POME, EFB, hazardous, poisonous and domestic waste) and GHG emission reduction programme (Mill, Estate, SH)</li> <li>▪ Mills and estates have to commit to implementation of waste management, environmental management and monitoring in line with regulations and GHG emissions reduction programme</li> <li>▪ Estates and smallholders have to commit to reducing the use of hazardous pesticides</li> <li>▪ GAR to discuss with stakeholders to help farmers get environmental permits</li> <li>▪ GAR to ask mill to complete environmental permits</li> </ul>
Social and community engagement	<ul style="list-style-type: none"> <li>▪ Land tenure rights</li> <li>▪ Constructive engagement with stakeholders</li> <li>▪ Conflict resolution, complaint and grievance handling</li> <li>▪ Involving local farmer</li> <li>▪ Community development</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>▪ GAR to conduct workshop on FPIC for suppliers; suppliers have to commit to FPIC implementation in handling land acquisition/land conflict</li> <li>▪ Mills and estates to develop policies and procedures for stakeholder engagement and transparency</li> <li>▪ Mills and estates to develop mechanisms on conflict resolution; complaint and grievance handling; and implement them</li> <li>▪ GAR to support mills to assist farmers in adopting responsible practices for eg. by giving incentives for outstanding programmes for smallholders</li> <li>▪ Mills and estates should create needs-based community</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Human rights</li> </ul>	√	√		<p>development programmes based on social impact assessment, not only in response to ad-hoc community proposals</p> <ul style="list-style-type: none"> <li>▪ Mills and estates have to formalise policies on respecting human rights</li> </ul>
Work Environment and Industrial Relations	<ul style="list-style-type: none"> <li>▪ OHS</li> <li>▪ Working hours (overtime)</li> <li>▪ Worker insurance for casual worker</li> <li>▪ Contract for casual workers</li> <li>▪ Lack of policies relating to forced or bonded labour and child labour</li> <li>▪ Lack of policies addressing harassment and abuse</li> <li>▪ Lack of mechanisms to handle workers' grievances and freedom of association</li> </ul>	√ √ √ √ √ √	√ √ √ √ √ √	√   √	<ul style="list-style-type: none"> <li>▪ Mills, estate and smallholders must maintain OHS systems to ensure workers wellbeing</li> <li>▪ 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.</li> <li>▪ Mills and estates to ensure no violation of regulations on overtime, worker insurance and to have written contracts for casual workers</li> <li>▪ Create policies related to forced or bonded labour and child labour (Mill, Estate)</li> <li>▪ Create policies on addressing harassment and abuse (Mill, Estate)</li> <li>▪ Create mechanisms to handle workers' grievances and ensure freedom of association (Mill, Estate)</li> </ul>
Marketplace and supply chains	<ul style="list-style-type: none"> <li>▪ Traceability of FFB</li> <li>▪ Legal compliance</li> <li>▪ Supply chain grievance handling</li> </ul>	√ √ √	√	√	<ul style="list-style-type: none"> <li>▪ Mills to develop FFB Traceability process</li> <li>▪ Mills to identify FFB source along supply chain</li> <li>▪ GAR to support mills with training on Traceability to Plantation</li> <li>▪ Mills and estates to establish management systems to ensure they meet all local and national regulations and laws</li> <li>▪ Mill to develop supply chain grievance handling procedure</li> </ul>

## 5. OVERARCHING ISSUES FACED BY ALL SUPPLIERS

We found that all 21 mills, 24 estates and 26 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.

In order 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 OHS. GAR will start this process in areas which supply the most CPO and PK and progress to other areas.
- GAR is introducing landscape approach in the supply chain transformation program by addressing issues in one landscape such as HCV conservation, HCS, Traceability to Plantation and working with stakeholders such as the government and civil society organizations to jointly address existing problems.

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.