

Working Daily to Delink Deforestation from the Supply Chain

1. Introduction

GAR's efforts to transform its supply chain are guided by our roadmap for sustainability, the [GAR Social and Environmental Policy \(GSEP\)](#), which contains our commitments on responsible palm production and embodies our belief that economic growth, social progress and environmental protection can go hand-in-hand.

Agricultural supply chains are notoriously complex and ours is no exception. In 2017, our seven refineries sourced around half of its raw materials from over 427 third-party mills and [44 GAR-owned mills](#) in Indonesia. The feedstock for the mills or fresh fruit bunches (FFB) are in turn supplied by our own nucleus estates, third-party estates, thousands of individual farmers (plasma and independent), as well as brokers and agents who buy from farmers.

While we have made a start on the transformation journey, we still face many challenges ahead: how to monitor and to engage the small number of plantation companies who are at risk of clearing peat or forest areas in their concessions; how to follow up and to ensure conservation of sensitive ecosystems; and finally how to collaborate and to protect landscapes with precious ecosystems for the long term.

To address these challenges, a team of 20 experts has been executing a strategy to assess, monitor and engage suppliers and help them build their capacity in responsible practices while taking firm action against non-compliant suppliers. In 2019, GAR looks forward to collaborating with stakeholders on deforestation-free verification, supply chain transparency, sustainable palm oil certification, and smallholder replanting.

2. Direct Supplier Assessment

Objectives:

- To assess the performance of 427 direct supplier mills against GSEP commitments
- To visit any high-priority direct supplier mills for a deep-dive assessment
- To identify common needs for capacity building to improve the overall supply chain performance

Process:

Assessment of the direct supplier mills originates at each of GAR's seven facilities through the Aggregate Refinery Transformation (ART) program. We collect the refinery's list of supplier mills, gather mill data from various private and public sources, review any NGO grievances, and assess the risk of non-compliance with GAR's environmental and social commitments. GAR then sends an internal team to assess the performance of any high-priority mills. Also, suppliers can complete submit Supplier Self-Assessment Forms for those we have not done any site visits. These assessments are not of the pass-or-fail type, instead they aim to identify performance gaps and GAR expects mills to submit time-bound improvement action plans to address those gaps.

Results by end of 2018:

- By the end of 2017, we published [overarching reports](#) for four facilities (Belawan, Tarahan, Lubuk Gaung, and Dumai); these cover 59 percent of our raw material supply from third-party mill by volume
- We visited 105 third-party mills (25%) from 2015-2018 which is equal to 19 percent of CPO/PK volume

- The mills had in common a low understanding of, and consequentially exhibited a low performance, in the conservation of HCV and HCS areas, good labour practices, and FFB traceability; GAR needs to invest in supplier capacity building (see section on supplier development)



[GAR Lubuk Gaung Refinery & Dumai Bulking Station Sustainability Overview Report](#)

3. Supply Chain Monitoring

Objectives:

- To monitor forest areas inside direct supplier concessions and selected critical landscapes
- To monitor the supplier's performance at the group-level
- To verify NGOs' grievances of forest clearing or development on peat land

Process:

Supply chain monitoring is only possible, if the locations of the suppliers' operations are known. GAR promotes supply chain transparency and we already publish the GPS coordinates of some of [our direct supplier mills](#). GAR, together with other buyers, sent a letter of encouragement to our respective suppliers in October of 2018.

Furthermore, GAR has started to monitor forest areas outside supplier concessions areas but inside critical landscapes. Specifically, GAR, together with Nestle, Ferrero and other buyers, are trialling [Starling](#) services to monitor forest cover change in the Leuser Ecosystem in Aceh, as part of the in Areal Prioritas Transformasi (Areas for Priority Transformation, or "APT") programme. Starling satellites can produce optical and radar imagery with 1.5 meter accuracy, even under cloudy conditions.

Finally, GAR has been assessing suppliers at the supplier group level with the support of [Aidenvironment](#). This organisation has mapped and supported due diligence of 42 of the top 65 supplier groups in our supply chain. They were selected based on purchase volume and plan, publicly reported grievances, and the group's commitment to NDPE and transparency. In turn, GAR has engaged with the senior management of the high-risk groups to work towards GSEP compliance. The due diligence on the remaining 23 supplier groups is on-going.

Results by the end of 2018:

- 100 percent of direct supplier mills locations.
- 42 groups supplying GAR have been assessed.
- GAR has sustainability profile database of supplier groups and is used as a commercial consideration.
- GAR has started the development of a methodology to conduct social due diligence, for example, monitoring of [labour practices](#); we had conducted focus group discussions with relevant stakeholders in Medan and Jakarta in 2018.



[Case Study](#) – Eagle High Plantations, one of the medium risk groups, is committed to improve sustainability performance with GAR's help

4. Supplier Engagement and Development

Objectives:

- To proactively address the sustainability challenges identified in supplier assessment and monitoring
- To build trust with the suppliers by sharing GARs own expertise and experience in implementing sustainability practices
- To raise the sustainability performance of the supplier towards GSEP compliance

Process:

GAR does not wait for a NGO grievance before it engages with a supplier regarding alleged poor sustainability performance. Since the launch of the GSEP in 2015, we have had regular engagement with our suppliers in large fora or through direct business-to-business dialogue.

From our engagement experience in the past three years, we know the common sustainability supply chain challenges in our supply chain. Most urgently, suppliers need capacity building to implement HCV and HCS conservation and good labour practices in occupational safety and over-time management.

Building trust is at the core of the GAR supplier engagement and development approach, based on the following programmes:

- [SMART SEED \(Social and Environment Excellence Development\)](#) is an annual platform event for suppliers to raise awareness of and to reflect on strategic sustainability issues. GAR invites industry leaders, government officials, and NGO representatives to share their views on a particular sustainability topic.
- [SMART STAR \(Supplier Training for Action Request\)](#) and [SMART SPOT \(Sustainable Palm Oil Training\)](#) are skill building workshops for a small group of 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. In SMART SPOT, suppliers are broken up into small groups to discuss more intimately the challenges and solutions towards GSEP compliance.
- [Collaboration for Transformation \(CFT\)](#) is a customised-training program for an individual supplier to support the implementation of sustainability practices towards resolving a specific challenge. For example, we employ [CFT](#) to address the sourcing of alleged illegal FFB from national parks.
- For STAR, SPOT, and CFT, GAR prioritizes suppliers based on a number of factors including the type of commercial relationship, the supplier's commitment to sustainability, and any urgency, e.g. a grievance

Finally, on [our website](#) suppliers can find sustainability toolkits and templates that can be replicated and integrated into suppliers' own business processes related to legal compliance, peat management, HCV, HCS, environmental impact management, Occupational Health and Safety, Free Prior and Informed Consent (FPIC) and traceability.

Results by the end of 2018:

- 80 percent of GAR suppliers have attended GSEP socialisation events
- 88 percent of GAR suppliers have participated in SMART SEED workshops
- 33 percent of GAR suppliers have received capacity building training through SPOT, STAR or CFT



Picture 1. Collaborating with ILO to strengthen good workplace practices in palm oil companies

5. Traceability to Plantation (TTP)

Objectives:

- To guarantee the origin of our raw materials to our customers
- To achieve TTP for our third-party suppliers by 2020
- To enable sustainability risk management, particularly, from smallholder farmers

Process:

Traceability to Plantation or TTP lays the foundation for supply chain transformation. TTP enables us to guarantee the origin of our raw materials to our customers. Understanding where our raw materials come from is just a first step. Beyond this, TTP helps us minimise supply chain risks because it allows us to deepen knowledge, awareness, trust and engagement with our suppliers, while helping them improve their responsible practices.

[Full TTP for GAR-owned mills](#) means that (aside from our own nucleus estate and plasma smallholders) we mapped and can now reach out to more than 70 dealers/brokers who buy from 11,000 smallholders managing over 44,000 hectares of plantations.

Our experience in achieving TTP for our own mills will help us assist our third-party suppliers implement TTP processes of their own and report TTP by end 2020. GAR is working with a network of partners to support third-party suppliers establish tracing and verification processes.

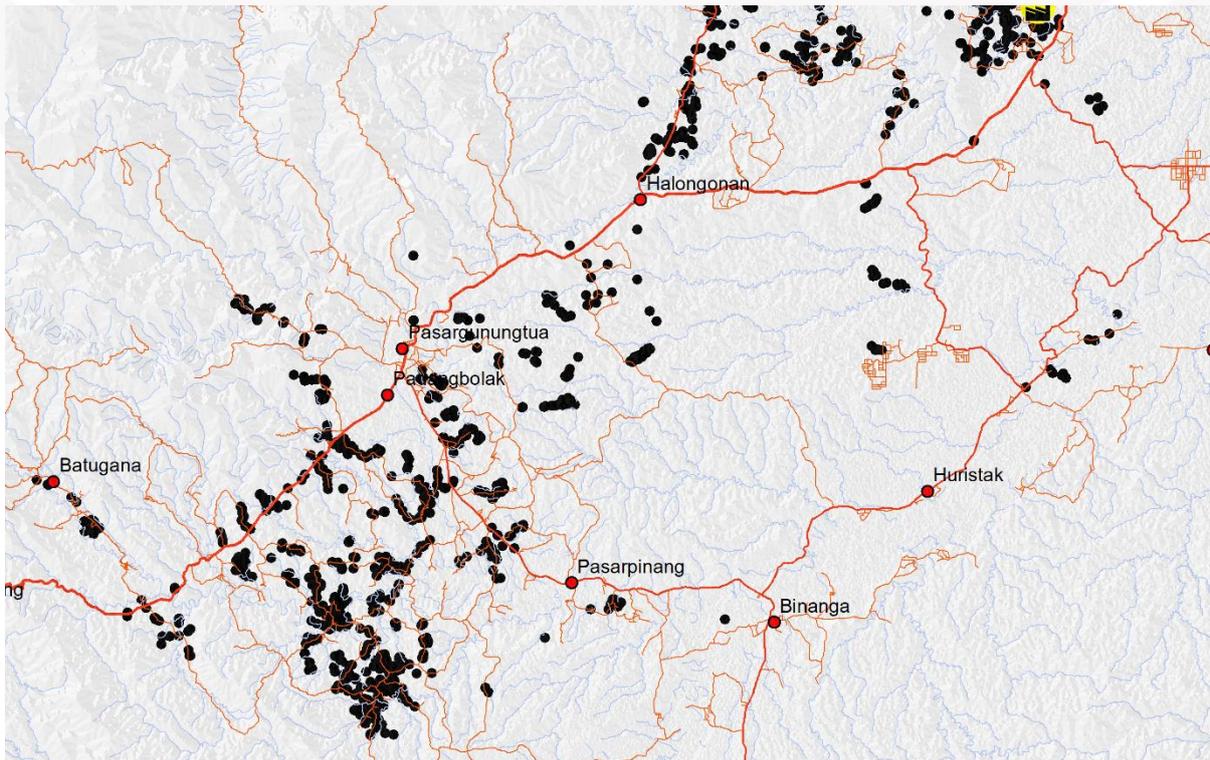
One such partner is [Geotraceability \(GeoT\)](#), which uses its software solutions to assist suppliers, including small and medium sized mills, in compiling traceability information. [GAR and GeoT](#) have developed an inclusive approach to improve supply chain transparency, which allows all suppliers to join regardless of their current level of supplier knowledge.

We are also partnering with [Koltiva](#) which helps verify sustainably sourced commodities from independent smallholders with leading web and mobile applications.

The mapping of third-party mills' supply chains by 2020 will be challenging. From the suppliers, who we have worked with so far, we found a larger than expected exposure to agents buying from smallholder farmers. We recognise that mapping these smallholder will take more efforts and we are working to find solutions to help our suppliers expedite this process.

Results by the end of 2018:

- In 2017, we have achieved 100 percent TTP for our 44 owned-mills including 11,012 independent smallholders
- Per Q4 2018, GAR has achieved 62 percent TTP for all the 474 mills supplying our facilities
- Per Q4 2018, total volume from our third-party suppliers under grievance is only 10 percent
- TTP percentage is tracked on the GAR mill lists published quarterly on the [GAR Dashboard](#)



Picture 2. Illustration: Smallholder Distribution Map in East Kalimantan in 2017-2018

6. Grievance Handling

Objectives:

- To provide clear guidelines in handling any grievance from any external parties, including concerning the implementation of the GSEP
- To encourage inclusive dialogue with stakeholders over bureaucratic administrative processes
- To be transparent about the performance of GAR's supply chain against the GSEP

Process:

[The GAR Grievance Procedure](#) is an important tool in our efforts to transform our supply chain. External stakeholders, whether individuals, government organisations, media or non-governmental organisations, can and have submitted grievances against third-party suppliers.

We take these grievances seriously and employ a strict supplier engagement process, as follows:

- Within week 1, GAR will update its [Grievance List](#) and engage the grievance raiser, the particular third-party supplier and any other relevant stakeholder
- Within weeks 2 and 3, GAR will commence field verification and consider the suspension of trade relations, if the supplier does not immediately act in a serious grievance, such as the clearance of forest areas
- By week 7, GAR will have verified or rejected the grievance; in the former case, we will prepare a supplier time-bound action plan to ensure compliance with our GSEP commitments; we will also update the grievance raiser and other relevant stakeholders
- After week 7, GAR and the supplier will have agreed on the time-bound action plan; if the action plan is not agreed to or executed as agreed, GAR will consider suspension or termination of trade relations

GAR has found that a small number of rogue supplier groups – less than 10 percent of our supply chain – have resisted implementing environmental conservation and social practices. We have suspended trade relations with most of them. For legal reasons, we do not publish suspensions but we can inform interested parties on a case-by-case basis. Alternatively, stakeholders can review our [refinery mill lists](#), updated quarterly, to check on a particular trade relation.

Results by the end of 2018:

- GARs performance in the handling of grievances against our suppliers provides yet another indicator that our approach is having impact, on the ground
- GAR has responded to all of 12 of ME Rapid Response Reports
- In these reports [Mighty Earth](#) raises grievances alleging deforestation or peatland development by third party mills
- Of 11 grievances levelled against GAR, we resolved 10 resulting in a 91 percent score

7. Call for Joint Action Moving Forward

Buyers' demand for verified deforestation-free supply chains

GAR believes that the industry has made [significant progress towards responsible palm production](#). Independent studies show that a combination of government regulation and corporate commitments to no-deforestation supply chains is slowing rates of deforestation.

Buyers are now calling for independent verification of environmental conservation and social practices by 2020. GAR sees this as a shared responsibility and calls for the involvement and contribution from buyers, such as the Consumer Goods Forum.

NGO expectations of increased transparency and punitive measures

[The palm oil industry](#) is demonstrably more committed to sustainable production than any other big agri-business. Despite this, NGOs expect GAR to publish supplier concession maps and impose punitive measures on non-compliant suppliers.

For legal reasons GAR cannot publish every detail of its trade relations with suppliers. We also feel strongly that a name-and-shame campaign undermines trust-building and transformation efforts.

Instead, we would like to explore the development of an industry supply chain mapping platform. Together with other companies, we can input data from our mill and grievance lists and the platform would report on the cumulative transformation of the industry. It would also shine a spotlight on [leakage buyers](#) who source from rogue suppliers. NGOs and buyers can then initiate grievances against these buyers to close the leakage.

Government implementation of ISPO certification and smallholder replanting

NGOs and buyers tend to leave the Government of Indonesia out of their discussions on industry transformation. However, the GOI has ambitious plans to implement [ISPO certification](#) across the entire industry, including smallholders by 2025, as well as to increase smallholder yield through [replanting](#).

GAR believes that these government initiatives are critical and we have incorporated these initiatives in our supplier engagement activities. We intend to work with local districts to support ISPO and replanting through jurisdictional approaches. These are a type of landscape approach that uses administrative boundaries to define the scope of action involving an active government engagement on policies, regulations, fiscal incentives, land use and action planning, enforcement and/or monitoring. GAR is encouraged to see the leadership in Siak and other districts who are engaging stakeholders in order realise their [Green District ambition](#).

To download the material presentation of the Sustainability briefing at POC2019, please click [here](#) for GAR presentation and click [here](#) for Aidenvironment presentation.

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