2016 Sustainability Benchmark: Indonesian Palm Oil Growers

Key Findings

- The sustainable purchasing policies of main traders/processors have strengthened the sustainability policies and practices of 4 of the 10 largest palm oil growers listed on the Indonesian stock exchange (IDX).

- Most of the IDX-listed palm oil growers still have poor sustainability standards.

- The IDX-listed palm oil growing companies PT Tunas Baru Lampung and PT Sawit Sumbermas Sarana are presently clearing forests and/or peatlands. The world’s top food processing companies Nestlé and Unilever are among their customers.

The sustainability policies and recent practices of 10 largest IDX-listed palm oil growers were analyzed and ranked. Together these companies harvest around 10 percent of the world’s oil palm. Climate change, biodiversity loss and human rights abuses were the key elements of screening. The companies could score a total of 12 points (Appendix 1):

- Aligning with No Deforestation, No Peat, No Exploitation (NDPE) policies (maximum 6 points)
- Active membership of the RSPO (maximum 3 points)
- Recent practices (maximum 3 points)

The scores were transferred into the categories red (policies and practices inadequate), orange (should be improved), and green (likely not perfect, yet on the way). Figure 1 below shows the final scores (largest palm oil growers mentioned first).

<table>
<thead>
<tr>
<th>Palm Oil Grower (IDX Ticker)</th>
<th>Sustainability Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT Astra Agro Lestari (AALI)</td>
<td>Orange</td>
</tr>
<tr>
<td>PT Salim Ivomas Pratama Tbk (SIMP, part of Indofood)</td>
<td>Orange</td>
</tr>
<tr>
<td>PT Sinar Mas Agro Resources and Technology (SMAR)</td>
<td>Green</td>
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<tr>
<td>PT Dharma Satya Nusantara Group (DSNG)</td>
<td>Orange</td>
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<td>PT Sampoerna Agro (SGRO)</td>
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<td>PT Eagle High Plantations (BWPT)</td>
<td>Red</td>
</tr>
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<td>PT Sawit Sumbermas Sarana (SSMS)</td>
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<tr>
<td>PT Tunas Baru Lampung (TBLA)</td>
<td>Red</td>
</tr>
<tr>
<td>PT Austindo Nusantara Jaya (ANJT)</td>
<td>Orange</td>
</tr>
<tr>
<td>PT Bakrie Sumatera Plantations (UNSP)</td>
<td>Orange</td>
</tr>
</tbody>
</table>

The companies were also scored for revenue at risk for not achieving buyers’ NDPE procurement policies (Appendix 2).
Material Risks Facing the Sector

All ten companies reviewed for this analysis experienced severe harvest reductions in 2016, compared to 2015. The lower harvest figures, up to 30 percent, were caused by the severe drought and catastrophic haze in July to October 2015. The drought was accelerated by climate change. The haze made Indonesia one of the largest GHG emitters globally in 2015.

In early November 2015, President Widodo issued a presidential instruction ordering companies to stop developing new palm oil plantations on the fire prone peatlands. On December 5, 2016 the protection of peatlands became law. However, of the 10 largest IDX-listed palm oil growers, five (SGRO, BWPT, SSMS, TBLA and UNSP) have yet to publicly commit to ending peatland development. Among them, TBLA was found to continue peatland development in 2016, and SSMS plans to do so within one of its recent greenfield acquisitions.

Only a few of the 10 largest IDX-listed palm oil growers specifically refer to global principles for social issues, such as the right of local communities to Free, Prior and Informed Consent (FPIC), the core conventions of the International Labour Organisation (ILO) and the United Nations Guiding Principles on Business and Human Rights.

Two companies are presently subject to severe legal and/or government screening related to environmental issues. On August 11, 2016 judges of the South Jakarta District Court ordered SGRO to pay more than $80 million for compensation and environmental restoration. TBLA did not comply with the terms of a permit granted by Indonesia's Environment and Forestry Ministry in 2012.

Risk exposure due to NDPE-policies

Since June 2015, the market force from the NDPE-policies by main tradersprocessors has led to the strengthening of sustainability policies and practices by 4 of the 10 largest IDX-listed palm oil growers. Two IDX-listed growers (AALI, DSNG) issued stronger sustainability policies, and another two (BWPT, ANJT) suspended their operations in contested areas after buyers’ intervention.

In June 2015, Chain Reaction Research estimated that six out of the 10 largest IDX-listed growers had a high-risk exposure (chance of losing main buyers) due to the sustainability standards of their buyers. Our new estimate is that four out of the 10 companies have a high-risk exposure: SGRO, TBLA, BWPT, and UNSP.

PT Tunas Baru Lampung (TBLA) and PT Sawit Sumbermas Sarana (SSMS) are presently clearing forests and/or peatlands. The main NDPE-buyers of SSMS in 2016 were Louis Dreyfus and Unilever. The main NDPE-buyers of TBLA were Nestlé, Louis Dreyfus, Musim Mas, Wilmar, GAR, ADM, and Asian Agri/Apical.
PT Astra Agro Lestari Tbk (AALI:IJ)

Astra Agro Lestari (Astra) is the second largest publicly traded palm oil company in Indonesia in terms of CPO production. The company is majority-owned by Jardine Matheson Holdings, which is controlled by the Scottish Keswick family. As of December 2015, Astra managed 298,000 ha of oil palm plantations with concessions scattered over Kalimantan, Sumatra and Sulawesi.

Since 2014, Astra has been active in downstream palm oil refining. In 2015, its refinery business generated 41% of its revenue. Together with the Malaysian oil palm giant Kuala Lumpur Kepong (KLK), it has formed a marketing joint venture for palm oil products from West Sulawesi. In January 2015, Astra bought a 50% stake in the refinery company PT Kreasijaya Adhikarya, located in Dumai, Riau province. KLK is the joint venture partner.

Sustainability Policy and Recent Practices
In June 2015, Climate Advisers ran the She’s Not a Fan campaign engaging Astra for its deforestation-linked palm oil. As a result, Astra introduced a moratorium on land conversion across all its operations in Indonesia. In September 2015, it published a NDPE policy. Astra is not a member of the RSPO.

As shown below in Figure 2, spatial analysis has showed that, between June 2015 and mid-August 2016, Astra cleared no peatlands and there has been no deforestation for plantation development inside Astra’s concessions.

However, since the publication of its NDPE policy, Astra has not made visible progress with its policy goals on supply chain transparency and suppliers’ compliance. Astra’s supply chain mainly comprises smallholders. Yet, it does also source from large companies such as PT Austindo Nusantara Jaya (ANJT:IJ) to fill its refineries.

Astra’s supply chain has social conflict. In September 2016, the Indonesian NGO KKI WARSI stated: “The indigenous Orang Rimba people in Jambi are suffering as a result of Astra’s palm oil plantations. Because Astra expropriated their lands, they live in extreme poverty and despair. We urge Astra to return land to the 400 Orang Rimba within Astra’s plantation so they can live a decent life.”

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**Figure 2:** During Indonesia’s 2015 haze disaster, about 2,400 ha of forests were lost due to fires inside Astra’s largely undeveloped peatland concession of PT Cakung Permata Nusa in Tabalong district, South Kalimantan. The red dots are recorded hotspots. No evidence was found on any intentional burnings by Astra.
PT Salim Ivomas Pratama Tbk (SIMP:IJ)

PT Salim Ivomas Pratama (SIMP) is the parent company of PT PP London Sumatra Indonesia Tbk (LSIP:IJ). Indofood Agri Resources Ltd. (IFAR:SP) is the parent company of SIMP. It trades on the Singapore Stock Exchange. Both SIMP and LSIP trade on the Indonesian Stock Exchange.

SIMP is the upstream oil palm plantation, manufacturer, and refiner for Indofood Sukses Makmur (INDF:IJ), Indonesia’s largest food company. As of Q3 206, SIMP has a 247,000 ha plantation landbank, primarily in Sumatra and Kalimantan. SIMP is the third largest publicly traded palm oil company in Indonesia in terms of CPO production. Its cooking oil brand Bimoli is the market leader in Indonesia. The company also has businesses in sugar, rubber, oil palm seeds, and timber.

Anthoni Salim, the third richest Indonesian according to Forbes, controls Indofood’s operations. Indofood is one of the world’s largest instant noodle producers. He also has stakes in businesses other than Indofood, some of which are also involved in oil palm plantations.

Sustainability Policy and Recent Practices
SIMP is the largest publicly traded palm oil company in Indonesia without an NDPE policy. The company has yet to commit to the protection of High Carbon Stock (HCS) forests. Moreover, it has no official policy for complying with the United Nations Guiding Principles on Business and Human Rights or the ILO core conventions.

In 2013, IFAR announced its policy to refrain from planting on peat. The company has been in compliance with this specific policy. In 2015 and 2016, SIMP did not expand its oil palm planted area.

SIMP is a member of the RSPO. As of Q3 2016, 388,000 tons of its CPO production (39 percent of its total production) was RSPO-certified. SIMP aims to achieve 100 percent RSPO-certification by 2019, yet it has a history of pushing back its RSPO-targets.

SIMP is related to several issues concerning breaches of RSPO rules and NDPE policies:

- In 2013 and 2014, it cleared 1,000 ha of primary forests in West Kutai district, East Kalimantan. The company had filed no proposals under the RSPO New Planting Procedure (NPP) prior to this development. The total forest clearance comprised 4,600 ha in the area. The area was also subject to burnings in 2014 and 2015.
- In October 2016, the NGOs OPPUK, RAN, and ILRF filed a complaint with RSPO. According to their investigation, SIMP had violated both workers’ rights in North Sumatra and RSPO’s principles.
- In May 2016, the website Awas MIFEE revealed strong evidence that Anthoni Salim’s other business, apart from SIMP, had acquired and started to develop oil palm concessions in West Papua province, which could result in deforestation of 117,000 ha. Anthoni Salim’s other plantations in Kalimantan in Sintang, West Kalimantan and East Kutai, East Kalimantan lack NDPE policies.
PT Sinar Mas Agro Resources and Technology Tbk (SMAR:IJ)

SMAR is part of the Singapore-based Golden Agri-Resources (GAR). GAR is the largest publicly traded palm oil company in Indonesia in terms of CPO production. It trades on the Singapore Stock Exchange. GAR has 483,000 ha planted with oil palm – including plasma smallholder estates – in Indonesia. SMAR manages 139,000 ha of these plantations.

GAR is majority owned by the Widjaya family, the fourth richest Indonesian family according to Forbes. GAR owns 97 percent of SMAR.

SMAR generates its revenue mainly from downstream activities. Its refineries have a total capacity of 2.9 million tons of CPO per year. In addition to bulk and industrial oil, SMAR is active on the consumer market under the brands Filma and Kunci Mas.

Sustainability Policy and Recent Practices

As a subsidiary of GAR, SMAR is subject to GAR’s NDPE policy.

SMAR is a member of the RSPO. GAR and SMAR expect to achieve 100 percent RSPO certification for own operations by 2020. GAR has submitted several New Planting proposals to RSPO. By Q4 2015, 75 percent of its CPO production was RSPO certified.

But directors of SMAR and GAR own oil palm concessions in Kapuas Hulu district in West Kalimantan that lack NDPE policies.

Groups of the semi-nomadic Orang Rimba, an Indigenous People from Jambi, live inside the concession of GAR’s plantation companies PT Bahana Karya Semesta (PT BKS) and PT Kresna Duta Agroindo (PT KDA). Both companies are located in Sarolangung, Jambi province, Sumatra. The customs and culture of the Orang Rimba are closely connected to the forest, upon which they traditionally base their livelihood. Many Orang Rimba groups have lost their customary land due to oil palm plantations and transmigration programs. In June 2016, security personnel of PT BKS injured two Orang Rimba and burnt their settlement. GAR later gave a statement regretting the incident that was in contrast to the company’s social policy. The company compensated the Orang Rimba for their losses.
PT Dharma Satya Nusantara Tbk (DSNG:IJ)

As of Q4 2015, the Oetomo family owned 28 percent of DSNG, and Theodore Permadi Rachmat and family owned 25 percent. Two other families and other investors held the remaining 47 percent. DSNG generates 70 percent of its revenue through oil palm segment and 30 percent from its wood products segment.

As of 30 September 2016, DSNG had a planted area of 90,000 hectares (including plasma), of which 65,000 ha contained mature oil palm trees. The company’s planted area is located in Kalimantan. The mature areas are mostly located in East Kutai district, East Kalimantan.

**Sustainability Policy and Recent Practices**

DSNG lacks a specific NDPE policy. However, on its website it states its intention to avoid development in peatlands and areas with high carbon reserves, to preserve areas that have High Conservation Value (HCV), and to implement Free, Prior and Informed Consent in its land development process. In Q4 2015 it started publishing carbon assessments for some of its undeveloped plantations. The company has no official policy for complying with the United Nations Guiding Principles on Business and Human Rights or the ILO core conventions.

DSNG is a member of the RSPO. The company has never submitted any New Planting proposals to the RSPO, even though it has cleared and planted oil palm in new concessions. Three of its six mills have been RSPO certified. It aims to achieve 100 percent RSPO certification in 2018.

In 2013, 2014 and 2015, DSNG expanded its planted area by 9,000 ha annually. In 2016 no expansion occurred. As shown in Figure 3 below, since 2013 the company has developed oil palm concessions in a forested area in West Kalimantan that is orangutan habitat. In this time, DSNG cleared 1,500 ha of High Carbon Stock (HCS) forests.

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**Figure 3: Concession boundaries of DSNG’s plantation companies PT Kencana Alam Permai and PT Prima Sawit Andalan (Sintang district, West Kalimantan). Since June 2015, some small patches (maximum 30 ha) of HCS forests have been cleared (marked in red). Presently, remaining HCS forests inside the concessions comprise 3,700 ha.**
PT Sampoerna Agro Tbk (SGRO:IJ)

SGRO is part of Sampoerna Strategic, which also owns businesses in finance, telecom, property and timber. Putera Sampoerna and his family are the controlling shareholders of Sampoerna Strategic. Michael Sampoerna is the present CEO.

SGRO grows oil palm, and to a lesser extent sago and rubber. By Q3 2016, its oil palm planted area comprised 84,000 ha excluding plasma smallholders. SGRO’s oil palm plantations are located in South Sumatra, Central Kalimantan, and West Kalimantan.

**Sustainability Policy and Recent Practices**

SGRO does not have a NDPE policy. It claims to preserve High Conservation Value areas, yet the company does not make the amount of ha preserved public.

SGRO is a member of the RSPO. So far only 5,000 ha of the company’s planted area have been RSPO certified. SGRO has never submitted a New Planting proposal to the RSPO. The company expects to achieve 100 percent RSPO certification for its own operations by 2021.

Since 2014, it has added 14,000 ha to its planted area of 70,000 ha.

On 11 August 2016 judges of the South Jakarta District Court ordered SGRO to pay $80 million (IDR 1.07 trillion) for compensation and environmental restoration. The Indonesian Ministry of Environment and Forestry had started a civil lawsuit against SGRO’s subsidiary PT National Sago Prima because of forest fires on 3,000 ha in Riau province it was responsible for. According the ministry, PT National Sago Prima did not do anything to prevent wildfires. It had not built fire lookout towers and had no fire fighting teams available. In February and March 2014, fires spread in and outside its sago concession. In 2014, there were 883 hotspots recorded inside the concession. As shown in Figure 4 below, June 2014 hotspots are visible via satellites.
PT Eagle High Plantations Tbk (BWPT: IJ)

BWPT is majority-owned by business tycoon Peter Sondakh. The palm oil company emerged late 2014, after a reverse takeover by the company Green Eagle of the already-listed PT BW Plantation (BWPT).

Presently, BWPT’s planted area comprises 152,000 ha with 91 percent in Kalimantan, 8 percent in Papua, and 1 percent in Sumatra. During 2011 to 2013, it expanded on average 15,000 ha per year. Since 2014, its expansion slowed to 8,000 ha in 2014, 2,000 ha in 2015, and zero ha in 2016. The slowdown may have environmental (aligning with NDPE procurement policies) and financial (the company has a high debt) reasons.

Sustainability Policy and Recent Practices
BWPT does not have a public NDPE policy. Before the reverse takeover, the company Green Eagle stated that its policy for the future was to focus on planting on mineral soils. BWPT had not made any such statements.

BWPT is a member of the RSPO. It aims to achieve 100 percent RSPO certification for its own operations by 2025. At present, it has not secured RSPO certification for any of its operations. Likewise, it has never submitted any New Planting proposals to the RSPO, despite clearing and planting oil palm in new concessions.

As shown below in Figure 5, significant concerns include:

- From Q2 2013 to Q2 2015, BWPT’s concession company PT Arrtu Energi Resources (Ketapang district, West Kalimantan) planted oil palm on 3,000 ha of peatland. In November 2014, three orangutans were rescued from fires inside the concession.
- In June 2015, the Indonesian NGO Greenomics released a report documenting destruction of forests in South Sorong district, West Papua. Greenomics found that BWPT’s subsidiary PT Varia Mitra Andalan cleared High Carbon Stock (HCS) forests through March 2015. BWPT’s buyers GAR and Cargill, who have NDPE policies, said they would investigate the matter and engage with the company. Satellite imagery shows that, after clearing 1,000 ha of forests, the clearing stopped mid-2015.
PT Sawit Sumbermas Sarana Tbk (SSMS:IJ)

SSMS is an Indonesian palm oil company operating in Central Kalimantan. The company is under control of Abdul Rasyid and his family. As of Q2 2016, SSMS had a landbank of 100,000 ha, of which 70,000 ha were already converted into oil palm plantations. SSMS’s parent company PT Citra Borneo Indah also has its own oil palm businesses.

Sustainability Policy and Recent Practices

SSMS does not have a public NDPE policy.

The company has been a member of the RSPO since April 2007. Two of its five palm oil mills and supply bases are presently RSPO certified. It aims to achieve 100 percent RSPO certification for its own operations by 2018.

In March 2015, SSMS submitted an RSPO New Planting proposal, planning to convert more than 10,000 ha of lowland tropical rainforest (potential or actual orangutan habitat) into oil palm plantations. Two NGOs filed a complaint with RSPO, arguing that documents with regard to High Conservation Value areas and Free, Prior and Informed Consent were incorrect and flawed. At the same time, another NGO reported on recent clearings of peatland forests by an SSMS subsidiary. In December 2015, SSMS sold the concession with the pending RSPO complaint and another highly contested concession. The buyers could not be identified through notary acts. It can also not be ruled out that the companies are still under control of Abdul Rasyid and his family. SSMS acquired two plantation companies in Central Kalimantan, PT Menteng Kencana Mas (PT MKM) and PT Mirza Pratama Putra (PT MPP). The concessions comprise 27,000 ha, of which around 18,000 ha are not yet planted. PT MKM is likely predominantly located on peatland, though the concession area is not clear. In Figure 6 shown below, drone imagery recorded active deforestation in PT MPP in May 2016.
PT Tunas Baru Lampung Tbk (TBLA:IJ)

PT Tunas Baru Lampung Tbk (TBLA) is a subsidiary of the Indonesian Sungai Budi Group, an agribusiness company controlled by the Widarto Oey family. By June 2016, TBLA had planted 53,000 ha with oil palm in Lampung and South Sumatra provinces in Sumatra and West Kalimantan. TBLA is more focused on becoming a downstream oil palm company than being a palm oil grower. Costs of raw material equalled more than half of the company’s revenue in 2015. TBLA has not disclosed any third-party suppliers.

Sustainability Policy and Recent Practices
TBLA does not have a public NDPE policy. The company is a member of the RSPO, and aims to achieve 100 percent RSPO certification by 2021. In its Annual Communications of Progress 2015 for the RSPO it however mentions a planted area of 19,000 ha only. The company has also never submitted any New Planting proposals to the RSPO, but it has cleared and planted oil palm in new concessions. Only 956 ha of the company’s planted area has been RSPO certified.

As of Q3 2015, most of TBLA’s 6,000 ha planted area in West Kalimantan is located on peatland. Presently the company’s subsidiary PT Solusi Jaya Perkasa in Kubu Raya district clears peatland forests. The concession covers 1,800 ha. The forested areas have already been stacked and canals are constructed. As shown below in Figure 7, between April and September 2016 a large portion of the forests were cleared.

As shown below in Figure 8, early November 2015, President Widodo issued a presidential instruction to palm oil companies not to develop new palm oil plantations on peatlands. In November 2016, the ministry of the Environment and Forestry found out that TBLA’s subsidiary PT Dinamika Graha Sarana (PT DGS) was developing new canals and performing new planting in areas targeted for restoration by Indonesia’s Peat Restoration Agency (BRG). In addition, the company has failed to comply legally with the terms of its permit granted by Indonesia’s Environment and Forestry Ministry in 2012.
PT Austindo Nusantara Jaya Tbk (ANJT:IJ)

ANJT is majority owned by the Indonesian Tahija family. As of Q3 2016, the company had 40,000 ha of productive oil palm plantations in Sumatra (North Sumatra and Belitung Island) and West Kalimantan. The total land bank of ANJT comprises 158,000 ha. Its oil palm concessions in West Papua (91,000 ha) and South Sumatra (13,000 ha) remain largely undeveloped.

Sustainability Policy and Recent Practices
ANJT does not have a public NDPE policy. It is committed to preserving High Conservation Value areas and avoidance of peatlands. The company does not support the High Carbon Stock (HCS) approach. It has not made public any policy with regard to Free, Prior and Informed Consent and complying with the United Nations Guiding Principles on Business and Human Rights or the ILO core conventions.

The company is a member of the RSPO. Its mills and supply bases in North Sumatra and Belitung are RSPO certified. ANJT aims to achieve 100 percent RSPO certification for its own operations by 2022. Over the years, the company has been submitting several New Planting proposals to the RSPO and the public. However, the company has also admitted that it has been clearing based on preliminary HCV assessments.

As shown below in Figure 9, ANJT’s developments in West Papua province have raised serious concerns by traders/processors with NDPE policies. Between 2014 and March 2015 ANJT has cleared approximately 8,000 ha of highly forested landscapes in Sorong, the Bird’s Head Peninsula. The company had not identified and conserved High Carbon Stock forest areas. As of Q2 2015, both GAR and Wilmar suspended CPO purchases from ANJT because of this active forest clearance. In Q4 2015, Musim Mas followed suit. In October 2016 ANJT stated that it is currently reviewing its High Conservation Value area assessments for the concessions. Since March 2015 ANJT has (temporarily) halted the clearing in West Papua. In 2015 and July 2016 communities expressed their opposition to ANJT’s presence in the area.
PT Bakrie Sumatera Plantations (UNSP: IJ)

UNSP is part of the Bakrie Group, whose business interests span oil and gas, mining, agribusiness, telecommunications, metals and infrastructure. As of Q3 2016, the public held 75 percent of the UNSP’s shares. UNSP’s business covers oil palm plantations, rubber plantations and oleochemical lines of business. In October 2016, UNSP announced a reverse stock split, likely at a 10-to-1 ratio. The director in charge of finance spoke of “the first step in our financial restructuring to reduce the company’s financial burden.” The company has been losing money since 2012.

As of Q3 2016 UNSP had an oil palm planted area of 51,600 ha (excluding plasma smallholders) in North Sumatra, West Sumatra, Jambi and South Kalimantan.

**Sustainability Policy and Recent Practices**

UNSP does not have a public NDPE policy.

UNSP is a member of the RSPO. As of mid-2016, two of its five palm oil mills were RSPO certified. The company aims to have a third mill certified soon, as the assessment started in June 2015. UNSP has stated that it aims to achieve 100 percent RSPO-certification for its own operations by 2016, which does not seem feasible. However, it is likely that this target will be met before 2020. The company has never submitted any New Planting proposals to the RSPO and the public, yet likely it did not start clearing and planting oil palm in new concessions.

The company has not expanded its planted area in 2015 and 2016. There have been no recent practices of deforestation and the opening of peatlands.
Appendix 1: Sustainability Benchmark Methodology

The 10 IDX-listed companies were benchmarked on their sustainability policies and recent practices. The companies could score a total of 12 points:

- Aligning with NDPE policies (maximum 6 points)
- Active membership of the RSPO (maximum 3 points)
- Recent practices (maximum 3 points)

The result was presented in score ranges: green for the category 9 to 12 points, orange for the category 5 to 8 points, red for the category 0 to 4 points.

**NDPE Policy Alignment**
No Deforestation, No Peat, No Exploitation (NDPE) policies form the most demanding palm oil industry standard to fight climate change, biodiversity loss and human rights abuses. A large group of leading private palm oil growers/traders/processors have adopted NDPE policies. Appendix 3 explains the NDPE policies further.

There was a maximum of 6 points for companies that have extensively committed themselves to NDPE policies. Points could be scored for aligning with the following key elements of NDPE-policies:

- Respecting the conservation of High Conservation Value (HCV) areas (1 point) and High Carbon Stock (HCS) areas (1 point)
- Not developing on peatlands delivered (2 points)
- Making commitments not to infringe on Free, Prior and Informed Consent, the labor conventions of ILO, and the UN guiding principles on human rights (2 points)

**RSPO Active Membership**
The Roundtable for Sustainable Palm Oil (RSPO) is a standard adopted by the international palm oil industry. Compared to NDPE policies the standard is weaker on deforestation and driving change, yet the RSPO also has a complementary role.

Points could be scored for:

- Consequently submitting New Planting proposals to the RSPO and the public before starting to clear and plant (1 point).
- Having more than 30% of CPO production RSPO certified (1 point).
- Having a time-bound plan to achieve 100% RSPO certification for own operations by 2020 (1 point).

**Recent Practices**
Companies that were found to deforest and/or opening peatlands after June 2015 scored zero points. Social issues, such as land disputes and labor rights violations, were taken into account whenever recent instances of clear violations after June 2015 had come to light. In that case companies would get a penalty point. The total score on recent practices went never below zero.

A penalty point was also given to controlling shareholders with other palm oil businesses without having an NDPE policy for this other businesses and/or recent practices in contrast to NDPE policies.
Companies with a clean sheet on recent practices scored 3 points.

Practices with regard to the prevention and response to fires were not taken to account for the score on recent practices. The available data did not allow for a clear distinction in the efforts by the companies. As peatlands are very prone to fires, the fires issue is represented through the scores on peatland development (policy and practices).

For the benchmark the following sources were used: annual, sustainability and quarterly reports of the companies, fire hotspot data of the NASA, Landsat imagery, forest cover maps of the ministry of Environment and Forestry, concession boundaries from various sources, RSPO data such as the Annual Communication of Progress for each company and New Planting proposals over the years.

In Figure 10 below, the scores are shown, and their transfer to red, orange, and green.

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<tr>
<th>Palm oil grower (ticker on the IDX)</th>
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<th>RSPO</th>
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Appendix 2: Risk Exposure Due to NDPE Policies

NDPE Signatories
A large group of leading private palm oil growers, traders and processors have adopted No Deforestation, No Peat, No Exploitation (NDPE) policies. The group represents a vast majority of oil palm traded/processed worldwide. Key elements of NDPE policies are:

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

The policies apply to a signatory’s own plantation operations as well as all the plantations operated by their third-party suppliers. The protection of peatlands has become law in Indonesia in December 2016. Yet, enforcement may be insufficient.

The following NDPE signatories are known to (directly) buy palm oil from the group of 10 largest IDX-listed growers:
- Louis Dreyfus Company
- Kuala Lumpur Kepong (KLK)
- Asian Agri/Apical
- Golden Agri-Resources (GAR)
- Astra Agro Lestari
- Musim Mas
- Nestlé
- Unilever
- Wahana Citra Nabati.

All these NDPE signatories already apply the key elements mentioned above for their own palm oil operations. Wilmar, GAR, Asian Agri/Apical and Musim Mas are widely perceived as taking the lead in ensuring suppliers’ compliance. They engage their third-party suppliers to the extent of suspending trade relations and favoring compliance. They also committed themselves to supply chain transparency by publishing a full list of third-party suppliers, and have a grievance procedure.

Revenue at Risk for IDX-Listed Growers
In June 2015, Chain Reaction Research released a report about the risk exposure of IDX-listed palm oil growers to NDPE-policies. The report concluded, based on 2014 figures, that 6 out of the 10 largest IDX-listed growers had a high-risk exposure (chance of losing main buyers). The estimate was based on the sustainability record of the IDX-listed growers and the percentage of their revenue generation via NDPE buyers.

Since June 2015 many of the IDX-listed companies have mitigated their risks. Some have strengthened their sustainability policies (AALI, DSNG); some have suspended their operations in contested areas due to buyers’ intervention (BWPT, ANJT). SSMS and ANJT already experienced losing NDPE-buyers. Chain Reaction Research estimated
the financial consequences in June 2016. Especially the recent practices of TBLA and SSMS are in contrast with NDPE policies.

Figure 11 below shows how the risk exposure has changed since June 2015. In June 2015, there were six palm oil growers with a high exposure, at present there are four.

<table>
<thead>
<tr>
<th>Palm oil grower (ticker on the IDX)</th>
<th>Risk exposure December 2016</th>
<th>Risk mitigation due to NDPE-buyers since June 2015</th>
<th>Risk exposure June 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT Astra Agro Lestari (AALI)</td>
<td>Medium</td>
<td>Adopted a NDPE-policy in September 2015, moratorium on land conversion.</td>
<td>High</td>
</tr>
<tr>
<td>PT Salim Ivomas Pratama (SIMP)</td>
<td>Medium</td>
<td>No apparent changes</td>
<td>Medium</td>
</tr>
<tr>
<td>PT Sinar Mas (SMAR)</td>
<td>Medium</td>
<td>No apparent changes</td>
<td>Medium</td>
</tr>
<tr>
<td>PT Dharma Satya Nusantara (DSNG)</td>
<td>Medium</td>
<td>Strengthened sustainability policy, slowed down operations in contested areas</td>
<td>High</td>
</tr>
<tr>
<td>PT Sampoerna Agro (SGRO)</td>
<td>High</td>
<td>No apparent changes</td>
<td>High</td>
</tr>
<tr>
<td>PT Eagle High Plantations (BWPT)</td>
<td>High</td>
<td>No apparent policy changes, suspended operations in contested areas</td>
<td>High</td>
</tr>
<tr>
<td>PT Sawit Sumbermas Sarana (SSMS)</td>
<td>Medium</td>
<td>No apparent policy changes, main NDPE-buyers stopped purchasing, recent practices in clear contrast with NDPE</td>
<td>High</td>
</tr>
<tr>
<td>PT Tunas Baru Lampung (TBLA)</td>
<td>High</td>
<td>No apparent policy changes, recent practices in clear contrast with NDPE</td>
<td>Medium</td>
</tr>
<tr>
<td>PT Austindo Nusantara Jaya (ANJT)</td>
<td>Medium</td>
<td>No apparent policy changes, suspended operations in contested areas, main NDPE-buyers stopped purchasing</td>
<td>Medium</td>
</tr>
<tr>
<td>PT Bakrie Sumatera Plantations (UNSP)</td>
<td>High</td>
<td>No apparent changes</td>
<td>High</td>
</tr>
</tbody>
</table>

Figure 12 below shows the NDPE-buyers of the 10 largest IDX-listed companies in 2016, and an estimate of the percentage of revenue generated by present NDPE-buyers.

<table>
<thead>
<tr>
<th>Palm oil grower (ticker on the IDX)</th>
<th>Main NDPE-buyers in 2016</th>
<th>Revenue percent from NDPE-buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>PT Astra Agro Lestari (AALI)</td>
<td>KLK, Musim Mas, Asian Agri/Apical, GAR, Wilmar</td>
<td>70%</td>
</tr>
<tr>
<td>PT Salim Ivomas Pratama (SIMP)</td>
<td>Wilmar, Musim Mas, GAR</td>
<td>20% to 30%</td>
</tr>
<tr>
<td>PT Sinar Mas (SMAR)</td>
<td>Wilmar, Musim Mas</td>
<td>&lt; 10%</td>
</tr>
<tr>
<td>PT Dharma Satya Nusantara (DSNG)</td>
<td>GAR, Wilmar</td>
<td>70%</td>
</tr>
<tr>
<td>PT Sampoerna Agro (SGRO)</td>
<td>GAR, Louis Dreyfus, Wahana Citra Nabati</td>
<td>60%</td>
</tr>
<tr>
<td>PT Eagle High Plantations (BWPT)</td>
<td>GAR, Wilmar</td>
<td>90%</td>
</tr>
<tr>
<td>PT Sawit Sumbermas Sarana (SSMS)</td>
<td>Louis Dreyfus, Unilever</td>
<td>&lt; 10%</td>
</tr>
<tr>
<td>PT Tunas Baru Lampung (TBLA)</td>
<td>Nestlé, Louis Dreyfus, Musim Mas, Wilmar, GAR, ADM and Asian Agri/Apical</td>
<td>20% to 30%</td>
</tr>
<tr>
<td>PT Austindo Nusantara Jaya (ANJT)</td>
<td>KLK and Astra Agro Lestari</td>
<td>40%</td>
</tr>
<tr>
<td>PT Bakrie Sumatera Plantations (UNSP)</td>
<td>Wilmar, Musim Mas</td>
<td>55%</td>
</tr>
</tbody>
</table>

Chain Reaction Research (CRR) is a consortium of Aidenvironment, Climate Advisers, and Profundo. CRR conducts sustainability risk analysis for financial analysts and investors, with a special focus on sectors that deal with environmentally intensive commodities in tropical countries. Since 2012, CRR has provided in-depth and reliable analysis to investors about the financial risks inherent in the activities of palm oil and pulp and paper companies in Indonesia. These reports have proven to be a driver for change; investors have used their financial leverage to stimulate companies to adopt No Deforestation policies. The reports have also highlighted the financial risks associated to noncompliance of sustainability