



## **Asian Agri and Apical's Sustainability Policy Implementation – Combined Q2 – Q3 Progress Report: April - September 2015**

### **Introduction**

This is the first of what will become regular quarterly updates on our progress in implementing our Sustainability Policy, in collaboration with The Forest Trust (TFT).

This builds on the information we are now displaying on our new *Asian Agri and Apical Sustainability Progress Dashboard* as we seek to share our journey with all of our stakeholders towards a traceable and transparent palm oil supply chain committed to:

1. Protection of High Conservation Value (HCV) and High Carbon Stock (HCS) areas;
2. Protection of new peat areas, regardless of depth;
3. Driving positive socio-economic benefits for people and communities.

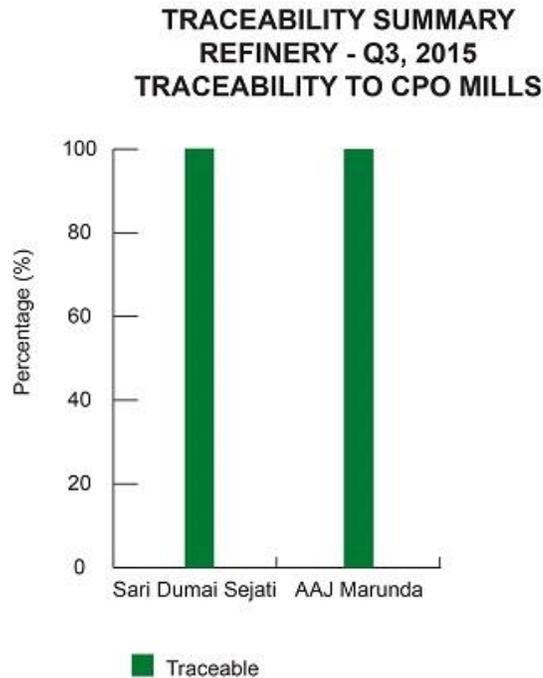
This report provides explanation about our progress and will also serve as our regular tracker to achieve the above commitments. Consistent with our [plan](#), for the last 6 months we have focused on setting up strong fundamentals for the project; including creating a practical FFB traceability plan, implementation of Aggregator Refinery Transformation (ART) on selected suppliers, internal capacity building, socializing our sustainability policy, developing essential procedures, and creating our Sustainability Progress Dashboard. Meanwhile, we have also achieved our target on full traceability to supplying mills and improved on our skills in managing relevant supplier-related grievances.

# 1. Traceability

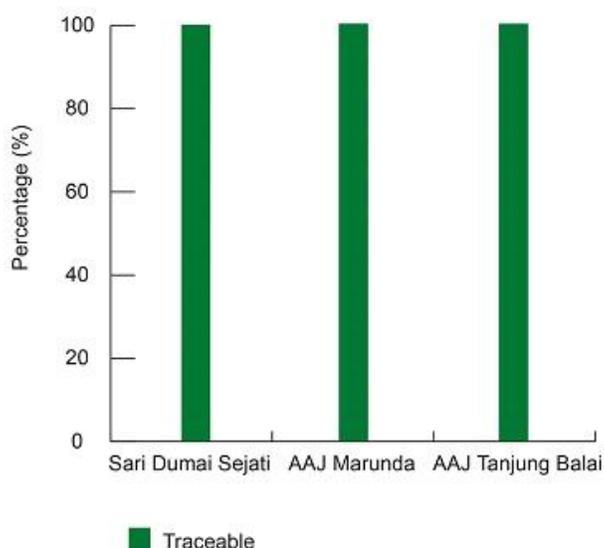
## 1.1 Traceability to Mills

Achieving full traceability to our supplying mills has been one of our main targets since 2014. The main challenge of mill traceability was to convince our suppliers to provide accurate information. This was made possible by socializing our sustainability policy, together with the cooperation given by our suppliers. Data verification and selection of priority mills based on the traceability data was another major exercise which was made possible by the expert guidance from TFT. Our next priority is for TFT to develop the capacity of our internal team members on data verification and the Mill Prioritization Process (MPP).

As of September 2015, we have achieved full traceability to our supplying oil mills for all of our refineries in Indonesia:



**TRACEABILITY SUMMARY  
REFINERY - Q3, 2015  
TRACEABILITY TO PK MILLS**



### 1.2 FFB Traceability

We have worked with TFT to reach a practical categorization of the sources of FFB that will enable us to focus on specific categories of FFB supplier, while working towards building the full picture of our supply base.

It is based on 3 categories of FFB sources, namely:

- a) Plantations > 500 Ha, including associated plasma smallholders
- b) Small – medium estates (25 – 500 Ha)
- c) Zones of independent smallholder (< 25 Ha). The FFB dealers to assist in the zoning of independent smallholders.

We have developed a [FFB Traceability Action Plan](#) to achieve full traceability to FFB source by 2020 and have begun implementation with Asian Agri's own estates and mills. We will progress to large third party estates, before tackling the difficult task of verifying the networks of dealers and small FFB suppliers.

## **2. Aggregator Refinery Transformation (ART)**

For each of our refineries, we are implementing ART plans (beginning at Sari Dumai Sejati) as a method to assess and then drive transformative activities across each supply shed. For more details see [Goal 5 – Supplier engagement](#).

### **2.1 Mill Prioritization Process (MPP) and engagement with identified selected suppliers.**

After gaining the location and company information of our supplying mills through mill traceability, the mills were analyzed through the MPP. The main objective of this process is to identify priority supplying mills for deeper engagement, with the ultimate aim of finding the critical and most common issues in each supply shed and promoting continuous improvement and progressive transformation with our suppliers.

Based on a set of environmental and social risks within 50 Km radius from the mill, 25 suppliers to our Dumai refinery have been identified for site visit as a result of the MPP.

### **2.2 Site Visits**

To date, we have visited 4 of the 25 selected mills supplying to our SDS Dumai refinery. Various gaps and opportunities for improvement were found and detailed summary reports are being produced to be submitted to the respective suppliers to assist in their continuous improvement.

Selected suppliers were identified as high priority based on a set of factors, such as proximity to national park and forest reserve, previous allegation on deforestation and social / land conflict. These points were discussed in detail with the selected suppliers during the visit and practical recommendations and corrective measures were given to address them.

Additionally, areas for improvement such as good management of existing peat area, waste management, good agricultural practices and safety & health management system were assessed during the visits. Recommendations given for continuous improvement on such areas will be beneficial for the suppliers and our long term aim of creating a sustainable supply chain.

We are grateful for the cooperation given by the selected suppliers, which has enabled our engagement team to identify issues associated with their operations, and their willingness to take practical and proactive steps to make necessary recommended improvements.

### **3. Grievances**

Three grievance cases related to the sustainability practices within our supply chains have been reported since May 2015. Thus far, good cooperation was given by the suppliers with the mutual objective of resolving the cases in a transparent manner.

Engagement meetings at the head office level have been carried out to better understand the grievance issues with the objective of providing necessary support and recommendations to the alleged suppliers in resolving the grievance case and complying with our sustainability commitments. We are also working closely with TFT for their technical support and guidance to resolve the reported issues. Details of the ongoing grievances and their current status are provided on our Sustainability Progress Dashboard.

We are fully committed to the no open burning requirement in our Sustainability Policy and will influence our suppliers to follow similar practice. With the recent regional haze issue resulted from the open burning and natural fire in Indonesia, we have learned that in some cases, fire could have been spread from the adjacent smallholdings. Thus, we have taken additional effort in issuing notice to our suppliers to alert them to take precautionary measures on the risk of fire during dry season. We have also issued guidance to selected suppliers on early fire detection and prevention as described [here](#).

We will treat every grievance seriously as it is important that any grievance raised should be effectively managed and resolved in order to satisfy our stakeholders and for our own continuous improvement. Therefore, we have published our [Grievance Procedure](#) which has clear guidelines on how our stakeholders are able to raise their concern/ grievance. To ensure successful resolution of any grievance, we have formed our Supplier Engagement Team and Verification Team which will be responsible for gathering necessary information from all relevant parties before conducting field verification.

#### **4. Internal Training for Capacity Building**

Implementation of the Sustainability Policy has introduced many new concepts and requirements of our teams. To ensure that our team members are fully equipped with the relevant knowledge and skills, we have undertaken a programme of 'train-the-trainer' sessions with TFT, enabling our sustainability team to roll out training across our wider teams. In addition, our approach in developing the capacity of our teams is not limited to formal classroom trainings, but is augmented by training in the field through joint site visits with TFT to selected suppliers. Our long term aim is to develop an independent team which is capable of managing our own supply chains.

##### **4.1 Workshop on Conducting Field Assessments**

A classroom workshop on *Conducting Field Assessments* for the joint Asian Agri and Apical Team was held in May 2015 in Pekanbaru. The topics covered in the workshop included: *Engagement process for supplying mills, Preparation for field visits, Verification on key aspects of the Sustainability Policy and Reporting.*

##### **4.2 High Carbon Stock (HCS) Practitioner Training**

Representatives from Asian Agri and Apical joined other palm oil companies at two similar training sessions organized by TFT. These were conducted in August 2015 and September 2015, respectively at Bogor, Indonesia and Kuala Lumpur, Malaysia. The training was focused on the detailed process of conducting an HCS assessment, and included management and monitoring of identified HCS areas.

#### **5. Apical Palm Oil Sourcing Policy and SOPs**

We have finalized, with TFT's support, our [Apical Palm Oil Sourcing Policy](#). This has been developed to help our suppliers understand the requirements of our Sustainability Policy and how it guides our procurement strategy.

In addition we have devised three new Standard Operating Procedures (SOPs) for Apical's refineries, which were also reviewed by TFT. This was followed up with a visit to our Dumai refinery, together with TFT, to appraise and identify improvements to the current batch traceability system and to ensure the input of raw materials and output of

each batch of finished product is fully traceable. Currently, a further SOP is being developed to capture this.

For Asian Agri, SOPs related to FFB traceability and best management practices, which include new plantings, replanting and HCV conservation, were reviewed. This was followed up with a visit to one of our mills in Riau to assess the implementation of our sustainability commitment and to ensure that our mills have implemented the proper traceability systems for our suppliers.

## **6. Smallholders Program**

Asian Agri is partnering with around 29,000 scheme smallholders in Riau and Jambi province. We have a dedicated plasma management team that provides technical assistance and best management training on sustainable palm oil. We also collaborate with third parties to provide them with specific training such as HCV management and fire mitigation/prevention. We also provide loans to support their infrastructure maintenance and provision of fertilizer.

As 25% of our supply is coming from third party suppliers – the majority of which are independent smallholders - we are extending our reach to engage with independent smallholders representing around 17,000 ha of plantation land. We have conducted communication of our NDPE policy to our direct suppliers and we are currently engaging with relevant stakeholders to carry out the traceability project for Riau and Jambi province. Our goal is to engage with around 60,000 ha of independent smallholders by 2020.

As the result of our partnership, our plasma has been ISCC and RSPO certified while 1,027 ha of our independent smallholders are also RSPO certified.

## **7. Dashboard**

Asian Agri and Apical agreed with TFT that an important element in our sustainability journey is the ability to report transparently on our progress to implement our Sustainability Policy. To this end, we have worked with TFT to agree the design and content for the *Asian Agri and Apical Sustainability Progress Dashboard*.

The main content of the dashboard has been prepared and finalized with TFT. The first working prototype was presented to Asian Agri and Apical's senior management on 18<sup>th</sup> November 2015 for review. The final dashboard has now been launched and will serve as the main communications channel for all Sustainability Policy updates.