

# **GAR Surabaya Refinery Sustainability Overview Report**



**Refinery Address:  
19 Rungkut Industri Raya Street, Rungkut Kidul, Rungkut Sub District,  
Surabaya City, East Java**

**GAR Responsible Sourcing Division  
2019**

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## EXECUTIVE SUMMARY

Golden Agri-Resources (GAR) adopted the [GAR Social and Environmental Policy \(GSEP\)](#) in 2015. The GSEP contains the responsible palm oil principles and policies for the production of sustainable palm oil by GAR, its subsidiaries and third party suppliers. Its key pillars include: Environmental Management; Social and Community Engagement; Work Environment and Industrial Relations; and Marketplace and Supply Chain.

Since 2015, GAR has been rolling out a supply chain transformation plan that focuses on supporting suppliers in their adoption and implementation of responsible practices in compliance with the GSEP. Known as the Agregator Refinery Transformation (ART) plan, it provides a framework that allows refiners, millers and growers to collaborate in overcoming industry-wide challenges and changing common practices to deliver responsible palm oil products to producers, retailers and end customers. Since 2016, GAR has published reports on the implementation of ART which can be found on the [GAR Sustainability Dashboard](#).

The Surabaya Sustainability Overview Report reports on the Mill Prioritization Process (MPP) and site visit results to the Surabaya Refinery supply shed. The MPP involves desktop analysis of suppliers' mills using spatial and non-spatial data. Through the MPP, GAR is able to determine the risk level of each supplier. GAR then prioritizes high risk mill for site visit.

In 2018, the Surabaya Refinery sourced from 33 mills belonging to 28 companies (including 13 GAR owned mills). From 2015 to 2019, GAR visited both Tier 1 and Tier 2 suppliers including five mills in the Surabaya supply shed, as well as estate plantations, plasma, FFB agents and smallholders. GAR used a checklist based on GSEP commitments; the Principles and Criteria of the [Roundtable on Sustainable Palm Oil \(RSPO\)](#); and [Indonesian Sustainable Palm Oil \(ISPO\)](#) standards to assess the suppliers. The suppliers (mills and estates) are then ranked according to four categories in terms of their progress and/or commitment in complying with the requirements: Low Intention, Intention, Implementation and Achieving. Smallholders meanwhile are classified as compliant or non-compliant and assessed on simpler criteria.

In general, suppliers especially mills and estates generally performed better in the implementation of GSEP 2 (Social and Community Engagement) and GSEP 3 (Workplace and Labour Relations). More work is needed in the implementation of GSEP 1 (Environmental Management) and GSEP 4 (Marketplace and Supply Chain). However, we also found that Tier 2 suppliers (smallholders) in this supply shed are struggling to understand many of the concepts.

In GSEP 1 (Environmental Management), the majority of mills and estates were at the Implementation level. Most have sustainability policies including environmental management, but the implementation is being carried out gradually. Meanwhile, we found that smallholders in general, did not understand the policies and there are many areas that need to be improved such ensuring no deforestation; implementing proper waste management; and adopting Good Agricultural Practices (GAP) especially in peat areas.

The results of the field visit showed that both mill and estate suppliers were quite good at implementing GSEP 2 and the majority ranked as Achieving. Issues that still need attention include developing participatory CSR programmes and formally documenting grievance handling and communication with stakeholders. For smallholders, although no land conflict

issues are found in the field we found that they were not implementing GSEP 2 especially with regards to formal grievance and conflict handling procedures

Mills and estates were also ranked Achieving in the implementation of GSEP 3. Some issues that need further management include ensuring that overtime hours are in accordance with statutory provisions; better payroll administration and OSH implementation. At the smallholder level, we found that farmers do not have sufficient knowledge about the implementation of OHS practices and its benefits.

Implementation of GSEP 4 is challenging for mills. Over 30 percent are still at Low Intention as they have not started Traceability to Plantation (TTP) or developed support programmes for their FFB suppliers. At the estate and smallholder level, we were looking for implementation of certification and compliance with regulations. Some of them were not certified and also not operating in accordance with laws and regulations.

To improve suppliers' compliance with the GSEP, GAR and suppliers (mill and estate) have jointly developed the following plans:

- a. GSEP 1
  - Improve consistency in the implementation of environmental management including monitoring HCS, HCV, peat and implementing proper waste management in accordance with sustainability policies
  - Increase initiatives to reduce Greenhouse Gas (GHG) emissions and save energy in mills and plantations
  - Implement GAP and Best Management Practices (BMP) in line with sustainability commitments
- b. GSEP 2
  - Increase the capacity of staff handling social and community affairs especially in social mapping, conflict resolution, and designing participatory CSR
  - Conduct Social Impact Assessments as the basis for preparing measurable and participatory CSR programs
  - Improve the formal documentation system for all grievance handling and resolution, and other communication with stakeholders
- c. GSEP 3
  - Issue SOPs or mechanisms on implementation of No Exploitation principle in line with the GSEP
  - Implement and embed effective OSH Management Systems throughout all operations
- d. GSEP 4
  - Encouraging suppliers to carry out TTP and provide support to FFB suppliers, especially independent smallholders
  - Develop a monitoring system for fulfilling reliable legal aspects, so as to reduce delays or negligence in taking care of the legal requirements of mills or plantations.
  - Achieve mandatory Indonesia Sustainable Palm Oil (ISPO) certification

## **A. BACKGROUND**

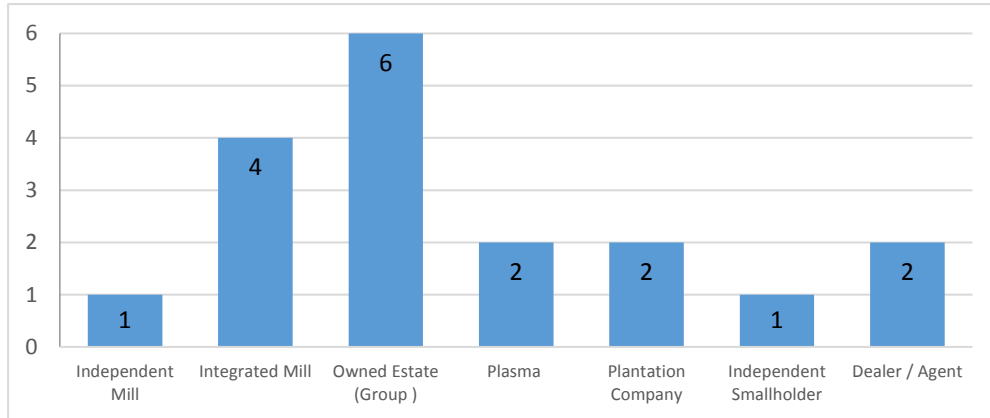
The GSEP was launched in 2015 and builds on earlier sustainable policies adopted by GAR. The core commitments of the GSEP include:

1. Environmental Management
  - No development of and the conservation of High Carbon Stock (HCS) forests
  - No development of and the conservation of High Conservation Value (HCV) 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

This report provides a general profile of Surabaya Refinery's suppliers; a summary of the biggest challenges in sustainability implementation by Tier 1 and Tier 2 suppliers; and details the action plans developed for mills, estates, and smallholders.

## **B. METHODOLOGY**

GAR chose five third party suppliers for site visits based on the level of risk, volume of purchases and other strategic commercial relationships. The mills are located in four districts of two provinces. GAR visited both Tier 1 and Tier 2 suppliers in the area.



**Figure 1. Types and Numbers of Tier 1 and Tier 2 suppliers visited**

During the site visit, GAR used a checklist to assess Tier 1 and Tier 2 suppliers (mills, estates, smallholders) based on the GSEP, RSPO Principles and Criteria and ISPO requirements. Based on the checklist, the suppliers are ranked as Low Intention, Intention, Implementation and Achieving. The site visits are not intended as an audit process, but to raise awareness and understanding amongst suppliers about their level of compliance with the GSEP. GAR then helps design appropriate action plans to help suppliers improve.

**Table 1. Indicators Used in Site Visit**

GSEP	NUMBER OF INDICATORS		
	MILL	ESTATE	SMALLHOLDER
Environmental Management	11	21	6
Social and Community Engagement	9	9	1
Work Environment and Industrial Relations	39	39	6
Marketplace and Supply Chains	12	3	1
<b>Total</b>	<b>71</b>	<b>72</b>	<b>14</b>

Suppliers are classified in categories listed below following GAR assessment:

**Table 2. Supplier Classification**

Category	Description
Low Intention	Supplier is considered as less committed to implement GSEP/sustainability commitments
Intention	<ul style="list-style-type: none"> <li>Supplier initiates implementation of GSEP/sustainability commitments by developing written/published sustainability commitments/procedures/mechanisms</li> <li>Supplier shows effort in implementing responsible practices in its partial operations, such as appointing Person-In-Charge (PIC), conducting socialisation of commitments etc.</li> </ul>
Implementation	Supplier has implemented sustainability practices in most of its operations

Category	Description
Achieving	<ul style="list-style-type: none"> <li>Supplier is highly committed to sustainability</li> <li>Supplier has developed internal systems to implement responsible practices</li> </ul>

This classification applies only to mills and estates. Smallholders are classified as compliant or non-compliant and assessed on simpler sustainability criteria.

### C. OVERVIEW OF SURABAYA REFINERY'S SUPPLY CHAIN

The Surabaya refinery is located in the city of Surabaya, East Java. It is supplied by 33 mills belonging to 28 companies (2018). The Surabaya Refinery received 41 percent of its volume from GAR mills and 59 percent from third party mills in 2018.

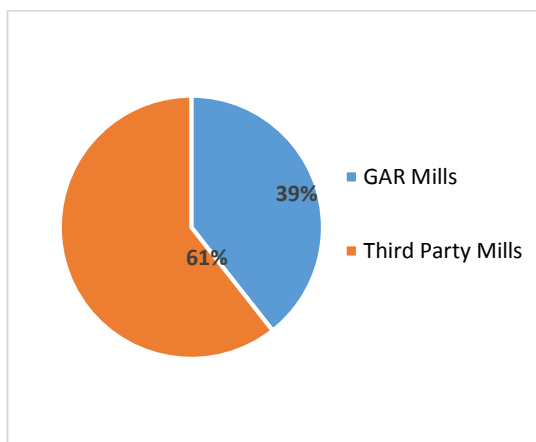


Figure 2. Surabaya Suppliers (2018)

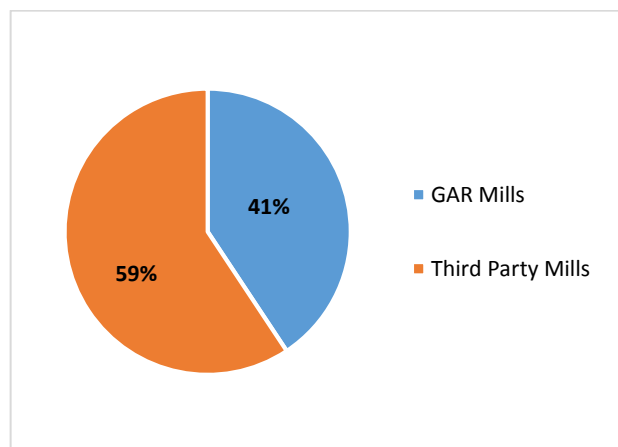


Figure 3. Breakdown of Sources

The Surabaya refinery sources from 14 districts in five provinces. The five districts supplying the largest volumes can be seen below.

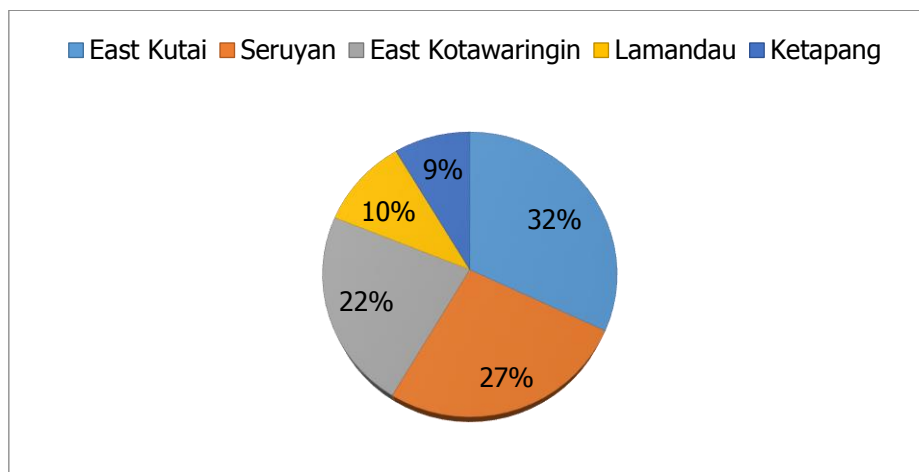
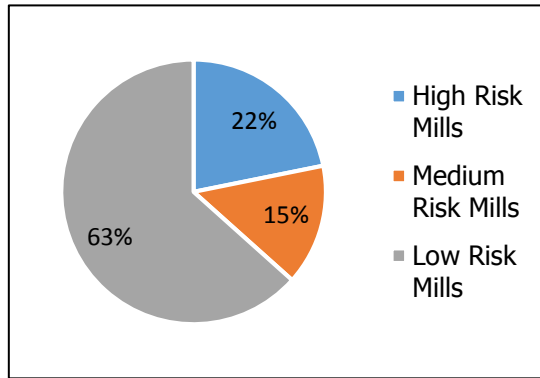


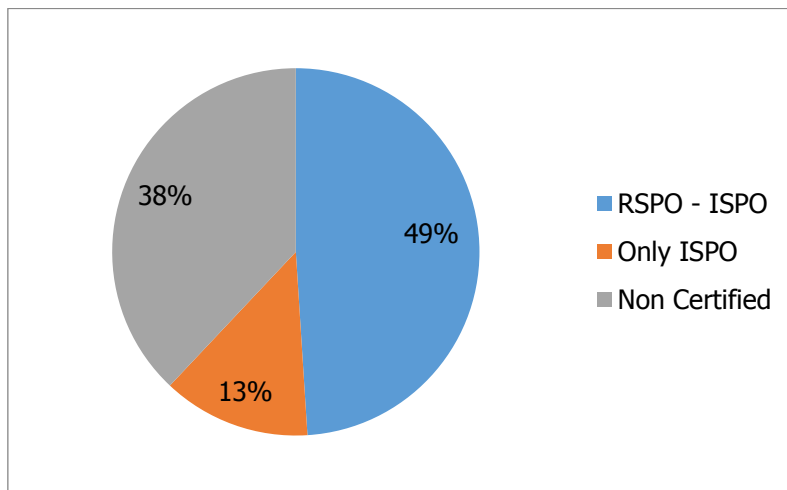
Figure 4. Location of Sources

Based on our Mill Prioritization Process (MPP) using spatial and non-spatial data, we are able to gauge the risk level of each supplier as can be seen below.



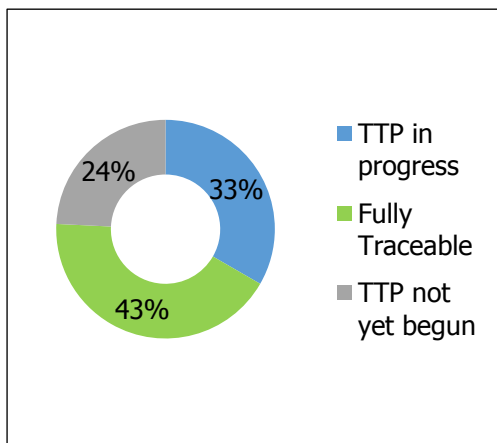
**Figure 5. Risk Analysis of Supplier**

More than half of the mills have received both ISPO and RSPO sustainable palm oil certification. As of November 2019, we determined that over 60 percent of mills have been certified including 40 percent with both RSPO and ISPO certification and 21 percent with ISPO certification. This means that in terms of volume, around half of the palm materials received by Surabaya refinery is RSPO-ISPO certified.

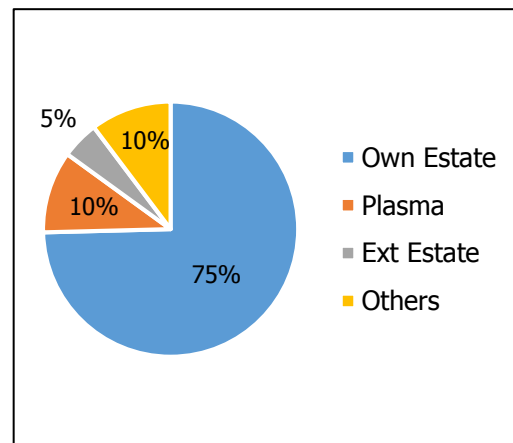


**Figure 6. Supplier certification status**

Based on data in Q2 2019, Surabaya Refinery suppliers have largely traced the source of supply received up to the plantation level (Traceability to Plantation / TTP). Over 75 percent of mills have carried out TTP with 43 percent reporting full TTP.



**Figure 7. Level of TTP Implementation**



**Figure 8. FFB Source base on TTP**



According to the TTP data, 75 percent of FFB comes from own estates and plasma plantations. Efforts to fulfill full TTP need to be focused on the remaining third-party FFB suppliers from external estates, smallholders and others.

## D. PROFILE OF SUSTAINABILITY IMPLEMENTATION

The sustainability implementation levels of the Tier 1 and Tier 2 supplier visited is described below.

### D.1. Implementation of GSEP 1 - Environmental Management

#### a. Mill

The majority of mills are ranked in the Implementation category, with only 20 percent of mills that are still at the Intention level. The main issues faced by mills, include adoption and implementation of reusing/recycling of waste such as organic waste being used as fertiliser and methane gas capture for energy. Most mills visited had written commitments to protect peat areas, including waste management commitments and implementation of BMPs, but implementation is still work-in-progress. No mill was ranked as Achieving.

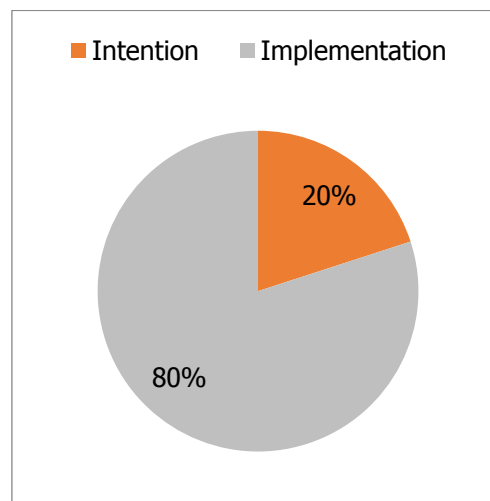


Figure 9. Mill Achievement of GSEP 1

#### b. Estate and Plasma

GAR visited six associated estates and two plasma estates. In general, the achievement of GSEP 1 for the estate is better than the mills. The majority of estates (75%) are at Implementation and the rest are ranked as Achieving.

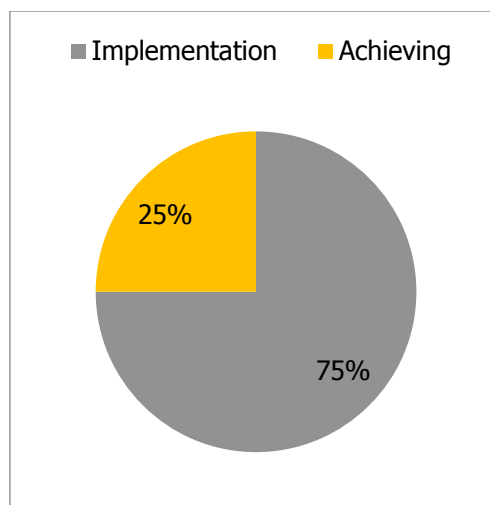
Estates had implemented/fulfilled the following:

- Commitment to peat protection
- Commitment to protection of HCS and HCV areas
- Commitment to Zero Burning
- Fire prevention teams, facilities and infrastructure
- Commitments related to the use of pesticides, superior seeds, and / or other technological innovations

- Responsible plantation management (control of pesticide use, planting high-yielding seeds, use of fertilizers)
- Innovations in agricultural practices (R&D team, mechanization, etc.)
- Proper waste management in accordance with the provisions (solid, liquid, gas, hazardous waste, domestic)

Estates can improve in these areas:

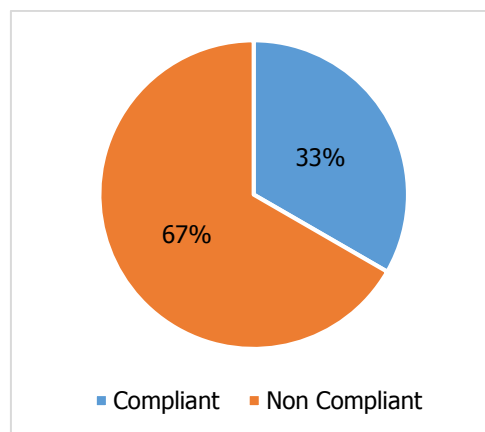
- HCS review and implementation of monitoring programs
- Peatland management programmes including Good Agriculture Practices on peatlands
- Implementation of energy saving and GHG emissions mitigation programmes
- Commitments to reduce GHG emissions including facilities for reducing emissions
- Implementation of HCV assessments and implementation of monitoring programmes
- Fire prevention and control programmes
- Policy on waste management



**Figure 10. Estate and Plasma Achievement of GSEP 1**

### c. Smallholder

Only two out of the five mills receive FFB from third parties. We found that the majority of these Tier 2 suppliers were non-compliant with GSEP 1.



**Figure 11. Smallholder Achievement of GSEP 1**

In general, smallholders did understand the importance of fire prevention and management. However, areas that need to be improved include:

- Waste management according to regulations (solid, liquid, gas, hazardous, domestic)
- HCV monitoring / protection programme
- Peat best practices
- HCS monitoring / protection (no deforestation)
- Responsible plantation management (control of pesticide use, planting high-yielding seeds, use of fertilisers)

## D.2. Implementation of GSEP 2 - Social and Community Engagement

### a. Mill

All the mills visited were either at Implementation or Achieving level in GSEP 2.

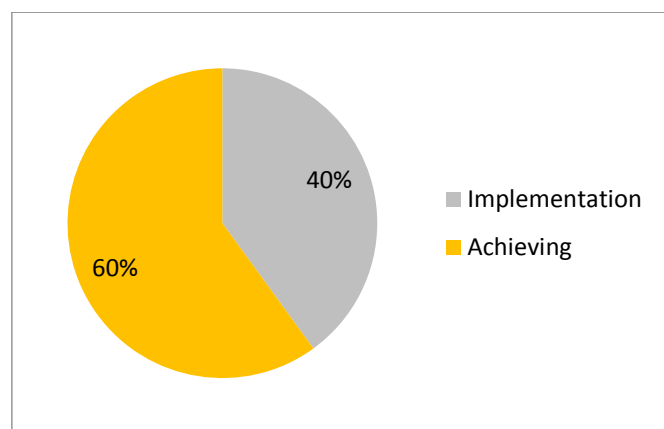
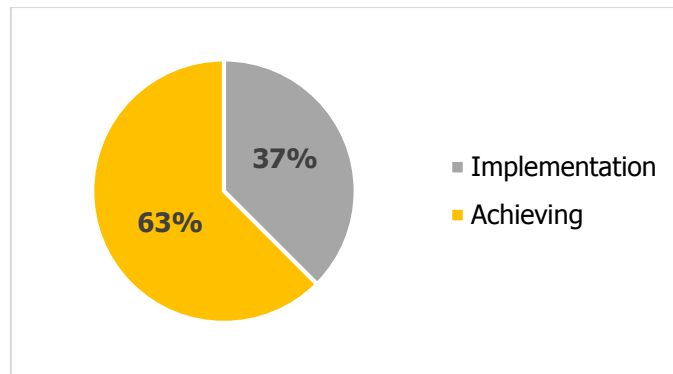


Figure 12. Mill Achievement of GSEP 2

All the mills have developed varying degrees of CSR. However, most of them are simply responding to ad hoc proposals from the community. Mills and estates have also not developed CSR programmes based on participatory SIA. In addition, they have poor formal documentation of requests received and other interaction with stakeholders including grievance handling.

### b. Estate and Plasma

Similarly all estates were found to be at Implementation or Achieving level for GSEP 2. Generally, estates are delivering community development programmes; have good grievance handling; no issues regarding land tenure rights; and some have started to collaborate with other stakeholder on sustainability initiatives at landscape level.



**Figure 13. Estate and Plasma Achievement of GSEP 2**

Areas for improvement include:

- Development of CSR programmes based on SIA
- Formal documentation of stakeholder requests and other communication, stakeholder mapping, and involvement in landscape programmes
- Formal documentation of grievance/conflict handling

### **c. Smallholder**

We found that independent smallholders are not familiar with the concepts under GSEP 2, including formal grievance and conflict handling procedures (although no current conflicts were found). This is partly due to the fact that land owner is a private individual and any problems with other parties is done directly and informally.

## **D.3. Implementation of GSEP 3 - Work Environment and Industrial Relations**

### **a. Mill**

All mills were ranked as Achieving. Areas for improvement include establishing a gender committee and establishing internal systems to prevent and handle harassment and abuse. As the number of women workers is generally very small compared to male workers, mills need to ensure that they have proper protection and access to remedy.

### **b. Estate and Plasma**

Similarly, all estates and plasma have also reached the Achieving level. This is generally because mills, estates and plasma are under the same management. Estates and plasma will also benefit from the establishment of gender committees and implementing prevention of harassment and abuse.

### **c. Smallholder**

Only 33 percent of independent smallholders are ranked compliant with GSEP 3. The main issue in fulfilling GSEP 3 in independent smallholder operations is the implementation of OSH practices. The farmers lack knowledge to fulfill and implement OHS. Workers were not equipped with adequate PPE and there is no risk assessment of workplace accidents.

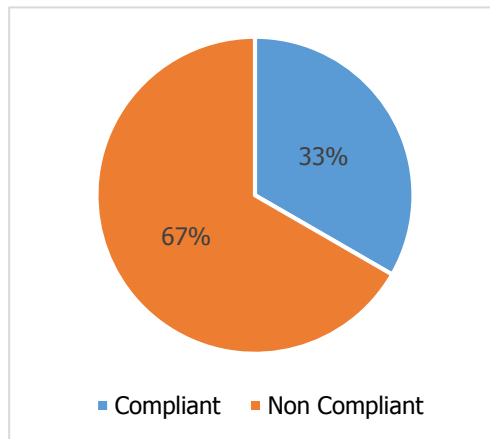


Figure 14. Smallholder Achievement of GSEP3

#### D.4. Implementation of GSEP 4 – Marketplace and Supply Chain

##### a. Mill

We found that the mills have been slow to implement GSEP 4. The majority are still ranked at Low Intention. This is generally due to the company's lack of commitment to carry out due diligence of FFB sources up to the smallholder level. Usually they only know the data of agents who are the mill's direct partners.

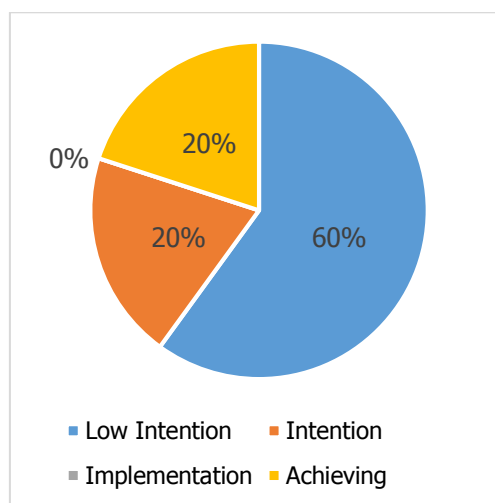


Figure 15. Mill Achievement of GSEP 4

We found one mill ranked in the Achieving level. This achievement includes fulfilling commitments to implement Traceability to the Plantation (TTP), and supply chain transparency, evidenced by the TTP report sent by the mill supplier to GAR on a regular basis. The supplier also has a commitment and monitoring system for compliance with applicable regulations.

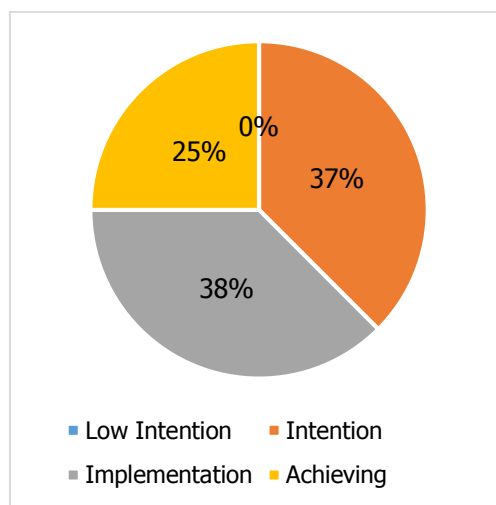
Areas for improvement for the mills include developing the following:

- Reliable TTP system
- Profile of suppliers or extracting more in-depth information when conducting surveys to smallholders in addition to geolocation data

- Supplier support programs in the form of training, coaching, field schools, or certification
- Compliance with all applicable regulations (no indication of violation of regulations)
- Commitments that support supplier capacity development
- Certification plans for both ISPO and RSPO

**b. Estate and Plasma**

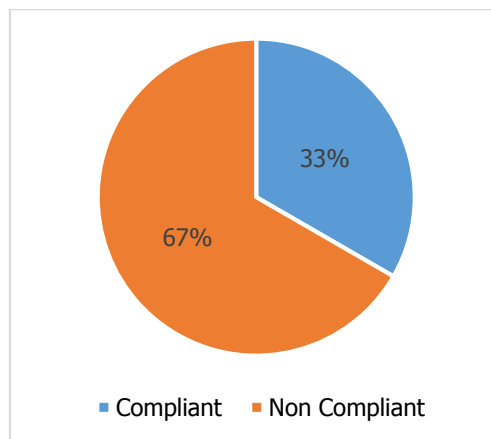
Most estates and plasma are either at Intention or Implementation level. This is because most of the plantations visited have not received ISPO or RSPO certification and are not yet compliant with all applicable regulations. Nevertheless, they have a commitment and monitoring system for adequate compliance with regulations, such as having operational procedures, person in charge and compliance check list.



**Figure 16. Estate and Achievement of GSEP 4**

**c. Smallholder**

Assessment of GSEP 4 implementation in smallholders is focused on compliance with laws and regulations. Most of the farmers visited have not complied with relevant regulations, including those related to land licensing and other legal requirements.



**Figure 17. Smallholder Achievement of GSEP 4**

## E. SUPPLIERS CAPACITY BUILDING PROGRAMME

Aside from site visits, GAR conducted several events to improve sustainability practices of third party suppliers. This included seminars, workshops, and trainings in collaboration with various stakeholders as shown in the table below:

**Table 3. Supplier Development Program Surabaya Refinery**

<b>EVENT</b>	<b>TOPIC</b>	<b>RESOURCE PERSON</b>	<b>TIME &amp; PLACE</b>	<b>SURABAYA SUPPLIERS INVOLVED</b>
SMART SEED1	Legal	GAR	Medan, 30 March 2016	20 mills
SMART SEED 2	Indonesia Sustainable Palm Oil (ISPO)	GAR	Medan, 21 Sept 2016	16 mills
SMART SEED3	Ensuring Traceability and Responsible Employment in the Palm Oil Industry	GAR	Jakarta, 7 Dec 2017	2 mills
SMART SEED 4	Palm Oil Diplomacy	GAR	Jakarta, 19 Sept 2018	3 mills
SMARTSEED 5	Supply chain transformation through landscape approach	GAR	Pekanbaru, 17 Oct 2019	11 mills
SMARTSTAR	Traceability	GAR	East Kalimantan, 16 – 19 May 2017	7 mills
Others	Responsible Labour Practice in Palm Oil Sector	Child Protection Research Center (PKPA), ICCO Cooperation, International Labour Organisation (ILO), CNV	Bali, 27 Nov 2017	5 mills
SMARTSTAR	FPIC, LTS, PM	GAR	Sorong, 22-25 Jan 2018	2 mills
CFT (Collaboration for Transformation)	High Conservation Value Management, Traceability, and Labor aspect in East Kutai Landscape	GAR, Earthworm Foundation (EF), The Nature Conservancy (TNC), and Kutai National Park Agency	Sangatta, 08 – 12 Oct 2018	7 mills

<b>EVENT</b>	<b>TOPIC</b>	<b>RESOURCE PERSON</b>	<b>TIME &amp; PLACE</b>	<b>SURABAYA SUPPLIERS INVOLVED</b>
SMARTSPOT	Implementing Responsible Traceability, Waste Management, and Practical Labor Practices in the GAR Supply Chain	GAR	Pekanbaru, 2 – 4 May 2018	20 mills
SMARTSPOT	Business and Human Rights, Labour Practices and OSH	GAR, International Labor Organization (ILO), Man Power Agency	Medan, 7-8 May 2019	20 mills
SMARTSPOT	Labour practice and responsible traceability	GAR, Man Power Agency	Pangkalan Bun, 27-28 Nov 2019	2 mills
SMARTSTAR	FPIC, PM, LTS, HCS,HCV, Fire Peat Management, SIA, CSR	GAR	7 – 9 Oct 2019	1 mill

## **F. NEXT STEPS**

At the end of the site visit, GAR discussed recommendations and action plans for improvement with the suppliers. The action plans are listed below:

**Table 4. Action Plan**

<b>GSEP 1</b>	<ol style="list-style-type: none"> <li>1. Action Plan for Suppliers               <ol style="list-style-type: none"> <li>a. Improve consistency in the implementation of environmental management including monitoring HCS, HCV, peat and proper waste management in accordance with sustainability policies</li> <li>b. Increase initiatives to reduce Greenhouse Gas (GHG) emissions and save energy in mills and plantations</li> <li>c. Implement GAP and Best Management Practices (BMP) in line with sustainability commitments</li> </ol> </li> <li>2. Action Plan for GAR               <ol style="list-style-type: none"> <li>a. Increase efforts to disseminate and increase understanding of GSEP</li> <li>b. Support suppliers in developing sustainability policies that are in line with GSEP</li> <li>c. Provide training related to sustainable environmental management in line with the demands and needs of suppliers</li> </ol> </li> </ol>
<b>GSEP 2</b>	<ol style="list-style-type: none"> <li>1. Action Plan for Suppliers               <ol style="list-style-type: none"> <li>a. Increase the capacity of staff handling social and community affairs especially in social mapping, conflict resolution, and designing participatory CSR</li> <li>b. Conduct Social Impact Assessments as the basis for preparing measurable and participatory CSR programmes</li> </ol> </li> </ol>



	<ul style="list-style-type: none"> <li>c. Improve the formal documentation system for all grievance handling and resolution, and other communication with stakeholders</li> </ul> <ol style="list-style-type: none"> <li>2. Action Plan for GAR <ul style="list-style-type: none"> <li>a. Continue supplier support programmes in social mapping training, non-violent conflict resolution, social impact studies, and participatory CSR design</li> </ul> </li> </ol>
<b>GSEP 3</b>	<ol style="list-style-type: none"> <li>1. Action Plan for Suppliers <ul style="list-style-type: none"> <li>a. Develop SOPs or mechanisms on implementation of No Exploitation principle in line with the GSEP</li> <li>b. Implement and embed effective OSH Management Systems throughout all operations</li> </ul> </li> <li>2. Action Plan for GAR <ul style="list-style-type: none"> <li>a. Support suppliers in developing sustainability policies that are in line with GSEP principles</li> </ul> </li> </ol>
<b>GSEP 4</b>	<ol style="list-style-type: none"> <li>1. Action Plan for Suppliers <ul style="list-style-type: none"> <li>a. Encouraging suppliers to carry out TTP and provide support to FFB suppliers, especially independent smallholders</li> <li>b. Develop a monitoring system for fulfilling reliable legal aspects, so as to reduce delays or negligence in taking care of the legal requirements of mills or plantations.</li> <li>c. Achieve mandatory Indonesia Sustainable Palm Oil (ISPO) certification</li> </ul> </li> <li>2. Action Plan for GAR <ul style="list-style-type: none"> <li>a. Provide support to suppliers to map FFB sources</li> <li>b. Collaborate with the government to socialise the importance of fulfilling ISPO certification</li> </ul> </li> </ol>