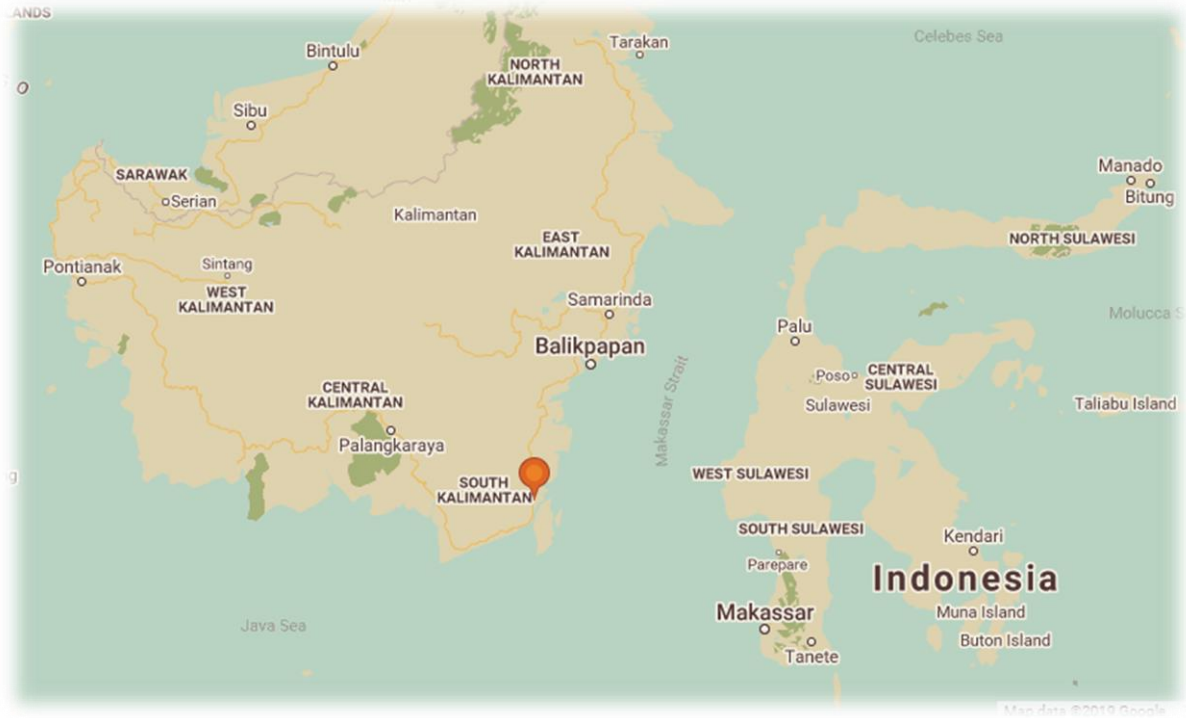


GAR Tarjun Refinery Sustainability Overview Report



**Refinery Address:
Tarjun Village, Kelumpang Hilir Sub District, Kota Baru District,
South Kalimantan Province**

**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 which 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 been publishing reports on the implementation of ART which can be found on the [GAR Sustainability Dashboard](#).

The Tarjun Sustainability Overview Report reports on the Mill Prioritization Process (MPP) and site visit results to the Tarjun 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 prioritises high risk mills for site visits.

In 2018, the Tarjun Refinery sourced from 85 mills belonging to 71 companies (including 20 GAR-owned mills). From 2015 to 2019, GAR visited both Tier 1 and Tier 2 suppliers including 15 mills in the Tarjun 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, both Tier 1 and Tier 2 suppliers showed strong compliance with the Social and Community Engagement and Workplace and Industrial Relations aspects. More work is needed in the other two areas, Environmental Management and Marketplace and Supply Chain commitments.

In the implementation of GSEP 1 (Environmental Management), 46 percent of the mills are in the Implementation category. However an almost equal number (40 percent) were in the Low Intention category. For estates, more than half (54 percent) are classified as Low Intention and only 32 percent are at the Implementation stage. We also found that the majority of smallholders need to improve.

In the implementation of GSEP 2 (Social and Community Engagement), the majority of the mills (93 percent) were found to be at the Implementation level or ranked as Achieving. For estates, the majority were also at the Implementation or Achieving levels. In this aspect, all smallholders were classified as compliant, as they had all complied with the criteria of not having any land disputes.

In the implementation of GSEP 3 (Work Place Environment and Industrial Relations), the majority of mills were either classified as Achieving or at Implementation level. The majority

of estates, were also found to be Achieving or at Implementation level, with only 18 percent at the Low Intention stage. The majority of smallholders were also found to be compliant with GSEP 3.

In the implementation of GSEP 4 (Marketplace and Supply Chain), most mills were found to be at the Low Intention level, with only 14 percent seven percent either at Implementation or ranked as Achieving. Similarly about half of the estates were found to be at the Low Intention level with only 36 percent at Implementation and Achieving. Meanwhile, only 12 percent of smallholders were considered compliant with GSEP 4.

Recommendations and action plans to improve suppliers' compliance levels include:

- a. GSEP 1 (Mills and Estates)
 - To develop sustainability policy that covers entire operations and supply chain, with specific commitments on High Conservation Value (HCV), High Carbon Stock (HCS), and peat conservation
 - To improve or initiate reduction of Greenhouse Gas (GHG) emissions in operations
- b. GSEP 2 (Mills and Estates)
 - To build the capacity of personnel handling social and community affairs, especially in areas such as social mapping, conflict resolution, and designing participatory CSR programmes
 - To conduct Social Impact Assessments which will be used as a basis to design CSR programmes which have greater impact, are measurable and participatory
- c. GSEP 3 (Mills, Estates, and Smallholders)
 - To support suppliers publishing either policy, procedures or mechanisms on implementing "No Exploitation" principles in line with GSEP
 - To improve and maintain OHS practices with particular focus on safety and "zero accident" practices in all operations
- d. GSEP 4 (Mills and Estates)
 - To support suppliers conducting Traceability to the Plantation (TPP) and provide support to FFB suppliers, especially smallholders
 - To develop reliable regulatory monitoring system in order to stay aware of changes and developments in regulatory requirements and to comply accordingly
 - To get all suppliers to achieve mandatory 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 forests
 - No development of and the conservation of High Conservation Value area
 - No development of and the conservation of peatlands of any depth
 - No burning for new planting, re-planting or other development
 - Continuous yield improvement to reduce pressure on new land development without intensification of the use of chemical pesticides and fertilisers
 - Report and reduce greenhouse gas emission
 - Improve waste management
2. Social and Community Engagement
 - Respecting the right to free, prior, and informed consent for indigenous peoples and local communities and recognizing the need for food security in new developments
 - Positive economic, social and community development.
3. Work Environment and Industrial Relations
 - Recognising, respecting and strengthening the rights of workers
4. Marketplace and Supply Chain
 - Traceable & Transparent supply chains
 - Support to suppliers
 - Due diligence and grievance procedures
 - Compliance with all relevant national laws and international certifications principles and criteria

This report provides a general profile of Tarjun 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 15 third party suppliers for site visits based on risk level, amount of supply to GAR, and strategic commercial reasons. The mills are located in 12 districts of several provinces including South Kalimantan, North Kalimantan, East Kalimantan, Bangka Belitung, and Riau.

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 Chain	12	3	1
Total	71	72	14

Suppliers are classified in categories listed below following GAR assessment:

Table 2. Suppliers Classification

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

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 TARJUN REFINERY'S SUPPLY CHAIN

The Tarjun Refinery is located in Kota Baru District, South Kalimantan. As of 2018, it was supplied by 85 mills belonging to 71 companies, including 20 GAR-owned mills. Tarjun Refinery received 43 percent of its volume from GAR mills and 57 percent from third party mills (Figure 2).

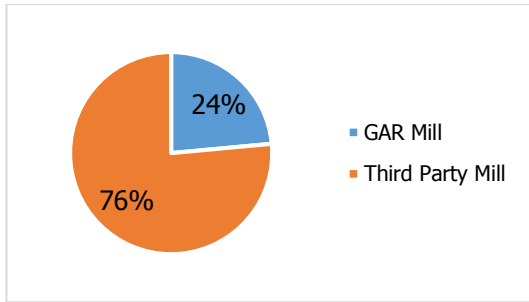


Figure 1. Tarjun suppliers (2018)

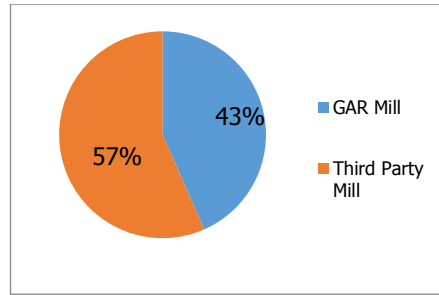


Figure 2. Breakdown of sources

The Tarjun Refinery mostly sources from Kotabaru District (South Kalimantan); East Kutai (East Kalimantan); Seruyan District (Central Kalimantan); and Tanah Bumbu and Tanah Laut (South Kalimantan).

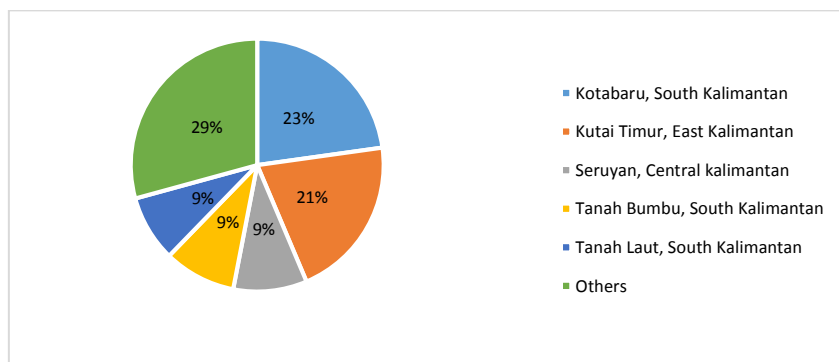


Figure 3. Location of sources

Based on traceability data and site visit results, Tarjun suppliers sourced FFB mostly from mill-owned plantations (70 percent). The rest were sourced from scheme/plasma smallholders (10 percent); three percent from external estates; and 17 percent from independent smallholders or FFB agents.

Based on data in Q2 2019, over half of the suppliers have identified the origin of their FFB (Traceability to the Plantation/TtP). 57 percent of suppliers or 48 mills had conducted TtP, and 32 percent of them (27 mills) have declared full TtP.

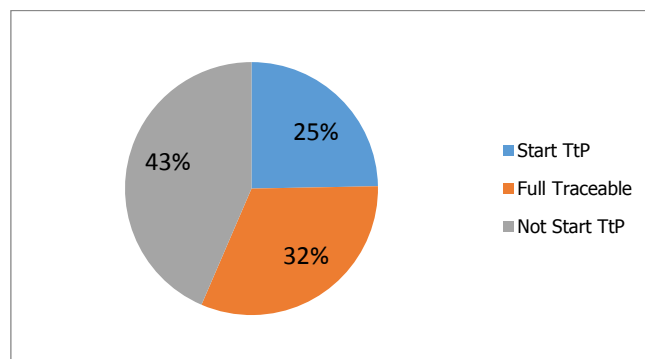


Figure 4. Level of Traceability

The numbers and type of Tier 1 and Tier 2 suppliers assessed during the site visits are indicated in the table below.

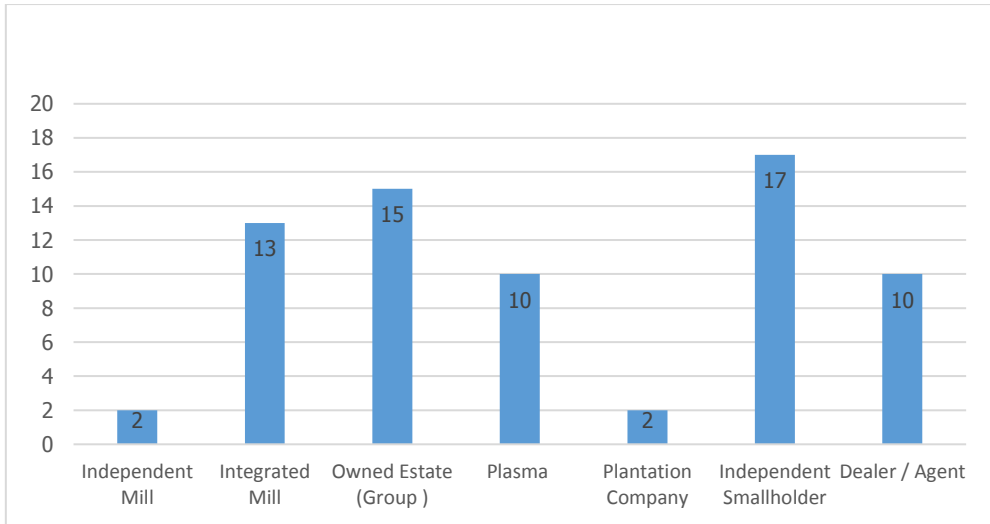


Figure 5. Types and Numbers of Tier 1 and Tier 2 suppliers visited

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

D.1.1. Mill

Of the visited mills, 46 percent are at Implementation level, which means that most of mills are tackling environmental issues. But another 40 percent of the mills ranked as Low Intention.

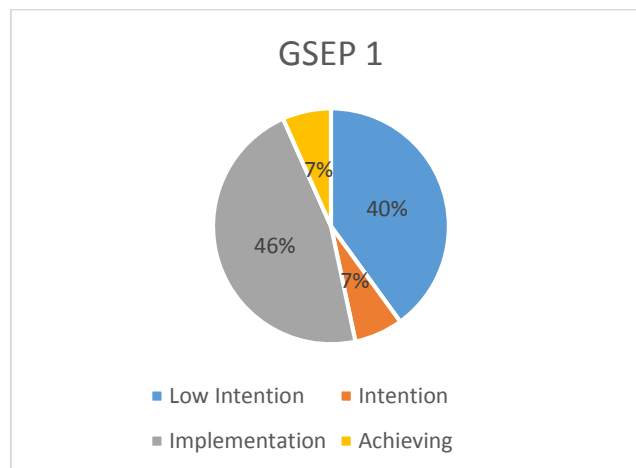


Figure 6. Mills' Implementation of GSEP 1

When analysed in detail, 82 percent were committed to implementing Best Management Principles (BMPs), but implementation has been gradual. The majority also have written policies on Zero Burning.

However, only 20 percent of mills have written commitments to protect HCS areas and only a minority, 13 percent, reuse production waste like Empty Fruit Bunches (EFB) or Palm Oil Mill Effluent (POME) as organic fertiliser or as an energy source.

D.1.2. Estate

More than half of the estates ranked as Low Intention and only 32 percent of estates are at the level of Implementation.

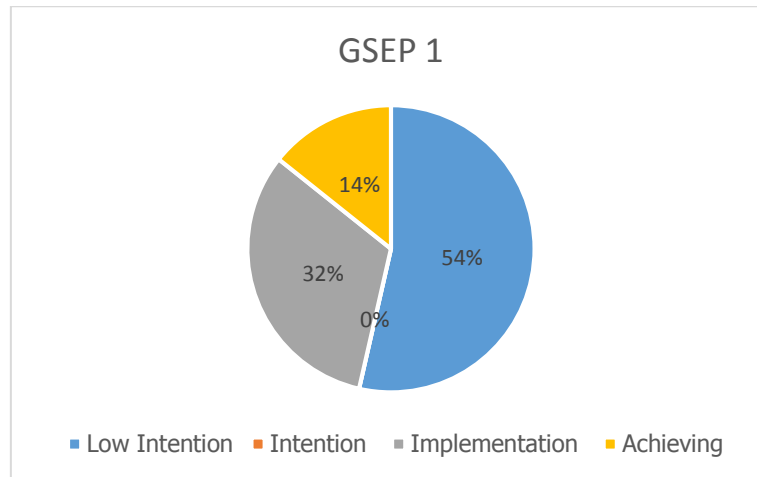


Figure 7. Estates' Implementation against GSEP 1

During the site visits, it was observed that 93 percent of estates had established teams and provided equipment to combat fire. In addition, the majority of the estates were committed to Zero Burning.

Only seven percent of estates managed their hazardous waste (fertiliser/pesticide) disposal properly. And just 15 percent of Estates had conducted HCS conservation and monitoring.

D.1.3. Smallholder

In terms of environmental management, the majority, 82 percent, of smallholders were considered non-compliant.

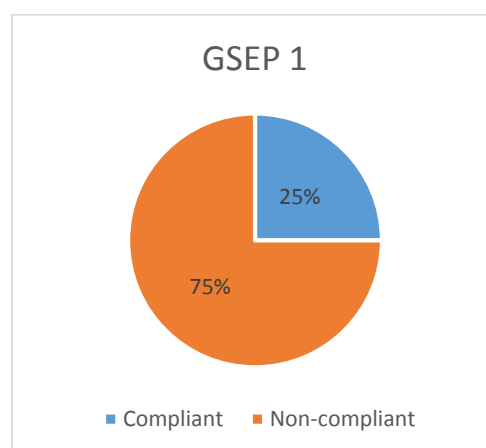


Figure 8. Smallholders' Implementation of GSEP 1

Nearly 90 percent of the farmers were able to prevent fires in their plantations and 75 percent applied fertiliser to maintain production. The farmers did not apply Best Management Practices in peatland conservation or waste management.

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

D.2.1. Mill

In the implementation of GSEP 2 (Social and Community Engagement), 73 percent of mills are at Implementation level; 20 percent are ranked as Achieving; and seven percent are at Low Intention.

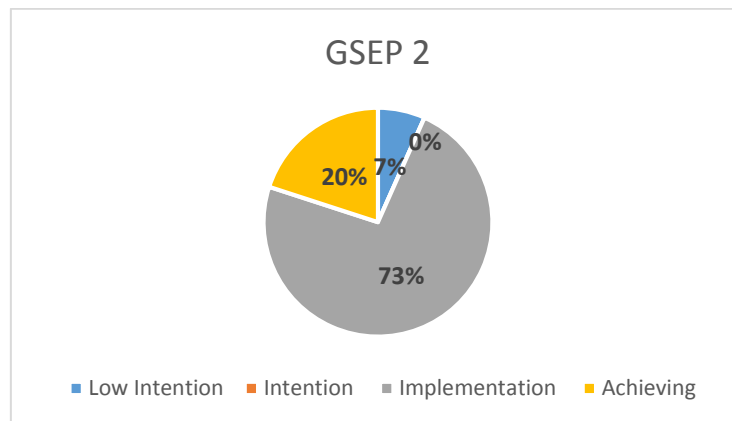


Figure 9. Mills' Implementation of GSEP 2

In general, the mills had committed to conduct community development programmes (93 percent); realisation of community development programmes (87 percent); and rejection of violence in dispute resolution. However, only 13 percent of mills conducted community development based on Social Impact Assessments. Only one-third of the mills had well-documented grievance handling processes.

D.2.2. Estate

64 percent of visited estates are at Implementation level; 22 percent ranked as Achieving; and 14 percent at Low Intention.

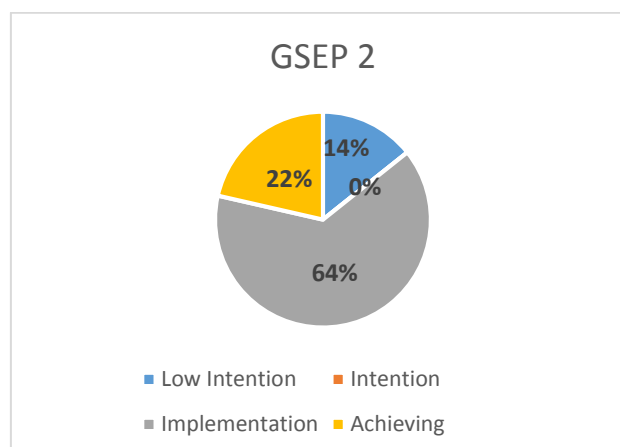


Figure 10. Estates' Implementation of GSEP 2

Generally, estates ranked at Implementation or Achieving level are delivering community development programmes and have good handling grievance processes. Some estates have even begun to collaborate with other stakeholders on sustainability initiatives at landscape level.

However, their CSR programmes are only charity or philanthropy oriented. The estates had not conducted stakeholder mapping. And while the local community indicated that they were satisfied with the companies' handling of grievances, there was a lack of documentation of grievance resolution. This could potentially give rise to future disputes over the same issues.

D.2.3. Smallholder

All smallholders are considered to be compliant with GSEP 2 as none of them had any outstanding land disputes.

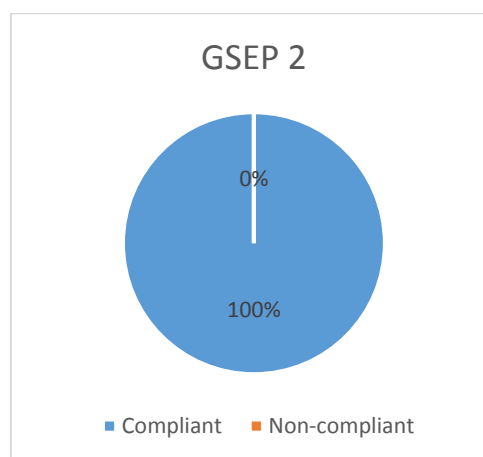


Figure 11. Smallholders' Implementation of GSEP 2

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

D.3.1. Mill

On GSEP 3 (Work Environment and Industrial Relations), 67 percent of mills are Achieving; 20 percent are at Low Intention; and 13 percent are at Implementation level. All mills visited perform well on indicators such as eliminating forced labour; ethical recruitment process; and giving same or higher wages than mandated by government. However, many mills performed less well on indicators of ensuring gender equality; preventing sexual harassment; ensuring freedom of association; preventing excessive overtime; and maintaining a safe and healthy working culture especially for casual/non permanent workers.

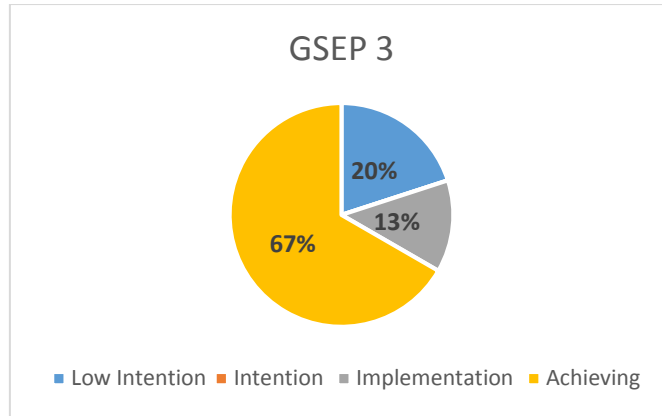


Figure 12. Mills' Implementation of GSEP 3

D.3.2. Estate

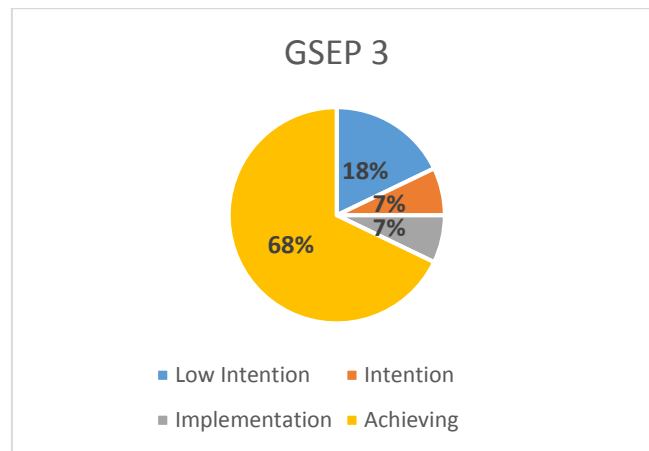


Figure 13. Estates' Implementation of GSEP 3

60 percent of estates are ranked Achieving; 18 percent at Low Intention; seven percent are at Implementation level; and seven percent are at Intention level. In general, estates have prohibited the charging of recruitment fees; stipulated that 18 years is the minimum age for employees; provided wages equal or higher to government mandated wages; and ensured diversity within their workforce.

Estates face challenges in these following indicators: providing contracts to all workers (especially daily contract jobs); ensuring freedom of association; developing systematic mechanisms to prevent and handle sexual harrashment; and ensuring workers, local communities and the environment are protected from exposure to hazardous chemicals.

D.3.3. Smallholder

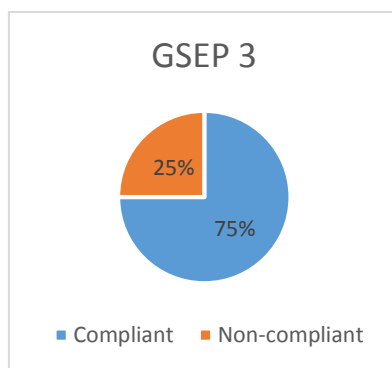


Figure 14. Smallholders' Implementation of GSEP 3

As can be seen in the diagram above, 75 percent of smallholders comply with GSEP 3. In general, the farmers stated that they do not use child workers; bonded workers; and they do not make workers work excessive hours. They also pay wages on time and according to a fixed schedule. However, smallholders face challenges in providing appropriate safety equipment for the workers.

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

D.4.1. Mill

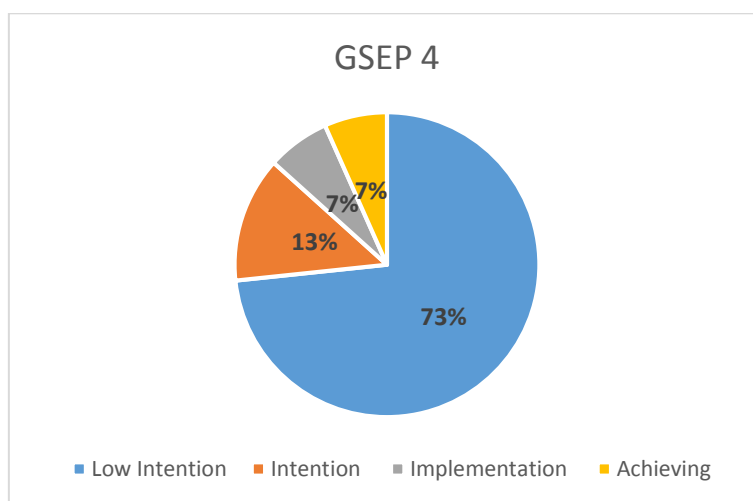


Figure 15. Mills' Implementation of GSEP 4

The diagram above shows that 73 percent of mills are ranked Low Intention; 13 percent at Intention level; seven percent at Implementation; and seven percent are ranked Achieving. Few mills had committed to a transparent and traceable supply chain. They also do not provide capacity building for their suppliers. In general, mills buy FFB from their suppliers without identifying or checking the origins.

Some suppliers also faced legal issues since they had not developed reliable regulatory monitoring and awareness. This leaves them at risk of non-compliance when changes in regulations occur. They also faced issues beyond their control, such as conflicting permits from the government which also leaves them at risk of regulatory non-compliance. Consequently, not all mills had obtained ISPO, RSPO, or ISCC certification.

D.4.2. Estate

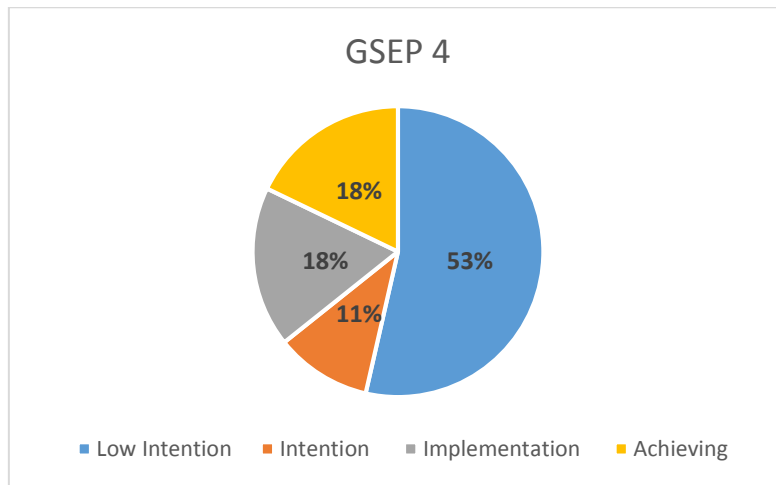


Figure 16. Estates' Implementation of GSEP 4

Of the estates visited, 53 percent are at Intention level; 18 percent are ranked Achieving; 18 percent at Implementation level; and 11 percent at Intention level. In general, estates had committed to monitor legal requirements and compliance. However, not all estates had obtained sustainable palm oil certification.

D.4.3. Smallholder

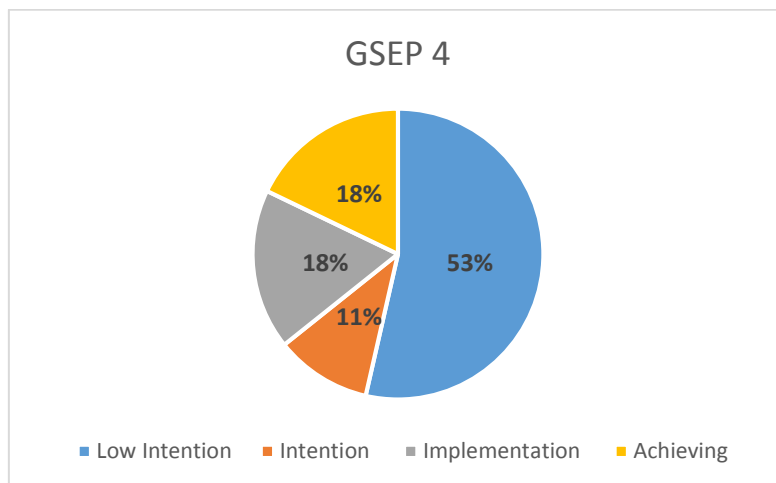


Figure 17. Smallholders' Implementation of GSEP 4

For smallholders, only 12 percent were found to be compliant with GSEP 4. The farmers categorised as Compliant stated that they have legal permits for their land. However the farmers still had to obtain other permits in order to be fully legally compliant including plantation and environmental permits.

E. SUPPLIERS CAPACITY BUILDING PROGRAMME

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

Table 3. Supplier Development Program of Tarjun Refinery

Event	Topic	Time and Place	Tarjun Supplier Involved
SMART SEED 1	Legal Compliance	30 March 2016, Medan	2 Mills
SMART SEED 2	Indonesian Sustainable Palm Oil : The Foundation of Sustainable Palm Oil Production in Indonesia	21 September 2016, Medan	13 Mills
SMART SEED 3	Ensuring Traceability and Responsible Employment in the Palm Oil Industry	7 December 2017, Jakarta	41 Mills
SMART SEED 4	Promoting Palm Oil as a Sustainable Industry and Accelerate SDGs Achievement	19 September 2018, Jakarta	43 Mills
SMART SEED 5	GAR' Supply Chain Transformation through Landscape Approach to Sustainable Palm Oil Industry	17 October 2019, Pekanbaru	27 Mills
SMART SPOT	Environmental Management, and Social and Community Engagement	28 February – 2 March 2018, Central Kalimantan	3 Mills
Traceability Training	Traceability Implementation	2018	4 Mills
SMART STAR	High Conservation Value (HCV)	27 March 2018, Jakarta	2 Mills
SMART STAR	<ul style="list-style-type: none"> • High Conservation Value (HCV) • Green House Gas (GHG) 	15 May 2018, Jakarta	1 Mill
SMART STAR	<ul style="list-style-type: none"> • Free, Prior, Inform, Consent (FPIC) • Land Tenure Study (LTS) • Participatory Mapping (PM) • Social Impact Assessment (SIA) • RSPO • High Conservation Value (HCV) 	13 – 16 August 2018, Bangka	1 Mill
CFT	High Conservation Value Management, Traceability, and Responsible Employment in East Kutai Landscape	8 – 12 October 2018, East Kutai	3 Mills

Expanding and intensifying the capacity building programme for Tarjun suppliers based on their main challenges and needs will be prioritized.

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

GSEP 1	<ol style="list-style-type: none"> 1. Action Plan for Suppliers <ol style="list-style-type: none"> a. To develop sustainability policy which includes the commitment to protect HCV, HCS, and peat areas in line with expectations from stakeholders b. To initiate efforts to reduce GHG emissions in operations 2. Action Plan for GAR <ol style="list-style-type: none"> a. To intensify the dissemination of GSEP b. To provide support for suppliers to improve their responsible practices in line with the GSEP
GSEP 2	<ol style="list-style-type: none"> 1. Action Plan for Suppliers <ol style="list-style-type: none"> a. To improve the capacity of staff handling social issues, especially in social mapping, conflict resolution, and designing participatory CSR programs b. To conduct Social Impact Assessments to serve as the basis for designing CSR programs which have greater impact, are measurable and participatory 2. Action Plan for GAR <ol style="list-style-type: none"> a. To continue the development programme for suppliers by delivering training on social mapping, conflict resolution, social impact assessment, and designing participatory CSR
KSLG 3	<ol style="list-style-type: none"> 1. Action Plan for Suppliers <ol style="list-style-type: none"> a. To support suppliers publishing either policy, procedures or mechanisms on implementing "No Exploitation" principles in line with GSEP b. To improve and maintain OHS practices with particular focus on safety and "zero accident" practices in all operations 2. Action Plan for GAR <ol style="list-style-type: none"> a. To support suppliers in developing sustainability policy regarding labour issues
KSLG 4	<ol style="list-style-type: none"> 1. Action Plan for Suppliers <ol style="list-style-type: none"> a. To endorse the suppliers conducting Traceability to the Plantation (TTP) and provide support to FFB suppliers, especially smallholders. b. To develop reliable regulatory monitoring system in order to stay aware of changes and developments in regulatory requirements and to comply accordingly c. To get suppliers ISPO-certified as mandated by the government 2. Action Plan for GAR <ol style="list-style-type: none"> a. To support suppliers conducting TTP b. To collaborate with Indonesian Government in socialixation of the urgency of ISPO certification