

# COUNCIL ON ETHICS

THE GOVERNMENT PENSION FUND GLOBAL

**To the Ministry of Finance**

**15 January 2014**

UNOFICIAL ENGLISH TRANSLATION

**Recommendation on the exclusion of PT Astra International Tbk from the Government Pension Fund Global's investment universe**

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# 1 Summary

The Council on Ethics recommends the exclusion of PT Astra International Tbk (Astra) and its subsidiary PT Astra Agro Lestari Tbk (AAL) from the Government Pension Fund Global (GPF) due to an unacceptable risk of the company being responsible for severe environmental damage. As per the end of 2013, the GPF owned shares in Astra with a market value of NOK 817 million, corresponding to an ownership interest of 0,6 per cent. The GPF had no shareholding in AAL.

The Council on Ethics has assessed whether there is an unacceptable risk that Astra may be responsible for severe environmental damage due to its subsidiary AAL's development of oil palm plantations in Indonesia. The Council has investigated 12 of AAL's concessions in Kalimantan and Sulawesi that are currently being cleared and planted. The concessions cover an area of around 90 000 ha, and fall within several important global ecoregions known for their exceptional rich biodiversity and large number of endemic species. The development of oil palm plantations is one of the most significant threats to these areas.

In this case, the basis for assessing the state of the forest, species diversity and ecosystems has been limited. The Council's research indicate that, in seven of the 12 concessions, the company appears to be converting forests in good condition and/or peatlands. On Sulawesi, the company is licensed to plant approximately 38 000 ha of plantations, and there is indication that half of this area supports primary forest not previously logged. In the Council's view, the company's operations in intact forest areas on Sulawesi are particularly serious in this context. The Council has also emphasized that the four concessions on Sulawesi and one in Kalimantan appear to lie in areas covered by the Norway-Indonesia forest moratorium, under which the Indonesian authorities introduced a temporary moratorium on the award of new concessions to slow the conversion of primary forest and peatlands into plantations.

The Council has no basis for assessing directly whether the concessions contain important ecological values, or whether the concessions provide habitats for threatened species, as Astra has not provided any information in this regard. The Council adds weight to the fact that AAL has itself stated that a large diversity of species is found in the concessions, although no further details have been provided.

The Council's research indicates that one of AAL's concessions overlaps with areas that have been mapped as orangutan habitats, and probably also those of other threatened species. The clearing of forest in this area will contribute to the fragmentation of habitats and further reduce the population of an endangered species. AAL has explained that the company is conducting assessments to identify high conservation values (HCV) present in the concessions and how they should be managed, so that they can be maintained after conversion. These HCV reports have not been made available to the Council, leaving it unclear what methods the company applies to assess the conservation values. Accordingly, no basis is available for assessing whether the HCV areas that have been set aside are sufficient to maintain the conservation values in the concessions. The Council has also emphasised that AAL appears to have cleared HCV areas set aside previously for conservation. The Council finds that this, along with the fact that the company is not transparent about its HCV assessments, weakens the credibility of the company's efforts to protect biodiversity.

In the Council's view, the lack of data and transparency on the part of the company, the scale of planned conversion and the fact that the concessions appear to lie in areas of exceptional rich and unique biodiversity present an unacceptable risk of severe environmental damage. The conversion of forest into plantations involves the complete and irreversible alteration of ecosystems and vegetation. In the Council's view, the measures which the company states that it is implementing appear to be insufficient to reduce the risk of severe environmental damage associated with

current and future conversion of forest into oil palm plantations. The Council therefore recommends the exclusion of PT Astra International Tbk and its subsidiary PT Astra Agro Lestari Tbk from the investment universe of the Government Pension Fund Global.

## 2 Introduction

In December 2012, the Council on Ethics decided to assess the Fund's investment in the Indonesian company PT Astra International Tbk (Astra) against the Guidelines for the Observation and Exclusion of Companies from the GPF's Investment Universe (the Ethical Guidelines).

As of the end of 2013, the GPF owned shares in Astra worth 817 million NOK, corresponding to an ownership interest of 0,6 per cent.

### 2.1 What the Council has assessed

The Council's assessment concerns the conversion of tropical forests to oil palm plantations which Astra's subsidiary, PT Astra Agro Lestari Tbk (AAL) is conducting in Indonesia. The Council has assessed whether there is an unacceptable risk that Astra contributes to or is itself responsible for severe environmental damage as per paragraph 2, section three of the Ethical Guidelines.

In previous recommendations regarding severe environmental damage, the Council has put particular emphasis on whether:<sup>1</sup>

- the damage is significant;
- the damage causes irreversible or long-term effects;
- the damage has considerable negative impact on human life and health;
- the damage is a result of violations of national laws or international norms;
- the company has neglected to act in order to prevent the damage;
- the company has not implemented adequate measures to rectify the damage;
- it is probable that the company's unacceptable practice will continue.

#### *Environmental impacts associated with the clearing of tropical forests*

Commercial logging and the conversion of tropical forest into plantations are considered to be some of the most important threats to the preservation of ecosystems and biological diversity; they also contribute significantly to greenhouse gas emissions. Deforestation and forest degradation accounted for about 10 per cent of global greenhouse gas emissions in the period 2000 and 2009.<sup>2</sup>

Conversion involves the felling of trees and the removal of other vegetation before an area is used to set up plantations for the production of palm oil, lumber or other monocultures. Such monocultures are of limited ecological value compared to natural forests.

Both the UN, the World Bank and national governments have recognized the need to reduce deforestation and forest degradation, through *inter alia*, the establishment of the United Nations Collaborative Initiative on Reducing Emissions from Deforestation and Forest Degradation (REDD and REDD+) supported by the World Bank and others. The Norwegian Government has

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<sup>1</sup> See e.g. the Council's recommendations regarding Ta Ann Berhad, Samling group and WTK Berhad, available at [www.etikkradet.no](http://www.etikkradet.no).

<sup>2</sup> IPCC 2013: *Climate Change 2013. The Physical Science Basis*. Working Group I contribution to the IPCC 5<sup>th</sup> Assessment Report <http://www.ipcc.ch/report/ar5/wg1/#.Um6XYDhFD5o>.

also supported these initiatives by allocating up to three billion NOK a year to efforts to reduce deforestation in developing countries. These schemes are also considered to benefit biodiversity and sustainable development.

Indonesia is one of the countries that Norway is collaborating with under the REDD+ Scheme. Indonesia is home to the world's third-largest tropical forest and has some of the highest deforestation rates in the world. Between 1990 and 2010, Indonesia lost 20 per cent of its forest cover, or more than 24 million ha.<sup>3</sup> In Kalimantan, where Astra's license areas are located, the conversion of forests to oil palm plantations has been a leading driver of deforestation. The development of plantations is also a future threat to important ecological areas and biodiversity in the region. Based on present allocated leases by the government, full development would convert up to 9.4 million ha of land by 2020, of which 90 per cent is forested land, including 41 per cent intact forest.<sup>4</sup>

The conversion of peatlands is an Indonesia-specific challenge, as Indonesia accounts for almost 60 per cent of global greenhouse gas emissions from peat decomposition.<sup>5</sup> In addition to being important carbon sinks, peatlands also represent unique ecosystems with regard to biodiversity. In 2010, Norway entered into a partnership with Indonesia to support the country's efforts to reduce deforestation, forest degradation and destruction of peatlands. Under this agreement, Indonesia implemented a nationwide moratorium on new forestry and plantation concession, which aims to reduce new clearing of primary forests and peat lands. The moratorium was set to expire in May 2013, and has been extended for two more years. The moratorium is part of Indonesia's efforts to reduce its carbon emissions by 26 per cent by 2020.

The Council's point of departure is that tropical forests of Indonesia are among the most biodiverse ecosystems on earth. In addition to supporting this biodiversity and providing habitats for many endangered species, the tropical forest also plays an important role in providing fundamental eco-system services, such as carbon storage, water management and protection against erosion. Tropical forests are important for the state of the environment globally, and deforestation and forest conversion are major threats to the future existence of these ecosystems. Accordingly, and taking into account the many international and national initiatives taken to reduce deforestation and the degradation of tropical forest, the Council has assessed the risk of environmental damage associated with the clearing of tropical forests. In its assessment, the Council emphasises the scale of the clearing, to what extent the company's licence area overlaps with areas of important ecological values, and which consequences the conversion of forest will entail for endangered species and their habitats.

## 2.2 Sources

Little public information is available on Astra's plantation operations or the environmental impacts associated with the company's conversion of tropical forests. The Council has requested information from the company, including information on the location of the concessions, the state of the forest in the concession areas, environmental impact assessments and High Conservation Value (HCV) Area assessments. Although Astra has replied to the Council, it has not provided any of the requested information.

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<sup>3</sup> <http://rainforests.mongabay.com/deforestation/2000/Indonesia.htm>. Data based on UN FAO State of the World's Forest.

<sup>4</sup> Kimberly M. Carlson, Lisa M. Curran, Gregory P. Asner, Alice McDonald Pittman, Simon N. Trigg and J. Marion Adeney 2012. Carbon emissions from forest conversion by Kalimantan oil palm plantations. *Nature Climate Change*. 2012

<sup>5</sup> Fact Sheet Norway-Indonesia Partnership REDD+, <http://www.norway.or.id/PageFiles/404362/FactSheetIndonesiaPeatMay252010.pdf>.

The Council has therefore commissioned research to locate the company’s concessions. The Council has also attempted to clarify whether Astra’s concessions are located in ecologically important areas, whether forest is at risk of conversion, and whether such conversion potentially involves the loss of threatened species and their habitats. In these efforts, information from the company’s website, satellite imagery, different types of maps (land cover maps identifying forest types and peatlands, and maps showing areas included in the Norway–Indonesia moratorium), and publicly available data from national and local authorities in Indonesia, as well as academic literature has been used.

### 3 About Astra International and PT Astra Agro Lestari

Astra is an Indonesian group operating in six business areas: distribution and sale of cars, financial services, heavy machinery and mining, agribusiness, infrastructure and logistics. The company has more than 180,000 employees.

Astra’s subsidiary PT Astra Agro Lestari Tbk (AAL) is engaged in the plantation sector, and currently operates some 270,000 hectares of oil palm plantations on Sumatra and Sulawesi, and in Kalimantan.<sup>6</sup> About 30 per cent of its plantations are small and owned by local smallholders (*plasma*) who produce under contract for the company or as independent farmers.

Astra has an ownership interest of 79.7 per cent in AAL. AAL is publicly listed on the Jakarta stock exchange, but GPFM currently holds no shares in it.

### 4 The Council’s findings

The Council has focused on the establishment of new plantations involving the ongoing or recent conversion of forest and peatlands. Accordingly, the investigations were limited to the period 2008 to 2011 (or to the latest date where data were available). During this period, the company planted approximately 42,500 hectares of new plantations (see Table1).

Table1: Plantation area and annual new plantings, 2008–2011<sup>7</sup>

Year	Total plantation area (hectares)	New plantings (hectares)
2008	250,900	22,260
2009	264,000	13,150
2010	263,300	3,580
2011	266,700	3,470
2012	273,000	?
<b>Total 2008–2011</b>		42,460

The Council has identified 21 concessions in which new plantations were developed between 2008-2011. The concessions are owned by different subsidiaries of AAL. Six concessions have been sold in the past three years. The conversion of forest and peatlands appears to be ongoing or recently completed in 12 of the remaining 15 concessions. Of these, seven are located in Kalimantan, and five on Sulawesi.

<sup>6</sup> Astra International’s homepage: <http://www.astra.co.id/index.php/business/detail/46>.

<sup>7</sup> Astra International Annual Reports 2007–2011. The total area exceeds annual growth because the company sold several subsidiaries during the period. The company did not announce any afforestation in 2012.

## 4.1 The concessions in Kalimantan

Figure 1 and Table 2 provide an overview of the seven AAL concessions in Kalimantan researched by the Council. The concessions vary considerably in size, from around 4,000 hectares to 20,000 hectares. Although they are at different development stages, no areas were fully planted as per December 2011, the last year for which AAL has provided planted-area data.



Figure 1: Location of the seven AAL concessions in Kalimantan investigated by the Council (marked in red)

Kalimantan is the Indonesian part of the island of Borneo, and is home to some of South-East Asia's largest areas of tropical rainforest, renowned for its diversity in ecosystems and species. AAL's concessions appear to fall within several of WWF's ecoregions: the Borneo Lowland Rainforest Ecoregion, the Sundaland Heath Forests Ecoregion and the Borneo Peat Swamp Forests Ecoregion.<sup>8</sup> All of these ecoregions are on the WWF list The Global 200: Priority Ecoregions for Global Conservation<sup>9</sup> due to their exceptional rich biodiversity and because they are regarded as threatened. According to the WWF, the global ecoregions list is a scientific ranking of the earth's most valuable biological areas, and includes terrestrial, freshwater and marine habitats that are particularly important for protecting the earth's biodiversity. Where natural forest remains within these Ecoregions, such forest should be seen as high priority for conservation.

The seven concessions in Kalimantan assessed by the Council cover an area of around 60,000 hectares. Land cover maps and academic literature<sup>10</sup> indicate that lowland forest on well-drained mineral soils dominates in five of the concessions (and possibly also heath forest in two concessions), while peatland and freshwater swamp forest dominate in two. Other types of

<sup>8</sup> <http://www.worldwildlife.org/science/wildfinder> Refer to Ecoregion numbers 0102 (lowland rain forest), 0153 (freshwater swamp forest) and 0161 (heath forests) for further descriptions of these ecoregions.

<sup>9</sup> The Global 200 is a list of ecoregions identified by the WWF as protection priorities. An ecoregion is defined as "a large unit of land or water containing a geographically distinct assemblage of species, natural communities, and environmental conditions". [http://wwf.panda.org/about\\_our\\_earth/ecoregions/about/](http://wwf.panda.org/about_our_earth/ecoregions/about/)

<sup>10</sup> Collins, et al. 2001: *The conservation atlas of tropical forests Asia and the Pacific*. IUCN; MacKinnon et al. (1996) *The ecology of Kalimantan – Indonesian Borneo*. The ecology of Indonesian series, vol. III. Periplus Editions, Singapore; Wikramanayake et al. (2002): *Terrestrial ecoregions of the Indo-Pacific: a Conservation assessment*. Island Press, Washington, DC, Wetlands International - Indonesia Programme & Wildlife Habitat Canada (WHC). Map: <http://www.wetlands.or.id/PDF/buku/Atlas%20Sebaran%20Gambut%20Kalimantan.pdf>.

ecosystem are also found. In their natural state lowland rainforest is particularly species diverse, home to a large number of endemic species, such as the Bornean orangutan (*Pongo Pygmaeus*) and the proboscis monkey (*Nasalis Larvatus*). Many of these species are threatened with extinction.<sup>11</sup> Peat swamp, freshwater swamp forest and heath forest are distinct ecosystems, albeit not as species diverse as lowland forest. Peat swamp and freshwater swamp forest are forests that grow in water logged soils on organic layers formed by accumulation of dead leaves and plant material. These ecosystems are very carbon-rich, and constitute important habitats for a number of threatened species. Heath forest is rich in mosses, epiphytes, orchids and pichter plants. Where it develops on perched white sand soils, it is extremely vulnerable, and almost impossible to restore.

Table 2: Overview of AAL's concessions in Kalimantan

AAL subsidiary	Area in ha <sup>12</sup>	Planted area in ha (Dec. 2011) <sup>13</sup>	Area set aside for protection in ha <sup>14</sup>	Status in the concession as of 2012
<b>PT Cipta Narada Lestari</b> East Kalimantan	3,790*	1,000	?	Large parts of the concession are covered partly by lowland forest and partly by peatlands. Overlap with possible orangutan habitat and a smaller overlap with an area covered by the Norway-Indonesia moratorium. Plantation development ongoing.
<b>PT Borneo Indah Marjaya</b> East Kalimantan	10,310	5,330	370	The concession was probably covered by lowland forest. The remaining forest in the concession was logged in 2009–2012.
<b>PT Subur Abadi Plantations</b> East Kalimantan	7,592*	3,200	?	The concession was covered by lowland forest, possibly also heath forest ( <i>kerangas</i> ) until July 2006. Almost half was logged from 2006–2009. The forest appears to have been in good condition when conversion commenced.
<b>PT Karya Nusa Eka Daya (KNE I and KNE II)</b> Central Kalimantan	19,160	1,500	1,400	KNE is divided into two plantation estates – KNE I and II – owned by the same subsidiary. The dominant ecosystem in the concession appears to be lowland forest and, possibly, heath forest ( <i>kerangas</i> ). HCV areas seem to have been converted, and plantations may have been established outside the concession boundary.
<b>PT Subur Agro Makmur</b> South Kalimantan	12,170	660	1,160	The concession is divided into two blocks covered by peatland and, possibly, freshwater swamp forest. The entire area of the largest block is classified as peatland. By May 2012, up to 7,000 hectares of peat had been converted. Only smaller parts of the concession are not peatland.
<b>PT Tribuana Mas</b> South Kalimantan	19,810	0	?	A large proportion of the concession appears to be peatland or freshwater swamp forest. The company has begun converting peat (1–2m). <sup>15</sup> Forest remained in the southern part of the concession as per 2012.
<b>PT Persada Dinamika Lestari</b> South Kalimantan	6,430	2,760	1,500	The concession was covered by lowland forest, possibly freshwater swamp forest. Peat land that was covered by the Norway-Indonesia moratorium as per 2012 seem to have been converted. Almost the entire concession appears converted.

<sup>11</sup> See, for example, the WWF ecoregions.

<sup>12</sup> \*Area calculated using polygon measurement in Google Earth Pro. For the other concessions, size was specified in AAL's Sustainability Report 2011.

<sup>13</sup> Planted area specified in AAL's Consolidated Financial Statements of 31 December 2010 and 2011.

<sup>14</sup> Area set aside for conservation (HCV areas) specified for individual concessions in AAL's Sustainability Report 2011.

<sup>15</sup> Satellite imagery (Aster Nov. 2007 and Worldview May 2012), overlaid by Wetlands International map of peat swamps in Indonesia.



#### 4.1.1 Conversion of HCV areas

In four concessions, AAL has identified between four and 23 per cent of the land as High Conservation Value (HCV) Areas.<sup>16</sup> According to the company, these areas are set aside due to particularly important environmental or social values (see Table 2).<sup>17</sup> No figures are available for two of the concessions.

In 2006, Astra and WWF Indonesia signed a Memorandum of Understanding on the implementation of a pilot project to survey, assess, protect and manage HCV areas in oil palm concessions.<sup>18</sup> As a result, PT Karya Nusa Eka Daya (KNE I and II, Central Kalimantan), was the first concession owned by the company for which HCV assessments were conducted. At the time, KNE II was completely covered by forest, while plantation developments covered about half of KNE I.<sup>19</sup> The HCV reports are not available, but according to a presentation held by an AAL director in 2007, 2,200 ha were identified as HCV areas in KNE I.<sup>20</sup>

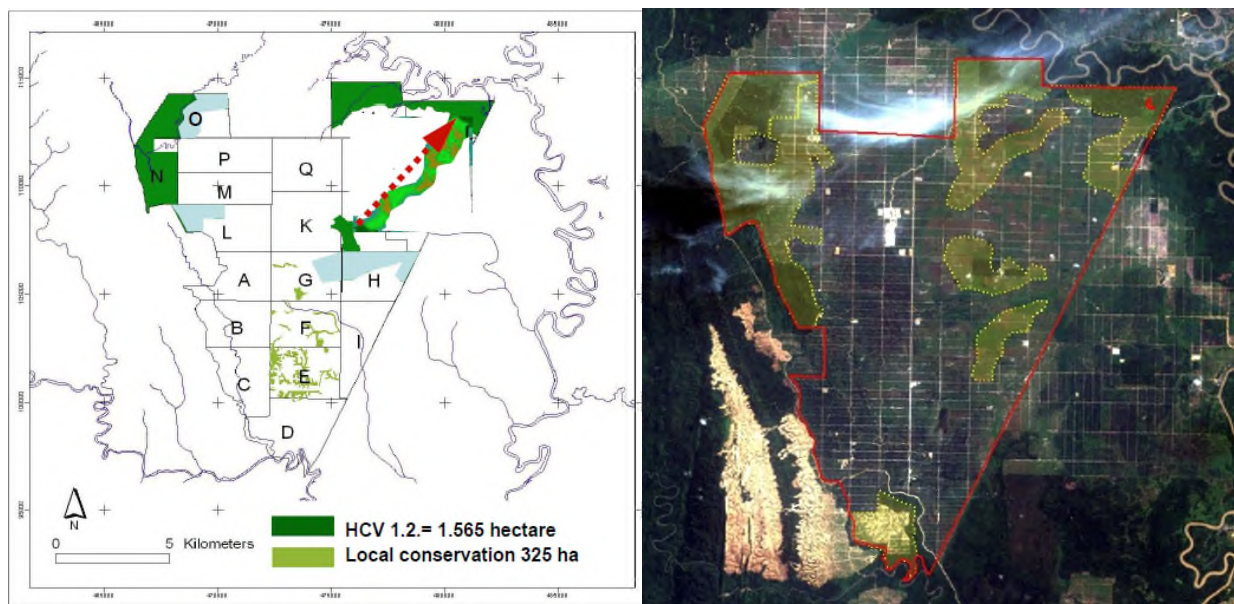


Figure 2: Left-hand picture: HCV 1.2 areas (dark green fields), identified in KNE I.<sup>21</sup> Right-hand picture: Landsat image for KNE I dated 11 August 2009 (red line indicating concession borders). Light green areas delimited by yellow dotted lines show areas that were covered by forest in 2006, but which was logged by August 2009. A comparison of HCV areas in the picture to the left with the logged areas in the picture to the right shows a high degree of overlap and indicates that close to all HCV areas appear to have been cleared.

The presentation included a map of areas protected due to the presence of local and threatened species (HCV 1.2 areas),<sup>22</sup> totalling 15,500 ha (see Figure 2). Satellite images show that these areas largely appear to have been cleared before 2009.<sup>23</sup> As little forest remains in the concession, the Council assumes that HCV areas that were supposed to have been maintained have also been converted (some 600 ha).

<sup>16</sup> See the Guidelines for Identification of High Conservation Values in Indonesia for a detailed description. <http://www.daemeter.org/downloads/guidelines/>

<sup>17</sup> AAL Sustainability Report 2011.

<sup>18</sup> <http://www.wwf.or.id/index.cfm?uNewsID=3020&uLangID=1>

<sup>19</sup> Landsat satellite imaged dated 27 July 2006.

<sup>20</sup> In 2007, Maruli Gultom, Director of Astra, gave a presentation at an IPC Seminar on “Sustainability issues surrounding the production of palm oil and biodiesel.” The website for the seminar and Mr Gultom’s presentation can be found at [http://www.agritrade.org/events/sustainability\\_agriculture.html](http://www.agritrade.org/events/sustainability_agriculture.html).

<sup>21</sup> See page 39 of Mr Gultom’s presentation.

<sup>22</sup> See the HCV toolkit for Indonesia.

<sup>23</sup> Landsat 7 images dated 21 May 2008 and 18 Nov 2012.

#### 4.1.2 Overlap with habitats for threatened species

The PT Cipta Narada concession in East Kalimantan appears to overlap with potential orangutan habitats.<sup>24</sup> The concession still contains large areas of forest and peatlands.<sup>25</sup> If a full-scale plantation is established, the habitat will be fragmented and reduced, thus reducing the orangutan population substantially (see Figure 3 ). The Bornean orangutan is classed as endangered on the International Union for the Conservation of Nature (IUCN) Red List, and protected in Indonesia. The orangutan is often regarded as a flagship species acting as a symbol of the threats faced by the entire ecosystem of which it is a part. Protecting this species may also help to protect other species that share the same habitat and face the same threats.<sup>26</sup>

Figure 3: Overlap between the PT Cipta Narada Lestari concession (red lines) and orangutan habitats (dark brown colour)<sup>27</sup>



Much of the landscape and habitats in Kalimantan have suffered many years of degradation, and the forest has been fragmented in the areas in which Astra's concessions are located. As a consequence, the species diversity and ecosystems that were once found in the area have been impacted for several years, and important values may already have been lost. On the other hand, this may also mean that precisely the forest areas that remain in the concessions have important ecological functions. As Astra has not provided information, it is difficult to assess whether the concessions do in fact contain important conservation values, whether they constitute habitats for threatened species, and the significance of the remaining forest areas in the landscape.

Nevertheless, according to AAL's homepage the company's own surveys generally appear to evidence high species diversity:

“The biodiversity management conducted until December 2011 has monitored and identified 490 species of woody plants, 57 species of mammals, 267 species of birds, 30 species of reptiles and 24 species of amphibians were living inside conservation locations within the area of oil palm plantations managed by the Company”.

Further, in connection with surveys of flora and fauna in 21 plantations:

“Overall, 35 species of animals are in the IUCN red list, consisting of four critically endangered species, 12 endangered species, and 19 vulnerable species. Other species listed

<sup>24</sup> Meijaard, E., Dennis, R. and Singleton, I. 2004: *Borneo Orang-utan PHVA Habitats Units: Composite dataset developed by Meijaard & Dennis [2003] and amended by delegates of the Orang-utan PHVA Workshop, Jakarta, January 15-18, 2004* [Subsequently further updated by E. Meijaard]. See also Wich SA, Gaveau D, Abram N, Ancrenaz M, Baccini A, et al. (2012) Understanding the Impacts of Land-Use Policies on a Threatened Species: Is There a Future for the Bornean Orang-utan? *PLoS ONE* 7(11): e49142. doi:10.1371/journal.pone.0049142.

<sup>25</sup> Landsat 7 dated 21 May 2008 and 18 Nov 2012.

<sup>26</sup> <http://www.fauna-flora.org/initiatives/flagship-species-fund/>

<sup>27</sup> Google Earth 2013 image.

in CITES Appendix are 71 species and 89 species protected by the Government Regulation No 7 of 1999 on the Preservation of Plant and Animal Species”.<sup>28</sup>

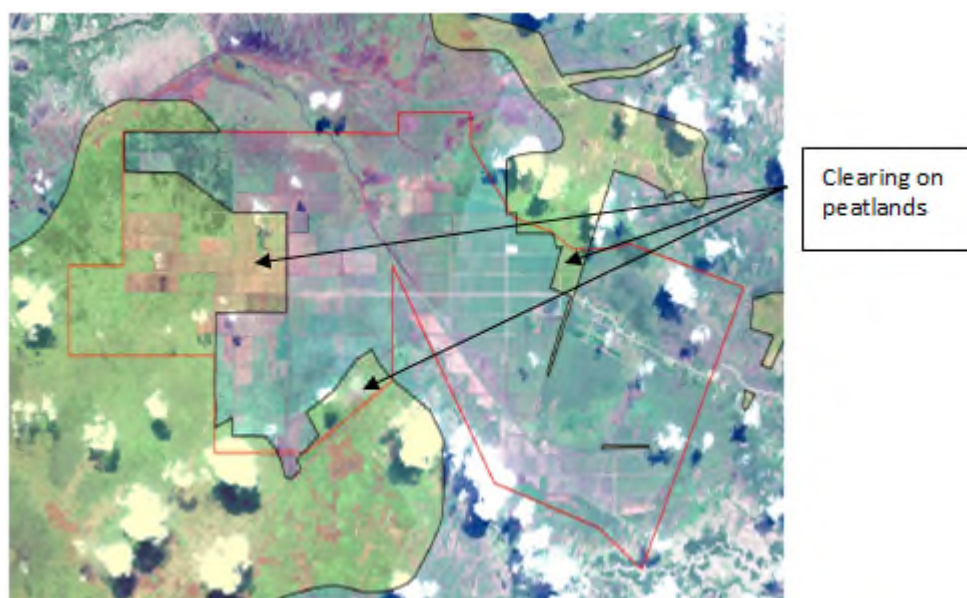
In the absence of more specific data, the Council therefore assumes that also the concessions which the Council has researched most likely contain important biological values, partly because these ecosystems in their natural state are very rich in species, many of them endemic, and because the company's own surveys generally demonstrate a rich biodiversity in the concessions.

#### 4.1.3 Conversion of peatlands

Three of AAL’s concessions, all located in South Kalimantan, appear to have been established on peatlands of various depth or, possibly, freshwater swamp forest.<sup>29</sup>

Almost the entire concessions owned by PT Tri Buana Mas and PT Subur Agro Makmur overlap with peatlands with a depth of one to two metres. PT Persada Dinamika Lestari appears to have established plantations in areas of two and four metres deep peat. This area is part of the Norway-Indonesia moratorium. Most likely, AAL does not develop plantations illegally, as AAL obtained the concessions before the moratorium went into force. Nevertheless, based on environmental concerns the moratorium covers areas which should not be converted as long as the moratorium is effective.

Figure 4: The concession owned by PT Persada Dinamika Lestari (red line) partly overlaps peatlands set aside under the moratorium (light green areas delimited by a black line).<sup>30</sup>



## 4.2 Concession areas on Sulawesi

According to maps from the National Land Agency (BPN) showing oil palm concessions in Indonesia, it appears that two of AAL’s subsidiaries own five concessions in Central Sulawesi.<sup>31</sup> PT Cipta Agro Nusantara (PT CAN ) owns a concession totalling approximately 12,800 hectares,

<sup>28</sup> <http://www.astra-agro.co.id/index.php/biodiversity>

<sup>29</sup> Salm and Halim 1984: *Marine conservation data atlas: planning for the survival of Indonesia's seas and coasts*. IUCN; WWF; Directorate General of Forest Protection and Nature Conservation. Bogor, Indonesia; MacKinnon and MacKinnon 1986: *Review of the protected areas system in the Indo-Malayan Realm*. IUCN, Gland; Collins et al. 1991: *The conservation atlas of tropical forests Asia and the Pacific*. IUCN: Macmillan Press Ltd, London and Basingstoke; and Wikramanayake et al. 2002: *Terrestrial ecoregions of the Indo-Pacific: a Conservation assessment*. Island Press, Washington, DC

<sup>30</sup> World View 2 High Resolution Image, 11 May 2012, and Landsat Image, 7 March 2013.

<sup>31</sup> The map is the best national-level concession map available without access to the actual permit documents. The National Land Agency is the ultimate authority for the approval of Land Use Permits (HGU).

while PT Gunung Sejahtera (PT GS) owns four concessions measuring 25,000 hectares in total.<sup>32</sup> AAL's annual report for 2012 confirmed that PT CAN owns one plantation in Central Sulawesi, but did not mention that PT GS has concessions there.<sup>33</sup>

The concessions all appear to lie in hilly terrain up to 900 m, and to be largely covered by intact forest with a closed canopy cover.<sup>34</sup> About 50 to 60 per cent of the concessions appear to be covered by lowland forest that has not been logged previously (primary forest), while around 25 per cent is secondary (logged) forest.<sup>35</sup> The remainder, which is covered by the PT CAN concession, has been logged and partially converted into oil palm plantations (see Figure 6). Further, there appears to be an overlap between PT GS's concessions and the Norway-Indonesia moratorium area, and with areas the Ministry of Forestry describes as forest areas (*kawasan hutan*) that are not to be converted.

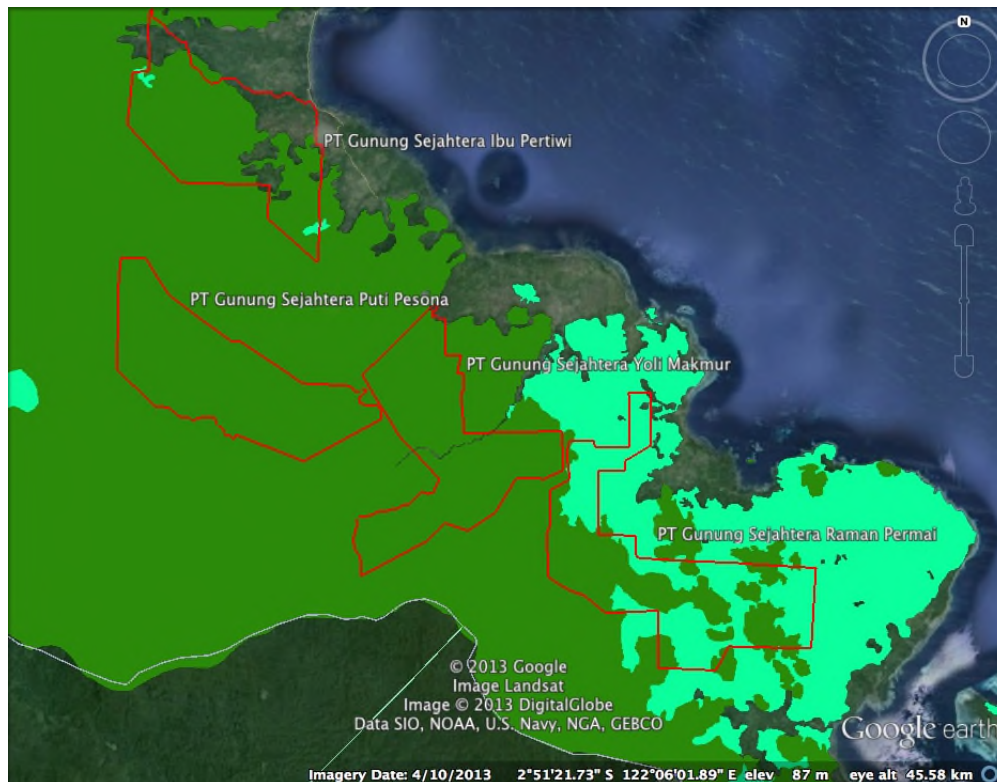


Figure 5: PT GS's concessions (red lines) in Central Sulawesi. The concessions overlap with primary forest (dark green areas) and secondary forest (light green areas).<sup>36</sup>

All of the concessions lie in the WWF Sulawesi Lowland Rain Forests Ecoregion,<sup>37</sup> as well as the Sulawesi Bird Area, one of BirdLife International's Important Bird Areas.<sup>38</sup> More than half of the original forest on Sulawesi is gone, and the remaining forest has been reduced to fragments, apart

<sup>32</sup> PT GS Ibu Pertiwi (6,000 ha), PT GS Puti Pesona (6,060 ha), PT GS Raman Permai (7,400 ha), PT GS Yoli Makmur (5,910 ha). Hectarages were calculated using Google Earth Pro, based on the BPN map and rounded to tens of hectares.

<sup>33</sup> The annual report referred to the following other subsidiaries in Central Sulawesi: PT Lestari Tani Teladan Sulawesi Tengah (commenced 1998), PT Agro Nusa Abadi Sulawesi Tengah (2012), PT Sawit Jaya Abadi Sulawesi Tengah (2012) and PT Rimbunan Alam Sentosa (2012). It is possible that these four subsidiaries have been renamed under the PT GS sub-group of AAL companies.

<sup>34</sup> Based on satellite images and various thematic maps, including the forest cover type and forest land maps provided by the Ministry of Forestry and the Norway-Indonesia Moratorium Map, version 4.

<sup>35</sup> Map from the Ministry of Forestry (2009).

<sup>36</sup> According to the Ministry of Forestry's forest land map overlaid by the AAL concessions.

<sup>37</sup> Morrison, J. (undated). Indonesia: *Island of Sulawesi*, <http://worldwildlife.org/ecoregions/aa0123>.

<sup>38</sup> BirdLife International (2013) Endemic Bird Area factsheet: Sulawesi, <http://www.birdlife.org>.

from some relatively large blocks of intact forest.<sup>39</sup> AAL's new concessions on Sulawesi fall within these blocks. The distinctive forest types found in the ecoregion provide habitats for the highest number of local mammals in Asia, and many local bird species.<sup>40</sup> Fifteen per cent of the 5,000 plant species surveyed thus far are endemic.<sup>41</sup>

The entire PT GS concessions appear to lie on so-called ultrabasic soils, while the PT CAN concession partly lies on such soil.<sup>42</sup> Ultrabasic soils are nutrient poor and forests growing on such soil tend to be lower and scrubby.<sup>43</sup> Ecologically, these forests are unique, due to their high degree of plant endemism, but they contain little marketable timber and are low in commercial value.<sup>44</sup> This explains why primary forests remains in the south-eastern part of Sulawesi. No data is available on the soil in the concessions. However, if the conditions are as described in the literature, it is unclear whether these areas can be developed into productive oil palm plantations.

## 5 Information from the company

### 5.1 Astra's contact with the Council on Ethics

The Council contacted Astra in May 2012, requesting information on the environmental and social impacts of the company's plantation operations, including how the development of new plantations will impact on forests, ecosystems and biodiversity, and how forest in the concessions that features HCVs has been identified and protected. Astra replied to the Council one month later, but did not provide significant information.

In June 2013, Astra was sent a draft recommendation for comments. Astra replied two months later and wrote, among other things, that AAL's oil palm plantations operate in accordance with laws and regulations in Indonesia: "We do not agree with the Council on Ethics' draft view that AALI is causing severe environmental damage. AALI has reviewed the basis for the Council's draft assessment and has noted numerous errors and omissions."<sup>45</sup> The Council therefore reiterated its request to the company for comments on the draft recommendation, and particularly asked the company to concretise its objections. The company has not replied to this request.

### 5.2 Astra's position

In its first letter to the Council on Ethics dated May 2012, the company wrote that Astra and AAL have a strong focus on protecting the environment, and that the company "strongly supports the preservation and conservation of the natural environment in Indonesia."<sup>46</sup>

As regards the development of new plantations, AAL stated that it

"will first conduct the required environmental impact study carried out by credible independent consultants recognized by the Government of Indonesia and take into careful

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<sup>39</sup> See footnote 37.

<sup>40</sup> See footnote 37. Of the 104 mammal species in the ecoregion, 29 are endemic or near-endemic. The bird fauna consists of about 337 species, of which 70 are endemic or near-endemic.

<sup>41</sup> Kessler, M. et al., 2005. Tree diversity in primary forest and different land use systems in Central Sulawesi, Indonesia. *Biodiversity & Conservation*, March 2005. Volume 14, Issue 3, pp 547-560.

<sup>42</sup> Based on maps in Whitten, T. et al., 2002. Ecology of Sulawesi. *Nature* - 777 pages. Tuttle Publishing.

<sup>43</sup> See footnote 42.

<sup>44</sup> Morrison, J. (undated). Indonesia: *Island of Sulawesi*, <http://worldwildlife.org/ecoregions/aa0123>.

<sup>45</sup> Astra's letter to the Council of 16 August 2013.

<sup>46</sup> Astra's letter to the Council of 13 June 2012.

consideration any stakeholders' concerns in the surrounding area. As part of its studies, AAL applies the concept of High Conservation Value Forest."<sup>47</sup>

According to AAL, all of the company's oil palm plantations are located in areas not covered by forest. AAL has also stated "that its mission in conducting conservation is to develop a model of conservation area and biodiversity management in oil palm plantations".<sup>48</sup> For this purpose, the company entered into a cooperation project with WWF Indonesia in 2006.<sup>49</sup> The company launched a programme to protect and rehabilitate habitats, which it acknowledges to be at an early stage. AAL has defined five steps in efforts to protect biodiversity:<sup>50</sup>

- Identifying species diversity and distribution, vegetation structure and general landscape conditions.
- Spatial planning for the HCV area.
- Developing tools and infrastructure for implementing conservation.
- Identifying species and populations and selecting those that should be monitored.
- Training and involvement of local communities to implement conservation measures.

As stated earlier in this recommendation, the company has reported that it sets aside areas containing HCVs and has listed 23 such HCV areas including their size. The company does not provide further details of the values to be conserved, how they were identified, their location in the concession, or as to whether areas to which local communities hold rights are included in the HCV areas. The company has identified species in a selection of concession areas, including several red list species. However, AAL has not specified in which concessions the red list species are located, or what steps have been taken to protect them.

In this connection, the Council has noted an interview conducted with AAL management in 2011, which indicates that biologically valuable areas may also be converted:

"We apply very stringent standards that go above the minimum of the government regulations. To open up a new area of land you have to get the necessary licenses and carry out an environmental assessment impact analysis, however we do our own as well. For example we got around 20,000 hectares of high conservation value forest (HGU), the government regulation allowed us to plant in all 20,000 hectares but we decided after our studies that only 13,000 hectares should be planted."<sup>51</sup>

In its letter to the Council on Ethics, AAL wrote that it supports the national certification scheme, "the Indonesian Sustainable Palm Oil (ISPO) certification principles and practices".<sup>52</sup> The company is not a member of the Roundtable on Sustainable Palm Oil (RSPO).

## 6 The Council on Ethics' assessment

Based on the information at hand, the Council has assessed whether there is an unacceptable risk that PT Astra International Tbk may be responsible for severe environmental damage through its subsidiary PT Astra Agro Lestari Tbk, which owns and operates oil palm plantations in Indonesia. The Council has focused its assessment on 12 concessions in Kalimantan and on Sulawesi in which the company is in the process of converting forest and peatlands into plantations.

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<sup>47</sup> See footnote 46.

<sup>48</sup> <http://www.astra-agro.co.id/index.php/biodiversity>

<sup>49</sup> <http://www.wwf.or.id/index.cfm?uNewsID=3020&uLangID=1>

<sup>50</sup> AAL Annual Report 2012, page 74.

<sup>51</sup> Interview with Director Santosa in Global Business Guide Indonesia – 2011,

[http://www.gbgingonesia.com/en/agriculture/directory/astra\\_agro\\_lestari/interview.php](http://www.gbgingonesia.com/en/agriculture/directory/astra_agro_lestari/interview.php).

<sup>52</sup> Astra has stated that Indonesia's Minister of Agriculture issued a decree on ISPO in 2011 that required all palm estates to adopt sustainable practices by 2014, see footnote 46. To the Council's knowledge, ISPO only concerns legal compliance.

In its assessment, the Council would normally emphasize the scale of conversion, whether it has long-term, irreversible effects, whether the damage is the result of breaches of national laws or international standards, and what the company has done to reduce the damage. In particular, the Council would assess whether the company's concessions overlap with areas containing important ecological values, and the consequences of forest conversion for threatened species and their habitats.

As Astra has provided no information on where AAL's concessions are located, the vegetation covering the areas or the ecological impacts of conversion, the Council has, as previously described, based its assessment on its own investigations.

The Council takes as a fact that the company's concessions appear to fall within several important global ecoregions, including the Borneo Lowland Forests (Kalimantan) Ecoregion and the Sulawesi Lowland Rain Forests Ecoregion. The concessions on Sulawesi also seem to overlap with Important Bird Areas defined by BirdLife International.<sup>53</sup> These areas are known for their unusually rich biodiversity and large number of endemic species. The development of oil palm plantations is one of the most significant threats to these areas.

The 12 concessions considered by the Council cover approximately 90,000 hectares. The Council's research suggests the recent or continued presence of lowland rainforest or peatlands in at least part of all of the concessions examined. In seven concessions, including the concessions on Sulawesi, it appears that the company is in the process of converting contiguous forest in a good condition, and possibly also primary forest that has not been logged previously. In the Council's view, the company's activities in intact forest areas on Sulawesi appear particularly serious in this context, as they involve major intervention in an almost untouched contiguous block of forest containing outstanding ecological values. The development of oil palms will contribute to the extensive fragmentation of the area, thus inevitably causing irreversible damage to biodiversity and ecosystems in these unique areas.

The Council also emphasizes that five of the concessions, including four on Sulawesi, appear to fall within areas covered by the Norway-Indonesia moratorium. The Indonesian authorities have introduced a temporary stop on the award of new concessions in these areas as part of halting the conversion of primary forest and peatlands into plantations. Although AAL's licenses for these areas pre-date the moratorium and thus their development for plantations is not illegal, the Council finds that AAL's plans to develop these areas conflicts with the intent of both the governments' initiative and international agreements to stop deforestation and the degradation of tropical forests. It also calls into question AAL's own commitments to "preservation and conservation of the natural environment in Indonesia" as stated on its website.

The Council has no basis for evaluating directly whether the concessions contain important ecological values or whether the concessions constitute habitats for threatened species, as Astra has not provided information in this regard. The Council adds weight to the fact that the company's own surveys of plant and wildlife in other concessions areas confirm that at least some of its concessions appear to have been developed in areas that contain rich biodiversity and habitats for several threatened species. The Council's research indicates that one of AAL's concessions overlaps with orangutan habitats and possibly also other threatened species. The clearing of forest in this area will contribute to the fragmentation of habitats and further reduce the population of a highly threatened species.

AAL sees its role as developing a model for conserving and managing biodiversity in oil palm plantations. According to the company, all of its concessions lie in "non-forest areas" or "other land use areas". This may be technically correct, as the term "forest land" refers to a land use zonation category falling under the administrative responsibility of the Indonesian Ministry of

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<sup>53</sup> BirdLife International (2013) Endemic Bird Area factsheet: Sulawesi, <http://www.birdlife.org>.

Forestry, and not necessarily to land cover. Correspondingly, the term “other land use” also refers to a land use zonation category. To the Council’s knowledge, plantations may not be developed on forest land until the area has been redefined as falling into the “other land use” category. Accordingly, the land category does not necessarily specify whether forest is actually growing in the area, or what land cover types will be lost by conversion to oil palm.

AAL states that the company conducts HCV-assessments to identify the conservation values present in the concessions and how they should be managed, so that they can be protected after conversion. The Council has not been provided access to these HCV reports, and it is unclear what methods the company is using to identify HCV values. Accordingly, there is no basis for assessing whether the HCV areas that have been set aside are sufficient to maintain the conservation values in the concessions. The Council has also emphasised that it appears AAL has in the past converted HCV areas designated for conservation in at least one of its concessions. The Council finds that this, along with the fact that the company has not granted access to the HCV assessments, weakens the credibility of the company’s efforts to protect biodiversity.

The basis for assessing the condition of the forest, species diversity and ecosystems has been limited in this case. The Council finds that the lack of data and transparency on the part of the company, the scale of conversion and the fact that the concessions appear to lie in areas of exceptionally rich and unique biodiversity present an unacceptable risk that conversion will result in complete and irreversible changes to ecosystems and vegetation. The measures proposed by the company will, in the Council’s view, be insufficient to reduce the risk of severe environmental damage associated with current and future conversion of forest into oil palm plantations.

## 7 Recommendation

The Council on Ethics recommends the exclusion of the Indonesian company PT Astra International Tbk and its subsidiary PT Astra Agro Lestari Tbk from the investment universe of the Government Pension Fund Global because of an unacceptable risk of the company being responsible for severe environmental damage.

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