

To Norges Bank

23 June 2015

UNOFFICIAL ENGLISH TRANSLATION

Recommendation to place PT Astra International Tbk under observation

Summary

The Council on Ethics for the Government Pension Fund Global (GPF) recommends that PT Astra International Tbk be placed under observation due to the risk that the company may be responsible for severe environmental damage. The observation relates to the company's plantation operation in Indonesia. On 11 June 2015, Astra announced that it would immediately be ceasing all logging and land conversion while developing a new sustainability strategy. The company has also stated that it will avoid deforestation in future. In view of the company's previous policy and uncertainty as to the material impact of the change in the company's strategy, the Council has concluded that the company should be placed under observation. The Council recommends an observation period of four years to allow the progress and impact of the company's new policy to be assessed.

1 Introduction

On 27 March 2014, the Council on Ethics recommended to the Ministry of Finance that PT Astra International Corporation Tbk (Astra) and its subsidiary PT Astra Agro Lestari (AAL) should be excluded from the Government Pension Fund Global (GPF).¹ The Council was of the opinion that there was an unacceptable risk of Astra, through its subsidiary AAL, being responsible for severe environmental damage in connection with the company's conversion of tropical forest into oil palm plantations. The Ministry of Finance did not make a decision on the matter.

In 2015, the Council on Ethics has assessed whether the company's activities and conduct have changed to such an extent that the grounds for the exclusion recommendation no longer apply.

Astra is an Indonesian group operating in a number of different business areas. AAL operates the plantation business and currently has oil palm plantations on Sumatra, Kalimantan and Sulawesi.² Astra has a 79.7% stake in AAL. AAL is listed on the Jakarta Stock Exchange, but the GPF currently holds no shares in AAL.

At the end of 2014, the GPF owned shares in Astra with a market value of almost USD 72.9 million, corresponding to an ownership interest of 0.3%.

2 About the grounds for the Council on Ethics' recommendation from 2014

The Council on Ethics assessed the risk of severe environmental damage in connection with the conversion of forest and peatlands through Astra's development of oil palm plantations. In its assessment, the Council emphasised the scale of conversion, the degree to which the company's concessions overlapped with areas containing important ecological values, and the consequences of conversion for endangered species and their habitats.

The Council's assessment concentrated on 12 concessions totalling approximately 90,000 ha in Kalimantan and on Sulawesi, where the company had recently converted or was in the

¹ The Council's recommendation is available at www.etikkradet.no.

² Astra International: <http://www.Astra.co.id/index.php/business/detail/46>.

process of converting forest and peatlands into plantations. The Council assumed that the company's concessions appeared to lie in important global ecoregions known for their unusually rich biodiversity and large number of endemic species. One of the concessions appeared to overlap with areas identified as habitats for orangutans and, probably, other endangered species. In seven of the concessions, it appeared that the company was in the process of converting contiguous forest in a good condition, and possibly also primary forest that had not been logged previously. It was concluded that the development of oil palm plantations would contribute to severe fragmentation of an almost untouched contiguous block of forest containing unique ecological values.

Astra did not provide any information on the location of AAL's concessions, the vegetation covering the areas or the impact of conversion on nature and the environment. On its website, AAL stated that the company had surveyed the conservation values present in the concessions and implemented measures to preserve these following conversion (i.e. conducted High Conservation Value (HCV) assessments), but neither the reports nor the survey methods were published. Accordingly, there was no basis for assessing whether the measures would be adequate to protect the conservation values in the concessions. The Council on Ethics also emphasised that AAL appeared to have converted HCV areas listed for conservation in one of the concessions. The Council concluded that this, coupled with the fact that the company had not disclosed the HCV assessments, weakened the credibility of the company's efforts to preserve biodiversity. The Council concluded:

“The basis for assessing the state 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 unusually 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.”

3 The Council on Ethics' investigations in 2015

It is still the case that little information is available on the company's concessions. Among other things, the Council on Ethics has attempted to verify Astra's ownership of four concessions on Sulawesi, which the recommendation identified as somewhat uncertain.³ The Council engaged local consultants to write to the relevant authorities (the National Land Agency) to confirm whether Astra's subsidiary is in fact the concession-holder, but the authorities have not responded. This issue therefore remains unresolved.

A new NGO report on Astra's plantation operation was published in May 2015. It documented the company's continued conversion of forest, most likely including primary forest and peatlands, in its concessions in 2014.⁴ According to the report, this has had a severe

³ In the recommendation made in 2014, the Council on Ethics referred to four concessions on Sulawesi which maps from the National Land Agency (BPN), showing oil palm plantations in Indonesia, indicated were owned by AAL's subsidiary PT Gunung Sejahtera (PT GS).³ These concessions were not listed in AAL's annual report. Astra was sent a draft of the recommendation in 2013, but did not comment on this matter.

⁴ Aidenvironment 2015: *Sustainability assessment of Astra Agro Lestari*, available at http://www.regnskog.no/en/publications/reports/_attachment/44283/binary/41048. The Rainforest Foundation

negative impact on biodiversity in these areas and, for example, contributed to the destruction of habitats for endangered species. The report covers some of the same concessions as investigated by the Council on Ethics, but also describes several other concessions, including some on Sulawesi. The report thus confirms the Council's findings on which the recommendation of January 2014 was based. As at 11 June 2015, Astra had not published significant new information about measures to protect biodiversity. In a letter to NBIM of 8 June 2015, the Council therefore maintained its recommendation to exclude Astra International from the GPFG due to an unacceptable risk of severe environmental damage in connection with the company's plantation operation.

On 11 June 2015, AAL announced on its website that it was introducing a moratorium on all land conversion with immediate effect: "*Astra Agro Lestari ("AAL") has today introduced an immediate moratorium whereby it will stop all land conversion. Accordingly, AAL will ensure that there will be no clearance of any natural forest either by the Company or any of its contractors across all its operations in Indonesia.*" Further: "*Consistent with the principles of no deforestation, respect for community rights and the conservation of peat lands, AAL is now in the process of formulating a detailed sustainability policy which will include the need for carrying out High Conservation Value (HCV) and High Carbon Stock (HCS) assessments prior to any future expansion.*"⁵

4 The Council on Ethics' assessment

Astra is ceasing all logging and land conversion during its development of a new sustainability policy, and the company has stated that it will also avoid deforestation in future. This may entail a reduction in the risk of future environmental damage. The basis for the Council on Ethics' recommendation to exclude the company from the GPFG has thus been altered.

The moratorium indicates a positive change in Astra's future plans for the development of its plantations. The company has stated that it will formulate a detailed sustainability strategy that includes the need for HCV assessments and assessments of forest carbon stocks. As yet, the specific content of the company's policy is unclear, as are the concrete consequences of the policy for the company's plantation operation. The key question is whether the measures implemented by the company will be adequate to safeguard biodiversity and important ecological values in the concessions.

Astra has also previously adopted strategies for surveying and protecting high-value areas. In 2012, Astra informed the Council on Ethics that it "strongly supports the preservation and conservation of the natural environment in Indonesia"⁶ and, further, that it "applies the

Norway commissioned the report, which has since been used in an international campaign against Astra International. See Climate Advisers, Forest Heroes and Rainforest Foundation Norway 2015: *She's not a fan*, available at <http://www.shesnotafan.org/>.

⁵ <http://www.Astra-agro.co.id/index.php/indonesian-palm-oil-pledge-ipop>. Astra has also stated that it will join the Indonesian Palm Oil Pledge (IPOP), an agreement between four palm oil companies (Wilmar, Golden Agri Resources, Cargill and Asian Agri) and the Indonesian Chamber of Commerce concerning the production of palm oil in a more sustainable manner. See [file:///C:/Users/FIN/Downloads/indonesia_palm_oil_pledge_in_un_climate_summit_ny_240914_final%20\(3\).pdf](file:///C:/Users/FIN/Downloads/indonesia_palm_oil_pledge_in_un_climate_summit_ny_240914_final%20(3).pdf).

⁶ Astra's letter to the Council on Ethics of 13 June 2012.

concept of High Conservation Value Forest” when developing new plantations.⁷ 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”.⁸ In the Council’s view, the company’s stated strategies and intentions are not in accordance with the environmental consequences apparently triggered by the development of plantations. The Council has emphasised that, prior to the announcement of the moratorium, the company appears to have done little to alleviate the environmental damage associated with the conversion of forest into plantations.

In view of the company’s previous policy and uncertainty as to the material impact of the change in the company’s strategy, the Council on Ethics has concluded that the company should be placed under observation. The Council recommends an observation period of four years to allow the progress and impact of the company’s new policy to be assessed.

If, during the observation period, the company’s measures are found to be inadequate to protect biodiversity and important ecological values in the concessions, the Council on Ethics will consider whether there are grounds for excluding the company from the GPFG.

5 Recommendation

The Council on Ethics recommends that PT Astra International Tbk be placed under observation for a period of four years due to the risk that the company may be responsible for severe environmental damage.

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⁷ See footnote 6.

⁸ <http://www.astra-agro.co.id/index.php/biodiversity>