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Date

12/39-HJe

Oslo, 15 March 2018

The Council on Ethics' annual report to Norges Bank regarding its observation of PT Astra International Tbk

On the basis of the Council on Ethics' recommendation of 23 June 2015, Norges Bank decided on 13 October 2015 to place PT Astra International Tbk (Astra) under observation due to the risk that the company, through its subsidiary PT Astra Agro Lestari Tbk (AAL) may be responsible for severe environmental damage. The Council will observe Astra for a period of four years, and will evaluate the implementation of the company's strategy for sustainable plantation management. The most important issue is whether the measures implemented by the company are sufficient to protect biodiversity and important ecological values in the company's concession areas. Should the company's initiatives prove inadequate, the Council on Ethics will consider whether there are grounds for exclusion from the GPFG even before the observation period expires.

Each year, the Council must report to Norges Bank on the status of its observations. This is the second such report.

Background

In September 2015, AAL published its sustainability strategy. The strategy covers all current and future operations, all subsidiaries and the company's suppliers/subcontractors. The sustainability strategy rests on three principles:

- No deforestation
- No conversion of peatlands
- Respect for human rights

The Council's evaluation relates to the first two point.

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Developments in 2017

In October 2017, the Council on Ethics asked Astra to provide more detailed information about the company's current status with respect to this matter, including the measures it has implemented and the impact these have so far had on plantation management. The company has also commented on a draft of this report.

In its first observation report to Norges Bank, the Council remarked that, up until August 2016, Astra did not seem to have opened up any new areas of peatland or forest in its concession areas. Nevertheless, the Council considered that Astra had not provided sufficient information to enable it to assess the company's progress in implementing its sustainability strategy. The Council therefore decided to continue observing Astra's implementation of its sustainable plantation management strategy.

In its letter to the Council dated 6 December 2017, AAL confirmed that it will not establish plantations in areas designated as High Carbon Stock (HCS) forests, in High Conservation Value (HCV) areas or in peatlands. The company also stated that it had not opened up new areas for plantation since the publication of its sustainability strategy.

AAL further disclosed that it had performed so-called HCV assessments in all its concession areas, and that it had set aside around 160 km² for the purpose of conservation (both HCV and HCS areas). In 2018, the company will draw up conservation plans for each concession area. The protected areas within the individual concessions will help to maintain biodiversity and ecosystem services in the wider landscape.

AAL plans to update previous HCV assessments in accordance with the HCV Resource Network's current guidelines. The company will use these guidelines to identify, manage and monitor important areas with a high conservation value within its concessions. In this way, the company will ensure that it works in accordance with international best practices and in compliance with the Indonesian authorities' requirements with respect to sustainability.

In its sustainability report for 2016, AAL described the management system it uses to prevent fires in its concession areas. The system is described down to the plantation level, and the company has set up a separate department to ensure that procedures and measures are implemented and function properly. AAL described its organisational lines of responsibility, the allocation of roles and resources, as well as initiatives to prevent and avert fires in its concessions. According to AAL, there was only one incidence of fire in a concession area in 2017.

In 2016, AAL told the Council that it had engaged a "*Consortium of Resource Experts (CORE)*" to provide technical assistance in the implementation and reporting of its sustainability strategy, and help it develop an action plan. According to AAL, the action plan was supposed to have been published in January 2018, a year later than previously announced. AAL has since told the Council that a draft version of the action plan will be completed by the end of March this year.

AAL states that several departments within the company are working on matters pertaining to sustainability. These include the Sustainability, CSR, Community Development, Partnership, and Marketing teams. The Sustainability team is leading these efforts. The Head of Sustainability reports to the Board of Directors, which in turn reports to the Board of Commissioners. In answer the Council's query about the parent company's involvement in this work, AAL wrote: "*Astra International routinely discusses the implementation*

process with AAL. The majority of the discussions revolve around the subject of NGO grievances.”

The Council on Ethics has again asked for maps of the company’s concession areas, but AAL does not which to give out this information, saying: *“Our concession maps are not available for Public Domain. For the sake of privacy and corporate respect, concession maps are available for viewing by stakeholders on the basis of a non-disclosure agreement.”*

The Council’s assessment

The Council on Ethics’ own inquiries indicate that the company has not opened up new areas of peatland or forest in its concession areas, and that the moratorium which the company announced in June 2015 still seems to be in effective. The number of fires in its concession areas also seems to have been drastically reduced in 2017.

Even though AAL has provided more information than previously, for example as regards its fire prevention performance and how HCV and HCS areas are being surveyed, the Council has still found it difficult to assess how much progress the company has made in the implementation of its sustainability strategy. This is partly because the company discloses very little information at the individual concession level. The company’s unwillingness to publish maps of its concession areas or the HCV/HCS reports is a particular hindrance in this respect. Since AAL is not a member of the Roundtable for Sustainable Palm Oil (RSPO), there is less information available about its plantation management practices than for other similar companies.

AAL has given a brief description of management’s role and lines of responsibility in the implementation of the company’s sustainability strategy. However, the way in which managements at the individual plantations are involved in this work, and the extent to which they are responsible for preserving areas of important conservation value at their plantations remains unclear to the Council.

The Council on Ethics continues to hold the view that when AAL once again opens up new areas for plantation cultivation, the company will have to provide specific information about how areas of important conservation value will be protected in the individual concession area. In the Council’s opinion, greater transparency would enhance the credibility of AAL’s efforts to develop a more sustainable plantation business.

The Council on Ethics will continue to observe Astra’s implementation of its sustainable plantation management strategy.

Yours sincerely,

Johan H. Andresen

Chair

