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Date

Oslo, 21 June 2019

Council on Ethics' annual observation report to Norges Bank on 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), is responsible for serious environmental damage. The Council will observe Astra for a period of four years and will assess the implementation of its strategy for sustainable plantation operation. The most important question is whether the measures implemented by the company are sufficient to preserve biodiversity and areas of high conservation value within its concessions.

The Council on Ethics' assessment is based largely reports for 2018 that AAL has itself produced and published on its website. The Council has carried out its own investigations with respect to deforestation and forest fires. A teleconference was held with AAL in January 2019. Both Astra and AAL have been sent a draft copy of the Council's observation report, to which AAL has responded. Astra has submitted no comments on the 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. The sustainability strategy establishes three principles:

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

Developments in 2018

In May 2018, the Council was sent a draft of AAL's three-year sustainability action plan (2018-2020). This document sets out what the company plans to do to prevent deforestation

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and the conversion of peatlands, and to respect human rights in both its own operations and those of its suppliers. According to the company, several of the measures have already been initiated.

Deforestation and biodiversity

According to the action plan, AAL will not develop new areas within its concessions, and the company has not discovered any cases of deforestation in its own operations in 2018. The Council's investigations confirm this.

AAL has previously disclosed that it has carried out so-called High Conservation Value (HCV) assessments in all its concessions. Over the next three years, the company will prioritise ten concessions for additional evaluation, which will also include HCV areas in the neighbouring landscape. This will lead to improved monitoring and management of the HCV areas. In 2018, five concessions were re-evaluated. In its reply to the Council, AAL writes: "HCV management has always been one of our main concerns. We already have a system in place to ensure that biodiversity is routinely monitored and well managed including the support of employees with backgrounds in forestry." Progress is reported on the company's website and in its sustainability report.¹

The company says that the objective of zero deforestation also applies to smallholders who are associated with the company and to subcontractors. Based on a risk assessment, HCV assessments at the landscape level will be carried out before any areas start being developed by smallholders. According to the company, it provides training for smallholders to increase their expertise and understanding of the company's sustainability policy.

AAL also writes that in 2018 it will have 100 per cent traceability to its three refineries. The company identifies suppliers where there is a risk of non-compliance with AAL's policies by means of landscape assessments and spatial analysis. AAL does not buy from suppliers which fail to comply with AAL's requirements. AAL writes in its action plan that it will publish a list of its direct suppliers in 2018. On the company's website, however, only the three largest suppliers are named.²

Fires

AAL has a Zero Burn policy that is intended to reduce the risk of fires in its concessions. The company has described in detail what it is doing to prevent fires, which the Council has also discussed in previous observation reports. In September 2018, satellite images showed that there was a fire in one of the company's concessions, PT Subur Agro Makmur. AAL has informed the Council that this was in an area frequently used by local farmers, and that the fire was quickly extinguished. AAL briefly mentioned this in the progress report for the second half of 2018.³

Peatlands

In its action plan, AAL writes that the company will not develop new plantations on peatland, and that this requirement also applies to its subcontractors. No new peatlands appear to have been opened up in Astra's concession areas in 2018. AAL reports that it is working to

¹ <http://www.astra-agro.co.id/en/sustainability-policy/>

² <http://astra-agro.co.id/sustainability/register/visitor>

³ <http://www.astra-agro.co.id/en/sustainability-policy/>

improve methods for managing peatlands that have previously been developed in its concessions.

Organisation

AAL has reorganised its sustainability efforts by amalgamating several departments that had worked on different aspects of sustainability into one unit. The Council on Ethics has previously been concerned about how the company's policy is implemented at the plantation level. During its meeting with the Council, AAL explained that the plantations' managements have been instructed to manage and protect HCV areas.

Transparency

During its teleconference with AAL, the Council on Ethics once again raised the issue of transparency. The Council still considers that the company must provide tangible information about how important HCV areas are being protected in the individual concession. According to AAL's sustainability policy, the company should, for example, make maps of its concession areas available to key stakeholders. AAL disclosed that stakeholders could access such reports by visiting AAL's office in Jakarta. The Council has asked to receive copies via email, but the company has not replied to this request.

Indigenous peoples' rights

Neither in its recommendation nor in previous observation reports has the Council taken a position on conflicts with indigenous peoples and local communities in which AAL has been involved. In December 2018, the Council received a letter from the Rainforest Foundation Norway describing the situation in which around 200 families belonging to the indigenous Orang Rimba people find themselves. These people live in or adjacent to the plantation owned by AAL's subsidiary PT SAL in Sumatra's Jambi Province. According to the Rainforest Foundation, the families have lost their land and livelihoods to AAL. The Rainforest Foundation wants AAL to give the Orang Rimba land rights that can enable them to create a sustainable living.

The Orang Rimba are a traditional hunter-gatherer people, who live in and off the forest, and number 3,000–4,000 individuals. In the 1980s, 75 per cent of Jambi Province was covered in rainforest. Since then, large portions of the Orang Rimba people's territory has been replaced by plantations, which has resulted in the destruction of their livelihoods and their cultural identity in many areas. Many are suffering from malnutrition and are living in circumstances of severe hardship.

AAL writes that the company complies with the UN's Guiding Principles on Business and Human Rights and that it is working to safeguard the human rights of indigenous peoples and local communities in accordance with these principles.

During its teleconference with AAL, the Council raised the matter of the Orang Rimba. The company replied that the conflict is complicated by the fact that different groups are involved. The company has provided food aid, health services and educational opportunities to improve the families' living conditions. The company also said that it has held meetings with the local communities. AAL has engaged experts from Jambi University to increase its understanding of the indigenous people's needs, way of life and culture through discussions, field studies and training. On this basis, the company has engaged in a dialogue with local authorities and other relevant institutions about how cooperation can help to aid the Orang Rimba.

During its meeting with the Council, AAL said that land rights are a problem to which it wants to find a solution, but that it must be followed up by opportunities to make a living. It also referred to information published on its website.⁴

The Council's assessment

AAL does not appear to have opened up new areas of peatland or forest in its concessions in 2018. The moratorium that the company announced in June 2015 therefore still seems to be in force.

The Council still considers that AAL must provide more tangible information about how important conservation values are protected in the individual concession. Based on the company's own reports, it appears as though it is now beginning to establish a system that may help to preserve and to some extent restore areas of important environmental value in the concessions it has previously developed. In the Council's opinion, greater transparency on the part of the company would strengthen the credibility of AAL's efforts to develop more sustainable plantation operations.

The Council on Ethics has so far taken no position on the company's conflict with the Orang Rimba people. The Council nevertheless considers it important that the company resolve the conflict with these indigenous people through consultations. Although measures to mitigate hardship and poverty are important, the starting point for consultations with indigenous people must be rights-based, in order to ensure that the company is not contributing to human rights violations.

Communication with AAL has at times been difficult and time consuming. The company has often taken a long time to respond to enquiries and has been unwilling to publish information that would enable an assessment of how its sustainability strategy is being implemented at the concession level. The Council on Ethics has raised the issue of transparency with the company every year since 2015, which Astra has been made aware of via the Council's annual observation report to Norges Bank. AAL is still not a member of the Roundtable for Sustainable Palm Oil (RSPO). Less information about the company's practices is therefore available than for other, similar companies. This applies, for example, to the identification and management of HCV areas. The Council notes that Astra has not commented on its draft observation report.

The Council on Ethics will continue to observe Astra and AAL's implementation of the strategy for sustainable plantation operation. In 2020, the Council will decide whether to recommend that Astra be excluded on the grounds of its subsidiary's plantation operations or removed from the observation list.

Yours sincerely,



Johan H. Andresen
Chair of the Council on Ethics

⁴ <http://www.astra-agro.co.id/en/sustainability-policy/>