

As a strategic shareholder, is this in line with Wilmar's No Deforestation Policy?

This photo taken in the months after the announcement of Wilmar's "No Deforestation Policy" shows logs resulting from the clearing of high carbon stock forests lying in mill log yards. The logging was carried out by two palm oil plantation subsidiaries of the Kencana Agri Group, which is 20 percent owned by Wilmar.

11 June 2014

Background

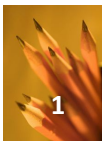
Wilmar's "No Deforestation, No Peat, No Exploitation Policy" – which was announced on 5 December 2013 – featured prominently in the 2013 Wilmar International Ltd Annual Report. In fact, the Chairman's Message – at the beginning of the Annual Report – referred to 2013 as being a "landmark year in Wilmar's sustainability journey" as, in December of that year, Wilmar adopted No Deforestation Policy.

This Greenomics Indonesia report does not analyze the benefits or drawbacks of Wilmar's policy, but rather focuses on a case study that reveals continuing and extensive deforestation practices targeting Indonesia's high carbon stock (HCS) forests. These practices are being pursued by two palm oil companies, both of which are subsidiaries of Kencana Agri Ltd (an associate of the Wilmar Group), despite the announcement of Wilmar's No Deforestation Policy.

The purpose of this report is to clarify the precise scope of Wilmar's No Deforestation Policy, given that the clearing of HCS forests by the two palm oil concessions has continued apace despite the adoption of the policy.

In addition, the 2013 Wilmar Annual Report states that the company's No Deforestation Policy "aims to accelerate the sustainable market transformation for palm oil." Through this report, we will also endeavor to clarify the precise meaning of "accelerate the sustainable market transformation for palm oil," considering that the clearance of HCS forests by the two palm oil companies has actually accelerated since 5 December 2013.

Thus, the sole purpose of this report is to clarify what Wilmar's No Deforestation Policy actually entails through a specific case study. We sincerely hope that Wilmar will provide comprehensive responses of our findings.



Methodology

Our research employed both a spatial and legal analysis to identify the deforestation of HCS forests by the two palm oil companies. To strengthen our analyses, the report includes a number of photos to highlight just how the two palm oil concessions operate on the ground.

As we are primarily concerned with ascertaining the precise scope of Wilmar's No Deforestation Policy, the report is structured based on a number of pertinent questions that were formulated based on the findings of our research.



Does Wilmar want Kencana Agri to keep clearing HCS forests up until 31 December 2015, in accordance with the timeline set out in the No Deforestation Policy?

This photo was taken in the months after the announcement of Wilmar's No Deforestation Policy.

Findings

Does Wilmar's No Deforestation Policy also apply to the two palm oil concessions?

PT Sawindo Cemerlang and PT Sawit Tiara Nusa are subsidiaries of the Kencana Agri Group Ltd, a palm-oil company headquartered in Singapore and listed on the Singapore Stock Exchange. The 2013 Annual Report of Kencana Agri Ltd reported that Wilmar held a 20% stake in the company, while in the 2013 Wilmar Annual Report, Kencana Agri Ltd is listed as a 20%-owned "associate" of the Wilmar Group.

Wilmar's No Deforestation Policy states that it applies to "all Wilmar's operations worldwide, including those of its subsidiaries, any refinery, mill or plantation that we own, manage, or invest in, regardless of stake."

With its 20% shareholding in Kencana Agri Ltd, Wilmar's No Deforestation Policy also clearly applies to oil-palm plantations that come under the umbrella of Kencana Agri Ltd. Consequently, Wilmar urgently needs to explain what exactly is going on at these two palm oil concessions.

PT Sawindo Cemerlang's Forest Area Relinquishment Permit for the development of an oil-palm plantation is incorporated in a Minister of Forestry Decree that was issued on 28 November 2011. The plantation, which covers an area of 18,860 hectares, is located in Pohuwato Regency, Gorontalo Province, Sulawesi.

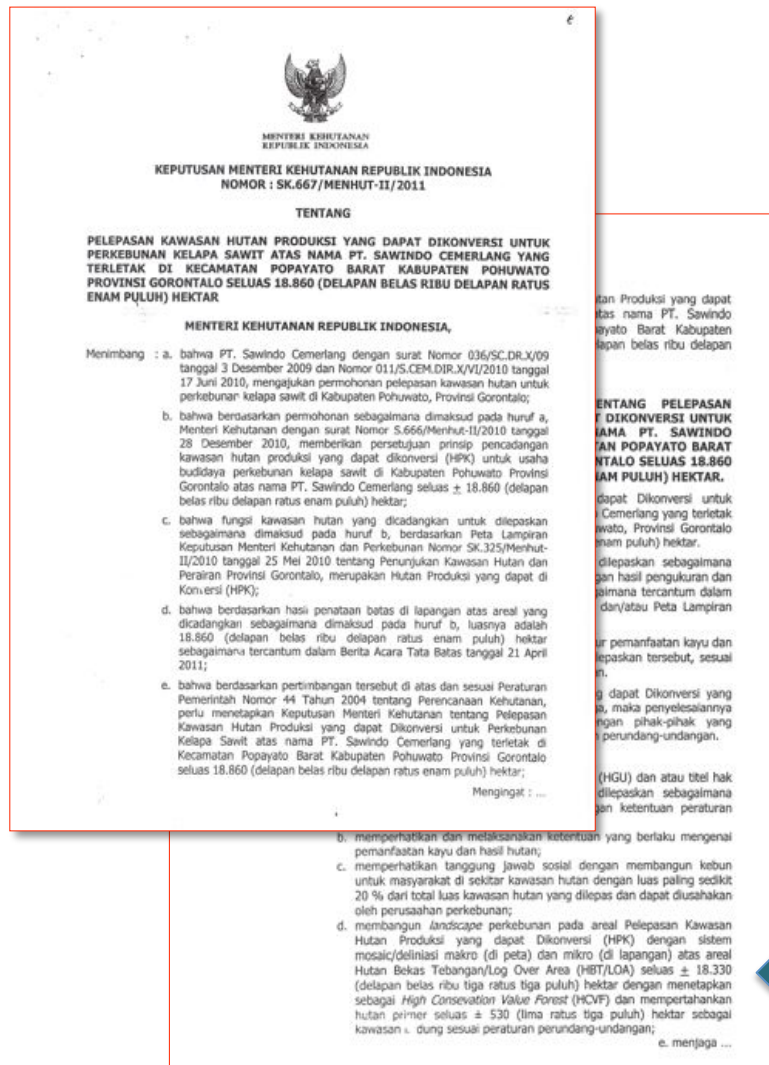
Based on the said Minister of Forestry Decree, of the 18,860 hectares covered by the permit, 18,330 hectares consists of secondary forest (logged-over areas) and 530 hectares of primary forest.



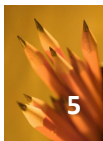
Thus, the land cover in PT Sawindo Cemerlang's concession consists of HCS forests, having regard to Wilmar's No Deforestation Policy. A copy of the Minister of Forestry Decree is shown below:



This photo was taken in the months after the announcement of Wilmar's No Deforestation Policy.

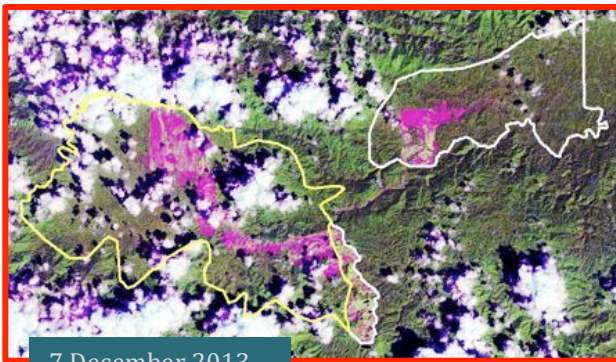


In the relevant Minister of Forestry Decree, it is stated that the land cover in the PT Sawit Tiara Nusa concession consists entirely of secondary forest (logged-over areas). Accordingly, the entire PT Sawit Tiara Nusa concession consists of HCS forests. A copy of the Minister of Forestry Decree is shown below:

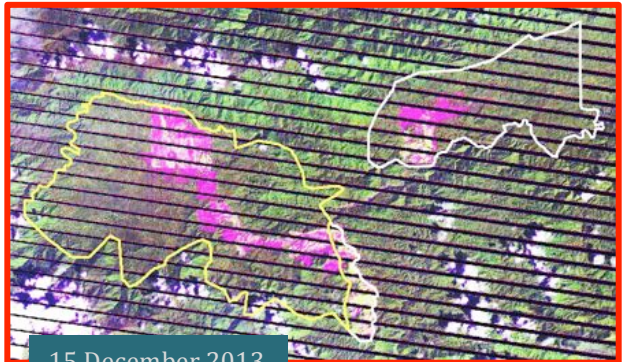


HCS forests continue to be cleared

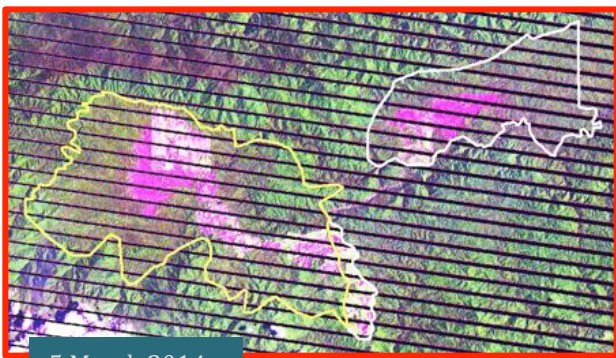
These Landsat satellite images show the clearance of HCS forests in the two palm oil concessions subsequent to 5 December 2013, the date on which Wilmar announced its No Deforestation Policy. It is clear that from 7 December 2013 until at least 14 April 2014, the two palm oil companies continued to clear HCS forests, as if Wilmar's No Deforestation Policy was entirely irrelevant.



7 December 2013



15 December 2013



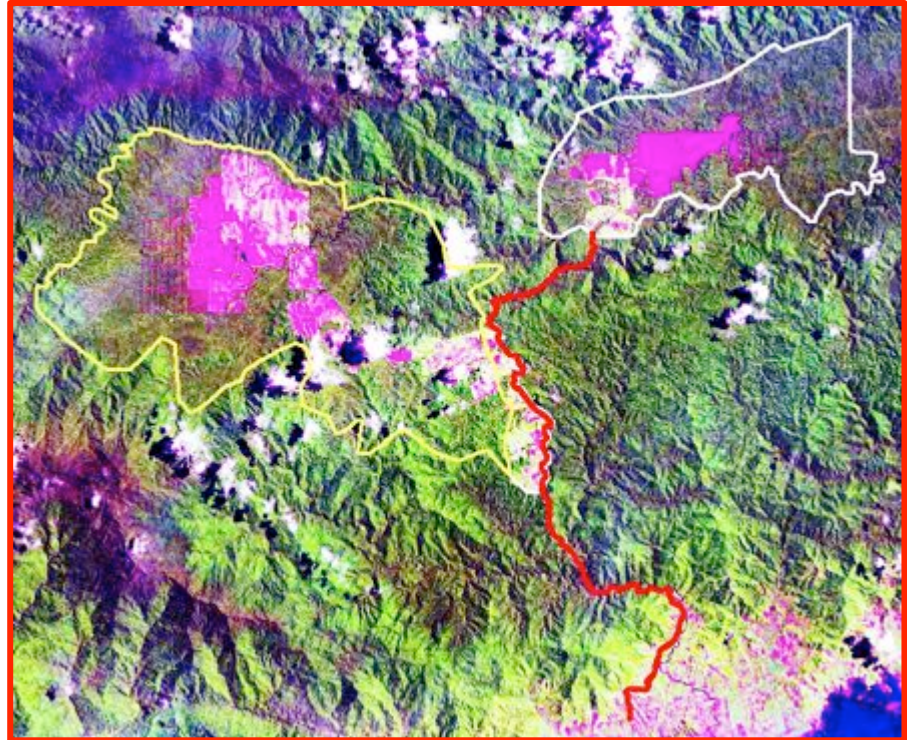
5 March 2014



14 April 2014

As a strategic shareholder of Kencana Agri, was Wilmar not aware that the companies were clearing HCS forests? Or did Wilmar feel that a 20% stake in Kencana Agri was not sufficient to activate the No Deforestation Policy in the case of the HCS forests in the Kencana Agri concession? Or, does Wilmar want Kencana Agri to keep clearing those HCS forests up until 31 December 2015, in accordance with the timeline set out in the No Deforestation Policy? Needless to say, Wilmar needs to provide convincing answers to these questions.

This map shows the logging roads (*delineated in red*) that are used by the two Kencana Agri concessions in their operations, including for the transportation of logs produced by the clearing of HCS forests. The map of the road is overlaid with a Landsat 8 satellite image taken on 14 April 2014.



If we accept that the operations of the two palm oil concessions are also subject to Wilmar's No Deforestation Policy, then Wilmar needs to answer a simple question: Has a HCS assessment ever been carried out on the two companies? If the answer is no, then this would be both a violation and a negligent omission by Wilmar in respect of its No Deforestation Policy. In such circumstances, Wilmar would need to respond having regard to the policy, particularly as it concerns HCS forests.

However, should the answer be that Wilmar has conducted HCS assessments on two palm oil concessions, the next question that arises is whether or not secondary forest is included in the definition of HCS forest under the No Deforestation Policy?

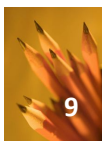
We need to stress again here that there is no doubt whatsoever that the two Kencana Agri subsidiaries have been clearing HCS forests, as shown on Landsat satellite images taken during the period from 7 December 2013 until 14 April 2014.



This photo shows logs being transported on the road shown in the map above. The road was built by PT Sawindo Cemerlang based on a Forest Area Borrow and Use Permit issued by the Minister of Forestry on 12 December 2011. The photo was taken in the months after Wilmar's announcement of its No Deforestation Policy.

Recommendations

- Wilmar needs to treat this report as a case study on the implementation of its No Deforestation Policy by the two Kencana Agri's palm oil companies in which Wilmar holds stakes.
- Wilmar needs to urgently explain what the criteria are for determining violations of the No Deforestation Policy in the case of palm oil companies in which Wilmar owns stakes, particularly where the clearance of HCS forests is involved.
- Wilmar needs to explain the extent to which it monitors (as a strategic shareholder) the carrying out of palm-plantation development plans by its associates having regard to its No Deforestation Policy, particularly as regards the potential clearance of HCS forests.
- Wilmar needs to explain its plans for those of its associates and suppliers whose permits are new or relatively new and whose concessions are dominated by HCS forests.
- Wilmar needs to explain the trend of accelerated clearance of forested areas, especially HCS forests, by its associates and suppliers ahead of the "deforestation deadline" of 31 December 2015.



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