

SUSTAINABILITY



JOURNAL

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*What traceability
means for Musim Mas:*

FPIC

Walking the

A day in the life

Musim Mas:

Life of a KKPA member:

Independent Smallholders Project:

Dear Reader

The first half of 2015 has been fruitful as we work towards fulfillment of our sustainability commitments. We channelled much effort into tracing the origins of our oil ("What traceability means for Musim Mas: How we are working to meet our stated commitments", p4). We are also actively engaging the industry to provide a landscape-level solution to challenging issues of the day ("Musim Mas: The responsible global citizen", p6).

Our progress is contingent on ingraining best practices at the entire group level. A workshop for internal stakeholders was held to communicate key elements of the policy ("Walking the sustainability talk", p5). We hope to provide an insight into the principle of Free, Prior and Informed Consent ("FPIC on development and conservation", p7).

Notwithstanding the announcement of our Sustainability Policy, the Roundtable on Sustainable Palm Oil (RSPO) stands as the benchmark of industry best practices. A photo-story on the certification process is featured ("A day in the life of the RSPO certification auditors", p8-9).

In cognisance of the importance of smallholders to our supply chain, we wish to share how our smallholder scheme has transformed the life of a member ("Life of a KKPA member: Story of a smallholder", p10-11). We also wish to share an exciting collaboration with a member of the World Bank Group ("Independent Smallholders Project: Musim Mas joins hands with IFC", p2-3).

I hope you enjoy reading this issue of our journal. 🌱

Executive Chairman
Musim Mas Group



Independent Smallholders Project:

The independent smallholder representative addressing guests.

Musim Mas joins hands with IFC

"These independent smallholders are not contractually bound to supply fresh fruit bunches to us. However, we decided to proceed with this project based on its merits of bringing benefits to local communities. This will ensure the inclusion of smallholders in the supply chain."

T.K. Lim, Musim Mas' Director of Strategy and Planning

On 10 June 2015, Musim Mas and International Finance Corporation (IFC) – a member of the World Bank Group – formally announced a collaboration to provide independent smallholders with the agronomic, legal, and business training they need to achieve certification and to improve their access to finance. This project is part of IFC's broader strategy to support and catalyse sustainable private sector involvement in inclusive economic growth and help lift people out of poverty.

In April 2011, following extensive global consultations, the World Bank and IFC announced a formal strategy to engage the palm oil sector – a sector that is important for global food security and development impact. IFC wants to engage selectively with key private sector partners throughout the industry's supply chain, especially partners who can demonstrate good management practices in environmental and social sustainability as well as community and smallholder engagement. IFC aims to develop a viable business model for the production of sustainable palm oil for independent smallholders in Indonesia by linking independent smallholder farmers to supply Certified Sustainable Palm Oil (CSPO) into higher value supply chains.

Explaining IFC's decision to work with Musim Mas, IFC Program Manager, Ernest E. Bethe II, said that "Musim Mas is the first company to be both Indonesian Sustainable Palm Oil (ISPO) and Roundtable on Sustainable Palm Oil (RSPO) certified. Its commitment to legality and environmental sustainability is strong and clear."

The project aims to improve all aspects of the smallholders' farming situation. It will start with identifying the issues and challenges faced by palm oil smallholders in Indonesia, especially independent smallholders. The ultimate goal is to develop a comprehensive case study that will be widely disseminated to spur similar projects elsewhere. The project will be implemented in Rantau Prapat, North Sumatra, Indonesia.

Independent smallholders are often most vulnerable to regulatory changes and are in a precarious situation of being left behind in an evolving market dominated by certified oil. The increasing demand for sustainable palm oil has prompted major palm companies to obtain necessary certifications. Unlike schemed smallholders, independent smallholders usually receive little or no support for



A smallholder raising a query during the 'Question and Answer' segment of the event.

their farming endeavours. They suffer from very limited agricultural support and lack of technical knowledge. Obtaining certification has thus far been a distant dream.

The project aims to bring these independent smallholders up to efficient farming standards adopted by large palm oil organisations. They will undergo agronomic training, obtain access to financial support and global markets, familiarise with all laws and regulations relevant to their business and obtain training on how to monitor and measure performance. This project will close the gap between current practices and those required for certification.

"These independent smallholders are not

contractually bound to supply FFBs to us. However, we proceeded with this project based on its merits of bringing benefits to local communities. This will ensure the inclusion of smallholders in the supply chain", said T.K. Lim, Musim Mas' Director of Strategy and Planning.

The costs of the project will be borne by Musim Mas and IFC. Thousands of independent smallholders are expected to benefit from the project. With the project's successful implementation, its model can be extended to other groups of independent smallholders. Musim Mas looks forward to improving these smallholders' livelihoods and is glad to help them stay relevant in the changing palm oil landscape. 🌱

What traceability means to Musim Mas:

HOW we are working to meet our stated commitments

There has been much discussion on the impacts of the palm industry. Proponents would point to palm's versatility and land efficiency, especially its far superior yield per hectare relative to any other oil bearing crop. Furthermore, its role in job creation and poverty alleviation are often quoted as positive attributes of the crop. Critics of palm oil on the other hand, point its link to deforestation and hence climate change.

Musim Mas is fully cognisant that only through responsible policies which take into account of the above, can oil palm be sustainably produced. The Group Sustainability Policy added clarity to its conservation parameters, with the gist on the creation and management of a conflict and deforestation-free supply chain. This means that the Group needs to ensure that all its suppliers are adopting sustainable practices by end-2016.

To ensure the integrity of its supply chain, Musim Mas uses traceability as a tool to map its supply chain and filter the high-risk suppliers. Traceability is not sustainability. Traceability serves only as an essential


precursor to achieving a fully sustainable supply chain, as the raw materials used in the Group's downstream operations are often sourced from third-parties.

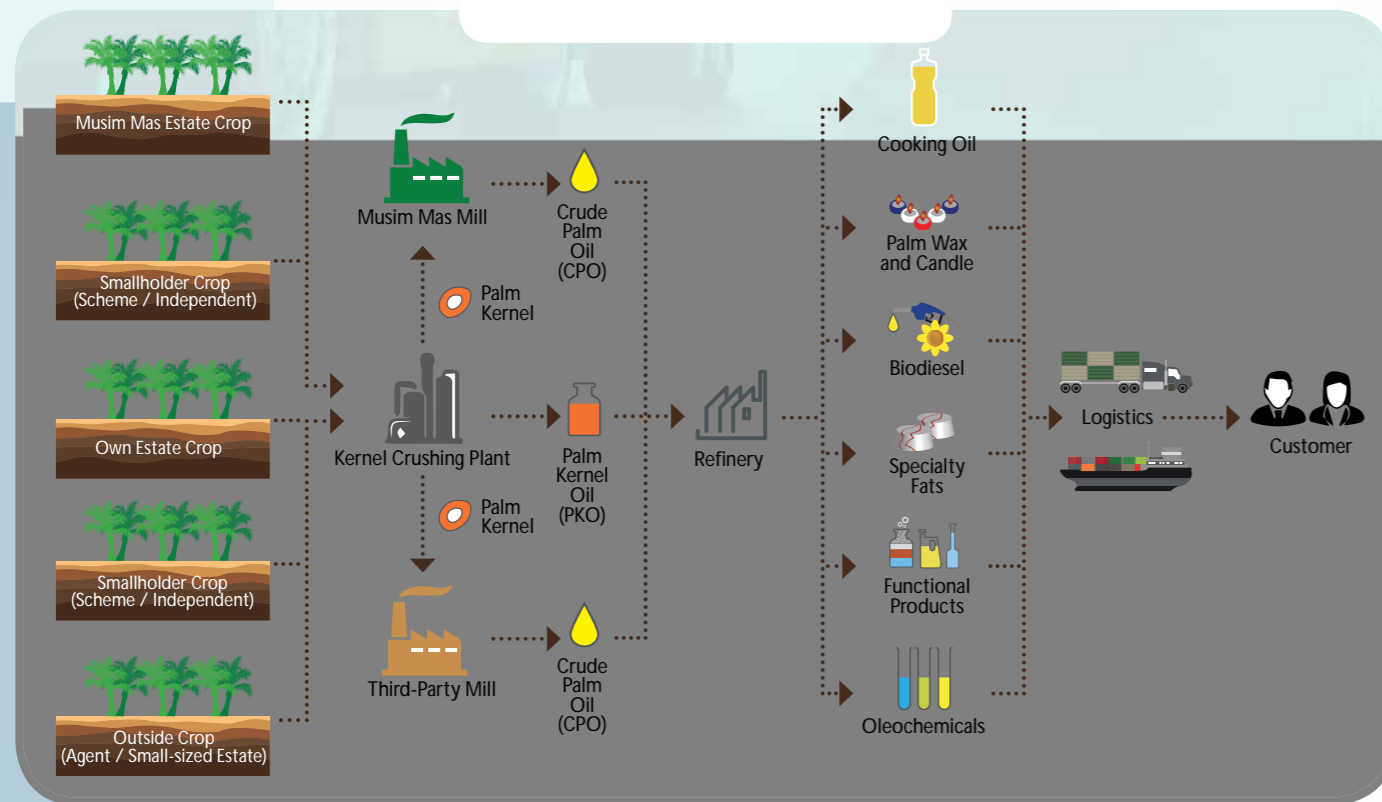
Most of the first phase of Group's traceability exercise has been completed with 99% of oil used traced to the source palm oil mills. The remaining will be completed well before the end of 2015. The Group Sourcing Policy will be reviewed to align with its commitments, in hope to achieve 100% traceability at all times, given that sources of supply are constantly changing.

The second phase of traceability will focus on mapping the source of Fresh Fruit Bunches (FFB) crops back to the plantation. In practice, this is a complex issue as the industry works in a fragmented market. A mill will often have a mixed source of FFB supply, for instance, FFB from its own estates coupled with supplies from scheme smallholders, small independent estates, independent smallholders or from traders who deal in FFB from yet another mixture of suppliers. A mill can sometimes have more than 50 to 60 suppliers and the Group has 455 mills to date.

In addition, the level of agricultural practices and the decision-making process to manage the land are also very different for each mill. Each mill will require a customised approach for a successful traceability exercise.

Moreover, suppliers will sometimes hesitate to share information on the source of their supplies. Others will try to obtain incentives for such information. Oil produced from suppliers who do not meet supply standards, whilst boycotted by responsible companies, may still find its way via traders who are not sustainability-minded. The Group believes that positive engagement with these suppliers is the best way forward to guide and influence them to adopt sustainable practices. This approach also requires concerted efforts by other stakeholders especially the government and non-governmental organisations.

In view of this complexity, careful planning is necessary. Furthermore, time and patience will be needed to fulfil all the necessary conditions for full sustainability. Musim Mas is currently embarking on this second stage of traceability. 



Walking the Sustainability talk

The Group has always appreciated that a successful sustainability journey starts with the internalisation of core sustainability principles that are translated into its daily business. As a refresher on Musim Mas' commitments, a workshop was recently organised. The Group's marketing personnel from its Asian, American and European offices attended the session. The main objective was to reiterate its sustainability commitments and equip marketing with relevant knowledge to value-add to clients, especially since most clients are established corporations with stringent sourcing requirements.



Workshop participants listening intently to the speaker.

The participants were familiar with the gist of the Group's Sustainability Policy. The speaker further shared on the Group's sustainability efforts, as well as dissected the rationale for certain decisions and course of action. The participants also had an insight into the complexities of sustainability work, including the extent of mapping and groundwork as well as supplier engagement for its traceability exercise.

The session had an atmosphere of open sharing; many took the opportunity to voice their concerns so that the participants could brainstorm on solutions.

A participant from the European office raised a point on the need for more industry education to enhance the appreciation for palm oil. Clients in developed markets, especially retailers are concerned with

the palm oil industry's links to social and environmental issues. Much as the Group's business operations are conducted responsibly and ethically, there is a concern that the many merits of palm oil are overshadowed by the adverse light which the industry is often cast in.

One of the marketing personnel shared that there seems to have been a paradigm shift. Clients have changed their emphasis from Certified Sustainable Palm Oil (CSPO) to traceable oil; Benchmarks on this front seem to have changed as they provide assurance to clients that the oil they are purchasing is free from conflict or deforestation issues. But there is a need to explain to clients that traceable oil does not equate to sustainability.

Furthermore the market is moving towards

the notion that by default, all palm oil products should meet certain sustainability standards, without the need for additional premium.

The workshop concluded with the participants having enhanced their knowledge on the relevance of sustainability to the marketing function. Musim Mas believes that sustainability needs to be embedded in its business operations. It will continue with the socialisation of its commitments to other internal stakeholders for the Group's progress in an evolving palm oil landscape. 

2015 is a landmark year for the United Nations (UN), as it marks the target deadline for the eight ambitious Millennium Development Goals (MDGs). Since its adoption in year 2000, the MDGs have inspired unprecedented global efforts to meet the needs of the most impoverished. The world has also learned that forward-looking companies can lead the movement for sustainable development by transforming their business models.

With its operations across Asia-Pacific, Europe and US, Musim Mas is part of the global community with a shared global agenda for sustainable development.

Musim Mas: The responsible global citizen

The Group sees its need to uphold its responsibility to interact with the larger environment in an ethical, inclusive and people-centric manner. Its approach is through the continual introspection of prevailing business-as-usual models, striving to build a truly sustainable supply chain which promotes fairness and equality.

Palm oil produced in a sustainable manner, has demonstrated real progress in reducing inequalities, predominantly in rural parts of Indonesia where Musim Mas operates. For example, since year 2010, the Group has embarked on *Kas Desa* projects (Village development projects) in Sumatra and Kalimantan, Indonesia. Musim Mas Group works with the *Kas Desa* villagers to impart knowledge on growing and harvesting oil palm. The profits from the sale of their crops go into the village's general fund that is used for building infrastructure and making general improvement such as road repair and other amenities. These small farmers' earnings have since increased by more than 50% given significant improvement in their



A smallholder loading his freshly harvested fruit bunches onto a wheelbarrow.


productivity and provided a stable source of income.

Beyond these community initiatives, the Group's Sustainability Policy serves as the holistic articulation of its commitment to sustainable development, underpinned by rights and is people and planet-centric.

However one company's lone efforts in creating a sustainable supply chain may not be sufficient; Musim Mas recognises that businesses have to work together with governments and civil societies to achieve transformational breakthrough. Moreover, the Group views with urgency of having the industry work together in tackling issues which are beyond the scope of a single company. For example, it participates actively via the Indonesia Palm Oil Pledge (IPOP) platform. IPOP is a consortium that engages and lobbies the government to extend the essence of sustainability throughout the archipelago nation.

The Group is also looking towards the global

arena by working with intergovernmental organisations such as the International Finance Corporation (IFC) to work on smallholders' issue. The IFC-Musim Mas project aims to develop a case study that can be used as a benchmark for future projects by the Group.

Backed by principles of inclusive economic growth, Musim Mas will continue to identify opportunities that uplift the lives of the communities where it operates. 

FPIC

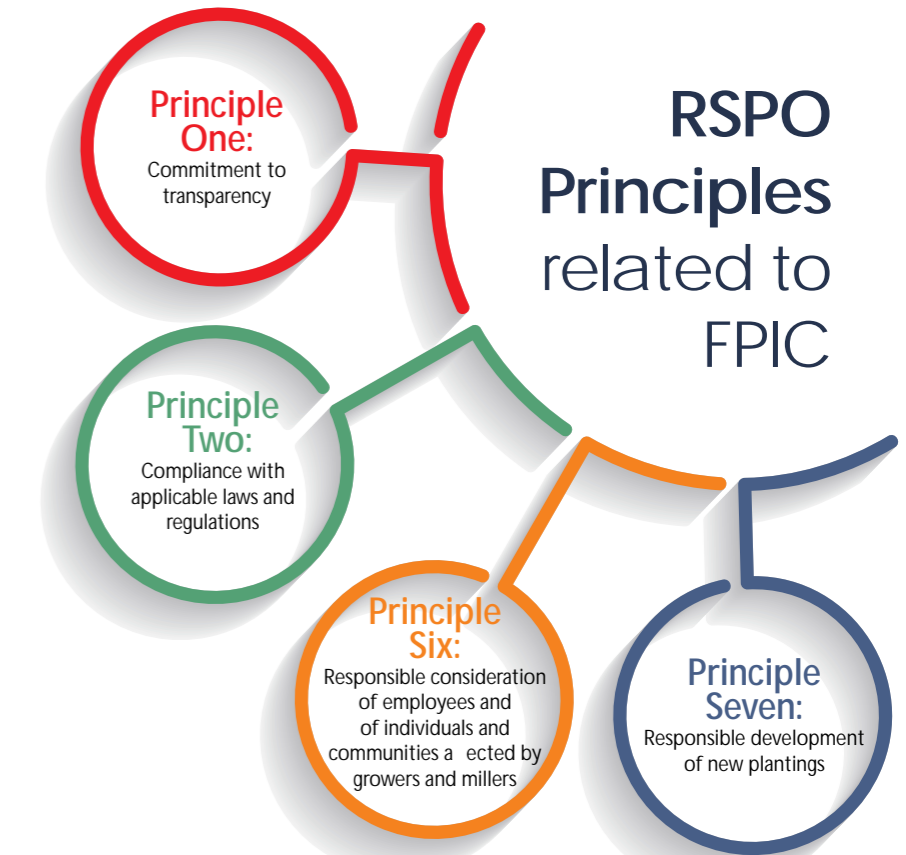
on development and conservation



The principle of Free, Prior and Informed Consent (FPIC) has its roots in the recognition of the right of indigenous and local communities to ownership of their land and natural resources; this points to their right to give or withhold consent to third-party developments or conservation. With the proliferation of agricultural development across the world and the calls of Non-Governmental Organisations (NGOs) for conservation, much focus has been placed on FPIC due to significant land usage.

FPIC has increasingly been adopted by businesses and NGOs who wish to be socially and environmental sustainable. Some countries, especially those with significant indigenous population, have FPIC factored into their legal framework, though to varying extents. The Roundtable on Sustainable Palm Oil (RSPO) incorporated the FPIC concept into its Principles and Criteria. In the Group Sustainability Policy, Musim Mas included again its commitments to "respecting human rights including the right of indigenous and local communities, families and other land tenure holders to give or withhold FPIC for development and conservation of land and natural resources."


The Group's standard practice prior to any proposed planting is to identify and map legal, customary and other user rights. This is followed by engaging land owners with the proposed development details, environmental and social impact assessment results and discussing the proposal in detail including the process of compensation and benefit-sharing agreements. Land owners can then make decisions based on their customary systems and either provide or withhold consent to development. If necessary, further negotiations will be undertaken.



The entire process is non-coercive, open and inclusive and backed by two-way communication of full information.

On the other hand, the FPIC process on the consent for land conservation can also be challenging as communities will have their views on the development of their land. It is important that any development achieves an optimal balance between community development, conservation of natural values, as well as economic benefit and viability. In certain cases, communities viewed the conservation of areas determined under a High Carbon Stock (HCS) assessment as a forced process and incomprehensible. Therefore FPIC plays an important role in a land-use plan

that identifies environmentally and socially responsible development, with community use and forest conservation zones. As a member of the HCS Steering Group, Musim Mas discusses this principle and looks at how best a socially responsible development can be achieved without undermining the environmental values and natural capital.

In the event of a grievance, a rigorous and neutral grievance mechanism will be essential in providing resolutions. All complaints must be received and properly investigated. Decisions made must be presented to all concerned parties. 

A day in the life of the RSPO certification auditors



The Group has committed to achieving RSPO certification for newly acquired mills within three years.

The Roundtable on Sustainable Palm Oil (RSPO) was established in 2004 as a multi-stakeholder approach to meeting an evolving demand for palm oil to be produced in a more socially and environmentally appropriate manner. The RSPO has now become the key industry standard, with its Principles and Criteria (P&Cs) routinely applied by more than 2,000 members.

Palm oil producers are assessed based on the stringent P&Cs and undergo verification by accredited certification bodies to attain RSPO certification. Growers of palm are assessed against a stipulated set of process requirements to attain certification which is valid for five years; thereafter, an annual assessment is undertaken to ensure continued compliance to the standard. Organisations which use 'RSPO Certified Sustainable Palm Oil' in their supply chain are audited.

While attaining certification allows Musim Mas to gain access to global markets, RSPO certification is not the end in itself. Musim Mas is going beyond the RSPO certification with its Sustainability Policy that extends to its global operations and third-party suppliers.

As part of its Sustainability Policy, the group has committed to achieving RSPO certification for newly acquired mills within three years. The Group's mill, *PT Guntung Indamannusa* (GIN) in Riau Province, Indonesia which was acquired in 2013, recently passed the RSPO audit and successfully attained certification on 1 June 2015, well in advance of the deadline.

The RSPO certification audit process:



1. Opening meeting between auditors and company: A presentation is given by the company's managers on the updates in the last five years.




2. Field audit: Assessment is done on agricultural best practices, High Conservation Value (HCV) areas, waste management and environmental safety among other audit requirements. The auditors also interview workers to find out more on workers' welfare issues.



3. Document audit: Review of paperwork against RSPO requirements.



4. Closing meeting: Auditors present results and conclude the audit. 

Story of a smallholder

A

One of his daughters is pursuing her medical degree, paid by Pak Amir.

What brought about this change?

In 2000, Musim Mas started a primary cooperative credit scheme as a Corporate Social Responsibility project. *Kredit Koperasi Primer Anggota (KKPA)* was first introduced in Sorek, Riau, Indonesia, to empower local communities to achieve the necessary technology and skills in palm oil cultivation. Practical support is provided to members including bank loan guarantees, agricultural training, transfer of quality seeds and fertilisers.



KKPA management from Musim Mas in discussion with Pak Amir and his wife.

voluntarily prior to the 2007... establishes the establishment of... the palm oil companies.

is one of the first companies... with the local community. He... looked back since. Through

socialisation and support provided by the management, the members grew confident and did well. Their oil yield improved and they earned more.

"KKPA members benefited a lot of from the scheme. We earn more these days and we even have balance for savings. The infrastructure has also improved tremendously. In the past, we will only visit the market once a week as it is too far by foot or bicycle. Now, we can go to the market daily via motorcycle and car for fresh produce as the roads have been developed and we have enough savings to buy a motorcycle or a car."

As a Chief administrator of KKPA *Merbau Sakti*, Pak Amir muses that had it not been for the scheme, life would have been extremely difficult when his three children came along. He takes great pride in the RSPO certification for the KKPA which means they have achieved stringent standards. Though achieving the certification has had its share of challenges, the members are glad to be part of the efforts on conserving the biodiversity around them.

Mr Budi Hariyono, Musim Mas KKPA Senior Head Assistant said, "It is still a challenge when it comes to changing the mindset or habits of the local communities to comply with legal requirements, but we will always explain the reason until they understand the situation fully."

Pak Amir says that joining the KKPA scheme not only improved

his life, but also vastly improved his knowledge. He now better understands the symbiotic relationship between humanity issues and the environment. The local communities also have better understanding on how closely connected they are with the biodiversity with better management of their plantations and recognition of the importance of sustainability. All the members have come to understand how closely connected good management of the land is with biodiversity and sustainability.

Having personally benefited from the KKPA scheme, Pak Amir relates strongly to new members. He helps the management to guide them in their agriculture efforts and looks forward to more people benefiting from the scheme. ▲▲



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Headquartered in Singapore, Musim Mas operates globally across the palm oil business spectrum. Its activities run the gamut of the palm oil supply chain: from managing oil palm plantations to refining crude palm oil and manufacturing value-added products. It also has a fleet of ship tankers and barges that enhances its logistical capability. The Group has operational presence in 12 countries across Asia-Pacific, Europe and the US, backed by a multi-national workforce of 28,500 people. Musim Mas, a pioneer member of the Roundtable on Sustainable Palm Oil (RSPO), is committed to doing business in a socially responsible and environmentally friendly manner.

This newsletter is published by Musim Mas. Comments and suggestions are welcomed. Please contact the sustainability team at sustainability@musimmas.com or visit our website at www.musimmas.com