



Reporters' Memo

June 8, 2016

New Report Finds Food Giants PepsiCo, Indofood Linked to Child Labor, Poverty Wages, and Worker Exploitation

Field investigations on Indofood-owned palm oil plantations expose egregious labor rights abuses in Indonesia

What is the scope and scale of this report?

The groundbreaking report, titled "[The Human Cost of Conflict Palm Oil: Indofood, PepsiCo's Hidden Link to Worker Exploitation in Indonesia](#)," is one of the first in-depth, investigative reports on the working conditions of Indonesian palm oil plantations.

- Through months of field investigation and direct interviews with workers, RAN, OPPUK, and ILRF's labor report exposes egregious labor abuses on two palm oil plantations which are linked to PepsiCo through its joint venture partnership with Indofood.
- The palm oil plantations investigated are located in North Sumatra, Indonesia, and are operated by the subsidiary of Indofood, PT. PP London Sumatra Indonesia Tbk. (Lonsum)
- PepsiCo and Indofood are behemoths in the food industry, with huge supply chain impact. PepsiCo, the largest globally distributed snack food company, is a major purchaser of palm oil, using 470,045 metric tons of palm oil in 2014 alone.
- PepsiCo's joint venture partner Indofood is one of the largest palm oil growers in the world, the biggest food company in Indonesia, and the sole maker of PepsiCo branded products in Indonesia.

What are the key findings of this report?

The investigation specifically found that:

- Egregious labor abuses were documented on Indofood palm oil plantations, including child labor, exposure to highly hazardous pesticides, payment below the minimum wage, long-term reliance on temporary workers to fill core jobs, and suppression of independent labor union activity, among other findings.
- Children worked on Indofood plantations as *kernet* workers, helping harvesters collect loose fruit and meet high quotas. Child labor on palm oil plantations is considered a "worst form of child labor" because it can involve exposure to pesticides, extreme weather, long hours, and carrying heavy loads, and is not to be carried out by any person under the age of 18 according to international and Indonesian law.
- Indofood heavily relied on filling core plantation jobs with workers hired on a short-term or casual basis. There were also many workers working on the plantation with no direct employment relationship to the company - these workers were often women and children. This is known as precarious work.

- Workers employed precariously on Indofood plantations had no job security, earned as little as half or less the pay than permanent workers, usually paid for their own safety equipment and health care, and often faced increased health and safety risks.
- Indofood paid its workers unethically low wages. Permanent and casual workers on one plantation earned below the district's minimum wage. Casual and status-less workers did not receive wage slips or have written contracts and reported earning between 20 to 75 percent below the district monthly minimum wage for permanent workers.
- Indofood did not provide adequate health and safety protections, and women workers faced disproportionate risks. Paraquat, a highly toxic herbicide that is banned in the EU and several other countries, was in use on plantations, and Indofood itself reports using 21,000 liters of Paraquat in 2015.
- Many workers worked without adequate protective gear and no health insurance. Multiple workers reported that they did not treat conditions arising from accidents on the job due to a lack of access to health care and insufficient funds to pay for treatment.
- Indofood undermined Freedom of Association. Permanent workers at one plantation reported being automatically enrolled in a company-backed "yellow" union and having fees deducted from their salary, without their consent or proper representation. Workers who attempted to engage with an independent union reported being intimidated.
- These findings show that the rights of workers on Indofood plantations are not being upheld in accordance with international labor norms or PepsiCo's palm oil procurement policy.

How is PepsiCo connected, and what does this have to do with its palm oil policy?

- PepsiCo is a laggard among its peers and has a major loophole in its palm oil policy as it does not require its joint venture partner Indofood to meet the environmental and social safeguards outlined in its PepsiCo's latest policy. This means the palm oil used in PepsiCo's products in Indonesia -- the frontline of palm oil expansion, rainforest destruction and human and workers' rights abuses -- is not mandated to meet the requirements of no deforestation, no expansion on carbon-rich peatlands, and no violation of human or workers' rights.
- PepsiCo is a major global user of palm oil and the company has a critical responsibility to break the link between the products it sells and the forest destruction, climate pollution and human and labor rights violations connected to its palm oil supply chain. Currently the snack food giant has only set a business as usual goal of achieving 100% RSPO physically certified palm oil by 2020. This lags far behind the goals set by other companies, such as Mars, Kellogg's, Hershey's and others.
- As its joint venture partner, PepsiCo must require that Indofood to work rapidly to investigate and address labor violations and other Conflict Palm Oil cases in its operations and adopt and implement a responsible palm oil policy

What is significant about Indofood?

- Indofood is one of the largest palm oil growers in the world, the biggest food company in Indonesia, and the sole maker of PepsiCo branded products in Indonesia.
- Indofood is the largest private palm oil company in Indonesia that has yet to adopt a responsible palm oil policy. A responsible palm oil policy requires the production and sourcing of palm oil that is fully traceable, legally grown and verified as not associated with workers' rights or other human rights violations, deforestation, or expansion on carbon-rich peatlands of any depth. This policy must apply to all of Indofood's operations worldwide including the subsidiaries, refineries, mills and plantations that it owns, manages, or invests in, regardless of stake, and in order to meet the new market standard, Indofood must require its third party palm oil suppliers to meet the same responsible production standard.
- Nestlé, Unilever and Procter & Gamble—three global brands similar to PepsiCo—and several key palm oil traders including Wilmar International, Golden Agri Resources, and Musim Mas Group, which are all business partners and customers of Indofood, have adopted responsible palm oil commitments to produce and source palm oil that is not associated with the violation of labor rights, deforestation, expansion on carbon-rich peatlands, or the violation of human rights. These companies must each take action to ensure that Indofood improves its practices to comply with these higher standards or reconsider their business relationship with Indofood.
- The Norwegian Government Pension Fund, the world's largest sovereign wealth fund, recently chose to divest from First Pacific Company, as the controlling entity of Indofood and Indofood Agri Resources, reportedly due to its poor environmental and social track record in its palm oil plantations. Other Indofood investors include Japanese-based Sumitomo Mitsui Financial Group, Bank Mizuho, and the Bank of Tokyo-Mitsubishi UFJ; European-based HSBC, Royal Bank of Scotland, Rabobank, Standard Chartered, BNP-Paribas and Deutsche Bank; and US based Citibank and JP Morgan Chase. RAN is looking to these investors to engage directly with Indofood and condition any future financing on Indofood working rapidly to investigate and address the labor violations and other Conflict Palm Oil cases in its operations and adopt and implement a responsible palm oil policy

What are the recommendations following this report?

- "PepsiCo must take bold action to address the abuses in its supply chain. Any serious responsible palm oil commitment must include Indonesia, the world's largest palm oil producer and the country most greatly impacted by rainforest destruction and human rights abuses caused by palm oil plantation expansion. In light of the egregious conditions on Indofood plantations detailed in the recent report, PepsiCo must do better."



- As a matter of great urgency, PepsiCo must fix the loophole in its current policy by requiring that Indofood comply with the all principles of its policy on a rapid timeline, as well as work rapidly to remedy the labor violations outlined in this report, resolve other outstanding Conflict Palm Oil cases, and adopt and implement a truly responsible palm oil policy that requires the production and sourcing of palm oil in accordance with the *Free and Fair Labor in Palm Oil Production: Principles and Implementation Guidance (Fair Labor Principles)*.
- “As such a major employer in the country, the Indonesian government should enact specific labor laws to protect palm oil plantation workers, who face unique and heightened risks from their geographic isolation. Specifically, urgent attention needs to be paid to those workers most at risk and least protected—women workers and child laborers—who perhaps suffer the most under the high quota system and unethically low wages.”
- Full recommendations are available on pages 34-38 of the report.