

THE HUMAN COST *of* CONFLICT PALM OIL



Indofood: PEPSICO'S HIDDEN LINK TO WORKER EXPLOITATION IN INDONESIA

EXECUTIVE SUMMARY



The destruction of rainforests, the stealing of local communities' and Indigenous Peoples' lands, and the massive greenhouse gas emissions caused by the draining and burning of peatlands for the production of Conflict Palm Oil have all made frequent international headlines in the last few years. However, the working and living conditions of laborers on palm oil plantations are rarely closely examined or discussed.

Geographically isolated, and with little social or economic mobility, most palm oil workers' stories stay confined to the remote plantations where they live and work. Increasingly, a number of recent reports from civil society, independent researchers, and journalistic investigations have shed a light on the concerning conditions faced by palm oil workers. These reports highlight a pattern of egregious labor violations on palm oil plantations across the globe.¹

Conflict Palm Oil is palm oil which has been produced illegally or under conditions associated with labor or human rights violations, ongoing destruction of rainforests, or expansion on carbon-rich peatlands.² The numerous issues with Conflict Palm Oil have been increasingly spotlighted, which has spurred many companies throughout the palm oil supply chain to adopt responsible palm oil policies. These policies outline commitments to produce and source palm oil that is not

associated with the violation of workers' rights, deforestation, expansion on carbon-rich peatlands, or the violation of human rights. As the largest globally distributed snack food company in the world, and a major purchaser of palm oil, PepsiCo is one such company to recently adopt a policy.

After much pressure from consumers and civil society alike, PepsiCo adopted a revised palm oil policy that outlines responsible palm oil production practices for its suppliers in September 2015. On workers' rights issues, it specifically states that PepsiCo's palm oil suppliers must, "Adhere to the Universal Declaration of Human Rights, be in basic compliance with applicable laws, prohibit forced, compulsory or child labor, follow ethical recruitment practices, respect freedom of association, [and] recognize the rights of all workers including temporary, migrant, and contract workers."³

While the language reads strongly on respecting workers' rights, as well as protecting High Carbon Stock Forests and peatlands, unfortunately PepsiCo's policy contains a loophole: it does not require its joint venture partner, Indofood — one of the largest palm oil growers in the world, the biggest food company in Indonesia, and the sole maker of PepsiCo products in Indonesia — to meet the same requirements for the palm oil it uses to make PepsiCo's products.⁴

This omission means that the palm oil produced and sourced by Indofood to make PepsiCo-branded products in Indonesia is not required to meet the same environmental and social safeguards as PepsiCo products made directly by PepsiCo. In order to understand the impact of this exclusion on palm oil workers, a team of researchers investigated the living and working conditions of laborers on two palm oil plantations that are owned and operated by PepsiCo's joint venture partner Indofood, under its subsidiary plantation company PT PP London Sumatra Tbk's (Lonsum), located on the island of Sumatra in Indonesia.

Investigations were conducted in September and October 2015 by a team of researchers through one-on-one interviews with workers; examination of workers' documents such as pay slips, letters and work agreements; and on-site observation of workers performing their work duties, workers' living conditions and the plantations' amenities. Forty-one Indofood workers were individually interviewed for this investigation.

KEY FINDINGS FROM THE INVESTIGATION INCLUDE:

1. Indofood⁵ categorized many of its long-time workers as temporary and placed them at heightened risk through precarious employment practices.

- » Indofood utilized several kinds of precarious, or non-standard, forms of employment practices to employ workers who performed core plantation work on Indofood plantations, including harvesting, gathering loose fruits, and applying pesticides and fertilizers. These workers had no job security, earned as little as half or less the pay than permanent workers, sometimes paid for their own safety equipment and health care, and faced increased health and safety risks.
- » Twenty of 41 workers interviewed (49%) were precariously employed as casual workers, limited-duration contract workers, or *kernet* workers — informal workers who help harvesters meet their quotas but have no direct employment relationship with the company.

2. Indofood paid its workers unethically low wages.

- » Indofood paid permanent and casual workers at one of the plantations below the district's minimum wage. This wage was set through a collective bargaining agreement, which workers reported that they had no role in negotiating and was never explained to them by union leadership.
- » Casual daily and *kernet* workers, who were not provided with written contracts or wage slips, reported regularly making between 20% to 75% less than the district monthly minimum wage for permanent workers.

3. Children worked on Indofood plantations.

- » Children were observed working on Indofood plantations. One 13 year old worker and two 16 year olds were interviewed, as well as one 19 year old who reported working on the plantation since he was 12 years old. All were working indirectly for the company as *kernet* workers, or helpers to harvesters.
- » Harvesters reported having to bring *kernet* workers, who are often children or their wives, to meet their quota and earn bonuses to supplement their low base salaries. Nine harvesters reported choosing to hire children or bring their wives or family members as *kernet*.



A YOUNG KERNET WORKER PUSHES A HEAVY LOAD OF FRESH FRUIT BUNCHES ON INDOFOOD'S PLANTATION.

4. Indofood did not provide adequate health and safety protection for many workers, and casual maintenance workers were exposed to highly hazardous pesticides.

- » Pesticide spraying and fertilizer application were predominantly carried out by casual maintenance workers, many of whom are women. Most of these workers lacked adequate health and safety equipment and access to health care.
- » Three workers at one of the plantations reported having used the pesticide Gramoxone which contains Paraquat, a highly hazardous herbicide that is banned in the EU and several other countries. Indofood reported using 21,000 liters of Paraquat on its plantations in 2015.⁶
- » All but one casual worker reported only receiving some safety equipment from the company and purchasing other basic equipment such as shoes and gloves at their own expense. None of the *kernet* workers interviewed were provided with any equipment at all.⁷
- » All casual and *kernet* workers reported having no health insurance and limited access to the on-site company clinic. Two casual 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.

5. Indofood undermined Freedom of Association

- » Permanent workers at the Indofood plantations visited reported being automatically enrolled in a company-backed “yellow” union and having fees deducted from their salary, without their consent or proper representation. “Yellow” unions are worker organizations which are dominated or influenced by an employer and are deemed unlawful under international labor law.
- » Workers who attempted to engage with an independent union reported being intimidated.

PepsiCo and Indofood may not be fully aware of the practices outlined in this report, nor condone them. Nevertheless, these findings show that the rights of workers on the plantations of Indofood's subsidiary are not being upheld in accordance with international labor norms, the UN "Protect, Respect and Remedy" Framework for Business and Human Rights, or PepsiCo's palm oil procurement policy. Despite any lack of previous knowledge, both Indofood and PepsiCo are responsible for ensuring human rights are respected in their direct business operations as well as in the operations of their business partners and suppliers as outlined in the UN Guiding Principles on Business and Human Rights.

To begin, PepsiCo must fix the loophole in its current policy by requiring that Indofood comply with the all principles of its policy. PepsiCo and Indofood must work rapidly to investigate

and address the labor violations outlined in this report as well as other outstanding Conflict Palm Oil cases.⁸ Both companies should adopt and implement truly responsible palm oil policies that require 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)*.⁹ The *Fair Labor Principles*, which were developed by a broad coalition of civil society organizations from Indonesia, Malaysia, Liberia, the United States and Europe, provide a common point of reference for what constitutes free and fair labor in palm oil production, based on the International Labor Organization Core Conventions and the UN Guiding Principles on Business and Human Rights.

TWO MEN LOAD FRESH FRUIT BUNCHES, EACH WEIGHING UP TO 25 KG, INTO A TRUCK ON INDOFOOD'S PLANTATION. NEITHER WEAR PERSONAL PROTECTIVE EQUIPMENT.



INDOFOOD AND PEPSICO WERE GIVEN THE OPPORTUNITY TO RESPOND TO THE KEY FINDINGS OF THIS REPORT PRIOR TO PUBLICATION.

PepsiCo stated that its 2015 Palm Oil Action Plan demonstrates that it is:

“Upholding a commitment that palm oil producers in [its] supply chain must adhere to the Universal Declaration of Human Rights, must be in basic compliance with all applicable laws, are prohibited from forced, compulsory or child labor, must respect freedom of association, and must recognize the rights of all workers.”

PepsiCo said that the company takes these commitments and any labor and human rights concerns raised very seriously and that the company has **“strong human rights policies in place”** and **“clearly has a history of appropriately engaging on such matters”**.

Indofood declined to comment on the findings of this report. Instead the company stated that:

“As far as the IndoAgri is concerned, the IndoAgri has complied with all Indonesian laws and regulations [sic].”

In its 2015 Annual Report,¹⁰ Indofood stated that it **“is committed to responsible employment practices, and to develop the skills, knowledge and welfare of its people.”** The company also stated that: **“Employee safety and health are key priorities at Indofood, and our commitment to a safe and healthy workplace is outlined in SHE [Safety, Health, Environment] policy, which applies to all operating units.”**

The Annual Report further stated:

“Indofood offers equal career development opportunities to all employees. Employees are hired based on their skills and capabilities, and jobs are assigned regardless of race, religion, gender, or any other individual characteristic. We also strive to adhere to applicable prevailing Indonesian labor laws, such as the elimination of child labor. Our employees are provided with healthcare benefits. Some health care services, such as clinics, annual medical check-ups, and lactated nursery rooms, are available.”