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Palm oil sustainability assessment of Salim-related companies in Borneo peat forests

Commissioned by:

RAINFOREST ACTION NETWORK

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Regnskogfondet
RAINFOREST FOUNDATION NORWAY

Colophon

Report: Palm oil sustainability assessment of Salim-related companies in Borneo peat forests

Commissioned by: Rainforest Action Network, Rainforest Foundation Norway and SumofUs

Date: April 2018

Cover photo: Recently deforested land at Salim related companies
Coordinates:
Left: PT DRM, N0°14'54.77"E111°30'46.80”
Right: PT SKL N0°14'57.15"E111°34'54.16"
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Guidance to the reader

In February 2016, an unpublished report (Aidenvironment, 2015) which described deforestation practices on peatland by two privately owned plantation companies situated in Sintang Sub-District (West Kalimantan, Indonesia), was provided to Rainforest Action Network and Rainforest Foundation Norway.

In March 2018, Aidenvironment provided an update of that original report detailing the recent peatland development practices of the two oil palm companies in question. This updated report highlights how the two plantation companies are associated with Mr. Anthoni Salim and have been operating in clear non-compliance with Indonesian policies and regulations regarding peatland development.

Based on the updated report prepared by Aidenvironment, a Palm Oil Sustainability Assessment Report was drafted by partners involved in the research, including Aidenvironment, Rainforest Action Network, Rainforest Foundation Norway and SumofUs. Aidenvironment compiled the main findings of the field investigations and satellite imagery analysis. The assessment of performance by joint venture partners and financiers and recommendations presented in this sustainability report are the result of a dialogue between the partners who commissioned the study. The content of Chapter 5 and further therefore does not necessarily state the opinion of Aidenvironment.

An earlier version of this report, which included evidence of land development involving peat forest clearance by PT SKL and ongoing deforestation by PT DRM in December 2015, was presented to members of Mr. Salim's management team for due hearing––Mr. Frankie Weilirang (PT Intiboga) and Mr. Samuel Siahaan (Licences Manager, PT Indofood Agri)––in February 2016. During subsequent meetings, the content of the report was not substantively challenged. It was understood that the cases were discussed with Mr. Anthoni Salim, who had reportedly instructed that any operations by the publicly listed companies (IndoAgri, Salim Ivomas Pratama, London Sumatra) comply with Roundtable on Sustainable Palm Oil (RSPO) standards, while other plantation assets must be legally compliant.

A summary of the findings of this report was sent to Mr. Salim, members of his management teams and the executive director of PT Indofood Agri for their response. No response was received from them at the time of writing.

The banks and investors named in this report were also given an opportunity to comment on the findings of this report, and responses have been incorporated in the body of the report.

Executive Summary

This report presents the sustainability impact of two oil palm plantation companies that operate in Sintang District, on the island of Borneo, Indonesia. The plantation companies studied are PT Duta Rendra Mulya (PT DRM)––which is majority owned by Mr. Anthoni Salim––and PT Sawit Khatulistiwa Lestari (PT SKL)––associated with Mr. Salim through business associates. Field investigations and satellite analysis show that both palm oil plantation companies have continued to clear and drain the only large peat swamp forest in Sintang district, the Ketungau peat swamp, despite new regulations adopted by the Indonesian national government and sustainability policies adopted by associate subsidiaries of the Salim Group, its business partners and financiers. Nearly 10,000 rugby fields have been cleared for planting oil palm within a time span of just five years. Without immediate intervention to both stop further development and to restore the Ketungau peatland, this area––which was until recently an expansive peatswamp forest––will oxidize and ultimately disappear as a result of peatland subsidence, resulting in frequent and prolonged floods and considerable carbon emissions.

Once developed, peat is extremely sensitive to fire, and if it catches, is very difficult to extinguish. Peat fires have been known to burn for months on end, despite efforts, and have been a major cause of the annual haze that envelopes Indonesia, Malaysia and Singapore. Peat development begins an irreversible process of degradation that contributes significantly to global warming through massive carbon emissions. The Indonesian national government, along with nearly three-quarters of all palm oil refiners in the world, prohibits peatland development for the expansion of oil palm plantations. Left intact, peatlands act as a natural “carbon sink”, safely absorbing and storing carbon out of the atmosphere and under ground.

This report shows how the companies studied continue to clear peat forest, disregarding both the law and market demand. This illustrates broader public concern over the plantation business operations of the ultimate beneficiary: Mr. Anthoni Salim, Indonesia’s fourth richest man according to Forbes, and his business associates. Mr. Salim is well known for his ownership of various publicly listed companies (First Pacific, Indofood Sukses Makmur, Indofood Agri Resources, Salim Ivomas Pratama, London Sumatera) but he is also known to hold stakes, often concealed through several layers of ownership, in a host of privately owned plantation companies that continue clearing tropical forest and peatlands.

PT DRM and PT SKL have continued land clearing activities even after early 2016, when Mr. Salim’s management staff was first made aware of the public concerns over the two companies’ deforestation and peatland destruction in the Ketungau peatland. We found that the efforts undertaken by Mr. Salim’s management staff after being notified of these practices––that defy both Indonesian government policies and regulations on peatland development and the global market’s commitment to “No Deforestation, No Peatland, No Exploitation” (NDPE) palm oil sourcing––have failed to deliver change on the ground. Both companies continued to clear more peatland throughout 2017, even after the Indonesian government instructed numerous plantation companies in July 2017 to file their peatland restoration plans to the Ministry of Environment and Forestry. The instruction followed the issuance of clear Presidential policy since Q3-2015, and Government Regulation No. 57 since Q4-2016, which orders plantation companies to stop opening up new peatland within their concessions until the government approved peat maps and management plans.

This report also shows how the director of one of the companies––PT SKL––successfully applied for a crucial change to the Indonesian government’s peatland moratorium map, which turned most of the company’s land bank from “no-go development” into a “go-area”. The approval by the Presidential unit of that time (UKP4) was a direct violation of the May 2011 Presidential Instruction that disallowed government agencies to issue Location Permits over peat areas and primary forests. PT SKL operates on the basis of a Location Permit that was irregularly issued in 2013, according to summary data made

available on a government website, as a Moratorium on the issuance of such permits was already in place at the time. The Presidential Instruction should have resulted in the withdrawal of the PT SKL's permit. Maps prepared by the Indonesian Peat Restoration Agency (BRG) show that 97% of PT SKL's land bank is tagged as "peatlands prioritized for protection". As a matter of urgency, the Ministry of Environment and Forestry should be supported in its efforts to issue a stop-work order, apply available sanctions as per article 40, paragraph (3) of the 2014 peatland regulation (No. 71), and ensure that the companies prepare and implement ambitious peatland rehabilitation plans.

This report recommends that Mr. Salim and his associates immediately stop deforestation and development on peatlands, report legal non-compliance to the Indonesian authorities, and issue a public statement on the corrective actions that will be taken in the Ketungau peat forests. This should include a commitment to stop deforestation and further degradation of the peatlands, and implement measures to immediately mitigate the risk of fires and any further carbon emissions. Mr. Salim and his associates should not delay the adoption of a comprehensive "No Deforestation, No Peatland and No Exploitation" policy that applies to all their plantations businesses––not merely for publicly listed entities––as well as third party suppliers. The Salim Group must be transparent about their involvement in, or associations with, plantation companies and establish a credible grievance mechanism to enable external stakeholders to raise concerns over problematic plantation development directly and more effectively.

Buyers of palm oil from Indofood Agri, as well as companies operating palm oil mills in the vicinity of the Ketungau peat swamp, must stop sourcing from the Salim Group while the Group remains in non-compliance with both the Presidential policies and government regulations of Indonesia as well as their own published policies, as documented in this case study and other NGO reports. Global traders and consumer goods manufacturing companies like PepsiCo, Unilever, Nestlé, Mars, Mondelēz, General Mills, Colgate Palmolive, Procter and Gamble and Nissin Foods must enforce a "No Buy" policy for PT Duta Rendra Mulya (PT DRM) and PT Sawit Khatulistiwa Lestari (PT SKL) to ensure that they will not source palm oil grown at the expense of the Ketungau peatland once the plantations have become productive and oil palm fruit is ready for harvest. Palm oil products produced by PT DRM and PT SKL and the wider Salim Group companies must remain on a "No Buy" list until the Group takes concrete and transparent actions to halt deforestation, protect remaining forests and restore peatlands as instructed by the government of Indonesia, publishes a company-wide "No Deforestation, No Peatland and No Exploitation" policy, resolves existing land conflicts and addresses documented labor violations and can demonstrate verified responsible palm oil production and traceable sourcing practices to the mill and all producers.

Banks and investors that are financing the Salim Group, including its top financiers Bank Central Asia and Mizuho Financial Group, must meaningfully engage with Mr. Anthoni Salim. Financiers must require the Salim Group to immediately address the deforestation and breaches of Presidential policies and Indonesian regulations profiled in this report and demand the Salim Group adopt the policy recommendations outlined above.

1. The Salim Group

Mr. Anthoni Salim is a well-known businessperson in Southeast Asia. According to Forbes, Mr. Anthoni Salim and family rank 4th in Indonesia's Top 50 wealthiest, with total assets valued at $6.9 Billion in 2017.[1] Mr. Salim heads the Salim Group, which is a corporate conglomerate of companies involved in sugar, palm oil, timber, food retail, leisure, telecom, retail, property and banking industries. The Salim Group owns 45.03% of the Hong Kong-listed First Pacific Company Ltd. First Pacific has 50.09% ownership of the IDX-listed PT Indofood Sukses Makmur Tbk (hereafter referred to as Indofood), one of the world's largest instant noodle producers with $5 billion in 2016 sales.

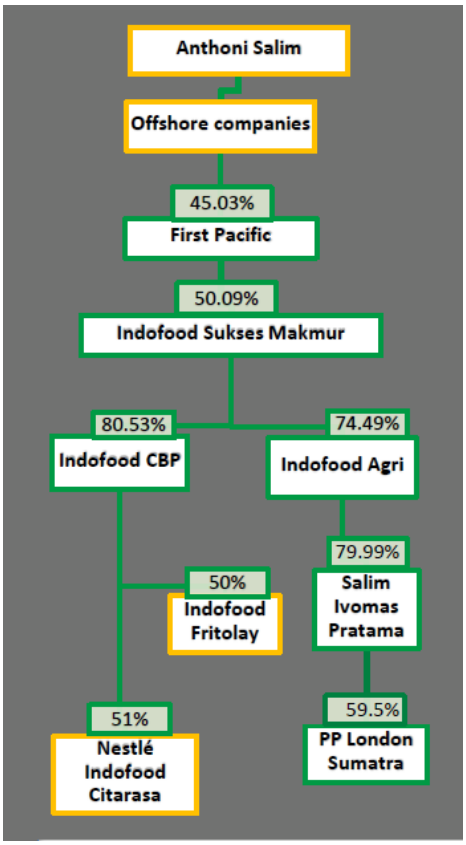


Figure 1 Simplified ownership structure for Indofood (Chain Reaction Research, 2017).[2]

Indonesia's largest food company

Indofood, Indonesia's largest food company, is a vertically integrated company. It produces and processes raw materials, manufactures food products, and distributes/sells consumer products. Indofood's revenue from agribusiness is dominated by the sale of palm oil and its derivatives, such as cooking oil, margarine and shortening. Indofood's involvement in agribusiness is through its 60.5% interest in the Singapore Stock Exchange (SGX)-listed company, Indofood Agri Resources Ltd. (IndoAgri). Both of IndoAgri's operating palm oil subsidiaries––PT Salim Ivomas Pratama (Salim Ivomas) and PT PP London Sumatra Indonesia (Lonsum)––are listed on the Indonesia Stock Exchange (IDX).[3]

Mr. Anthoni Salim

A history of allegations of deforestation and human rights violations by Indofood

Aidenvironment's report, "Palm oil sustainability assessment of Indofood Agri Resources" (2015)[4], concluded that Indofood was exposed to serious financial risk arising from deforestation, biodiversity loss, land disputes and emissions from degraded peatlands.[4] Subsequent reports by Rainforest Action Network (RAN) have also documented ongoing labor exploitation, including poverty-level wages, hazardous working conditions and high risks of child labor and forced labor in its palm oil plantations in North Sumatra.[5]

While Salim Ivomas Pratama and London Sumatra are members of the Roundtable on Sustainable Palm Oil (RSPO), there are serious questions as to whether or not they comply with the RSPO's standards and procedures. There are several complaint cases pending resolution, including the most recent complaint regarding the documented violations of labor rights and over 20 Indonesian labor laws in three plantations in North Sumatra, Indonesia.[6]

Indofood Agri has made public commitments to zero-burning, and to protect primary forests, peatlands and High Conservation Value areas.[7] In early 2017, Indofood Agri made further revisions to its "Sustainable Palm Oil Policy" but the updated policy had critical shortfalls, which resulted in it largely being dismissed by NGOs. Besides Indofood Agri, which is a publicly listed business, Mr. Salim holds stakes in numerous privately owned companies, which are subject to far less public disclosure requirements.

In efforts to address global warming, biodiversity loss and social injustice, NGOs have published various studies that raise concern over the sustainability performance of Mr. Salim's plantation businesses. NGOs have commenced to map out Mr. Salim's interests in contested plantation companies in Kalimantan, Papua and elsewhere. Their findings are published on the Internet.

Mr. Salim has yet to openly respond to escalating concerns about his plantation business practices. In fact, Mr. Salim is one of the last few palm oil CEOs who has yet to commit to implementing a strict policy of "No Deforestation, No Peatland, No Exploitation" to all his plantation business entities.

Salim-related plantations on peatlands and peatforests in Sintang

Publicly listed companies such as Indofood are required to exhibit a high level of public transparency with regards to ownership of assets. However, Indofood is not required to disclose its directors' shareholdings in other privately owned ventures unless there are related party transactions.

In addition to involvement in publicly listed companies, it is a common practice among business leaders in Asia to own stakes directly or through association in privately owned companies or "business-on-the-side". "Association" generally includes significant shareholdings by family members and/or various layers of associate companies.

While there are legitimate reasons for business leaders to operate this way, a business leader's moral consistency comes in question when they control a publicly listed company that has committed to a high level of transparency and reports a commitment to sustainable practices to its investors and clients, while at the same time maintaining associations with other businesses that continue to clear tropical forests and drain critically important peatlands, in violation of "No Deforestation, No Peatland and No Exploitation" policies and Indonesian regulations and Presidential instructions.

This study focuses on Salim-related "business-on-the-side", specifically the oil palm companies PT Duta Rendra Mulya (PT DRM) and PT Sawit Khatulistiwa Lestari (PT SKL). Complex layers of ownership conceal Mr. Salim's control of these companies. PT DRM, is majority-owned by Mr. Salim, while PT SKL is associated with Mr. Salim through business associates.

- **PT Sawit Khatulistiwa Lestari (PT SKL)** is related to Mr. Salim through business associates. PT SKL's majority shareholder is PT Andhika Wahana Putra, a company related to Indomaret, an Indonesian minimarket chain owned by the Salim Group, in which Mr. Salim serves as the Chief Executive Officer and President.

- Mr. Salim's ultimate controlling shareholder over **PT Duta Rendra Mulya (PT DRM)** is concealed under several layers of corporate ownership. This is illustrated in the graph below.

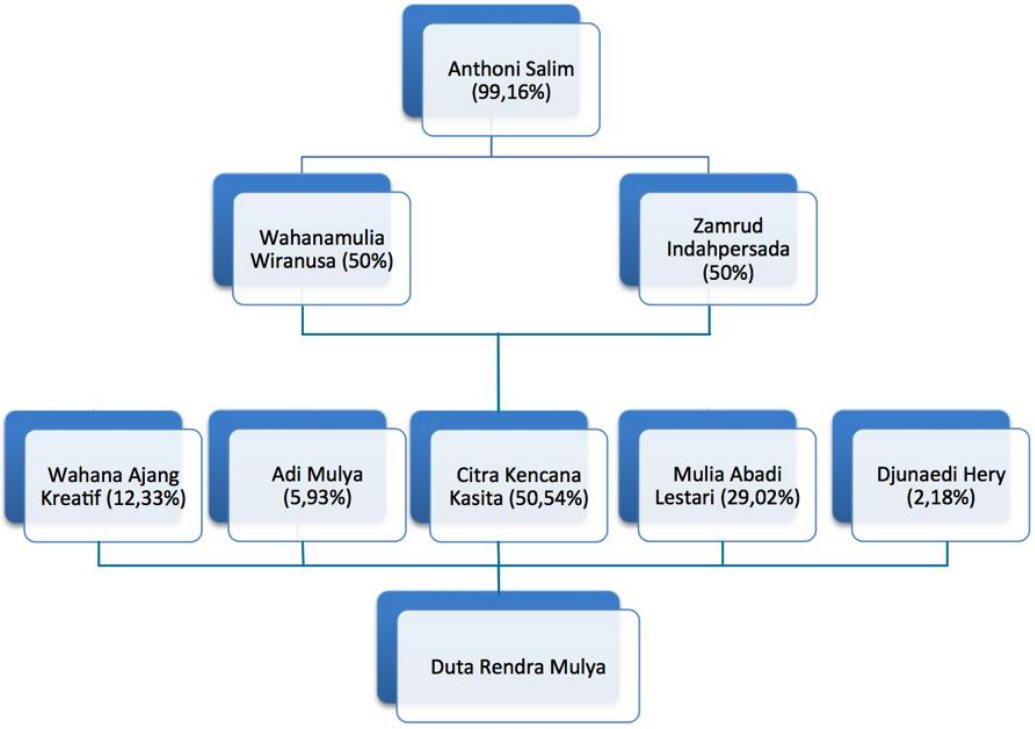


Figure 2 Ownership structure and Linkages of Mr. Salim to PT DRM.

2. Ketungau peat forests, Singtang, Borneo

Locations of Salim-related plantations in Ketungau peat forests

The two Salim-related concessions––PT Duta Rendra Mulya (PT DRM) and PT Sawit Khatulistiwa Lestari (PT SKL)––are located in Ketungau, 20 kilometres northeast of Sintang town, in West Kalimantan, Indonesia. They cover 19,595 hectares in total.

Figure 3 shows the official concession boundaries of both plantations, including the official map showing the extent of peatlands within and adjacent to the plantation concession area. The concession of PT SKL is situated in three different areas. PT DRM contains one area.

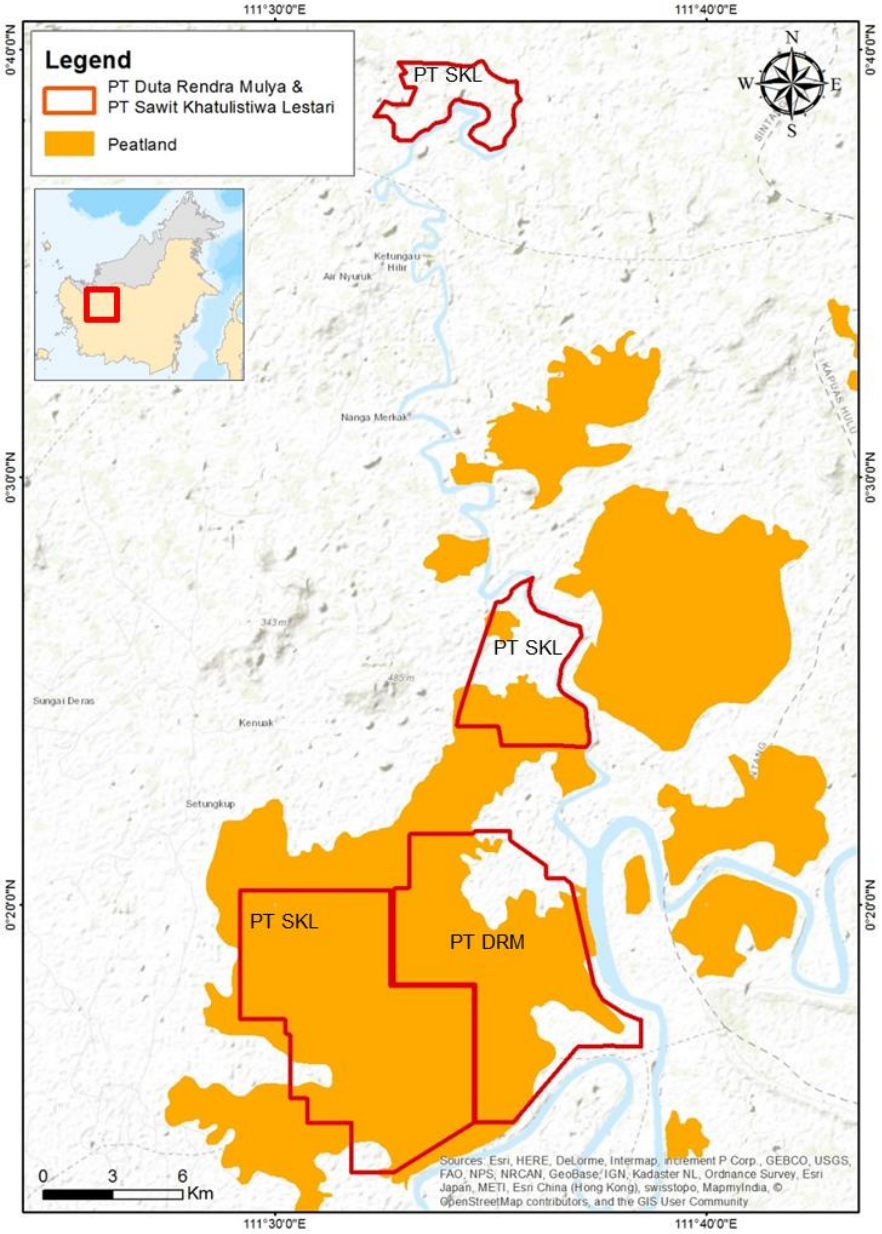


Figure 3 Peatland map and concessions of PT DRM and PT SKL. [8]

Ecological and social importance of the Ketungau peat forests

Until 2012, most land within the boundaries of both the PT DRM and PT SKL concessions (approximately 15,600 ha of 19,600 ha, or 80%) remained as natural forest, including scrubland and peat forests (see *Figure 4* below). This Ketungau peat forest was the largest peat forest in Sintang District. Although the forest had been previously selectively logged, its ecological functions were restoring until a few years ago.

The Ketungau peat forest could have served as a significant carbon sink, habitat for endangered species, a source of livelihoods, and potentially a recreational area for the population of Sintang. Instead, both PT DRM and PT SKL leased the area out for more oil palm expansion.

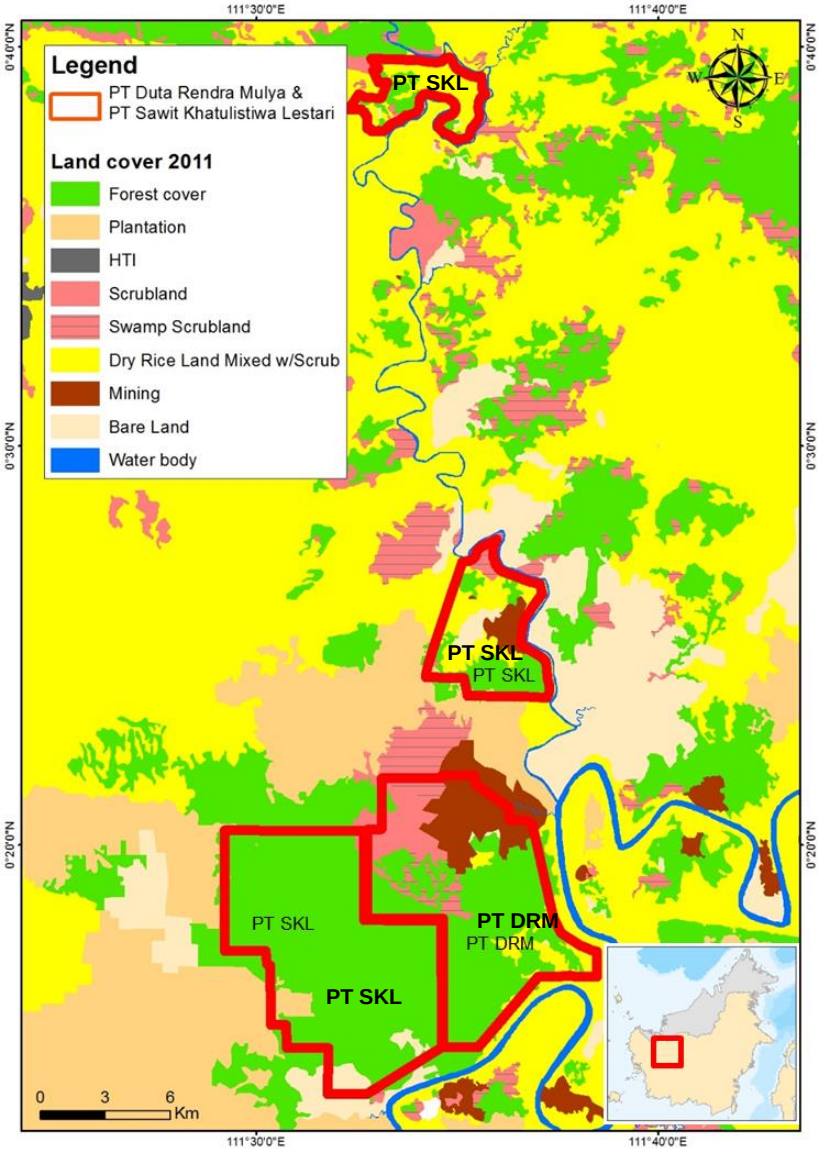


Figure 4 Land cover. [9]

Climate mitigation benefits of protecting and restoring peat forests

Next to the ecological and social importance of protecting the Ketaungau peat forest, there are other important climate change mitigation benefits. Standing forests and undeveloped peatlands act as important carbon sinks, safely sequestering and storing carbon, and aiding in the regulation of global weather patterns.

The Indonesian government, under leadership of President Joko Widodo (or "Jokowi"), has in recent years adopted incrementally restrictive policies and legislation that aim to put an end to rampant annual peatland and forest fires, and to fulfil the nation's commitments to reduce greenhouse gas (GHG) emissions. Indonesia has pledged to reduce its GHG emissions by 29 percent by 2030, against a business-as-usual baseline scenario.[10] This target is ambitious, especially because the land-use and energy sector jointly account for 80 percent of Indonesia's emissions. For example, in 2010, Agriculture and Forestry were responsible for 59 $MtCO_2$ out of a total of 63 $MtCO_2$ emissions in West Kalimantan.[11]

A recent study by World Resources Institute[12] shows that Indonesia's forest moratorium policy has overall the largest mitigation potential to reduce emissions in the country. Stopping the clearing and conversion of primary forests and peatlands could avoid 188 million metric tons of carbon dioxide emissions by 2030. Further, if the current moratorium is extended to include secondary forests, such as forest strata identified through the application of the High Carbon Stock Approach, and removes exemptions for existing licenses, the benefits will double.

The implementation of these government commitments is continually at risk. In 2014-2015, rampant fires produced a haze that blanketed much Southeast Asia, resulting in the loss of lives, a health crisis for communities across Indonesia and in neighbouring countries, and significant economic loss due to the shutdown of businesses and airports across the region. The fires led President Jokowi to issue incrementally stricter directives that banned peatland development for plantation expansion. Plantation companies, those developing land for palm oil fruit production for example, are directly affected by these much-needed regulations. At minimum, the regulations require companies to stop opening up new areas of peatland within their concession areas until their peatland maps were produced and the government authority approves management plans. Failing such, companies could face administrative sanctions, including cancellation of their operation permits by the Ministry of Environment and Forestry.

Figure 5 Land and peat fires put realization of Indonesia's GHG commitments at risk. (photo by RAN)[13]

3. Sustainability assessment

Deforestation on peatlands - November 2017

On November 3 and 4 2017, a field investigation was undertaken of PT DRM and PT SKL operations to determine if deforestation and the clearance of peat forests was ongoing. The investigation was conducted with the help of drone observations. It confirmed earlier analysis that deforestation and construction of drainage networks in peat forest was ongoing in the land bank of both PT DRM and PT SKL.

The drone images show large plots of peat forest that were recently deforested on both PT DRM and PT SKL plantations (Figure 6 and Figure 7).

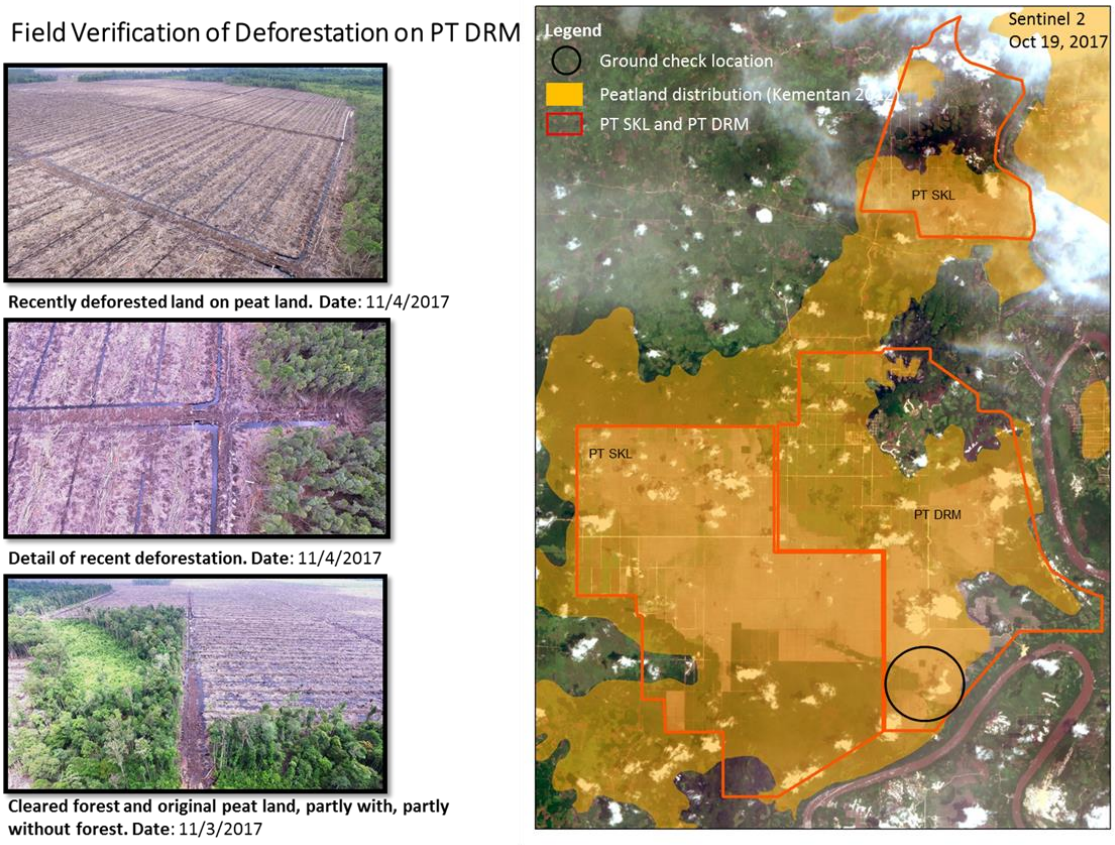


Figure 6 Results drone verification of deforested land on PT DRM. Drone photo coordinates from above to below images: N0°14'57.15"E111°34'54.15", N0°14'57.35"E111°34'55.85" and N0°15'22.98"E111°35'25.29".

Field verification of Deforestation on PT SKL

Original forest, with drainage of peat land.
Date: 11/4/2017

Recently deforested land on peat land.
Date: 11/4/2017

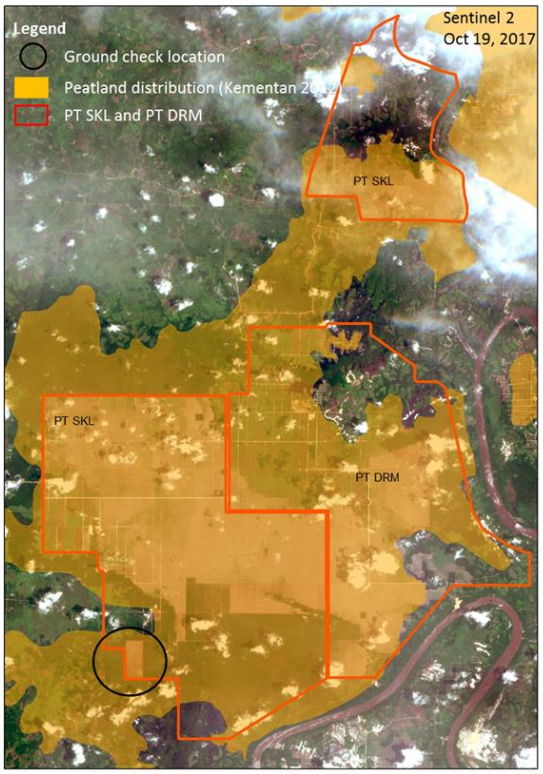


Figure 7 Results drone verification of deforested land on PT SKL. Drone photo coordinates from above to below images: N0°15'28.34"E111°30'38.76", N0°14'54.77"E111°30'46.80" and N0°14'54.76"E111°30'46.80".

Evidence of deforestation in PT Duta Rendra Mulya - 2015

November 2017 was not the first time that field investigators documented deforestation by the aforementioned plantation companies. PT DRM commenced land clearing in April 2013. Ongoing deforestation was documented inside the PT DRM concession area on December 20, 2015.[14]

Figure 8 Deforestation PT DRM in 20 December 2015.

Evidence of peatland clearance in PT Sawit Khatulistiwa Lestari - 2015

PT Sawit Khatulistiwa Lestari commenced socializing its plans to develop its palm oil plantation at the end of 2013 and began clearing land in early 2015. On December 20, 2015, peat forest clearance was documented by field investigators, along with logging and evidence of fires after forest clearance.[15]

Figure 9 Former peat forests in PT SKL concession. Images taken in December 2015. The lower image shows newly planted oil palm seedlings in recently burnt peatland.

Ongoing clearing of Ketungau's peat swamp forest - 2013 – 2017

Most clearing occurred on peatland

A satellite-based assessment[16] of land development on PT DRM and PT SKL shows ongoing deforestation on peatlands from 2013 onwards. In total, the **Salim-related companies opened up 9,668 hectares of land for oil palm expansion. 9, 534 hectares was peatland** (Table 1).

Three types of deforestation and other ecosystem damage have occurred:

1) Cleared forest not on peatland,
2) Cleared forest on peatland, and;
3) Cleared peatland, without forests.

Between October 2015 and October 2017, 1,869 hectares (ha) of forest was cleared in PT DRM, and around 4,483 ha was cleared in PT SKL. Between October 2016 and October 2017, deforestation on both plantations was 772 ha and 1,189 ha respectively. Since October 2016, **99% of deforestation took place on peatland**––1,887 ha of forest on peatland was cleared between October 2016 and October 2017 alone.

Figures of the deforestation since the companies started to open up peatland are provided in Table 1. In Appendix 1 satellite imagery of the two plantations are presented for the period 2012-2017. This also includes detailed imagery of the clearing since July 31, 2017 (based on Landsat 7 and Sentinel-2 satellite imagery, 2017).

	Land cover change (in hectare)			
Clearing by company per year	**Forest clearing on mineral soil**	**Peat forest cleared**	**Peat opened up (no prior forest cover)**	**Grand Total (ha)**
PT DRM				
2017	18	721	33	772
2016	75	1,023	0	1,098
2015	15	458	45	517
2014	0	622	732	1,354
2013	0	3	720	723
Total	*108*	*2,827*	*1,530*	*4,465*
PT SKL				
2017	0	1,166	23	1,189
2016	26	3,267	0	3,294
2015	0	721	0	721
Total	*26*	*5,154*	*23*	*5,203*
Grand Total	**134**	**7,981**	**1,553**	**9,668**
Total (on peat)	**0**	7,981	1,553	**9,534**

Table 1 Deforestation since the establishment of the palm oil plantation.

Most of the clearing occurred on peatlands prioritized by Government agency (BRG) for protection.

In early 2016, the Indonesian Peat Restoration Agency (BRG) was mandated by the Indonesian President to review permits and licenses of peatland management or concession on peatlands that had failed to control peatland degradation and/or fire. To enable this task, BRG compiled and published its indicative peatland restoration map in September 2016. This map presents two categories:

1) Peat areas where controlled cultivation is allowed (*zona budidaya*), provided that the water table is well managed, and
2) Areas that must be prioritized for protection (*zona lindung*).

An assessment undertaken by overlaying BRG's map with the Salim-related concessions shows that most of PT SKL's land bank was identified for protection, whereas about half of PT DRM's peat area was allocated for protection and the other half for controlled cultivation (Figure 10).

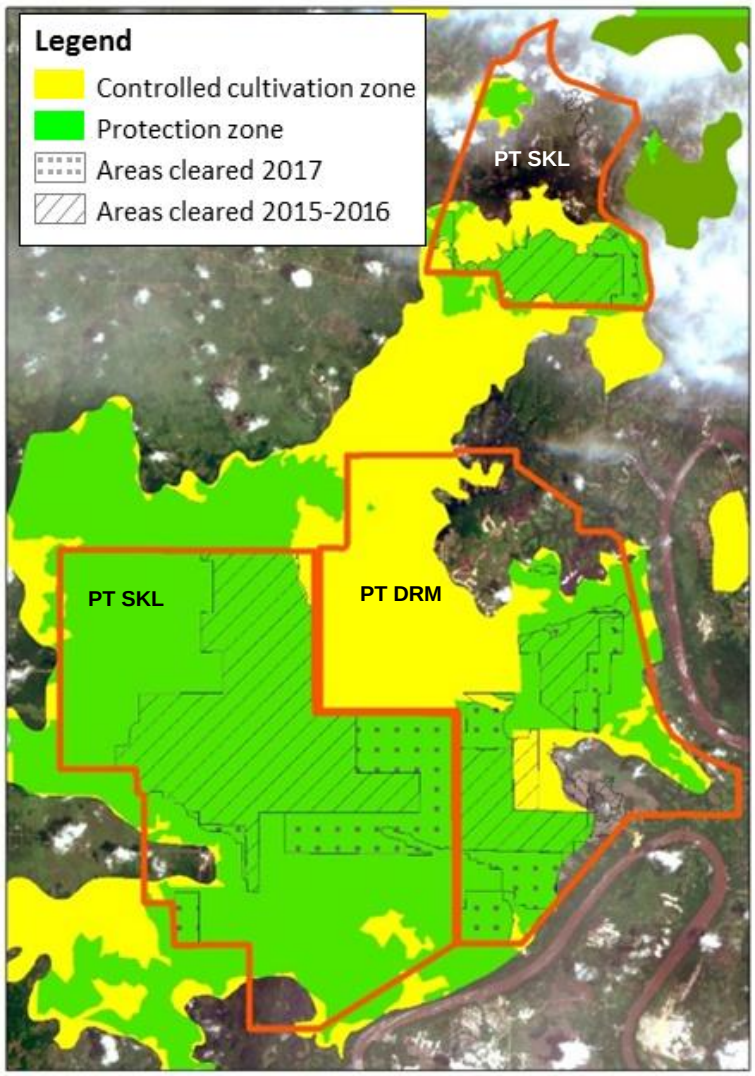


Figure 10 BRG peatland categories overlaid with PT DRM and PT SKL concession boundaries, as well as areas cleared by Salim-related companies 2015-2017.

The field investigations and satellite analysis presented in this report show that Salim-related companies continued to open up peatlands throughout 2017, despite the Presidential regulation that became effective earlier in December 2016. The table below shows that **97% of all peatland developed in 2017 on PT DRM and PT SKL took place in peatlands *prioritized for protection*** *(1,885 ha out of 1,944 ha).*

Companies		**Prioritized for controlled cultivation (in ha.)**			**Prioritized for protection (in ha.)**	
	Total	**Peatland developed**		**Total**	**Peatland developed**	
		2015-2016	*2016-2017*		*2015-2016*	*2016-2017*
PT DRM	3,000	125	33	2,578	898	721
PT SKL	743	5	26	8,485	3,262	1,164
Total	**3,743**	**130**	**59**	**11,063**	**4,160**	**1,885**

Table 2 BRG peatland categories in PT DRM and PT SKL, extent and time of land clearing.

Fire outbreak during land development

The regional health impacts in Indonesia of the large land and peat fires in 2015 have been widely covered, and it was these impacts that led President Jokowi to introduce policies and regulation No. 57 that would reduce oil palm expansion and put an end to land and peat fires, especially those fires associated with new plantation development.

Peat fires also occurred in the land bank of the two companies studied for this report. Landsat satellite imagery showed that a large fire in September 2014 affected an area of 380 ha in PT DRM, which left behind a discernible burn scar. The area was subsequently cleared for planting oil palms in May 2014. During a field visit in December 2015, additional evidence was found that proved that oil palm seedlings were being planted in newly cleared peat that had evidently burnt (see Figure 11). Further analysis of data from the Fire Information for Resource Management System (FIRMS) shows that fires continued to occur in recent years, although most fire hot spots were recorded during the dry seasons of 2014 and 2015 (Figure 11).

The available evidence is inadequate to suggest that both companies were intentionally burning, but by planting newly burnt peat, the companies benefited from the fires because the ash fertilizes and neutralizes the acidic peat soil––a cheap alternative for commercial fertilizer. The records also illustrate that both companies failed to prevent fire outbreak in the peat area, which is why the Indonesian President intervened with policies and regulations aimed to restrict companies' ongoing clearance of peatland within existing concessions for new plantation development.

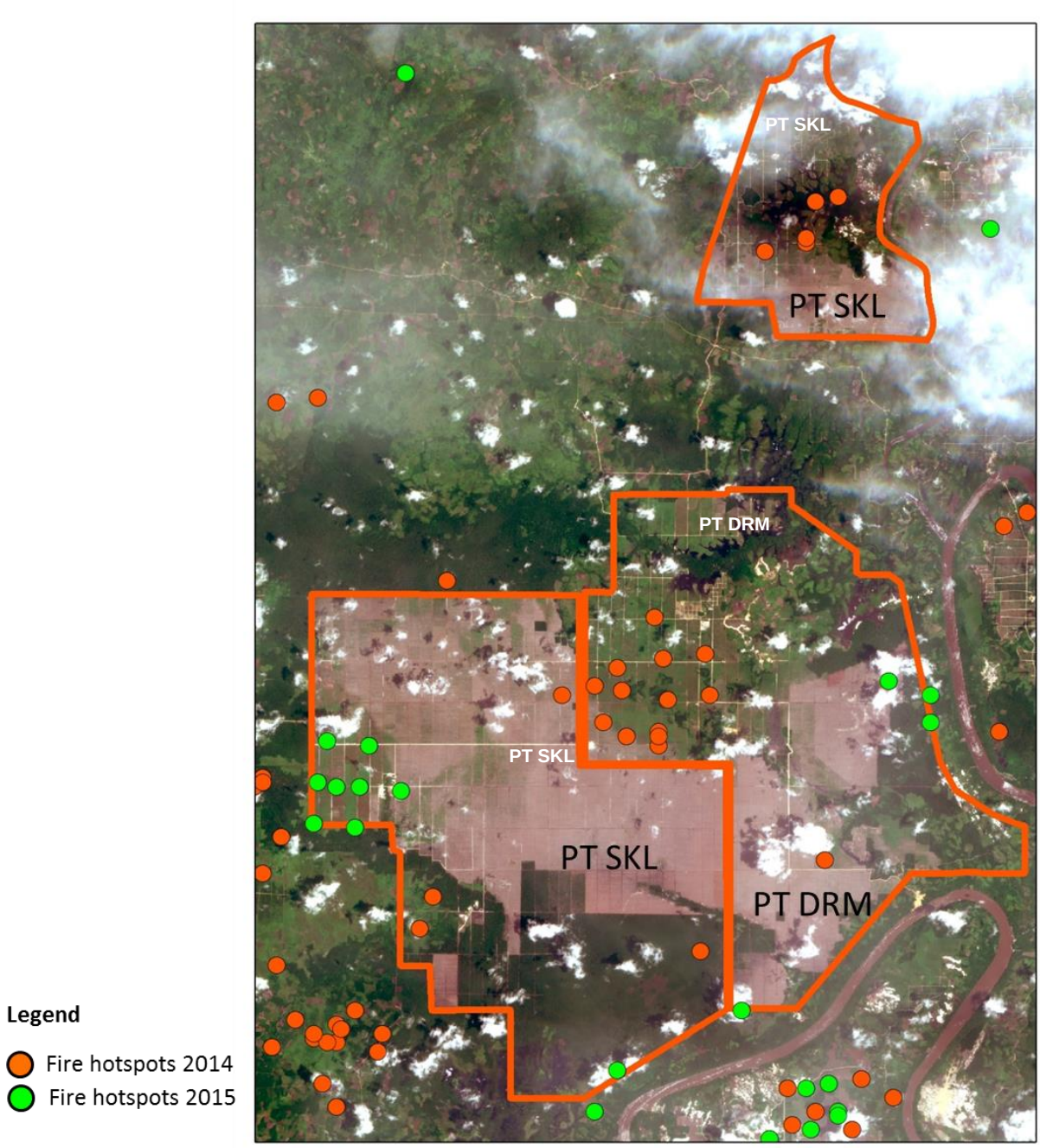


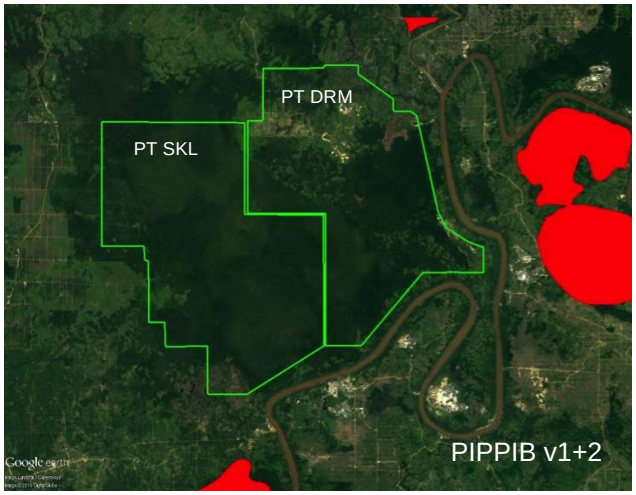
Figure 11 Updated fire hotspot assessment 2014-2015 (only hotspots with 50 confidence above).

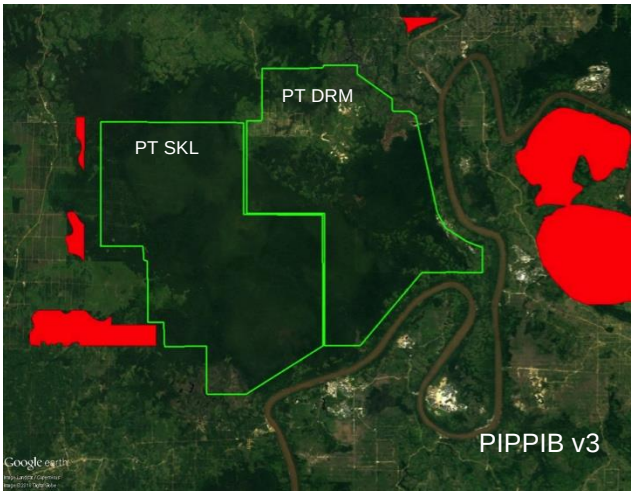
4. Legal compliance

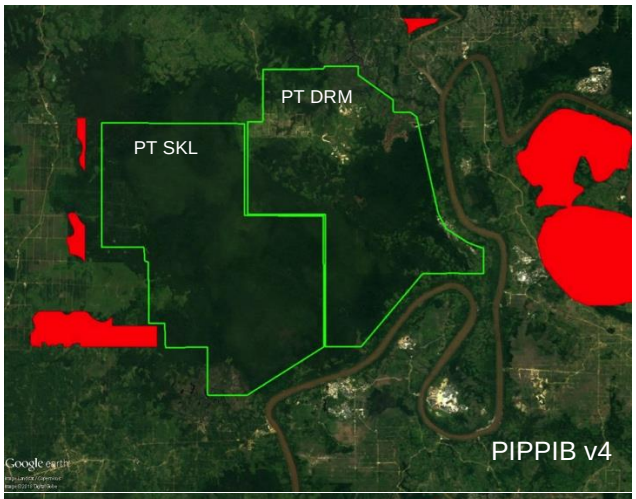
Failure to comply with the Peat Moratorium (May 2011 onward)

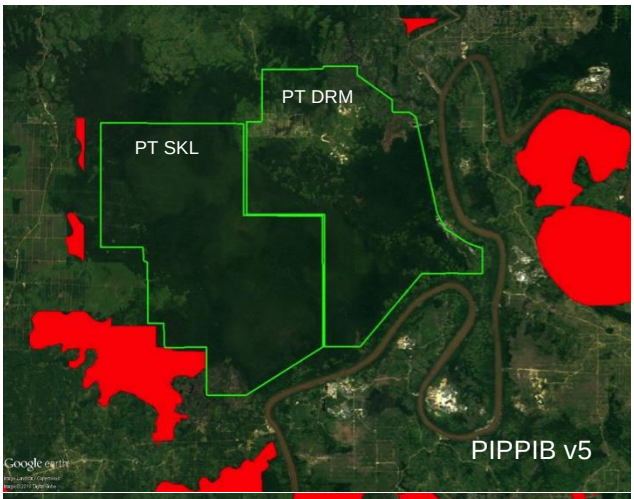
In May 2011, the governments of Norway and Indonesia made a common pledge to reduce Indonesia's greenhouse gas emissions by 26 per cent by 2020. In the agreement, the former Indonesian President Susilo Bambang Yudhoyono committed to ensure that no peatland, primary forest or protected areas would be leased out for conversion after May 2011. In return, the government of Norway would provide up to $1 billion in funds to assist the government in achieving these much needed reductions in greenhouse gas emissions. Presidential Instruction No. 10 of 2011 declared the Suspension of Issuance of New Licenses and Improvement of Governance of Primary Natural Forest and Peatland from May 2011 onward, for a two-year period. President Jokowi has subsequently extended the "Moratorium" every two years, into the present.

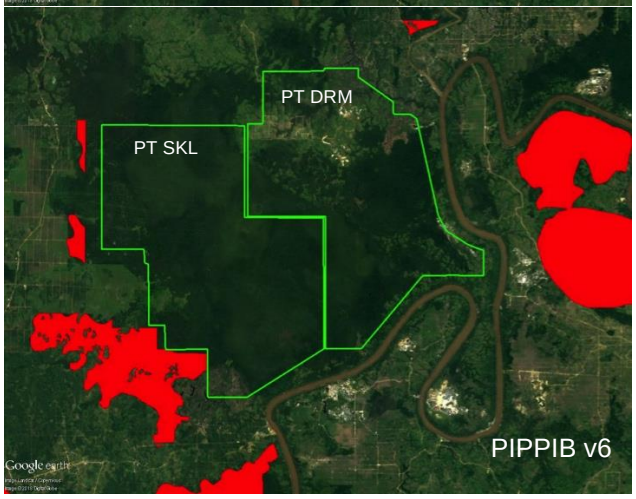
The moratorium required the government to map remaining undeveloped peatland and primary forests. This work was led by a Presidential Unit which compiled and regularly updated an Indicative Moratorium maps (PIPPIB). The public was invited to comment on the maps, in order to improve them. However, in the case of Ketungau peat swamp, the opposite appears to have happened.

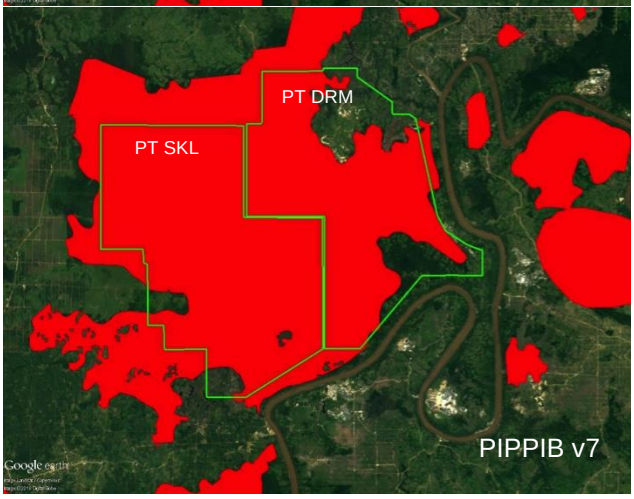

PT DRM
PT SKL
PIPPIB v1+2

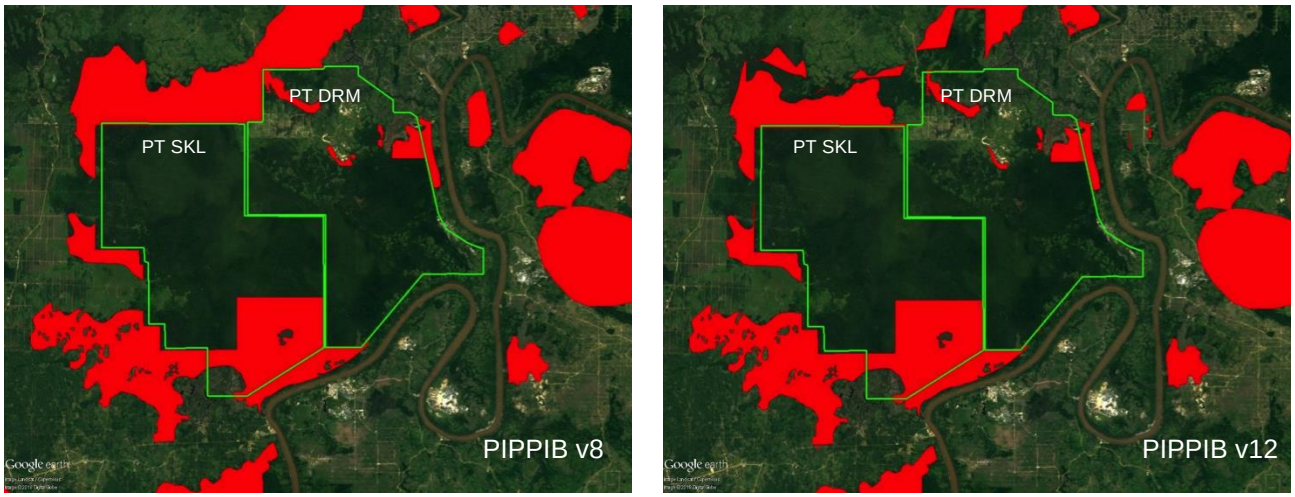

PT DRM
PT SKL
PIPPIB v3


PT DRM
PT SKL
PIPPIB v4


PT DRM
PT SKL
PIPPIB v5


PT DRM
PT SKL
PIPPIB v6


PT DRM
PT SKL
PIPPIB v7



*At the moment version 12 is the most recent version.

Figure 12 Development of Moratorium Map v1+2 to v12 with concessions PT SKL (left) and PT DRM (right) indicated.

Figure 12 shows how the government mapping team gradually realized how much peat existed in the Ketungau area. Starting off with zero hectares, every update of the PIPPIB Moratorium map added new areas (marked in red in Figure 12). Version 7 of the Moratorium map that was issued in November 2014 was the most correct map, in terms of identifying peatland in this area.[17]

The Moratorium map served to show what areas of peatland and forests were out of bounds for new Location Permits for plantation development from May 2011 onward. This meant that peatland and forests in areas that were already under Location Permits dating from before May 2011 ought to be excluded from the Moratorium map. Such was the case for PT DRM, whose Location Permit was issued on 28 February 2011, but not for PT SKL, whose Location Permit was issued on July 22, 2013, when the Moratorium already applied.

Even when Version 7 of the Moratorium map was in place, **PT SKL cleared some 1,000 ha of the peat mapped as peat subject to the Moratorium, Version 7.** It seems that when the company director realized the non-compliance with Presidential policy, he applied for a significant revision to the map.

Maret 2015	Direktur PT. Sawit Khatulistiwa Lestari No. 035/SKL/III/2015	Revisi PIPPIB di izin lokasi PT. Sawit Khatulistiwa Lestari	Izin lokasi sesuai keputusan Bupati Sintang no. 525/700/KEP-PERTANAHAN/2013 tanggal 22 Juli 2013 pada saat tidak termasuk areal penundaan izin baru tetapi di PIPPIB VII menjadi masuk	Surat Dirjen Planologi S. 387/VII-IPSDH/3/2015 tanggal 30 Maret 2015 tanggal 19 Maret 2015	Dibutuhkan konfirmasi atas status tanah tersebut kepada BPN (Direktur Penatagunaan Tanah)

Table 3 Request for revision of Version 7 of the Moratorium map by Director of PT SKL.

PT SKL's director succeeded, when Version 8 of the Moratorium map was released on May 27, 2015.[18] It showed a major adjustment that effectively glossed over a situation that required the government to withdraw PT SKL's Location Permit. Instead, the release of Version 8 of the Moratorium map allowed the company to continue clearing peat.

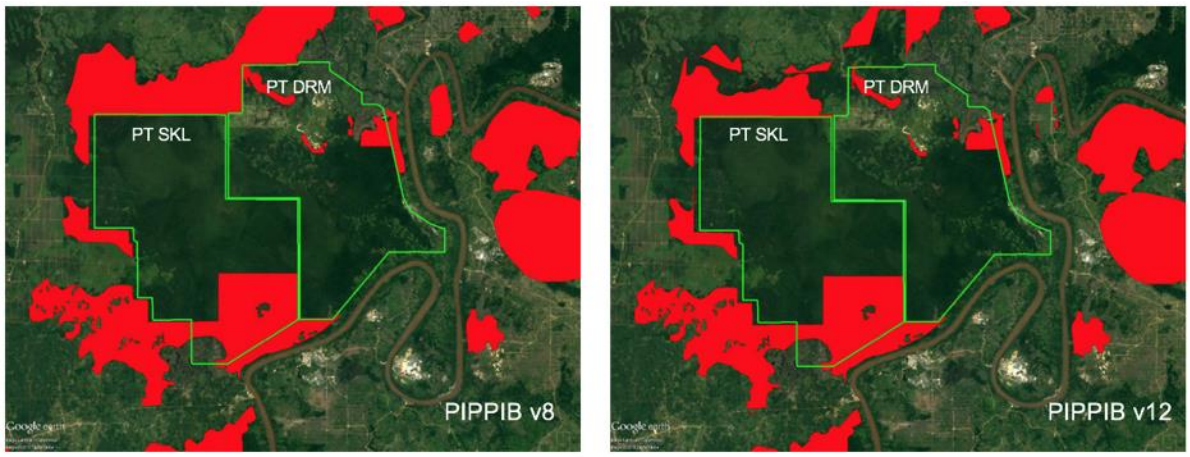


Figure 13 Version 8 (May 2015) and Version 12 (2017) of the Moratorium Map in the Ketungau peat swamp.

Recent government restrictions suspending peatland development

Following the rampant fires and transboundary haze of 2015, President Jokowi introduced additional policies and regulation to stem further risk of fire outbreak and to complement the May 2011 Moratorium (which continued to be renewed under his governance as well). From late 2015 to 2016, the President incrementally restricted plantation companies from opening up new peatland and planting on burned areas *within* their existing land bank. Government Regulation No. 57 for the protection and management of peatlands was issued on December 2, 2016. It makes explicit reference to an earlier regulation (No. 71 of 2014), which stipulates the possible sanctions (Art. 40(3)) of non-compliance, such as issuance of a stop-work order and permit withdrawal. The essence of Regulation No. 57 is as per below:

Indonesian law for protection and management of peatlands

In December 2016 a new Indonesian law on development of peatland became effective. It followed earlier government instructions issued in Q4-2015 that direct a ban to any peatland development. This law, signed by President Jokowi's on December 2 2016, sets the framework for protecting and restoring peat domes, peatland hydrological governance and also contains a moratorium on new peat development. The law stipulates that each person is prohibited to:

a) Open up new land (land clearing) until the establishment of protection/cultivation zones;
b) Make drainage, resulting in peat becoming dry;
c) Intentionally burn peatlands and / or be negligent in putting out unintentional fires;
d) Perform several other activities that result in exceeding standard peat ecosystem criteria, as stipulated in the law.

Failure to comply may result in administrative sanctions as per article 40 paragraph (3) of the 2014 peatland regulation, including stop—work orders, permit withdrawal etc.

The aforementioned regulations should have led the management of PT DRM and PT SKL to suspend all land clearing and planting within their concession areas, pending the issuance of a new government map that categorizes new intended use and management of un-development peat. This map was released by Indonesia's Peat Restoration Agency (BRG) in the first quarter of 2017 and later followed with a letter issued by the Ministry of Environment and Forestry in July 2017.

Our analysis shows that the management of PT DRM and PT SKL ignored the government's new restrictions on peat development. Both companies continued to open up peatland throughout 2016 and 2017 (Figure 14):

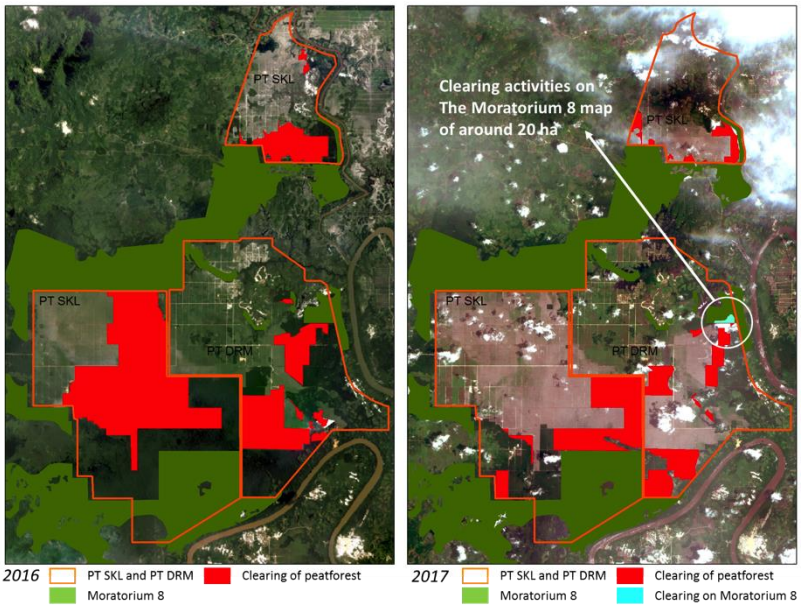
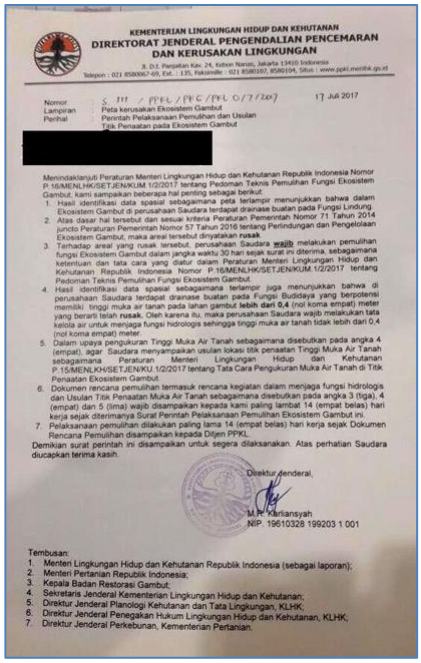


Figure 14 Results land cover change assessment 2016-2017, showing where PT DRM and PT SKL continued to open up peatland in spite of Government Regulation No. 57/2016 and Presidential Instruction No. 10/2011.

Although PT DRM cleared a small area of peat (2oha) identified in PPIPB Moratorium Map Version 8, our land cover change assessment suggests that both PT DRM and PT SKL continue to follow Version 8 of the extended Moratorium Map 2011. This is erroneous because this map concerns the issuance of *new* Location Permits. Instead, the companies should have suspended land clearing––at the very least after December 2, 2016, pending the completion of the new map prepared by the Peatland Restoration Agency (BRG) and compliance following Ministry of Environment and Forestry instructions, issued in July 2017 (Figure 15).


KEMENTERIAN LINGKUNGAN HIDUP DAN KEHUTANAN
DIREKTORAT JENDERAL PENGENDALIAN PENCEMARAN DAN KERUSAKAN LINGKUNGAN

Nomor : S. 111 / PPKL / PPKL 0/7/2017
17 Juli 2017
Lampiran :
Perihal : Peta kerusakan Ekosistem Gambut
Perintah Pelaksanaan Pemulihan dan Usulan Titik Penaatan pada Ekosistem Gambut

[redacted]

Menindaklanjuti Peraturan Menteri Lingkungan Hidup dan Kehutanan Republik Indonesia Nomor P.16/MENLHK/SETJEN/KUM.1/2/2017 tentang Pedoman Teknis Pemulihan Fungsi Ekosistem Gambut, kami sampaikan beberapa hal penting sebagai berikut:

1. Hasil identifikasi data spasial sebagaimana peta terlampir menunjukkan bahwa dalam Ekosistem Gambut di perusahaan Saudara terdapat drainase buatan pada Fungsi Lindung.
2. Atas dasar hal tersebut dan sesuai kriteria Peraturan Pemerintah Nomor 71 Tahun 2014 juncto Peraturan Pemerintah Nomor 57 Tahun 2016 tentang Perlindungan dan Pengelolaan Ekosistem Gambut, maka areal tersebut dinyatakan **rusak**.
3. Terhadap areal yang rusak tersebut, perusahaan Saudara **wajib** melakukan pemulihan fungsi Ekosistem Gambut dalam jangka waktu 30 hari sejak surat ini diterima, sebagaimana ketentuan dan tata cara yang diatur dalam Peraturan Menteri Lingkungan Hidup dan Kehutanan Republik Indonesia Nomor P.16/MENLHK/SETJEN/KUM.1/2/2017 tentang Pedoman Teknis Pemulihan Fungsi Ekosistem Gambut.
4. Hasil identifikasi data spasial sebagaimana terlampir juga menunjukkan bahwa di perusahaan Saudara terdapat drainase buatan pada Fungsi Budidaya yang berpotensi memiliki tinggi muka air tanah pada lahan gambut **lebih dari 0,4** (nol koma empat) meter yang berarti telah **rusak**. Oleh karena itu, maka perusahaan Saudara wajib melakukan tata kelola air untuk menjaga fungsi hidrologis sehingga tinggi muka air tanah tidak lebih dari 0,4 (nol koma empat) meter.
5. Dalam upaya pengukuran Tinggi Muka Air Tanah sebagaimana disebutkan pada angka 4 (empat), agar Saudara menyampaikan usulan lokasi titik penaatan Tinggi Muka Air Tanah sebagaimana Peraturan Menteri Lingkungan Hidup dan Kehutanan P.15/MENLKH/SETJEN/KU.1/2/2017 tentang Tata Cara Pengukuran Muka Air Tanah di Titik Penaatan Ekosistem Gambut.
6. Dokumen rencana pemulihan termasuk rencana kegiatan dalam menjaga fungsi hidrologis dan Usulan Titik Penaatan Muka Air Tanah sebagaimana disebutkan pada angka 3 (tiga), 4 (empat) dan 5 (lima) wajib disampaikan kepada kami paling lambat 14 (empat belas) hari kerja sejak diterimanya Surat Perintah Pelaksanaan Pemulihan Ekosistem Gambut ini.
7. Pelaksanaan pemulihan dilakukan paling lama 14 (empat belas) hari kerja sejak Dokumen Rencana Pemulihan disampaikan kepada Ditjen PPKL.

Demikian surat perintah ini disampaikan untuk segera dilaksanakan. Atas perhatian Saudara diucapkan terima kasih.

Direktur Jenderal,

M.R. Karliansyah
NIP. 19610328 199203 1 001

Tembusan:
1. Menteri Lingkungan Hidup dan Kehutanan Republik Indonesia (sebagai laporan);
2. Menteri Pertanian Republik Indonesia;
3. Kepala Badan Restorasi Gambut;
4. Sekretaris Jenderal Kementerian Lingkungan Hidup dan Kehutanan;
5. Direktur Jenderal Planologi Kehutanan dan Tata Lingkungan, KLHK;
6. Direktur Jenderal Penegakan Hukum Lingkungan Hidup dan Kehutanan, KLHK;
7. Direktur Jenderal Perkebunan, Kementerian Pertanian.

PT DRM and PT SKL have very likely received the same instructions as all those other plantation companies. Regardless, we found that since July 31, 2017, PT DRM continued to clear at least another 37 ha of peat and PT SKL cleared a further 178 ha of peat.

5. Risks to global buyers of palm oil

Given the recent establishment of both the PT DRM and PT SKL palm oil plantations, the first crop of oil palm fruit has not yet been harvested, processed and or has made its way into the global supply chains of major buyers and brands that use palm oil in the manufacturing of their products. However, **there is a high risk that palm oil from both companies may soon make its way into the global market when the planted oil palms begin producing fruit.**

The map below shows that there are five palm oil mills located within a 30 kilometre radius of PT DRM and PT SKL that are at risk of being future buyers of palm oil from the controversial companies.

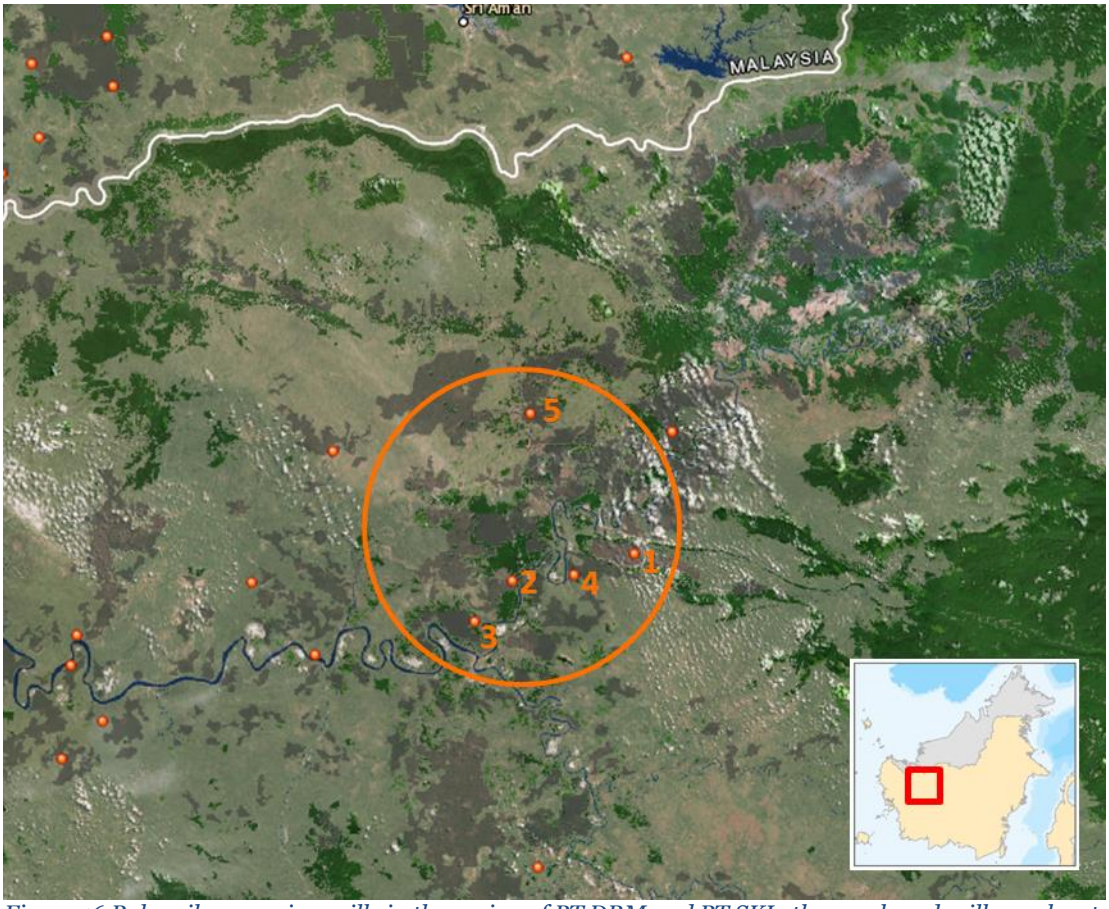


Figure 16 Palm oil processing mills in the region of PT DRM and PT SKL, the numbered mills are located within 30 kilometres of the centre of the Salim-related plantations (source: CIFOR).

The palm oil plantation arm of the Salim Group––Indofood Agri––has one mill in the area near Miau Merah. The mill is indicated with number 1 on the map above. As the PT DRM and PT SKL companies are related to Mr. Salim and Indofood Agri they could use this mill for processing fruits in the future. This mill is known to have supplied palm oil to major brands including Unilever,[19] Mars,[20] Mondelēz,[21] General Mills,[22] Colgate Palmolive,[23] and Procter and Gamble.[24] However, the mill is located on the other side of the Kapuas River so logistics are not favorable (yet).

The two mills closest to PT DRM and PT SKL are Bontipermai Jayaraya mill (2 km south of PT SKL) and Simba, Sintang – PSC mill (12 km southwest of PT SKL). Both mills are located on the same side of the river as the two plantations so may be more favorable. All relevant mills are indicated with numbers on the figure 15.

Figure 8 Bontipermai Jayaraya mill on satellite image, located about 2 km south of PK SKL

Table 4 presents an analysis of mills in the region (CIFOR, 2017). At the moment, none of these mills are RSPO certified and only one mill's parent company has published a "No Deforestation, No Peatland and No Exploitation" policy––Golden Agri Resources (GAR). Given the scale of deforestation and peatland destruction, both Salim–related companies PT DRM and PT SKL should be excluded from selling future palm oil products to nearby mills and refineries. This is critical as a number of the refineries in close proximity to the nearby mills––or which have sourced from the mill in the past,––are owned by major traders including Musim Mas,[25] Wilmar, [26] and Golden Agri Resources,[27] which in turn supply other traders such as Cargill, IOI and AAK and major brands including PepsiCo,[28] Nestle,[29] Unilever,[30] Mars,[31] Mondelēz,[32] General Mills,[33] Colgate Palmolive,[34] Procter and Gamble,[35] Hershey's[36], and Kellogg's[37] –– which have all adopted "No Deforestation, No Peatland and No Exploitation" policies. The table below shows that all five mills are listed as suppliers to major brands like PepsiCo, placing them at extreme risk of future sourcing from PT DRM and PT SKL and of driving further deforestation via sourcing from the region.[38] Beyond these specific supply chain links, global buyers must ensure that the company groups that violate their policies, in this case the Salim Group and all Indofood related palm oil companies, are excluded across all supply chains until reforms are achieved and verified by a independent third party.

Mill name	Basic information	Brands that list mill in mill list
1. Riau Agrotama Plantation	Parent company: Indofood Agri Regency: Kapuas Hulu Area: 27,659 ha	Pepsico, Nestlé, Unilever, Mars, Mondelēz, General Mills, Colgate Palmolive, Procter and Gamble
2. Bontipermai Jayaraya mill	Parent company: Lyman Group Regency: Sintang Area: 22,235 ha	PepsiCo, Nestlé, Unilever, Mars, Mondelēz, General Mills, Colgate Palmolive, Procter and Gamble
3. Simba, Sintang – PSC	Parent company: Priscolin Regency: Sintang Area: 26,126 ha	PepsiCo, Nestlé, Unilever, Mars, Mondelez, General Mills, Colgate Palmolive
4. Agro Sukses Lestari	Parent company: Incasi Raya Regency: Sintang Area: 23,768 ha	PepsiCo, Nestlé, Unilever, Mars, Mondelēz, General Mills, Colgate Palmolive
5. Buana Hijau Abadi	Parent company: Triputra Agro Persada Regency: Sintang Area: 31,420 ha	PepsiCo, Nestlé, Unilever, Mars, Mondelēz, General Mills, Colgate Palmolive, Procter and Gamble

Other mills in the region, with parent company: PKS Sejahtera (Barito Pacific), Kalimantan Sanggar Pusaka (Lyman), Belian (GAR) ***Table 4 List of operating mills nearby PT SKL and PT DRM with their main properties*** [39]

6. Joint Venture Partners failure to ensure legal compliance and end deforestation and peatland development.

As demonstrated by the findings in this report, Salim-related palm oil plantations have continued to clear forests and peatlands in the Ketungau peat forests in spite of Indonesian Government policies and regulation for the protection and management of peatlands and the "No Deforestation, No Peatland and No Exploitation" policies of its joint venture partners.

The breaches of Indonesian regulation, and continued deforestation and peatland destruction in the Ketungau peat forests by PT DRM and PT SKL demonstrates the failure of companies with joint venture partnerships with the Salim Group to establish robust monitoring, due diligence and enforcement systems that hold their business partners accountable to the "No Deforestation, No Peatland and No Exploitation" benchmarks for all their operations, including companies linked via association. Three key joint venture partners––PepsiCo, Nestlé and Wilmar––have known of the egregious conditions on other Salim Group

plantations since the release of the September 2015 report titled *Palm Oil Sustainability Assessment on Indofood Agri Ltd*––and other "businesses-on-the-side" cases such as PT Gunta Samba Jaya that was subject to an RSPO complaint for clearing orangutan habitat in East Kalimantan in 2013––but have failed to take adequate action.

PepsiCo, Nestlé and Wilmar have failed to ensure that the Salim Group adopt and implement a "No Deforestation, No Peatland and No Exploitation" policy. This inaction demonstrates a major failure in enforcing policy compliance on joint venture partners and indirect suppliers for 3, 8 and 5 years respectively, since the date of the adoption of a palm oil specific NDPE policy by each company.

In the case of PepsiCo, this report demonstrates the real costs of the loophole in its Palm Oil Sourcing Policy that does not explicitly state that it applies to the palm oil produced and procured by its joint venture partners at a company group level. PepsiCo's policy also fails to set a deadline for NDPE policy compliance nor does it require third party verified compliance beyond RSPO certification, which permits deforestation and the destruction of peatlands. Recently, PepsiCo responded to growing public concern by instructing its joint venture partner PT Indofood Fritolay Makmur––a subsidiary within the Salim Group –to stop sourcing palm oil from Indofood Agri––the palm oil plantation arm that was once again exposed for documented labor rights violations––for the manufacturing of PepsiCo branded products.[40] Despite these efforts, in January 2018, PepsiCo confirmed that it continues to source from Indofood Agri via indirect palm oil suppliers and remains associated with the social and environmental impacts of the Salim Group via its decision to maintain its joint venture partnership.[41]

Wilmar has also maintained its 50/50 joint venture partnership with another Salim Group subsidiary called First Pacific in Goodman Fielder––a consumer goods manufacturing company that continues to sell branded products to customers across Australia, New Zealand and the Asia Pacific region. Kuok Khoon Hong, the Chairman and Executive Officer of Wilmar, maintains a position on the board of Goodman Fielder alongside Robin Nicholson, the executive director for First Pacific.[42] The partnership in Goodman Fielder aims to deliver profits to both Wilmar and the Salim Group via expanding Goodman Fielder's brands into the Asia Pacific Region.[43] To date, Kuok Khoon Hong, the Chairman and Executive Officer of Wilmar, has not informed Mr. Anthoni Salim on the need to reform Goodman Fielder's policies and practices to address the reputational risks posed to its best-selling brands such as Meadow Lea, Helga and Wonder White bread as a prerequisite for maintaining the joint venture partnership and future contractual sourcing relationships.[44]

Nestlé has also maintained its 50/50 joint venture partnership with Indofood called PT Nestlé Indofood Citarasa Indonesia despite ongoing documented violations of its policy and its failure to publish corrective action plans to address labor violations and long-standing land conflicts. Nestlé claims that it has phased out sourcing from IndoAgri for Nestlé products made under the joint venture partner by February 2018. Nestlé's recently published mill list confirms that it continues to source from Indofood via indirect palm oil suppliers.

By maintaining their joint venture partnerships without clear time-bound requirements for change, PepsiCo, Nestlé and Wilmar remain complicit with the deforestation and peatland destruction in the Ketungau peat forests caused by PT DRM and PT SKL and other social and environmental impacts of the palm oil operations controlled by the Salim Group, or associated with Mr. Salim.

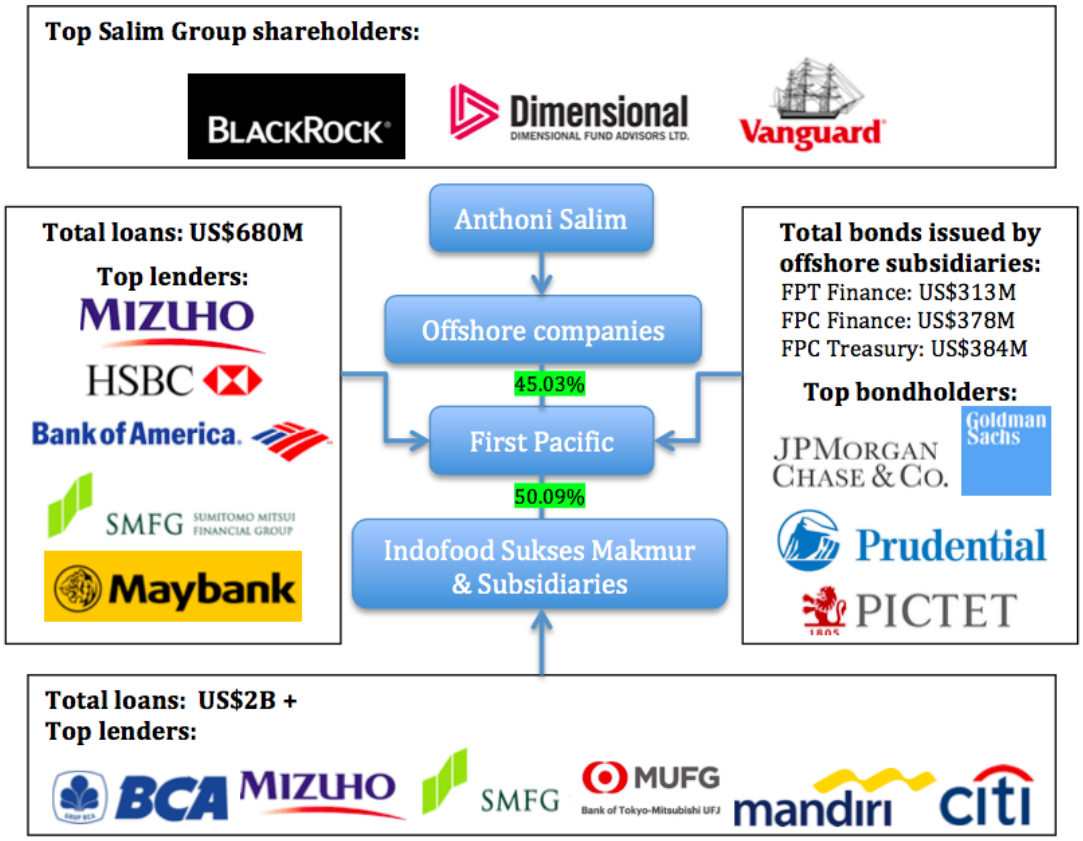
7. Due diligence failures of banks and investors

Institutions providing financial services to the Salim Group share responsibility for the harmful environmental and social impacts resulting from its palm oil operations, including by PT DRM and PT SKL.

Salim Group Financing

Bank loans are a significant source of funding for the Salim Group's palm oil operations. Large banks, including those that have been repeatedly warned about the Group's environmental, social and governance (ESG) risks, currently provide billions of dollars in corporate loans to the Salim conglomerate. Among the top lenders are Indonesian and Japanese banks, including Bank Central Asia and Mizuho Financial Group (Mizuho). First Pacific has US$680M of loans outstanding,[45] while over US$2 billion of bank loans were on the books of Indofood Sukses Makmur (Indofood) and its subsidiaries as of September 30, 2017 (See Graphic 1).[46] These various loans are not directly received by PT SKL and PT DRM, but the Salim Group's corporate and ownership structure (see Section 1) facilitates intra-company loans from subsidiaries to other companies connected to the Salim conglomerate,[47] indicating that lenders are still linked to PT DRM and PT SKL. Bank Negara Indonesia (BNI) also had US $164 million of outstanding loans to the Salim Group in 2017, but the direct recipient(s) of this loan is unknown.[48]

In addition, the Salim Group receives substantial financing in the form of bonds and shares. First Pacific had approximately 1 billion USD of bonds underwritten by HSBC and/or Mizuho, and shareholders unaffiliated with the Salim Group have invested over 4 billion USD in First Pacific, Indofood, and its publicly listed palm oil-related subsidiaries: Indofood Agri Resources, Salim Ivomas, and London Sumatra.[49] The significant intra-company shareholdings within the Salim conglomerate make it difficult for investors, analysts and stakeholders to know which parts of the shares finance which activity.[50]



Graphic 1: Top lenders and investors in the Salim Group

Material Risks

The Salim Group faces material risks from its upstream palm oil investments in the form of operational risks resulting from labor concerns; regulatory and legal risks from failure to abide by Indonesian environmental and labor laws; reputational risks resulting from NGO campaigns and media exposes; and market risks from failure to meet buyers' production standards. With respect to PT DRM and PT SKL in particular, these plantation assets face a risk of being stranded due to buyers' "No Deforestation, No Peatland and No Exploitation" policies as well as Indonesian Government regulation, including stronger regulatory restrictions and enforcement against clearance of peatlands and forests.[51] As banks, investors, and buyers with ESG policies avoid ties to Salim Group companies, the Group's publicly listed palm oil related companies face a risk of decreasing financial returns and stock valuation.[52]

Failed Due Diligence

Despite these risks, many of which have been widely publicized, few banks have cut ties with Indofood or the wider Salim conglomerate, and even fewer investors have taken steps to divest. In addition, the findings in this report call into question the banks' and investors' commitment to address climate change given their role in facilitating carbon-intensive peat destruction.

The top financiers of Indofood — Japan-based Mizuho, Sumitomo Mitsui Financial Group (SMFG) and Mitsubishi UFJ Financial Group (MUFG), and Indonesia-based Bank Central Asia and Bank Mandiri — have made no public commitment to address the negative impacts of Indofood or the wider palm oil industry. Several lenders to Indofood or First Pacific, namely, US-based Citigroup and Bank of America, Europe-based HSBC, BNP Paribas, Standard Chartered, and Rabobank, and Singapore-based DBS, have

each made varied commitments to prohibit lending linked to exploitation, including child labor and forced labor, while HSBC, BNP Paribas, Standard Chartered, and DBS each prohibit peat destruction by its palm oil clients. However, all of these banks continue to finance the Salim conglomerate. Available financial records suggest only Deutsche Bank has stopped lending to Indofood and its subsidiaries since the exposé of Indofood's labor abuses in June 2016. In response to the findings of this report, Citigroup, Standard Chartered, HSBC, Rabobank, and DBS reiterated their commitment to implement their palm oil sector policies, engage with non-compliant clients, and reassess the banking relationship where necessary. BNP Paribas and SMFG denied responsibility on grounds that PT DRM and PT SKL were not their clients, while Citigroup, Standard Chartered and HSBC stated their commitment to consider these matters at the group level even in cases where they lack a direct relationship to the problematic company.

Among investors, the Norwegian Government Pension Fund Global (GPFG), the world's largest sovereign wealth fund, withdrew its investments from First Pacific and Indofood Agri Resources because they "were considered to produce palm oil unsustainably".[53] However, the GPFG remains exposed to financial risk arising from deforestation by the Salim Group, through its investments in Indofood's subsidiary company Indofood CBP Sukses Makmur (ICBP), a producer of consumer branded products and a major buyer of IndoAgri's palm oil. Dimensional Fund Advisors also recently excluded Indofood from two of its sustainability portfolios,[54] although its largest funds remain heavily invested in Indofood and its associated companies. Other notable shareholders—including Vanguard, BlackRock, the Government Pension Investment Fund of Japan, and Nordea Bank—have each highlighted the importance of addressing climate risk, but have significant investments in First Pacific and the Salim Group's publicly listed palm oil companies. Nordea Bank noted that both First Pacific and Indofood are under observation.

The failure of OECD-based banks and investors to exercise robust due diligence on Salim Group companies is a potential violation of the OECD Guidelines on Multinational Enterprises, which clearly places obligations on these financiers to identify actual and potential adverse impacts of their financing and to seek to prevent or mitigate them.[55] Given increasing recognition of the financial risks associated with carbon-intensive land uses, including by the Task Force on Climate-Related Financial Disclosures (TCFD),[56] and recognition of the human rights obligations of the financial sector in line with the UN Guiding Principles on Business and Human Rights,[57] banks and investors must issue a wake up call to Mr. Salim that the continued destruction of peatlands and exploitation of workers is unacceptable. Connected banks and investors that fail to act risk continued exposure to financial and reputational risks, or even legal and regulatory risks as ESG integration and risk disclosure become mainstream.

Anthoni Salim's cozy relationship with banks

From 1975, Anthoni Salim was instrumental in Bank Central Asia (BCA)'s rapid growth to become Indonesia's largest private lender.[58] While Salim sold off the bank in the wake of the 1998 Asian Financial Crisis, he remains its second largest shareholder.[59] BCA is the largest lender to Indofood.

Mr. Salim also serves as a member of Rabobank Asia's Food & Agribusiness Advisory Board. Rabobank continues to finance Indofood, despite its commitment to not finance clients "involved in the production and trade of specific products and processes that Rabobank considers detrimental to sustainable development."[60]

Conclusions

This Palm Oil Sustainability Assessment highlights how **two plantation companies associated with Mr. Salim are operating in serious non-compliance with recent Indonesian policies and regulations that restrict peatland development.** These companies' practices are also non-compliant with the sustainability policies of the Salim Group's joint venture partners, financiers, investors and buyers.

Field investigations and satellite analysis have shown that the Ketungau peat forest, the only remaining large peat swamp forest in Sintang (Borneo), continues to be cleared for oil palm by Salim-related companies. Major findings include:

1) **Salim-related companies PT DRM and PT SKL developed 9,668 hectares of Ketungau peat forests for oil palm expansion from 2013 onward in violation of "No Deforestation, No Peatland and No Exploitation" sourcing policies of global buyers and joint venture partners. 9, 534 hectares of the developed land was peatland.**
2) Although the cases were brought to the attention of Mr. Salim and his management in early 2016, both companies **continued clearing and draining peat forest.**
3) **The companies cleared 1,961 hectares of land since December 2016, in violation of Presidential instructions and Regulation No. 57** which ordered plantation companies to stop opening up new peatland within their concessions until the Indonesian government approved peat maps and management plans.
4) **PT DRM cleared at least 37 hectares of peatland and PT SKL cleared a further 178 hectares of peatland since July 31, 2017, when the Indonesian government instructed numerous plantation companies to file their peatland restoration plans to the Ministry of Environment and Forestry.**
5) **97% of all peatland developed in 2017 by PT DRM and PT SKL took place on peatlands that the Peat Restoration Agency (BRG) categorized as "peatland for protection".**
6) **PT SKL operates on the basis of a Location Permit that was irregularly issued when a Moratorium on the issuance of such permits was already in place.** PT SKL's permit should therefore have been cancelled but, instead, the company director of PT SKL applied for a significant revision and the Moratorium map was adjusted in an effort to open the way for further clearance.

While the Salim Group is ultimately responsible for these breaches of Indonesian regulations and "No Deforestation, No Peatland and No Exploitation" policies, it is not alone. Its joint venture partners Pepsico, Nestlé and Wilmar, along with its banks and investors––led by Bank Central Asia and Mizuho Financial Group––remain party to the destruction of the Ketungau peat forest. The policies, monitoring, due diligence and compliance systems of these influential multinational corporations and financial institutions have failed to secure adequate policies from their business partner and ensure legal compliance and enforcement of the moratorium on deforestation and peatland destruction.

8. Recommendations for action

Intervention is urgently needed to stop the destruction of Sintang's Ketungau peat forest, protect the remaining intact peat forests and restore ecosystem services for the benefit of the biodiversity, local communities and Indonesia's efforts to reduce greenhouse gas emissions and uphold its governing laws.

As a matter of urgency, the Salim Group, its joint venture partners, financiers and investors, along with national government authorities and its current and potential future palm oil buyers, need to take the following actions across the globe.

The Salim Group

Anthoni Salim maintains control over a complex network of companies known as the Salim Group. As a matter of urgency the **Salim Group should adopt a "No Deforestation, No Peatland and No Exploitation" policy** that applies to its entire palm oil portfolio including Indofood, and palm oil concessions under the Salim Group's influence, to ensure that the conglomerate no longer contributes to deforestation, peatland development, biodiversity loss or the violation of human rights, including the rights of local communities and workers.

***A*n immediate moratorium must be enforced on all new plantation development across the entire Salim Group, using the High Carbon Stock Approach and its associated social requirements. Clearance of forests or further peatland development within existing concessions must be halted, including PT Sawit Khatulistiwa Lestari and PT Duta Rendra Mulya.** All breaches of President Jokowi's instructions and the laws of Indonesia must be reported to the authorities. Restoration plans must be adopted for all areas already cleared within peatlands identified by the Indonesian Peat Restoration Unit (BRG) and Ministry of Environment and Forestry (KLHK) for protection or restoration.

The Salim Group must acknowledge the violation of human rights in its operations, and address and resolve the systemic labor rights violations recently documented on its plantations. **As a matter of urgency, Mr. Salim must ensure that actions are taken to immediately remedy the labor violations outlined in *The Human Cost of Conflict Palm Oil: Indofood, PepsiCo's Hidden Link to Worker Exploitation in Indonesia* and *The Human Cost of Conflict Palm Oil Revisited: How PepsiCo, Banks, and Roundtable on Sustainable Palm Oil Perpetuate Indofood's Worker Exploitation* reports through a transparent, time-bound, corrective action plan.** Such reforms must address the underlying root causes that drive these labor abuses, align with the requirements outlined in the Free and Fair Labor in Palm Oil Production: Principles and Implementation Guidance, and apply to all plantations belonging to, or associated with, the Salim Group and Indofood.

The Salim Group must publish a time-bound implementation plan that includes measurable milestones and a deadline by which its own operations, and those controlled by third parties, need to achieve third-party verification of policy compliance **and address all outstanding Conflict Palm Oil cases through accountable, mutually agreed upon and credible conflict resolution processes and the establishment of a credible grievance mechanism.**

Joint Venture Partners

Joint Venture Partners - PepsiCo, Nestlé and Wilmar and all other companies associated with the Salim Group of companies, including Goodman Fielder, must immediately instruct their business partner to halt the ongoing deforestation and destruction of peatlands in the Ketungau peat forests. The fact that PT Duta Rendra Mulya and PT Sawit Khatulistiwa Lestari has been operating in violation of the "No Deforestation, No Peatland, No Exploitation" policies of PepsiCo, Nestlé, Wilmar and all other buyers since the adoption of their policies demonstrates that each companies must also urgently improve their monitoring, due diligence and enforcement systems to ensure that their policy commitments are implemented in the operations of their joint venture partners and direct and indirect suppliers. **It is critical that PepsiCo's palm oil policy is strengthened to include an explicit requirement for joint venture partners to comply with the "No Deforestation, No Peatland and No Exploitation" production practices at a company group level.**

If the Salim Group fails to stop further deforestation by PT DRM and PT SKL and does not restore peatlands designated for protection by the government of Indonesia, then its joint venture partners must suspend all existing and future business relationships with the Salim Group companies until the company takes these actions, publishes a company-wide "No Deforestation, No Peatland and No Exploitation" policy, resolves existing land conflicts and addresses documented labor violations and can demonstrate verified responsible palm oil production and sourcing practices.

Palm Oil buyers

Major traders and snack food companies with "No Deforestation, No Peatland and No Exploitation" policies, including Unilever, Mars, Mondelēz, General Mills, Colgate Palmolive, Procter and Gamble, Hershey's, and Kellogg's must place or keep the Salim Group on a "No Buy" list so all palm oil products produced by this non-compliant supplier cannot pollute supply chains.

Other buyers at risk, such as Nissin Foods, must adopt a "No Deforestation, No Peatland and No Exploitation" policy and take immediate action to enforce the policy by removing the Salim Group of companies from global palm oil supply chains. Palm oil products produced by PT Sawit Khatulistiwa Lestari and PT Duta Rendra Mulya and the wider Salim Group of companies must remain on a "No Buy" list until the company takes concrete and transparent actions to halt deforestation, restore peatlands as instructed by the government of Indonesia, publish a company-wide "No Deforestation, No Peatland and No Exploitation" policy, resolve existing land conflicts, address documented labor violations and can demonstrate verified responsible palm oil production and traceable sourcing practices.

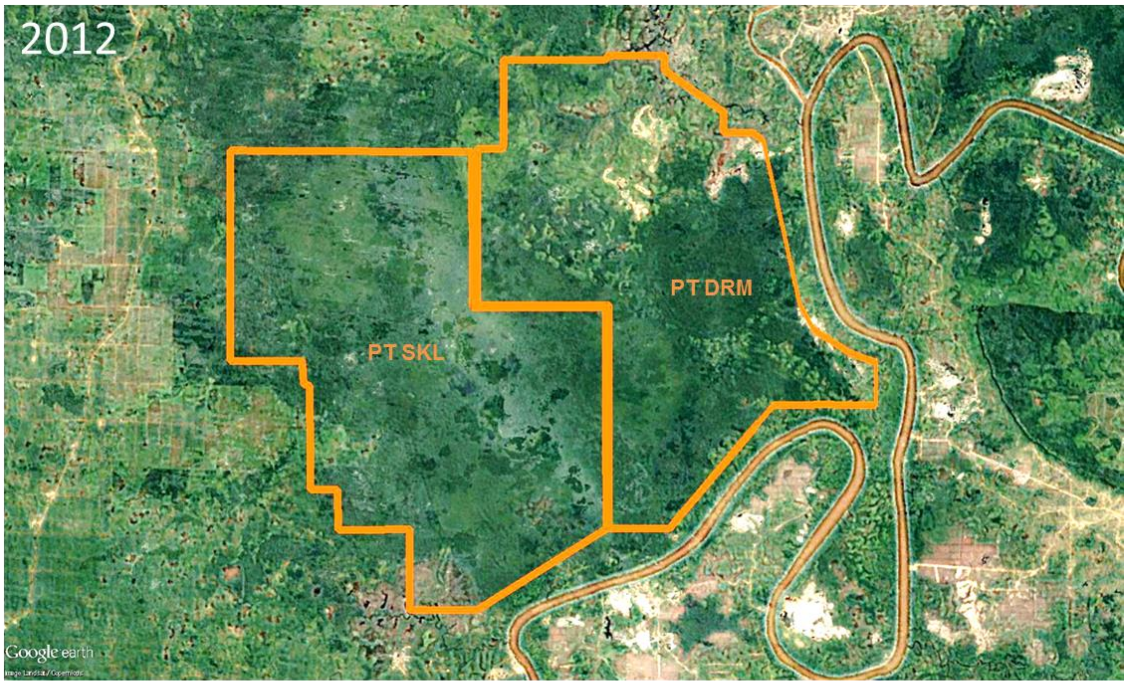
Banks and investors

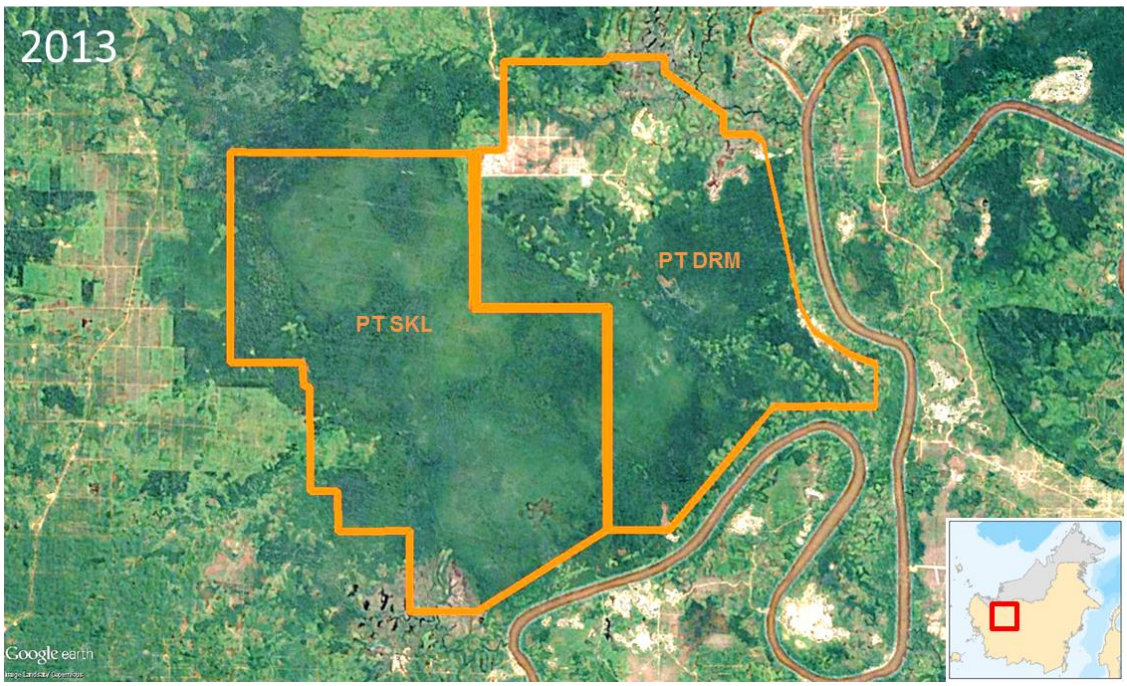
Banks and investors that are financing the Salim Group must meaningfully engage with Mr. Anthoni Salim to immediately address the deforestation and breaches of Indonesian laws and regulations profiled in this report and demand that the Salim Group adopt the policy recommendations outlined above; protect remaining forests and restore the peatlands degraded in the PT DRM and PT SKL concessions; resolve existing land conflicts and documented labor violations; and demonstrate verified responsible palm oil production and traceable sourcing practices to the mill and producers. Financiers must also go beyond the TCFD and ensure the climate risks of land-use change that exist in their portfolios are properly accounted for in their financial disclosures and risk management.

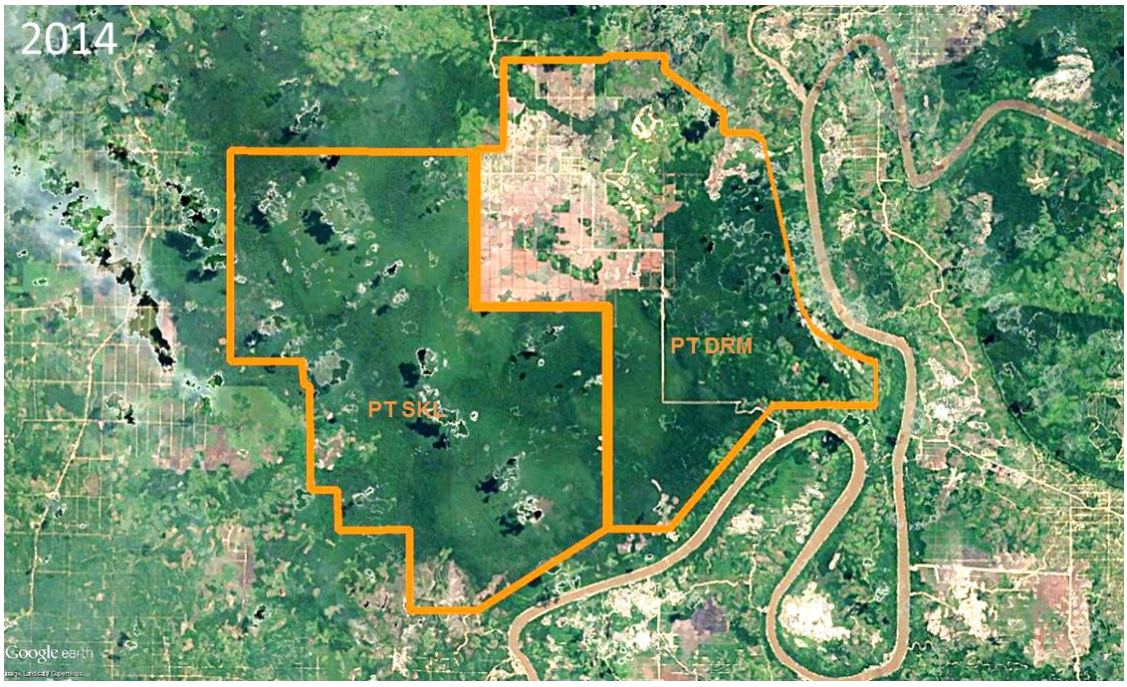
Indonesian Government

The Indonesian Peat Restoration Unit (BRG) and Ministry of Environment and Forestry (KLHK) whom are tasked to enforce President Jokowi's instructions and the government's laws should be supported in efforts to take immediate action to issue an immediate stop-work order and sanctions to PT Duta Rendra Mulya and PT Sawit Khatulistiwa Lestari as per article 40 paragraph (3) of the 2014 peatland regulation. Given that 97% of the development took place on peatland categorized by the Peat Restoration Agency (BRG) as "peatland for protection", Mr. Salim's companies should be requested to develop, submit and implement restoration plans for areas already cleared in the Ketungau peat forest.

Appendix 1 Satellite Imagery (2012-2017)



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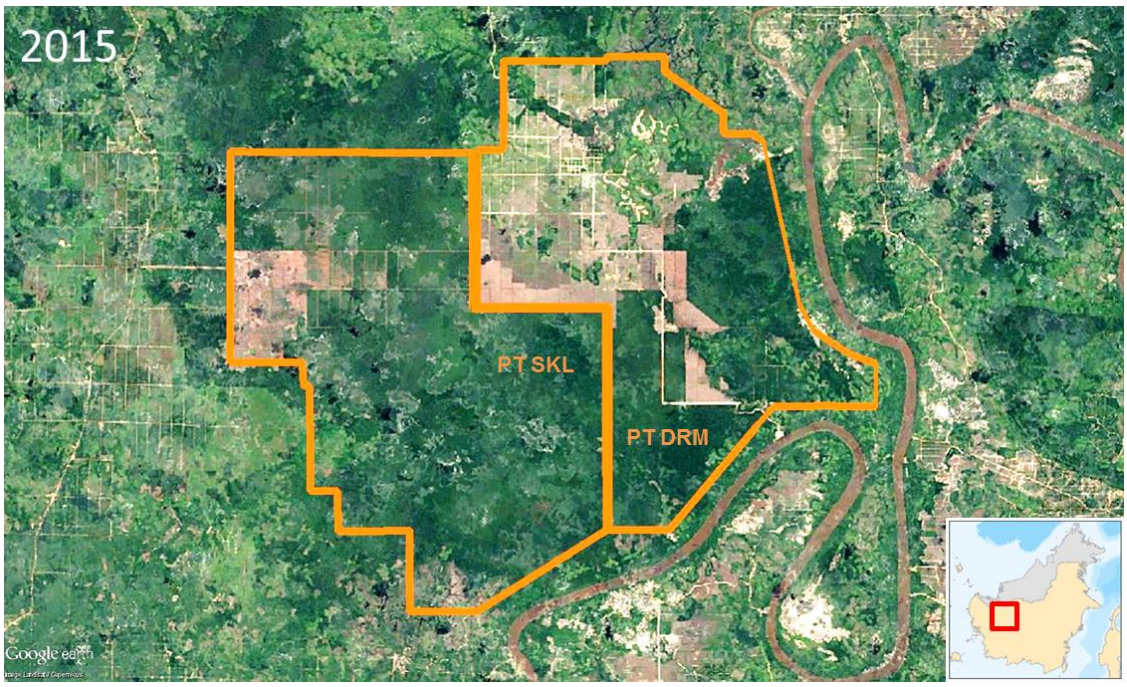
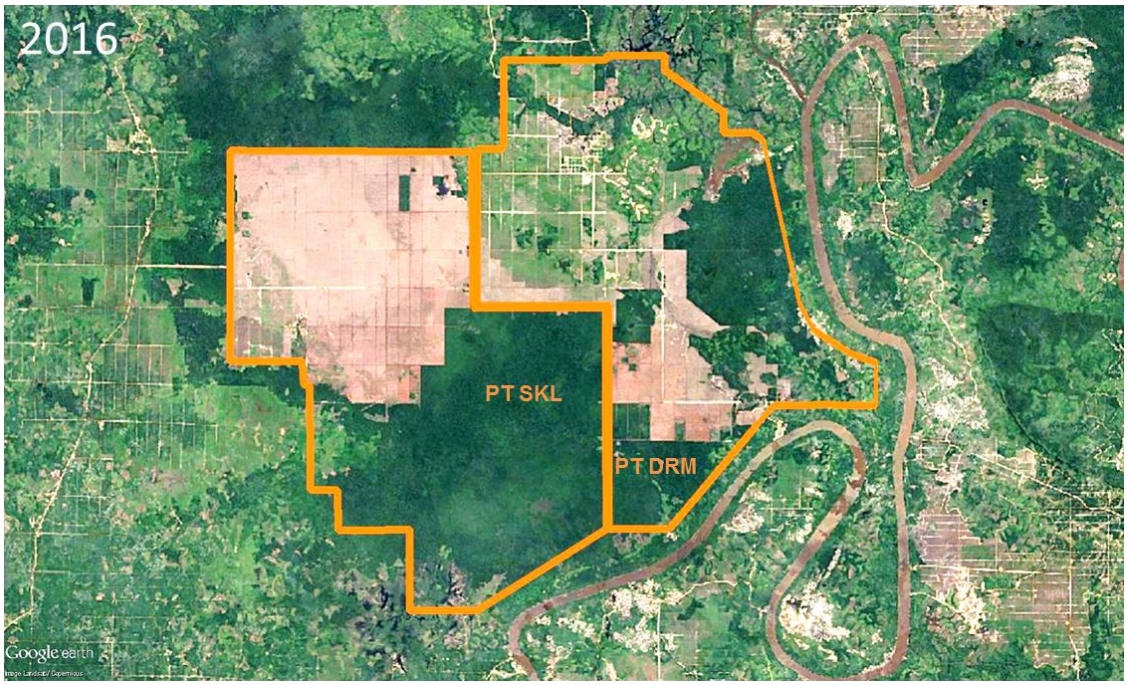
PT DRM
PT SKL
Google earth


2015
PT SKL
PT DRM
Google earth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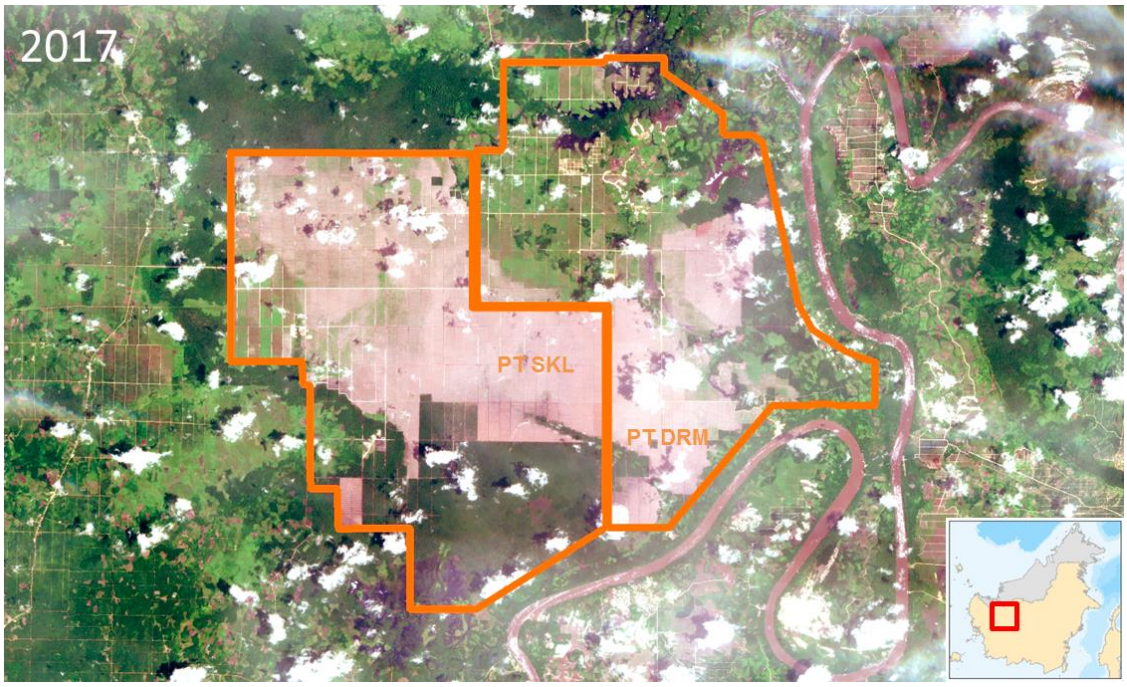
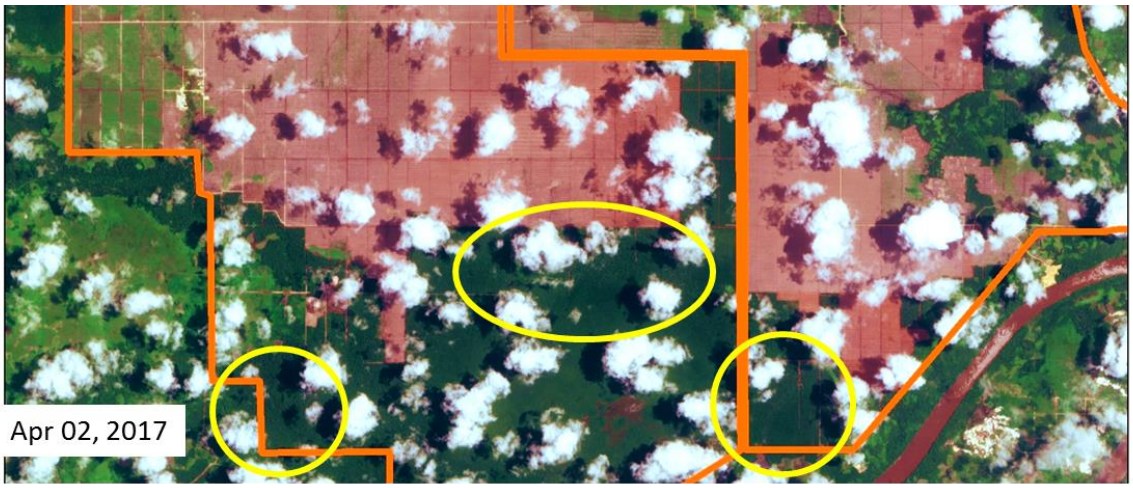
PT SKL
PT DRM
Google earth


2017
PT SKL
PT DRM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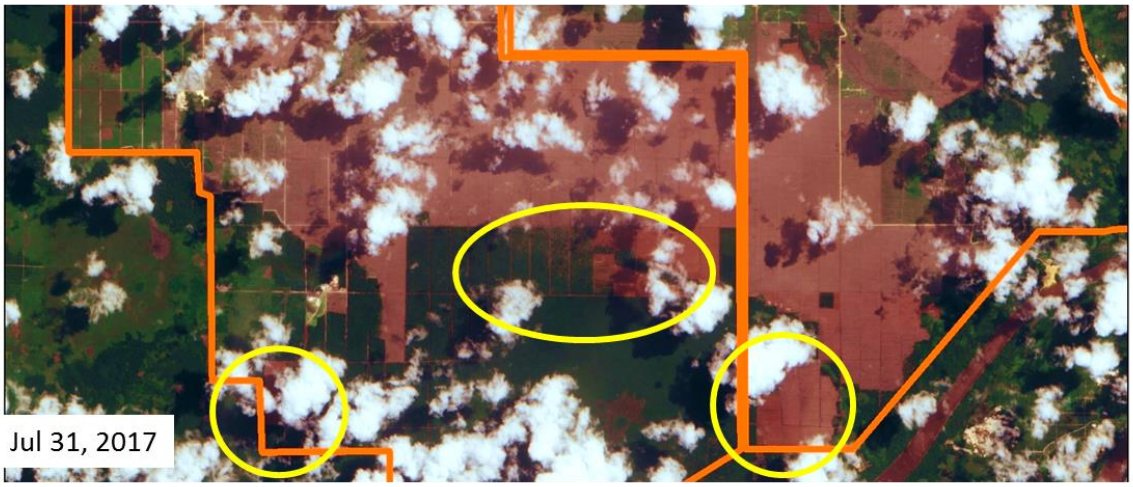
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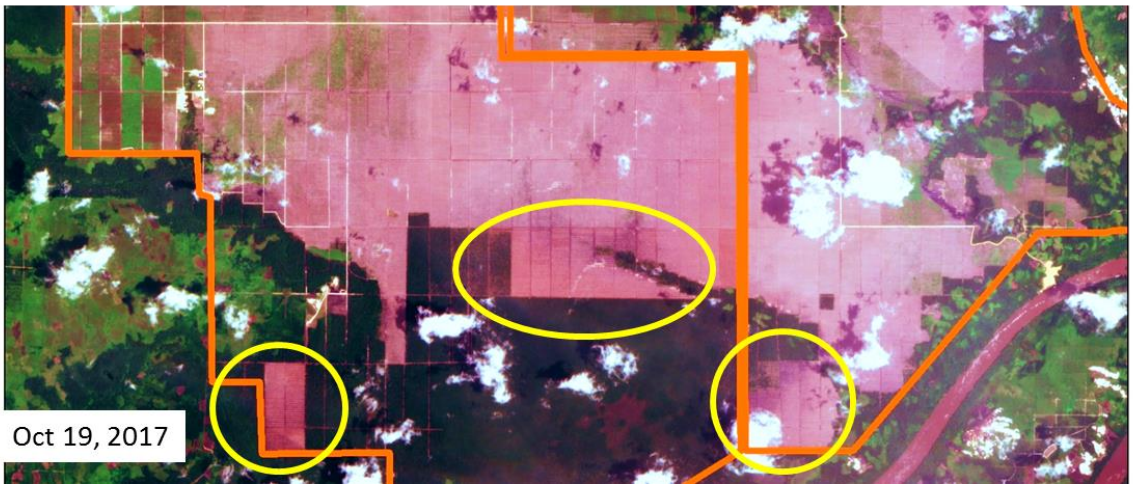
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