



CONFLICT PALM OIL CASE STUDY

BUMITAMA AGRI LTD

THE BANKS BEHIND BUMITAMA AGRI'S DESTRUCTION OF
RAINFORESTS, PEATLANDS AND ORANGUTAN HABITAT

Preamble

Palm oil is a globally traded agricultural commodity. Eighty five percent of palm oil is grown in Indonesia and Malaysia and it is now the world's most widely used edible vegetable oil. At the same time, palm oil has become one of the world's leading causes of rainforest and peatland destruction and is responsible for releasing globally significant quantities of carbon pollution into the atmosphere. The production of palm oil is also responsible for widespread human rights violations and the use of child labor and modern day forms of slavery.

In order to protect rainforests and respect the rights of Indigenous Peoples and rural communities we must change the way that palm oil is produced. The stakes are high and transforming the way palm oil is produced and globally distributed is a large and complex undertaking. We know it will not be easy, but it is absolutely crucial that stakeholders—including bankers, investors, consumer goods companies, global palm oil traders, governments, NGOs, and consumers — all do our parts to eliminate Conflict Palm Oil from global supply chains and drive a transformation towards the production of truly responsible palm oil.

Responsible palm oil is palm oil that is produced without contributing to deforestation, expansion on carbon-rich peatlands, and/ or the violation of human and labor rights. Responsible palm oil is produced legally and can be verifiably traced back from the consumer product to the plantation where it was grown.

Conflict Palm Oil is produced under conditions associated with the ongoing destruction of rainforests, expansion on carbon-rich peatlands, and/or human rights violations, including the failure to recognize and respect the customary land rights of forest-dependent communities and the use of forced labor and child labor.

This case study profiles Bumitama Agri Ltd's (Bumitama) extensive and destructive palm oil plantation expansion in Borneo, and the banks whose money is being used to pay for it.

Financing for Bumitama's expansion includes \$142 million specified for this purpose from Bumitama's 2012 IPO, and \$455 million in credit facilities provided by several syndicates of international banks. (See "Bumitama's Financiers" section below.)

By providing hundreds of millions of dollars to Bumitama Agri, banks and investors make its plantation expansion activities possible and therefore share responsibility, and also must be held accountable, for the destruction of rainforests, peatlands and the habitats of endangered orangutans.

I. THE PLANTATION COMPANY PROFILE

Bumitama Agri Ltd (BUMI.SI) is a listed company on the Singapore Exchange (SGX) that grows palm oil plantations and produces crude palm oil in Indonesia. Bumitama Agri Ltd, mostly operating through its subsidiary company, PT Bumitama Gunajaya Agro (PT BGA), has a landbank of more than 198,000 hectares in West and Central Kalimantan in Borneo and Riau in Sumatra, of which 133,000 hectares are planted with palm oil. It is currently planting new areas at an aggressive rate of 15,000 hectares a year with a target of 200,000 hectares in plantations by 2017.

Bumitama Agri Ltd has more than a dozen palm plantation subsidiaries including three, PT Ladang Sawit Mas (PT LSM), PT Andalan Sukses Makmur (PT ASMR) and PT Nabatindo Karya Utama (PT NKU), profiled in this briefing.

Bumitama Agri Ltd was founded by the Harita Group, which is controlled by the billionaire Lim family. Bumitama's Board Chair and Chief Executive Officer is Lim Gunawan Hariyanto, and Deputy Chief Executive Officer is his brother, Gunardi Hariyanto Lim. These founders own 53% of Bumitama Agri Ltd through their family controlled holding company, Fortune Holdings Pte Ltd.

Bumitama Agri Ltd declares in its Annual Report that it is committed to not "putting at risk areas of HCV interest or habitats important for endangered plant or animal species," and to "take into consideration the environmental impact of any major change in our processes or expansion." However, the company's actions, as profiled below, tell another story.

Bumitama Agri Ltd subsidiary PT Bumitama Gunajaya Agro, which manages most of Bumitama's plantation concessions, has been a member of the Roundtable for Sustainable Palm Oil (RSPO) since 2007. However, six years later none of the plantations managed by PT BGA have yet achieved RSPO certification. To the contrary, PT BGA and the Bumitama group have now been publicly censured by the RSPO for failing to comply with their obligations as RSPO members to protect High Conservation Value forests.

II. THE PROBLEM

Centered in Indonesia and Malaysia but now spreading to other tropical regions, palm oil has become one of the world's leading causes of rainforest destruction. Unchecked expansion and poor forest governance has allowed and even encouraged palm oil plantations to enter into the heart of some of the world's most culturally and biologically diverse ecosystems. Palm oil expansion is one of the biggest threats to iconic wildlife species like the Endangered Borneo orangutan.

Bumitama Agri Ltd and its subsidiary PT Bumitama Gunajaya Agro (PT BGA) are two of the companies responsible for the expansion of palm oil in Borneo at the expense of rainforests and loss of habitat for the Borneo orangutan. Field investigators are documenting a growing number of specific cases of on-going forest clearance by Bumitama Agri Ltd in West and Central Kalimantan, including forests that are essential habitat for Endangered Borneo orangutans.

Of particular concern is that some Bumitama Agri Ltd concessions are in buffer zones nearby or adjacent to Indonesian national parks and forest reserves, including one concession, PT ASMR, which is impacting world renowned Tanjung Puting National Park in Borneo. Covering 415,070 hectares of lowland, freshwater swamp, peat and mangrove forests, Tanjung Puting National Park, located on the eastern bank of the Sekonyer River in Central Kalimantan, is a globally significant conservation area rich in biological diversity. It was named as a UNESCO Biosphere Reserve in 1977, and gained Indonesian national park status in 1984. It is home to more than 200 bird species, 17 reptile species and 29 mammal species. Visitors can find such iconic endangered species as the estuarine crocodile, clouded leopard, Malayan sunbear and Storm's stork, and endangered primates such as the proboscis monkey, the agile gibbon and Borneo orangutans.

However, Tanjung Puting National Park, like other Indonesian national parks, is under threat. Due to uncontrolled land use, including encroachment by palm oil plantations and invasions by illegal logging interests plundering its high concentration of commercial ramin and meranti tree species, sixty five percent of the Tanjung Puting National Park forest area is considered degraded.

At the same time, over the past few years companies have begun planting palm oil plantations on more than 100,000 ha of cleared rainforest in the buffer areas surrounding the national park, negatively affecting orangutan populations. According to orangutan scientists, in addition to securing the integrity of protected forests it is “essential” that forest conservation measures are taken outside of protected areas in order to maintain critical orangutan habitat such as nesting sites, corridor areas between forest blocks, and seasonal feeding areas.

If Bumitama continues with its plans to establish palm oil plantations within the Tanjung Puting National Park and its riparian buffer zone, it will further degrade the ecological integrity of this critical protected area and threaten the survival of the orangutans that live in and rely on the forests in its concession.



- - SENTAP KANCANG AND GUNUNG TERAK FOREST RESERVES WEST KALIMANTAN
- - TANJUNG PUTING NATIONAL PARK CENTRAL KALIMANTAN
- - RIAU, SUMATRA



II. THE EVIDENCE

Independent Indonesian NGO field investigations in Borneo of three Bumitama palm oil concessions, PT Ladang Sawit Mas (PT LSM), PT Andalan Sukses Makmur (PT ASMR) and PT Nabatindo Karya Utama (PT NKU), have documented the company's destruction of forests with important conservation values and the negative consequences for orangutans that have been harmed or died as a result of the company's activities.

A History of RSPO Complaints-Panel Findings

In 2013, seeking to prevent further loss of orangutan forest habitat, NGO's including International Animal Rescue Indonesia, Friends of the National Parks Foundation, Center for Orangutan Protection and Friends of Borneo, submitted documentation on each of the three controversial palm oil concessions to an RSPO Complaints Panel for review and arbitration, starting with PT NKU on March 11, then PT LSM on April 8, and PT ASMR in mid September.

In July 2013, the RSPO Complaints Panel, following its review of the PT LSM complaint, publically censured RSPO member PT BGA, PT LSM's parent company, finding that it was in non-compliance with the RSPO New Planting Procedure and the RSPO Principles and Criteria. It found that PT LSM cleared forests in the buffer zones of the Sentap Kancang and Gunung Terak Forest Reserves near Gunung Palung National Park in West Kalimantan, and a number of starving orangutans had to be rescued from the PT LSM concession in March 2013.

Critically, in July the RSPO cautioned PT BGA that, "...the issues faced by your company may not be ad-hoc but systemic in nature..." and that failure to address these concerns could result in the RSPO's "ultimate sanction" by suspending or terminating of RSPO membership.

In mid-September 2013, independent field investigators found that Bumitama subsidiary PT ASMR had begun forest clearing activities in High Conservation Value forest areas in and adjacent to Tanjung Puting National Park in Central Kalimantan, provoking the immediate submission of a new petition to the RSPO urgently requesting it to take actions to halt the clearance and to control its member's destructive activities.

Tragically, Tanjung Puting National Park is still under threat, and stakeholders remain concerned that action from the RSPO will come too late to stop the forest destruction on Bumitama's PT ASMR concession. Concerns exist that the RSPO seems reluctant to impose meaningful sanctions on its members or terminate membership even in clear cases of fundamental violations of its rules, and, as a result, any sanctions on PT ASMR will be too weak to stop the behavior from continuing.



CLEARANCE OF FORESTS IN THE PT NKU CONCESSION FOR A NEW PALM OIL PLANTATION.
PHOTO: CENTRE FOR ORANGUTAN PROTECTION



Findings of Field Investigations - Orangutan Endangerment

Starving orangutans rescued from PT LSM plantation concession

March 2013 four starving orangutans were rescued by Nature Conservation Agency in Ketapang (BKSDA Ketapang) and International Animal Rescue (IAR) Indonesia from PT BGA subsidiary, PT LSM's, concession in the forest buffer zones of Sentap Kancang and Gunung Tarak Forest Reserves near Gunung Palung National Park in West Kalimantan. A video produced by International Animal Rescue, which can be viewed at <https://vimeo.com/63254306>, shows the devastation caused by the plantation expansion operations of BGA's subsidiary, PT LSM, into this important forest area.



LEFT: STARVING ORANGUTAN THAT WAS RESCUED FROM THE PT LSM PALM OIL PLANTATION IN WEST KALIMANTAN IN MARCH, 2013. **RIGHT:** ORANGUTAN CLINGS TO THE LAST TREE LEFT STANDING IN AN AREA CLEARED BY PT LSM FOR A NEW PALM OIL PLANTATION. **PHOTOS:** ALEJO SABUGO- YAYASAN IAR INDONESIA

Death of a young orangutan from PT NKU plantation concession

The Centre for Orangutan Protection has removed two juvenile orangutans from the PT NKU concession in Central Kalimantan, which was being developed prior to carrying out a High Conservation Value assessment. The first juvenile orangutan was removed from the forest within the palm oil plantation concession in August and later died in the care of a local worker. The second was removed in October and had his fingers chopped off by a plantation worker.



THE JUVENILE ORANGUTAN THAT WAS REMOVED FROM THE PT NKU AND DIED IN THE CARE OF A LOCAL WORKER.
PHOTO: CENTRE FOR ORANGUTAN PROTECTION

Findings of Field Investigations - Clearing High Conservation Value Forests (HCVF)

Forest clearing by Bumitama subsidiary PT NKU

In March, 2013 the Centre for Orangutan Protection (COP) filed a formal complaint to the RSPO Complaints Panel based on evidence that PT BGA's subsidiary PT NKU had cleared land containing High Conservation Values. The complaint presented evidence that PT NKU did not conduct an appropriate High Conservation Value assessment prior to clearing.

Forest clearing by Bumitama subsidiary PT LSM

In April 2013, Friends of Borneo and Yayasan IAR Indonesia filed a formal complaint to the RSPO Complaints Panel based on evidence that PT BGA's subsidiary PT LSM had cleared a total of 3, 205 hectares of land in the forest buffer zones of the Sentap Kancang and Gunung Terak Forest Reserves near Gunung Palung National Park in West Kalimantan. The complaint presented evidence that the clearing had been carried out prior to a High Conservation Value assessment being done. IAR Indonesia rescued four starving orangutans from the PT LSM concession, a clear indication that the forests that were cleared contained high conservation values and provided important habitat for local orangutans. Furthermore, an Environmental Impact Statement in 2009 had identified the presence of endangered species including orangutans in the PT LSM concession, and it is not credible that PT BGA could have been unaware of this.

In July 2013, the RSPO publically censured PT BGA on a number of points, including clearance of forests without following proper New Planting Procedures, and failing to properly identify and protect high conservation value forest areas in the two above concessions, PT LSM and PT NKU.



CLEARANCE OF FORESTS IN THE PT LSM CONCESSION FOR A NEW PALM OIL PLANTATION.

PHOTO: ALEJO SABUGO- YAYASAN IAR INDONESIA

Forest clearing by Bumitama subsidiary PT ASMR

In September 2013, local NGOs reported that a Bumitama subsidiary, PT Andalan Sukses Makmur (PT ASMR), had started clearing existing vegetation in the Tanjung Puting National Park and buffer areas, sparking the filing of yet another formal RSPO complaint. The company intends to establish a palm oil plantation within the national park and adjacent forest buffers, which are important areas for orangutan protection. The company was given an exploration permit by the local bupati based, in part, on an Environmental Impact Statement that local organisations have characterized as inadequate and misleading.

The three examples above are indicative of deeper systemic problems with Bumitama's management culture, in particular its failure to apply effective standard operational procedures for identifying and protecting high conservation values across its operations.

Combined with PT BGA's aggressive 15,000 hectare per year plantation expansion targets, PT BGAs current business model comes at a high cost for rainforests, the protection of endangered orangutan habitat and the ecological integrity of Tanjung Puting National Park.



CLEARANCE OF FORESTS IN PT ASMR CONCESSION FOR A NEW PALM OIL PLANTATION.



Plantation expansion on carbon-rich peatlands in Bumitama's concessions

In Satellite mapping of Bumitama's concession areas in West Kalimantan have also identified clearance and presumed drainage of areas of carbon-rich peatlands. When these areas are drained the peat is exposed to the air, and as the peat oxidizes it emits large quantities of carbon dioxide into the atmosphere, year after year for decades, much like coal power plant emissions. This is in addition to a one time large pulse of emissions from deforestation. Scientists have identified palm oil plantation expansion onto peatlands in Indonesia and Malaysia as a globally significant threat to the climate system, projected to contribute more than 400 million tons of CO₂ emissions per year from Indonesia alone if further expansion on peat is not prohibited.

Given the very high carbon intensity of palm oil plantations on peatlands, the World Bank Group's International Finance Corporation (IFC), following an 18 month global review of palm oil impacts, has adopted new policies that prohibit it from providing any further financing of palm oil plantation expansion on peatlands. This sets an important precedent for private banks, many of which draw on IFC social and environmental safeguard policies to inform their own due diligence policies and procedures in other sectors.

Orangutan scientists have also identified peat swamp forests, even including secondary forest areas that have been logged, as particularly important habitat to be conserved for remaining populations of Borneo orangutan.

IV. BUMITAMA'S FINANCIERS

Bumitama is reliant on international capital in order to finance its aggressive palm oil plantation expansion targets. As the above cases illustrate, however, such financing is currently contributing to the destruction of rainforests, negative impacts on iconic endangered species and high climate emissions, all of which present a wide range of material risks both to Bumitama and to its financiers.

The Bumitama Agri Group's principal bankers are UK based HSBC and Singapore based DBS (19% owned by Citibank and 6% by HSBC).

Bumitama has US\$455 million in current loans and credit lines as of October, 2013 spread across five 5 different facilities, according to information compiled by Bloomberg. The financial institutions involved in these transactions, in addition to HSBC and DBS as lead banks, include:

- » Japanese based Bank of Tokyo-Mitsubishi UFJ and Sumitomo Mitsui Banking Corp;
- » Singapore based OCBC and UOB;
- » Indonesia based Bank Ekonomi (majority owned by HSBC) and Bank Permata (jointly owned by PT Astra International and Standard Chartered Bank); and
- » Netherlands based Rabobank International.
- » Other lenders include: Malaysian government owned CIMB Bank and Indonesia based Bank Mandiri (60% owned by the Indonesian government)

Bumitama Agri Ltd is listed on the Singapore Stock Exchange. It held its IPO on April 12, 2012, and its book runners were HSBC and DBS Bank. \$142 million of the IPO's proceeds (58% of the total) have been allocated for new plantings at an initial rate of 13,000 hectares per year, recently raised to 15,000 hectares per year. A group of "cornerstone investors" in the IPO for 7% of shares included Wilmar International subsidiary Wii Pte Ltd, UOB Asset Management, Value Partners Hong Kong, Malaysia based Hwang Investment Management (major shareholders include DBS and Nikko Asset Management) and Singapore based Target Asset Management.

Bumitama's top shareholders are Fortune Holdings Pte Ltd (52.63%), which is controlled by Bumitami Agri's founders, the billionaire Lim family, and IOI Corp Bhd (31.19%)."



三菱東京UFJ銀行
Bank of Tokyo-Mitsubishi UFJ



三井住友銀行
Sumitomo Mitsui Banking Corp



Rabobank
International



BANK EKONOMI





V. THE SOLUTION

What can banks and investors who finance Bumitama Agri Ltd do?

In order to transform the way that palm oil is produced, banks and investors, consumer goods companies, traders, governments, NGOs, and consumers all need to do their parts to stop the production of Conflict Palm Oil and drive the transformations needed to support responsible palm oil production.

There are a number of common sense actions that banks and investors can take to help drive this transformation.

1. who are currently financing Bumitama Agri Ltd must, as an urgent matter and in consultation with informed independent stakeholders, investigate Bumitama's practices and engage with Bumitama Agri Ltd senior management to ensure that:

- » Its subsidiary PT Andalan Sukses Makmur (PT ASMR) does not proceed with any further clearing activities within the Tanjung Puting National Park, or its riparian buffer area;
- » An independent review and revision process of PT BGA's policies and Standard Operating Procedures relating to environmental, human rights and transparency safeguards is initiated and recommended changes are implemented;
- » A moratorium on forest clearing is put in place while new High Conservation Value (HCV) area and High Carbon Stock (HCS) assessments for all existing and new plantation concessions are conducted;
- » The company agrees to prohibit any further clearing of HCV or HCS forests, and drainage and planting on peatlands.
- » When High Conservation Value (HCV) surveys of Bumitama plantation concession areas identify endangered species, Bumitama must implement measures to ensure that their operations are not clearing endangered species habitat, habitat corridors or harming the well-being of endangered species, including Borneo Orangutans.
- » If Bumitama fails to take these actions that financiers make clear to Bumitama's senior management that the consequences will be to terminate their financial relationships with the company.

Furthermore, responsible financiers should communicate with the governments in West Kalimantan, Central Kalimantan and Riau their preferences that no new permits be allocated to PT BGA (and other palm oil companies) that contain high conservation value areas, allow expansion on peatlands of any depth or violate human rights and the rights of Indigenous peoples.

2. Financiers, including banks and investors, must develop palm oil finance due diligence procedures to avoid any financing of palm oil companies that fail to address and prevent the adverse social and environmental impacts commonly arising from palm oil plantation development. Financiers should:

- » Avoid investing in or lending to palm oil companies that continue to cause deforestation, high greenhouse gas emissions from plantation development on peatlands of any depth, and human and labor rights violations, and/or that are unable or unwilling to implement full traceability systems in their supply chains back to all growers to screen out all sources of Conflict Palm Oil in non-compliance with these standards.
- » Adopt financing safeguards consistent with upholding the rights of Indigenous peoples, as articulated in the UN Declaration on the Rights of Indigenous Peoples (UNDRIP), including the right to Free, Prior and Informed Consent (FPIC).
- » Ensure that financing to the palm oil sector is consistent with implementation of the FAO Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security.
- » Assess what conflict resolution mechanisms, if any, that palm oil producer, traders and refining companies have and their effectiveness, and not finance companies without effective conflict resolution mechanisms.
- » In addition, banks and institutional investors should create conflict resolution mechanisms of their own for any palm oil related financing, which can be accessed by impacted rights holders and stakeholders and functions to ensure that Indigenous Peoples and community customary rights over land and resources are respected and upheld as are human and labor rights, and that environmental protections are fully implemented.
- » Adopt zero tolerance policies for maintaining any banking or investor relationships with producers and suppliers linked to child or forced labor.
- » Aggressively increase due diligence efforts to identify and report suspected money laundering activities to appropriate authorities, and to avoid all financing to palm oil sector companies and their suppliers suspected of engaging in corruption, tax evasion or money laundering.

3. Financiers, including banks and investors, should divest from palm oil consumer companies or commodity traders who do not have adequate policies and systems in place to eliminate Conflict Palm Oil from their supply chain and/or are unable or unwilling to implement full traceability systems in their supply chains back to all growers.

For more information:

Read Rainforest Action Network's report *Conflict Palm Oil: How US Snack Food Brands are Contributing to Orangutan Extinction, Climate Change and Human Rights Violations* – <http://www.ran.org/conflict-palm-oil>

Rainforest Action Network campaigns for the forests, their inhabitants and the natural systems that sustain life by transforming the global marketplace through education, grassroots organizing and non-violent direct action.

Published October, 2013