

A LOOPHOLE THE SIZE OF **INDONESIA**



Indofood:

PEPSICO'S INDONESIAN PALM OIL PROBLEM

PEPSICO'S CONFLICT PALM OIL PROBLEM

PepsiCo is the world's largest globally distributed snack food company. It uses 457,200 metric tons of palm oil annually in the making of its products—products like Doritos, Lay's Potato Chips and Quaker Chewy Bars—and each year its appetite for this controversial oil grows. However, so do the frequency and severity of reports of the impacts of palm oil expansion, as Conflict Palm Oil wreaks havoc on critically important rainforests, communities neighboring plantations or standing in the way of their expansion and workers on the plantations themselves.

PepsiCo has been exposed for its use of Conflict Palm Oil, and for over two years activists have called on the company to fix its Conflict Palm Oil problem by adopting a responsible palm oil policy and cutting out palm oil suppliers who continue to destroy rainforests, carbon-rich peatlands and abuse the rights of local communities and workers.

In late September 2015, PepsiCo adopted a new policy that aims to halt the destruction of rainforests and peatlands and end the ongoing violation of human and workers' rights in its global supply chain. Its new policy sounds good, as it outlines stricter standards for its suppliers, but the devil is truly in the details. In its most recent policy, PepsiCo is trying to slip one under the table and give a free pass for 'business as usual' palm oil production to Indofood: one of the largest palm oil growers in the world, the biggest food company in Indonesia, and the sole maker of PepsiCo products in Indonesia. This loophole is dangerous as it means that PepsiCo's palm oil suppliers in Indonesia—the frontline of palm oil expansion, rainforest destruction and human rights abuse—are not required to change a thing about their practices.

PepsiCo has the opportunity to transform its partner Indofood into a responsible palm oil company, but it has so far failed to step up to the task. PepsiCo is protecting its bottom line—instead of the rights of workers, communities, rainforests and

peatlands across Indonesia—by not holding Indofood to the latest standards it has adopted. This needs to change. PepsiCo must ensure that its soon-to-be released Action Plan, a time-bound implementation plan outlining clear performance based milestones, includes holding Indofood to the requirements specified in PepsiCo's palm oil policy.

Indofood must step up to the highest requirements of its customers. Nestlé, Unilever and Procter & Gamble—three global brands similar to PepsiCo—and several key palm oil traders including Wilmar International, Golden Agri Resources, and Musim Mas Group, which are all business partners and customers of Indofood, have adopted responsible palm oil commitments that include stricter environmental and social standards than the Roundtable on Sustainable Palm Oil (RSPO). Indofood is currently only working to the RSPO's inadequate requirements, which support a "business as usual" approach, as it permits deforestation and has a poor track record of upholding human and workers' rights.

Investors are also increasingly expecting companies to have responsible policies and practices, to reduce risk and avoid being complicit in rainforest destruction and human rights abuses. One of the world's largest investors, Norway's Government Pension Fund Global, has highlighted this in its expectation document on climate change. The Pension Fund has shares in a parent company of Indofood, and has recently excluded similar companies from its investments portfolio due to violations of the Pension Fund's ethical guidelines. Norway's Government Pension Fund Global should look into the activities of Indofood and similar companies, and consider exclusion or divestment from Indofood's parent company if the policies and practice of the company are not improved significantly. If a major investor like Norway's Government Pension Fund Global divests, this will be a huge blow both for PepsiCo, Indofood and their reputations.

The market signal is clear: companies who fail to innovate and continue with "business as usual" operations will no longer be rewarded. Will Indofood respond to its customers and investors demand for real change in its policies and practices on the ground in Indonesia? Will PepsiCo hold Indofood to the requirements in its policy?

INDOFOOD:

'BUSINESS AS USUAL' PALM OIL PRODUCTION

Why is Indofood a problem?

Indofood has a legacy of clearing and burning rainforests, and long-standing cases of social conflict and human rights violations.

The palm oil arm of Indofood, Indofood Agri Resources Ltd (IndoAgri), is the third largest private palm oil company in Indonesia. Its plantations cover a total area of 246,000 hectares in Sumatra and Kalimantan and it has been expanding aggressively over the past seven years, by roughly 12,000 hectares of new palm oil plantations annually.

IndoAgri's palm oil business operations are conducted by its subsidiaries PT. Salim Ivomas Pratama Tbk. (Salim Ivomas) and PT. PP London Sumatra Indonesia Tbk. (Lonsum). IndoAgri generates revenue each year—the equivalent of USD 1.2 billion as of 2014—from large scale production and processing of

palm oil. Its business practices impact both the plantations it directly operates, as well as large landholdings controlled by its third party suppliers. Its profits come at heavy costs for Indonesian communities, workers, rainforests and our global climate.

In September 2015, Rainforest Action Network and Rainforest Foundation Norway released a report titled *Palm Oil Sustainability Assessment of Indofood Agri Resources*. The report presented findings of an assessment of Indofood's policies and practices against the higher responsible palm oil production standard set by the policies of its customers. Research, satellite analysis, field investigations and interviews with civil society groups identified a number of cases that demonstrate "business as usual" practices for Indofood. The report shows that Indofood has a legacy of clearing and burning rainforests, and long-standing cases of social conflict and human rights violations.

Indofood is lagging behind its peers and is now the largest private palm oil company in Indonesia that has not strengthened its policies or improved its practices to align with the new benchmark for responsible palm oil.



PHOTO: AIDENVIRONMENT

CASE STUDIES

INDOFOOD: A LEGACY OF RAINFOREST DESTRUCTION

In 2013 and 2014, Indofood cleared 1,000 hectares of previously untouched tropical rainforest in East Kalimantan, on the island of Borneo. The forest cleared was previously protected as part of a lowland swamp forest known as the Metau forest. The Metau forest is located in one of the largest wetlands in Kalimantan and is a critical breeding and nesting habitat for endangered birds, including the Lesser Adjutant, a large-winged bird in the stork family which is listed as vulnerable on the IUCN Red List of Threatened Species.

The Metau forest is a forest that has been used by local Dayak communities for generations. The Muara Ohong village is home to 800 people and is now seriously affected by Indofood's palm oil plantation operations. For the past two years, the

villagers have been unable to drink from their water source, and the fish in community fish ponds have died due to run-off pollution linked to the plantations. Increased incidence of floods, droughts and extreme water levels in nearby Lake Jempang have impacted the villagers ability to grow crops, and villagers, left with no other option, are leaving their homes. Indofood has continued to develop the Metau swampland for palm oil plantations, despite efforts by the Governor of East Kalimantan to protect the region as a water conservation area.

Satellite information shows that since 2012, Indofood has cleared a total of 4,600 hectares in the Kedang Makmur palm oil plantation. Field investigations conducted in May 2015 found evidence that forests continued to be cleared in 2014.



Given this active clearance of forests and Indofood's public statements that it intends to establish 5,000 to 10,000 hectares of new plantations annually, it is clear that Indofood will remain a bad actor that is exposing its customers to deforestation in Indonesia.

INDOFOOD: CARBON BOMBS

Palm oil plantation expansion is increasingly targeting critical areas of rainforests, including peatland forest areas across Indonesia. Sumatra and Kalimantan, where Indofood's plantations and processing facilities are located, both have large areas of peatlands which are being targeted for palm oil expansion by many actors in the sector. Palm oil development on these lands is a huge source of greenhouse gas emissions, contributing to an estimated half of Indonesia's climate emissions. Further adding to the climate emissions associated with palm oil is the use of fires to clear and prepare land for planting with oil palm trees. The resulting smoke and haze spreads across Southeast Asia, disrupting airplane traffic,

smothering major cities and provoking health emergencies.

The emerging need to prevent and control the use of fires in the palm oil sector has led to the use of satellites to find 'hotspots' which indicate locations where fires may frequently occur.

In 2014, images from two satellites found that 90 hotspots were recorded inside Indofood's palm oil plantation in East Kalimantan. Satellite images from October 2014 showed both active burning and a burned area of roughly 200 hectares. Field investigations conducted on the ground in May 2015 found burned trees on the plantation as well as evidence of active burning by Indofood.

Given the evidence that the company has previously used fire to prepare land for new plantations, it is clear that Indofood will remain a bad actor that may expose its customers to high greenhouse gas emissions and to the chronic annual fires and regional haze issues that spark diplomatic crisis between Indonesia, Malaysia and Singapore.

PHOTO: AIDENVIRONMENT

INDOFOOD: CONFLICTS WITH COMMUNITIES

Palm oil production at large has a sordid history of human rights violations: land grabbing, community conflict and the failure to respect the rights of communities to give or withhold their Free, Prior and Informed Consent to development on their lands. The Indonesian government has facilitated the large scale industrial expansion of palm oil plantations by a number of large palm oil companies—including Indofood—without protecting the rights of Indigenous Peoples and local communities. As a result, Indofood has a legacy of long standing land conflicts with communities who have in most cases lost control and access to their customary lands.

In the past two years alone, Indofood has been involved in six land disputes with local communities. Many of these conflicts, usually involving hundreds of hectares of land, have been in

dispute for years. Indofood has a poor track record of obtaining Free, Prior and Informed Consent (FPIC) from communities through a credible FPIC process prior to commencing the development of palm oil plantations on their lands. A number of cases, such as a conflict with villages surrounding its Kencana Sari and Arta Kencana plantations in South Sumatra, have resulted in the violent suppression of villagers by Indofood personnel. In 2013 in North Sumatra, hundreds of farmers were forcibly evicted by military and police personnel from land the farmers used for generations and had built settlements on, so that Indofood could gain access to land for its Sei Merah palm oil plantation. Simply put, Indofood lacks public policies, procedures and credible, independent grievance mechanisms needed to uphold and respect human rights, including the land rights of local communities.



Given its legacy of unresolved land conflicts, it is clear that Indofood will remain a bad actor that may expose its customers to the abuse of basic human and land rights for Indigenous Peoples and local communities in Indonesia.

PHOTO: AIDENVIRONMENT

INDOFOOD: UNFAIR TREATMENT OF WORKERS

Palm oil has been listed on the U.S. Department of Labor's *List of Goods Produced by Child Labor or Forced Labor* as a commodity associated with both forced labor and child labor since 2010. Even those palm oil plantation workers not subject to forced labor or child labor often face harsh working conditions and challenges to basic human and labor rights.

Indofood has been exposed for worker abuses over the years: children working on plantations, arbitrary termination of workers, sexual abuse of female casual workers, lack of proper personal protective equipment for workers and lack of health insurance are sadly just some of the cases. A case study published in 2013 by Sawit Watch and International Labor Rights Forum (ILRF) highlights that Indofood's plantation PT London Sumatra

Rambung Sialang relied on casual laborers to fulfill core plantation work, like spraying pesticides and fertilizing, over many years without giving workers the opportunity to become regular employees—evading fair wages, health insurance and other proper worker protections in the process.

Indofood lacks a public policy to uphold and respect workers' rights, leaving workers on Indofood plantations vulnerable to abuses to their basic human and labor rights. It is imperative that Indofood align its practices with the *Free and Fair Labor in Palm Oil Production: Principles and Implementation Guidance* and ensure that plantation workers have basic labor rights and the opportunity to earn a decent livelihood for themselves and their families.

Given its lack of responsible palm oil policies, it is clear that Indofood will remain a bad actor that may expose its customers to the abuse of basic labor rights for workers across Indonesia.

PHOTO: PAUL HILTON

FIXING INDOFOOD

PEPSICO'S CONFLICT PALM OIL PROBLEM

PepsiCo has the opportunity to transform Indofood into a responsible palm oil company by holding Indofood to the higher standard it has recently adopted. That opportunity will be lost if PepsiCo fails to include in its Action Plan clear performance based milestones that Indofood must meet in order to continue to make PepsiCo products. PepsiCo has set its own deadline for publishing its Action Plan by the 30th of October 2015, so the time for action is now.

PepsiCo has adopted these new policies only from the work that activists like you have done, and now we can't let them slip this one by us. We need your voice: Tell PepsiCo that all PepsiCo branded products, wherever they are sold, must be free of community land theft, worker harassment and abuse, deforestation of untouched forest, or climate pollution through rampant forest fires and peatlands clearance.

Between now and the end of October, you can stand with communities fighting to protect their lands, livelihoods and Indonesia's rainforests from companies driving the expansion of the palm oil used in PepsiCo's snack foods. Join us as we put PepsiCo Out Of Order across the globe because of the ongoing risks of Conflict Palm Oil in PepsiCo's supply chain.

Taking action is simple: Visit ran.org/outoforder to download an Out Of Order sign (or make your own!) and affix it to a PepsiCo vending or soda machine near you.

PepsiCo and Indofood are slow to change, but with your help, Rainforest Action Network will hold both PepsiCo and Indofood to account for the impact they have on Indonesia's rainforests, communities, workers and our global climate.

STAND WITH US. STAND WITH INDONESIA.
Visit ran.org/outoforder and take action today.

Indofood is the sole maker of PepsiCo products in Indonesia. Given a legacy of deep issues and Indofood's unwillingness to change its policies and practices, every drop of palm oil used to make PepsiCo products in Indonesia remains at risk of causing egregious impacts on people and the planet.



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