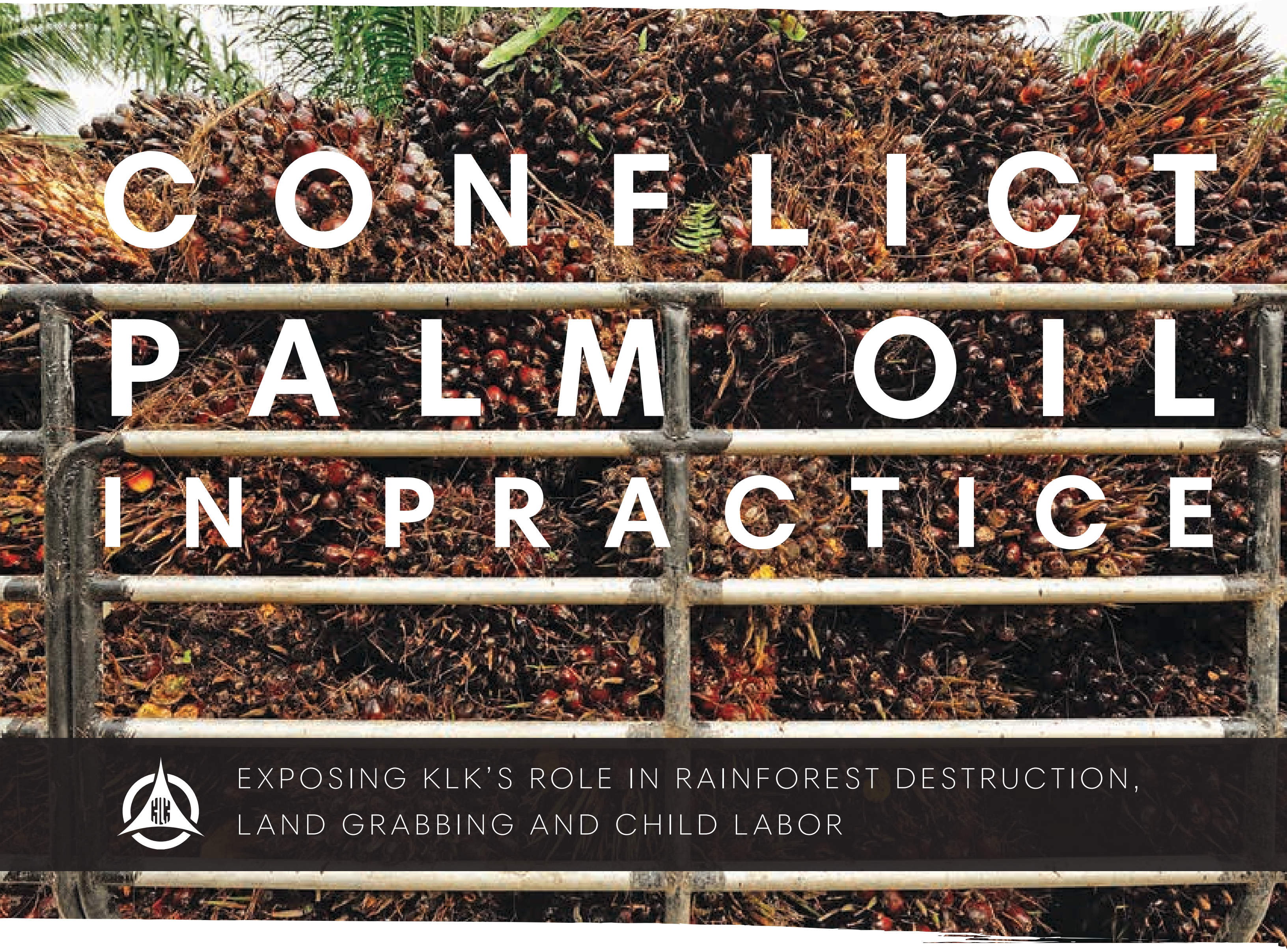


CONFLICT PALM OIL IN PRACTICE

EXPOSING KLK'S ROLE IN RAINFOREST DESTRUCTION, LAND GRABBING AND CHILD LABOR

2015 STATUS REPORT AND CUSTOMER BRIEFING

RAINFOREST ACTION NETWORK

2015 UPDATE:

KLK AND CONFLICT PALM OIL

In April 2014 Rainforest Action Network (RAN) released a report titled *Conflict Palm Oil in Practice: Exposing KLK's Role in Rainforest Destruction, Land Grabbing and Child Labor* documenting four Conflict Palm Oil cases in Kuala Lumpur Kepong Berhad's operations. The cases included (1) Expansion by KLK majority-owned Equatorial Palm Oil (EPO) onto customary lands of local communities in Liberia in violation of their Free, Prior and Informed Consent; (2) KLK's plans for expansion onto the customary lands of tribal groups in Collingwood Bay, Papua New Guinea without their Free, Prior and Informed Consent; (3) KLK's use of child labor and forced labor on plantations in Indonesia; and (4) deforestation on KLK plantations in Indonesia.

Since the release of the report, RAN and KLK senior management have met and spoken several times to discuss the cases in the report and KLK's sustainability policies and practices more broadly. In KLK's recent *Sustainability Policy Progress Report December 2014-June 2015*, it outlined a number of actions it is taking to the address the cases in RAN's report. However, these actions have yet to resolve the existing conflicts in KLK's supply chain or adequately address the outstanding risks of deforestation, violation of human and labor rights, and social conflict. The company also still lacks an adequate responsible palm oil policy.

In order to reform the policies and practices of KLK, immediate action needs to be taken by its customers and financiers. KLK's customers and financiers have the buying and financing power that is needed to convince KLK to undertake the reforms necessary to become a responsible supplier of palm oil.

The question remains, will KLK's customers and financiers step up to the challenge or will they continue to be complicit in the abuse of the rights of local communities and workers and the destruction of some of the world's last areas of intact rainforests?

FRESHLY HARVESTED PALM OIL FRUIT BUNCHES ON A PALM OIL PLANTATION INSIDE THE LEUSER ECOSYSTEM, NOVEMBER 2013.
PHOTO: *LAUREL SUTHERLIN / RAN*

ACTIONS FOR KLK CUSTOMERS AND FINANCIERS

KLK's customers and financiers must require KLK to resolve the Conflict Palm Oil cases raised in *Conflict Palm Oil in Practice: Exposing KLK's Role in Rainforest Destruction, Land Grabbing and Child Labor* as conditionality for their continued business and financing. Specifically, KLK's customers and financiers must require that:

- The Jogbahn communities' mapped land claims are formally excised from the EPO's palm oil plantation concession in Liberia;
- KLK publicly announce its exit from the Collingwood Bay region in Papua New Guinea;
- KLK release the full labor audit conducted by an external party on KLK's East Kalimantan operations and publish a plan for bringing its global operations into compliance with fundamental labor rights as outlined by ILO; and
- KLK take the most rigorous approach to implementation of its No Deforestation commitment by implementing the methodology governed by the High Carbon Stock Steering Committee.

These cases must be resolved to the satisfaction of the affected communities as rapidly as possible. If KLK is unable to demonstrate how it has resolved these issues within six months from November 2015, it should be excluded from supply chains or future investments.

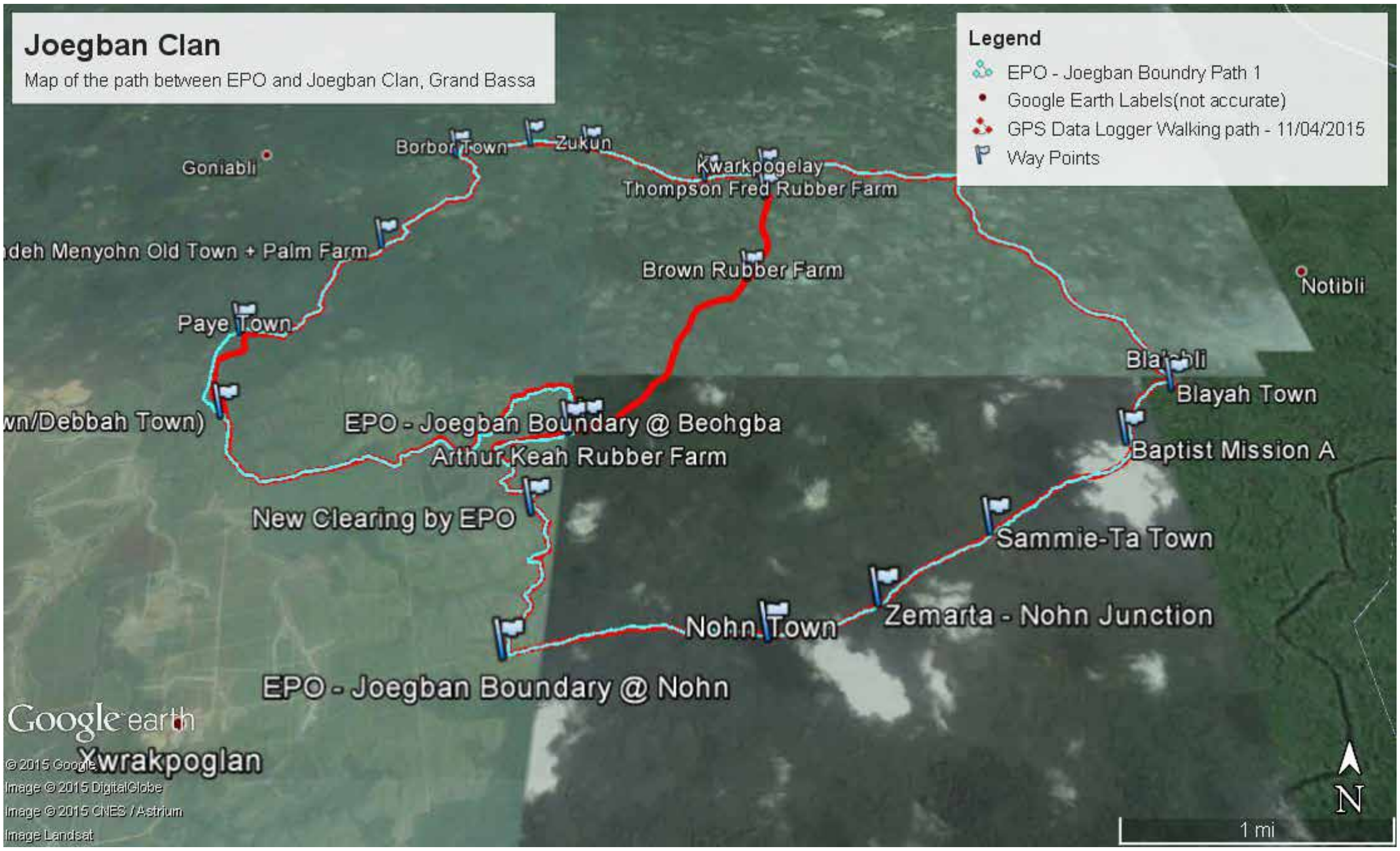
KLK, VIA ITS SUBSIDIARY EPO, FAILS TO RESPECT LIBERIAN COMMUNITIES RIGHT TO SAY "NO" TO PALM OIL EXPANSION ON THEIR CUSTOMARY LANDS

At the end of 2012 and continuing into 2013, Equatorial Palm Oil (EPO), a UK-based palm oil company that is majority-owned by KLK, began clearing the customary lands of local Jogbahn communities in Grand Bassa County, Liberia without their Free, Prior and Informed Consent (FPIC). The communities have demanded that EPO and KLK respect their right to say no to palm oil development on their customary lands and formally excise their land claims from the company's palm oil plantation concession. To date, the company has been unwilling to do so.

In October and November 2015, the communities mapped their land claims, and are calling for customers and financiers of EPO and KLK to require that the communities' mapped land claims are formally excised from the company's concession as a requirement to maintain their business.

COMMUNITY MEMBERS OF JOGBAHN CLAN (GRAND BASSA) AT A MEETING IN TARLOE TOWN DISCUSSING EPO PLAN TO EXPAND ONTO THEIR CUSTOMARY LAND. PHOTO: *SUSTAINABLE DEVELOPMENT INSTITUTE*

- **October 2013:** Sustainable Development Institute (SDI), a Liberian NGO, files a complaint through the Roundtable on Responsible Palm Oil (RSPO) against EPO on behalf of eleven communities for failing to obtain the communities' Free, Prior and Informed Consent (FPIC) prior to any development on their customary lands and violating RSPO Principles and Criteria 2.2, 2.3, 7.5, and 7.6.
- **December 2013:** KLK is added to the RSPO complaint due to KLK's majority ownership of EPO.
- **March 2015:** EPO files a New Planting Procedure (NPP) with the RSPO in March 2015 that includes land claimed by the communities opposed to development of palm oil on their customary lands.
- **June 2015:** The RSPO Complaints Panel states in a decision in response to the complaint filed against EPO on behalf of the communities that EPO "shall not carry out any land development in the disputed areas"
- **September 2015:** EPO carries out clearing on land belonging the Qwrakpojilian, one of the towns opposed to palm oil expansion on their land. SDI sends the coordinates of the cleared area to EPO and the RSPO, highlighting the violation of the RSPO's instruction that EPO "shall not carry out any land development in disputed areas." SDI also informs EPO and the RSPO that the communities will be undertaking participatory mapping of their customary land area, and EPO is invited to participate.
- **October-November 2015:** Communities carry out participatory mapping of their customary land area and once again call for EPO to formally excise their lands from the concession area. EPO does not join the mapping exercise.
- **November 2015:** The communities meet with EPO and inform the company that they no longer wish to meet regarding the communities' consent to EPO's planned development on their customary land because they say no to such development.



NO WAY FORWARD FOR KLK IN COLLINGWOOD BAY WITHOUT DEFORESTATION AND VIOLATION OF THE RIGHTS OF COMMUNITIES

At In December 2012 KLK acquired a majority interest in Collingwood Plantations Pte Ltd (CPPL), a company claiming to have user rights over three lots covering more than 40,000 hectares in the Collingwood Bay region of Papua New Guinea. The densely forested Collingwood Bay watershed is home to nine Indigenous tribes, who have constitutionally protected rights to decide if, how and where development can occur within the communities' ancestral lands. The communities have a long standing public position of opposing logging and palm oil development on their lands, and when the communities learned of KLK's claims in Collingwood Bay, a RSPO complaint was filed and lawsuit initiated.

In May 2014, the National Court of Papua New Guinea declared two of three land development leases claimed by KLK null and void and ordered cancellation of the title deeds. As a result, KLK lost its claim to the 38,350 hectares of land and currently only claims one 5,582 hectare lease in Collingwood Bay, State Lot 5.

From a forest cover analysis conducted by Aidenvironment in 2014, over 80 percent of State Lot 5 is covered in primary forest, with the rest being grassland and gardening areas, which have customary uses by the local communities. State Lot 5 is also only accessible via customary lands held by the Collingwood Bay communities that are opposed to the development of palm oil on their lands. This means that in order to develop State Lot 5 KLK would need to enter customary lands against the consent of the community and clear High Conservation Value and High Carbon Stock forests.

The only way for KLK to move to forward in Collingwood Bay in compliance with its own policy, requirements of the RSPO, and the policies of its customers and financiers is to forgo any development in State Lot 5 and permanently exit Collingwood Bay. KLK has refused to leave Collingwood Bay for over two years despite repeated calls from local communities and civil society groups to do so. KLK's customers and financiers must demand that KLK publicly announce its exit from the Collingwood Bay region in order to bring an end to this ongoing controversy and comply with existing policy commitments.

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2. The Special Agriculture and Business Lease granted on 27 July 2012 to Sibo Management Limited for a period of 50 years over all that piece of land known as "Kwagir" being Portion 113C Milinch Murua Fourmil Tufi, Oro Province, having an area of 21,520 hectares is null and void and is quashed.

3. The Special Agriculture and Business Lease granted on 27 July 2012 to Wanigela Agro Industrial Limited for a period of 50 years over all that piece of land known as "Kwagir" being Portion 113C Milinch Murua Fourmil Tufi, Oro Province, having an area of 21,520 hectares is null and void and is quashed.

Annex 2. Joint Communiqué issued at Wanigela 24th January 2010 under the authority vested in the Traditional paramount chiefs of the 9 tribes of Collingwood Bay representing 326 clans

Following an awareness workshop requested by the people of Collingwood Bay In light of the exploitation and attempts to exploit the forest resources within the Collinwood Bay area for logging and the proposals to introduce and develop oil palm estates, we the Chiefs supported by our people unanimously express our opposition to any large scale development that would have an adverse effect on our people, our way of life and our environment.

We will determine on our terms how we wish to pursue development and investment opportunities on our traditional land using our natural resources on both the land and our maritime boundaries in the best way we see fit. We demand that all current logging operations in the Collingwood area cease immediately and any further logging proposal be discussed with the people in their communities presided over by the chiefs.

We also protest in the strongest possible terms any plans to introduce the oil palm industry in the Collingwood Bay area.

PHOTO: *SAWIT WATCH 2012 – 2013*

CONTINUED RISKS OF LABOR RIGHTS VIOLATIONS IN KLK'S GLOBAL OPERATIONS

Workers on KLK plantation PT 198 located in East Kalimantan, Indonesia, reported being trafficked and working under forced labor conditions in 2010. After the workers escaped from the plantation with the help of a local truck driver, KLK responded by reportedly blacklisting the labor contractors responsible, including a man by the name of Handoyo. However, in 2012 and 2013 investigations by Indonesian NGO Sawit Watch found workers still recruited by the labor contractor Handoyo, working under a new enterprise called CV Daun Mas. Sawit Watch's investigations also found child laborers and workers working without labor contracts while contractors held their IDs and other valuable documents.

KLK has yet to respond to the 2012 and 2013 findings that Handoyo continues to recruit workers on KLK plantations and labor violations persist. KLK has only repeatedly claimed that it blacklisted Handoyo in 2010.

Instead of recycling this claim, KLK should reveal its procedure for blacklisting labor contractors and what due diligence it has done to verify that Handoyo and other blacklisted contractors are no longer recruiting for the company. KLK should also publicly adopt best practices in screening, managing and monitoring labor recruiters, and commit to an "employer pays" principle of not charging any fee or cost for recruitment to workers, directly or indirectly, in order to ensure that workers are not being put at risk of forced labor.

In 2015 KLK undertook an internal and external labor assessments of its operations in East Kalimantan. KLK's customers and financiers should require that KLK release the full labor audit report conducted by an external party on KLK's East Kalimantan operations and publish a plan for bringing its global operations into compliance with fundamental labor rights as outlined by the ILO.

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PHOTOS: *SAWIT WATCH 2012 – 2013*

CONTINUED RISKS OF DEFORESTATION IN KLK'S GLOBAL OPERATIONS

Satellite monitoring and field investigations undertaken by Greenpeace in 2013 and early 2014 found active clearance of forests within two KLK plantations in Central and East Kalimantan. Since then, KLK has publicly stated that it would halt the clearance of forests within its plantations until the outcomes of a study, funded by KLK and others in the Sustainable Palm Oil Manifesto (SPOM) Group and that would 'define' the forests that would be protected from conversion to palm oil in future developments, are released.

The approach that KLK has taken to address the deforestation in its global supply chains actions falls far short of the actions taken by its peers that have been implementing no deforestation commitments for several years. Several of KLK's peers have worked in partnership with NGOs for years to create a tool, called the High Carbon Stock Approach, that is used to halt deforestation in palm oil supply chains. This tool provides a practical and credible way to identify forest areas that merit protection from conversion to new palm oil plantations.

The HCS Approach helps distinguish between the areas of primary and secondary forests that will be protected from conversion and low carbon stock shrubs, grasslands and open lands that have potential to be converted to palm oil plantations. The threshold that has been adopted by its peers is illustrated below.

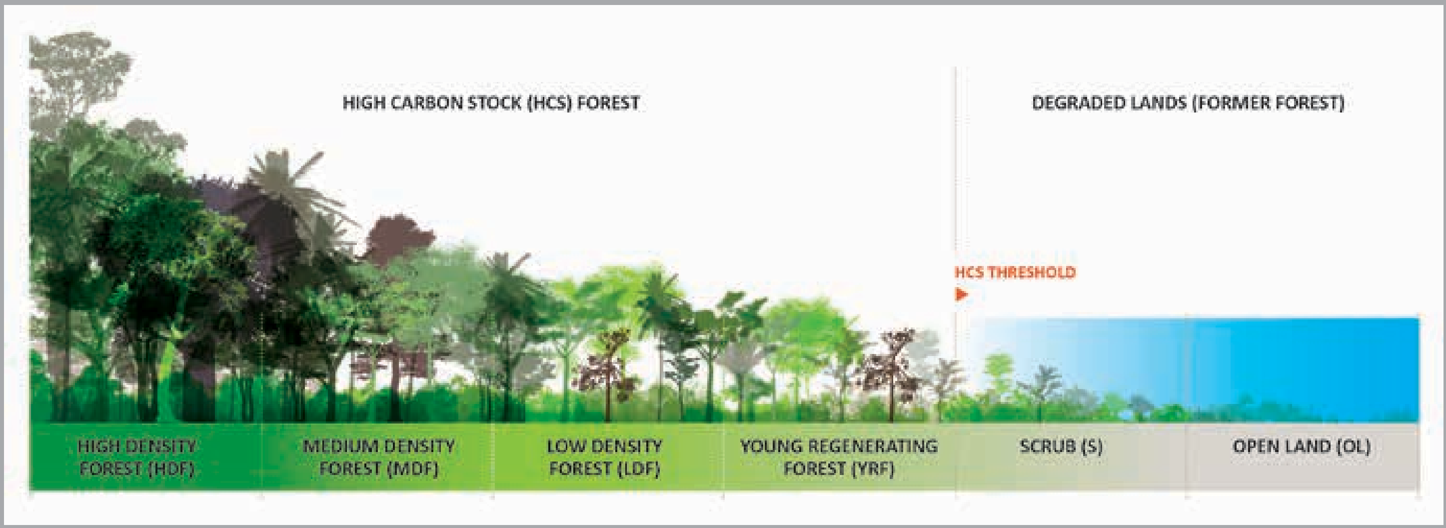

IMAGE: *THE HCS APPROACH STEERING GROUP*

EXCAVATORS CLEAR FOREST INSIDE KLK'S PT KMA II. PHOTO: *ULET IFANSASTI / GREENPEACE*

KLK's approach, as presented by the draft High Carbon Stock study, clearly and explicitly allows the clearing of forests that would be protected from conversion when implementing the HCS Approach. Specifically, Young Regenerating Forest (YRF), Low Density Forest and Medium Density Forest can be cleared according to the SPOM study, while under the HCS Approach these forests cannot be cleared with the exception of some isolated small patches of YRF that would not be ecologically viable.

Put simply, if implemented by KLK, the recommendations outlined in the draft High Carbon Stock study report, will hinder, not help efforts to halt deforestation and will not meet the expectations of a growing number of consumers who refuse to buy products that are driving the destruction of world's last forests. In order to credibly address the deforestation risk in its supply chain, KLK must implement the most rigorous approach to its no deforestation commitment - the methodology governed by the High Carbon Stock Steering Committee.

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