



CLARIFICATION ON ISSUES IN TESSO NILO FOREST COMPLEX

We refer to the recent report by the World Wide Fund for Nature (WWF) entitled “Palm Off a National Park – Tracking Illegal Oil Palm Fruit in Riau, Sumatra” in which Wilmar was mentioned. We recognise the issues raised in the report, as well as the challenges confronting the stakeholders involved in the Tesso Nilo area, including but not limited to the local communities, plantation companies, local governments and civil society organisations. We share the same concerns as these stakeholders and will work towards a sustainable and equitable solution for the affected local communities.

In the meantime, we would like to provide an insight into the nature of the local communities living and operating in and around the Tesso Nilo region, as well as clarify our position on this matter.

Background

Like most parts of Indonesia, Riau, Sumatra, is affected by overlapping land rights caused by the inconsonance between legal and customary land rights laws. To address this challenge, Wilmar commissioned in 2010 a Social Impact Assessment by two independent and credible social consultants to determine the customary status of the local communities – specifically the Pangean community - in the Tesso Nilo complex based on the interpretation of “Customary Rights” under the Roundtable on Sustainable Palm Oil (RSPO) definition.

The Pangean community originates from the Minangkabau tribe of West Sumatra and has been in existence in the area for centuries. While their practices in customary rights are similar to those in West Sumatra, they are not recognised by the local government. As such, their control over land and natural resources are non-existent. However, in reality and based on the RSPO’s definition of “Customary Rights” which is “patterns of long-standing community land and resource usage in accordance with indigenous peoples’ customary laws, values, customs and traditions, including seasonal or cyclical use rather than formal legal title to land and resources issued by the State”, the Pangean community has rights over this land.

Based on the above explanation, the customary chief of the Pangean community - with recognition from the village headmen and sub-district head who represent the local government - issued the Letter of Notification to acknowledge these rights. Some of these indigenous community members, on their own accord then sold their land to other members within their community and/or to outsiders (local people). These new land owners use the land compensation letter (“Surat Keterangan Ganti Rugi”) as proof of transfer of rights. One can therefore find a good mix of both indigenous and local people owning parcels of land in various sizes scattered within the Tesso Nilo complex.

Wilmar Respects Indigenous Rights

As part of Wilmar’s land acquisition standard operating procedures (SOP), we recognise the afore-mentioned “land compensation” document as proof of ownership. For this reason,

Wilmar had been buying fresh fruit bunches (FFB) from the Pangean communities and local people as long as the relevant documents were produced.

Apart from the local indigenous communities, there are also transmigrant groups living and operating oil palm farms in the Tesso Nilo complex. Regrettably, both groups are not able to co-exist harmoniously.

Wilmar had been approached by the indigenous communities for technical assistance and logistic support to help them establish their oil palm farms. Further to that, the local government also approached Wilmar to assist these indigenous communities by buying their crop. In this connection, the local government issued to our subsidiary PT Citra Riau Sarana (CRS) a license to operate new mills in the area to support these local farmers.

Actions Taken

Wilmar has committed to not buying fresh fruit bunches (FFB) derived from forest encroachment areas with unclear land status; and as a follow-up to that commitment, we have since stopped buying fruits from the Tesso Nilo complex and its surrounding area. This is clearly stated on Pg 2 of the WWF report.

It is worthwhile to note that WWF recognises the rights of the indigenous people. Referring to Pg 4 of the report, WWF said that "...plantations grown by local and indigenous who have legitimate and customary rights for lands inside the Tesso Nilo forest complex **should be respected**." Wilmar buys from a small-farmer cooperative known as Koperasi Soko Jati Pangean. According to this cooperative, the land on which the farmers of this cooperative operate is within the customary domain of the Kepenghuluan Pangean. Hence, by RSPO's definition of "Customary Rights", these communities do have legitimate rights over the areas within the Tesso Nilo complex. International NGOs like WWF also recognise and respect these customary rights beyond the legal framework. However, the Ministry of Forestry (MoF) thinks otherwise. As such, Wilmar is caught between recognising the customary rights beyond the legal framework and the legal standing of MoF, both of which companies are expected to respect and adhere to.

Until such time when the government regulations and local customary laws - in this case the MoF regulations vis-à-vis "adat (customary land tenure) rights to land" – are aligned, our subsidiary PT CRS commits to:

- Cease purchase of FFB from plantations inside Tesso Nilo National Park
- Cease purchase of FFB from any source with unclear land status
- Establish a firm and clear agreement with FFB sellers to ensure that the FFB sold to the company come only from legal sources

The remaining small group of smallholder suppliers are not able to be immediately captured by the system because of their small farm plot size (less than 1 hectare); and therefore their crop are either sold to third-party FFB collection centres, or to small and medium plantation companies who then in turn sell their crops to agents and/or to Wilmar.

Wilmar also strengthened its practices with the following actions.

A) Policy and Awareness Campaign

1. Wilmar's top management has issued a stern reminder to all staff and executives that the company will only buy FFB from a legal source.

2. A clause has been incorporated in the agreement between Wilmar and all its FFB suppliers and buying agents to supply only FFB from a legal source or land which has an Agriculture licence.
3. Any FFB supplier or agent found to be in default of this agreement will be severely penalised and dropped altogether.
4. An awareness campaign among FFB suppliers on this policy has been conducted.

B) Check and Monitoring

Wilmar has gone a step further to establish a system to identify the location of the FFB suppliers as far as it is practicable. Most of the FFB suppliers that deliver crop to us would be captured by this system.

1. The farm/holdings of respective FFB suppliers are recorded on a Global Positioning System (GPS) by our FFB procurement team.
2. The GPS co-ordinates will be overlaid with the Government's Land-Use Planning map for the region as well as the concerned areas highlighted by WWF.
3. Any supplier located in these contentious areas will be excluded from the supply chain. The same approach applies to those who send their crop through agents.
4. Trucks which usually carry crops from these contentious areas will have their truck registration number recorded, and will be banned from delivering FFB into our mills henceforth.
5. In anticipation of these suppliers switching trucks to avoid detection, we have stationed a full-time staff at the junction of the Tesso Nilo complex to keep track of trucks that are used to transport crops out of that area; and to ensure that those trucks do not deliver the crops to any of our three mills.

The supply chain mapping exercise is a challenging one which will take time. Despite these odds, we remain undaunted. We will continue to be vigilant in our sourcing activities and we will terminate business relationship with any supplier found to be operating in or sourcing from the Tesso Nilo complex.

About Wilmar's Commitment to Sustainability

Wilmar International Limited is Asia's leading agribusiness group engaged in oil palm cultivation, oilseeds crushing, edible oils refining, sugar milling and refining, specialty fats, oleochemicals, biodiesel and fertilisers manufacturing and grains processing. At the core of Wilmar's strategy is a resilient integrated business model that encompasses the entire value chain of the agricultural commodity processing business. Headquartered in Singapore, it has over 450 manufacturing plants globally and an extensive distribution network covering more than 50 countries. The Group is backed by a multinational workforce of about 92,000 people.

As a responsible corporate citizen, Wilmar endeavours to create and build an enduring business that is economically viable, socially beneficial and environmentally sustainable. Since 2005, Wilmar has been an active member of the Roundtable on Sustainable Palm Oil (RSPO), an international multi-stakeholder organisation that promotes the production and use of sustainable palm oil. The Group adopts an environmental management system conforming to the RSPO Principles & Criteria and the United Nations Global Compact, amongst others. In managing oil palm plantations, it upholds stringent policies of zero-burning and non-development on peatland while respecting the rights of communities by adopting the 'free, prior and informed consent' (FPIC) principle.

For more information on Wilmar's sustainability efforts, please visit <http://www.wilmar-international.com/sustainability/>