

A Matter of Principle:

Concerns on governance issues within the HCSA as an organisation

Wilmar International Limited (Wilmar) has always persevered to be at the forefront of transforming the palm oil industry towards becoming more sustainable and responsible. We constantly challenge ourselves in efforts to continuously and consistently strengthen and improve our sustainability-related commitments, policies, procedures, approaches and initiatives. Being progressive is necessary for us to stay relevant while allowing us to remain at the frontlines of sustainability in the industry.

In 2013, Wilmar launched our *No Deforestation, No Peat, No Exploitation* (NDPE) policy. We were the first company in the industry to adopt the NDPE policy across our supply chain. The policy in 2013 adopted the use of the HCSA Toolkit version 1 and required our suppliers to observe a moratorium prior to any land development until the finalisation of the HCSA toolkit to help guide them on their land development. In 2019, we updated our NDPE policy to include specifically the updated HCS forests definition and reference to the integrated HCV-HCSA methodology, to ensure consistency with the HCSA.

Wilmar became a member of HCSA since its inception in 2014 and was elected to be Co-Chair in 2017. Since first becoming members, we have actively participated and contributed towards building and strengthening the organization. To date, Wilmar has generously contributed significant resources, including countless of hours, for HCSA and have played key roles in many of its achievements. In 2016, we were instrumental in the convergence of the HCSA with the HCS+¹.

Wilmar also struggled and persisted for the inclusion of the HCSA toolkit in the Roundtable on Sustainable Palm Oil (RSPO) Principles and Criteria (P&C) in 2018. This subsequently required us to engage and lobby fellow RSPO members to better understand, accept and vote for its adoption at the RSPO General Assembly resulting in the successful inclusion of the HCSA toolkit as a required method for identifying forest areas to conserve within the RSPO P&C. Similarly, we engaged and petitioned the Indonesian and Malaysian governments in order to gain their recognition of the HCSA methodology.

Our dedication to the HCSA is driven by our opinion that the HCSA Toolkit is essential in helping to identify forest areas that must be protected. This is evident through our continued championing and use of the HCSA toolkit in our NDPE policy.

Since our tenure as co-chair in 2017, we began to highlight via the HCSA Executive Committee (EC) meetings, critical management and governance issues that requires intervention to ensure the credibility of the organisation, especially regarding the financial management of their budgets. This matter was seen as critical because the organisation has been running at deficit levels. As co-chair, we had introduced several measures in 2018 including requesting the development of guidance for payments made to HCSA invited guests such as government officials; and taking on the role of treasurer within the EC (a role that had not existed previously) to directly review budgets and to ensure that proper financial management was in place.

Wilmar stepped down from the co-chair position in end 2018 before the end of the 2-year tenure (including the treasurer role, which has since not been filled), to allow for the review of an objection from the NGO

¹ The HCS+ Study was a guide to develop plantations that are carbon neutral, conflict-free, transparent and equitable; with some overlap but also differences to the HCSA.

co-chair on Wilmar's eligibility to assume the co-chair position. The objection has been disputed by Wilmar as it was not raised as a grievance and did not follow due process. Nevertheless, Wilmar cooperated in order to seek resolution. To-date, the issue of objection has not been resolved, and currently has been expanded as an objection against all grower members. This objection against all grower members from assuming the co-chair position, goes against the HCSA's own Terms of Reference², which require that the leadership of the EC is shared between an NGO member and a grower member. The resolution of the objection on all growers is now pending the finalization of new membership requirements that would only be applicable to grower members.

This ongoing objection on all growers has left a void in the balance of decision making within the HCSA. Our concerns have been raised multiple times over the duration of the past year, and relate to discrepancies in matters of governance, accountability and transparency. In 2019, the HCSA grower caucus called for a full governance review. To date, the governance review results have not been discussed in detail with the wider HCSA membership. Procedures and processes of the HCSA that are clearly defined specifically for grievance and quality control, are repeatedly ignored and bypassed. These actions display a systemic failure in adhering to good governance protocols, objectivity and raises potential conflict of interests. This raises issues of accountability, objectivity, and credibility of the HCSA organisation as a whole.

We reiterated over the past year that Wilmar is willing and ready to pay any and all outstanding fees subject to the HCSA demonstrating that our concerns are being addressed fairly and objectively. It was thought that by stepping down from the position of the Co-chair and the EC would resolve the matter of the objection. However, as the objection is not recorded as a grievance and is a matter raised separately, a process is not available for a resolution. Alarming, the matter was not resolved but was further magnified as the objection is now raised for all grower members, and therefore is an example of why a fair and unbiased process is necessary to enable issues to be resolved to enable the HCSA to move forward.

Given the points above, on a matter of principle, Wilmar is resigning as a member of the HCSA effective today, 2 April 2020. However, should the HCSA be successful in overcoming these issues, we are open to re-joining the organisation to once again actively participate and contribute towards its potential success.

In the meantime, Wilmar remains firmly committed to the adoption and implementation of the HCSA toolkit and its quality assurance process in all HCV – HCS joint assessments for all new land clearings or developments for our third-party suppliers at group-level. This is reflected in our NDPE policy, and our continued use of the HCSA toolkit in our decision making on deforestation non-compliance. Similarly, we continue to use the HCSA toolkit in our own operations, especially since the HCSA has been clearly and definitively incorporated into the RSPO P&C 2018.

For further information or clarification in relation to this decision, please directly contact Wilmar Sustainability via csr@wilmar.com.sg

² "Terms of Reference: Steering Group on No-Deforestation and the High Carbon Stock Approach", <http://highcarbonstock.org/wp-content/uploads/2019/05/HCS-Approach-ToR-V2-approved-7-December.pdf>