



2.5 Musim Mas and CORE – from collaboration to implementation

JEFFREY HAYWARD, STEPHEN KRECIK, WALTER SMITH, GARY PAOLI, ANNA BEXELL and PETRA MEEKERS

Introduction

Increased consumer and investor scrutiny of commodity crop production has led many companies to announce policies for the responsible or sustainable production, processing and trade of deforestation-linked commodities. Activist groups were a driving force behind such pledges, especially regarding palm oil in the humid tropics. They challenged the reputation of companies associated with deforestation, threats to endangered species, child labour and human rights abuses, and with rampant forest fires and greenhouse gas emissions. The six largest palm oil companies in Indonesia all made public commitments: Asian Agri, Astra Agro Lestari, Cargill, Golden Agri-Resources, Musim Mas and Wilmar (IPOP 2014). In 2004, advocacy pressure led companies to establish sustainability criteria through the Roundtable on Sustainable Palm Oil (RSPO). But criticism of the RSPO's inability to stop the clearing of forests and peatland continued to cause friction. Efforts led by WWF, Greenpeace and Rainforest Action Network resulted in the 2012 revision of RSPO standards.



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Implementing unilateral corporate sustainability policies has not been without challenges. Many issues complicate the implementation of company commitments into measurable and verifiable actions. Some targets are aspirational and difficult to clearly measure; others are overly ambitious, with unrealistic timelines, and are further complicated in weakly governed jurisdictions (Climate Focus 2016). Arguably, most significant sustainability issues occur in the supply shed (area) of each palm oil mill, and although companies are making improvements, they face an uphill battle convincing smallholders, traders and independent mills — over whom they have little control — of the need to

Jeffrey Hayward is Vice President of Landscapes and Livelihoods for Rainforest Alliance, Washington, DC, USA; **Stephen Krecik** is Senior Manager of Sustainable Agriculture for Rainforest Alliance in Bali, Indonesia; **Walter Smith** is Senior Manager of Rainforest Alliance Certification, Willits, USA; **Gary Paoli** is Director of Research and Project Development for Daemeter Consulting in Bogor, Indonesia; **Anna Bexell** is Deputy Director of Responsible Sourcing for Proforest, in Lausanne, Switzerland; and **Petra Meekers** is Director of CSR and Sustainable Development for Musim Mas, based in Singapore.

change practices. Smallholder farmers comprise a substantial portion of palm oil production (about 40% in Indonesia; Daemeter Consulting 2015) and there are difficulties tracing raw material inputs given that supply chains are complex and traders are reluctant to disclose proprietary information about their sources. And without traceability, it is impossible to provide smallholders with direct assistance, training or other incentives. Resistance from local or national governments to implementing corporate commitments is also challenging.

Against this backdrop, companies with sustainability policies that go beyond the standards came to rely on the same norms and performance indicators used in certification. Initial steps to operationalize zero deforestation commitments and to evaluate company policies and practices were undertaken with consulting groups. This article shows how corporate sustainability policies can be implemented and monitored, through the experience of Musim Mas, the palm oil producing, refining and trading company, with support of the CORE partnership.

The CORE partnership

The Consortium of Resource Experts (CORE), which was formed in 2013, is a collaboration between three organizations: Proforest, Rainforest Alliance and Daemeter. The intention behind CORE was to pool collective strengths and expertise to increase transparency, support implementation of corporate policies, and assess performance:

- Rainforest Alliance provides technical assistance to producers and smallholders in sustainable agriculture, forestry and climate change adaptation. It is a founding member of FSC and SAN. It has experience judging what is needed and feasible at the mill level through verification assessments, and extracting knowledge from diagnostic reports that inform landscape-level interventions.
- Proforest is an independent nonprofit organization that works with producers, industry, governments and communities. Its expertise covers policy, investment and procurement, with more than ten years' experience in the oil palm sector. It supported the development of RSPO, helps companies implement sustainability policies, influences industry, and involves other partners in accelerating landscape-level activities.
- Daemeter is a research and consulting firm with experience throughout Southeast Asia, especially in Indonesia, in promoting the responsible management of natural resources. Through engagement with the private sector, farmers, NGOs, donors and governments, Daemeter deploys analytical tools to diagnose sustainability risks and develop strategies for addressing them.

Companies that seek support for implementing sustainability commitments have engaged CORE, which assists them to better understand the sources (and risks) in their supply chains, measuring suppliers' performance against policies, and developing tools to provide technical assistance to improve supplier performance. This support can include any

number of a long list of elements, including developing policies and indicators for measuring performance, conducting supply-chain mapping and risk-based traceability



procedures, identifying high-risk landscapes for environmental degradation and social conflicts; interpreting international standards, supporting companies to develop internal evaluations, offering independent assurances on sustainability performance claims, providing recommendations for improvements based on evaluation results, building knowledge of company commitments through wider stakeholder consultations and supplier engagement, supporting sustainable practices with smallholders and independent mills, and communicating company progress. CORE's operating principle is to instill a culture of sustainability

among their employees and suppliers, including smallholders, and to be fully transparent in its communication to buyers, investors, stakeholders and the public.

The Musim Mas commitment

Musim Mas is a Singapore-based palm oil corporation that operates globally but is particularly active in Indonesia. It is involved in every part of the supply chain, from managing plantations to refining and manufacturing value-added products. It wants to be a leader in the movement to improve the environmental and social sustainability of the palm oil sector. In 2004 it became the first Indonesian member of RSPO, and in 2009 became the first RSPO-certified operator there. In December 2014, the company announced its Corporate Sustainability Policy, which applied immediately to its own operations and those of all third-party suppliers. Musim Mas advanced its commitment to move the sustainability agenda forward by joining the Palm Oil Innovation Group (POIG) in November 2015, improving its performance to meet the new and enhanced criteria and submitting to a POIG evaluation in late 2016.

The Musim Mas supply chain is comprised of supply sheds — company-owned estates and mills, independent plantations, mills and smallholders — while third-party mills also source palm oil fruit from other plantations and smallholder growers. Although tracing plantations to their associated mills is relatively simple, tracing independent smallholders and plantations not linked to mills is complicated. But with satellite imagery, Musim Mas is mapping independent plantations who supply to their supply sheds. By 2016, it was able to map 99% of its supply chain to the mill level and 48% to plantations with associated mills.

Musim Mas requires mills and their suppliers to meet its policy commitments, but recognizes that compliance will require a process of constructive engagement, delivered in partnership with CORE. The collaborative approach was designed to work in phases,

to operationalize the sustainability policy at the mill level and then build a plan for how Musim Mas can achieve broader transformational change through landscape-level engagement with decision makers in its supply base:

- Phase 1 – supply chain mapping, mill risk assessment and traceability verification;
- Phase 2 – engagement with parent groups of supplying mills, verification and improving practices; and
- Phase 3 – devising multi-stakeholder landscape partnerships with government, civil society, and the private sector.

With more than 500 supplier mills in Indonesia across several provinces, Musim Mas first needed to break down the complex task of implementing commitments into manageable components. It did this through supply chain mapping to prioritize the most important tasks. Within key sourcing regions, analyzing environmental risks and social issues related to the top 100 suppliers enabled the company to narrow its engagement to the most critical issues. Verification of third-party mills was the first step in understanding operational practices and working to gain trust and goodwill.

The verification programme assesses mill performance against the company's policy commitments; it highlights areas for improvement in order to close compliance gaps and develop an engagement strategy at the mill level. In 2016 CORE identified ten high-risk mills for verification, which were clustered in high-priority landscapes in Riau Province, Sumatra. It completed eight assessments using an established methodology of engagement, field visits, evaluations, and final reporting. To ensure that the desired outcomes and goals of the policy were reflected, CORE developed 41 indicators; these were grouped into nine criteria through benchmarking with the criteria of the Sustainable Trade Initiative Traceability Working Group and with Musim Mas's own sustainability commitments.

Sustainability policy dimensions

Verification assessments helped improve supplier compliance with Musim Mas's commitments. The 41 criteria included eight indicators: land tenure and legislation; deforestation; development on peat lands; use of fire; management of environmental impacts; greenhouse gas emissions; social compliance; and supply chains. Compliance levels varied greatly at the mill level, but the highest (50%) non-compliance of suppliers was seen against the deforestation indicator, followed by greenhouse gas emission and supply chains (40%); the highest compliance rates were seen against use of fire and social compliance. But individual supplier verification gave a solid baseline for engaging with them more actively on action items to implement critical sustainability requirements, mainly deforestation, smallholder traceability, peatland management and labour practices.



Based on these verifications, CORE developed a diagnostic study with three main recommendations:

1. Mill-level actions led by mills should develop and implement short- and long-term corrective action plans to address noncompliance identified in the verification assessment.
2. Mill-level actions led by Musim Mas should develop and implement capacity-building workshops to support mills in their corrective action plans, and should monitor implementation of action plans over time.
3. Landscape-level integration by collective actors should identify and support existing landscape-level initiatives such as Indonesia's Green District Initiative (Kabupaten Hijau), Farmers Union Indonesia (SPI), the Tesso Nilo Community-Based Ecosystem Revitalization Program, and others.

Challenges

The experience of Musim Mas and CORE shows that there is promise in using the value chain to implement changes in land-use practices from commodity purchasers down to field practitioners. This is a work in progress; remaining difficulties include vested business interests and lack of data to support sustainability efforts. However, lack of familiarity and risk aversion among third-party mills was overcome. Initially uneasy about submitting to external assessments, Musim Mas was careful to present the verification process in economic terms, and as an opportunity to address unsustainable practices in operations that could reduce profitability. To spread this message, CORE and Musim Mas ran workshops to familiarize third-party suppliers with concepts of sustainable

production, the company's commitments and how sustainable practices contribute to a positive business case. Each workshop included time to listen to supplier concerns.



CORE identified the factors that affect sustainability performance. External factors for mills include the effects of locally led development planning, governance and competition. Decentralization, for example, allows local governments to grant concessions to companies, but with poor governance structures and limited control on expansion, this tends to lead to more deforestation (Moeliono, Wollenberg and Limberg 2009). And due to

competition, mills are reluctant to impose strict sustainability policies and requirements on suppliers, for fear that they switch to other mills in order to sell at the highest price and with the least stringent sourcing requirements.

Traceability is made difficult by the complex nature of how fruit is supplied to mills, with multiple layers of collectors and traders. Even so, basic investigations of supply bases and average productivity would tell mill owners that some traders are sourcing fruit outside of

their supply sheds. However, mills are not using their full capacity to obtain data on the origin of the palm fruit they process. Mills that CORE visited often had only the first layer of information regarding its supply base; i.e., the holder of the delivery order. The mill rarely had information about the supply base of the delivery order; i.e., farmers' names and location, area and tenure status. Significant investment in capacity and personnel will be needed to implement Musim Mas's sustainability policy. Financial support was offered by Musim Mas to help meet sustainability requirements, but more is needed. Supply-chain actors are reluctant to make investments unless there is a clear business case.

The lack of capacity of independent mills to manage sustainability performance within their supply base remains a clear challenge. In addition to identifying key performance areas where improvements are required, verification audits suggest that a longer-term process is needed to embed sustainability concepts within a company. Verification exercises are a good way to bring together many small- to medium sized companies into sustainability discussions with which they were previously largely uninvolved. These exercises help them understand how their product is used and marketed downstream, and to know that their production is subject to increasing environmental and social scrutiny by customers.



Recommendations

For Musim Mas and other companies

The corporate sector is making uneven progress in implementing zero deforestation commitments. Companies have been overly optimistic about the progress possible within fixed time frames. They were also slow to respond to the realities of entrenched practices in the palm oil sector, and of weak or even harmful government regulations. A fundamental challenge is for companies to convince smallholders, independent producers and third-party mills that sustainable production is in everyone's best interests. And for significant landscape-level impacts, long-term technical assistance and incentives are necessary.

For CORE, NGOs and consulting companies

Such practitioners helped to identify both problems and possible solutions by developing tools to assist with the implementation of policy commitments. Although it is still in the early stages, the ten-step process developed by CORE could prove useful to other practitioners: 1) analyzing landscape risk; 2) identifying producers; 3) tracing the supply chain; 4) evaluating performance; 5) identifying gaps/issues; 6) developing recommendations for improvement; 7) training and technical assistance; 8) evaluating progress; 9) repeating interventions where needed; and 10) continuous monitoring.

Conclusions

Challenges in the palm oil sector are significant, but certain interventions and policy frameworks can help. Continued development of mill-to-farm traceability tracking — coupled with satellite monitoring tools such as Global Forest Watch — allows accurate verification of deforestation-free production. Once suppliers are identified and more fully traced, a separate engagement programme should focus on farmer extension services that offer agronomic advice and sustainably improve yields. Several failures in sustainability practices appear to be relatively easy to address, such as reducing agrochemical use, improving worker safety, retaining natural vegetation along watercourses, maintaining soil fertility, preventing erosion, and supplying improved germplasm. Financial support for these interventions could be promoted by linking access to credit to effective land-use control, as was done successfully with municipal governments in the Brazilian Amazon (Nepstad et al. 2009).

Corporate pledges to eliminate deforestation and human exploitation from agriculture and forestry supply chains are a promising development for forests and people. However, they need credible, consistent and widely accepted methods for implementation, monitoring, verifying and reporting. Accountability and transparency are essential, but these depend on common definitions, norms and guidelines to ensure that efforts aimed at implementing corporate commitments adhere to rigorous and credibly high standards (Rainforest Alliance 2015). This will likewise help harmonize the ways in which progress is verified, reported, and communicated, so that outcomes can be tracked and managed across entire corporate supply bases or jurisdictions. Similarly, corporate zero deforestation commitments will need to be externally supported through accommodating legislation, policy and rules; transparent and participatory land-use planning processes; and legal enforcement. And in Indonesia, comprehensive, sustainable land-use planning and governance must be linked to preferential treatment in the marketplace, through the jurisdictional approach.

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