



# **KMG SUSTAINABLE NATURAL RUBBER POLICY**

VERSION 1.1

CORPORATE SUSTAINABILITY & COMMUNITY DEVELOPMENT DIVISION

# Kirana Megatara Group - Sustainable Natural Rubber Policy

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## Introduction

Kirana Megatara Group (“KMG”), is a public listed company incorporated under the name PT Kirana Megatara Tbk. and is the leading natural rubber processor group in Indonesia.

KMG has long been concerned with the viability of the natural rubber ecosystem, to support the rubber industry and economic development long into the future. It is therefore committed to the production, use, and processing of natural rubber in a sustainable manner. This commitment goes beyond KMG’s operational boundaries, with the promotion of sustainable natural rubber throughout its supply chain.

The KMG Sustainable Natural Rubber Policy (“Policy”) is formulated based on the company’s Vision and Mission, Code of Conduct, interactions with stakeholders, and a long history of activities involving the rubber smallholders. In fact, smallholders have long been an integral part of the business strategy as they produce nearly 90% of the natural rubber in Indonesia.

KMG reserves the right to update this Policy at any given time for reasons deemed appropriate by future developments related with natural rubber sustainability, and by experiences from interactions with stakeholders in the course of implementing this Policy.

## Structure of The Policy

The writing of this Policy is further guided by international documented frameworks or goals. These international guidelines include among others, United Nations’ Sustainable Development Goals (SDG), International Labour Organization’s (ILO) conventions, and the twelve principles of the Global Platform on Sustainable Natural Rubber (GPSNR), of which KMG is a founding member.

The Policy is structured as a set of twelve principles organized under the following five themes:

1. Respecting Employees, Workers, and Communities
2. Enhancing Smallholders’ Welfare
3. Protecting Environment and Conserving Natural Resources
4. Creating Global Competitiveness
5. Practicing Good Governance

Each principle is a statement about KMG’s desired outcome. All social, economic, and environmental aspects of sustainable natural rubber are captured within these principles. The pre-conditions or means to assess whether a certain principle has been fulfilled are elaborated in the form of criteria.

## Theme 1: Respecting Employees, Workers, and Communities

KMG respects and honours human rights concerning all of its employees, workers, and the local communities. In accordance with international conventions as defined by ILO, KMG upholds the rights at work and throughout its supply chain by the following principles.

### Principle 1: Improving Working and Living Environment, and Respecting Labour Rights

KMG commits to create a positive work environment at all of its business sites. For employees living on-site, KMG ensures decent living conditions for them. This includes easy access to water and sanitation system, sufficient electricity and access to food sources.

Honouring labour rights, KMG ensures that all employees and workers are entitled to a written employment contract, fair compensation, freedom of forming associations, and protection from any treatment of labour exploitation and discrimination. It also ensures the health and safety of all of those working at and visiting its offices and operating sites.

#### **Criteria**

- 1.1 Ensuring the health and safety of employees, workers, and visitors by creating safe working areas, providing adequate personal protective equipment, and accessibility to healthcare facilities.
- 1.2 Fostering decent living conditions for employees living on-site by ensuring the provision of an adequate liveable surface area, safe access to drinking water and sanitation system, and sufficient sources of food and electricity.
- 1.3 Protecting the rights of employees and workers to having written employment contracts, fair salaries, and freedom to form labour associations.
- 1.4 Prohibiting all forms of discrimination based on gender, age, marital status, sexual orientation, religion, political beliefs, ethnicity or national origin.
- 1.5 Prohibiting all forms of labour exploitation such as child or forced labour.

### Principle 2: Fostering Local Community Development and Respecting Land Rights

KMG respects and honours the associated rights of local communities and indigenous people that have implications based on their potential land use. It would not undertake nor would it contribute, either directly or indirectly, to any actions that might lead to the illegitimate use of land to the detriment of the local communities and indigenous people.

KMG always strives to contribute to local communities' development with the ultimate aim that both KMG and its local communities can grow and prosper together.

## **Criteria**

- 2.1 Respecting the rights of land owners, indigenous people and local communities by complying with all national laws regarding land use, legal and traditional rights, and by applying the “free, prior and informed consent” (FPIC) guidelines of the UN-REDD (United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation) when transforming the land for commercial or industrial use.
- 2.2 Promoting the use of conflict resolutions to any land disputes.
- 2.3 Promoting the use of Social Impact Assessment (SIA) in any project that has potential of significant social risk to the community.
- 2.4 Fostering the development of local communities by creating job opportunities and supporting, whenever possible, activities for local social and economic development.

## **Theme 2: Enhancing Smallholders’ Welfare**

KMG recognizes the importance of maintaining and improving the welfare of smallholders as a key building block for sustainable natural rubber. If smallholders believe that their livelihood can always rely on the business of growing and selling natural rubber, then it will be easier for them to adopt sustainable practices for the benefit of current and future generations.

### Principle 3: Improving Farming Practices

In many cases, the welfare of smallholder families can be improved by simply changing their current unsustainable farming practices. KMG seeks to undertake all activities that can promote smallholders to adopt good agriculture practices, including not to use genetically modified organisms (GMO). KMG promotes and contributes to all initiatives that would give better yields and income to smallholders over the long term.

## **Criteria**

- 3.1 Disseminating information and practical training on good agriculture practices (GAP) on rubber cultivation, including sustainable tapping practices, and on-field rubber processing to groups of smallholders, growers, and tappers.
- 3.2 Promoting no GMO in any cultivation practices.
- 3.3 Promoting smallholder projects aimed at yield improvement.

### Principle 4: Promoting Fair Return to The Smallholders

There are millions of smallholders who are responsible for nearly all of the world’s natural rubber production yet they represent the poorest and most vulnerable group of economic actors in the supply chain. Despite the complex nature of the rubber supply chain, KMG seeks to promote any measures that can yield a fair and remunerative return to the smallholders.

**Criteria**

- 4.1 Promoting projects that aim to improve the quality of smallholders' processed raw rubber for better value creation.
- 4.2 Promoting projects that enable smallholders to diversify their source of income and not solely relying on natural rubber cultivation and processing.

**Theme 3: Protecting Environment & Conserving Natural Resources**

KMG advocates for the protection and preservation of primary forests and areas of high environmental value that could be adversely affected by the development of rubber cultivation activities. It also recognizes the importance of conserving the use of natural resources, having clean air, and preventing soil degradation for the benefit of the whole community.

KMG thus commits and expects its supply chain to uphold the following principles whenever rubber is provided for KMG purposes.

**Principle 5: Promoting Zero Deforestation , Zero Peatland Use and Biodiversity Conservation.**

KMG commits to no deforestation, no peatland use, and conservation of biodiversity by working with its stakeholders and civil organizations to ensure that any land used for industrial plantation is appropriate by utilizing High Conservation Value (HCV) / High Carbon Stock (HCS) or other equivalent land assessment tools. .

**Criteria**

- 5.1 Promoting and ensuring full compliance with applicable laws that protect national forest. A cut-off date beyond which deforestation is not tolerated follows the GPSNR (Global Platform for Sustainable Natural Rubber) guideline.
- 5.2 Prohibiting any form of exploitation of known peat land and the use of fire in the preparation of new planting areas, replanting areas or any developments for commercial use.
- 5.3 Promoting and ensuring full compliance with applicable laws that conserve biodiversity including promoting the practice of only sustainable hunting.
- 5.4 Promoting the use of environmental impact assessment based on the concepts of High Conservation Value (HCV) and of High Carbon Stock (HCS), or other equivalent assessment tools.

**Principle 6: Making Efficient and Careful Use of Natural Resources**

To carefully use natural resources, KMG seeks to recycle water usage in its rubber processing operations, optimize its energy usage utilizing renewable energy sources wherever possible,

and minimize scrap rubber by-products. It also ensures that its processing operations and rubber cultivations do not adversely affect the surface or ground water.

#### **Criteria**

- 6.1 Maximizing the use of water recycling in rubber production processes, optimizing energy usage, and minimizing the production of scrap rubber.
- 6.2 Preserving surface water and ground water.
- 6.3 Protecting natural waterways through establishment of buffer zones.

#### Principle 7: Adopting Cleaner Processing Methods

To preserve clean air and water, and to prevent soil degradation, KMG strives to adopt the best practices and appropriate technologies that would minimize any adverse environmental impact. These include responsible waste management, safe handling and storage of chemicals, and the use of biodegradable materials wherever possible.

#### **Criteria**

- 7.1 Ensuring responsible management for the collection, processing and recycling of waste or by-products.
- 7.2 Ensuring the safe handling, storage and disposal of all chemicals and their by-products.
- 7.3 Reducing odour produced from rubber storage and processing.
- 7.4 Ensuring conservative use of chemical inputs and promoting the use of natural fertilizers, biological pests and disease control methods, wherever possible and practical.

## **Theme 4: Creating Global Competitiveness**

Whether operating as a rubber processor or managing a rubber plantation, KMG realizes that undertaking and ensuring sustainable practices cannot be carried out if the business itself does not survive the dynamic business competition in the rubber industry. KMG thus ensures that it can operate profitably and sustainably, and work together with its stakeholders to achieve mutual positive growth and prosperity.

#### Principle 8: Creating Processing Excellence

In a world of ever-increasing competition in the natural rubber industry, KMG seeks to achieve world class excellence in rubber processing in particular for its crumb rubber products. Not only that, KMG also has to meet demanding customers' quality requirements and deliver the products in a timely fashion.

**Criteria**

- 8.1 Adopting and/or developing innovative technologies that enable the delivery of the most cost-effective processing.
- 8.2 Ensuring production processes that can satisfy customer's expectations with regards to product quality and timely delivery.

**Principle 9: Promoting an Efficient and Fair Supply Chain**

KMG recognizes the importance of creating an efficient and fair supply chain in order to remain competitive in the natural rubber processing industry.

**Criteria**

- 9.1 Ensuring the most efficient channel and transportation for rubber raw materials and finished goods.
- 9.2 Promoting a fair return and equity distribution among the raw material suppliers, collectors, and smallholder groups along the supply chain.

**Theme 5: Practicing Good Governance**

As with any public listed company, KMG commits to conduct its management practices in accordance with the principles of good corporate governance, thus ensuring effective and efficient implementation of this Policy. KMG expects that its supply chain will comply with this Policy, and is subject to any requested audit or evaluation by KMG.

**Principle 10: Embracing Ethics in Operations**

KMG's Code of Conduct is captured in the statement of Kirana's DNA which comprises of four elements briefly summarized as Ethics and Integrity, Excellence, Compassion and Humility. In accordance with this code, KMG is committed to fight corruption, establish a grievance mechanism, and be transparent on all its operations through its annual report and other available means. The same commitment is expected from KMG's suppliers and supply chain.

**Criteria**

- 10.1 Prohibiting corruption and adopting a zero-tolerance approach on corruption across the value chain.
- 10.2 Establishing a grievance mechanism for employees, workers, suppliers, stakeholders and visitors.
- 10.3 Making transparent all of the operations related with implementation of this Policy.

#### Principle 11: Establishing Traceability

As a leading rubber processor group, KMG realizes that achieving sustainable natural rubber, critically relies on the ability to trace back its raw materials to the individual sources of rubber production at the farm level. It is thus committed through working with its supply chain to develop mechanisms that permit the traceability of the rubber used by KMG in its operations.

#### **Criteria**

- 11.1 Working with suppliers and smallholder groups to maximize rubber traceability across the supply chain.
- 11.2 Supporting, adopting and/or developing tools for rubber traceability.

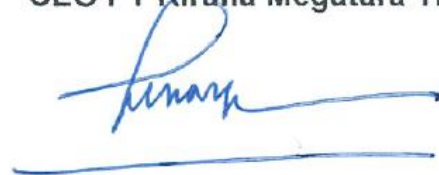
#### Principle 12: Ensuring Policy Compliance

KMG recognizes that for the Policy to achieve its stated goal, requires compliance from all of its processors, plantations, and its supply chain. It is also committed to practice free and fair competition in compliance with national antitrust and competition laws.

#### **Criteria**

- 12.1 Practicing free and fair competition in compliance with national antitrust and competition laws when implementing this Policy.
- 12.2 Interacting with its local stakeholders, supply chain, and third parties, to ensure participatory approach to monitoring the implementation of this Policy.
- 12.3 Ensuring that any violations of the Policy by its supply chain may result in termination or suspension of existing business relationships.

CEO PT Kirana Megatara Tbk



Martinus Subandi Sinarya *MS*

Date : 2<sup>nd</sup> December 2019



## Glossary

### High Conservation Value (HCV)

High Conservation Value (HCV) areas are defined as natural habitats where biological, ecological, social or cultural values are considered to be of outstanding significance or critical importance. An HCV area needs to be appropriately managed to maintain or enhance the identified values. The six types of HCV area are as follows:

HCV1: areas containing globally, regionally or nationally significant concentrations of biodiversity values (e.g. endemism, endangered species).

HCV2: areas containing globally, regionally, or nationally significant large landscape natural habitats, contained within, or containing, the management unit, where viable populations of most if not all naturally occurring species exist in natural patterns of distribution and abundance.

HCV3: areas that are in or contain rare, threatened or endangered ecosystems.

HCV4: areas that provide basic services of nature in critical situations (e.g. watershed protection, erosion control).

HCV5: areas fundamental to meeting basic needs of local communities (e.g. subsistence, health)

HCV6: areas critical to local communities' traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in co-operation with such local communities).

### High Carbon Stock (HCS)

The High Carbon Stock (HCS) Approach classifies forests into six classes as the amount of carbon and biodiversity stored within an area of land varies with the depth of the vegetative cover: High Density Forest, Medium Density Forest, Low Density Forest, Young Regenerating Forest, Scrub, and Cleared/Open Land. The first four types are considered potential HCS forests.

### Peatland

Peatland refers to the peat soil and the wetland habitat growing on its surface. Peat is formed by accumulation of decomposed plant materials over millennia under waterlogged conditions. Peatlands are the largest natural terrestrial carbon store. Damaged peatlands contribute to increased emissions of CO<sub>2</sub> gases as well as loss of diversity.

### Free, Prior and Informed Consent (FPIC)

The principle of free, prior and informed consent (FPIC) is designed to protect the rights of indigenous people and is recognised by the United Nations Declaration on the Rights of Indigenous People (UNDRIP).