



KMG SUSTAINABLE NATURAL RUBBER POLICY

VERSION 2

CORPORATE SUSTAINABILITY & COMMUNITY DEVELOPMENT DIVISION

March, 2021

Kirana Megatara Group - Sustainable Natural Rubber Policy

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 sustainable 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, internal ethics code, interactions with stakeholders, and a long history of activities involving the rubber smallholders. In fact, smallholders have long been an integral part of KMG’s 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. Following the GPSNR’s 2nd general assembly meeting in September 2020, KMG has amended this Policy to be better aligned with the adopted GPSNR Policy Framework.

Development of this Policy was done in consultation with SNV.

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

1. Respecting Employees, Workers, and Communities
2. Enhancing Smallholders’ Welfare
3. Protecting Environment and Ecosystems
4. Improving Production Efficiency
5. Practicing Good Governance

Each principle is a statement about KMG’s desired outcome. 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.

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.

Underlying all the criteria below is KMG's commitment to the eight fundamentals convention of ILO for rights at work.

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 coercion, either physically or mentally, towards employees, workers, and suppliers, including the practice of child- and forced labour.
- 1.6 Supporting the promotion of gender equity.

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 will not undertake nor will 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 sustainably 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 work 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 and training 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 over the long term and would also improve conservation practices.

Criteria

- 3.1 Promoting the adoption of good agriculture practices (GAP) on rubber cultivation, including sustainable tapping practices, and on-field rubber processing by smallholders, growers, and tappers.
- 3.2 Promoting no GMO in any cultivation practices.
- 3.3 Promoting smallholder projects aimed at yield improvement and better practices related with environmental conservation.

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. 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 improve their income resiliency, such as agroforestry and outgrower programmes.

Theme 3: Protecting Environment and Ecosystems

KMG advocates for the protection and preservation of forests and areas of high environmental value that could be adversely affected by rubber cultivation and processing activities.

Principle 5: Promoting Zero Deforestation , Zero Peatland Use and Preserving Ecosystems.

KMG commits to no deforestation, no peatland use, and preserving the ecosystems including biodiversity by working with its stakeholders and civil organizations.

Criteria

- 5.1 Promoting the protection of forest, conservation and other designated protected areas from illegal activities in full compliance with national applicable laws, with a cut-off date of 1 April 2019 in accordance with the GPSNR policy framework.
- 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 the conservation of biodiversity in full compliance with national applicable laws, including promoting the practice of only sustainable hunting.
- 5.4 Implementing the use of proper land use plans with an integrated landscape approach to prevent overexploitation of natural resources, and promoting the use of assessment tools based on HCV and HCS concepts.
- 5.5 Promoting the use of buffer zones to protect natural wildlife, and developing riparian boundaries for the protection of rivers and natural waterways.

Principle 6: Protecting Air, Water and Soil Quality

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.

KMG is committed to manage the use of chemicals and pesticides including the prohibit use of those listed under the Stockholm Convention, Rotterdam Convention and WHO Class 1A & 1B.

Criteria

- 6.1 Ensuring responsible management for the collection, processing, discharging, and recycling of waste or by-products, including scrap rubber.
- 6.2 Ensuring the safe handling, storage and disposal of all chemicals and their by-products.
- 6.3 Managing operations to minimize air pollutants to minimize odour produced from storage and processing.
- 6.4 Managing operations to minimize use of chemical inputs and promoting the use of natural fertilizers, biological pests and disease control methods,
- 6.5 Managing to reduce greenhouse gas emissions.

Theme 4: Improving Production Efficiency

To improve production efficiency, KMG recognizes the importance of achieving processing excellence, optimizing its energy rate use, and maximize the efficient and careful use of natural resources.

Principle 7: 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 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

- 7.1 Adopting and/or developing innovative technologies that enable the delivery of the most cost-effective processing.
- 7.2 Improving the overall factory management system to produce quality natural rubber products consistently, timely, and sustainably.

Principle 8: Managing Careful Use of Natural Resources

To carefully use natural resources, KMG to minimize the use of water in its rubber processing operations, optimize its energy usage and to utilize renewable energy sources wherever possible.

Criteria

- 8.1 Managing operations to minimize the usage rate of water through the reuse, reduction, and recycling measures to preserve surface and ground water
- 8.2 Managing operations to minimize the usage rate of energy to preserve non-renewable energy sources.

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 natural rubber suppliers will manage their operations to conform to this Policy.

Principle 9: Embracing Ethics in Operations

KMG's Code of Conduct is driven by the ethos 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 of its operations through its annual reports and other available means. The same commitment is expected from KMG's natural rubber suppliers.

Criteria

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

Principle 10: Establishing Traceability

As a leading rubber processor group, KMG realizes that achieving sustainable natural rubber, critically relies on the ability to trace back the natural rubber procured as raw materials to the area where it is produced. KMG is thus committed through working with its natural rubber suppliers to develop mechanisms that permit the traceability of the rubber used by KMG in its operations.

Criteria

- 10.1 Ensuring natural rubber suppliers to account for the source provenance information at an appropriate jurisdictional level.
- 10.2 Developing and implementing tools for environmental and social risk mapping and the necessary tools for supply-chain mapping.

Principle 11: Ensuring Conformance to this SNR Policy

KMG recognizes that for the Policy to achieve its stated goals, requires the compliance of all of its processors, plantations, and its natural rubber suppliers.

Criteria

- 11.1 Communicating to all suppliers that the rubber delivered is in conformance to this Policy and that any violations of the Policy may result in termination or suspension of existing business relationships.
- 11.2 Interacting with its local stakeholders, supply chain, and third parties, to ensure a participatory approach to monitoring the implementation of this Policy.

CEO PT Kirana Megatara, Tbk



Martinus Subandi Sinarya 

Date: 17th March 2021

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 CO₂ 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).

Eight Fundamental ILO Conventions.

- No. 87: Freedom of Association and Protection of the Right to Organise Convention
- No. 98: Right to Organise Convention
- No. 29: Forced Labour Convention
- No. 105: Abolition of Forced Labour Convention
- No. 138: Minimum Age Convention
- No. 182: Worst Forms of Child Labour Convention
- No. 100: Equal Remuneration Convention
- No. 111: Discrimination (Employment and Occupation)

Rotterdam Convention on Hazardous Chemicals and Pesticides

A global treaty to promote shared responsibilities in relation to importation of hazardous chemicals through open exchange information, including use of proper labeling, directions on safe handling, and information to purchasers of any known restrictions or bans.

Stockholm Convention on Persistent Organic Pollutants

A global treaty to protect human health and the environment from highly dangerous, long-lasting chemicals by restricting and ultimately eliminating their production, use, trade, release and storage.

Smallholder Farm

Small-sized farm or planted tree plot typically between one to ten hectares and is usually owned and run by a family.

Industrial Plantation

A planted-tree area with size more than 50 hectares usually managed under a corporation.

Supplier

An individual or an entity that directly supply products or services related to natural rubber to KMG factories or subsidiaries.