

March 2024

AAK's progress update: regarding palm sourcing in Tesso Nilo

Background

In Jun 2023, an allegation of sourcing of palm fresh fruit bunches from Tesso Nilo National Park (TNNP) into AAK's supply chain. It highlighted the potential route of 20 palm oil mills located near to TNNP potentially involved.

Our position

We value the concerns and challenges raised in the report. AAK does not accept any cultivation in protected areas and is firmly committed to continuing to drive a sustainable supply of palm. This has been communicated to the suppliers since the launch of AAK Group policy and code of conduct for responsible sourcing of plant-based oils. Our position remains open to any dialogues with stakeholders to ensure a fair and transparent engagement process.

Since the grievance mechanism has been or was activated in Jun 2023, we prioritized two workstreams. First to confirm the authenticity of the claims. Secondly, AAK works to validate the supply chain traceability from suppliers to AAK. Whenever available, we apply actual TTP data to validate the risk.

In this updated statement, AAK aims to provide the progress and actions taken chronologically.

Progress update and actions taken:

June 2023:

Upon receiving the mill names, we flagged and added them to the AAK [Grievance Tracker](#). As the first step of our [Grievance Management Procedure](#) we engaged in the case together with our Tier 1 suppliers, as well as an independent third party advisor, Earthqualizer ("EQ"). EQ is a non-profit organization dedicated to transforming commodity supply chains for the sustainable benefit of people and nature. The outcome of AAK's investigation is what follows:

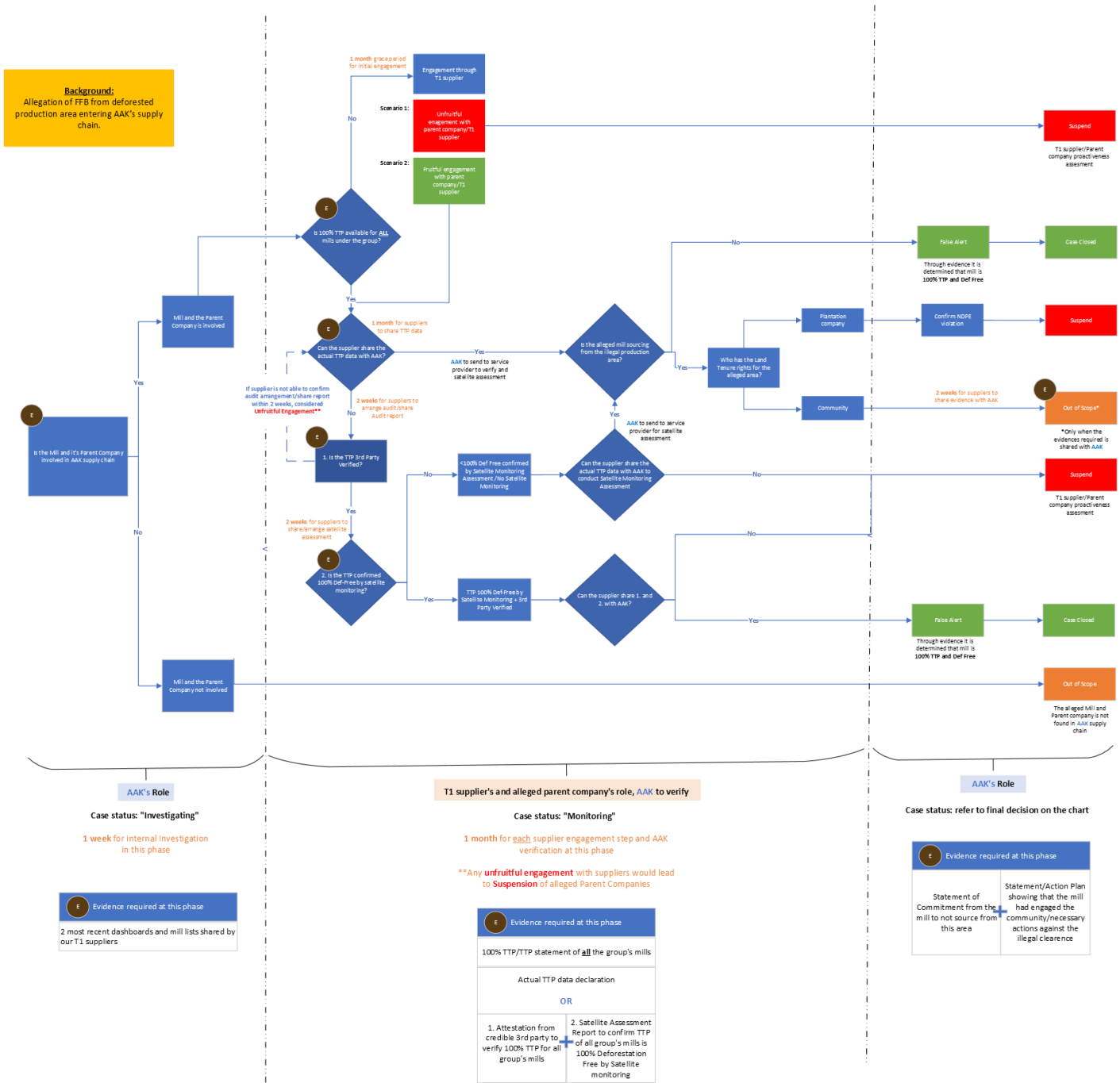
20 mills were listed in the article as part of our supply chain. The 20 mills are the subsidiaries of 14 parent companies, which own a total of 80 mills linked to AAKs supply chain. As a proactive measure we engaged with the 14 parent groups ensuring these share the same NDPE commitments, conclusively expanding the scope of the grievance from 20 to 80 mills.

EQ confirmed no alerts were received regarding non-compliant developments on industrial plantations within the TNNP. It is likely that the deforestation is attributed to smallholders or illegal operators encroaching in the park.

While Tier 1 suppliers are still working to improve the mills' traceability to plantation, they confirmed 17 out of the 20 mills have achieved 100% traceability to plantation (TTP). The TTP data collection process can be challenging and complex. The supply chain is dynamic and TTP could change from time to time. AAK recognizes such procedure of data collection need to be monitored and verified. Our key Tier 1 suppliers also have their TTP score verified by independent third party annually.

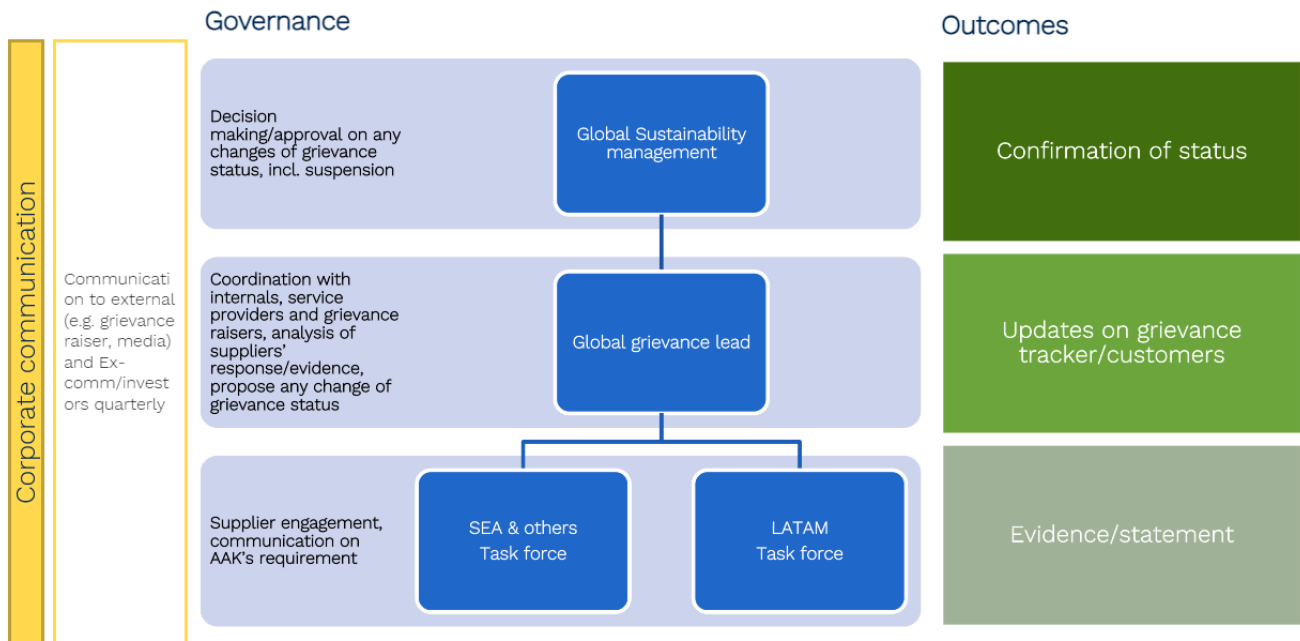
Annex I

The decision-making flow chart in the investigation of FFB from protected area into AAK's supply chain.



Annex II

A grievance governance structure explains the role and responsibility of key personnel when a grievance mechanism is activated within AAK.



Annex III

An extended assessment from June 2023 was conducted by EQ upon AAK's request in January 2024. The following conclusive analysis is quoted from EQ:

The Tesso Nilo National Park in Indonesia was established by the government in 2004¹, covering an area of 38,576 hectares, and was later expanded in 2009² to 44,492 hectares. As of the latest government designated decree in 2014³, the total area amounted to 81,793 hectares. This region, which had been a commercial area of limited production forest since 1974, underwent numerous changes in land ownership until it was officially designated as a national park. This designation was due to its significant biodiversity within the lowland forest ecosystems in Riau Province. Additionally, the national cadastral map identified a registered non-state ownership status for 395 hectares, highlighting overlapping land claims within the park.

The history of Tesso Nilo's land ownership is complex and has led to severe degradation, deforestation, encroachment, and conversion into plantations and agricultural lands. The government and various NGOs have initiated several efforts to address these issues, including the Integrated Operation for Handling and Securing the Tesso Nilo Forest Area and the Tesso Nilo Ecosystem Revitalization (RETN) in 2018⁴.

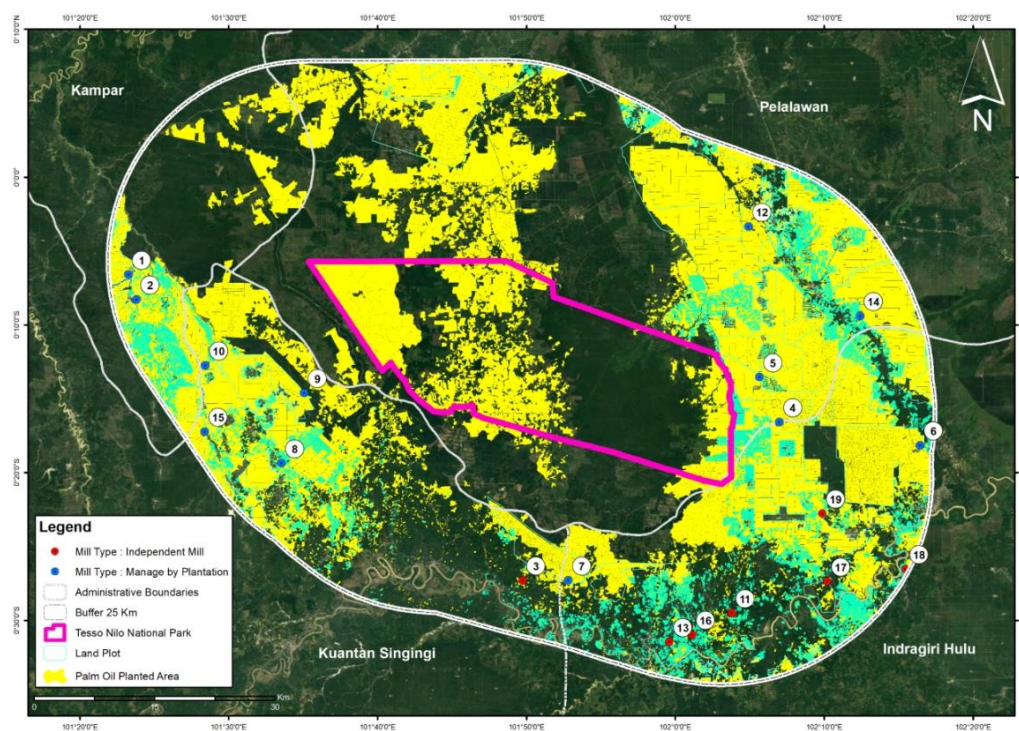


Figure 1. Planted oil palm and non-state land registration area within the National Park

According to Earthqualizer's analysis in 2023, Tesso Nilo's remaining forest cover stands at 8,428 hectares, which is approximately 10% of the park's area. From 2014 to 2023, the park underwent significant deforestation, with a total of 4,655 hectares of forest being cleared. The majority of this deforested land has been converted into agricultural use. Within these figures, 396 hectares were specifically converted into oil palm plantations. Furthermore, the analysis reveals that the total area occupied by oil palm plantations within the national park is approximately 31,932 hectares, nearly 40% of the park's total area. Of this, 83% (26,437 hectares) was established before 2015, the cut-off date for the NDPE (No Deforestation, No Peat, No Exploitation) policy, and the remaining 17% (5,495 hectares)

¹ SK MENHUT Nomor 255/Menhut-II/2004

² SK MENHUT Nomor 663/Menhut-II/2009

³ SK.6588/Menhut-VII/KUH/2014

⁴ https://ppid.menhk.go.id/siaran_pers/browse/1088

was planted after the cut-off date. This oil palm area is predominantly managed by local communities and officials who take advantage of unclear boundaries and weak law enforcement practices.

Moreover, the presence of 19 palm oil mills near the national park poses a potential issue, as these mills are likely to purchase Fresh Fruit Bunches (FFBs) sourced from the park, a practice considered illegal. In particular, seven independent mills depend on supplies from smallholders and agents who collect FFBs around the park, including those from within its boundaries.

Additional Note:

- *The reported figure for deforestation that has been converted into palm oil plantations may be subject to change, as field verification efforts are currently ongoing*

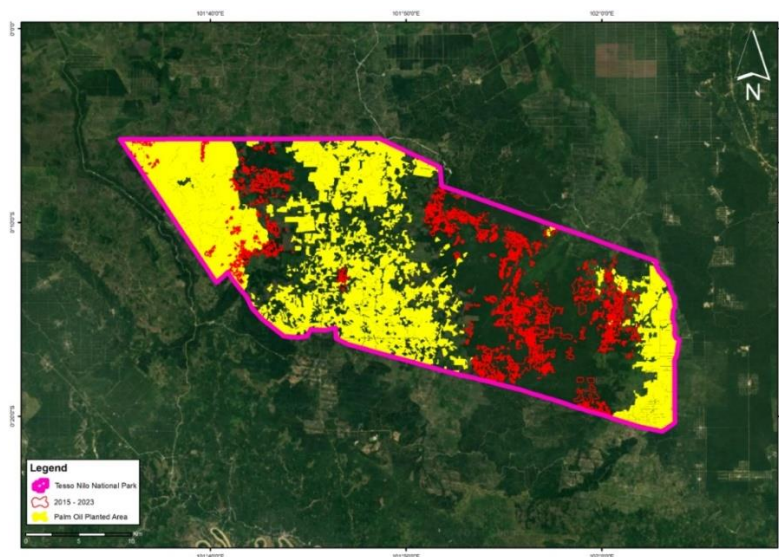


Figure 2. Planted oil palm (yellow) and deforestation (red) area inside the national park

- *The identification of 19 mills is based on a 25km buffer zone surrounding Tesso Nilo National Park. Meanwhile, the 20 mills mentioned in the Swedish articles focused on the AAK mill list, encompassing areas around Tesso Nilo and Bukit 30 National Parks.*

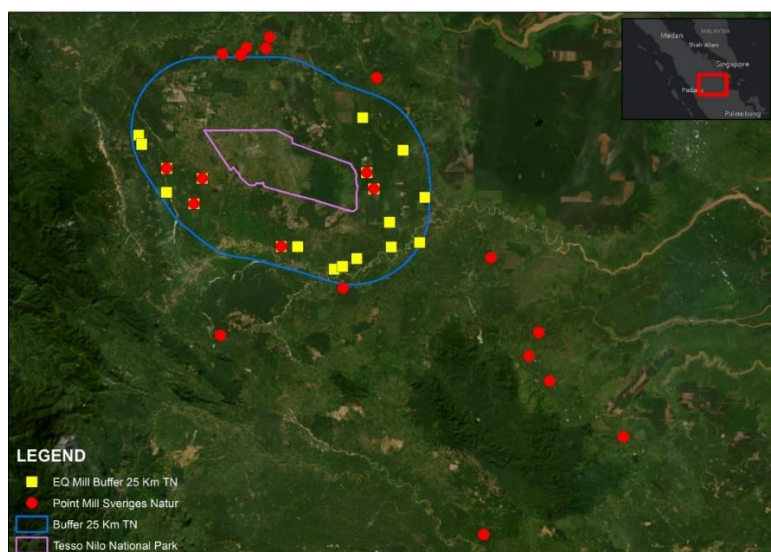


Figure 3. Palm oil mills within the National Park