

THE HUMAN COST *of* CONFLICT PALM OIL



Indofood: PEPSICO'S HIDDEN LINK
TO WORKER EXPLOITATION IN INDONESIA

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EXECUTIVE SUMMARY



The destruction of rainforests, the stealing of local communities' and Indigenous Peoples' lands, and the massive greenhouse gas emissions caused by the draining and burning of peatlands for the production of Conflict Palm Oil have all made frequent international headlines in the last few years. However, the working and living conditions of laborers on palm oil plantations are rarely closely examined or discussed.

Geographically isolated, and with little social or economic mobility, most palm oil workers' stories stay confined to the remote plantations where they live and work. Increasingly, a number of recent reports from civil society, independent researchers, and journalistic investigations have shed a light on the concerning conditions faced by palm oil workers. These reports highlight a pattern of egregious labor violations on palm oil plantations across the globe.¹

Conflict Palm Oil is palm oil which has been produced illegally or under conditions associated with labor or human rights violations, ongoing destruction of rainforests, or expansion on carbon-rich peatlands.² The numerous issues with Conflict Palm Oil have been increasingly spotlighted, which has spurred many companies throughout the palm oil supply chain to adopt responsible palm oil policies. These policies outline commitments to produce and source palm oil that is not

associated with the violation of workers' rights, deforestation, expansion on carbon-rich peatlands, or the violation of human rights. As the largest globally distributed snack food company in the world, and a major purchaser of palm oil, PepsiCo is one such company to recently adopt a policy.

After much pressure from consumers and civil society alike, PepsiCo adopted a revised palm oil policy that outlines responsible palm oil production practices for its suppliers in September 2015. On workers' rights issues, it specifically states that PepsiCo's palm oil suppliers must, "Adhere to the Universal Declaration of Human Rights, be in basic compliance with applicable laws, prohibit forced, compulsory or child labor, follow ethical recruitment practices, respect freedom of association, [and] recognize the rights of all workers including temporary, migrant, and contract workers."³

While the language reads strongly on respecting workers' rights, as well as protecting High Carbon Stock Forests and peatlands, unfortunately PepsiCo's policy contains a loophole: it does not require its joint venture partner, Indofood — one of the largest palm oil growers in the world, the biggest food company in Indonesia, and the sole maker of PepsiCo products in Indonesia — to meet the same requirements for the palm oil it uses to make PepsiCo's products.⁴

This omission means that the palm oil produced and sourced by Indofood to make PepsiCo-branded products in Indonesia is not required to meet the same environmental and social safeguards as PepsiCo products made directly by PepsiCo. In order to understand the impact of this exclusion on palm oil workers, a team of researchers investigated the living and working conditions of laborers on two palm oil plantations that are owned and operated by PepsiCo's joint venture partner Indofood, under its subsidiary plantation company PT PP London Sumatra Tbk's (Lonsum), located on the island of Sumatra in Indonesia.

Investigations were conducted in September and October 2015 by a team of researchers through one-on-one interviews with workers; examination of workers' documents such as pay slips, letters and work agreements; and on-site observation of workers performing their work duties, workers' living conditions and the plantations' amenities. Forty-one Indofood workers were individually interviewed for this investigation.

KEY FINDINGS FROM THE INVESTIGATION INCLUDE:

1. Indofood⁵ categorized many of its long-time workers as temporary and placed them at heightened risk through precarious employment practices.

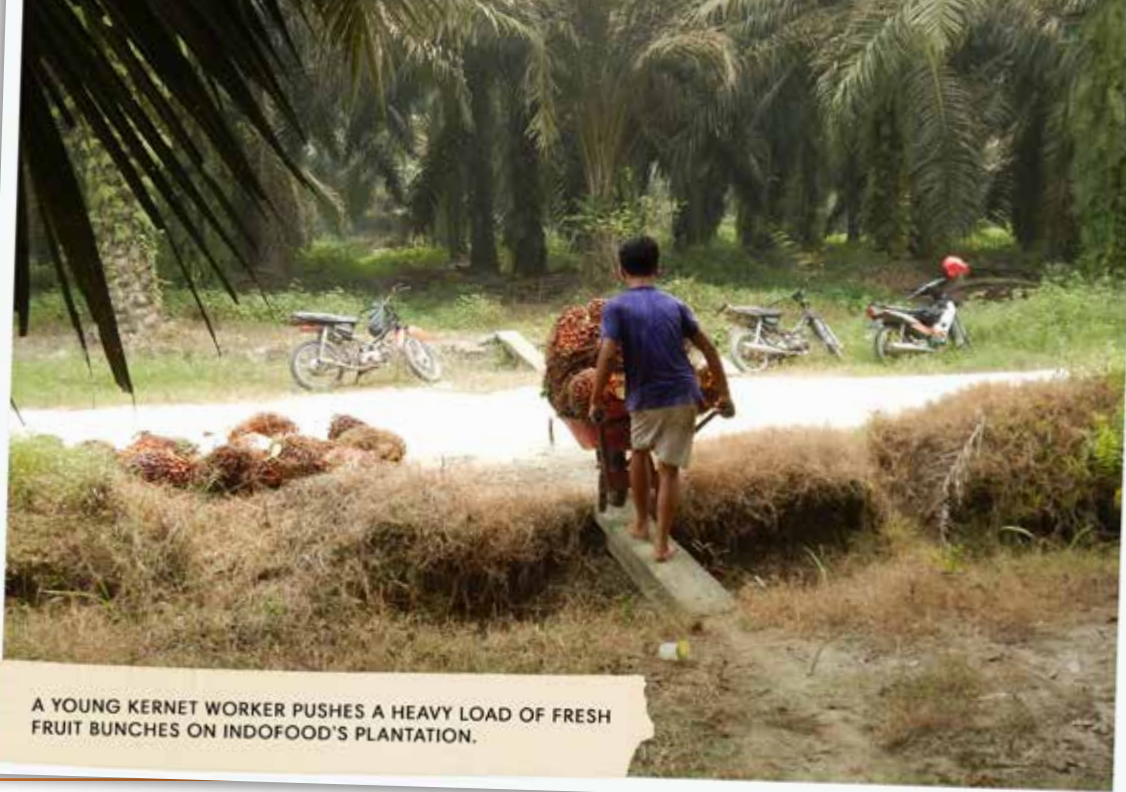
- » Indofood utilized several kinds of precarious, or non-standard, forms of employment practices to employ workers who performed core plantation work on Indofood plantations, including harvesting, gathering loose fruits, and applying pesticides and fertilizers. These workers had no job security, earned as little as half or less the pay than permanent workers, sometimes paid for their own safety equipment and health care, and faced increased health and safety risks.
- » Twenty of 41 workers interviewed (49%) were precariously employed as casual workers, limited-duration contract workers, or *kernet* workers — informal workers who help harvesters meet their quotas but have no direct employment relationship with the company.

2. Indofood paid its workers unethically low wages.

- » Indofood paid permanent and casual workers at one of the plantations below the district's minimum wage. This wage was set through a collective bargaining agreement, which workers reported that they had no role in negotiating and was never explained to them by union leadership.
- » Casual daily and *kernet* workers, who were not provided with written contracts or wage slips, reported regularly making between 20% to 75% less than the district monthly minimum wage for permanent workers.

3. Children worked on Indofood plantations.

- » Children were observed working on Indofood plantations. One 13 year old worker and two 16 year olds were interviewed, as well as one 19 year old who reported working on the plantation since he was 12 years old. All were working indirectly for the company as *kernet* workers, or helpers to harvesters.
- » Harvesters reported having to bring *kernet* workers, who are often children or their wives, to meet their quota and earn bonuses to supplement their low base salaries. Nine harvesters reported choosing to hire children or bring their wives or family members as *kernet*.



A YOUNG KERNET WORKER PUSHES A HEAVY LOAD OF FRESH FRUIT BUNCHES ON INDOFOOD'S PLANTATION.

4. Indofood did not provide adequate health and safety protection for many workers, and casual maintenance workers were exposed to highly hazardous pesticides.

- » Pesticide spraying and fertilizer application were predominantly carried out by casual maintenance workers, many of whom are women. Most of these workers lacked adequate health and safety equipment and access to health care.
- » Three workers at one of the plantations reported having used the pesticide Gramoxone which contains Paraquat, a highly hazardous herbicide that is banned in the EU and several other countries. Indofood reported using 21,000 liters of Paraquat on its plantations in 2015.⁶
- » All but one casual worker reported only receiving some safety equipment from the company and purchasing other basic equipment such as shoes and gloves at their own expense. None of the *kernet* workers interviewed were provided with any equipment at all.⁷
- » All casual and *kernet* workers reported having no health insurance and limited access to the on-site company clinic. Two casual workers reported that they did not treat conditions arising from accidents on the job due to a lack of access to health care and insufficient funds to pay for treatment.

5. Indofood undermined Freedom of Association

- » Permanent workers at the Indofood plantations visited reported being automatically enrolled in a company-backed “yellow” union and having fees deducted from their salary, without their consent or proper representation. “Yellow” unions are worker organizations which are dominated or influenced by an employer and are deemed unlawful under international labor law.
- » Workers who attempted to engage with an independent union reported being intimidated.

PepsiCo and Indofood may not be fully aware of the practices outlined in this report, nor condone them. Nevertheless, these findings show that the rights of workers on the plantations of Indofood's subsidiary are not being upheld in accordance with international labor norms, the UN "Protect, Respect and Remedy" Framework for Business and Human Rights, or PepsiCo's palm oil procurement policy. Despite any lack of previous knowledge, both Indofood and PepsiCo are responsible for ensuring human rights are respected in their direct business operations as well as in the operations of their business partners and suppliers as outlined in the UN Guiding Principles on Business and Human Rights.

To begin, PepsiCo must fix the loophole in its current policy by requiring that Indofood comply with the all principles of its policy. PepsiCo and Indofood must work rapidly to investigate

and address the labor violations outlined in this report as well as other outstanding Conflict Palm Oil cases.⁸ Both companies should adopt and implement truly responsible palm oil policies that require the production and sourcing of palm oil in accordance with the *Free and Fair Labor in Palm Oil Production: Principles and Implementation Guidance (Fair Labor Principles)*.⁹ The *Fair Labor Principles*, which were developed by a broad coalition of civil society organizations from Indonesia, Malaysia, Liberia, the United States and Europe, provide a common point of reference for what constitutes free and fair labor in palm oil production, based on the International Labor Organization Core Conventions and the UN Guiding Principles on Business and Human Rights.

TWO MEN LOAD FRESH FRUIT BUNCHES, EACH WEIGHING UP TO 25 KG, INTO A TRUCK ON INDOFOOD'S PLANTATION. NEITHER WEAR PERSONAL PROTECTIVE EQUIPMENT.



INDOFOOD AND PEPSICO WERE GIVEN THE OPPORTUNITY TO RESPOND TO THE KEY FINDINGS OF THIS REPORT PRIOR TO PUBLICATION.

PepsiCo stated that its 2015 Palm Oil Action Plan demonstrates that it is:

“Upholding a commitment that palm oil producers in [its] supply chain must adhere to the Universal Declaration of Human Rights, must be in basic compliance with all applicable laws, are prohibited from forced, compulsory or child labor, must respect freedom of association, and must recognize the rights of all workers.”

PepsiCo said that the company takes these commitments and any labor and human rights concerns raised very seriously and that the company has **“strong human rights policies in place”** and **“clearly has a history of appropriately engaging on such matters”**.

Indofood declined to comment on the findings of this report. Instead the company stated that:

“As far as the IndoAgri is concerned, the IndoAgri has complied with all Indonesian laws and regulations [sic].”

In its 2015 Annual Report,¹⁰ Indofood stated that it **“is committed to responsible employment practices, and to develop the skills, knowledge and welfare of its people.”** The company also stated that: **“Employee safety and health are key priorities at Indofood, and our commitment to a safe and healthy workplace is outlined in SHE [Safety, Health, Environment] policy, which applies to all operating units.”**

The Annual Report further stated:

“Indofood offers equal career development opportunities to all employees. Employees are hired based on their skills and capabilities, and jobs are assigned regardless of race, religion, gender, or any other individual characteristic. We also strive to adhere to applicable prevailing Indonesian labor laws, such as the elimination of child labor. Our employees are provided with healthcare benefits. Some health care services, such as clinics, annual medical check-ups, and lactated nursery rooms, are available.”

INTRODUCTION



The snack food industry is big business, with many ingredients' supply chains creating a complex and sometimes confusing web of production and commerce. With perhaps one of the dirtiest supply chains and a popular ingredient in processed food, Conflict Palm Oil has been increasingly spotlighted in recent years for its role in rainforest and peatland destruction, land grabbing and species extinction.

PepsiCo, the largest globally distributed snack food company in the world and a major purchaser of palm oil, partners with Indonesian food giant Indofood to produce all PepsiCo-branded snacks in Indonesia. Featured heavily in those snacks is the controversial ingredient of Conflict Palm Oil, produced from the palm oil plantations that stretch across Indonesia.

While the issues with Conflict Palm Oil are increasingly highlighted, reports of egregious labor rights violations on palm oil plantations are just beginning to emerge. The working and living conditions of laborers on palm oil plantations are rarely

closely examined or discussed, as most palm oil workers are geographically and socially isolated. What's more, PepsiCo's latest palm oil policy language reads strongly, but unfortunately it contains a loophole. The policy does not require PepsiCo's joint venture partner, Indofood, to meet the same requirements for the palm oil it uses to make PepsiCo's products. This means, despite producing all PepsiCo-branded products in Indonesia, Indofood is not required to meet the higher environmental and social safeguards outlined in PepsiCo's palm oil sourcing policy, and instead can continue with business as usual practices.

In order to understand the impact of this exclusion on the palm oil workers associated with PepsiCo's snack foods, a team of researchers investigated the living and working conditions of laborers on two palm oil plantations that are owned and operated by PepsiCo's joint venture partner Indofood, under the plantation company PT PP London Sumatra Tbk (Lonsum), located on the island of Sumatra in Indonesia.

PEPSICO AND INDOFOOD: PARTNERS IN CONFLICT PALM OIL



PepsiCo is the world's largest globally distributed snack food company and a significant purchaser of palm oil. In 2014, it used 470,045 metric tons of palm oil annually in the direct making of its products — products like Doritos, Lay's Potato Chips and Quaker Chewy Bars — and each year its consumption of palm oil grows.¹¹

In September 2015, PepsiCo adopted a new policy that aims to halt the destruction of rainforests and peatlands, and end the ongoing violation of human and workers' rights in its global palm oil supply chain. This new policy outlines stricter standards for PepsiCo's direct suppliers, but it does not set the same requirements for PepsiCo's joint venture partner Indofood — the sole maker of PepsiCo products in Indonesia.¹² This loophole means that the palm oil used in PepsiCo's products in Indonesia — the frontline of palm oil expansion, rainforest destruction and human and workers' rights abuses — is not mandated to meet the requirements of no deforestation, no expansion on carbon-rich peatlands, and no violation of human or workers' rights outlined in PepsiCo's latest policy.

Indofood is one of the largest palm oil growers in the world and Indonesia's largest food company. As such, it is known for its snack food products such as Indomie, Chitato, Lay's and Cheetos. A vertically integrated company, Indofood produces and processes raw materials (including palm oil), manufactures food products, and distributes and sells consumer products. Indofood's 2015 revenue amounted to the equivalent of approximately USD 5 billion.¹³ At the very top of Indofood's leadership is Anthoni Salim who controls First Pacific Company Ltd., which in turn holds a 50.1% interest in Indofood.¹⁴ Salim, ranked the third richest Indonesian by Forbes magazine, also has stakes in businesses unrelated to First Pacific and Indofood, including other palm oil businesses.

The palm oil arm of Indofood, Indofood Agri Resources Ltd (IndoAgri), is the third largest private palm oil company in Indonesia. Its plantations cover a total area of 246,000 hectares in Sumatra and Kalimantan and it has been expanding aggressively over the past eight years by an average of 10,000 hectares of new palm oil plantations annually.¹⁵ IndoAgri's palm

oil business operations are conducted by its subsidiaries PT. PP London Sumatra Indonesia Tbk. (Lonsum) and PT. Salim Ivomas Pratama Tbk. (Salim Ivomas). As of 2015, IndoAgri generated the equivalent of approximately USD 1 billion in revenue from large scale production and processing of palm oil.¹⁶

Indofood is the largest private palm oil company in Indonesia that has yet to adopt a responsible palm oil policy. A responsible palm oil policy requires the production and sourcing of palm oil that is fully traceable, legally grown and verified as not associated with workers' rights or other human rights violations, deforestation, or expansion on carbon-rich peatlands of any

depth. Such a policy must apply to all of Indofood's operations worldwide including the subsidiaries, refineries, mills and plantations that it owns, manages, or invests in, regardless of stake. Additionally, in order to meet the new market standard, Indofood must require its third party palm oil suppliers to meet the same responsible production standard. In addition to the lack of an adequate policy, recent publications have shown that Indofood has cleared and burned rainforests, has several long-standing cases of unresolved social conflict with communities and has violated workers' rights.¹⁷ PepsiCo has the opportunity to help transform Indofood into a responsible palm oil company, but it has so far failed to do so.

INDOFOOD'S OTHER CUSTOMERS AND JOINT VENTURE PARTNERS

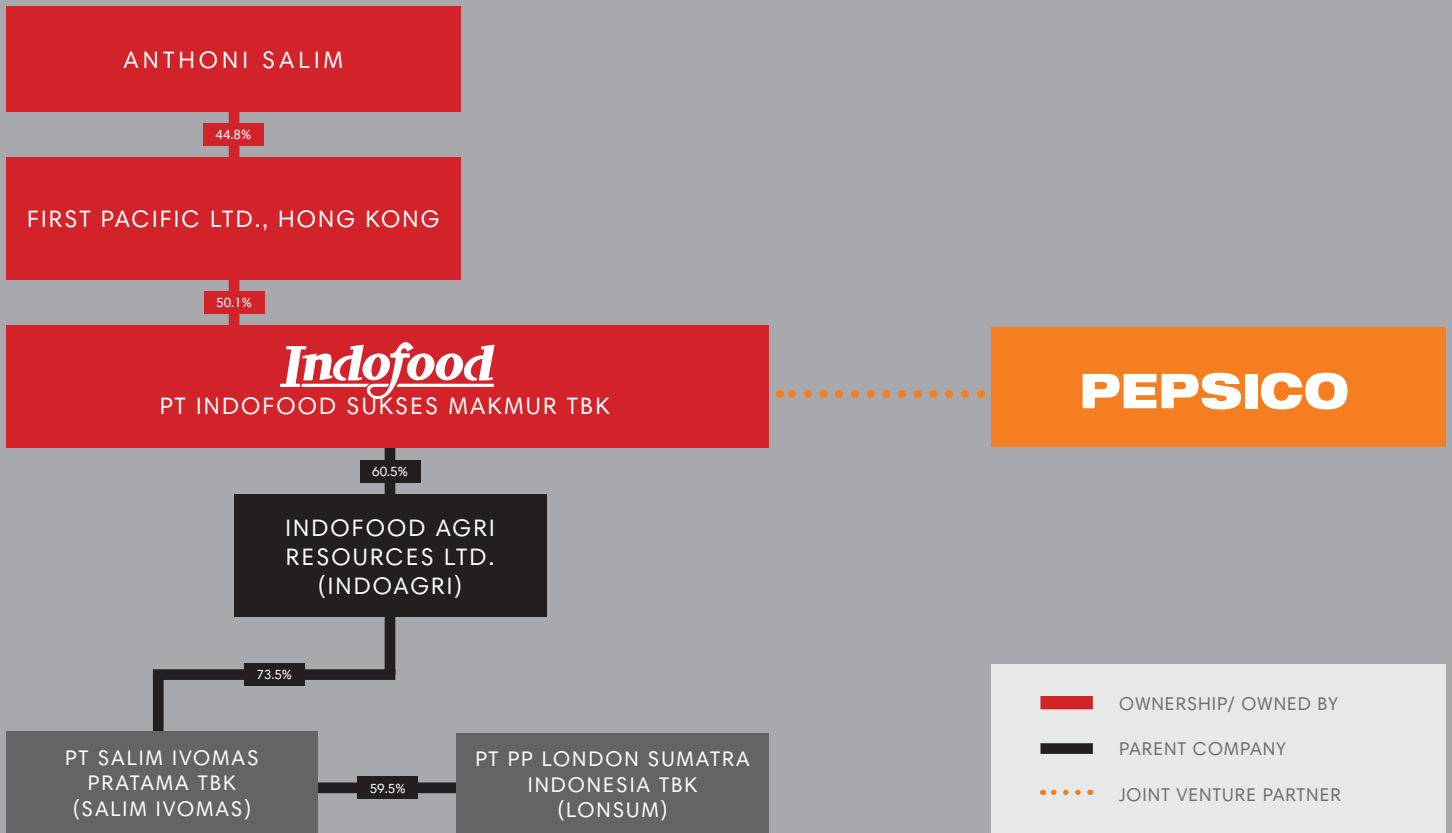
Indofood must also step up to the highest requirements of its other customers and investors. A number of Indofood's business partners and customers, including Nestlé, Unilever and Procter & Gamble — three global brands similar to PepsiCo — and several key palm oil traders including Wilmar International, Golden Agri Resources, and Musim Mas Group, have adopted responsible palm oil commitments to produce and source palm oil that is not associated with the violation of labor rights, deforestation, expansion on carbon-rich peatlands, or the violation of human rights. These requirements go beyond those set by the Roundtable on Sustainable Palm Oil (RSPO), which allow for ongoing deforestation and which have a poor track record of upholding human and workers' rights.¹⁸ Indofood must improve its practices to comply with these higher standards or risk being terminated as a supplier and business partner.

INDOFOOD'S FINANCIERS

Financial institutions holding shares or providing loans and underwriting to Indofood, its parent company First Pacific Company, or its plantation arm IndoAgri, also share responsibility for the adverse impacts to workers, the environment and to local communities that they are financing, particularly those related to potential violations of international labor and human rights agreements, norms and obligations. The Norwegian Government Pension Fund, the world's largest sovereign wealth fund, recently chose to divest from First Pacific Company, as the controlling entity of Indofood and Indofood Agri Resources, reportedly due to its poor environmental and social track record in its palm oil plantations.¹⁹

More than 200 independent institutional investors are known to hold significant equity positions in Indofood.²⁰ Of these, US based institutional investors collectively own nearly 25% of Indofood, followed by European institutional investors with a combined 8% interest.²¹ Forty-four banks have been identified as providing loans, underwriting or other financial services directly to Indofood. Among these are Japanese-based banks Sumitomo Mitsui Financial Group, Bank Mizuho and the Bank of Tokyo-Mitsubishi UFJ, European-based HSBC, Royal Bank of Scotland, Rabobank, Standard Chartered, BNP Paribas and Deutsche Bank, and US-based Citibank and JP Morgan Chase.²² Banks with financial relationships with Indofood should engage meaningfully with its management to ensure that it takes the actions required to systematically investigate and address the labor and human rights violations profiled in this report.

FIGURE 1. INDOFOODS COMPANY STRUCTURE



INDOFOOD'S CUSTOMERS AND JOINT VENTURE PARTNERS



INDOFOOD'S FINANCIERS



THE PEOPLE BEHIND PALM OIL

HIDDEN COSTS OF WORKER EXPLOITATION



Palm oil is an edible vegetable oil, high in saturated fats, derived from the fruit of the African oil palm tree. Palm oil and its derivatives are used in a remarkable array of products sold in the United States and around the world, such as cookies, crackers, chocolate, cereals and breakfast bars, cake mixes, doughnuts, potato chips, instant noodles, frozen sweets and meals, baby formula, margarine, detergents, soaps, and personal care products. It is found in roughly half of all packaged goods sold in grocery stores.

The production process of palm oil begins with the growing and harvesting of African oil palm trees, often on large-scale plantations which cover thousands of acres. Managing a palm oil plantation for production is labor intensive and requires a large workforce from the initial stages of land clearing, cultivating and planting new oil palm seedlings, to the ongoing

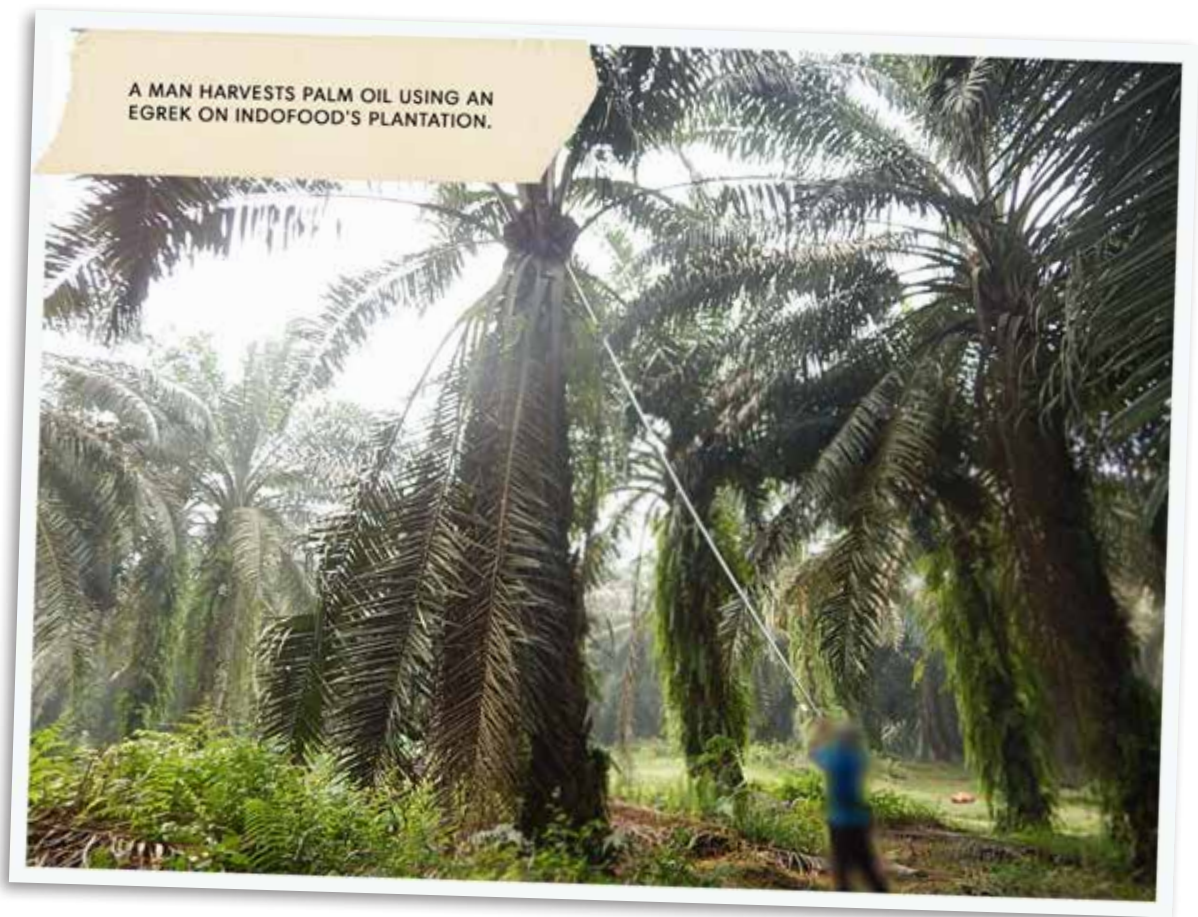
stages of harvesting and maintaining existing oil palm trees, and finally to replanting as trees become underproductive. Oil palm trees, once planted, continue to produce an economically profitable harvest for up to 20-25 years. During this time, harvesting the palm fruit and maintaining the trees are key activities of plantation workers. Large plantations typically have oil palm trees of varying ages so that a constant production cycle is maintained, and harvesting and maintenance work are carried out year-round by workers.

Palm oil is grown commercially in several tropical countries, but most of the world's palm oil comes from Indonesia and Malaysia, which account for 85% of global palm oil production. In Indonesia, palm oil plantations are a significant employer, employing millions of people, and further expansion of large-scale plantations has been strongly supported by government

policy. There is no official number for workers employed on palm oil plantations in Indonesia, and different accounts vary wildly.²³ Palm oil plantations in Indonesia cover at least 10.6 million hectares and using a rough estimate of one worker hired per every four hectares of palm oil plantation, at least 2.65 million currently work on Indonesian palm oil plantations.²⁴

The Indonesian government's 2011 Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI) resolutely supports large-scale plantation development, and the further expansion of palm oil. Recently however, the President of Indonesia, Joko Widodo, announced

a plan to enact a moratorium on the issuance of new palm oil permits that may stop or limit the legal expansion of palm oil plantations.²⁵ However the Indonesian government chooses to proceed with palm oil development, the rights of millions of current and potential future workers in the industry must be protected and upheld and their conditions honestly evaluated. Historically palm oil expansion has been supported with claims that it will reduce poverty and create jobs, but independent research increasingly indicates that good jobs on palm oil plantations have been few and short-lived and instead the trend has been toward poor quality jobs and more casual positions, for which women are disproportionately hired.²⁶



Harvesting

Harvesters are a critical part of the workforce on any palm oil plantation. As is clear by their title, they carry out the essential role of harvesting fresh fruit bunches. To do so, they use a long pole with a sharp, curved knife at the end, called an *egrek*, to cut the bunches which can weigh up to 25 kilograms. After the fresh fruit bunch falls to the ground, the harvester (or his helper) loads it in a wheelbarrow with other fruit bunches and hauls them to a roadside collection point which is often located a considerable distance away. Harvesters typically need to meet a weight-based quota for each day in order to be paid the minimum wage.

Harvesting is completed year-round, but oil palm trees cycle through high-yield and low-yield seasons. During the low-yield season, when oil palm trees are not producing as much fruit, harvesters have to cover a larger area in order to reach their daily quota. During the high-yield season, when harvesters collect their weight-based quota relatively faster, they are still expected to work a full seven-hour work day collecting fruit bunches beyond their quota.

Harvesters are also tasked with collecting the individual palm fruits that come loose from a ripe bunch when it is cut. This can



be very tedious work because when a fruit bunch is cut, many individual palm fruits scatter over a large area. On Indonesian palm oil plantations, harvesters must typically bring helpers, known as *kernet*, to collect the loose fruit and manage their workload. *Kernet* workers often have no formal employment relationship with the company, but are instead paid by the harvester directly out of the wage he earns.

Little research exists on the ergonomics of harvesting tasks at palm oil plantations, but it has been found that there is increased risk of musculoskeletal disorders as a result of this type of work.²⁷ Cutting fruit bunches with the long *egrek* is difficult and can cause strain to harvesters' backs, as can lifting and loading the fruit bunches, which can weigh up to 25 kg, into wheelbarrows and trucks. *Kernet* workers must stay bent over in difficult positions gathering loose fruit and are exposed to

thorns, snakes, pesticides and other hazards, usually with little to no protective gear. Workers often do not report these hazards to management for fear of losing their job or having their pay cut.²⁸

Maintenance

In addition to harvesting the fruit bunches, oil palm trees and their surrounding environment require a great deal of maintenance to ensure maximum productivity. Maintenance jobs include spraying pesticides, pruning, and applying fertilizer, and in Indonesia these jobs are often held by women workers who are employed on a casual basis, rather than as full-time permanent employees. Casual workers earn less than permanent workers, lack benefits, and are generally seen as "temporary" with little to no employment security.²⁹ Many casual employees are never given the opportunity to be promoted to permanent status even when they have worked at the plantation for decades.





On many palm oil plantations there is regular application of fertilizers and pesticides. When applying fertilizer, maintenance workers will carry up to 25 kilograms of fertilizer diagonally on their shoulders with a sack, often bearing the weight on their stomachs. In order to cover the large target areas in a day, the workers will throw the fertilizer with a plastic bowl while walking quickly down the line of oil palms. Spread in this way, the fertilizer flies everywhere and at the end of the day, the workers are left covered in fertilizer. Typically, the only protection they have against the chemical dust is a rag that they wrap around their face. Many workers report that the fertilizers used cause severe skin irritation and eye infections.

Maintenance workers also regularly apply pesticides. Paraquat, a highly hazardous herbicide, is commonly used on oil palm plantations for killing weeds, despite the fact that its use has been banned in numerous Western countries.³⁰ Many workers applying Paraquat and other pesticides are not provided with proper protection, and those that are, often find the gear unreasonably hot and inconvenient and choose not to wear the gear as it can slow their pace, negatively impacting their ability to meet their work quotas.³¹ Demanding daily quotas, coupled with the tropical climate, often means maintenance workers forego their personal safety in order to make minimum wage.

Despite the fact that maintenance work is a core part of the production of palm oil, maintenance jobs are commonly

A WORKER TRANSPORTS FRESH FRUIT BUNCHES TO A COLLECTION POINT.



ANOTHER WORKER HELPS A FEMALE MAINTENANCE WORKER REFILL HER FERTILIZER SACK.

misclassified as temporary or casual. In fact, the permanent need of maintenance work is reflected in the employment of casual workers year-round and continuously up to decades. The misclassification of workers as casual or temporary creates a precarious work environment and allows plantation companies to pay workers cheap wages for extended periods of time without having to provide adequate social benefits and protection.

Other Jobs on Plantations

In addition to harvesting and maintenance work, there are many other jobs that help sustain the plantation operations including upkeep tasks, transportation of fresh fruit bunches, security

work and processing of fresh fruit bunches at the mill. Upkeep tasks include fixing roads, clearing weeds, digging holes for replanting, and transporting materials such as fertilizer sacks. Transportation workers are responsible for loading the fresh fruit bunches that harvesters collect onto trucks and transporting them to designated mills. Security guards keep watch over the plantation and guard against palm fruit robbers. Mill workers manage the mill operations in order to extract the palm oil from fresh fruit bunches and separate the palm kernels. Not every plantation is equipped with a mill, but mill workers usually hold permanent status and receive higher wages.

TWO WORKERS LOAD FRESH FRUIT BUNCHES INTO A TRUCK.



INVESTIGATION OVERVIEW:

LABOR CONDITIONS ON INDOFOOD PALM OIL PLANTATIONS IN NORTH SUMATRA, INDONESIA



For this report investigations were conducted in September to October 2015 on two of Indofood subsidiary PT. PP London Sumatra Indonesia Tbk. (Lonsum) plantations in North Sumatra. Both plantations are Roundtable on Sustainable Palm Oil (RSPO) certified. In each of the plantations, the investigation was conducted through one-on-one interviews with workers; on-site examination of workers' documents such as pay slips, letters and work agreements; and on-site observation of workers performing their work duties, workers' living conditions and the plantations' amenities. The interviews were carried out on-site or nearby the plantation area.

A total of 41 laborers were individually interviewed for this investigation — 23 workers from the first plantation and 18 workers from the second plantation. Workers interviewed included men and women working as harvesters, harvester helpers known as *kernet*, pesticide sprayers, fertilizer spreaders, mill operators, security guards, fruit loaders, water pump operators and field foremen. The researchers used a combination of random sampling and “snowball” sampling to identify a cross-section of workers of varying job types, employment statuses and genders. The methodology was chosen due to the relative isolation and large area of the plantation, which makes access to workers difficult. It was also chosen in order to minimize risk to workers, who commonly

fear reprisal from the company for talking to outside parties. All workers were informed that they were being interviewed for research purposes and gave their informed consent to be interviewed.

Indofood and PepsiCo were given the opportunity to report on the key findings of this report prior to publication.

PepsiCo stated that its 2015 Palm Oil Action Plan demonstrates that it is “upholding a commitment that palm oil producers in [its] supply chain must adhere to the Universal Declaration of Human Rights, must be in basic compliance with all applicable laws, are prohibited from forced, compulsory or child labor, must respect freedom of association, and must recognize the rights of all workers.” The company said that it takes these commitments and any labor and human rights concerns raised very seriously. PepsiCo also stated that it has “strong human rights policies in place” and “clearly have a history of appropriately engaging on such matters”.

Indofood declined to comment on the findings of this report. Instead the company stated that, “As far as the IndoAgri is concerned, the IndoAgri has complied with all Indonesian laws and regulations [sic].”

Overview of investigation

At each of the two plantations, only roughly half of the workers interviewed had permanent status employment (51%). The rest (49%) were precariously employed as limited duration contract workers (5%), daily casual workers (27%), and 17% had no employment status (Table 1). According to Indonesian law, all workers, including permanent, contract and casual (including *kernet*) workers, have the right to work, receive a wage and living that is “fit for humanity”, proper health and safety protection, social security and the right to organize.³²

Out of the 11 workers interviewed with daily casual status, six of them were women, while five were men. The female casual workers were employed in maintenance jobs as either pesticide sprayers or fertilizer spreaders, while male casual workers were employed as both maintenance workers and harvesters.

Out of the seven workers interviewed with no status, all worked as *kernet* workers. *Kernet* workers were indirectly employed by harvesters and carried out supporting tasks — including

picking up loose palm fruit kernels and transporting fresh fruit bunches to a roadside collection pick-up point — in order to help harvesters reach their daily quotas. The *kernet* workers interviewed had no employment relationship with the company and were hired and paid directly by the harvesters they helped. Four of the seven *kernet* were boys aged 13, 16, 16 and 19 years old. These boys reported that they each had stopped attending school and started working as *kernet* to earn money. The other three *kernet* workers interviewed included two women and one man.

Out of the 23 workers interviewed with permanent or limited duration contract status, 22 were men. Harvesters were exclusively men, eight of whom had permanent status, while the other five were employed as casual or contract workers. As will be later discussed, these different types of work status categories have important impacts on the wages, benefits and amenities of workers.

TABLE 1. WORK STATUS AND GENDER OF INTERVIEWED PALM OIL WORKERS

	GENDER		CHILDREN	SUBTOTAL
	MALE	FEMALE		
WORK STATUS				
PERMANENT	20	1	0	21
LIMITED DURATION CONTRACT	2	0	0	2
DAILY CASUAL	5	6	0	11
WITHOUT EMPLOYMENT STATUS	2	2	3	7
TOTAL	29	9	3	41

PRECARIOUS EMPLOYMENT

Most of the interviewed workers were married (90%) and almost all of them (85%) had children. This is important to note, especially when examining wages and provision of child care services and education, because the vast majority of workers need to support not only themselves but also their families. The only workers who reported being unmarried were the same teenage boys aged 13, 16, 16, and 19 years old, working as *kernet* with no status.

Most of the workers interviewed (85%) are of Javanese descent. Many of their ancestors were brought from Java during the colonial era by plantation companies to work on some of the

earliest plantations in Sumatra. These 3rd and 4th generation descendants have continued to work in the plantations well beyond that period and no longer have land in their ancestral home of Java. Most reported having limited formal education and training. Sixty-one percent of workers interviewed had education levels of secondary school or lower. Because of this history, these workers have become highly dependent on the plantation for their social and economic livelihoods.

INDOFOOD'S PALM OIL MILL WHERE IT PROCESSES PALM FRUITS TO PRODUCE PALM OIL.



INVISIBLE AND “TEMPORARY”:

HOW PRECARIOUS EMPLOYMENT PRACTICES PLACE WORKERS AT RISK

Key Findings

The researchers found that Indofood utilized several kinds of precarious, or non-standard, forms of employment practices to employ workers who performed core plantation work on Indofood plantations, including harvesting, gathering loose fruits, and applying pesticides and fertilizers. Workers who are precariously employed often earn less, do not receive important benefits, and lack the employment security to stand up to workplace abuses. Twenty of 41 workers on Indofood plantations, or 49% of workers interviewed, were precariously employed as casual workers, limited duration contract workers, or *kernet* workers with no employment status at all. According to Indofood’s own statistics, it employs 50% of its workers on a casual basis and 2% on limited duration contracts; it does not report on the presence or number of *kernet* workers working on its plantations.³³

Overview of Precarious Work

Precarious work is generally defined as non-standard forms of employment (including temporary, casual, contract, outsourced, and day laborers) and is characterized by low wages, insecure employment, lack of benefits, and a lack of job protections. Precariously employed workers rarely receive social benefits and are often denied the right to join a union. Even when they have the right to unionize, workers are scared to organize if they know they are easily replaceable. Globally, women, minorities and migrant workers are much more likely to fill these kinds of jobs. Permanent employment across a number of sectors has shifted to precarious jobs through outsourcing, use of employment agencies, and inappropriate classification of workers as “short-term” or “independent contractors.”³⁴

In the Indonesian palm oil sector, it is common to find high percentages of core plantation jobs filled by precarious workers.³⁵ Women tend to comprise a disproportionately high percentage of casual labor and *kernet* positions, while rarely being employed on a permanent basis. Indonesia’s labor law has been criticized for

making it easy for companies to keep workers in precarious employment status, and the long-term trend on many Indonesian palm oil plantations has been toward replacing permanent workers with casual, contract, and *kernet* workers.³⁶

Invisible Workers

Among the workers interviewed on Indofood’s plantations, the worst off were those with no status at all. Seven workers reported working regularly to assist harvesters but had no direct employment relationship with the company. Referred to as *kernet* workers, these workers help harvesters with tasks such as collecting loose palm kernels, loading fresh fruit bunches onto wheelbarrows, hauling the wheelbarrows to the road for pick up, organizing and chopping the stems of fruit bunches and cutting and organizing palm branches. Four of these workers were teenage boys aged 13, 16, 16 and 19 years old, and the other three were adults (two women and one man) who were relatives of harvesters. *Kernet* workers are essentially invisible workers as they are not recognized as part of the official plantation workforce, have no legal protections, and are not eligible for health care, work-related injury compensation, and other social protections.

The indirect employment of *kernet* workers is driven by the pressure put on harvesters to meet unreasonably high daily



A WIFE HELPS HER HARVESTER HUSBAND MEET HIS QUOTA BY COLLECTING LOOSE FRUITS. SHE WORKS AS A KERNET WORKER WITHOUT PAY.

quotas as well as their need to supplement low wages by earning premiums. Six harvesters reported that they would not be able to meet their assigned quotas without bringing *kernet* workers, and five harvesters reported that they were instructed to bring *kernet* workers or they would be sent home without pay, demoted to casual status or lose their job. This practice predominantly impacts women and children as many harvesters reported recruiting *kernet* workers from their family, close relatives and neighbors, in order to retain more of their earnings. Six harvesters reported bringing their wives as *kernet*; three reported bringing children or young adults from around the neighborhood; and one, his father.

Kernet workers' invisible employment means their pay and conditions are unregulated and unmonitored. Some *kernet* workers reported receiving cash payments, paid out of the harvesters' pockets, once or twice a month, while others worked without pay to help family members meet their quotas. Out of the *kernet* workers interviewed, six of seven reported working for pay and earning between Rp 20,000 to Rp 35,000 per day, around \$1.50 to \$2.50 USD — which falls far below the statutory daily rate for a casual worker.³⁷ The other *kernet* worker interviewed reported working without pay in order to help her husband reach his harvesting quota. *Kernet* workers who received payment reported having no written agreement or pay slip, and that pay and working hours are negotiated verbally with the harvester.

While not classed as official employees of the plantation, *kernet* workers are clearly needed to help harvesters fulfill their quotas and are conducting core plantation work. As such, these workers should be recognized as permanent employees, as many work full-time. PepsiCo and Indofood may not be aware of the indirect employment of *kernet* workers who work for little to no pay, have no legal protections, and are not eligible for health care and other social protections, but both companies remain responsible and must address this issue.

Indofood's Casual Workers

Casual workers are only slightly better off than *kernet* workers. Casual work status is a form of precarious work as workers lack job security, are poorly paid and do not have benefits, including access to health care. In the investigation conducted, over a



quarter of the workers interviewed on Indofood plantations were daily casual workers. Three casual workers interviewed worked as harvesters while the rest worked in maintenance as pesticide sprayers, fertilizer spreaders and performed other upkeep tasks. In its overall plantation operations, Indofood reported that it employed 50% of its total workforce, or 39,796 people, as casual workers in 2015.³⁸

In Indonesia, the law states that daily or casual employment is “for certain works which is changing in terms of time and volume of work and wages are based on attendance.”³⁹ Workers can only be employed in this arrangement for less than 21 days a month. If they are employed for 21 days (or more) in 3 consecutive months (or more), by law their status should become permanent, which would grant them the full benefits of a permanent worker. Companies which employ daily casual workers are required to have a written contract with these workers. Indofood reports that “All employees, including casual labourers, have employment contracts,” but none of the casual workers interviewed reported having written contracts.

On Indofood plantations, casual workers reported being employed as daily casual workers for years without ever being promoted to permanent status. Six workers interviewed reported they had been working on the plantation for 10 to 20 years but remained casual workers without any path to permanent status. All of the casual workers reported that they were regular employees but were kept working under 21 days so they could not claim the benefits of permanent workers. As with *kernet* workers, many casual workers carry out core plantation work as is evidenced by their ongoing employment for decades and thus should be classified as permanent employees.

Indofood's Limited-duration Contract Workers

Limited-duration contract workers or *Perjanjian Kerja Waktu Tertentu (PKWT)* can only be employed for certain jobs, “which, because of the type and nature of the job will finish in a specified period of time.”⁴⁰ This work agreement cannot be made for jobs that are permanent in nature and cannot be longer than two years with an opportunity to renew only once for no longer than one year.

Researchers interviewed two limited-duration contract workers who were both working in jobs that are permanent in nature as harvesters. Both reported that they had signed a contract with the plantation after a year of working for the company as casual workers. One of them had not received a copy of their contract despite being promised one. The same worker reported that he had initially come on contract to prune, but had been forced mid-contract to harvest, despite it being outside of his agreed contract. The worker explained, “As a contract worker, I don't feel secure [about my job], so I couldn't refuse when the foreman and assistant ordered me [to harvest instead of prune].”

A written contract did not promise job security to these workers. Both of the contract workers reported that they took their jobs with the hope of being promoted to permanent status when their contracts end, but that their desires to be promoted were used by management to pressure them to work longer hours and meet higher targets without commensurate pay. One of the workers reported occasionally taking on additional work to prune after he completed his harvesting duty for an additional two hours. This work was intended to bring additional income but he felt it was mandatory as refusal would be reprimanded. His foreman threatened that he would not be promoted to permanent status with statements like, “How are you ever going to get promoted if you refuse to do what we tell you?”

Despite performing jobs that are permanent in nature and should be entitled to the status and rights of permanent workers, these workers only receive limited social benefits, often not extended to cover their families. Both contract workers reported their wives and children were not covered by health insurance nor provided with a rationing of rice. One of them reported that paid leave is only allowed when there is not much fruit to harvest.

WHAT INDOFOOD MUST DO TO ADDRESS PRECARIOUS WORK ON ITS PLANTATIONS

Indofood must act immediately to address its dangerous reliance on precarious workers to fulfill core plantation work on its plantations. In order to align its operations with the *Fair Labor Principles*, Indofood must:

- » Ensure that all workers on the plantation, regardless of their position, have a direct employment relationship with the company or a legitimate third party. No palm plantation worker should be “invisible” and lack a written contract, pay slips, and access to health care.
- » Hire all workers who perform core plantation work (including harvesting and regular maintenance tasks) as permanent workers.
- » Limit casual, temporary, contract, and day labor to jobs that are genuinely temporary or seasonal.
- » Ensure that precariously employed workers account for no more than 20% of Indofood's workforce as required under the Palm Oil Innovation Group (POIG) standard.⁴¹

NICKEL AND DIMED:

HOW WORKERS ARE PAID UNETHICALLY LOW WAGES

Key Findings

Researchers found that basic wages for permanent harvesters at one plantation were below the district's monthly minimum wage. This wage was set through a collective bargaining agreement, which workers reported that they had never read nor had explained to them. Casual workers at the same plantation also reported receiving a daily wage rate that was similarly below the district's daily minimum wage. On both plantations, casual daily workers and *kernet* workers were not provided with wage slips and reported making between 20% to 75% less than the monthly minimum wage earned by permanent workers. Some *kernet* workers also worked without pay as helpers to family members.

Overview of Wages for Indofood Workers

At the Indofood plantations visited, workers live in a landscape saturated with palm oil plantations. Many workers' families have lived within the plantations for generations, in an area where there are few ways to make a living beyond working on the plantations. This makes employment on palm oil plantations extremely important — especially for the majority of workers who have limited formal education or training. Indofood workers rely on their wages to support themselves and their families, but researchers found that many workers earned less than the monthly minimum wage and far from a living wage.

In Indonesia, the minimum wage is proposed by the district and approved by the provincial government.⁴² The district-wide minimum wage is based on a survey of 60 basic-needs items, including food, clothing, housing and transportation, for a single person. However, for plantation workers, who typically have families to support and live in remote areas where the cost of goods is significantly higher, this wage calculation often falls short of what is needed to support a family.

Indofood Pays Some Workers Below the District Minimum Wage

The calculation of wages on Indofood plantations is complex and varies for the different jobs and work status categories that exist. Harvesters, for example, should get a minimum wage for harvesting a daily quota weight of fresh fruit bunches, as well as premiums for additional fruit collected beyond the quota. The quota varies according to the age of the trees being harvested, since this affects the amount and weight of fresh fruit bunches the tree produces. For harvesters with permanent status, the minimum wage also includes additional non-monetary benefits like a rationing of rice for a harvester and his family.

FRESH FRUIT BUNCHES ARE MARKED WITH A HARVESTER'S UNIQUE NUMBER TO CALCULATE HOW MANY FRUIT BUNCHES HE COLLECTED. THESE FRUITS ARE THEN TRANSPORTED TO A MILL TO BE WEIGHED AND PROCESSED.



Only permanent employees received wage slips at the Indofood plantations visited. Wage slips of permanent harvesters interviewed at one of the plantations revealed base wages that were below the district's minimum wage. At the time of this investigation, the monthly minimum wage was Rp 2.015.000, around \$150 USD, while the plantation only provided a base wage of Rp 1.952.640, around \$145 USD, or sometimes less. The wage slips of five permanent workers revealed a base wage of Rp 1,761,037, around \$130 USD, in August 2015. Although casual workers interviewed did not receive documented pay slips, all the casual workers at the same plantation reported receiving a maximum daily wage of Rp 78,600 (around \$6 USD) — less than the daily minimum of Rp 80,480 based on the same district-wide minimum wage.⁴³

Ironically, Indofood's sub-minimum wages are set by a collective bargaining agreement that was negotiated between an association of Sumatran plantation companies called *Badan Kerja Sama Perusahaan Perkebunan Sumatra (BKSPPS)* — to which Indofood's London Sumatra belongs — and an Indonesian union that claims to represent all the workers of the member plantations.⁴⁴ However, many of the workers interviewed stated that they had no role in negotiating the agreement and the union leadership has never explained it to them. This type of union is commonly referred to as a "yellow" union, or a union which is dominated or influenced by an employer, and is further discussed later in the report. The agreement between *BKSPPS* and the company-backed union has been in place for decades and has been criticized by Trade Union Rights Center along with a number of North Sumatran unions and local NGOs.⁴⁵

Casual and Kernet Workers at Indofood Plantations Make Poverty Wages

The casual laborers and *kernet* who were interviewed at Indofood's two plantations did not receive written pay slips and reported earning significantly less than the monthly minimum wage entitled to permanent workers.

Under Indonesian labor law, casual workers cannot work for more than 21 days a month, otherwise they must be fully employed as permanent workers. Based on the maximum daily rate of Rp 78,600, around \$6 USD, that casual workers reported being paid, the maximum a casual worker can earn in a month is Rp 1,572,000,⁴⁶ around \$116 USD, which is around 20 percent below the district monthly minimum wage.⁴⁷ Casual workers reported working fewer than 21 days — some said between 12 to 15 days a month — and earning even less than \$116 USD per month. While these workers are classified by the plantation as "temporary" workers, all casual workers reported that their job at the Indofood plantation was their primary source of income and many had worked at the plantation for decades.



A BOY (AGE 16) WORKS COLLECTING LOOSE FRUIT FOR LESS THAN \$2 USD PER DAY, PAID TO HIM BY A HARVESTER.

Kernet workers earn even less than casual workers. Even if they work the full month, the maximum they reported earning was between Rp 500,000 and Rp 875,000, or between \$37 and \$65 USD a month, depending on their agreed rate with their harvester.⁴⁸ These earnings only add up to between 25% to 45% of the district monthly minimum wage.⁴⁹ Meanwhile some *kernet* workers did not make any money at all because they were helping family members meet their quotas. Because *kernet* workers have no direct employment relationship with the company nor legal work status, the law does not contemplate them working more than 21 days or being paid the minimum wage.

Paying for Help and Deductions Erode Permanent Workers' Already Meager Earnings

Under Indofood's labor scheme, even permanent workers struggle to make a decent wage. In order to meet their daily quota and bonus targets, some permanent harvesters pay a

kernet out of their wage, while others obtain "free" labor from family members. One harvester reported that in order to meet the daily quota and earn minimum wage, he must pay up to 35% of his wages to his *kernet*.

Harvesters with permanent status also reported that various sanctions and deductions were taken from their wages. At almost every step of the harvesting process, there were sanctions for various mistakes. For example, it was reported that if a harvester mistakenly harvests fruit that is not yet ripe, they will be charged Rp 2,500, around \$0.20 USD, per fresh fruit bunch. Additional sanctions are applied for not collecting palm kernels, leaving ripe fruit unharvested, not chopping the stem properly, and leaving a palm oil branch improperly cut. Often these deductions are not clearly recorded on workers' pay slips, leaving workers vulnerable to bogus sanctions and other forms of wage theft.

WHAT INDOFOOD MUST DO TO ADDRESS UNETHICALLY LOW WAGES ON ITS PLANTATIONS

Indofood must act immediately to investigate and address the reports of unethically low wages it is paying workers on its plantations. In order to align its operations with the *Fair Labor Principles*, Indofood must:

- » Ensure that all workers are paid a living wage. A living wage should be determined based on the average costs of a worker and their family, including commodity prices in plantation areas, and in consultation with workers, worker organizations, and independent unions. However calculated, a living wage should always be significantly higher than the legal minimum wage.
- » Eliminate any illegal deductions and financial penalties and offer production incentives and bonuses only up to a reasonable limit. Bonuses should not be necessary to earn the legal minimum wage, nor should deductions drop pay below the minimum wage.
- » Provide written contracts and wage slips to all workers in a language they understand, and reflect all deductions on the wage slip.
- » Hire enough permanent workers to carry out all core plantation activities.

CHILD WORKERS:

HOW UNATTAINABLE QUOTAS DRIVE CHILD LABOR

Key Findings

Children were observed working on Indofood plantations. Researchers interviewed three child workers one aged 13, two 16, as well as one 19 year old who reported working on the plantation since he was 12 years old. Beyond the four teenage boys interviewed, two harvesters reported hiring children as *kernet* to help them meet high quotas and earn premiums. Indofood states that its “HR policy strictly prohibits the use of underage workers [and] each employee’s profile is held in [its] HR data system, including information on age, contract term and photocopies of identification papers,” and indeed, Indofood did not hire any of these children as employees. Instead, all children worked indirectly for the company as *kernet* workers helping harvesters collect loose fruits and meet their high quotas. While Indofood may not be aware nor condone children working on its plantations, the company remains responsible.

Overview of Child Labor on Palm Oil Plantations

Child labor on palm oil plantations is primarily driven by low wages for adult workers and the need to meet assigned target quotas and earn additional premiums. Children are generally not employed directly by plantations. In this manner, palm oil plantations directly benefit from child labor (through higher

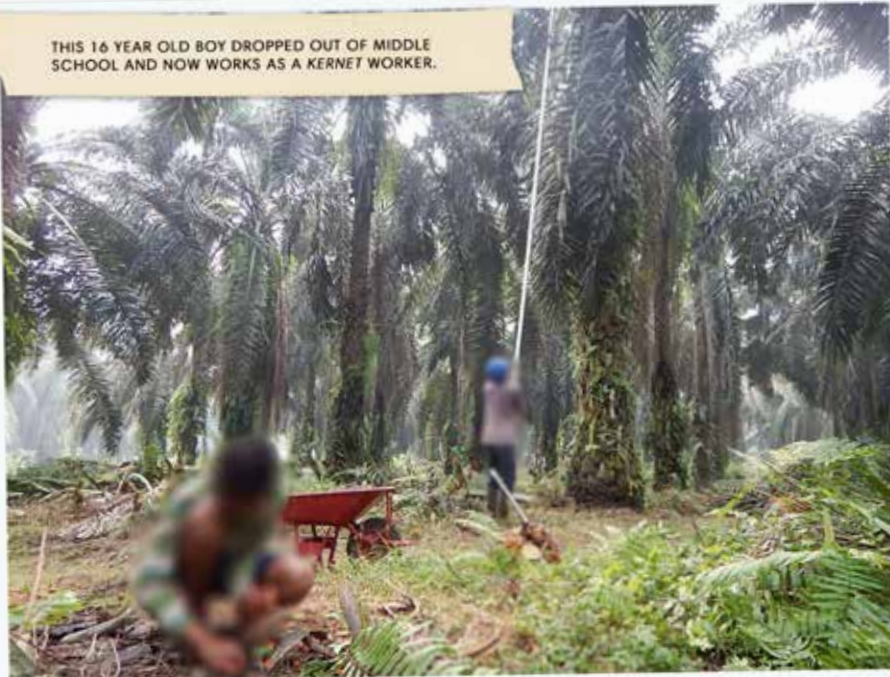
yields per worker) without bearing direct legal responsibility for the presence of working children.

According to Indonesia’s National Action Plan for the Elimination of the Worst Forms of Child Labor, child labor on large agricultural plantations is considered a “worst form of child labor” because it can involve exposure to pesticides, extreme weather, long hours, and carrying heavy loads, and therefore should not be carried out by any person under the age of 18.⁵⁰ Palm oil from Indonesia has been on the US Department of Labor’s “List of Goods Made with Child Labor or Forced Labor” since 2010 for the presence of child labor on palm oil plantations.⁵¹

Indofood’s Unrealistically High Quotas

Workers reported that Indofood uses a quota system in order to calculate workers’ wages. Each day workers are expected to meet a quota in order to be paid the minimum wage. Workers can also be subject to deductions for errors made and earn premiums if they exceed their quota. Quotas are set according to the type of job (harvester, pesticide sprayer, fertilizer spreader, etc.) and according to the season, but workers report that quotas can vary between the two plantations, and even amongst workers with the same position.

THIS 16 YEAR OLD BOY DROPPED OUT OF MIDDLE SCHOOL AND NOW WORKS AS A KERNET WORKER.



Harvesters reported that they need to meet very high quotas every day. Two harvesters stated that their daily quota was 2 tons of fresh fruit bunches per day. To achieve their quota, harvesters must often walk long distances, particularly during the low-yield season, to cut and collect the necessary amount of fruit bunches. One harvester stated that he had to collect between 140 to 160 fruit bunches per day, each weighing 15-20 kilograms, totaling over 3 tons.

The high quotas set for harvesters mean that most must bring additional help. One harvester reported that it is simply “too tiring” to do the job alone, while another reported that if he worked alone, he would probably not meet the quota.

Low Wages and High Quotas Drive Harvesters to Hire Children or Bring Their Wives as Help

Harvesters reported bringing help to meet their high quotas and to earn “premiums” — additional income earned from collecting extra fruit bunches and palm kernels beyond the basic quota. Harvesters reported that they needed to pursue premiums to earn enough to “get by.” With a basic wage of only Rp 1.952.640, or \$145 USD a month, harvesters earn less than \$6 USD a day, which they reported is not enough to support a harvester and his family.

Although harvesters earn more by bringing help and acquiring additional premiums, they ultimately have to pay for that help out of their wages or enlist family members as “free” labor. Nine harvesters reported hiring children or bringing their wives or family members as *kernet*. Harvesters enlisted wives or family members as *kernet* to retain income in the family unit or hired child workers because it cost them less. One harvester reported bringing a 16 year old boy because he could pay him less than an adult and retain more of the income for him and his family. The harvester stated that the standard payment was Rp 20,000, or \$1.50 USD a day, plus food and cigarettes. The harvester explained, “What kind of adult person would want to get paid that much? [But] that’s how much I can afford.”

During interviews with workers, it was stated that it was common within these communities for children to drop out of school at



an early age. The majority of workers interviewed did not have a high school education. Parents reported that they did not have enough money to keep their kids in school, so many ended up working at the plantation. One child worker who was interviewed was 13 years old and worked as a *kernet* collecting loose palm kernels and transporting fruit bunches. He reported that he no longer went to school and used the money he made (Rp 20,000, or \$ 1.50 USD a day, or whatever premium the harvester earned) to support his mother and sister. Indofood reports that “employees and their dependents enjoy the medical and educational services free of charge,” but with more than 50% of the workers precariously employed and not entitled to such benefits, many simply cannot afford to send their children to school.⁵²

WHAT INDOFOOD MUST DO TO ADDRESS CHILD LABOR ON ITS PLANTATIONS

Indofood must act immediately to investigate and address the reported conditions that have led children to work on its plantations. In order to align its operations with the *Fair Labor Principles*, Indofood must:

- » Not employ or benefit from the labor of children under the age of 18.
- » Ensure that any production targets or quotas are set based on what can fairly and realistically be achieved by one person within normal working hours, using relevant data from appropriate time and motion studies, and ensure that adult workers earn a living wage so that they are not forced to hire or bring children to work in order to earn enough to get by.
- » Ensure that children of adult plantation workers have access to education.

HAZARDOUS AND UNSAFE:

HOW PESTICIDES AND WORK PRACTICES JEOPARDIZE WORKERS' HEALTH AND SAFETY

Key Findings

At the Indofood plantations visited, workers reported working with highly hazardous pesticides, working without proper protective gear, performing hazardous work, and not seeking treatment for workplace injuries due to a lack of access to health services. Paraquat, a highly hazardous pesticide that is banned in many Western countries, was in use on the plantations, and workers reported leaving workplace injuries untreated due to lack of funds.

Overview of Health and Safety Hazards on Palm Oil Plantations

Workers on palm oil plantations face many occupational safety and health hazards, including but not limited to poisoning and long term health effects from pesticide use or exposure; being hit by falling fruit bunches; musculoskeletal injuries from repetitive and forceful movements and lifting and carrying heavy or awkward loads; injuries from cutting tools ranging from minor cuts to severe wounds; skin abrasions due to contact with oil palm fruit and thorns; eye damage from falling palm fronds; high levels of sun exposure which can result in skin cancer and heat exhaustion; long working hours; and snake and insect bites.⁵³ These hazards are especially high risk for casual workers or *kernet* workers, who often do not receive adequate protective

equipment, lack access to health care and accident insurance, and are not entitled to sick days.

Workers on Indofood Plantations Handle Highly Hazardous Pesticides

At Indofood plantations, maintenance workers reported using Gramoxone, which contains the highly toxic pesticide Paraquat.⁵⁴ Paraquat is banned in several Western countries and is known to be acutely toxic through swallowing, absorption through damaged skin, or by inhalation. Documented health effects of exposure to the chemical include Parkinson's disease, neurological disorders, endocrine disruption, and cancer. Thousands have suffered severe acute and chronic effects from occupational use of Paraquat.⁵⁵ Indofood reported using 21,000 liters of Paraquat on its plantations in 2015 and has committed to phase out its use by 2018.⁵⁶

Women workers were disproportionately exposed to Paraquat because they most commonly performed the maintenance jobs of spraying pesticides and spreading fertilizer. Seven of nine women workers interviewed had these jobs, while the other two women worked as *kernet*.

Indofood Workers Lack Access to Adequate Safety Equipment

Due to *kernet* workers' indirect employment relationship with the company, Indofood did not provide health and safety equipment for these workers. It was reported that harvesters occasionally provided or lent some protective equipment to the *kernet* working for them, but the equipment was limited and often ill-fitting.

Casual workers, depending on their position, reported that some protective equipment was provided by Indofood. Pesticide sprayers reported being given a suit, helmet, boots and gloves, but many stated that they often did not wear them because they were too hot and slowed them down, inhibiting their ability to meet their quotas. Fertilizer spreaders and workers tasked with general upkeep



WOMEN MAINTENANCE WORKERS SPREAD FERTILIZER ON INDOFOOD'S PLANTATION.



reported not being provided with any protective equipment. Women applying fertilizer were observed using a small plastic bowl to throw fertilizer with only a rag wrapped around their face to protect them from the chemical dust.

Indofood states that “it is mandatory for all relevant employees to wear PPE [personal protective equipment] at all times and exercise SOPs...All contractors and casual labourers complete a safety induction before starting work, safety clauses are written into contracts and five-minute safety briefings kick off each day.”⁵⁷ However, if Indofood does not provide workers with appropriate safety equipment free-of-charge, requiring them to wear such equipment does not go far enough to adequately protect their health and safety.

Other Health and Safety Risks to Workers

A number of other health and safety concerns were observed at

the Indofood plantations visited and corroborated by interviews with workers. *Kernet* workers, which included workers under 18, were observed lifting and transporting heavy fruit bunches, handling heavy, dangerous tools including axes and gancu (a large metal hook), and transporting wheelbarrows full of up to six fruit bunches, which can weigh up to 150 kilograms, or 330 pounds.⁵⁸ *Kernet* workers who picked up loose palm kernels reported back pain and exhaustion from having to squat or bend down for long periods of time while covering a wide area. Falling fruit bunches and palm fronds, and thorns also posed significant hazards to workers who did not have proper personal protective gear.

Indofood reported that there were seven deaths on its plantations in 2015, four of which were casual workers, caused

by falling fruit bunches, a crushing incident during road construction, and electrocution. Indofood states that following the deaths senior management visits the workers' families to explain compensation arrangements via Badan Penyelenggara Jaminan Sosial (BPJS, formerly Jamsotek), and that workers not directly employed by Indofood are covered under a different social insurance scheme.⁵⁹ It is unclear if compensation for death on the plantation applies to casual workers (which comprise 50% of Indofood's reported workers), or to *kernet* workers who are not directly employed by Indofood.

All casual and *kernet* workers interviewed reported having no health insurance and limited access to the company's on-site

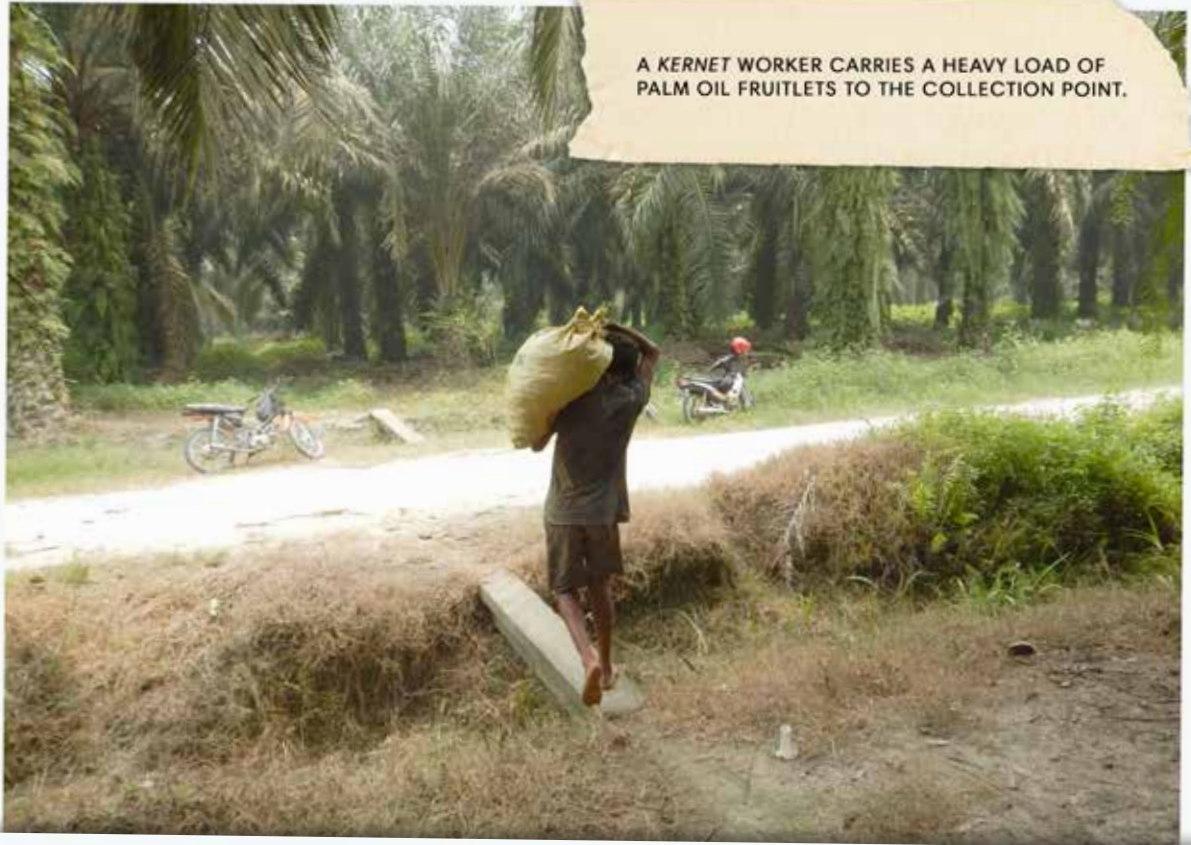
clinic. Indofood states that "employees and their dependents enjoy the medical...services free of charge."⁶⁰ However, Indofood then goes on to define employees only as permanent workers and limited duration contract workers, indicating that casual workers, which comprise 50% of its workforce, are not entitled to free medical services. This is corroborated by the stories of two female casual workers who reported leaving workplace injuries untreated due to lack of funds.

At Indofood plantations, maintenance workers reported using Gramoxone, which contains the highly toxic pesticide Paraquat. Paraquat is banned in several Western countries and is known to be acutely toxic through swallowing, absorption through damaged skin, or by inhalation.

WHAT INDOFOOD MUST DO TO ADDRESS HEALTH AND SAFETY CONCERNS ON ITS PLANTATIONS

Indofood must act immediately to investigate and address any health and safety issues on its plantations. In order to align its operations with the *Fair Labor Principles*, Indofood must:

- » Provide all workers, regardless of their employment status, with adequate protective equipment and tools free of charge and provide regular training on occupational health and safety practices and policies.
- » Immediately ban the use of all highly hazardous pesticides, including the herbicide Paraquat, and replace these with safe alternatives, including non-chemical ecosystem solutions.
- » Disclose the ingredients and any associated health risks of any pesticides and fertilizers used by the workers to them and their organizations and unions, and obtain their express consent prior to usage.
- » Provide all workers, regardless of their employment status, with appropriate levels of health care, accident insurance and compensation for all work-related injuries and illnesses, including death.



A KERNET WORKER CARRIES A HEAVY LOAD OF PALM OIL FRUITLETS TO THE COLLECTION POINT.



A PESTICIDE SPRAYER WORKS WITH INADEQUATE PROTECTIVE EQUIPMENT AND IS EXPOSED TO HIGHLY HAZARDOUS PESTICIDES.

YELLOW UNIONS AND INTIMIDATION:

HOW COMPANY-BACKED UNIONS UNDERMINE FREEDOM OF ASSOCIATION

Key Findings

Permanent workers at the Indofood plantations visited reported being automatically enrolled in a company-backed “yellow” union and having fees deducted from their salary, without their consent or proper representation. Workers who attempted to engage with an independent union reported being fearful of reprisal.

Overview of the Right to Freedom of Association

The right to freely associate and join a union is an internationally recognized human right found in the ILO Core Conventions, the Universal Declaration of Human Rights, and the International Covenant on Civil and Political Rights. Indonesian law states that “Every worker/laborer has the right to form and become member of a trade/labor union.”⁶¹ When Freedom of Association is respected, workers are able to form unions of their own choosing and collectively bargain in order to improve wages and working conditions.

But workers around the world face systemic barriers to organizing, including egregious acts of violence and intimidation. Palm oil companies often fight the presence of independent unions by intimidating, transferring or firing workers who attempt to organize independent unions. Some also form company-controlled unions, referred to as “yellow” unions, which they require employees to join. Yellow unions are deemed unlawful under international labor law,⁶² yet they persist in many countries, including in Indonesia, prevalently in the palm oil sector. In Indonesia, these unions may also be referred to as legacy unions which are state-backed unions inherited from the previous non-democratic regime that normally maintain their non-democratic aspects.⁶³

Indofood’s Company-Backed “Yellow” Union

Sixteen permanent workers reported being members of the agriculture and plantation sector arm of a well-known state-controlled union, which was formed during the repressive Suharto government era.⁶⁴ Eighty percent of them reported that their membership was mandatory as they entered permanent status employment and membership dues for the union were

automatically deducted from their wages. The workers reported that they were enlisted in the union without their consent or a proper registration procedure.

One worker explained, “We are not free to establish other unions. The plantation only allows [the company-backed union] to organize workers. Others are not allowed. Workers who have been promoted to permanent status cannot refuse to be members of [the company-backed union]. When workers become permanent employees, that same moment they are considered to be members and levied membership fees. [The company-backed union] never advocates for our labor rights.”

One permanent worker reported that he was initially interested in joining an independent union but was questioned by the management and became fearful that he would be sanctioned for joining any other union than the company-backed union. He said that others, including friends of his, also refrained from joining due to fear of repercussions from the company. Indonesian academics have noted that anti-union actions by employers, including the (illegal) refusal to allow workers to form unions and negotiate collective labor agreements, along with intimidation and other pressure by employers on union activists, generates fear which discourages non-unionized workers from joining unions, and encourages those who have joined to withdraw their membership.⁶⁵

Indofood self-reports that 59% of its “operational employees” are unionized. It is unclear, however, if any of these 59% are represented by independent unions, or they are all unionized under the same yellow union that the interviewed workers were enlisted in.⁶⁶

WHAT INDOFOOD MUST DO TO ALLOW GENUINE FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING ON ITS PLANTATIONS

Indofood must act immediately to ensure that the rights to freely associate and collectively bargain are respected on its plantations. In order to align its operations with the *Fair Labor Principles*, Indofood must:

- » Respect workers' right to freely associate and collectively bargain as established by the International Labor Organization (ILO).
- » Engage and bargain in good faith with all legitimate trade unions.
- » Not interfere with the organizing activities of workers, worker representatives, or representatives of trade unions.
- » Not prohibit, restrict or otherwise interfere with lawful strike action.

SIGN ON INDOFOOD PLANTATION
WARNS OF DEADLY VOLTAGE



RECOMMENDATIONS



WHAT INDOFOOD MUST DO

The findings of the investigation carried out on two Indofood plantations is indicative of Indofood's failing approach to responsible palm oil production, resulting in ongoing labor rights abuses and other Conflict Palm Oil practices.⁶⁷ To demonstrate its commitment to stop the exploitation of workers and uphold workers' rights, Indofood must align its workers' rights policy

provisions and implementation plan with the requirements outlined in *Free and Fair Labor in Palm Oil Production: Principles and Implementation Guidance*, and work to immediately investigate and address the reported labor violations outlined in this report.

INDOFOOD MUST ENSURE:

As articulated in the *Fair Labor Principles*, Indofood must ensure across all its plantations and third party suppliers' operations that:

- 1. The International Labor Organization (ILO) Core Conventions are upheld.**
- 2. Ethical hiring and responsible employment are practiced.**
- 3. Reasonable production targets, working hours, and leave entitlements are established.**
- 4. A living wage is paid.**
- 5. Worker health and safety and the welfare of workers and their families are prioritized.**
- 6. Access to remedy is guaranteed; and**
- 7. Meaningful due diligence, transparency, and disclosure of human rights policies, procedures, and data, with a focus on labor and employment, are established.**

Specific high risk issues and recommendations for their remedy, in line with the *Fair Labor Principles*, are highlighted in the key findings section of this report. Indofood should utilize the normative standard detailed in the Principles and the set of operational practices articulated in the Guidance to help guide the development of a stronger palm oil policy and implementation plan. Effective implementation will require that Indofood establish transparent, interim milestones and engage in meaningful, ongoing dialogue with key stakeholders, critically including workers and any independent unions with which they engage.

Beyond Addressing Labor Abuses

Indofood is currently the largest private palm oil company in Indonesia without a responsible palm oil policy. It must adopt and implement a responsible palm oil policy that requires the production and sourcing of palm oil that is fully traceable, legally grown and verified as not associated with workers' rights or other human rights violations, deforestation, or expansion on carbon-rich peatlands of any depth. This policy must go beyond achieving Roundtable on Sustainable Palm Oil certification, which fails to ensure that workers' rights are upheld, rainforests and peatlands are left intact, and community conflicts are avoided and resolved. The policy must apply to all of Indofood's operations worldwide including the subsidiaries, refineries, mills

and plantations that it owns, manages, or invests in, regardless of stake. In order to meet the new market standard, Indofood must require its third party palm oil suppliers to meet the same responsible production standard.

In order to break its ties to deforestation and reduce its carbon footprint, Indofood must halt further clearance of High Conservation Value (HCV) areas and High Carbon Stock (HCS) forests as well as peatlands of any depth, using the High Carbon Stock Approach. It must also address other key Conflict Palm Oil cases that have been highlighted in the recently released, "*Palm Oil Sustainability Assessment of Indofood Agri Resources*."⁶⁸ This includes resolving the six land disputes profiled in the *Indofood Agri Resources* report to the mutual satisfaction of the communities through an accountable, mutually agreed upon, and documented conflict resolution process.

WHAT PEPSICO AND OTHER INDOFOOD CUSTOMERS MUST DO

PepsiCo has a critical role to play in transforming Indofood. With Indofood as its joint venture partner and the sole producer of PepsiCo products in Indonesia, PepsiCo is uniquely positioned to ensure Indofood becomes a responsible palm oil company. PepsiCo must require that Indofood work rapidly to investigate and address the labor violations outlined in this report, resolve other outstanding Conflict Palm Oil cases, and adopt and implement a responsible palm oil policy that requires the production and sourcing of palm oil that is fully traceable, legally grown and verified as not associated with workers' rights violations, deforestation, expansion on carbon-rich peatlands of any depth, and the violation of human rights. Not changing Indofood will mean continued reputational risk for PepsiCo and a failure to comply with the principles of PepsiCo's newest palm oil policy. More broadly, PepsiCo must adopt an ambitious deadline for achieving third-party verified compliance with its policy for all palm oil used in all its products and brands, including those produced by Indofood and other joint venture

partners. Currently the snack food giant only has a goal for achieving 100% RSPO physically certified palm oil by 2020.

Indofood's other customers and business partners with responsible palm oil sourcing policies — including Wilmar, Musim Mas, Golden Agri-Resources (GAR), Unilever, Procter & Gamble, Nestlé and Wilmar — must also require that Indofood work rapidly to investigate and address the labor violations outlined in this report, resolve other outstanding Conflict Palm Oil cases, and adopt and implement a responsible palm oil policy. If Indofood refuses to do so, then these companies must suspend all existing and future contracts with Indofood until the company takes concrete and transparent actions to resolve existing conflicts and move toward responsible palm oil production and sourcing.



WHAT INDOFOOD FINANCIERS MUST DO

Investors and financial institutions must engage directly with Indofood and condition any continued or future financing on whether or not Indofood works rapidly to investigate and address the labor violations outlined in this report, resolves other outstanding Conflict Palm Oil cases, and adopts and implements a responsible palm oil policy, as outlined above.

Investors and financial institutions must also develop and implement robust safeguard policies and procedures specific to any high-risk commodity sector in which their clients operate, and disclose sufficient information to enable independent monitoring and meaningful dialogue with all stakeholders on measures taken to address environmental and social issues arising throughout the value chain of their clients' operations.

WHAT THE INDONESIAN GOVERNMENT SHOULD DO

The election of the new Indonesian president Joko Widodo and the appointment of a new cabinet in 2014 present an opportunity for national policy review. As demonstrated in this report, current labor laws and enforcement are insufficient to uphold and protect the rights of palm oil plantation workers who face unique and heightened risks from their geographic isolation. The nature of work on plantations is inherently different than the manufacturing sector and hence needs to be addressed through a unique set of regulations. The Indonesian government should enact specific labor laws to protect palm oil plantation workers.

Permanent workers are currently protected by the 2003 Manpower Law, but there are problems with compliance as ambiguous regulations are easily abused by plantation companies. For the increasing number of precariously employed workers, including casual, contract, and status-less *kernet* workers unprotected by the 2003 Manpower Law, further regulation is needed to protect and regularize these workers.

Such regulation must address:

- » Non-discrimination based on ethnicity or gender.
- » Bringing rates of pay for piece work up to the official minimum wage and ensuring that minimum wage is in fact in line with a living wage.
- » And extending housing, education, health, safety, disability, maternity and pension provisions for casual, contract, and status-less workers.

Urgent attention needs to be paid to women workers and child laborers most at risk and least protected, taking into account the quota system and low wages as primary drivers to their precarious employment and vulnerability. The Indonesian government should ensure that all current jobs and any future jobs truly add to the welfare of workers through strong protections in line with the *Fair Labor Principles*.

PepsiCo is uniquely positioned to ensure Indofood becomes a responsible palm oil company. PepsiCo must require that Indofood work rapidly to investigate and address the labor violations outlined in this report, resolve other outstanding Conflict Palm Oil cases, and adopt and implement a responsible palm oil policy.

WHAT THE ROUNDTABLE ON SUSTAINABLE PALM OIL MUST DO

Indofood's plantation businesses are members of the industry certification system, the Roundtable on Sustainable Palm Oil (RSPO). As a RSPO member, Indofood's PT. PP London Sumatra Indonesia Tbk. (Lonsum) and PT. Salim Ivomas Pratama Tbk. (Salim Ivomas) are required to follow the RSPO Principles and Criteria, which include several principles addressing workers' rights. Based on the findings of this report, Indofood's Lonsum is violating at least the following RSPO Principles:

- » **Principle 2.1** There is compliance with all applicable local, national, and ratified international laws and regulations.
- » **Principle 4.6** Pesticides are used in ways that do not endanger health or the environment.
- » **Principle 4.7** An occupational health and safety plan is documented, effectively communicated and implemented.
- » **Principles 6.5** Pay and conditions for employees and for contract workers always meet at least legal or industry minimum standards and are sufficient to provide decent living wages.
- » **Principle 6.6** The employer respects the rights of all personnel to form and join trade unions of their choice and

to bargain collectively. Where the right to freedom of association and collective bargaining are restricted under law, the employer facilitates parallel means of independent and free association and bargaining for all such personnel.

- » **Principle 6.7** Children are not employed or exploited.
- » **Principle 6.8** Any form of discrimination based on race, caste, national origin, religion, disability, gender, sexual orientation, union membership, political affiliation, or age, is prohibited; and
- » **Principle 6.13** Growers and millers respect human rights.⁶⁹

The RSPO should require that Indofood's London Sumatra transparently investigate the issues outlined in this report and rapidly come into compliance with the RSPO Principles & Criteria. If it fails to do so, the RSPO should suspend Lonsum and its associated Salim Ivomas until transparent actions to resolve the issues outlined in this report take place. The RSPO should also strengthen the Principles and Criteria, complaints mechanism, and auditing procedures to align with the *Fair Labor Principles*.



WORKERS PROTEST WORKER EXPLOITATION ON RSPO CERTIFIED PLANTATIONS AT THE BODY'S ANNUAL ROUNDTABLE IN 2013. PHOTO: RAN

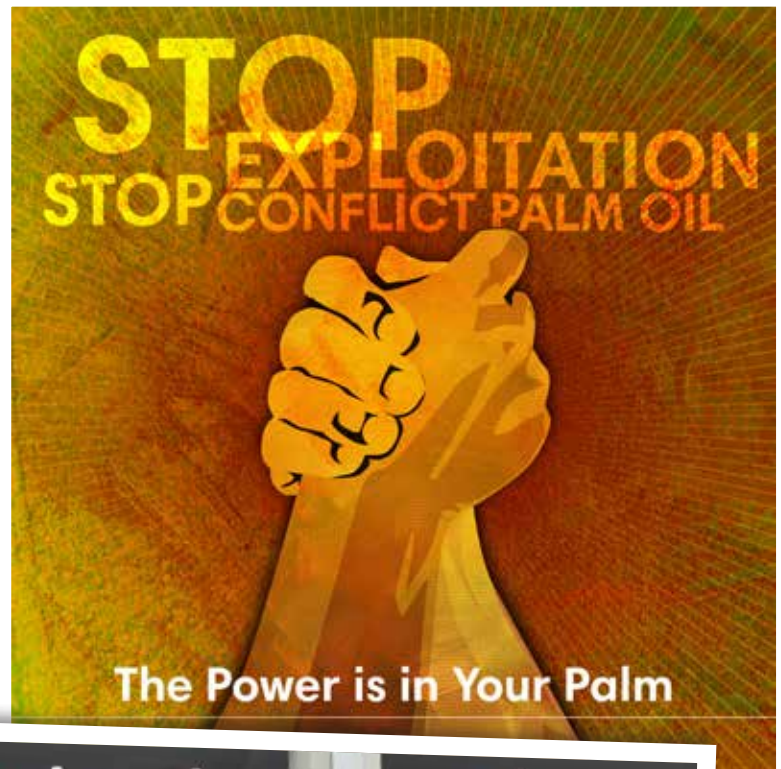
WHAT CONSUMERS CAN DO

PepsiCo cares about what their customers think — they spend millions of dollars a year to gain the trust and loyalty of consumers. The Power is In Your Palm!

Join Rainforest Action Network, International Labor Rights Forum, OPPIK and organizations from around the world that are supporting efforts to shine a spotlight on the human suffering behind PepsiCo's cheap snack food. Send PepsiCo a message today telling them you stand in solidarity with Indofood's palm oil workers and demand that PepsiCo require Indofood to uphold workers' rights and rapidly implement a truly responsible palm oil policy.

Visit <http://www.ran.org/solidarity> to take action today and join the movement working to transform the palm oil sector at:

http://www.ran.org/join_the_palm_oil_action_team.



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OPPUK is an Indonesian labor organization founded in 2005 by student activists and workers concerned about palm oil workers' working and living conditions in North Sumatra, Indonesia. OPPUK has three main programs that include organizing and educating workers, conducting research and advocacy and campaigning for the rights of palm oil workers in North Sumatra and Indonesia generally.



Rainforest Action Network (RAN) campaigns for the forests, their inhabitants and the natural systems that sustain life by transforming the global marketplace through education, grassroots organizing and non-violent direct action.



The International Labor Rights Forum (ILRF) is a human rights advocacy organization dedicated to achieving just and humane conditions for workers worldwide, founded in 1986 and based in Washington D.C. ILRF works with trade unions and community-based labor rights advocates to expose violations of workers' rights, including child and forced labor, discrimination, and violations of workers' rights to organize and bargain collectively.



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