

SUSTAINABLE PALM OIL PRODUCTION KULIM (M) BERHAD EXPERIENCE.

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ABSTRACT

Kulim (Malaysia) Berhad's ("Kulim") corporate history dates back to 1933 when it was first incorporated in the United Kingdom as Kulim Rubber Plantations Ltd. Kulim was later incorporated as a public limited company and was listed on the Kuala Lumpur Stock Exchange (now known as the Main Market of Bursa Malaysia Securities Berhad) in 1975. Since Johor Corporation became the major shareholder of Kulim in 1976, Kulim has increased its interest in the plantation industry through acquisition of plantation assets and controlling stakes in Malaysian and regional plantation companies. Currently employing more than 61,000 people, 39,000 of the staff are in Malaysia and the remaining contingent are spread across Papua New Guinea, the Solomon Islands, Singapore, Brunei, Cambodia, India and the United Kingdom. Over the years, Kulim has evolved and focuses on three core business operations – oil palm plantation, foods and restaurants and intrapreneur ventures. Our imminent exit from the foods and restaurants business would bring us back closer to our roots, as greater demand is placed in agriculture.

Plantation and agriculture dominates our profile and Kulim is recognized as one of the leading palm oil groups in the world with a unique geographical footprint – in Malaysia, PNG and Solomon Islands. Kulim was amongst the earliest plantations in the world to be certified as a sustainable palm oil producer when its operations under NBPOL in West New Britain, PNG and in Malaysia were awarded the RSPO certification in 2008 and early 2009 respectively. Our pursuit of value and growth is firmly underpinned by our commitment to embrace sustainability and strong corporate governance as the overriding philosophy.

As a socially and environmentally responsible corporate citizen, Kulim embraces the principles of sustainable development in every stage of its plantation activities and continue to work towards demonstrating sustainability throughout our operations. We recognize sustainability as an opportunity to change the way we do our business. Our Sustainable Palm Oil ("SPO") Programs defines its ultimate objective to improve Kulim's business performance and profitability as well as positioning Kulim as a world leader in SPO. Our efforts with regards to sustainable development will continue to guide our business.

We hope that by being mindful of our surroundings and the socio-economic impact of our actions, we will move forward by developing business methods that are economically viable, environmentally appropriate and socially beneficial.

We care for tomorrow. We translate this as a responsibility to aspire to international standards and global recognition. Kulim has ambitious plans for this goal: to improve performance, increase sustainability, and manage risks. That is why we are transforming the businesses by bringing technology and teamwork together in innovative ways, making our assets more productive and our people more proficient.

We believe that the best and only way to increase value is to raise productivity and quality standards, and use our resources more efficiently. We know that better environmental management will result in less wastage and bring higher yields through conservation of soil fertility. We also believe that looking after our people will give us a more loyal and productive workforce and act prudently for the sustainable development of this planet, our home for our people.

(The theme: 'Sustainable Palm Oil Production')

SUSTAINABLE PALM OIL PRODUCTION KULIM (M) BERHAD EXPERIENCE

AN OVERVIEW

Kulim (M) Berhad was incorporated on 4th July 1933 in United Kingdom under the name of Kulim Rubber Plantation Limited (KRPL) and in year 1947 began its operations with 190 hectares of rubber plantation in Johor, Malaysia.

On 16th July 1970, the name was changed to Kulim Group Limited and listed on the London Stock Exchange. On 3rd July 1975, the company went through another corporate exercise with the incorporation of Kulim (Malaysia) SdnBhd and was made public as Kulim (M) Berhad on 18th August 1975 with its shares listed on the main board of Kuala Lumpur Stock Exchange on 14th November 1975.

In 1976, The Johor State Economic Development Corporation (now known as Johor Corporation or JCorp) become a shareholder of Kulim (M) Berhad.

Kulim (M) Berhad's core business can be divided into three sections mainly;

- I. Plantations - Kulim's plantation operations span over three countries; Malaysia, Papua New Guinea and the Solomon Islands with the following area and planting profile as at 31 December 2011:

<i>UPDATED AS AT 31 DEC 2011</i>	TOTAL (HA)	MATURE (HA)
MALAYSIA	43,890	32,865
PAPUA NEW GUINEA	121,553	63,091
THE SOLOMON ISLANDS	7,577	5,347
GROUP	173,020	100,303

- II. Foods and Restaurants which operates KFC, Pizza Hut and Rasamas; Kulim's involvement in the foods and restaurants sector via the acquisition of QSR Brands Bhd ("QSR") was envisaged as a move that would provide it with higher, more balanced and relatively stable income stream and business profile while at the same time according the Group a market leadership entry into an industry that is poised for further growth, consistent with its representation of new lifestyle trends.
- III. Intrapreneur Ventures with involvement in a variety of growing businesses, driven by individuals who own minority stakes in the companies. Companies are operated and owned under both Kulim (M) Berhad and a 70%-owned subsidiary, SindoraBerhad, which is listed on the Main Board of Bursa Malaysia.

(official website Kulim(M) Berhad)

GLOBAL PALM OIL PRODUCTION

The palm oil industry is one of the key economic drivers of the agricultural sector in approximately 27 developing countries in Africa, South America and South East Asia and its economic potential is greatest in the oil palm growing belt, a region that encompasses 5° north and south of the equator. Indonesia and Malaysia produced about 85.54% of the world's palm oil in 2011.

The industry also offers a long-term and stable source of income for its smallholders.

Among the 10 major oilseeds, oil palm only accounted for 5.58% of global land use for cultivation, but produced 38.18% of global oils and fats output in 2011.

There are more than 17 types of major oils and fats produce for consumption and palm oil has fast become the preferred choice. In 2011 alone, palm oil exports accounted for 57% of total world oils and fats export and have reached more than three billion people in 150 countries with total consumption of 49.05 million tons.

All these achievements are because oil palm is the most efficient oilseed crop in the world. One hectare of oil palm plantation is able to produce up to ten times more oil than other leading oilseed crops. The most efficient producers may achieve yields as high as eight tonnes of oil per hectare.

In Malaysia, oil palm plantations make up 71% of agriculture land or 14.3% of total land area and in 2011, Malaysian oil palm accounted for just 1.7% (5.0 million hectares) of the total 253.83 million hectares planted with oilseed crops globally.

In Malaysia, the industry provides direct employment for about 570,000 people. In 2011, Malaysia palm oil & palm oil-based products contributed the country second largest export revenue earner with a total combined value of RM83.4 billion or 12.0% to total exports consisting of palm oil, palm kernel oil, palm kernel cake, oleochemicals, biodiesel and finished products which increased by 5.3% or 1.21 million tonnes to 24.27 million tonnes in 2011 from 23.06 million tonnes recorded in 2010.

SUSTAINABLE PALM OIL AND ITS IMPORTANCE

Due to the rapid increase in consumption of dietary oils and fats in the developing economies of China and India and stable oil prices of crude palm oil and kernel oil, many investors are interested to develop plantations in large areason suitable land found in peninsular Malaysia and the islands of Sumatra in Indonesia and Borneo. Some of these new investors when opening new areas for oil palm plantation are doing it in a rush and this has resulted in activities that are unfriendly to the planet.

This has attracted unnecessary attention from various parties championing this planet especially the NGOs', who often give negative and adverse comments on the palmoil through their 'anti-oil palm campaign'.

In this respect, it our duty to share with the world that the oil palm industry especially, Malaysia strongly advocatessustainable palm oil production.

Sustainability, is a holistic concept, and encompasses three key elements, often referred to as the 3Ps – the people, planet and profit. These key concepts are derived from the 'Brundtland Commission' (Brundtland, 1987) which stated that "sustainable development seeks to meet the needs and aspirations of the present generation without compromising the ability to meet the needs of those in the future." Based on this definition, sustainability is all about the efficient management of present resources to meet future needs. In the context of the Malaysian oil palm industry, "sustainability is all about the long-term security of the supply chain if the oil palm business is to continue with brand values and consumer trust.

The Malaysian oil palm industry strives to strike a holistic balance between social, environmental and economic needs of country and people by in addressing the need for;

- Social development of the Malaysian people.
- Conservation and management of the environment.
- Ensuring progress of the nation as a whole via economic development.

The proper management of natural resources would help to protect the biological production potential and help maintain future options for their use. Indeed, a major objective of sustainable land management is the harmonization of agricultural priorities with economic and environmental concerns (Dumanski and Smyth, 1993).

PRINCIPLES OF RSPO AND KMB EXPERIENCE

The need to produce palm oil sustainably has led to the establishment of the Round Table on Sustainable Palm Oil (RSPO). A number of Malaysian plantation companies are founding members of the body. The RSPO has progressed towards formulating a set of principles and criteria for sustainable production.

In response to the urgent and pressing global call for sustainably produced palm oil, the Roundtable on Sustainable Palm Oil (RSPO) was formed in 2004 with the objective of promoting the growth and use of sustainable oil palm products through credible global standards and engagement of stakeholders.

RSPO is a 'not-for-profit association' that unites stakeholders from seven sectors of the palm oil industry - oil palm producers, palm oil processors or traders, consumer goods manufacturers, retailers, banks and investors, environmental or nature conservation NGOs and social or developmental NGOs - to develop and implement global standards for sustainable palm oil.

As a multi-stakeholder body, the RSPO lives out the philosophy of the "roundtable" by giving equal rights to each stakeholder group to bring group-specific agendas to the roundtable, facilitating traditionally adversarial stakeholders and business competitors to work together towards a common objective and making decisions by consensus. (*rspo website*)

The principal objective of the RSPO is "to promote the growth and use of sustainable palm oil through co-operation within the supply chain and open dialogue between its stakeholders."

The RSPO Principles and Criteria for Sustainable Palm Oil Production (RSPO P & C) are the global guidelines for producing palm oil sustainably. They have been described as the world's toughest standards for sustainable agriculture production and have been variously adapted for other crops. No public claims relating to sustainable palm oil production, to the RSPO P & C, can be made without RSPO approved third party inspection.

The palm oil supply chain, from the tropics to its use as an ingredient in retail products all over the world, is complex. To preserve the integrity of RSPO palm oil, players along the supply chain wishing to use it have to do so transparently to allow traceability. The transparency and traceability is assured through RSPO Supply Chain Certification.

Kulim Plantation Malaysia Berhad (KMB) embraces the principles of sustainable development in every stage of its plantation activities and we recognize sustainability as an opportunity to change the way we do our business. Our Sustainable Palm Oil ("SPO") Programs defines its ultimate objective to improve Kulim's business performance and profitability as well as positioning Kulim as a world leader in SPO.

In this respect, we comply fully with all stipulated 8 RSPO principles and criteria for Sustainable Palm Oil Production namely:

Principle 1: Commitment to transparency. Principle 1 has 2 criterions with 8 indicators.

Principle 2: Compliance with applicable laws and regulations. Principle 2 has 3 criterions with 11 indicators.

Principle 3: Commitment to long-term economic and financial viability. Principle 3 has 1 criterion with 2 indicators.

Principle 4: Use of appropriate best practices by growers and millers. Principle 4 has 8 criterions with 35 indicators.

Principle 5: Environmental responsibility and conservation of natural resources and biodiversity. Principle 5 has 6 criterions with 16 indicators.

Principle 6: Responsible consideration of employees and of individuals and communities affected by growers and mills. Principle 6 has 11 criterions with 27 indicators.

Principle 7: Responsible development of new plantings. Principle 7 has 7 criterions with 20 indicators.

Principle 8: Commitment to continuous improvement in key areas of activity. Principle 8 has 1 criterion with 6 indicators.

Full Principles, Criterions and Indicators detail can be view at http://www.rspo.org/files/resource_centre/

We integrate our business strategy with sustainability through a commitment to People, Planet and Profits ("3Ps"). The 3Ps govern how we create sustainable value for our stakeholders. To meet our goals and deliver the sustainable returns expected of us, we embrace a deep commitment towards building a fair, ethical and responsible company. This sits at the heart of our sustainability approach and structures our relationships with our stakeholders and the operating environment.

Kulim embraces the principles of sustainable development and the Company's goal is to ensure that future generations will continue to benefit from today's actions.

We define sustainable development as encompassing social responsibility, resource stewardship, appropriate environmental control and the capacity to produce efficiently. The goal of sustainable development will be achieved by balancing the considerations for People, Planet and Profit in all management decisions and operations.

We will operate in compliance with all applicable national and international legislation and ensure that long term economic viability does not compromise its ethical and business policies.

The oil palm industry in Malaysia is highly regulated according to the law of the land which among other includes:

- Land Matters: National Land Code 1965, Land Acquisition Act 1960
- Environmental Matters: Environmental Land Conservation Act 1960 revised in 1989, Quality Act 1974 (Environmental Quality) (Prescribed Premises) (Crude Palm Oil) Regulation 1977, Environmental Quality (Clean Air) Regulation 1978, Environmental Quality (Prescribed Activities) (Environmental Impact Assessment) Order 1987
- Labour and Employee Matters: Labour Law, Workers' Minimum Standard of Housing & Amenities Act 1990, Occupational Safety & Health Act 1977
- Pesticide Use: Pesticides Act 1974 (Pesticides Registration) Rules 1988, Pesticides (Licensing for sale & storage) Rules 1988, Pesticides (Labeling) Regulations 1984, Factories & Machinery (Noise Exposure) Regulations 1989
- Wildlife Matters: Protection of Wildlife Act 1972

Kulim is conscious of its varied responsibilities with respect to People, Planet and Profit. We are committed to continuous improvement of its performance. The implementation of a Sustainable Management System ("SMS") will provide the framework to realise these goals. The SMS will be wholly based on the principles and criteria set out by RSPO. We will maintain a safe, healthy and viable working environment and conduct all operations in a manner consistent with its SMS framework.

Several practices been adopted by Kulim (M) Berhad in its oil plantation operation toward sustainability of the palm oil production includes:

- Adopting Environmental Policies and requirements
- Implementing Good Agriculture Practices (GAP)
- Implementing Codes of Practices (COPs), both GAP and GMP
- Conservation efforts
- Adopting Zero Burning & Re-planting Policy: accumulation of soil carbon in the plantation, good land management & planting of leguminous cover crops.
- High Conservation Value Forest (HCVF).
 - Ensuring that land management practices are consistent with the long-term productivity of the resource, so that the land remains suitable for agricultural use. We will not undertake new developments in areas of primary forest or on land containing one or more High Conservation Value ("HCV"). Land development undertaken by the Company takes into account the maintenance of biodiversity, protection of cultural heritage and customary land use, and the capability of the land to sustain the proposed agricultural activities.
- Integrated Pest Management.
 - Effective IPM system for the management of pest, diseases, weeds and introduced species.
 - Use of natural predators & beneficial plants.
 - Use of barn owl to control rats.
 - Use of natural biopesticides – *Metarhizium*Bt to control pesticides (bagworm).
 - Decreased reliance on harmful chemical pesticides.
 - Only approved chemicals are used when required.
- Recycling of oil palm biomass and optimization of fertilizer inputs.
 - Composting offers an effective solution to the oil palm industry's problem of waste disposal. Composting utilizes POME and EFB and uses a technically advanced method to convert these waste matters into compost. Compost is mature after 70 days and is ready for use. Compost, when used in sufficient quantity, is capable of replacing some percentage of chemical fertilizers.
- POME treatment system.
 - POME treatment system - Capturing biogas at oil palm mills produce electricity for supply to the national grid or for own use at the mills. Biogas from mills contains 65% methane and

35% carbon dioxide. Implementing biogas capture facility will avoid biogas emission of about 17 million tonnes of CO₂ eq.

We uphold the principles of Free, Prior and Informed Consent and undertake to use this principle in all negotiations and interactions with stakeholders. We will continue to be a responsible corporate citizen, making positive contribution to the communities within which it operates. We conduct our operations in a transparent manner and comply with all relevant legislation in the countries it operates in.

By implementing the principles of the RSPO, Kulim is adopting a planned approach to achieve the balance between People, Planet and Profit. We believe that this approach is the safest, most efficient, socially and environmentally responsible way of operating sustainably.

In order to ensure and establish a sustainable social development in Kulim that addresses social stability, security and equality, various social considerations are factored in, such as:

- Opportunities for education and training;
- Health and availability of medical services;
- Human rights and equal opportunities;
- Crime and social disorder levels; and
- Housing provisions and quality.

SUMMARY AND CONCLUSION

By integrates sustainability standard as part of Kulim (M) Berhad business strategy since the introduction of RSPO in 2004, tangible and intangible benefits can be seen in;

- i) Corporate reputation and management;
 - RSPO Certification has improved Kulim (M) Berhad corporate image and reputation as a company that cares.
 - RSPO principles and criterions has become as a driver in determining future corporate strategy and management system.
- ii) Economic;
 - A sustainability standard has enhance overall Kulim (M) Berhad profitability with CSPO production able to fulfil niche market from selected and concern consumers, the adoption of sustainability standards in operation able to improve efficient usage of chemicals and improve productivity with set standard and guidelines.
 - CSPO (Certified Sustainable Palm Oil) production from Kulim (M) Berhad is having better access to international market especially Europe thus making it more competitive and desirable.
 - Guidelines provided for all employees in Kulim Agricultural Manual, Kulim Sustainability Handbook, Kulim Finance Manual which emphasis on best management practices, good agricultural practices and compliance with sustainability standard help improve operation efficiency and productivity.
 - Sustainability standards among others emphasis on fair treatment on all workers, better basic amenities for workers and dependants, labour policy following ILO Declaration and improving health standard has resulting in more stable and loyal workforce.
- iii) Social;
 - The adoptions of sustainability standards in Kulim (M) Berhad operation help change in mind-set and attitude of staff and workers in carry out daily activities.
 - Sustainability standards emphases on transparency in non-sensitive issue help improve communication and relationship among and with workers by giving clear guidelines how to properly voice their concern.
 - Sustainability standards also emphasis on better and safe work methods and this help in better OSH risk management thus help reduce workplace accidents.
 - The CSR activities provided by Kulim (M) Berhad among employees and their dependant have resulted in more stable or loyal workforce with lower turnover.

- Sustainability standards not only applicable within the oil palm plantation boundary but advocates to surrounding stakeholder thus improving communication and engagement with surrounding smallholders.
- iv) Environmental;
- A sustainability standard requires different approach in dealing with biodiversity within oil palm plantation operation thus resulting in greater awareness of and stewardship for high conservation area.
 - The important of managing resources was equally stressed in sustainability standards resulting in better assessment, management and monitoring of waste and pollution (including domestic wastes).
 - A sustainability standard requires proper management plan and efforts in reducing usage of toxic chemicals and resulting in judicious use of pesticides and expanding the implementation of IPM.
- v) Governance;
- RSPO recertification requires all level of management to continuously improving compliance of regulatory requirements in order to ensure the process of recertification does not face an unnecessary obstacle.
 - Sustainability standards requires most of the activities to be documented as proof thus resulted in more systematic documentation and access to information on operation and non- operation aspect especially legal requirement.
 - Sustainability standards require transparency in providing non-sensitive information to stakeholder thus providing better understanding of stakeholder engagement.

In conclusion, the bold approach taken by Kulim (M) Berhad in integrating and adopting sustainability standards as the business model is the right business decision in the oil palm plantation industry.

REFERENCES

- [1] MPOB Website
- [2] MPOC Website
- [3] MPOA Website
- [4] Kulim (M) Berhad Website