



# RSPO SECOND ANNUAL SURVEILLANCE ASSESSMENT REPORT

## Kulim (Malaysia) Berhad

Johor Malaysia

*Report Author*

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**TABLE of CONTENTS****Page N<sup>o</sup>**

<b>1.0</b>	<b>SCOPE OF SURVEILLANCE ASSESSMENT .....</b>	<b>1–10</b>
1.1	Identity of Certification Unit.....	1
1.2	Production Volume.....	1
1.3	Certification Details .....	1
1.4	Description of Fruit Supply Base.....	9
1.5	Progress against Time Bound Plan by Parent Company .....	10
1.6	Progress of Associated Smallholders/Outgrowers towards RSPO Compliance .....	10
1.7	Organisational Information/Contact Person .....	10
<b>2.0</b>	<b>ASSESSMENT PROCESS.....</b>	<b>10–11</b>
2.1	Assessment Team Members.....	10
2.2	Assessment Programme .....	10
2.3	Stakeholder Consultation .....	11
<b>3.0</b>	<b>ASSESSMENT FINDINGS .....</b>	<b>11–21</b>
3.1	Summary of Findings .....	11
3.2	Identified Nonconformities and Noteworthy Positive and Negative Observations.....	19
3.3	Status of Nonconformities (Major and Minor) Previously Identified .....	20
3.4	Issues Raised by Stakeholders .....	21
<b>4.0</b>	<b>CERTIFIED ORGANISATION'S ACKNOWLEDGEMENT OF INTERNAL RESPONSIBILITY.....</b>	<b>22</b>
4.1	Date of next Surveillance Visit .....	22
4.2	Date of Closing Nonconformities (Major and Minor) .....	22
4.3	Sign-off of Second Annual Surveillance Assessment Findings .....	22

**LIST of TABLES**

1	Mills GPS Locations .....	1
2	Production Tonnages .....	1
3a	FFB Production (Tereh Mill Supply Base) .....	9
3b	FFB Production (Sindora Mill Supply Base) .....	9
3c	FFB Production (Sedenak Mill Supply Base) .....	9
4a	Age Profile of Palms .....	9
4b	Estates and Areas Planted.....	10
5	Status of Nonconformities .....	22

**LIST of FIGURES**

1	Kulim Mills and Estates Location Map .....	2
2	Sungai Tawing Estate Layout.....	3
3	Sungai Sembrong Estate Layout.....	4
4	Enggang Estate Layout .....	5
5	Sindora Estate Layout .....	6
6	Ulu Tiram Estate Layout .....	7
7	Sedenak Estate Layout .....	8
8	BOD of Treated Mill Effluent.....	12
9	Average Annual FFB Yield 2006 – 2010.....	12
10	Average Annual Mill OER 2006 – 2010.....	12
11	Annual Mill Water Usage 2006 – 2010.....	13
12	Annual Average Pesticide Toxicity Units 2006 – 2010 .....	14
13	LTA Index for Mills and Estates 2006 – 2010.....	15
14	Renewable Energy Usage 2006 – 2010 .....	16
15	Non-renewable Energy Usage 2006 – 2010 .....	17

**List of Appendices**

A	CV for New Assessment Team Member
B	Annual Surveillance Assessment Programme
C	List of Stakeholders Contacted

## SUMMARY

Kulim (Malaysia) Berhad (Kulim) owns and operates three (3) Mills and fifteen (15) oil palm Estates and holds an interest in and is the managing agent for 3 Mills and 11 oil palm Estates owned by Johor Corporation in West Malaysia. BSi Group Singapore Pte Ltd (BSi) has conducted the second Annual Surveillance Assessment of Kulim owned Mills, oil palm Estates, support services and infrastructure. BSi concludes that Kulim operations have maintained compliance with the requirements of RSPO Principles & Criteria: 2007 and MY-NI Indicators and Guidance 2008.

BSi recommends the continuation of the approval of Kulim as a producer of RSPO Certified Sustainable Palm Oil.

## ABBREVIATIONS USED

BOD	Biological Oxygen Demand
CAR	Corrective Action Request
CHRA	Chemical Health Risk Assessment
CDM	Clean Development Mechanism
CPO	Crude Palm Oil
DOE	Department of Environment
DOSH	Department of Occupational Safety & Health
EFB	Empty Fruit Bunch
FFB	Fresh Fruit Bunch
HIRAC	Hazard Identification Risk Assessment Control
HCV	High Conservation Value
JCC	Joint Consultative Committee
LTA	Lost Time Accident
MAPA	Malayan Agricultural Producers Association
MPOB	Malaysian Palm Oil Board
MSDS	Material Safety Data Sheet
NUPW	National Union of Plantation Workers
OER	Oil Extraction Rate
OSH	Occupational Safety and Health
PCD	Pollution Control Device
PK	Palm Kernel
PPE	Personal Protective Equipment
QMS	Quality Management System
SIA	Social Impact Assessment
SOP	Standard Operating Procedure
SPO	Sustainable Palm Oil
WHO	World Health Organisation

## 1.0 SCOPE OF CERTIFICATION ASSESSMENT

### 1.1 Identity of Certification Unit

The Certification Unit is Kulim (Malaysia) Berhad operations that consist of three (3) Palm Oil Mills and fifteen (15) Estates. The Kulim Mills and Estates are located in Johor, Malaysia (Figures 1 to 7). The GPS locations of the Mills are shown in Table 1.

Table 1: Mills GPS Locations

MILL	EASTING	NORTHING
Sedenak	103° 32' 17.9628"	1° 43' 51.0888"
Sindora	103° 27' 44.316"	1° 59' 7.3392"
Tereh	103° 21' 5.0004"	2° 13' 3.0648"

### 1.2 Production Volume

The production tonnages for CPO and PK for the period of the Certificate 23/01/2010 – 22/01/2011 and projections for the next twelve months are listed in Table 2. CPO and PK production were largely unchanged at Tereh Mill. Production increased at Sindora Mill due to the processing of crop from Basir Ismail Estate, which was previously processed at Sedenak Mill. As a consequence of this transfer, CPO and PK production at Sedenak Mill from company Estates decreased. Increased CPO and PK production are projected at Sedenak Mill in line with crop forecasts, but production will be lower at Sindora Mill due to the transfer of the crop of REM and Pasak Estates to the Johor Corporation Siang Mill for processing. The tonnage of FFB processed at Tereh Mill is expected to increase significantly due to improved crop recovery as well as ceasing the diversion of crop to one of the Johor Corporation mills.

Table 2: Production Tonnages

Palm Oil Mill	Tereh	Sindora	Sedenak
<b>Estimate at Certification</b>			
CPO	31,287	13,568	44,059
PK	9,146	4,382	11,415
<b>Actual 2009</b>			
CPO	43,240	11,175	36,985
PK	12,509	3,642	10,950
<b>Actual 2010</b>			
CPO	44,461	16,446	28,465
PK	14,107	5,276	8,285
<b>Projected 2011</b>			
CPO	57,777	12,526	35,233
PK	17,395	4,103	9,899

NB: The production from Outside Suppliers is excluded from the Certificate.

### 1.3 Certification Details

Kulim RSPO Membership No: 021-04(O)  
 BSi RSPO Certificate No: 537873  
 Date of previous Assessment: 12-21/01/2010  
 Date of Certification: 23/01/2009

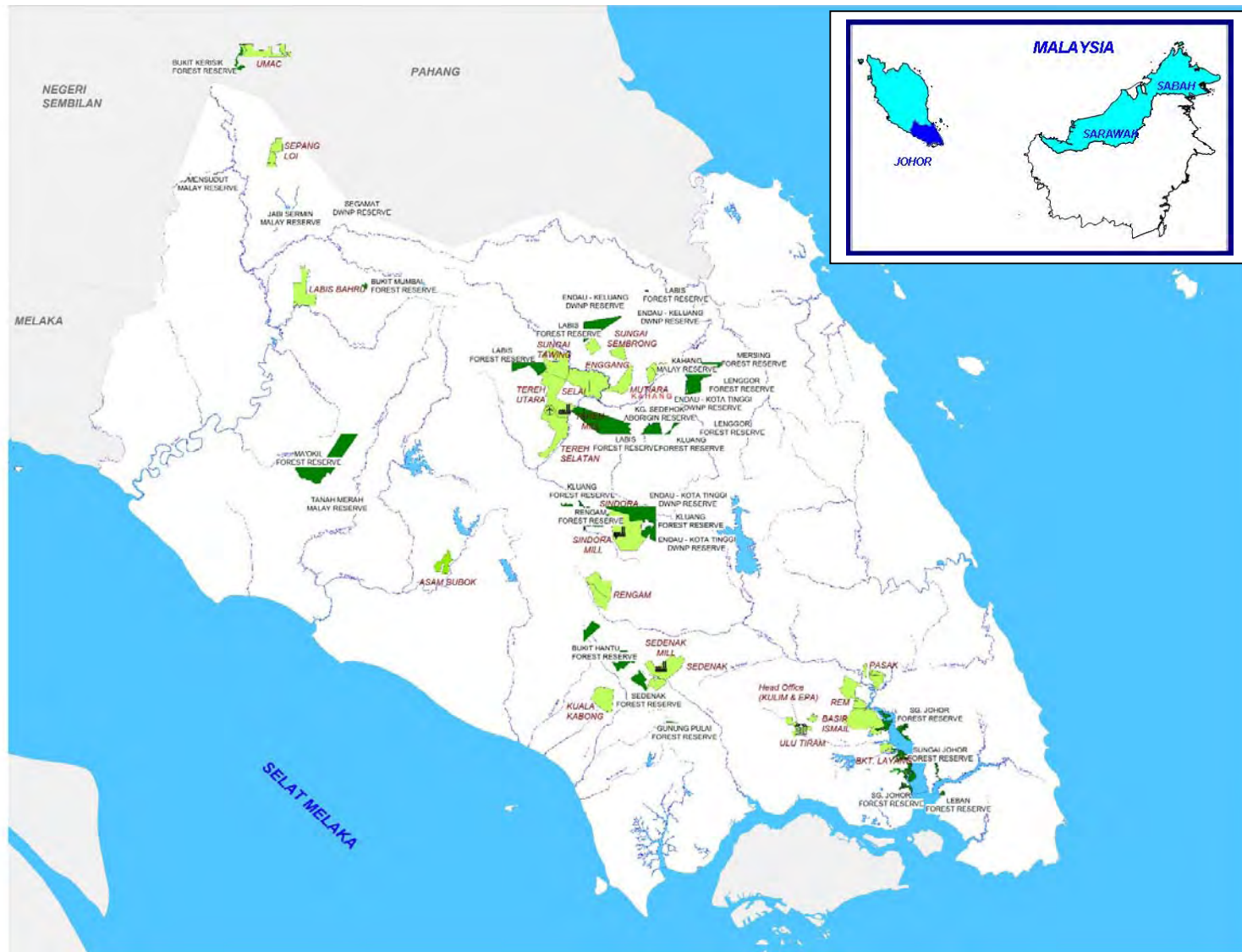


Figure 1: Kulim Mills and Estates Location Map

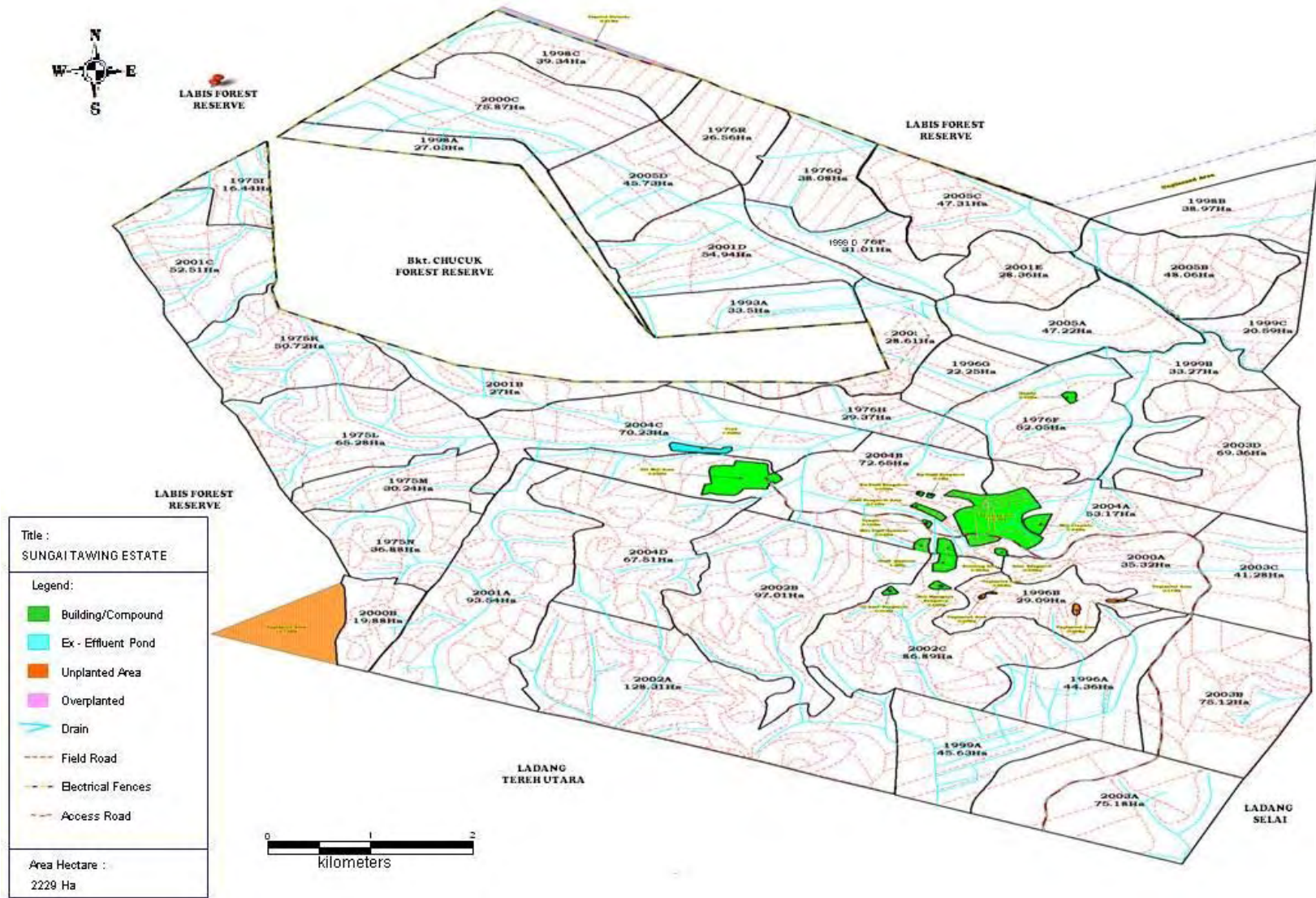


Figure 2: Sungai Tawing Estate

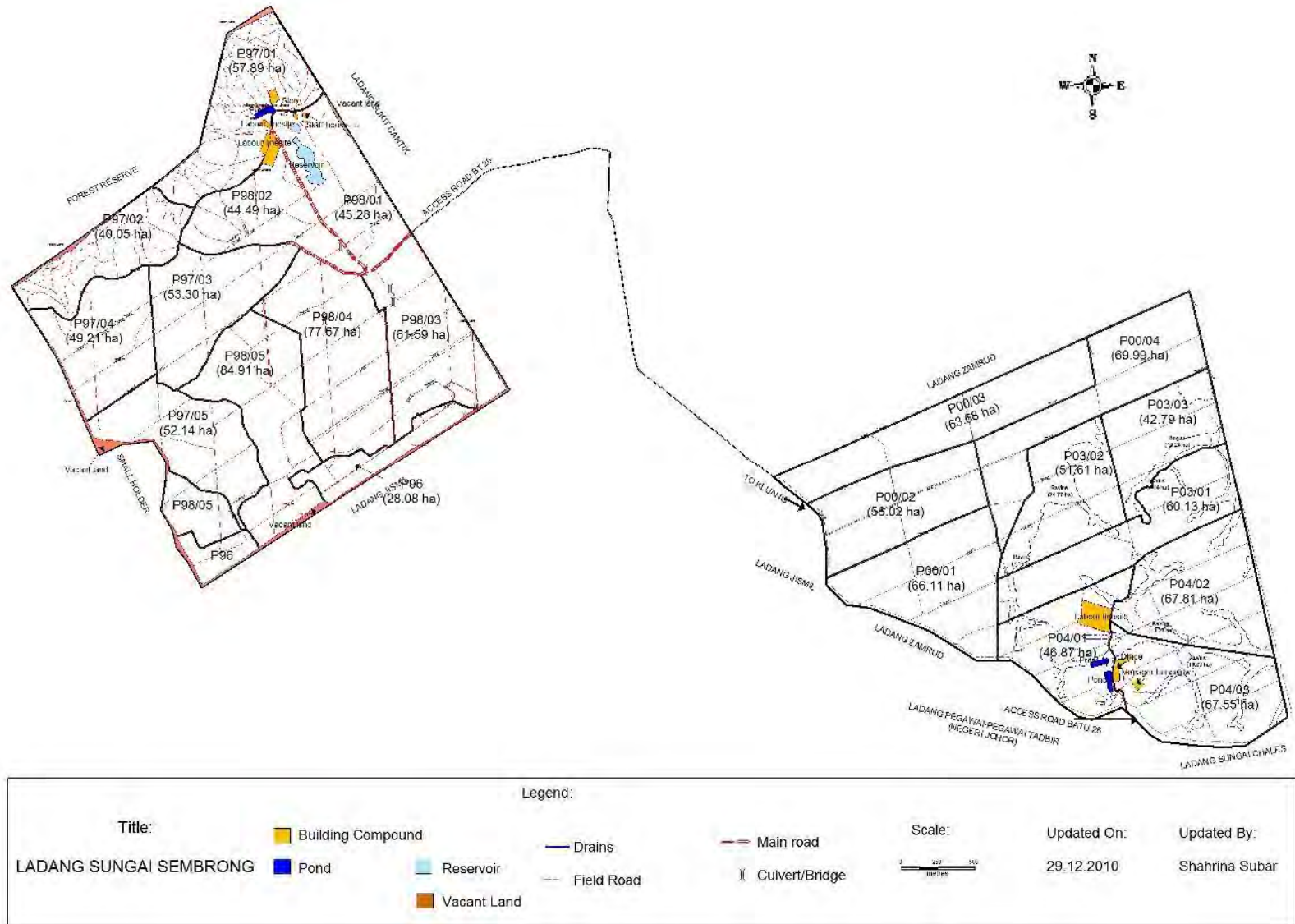


Figure 3: Sungai Sembrong Estate Layout

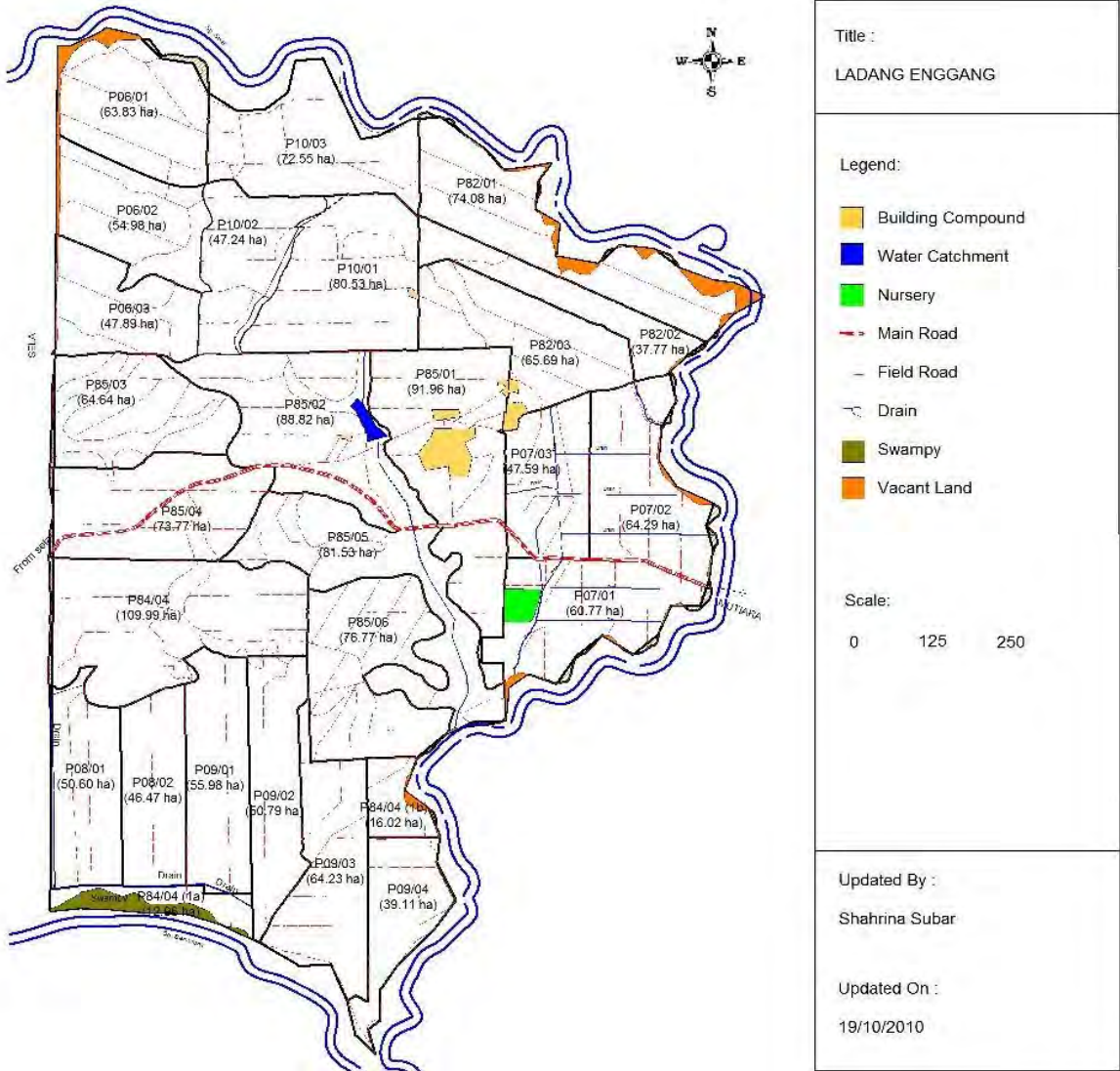


Figure 4: Enggang Estate Layout

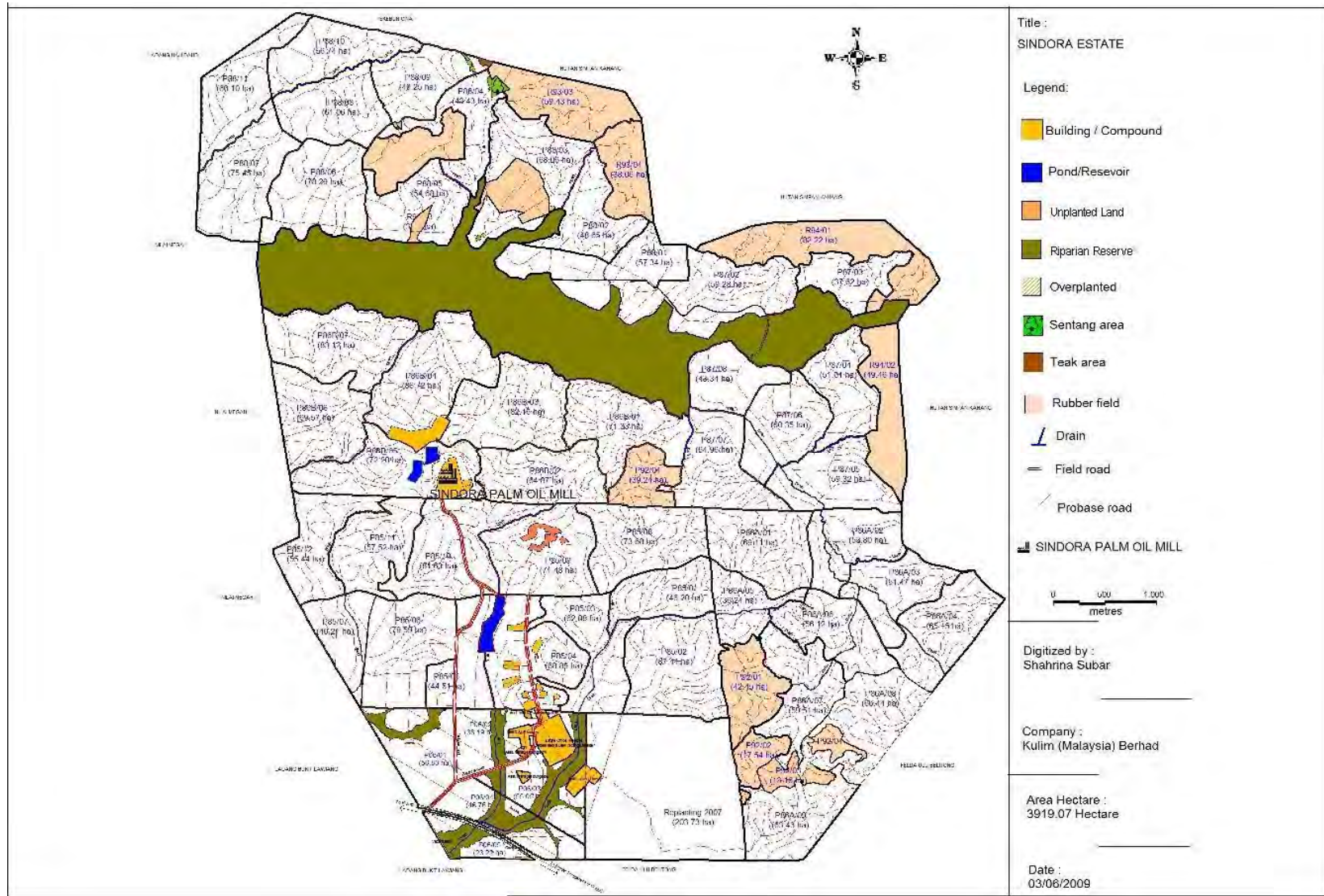


Figure 5: Sindora Estate Layout



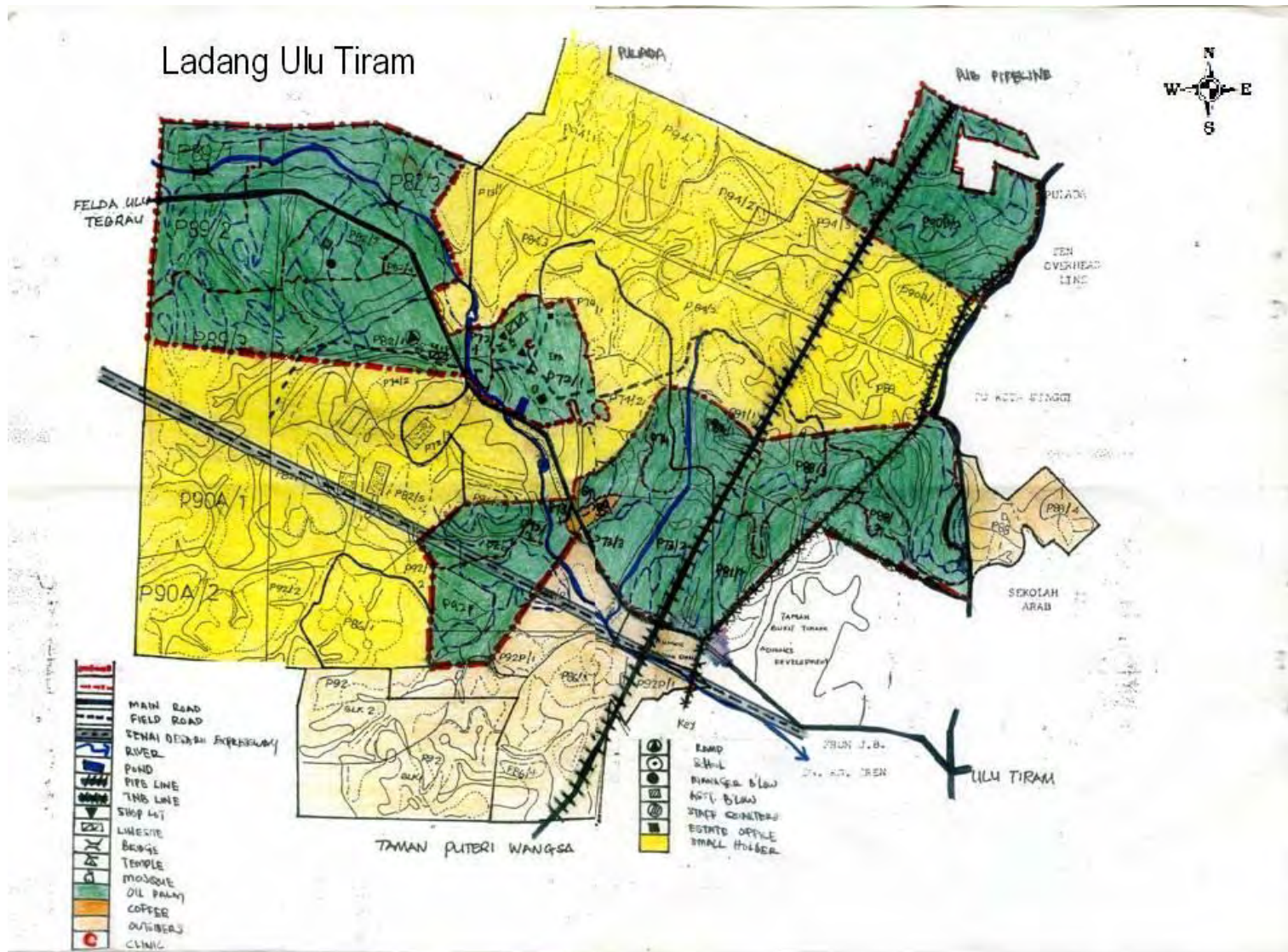


Figure 6: Ulu Tiram Estate

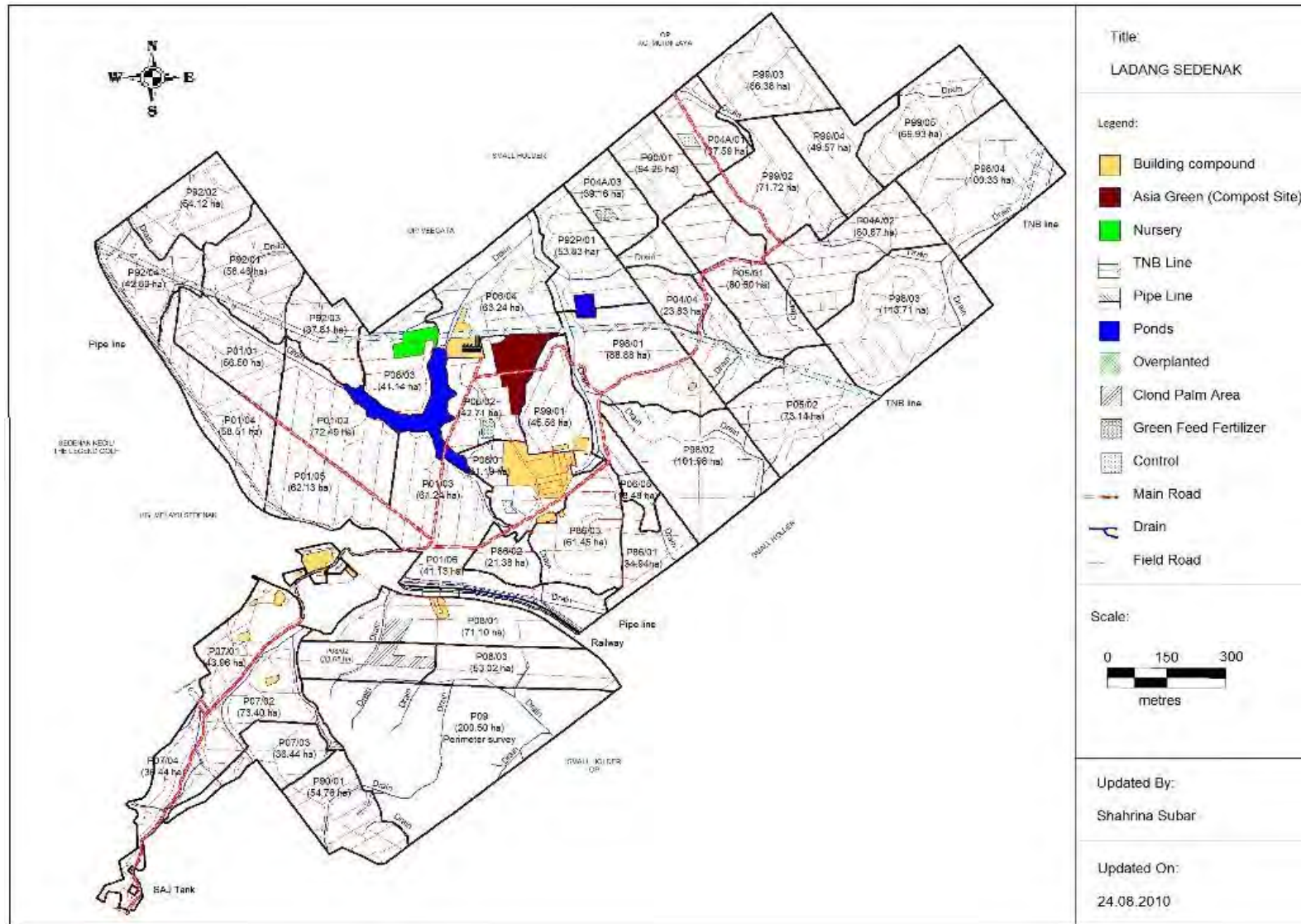


Figure 7: Sedenak Estate Layout

#### 1.4 Description of Fruit Supply Base

The supply base is fifteen company owned Estates and twenty-two Outside Suppliers. The FFB production from company owned Estates and Outside Suppliers is listed in Tables 3a, 3b, 3c.

**Table 3a: FFB Production (Tereh Mill Supply Base)**

Source	Actual 23/01/09– 22/01/10	Actual 23/01/10– 22/01/11	Projected 23/01/11– 22/01/12
<b>Kulim Estates</b>			
Tereh Utara	45,957	45,872	58,714
Tereh Selatan	41,225	39,168	50,063
Selai	22,805	18,275	16,829
Enggang	24,589	16,180	18,117
Mutiara	52,045	44,097	60,915
Sg Sembrong	14,822	23,486	29,156
Sg Tawing	9,937	24,843	31,776
<b>Sub Total</b>	<b>211,380</b>	<b>211,921</b>	<b>265,570</b>
<b>Outside Suppliers</b>			
Felda Paloh	29,372	23,586	30,096
Ldg Wawasan	3,539	4,072	4,000
Lian Yik	48	–	–
K Lori	43	–	–
<b>Sub Total</b>	<b>33,002</b>	<b>27,658</b>	<b>34,096</b>

**Table 3b: FFB Production (Sindora Mill Supply Base)**

Source	Actual 23/01/09– 22/01/10	Actual 23/01/10– 22/01/11	Projected 23/01/11– 22/01/12
<b>Kulim Estates</b>			
Sindora	58,692	50,115	62,165
Basir Ismail	101	22,061	–
Ulu Tiram	330	–	–
Rengam	330	953	–
Kuala Kabong	57	525	–
Sedenak	–	661	–
REM	–	15,262	–
Pasak	–	9,296	–
<b>Sub Total</b>	<b>59,510</b>	<b>98,873</b>	<b>62,165</b>
<b>Outside Suppliers</b>			
Asam Bubok	27	106	
Nilai Megah	6,059	10,440	
Ree Fong	5,349	3,379	
Bon Hon	21,828	6,500	
Maju Jaya	21,978	11,511	
Prasarana			
Ching Fook	236	205	
Eng Huat	10,811	666	
Per Md Sangidi	–	5,855	
J & P Trading	37	719	
Leely	30,133	7,188	
Construction			
Hup Guan	–	27	
Che Yu	38,153	17,540	
Hong Hui	–	385	
Per Sri Misan	–	1,658	
Zahaco	–	10	
Enterprise			
<b>Sub Total</b>	<b>134,611</b>	<b>66,189</b>	<b>117,835</b>

**Table 3c: FFB Production (Sedenak Mill Supply Base)**

Source	Actual 23/01/09– 22/01/10	Actual 23/01/10– 22/01/11	Projected 23/01/11– 22/01/12
<b>Kulim Estates</b>			
Sedenak	40,770	41,631	49,070
Rengam	48,630	47,562	55,095
Ulu Tiram	17,337	13,528	15,053
Kuala Kabong	35,954	36,992	41,395
Basir Ismail	35,447	2,078	–
Bukit Layang	44	–	–
REM	–	247	–
Pasak	–	74	–
<b>Sub Total</b>	<b>178,182</b>	<b>142,112</b>	<b>160,613</b>
<b>Outside Suppliers</b>			
Asam Bubok	8,048	7,348	8,937
Kebun Sedenak	1,511	2,460	1,500
Peladang	2,203	4,388	4,000
Nirwana	34,326	18,601	25,500
Hong Hui	40,239	54,209	50,000
Ree Fong	51,459	35,274	35,000
Perniagaan Sri Mahtai	6,544	6,793	5,347
SCS Oil Palm Trading	–	884	–
Bukit Siput	14,115	27,440	35,000
Sedenak Bahru	3,337	2,558	3,500
Che Yu	52,424	53,239	45,000
Chuan Soon	1,287	–	–
Fong Tak	1,002	15,704	12,500
Keng Ann	–	18,664	22,500
R & S	–	944	–
Genting	–	212	–
JTP Montel	–	–	7,000
<b>Sub Total</b>	<b>216,495</b>	<b>248,718</b>	<b>255,784</b>
<b>Total Company Estates</b>	<b>449,072</b>	<b>452,906</b>	<b>488,348</b>
<b>Total Outside Suppliers</b>	<b>384,108</b>	<b>342,565</b>	<b>407,715</b>
<b>OVERALL TOTAL</b>	<b>833,180</b>	<b>795,471</b>	<b>896,063</b>

The development of oil palm at the company owned Estates commenced in 1947 and the palms are in their second and third cycles. The age profile of the palms is shown in Table 4a and the areas of mature and immature palms are detailed in Table 4b for each of the Estates.

**Table 4a: Age Profile of Palms**

AGE (years)	% of Planted Area
0 – 4	17.96
5 – 16	49.52
17 – 23	20.78
24+	11.74

**Table 4b: Estates and Areas Planted**

<i>Estate</i>	<i>Mature (ha)</i>	<i>Immature (ha)</i>
Sindora	2,523.56	754.77
Basir Ismail	2,075.74	643.01
Ulu Tiram	649.00	–
Sedenak	1,988.04	574.40
Rengam	2,277.10	72.50
Kuala Kabong	1,642.65	–
REM/Pasak	2,047.38	191.96
Tereh Utara	2,602.96	235.02
Tereh Selatan	2,184.01	360.99
Selai	848.18	776.40
Enggang	783.18	680.14
Mutiara	2,315.86	–
Sungai Tawing	1,790.34	210.25
Sungai Sembrong	1,187.17	–
<b>TOTAL</b>	<b>24,915.17</b>	<b>4,499.44</b>

### 1.5 Progress against Time Bound Plan

Kulim holds an interest in and is the managing agent for three Mills and eleven Estates in West Malaysia that are owned by Johor Corporation. In February 2011, RSPO approved the Initial Certification of the Johor Corporation Mills and Estates.

As noted in the First Annual Surveillance Assessment in August 2009, Kulim reached agreement with Sime Darby Plantation Sdn Bhd on the acquisition and disposal of one Estate. Kulim disposed of Sungai Simpang Kiri Estate to Sime Darby and at the same time acquired Sungai Tawing Estate. BSi assessed Sungai Tawing Estate on 11 January 2011 and found that the operations comply with the RSPO Principles and Criteria. BSi concludes that Kulim has completed all of the commitments of its Time Bound Plan.

### 1.6 Progress of Associated Smallholders/ Outgrowers towards RSPO Compliance

Kulim has held initial consultation with FFB suppliers and advised them it aims to achieve RSPO Certification for all of the Mills supply bases. Interview of a sample of the FFB suppliers, comprising Outgrowers and FFB Traders, found that they were aware of RSPO but did not have detailed knowledge of the RSPO requirements.

In February 2010 Kulim met with the MPOB to discuss the possibility of gaining government funding for a project on the RSPO certification of FFB traders and their smallholder suppliers. Although MPOB had received government funding for this purpose, it had been used up and Kulim is using its own funds. Although an initial meeting was held with FFB traders and smallholder suppliers, the project has not progressed. During 2011, Kulim plans to focus its efforts on the organised

smallholders Asam Bubok who supply to Sedenak Mill and Felda Paloh who supply to Tereh Mill.

Kulim has assigned responsibility for implementing RSPO P&C with Outgrowers and Independent FFB Traders who supply FFB to the Mills to the Environmental Officer, Sustainability Department.

### 1.7 Organisational Information / Contact Person

Kulim (Malaysia) Berhad	Contact Person:
Ulu Tiram Estate	Mrs Salasah Elias
KB 705	Senior Manager
Johor Bahru	Phone: +6078611611
Johor 80990	Fax: +6078631084
MALAYSIA	Email: <a href="mailto:salasah@kulim.com.my">salasah@kulim.com.my</a>

## 2.0 ASSESSMENT PROCESS

### 2.1 Assessment Team Members

**Charlie Ross** – Lead Assessor  
**Iman Nawireja** – Social/Environment Assessor  
**Robyn Ross** – Social Assessor (Women and Families)  
**Noryati Hambali** – Facilitator (Women and Families)  
 A CV for Ms Hambali, a new team member, is included at Appendix A.

### 2.2 Assessment Program

The Second Annual Surveillance Assessment was carried out between 10 and 17 January 2011. The Assessment Programme is included as Appendix B.

The Programme included assessments of the three Mills and six Estates, Sungai Tawing, Sungai Sembrong, Enggang, Sindora, Ulu Tiram and Sedenak, against all of the applicable RPSO indicators.

The nonconformities assigned to two minor compliance indicators and the nine observations that were assigned during the First Annual Surveillance Assessment were followed up to check the effectiveness of corrective actions. The Second Annual Surveillance Assessment findings are detailed in Section 3.2 Page 19.

The methodology for collection of objective evidence included physical site inspections, observation of tasks and processes, interviews of staff, workers and their families and external stakeholders, review of documentation and monitoring data. Checklists and questionnaires were used to guide the collection of information.

This report is structured to provide a summary for each Principle, together with details for selected indicators. The assessment was based on random samples and therefore nonconformities may exist that have not been identified.

### 2.3 Stakeholder Consultation

Internal and external stakeholders were consulted to obtain their views on Kulim's environmental and social performance and any issues of concern that they may have. External stakeholders were interviewed at their premises where practical or they were invited to the Mill or the Estate. Internal stakeholders were interviewed in groups in the workplace or at their housing. Company officers were not present at any of the meetings. A list of stakeholders contacted and interviewed is included at Appendix C.

## 3.0 ASSESSMENT FINDINGS

### 3.1 Summary of Findings

During this Second Annual Surveillance, one (1) Nonconformity was assigned against Minor Compliance Indicator 5.3.2 and thirteen (13) Observations/Opportunities for improvement were identified. Kulim prepared a Corrective Action Plan for addressing the identified Nonconformity, which BSI reviewed and accepted.

Review of the two nonconformities assigned to Minor Compliance Indicators during the First Annual Surveillance Assessment found the corrective actions were effective and the nonconformities were closed out. In addition, the nine (9) observations had been actioned and the improvements were considered to be effective for addressing the issues.

#### **PRINCIPLE 1: Commitment to Transparency**

Kulim has maintained up to date policies, procedures and management plans for provision of information to the public on request, in accordance with Kulim Group Policy. The majority of requests for information are received at Head Office and are then forwarded to the Estates and Mills for provision of site specific information. A number of requests, mainly from local schools or places of worship, seeking financial assistance are received at the Estates and Mills and these are handled locally in a timely manner.

#### **Criterion 1.1: Oil palm growers and Millers provide adequate information to other stakeholders on environmental, social and legal issues relevant to RSPO Criteria, in appropriate languages & forms to allow for effective participation in decision making.**

The Mills and Estates maintain filing systems for recording written requests for assistance and information. Inspection of records found that requests for information were received only from Government Departments, NUPW and the MPOB. Requests for the Estates and Mills to provide information, such as for MPOB surveys, were replied within a reasonable time frame. For example, Tereh Mill received a request from MPOB on the 21 October 2010 for supply of inventory data on water usage. The Mill Manager replied the next day.

#### **Criterion 1.2: Management documents are publicly available, except where this is prevented by commercial confidentiality or where disclosure of information would result in negative environmental or social outcomes.**

Examination of documents confirmed that Kulim Sustainability Department had reviewed each of the improvement plans that are required to be publicly available and where appropriate these had been updated. Enquiries confirmed that documents were publicly available on request, except those relating to commercial confidentiality.

#### **PRINCIPLE 2: Compliance with Applicable Laws and Regulations**

Kulim has maintained the systems for documentation, checking and assessment of legal compliance with applicable laws and regulations. Inspection of records confirmed that the Mills and the Estates visited have maintained legal compliance with statutory requirements, such as the Factories & Machinery Act 1967, the OSH Act 1994, the Environmental Quality (Clean Air Regulation) 1978 and the Employment Act 1955. The program to survey and locate all boundary stones was completed by independent surveyors except for Sungai Sembrong and Sedenak Estates that are still in progress. Inspection of a sample at each of the Estates visited confirmed these were clearly marked and visibly maintained. Interview of local community representatives confirmed there were no land tenure issues.

#### **Criterion 2.1: There is compliance with all applicable local, national and ratified international laws and regulations**

Kulim Mills and Estates have an up to date list of legal requirements that are audited by the Mill Visiting Engineer and the Plantation Inspector, respectively during site visits. In addition, each operation has a List of Licenses showing the expiry dates. Inspection of a sample of documents showed licenses were current, for example, at Sindora Mill the licence for steam turbine electricity generation was current to 06 November 2011.

Review of internal audit and consultant reports showed that the Mills and the Estates visited had maintained legal compliance with applicable laws and regulations. For example, Tereh Mill boiler emissions were tested 3 December 2010 by PAC Testing and confirmed the level of dust particulate was in compliance with Regulation 25 of the Malaysian Environmental Quality (Clean Air) Regulations, 1978. Ambient air quality at areas within and surrounding the Mill were tested by PAC Testing on 3-4 December 2010 and the Total Suspended Particulates monitored were within the Malaysian recommended Environmental Air Quality Guideline. Each of the Mills provides smoke density data directly to DOE via an on-line monitoring system. ST Tech Engineering Sdn Bhd calibrates the smoke density at each Mill.

Mill effluent is treated in effluent ponds and used for composting with EFB and the balance is recycled to the

palms by land application in furrows. The BOD of treated mill effluent complied with licence limits throughout the year (Figure 8).

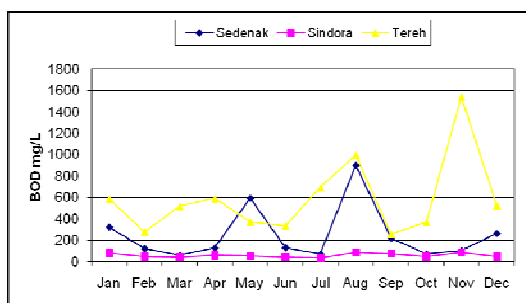


Figure 8: BOD of Treated Mill Effluent

Kulim has a program for upgrading as well as construction of new houses at the locations where houses have only two bedrooms, for example at Tereh Mill Housing, construction of 25 houses was completed. Water supplied to housing from the government reticulated supply and from Kulim water treatment plants showed compliance with the Malaysian Drinking Water Quality Standards. Action is taken to adjust the water treatment plant operation to achieve the required standard following daily pH tests, but there is no record of the corrective adjustments at Tereh Mill and Sungai Sembrong Estate (*Observation 1 – refer Section 3.2 Page 19*).

Inspection of pay records found that the Mills and the Estates complied with the Employment Act 1955 and the Department of Labour monthly overtime limit.

**Criterion 2.2 – The right to use the land can be demonstrated and is not legitimately contested by local communities with demonstrable rights.**

Kulim has almost completed the program of surveying the boundaries of all of its properties and installing boundary stones. The exceptions were Sungai Sembrong and Sedenak Estates, which were in progress. Each of the Estates visited held a copy of a map showing the locations of boundary stones. Inspections of a sample of boundary stones at each of the Estates visited confirmed boundary stones are clearly marked with poles painted red and white and maintained. There are currently no Land disputes at the Kulim Estates.

**Criterion 2.3 – Use of the land for oil palm does not diminish the legal rights of other users without their free, prior and informed consent.**

The Kulim Mills and Estates operations are on either “Freehold Land” or “State Leases”. The land is not encumbered by Customary Rights and the right to use the land is not disputed.

**PRINCIPLE 3: Commitment to Long Term Economic and Financial Viability**

Kulim has implemented a management system for monitoring and reporting of performance against production targets for achieving long-term economic and financial viability. Reports were available showing the details of production and costs. Kulim has continued its commitment to sustainability by funding improvements at each of the Mills and Estates.

**Criterion 3.1: There is an implemented management plan that aims to achieve long term economic and financial viability**

Each of the Kulim Mills and the Estates has an annual operating budget for the calendar year 2011 and five-year projections (2011 – 2016) for production. The budgets include performance targets for production and quality and each of the operating units reports monthly results to senior management (Figure 9). The average annual FFB yield for the Estates has decreased over the past 5 years due to replanting and the large area of young mature palms. Each of the Estates has a long term replanting plan that details the schedule and areas to be replanted.

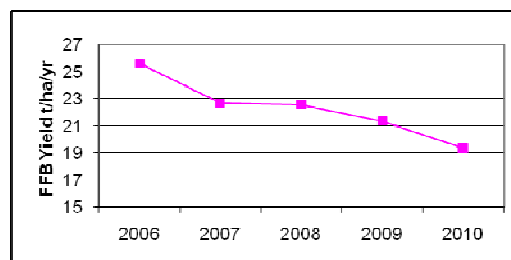


Figure 9: Average Annual FFB Yield 2006 – 2010

**PRINCIPLE 4: Use of Appropriate Best Practices by Growers and Millers**

Kulim has well established management systems for monitoring and control of best practice implementation at its Mills and Estates. This includes a programme of regular internal audits by Mill Advisors and Plantation Inspectors and Agronomists for maintaining and improving production. The OER has been increasing over the past 5 years (Figure 10) due to closer attention paid to FFB quality and crop evacuation. Fertiliser is the main cost input for the Estates and palm and soil nutrients are closely monitored.

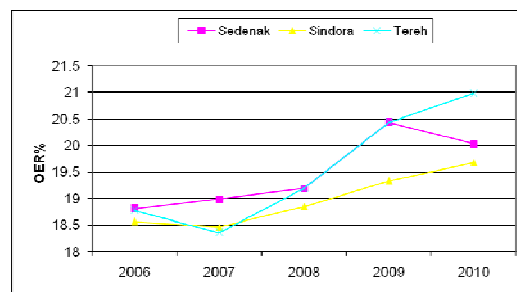


Figure 10: Average Annual Mill OER 2006-2010

The boundaries of stream buffer zones that will be reinstated at future replanting were maintained and inspection showed that herbicides had not been applied to these areas. Similarly, the use of pesticides is closely controlled and an important element of the IPM programme.

**Criterion 4.1: Operating procedures are appropriately documented and consistently implemented and monitored.**

The SOPs for the Mills and Estates operations were available at each location visited. Each of the Mills maintained their ISO 9001 Certified QMS. The ISO 9001 Surveillance Audit was carried out at, for example, Sindora Mill on 19 – 20 August 2010 and one minor nonconformity was raised.

Implementation of SOPs at the Mills was checked by internal audits and the external ISO9001 audit.

The Plantation Inspectors visited each of the Estates and the Managers prepared Action Plans for responding to issues raised. For example, the Plantation Inspector visited Ulu Tiram Estate on 19 November 2010 and raised issues in relation to declining yields of old palms and difficulty of harvesting tall palms.

**Criterion 4.2: Practices maintain soil fertility at, or where possible improve soil fertility, to a level that ensures optimal and sustained yield.**

The Kulim Agronomists maintained the programme of foliar and soil sampling for assessment of palm nutrition and making recommendations for the annual fertiliser plan, specific to each Estate. For example, the Agronomist visited Sungai Tawing Estate in August 2010 and carried out foliar and soil sampling. Kulim has implemented composting of EFB at each of the Mills and bio-compost is applied to the palms to replace part of the inorganic fertiliser requirement.

**Criterion 4.3: Practices minimise and control erosion and degradation of soils.**

Kulim has overlain a topography map on the soil map to identify areas of potential erosion risk at each Estate. Inspection of field conditions at each of the Estates visited showed that at Sungai Sembrong and Ulu Tiram Estates, some pesticide operators were using Controlled Droplet Application spray equipment incorrectly (**Observation 2 – refer Section 3.2 Page 19**). Kulim also had implemented roto-slashing of harvesting paths at the flat and gently sloping areas, in preference to use of herbicide. On sloping areas and terraces, stacking of pruned fronds along the contour for protection against soil erosion was relatively consistent. At Sungai Sembrong Estate, a small area of bare soil occurs adjacent to a stream due to shading by palms (**Observation 3 – refer Section 3.2 Page 19**).

Each of the Kulim Estates has an annual budget and a programme for road maintenance. Inspection of each of the Estates visited confirmed that road maintenance was being carried out in accordance with the annual programme for roadside pruning, road repair, drain

upkeep, culvert maintenance, road gravelling and grading. There are no problem or fragile soils at the Kulim Estates visited.

**Criterion 4.4: Practices maintain the quality and availability of surface and groundwater**

Inspection of the Estates visited showed that Kulim has demarcated the boundaries of river reserves and that these were being protected from disturbance. The programme of demarcating buffer zones for reinstatement at future replanting had been completed by painting “blue and white” rings around the trunks of palms to show clearly the boundaries. At locations where replanting is due, the Estates have ceased the application of chemicals to palms within the demarcated buffer zones. However, at Sungai Tawing Estate the location of future buffer strips has not been marked on the 2011 Replanting Plan (**Observation 4 – refer Section 3.2 Page 19**).

At Sedenak Estate, the riparian buffer zone for future reinstatement showed that boundary demarcation was inconsistent (**Observation 5 – refer Section 3.2 Page 19**).

Inspections of the Mills and the Estates visited confirmed that point source pollutants were well controlled through maintenance of pollution control devices. Records were available to show that the PCDs had been inspected and cleaned regularly. The Mills have been implementing water conservation programs to reduce usage. Figure 11 shows all mills achieved usage <1.0t/tFFB over the past 2 years, except at Sindora in 2010 due to failed boiler tubes that reduced efficiency.

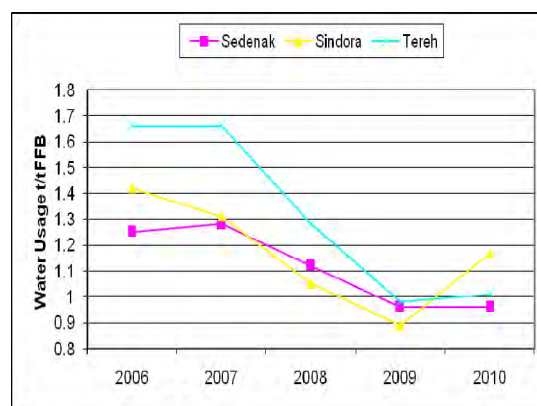


Figure 11: Annual Mill Water Usage 2006-2010

**Criterion 4.5: Pests, diseases, weeds and invasive introduced species are effectively managed using appropriate Integrated Pest Management (IPM) techniques.**

The main pest is rats and damage is monitored in the field as well as for the FFB delivered to the Mills. The occurrence of fresh rat damage is used as a trigger for a census of pests and assessment of the need for treatment. Census data are available on a block basis in the form of a map on the "Treatment and Census File".

Kulim continued the programme for establishment of beneficial plants (*Turnera subulata* and *Cassia coganensis*) along roadsides through the Estates for control of leaf eating insects. Barn owls have been introduced at each Estate for control of rats. At Sungai Sembrong Estate, for example, maps are available showing the locations of 79 barn owl boxes at a density one to every 13 ha and established areas of beneficial plants. The annual barn owl census carried out in August 2010 found 88% occupancy of barn owl boxes.

The Estates maintain records for each oil palm block of the quantity of pesticides applied. The usage of pesticides is specific to the field conditions at each Estate, which often vary considerably due to environmental factors, such as replanting and the age of palms. On average, the pesticide usage has decreased since 2008 (Figure 12), because there has not been any pest outbreak requiring chemical treatment and the change in spray practice to palm circles only.

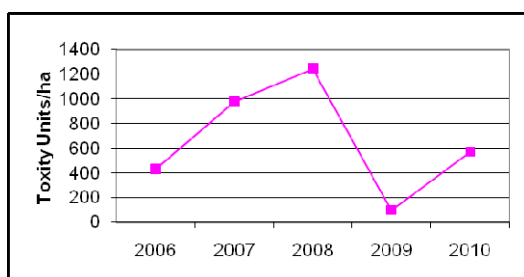


Figure 12: Annual Average Pesticide Toxicity Units 2006–2010

**Criterion 4.6: Agrochemicals are used in a way that does not endanger health or the environment. There is no prophylactic use of pesticides, except in specific situations identified in national Best Practice guidelines. Where agrochemicals are used that are categorised as World Health Organisation Type 1A or 1B, or are listed by the Stockholm or Rotterdam Conventions, growers are actively seeking to identify alternatives and this is documented.**

Kulim has continued to maintain careful control of pesticides and to ensure that these are stored and used safely in accordance with the manufacturer's instructions. Inspection of pesticide stores confirmed that all pesticide storage areas had spill containment, adequate convective ventilation, clear labelling, physical separation by type of chemical, and safety instructions. Checks of pesticide stores and stock inventories showed that only pesticides registered under the Pesticides Act 1974 were held.

Information on the safe handling of pesticides is displayed at the pesticides store and mixing area, in the form of pictorial work instructions. Kulim Head Office has not ensured that MSDS in Bahasa Malaysia have been supplied (**Observation 6 – refer Section 3.2 Page 19**). Each of the Estates visited held a copy of the results of the medical surveillance carried out in accordance with CHRA requirements, for example, at Sungai Tawing

Estate a DOSH registered doctor carried out a medical surveillance assessment for 21 pesticide operators on 30 May 2010, with all participants declared fit for work. However, at Ulu Tiram Estate the CHRA medical surveillance had not been carried out annually (**Observation 7 – refer Section 3.2 Page 19**). Inspection of records held at the Estate clinics confirmed all sprayers undergo monthly medical checks by the Estate Hospital Assistant.

Kulim employs mainly male workers for spraying. Interview of female sprayers confirmed they were aware of the policy of transfer to alternative duties if they were confirmed pregnant and wished to continue working.

Kulim uses WHO Type 1A and Type 1B chemicals only on the basis of pest census data when a threshold level is exceeded. For example, at Sungai Tawing Estate monocrotophos had been used for trunk injection of 196 ha of palms in January 2010 for control of bagworm. Sungai Tawing Estate holds copy of letter of approval from Department of Agriculture for purchase and use of monocrotophos issued 25 February 2010 Ref No JH/MONO(GL)/10/42. Kulim uses paraquat for control of weeds in immature palms.

**Criterion 4.7: An occupational health and safety plan is documented, effectively communicated and implemented**

Kulim has implemented an OSH Management Plan for improvement of safety of employees that has been updated for 2011. Risk Assessments (HIRAC) have been completed for the main tasks in the Mills and the Estates. The risk assessments were reviewed during 2010 and updated. For example at Tereh Mill the Safety Risk Assessment conducted for all work stations and tasks was reviewed and revised 1 April 2010 and at Sungai Tawing on 25 February 2010.

Inspections of the Mills and the Estates visited indicated that safe work practices were being implemented. Workers were observed to be wearing appropriate PPE for the specific task being carried out and the PPE was worn correctly and consistently across the sites visited. At each work location visited safety signs were clearly posted to warn of potential hazards. Records were available of PPE issued to individual workers and contractors, and replacements when damaged or worn.

At each Mill and Estate there is a designated OSH Coordinator who is responsible for organising safety training, meetings and investigation and reporting of accidents and incidents. Records were available confirming that quarterly OSH meetings had been held at the Mills and each of the Estates. For example, at Sungai Sembrong Estate, Minutes were available for each of the four meetings held during 2010, and included details of discussion on safety for each work task and accidents for review of safety performance and discussion of workplace health and safety issues.

In addition to specific training courses, safety briefings are given at muster to reinforce awareness, such as correct wearing of PPE. Records are maintained of safety training, for example, Sindora Mill joined with Sindora



Estate and conducted a combined safety and health campaign on 6 January 2011 involving the Health Department (Dengue Fever) and the Fire Department (emergency response and fire fighting), attended by 30 persons from the Mill and 50 from the Estate. At each location visited, first aid training had been carried out for supervisors. For example, at Sungai Sembrong Estate first aid training was conducted by the Estate Hospital Assistant on 29 November 2010 for 10 Mandors. The subjects of training were: (1) introduction to first aid, (2) injuries, (3) how to apply first aid, and (4) Cardiopulmonary Resuscitation.

The Emergency Response Plans at each Mill and Estate had been reviewed and updated where necessary, such as for changed phone numbers, and workers had been trained in emergency evacuation. For example, at Ulu Tiram Estate the Emergency Response Plan was revised on 1 January 2011 to include contact details for the new Manager. The Mills and Estates have site specific Plans including maps showing assembly areas and lists of emergency contacts. Emergency Response Master Plans could be improved (**Observation 8 – refer Section 3.2 Page 19**). Interviews of Mills and Estates staff and workers confirmed understanding of emergency response.

All accidents are investigated and reported to Head Office. The LTA Index (number of lost days per Million man hours worked) is updated monthly for each Mill and Estate. The LTA trend (Figure 13) for the Estates (combined data) shows a reduction since 2005. The LTA trend for the Mills (combined data) was similar to the Estates, except for a spike in 2007 when there was a serious road accident of a worker travelling to work at Sedenak Mill.



Figure 13: LTA Index for Mills and Estates 2006 – 2010

**Criterion 4.8: All staff, workers, smallholders and contractors are appropriately trained.**

Kulim has prepared an Annual Training Plan 2011 that lists the internal and external training courses scheduled for the Mills and Estates during the year. In addition each Mill and Estate has a schedule of “on-the-job” training for the main tasks. Inspection of training records showed that training was carried out during 2010 in accordance with the Training Plan. Each of the Mills and Estates visited maintained records for individual staff and workers of training, including signatures of attendees. For example, Sungai Sembrong

Estate carried out “Loader Training” for 17 workers on 5 July 2010.

**PRINCIPLE 5: Environmental Responsibility and Conservation of Natural Resources and Biodiversity**

The Mills and Estates reviewed the Environmental Improvement Plans that continued to focus on reducing the impact of point source pollutants. The Estates Improvement Plans included expansion of biological controls, such as barn owls and beneficial plants in the IPM Programme. Inspection confirmed these programmes for the Improvement Plan were being implemented.

Inspections confirmed that conservation set-asides were being protected from disturbance. Observations during fieldwork indicated relatively abundant fauna, particularly at the areas bordering the Forest Reserve at Sungai Tawing Estate.

Solid wastes are separated at source and recyclables are stored for sale to a recycler. Non-recyclables are disposed in small landfills in accordance with Local Government sanitary landfill regulations.

**Criterion 5.1: Aspects of plantation and Mill management, including replanting, that have environmental impacts are identified and plans to mitigate the negative impacts and promote the positive ones are made, implemented and monitored to demonstrate continuous improvement.**

Kulim reviewed the Environmental Aspects and Impacts Register at each of the operational locations and made revisions where appropriate. For example, at Sindora Mill the Aspects and Impacts were updated in February 2010 in relation to construction of a new effluent pond. Kulim Sustainability Team then worked with each Mill and Estate to prepare site-specific environmental improvement plans. Inspections of the Mills and Estates confirmed that improvements have been implemented.

Inspection of records found that although improvements were being implemented the Improvement Plans could be updated (**Observation 9 – refer Section 3.2 Page 20**).

**Criterion 5.2: The status of rare, threatened or endangered species (ERTs) and high conservation value habitats, if any, that exists in the plantation or that could be affected by plantation or Mill management, shall be identified and their conservation taken into account in management plans and operations.**

During 2010, Kulim made progress with implementing the site-specific biodiversity improvement plans for each of the Estates. Although HCVs do not occur within the Estates, planting of trees to enhance the small areas of remnant vegetation and riparian buffer zones is being carried out.

Kulim has commissioned the Wildlife Conservation Society, Johor Branch to carry out a survey of birds and bats at the following three project areas:

- (1) REM and surrounding areas – REM/Pasak and Basir Ismail Estates and the adjacent Sungai Johor Forest Reserve
- (2) Sindora Region – Sindora Estate and the Endau-Kota Tinggi Department of National Parks & Wildlife Reserve;
- (3) Tereh Utara Region – (Mutiara, Selai and Tereh Utara).

Fieldwork for the Birds and Bats Project started in 2010 and will continue during 2011.

The Wildlife Conservation Society conducted a workshop “Moving Forward Together: Law Enforcement Strategies and Techniques” at the Endau Rumpin National Park that was attended by the Kulim Sustainability team and Managers from Selai, Sindora, Tereh Utara and Sungai Tawing Estates.

Kulim continued to support the Kulim Wildlife Defenders Program by matching funding on a 1:1 basis with that provided by a United Nations Development Programme (UNDP) grant. The Kulim Wildlife Defenders carried out joint patrols with the Johor National Parks Officers in Kahang, Labis Forest Reserve and Endau Rumpin National Park in December 2010. The Kulim Wildlife Defenders carried out awareness training at the Estates during 2010 on the prevention of human-wildlife conflict.

Kulim continued working on the “Securing the Boundary” aspect of the conservation project by implementing control of the vehicles entering its Estates. This aims to prevent access to the forest reserves bordering the Estates, which in turn are linked with the National parks. The “Securing the Boundary” is expected to form an additional buffer for protection of the national parks for conservation of tiger, elephant and other species. Kulim has selected Security guards who have been trained in techniques for vehicle inspections and the use of Global Positioning System (GPS) for recording the locations of animal sightings and any poaching incidents discovered during patrols. The Estates that are involved in the project keep records of animal sightings and forward these monthly to Kulim Sustainability Department. The HCV Management Plans for the Estates were being implemented however at Sungai Tawing and Enggang Estates these had not been updated (**Observation 10 – refer Section 3.2 Page 20**).

Field inspections and interviews confirmed that signs are posted at conservation set-asides and that employees and contractors were aware of the Kulim Conservation Policy that prohibits hunting, fishing and taking of fauna within the Estate and adjacent areas.

**Criterion 5.3: Waste is reduced, recycled, reused and disposed of in an environmentally and socially responsible manner.**

The Mills and Estates continued to implement the Waste Management Plan for control of solid and liquid wastes. Inspections confirmed the Mills solid wastes were consistently controlled in accordance with the Waste Management Plan. EFB was shredded in a hammer Mill

then composted with treated Mill effluent. Boiler ash and fly ash were stored in bunkers to prevent material from entering the stormwater drain system. Although drain covers had been installed near the Sindora Mill boiler, further improvement is required (**Observation 11 – refer Section 3.2 Page 20**). Recyclables, such as scrap metal, were stored in a designated area for sale to a recycler. Non-recyclables and domestic refuse were disposed in a small landfill located within the Estates.

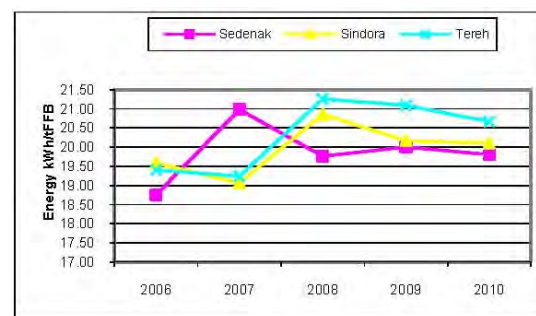
Scheduled wastes, such as spent lubricating oil and used chemical containers, are stored in secure purpose-built stores. Inspection of the scheduled waste stores and associated records confirmed the scheduled wastes were well controlled and were collected by DOE Licensed contractors. Spent lubricating oil is collected by OLST Petroleum Malaysia Sdn Bhd – Licence number 001526 - expiry 30 April 2011. Copies of manifests were available confirming collection of scheduled wastes, for example, OLST Petroleum Consignment Note 1733 for 3 drums of waste lubricating oil from Sindora Mill on 15 December 2010. Records were available for management of medical wastes from each Mill and Estate clinic, for example, Pantai Medivest Manifest Serial Number: P233043 dated 12 November 2010.

Inspection of the small landfills showed that wastes were being disposed in accordance with regulatory requirements for municipal landfills. There was also relatively consistent separation of compostable gardening waste from other housing wastes.

Inspection of the Sindora composting site found significant erosion on the outer face of the stormwater pond (**A nonconformity CAR Reference CR06 was assigned to minor compliance indicator 5.3.2 – refer Section 3.2 page 19**).

**Criterion 5.4: Efficiency of energy use and use of renewable energy is maximised.**

Each of the Mills maintains records of energy usage, which is reported monthly to head office. The use of the steam turbine for electricity generation has been optimised in order to reduce the dependence on diesel fossil fuel. Figures 14 and 15 show how renewable energy has increased since 2006, while non-renewable has decreased due to generating electricity using the steam turbine outside of mill processing hours.



**Figure 14: Renewable Energy Usage 2006-2010**

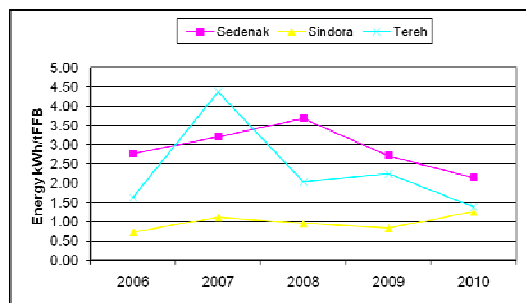


Figure 15: Non-renewable Energy Usage 2006-2010

**Criterion 5.5: Use of fire for waste disposal and for preparing land for replanting is avoided except in specific situation, as identified in the ASEAN guidelines or other regional best practice.**

Inspections of replanting areas showed that the old stands of palms had been felled, chipped and retained in windrows as mulch. The use of fire for waste disposal was not found at any of the Mills or the Estates inspected.

**Criterion 5.6: Plans to reduce pollution and emissions, including greenhouse gases, are developed, implemented and monitored.**

The Mills have continued to implement improvements to reduce pollution since the First Annual Surveillance Assessment. For example, Sedenak Mill has constructed a roof over the EFB Shredding Plant for protection from rain and avoidance of leachate formation.

Kulim has carried out site investigations at each of the Mills and completed feasibility studies for implementing CDM projects for methane capture from effluent treatment. Kulim is in the process of obtaining funding for the CDM projects.

Inspections of the Mills and the Estates visited confirmed that PCDs were being maintained to minimise the discharge of entrained suspended solids and oil off site. Records were available of weekly inspections and cleaning of PCDs.

**PRINCIPLE 6: Responsible Consideration of Employees and of Individuals and Communities by Growers and Millers**

Kulim has reviewed and updated the SIA and Social Action Plan.

Major improvements will be the continuation of the programme for construction of additional 3 bedroom houses at the Estates.

Local community representatives stated there was improved communication with the company and the good relationship maintained. The JCC continued to operate with quarterly meetings at the Mills and each Estate.

Interviews of workers and their families indicated they are treated fairly and there were no issues related to discrimination.

Female staff and workers appreciated the operation of the Gender Committee.

Contractors and Outgrowers stated they had a good relationship with the company and that dealings were fair and transparent.

**Criterion 6.1: Aspects of plantation and Mill management, including replanting, that have social impacts are identified in a participatory way, and plans to mitigate the negative impacts and promote the positive ones are made, implemented and monitored, to demonstrate continuous improvement.**

The Kulim Sustainability Team visited each of the Mills and Estates in the third quarter of 2010 and met with stakeholders for review of the social issues. On the basis of this input, Kulim prepared an overall Social Improvement Plan. Following the review, the Estates and Mills prepared site-specific social improvement plans consistent with the local situation for the 2011 year. However at several locations the preparation of the site-specific improvement plans had not been completed (**Observation 12 – refer Section 3.2 Page 20**). Interviews of internal and external stakeholders during the Surveillance Assessment confirmed that they had been consulted during the annual review of social issues.

The company made progress on the construction of new 3 bedroom houses to replace the 2 bedroom ones that no longer met the government standard. Other improvements include the formation of a women's club at Sindora that meets weekly and carries out projects to improve craftwork skills and to raise funds for charitable causes.

**Criterion 6.2: There are open and transparent methods for communication and consultation between growers and/or Millers, local communities and other affected or interested parties.**

The Estate and Mill Managers are the main point of contact for internal and external stakeholders. Interviews of stakeholders confirmed that Kulim has an open approach to communication with staff, workers and local communities.

Inspection of records showed that the Mills and Estates maintained their lists of stakeholders up to date and that written communications were replied to promptly and the correspondence kept on file.

**Criterion 6.3: There is a mutually agreed and documented system for dealing with complaints and grievances, which is implemented and accepted by all parties.**

The Mills respond to customer complaints by means of the ISO 9001 QMS procedures. For example, Sindora Mill received only one complaint in 2010 (2 December) regarding high shell and dirt impurity in a palm kernel consignment. The Mill investigated and responded to the complaint on 3 December. The Mills and Estates maintain "Inquiry Registers" for receiving and responding to requests and complaints from employees and external stakeholders. These generally relate to

requests for repairs to housing, which generally were followed up and resolved promptly.

**Criterion 6.4: Any negotiations concerning compensation for loss of legal or customary rights are dealt with through a documented system that enables indigenous peoples, local communities and other stakeholders to express their views through their own representative institutions.**

Kulim operations all are on land that is either freehold or on state leases and customary rights are not applicable.

**Criterion 6.5: Pay and conditions for employees and for employees of contractors always meet at least legal or industry minimum standards and are sufficient to provide decent living wages.**

Interviews of staff and workers confirmed that they had been provided with a copy of their employment contract and that they understood their pay rates and deductions. Examination of pay records showed that workers on daily rates as well as those on piece rates received above the current MAPA/NUPW award rate.

The majority of the workforce is made up of single male foreign workers recruited from Indonesia. Interviews of local and foreign workers indicated satisfaction with the standard of housing and facilities. The majority of the Estates are served by government electricity and water supplies and schools are located nearby. At the more remote locations, Kulim provides water and electricity. Review of water quality test results for water supplied to housing confirmed compliance with the Malaysian Drinking Water Quality Standard.

The company has established recreational facilities and places of worship at each of the housing areas. Kulim provides free bus transport and uniforms for the school children of staff and local workers.

**Criterion 6.6: The employer respects the right 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.**

Interviews of staff and workers and Officials from the NUPW Kluang Office confirmed that Kulim supports freedom of association. At each Mill and Estate there is a local committee made up of union representatives elected by members. Records are kept of meetings between company representatives and the local union committee members. However enquiries found that the Minutes of the most recent meeting for Sindora Estate were not available (**Observation 13 – refer Section 3.2 Page 20**).

**Criterion 6.7: Children are not employed or exploited. Work by children is acceptable on family farms, under adult supervision and when not interfering with education programmes. Children are not exposed to hazardous working conditions.**

Inspection of a sample of personnel files at the Mills and Estates confirmed that recruits' age was checked against their Malaysian Identity Card, or in the case of foreign workers, their passport. Underage persons were not observed at any of the work locations inspected during the surveillance assessment.

**Criterion 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.**

Inspection of pay records and interviews of staff and workers at the Mills and Estates did not identify any issues related to discrimination. The NUPW Union Officials stated that they had not received any complaint related to discrimination in Kulim's treatment of employees.

**Criterion 6.9: A policy to prevent sexual harassment and all other forms of violence against women and to protect their reproductive rights is developed and applied**

Kulim has a well established gender committee at Head Office that has formal meetings with an agenda and minutes are recorded. However at most of the locations visited, gender committees had been formed but the females preferred to have informal gatherings rather than formal meetings. Female employees stated that they did not receive any gender related grievances during the previous three years and the informal gatherings provided an appropriate mechanism for issues to be raised.

**Criterion 6.10: Growers and Mills deal fairly and transparently with smallholders and other local businesses.**

Kulim Finance Department arranges contracts for the purchase of goods and services, including those with FFB suppliers. Interviews of FFB Traders confirmed that Kulim deals fairly with them and they do not experience any delays in receiving payment. A number of contractors and suppliers of equipment and spare parts have worked with Kulim for more than 10 years and in a few cases over 30 years, which indicates a good relationship with the company.

**Criterion 6.11: Growers and Millers contribute to local sustainable development wherever appropriate.**

The public infrastructure is well developed near most of the Mills and Estates visited and government services are readily accessible. Kulim has continued to make appropriate contributions to local communities in the form of donations and assistance to schools and places of worship.

**PRINCIPLE 7 is not applicable as there was no new development at any Kulim Estate.**

**PRINCIPLE 8: Commitment to Continuous Improvement in Key Areas of Activity**

In November 2010, Kulim Sustainability Department reviewed and revised the "Combined Improvement Plan" that included actions for addressing environmental, OSH and social issues.

Kulim has continued the programme of establishing beneficial plants and the deployment of barn owls as key elements of Integrated Pest Management (IPM) for reducing the use of pesticides. The implementation of improved controls on the use of herbicides and training of operators has reduced the quantity of chemicals applied since 2007.

The Mills have optimised the use of steam turbines for generating electricity, which has reduced the dependence on the usage of non-renewable diesel fuel. Each of the three Mills achieved reductions in water usage, and hence the quantity requiring treatment and discharge to the environment. Following the completion of feasibility studies at each of the Mills for implementation of CDM projects for reducing Green House Gas emissions by methane capture from effluent treatment plants, Kulim is working to secure funding for CDM implementation.

The Mills and Estates made progress on improvements at housing areas, involving the construction of three-bedroom houses, for the benefit of staff and workers. The Estates and Mills continued to support local schools, especially those in remote locations such as Tereh Mill and supply base.

**3.2 Identified Nonconformities and Noteworthy Positive and Negative Observations**

A Nonconformity was assigned to one (1) Minor Compliance Indicator and thirteen (13) Observations/Opportunities for improvement were identified.

Kulim has prepared a Corrective Action Plan for addressing the identified Nonconformity. BSi has reviewed and accepted the Kulim Corrective Action Plan.

**CAR Reference CR06: 5.3.2 Having identified wastes and pollutants, an operational plan should be developed and implemented, to avoid or reduce pollution.**

*Significant erosion has occurred on the outer face of the stormwater pond at the Sindora composting site and tension cracks were present in the recently placed material on the side wall of the structure. There is risk of failure of the structure, which would result in discharge of high BOD effluent to receiving waters.*

**Corrective Actions**

Sindora Estate has taken action immediately to prevent soil erosion at the storm retention pond by sand bagging the slope. The Estate will provide a program to plant

Vetiver and Guatemala grass to further strengthen the slope in order to prevent/stop earth movement.

A review on all storm water retention pond at all bio-compost area will be carried out to ensure the free board is in accordance to Engineering Department specification. Slope and condition of the pond should also be checked and reported.

Engineering department, where necessary, should propose reviewed engineering drawing on the pond capacity and design to prioritise Sindora Estate improvement.

*The BSi Assessment Team accepted the Corrective Action Plan and implementation will be checked at the next surveillance visit planned for the end 2011.*

**Noteworthy Observations**

During this Second Annual Surveillance Audit the Assessment Team identified thirteen (13) Observations/Opportunities for Improvement. The progress with these Observations/Opportunities for Improvement will be checked at the next Surveillance Assessment visit planned for the end of 2011.

1. **(2.1.1)** Action is taken to adjust the water treatment to achieve the required standard following daily pH tests, but there is no record of this at Tereh Mill and Sungai Sembrong Estate.
2. **(4.3.2)** At Sungai Sembrong and Ulu Tiram Estates some pesticide operators were using Controlled Droplet Application spray equipment incorrectly, resulting in unnecessary spraying of groundcover vegetation that is likely to result in areas of bare soil.
3. **(4.3.2)** At Sungai Sembrong Estate bare soil occurs near a small stream at the north-west corner of Northern Division due to shading by palms. Planting of shade tolerant *Nephrolepis* ferns should be considered for improving groundcover and preventing soil erosion.
4. **(4.4.1)** At Sungai Tawing Estate, although inspection of the 2010 replanting indicated that the buffer zone policy had been observed, the location of future buffer strips has not been marked on the 2011 Replanting Plan.
5. **(4.4.1)** At Sedenak Estate the riparian buffer zone for reinstatement for future replanting has been marked on the map but field inspection showed that the boundary demarcation was inconsistent along Sungai Skudai, for example, at block P01/6.
6. **(4.6.4)** Kulim Head Office have not ensured that MSDSs in Bahasa Malaysia have been supplied and are displayed at every location where pesticides are used, for example at Sedenak Estate.
7. **(4.6.5)** Annual CHRA Medical Surveillance for Pesticide Operators did not appear to have been carried out annually at Ulu Tiram.
8. **(4.7.1)** Emergency response Master Plans could be improved by reorganising the sequence of documents so that the emergency contacts and

procedures are readily accessible for reference in an emergency.

9. **(5.1.2)** The Environmental Improvement Plan has not been updated at some locations to identify Action Plans with responsibilities and target dates for implementation.
10. **(5.2.2)** The HCV Management Plans at Sungai Tawing and Enggang Estates have not been updated with revised responsibilities and targets for implementation.
11. **(5.3.2)** Although drain covers have been installed near the Sindora Mill boiler, further improvement is required to prevent ash from entering the monsoon drain and to reduce the loading on the sediment trap.
12. **(6.1.3)** The Kulim SPO Team has prepared a Social Action Plan for global application at the Mills and Estates but this has not been followed up at the local level to tailor to specific local issues. A timetable needs to be developed in consultation with the local Manager for implementation.
13. **(6.6.1)** At Sindora Estate the minutes of the most recent meeting with Worker Representatives was not available but was held by the Worker Representative.

#### **Noteworthy Positive Observations**

- The Mills and Estates have maintained a good safety record with regard to work related LTAs.
- The Mills have made improvements in utilisation of natural resources with reductions in water consumption and diesel fuel.
- Kulim has maintained a good relationship with both internal and external stakeholders.
- At Enggang the Estate has provided an area of land for workers and employs one worker full time to cultivate and maintain the vegetable gardens. The crop is harvested and distributed to all workers, which provides a regular supply of vegetables at no cost to residents.

#### **3.3 Status of Nonconformities (Major and Minor) Previously Identified**

Corrective Actions implemented for the Nonconformities identified during the Initial Certification Assessment remain in place and nonconformities remain closed.

**Nonconformity Reference CR04: 5.3.2 – Having identified wastes and pollutants, an operational plan should be developed and implemented, to avoid or reduce pollution.**

**First Annual Assessment Findings:** At Tereh Mill, unshredded EFB has been left in a stockpile and leachate from this area is discharged without treatment.

**Second Annual Surveillance Assessment Findings:** The Mill concreted the EFB storage area and constructed a bund for containment of drainage and transfer to an adjacent sediment trap and water oil separator. In addition, the Mill implemented daily removal of EFB and to transport material that is excess to composting requirements to the field for use as mulch.

**The Nonconformity was closed 10/01/2011.**

**Nonconformity Reference CR05: 5.3.3 - Evidence that crop residues/ biomass are recycled (Cross ref. C4.2).**

**First Annual Assessment Findings:** At Sindora there is no "Plan" to manage the EFB that has been shredded and is excess to composting capacity during peak crop. A large stockpile of material had accumulated near the hammer Mill, which restricted vehicle traffic turning areas for loading. (corrective action was taken to remove the stockpile but there is no "Plan" to prevent reoccurrence).

**Second Annual Surveillance Assessment Findings:** The Estate developed a Contingency Plan in consultation with the Mill for the application of EFB as well as shredded EFB that is excess to composting requirements to be transported and applied to the palms as mulch. The Contingency Plan is documented as a Work Instruction together with a map showing the location for application to the palms.

**The Nonconformity was closed 13/01/2011.**

#### **Review of Progress with Observations/ Opportunities for Improvement Identified during 2010 Surveillance**

**OBS01 (2.2.4)** Kulim has negotiated settlement of a small area of overplanting (at Basir Ismail Estate Block P04 Block1) on 26 December 2009, but the process needs to be formalised with a written agreement.

**Second Annual Surveillance Assessment Findings:** A letter of agreement signed 16 March 2010 confirming handover of the land to the owner

**OBS02 (4.3.2)** At Rengam Estate, although Guatemala grass has been established along part of the streambanks, Vetiver grass is likely to be more effective for controlling erosion due to its deep rooting characteristics.

**Second Annual Surveillance Assessment Findings:** Vetiver was planted in March 2010 but in September 2010 further erosion occurred and gabion baskets were installed.

**OBS03 (4.4.1)** *Mucuna bracteata* has invaded the buffer zone at Basir Ismail Estate P04 Block 2 and needs to be eradicated to prevent smothering trees.

**Second Annual Surveillance Assessment Findings:** *Mucuna has been eradicated from the buffer zone by manual weeding.*

**OBS04 (4.4.1)** The Security Guardhouse at the entrance to Selai Estate is located within the riparian buffer zone. Currently there is no Plan to correct this situation at future replanting.

**Second Annual Surveillance Assessment Findings:** *The Security Guardhouse has been relocated to within Block P83.*

**OBS05 (4.4.7)** At Rengam Estate, additional roadside “turn-out” drains are required on the steeper hills to reduce the slope length between drains for interception of rainfall runoff and improved water management for prevention of erosion.

**Second Annual Surveillance Assessment Findings:** *At some locations, culverts have been installed for cross-road drainage and scupper drains constructed. This is being carried out progressively.*

**OBS06 (4.6.4)** At Selai and Sindora Estates Pesticides mixing area, a Work Instruction was not available showing the measurement quantity of chemical for each weeding application.

**Second Annual Surveillance Assessment Findings:** *An appropriate Work Instruction is displayed at the mixing area.*

**OBS07 (4.6.5)** Annual medical surveillance has not yet been conducted at Tereh Utara Estate, but is scheduled to be carried out in February 2010 by DOSH registered medical practitioner.

**Second Annual Surveillance Assessment Findings:** *CHRA was carried out on 29 May 2010.*

**OBS08 (4.7.1)** At Tereh Mill vehicle workshop and at Basir Ismail Estate workshop the pressure regulators on an oxyacetylene welding set were badly damaged. Corrective action was taken immediately and replacement regulators were purchased from Kluang.

**Second Annual Surveillance Assessment Findings:** *Pressure regulators were in working order.*

**OBS09 (5.3.2)** At Tereh Clinics, medical wastes were stored in secure containers but there was no programme for disposal to a licenced scheduled waste contractor. Kulim immediately implemented transfer of medical wastes to a central storage location at Sindora Estate Clinic and these were collected by Pantai Medivest Sdn Bhd. Kulim has implemented an instruction for regular transfer of medical wastes from Tereh to Sindora Estate for collection by the licensed contractor.

**Second Annual Surveillance Assessment Findings:** *Records are maintained of the transfers to Sindora Estate, collection and disposal by Pantai Medivest.*

The Assessment Team concluded Kulim had implemented appropriate and effective improvements for each of the Observations identified during the First Annual Surveillance Assessment.

### **3.4 Issues Raised by Stakeholders and Findings with Respect to each issue**

*The issues raised by stakeholders during the First Annual Surveillance Assessment (2010) were followed up during this Assessment and found to have been actioned appropriately by the company.*

#### **Issues Raised by Internal Stakeholders**

At Sungai Tawing Estate during low crop, harvesters were transferred to daily rate of pay as there was insufficient crop for them to meet minimum wage but this has not been communicated to the workers. The Estate needs to advise harvesters that they will be placed on daily rate so as to maintain full employment and meet the minimum wage.

**Company Response:** *The Estate will follow up with communication to harvesters.*

Sindora Mill residents stated that the bus that transports children to school was overcrowded despite the fact that the bus made three trips to school each day.

**Company Response:** *The Estate will request the bus driver to count the number of children each trip and report to Estate/Mill Manager. The Company will then assess the situation and decide if any action is required.*

At Sedenak Estate some harvesters are employed directly by the Estate and are paid on the basis of number of bunches harvested, whilst harvesters employed through a Contractor are paid on the basis of tonnage harvested. The Estate needs to clarify whether there is any difference in payment received due to the two different methods of payment calculation.

**Company Response:** *The Estate will conduct a meeting with harvesters and contractors to clarify the differences between payment on the check-roll system and via contractors.*

The Assessment Team considered the above responses appropriate and will follow up at the next Surveillance visit.

#### **Issues Raised by External Stakeholders**

External stakeholders contacted did not raise any issues of concern relating to the Kulim operations.

#### 4.0 CERTIFIED ORGANISATION'S ACKNOWLEDGEMENT OF INTERNAL RESPONSIBILITY

##### 4.1 Date of Next Surveillance Visit

The next surveillance visit is planned for November 2011.

##### 4.2 Date of Closing Nonconformities (Major and Minor)

*Table 5: Status of Nonconformities*

CAR	CLASS	ISSUED	CLOSED
CR01	Minor	24/07/2008	21/01/2010
CR02	Minor	24/07/2008	21/01/2010
CR03	Minor	27/07/2008	21/01/2010
CR04	Minor	21/01/2010	10/01/2011
CR05	Minor	21/01/2010	13/01/2011
CR06	Minor	13/01/2011	"Open"

#### 4.3 Sign-off of Surveillance Assessment Findings

Please sign below to acknowledge receipt of the assessment visit described in this report and confirm the acceptance of the assessment report contents including assessment findings.

Signed for on behalf of  
**Kulim (Malaysia) Berhad**  
 Hj Izhar Bin Mahmood  
 Director - Plantation Operations

.....

**Date: 15 February 2011**

Signed for on behalf of  
**BSi Group Singapore Pte Ltd**  
 Charlie Ross  
 Lead Auditor

.....

**Date: 18 February 2011**



## ***Appendix “A”***

### ***CV for New Assessment Team Member***

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## Noryati Hambali – Curriculum Vitae

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Year of Birth:	1986
Nationality:	Malaysian (Permanent Resident)
Present Status:	Student
Location:	Puchong, Selangor, Malaysia
Home Address:	Lahad Datu, Sabah, Malaysia

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### **Educational Qualifications**

Noryati Hambali was born in Lahad Datu Sabah 1986 and attended the Government Primary School Sekolah Kebangsaan Pekan 3 Lahad Datu (1993-1998). She completed 'O' Level in Sekolah Menengah Kebangsaan Segama Lahad Datu, Sabah 2003 and is now doing her Diploma in Business Administration at Rima International College, Selangor to complete her 'A' Level.

### **Work Experience**

She commenced working in Humana (Borneo Child Aid Society) as a Teacher in (2006) and relocated to teach at a school in the Lahad Datu area. Due to her good performance, within a year she was offered an Administration position with Humana where she assisted the Manager for a Period of 3 years (2007-2010). She then resigned in 2010 in order to continue her studies.

### **RSPO Experience**

Noryati has assisted with the assessments of two oil palm plantation companies, one in Sabah (1 Mill and 4 Estates) and one in Peninsula Malaysia (3 Mills and 15 Estates). Her role has involved assisting and facilitating the interview of female workers and their families at oil palm Mills and Estates. She has first-hand knowledge of the issues facing families working and living in remote locations. She is fluent in Bahasa Malaysia, Sabahan and English, which is a key asset for effective communication with local as well as foreign workers.

## ***Appendix “B”***

### ***Second Annual Surveillance Assessment Programme***

**KULIM SECOND ANNUAL SURVEILLANCE ASSESSMENT PROGRAMME 10–17 JANUARY 2011**

TEAM: CR: CHARLIE ROSS; RR: ROBYN ROSS; IN: IMAN NAWIREJA; NH: NORAYATI HAMBALI							
Day / Date	Time	Details	CR	IN	RR/ NH		
Monday 10 January	0830	Opening Meeting	√	√	√		
		Document Review	√				
<b>Tereh Mill</b>		Interview Female Office Staff/Workers			√		
		Review Pay Documentation			√		
		Interview Contractors/External Stakeholders		√			
		Review SIA/HCV Action/Monitoring Plans	√	√			
		PM	Physical Inspection Mill/Effluent Ponds/Stores/Workshop/Landfill	√			
			Interview Male Workers		√		
Tuesday 11 January	0830	Visit any Local Communities		√			
		Visit Clinic Interview Staff			√		
		Inspect Housing Interview Residents			√		
		Tuesday 11 January	0830	Opening Briefing	√	√	√
				Physical Inspection Estate and Buffer Zones	√		
				Physical Inspection Stores, Landfill	√		
<b>Sungai Tawing Estate</b>		Interview Male Fieldworkers		√			
		Interview Female Fieldworkers			√		
		Interview Female Staff/Workers			√		
		Review Pay Documentation			√		
		Interview Contractors/External Stakeholders		√			
		PM	Documentation Review including SIA & HCV Assessment	√			
Wednesday 12 January 2 Teams	0800	Visit Clinic Interview Staff			√		
		Inspect Housing Interview Residents			√		
		Visit Local Communities		√			
		<b>C ROSS Sungai Sembrong Estate</b>		Opening Briefing	√		√
				Physical Inspection Estate and any Buffer Zones	√		
				Physical Inspection Stores, Landfill	√		
Interview Female Fieldworkers					√		
Interview Female Office Staff					√		
Workers Review Pay Documentation					√		
<b>I NAWIREJA Enggang Estate</b>	PM	Documentation Review including SIA & HCV Action/Monitoring Plans	√				
		Visit Clinic Interview Staff			√		
		Inspect Housing Interview Residents			√		
		Wednesday 12 January 2 Teams	0800	Opening Briefing		√	
				Physical Inspection Estate and any Buffer Zones		√	
				Interview Male Fieldworkers		√	
<b>I NAWIREJA Enggang Estate</b>	PM	Physical Inspection Stores, Landfill		√			
		Review Pay Documentation		√			
		Documentation Review including SIA & HCV Action/Monitoring Plans		√			
<b>I NAWIREJA Enggang Estate</b>	PM	Visit Clinic Interview Staff		√			
		Inspect Housing		√			

DATE	TIME	ACTIVITY	CR	IN	RR/ JM	
Thursday 13 January  <b>C ROSS Sindora Mill</b>	0800	Opening Briefing	√		√	
		Document Review	√			
		Interview Female Office Staff/Workers			√	
		Review Pay Documentation			√	
		Interview Contractors/External Stakeholders	√			
		Review SIA Action Plan	√			
		Review HCV Assessment and Monitoring Plans	√			
	PM	Physical Inspection Mill/Effluent Ponds/Stores/Workshop/Landfill	√			
		Visit Clinic Interview Staff			√	
		Inspect Mill and Estate Housing Interview Residents			√	
<b>I NAWIREJA Sindora Estate</b>	0800	Opening Briefing		√		
		Physical Inspection Estate including any Buffer Zones		√		
		Interview Male Fieldworkers		√		
		Physical Inspection Stores, Landfill		√		
		Interview Contractors/External Stakeholders		√		
		Visit Clinic Interview Staff			√	
		Documentation Review including SIA & HCV Assessment		√		
	PM	Visit any Local Communities		√		
		Documentation Review including SIA & HCV Assessment		√		
		Travel back to JB check into Mutiara Hotel				
Friday 14 January  2 Teams <b>C ROSS Ulu Tiram</b>	0800	Opening Briefing	√		√	
		Physical Inspection Estate including any Buffer Zones	√			
		Physical Inspection Stores, Landfill	√			
		Interview Female Fieldworkers			√	
		Interview Female Office Staff/Workers			√	
		Review Pay Documentation			√	
		PM	Documentation Review including SIA & HCV Action Plans	√		
	Visit Clinic Interview Staff				√	
	Inspect Housing Interview Residents				√	
	<b>NAWIREJA Sedenak Estate</b>	0800	Opening Briefing		√	
			Physical Inspection Estate, Interview Male Workers		√	
			Physical Inspection Stores, Landfill		√	
			Interview Contractors/External Stakeholders		√	
		PM	Visit Clinic Interview Staff		√	
Inspect Housing				√		
Visit any Local Communities				√		
Review SIA & HCV Action Plans		√				

DATE	TIME	ACTIVITY	CR	IN	RR/ NH
Saturday 15 January  <b>Sedenak Mill</b>	0800	Opening Briefing	√	√	√
		Document Review	√		
		Interview Female Office Staff/Workers			√
		Review Pay Documentation			√
		Interview Contractors/External Stakeholders		√	
		Review SIA	√	√	
		Review HCV Assessment and Monitoring Plans	√		
	PM	Physical Inspection Mill/Effluent Ponds/Stores/Workshop/Landfill	√		
		Interview Male Workers		√	
		Visit any Local Communities		√	
		Visit Clinic Interview Staff			√
		Inspect Mill and Estate Housing Interview Residents			√
Sunday 16 January	Prepare Visit Report and Closing Meeting				
Monday 17 January <b>EPA HQ</b>	0800	Follow-up any outstanding data/information/clarification	√	√	√
	1100	Closing Meeting	√	√	√

## ***Appendix “C”***

### ***List of Stakeholders Contacted***

## Stakeholders Contacted – Kulim Operations, Johor, Malaysia

## INTERNAL STAKEHOLDERS

<u><b>TEREH</b></u> <b>Mill</b> 3 Indonesian Male Workers 4 Local Male Workers NUPW Representative 5 Female Staff/Workers 2 Residents at Housing Clinic HA and Assistant	<b>Sungai Tawing Estate</b> 5 Female Staff/Workers 3 Residents at Housing Clinic HA 3 Male Sprayers 4 Harvesters	<b>Sungai Sembrong Estate</b> 2 Local Female Staff 5 Indonesian Female Workers Clinic HA 5 Residents at Housing	<b>Enggang Estate</b> 4 Male Sprayers 7 Male Fertiliser Applicators
<u><b>SINDORA</b></u> <b>Mill</b> 3 Malaysian Male Workers 3 Indonesian Male Workers 6 Female Staff/Workers 9 Residents at Mill/Estate Housing Clinic HA (Mill and Estate)	<b>Sindora Estate</b> 5 Harvesters Indonesian Worker Representative 4 Indonesian Male Palm Nursery Workers NUPW Leader Representative		
<u><b>SEDENAK</b></u> <b>Mill</b> 2 Male Local Workers 2 Male Indonesian Workers NUPW Representative 3 Female Staff 5 Female General Workers 9 Residents at Housing Clinic HA	<b>Ulu Tiram Estate</b> 1 Indonesian Female Sprayer 4 Female Staff/Workers 7 Residents at Housing 2 Female Crèche workers Clinic HA and Assistant	<b>Sedenak Estate</b> 6 Male Sprayers 5 Indonesian Harvesters Clinic HA	

## EXTERNAL STAKEHOLDERS

<u><b>TEREH</b></u> <b>Mill</b> FFB Transport Contractor FFB Supplier - FELDA	<b>Sungai Tawing Estate</b> FFB Transport Contractor FFB Harvest Contractor Religious Leader	
<u><b>SINDORA</b></u> <b>Mill</b> Biokekal Sdn Bhd (Hardware Contractor) FFB Trader ME Engineering (Materials & Parts Supplier)	<b>Sindora Estate</b> FFB Contractors Imam Mosque Ulu Belitong	
<u><b>SEDENAK</b></u> <b>Mill</b> FFB Supplier 2 General Contractors	<b>Sedenak Estate</b> Imam Kampong Sedenak Resident Kampong Sedenak	

<b>GOVERNMENT DEPARTMENTS/STATUTORY AUTHORITIES</b> Johor Labour Department Kluang Labour Department	<b>NGOs and OTHERS</b> Wildlife Conservation Society, Johor Tenaganita Industrial Relation Officer – NUPW, Kluang
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