MIGHTY EARTH

Glenn Hurowitz
Chief Executive Officer

Mr. Sean Kidney
Chief Executive Officer
Climate Bonds Initiative
40 Bermondsey Street
London SE1 3UD
United Kingdom

11 March 2021

Dear Mr. Kidney,

I am writing to urge the Climate Bonds Initiative (CBI) to investigate whether the Tropical Landscapes Finance Facility (TLFF I) Sustainability Bond should be eligible as a 'Sustainability Bond' listed in CBI's green and sustainability bond market.

As the green bond market grows, it is crucial that green bond and ESG impact claims are closely scrutinized in order to safeguard the credibility of stakeholders involved and to ensure that funds raised from green and ESG-conscious investors are used to advance a genuinely sustainable economy. There is urgency to investigating this complaint, as a second Sustainability Bond worth $120 million to finance the second phase of the 70,716 ha RLU Project in Jambi in Sumatra, Indonesia (and which also includes a 18,045 ha rubber project in East Kalimantan) is due to be offered to green bond investors imminently.

It is critical that the information attached is investigated prior to this issuance, given that, in our view there is now significant evidence demonstrating that this project is likely in violation of the Green and Sustainability Bond Principles and thus would be misleading investors. There is also a serious concern that failure to investigate this sustainability bond sets a dangerous precedent in which agribusiness companies are able to clear land and rainforests and then raise loans from the green bond market in order to 'replant' and profit from industrial crops for sale.

My colleagues have recently been in contact with you and were advised that the CBI was best placed to investigate any potential violations of the Green and Sustainability Bond Principles, rather than your sister green bond standard setting organization, the International Capital Market Association (ICMA).

We are writing to you with our formal complaint that the TLFF I Sustainability Bond violates the Green and Sustainability Bond Principles and should be delisted as a certified CBI bond. Our complaint is based on an exhaustive investigation that found significant evidence linking the TLFF I bond financed 'RLU Project' to thousands of hectares of undisclosed industrial deforestation of globally significant tropical rainforests and critical conservation habitats in Jambi in Sumatra.

Our investigation found a huge area equivalent to the size of central Paris was industrially deforested in a highly precious lowland rainforest, carbon sink and biodiversity hotspot that was identified by WWF Indonesia and three other environmental groups in December 2010 as home to two vulnerable forest-dwelling Indigenous communities, mega flora and fauna, and crucial habitat for critically endangered Sumatran orangutans and tigers and endangered Sumatran elephants.

The 'RLU Project' is a joint venture between French tire and rubber company Michelin and Indonesian company PT Satria Cemerlang (a company described as *"within the Barito Pacific Group"* in the TLFF I Offering Circular), and RLU is the beneficiary of the $95 million TLFF I Sustainability Bond loan that was offered on the Singapore Exchange in March 2018 and which was publicly lauded as Asia's first 'Green' or 'Sustainability' Bond.

We have included a dossier of evidence with this letter, which substantiates our complaint and which, in our opinion, shows that the TLFF I Sustainability Bond does not meet Green and Sustainability Bond Principles and

Guidelines and should therefore not be eligible for its current Sustainability Bond classification. Our dossier shows that the fundamental Green and Sustainability Bond Principles of transparency and disclosure were not adequately fulfilled and that the key second-party opinion published on the TLFF I Sustainability Bond offering on January 18, 2018, was fundamentally flawed and was therefore wholly inadequate.

As a result of a cumulative series of sometimes subtle but highly significant disclosure failures and due diligence failings presented herewith, we believe the wider integrity and ethical bona fides of the booming global green bond market would be damaged and undermined if the CBI continues to classify TLFF I as a 'Sustainability Bond' on green bond market indexes. Our understanding of the voluntary Green and Sustainability Bond Principles and Guidelines is derived from the two related documents on this dated June 2018 found on the ICMA website. These principles set out to promote integrity in the green and sustainability bond market and recommend a step-change and high levels of transparency, disclosure and reporting, and set out four core components, including i) Use of Proceeds, ii) Process for Project Evaluation and Selection, ii) Management of Proceeds, and iv) Reporting.

Below we highlight three main reasons why we believe the TLFF I Sustainability Bond breaches the Green and Sustainability Bond Principles and Guidelines.

1) Failure to Disclose Key Information About Known ESG Risks

Our research found vital information that was well known to some key actors was not disclosed to prospective global green bond investors in the TLFF 1 Sustainability Bond Offering Circular in March 2018. For example, towards the end of our year-and-a-half-long investigation with satellite imagery specialists MapHubs into the RLU Project in Jambi, we discovered that Michelin was informed in a confidential NGO due diligence report in November 2014 that a subsidiary of its prospective joint venture partner in the RLU project in Jambi – RLU's key local operating subsidiary PT Lestari Asri Jaya (LAJ) – was identified as carrying out land clearing and was one of the main causes of deforestation on its concessions in Jambi. The NGO report consequently advised Michelin that partnering with LAJ and trying to picture the project in a very simple and positive manner as "reforestation" would lead to criticism, and yet that is exactly what is claimed as part of the sustainability bond.

Evidence of Known ESG Risks:

Our verbatim notes from a recent physical review of the NGO Earthworm's 'Assessment Report for Michelin' from November 2014 show the top Key Findings from Earthworm's report (then known as The Forest Trust) were:

> *"There is ongoing deforestation occurring in MKC, **LAJ** and WMW. The deforestation in MKC and LAJ are largely results of illegal logging, encroachment and **land clearing carried out by these companies**. However, in WMW, encroachment is the main cause of deforestation. In **LAJ,** deforestation has also occurred within the buffer zone of Bukit Tigapuluh National Park, Bukit Limau Protected Forests, and other designated conservation areas (KPPN and DPSL).*

Based on interviews with 63 individuals – including 18 LAJ staff members – and extensive site visits and ground-truthing, the Earthworm report includes graphic photographs (with geo-coordinates) of alleged forest land clearing by LAJ bulldozers on High Conservation Value (HCV) potential areas at the buffer zone of the nearby Bukit Tigapuluh National Park. The report's key recommendation is to "*Issue a moratorium on land clearance pending the completion of HCV, HCS* [High Carbon Stock]*, social mapping and peatland assessments across BRG* [Barito Pacific Group] *operations…*" in Jambi, and Concludes that, "*...trying to picture the* [prospective RLU] *project in a very simple and positive manner as **"reforestation"** would lead to criticism.*"

However, presenting the RLU project as **"reforestation"** involving natural rubber is precisely the narrative that Michelin chose to represent their new joint venture in publicity announcements a few months later. In a press release on May 18, 2015, Michelin said their flagship 'eco-friendly' rubber project undertaken with Barito Pacific Group would include the:

> "***Reforestation o**f three concessions, representing a total surface area of 88,000 hectares, **ravaged by uncontrolled deforestation**.*"

This key last point that the concession landscape in Jambi was "*ravaged by **uncontrolled** deforestation*" was simply not true and, therefore, we believe was highly misleading. Much of the deforestation was industrially planned, controlled and carried out. In Mighty Earth's October 2020 report, satellite image-based forest cover analysis by MapHubs of a key focus case study concession area – known as 'LAJ 4' – found some 2,590 ha of globally significant lowland tropical rainforest and notable conservation habitat – identified as home to two forest-dwelling Indigenous peoples, global biodiversity hotspot, and key habitat for critically endangered Sumatran tigers and orangutans and endangered Sumatran elephants – was very consciously and very deliberately industrially deforested in a rapid 33-month period in the run up to Michelin's joint venture agreement in December 2014.

Our analysis concluded that this industrial deforestation in the LAJ 4 case study area – which covered an area the size of central Paris – was most likely carried out by RLU's subsidiary LAJ for the purpose of planting natural rubber.

While our analysis agrees that some of the affected rainforest in the LAJ 4 case study area was encroached by smallholders as the new industrially expanded forest road network opened up new access to the dense rainforest, MapHubs calculates that two thirds (or 66%) of the total land clearance during this crucial 33-month period in this focus LAJ 4 case study area was industrial deforestation. If further proof were needed, the 50cm high resolution NASA Landsat satellite images analysed by MapHubs of the LAJ 4 Case Study Area clearly show that the newly industrially planted rubber seedlings were visibly evident in a satellite image taken on January 5, 2015.

In addition to our published report in October 2020, Mighty Earth commissioned MapHubs to take a broader view of historical deforestation in the Jambi concessions. Their additional satellite analysis (see Evidence Dossier below) shows that the LAJ 4 case study area was not isolated. In fact, MapHubs found that between late 2011 and 2014, the two remaining forest blocks inside LAJ 1 and 4 were industrially logged, burned, and then bulldozed to make way for rubber monocultures. This additional satellite analysis reveals a systematic effort to clear these critical forest areas to make way for the rubber planting – 78% of the remaining forest in the LAJ 1 Case Study Area 3 was cleared and industrially deforested over this period. The industrial deforestation activity likely acted as a catalyst for the land rush of smallholders and speculators who benefited from newly opened roads to clear forest inside the concessions.

Failure to Disclose Known ESG Risks

Mighty Earth's October 2020 report and MapHub's additional satellite mapping are consistent with the findings of the confidential Earthworm report; a report that confirms that Michelin knew at least as early as November 2014 that one of RLU's key subsidiaries in Jambi – LAJ – was one of the main causes of land clearing and deforestation on its concessions in the run up to the RLU joint venture in December 2014. However, this crucial information was not disclosed to green bond investors in the TLFF I Offering Circular issued in March 2018.

The TLFF 1 Offering Circular from March 7, 2018, describes the structure, background, key beneficiaries and social and environmental goals of the RLU joint venture in Jambi (and East Kalimantan) and similarly it clearly twice frames the joint venture upfront as a "reforestation" project. In the opening 'Description of the Borrowers' section (p114) it says the "*...joint expertise between Satria Cemerlang and Michelin in agronomy will provide better management of the area, including **reforestation** and the development of a socially inclusive and wildlife-friendly rubber plantation.*" This important "reforestation" narrative and framing is reiterated two pages later, where it says (p116):

> "*Satria Cemerlang and Michelin combined their expertise in agronomy and re-milling and established RLU to better manage the area. This includes **reforestation** and development of a socially inclusive and wildlife friendly rubber plantation.*"

Furthermore, the TLFF I Offering Circular crucially does not disclose anywhere in the legally binding text that RLU's key subsidiary and largest concession holder LAJ was one of the main causes of the deforestation on its concessions. Instead, a host of other actors and factors such as migrant encroachers, smallholders, land speculators and slash and burn agriculture are identified and blamed for what the Offering Circular describe as "*severe deforestation*" in the Jambi landscape.

There are eight references to the causes of the deforestation in the Jambi concessions or landscape in the TLFF I Offering Circular, however, none of these mention the main role played by LAJ in the land clearance and deforestation. For example, under the 'Overview of the Borrowers' section (p116), it says:

> "*Part of the Jambi concession area is located in the south of the Bukit Tigapuluh National Park which was seriously deforested* ***by predominantly migrant encroachers.***"

Under the 'Description of the Project' section (p132), it says:

> "*In Jambi, the two concession areas held by the Borrowers and two WWF concessions form a strong and contiguous buffer zone protecting the Bukit Tigapuluh National Park from further encroachment,* ***largely from smallholders fuelled by capital from land speculators.***"

Under the 'E&S [Economic & Social] Objectives' section (p132), it says:

> "*Expand agricultural productivity in a landscape that has been* ***substantially encroached,*** *logged and burned.*"

Finally, in the 'Project Background' section (p133) it says the following about the wider Bukit Tigapuluh landscape:

> "*However, this originally fully forested landscape has suffered severe deforestation in recent years. Only 230,000 ha of forest cover remained in 2014, mostly in two government protected areas and in two licensed and one potential ecosystem restoration concession blocks. All remaining forests face increasing degradation and deforestation threats* ***mainly*** *from illegal harvesting of timber,* ***clearance for slash and burn agriculture,*** *and illegal development of oil palm plantations.*"

We believe this failure to disclose in the TLFF I Offering Circular the known key information that the subsidiary of Michelin's local partner (ie LAJ) was one of the main causes of the land clearing and deforestation on its concessions in Jambi in the run up to the flagship RLU project joint venture constitutes an extremely serious – and ultimately *misleading* – omission and in our view constitutes a gross violation of Green and Sustainability Bond Principles relating to required disclosure, accuracy and integrity of information.

2) Lack of Transparency

Our investigation found a concerted lack of transparency and resultant lack of public access to important key due diligence reports relating to the RLU project. These reports contain potentially material information relevant to the TLFF 1 Offering Circular from 2018 and this lack of transparency violates Green and Sustainability Bond Principles and Guidelines. For a credible Green Bond, the GBP recommend a clear process and disclosure for issuers, which investors, banks, underwriters, placement agents and others may use to understand the characteristics of any given Green or Sustainability Bond. The GBP emphasize the required transparency, accuracy and integrity of information that will be disclosed and reported by issuers to stakeholders, and it promotes a step-change and a high level of transparency to aid investors by promoting availability of information necessary to evaluate the environmental impact of their Green Bond investments.

Despite these GBP transparency requirements, Mighty Earth has been unable to gain public access to a host of important but normally fairly standard and usually publicly available due diligence reports over the last 18 months (for example, HCV assessments are publicly available under standard HCV Resource Network rules). We believe these documents will shed important light on the baseline forest cover, full extent, and possibly identify causes of the deforestation on LAJ's four concessions in Jambi in the run up to and at the start of the

RLU joint venture in December 2014. Even though a Mighty Earth staff member visited RLU's offices in Jakarta to view their due diligence documents and, despite a written request prior to the visit, the due diligence documents were still not provided.

We find it inexplicable that concerned stakeholders such as ourselves have been denied multiple written requests to TLFF I bond beneficiaries RLU and Michelin since October 2019 – as well as from TLFF and key public bodies such as the state-funded French Development Agency (AFD) – for public access to the full due diligence reports referred to in publicly available RLU reports and documents, such as:

- Tropenbos Indonesia HCV/HCS assessment study from Jambi (2015)
- Wana Aksara Social Conflict Assessment (2017)
- Daemeter, Proforest and CIRAD Environmental and Social Due Diligence (ESDD) report from Jambi (2017)
- RLU's Environmental and Social Action Plan (ESAP)

We believe these necessary and normally fairly standard due diligence reports – and in particular the AFD-funded 'Daemeter Consortium' Environmental and Social Due Diligence (ESDD) report from 2017 – likely contain important information about intense historic deforestation on the LAJ concessions in Jambi and the high risks to the joint venture of legacy association to these deforestation impacts.

We can only conclude that this concerted lack of transparency and resultant lack of public access to these necessary due diligence reports by key actors involved in the TLFF I bond Offering Circular was and remains an attempt to obscure what was known about LAJ's industrial deforestation on its concessions in Jambi. As such, we believe this constitutes a grave breach of the GBP transparency requirements because in effect the issuers have failed to aid investors by promoting a high level of availability of information necessary to evaluate the environmental impact of their green bond investments.

3) Flawed Second-Party Opinion

Finally, our investigation found the second-party opinion (SPO) issued on the sustainability of TLFF I's Sustainability Bond issued by SPO auditors Vigeo Eiris on January 18, 2018, failed to conduct appropriate due diligence and as such was a wholly inadequate GBP-required assessment of the credibility of the TLFF I Sustainability Bond.

In response to recent enquiries from Mighty Earth, the Paris-based ESG auditors Vigeo Eiris recently conducted an internal review of the research methodology that they used to conduct their crucial SPO on the TLFF I Sustainability Bond and which was published seven weeks before the TLFF I Offering Circular to green bond investors on March 8, 2018. In an email response to Mighty Earth dated January 18, 2021, an executive director at Vigeo Eiris confirmed that their internal review found that their SPO on the TLFF I Sustainability Bond:

- Did not assess any controversies associated with PT LAJ, and;
- Vigeo Eiris did not interview Michelin as part of their SPO assessment published in January 2018.

Vigeo Eiris also confirmed to us that the scope of their due diligence for their SPO was only required *"On companies that have direct operations on the Eligible Project, namely: RLU, ADM Capital, BNPP, Daemeter. Michelin was not part of the operation of the project and has not been interviewed for this reason."* We believe this is an extraordinary failure of due diligence given Michelin's key direct role in the joint venture since December 2014. So while we believe it is a major flaw that Vigeo Eiris did not interview Michelin as part of its SPO, what is even more extraordinary is that Vigeo Eiris did not screen LAJ for controversies on the ground in Jambi – even though it was very clearly set out in the TLFF I Offering Circular that LAJ is RLU's main direct operating subsidiary on the Eligible Project in Jambi.

We believe these omissions are a fundamental flaw in the SPO on TLFF I Offering Circular because if Vigeo Eiris had screened LAJ for controversies – as they should have done, under Vigeo Eiris's own stated rules for their SPO services – then they would have quickly found using Google and other decent news services that LAJ was very publicly accused in December 2010 – in a major NGO international report called *Last Chance to Save Bukit Tigapuluh*, co-written by WWF Indonesia and three other highly reputable wildlife and environmental NGOs – of starting rainforest clearances in a number of villages in Jambi and posed an imminent danger of large-scale conversion of 36,000 ha of globally significant but unprotected lowland natural forest, mega flora and fauna, and conservation habitats on LAJ's four recently granted concessions in Jambi.

Credible allegations were also made in this joint NGO report that signatures had been falsely added from five village representatives as attendees at an 'AMDAL socialisation meeting' contained in LAJ's social and environmental permit (known as an 'AMDAL'). LAJ was also later publicly accused in various local media reports and NGO statements between 2011 and 2015 of involvement in numerous violent disputes, clashes, evictions and land conflicts with local villagers and Indigenous communities associated with LAJ's industrial deforestation on its Jambi concessions.

Furthermore, academics from the University of Göttingen in Germany conducted field research in the village of Muara Sekalo in Tebo in Jambi – which is close to our LAJ 4 Case Study Area – in 2017 and reported that villagers said their ancestral lands were industrially forested and that they were never consulted or gave prior consent. Public protests by smallholders and Indigenous communities against LAJ and Michelin's alleged 'land grab' in Jambi and the criminalization of affected smallholders continue to this day.

We believe if Vigeo Eiris's SPO on the TLFF I Sustainability Bond had been conducted appropriately – ie to Vigeo Eiris's own stated methodology – and they had interviewed Michelin and properly screened LAJ for controversies on the ground in Jambi, then many of the glaring public controversies associated with LAJ in Jambi would have been quickly identified and, as such, we believe it would have been highly unlikely that TLFF 1 would have successfully satisfied and passed its GBP-required SPO before the scheduled TLFF I Sustainability Bond public offering in March 2018.

Evidence Dossier

We have included an Evidence Dossier with this letter, which substantiates our complaint, and which we believe shows the TLFF I Sustainability Bond Offering Circular clearly failed to meet Green and Sustainability Bond Principles and Guidelines.

The Evidence Dossier includes:

1. Mighty Earth's report on Michelin and the RLU Project in Jambi, titled: C*omplicit, An Investigation into Deforestation at Michelin's Royal Lestari Utama Project in Sumatra, Indonesia* (2020)

2. Mighty Earth's Memo and verbatim notes from October 3, 2020, of a physical review of Earthworm's 'Assessment Report for Michelin' on deforestation on Barito Pacific Group's concessions in Jambi, dated November 2014

3. MapHub's unpublished satellite imagery-based deforestation analysis of the LAJ 1 Case Study Area 3 in Jambi, Sumatra

4. A link to the 439-page TLFF I Sustainability Bond Offering Circular dated March 7, 2018, which Mighty Earth worked from

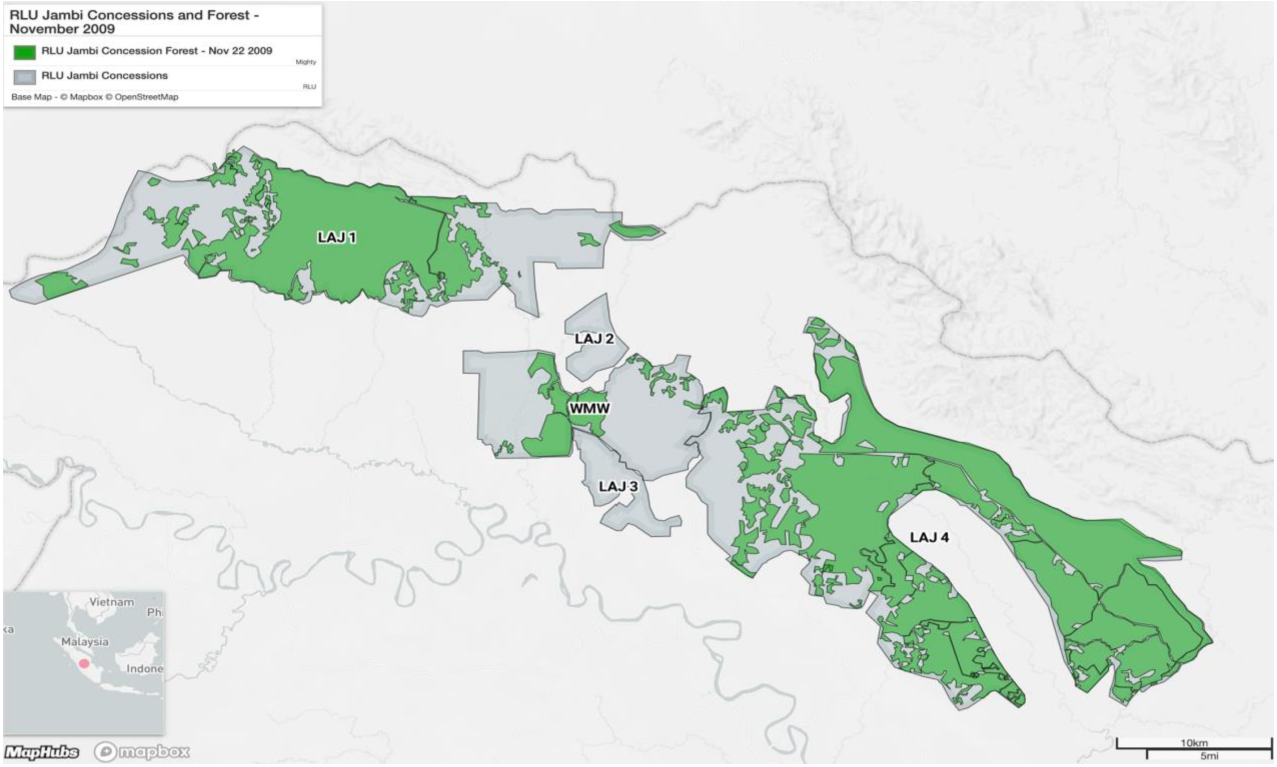
5. A copy of an email from Vigeo Eiris dated January 18, 2021 on the findings of their internal review of the methodology they used for their SPO on the TLFF 1 Sustainability Bond, from January 8, 2018

6. A copy of the *Last Chance to Save Bukit Tigapuluh* (2010) report, published by KKI Warsi, Frankfurt Zoological Society, Eyes on the Forest and WWF Indonesia

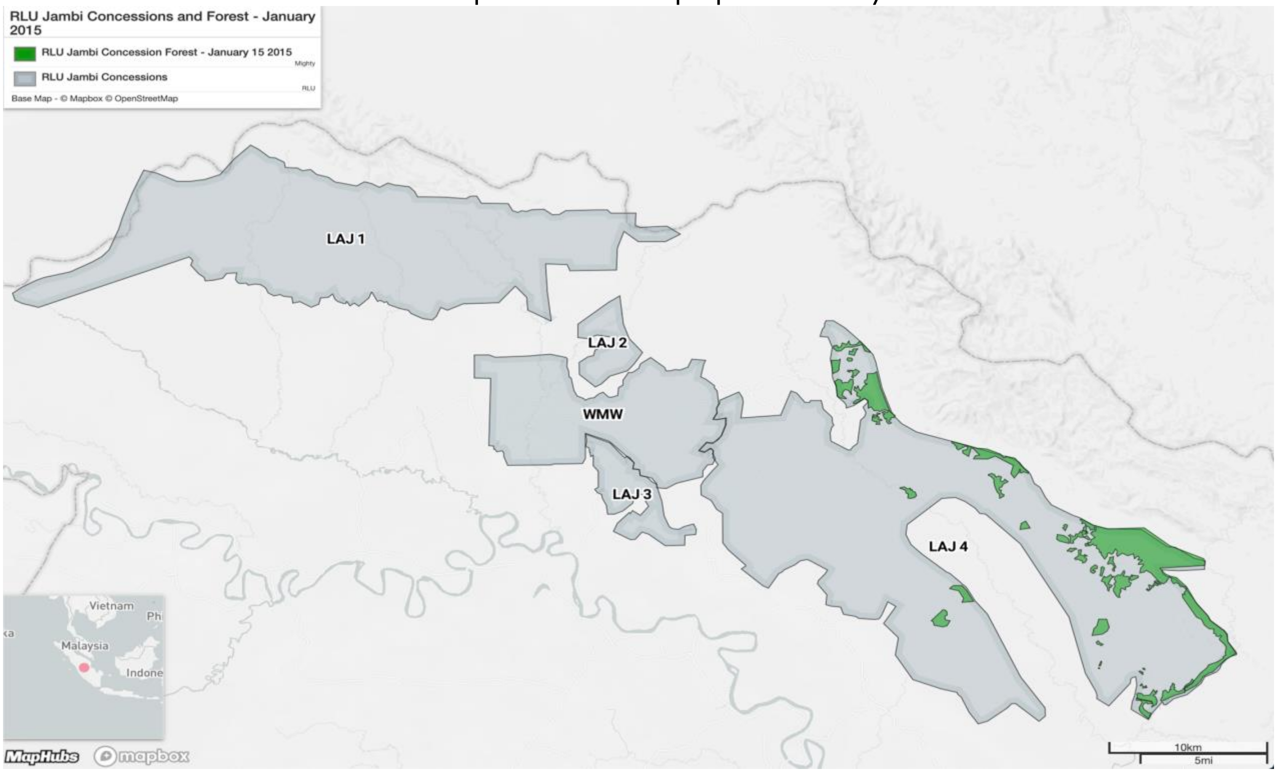
7. A copy of the academic report *Deconstructing sustainable rubber production: contesting narratives in rural Sumatra,* by Fenna Otten *et al*, published on January 15, 2020 in the *Journal of Land Use Science.*

The bottom line is this: We found there was a total of 40,963 ha of world class natural forests and key conservation habitat within the RLU concessions in Jambi in November 2009. By January 2015, just 3,233 ha of these forests remained. When we looked in forensic detail in a focus area in the LAJ 4 concession we found 66% of this deforestation was in fact industrial deforestation carried out in a rapid 33-month period to January 2015 ahead of the flagship RLU joint venture – most likely by Barito Pacific's concession holder LAJ, for the purpose of planting rubber. Additional mapping by MapHubs uncovered that 78% of the forest loss inside the LAJ 1 Case Study Area 3 was by industrial methods for rubber planting. None of this was clearly communicated to prospective green bond investors.

The forest cover on the Jambi concessions went from this in November 2009……



…….to this at the start of the Michelin's joint venture RLU project in January 2015



We think it's inconceivable that a Sustainability or Green Bond can or should ever be based on the widespread industrial deforestation of thousands of hectares of world-class tropical rainforest and key conservation habitat. We hope the Climate Bonds Initiative can investigate our complaint thoroughly and expeditiously, and delist this bond if the investigation confirms the complaint.

Mighty Earth would be very happy to assist the CBI if you wanted to discuss our research or analysis in further detail.

Sincerely,

Glenn Hurowitz
Mighty Earth CEO