August 10, 2015

Executive Summary

Feronia is making a huge difference to people’s lives in one of the world’s poorest places. Over 3500 people now have jobs in a region where there are no other employment opportunities. Not only are there jobs but Feronia provides access to schools, hospitals and infrastructure for our workers and the community. We’re operating in extremely challenging conditions but we’re making improvements to the way we operate and to the conditions facing our people and the local community.

Feronia’s management has a policy of transparency and is ready and pleased to engage with any party seeking to learn more about our operations, our motivations, and objectives with regards our plantations business in the Democratic Republic of the Congo, Plantations et Huileries du Congo (PHC). We are proud of what we have done thus far with limited resources, and are determined and committed to continue building a sustainable, self-funding enterprise that has an overwhelmingly positive impact on the lives of its employees, their families, and the surrounding communities. In practical terms, we’re delivering improvements such as a refurbishment of the housing and sanitation available to workers; a road maintenance programme to update the infrastructure that local people rely on; new health and safety staff and community relations representatives; and a comprehensive study of the needs of workers and the local community.

At no point has Feronia’s management been approached by GRAIN.ORG to verify or comment on any of the allegations made in this report. Whilst we believe that Grain.org’s over-arching intention in the work it does is well meaning, we simply do not recognise the criticisms arising from the report.

We therefore thank the Business & Human Rights Resources Centre for contacting Feronia and providing us with the opportunity to provide a response.

Background

Feronia acquired its palm oil business from Unilever in 2009 after it has suffered from years of underinvestment and considerable disruption caused by conflict in the DRC. Our initial focus has been on rebuilding the business and resuming production to secure its future and the livelihoods of the many thousands of people we directly and indirectly employ. We pride ourselves on being the guardian of our 104 year-old palm oil business and its employees, communities, and environment and we have a long-term commitment to improve the living and working environment of our employees and their communities and are committed to sustainable agriculture, environmental protection and community inclusion.

There are numerous documented issues with traditional communities in the early years of Unilever and its predecessor companies’ presence in the DRC. However, the challenges we face today in revitalising the business while restoring the social infrastructure to levels that Feronia’s management, stakeholders, and communities accept and are proud of, are quite distinct from the issues caused by Unilever’s early activities in the region. We do not dismiss those historical issues but are focused on the reality of the situation we inherited after nearly a century of operation in these locations and a decade of neglect and are working hard to develop a productive and inclusive path forward.

If Feronia had not acquired this business and secured substantial international funding for the rehabilitation of the operation and its social infrastructure, there would be no employment, no medical facilities or professionals, no education, no hope. We are committed to building something that respects the community and our
environment and allows people to not only survive but flourish, and benefit from everyone’s commitment and hard work.

We are pleased to engage with any party that has any constructive alternatives to our approach, particularly if they have the funding required to affect an alternative.

Responses to specific points within Grain.org’s report:

DFI Investments

Conventional bank financing is both incredibly difficult to obtain and prohibitively expensive because of the perceived social, environmental and political risks associated with operating in the DRC. DFI funding is one of the few avenues to finance available to a Company such as Feronia and the lack of investment prior to Feronia’s acquisition of the business means that its turnaround is hugely capital intensive. Shareholders have, to date, injected over $100m and, because replanted palm trees which will provide future revenues take three years to produce any revenue, and seven years to reach peak productivity, Feronia has been and will continue to make losses in the short term. The DFI community is taking a substantial risk with their capital but making a huge positive impact on the lives of the people in and around our plantations and assisting us to improve the lives of people living and working in one of the poorest countries in the world.

Since Feronia acquired PHC, shareholders have not taken any money out of the business and have continued to support us in our long-term commitment to improve the living and working environment of our employees and their communities and in our commitment to sustainable agriculture, environmental protection and community inclusion.

Allegations of Community Harassment

Allegations of community harassment against Feronia are simply not true. Our plantations are subject to the same laws, legal systems and policing as the rest of the DRC. If someone does something on or around our plantations which is illegal, such as steal fruit, the matter is referred to the local authorities and dealt with under the Congolese legal system.

The company has in place a comprehensive reporting system that advises an independent Environmental and Social Governance (“ESG”) committee of any incident of a social, environmental, health and safety or governance nature and these incidents are logged and investigated.

Allegations of Forced Removal

Company management has historically allowed people to temporarily use land which we have stopped harvesting so that they can grow food crops. However, this is always done so with the explicit understanding that it is a temporary arrangement and that at some point we will be replanting the land. In general, a year’s notice is given of our intention to replant the land and for the land to be vacated. While we have no requirement to do this, in our experience this practice has been well received by the community who find it beneficial.

Allegations of Land Occupation

PHC, Feronia’s palm oil business in the DRC, generally operates on land which is leased from the DRC government by way of over 80 fixed-term ‘concessions’.
Feronia strictly abides by the legal process in place for renewing these concessions, including obtaining the necessary government permissions. Many of PHC’s concessions have been in place for over 100 years and the renewal process has been undertaken a number of times.

Throughout its long history, PHC has generally enjoyed the support of local communities and the DRC government. Where issues relating to land are expressed by local communities, whether they are legally valid or not, Feronia endeavours to engage with those communities to assist in achieving a fair solution within the bounds of the country’s land laws. As Feronia works towards RSPO certification it will make public all relevant information regarding its concessions.

**Alleged Negative Impact of Feronia**

We have a massive positive impact on the quality of life of people. Feronia provides all medical care, including, hospitals, nursing staff, drugs and equipment, for its employees. People in local communities also have access to these facilities. The medical facilities are undergoing an extensive programme of refurbishing, re-equipping and re-staffing and would not be operating without Feronia’s involvement. Similarly, school facilities are provided by the Company and would not be available without Feronia’s involvement. Feronia maintains an extensive network of roads, at its own expense. These roads would not exist without Feronia and would cease to be useable if Feronia were to discontinue their maintenance. Most services of any form would simply not exist without us as there are no equivalent state provided facilities in the areas in which we operate.

**Wages**

Over 95% of PHC’s permanent workers are employed under a Collective Agreement which was renegotiated in November 2014 with the six unions which represent Company’s workers. The PHC Collective Agreement stipulates wage levels, hours of work, sick pay, overtime, maternity pay, holiday pay, end of service pay, bonuses and additional benefits such as assistance towards school fees. Additionally, employees receive free healthcare for themselves and their families and PHC operates three hospitals and 19 clinics across three remote areas.

The renegotiated terms of the Collective Agreement resulted in substantially higher wages being paid from January 2015 and the Company continues to consult with unions on a bi-annual basis regarding wage rates and has stated a commitment to further increase basic wage rates as the performance of the business increases.

It is important to recognize that when we acquired the business in 2009 its future was in jeopardy having fallen into a state of severe disrepair after decades of disruption and under investment. At that time we committed to retain the entire workforce despite being grossly overstaffed initially, and honoring all previous commitments from Unilever plc including retirement payments and unpaid wage claims related to the war years. This commitment has contributed to substantial financial losses suffered in each and every year of operation. It is only through securing the future of the business that we are able to increase pay and improve the lives of our employees and their families. We put great emphasis on maintaining good labour relations with the unions that represent our employees and these have been vital in our achievements to date.

Approximately 80% of PHC’s employees on its plantations are paid according to a daily task rate system where pay correlates to performance, including the payment of premiums for over-performance. The task rate based system is used broadly in agriculture, worldwide, and can be considered an industry standard. The daily task rates used by PHC are aligned to, and in most instances lower than, standard industry levels for palm plantations across the world and are set and reviewed annually using industry standard methodology. The use of task rates is widely accepted and well within the DRC’s employment laws.
There are a number of pay scales for workers as PHC has in place a pay structure for plantation workers with eleven grades, from unskilled laborer to Master Tradesman and Supervisor. Each grade is set at a base daily wage rate for workers under 1 year of service, and the base rates increase further with each additional year of service. Therefore, basic wage rates vary widely depending upon the number of years a person has worked for the Company. Casual workers are also set daily task rates but, as they do not fall under the permanent workers’ Collective Agreement nor qualify for additional benefits, they are paid at a higher base wage level. Employment Law in the DRC prohibits the long term use of casual employees and companies are legally required to employ individuals on a permanent basis if such rules are breached.

Relationship with Barnabe Kikaya Bin Karubi (“BKBK”)

BKBK was a pre-existing shareholder of the company which acquired PHC from Unilever in 2009. The acquisition of PHC was done through a competitive tender process run by KPMG (Paris) on behalf of Unilever plc. BKBK played no role in the acquisition of PHC and at no point has he intervened on our behalf with any level of government official. He has, however, contributed significantly by providing a Congolese perspective to the board and senior management and giving cultural context and guidance on several matters during his five-year tenure as a board member.

At the time of going public in 2010, Feronia Inc. management concluded that it was undesirable to have a minority shareholder in its stake in PHC and so acquired BKBKs 20% minority interest and his 100% interest in a 25 ha farm in the Kasungulu region outside of Kinshasa. BKBK was not paid ANY cash consideration but was issued approximately 898,000 shares in Feronia Inc. An independent valuation valued this property at approximately $600,000 in 2010. This valuation was reviewed and accepted by Feronia’s auditors in the DRC and Canada, and the farm has always been accounted for as part of the Company’s assets.

BKBK served as a director of Feronia Inc. in its various forms from inception until June, 2014, at which time he stepped down from the Board. From April 2008, until April, 2012, neither BKBK nor any other director, including the Chairman and founder Mr. Ravi Sood, received any cash compensation from the company for their role as a director. From May 2012 onwards, BKBK received an annual director’s fee of US$20,000 per annum, the same base fee paid to all non-executive directors. By public company standards, this is a very low board fee given the time requirements and personal liability involved.

In 2009 the Company decided to lease BKBK’s residence in Kinshasa which he was not using, having relocated to the UK to serve as Congolese Ambassador to the United Kingdom. Feronia was able to agree terms with BKBK that we considered to be highly favourable to the Company. All payments to BKBK have been duly disclosed in quarterly and annual disclosure documents published as part of Feronia’s stock market listed status and have been limited to the rent paid for his residence in Kinshasa from September, 2009 until August, 2014 and director’s fees since May, 2012 until he stepped down from the Board of Feronia in June 2014.

BKBK’s Kinshasa residence was used to accommodate senior management, visitors (including investors, auditors, consultants, and board members) and as office space for Feronia Inc with part of the residence converted to provide office space for Feronia’s Kinshasa based staff and management. The Company moved out of these offices and ceased using the residence in August 2014 as, with its Kinshasa based employee numbers increasing to 27, they were no longer large enough.

The Company now rents a property in Kinshasa which provides accommodation (for visiting management, consultants, advisors, investors and directors) and office space for Feronia’s Kinshasa based employees and management. The rent paid for this property is commensurate with that paid to BKBK for his property.
Feronia and its management wholeheartedly refute any suggestion of impropriety or corruption with regards its relationship or dealings with BKBK. As a TSX-V listed company, Feronia is subject to the highest level of regulations, financial reporting and disclosure and operates to the highest standards of integrity throughout its operations. It has been, and continues to be, subject to the highest level of scrutiny from independent financial auditors, regulatory bodies and those undertaking due diligence as part of an investment in to the Company.