IndoAgri’s new Sustainable Palm Oil Policy fails to address key environmental, social and governance (ESG) risks

February 2017

Salim Group’s Indofood Agri Resources Ltd (IndoAgri) has published a new “Sustainable Palm Oil Policy” amidst an ongoing RSPO complaint relating to labor rights violations on its palm oil plantations operated by subsidiaries PT. PP London Sumatra Indonesia Tbk. (Lonsum) and PT. Salim Ivomas Pratama Tbk. (Salim Ivomas). Unfortunately, IndoAgri’s policy falls short on addressing key ESG risks such as protecting valuable forests, preventing the exploitation of workers or committing to independent verification of its palm oil suppliers to No Deforestation, No Peatland and No Exploitation (NDPE) principles. Without such policy provisions, IndoAgri’s investors and financiers continue to be exposed to serious ESG risks.

Figure 1: Indofood’s company structure

IndoAgri, and its controlling companies Indofood and First Pacific (see Figure 1), have extensive direct ties to major financial institutions, investors, joint venture partners and palm oil supply chain customers. Prominent financiers include HSBC, Sumitomo Mitsui Financial, Malayan Banking, Deutsche Bank, Bank Mandiri, Citigroup, Mizuho, Bank of Tokyo-Mitsubishi UFJ, Bank of America, JP Morgan Chase, Royal Bank of Scotland, Rabobank, Standard Chartered, BNP Paribas and DBS. More than 200 independent institutional investors are also known to hold significant equity positions in Indofood, with significant shares held by Brandes Investment Partners and Lazard. Key joint venture partners and customers include Pepsico, Nestle, Wilmar and Unilever.
These companies share responsibility with IndoAgri in relation to environmental and social violations, and continue to be exposed to serious ESG risks until IndoAgri’s policies and practices are brought into line with responsible palm oil production.

Key shortcomings in IndoAgri’s new policy include:
1. Ambiguous commitment to ‘no deforestation’, by its failure to adopt the High Carbon Stock Approach;
2. No commitment to ensure fair labor practices (in line with the Free and Fair Labor in Palm Oil Production: Principles and Implementation Guidance), including failure to address its significant reliance on precarious employment, unfair wage system and unreasonable production targets that have incentivized use of child labor.
3. No commitment to establish a credible grievance mechanism that is in line with the UN Guiding Principles on Business and Human Rights.
4. No requirement for the company’s executive directors to adopt No Deforestation, No Peat, No Exploitation principles in their other business ventures, and no application of the policy to the large palm oil portfolio of Anthoni Salim, the controlling shareholder of IndoAgri.
5. No commitment to obtain third party verification of compliance or time bound plan to achieve full traceability despite the fact that a third of its third-party suppliers are undisclosed sources making it difficult to monitor compliance with the policy.

RAN’s statement on IndoAgri’s new policy is available here. To find out more about the impacts of Indofood’s operations read the story on forestsandfinance.org.

1 Companies with diversified interests had identified financial totals reduced to more accurately capture the proportion of financing that can be reasonably attributed to the forest-risk sector production or primary processing operations of the selected company. Where available financial information did not specify the purpose of investment or receiving division within the parent company group, reduction factors were individually calculated by comparing a company’s forestry assets relative to its parent group total assets.

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