



FORESTS & FINANCE

BRIEFING

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JAPANESE AND MALAYSIAN BANKS AND INVESTORS CONTINUE TO PUMP BILLIONS OF DOLLARS INTO FOREST-RISK COMPANIES, WITHOUT ADEQUATE ENVIRONMENTAL AND SOCIAL SAFEGUARDS

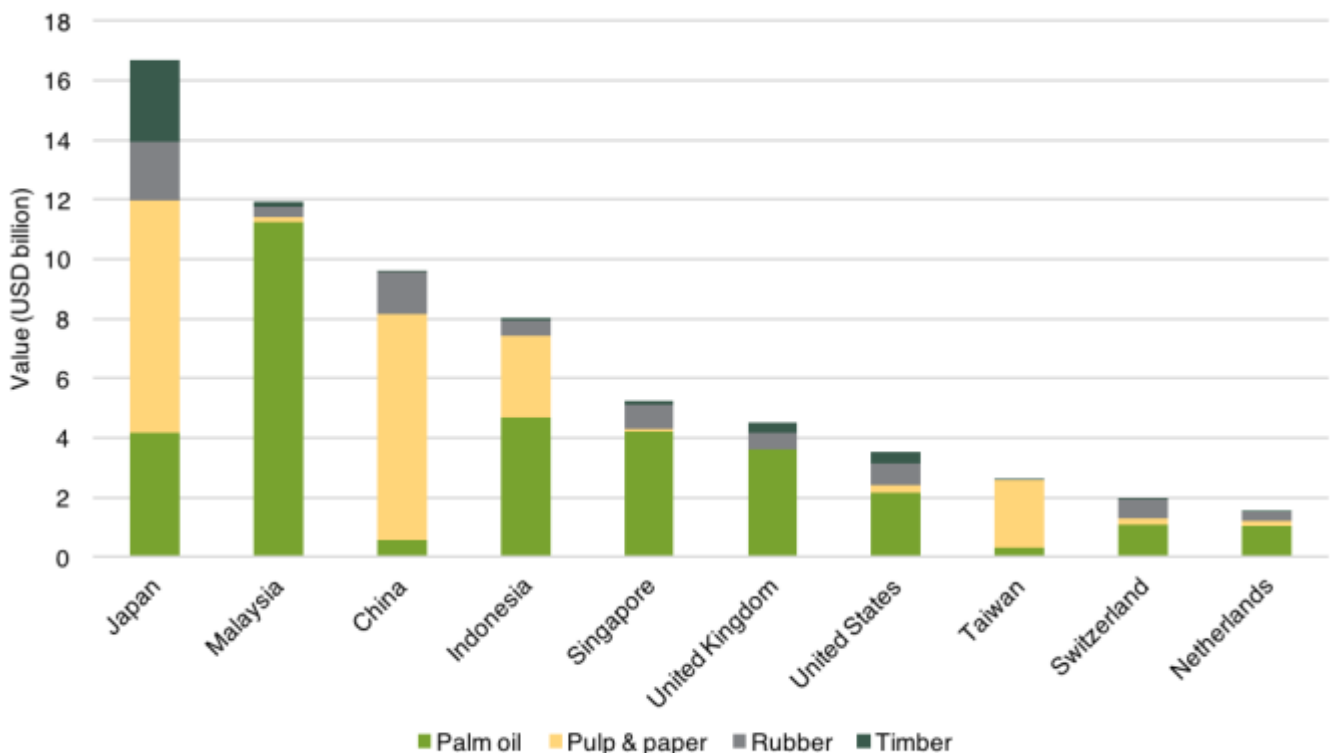
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The forestsandfinance.org database has been updated with the latest financial flows to forest-risk companies in Southeast Asia since 2010, revealing the major role of Japanese and Malaysian banks and investors in financing companies whose operations impact natural tropical forests and the communities that depend on them.

Since publishing the original database in September 2016, a number of changes have been made to the methodology and company selection to better represent the amount of finance flowing to the palm oil, pulp and paper, timber and rubber supply chains in Southeast Asia.¹ The database now includes over 180 companies and is based on a more comprehensive [methodology](#) that includes not only finance provided to the production and primary processing activities of forest-risk sector companies, but now more midstream and downstream supply chain activities, including trading and manufacturing.

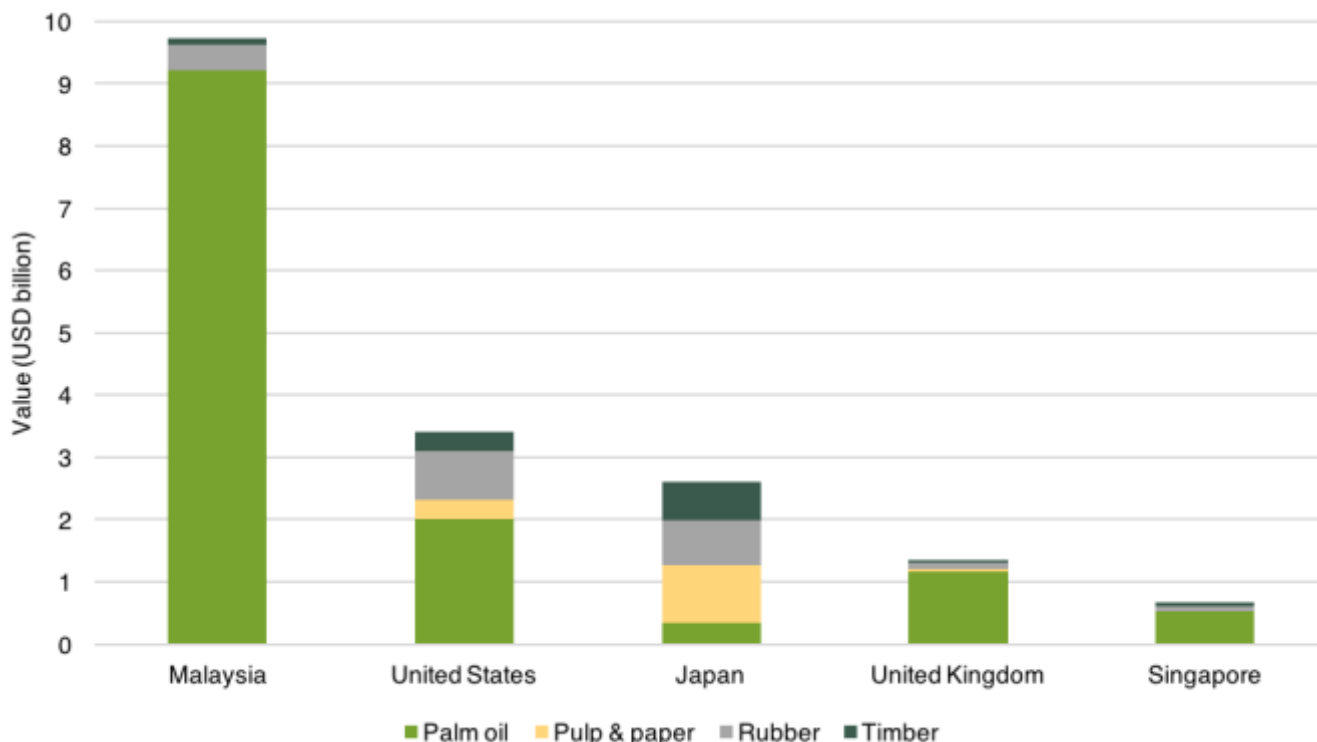
The research finds that between 2010 and 2016 at least USD 72 billion worth of corporate loans and underwriting were provided to the forest-risk sector operations of the 183 companies in the database.² Banks headquartered in Japan, Malaysia, Europe, China, Indonesia, Singapore, the United States and Taiwan were identified as the biggest financiers, and individual banks most exposed include Sumitomo Mitsui Financial, Malayan Banking, Mizuho Financial, CIMB, RHB Banking, HSBC, Mitsubishi UFJ, Bank Rakyat Indonesia, OCBC, DBS, China Development Bank, Standard Chartered, Credit Suisse, Bank Mandiri & Industrial and Commercial Bank of China.

Loans & underwriting by investor country and sector (2010-2016, USD billion)



The forest-risk sector companies were supported by an additional USD 20 billion worth of bond and shareholdings as of May 2017. Investors from Malaysia, the United States, Japan, the UK and Singapore were identified as the biggest investors, and institutional investors most exposed include: Malaysia's Yayasan Pelaburan Bumiputra, Employees Provident Fund, KWAP Retirement Fund, Hajj Pilgrim Fund and Public Mutual; Japan's Government Pension Investment Fund; US-based Vanguard, Blackrock and Dimensional Fund Advisors; and, the United Kingdom's Silchester International Investors.

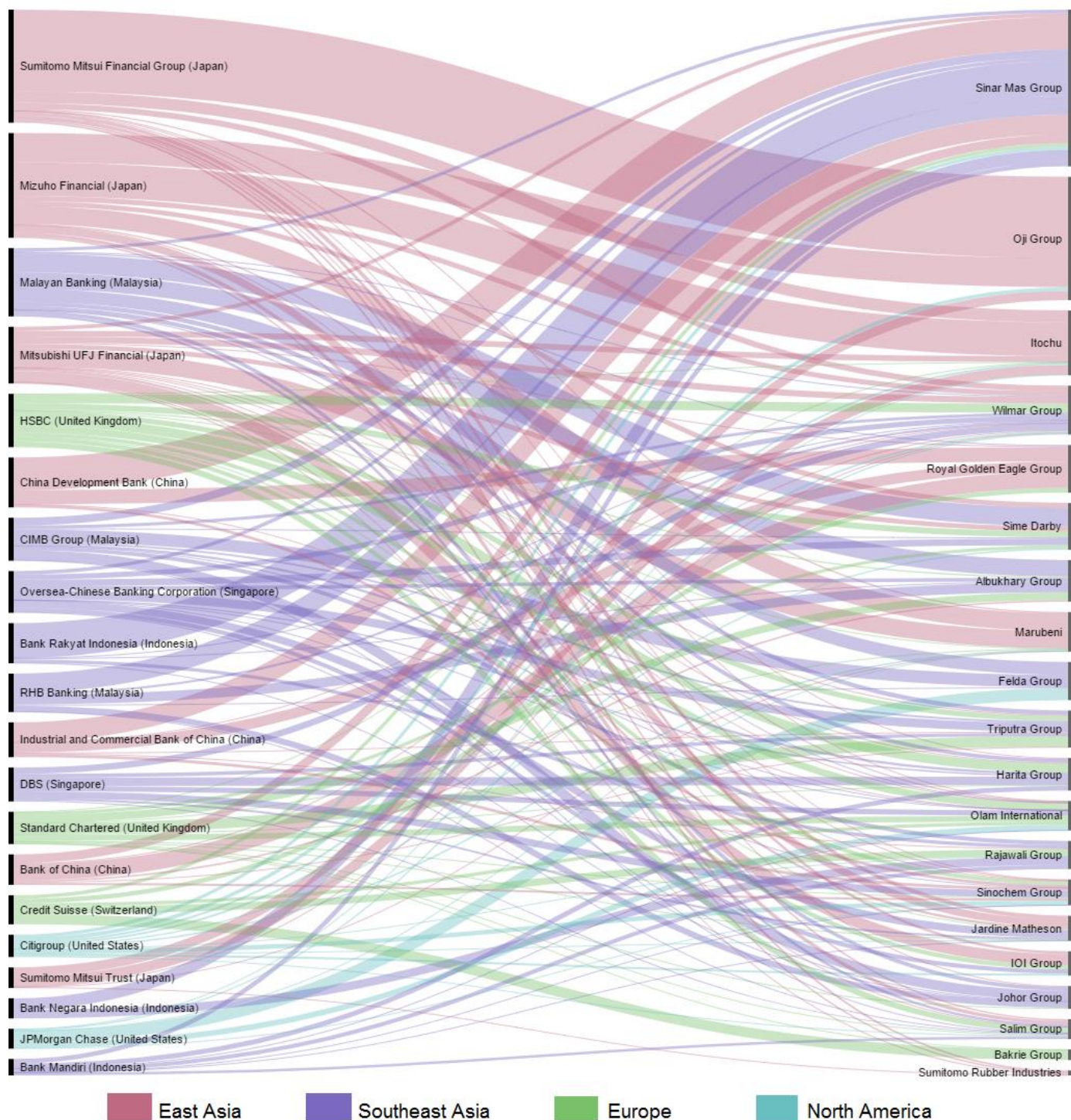
Bond & shareholding by investor country and sector (May 2017, USD billion)



Among the 183 companies featured in the database, those giving banks the most exposure to forest risks include Sinar Mas Group (pulp & paper, palm oil), Oji Group (pulp & paper), Royal Golden Eagle Group (pulp & paper), Wilmar Group (palm oil), Itochu Corporation (pulp & paper, palm oil, rubber, timber) and Felda Group (palm oil, rubber). Five of these companies are profiled in the recently published report '[Every Investor Has a Responsibility](#)' (updated June 2017), which lays out in detail the Environmental, Social Governance (ESG) risks associated with companies in the forest-risk commodity sector, their financial backers, and measures both investors and banks must take to address such risks in their portfolio. Below are three companies that top the list, Sinar Mas, Oji and Royal Golden Eagle, with examples of the types of devastating environmental and social impacts which are all too common in the forest-risk commodity sector:

- Sinar Mas Group** is the parent company of [Asia Pulp & Paper](#) (APP), which accounts for half of Indonesia's total pulp capacity and has fuelled massive deforestation, peatland drainage and social conflicts across its 38 supplier concessions covering 2.6 million hectares, leading it to be kicked out of the FSC certification system. APP's OKI Pulp & Paper Mill, just now coming on-line in South Sumatra, is fanning fresh social and environmental land conflict risks as APP moves to secure increased plantation wood-supply to feed the new mega-mill.
- Oji Group** is the parent company of Oji Lao Plantation Forest Ltd. (Oji LPFL), which violated local community's rights to Free Prior and Informed Consent (FPIC) in Bolikhamxay and Khammouane Provinces, in Central Lao PDR. Oji LPFL and government officials were documented using forcible coercion to gain control of customary lands, leading them to be kicked out of the FSC system. Oji Group's joint venture with Korindo, PT Korintiga Hutani (Korintiga), has used fire extensively to clear land for plantation development. In 2015, 72 hotspots were recorded within the concession, and approximately 5000 ha were burned between July and September that year. In 2014, 43 hotspots were recorded. Korindo is currently the subject of [a FSC complaint](#).
- Royal Golden Eagle Group** is the parent company of Asia Pacific Resources International (APRIL), which together with APP, are two of Indonesia's most notorious corporations. [Between them, they produce 80 percent of Indonesia's pulp and paper](#). This comes from a history of clear cutting rainforests and replacing them with monoculture acacia and eucalyptus pulp wood plantations. [In October 2015 it was revealed that PT RAPP, a company owned by pulp and paper giant APRIL, cleared high conservation value forest \(HCVF\)](#). The clearing of these HCVF areas by the APRIL company took place from mid-June to early July 2015, despite the fact that APRIL's sustainability policy had been published prior to these actions. This is a violation of APRIL's own sustainability policy and likely a violation of Indonesian forestry regulations.

Financial flows between the top 20 banks and 20 forest-risk companies, 2010-16



Banks and investors providing finance to forest-risk companies share responsibility for their contributions to the social and environmental impacts of the company's operations, which are also becoming increasingly material business factors. Clear ESG financing policies and enhanced environmental and social due diligence by banks and investors are required. This research reveals that such due diligence measures are noticeably absent in the banks and investors with greatest exposure to forest risks - Japanese and Malaysian institutions.

¹See [methodology](#) and [adjusters](#) on forestsandfinance.org

²The research also unearthed relationships that could not be included in the dataset due to the lack of transparency of both the companies and financial institutions regarding the value of these deals. What is certain though, is that the true value of financing to these forest-risk companies is higher than the already staggering amount that has been uncovered so far.

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