



# FORESTS & FINANCE

## BRIEFING

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### MAJOR INTERNATIONAL BANKS CONTINUE TO FINANCE PALM OIL COMPANY INDOFOOD DESPITE EVIDENCE OF SYSTEMIC LABOR ABUSES

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A new report published by Rainforest Action Network (RAN), OPPUK—an Indonesian labor rights advocacy organization—and International Labor Rights Forum (ILRF) titled, “[The Human Cost of Conflict Palm Oil Revisited: How PepsiCo, Banks, and the Roundtable on Sustainable Palm Oil Perpetuate Indofood’s Worker Exploitation](#)” details new evidence of labor abuses on plantations owned by Indofood Sukses Makmur (Indofood), one of the world’s largest palm oil companies. Indofood’s largest financiers include Japanese, Indonesian, and Singaporean banks, as well as some major Western banks.

Harms identified in the report include widespread use of precarious employment, **high risks of child labor and forced labor, worker exposure to highly hazardous pesticides, payment below the minimum wage, discrimination, and violations of Freedom of Association.** The labor abuses were all documented on plantations certified as “sustainable” by the Roundtable on Sustainable Palm Oil (RSPO) – the leading certification scheme in the palm oil industry.

**Indofood and its subsidiaries currently receive over 2 billion USD in loans from large banks, including those that have been repeatedly warned about the labor abuses associated with Indofood’s palm oil operations.** Indofood also receives indirect financing for its operations through First Pacific, which has access to revolving credit facilities totaling 680 million USD as well as 1 billion USD of bonds that are underwritten by HSBC and Mizuho Financial Group (Mizuho). Additionally, shareholders have invested nearly 1.4 billion USD in Indofood, its palm oil-related subsidiaries, and First Pacific (see Fig. 1 below).<sup>1</sup>

**Few financiers appear to have meaningfully engaged Indofood despite widely publicized violations by the company against workers, communities and the environment.** Even fewer investors have taken steps to divest. Following the [exposé of Indofood’s labor abuses](#) in June 2016 and the [RSPO complaint](#) filed in October 2016, several financiers of Indofood — namely US-based Citigroup and Europe-based BNP Paribas, Deutsche Bank, and Standard Chartered — are known to have initiated engagement with Indofood to address the report’s findings. Citigroup and Bank of America, as well as HSBC, Rabobank, BNP Paribas, Deutsche Bank, Standard Chartered, and DBS all have explicit policies prohibiting exploitation by its clients, including child labor and forced labor. However, only Deutsche Bank has subsequently stopped lending to Indofood and its associated companies. **Citigroup, Standard Chartered, DBS, and Rabobank continue to finance Indofood in violation of their own policies, while HSBC, BNP Paribas and Bank of America fail to apply their respective policies to their financing of Indofood’s parent company.**

**The top financiers of Indofood — Japan-based Mizuho, Sumitomo Mitsui Financial Group (SMFG) and Mitsubishi UFJ Financial Group (MUFG) and Indonesia-based Bank Mandiri and Bank Central Asia — have made no public commitment to address the negative impacts of Indofood or the wider palm oil industry.** Mizuho, SMFG, and MUFG were specifically alerted to Indofood’s labor abuses in 2016, but have failed to cut ties or take any meaningful action to address their client’s behaviour.

**The report also names the largest institutional [shareholders](#) of Indofood - Vanguard, Dimensional Fund Advisors, BlackRock, Macquarie Group, Fidelity International, Government Pension Investment Fund of Japan, Pictet, State Street Global Advisors.** All seven investors have signed the UN-backed Principles for Responsible Investment (PRI), which requires signatories to “[incorporate \[Environmental, Social, and Governance\] issues into \[their\] ownership policies and practices.](#)” Their actions bring into question the credibility of their claims to be responsible investors. Their financing of Indofood contrasts with actions taken by the Norwegian Government Pension Fund, the world’s largest sovereign wealth fund, which has been at the forefront of addressing palm oil-related risks in its portfolio and withdrew its investments from First Pacific and IndoAgri because they “[were considered to produce palm oil unsustainably.](#)”

The report argues that institutions providing financial services to Indofood, its subsidiaries, including plantation arm IndoAgri, or its parent company First Pacific, share responsibility for the harmful impacts and abuses suffered by workers, the environment and local communities resulting from Indofood's operations. It urges banks and investors that are financing Indofood to meaningfully engage with Indofood's management and ultimate owner Anthoni Salim, and require the company to immediately address the labor and human rights violations profiled in this report. **Failure to do so exposes connected banks and investors to financial and reputational risks, or even legal and regulatory risks as ESG integration and risk disclosure become mainstream.**

**Figure 1: Notable lenders to First Pacific Co. Ltd., Indofood Sukses Makmur and its subsidiaries (as of September 30 2017)**

Bank	Country	Safeguard Policy <sup>2</sup>		Indofood & subsidiaries <sup>3</sup>	First Pacific Co. Ltd.		
		Palm Oil	Labor		General Corporate Purpose Loan <sup>4</sup> Issued: 4/12/2013 Matures: 5/16/2018  Total: 160M USD	Refinanced Term Loan <sup>5</sup> Issued: 9/25/2014 Matures: 9/25/2018  Total: 200M USD	Refinanced Term Loan <sup>6</sup> Issued: 11/30/2015 Matures: 11/30/2018  Total: 320M USD
Bank Central Asia	Indonesia	No	No	557M USD			
Mizuho Financial Group	Japan	No	No	410M USD	23M USD	40M USD	PARTICIPANT
Sumitomo Mitsui Financial Group	Japan	No	No	327M USD		40M USD	PARTICIPANT
Mitsubishi UFJ Financial Group	Japan	No	No	323M USD			
Bank Mandiri	Indonesia	No	No	265M USD			
Citigroup	USA	Yes	Yes	179M USD			
UOB	Singapore	No	No	90M USD			
DBS	Singapore	Yes	Yes	71M USD			
HSBC	UK	Yes	Yes		23 USD	40M USD	PARTICIPANT
Bank of America	USA	Yes	Yes		23 USD	40M USD	PARTICIPANT
Malayan Banking	Malaysia	No	No		23 USD	40M USD	
Rabobank	Netherlands	Yes	Yes	57M USD			
Standard Chartered	UK	Yes	Yes	7M USD			
BNP Paribas	France	Yes	Yes				PARTICIPANT
National Australia Bank	Australia	No	No				PARTICIPANT
Sumitomo Mitsui Trust Holdings	Japan	No	No				PARTICIPANT

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<sup>1</sup> This figure represents the total value of shares held by institutional investors in First Pacific, Indofood Sukses Makmur, Indofood Agri Resources, PP London Sumatra, and Salim Ivomas Pratama as of May 2017. Source: forestsandfinance.org

<sup>2</sup> Assessment is based on publicly available statements and policies.

<sup>3</sup> "PT Indofood Sukses Makmur Tbk and Its Subsidiaries: Interim Consolidated Financial Statements as Of September 30, 2017 and For The Nine-Month Period", pp 101- 106, 111-114, available at: <http://www.indofood.com/menu/financial-statements>. Amounts represent maximum credit facilities limits for short-term bank loans and overdraft and long-term bank loans. IDR has been converted to USD using the following exchange rate as of 30<sup>th</sup> September 2017: 1 USD = 13472.49 IDR

<sup>4</sup> A total of 7 banks participated in this loan to FP Finance 2013 Ltd., a subsidiary of First Pacific. Source: Thomson Reuters Eikon.

<sup>5</sup> A total of 5 banks participated in this loan to First Pacific. Source: Thomson Reuters Eikon.

<sup>6</sup> A total of 9 banks participated in this loan to FP Finance 2015 Ltd., a subsidiary of First Pacific. Source: Bloomberg

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