

# IOI SUPPLY BASE NDPE PROGRESS UPDATE No. 2 2020

## INTRODUCTION

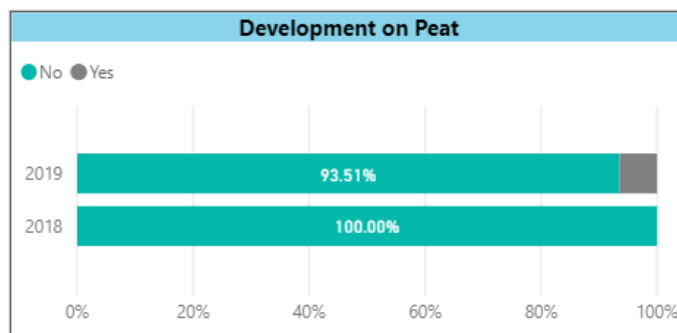
IOI Corporation Berhad (IOI) is committed to building a transparent and traceable supply chain as well as helping our suppliers to transform and be able to deliver sustainable palm oil. Following the Progress Update No.1 for 2020, this is the second instalment of our supply base’s progress on meeting our No Deforestation, No Peat and No exploitation (NDPE) requirements. This update will cover Key Performance Indicators (KPIs) on Peat, Children in Plantation, Traceability, and Freedom of Association. To recollect, our Responsible Sourcing Team from the Commodity Marketing Department, in 2018/2019, adopted the Tools for Transformation (T4T)<sup>1</sup> Platform allowing us to assess suppliers’ compliance levels which are reported as 14 KPIs. In our first update<sup>2</sup>, the KPIs reported were focused on Policy, Forced labour, Grievance Mechanism and Deforestation Occurrence.

For this assessment period, we exceeded our target and achieved 90% participation rate from our supplying mills. Our focus, going forward for 2021 and beyond, is to reach 100% mill participation and to improve plantations’ participation and encourage increase usage of T4T where they can utilise the resource materials housed in the T4T platform in order to gain a deeper understanding of best practices on responsible production. This will support them in the preparation and implementation of an action plan for improvements.

## OVERVIEW OF SUPPLY BASE FOR IOI GROUP OF COMPANIES

In 2019, IOI directly sourced from 109 suppliers from both East Malaysia and Peninsular Malaysia.<sup>3</sup> All suppliers are expected to adopt systems to meet NDPE requirements. Suppliers are a mixture of independent stand-alone mills, mills with associated plantations and companies with groups of mills and plantations – this includes various companies with numerous RSPO certified mills and plantations.

## NO DEVELOPMENT ON PEAT



Peatlands are not only an important water and carbon holding medium, but are also a unique ecosystem housing biodiversity of global importance. It is crucial for peatlands to remain undisturbed and conserved. One of the key T4T KPIs surround the issue of new development on peat and for best practices to be used on existing palm plantations planted on peat to ensure water levels and subsidence management.

<sup>1</sup> <https://www.earthworm.org/our-work/ventures/tools-for-transformation>

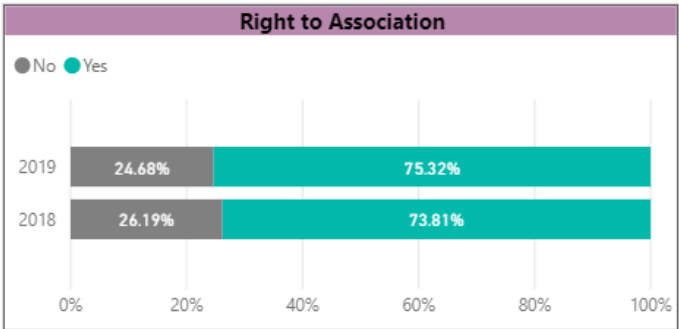
<sup>2</sup> <https://www.ioigroup.com/Content/MEDIA/NewsroomDetails?intNewsID=991>

<sup>3</sup> It is noted that we have 109 suppliers, however, numerous RSPO certified suppliers decline the invitation to participate as such the total invited mills stands at 86 mills.

👉 There were five mills (6%) which reported peat development in their supply base. Further dialogues were conducted and four of these mills had clarified that these were existing developments that were more than six years old and one mill informed that the peat was cleared by a local smallholder but not for palm oil. We took the opportunity to remind mills that existing peat plantations need to observe the best management practices for water management and subsidence monitoring.

### SUPPLIERS ON RIGHT TO ASSOCIATION

It is important for both company and their workers to have a workers’ platform whether formal or informal which allows, amongst other things, two-way dialogues to support workers in their daily challenges and to allow suggestions on making changes and improvements. Freedom of association gives workers the right to freely join or leave a group. This is one of the essential human rights and can be a great support network for workers in the palm oil sector as migrant workers may not necessarily have a good understanding of local culture and work practices. 75% of mills reported that there are worker’s association or an informal workers committee/representative that is accessible to their workers.



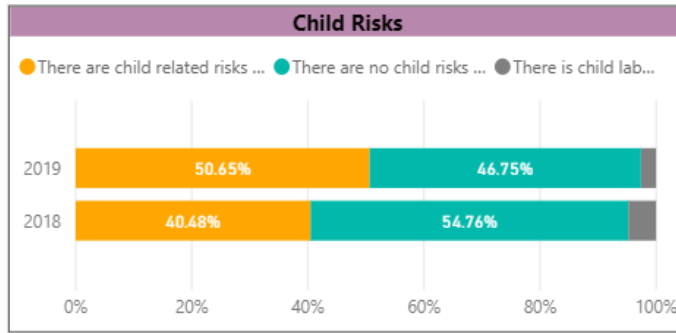
👉 Noteworthy: In addition, 96% of the mills have also informed workers of this right through briefings and trainings.

### CHILDREN IN PLANTATION / CHILD LABOUR

The T4T self-assessment module requires suppliers to report on the welfare of children and child labour. In Peninsular Malaysia, government regulation allows only the recruitment of males workers and these workers are not permitted to bring their family with them. For Sabah, however, due to historical and geographical reasons, there are a large population of refugee/immigrant labour from Philippines and Indonesia, and through marriage with locals, or other migrants, have remained in Sabah as stateless people along with their children. A report from Earthworm<sup>4</sup> and data from UNICEF<sup>5</sup> estimate that there are tens of thousands of such children living in or within close proximity of oil palm plantations.

<sup>4</sup> <https://www.earthworm.org/uploads/files/Children-in-Plantations-of-Sabah-2017-report.pdf>

<sup>5</sup> <https://www.unicef.org/malaysia/media>



Due to the aforementioned, it is unsurprising to see 51% of the total suppliers have indicated potential risk of child labour because of the presence of children. This 51% is made up of 39 suppliers in Sabah.

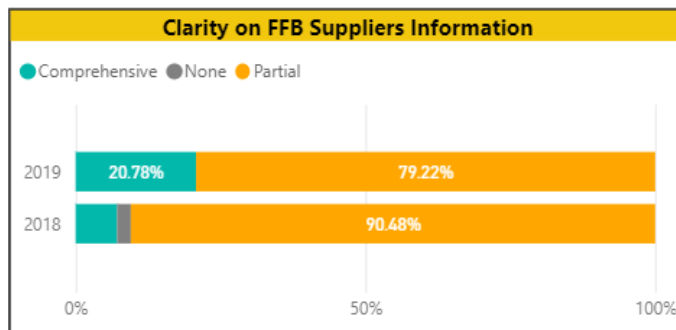
👍 All of these 39 mills have highlighted that these children have access to education facilities and/or day-care.

Five mills have reported hiring workers between the age of 15 to 18 years old but only in non-hazardous areas. This again, is due to the historical and geographical factors.

👉 Two mills have reported having workers below the age of 15 years old on-site. Upon our investigation and enquiries, these mills have immediately terminated the practice and adopted a No Child Labour policy. This is another historical poor practice as some children do not like to attend school and prefer to follow their parents to work.

## TRACEABILITY & FFB (FRESH FRUIT BUNCHES) SUPPLIER DATA

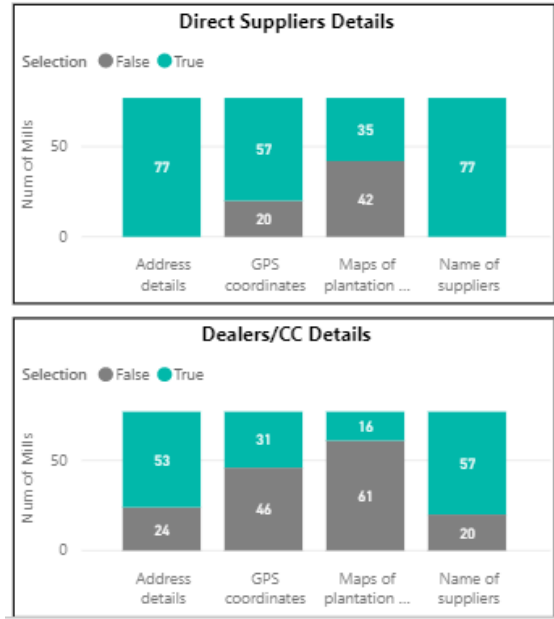
The supplying mills have to report on the type of information they collect from their FFB suppliers towards traceability from farm. Direct FFB suppliers are farmers who sends their palm crops from farms to mills, whilst indirectly-sourced FFBs are done through dealers or collection centres as intermediary. Pertinent traceability data and information would be the names addresses and GPS locations.



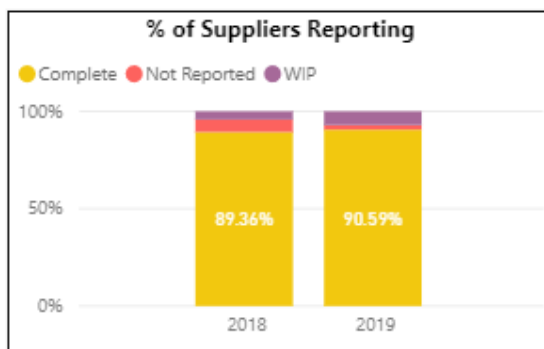
👍 The data submitted shows improvement from last year's low of 7% to 21% of the suppliers collecting comprehensive traceability information, being FFB source names, the addresses as well as the GPS coordinates. The remainder 78% of the mills have reported collecting partial traceability information.

Further analysis of the data shows positive improvements as over 57 mills (or 74%) of the responding mills are collecting GPS coordinates from their direct FFB suppliers; This was at 40% in the previous year. Likewise, similar improvements can be seen for their indirect suppliers which in the previous year was below 10%, and has now improved to 40%.

This is an area that we are continually working on to achieve full traceability.



## COMMENTARY FROM RESPONSIBLE SOURCING TEAM



To recapitulate on the suppliers' participation rate and subsequent action planning, 77 mills completed the T4T self-assessment where 42 mills (or 56%) of them have prepared an action plan to make improvements to close gaps between 2020 – 2022.

👍 1 mill has reported the completion of their action plan to close gaps. <sup>6</sup>

<sup>6</sup> It is noted that this is a RSPO (Roundtable on Sustainable Palm Oil) IP (Identity Preserved) Mill.

Action plan	
Action plan	43 (56%)
Completed	1 (1%)

It is noted, in last year's T4T rollout, the participation of plantations were unsurprisingly low as it was not one of our key priorities. And for Year 2, we saw a higher number of mills engaged with their plantations on T4T. The participation and completion of self-assessment by the estates went from five

plantations to 79. These 79 estates are associated with 21 mills. This is a very positive increase but nevertheless, IOI will need to intensify efforts to work with all our mills and their corresponding FFB source on NDPE requirements.

Based on the positive signs of plantations' responses, we will have more information and data about estates and FFB sources to help us prioritise actions for further engagements.

## DATA ANALYSIS AND REPORTS

Utilising the information submitted by millers, the T4T system provides data analysis and results for Year 2 on the suppliers' performance in relation to Year 1. The analysis and results are utilised by our Responsible Sourcing Team for next stage planning.

## COMMENTARY FROM RESPONSIBLE SOURCING TEAM

From the high participation rate of mills and the positive increase in plantations, the information and data analyse provided by T4T is proving to be a beneficial part of our supply chain transformation strategy. Utilising the data analytics, we are able to prioritise actions, guide our supplier engagement planning and provided targeted areas for supplier engagements.

With the uncertainty of COVID-19 and Movement Control Order, it has necessitated changes to our engagement plans and strategies but nonetheless, we continue to maintain regular dialogues remotely with our supply base.

The data analysis generated by the T4T system has drawn attention to critical issues and allowed us to take immediate action, particularly on children in plantation as well as traceability:

### Children in Plantation

- The team had immediately reached out to the entities which had reported hiring of workers below the age of 15. Through engagements and clarification, they had explained that despite having schools and childcare, some of the children would follow their parents to work as they did not like attending school. Immediate corrections were made to ensure that all children attended school and have adopted a no child labour policy to strengthen operational systems.

### Traceability to Plantation (TTP)

- Compilation of TTP is an on-going process and our team have been engaging suppliers since 2017. For the collection of TTP data, the progress now stands at 70%.

## ON-GOING ACTIONS AND NEXT STEPS

Very importantly, all suppliers are required to put in place action plans to close gaps. For 2021, we will support suppliers to progress on these action plans and they are also required to invite their FFB supply base to commence on the T4T self-assessment.

IOI has been working closely with mills towards responsible production to deliver sustainable palm oil and here are some of the ways that we will continue to support our third-party suppliers in their adoption of sustainability practices towards transformation:

- Our Responsible Sourcing Team will reach out to our suppliers, via remote channels, and share the appropriate IOI experiences that have underpinned our own transformation journey as well as our NDPE implementation;
- IOI will collaborate with stakeholders, at appropriate times, to conduct transformation programmes and joint focus sessions with supplier groups or individual suppliers on Labour, Traceability and Deforestation issues through a mixed remote and face to face method.;
- Resource materials hosted on the T4T platform – covering a wide spectrum of palm oil sustainability subjects such as HCV management and conservation, peat best practices, ethical recruitment, etc. – are easily accessible and available at all times.

Our next update will report the KPIs on occupational health and safety, clear commitments to uphold labour rights, no burning and each miller's engagement with their supply base on NDPE. It will be shared once available.