

Supplier NDPE Monitoring and 2022 T4T Update No. 2

Introduction

As a part of IOI Corporation Berhad's (IOI) continuous efforts to support our suppliers towards delivering the No Deforestation, No New Planting on Peat and No Social Exploitation (NDPE) commitments, we are sharing the transformational journey of our third-party suppliers in adopting and progressively improving their practices according to our Sustainable Palm Oil Policy (SPOP) and Responsible Sourcing Guidelines.

This update is our second release in 2023, where the 2022 Tools for Transformation (T4T)¹ self-assessment results were analysed. We covered four areas here, namely i) No New Development on Peat, ii) Workers' Rights to Freedom of Association, iii) Child Labour and Child Protection Risks, and iv) Traceability and Fresh Fruit Bunch (FFB) Supplier Data.

Overview

Similar to update No. 1, IOI has invited 106 suppliers/millers supplying directly to IOI Edible Oils (IOIEO) refinery in Sandakan and IOI Pan-Century Edible Oils (IOI PCEO) in Johor. The T4T self-assessment was also extended to our tier-2 suppliers. Invitations were sent through our tier-1 direct suppliers.

Mill and Estate Participation Rate and Action Planning

As previously reported in update No. 1, 83 mills accepted the 2022 T4T invitation. A total of 68 plantations completed and submitted the T4T self-assessment. The number was a contribution from 18 millers who had kindly invited their internal plantations to participate in the 2022 T4T self-assessment.

Suppliers completing the T4T self-assessment were equipped with a customised action plan inclusive of relevant resources to assist them in addressing gaps. During our Q1 and Q2 2023 supplier visits, suppliers informed that they needed more understanding on how to utilise the action plan. The T4T briefing was therefore conducted during the visits to address this issue.

No New Development on Peat

Peatland is the world's largest terrestrial organic carbon stock². According to the United Nations Environment Programme (UNEP, 2022), tropical peat swamp forest ecosystems do not regenerate back to forest naturally due to extreme disturbances, and the landscape becomes dominated by ferns and shrubs³. It is estimated that Malaysia has 2,560,341 hectares (ha) of peatlands, of which 714,156ha are found in Peninsular Malaysia, 200,600ha in Sabah and 1,645,585ha in Sarawak (Parish et al., 2021⁴). It is essential to keep the carbon in peatlands stored to achieve global climate goals⁵. The highly flammable nature of peatlands especially in the dry season must be factored

¹ <https://toolsfortransformation.net/about-t4t/>

² <https://www.iucn-uk-peatlandprogramme.org/about-peatlands>

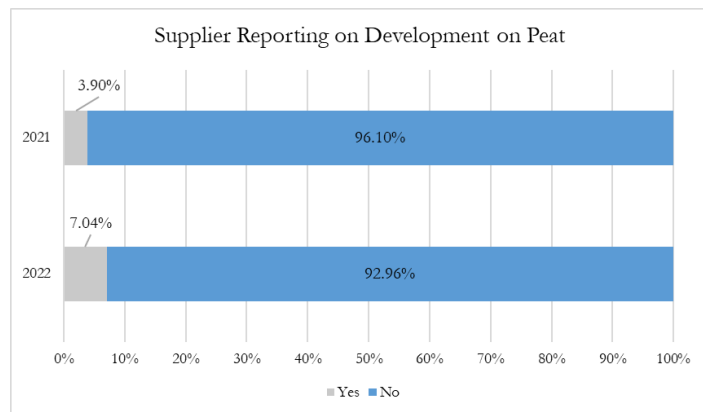
³ UNEP 2022: Global Peatlands Assessment: The State of the World's Peatland. Evidence for Action Toward The Conservation, Restoration, and Sustainable Management of Peatlands.

⁴ Parish F., Lew S.Y. and Mohd H. A. D., 2021. National Strategies on Responsible Management of Tropical Peatland in Malaysia.

⁵ <https://www.unep.org/resources/global-peatlands-assessment-2022>

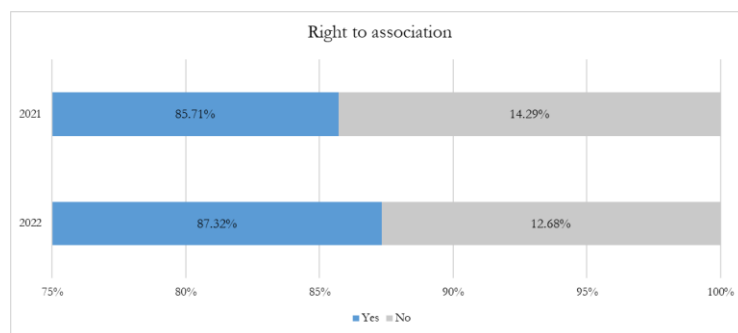
during the construction of agricultural drainage⁶. Water levels must be strictly managed in the utilisation zone by installing a system of weirs and water gates (UNEP, 2022).

In the 2022 T4T self-assessment, 92.96% of IOI's suppliers reported to have no peat development, a reduction of 3.14% from the previous year's assessment. We contacted suppliers who had reportedly conducted peatland development activities and they clarified that the peat development was associated with either replanting activities or field operation activities on existing oil palm planted on peatlands. They have been adhering to good peatland management practices, such as emphasising water level monitoring to prevent fire outbreaks, with everyone engaged on reporting no planting activities on peatlands. IOI continues to monitor closely and engage our suppliers to investigate potential alerts on peat.



Suppliers on Worker's Rights to Freedom of Association

IOI's Responsible Sourcing Guidelines stress on addressing policy compliance in our supply base. We expect all our suppliers to meet NDPE requirements and follow the spirit and intent of IOI's SPOP. Among its core requirements are no exploitation of local communities, indigenous people and workers' rights and welfare; Free, Prior and Informed Consent (FPIC) must be conducted before any new development and strive for the highest levels of transparency and stakeholder engagement.



Based on the 2022 T4T self-assessment results, we observed an increase of 1.61% or 87.32% of suppliers who reported that their workers have access to either a workers' association or an informal workers' committee as compared to the 2021 T4T self-assessment. Of the remaining 12.68% of suppliers

who reported no worker access to association, two of them clarified that there are gender and safety committees in place for the management and workers to have a space for workers to express views on issues related to women and children as well as working conditions. In our NDPE socialisation efforts, our suppliers were informed about the importance of having regular management-worker representative meetings to discuss issues beyond gender and occupational safety at the workplace.

Child Labour and Child Protection Risks

During our Q2 2023 NDPE compliance visits, our suppliers were introduced to a sample of standard remediation processes⁷ and resource materials which could serve as a guide if children

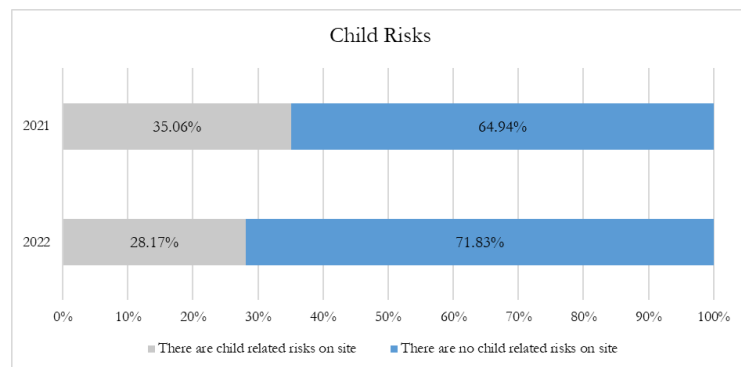
⁶ <https://www.unep.org/news-and-stories/story/why-peatlands-matter>

⁷ [Sample Child Labour Remedial Plan \(toolsfortransformation.net\)](#)

are found on-site. One of the standards in the sample that suppliers need to understand is the protective clauses⁸ with regards to child protection. For example, failure to understand age limits for children and young persons, the permissible hours for working, the type of work engagement and the conditions where the work is performed could put a company at risk of practising child labour. To assist and enable our suppliers to identify, prevent, address and monitor the direct and indirect impacts on children that they may have caused due to their business operations, IOI collaborated with [Earthworm Foundation](#)⁹ on 6 July 2023 to organise a Child Protection Training for our third-party suppliers in Sabah. The training was designed to equip our suppliers with the key knowledge and skills to keep children safe from child labour and sexual exploitation, violence and abuse.

We observed from the T4T system that 71.83% of our suppliers were not associated with child-related risks. Upon analysing suppliers' submissions in the 2022 T4T self-assessment, the majority of the 28.17% of suppliers who reported having child-related risks are because they were not equipped with corrective action processes to act upon should children are found employed and/or assisting parents on-site.

Suppliers employing young persons aged between 15 and below 18 years old were reported at 2.82% in the 2022 T4T self-assessment compared to zero case reported in 2021. Although laws in Malaysia i.e., Section 2 of the Children and Young Persons (Employment) (Amendment) Act 2019, Section 72 of the Sabah Labour Ordinance and Section 73 of the Sarawak Labour Ordinance allow the employment of young persons, the importance of informing our suppliers on the obligations to respect the protective regulations covering young workers aged 15 to below 18 is critical across our operations. This is to ensure the employment terms do not affect the young workers' health and personal development or interfere with their schooling.



Traceability and FFB Supplier Data

Businesses relying on traceability to pursue multiple objectives related to value chain performance are now focusing on regulatory compliance¹⁰. The typical traceability process in the oil palm industry involves knowing all palm sources all the way to the plantation level, including the smallholders. This process is key to demonstrate the no deforestation commitment (Dodson et al., 2020¹¹). Tracing up to the smallholder level often remains the greatest challenge as the supply chain tends to be extensively long before it reaches refineries and manufacturers around the world. For example, before producing crude palm oil, the supply of FFBs can be sourced within a radius of 50km from the mill.

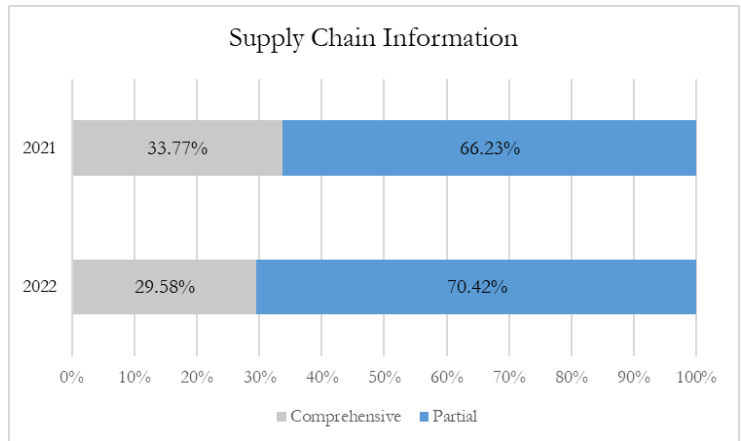
⁸ [Annex A - definition and legal background child labour \(toolsfortransformation.net\)](#)

⁹ <https://www.earthworm.org/>

¹⁰ https://www3.weforum.org/docs/WEF_Digital_Traceability_2021.pdf

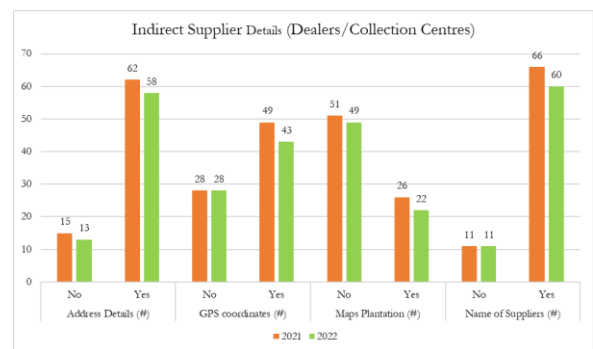
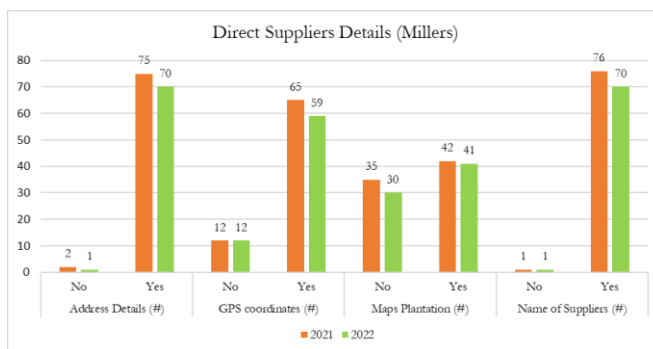
¹¹ Dodson, A., Salisbury, C., Spencer, E. (2020). Palm oil crushers and refiners: Managing deforestation risk through a supply chain bottleneck. SPOTT. London: Zoological Society of London.

Given the complexity of the palm oil supply chain, it is not surprising that suppliers with comprehensive supply chain information recorded a drop from 33.77% in 2021 down to 29.58% in 2022.



Further analysis uncovered a set of positive observations. Majority of our direct suppliers (millers) or 59 out of 71 were keeping records of Global Positioning System (GPS) coordinates. This key traceability information was also collected from our indirect suppliers (dealers/collection centres) where it is reported that majority of 43 out of 71 millers were collecting the GPS coordinates of their external FFB dealers and collection centres.

In acknowledging the above-mentioned gaps in supplier’s practices to adopt better traceability data collection, there will be a jointly organised workshop in collaboration with [Earthworm Foundation](#) to discuss the topic. The Responsible Sourcing Team is also gearing up efforts to roll out the Traceability-to-Plantation (TTP)¹² data collection exercise.



Sources of Data Analysis and Reports

This analysis was conducted by capitalising on the data submitted by millers in direct reference to the results generated by the T4T system. Updates from stakeholder engagement activities in Q1 and Q2 2023 were also highlighted, where we believe it had been instrumental in adhering to NDPE policies. Subsequently, our Responsible Sourcing Team utilises the analysis and results for the next planning stage.

Commentary from Responsible Sourcing Team

Results from the 2022 T4T self-assessment provided a broad snapshot of NDPE implementation among our suppliers. It made the first round of supplier evaluations more structured. Gaps identified through the T4T self-assessment had been used alongside our Standard Operating Procedure (SOPs) with Tier-1 Suppliers to facilitate engagement with third-party suppliers to clarify any non-NDPE-compliant issues. The suppliers’ engagement done in Q1 and Q2 2023 had helped to increase suppliers’ awareness on the benefit of utilising free resources available on the T4T platform for improved NDPE compliance.

¹² <https://youtu.be/YF2gnpN09uA>

Traceability information shared by our suppliers through the T4T platform also helped us to complete the NDPE Implementation Reporting Framework on No Deforestation and No Expansion on Peat (IRF profile). The NDPE IRF profile is a tool for companies to monitor and understand progress with regards to NDPE policy commitments¹³. Our buyers have actively requested our IRF profiles for progress in delivering NDPE commitments.

Additionally, our mill prioritisation profile was generated by factoring results from the T4T self-assessment alongside other aspects such as TTP score, deforestation threat level, history of supplier engagement activities and amount of supply volume. The mill prioritisation profile categorised our suppliers by high, medium or low-priority mill. It is important to note that suppliers in the high-priority mill category are not equivalent to high-risk suppliers. Instead, it signifies that there is room for improvement.

Ongoing Action and Next Steps

IOI has been working closely with mills to deliver sustainable palm oil towards responsible production, and the following 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 contact our suppliers via one-to-one NDPE socialisation visit and mass trainings. There are two trainings planned, namely on Child Protection and Traceability of FFB Dealers;
- We will continue to increase suppliers' awareness on the importance of completing their T4T customised action plans;
- We are working closely with refineries (IOIEO and IOI PCEO) to enhance collaboration with third-party millers to conduct an in-depth transformation programme.

In our next update, we will be reporting on engagement with supply base on sustainability, commitments to uphold labour rights and occupational health and safety practices.

¹³ <https://www.ndpe-irf.net/>