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IOI Sustainability Consultation Forum 2023: Supply Chain Decarbonization and Responsible Sourcing

JULY 2023

1. INTRODUCTION

The Sustainability Consultation Forum (SCF) is an initiative by IOI Group to engage with key stakeholders, thought leaders and experts to drive innovation and positive impact across three core business areas: Climate Change, Human Rights and Supply Chain Sustainability.

In partnership with Robertsbridge Stonehaven, IOI recently commenced the 3rd run of the Sustainability Consultative Forum in July, which focused on two key themes:

1. Supply Chain Decarbonisation
2. Responsible Sourcing Practices across IOI's supply chain

These topics delved into exploring Scope 1, 2 and 3 GHG Emission reduction strategies, EU Deforestation Regulation compliance, and Human Rights Due Diligence. The SCF was held under the Chatham House Rule to create a trusted environment and enable participants to openly share ideas and thoughts and explore potential interventions leading to actions.

The events managed to gather influential stakeholders from oil palm growers, millers, processors, consumer goods brands, experts and others. The discussion points are summarised, as seen in the table below.

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2. DISCUSSION POINTS

2.1 IOI's VALUE CHAIN DECARBONIZATION STRATEGY AND PATH TO NET-ZERO

Table 1: IOI's Current Performance, Gaps and Solutions – Decarbonization

IOI Current Performance	Solutions to be Addressed	Solutions	Timeline
- IOI disclosed both absolute and intensity-based Scope 1 and 2 emissions for each operation group. Total Scope 3 emission disclosure uses average data method & spend-based method, - IOI has a clear time-bound emissions reduction plan for short term (2025), medium term (2030) and long-term (2040) - IOI uses Science Based Methodologies to calculate emissions contributed by plantation and Scope 3. - Scope 1 and 2 GHG emission from plantations are verified by RSPO.	- Much of the focus is rightly on the emissions by own operations, but more work needed for Scope 3 emission, esp. from small and medium suppliers. - Some suppliers have embarked on targets similar to Net Zero, such as SBT. - Some specific areas that are of special interest are methane emissions from POME ponds in palm oil mills and emissions from logistics. - Scope 3 emission is difficult to be addressed due to the multitude of supply chain actors, which have different levels of understanding & capacity. Issues in supply chain traceability further complicates Scope 3 reduction. - There is confusion from upstream industry players regarding which GHG calculators to follow.	For IOI, to prepare internally: - IOI clearly has a good plan to reduce its own scope 1 and 2 emissions. IOI needs concrete steps to reduce their scope 3 emissions further by assisting the IOI downstream. - IOI would benefit further from benchmarking their own practices to other leaders in the industry and even cross-industry. This can further provide opportunities on seeing what other practices can be improved, what methods are best used, not only on their own operations but also in managing scope 3 emissions. - Suppliers would need clear directions on how to reduce their own emissions, this can be done by publishing a book of best practices on how identify, reduce and manage the emissions, which may be based on own experience, external practices and input from the experts. This way IOI is seen as proactive in providing solutions to their suppliers and peers, directly assuaging the concerns of suppliers regarding the lack of direction The best practice book on decarbonization can contain, among others: - Basics of carbon emission reduction - Basics of GHG calculations and standardizations - Basics on carbon credits - Alternatives to fossil fuel - How to utilize biomass and waste materials - Good Agriculture Practices that reduce emissions - Nature Based Solutions - How to lower the carbon footprint of manufacturing and processing, e.g., methane capture. - NDPE and indirect land use change emissions.	2023-24 2023-24 2023-24 2023-24

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		• Within IOI own database, to identify suppliers who are: ▪ The best suppliers with best practices on decarbonization which others can learn from ▪ Who would need more help, which are struggling with the basics ▪ Who are the top emitters (top 20%) ▪ Who are the lowest emitters. • From the list above, IOI can start tiering the suppliers to then identify who are their low hanging fruits (who have reached the decarbonization goal) and who would be the most challenging. • Time-bound plans must be specific per supplier based on their position in the tiering system mentioned above. What IOI should do externally: • There are regulations in countries (such as Malaysia) where palm oil mills are required to install biogas facilities. Where suppliers are not in compliance with the basic law, they need to be reminded and cautioned. • A few suppliers mentioned that there is a need to have government regulations on net zero established to provide certainty in the pathway palm oil companies must go – and what facilities/ methods to invest to reach net zero. Malaysia has the overall goal to reach net zero by 2050. IOI should be able to engage the authorities (such as MPOB, MPOCC) to see how they can provide a regulatory pathway to assist the palm oil industry net-zero transition. • Establish workshops on net-zero to provide learnings from IOI and experts and sharing of experience between the different suppliers. This can be modelled based on what has been done on the existing IOI supplier workshops. Where convenient, net zero learning can be a permanent part of the existing supplier workshop. • Seek collaborative work with organizations which provide assistance to SMEs and smallholders (ADM Capital, Abler Nordic, USAid, etc). Where there is a need for Investment in the supply base level by downstream industry players.	2023-24 Internal plan 2023 Implement 2024
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		For out-growers, SMEs and smallholders, these organizations and also downstream suppliers (who have in the SCF mentioned their willingness to help) can be engaged. IOI can lead discussions on having a certain assistance for their small-scale suppliers. • IOI may consider linking the progress of individual supplier's decarbonization progress with commercial incentives and long-term business relations (e.g. privileged access to market/ ranked better/ awards). Special attention must be reserved for indirect emissions, which will require more transparent and robust grievance management, plus the monitoring of NDPE implementation particularly in 3rd party plantations and smallholder farms.	
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2.1 Responsible Sourcing: EU Deforestation Regulation and Human Rights

Table 2: IOI's Current Performance, Gaps and Solutions – Responsible Supply Chain

IOI Current Performance	Solutions to be Addressed	Solutions	Timeline
• IOI's own estates are well-placed to comply with the EUDR due to the robust traceability systems and comprehensive geolocation data of land plots. • IOI does not consider its smallholder suppliers to be an obstacle either. • IOI has committed to NDPE principles and required the same for its suppliers since 2016.	• Difficulty in determining if a given batch of products is associated with specific plantations/mills and deforestation-free. This is especially challenging for downstream industry players. • Inclusion of palm derivatives in EUDR Annex 1, unlike other commodities. The EU seems to disproportionately focus on palm. • Future policies may be indirectly or directly	For IOI internal – more action is required to advance the discussions and sustainability progress in palm oil sector by leveraging its leading status as a supplier, member of the RSPO and leader in sustainability. This may include: • Understand and map the issues related to reaching the requirements of EUDR especially related to traceability and geolocation. This can be done by conducting interviews/verification exercises within its own supply chain to list where the main difficulties are. • The same approach as the decarbonization issue, suppliers need to be tiered based on their achievements on supply chain traceability/ geolocation. This exercise will identify where the low hanging fruits are and where the major issues are. • Where needed, a third party can be invited to see if there is a need to develop a new tool/new approach to achieve and improve supply chain traceability, geolocation data management and labor due diligence • Study of existing and upcoming human rights and labor policies, such as	Planning 2023 Implement 2024 Planning 2023 Implement 2024

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The 2020 cut-off date in EUDR should be less challenging.	influenced by EUDR, such as Germany's regulations on human rights & sustainability in commodity trade. • Among growers & millers, there is a concern that EU definition may differ from other definitions they are familiar with (e.g., MPOB, RSPO definitions). • Upstream suppliers face challenges in compliance due to lack of capacity, understanding and prohibitive costs required. • In Malaysian palm oil sector, human rights are inseparable from migrant labor issues. • Differences in national laws and EUDR.	the EU CSDDD and proactively inform IOI suppliers on the results in supplier workshops, to better anticipate the resulting impacts. • Conduct comparative studies with industry peers on labor models, especially on using less labor within palm industry (not on migrant worker, more on automation). This is useful for the transition to a business model that is less manpower-intensive and reliant on migrant labors. • IOI has learnt a lot from the migrant labor case in the past and has built a solid system to manage and mitigate issues in their migrant labor supply chain. This should be written down and a good case scenario for others to learn. Explore having a third-party document this journey and be used to help the sustainability transformation of other suppliers within IOI's supply chain with similar risks. • As there seems to be confusion about what is required from the suppliers, there is a need for an effective communication of sourcing expectations to all levels of suppliers from smallholders to 3rd party plantations to mills. This can be socialized further in the supplier workshops. IOI external - On stakeholder engagement & action plans – IOI should again leverage its leading position in the sector to support the collaboration and knowledge sharing between various stakeholders. This may include: • Together with other stakeholders, for example the MPOA and MPOB, an analysis of the impacts of EUDR on the palm sector and segments of the value chain, such as smallholders, plantation companies, millers, etc. This will enable a well-informed fact-based approach when discussing this law with the relevant EU authority. • The EUDR implementation is not yet set, this provides an opportunity to enlighten EU authorities on the risks of having a system which may not be implementable. IOI should be proactive and engage with the relevant government agencies e.g., MPOB, ministries, etc. and provide input on matters related to human rights and EUDR compliance measures. • On requiring suppliers to adhere to certain standards, there is a need to have a better alignment and utilization of existing frameworks, e.g. relying on MPOB's license information to in deforestation due diligence, leveraging Indonesia's Omnibus Law to resolve disputes on labor rights,	2023-24 Implement 2024 Implement 2024 2023-24 2023-24 2023-24
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		etc. IOI should also be able to utilize its position to engage with the relevant bodies to lobby for such alignment. • Leveraging its leadership in multi-stakeholder groupings such as the RSPO and MPOA to advance the palm industry's voices and proactively engage with the counterparts in the EU & North America and other markets in a single voice. • On the collection and management of EUDR-relevant geolocation data, IOI may collaborate with like-minded partners (other suppliers who share the same supply chain, or the working groups facilitated by ProForest e.g.,, POCG, PPBC, CGF) to achieve this and even supporting the RSPO in developing a practical and industry-acceptable digital data framework. • Actively involving influential NGOs and independent experts when discussing the EUDR (within and outside of the SCF) in order gain input on its implementation and to keep abreast of the discourse within civil society. On the technical side, IOI should proactively push for collaboration with NGOs when engaging with the EU authorities regarding the specific requirements of the EUDR (e.g. provision of geolocation data, incentives for SMEs and smallholders, periodic review of the regulatory impacts). • There is clearly an intention from the downstream industry partners and buyers to assist the process, as they are keen to be compliant with EUDR and labor requirements. IOI should capitalize on this and see how they can get such assistance (resources/funding) from these actors to support the most vulnerable in the supply chain (small suppliers, smallholders). Such assistance may include supplier workshops, material support and capacity building for suppliers on specific topics (e.g. such as Good Agricultural Practices, fair and equitable labor practices, smallholder certification & legalization, etc.) • Additionally, IOI should collaborate with buyers in the EU market in lobbying and bridging the gaps between the "Competent Authorities" and industry players in the EU.	2023-24 2023-24 2023-24 Implement 2024 Implement 2024
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Overall recommendations:

- This SCF is heavy on supply chain and how to assist suppliers. **There is a need for more supplier representation in the forum; and classification/ tiering of suppliers.** Suppliers who are having issues in complying with standards should be invited to these events and encouraged to share their concerns as honest as possible beforehand to understand their issues.
- **Utilize the existing supplier workshops to bring the two major topics above** and make the sessions on decarbonization and meeting EUDR/ responsible supply chain permanent.
- Establish **a peer-by-peer sharing and explore a mentoring program** between suppliers to share best practice experiences.
- Avoid re-inventing the wheel, and instead **conduct studies/ benchmarking exercises to see what other peers/ fellow industry players/ similar commodity actors have done to reach the compliance level** required: especially on decarbonization and responsible supply chain.
- Supplier grouping/tiering would assist in **focusing on suppliers who need the most help** to achieve its sustainability goals.
- Invest in the supply chain, however not alone. **Capitalize IOI's position in the government and associations such as MPOA and RSPO to seek alignment with existing frameworks** (eg. On overall net zero, government tools) to ensure whatever IOI's compliance needs can be included in government/ industry/voluntary frameworks. **Explore working together with financial institutions to finance small-medium scale companies/ smallholders.**