



RepRisk Special Report

# **ASEAN Series: Malaysia**

# About RepRisk

RepRisk is a leading business intelligence provider, specializing in environmental, social, and governance (ESG) risk analytics and metrics.

Harnessing a proprietary, systematic framework that leverages cutting-edge technology and hands-on human intelligence in 15 languages, RepRisk curates and delivers dynamic risk information for an unlimited universe of companies.

Since 2006, RepRisk has built and continues to grow the most comprehensive ESG risk database that serves as a due diligence, research, and monitoring tool in risk management, compliance, investment management, corporate benchmarking, and supplier risk. The database currently includes risk profiles for over 65,000 public and private companies, 17,000 projects, as well as for every sector and country in the world.

Headquartered in Zurich, Switzerland, RepRisk serves clients worldwide, including global banks, insurance providers, investment managers, and corporates, helping them to manage ESG and reputational risks in day-to-day business.

RepRisk provides the transparency needed to enable better, more informed decisions.

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# Foreword RepRisk



I am pleased to announce the release of the RepRisk Special Report on Malaysia, the third report in our series on the Association of Southeast Asian Nations (ASEAN), an economic and political organization of ten countries. The creation of the ASEAN Economic Community (AEC) in 2015 was a major milestone in the economic integration of the ASEAN region. AEC groups together over 620 million people to form the third largest economy in Asia and the seventh largest in the world.

In our first ASEAN report, we assessed the ESG risks facing [Indonesia](#), the largest economy in the ASEAN bloc. The [Lower Mekong Basin](#) report, the second in the ASEAN series, focused on the challenges facing Cambodia, Laos, Thailand, and Vietnam, four countries located in the Mekong Delta.

Our Malaysia report focuses on three sectors: Utilities, Food and Beverage, and Forestry, that RepRisk has identified as being the most exposed to environmental, social, and governance (ESG) risks.

RepRisk's aim is to provide transparency and business intelligence that supports the systematic and effective management of ESG and reputational risks in day-to-day business. We hope that this report draws attention to the ESG issues facing Malaysia, which ultimately have an impact on the whole of the ASEAN bloc.

**Philipp Aeby CEO, RepRisk AG**

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# Introduction

**Strategically located along the Strait of Malacca, one of the most important shipping lanes in the world, Malaysia has moved away from its dependence on agriculture and mineral resources, and has become an export-driven economy that has embraced technology and knowledge-based industries. Although the oil and gas sector is an important source of income for the country, the US Department of Commerce estimated that services and manufacturing accounted for 90 percent of Malaysia's GDP in 2014.**

Malaysia experienced a solid economic growth in 2015, but there are fears of political instability due to a corruption crisis that has been linked to Malaysia's Prime Minister, Najib Razak, and members of his family. There are fears that as much as USD 6 billion – a sum that is much higher than previous estimates – has been embezzled from 1Malaysia Development Berhad, a company fully owned by the Government of Malaysia.

In order to stimulate investment in rural areas, the government has established five economic corridors that offer specific business incentives. RepRisk has identified repeated criticism of the Sarawak Corridor of Renewable Energy (SCORE), the second largest corridor located on the island of Borneo. The project foresees the construction of up to twelve hydroelectric power plants to provide competitively priced energy for commercial users.

As the construction of these hydroelectric dams has attracted widespread criticism from both environmental groups and indigenous communities, RepRisk's data has identified Utilities as the sector most exposed to environmental, social, and governance (ESG) risk in Malaysia. Food and Beverage and Forestry have been identified as the second and third most exposed sectors in the country. This report dives further into each of these sectors and provides insight into the related companies, projects, and issues facing these industries.

# Introduction

Map of ASEAN (Association of Southeast Asian Nations) countries



The Government of the Malaysian state of Sarawak, located on the northwest coast of Borneo, and the state-owned company, Sarawak Energy Berhad (SEB), have faced repeated criticism about the Sarawak Corridor of Renewable Energy (SCORE) development project, an economic corridor that covers an area of more than 70,000 square kilometers. The project includes a series of up to twelve hydroelectric plants in order to attract energy-intensive industries to the area.

In August 2014, the Save Rivers Network linked the dam projects to widespread violations of internationally accepted human rights standards, as outlined in the UN Declaration on the Rights of Indigenous Peoples. The NGO claimed that indigenous communities had been denied information and prior consultation, and had been threatened and intimidated for opposing the projects.

A documentary released in May 2015 by the NGO, the Borneo Project, claimed that if all the dams proposed under SCORE were built, they would cause the displacement of tens of thousands of people, pollute the rivers, and drive species to extinction. Concerns have also been raised about the impact of greenhouse gas discharges from hydropower dam reservoirs in tropical climates.

The Executive Director of the Borneo Project has questioned the Malaysian government's motivation for building the dams. A series of

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## Most associated companies: Utilities sector in Malaysia

1. Sarawak Energy Berhad
2. Tenaga Nasional Berhad
3. China Three Gorges Corp.
4. Asian Development Bank
5. Cahya Mata Sarawak Berhad

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documentaries released by the NGO pointed to corruption as the real driver behind the massive dam construction program and claimed that many private companies, which stand to profit greatly from the building work, are controlled by relatives and friends of Abdul Taib Mahmud, the Chief Minister of the state of Sarawak from 1981 to 2014.

The NGO, Global Witness, has accused representatives of the Malaysian government of authorizing destructive projects for their personal benefit, and of negotiating bribes in exchange for land concessions.

The Batang Ai, Bakun, and Murum dams have already been built in Sarawak. The Bakun Dam, which flooded a large area of indigenous lands and displaced about 10,000 people in 2014, has been criticized for running at only half of its optimum capacity due to lack of energy demand. Communities have also

# Utilities sector

opposed the planned Baleh Dam, claiming that it will cause loss of biodiversity, ancestral lands, and unique wildlife habitats.

The Malaysian government's May 2015 approval for the construction of the Baram Dam drew particular criticism. The Save Rivers Network claimed that the dam would flood a rainforest area half the size of Singapore and displace 20,000 people. The NGO dismissed claims that local tribal leaders supported the project, stating instead that there had been no resettlement or compensation agreements.

The Baram Dam has faced protests from indigenous communities since 2013, and the tribes have repeatedly claimed that logging activities are illegal, as no Environmental Impact Assessment has been conducted. The indigenous communities have built various blockades, and although the Malaysian General Operation Force, Forestry Departments officers, and employees of the logging companies MM Golden and Autorich Sdn, have dismantled the barriers, the communities have continuously rebuilt them.

The construction of the Baram Dam has also been opposed by over 40 NGOs, including the Berne Declaration, the Bruno Manser Fund, Greenpeace, and International Rivers. The NGOs have accused Sarawak Energy Berhad (SEB) of paying bribes to opponents of the Baram Dam, and have alleged that

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## Most associated projects: Utilities sector in Malaysia

1. Bakun Dam
2. Murum Dam
3. Baram Dam
4. Baleh Dam
5. Sarawak West Kalimantan Transmission Link

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## Most associated NGOs: Utilities sector in Malaysia

1. Save Sarawak's Rivers Network
2. Bruno Manser Fund
3. International Rivers
4. Transparency International
5. The Borneo Project

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endemic corruption issues at SEB prompted the Norwegian authorities to raise concerns with the Malaysian Anti-Corruption Commission. Malaysia's human rights organization, Suaram, reportedly confirmed that SEB had violated Malaysia's Constitution and international laws by using coercion, threats and intimidation, and denying indigenous peoples their livelihoods and their right to information.

In November 2015, Adenan Satem, the Chief Minister of Sarawak, temporarily suspended construction of the Baram Dam due to the massive opposition, and in April 2016, the Sarawak State Government announced the cancellation of the project.

Another controversial project is the Sarawak West Kalimantan Transmission Link (SWKTL), the second phase of the Trans Borneo Power Grid. In October 2014, around 40 NGOs, including SAVE Rivers, Friends of the Earth, and Dignity International, urged the President of the Asian Development Bank (ADB) to reconsider the bank's proposed USD 45 million loan to SEB to build SWKTL. The NGOs warned that the project would jeopardize food security, cause social instability, and trigger irreversible losses to biodiversity.

In March 2015, representatives of indigenous peoples from Sarawak traveled to ADB's headquarters to protest about the proposed loan. A fact-finding mission conducted by various civil society groups claimed that the SWKTL project was linked to systematic violations of the Malaysian Constitution and ADB's own social safeguard standards.

The Business & Human Rights Resource Centre has also linked the construction of the Klang Valley Mass Rapid Transit Project (MRT) in Kuala Lumpur to unsafe working conditions and exploitative migrant work. In early 2015, a Bangladeshi migrant worker died following

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## Top ESG Issues: Utilities sector in Malaysia

1. Impacts on communities
2. Impacts on ecosystems and landscapes
3. Local participation
4. Corruption, bribery, extortion, and money laundering
5. Human rights abuses and corporate complicity

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## Top ESG Topic Tags: Utilities sector in Malaysia

1. Indigenous people
2. Land grabbing
3. Hydropower (dams)
4. Endangered species
5. Coal-fired power plants

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an accident at the project's construction site. This was allegedly the fifth death at the MRT site. The NGO, Tenaganita, claimed that the victim was subjected to inhumane conditions by sub-subcontractors, and called on companies in Malaysia to source their migrant workers directly from the countries concerned, rather than through brokers.

## Utilities sector

In mainland Malaysia, the Orang Asli indigenous group lodged a lawsuit against Tenaga Nasional Berhad in mid-2015 on the grounds that they had been resettled to make way for a power plant without prior consultation.

In November 2015, environmentalists criticized the Malaysian government for approving the Daiduan Dam Project on the Papar River in Sabah. Although the dam will alleviate the local need for water, it would submerge up to 12 square kilometers of forest and parts of the Crocker Range Park, designated a Biosphere Reserve by UNESCO in 2014, which is the natural habitat of several endangered species. The flooding would also allegedly destroy some 11 villages and the homes of 2,000 indigenous people. So far, the local communities have staged peaceful protests against the dam and have called for alternative solutions to Sabah's looming water crisis.

**The Daiduan Dam would allegedly destroy some 11 villages and the homes of 2,000 indigenous people.**

For decades, the timber industry has played a crucial role in Malaysia's economy, but environmentalists have warned that the amount of timber is decreasing due to unsustainable logging practices.

According to the Malaysian Timber Council, the Malaysian state of Sarawak, located on the northwest coast of Borneo, accounts for roughly 30 percent of the country's timber exports and exports more tropical timber every year than the whole of Africa.

However, the Penan indigenous people, who live in Sarawak's rainforest, have been severely affected by logging activities. Traditionally nomadic hunter-gatherers, the Penan today mostly live in small villages, but the forest still provides their basic daily needs.

The former Chief Minister of Sarawak, Abdul Taib Mahmud, who was linked to endemic corruption, refused to recognize the rights of the Penan people, although their rights are recognized by the Malaysian Constitution. Despite continuous protests of the Penan community, the logging industry has penetrated deep into the forest and the trees of the lowland areas have allegedly nearly all disappeared.

The indigenous communities in Sarawak have filed over a hundred lawsuits against the government and companies for illegally logging on their ancestral lands. However, the compa-

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## Most associated companies: Forestry sector in Malaysia

1. Samling Global Ltd
2. Ta Ann Holdings Berhad
3. Shin Yang Group
4. Rimbunan Hijai Group
5. KTS Holdings Sdn Berhad

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## Most associated projects: Forestry sector in Malaysia

1. Tokyo 2020 Olympics

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nies allegedly continue to log while the court cases are pending, and in many cases the court rulings have come too late.

In February 2014, Adenan Satem was named Chief Minister of Sarawak, after Taib Mahmud was forced to resign following an investigation by Malaysia's Anti-Corruption Commission (MACC).

Adenan accused six of the country's largest logging firms, KTS Holdings, Rimbunan Hijau Group, Samling Global Limited, Shin Yang Group, Ta Ann Holdings, and WTK Group, of corruption, illegal logging, massive deforestation, and of failure to pay royalties.

# Forestry sector

After illegal logging was discovered inside the national parks of Bukit Tiban and Maludam, the largest protected peat swamp in Sarawak, Adenan launched a crusade to end illegal logging in Sarawak's rainforests and announced that the government would arm up to 50 Forestry Department officers to enable them to fight the practice.

Adenan introduced an "integrity pledge" which was endorsed by the MACC and signed by the six largest logging firms mentioned above.

However, the President of Transparency International Malaysia claimed that as the "integrity pledge" was not legally binding, it was being used as greenwashing to divert public attention away from the big timber companies. He claimed that the timber companies themselves initiated the move, as the timber industry virtually came to a standstill after Adenan's crackdown.

Despite the government's actions, in January 2015, the Director of the Bruno Manser Funds (BMF) claimed that illegal logging was continuing and estimated that Sarawak had lost up to 95 percent of its forest. BMF blamed corrupt officials for issuing timber concessions and accused international banks of playing a role in Sarawak's deforestation.

In February 2015, a Global Witness report claimed that the Shin Yang Group was logging the equivalent of forty soccer pitches of vir-

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## Most associated NGOs: Forestry sector in Malaysia

1. Bruno Manser Fund
2. Global Witness
3. Sarawak Dayak Iban Association
4. Ecological Internet
5. Greenpeace International

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## Top ESG Issues: Forestry sector in Malaysia

1. Occupational health and safety issues
2. Violation of national legislation
3. Poor employment conditions
4. Waste issues
5. Impacts on communities

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gin rainforest a day, and that Samling Global was rapidly expanding its logging activities in forests claimed by the Penan people.

The NGO reported that Japan imports roughly 100 million sheets of plywood from Sarawak each year, and accused the Japanese companies Sojitz, Itochu, Sumitomo Forestry, Sumisho-Mitsuibussan Kenzai, Marubeni Kenzai, Toyo Materia, and Japan Kenzai, and their

subsidiaries, of sourcing wood from major companies that had been linked to illegal logging in Sarawak. Global Witness alleged that much of the illegal plywood was being used to make throwaway molds on construction sites for the 2020 Olympics in Tokyo, and criticized the major construction companies, Shimizu Corp, Kajima Corp, and Tai-sei Corp which are overseeing the construction projects.

Global Witness called on the Japanese government to prohibit the trade in illegal wood and to ensure that all the wood used by the country was sustainable. Some of the Japanese companies promised to investigate their supply chains following the NGO's allegations.

In May 2015, the Malaysian Anti-Corruption Commission (MACC) began a massive investigation into illegal logging in Sarawak. The Commission seized approximately 1,200 logs and froze around MYR 600 million (USD 149.6 million) in at least 375 banks accounts owned by companies and individuals.

The President of Transparency International Malaysia has said that the country needs to completely ban the exports of logs in order to stop the exploitation of natural resources. However, he claimed that the responsibility to curb illegal logging lay with the forestry department and Ministry of Natural Resources and Environment, and not the MACC.

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## Top ESG Topic Tags: Forestry sector in Malaysia

1. Indigenous people
  2. Illegal logging
  3. Protected areas
  4. Endangered species
  5. Land grabbing
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**The indigenous communities in Sarawak have filed over a hundred lawsuits against the government and companies for illegally logging on their ancestral lands.**

# Food and Beverage sector

Malaysia has a highly developed Food and Beverage industry, which is supplied by both domestic and imported products. The Global Agricultural Information Network reports that the Malaysian government has identified food processing as a key sector for industrial development. Malaysia's Ministry of International Trade and Industries also considers the halal food sector (foods suitable for Muslim consumption) as an important growth industry as the global market is reportedly worth USD 560 billion annually.

However, Malaysia's Food and Beverage sector has been widely criticized for environmental and social impacts linked to palm oil plantations. The Malaysian Palm Oil Council estimates that the country supplies around 40 percent of the world's palm oil, and that its palm oil exports are worth around USD 12 billion a year. However, the expansion of palm oil plantations has been linked to the destruction of rainforests, mangroves, and sensitive peat lands, which in turn causes an increase in greenhouse gas emissions.

In December 2014, the US Department of Labor and the US State Department linked Malaysia's palm oil sector to human trafficking and forced labor, and ranked the country at Tier 3, its lowest ranking, for allegedly making insufficient efforts to combat human trafficking.

The Arakan Project, which monitors the movements of refugees in Southeast Asia,

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## Most associated companies: Food and Beverage sector in Malaysia

1. Cargill Inc
2. IOI Corp Berhad
3. Wilmar International Limited
4. Felda Holdings Berhad
5. Kuala Lumpur Keong

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## Most associated projects: Food and Beverage sector in Malaysia

1. Lassa Land District Concession
2. National Feedlot Centre Project
3. Pitas Shrimp Park

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estimated that around 50,000 people had been trafficked to Malaysia between 2014 and 2015, and that many had suffered hazardous journeys after being lured with attractive job offers. Friends of the Earth has claimed that the palm oil companies confiscate the passports of migrants so that they can threaten deportation or imprisonment if they leave employment.

# Food and Beverage sector

In 2014, Finnwatch reported serious abuse on Malaysian plantations owned by the IOI Group and claimed that the company was paying workers below the legal minimum wage, blocking their right to form unions, and violating international agreements on human rights.

In February 2015, a report by Chain Reaction Research analyzed the investment structure of the Malaysian palm oil company Kuala Lumpur Keong (KLK), a company partly owned by Batu Kawan. The NGO claimed that 70 percent of the palm oil products sold by KLK were derived from raw materials provided by non-traceable external suppliers, and warned that the firm's lack of transparency in its supply chain might expose its customers, such as Unilever, Procter & Gamble, and Mitsui to reputational and sustainability risks. In 2013, an investigation by Bloomberg had already linked KLK to the use of forced labor on palm oil plantations in Indonesia, and had accused Batu Kawan of subjecting workers to "gruesome" conditions.

An investigation by the Wall Street Journal in July 2015 reportedly uncovered evidence of abusive working conditions on Malaysian palm oil plantations owned by Fel-da Global Ventures, a company that allegedly supplies Cargill, Nestle, and Procter and Gamble. The WSJ claimed that migrants had been illegally trafficked to Malaysia to work for one of Fel-da's contractors, and had been forced into

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## Most associated NGOs: Food and Beverage sector in Malaysia

1. Rainforest Action Network
2. Greenpeace International
3. Union of Concerned Scientists
4. SumOfUs
5. Borneo Resources Institute of Malaysia

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## Top ESG Issues: Food and Beverage sector in Malaysia

1. Impacts on ecosystems and landscapes
2. Controversial products and services
3. Impacts on communities
4. Human rights abuses and corporate complicity
5. Global pollution (including climate change and GHG emissions)

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debt bondage. Fel-da is reportedly a signatory of the Roundtable on Sustainable Palm Oil, which raises concerns about the organization's aim of promoting sustainable palm oil production. Fel-da is also a supplier of Wilmar, a company criticized by the Rainforest Action Network at the beginning of 2016 for fail-

# Food and Beverage sector

ing to meet its self-imposed December 2015 deadline to eliminate rainforest destruction, climate pollution, and human rights violations from its operations.

In November 2015, Friends of the Orangutans and other NGOs accused BLD Plantation Berhad of threatening and expelling communities from their ancestral lands to develop a palm oil plantation within the Lassa Land District Concession in the Malaysian state of Sarawak.

Ferrero SpA, which allegedly sources almost 80 percent of its palm oil from Malaysia, also drew criticism from the French Minister of Environment, Ségolène Royal, who publicly urged the company to stop using palm oil in its Nutella hazelnut spread.

Towards the end of 2015, the palm oil industry was linked to forest fires in Indonesia that caused haze across Malaysia, Cambodia, and Singapore. Palm oil suppliers were accused of using slash-and-burn practices to make way for palm oil plantations. According to the World Resources Institute, the daily estimated greenhouse gas emissions from the forest fires surpassed the daily emissions of the US economy.

In March 2016, a report by Greenpeace analyzed the palm oil supplies of 14 multinational corporations. The NGO criticized companies such as PepsiCo for using the

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## Top ESG Topic Tags: Food and Beverage sector in Malaysia

1. Palm oil
  2. Endangered species
  3. Indigenous peoples
  4. Land grabbing
  5. Migrant labor
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GreenPalm trading scheme to offset their use of uncertified palm oil, instead of taking steps to ensure that their palm oil was “deforestation-free.”

Other areas of Malaysia’s Food and Beverage sector have also faced criticism. In March 2016, two ministers faced prison sentences for accepting bribes from MFM Utara Enterprise and MNS Utara Enterprise in exchange for procuring subsidized rice from the Ministry of Agriculture and Agro-Based Industry.

A month later in April 2016, around 2,500 villagers in Pitas, in the Malaysian state of Sabah, raised concerns about a plan by Sunlight Inno Seafood to expand the company’s Pitas Shrimp Park. Sunlight Inno Seafood is a joint venture between Inno Fisheries and Sunlight Seafood Sabah. The villagers claimed that the project had already depleted more than 2,300 acres of resources and had

# Food and Beverage sector

affected the livelihoods of farmers and fishermen. The community allegedly depends on the complex ecosystems of the mangrove swamps for their livelihoods, building materials, and traditional medicine, but now only around 1,000 acres of mangrove swamps remain. The communities complain that the company's promises of job opportunities, infrastructure, and socioeconomic benefits have not materialized.

**The Pitas Shrimp Park in Sabah has already depleted more than 2,300 acres of resources which are crucial to the survival of the local communities.**

# Methodology

RepRisk Special Reports are compiled using information from the RepRisk database, which monitors environmental, social and governance (ESG) risks or companies, projects, sectors and countries. The RepRisk database currently contains risk incidents on over 65,000 public and private companies, as well as over 17,000 projects. RepRisk analysts monitor the issues related to ESG risk across a broad shareholder and other stakeholder audience of NGOs, academics, media, politicians, regulators and communities. Once the risk incident has been identified with advanced search algorithms and analyzed for its novelty, relevance and severity, risk analysts enter an original summary into the database and link it to the companies and projects in question. No article is entered twice unless it has been escalated to a more influential source, contains a significant development, or has not appeared for the past 6 weeks.

# Disclaimer

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