

REPRISK CASE STUDY

IOI Group

Suspension by the Roundtable on Sustainable Palm Oil (RSPO)

What happened

In late March 2016, the Roundtable on Sustainable Palm Oil (RSPO) announced that as of April 1, 2016, they were suspending the RSPO certification of IOI Corporation Berhad (IOI Group), a leading Malaysian palm oil producer, due to complaints it had received about its subsidiaries, PT Sukses Karya Sawit, PT Berkat Nabati Sawit, and PT Bumi Sawit Sejahtera. The RSPO claimed that the IOI had breached RSPO Principle 2: Compliance With Applicable Laws and Regulations, and Principle 7: Responsible Development of New Plantings.

Following the suspension, Moody's announced that it was reviewing a possible downgrade of the credit ratings of the IOI Group and warned that the company's earnings could deteriorate as a result of the suspension. Moody's also warned that the company could face reputational damages, as this was IOI's second suspension in five years.

Numerous multinational companies including Colgate-Palmolive, Hershey's, Johnson & Johnson, Kellogg, Mars, Nestlé, Procter & Gamble, and Unilever then announced that they would cease trading with the IOI Group due to the RSPO suspension.

In May 2016, IOI Group filed an appeal with the RSPO Complaints Panel, announcing that it had filed a case with the Zurich District Court in Switzerland on the grounds that the suspension

Case Study Timeline

2016

March 14

The Complaints Panel of the RSPO decides to suspend the IOI Group.

March 25

The RSPO Board of Governors endorses the decision of the Complaints Panel.

April 1

The RSPO officially announces suspension effective from Monday, April 4, 2016.

April

Kellogg, Mars, Nestlé, and Unilever announce plans to cease sourcing palm oil from the IOI Group.

May 10

Moody's Investors Services places on review for downgrade the Baa2 Issuer rating of IOI Group, the Baa2 senior unsecured bond rating of IOI Investment Berhad, and the Baa2 senior unsecured bank credit facility rating of IOI Ventures Berhad.

was disproportionate to the complaints. However, in June 2016, the company dropped its lawsuit and announced that it would actively work with the RSPO to resolve the problems.

Consequences for IOI Group

Following the RSPO's suspension, announced on March 14, 2016, IOI Group's share price fell by about 7 percent. Analysts however warned that the main damage caused by the RSPO suspension would be to the company's reputation as a

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sustainable palm oil producer, and claimed that even if the company took action, it could still take a year for the suspension to be lifted.

As a result of the suspension, the IOI Group will no longer be able to sell its palm oil as “certified sustainable” under the RSPO trademark. The research arm of the Malaysian-based CIMB Group warned that the IOI Group could face a loss of customers or additional costs, as they would need to purchase RSPO certified palm oil from third parties in order to fulfill existing contracts. CIMB also claimed that banks, which provide commodity trade financing, would most likely be reluctant to deal with IOI Group during the RSPO suspension.

The IOI Group admitted that the suspension had caused “significant disruption” to its business and had affected the company’s 25,000 shareholders as well as local farmers in its supply chain and other staff.

The RSPO is keen to respond to critics who have complained that its standards are too lax. They are likely to ensure therefore that the IOI Group strictly adheres to the criteria of “zero deforestation, no planting on peat, and enhanced human rights obligations.”

Was it predictable?

Since 2008, RepRisk has detected ongoing and systematic criticism of IOI Group’s palm oil activities. International NGOs, including

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Greenpeace, Friends of the Earth, and Rainforest Rescue, have repeatedly accused IOI of violating RSPO standards by allowing its subsidiaries to clear peatland and high conservation value forests, and illegally plant outside the authorized boundaries of their concessions. The NGOs have warned that these practices not only destroy the remaining forests and the habitats of endangered species, but also contribute to higher carbon emissions, and increase the risk of fire.

In August 2014, the RSPO issued a warning to IOI Group and its subsidiary Loders Crokiaan for not addressing complaints of non-compliance with its standards and procedures.

One year later, in August 2015, Chain Reaction Research criticized the IOI Group for failing to comply with RSPO standards, and warned that it could face suspension of its RSPO certification.

In November 2015, the group faced a barrage of criticism from a wide range of stakeholders. The Rainforest Action Network accused the IOI Group of contributing to the destruction of the Leuser Ecosystem, a vast, ancient landscape located on the island of Sumatra.

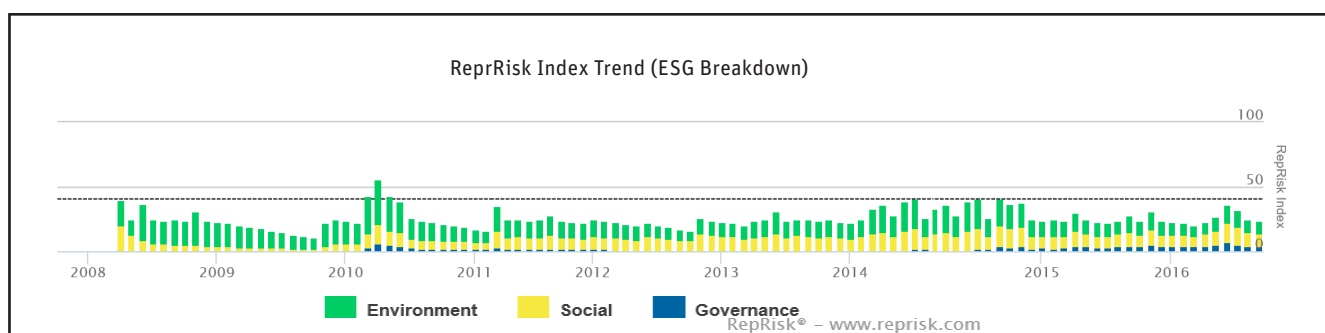


Figure 1: RRI¹ of IOI between January 2008 and September 2016. Source: RepRisk www.reprisk.com

¹ The RepRisk Index (RRI) is a proprietary algorithm that dynamically quantifies reputational risk exposure related to ESG issues. It facilitates an initial assessment of the ESG and reputational risks associated with financing, investing, or conducting business with a company. The RRI ranges from zero (lowest) to 100 (highest). The higher the value, the higher the risk exposure: 0-25 = low risk exposure, 26-49 = medium risk exposure, 50-59 = high risk exposure, 60-74 = very high risk exposure, 75-100 = extremely high risk exposure.

The Environmental Investigation Agency, a UK-based campaigning group, also warned that the IOI Group had failed to effectively resolve major, well-evidenced RSPO complaints from 2010 onwards, and warned that the company faced a high risk of suspension from the RSPO. Greenpeace International claimed that IOI Group's destruction of peatland and forests had contributed to the fires that had been sweeping across Indonesia since July 2015, causing a haze crisis in neighboring Malaysia and Singapore and reaching as far as southern Thailand.

In February 2016, BankTrack linked the IOI Group to various labor violations such as blocking foreign workers from joining trade unions, withholding their passports, and paying them below the minimum wage.

Company Description

IOI Corporation Berhad (IOI Group) is a Malaysia-based investment holding company engaged in the cultivation of oil palm and processing of palm oil. IOI Group comprises of companies helmed by IOI Corporation Berhad.

What RepRisk data captured

2008 – 2014 Greenpeace, Friends of the Earth, Rainforest Rescue, and other NGOs repeatedly accuse IOI Group of violating RSPO standards by allowing subsidiaries to clear peatlands and rainforests.

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November 2015

- The Rainforest Action Network links the IOI Group to the destruction of the Leuser Ecosystem on the island of Sumatra.
- The Environmental Investigation Agency warns that IOI Group risks RSPO suspension.
- Greenpeace International claims that IOI's destruction of peatland and forests contributed to the fires that swept across Indonesia in the autumn of 2015.

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