

Too Green to be True

IOI Corporation in Ketapang District, West Kalimantan

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Summary

This report demonstrates that despite extensive commitments to sustainability via corporate social responsibility policies and engagement in multi-stakeholder initiatives, the IOI Corporation is failing to live up to its green reputation. To put into the spotlight what is really happening on the ground, Milieudefensie commissioned Aidenvironment to investigate a number of IOI's oil palm plantations in the south of Ketapang, West Kalimantan, Indonesia, where the company is expanding. Based on the findings of this study, Milieudefensie argues that policy-decision makers and buyers cannot rely on perceived sustainable reputations when making decisions about the feasibility of green targets or purchasing agreements.

Green Reputation

The IOI Corporation is one of the largest palm oil companies in the world. It is based in Malaysia and is now expanding into Indonesia. Apart from plantations and palm oil mills, the company also operates refineries and manufacturing facilities, among them installations in the Netherlands and North America. More recently, IOI has been put on the foreground by Neste Oil as a showcase supplier for biofuels production. Neste Oil plans to capture a big part of the biofuels market in Europe with palm oil-based NExBTL fuel.

IOI is a co-founder of the Round Table on Sustainable Palm Oil (RSPO) and has played an active role in shaping the scheme. The company has several of its estates in Malaysia certified as complying with the RSPO standard. IOI's engagement in the RSPO and its corporate social responsibility (CSR) policies have earned it a green reputation among policy decision-makers, biofuel companies and food retailers. The question arises, to what extent are such perceptions founded on glossy public relations and to what extent are they founded on the realities on the ground?

Checks on the ground

Milieudefensie (Friends of the Earth Netherlands) started an investigation into what is really happening on the ground in the areas where IOI is expanding its plantation acreage. The study focused on three of IOI's majority held subsidiar-

ies in Ketapang (PT Sukses Karya Sawit, PT Bumi Sawit Sejahtera and PT Berkat Nabati Sejahtera). Apart from fieldwork, the analysis is based on these companies' own maps and reports. The findings represent major challenges to IOI's compliance with its own corporate responsibility policy, the RSPO requirements and Indonesian legislation.

No approved Environmental Impact Assessments

Evidence was found that IOI developed plantations without approved Environmental Impact Assessments (EIAs). Satellite imagery, field research and villager's interviews confirm that land clearing and planting of oil palms has already started in three of IOI's plantations without the approval of legally required EIAs

Fraudulent Statements

In West Kalimantan companies submitting their Environmental Impact Assessments for review must state in writing that no physical activities on the ground will be undertaken until the EIAs are reviewed and approved. The director of two IOI subsidiaries in Ketapang issued and signed such statements in July 2009 while plantation development was already ongoing. This amounts to intentional fraud. Satellite imagery demonstrates that land clearing continued after the statements were signed.

Unauthorised plantation development in forestland

It is IOI's policy to conduct its operations in compliance with the laws and regulations in which the company operates. Plantation companies who have been allocated concessions in forestlands are required to obtain full approval. PT BSS has already developed a nursery and constructed a canal in the Sungai Jelai forest reserve, while the company has only obtained preliminary approval to start delineation in the field. Furthermore, satellite imagery suggests that PT BNS has cleared Production Forest outside its concession boundary.

Encroachment in forested land

In its Corporate Responsibility statement, IOI commits to strictly avoid deforestation. Whereas

river buffer zones have been retained in some areas, deforestation has occurred in forest areas identified in the EIA reports of PT SKS and PT BNS.

Encroachment on peat land

IOI's Corporate Responsibility policy is to strictly not encroach in peat land. However, several of IOI's subsidiaries in Ketapang have extensive peat lands. According to the Environmental Impact Assessment of PT BNS, this concession area comprises 88% peat land. An extensive network of canals is being dug in these peat lands.

Fires on IOI concessions in Ketapang

IOI is strictly committed to a zero-burning policy. However, data from the Fire Information Management System (FIRMS) for the years 2007-2009 show a substantial increase in fire hotspots in newly cleared land in PT SKS and PT BNS. This indicates that IOI's zero-burning policy does not effectively prevent fire outbreak during land clearing.

Land conflicts in the making

IOI's Corporate Responsibility policy is not explicit about its land acquisition practices. Villagers from the PT SKS and PT BNS areas have been informed about the company's plans. However, several signboards have been put up by farmers, warning outsiders to not encroach in their land. This raises concerns that the companies' rapid plantation development activities will trigger land conflicts.

Conclusions and recommendations

The picture that arises from our investigation differs considerably to the promise of sustainable palm oil that is being presented by the IOI Corporation. As IOI is expanding its plantations to capitalise on the growing market opportunities for palm oil, it is failing in Ketapang to live up to the standards it has subscribed to.

Decision-makers in the marketplace and in the political arena cannot rely on the pronounced green ambitions, partial certification, glossy PR and participation in multi-stakeholder initiatives. Green credentials presented by the company itself and by voluntary stakeholder initiatives are

no guarantee for sustainable practices in the field.

Milieudefensie cautions that without strict law enforcement in producer countries and without legally binding sustainability criteria for the import of palm oil, plantation expansion will continue to negatively affect the environment.

Introduction

Policy-makers, biofuel companies and retailers in the food industry rely heavily on voluntary producer efforts to work towards more sustainable practices. In recent years, many palm oil companies have developed and communicated extensive Corporate Responsibility (CSR) policies. They have engaged in multi-stakeholder initiatives, like the Roundtable on Sustainable Palm Oil (RSPO), and they have entered into certification trajectories for (part of) their estates.

Over time, this public engagement with sustainability can create the perception that it is implausible that such companies are involved in major environmental malpractices. In fact, the top management of a supplier company may be convinced of the same.

Such perceptions play an important role in the formulation of formal purchasing policies and targets. However, to what extent are such perceptions founded on glossy public relations materials and to what extent are they founded on the realities on the ground?

The IOI Corporation is a palm oil company with a reputation for its efficiency in palm oil yields. It has been a key player in support of the RSPO and several of its plantation estates have already been certified. The company is directly exposed to the environmentally critical European mar-

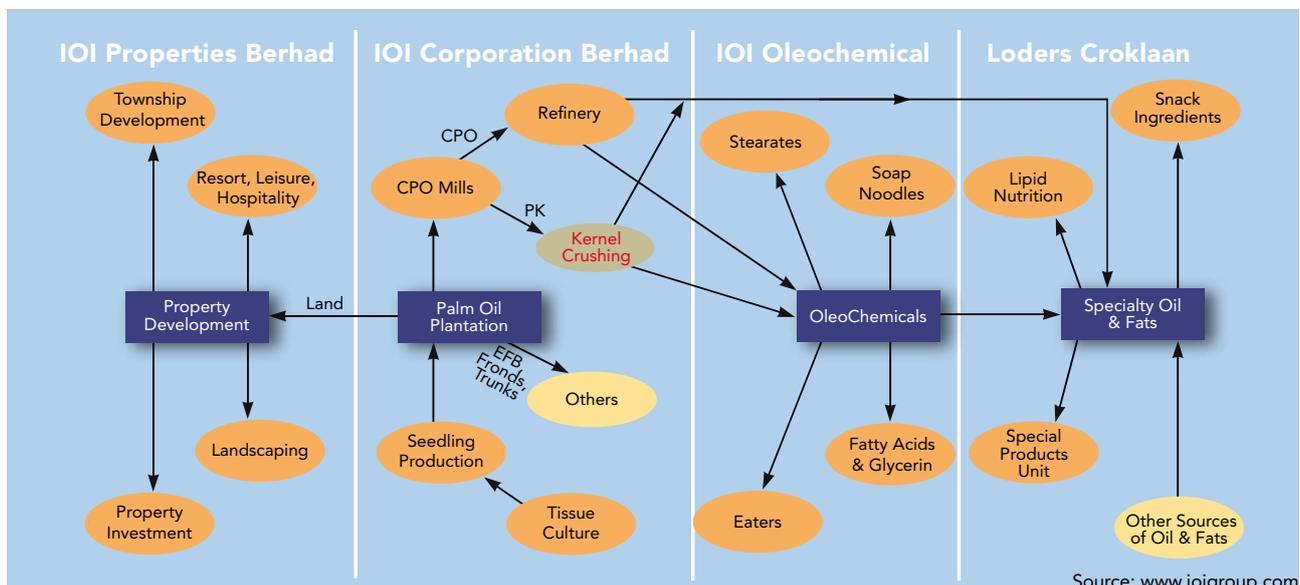
ket through its refineries in the Netherlands. It maintains close ties with Europe's main palm oil consumer, Unilever. The IOI Corporation also has a partnership with the Finish oil company Neste Oil, and is presented by Neste Oil as a showcase for sourcing 'green' palm oil for Neste's biofuel. With such credentials, it is hard to believe that a company like IOI could possibly be in violation of its own corporate sustainability standards, let alone those of the RSPO or the laws of the countries where the company operates.

IOI's business activities

IOI Group (IOI) is an integrated palm oil business. It comprises palm oil plantations, processing facilities and has divisions producing oleochemicals and specialty oil and fats. Besides palm oil activities, IOI is also a developer of real estate and hotels. Image 1 displays the IOI's structure and activities.

IOI is the largest Malaysian palm oil group that is listed on the Kuala Lumpur stock exchange and one of the largest palm oil companies in the world. IOI's plantation activities are located in Malaysia (Sabah, Peninsular Malaysia and Sarawak) and Indonesia (Kalimantan and Sumatra). Its total titled plantation land bank stood at over 172,000 ha in mid of 2009. In addition to Malaysia, IOI also has manufacturing facilities in the Netherlands, United States, Canada and

IOI Group structure and activities.



Egypt. Its four crude palm oil (CPO) refineries in Sabah, Johor and the Netherlands have a combined capacity of 3.35 million metric tonnes (MT) palm oil per year. In the 2009 fiscal year, IOI's total revenues amounted to RM 14.6 billion (€ 3.2 billion) with a pre-tax profit of RM 1.55 billion (€ 337 million).¹

IOI's two main shareholders are Tan Sri Dato' Lee Shin Cheng and Dato' Lee Yeow Chor, both holding an interest of 39% of total share value.² In 2009, Dato' Lee Shin Cheng was listed by Forbes as the third richest man in Malaysia.³

IOI's subsidiary in the Netherlands, Loders Croklaan, currently operates a refinery in Zaandam with a 850,000 MT/year processing capacity. Loders Croklaan is expanding its operations in the Maasvlakte (Rotterdam) where it is constructing a second refinery with a 300,000 MT/annum capacity.

IOI owns one biofuels plant in Sabah but this facility is currently dormant.⁴ However, in its partnership with Neste Oil, a Finish company that aims to become Europe's leading supplier of biofuels, IOI remains a major global player in the biofuels business.⁵

IOI is well-known to be one of the plantation companies with the most efficient palm oil yields per hectare of plantation, but the prospect of additional palm oil demand in the market for food and biofuels has led IOI to expand its plantation land bank in Malaysia and Indonesia.

IOI and the Promise of Sustainable Palm Oil

For over a decade now, the sustainability of palm oil production has been hotly debated worldwide. This debate has led many major plantation company groups to develop corporate social responsibility (CSR) policies. They have joined the Round Table on Sustainable Palm Oil (RSPO) and they have started to have plantation estates certified according to RSPO standards.

IOI is a co-founder of RSPO and has played an active role in shaping the scheme. In February 2009, several one of its estates in Sabah (Malaysia) were certified as complying with the RSPO standards.⁶ The company has since had several other estates audited and by mid-2011, IOI aims to have all of its 80 plantation estates and 12 Crude Palm Oil (CPO) mills RSPO certified. By that time, these estates would be producing 1 million tons of CPO.⁷ It is not clear if



this commitment includes IOI's estates in Indonesia.⁸

IOI's ambitious targets, its leading role in RSPO and, perhaps, its glossy PR materials that amply highlight sustainability (see e.g. image 2) may appear convincing enough to entice policy-makers and food and biofuels retailers to believe that a company like IOI could not be involved in environmental malpractice. IOI's CEO, Dato' Lee Yeow Chor, leading position as the Chair of the Board of Trustees of the Malaysian Palm Oil Council (MPOC) can furthermore be seen as increasing the credibility of this hybrid private sector-government palm oil lobby group.

The question arises of whether decision makers can rely on IOI's environmental commitments in their policy and purchasing decisions. Milieudefensie investigated the expansion activities of IOI's majority owned operations in Ketapang district to check on whether IOI's promise of sustainability could be relied upon. The investigation involved a review of compliance with Indonesian laws and RSPO standards. In February 2010, field research was conducted by Aidenvironment, in particular in the concession areas of IOI subsidiaries PT Sukses Karya Sawit, PT Bumi Sawit Sejahtera and PT Berkat Nabati Sejahtera. The field research was complemented with document review and satellite image analysis.

IOI: ensuring a renewable and sustainable source of palm oil?

Source: IOI annual report 2009.

2. IOI in Ketapang district, West Kalimantan, Indonesia

On 19 November 2007, IOI announced on the Kuala Lumpur Stock Exchange website that the company had successfully acquired majority shareholdings (67%) in various plantation estate companies in Ketapang district in West Kalimantan, Indonesia.⁹ With these subsidiaries, IOI has a landbank available for oil palm plantation development in a total area of 52,704 ha.¹⁰ The names of majority-held IOI subsidiaries and their tentative land banks are presented in Table 1.

The locations of the majority held IOI subsidiaries in Ketapang district are shown in image 3. The notary acts of four of the five IOI subsidiaries in Ketapang reveal that the key management positions of these companies are held by top managers of the IOI Group of Companies.

The management of the majority held IOI subsidiaries in Ketapang thus falls under the direct responsibility of IOI's top executives.

Table 1. Majority held IOI subsidiaries in Ketapang district.¹¹

Subsidiary	Acronym	Location (sub-district)	Tentative acreage (ha)
1. PT Ketapang Sawit Lestari	PT KSL	Matan Hilir Selatan	15,680
2. PT Sukses Karya Sawit	PT SKS	Manismata	8,608
3. PT Berkat Nabati Sejahtera	PT BNS	Manismata	8,576
4. PT Bumi Sawit Sejahtera	PT BSS	Manismata	7,040
5. PT Kalimantan Prima Agro Mandiri	PT KPAM	Laur	12,800
Total			52,704

Image 3. IOI's majority held plantation concessions in Ketapang district.

Source: various, including Location Permit maps, Ketapang District Plantation Office plantations map 2009 and Flora and Fauna International plantation map. Base line image: ASTER 2009.



Table 2. Management structures of four IOI subsidiaries in Ketapang district.

Names	Position in IOI subsidiaries				Position in IOI Corporation
	PT SKS	PT BNS	PT KPAM	PT BSS	
Lee Shin Cheng	President Commissioner	-	President Commissioner	President Commissioner	Executive Chairman of IOI Corp.
Lee Yeow Chor	Commissioner	-	Commissioner	Commissioner	Executive Director of IOI Corp. (Also Chair of the Board of Trustees of MPOC)
Lim Hariyanto Wijaya	Commissioner	-	Commissioner	Commissioner	-
Foong Lai Choong	President Director	President Director	President Director	President Director	Group Plantation Director
Lim Eik Hoy	Director	Director	Director	Director	General Manager (Finance)
Yeo How	Director	Director	Director	Director	Former Executive Director of IOI Corp.
Goh Hock Sin	Director	Director	Director	Director	General Manager, Indonesia
Lim Gunardi Hariyanto	Director	Director	Director	Director	-
Johannes Tanuwijaya	Director		Director	Director	-

Source: companies deeds of notary acts.

3. Investigation findings

During the investigation, a series of suspected legal irregularities and environmental malpractices were detected.

3.1 Plantation development without approved Environmental Impact Assessments

“IOI holds firmly to operating its business in ways that meet regulatory requirements on environmental impact in the countries or markets in which we operate.”

IOI Corporate Responsibility Policy Statement ¹²

In Indonesia, plantation companies are not allowed to commence significant physical activities on the ground until, among other requirements, the approval of their Environmental Impact Assessments been issued by the relevant authorities, and an Environmental Permit has been obtained. The latter is a requirement for the issuance of a Plantation Business Permit.¹³

The investigation found that, as of February 2010, none of the majority-held IOI subsidiaries in Ketapang district had obtained approval of their EIAs from the West Kalimantan authorities (see Table 3).

One IOI subsidiary, PT Ketapang Sawit Lestari, had not yet submitted its EIA report to the EIA Commission by February 2010. In so far as could be determined, no land clearing activities had taken place in this concession area at the time of investigation.

Four IOI subsidiaries in Ketapang, namely PT Sukses Karya Sawit, PT Berkat Nabati Sejahtera, PT Bumi Sawit Sejati and PT Kalimantan Prima Agro Mandiri, had filed their EIA reports (Terms of Reference) to the EIA Commission. These have been reviewed by the EIA Commission, but the environmental management and monitoring plans have yet to be reviewed. Approval of the EIA process by the West Kalimantan Governor was still pending by February 2010. None the IOI subsidiaries could therefore apply for an Environmental Permit.

Satellite imagery and field research demonstrates that PT Sukses Karya Sawit, PT Berkat Nabati Sejahtera, PT Bumi Sawit Sejati have already started land clearing and planting of oil palms without the legally required EIA approval. The evidence is as follows:

IOI’s Annual Report 2009 states that PT Sukses Karya Sawit and PT Berkat Nabati Sejahtera are

Table 3. Status of EIA review for IOI’s majority-owned subsidiaries in Ketapang district (February 2010).

Company name	Document review by EIA Commission			Approval by the Governor	Activity on the ground as of February 2010
	EIA report / terms of reference	Environmental management plan	Environmental monitoring plan		
PT Sukses Karya Sawit	10 November 2009	-	-	-	Active
PT Berkat Nabati Sejahtera	10 November 2009	-	-	-	Active
PT Bumi Sawit Sejahtera	8 March 2009	-	-	-	Active
PT Kalimantan Prima Agro Mandiri	8 March 2009	-	-	-	Not active
PT Ketapang Sawit Lestari	-	-	-	-	Not active

Source: EIA Commission 2010; field research.

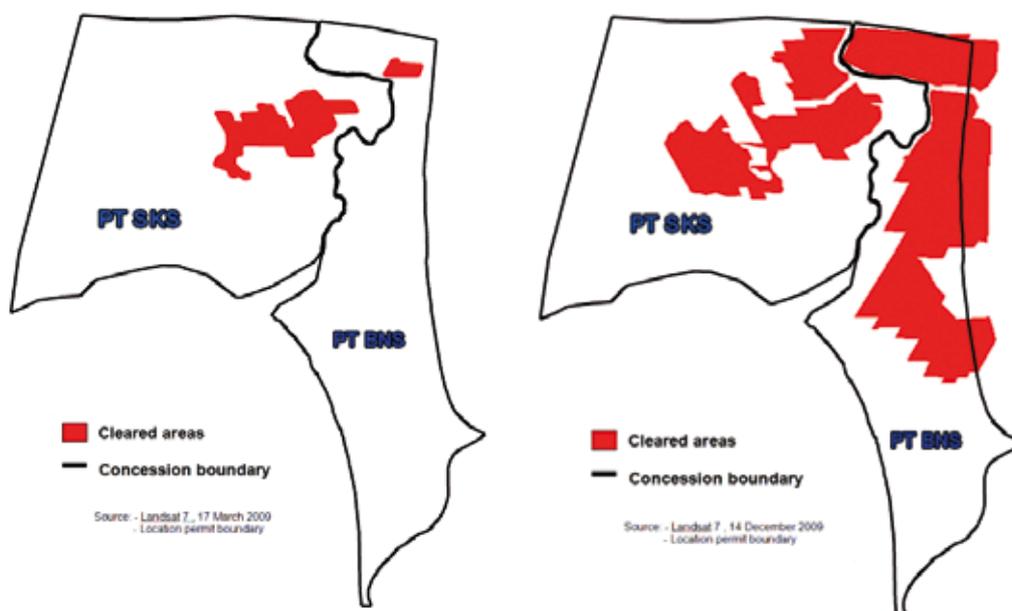


Image 4. Land clearing in PT SKS and PT BNS. Left: March 2009; Right: December 2009.

Source: interpreted Landsat 7 SLC Off images 17 March 2009 and 14 December 2009.

cultivating oil palm while the other three companies are still in the “pre-operating” stage. It is also stated elsewhere in the Annual Report that IOI’s planted acreage in Indonesia amounted to 2,110 hectares by the end of 2009.¹⁴

Villagers interviewed during the research in February 2010 stated that PT SKS and PT BNS commenced land clearing around the end of 2008 to early 2009.

Satellite imagery confirms villagers’ statements that parts of the PT SKS and PT BNS concessions had already been opened up by March 2009. A more recent image shows that PT SKS and PT BNS had cleared approximately 7,000 and 3,500 hectares of land respectively as of December 2009. The areas cleared up to December 2009 are shown on image 4.

Field observations in February 2010 confirmed that activities on the ground at PT SKS and PT BNS are already proceeding. See image 5 for an example of established oil palm plantations in PT SKS.

For PT BNS, see image 7. During a site visit to PT BSS, it was observed that this company had already proceeded with an oil palm nursery and extension clearing, a road and canals (see images 11 and 12 further below).

IOI’s challenge

Unless IOI can demonstrate that the plantation development activities in PT SKS, PT BNS and PT BSS meet regulatory requirements on environmental impact in Indonesia, such as by demon-



Image 5. Young oil palms growing in PT SKS area, February 2010.

strating that Environmental Permits have been obtained or that Environmental Audits have been filed with the relevant authorities, it must be concluded that these developments took place in violation of the Environmental Protection and Management Act Nr 32 (2009).

Image 6: Sworn statements from the director of PT BNS and PT SKS (July 2009).



3.2 Fraudulent statements regarding physical activity on the ground

"..We conduct our operations with honesty, integrity, duty of care (...) in the countries or markets in which we operate."

IOI Corporate Responsibility Policy Statement

Plantation companies who submit their Environmental Impact Assessment reports for review by the EIA Commission are required by the West Kalimantan government to declare in writing that no physical activities on the ground will be undertaken until the EIA is reviewed and approved.

Image 7. Oil palms in PT BNS, apparently planted in May 2009.

Note: the age of the oil palms and block marker (05/09) suggest that the company had planted this area in May 2009.



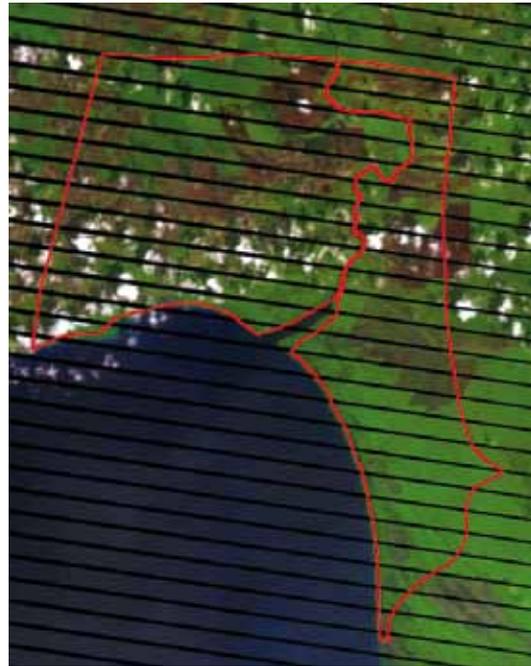


Image 8 and 9:
Land clearing in
PT SKS and PT
BNS between 8
August 2009 and
14 December
2009.

Source: 7 SLC Off
images 8 August
2009 and 14 De-
cember 2009.

**Land clearings
are visible as
brown colour.**

IOI's subsidiaries have also signed such statements. Copies of two such statements were obtained. In these statements dated July 2009, the directors of PT Berkat Nabati Sejahtera and PT Sukses Karya Sawit state, without reservation, that no physical activities will be undertaken until their companies' EIA reports are approved. The directors declare to be prepared to face sanctions, if and when it would be found that these statements were untrue (image 6).

In addition to the evidence provided in the previous section, during the field investigation plantation estate block markers were observed, suggesting that plantation development had commenced even before the EIA reports were submitted to the authorities (PT SKS: see image 5; PT BNS: see image 7).

Satellite imagery demonstrates that land clearing in PT SKS and PT BNS continued after 13 July 2009, when the director of both companies had declared in writing that the company would not undertake physical activities on the ground pending the approval of the company's EIA (image 8 and 9).

IOI's challenge

Unless IOI can demonstrate that it is not responsible for the land clearings and oil palm plantings in PT SKS and PT BNS prior to and after 13 July 2009, when the companies' director declared in writing that the company would not undertake physical activities on the ground pending the approval of the company's EIA, it must be concluded that the director of these two IOI subsidiaries committed intentional fraud.

3.3 Unauthorised plantation development in permanent forest

"..We conduct our operations (...) in compliance with laws and regulations of the countries or markets in which we operate."

IOI Corporate Responsibility Policy Statement

In order to protect the environment and to secure the timber industry's long term interest, a significant portion of land in West Kalimantan has been designated as forestland or permanent forest (compare: permanent forest reserves in Malaysia). The forestland is managed by the Ministry of Forestry. Through land use planning, part of the forestland area is allocated as Production Forest (i.e. for timber production) and part is set aside as Conversion Forest, i.e. forestland allocated for conversion into other land uses, such as oil palm expansion.¹⁵ Proposals for conversion of Conversion Forests must be applied for and be approved by the Ministry of Forestry, following a process of consultation, mapping and delineation.¹⁶ Cultivation of forest-

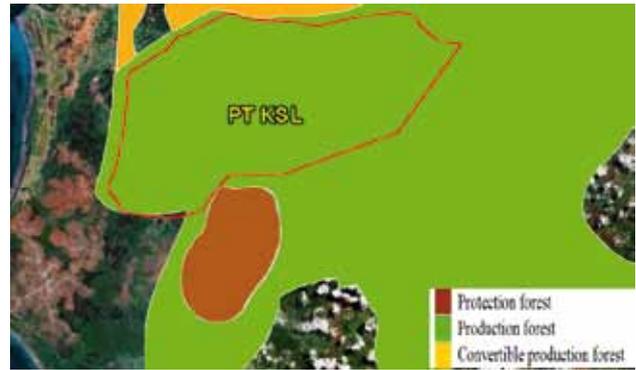
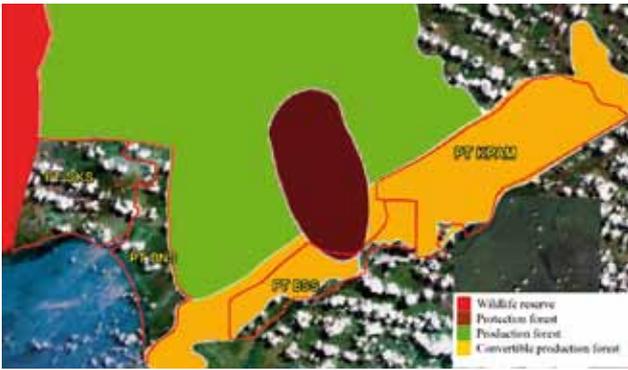


Image 10. IOI subsidiaries in relation to forestlands.

Source: forest-land map for West Kalimantan in Ministry of Forestry Decree Nr. 259/2000.

land without approval of the Ministry of Forestry, even when the area is designated as so-called Conversion Forest, is a breach of the Indonesian Forest Act.¹⁷ Without Ministerial approval, oil palm plantation companies planning to operate in forestlands cannot obtain valid Plantation Business Permits.

tion of Conversion Forest (persetujuan prinsip pencadangan HPK) for 10,140 hectares.²⁰ The principle approval allows the company to start identifying and delineating the boundaries in the field, but does not equal the letter of forestland release, which is a prerequisite for the company to obtain a Plantation Business Permit.

The oil palm concessions of three IOI subsidiaries in Ketapang overlap fully or partially with the forestland area, as shown in image 10. Image 10 shows that the concession of IOI subsidiary PT Ketapang Sawit Lestari fully overlaps with Production Forest while PT Kalimantan Prima Agro Mandiri and PT Bumi Sawit Sejahtera mostly overlap with Conversion Forest.

Images 11 and 12 demonstrate that PT BSS has already developed a nursery and opened up forest for canals in the Sungai Jelai forest area. These developments can also be detected in recent satellite imagery (Landsat SLC Off dated 31 January 2010, not presented here).

According to the list of approved forestland releases data from the Forestland Enforcement Body¹⁸ of the Ministry of Forestry, none of these IOI subsidiaries had obtained approval from the Ministry of Forestry to convert forestlands into oil palm plantations as of December 2008.¹⁹

Image 11. Oil palm nursery of PT Bumi Sawit Sejahtera in the Conversion Forest area.

As can be seen on image 10 above, PT Bumi Sawit Sejahtera (PT BSS) is largely located within the forestland area. On 15 October 2009, PT BSS obtained a principle approval of alloca-

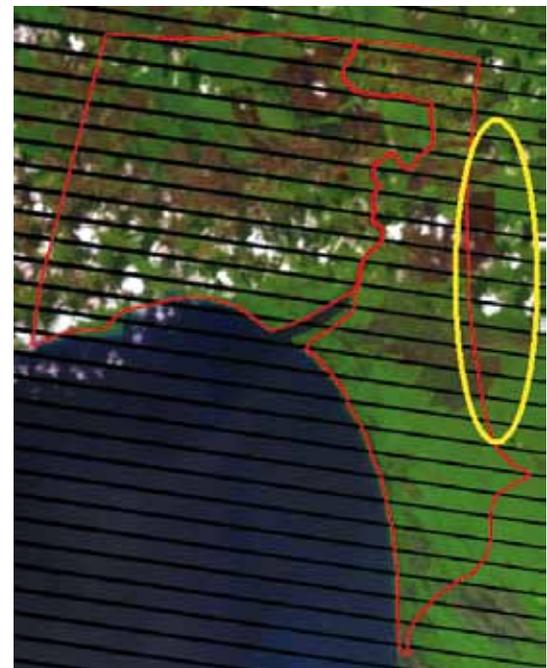


Image 13. Land clearings outside PT Berkas Nabati Sejahtera concession and inside the forestland of Danau Manismata, Red line: PT BNS concession boundary. Black lines: forestland; yellow dotted line indicates approximate areas of land clearing outside the PT BNS concession boundary. Land clearings are visible as brown colour. Concession boundary based on PT BNS Location Permit map, dated 24 September 2007.



Image 12. One of the canals constructed in PT Bumi Sawit Sejahtera. This development is located in Conversion Forest.

The concession area of another IOI subsidiary, PT Berkas Nabati Sejahtera, is not located within the forestland area (see image 8 above). However, overlay of the company’s own Location Permit map with satellite imagery strongly suggests that

the company has cleared outside its concession boundaries, inside the neighbouring Danau Manismata Production Forest area (see image 13).

IOI’s challenge

Unless IOI can demonstrate that its active subsidiaries operating in forestland areas in Ketapang have obtained the legally required forestland release letters, it must be concluded that three IOI subsidiaries commenced land clearing in the forestland area without approval of the Ministry of Forestry. As for PT BNS, overlay of the company’s own Location Map with satellite imagery suggests that this company has illegally encroached into the protected forestland outside its concession boundaries.

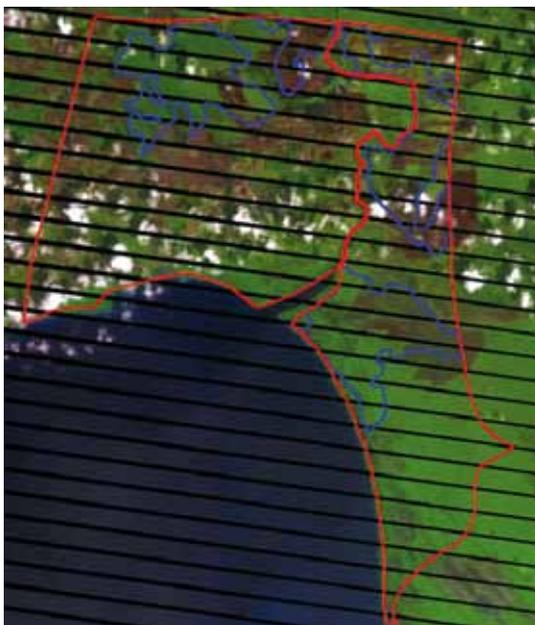


Image 16. Forest areas in PT SKS and PT BNS and land clearing activities up to December 2009.

Source: Basic layer: Landsat 7 SLC Off dated 14 December 2009. **The red lines represent the PT SKS and PT BNS concession boundaries based on Location Maps. The areas within the blue boundaries are identified as having forest cover, according to the companies’ own EIA reports. Land clearings are visible as brown colour.**

3.4 IOI encroaches on forested land

“We strictly avoid encroaching forested land (...) and/or develop new plantation estates that will result in deforestation.”

IOI Corporate Responsibility Policy Statement²⁰

IOI’s own statement with regards to avoiding encroachment into forested land was tested against the subsidiaries’ own maps in the EIA reports of PT SKS and PT BNS (images 14 and 15 and Table 4).

Image 14. Forest cover in PT SKS.
Source: PT SKS
EIA report.

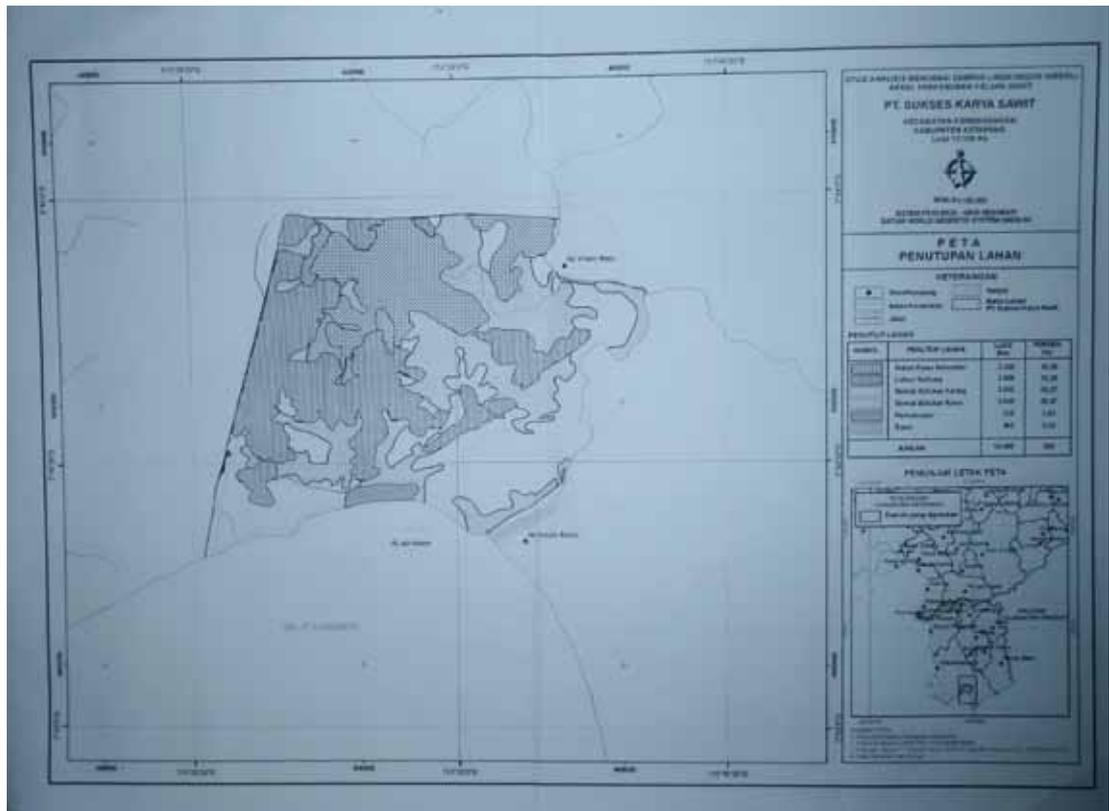
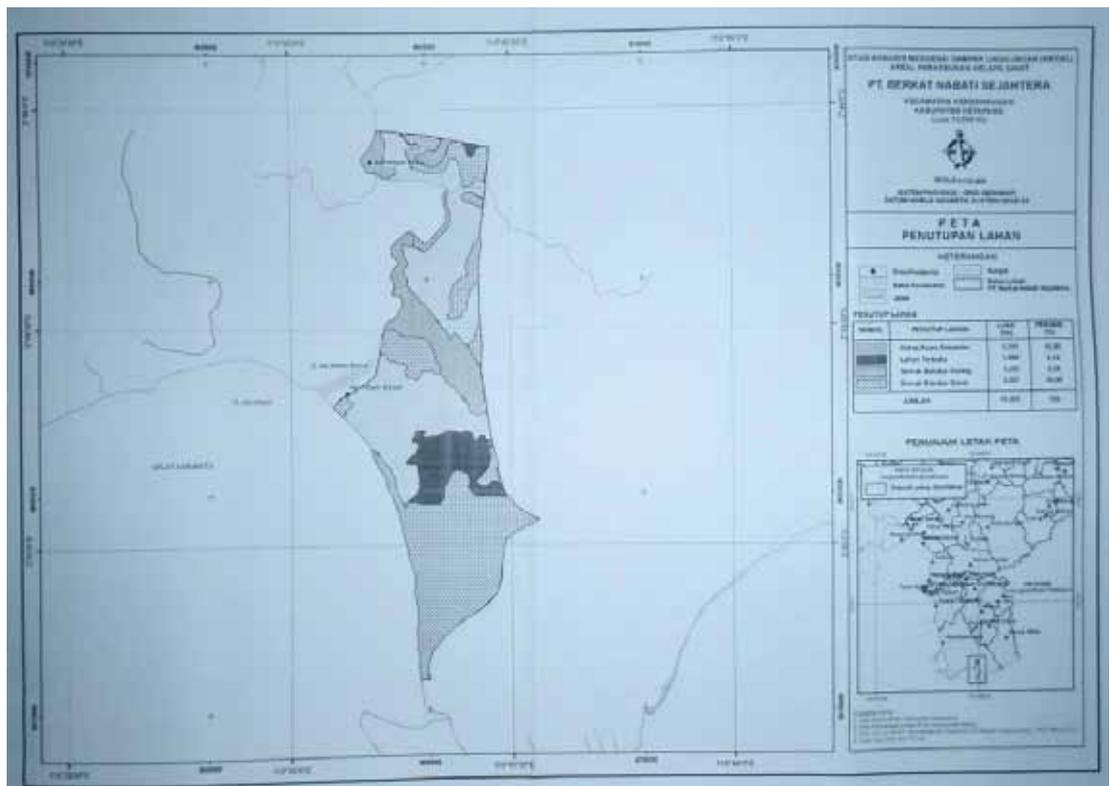


Image 15. Forest cover in PT BNS.
Source: PT BNS
EIA report.



According to the EIA reports, both PT SKS and PT BNS concessions contain swamp forests with a total area of about 8,000 hectares, almost half (46%) of the total concession area of the two IOI subsidiaries (table 4).

Table 4. Forest types and acreage in PT SKS and PT BNS.

IOI subsidiary	Size (hectare)	% of concession area
PT SKS	2,240	16.59%
PT BNS	5,781	42.82%

Source: EIA documents.

In order to determine whether IOI complies with its own policy to not contribute to deforestation, an overlay was made of the forest cover in the PT SKS and PT BNS concessions with a Landsat image of 14 December 2009. The overlay (image 16) shows land clearing activity in the areas identified in the companies' own EIA reports as having forest cover.

During the field investigation, ample signs were seen that measures are being taken to prepare for further forest clearing (see e.g. image 17).

It is also noted that in some places river buffer zones are being retained by IOI (image 18).

PT SKS is located on the left side of the river. PT BNS is located on the right side from river. Land clearings are visible as brown colour. Source: Landsat, 14 December 2009.

IOI's challenge

Unless IOI can provide evidence that the forest cover maps in its own EIA reports were incorrect, it must be concluded that the company's policy to not encroach in forested land is not complied with.

Image 18: Retained river buffer zone on the boundary of PT SKS and PT

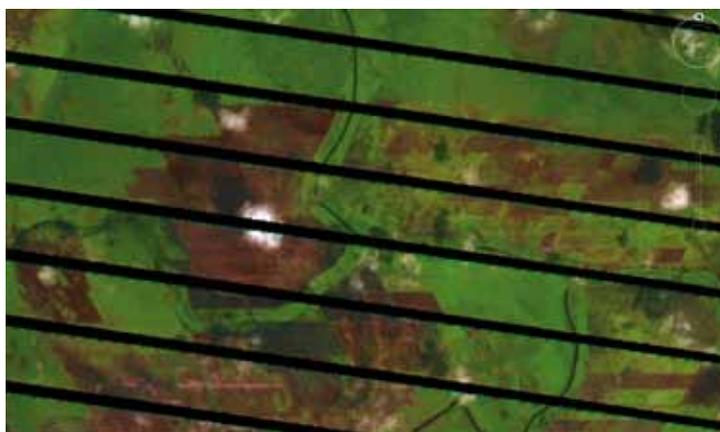


Image 17. PT Bumi Sawit Sejahtera land clearing site.



Image 19. Peat areas inside and surrounding IOI's subsidiaries. Red lines: IOI subsidiary boundaries; green peatland areas as identified in RePPPRoT's soil map.

3.5 IOI encroaches on peat land

"We strictly avoid encroaching (...) peat land (...)"
IOI Corporate Responsibility Policy Statement²²

In 1987, a soil map for Kalimantan was produced under the Regional Physical Planning Project for Transmigration (RePPPRoT), which identified peat land areas. In order to determine if IOI complies with its policy to not encroach on peat lands, an overlay was made of RePPPRoT map with the concession areas of the IOI subsidiaries.

The overlay of these maps demonstrates that there are peat lands in all five IOI concessions in Ketapang shows peat areas in and around the future oil palm plantations (image 19).

The overlay shows that the extent of peat land in each concession varies. PT SKS has a limited area of peat, while most of the PT BNS concession is situated on peat land. This is also confirmed in the companies' Environmental Impact Assessments (table 5).

During the field investigation it was confirmed that there is peat land in PT SKS and PT BNS. The water table is very high in these coastal

peatlands and the companies have already dug an extensive network of canals to create access. Most of the peat land area in PT BNS is fairly shallow, with 1-2 meter in depth. It was observed that a substantial area of peat land in PT BNS had already been cleared and planted with oil palms. In PT BNS, active peat land development was ongoing at the time of the field investigation (image 20).

IOI's challenge

Unless IOI does not consider coastal or shallow peat as peatland, it must be concluded that the company's policy to not encroach on peat land is not complied with.

3.6 Fires on IOI concessions in Ketapang

"We strictly observe a 'zero' burning policy on planting or replanting and on waste management."

IOI Corporate Responsibility Policy Statement.²³

According to IOI, zero burning technique is designed to totally overcome smoke pollution commonly associated with land clearing via slash-and-burn and to return organic matter to the soil.²⁴

In order to determine whether IOI's policy is enforced, fire hotspot data for 2007, 2008 and 2009 were obtained from the Fire Information for Management System (FIRMS).²⁵

The fire hotspot data show that prior to the start of land clearing activity in PT SKS and PT BNS, there were no hotspots in the concession areas, while there is a significant number of hot spots recorded in 2009. Several concentrations of fire hot spots occur in newly cleared areas in the PT SKS and PT BNS concessions. Scattered hot spots elsewhere are likely to have been set by paddy farmers (see image 21).

Although the concentrated occurrence of fire hotspots in newly cleared plantation development areas alone does not represent hard evidence that the IOI subsidiaries practise intentional open burning, few alternative causes could be determined (recorded rainfall in Ketapang in 2009 was not exceptionally low compared to previous years).

Table 5. Extent of peat land in PT SKS and PT BNS.

Company name	Type of peat-land	Hectares	% of concession area
PT SKS	Tropohemist	25 ha	0.59%
PT BNS	Tropohemist	11,929	88.36%

Source: PT SKS and PT BNS EIA reports.



Image 20. Active peat land development in PT BNS (February 2010). Based on satellite imagery it is estimated that some 3,700 hectares of peat land have already been opened up in PT BSN.

IOI's challenge

Unless IOI can credibly explain that the concentrated fire hot spots that occurred in newly opened up estate lands in PT SKS and PT BNS are not in any way related to the company's activities on the ground, it must be concluded that IOI's zero-burning policy does not effectively prevent fire outbreak during the land clearing process.

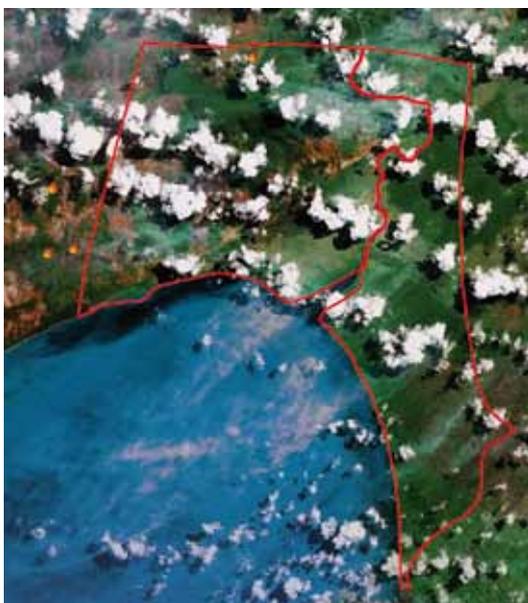


Image 21. Fire hotspots in the PT SKS and PT BNS, 2007-2008 (left) and 2009 (right). Left: 2007 and 2008 (no hot spots); right: 2009.

Source: basic layer: Google Earth; fire hot spots: FIRMS; concession boundaries: company Location Permit maps.

Image 22.
Signboard of
a community
paddy farm
inside PT BNS.

The signboard
says: "Strictly
forbidden to
grab this paddy
land! This land
belongs to many
owners. We will
destroy anything
that trespasses
this land".



3.7 Land conflicts in the making

"IOI strives to be a trusted and responsible corporate citizen through participation and contribution to the community in which we operate. Key areas of our focus include education, assistance to the deprived, racial/ community integration, practical training, and other social and welfare programs."

IOI Corporate Responsibility Policy Statement.²⁶

IOI's current Corporate Responsibility Statement and Corporate Responsibility book do not elaborate on the way in which the company deals with land acquisition, covering core RSPO concepts such as Free, Prior and Informed Consent (FPIC), transparency, representation etc.

Villagers in the PT SKS and PT BNS areas have been informed by IOI about the oil palm development in their areas at least twice in 2008: once in the city of Ketapang and once in the city of Kendawangan.

Informing communities is an important first step, but does not necessarily imply the villagers' consent with the plantation projects. During the field visit, several signboards were seen by which villagers stake their claim on the land (see image 22).

Considering lack of insight in IOI's land acquisition procedures and the speed in which land is being developed in PT SKS and PT BSN, there is reason for concern over the manner in which the companies handle land acquisition and social impacts.

IOI's challenge

Unless IOI can demonstrate that it has in place a due process for land acquisition that is supported by affected villagers, IOI's current land development activities may trigger significant land conflicts.

4. Summary and conclusions

This investigation into IOI's operations in Ketapang district, West Kalimantan, found evidence that challenges IOI Corporation's compliance with its own corporate responsibility policy, with requirements of the Round Table for Sustainable Palm Oil and with Indonesian legislation. The following observations were made:

1. Plantation development has taken place without approved Environmental Impact Assessments (conflicts with: IOI CSR policy, RSPO Partial Certification, Indonesian legislation);

2. Fraudulent statements were made regarding physical activity on the ground in relation to Environmental Impact Assessments of two plantation subsidiaries (conflicts with: IOI CSR policy, RSPO Partial Certification, Indonesian legislation);

3. Plantation development has taken place in forestlands without full approval of the Ministry of Forestry (conflicts with: Indonesian legislation);

4. Land clearing has taken place inside production forest and outside the concession boundary of one plantation subsidiary (conflicts with: IOI CSR policy, RSPO Partial Certification, Indonesian legislation);

5. Encroachment has taken place in forests as identified in the Environmental Impact Assessment reports of two subsidiaries (conflicts with: IOI CSR policy);

6. Encroachment has taken place in peat lands (conflicts with: IOI CSR policy);

7. Significant increase in fire hot spots in new developments (conflicts with: IOI CSR policy);

8. There seems to be a potential for the emergence of significant land rights conflicts (conflicts with: RSPO Partial Certification)

The picture that arises from our investigation in Ketapang differs considerably with the promise of sustainable palm oil that is presented by the IOI Corporation.

Decision-makers in the marketplace and in the political arena cannot rely on the announced green ambitions, partial certification, glossy PR and participation in multi-stakeholder initiatives. Green credentials presented by the company itself and by voluntary stakeholder initiatives are no guarantee for sustainable practices in the field.

Considering the importance that is attached by policy makers to certification for compliance with the principles and criteria of the Roundtable for Sustainable Palm Oil, it is unfortunate that IOI's auditors (SGS, BSI) have not reported on any thorough screenings of IOI's operations in Ketapang district.

A draft of this report was sent to the IOI Corporation before publication, but time was too short to obtain full commentary from IOI on the content. Milieudefensie will publish comments from the company on its website and will follow up with the company to discuss the observations made and company's response.

5. References

- 1 Planting new opportunities for Growth. IOI Corporation Annual Report 2009.
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- 3 Malaysia's 40 Richest, Forbes 2009, http://www.forbes.com/2009/05/27/malaysia-richest-billionaires-malaysia-09-rich-tycoons_intro.html
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- 8 IOI's Book on Corporate Responsibility states that RSPO certification is sought for all operations in Malaysia and does not mention Indonesia. IOI Group, The trail of embracing corporate responsibility. See: http://www.ioigroup.com/corporateresponsibility/download/CR_Book.pdf
- 9 IOI announcement on proposed joint venture for oil palm cultivation in Indonesia, Bursa Malaysia, 19 November 2007. Apart from the plantation companies listed above, IOI also acquired minority stakes in other plantation companies elsewhere in Indonesia. These joint ventures with the Indonesian BGA Group of Companies are not further considered in this study.
- 10 Proposed Joint-Venture for Oil Palm Cultivation In Indonesia ("Proposed Joint Venture"). IOI Corp. announcement, 19-09-2007; Planting new opportunities for Growth. IOI Corporation Annual Report 2009.
- 11 Proposed Joint-Venture for Oil Palm Cultivation In Indonesia ("Proposed Joint Venture"). IOI Corp. announcement, 19-09-2007; Planting new opportunities for Growth. IOI Corporation Annual Report 2009.
- 12 IOI Corporate Responsibility Policy Statement; access 20 February 2010 http://www.ioigroup.com/corporateInfo/corp_codebusinessconductmain.cfm
- 13 See: Indonesian Environment Management Act Nr. 23 (1997), EIA Regulation (1999), Plantation Act (2004). The Environmental Protection and Management Act Nr 32 (2009) introduced a new requirement, namely that an Environmental Permit is obtained once a Letter of Environmental Feasibility is issued. .
- 14 Planting new opportunities for Growth. IOI Corporation Annual Report 2009. The report does not elaborate on the exact location of the planted area in Indonesia.
- 15 This forestland category is called Hutan Produksi Konversi, or convertible production forest. Here we refer to this category as "Conversion Forest".
- 16 See: <http://www.dephut.go.id/informasi/statistik/2005/Planologi.htm>
- 17 Forestry Act Nr. 41/1999, article 50 (3a) states: "No one is allowed to illegally cultivate and/or use and/or occupy forestland area. "
- 18 Balai Pemantapan Kawasan Hutan (BPKH).
- 19 See: http://www.dephut.go.id/files/BPKH_III_08_0.pdf
- 20 Personal communication Forestry Planning Department, Ministry of Forestry.
- 21 See: [\[ioigroup.com/Corporateresponsibility/environment_plantation.cfm\]](http://ioigroup.com/Corporateresponsibility/environment_plantation.cfm)
- 22 See: [\[ioigroup.com/Corporateresponsibility/environment_plantation.cfm\]](http://ioigroup.com/Corporateresponsibility/environment_plantation.cfm)
- 23 See: [\[ioigroup.com/Corporateresponsibility/environment_plantation.cfm\]](http://ioigroup.com/Corporateresponsibility/environment_plantation.cfm)
- 24 IOI Corporate Responsibility Book.
- 25 For more information: [\[firemaps.geog.umd.edu\]](http://firemaps.geog.umd.edu).
- 26 See: [\[ioigroup.com/Corporateresponsibility/environment_plantation.cfm\]](http://ioigroup.com/Corporateresponsibility/environment_plantation.cfm)



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