

UPDATE No. 2 - SNAPSHOT OF EARTHWORM FOUNDATION'S TOOLS FOR TRANSFORMATION YEAR 1 RESULTS FOR IOI EDIBLE OILS SDN. BHD.

INTRODUCTION

Following from our Update No.1, this is our second instalment on our supply base's progress on meeting NDPE requirements. This update will cover Key Performance Indicators (KPIs) on Peat, Children in Plantation, Traceability and Freedom of association. To recollect, IOI Edible Oil Sdn. Bhd. (IOIEO) in 2018/2019 adopted the Tools for Transformation (T4T)¹ Platform by Earthworm Foundation (EF) which allows us to assess indicators of suppliers' compliance levels which are reported as 14 KPIs. In our first update² the KPIs reported were focused on Policy, Forced labour, Grievance Mechanism and Deforestation Occurrence.

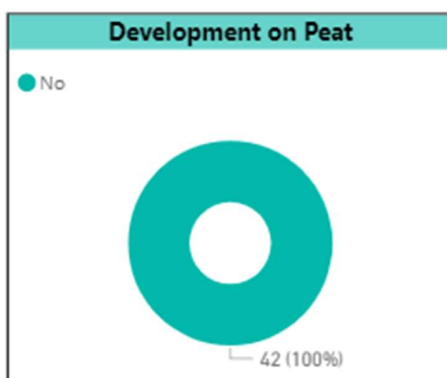
The focus for 2018/2019 was to achieve high adoption rates from millers and encourage all of them to utilize the resource materials to gain a deeper understanding of sustainability best practices. This will support them in the preparation of an action plan for improvements and to provide similar support to their own supply base in utilizing the self-assessment and resource materials.

IOI EDIBLE OILS SDN. BHD. – SUPPLYING MILLS

In 2018, IOIEO had 47 regular key suppliers in Sandakan and Lahad Datu regions. All suppliers are expected to adopt systems to meet NDPE requirements. Suppliers are a mixture of independent stand-alone mills, mills with associated plantations and mills grouping with large internal plantations.

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NO DEVELOPMENT ON PEAT



Peatlands being an important water and carbon holding medium must be maintain and preserved. One of the key T4T KPIs surrounds the issue of new development on peat and for best practices to be used on existing palm plantations planted on peat for water level and subsidence management.



The supplying mills has reported zero new peat development. In addition, our monitoring consultant, through regular surveillance of the landscape is constantly monitoring for peat clearance, confirms the same.

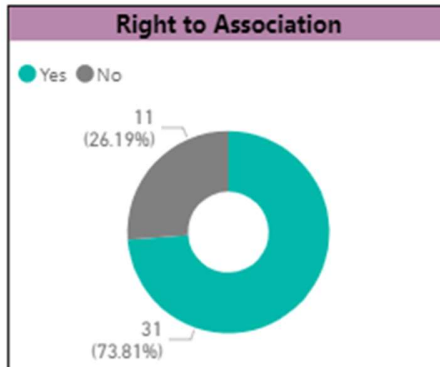
We were able to get a small number of the FFB supply base to participate in the T4T self-assessment and all of them have reported using BMPs for existing palms on peat.

¹ <https://www.earthworm.org/our-work/ventures/tools-for-transformation>

² <https://www.ioigroup.com/Content/MEDIA/NewsroomDetails?intNewsID=991>

SUPPLIERS ON RIGHT TO ASSOCIATION

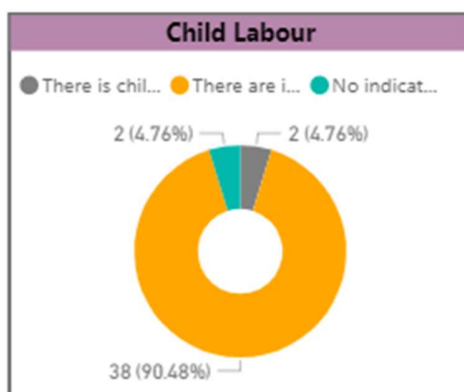
Freedom of association gives workers the right to freely join or leave a group. This is one of the essential human rights and can be a great support network for workers in the Palm Oil Sector as migrant workers may not necessarily have a good understanding of local culture and work practices. 74% of mills reported that there are worker's association or an informal workers committee/representative that is accessible to their workers.



Noteworthy: In addition, 88% of the mills have also informed workers of this right through briefing and trainings.

CHILDREN IN PLANTATION / CHILD LABOUR

The T4T self-assessment module requires suppliers to report on the welfare of children and child labour. It must be noted that within Sabah, due to historical and geographical reasons, there was a large population of refugee/immigrant labour from Philippines and through marriage with locals, or Indonesian migrants, have remained in Sabah as stateless people along with their children. A report from Earthworm³ and data from UNICEF⁴ estimates that there are tens of thousands of children living in or within close proximity of palm oil plantation.



Due to the aforementioned, it is not surprising to see 90% of suppliers have indicated potential risk of child labour because of the presence of children. Many of them have children living on site who face conditions of inadequate education facilities and/or daycare.

12% or 5 mills have reported that they have workers between the ages of 15 to 18 years old.



2 mills have reported hiring workers below the age of 15 years. We have sought immediate clarification with these mills and they have confirmed that this is erroneous⁵.

³ <https://www.earthworm.org/uploads/files/Children-in-Plantations-of-Sabah-2017-report.pdf>

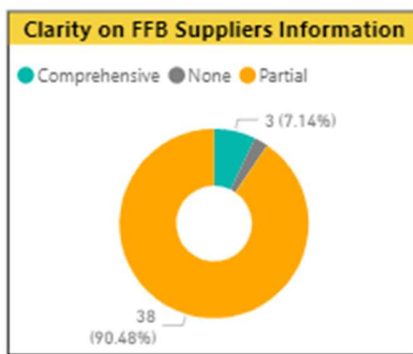
⁴ <https://www.unicef.org/malaysia/media>

⁵ This is incorrect due to error in millers' submission, see commentaries below for further details.

TRACEABILITY & FFB SUPPLIER DATA

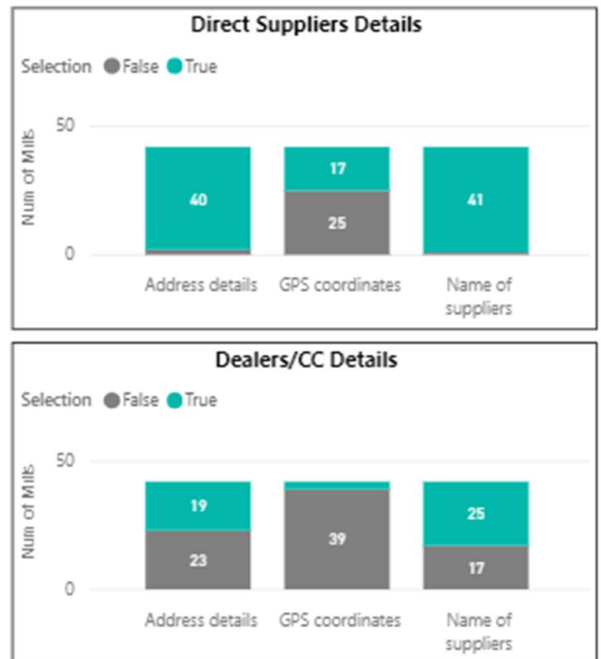
Suppliers provided feedback on the type of information they collect from their FFB suppliers towards traceability to farm. Direct suppliers are where the FFB from farms goes to the mill; whilst indirect FFB are sourced through a dealer or collection centre as intermediary. Pertinent traceability data and information would be the names, address and GPS locations.

The analysed data shows only 7% have comprehensive traceability data – the FFB source name, the address and the GPS coordinates. The remainder 93% of the Mills have reported only collecting partial traceability information.



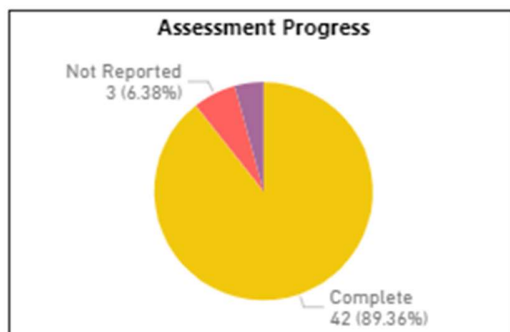
The most common missing information of traceability data is the GPS coordinates. For the partial traceability information, 60% of the mills have reported that they do not collect GPS coordinates from their direct suppliers and 90% have not collecting GPS coordinates from their dealers/collection centres.

IOIEO, who have been engaging suppliers on traceability and have been recording data over the past 3 years, recognised that the 7% is too low and has immediately connected with suppliers to seek clarification. These are incorrect entries by the millers into T4T and IOIEO has collected close to 60% of traceability data from our suppliers⁶.



⁶ See commentaries below.

COMMENTARY FROM RESPONSIBLE SOURCING TEAM



To recapitulate on the suppliers' participation rate and subsequent action planning, 89% of the 47 millers, or 42 mills, completed their self-assessment. 39% of the millers have prepared their action plans, which includes deadlines to close gaps identified during the self-assessment.

It is noted there was very limited number of plantations connected to these participating mills completed their self-assessment. Increasing plantation submission will be one of our key focus in our supplier engagement plans.



The participation rate of 89% coupled with the 39% that prepared an action plan is encouraging.

Action plan	16 (39%)
WIP	26 (61%)

Base on the good response of our suppliers and the data collected, T4T is proving to be a beneficial tool of our supply chain transformation strategy. In addition, the summary report prepared by EF enabled the team to prioritise actions, guide our supplier workshop planning and provided targeted areas for supplier engagements.

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DATA ANALYSIS AND REPORTS

T4T provides reports base on analysis of the data submitted by millers. Concurrently, Earthworm Foundation (EF) prepared a summary report⁷ with recommendations which are now being used to guide our next steps and onward action.

The data analysis generated by the T4T system has been invaluable, allowing our immediate action to address critical issues, particularly on Children in plantation as well as traceability:

Children in Plantation

- The team had immediately reached out to the millers which had reported hiring of workers below the ages of 15 years old. Through engagements and checking on workers' listings, it was confirmed

⁷ This Summary report is an internal document.

that this was an error made during the T4T submission and the millers in question do **not** employ children. And have since adopted a no child labour policy to strengthen operational systems.

Traceability to Plantation

- Compilation of TTP is an on-going process and our team have been engaging suppliers, since 2017, for the collection of TTP data and the progress stands at 60%

NEXT STEPS

All suppliers are required to put in place action plans to close gaps. For 2019/2020, we will support suppliers to progress on these action plans and they are also required to invite their FFB supply base to commence on the T4T self-assessment.

A point to note, the subsequent workshop held in August 2019 was focused largely on systems and measures to eliminate the risk that arises from having children living in the plantation and the processes to collect traceability to plantation data.

IOI has been working closely with our supply base towards delivering responsibly produced palm oil and here are some of the ways that we will continue to support our third-party suppliers in their adoption of sustainability practices to transform:

- Our Responsible Sourcing Team will reach out to our suppliers and share the appropriate IOI experiences that have underpinned our own transformation journey;
- IOI will continue to organise transformation workshops designed around the key issues; where environmental and social consultants share knowledge and answer questions on implementation and processes;
- IOI will collaborate with stakeholders, whenever possible, to conduct joint focus sessions with supplier groups;
- Resource materials hosted on the T4T platform – covering a wide spectrum of palm oil sustainability subjects such as HCV management and conservation, peat best practices, ethical recruitment, etc. – are easily accessible and available at all times.

Our next update will report the KPIs on occupational health and safety, clear commitments to uphold labour rights, no burning and the miller's engagement with their supply base on NDPE. So please watch this space.