

UNOFFICIAL ENGLISH TRANSLATION

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Regarding the Council on Ethics' recommendation to exclude Genting Berhad from the Government Pension Fund Global

We refer to the Council on Ethics' letter to NBIM of 8 June 2015.

On 27 March 2014, the Council on Ethics made a recommendation to the Ministry of Finance concerning the exclusion of the company Genting Berhad (Genting) and its subsidiary Genting Plantations Berhad (Genting Plantations) from the investment universe of the Government Pension Fund Global (GPFG). The Council considered that there was an unacceptable risk of Genting being responsible for severe environmental damage in connection with Genting Plantations' conversion of tropical forest into oil palm plantations in Indonesia and Malaysia.

In 2015, the Council has assessed whether such changes have occurred in the companies' operations and conduct that the grounds for the exclusion recommendation no longer apply. The Council wrote a new letter to the company in February 2015 to request information on its plantation operation. The company has not replied to this enquiry.

Genting Plantations has been a member of the Roundtable for Sustainable Palm Oil (RSPO) since 2006, although its membership was suspended in April 2014 after environmental groups¹ filed a complaint against the company for breach of the RSPO guideline criterion on the development of new plantations and new plantings.² The groups were of the opinion that the company had, among other things, established more than 220 km² of plantations without publishing information in this regard on the RSPO website for consultation purposes, as RSPO members are obliged to do. The company was re-admitted to the RSPO in September 2014 after publishing the necessary documents, including summaries of its HCV reports. The company was also ordered to share maps, HCV assessments and other information relating to its concessions with the environmental groups. In its 2014 annual report, Genting confirmed that it had consulted various NGOs "on concerns that were raised in the follow-up to our NPP

¹ Borneo Rhino Alliance (BORA), see <http://www.borneorhinoalliance.org/> and <http://www.rspo.org/members/complaints/status-of-complaints/view/36>.

² Principle 7: Responsible development of new plantings and New Plantings Procedures (NPP), see <http://www.rspo.org/certification/new-planting-procedures>.

[New Planting Procedure] submissions, agreeing to work together on various initiatives towards achieving the desired outcomes.”³

The Council on Ethics has conducted new investigations into the company’s plantation operations in 2015 to examine whether the company continues to convert forest into plantations. The investigation is based on public information, including the summary of the company’s HCV assessments (which was not available previously), forest data from Global Forest Watch (GFW)⁴ and data from Forest Monitoring for Action (FORMA).⁵

The new data indicate that Genting has converted around 390 km² of forest into plantations in the period 2008 to February 2015. Accordingly, the Council may have underestimated the scale of forest conversion in its 2014 recommendation. It appears that recent forest clearance and new plantings have been concentrated in four particular concession areas.⁶ Since 2013, around 47 km² of forest have been cleared in these areas. The converted forest generally comprised secondary forest⁷ in good condition which is likely to have featured rich biodiversity and had important ecological functions.

In the period 2007–2013, Genting conducted High Conservation Value (HCV) assessments in the concessions, not least to identify areas of particular importance for conserving biodiversity. The HCV summaries indicate that all of the concessions areas examined by the Council contain important conservation values linked to species and ecosystems. For example, it appears that two of the concessions may still contain habitats for orangutans.⁸ To maintain these conservation values and areas important to the local population, Genting has set aside conservation areas totalling between 11 and 16 per cent of the area covered by each concession. The conservation areas primarily constitute buffer zones along waterways and areas of steep terrain. One of the concessions also contains a larger set-aside area of what appears to be protected forest.⁹ Further, the Council’s findings show that extensive logging appears to have occurred in seven of the concessions shortly after the HCV assessments were completed. In two concessions, HCV assessments were conducted after large areas had been cleared.

Since only the summaries of the HCV reports are available, it is difficult to assess the methods used and the factual basis for the assessments. The key question is whether the HCV assessments have helped to remedy severe environmental impacts connected to forest conversion. Genting’s concessions lie in areas which in their natural state are known for their unusually rich and unique biodiversity. The HCV assessments have identified important biodiversity conservation values in all of the concessions. The areas set aside by the company for conservation are limited in size. The Council considers it striking that the conservation values in these large concessions apparently exist almost exclusively in buffer zones along waterways and in steep terrain. These are areas which the company is required to set aside in any event under national requirements. In the Council’s opinion, this indicates that the HCV

³ Genting Plantations Annual Report 2014.

⁴ <http://www.globalforestwatch.org/>.

⁵ Forest Monitoring for Action (FORMA) regularly uses satellite data to generate updated online maps and flag logging operations in tropical forests; see <http://www.cgdev.org/initiative/forest-monitoring-action-forma>.

⁶ PT Citra Sawit Cemerlang, PT Kapuas Maju Jaya, PT Sawit Mitra Abadi, PT Surya Agro Palm.

⁷ Forest which has been logged previously but has regenerated.

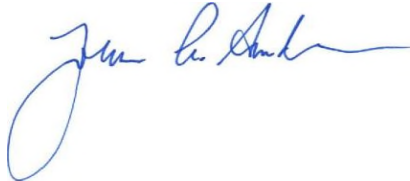
⁸ Genting committed itself to assessing this in the agreement with the environmental groups, <http://www.rspo.org/members/complaints/status-of-complaints/view/36>. Orangutans are a threatened species included in the International Union for the Conservation of Nature’s (IUCN) list of threatened species, Ancrenaz, M., Marshall, A., Goossens, B., van Schaik, C., Sugardjito, J., Gumal, M. & Wich, S. 2008. *Pongo pygmaeus*. The IUCN Red List of Threatened Species. Version 2015.1., www.iucnredlist.org.

⁹ RSPO notification of proposed new planting for PT Surya Agro Palma, <http://www.rspo.org/file/RSPO%20NPP%20Notification%20-%20PT%20Surya%20Agro%20Palma.pdf>.

assessments have not provided an adequate basis for preventing severe environmental damage in connection with plantation development.

The company has provided more information over the past year, in line with its RSPO membership obligations. Nevertheless, in the Council's view the proposed measures by the company will be insufficient to reduce the risk of severe environmental damage associated with current and future conversion of forest into oil palm plantations. The Council has concluded that no major changes have occurred in the company's operations and conduct that indicate a change in the basis for the Council's earlier recommendation. The Council therefore maintains its recommendation to exclude Genting Berhad from the GPFG.

Yours sincerely



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Chair of the Council on Ethics