

CASE STUDY

January 2020

KUALA LUMPUR KEPONG BERHAD



Engagement objective: **Social**
Supply chain labour standards



Engagement objective: **Environment**
Sustainable palm oil production

KLK has strengthened its labour standards and disclosure, following allegations of deforestation and poor labour standards in 2012 and 2013. Hermes EOS began engagement with KLK on this topic in February 2012 and continues to engage on this ongoing challenge and on its sustainability plan.

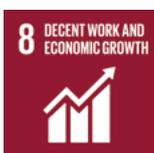
Background

Palm oil has attracted a lot of attention from investors because of its environmental impact and poor labour standards in some plantations. Kuala Lumpur Kepong Berhad (KLK) sources primarily from its own plantations, but also a proportion from suppliers. We were concerned over the company's lack of response in 2012 to NGO and media reports about poor labour conditions at the company's plantations in Liberia and its suppliers in Indonesia.

Company overview

KLK is a Malaysian company focused on the production and processing of palm products and natural rubber. It has plantations in Indonesia, Malaysia and Liberia.

Sustainable Development Goals



Our engagement

In our first meeting at the headquarters in early 2012, the company was quite defensive and denied the allegations that it was involved in deforestation in Indonesia as well as reports of poor labour conditions and wages in its operations. Encouragingly, in a call later in the year the attitude had changed markedly which resulted in a constructive dialogue. 2013 saw further allegations of poor labour conditions in its supply chain and we engaged with the company to urge it to provide clarity on how it was investigating the allegations and assessing steps taken to avoid similar issues in the future.

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While the company was gradually more willing to discuss labour issues, details on policy implementation were still lacking which we pointed out in a letter sent to the chair in 2014 and was co-signed by investors in the Principles for Responsible Investment working group on palm oil. We also continued our discussion on the company's progress in achieving Roundtable on Sustainable Palm Oil (RSPO) certification for all of its operations. We continued to raise these concerns in further calls and correspondence in 2015 and 2016, during which the company appeared to be responding positively to consider improved disclosure and stakeholder outreach.

During a call in 2017 the company committed to disclosing its migrant worker management process in its sustainability report – a significant improvement on transparency. In 2018 we asked the company to align its labour standards programme and move to industry best practices by reporting in line with the UN Guiding Principles on business and human rights. We reiterated this request during calls in 2019 with the head of sustainability.



Changes at the company

Since our initial engagement KLK has strengthened its labour standards and disclosure and demonstrated a proactive approach to addressing supply chain labour issues. It has also made progress in achieving RSPO certification for its operations. In 2014, it confirmed it would be issuing its first group sustainability policy including labour standards. Subsequently, it started training suppliers on labour standards compliance as part of its commercial contracts and commissioning external audits of its supply chain. KLK also partnered with a reputable human rights consultant for a human rights impact assessment in its Liberian operations. The disclosure of audit findings and follow-up action plans have provided greater clarity for investors and other stakeholders on supply chain conditions. Also in 2014, the company achieved 100% RSPO certification of its operation in Malaysia.

In 2019 KLK published a supplier code of conduct reflecting our feedback. The code will facilitate KLK's wider efforts to drive improvements in its supply chain.

We maintained regular engagement as the company steadily improved practices, for example in 2016 engaging an NGO to conduct labour audits in its Indonesian operations in response to allegations of child labour. It also adopted the High Carbon Stock approach in its Liberian plantations.



In 2018 the company updated its sustainability policy and labour standards and provided an action plan with timeframes. We were pleased to receive more information about the key actions taken regarding ensuring migrant workers' access to their passports and the due diligence carried out on worker recruitment agency fees. In 2019 KLK published a supplier code of conduct reflecting our feedback. The code will facilitate KLK's wider efforts to drive improvements in its supply chain.

We remain insistent that the company aligns its programme and reporting with the Guiding Principles, but note that it has outlined plans including a task force focused on no exploitation as part of the 2018 RSPO principles. We will continue to engage on this but believe KLK has responded satisfactorily to the initial allegations made in 2012 and there is reasonable evidence that it has improved its policies and practices towards global standards.



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Top three successes



Improved disclosure of labour conditions standards and processes for its supply chain.



Achieved RSPO certification for its operation in Malaysia.



Adopted a group-wide sustainability policy, including consequences for suppliers in breach and a programme to support smallholder suppliers to attain RSPO certification.

Next steps

In addition to engaging on KLK's overall sustainability action plan including no-deforestation commitments, we will continue to focus on labour standards and the effectiveness of its new task force.



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