



Decision to exclude IJM Corporation Berhad and IJM Plantations Berhad from investment

8 December 2015

Introduction

KLP and the KLP Funds (KLP) have decided to exclude the companies IJM Corporation Berhad (IJM) and IJM Plantations Berhad (IJM Plantations) from investment by KLP and the KLP Funds with effect from 8 December 2015.

The background for this decision is that the Norwegian Government Pension Fund Global (GPF) has excluded these companies under the exclusion criterion covering severe environmental damage. The GPF's decision was published on 17 August 2015.

IJM is one of Malaysia's largest conglomerates, with operations in construction, property, minerals, infrastructure and plantations.¹ IJM has a more than 55 per cent shareholding in IJM Plantations.² The subsidiary owns and operates eleven oil palm plantations.³

KLP and the KLP Funds had holdings worth around NOK 4.0 million in IJM Corporation Berhad as of 31 December 2014. On the same date, KLP and the KLP Funds had no holdings in IJM Plantations Berhad.

Incident and the company's involvement

The companies were excluded from the GPF due to "an unacceptable risk of IJM being responsible for severe environmental damage in connection with its subsidiary IJM Plantations' development of oil palm plantations in Indonesia".⁴ The Council on Ethics explains its recommendation as follows:

¹ IJM, "About IJM". URL: <http://www.ijm.com/web/aboutUs/corpProfile.aspx>.

² IJM Plantations Berhad, "30 Largest Shareholders". URL: http://www.ijm.com/web/ijmplt/ir_structure_ijmplt_30sha.aspx (last visited 19 August 2015).

³ IJM Plantations Berhad, "About Us". URL: <http://www.ijm.com/plantation/aboutUs.html> (last visited 19 August 2015).

⁴ Council on Ethics, *Recommendation to exclude IJM Corporation Berhad from the investment universe of the Government Pension Fund Global*, 19 May 2014, p. 1. URL: <http://blogg.regjeringen.no/etikkradet/files/2015/08/Recommendation-IJM-190514.pdf>.



The company's conversion of natural forest and habitats into oil palm plantations entails irreversible alteration of ecosystems and vegetation, with major consequences for biodiversity. This is occurring in a threatened ecoregion known for its rich biodiversity. The company does not seem to be implementing measures to prevent the loss of important conservation values, and does not wish to provide information on its efforts to mitigate impacts in future. Following an overall assessment, the Council on Ethics has concluded that there is an unacceptable risk of severe environmental damage resulting from IJM's plantation operation.⁵

In a follow-up letter to Norges Bank's governing board, sent in June this year, the Council on Ethics writes that although the company seems to have started mapping areas of high conservation value (HCV), there is no information available about how this is being done and which concession areas are being covered.⁶ Nor is IJM a member of the Roundtable on Sustainable Palm Oil (RSPO), even though the company intends to start the process of RSPO certification in 2018. IJM is therefore not subject to the RSPO's recently strengthened requirements with respect to HCV assessments, which went into effect on 1 January 2015. The requirements and the significance of the HCV assessment process for the protection of forest areas worthy of conservation are described in more detail in KLP's decision to exclude Noble Group Ltd.⁷

Analysis

Like the GPF, KLP excludes companies that cause severe environmental damage. The information in the Council on Ethics' recommendation indicates that the companies have not implemented adequate measures to prevent permanent damage in an extremely vulnerable area. The risk that biodiversity will be lost due to the companies' ongoing conversion of rainforest to oil palm plantations seems to be unacceptably high. The fact that the companies have not communicated clearly how they are dealing with this risk gives further grounds for concern. The Council on Ethics' recommendation and associated letter are thorough in their assessment and confirm that deforestation continues to take place. KLP therefore finds no reason to diverge from the conclusion that there is an unacceptable risk that IJM and IJM Plantations are causing severe environmental damage.

⁵ Ibid., p. 8.

⁶ Council on Ethics, Letter to NBIM concerning the Council on Ethics' recommendation to exclude IJM Corporation Berhad from the GPF (dated 23 June 2015), p. 2. URL: <http://blogg.regjeringen.no/etikkradet/files/2015/08/Letter-update-IJM-rec-230615.pdf>.

⁷ KLP, *Decision to exclude from investment* (1 June 2015). URL: http://english.klp.no/polopoly_fs/1.31196.1434009821!/menu/standard/file/Noble%20Group%20Ltd%2020beslutning%20om%20uttrekk%201062015%20ENG.pdf.



Decision

The companies IJM Corporation Berhad and IJM Plantations Berhad are excluded from investment by KLP and the KLP Funds with effect from 8 December 2015.