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Peninsular Malaysia Risk Mitigation Guide

Palm Oil

This tool has been developed by NEPCon under the project “Responsible Sourcing of Soy, Palm Oil and Cattle” with support from DANIDA, Ministry of Foreign Affairs of Denmark.
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Peninsular Malaysia Palm Oil Risk Mitigation Guide

NEPCon has evaluated the risks associated with the Peninsular Malaysia palm oil supply chains across five categories:

- Business Issues
- Social Issues
- Environmental Issues
- Conversion
- GMOs

The CSR risks identified concern business issues, social issues and environmental issues. This Palm Oil Risk Mitigation Guide provides advice on how to mitigate the risks identified.

Palm Oil source types and risks

There are three Palm Oil source types found in Peninsular Malaysia. Knowing the “source type” that Palm Oil originates from is useful because different source types can be subject to different applicable legislation and have attributes that affect the risks.

**Government land development schemes**

Palm oil produced on large estates where smallholders are awarded small plots (between 4 and 5.7 hectares). The costs of establishment are carried by the state agency and repaid by smallholders through education and their monthly income.
Large-scale private plantation
Palm oil produced on large scale private plantations. Many companies have fully integrated operations covering the entire production process. Licensing is required for planting, processing, and other business activities.

Small-scale private plantation
Palm oil produced on scattered smallholdings where farmers manage and work their own plantation with minimal government assistance. They sell their FFB directly to local mills and traders.

We have analysed the risks for all source types and found the risks do not differ between the four source types.

Map your supply chains
To effectively evaluate and mitigate risks in your supply chain, it is necessary for you to know where the source originates. This will allow you to determine your source type and mitigate the risks associated with that source type. As risks have been identified with all source types, supply chain mapping is necessary to further evaluate, specify and mitigate the risks.

The Supply Chain Mapping Tool (DD-07) can be used to record supply chain information at a detailed level.

The Supplier Management Form (DD-04) can be used to maintain a complete supply chain overview.
Business Issues

The following risks have been identified related to business issues in Peninsular Malaysia:

1. **Risk of excising land title from customary land owners illegally or through an undue process.** The issue lies within the provisions of the National Land Code, which provide the State authority with power to seize private land for the benefit of private companies and/or individuals. Legislation and statutory law have been the main route for private development at the expense of residing indigenous populations who are often forced to relocate. This continues despite the High Court having recognised the customary rights of the Orang Asli.

2. **Risk that relevant licenses are issued illegally due to corruption,** which has been demonstrated by the ability of the State government to exercise preferential treatment for private companies. Preferential treatment could be in the form of access to high conservation value areas or zoning changes compromising Permanent Reserved Forests areas.

3. **Risk of tax evasion due to corruption,** including evasion of royalties, required fees, income and profit taxes. There are several complaints from the palm oil industry about heavy taxation and this is considered a prime motivation for tax evasion which is commonly linked to businesses with family, government and foreign ownership in Malaysia.

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| Excising land title from customary land owners illegally or through an undue process. | 1. Obtain proof of ownership documents: Proof of ownership is provided by two documents: **Issue Document of Title** and **Register Document of Title**. If the buyer of land is a foreign person or company, the transfer needs to be sanctioned by the State Authority.  
2. If the proposed agricultural plantation is of more than 500 ha or plans to clear >50 hectares of land derived from secondary- or primary forests (or from modification of present land use) it requires project proponents to submit an Environmental Impact Assessment (EIA) and obtain approval from DOE - [http://www.rspo.org/files/resource_centre/OP_Chain_Part%20A_new.pdf](http://www.rspo.org/files/resource_centre/OP_Chain_Part%20A_new.pdf) |
3. Obtain a copy of the MPOB License (MPOB L1) - All persons wanting to be involved in the palm oil business needs to be licensed by the MPOB per the MPOB Regulations of 2005. This includes the production, sale, purchase, movement, storage, commence construction of oil palm mill, milling, commence construction of bulking facilities, survey, test, export and import of oil palm products - [http://161.142.157.2/pnp/bi/pelesenan.html](http://161.142.157.2/pnp/bi/pelesenan.html)

**Verifiers:**

Review updated information and news on land tenure issues via:

- Media reports (Mongabay.com, greenomics.org, red-monitor.org, eyesontheforest.org, malaysiakini.com)
- Review the Zoological Society of London (ZSL)’s Sustainable Palm Oil Transparency Toolkit (SPOTT) tool to assess the palm oil producer’s commitments to environmental and social best practice which is based on publicly available information on disclosure of their operations.
- For land tenure issues check palm oil producers’ ‘Landbank’ scores - [http://www.sustainablepalmoil.org/companies/](http://www.sustainablepalmoil.org/companies/)
- This data can support SPOTT users in conducting further research to verify whether company commitments are being implemented on the ground.
- Under Map of Concessions found here: http://www.sustainablepalmoil.org/about/ use the map search bar to find specific company concessions or locations. Click the concession sites marked by pins to zoom in for more information, then go to the company pages of featured concessions to view their assessments and for legality particularly pay attention to the layer called ‘government allocated areas’ to ensure the palm oil producer is operating in a legal area. For more on how to use the SPOTT map see the ZSL FAQs page.
| Licenses are issued illegally due to corruption. | 1. Obtain evidence of a business license and a completed Business Registration Form (Form A) to the SSM (The Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia or SSM))
2. Obtain a copy of the Environmental Impact Assessment (EIA) and approval from DOE (of required)
3. Obtain a copy of the Malaysian Palm Oil Board (MPOB L1) License
4. Consultation with the Tax authorities shall confirm valid tax registration.
5. Stakeholder consultation shall confirm that registration of farm has been granted following legally prescribed processes
6. Stakeholder consultation shall confirm that legal status of the operation or rights for conducting the established activities are not subject to court orders or other legally established decisions to cease operations. |

| Tax evasion due to corruption, including evasion of royalties, required fees, income and profit taxes. | In addition to ensuring correct ownership and licensing documents are in place (see above), we recommend:
1. Receipts shall exist for payments of related royalties, taxes and other required fees.
2. Volumes and qualities given in sales and transport documents shall match the paid fees.
3. Classification of volumes and qualities shall match the royalties and fees paid.
4. Consult with financial authority to verify that all required income and profit taxes have been paid. |
Social Issues

The following four risks have been identified related to social issues in Peninsular Malaysia:

1. Risk that producers are engaging illegal labour practices mainly linked to the employment and working conditions of migrant workers. Malaysia’s legal framework is currently insufficient to protect foreign workers, because the law imposes several processing fees and levies on the employer and consequently allows these fees to be deducted from the workers’ wages, thus incentivising forced labour and debt bondage. Other common ways that foreign workers are treated includes passport retention, contract violations, restricted movement, wage fraud, poor housing conditions and lack of H&S training.

2. Risk that Malaysian legal employment laws do not cover what the ILO considers universal fundamental principles and rights at work as Malaysia currently has only ratified 5/8 ILO fundamental conventions. This is reinforced by the fact that there are several cases of alleged illegal labour, human trafficking, child labour and abuse of foreign workers in palm oil plantations in Peninsular Malaysia. Abuses include lack of safety training, inadequate housing, unfair withholding of pay and lack of medical insurance.

3. Risk that Malaysia’s Occupational Health and Safety (OSH) requirements are breached by palm oil producers. There is evidence that shows several instances of alleged breaches of OSH requirements which is exposing workers to injuries falling fruit bunches, tool usage, heavy lifting and health hazards connected oil palm pest bites, over-exposure of the sun and herbicides etc.

4. Risk that indigenous and traditional peoples’ rights are not upheld. Malaysia’s legal framework seems incapable of adequately protecting indigenous rights as well as State- and Federal governments, who have used this legal framework systematically to prioritize ‘public purpose development’ over customary land rights. Malaysia has not ratified ILO convention 169 on indigenous and tribal peoples. There are numerous court cases and allegations that commercial plantations have encroached on, or were introduced into, land claimed as indigenous customary land rights/title, without the community’s knowledge or without complying the principles of free, prior and informed. Furthermore, there is no legal definition or understanding or concept of ‘traditional territories’.
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| Illegal labour practices mainly linked to the employment and working conditions of migrant workers. | 1. Obtain a list of employees (e.g., request the employer’s payroll list) and ask for a sample of Employment Contract(s) of those employees on the list. The contract must include the following information:  
   - Names of both employer and employee  
   - Job title  
   - Date of commencement of work  
   - Place of work as well as work address  
   - Required notice period as well as retirement age  
  2. Request the employer’s payment voucher and evidence that that required payments such as social security contributions are being paid.  
  3. Request from the employee or the employer pay stubs to verify it is in line within the relevant contract agreement  
  4. Interviewing employees and ask what activity performed, that amount paid by the employer for the activity, which method of payment have (daily / daily wage, monthly, performance / production), how long working hours, few days a week they work.  
  5. To ensure that employees are registered with EPF and SOCSO, one can cross check the record of salary payment slips with receipts from EPF and SOCSO and the corresponding payment forms (Form A for EPF and Form 8A for SOCSO) |
| Malaysian legal employment laws do not cover what the ILO considers universal | 1. Evidence of that the palm oil farm(s) have a clear policy and compliance system is in place that prohibits child labour and its worst forms and sets the minimum age for employment consistent with applicable law. |
### Fundamental Principles and Rights at Work

2. At least the legally established minimum salaries shall be paid for personnel involved in farm management activities.
3. Salaries shall be paid officially and declared by the employer according to requirements for personnel involved in farm management activities.
4. Minimum age shall be observed for all personnel involved in farm management activities.
5. Minimum age shall be observed for all personnel involved in hazardous work.
6. Stakeholders shall confirm that forced or compulsory labour is not involved in farm management activities.
7. There evidence and/or employees confirm the employer allows them the right to organize and collective bargain.

### Malaysia’s Occupational Health and Safety (OSH) Requirements are Breached by Palm Oil Producers

1. Obtain evidence of the company’s occupational safety and health (OSH) management system reporting via published annual sustainability reports.
2. Verify that the company has an occupational safety and health (OSH) program, and that the program used in practice.
3. Verify that the employees of the company have been trained about work safety.
4. Obtain records of reports of workplace deaths. Deaths in the workplace must be recorded.

*For Large-scale private plantations [>40 & >100,000 ha]*

5. Evidence of a H&S officer position and training, procedures and equipment are in place.

### Indigenous and Traditional Peoples’ Rights are Not Upheld

In addition to obtaining the legal land tenure ownership documents listed above (Issue Document of Title and Register Document of Title, MPOB License and approved EIA), we recommend obtaining the following:

1. Evidence of palm oil farms obtaining proof of ownership documents: And
2. Records from the farm that demonstrate active consultation and/or evidence of a participatory social impact assessment and/or conducting a Free Prior Informed Consent before developing farm activities.
3. Evidence of maps of an appropriate scale showing the extent of recognised legal, customary or user rights developed through participatory mapping involving affected parties (including neighbouring communities where applicable, and relevant authorities) are available.

4. Copies of negotiated agreements detailing the process of free, prior and informed consent are available.

5. Evidence of an absence of significant disputes on land use, tenure and access is provided and corroborated by local stakeholders and/or evidence of consent of indigenous and/or traditional communities has obtained.

6. Evidence there is a mutually agreed and documented system for dealing with complaints and grievances and is accessible and agreed upon by all affected parties and that where conflicts have arisen the conflict resolution mechanism is being used and outcomes are considered mutually agreed including by affected parties.
Environmental Issues

The following two risks have been identified related to environmental issues for palm oil in Peninsular Malaysia:

1. Risk that palm oil plantations do not comply with the Environmental Impact Assessment (EIA) requirements, causing environmental problems such as deforestation, biodiversity loss, water pollution, soil erosion, carbon emissions resulting from land use change and forest fires, and pesticide use. There is also a risk that the Environmental Impact Assessment requirements are not complied with due to a poor vetting and monitoring process due to lack of personnel and/or sufficient expertise by the relevant authorities. Additionally, an environmental audit to monitor the implementation of the EIA control measures is not required. There is a loophole whereby an EIA can be avoided by dividing a project up into smaller lots that do not require such assessments. There is also a risk of low level of compliance with required practices aimed at minimising runoff and soil erosion caused by conversion of natural forests into palm oil plantations.

2. Risk that natural ecosystems along the boundaries of protected areas and high conservation value (HCV) areas are cleared to establish palm oil plantations. There is also a risk of lack of adequate identification and thus appropriate conservation measures applied for protected, rare, threatened and endangered species within and adjacent oil palm plantations. There is also a low level of compliance of required practices aimed at minimising runoff and soil erosion caused by conversion of natural forests into oil palm plantations.

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<td>Lack of compliance with an Environmental Impact Assessment (EIA) requirements.</td>
<td>1. For palm oil plantations &gt; 500 ha or palm oil plantations clearing more than &gt;50 hectares of land seek a completed and approved Environmental Impact Assessment for areas that require them (see section 3.1.3) (check list of approved EIAs on the DOE website: <a href="http://www.doe.gov.my/eia/eia-reports/">http://www.doe.gov.my/eia/eia-reports/</a>) and verify that environmental controls are followed in the field through evidence of an audit. Ensure that any legal requirements relating to the protection of the species or habitat are met.</td>
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<td>Lack of compliance with protected areas and species regulations.</td>
<td>Verify the supplier has documentation or a copy of a management plan that ensures required legally protected areas and species are safeguarded in accordance with the law including an Environmental Impact Assessment and/or;</td>
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<td>Evidence that comprehensive biodiversity surveys and/or a High Conservation Value (HCV) assessment</td>
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<td>Cross check with the location and information on protected areas and species in Malaysia including with knowledgeable NGOs on the issue.</td>
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<tr>
<td>Information on protected areas and species in Malaysia:</td>
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<td>Protected Area Master List owned by the Ministry of Natural Resources and Environment (contact: <a href="http://www.nre.gov.my/en-my/ContactUs/Pages/default.aspx">http://www.nre.gov.my/en-my/ContactUs/Pages/default.aspx</a>), which is not publicly available. Older version of the list compiled by WWF-Malaysia can be found here: <a href="http://awsassets.wwf.org.my/downloads/list_of_pa.pdf">http://awsassets.wwf.org.my/downloads/list_of_pa.pdf</a></td>
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<td>Environmental NGOs knowledgeable on protected areas:</td>
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<td></td>
<td>Indigenous Peoples Network of Malaysia (JOAS) <a href="http://orangasal.blogspot.my/">http://orangasal.blogspot.my/</a></td>
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<td>Malaysian Nature Society (MNS) <a href="https://www.mns.my/">https://www.mns.my/</a></td>
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<td>Forest Peoples Programme <a href="http://www.forestpeoples.org">http://www.forestpeoples.org</a></td>
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<tr>
<td>Threats to high conservation value (HCV) areas.</td>
<td><strong>Insufficient level of official protection of rare, threatened and endangered species and ecosystems and large intact landscapes (HCV 1-3)</strong></td>
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<td>2. Evidence that comprehensive biodiversity surveys and/or a High Conservation Value (HCV) assessment</td>
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<td>3. Identify if a farm has converted natural ecosystems – illegal and legally (compliance with an approved Environmental Impact Assessment).</td>
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<td>4. Obtain the shape file of the palm oil plantation property’s boundaries and compare/overlay with mapping data that use satellite time series images to map the loss of natural ecosystems: satellite time series images to map the loss of natural ecosystems: <a href="www.globalforestwatch.org">Land use change data</a></td>
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<td>5. Cross check with the location and information on protected areas and species in Malaysia including with knowledgeable NGOs on the issue.</td>
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<td><strong>Community needs and cultural values are not respected or upheld (HCV 5 and 6)</strong></td>
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<td>1. Review updated information and news on confirmed or potential land tenure issues in the palm oil supply area.</td>
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<td>2. Research known risk and/or land use conflicts with indigenous peoples’</td>
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<td>a. Review the Zoological Society of London (ZSL)’s Sustainable Palm Oil Transparency Toolkit (SPOTT) tool to assess the palm oil producer’s commitments to environmental and social best practice which is based on publicly available information on disclosure of their operations. For land tenure issues check palm oil producers’ ‘Landbank’ and ‘Environmental’ scores – the latter which covers FPIC and IP rights - <a href="http://www.sustainablepalmoil.org/companies/">http://www.sustainablepalmoil.org/companies/</a></td>
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</table>
| | b. Conduct a search on latest news and NGO reports on disputes and developments on indigenous and traditional peoples’ land claims and assurance of rights via websites and NGOs including:
i. NGO investigations and reports (Forest Peoples Programme
http://www.forestpeoples.org, Rainforest Action Network www.ran.org,
http://www.schusterinstituteinvestigations.org, greenpeace.org, Friends of the Earth
foe.org, Center for Orang Asli Concerns (COAC) (http://www.coac.org.my/), The Human
Rights Commission of Malaysia (SUHAKAM) (http://www.suhakam.org.my/), Pusat
Komas (komas.org), Cultural Survival (culturalsurvival.org) Media reports
(Mongabay.com, greenomics.org, red-monitor.org, eyesontheforest.org,
sarawakreport.org, malaysiakini.com)


3. Consult with neighbours, local communities, landowners and other stakeholders to:
   a. confirm community has indigenous peoples’ status
   b. land tenure rights are clear and – where applicable – lease of the land has been agreed by all
      the landowners;
   c. confirm that customary rights were/are respected during farm establishment and harvesting
      activities and/or Where HCV set-asides with existing rights of local communities have been
      identified, there is evidence of a negotiated agreement that optimally safeguards both the HCVs
      and
   d. if there are any court orders or outstanding disputes conflicts of land tenure with indigenous or
      traditional communities.

4. Records/minutes should be obtained:
   a. of consultation showing no land use conflicts exist;
   b. from the farm that demonstrate active consultation and/or evidence of a participatory social
      impact assessment and/or conducting a Free Prior Informed Consent before developing farm
      activities;
   c. Copies of negotiated agreements detailing the process of free, prior and informed consent are
      available or, alternatively, that conflicts of land tenure are managed through evidence that
conflicting parties are engaged in, a mediated or arbitrated, conflict resolution process which is independently managed and agreed upon as the formal by conflicting parties.

d. Where HCV set-asides with existing rights of local communities have been identified, there is evidence of a negotiated agreement that optimally safeguards both the HCVs.
Conversion

The following risk has been identified related to conversion in Peninsular Malaysia:

1. Risk of natural forests or ecosystems being cleared for the establishment of palm oil plantations. It is not illegal to convert forest to palm oil in Malaysia and millions of hectares of forests have been cleared or designated as conversion forest for palm oil plantations.

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| Natural forests or ecosystems being cleared for the establishment of palm oil plantations. | • Identify if a farm has converted natural ecosystems – illegal and legally (compliance with an approved Environmental Impact Assessment).  
• Obtain the shape file of the palm oil plantation property’s boundaries and compare/overlay with mapping data that use satellite time series images to map the loss of natural ecosystems.  
• Obtain evidence of undeveloped areas of peat land (of any depth) are not developed or drained post November 2005. Evidence should include historical data which demonstrates that there has been no conversion of peatlands post November 2005. Evidence should include maps identifying marginal and fragile soils, including excessive gradients and peat soils and how the farm management plans has identified and protected peatlands.  
• Obtain Management plans that demonstrates fires and road-building on peat soils are prohibited.  
• Check other data sources if land conversion risk is detected.  
  o Palm oil producers’ ‘environmental management’ and ‘fragile, marginal and peat soils’ scores: [http://www.sustainablepalmoil.org/companies/](http://www.sustainablepalmoil.org/companies/) and/or the company’s latest annual report. |
<table>
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<th>Review the Zoological Society of London (ZSL)’s Sustainable Palm Oil Transparency Toolkit (SPOTT) tool to assess the palm oil producer’s commitments to environmental and social best practice which is based on publicly available information on disclosure of their operations.</th>
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<tr>
<td>Land use change data: satellite time series images to map the loss of natural ecosystems: <a href="http://www.globalforestwatch.org">www.globalforestwatch.org</a></td>
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About

Responsible Sourcing of Soy, Cattle and Palm Oil

Responsible Sourcing of Soy, Cattle and Palm Oil is a project aimed at creating awareness and capacity among Danish companies to minimise risks of social and environmental problems connected to sourcing palm oil, soy and cattle from developing countries. The project is run by NEPCon and SEGES and funded by DANIDA, Ministry of Foreign Affairs of Denmark.