



BROKEN PROMISES:

A case study on how the Tokyo 2020 Games and Japanese financiers are fueling land-grabbing and rainforest destruction in Indonesia

November 2018



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PHOTO: LOGGING TRUCK CARRYING LOGS HARVESTED BY KORINDO'S PT GMM IN GANE, NORTH MALUKU. © WALHI, NOVEMBER 2014

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ABOUT THE AUTHORS

Rainforest Action Network (RAN) is a US-based NGO which preserves forests, protects the climate and upholds human rights by challenging corporate power and systemic injustice through frontline partnerships and strategic campaigns.

TuK INDONESIA is an Indonesian NGO which seeks the realisation of respect, protection and fulfilment of human rights and social justice by State and non-state actors in the fields of policies, programmes and activities of agribusiness and natural resources management.

WALHI is the largest and oldest environmental advocacy NGO in Indonesia, with independent offices and grassroots constituencies located in 28 of the nation's 34 provinces. WALHI works on many issues including agrarian conflict over access to natural resources, Indigenous rights, and deforestation.

Profundo is an independent not-for-profit company based in the Netherlands which provides fact-based research and advice on international commodity chains, the financial sector, policy developments and the impacts of businesses and financiers on all aspects of sustainability.

1. INTRODUCTION

The Tokyo 2020 Olympic organizers and sponsors have committed to host a sustainable Olympics that “showcase solution models to people in Japan and around the world” and contribute towards the realization of the Sustainable Development Goals (SDGs).¹ Unfortunately, Tokyo 2020’s substantial procurement of unsustainable tropical timber has already undermined this pledge.

The world’s tropical forests are critical for achieving the SDGs and maintaining a habitable planet, but they are rapidly being destroyed due to industrial logging and conversion to plantations.² Tropical forests help regulate global climate and rainfall patterns; sequester and store carbon; meet the basic needs of over 1 billion people for food, water, shelter and medicines; and safeguard the majority of the Earth’s remaining terrestrial biodiversity. Alarming, tropical tree cover loss has nearly doubled over the past 10 years. In 2017 alone, tropical forests covering an area the size of Bangladesh, equivalent to 15.8 million hectares (158,000 km²) or 40% of Japan, were lost, the second highest rate of deforestation since 2001.³ Tropical deforestation and degradation account for up to one fifth of global greenhouse gas emissions.⁴

As of May 2018, at least 134,400 sheets of tropical plywood from Malaysia and Indonesia have been used as concrete formwork to construct the new Tokyo Olympic venues.⁵ Tokyo 2020’s Sustainable Sourcing Code for Timber⁶ requires legality, sustainability, consideration of Indigenous and community rights, and worker safety for all new wood procured for the Olympics. While this Sourcing Code warrants significant improvement (see Recommendations), Tokyo 2020’s extensive use of tropical plywood from these two countries flies in the face of the Code’s requirements and the Game’s sustainability commitments given the illegal logging, human rights abuses, and high deforestation rates that have been widely documented in both the Malaysian and Indonesian forestry sectors⁷ and given what is known of Tokyo 2020’s plywood suppliers.

In April 2017, investigators found the use of tropical plywood manufactured by Malaysian logging company Shin Yang at the construction site of the New National Stadium in Tokyo.⁸ Shin Yang has been previously exposed for illegal and unsustainable logging of tropical forests and violations of Indigenous land rights in the state of Sarawak, Malaysia.⁹ The Japan Sports Council, which oversees construction of the Stadium, confirmed the use of Shin Yang wood but justified it on grounds that it had PEFC certification. However, a closer look shows that Shin Yang’s PEFC-certified wood exports to Japan are linked to labor abuses, as well as possibly social conflict and logging in the intact Heart of Borneo rainforest in Malaysia.¹⁰ Shin Yang wood was also found at the Olympic Village construction site in December 2017.¹¹ Shin Yang has denied the allegations of labor abuse.

In May of this year, investigators uncovered the use of tropical plywood manufactured by Indonesian company Korindo for construction of the Ariake Arena, the planned volleyball venue. The wood had no associated sustainability certification according to

information disclosed by Tokyo 2020 authorities, and was supplied by Japanese timber and building materials trading company Sumitomo Forestry (TYO: 1911). Korindo has been implicated in illegal logging and forest clearance as well as human rights abuses (see Section 2), indicating a high risk that wood supplied to the Tokyo 2020 Olympics was tainted and illegal. Sumitomo Forestry stated to RAN that it is committed to responsible timber procurement and that it only supplied legally sourced timber to Olympics authorities, in accordance with Indonesian standards.

Tokyo 2020 Olympic organizers insist that they are complying with the Timber Sourcing Code. However, the Tokyo 2020 Olympics’ use of high risk timber from Malaysia and Indonesia is a result of the inadequacy of Tokyo 2020’s timber sourcing standards. For example, the standards have no requirement to protect High Conservation Value (HCV) areas or High Carbon Stock (HCS) forests, which is essential to avoiding deforestation and reducing greenhouse gas emissions. This issue is also indicative of a wider problem in Japan’s timber supply chain: an addiction to the use of tropical wood by the construction industry and a widespread failure by companies to conduct proper due diligence to ensure the wood is legal, sustainable and not linked to human rights abuses. Japan is the largest global consumer of tropical plywood, largely from Malaysia and Indonesia. These reckless practices are being facilitated by the financial sector, notably Tokyo 2020 Gold Sponsor bank SMBC Group, which is heavily exposed to the forest-risk commodity sector and until recently had no clear policies to safeguard against risks in the sector (see Section 4). The timber procurement practices of the Tokyo 2020 Olympic organizers and Japanese companies have already compromised the sustainability credentials of the Tokyo 2020 Olympics. They further risk undermining Japan’s commitment to the SDGs, which aim to halt deforestation and restore degraded forests by 2020.

The following case study on Korindo demonstrates why Tokyo 2020 must urgently strengthen its Timber Sourcing Code in order to avoid further damage to its reputation and commitment to sustainability.

FOREST CONTRIBUTIONS TO THE SDGS



2. TOKYO 2020'S TIMBER SUPPLIER: KORINDO

Korindo is a privately owned conglomerate with extensive forest-sector operations in Indonesia that include timber, palm oil and pulp and paper. It has active logging concessions totalling 525,000 ha, oil palm licenses totalling 160,000 ha and a 110,000 ha pulpwood plantation in partnership with Oji Corporation (TYO: 3861). Trees felled in these concessions, as well as timber from third-party suppliers, feed Korindo's three plywood mills, two of which - PT Balikpapan Forest Industries and PT Korindo Ariabima Sari (KAS) - have been major suppliers to Japan. PT KAS is reported to have closed its mill in late October of this year, from log shortage and operating at a deficit.

UNSUSTAINABLE PRACTICES

Close to 150,000 ha of Korindo's plantation land bank is located in the Indonesian province of Papua. Much of the area is claimed as Indigenous customary land and, until recently, was covered by intact natural tropical forest. The group has already cleared more than 30,000 ha since 2013 and 23,000 ha before 2013; over two thirds of this total clearance has come at the expense of primary forests.¹² The remaining forests are at risk of being logged and cleared for oil palm plantation development. A detailed account of Korindo's land clearing processes published in 2016 alleged that Korindo systematically used fire to clear land, finding that in the period from 2013 to 2015, no less than 894 fire hotspots were recorded within Korindo company concession boundaries.¹³ Such practice is hugely damaging to public health and the environment. Korindo was among several companies accused of significantly contributing to the 2015 Southeast Asian haze crisis, which has been linked to thousands of premature deaths in the region¹⁴ and



Photo taken of smoke rising from burning wood stacks in Korindo's PT Berkas Cipta Abadi concession in Papua.
SOURCE: ©ARDILES RANTE/GREENPEACE; PT BERKAS CIPTA ABADI (KORINDO GROUP), 26 MARCH 2013

cost the Indonesian economy at least USD 16 billion according to the World Bank. Korindo has publicly denied deliberately using fire as part of its operations and stated to RAN that it has no reason or benefit to burn the forest and that some of the fires on its concessions occurred because of drought conditions.

Based on Korindo's declarations made to the Indonesian Ministry of Environment and Forestry, nearly half of the wood that Korindo manufactured into plywood in 2016 and 2017 derived from forest clearance, so-called "conversion timber", largely sourced from the permanent felling of natural forests to make room for industrial timber and oil palm plantations and the mining of coal. (see Graphic 1) Globally, 71% of tropical deforestation results from forest conversion for commercial agriculture.¹⁵ Korindo's reliance on conversion timber for its plywood supply suggests much of its plywood cannot be considered sustainable as defined by Tokyo 2020's Timber Sourcing Code, which calls for timber that "derives from forests maintained and managed based on mid- to long-term plans or policies" and "is harvested through logging activity that is considerate toward conservation of the ecosystem."

GRAPHIC 1: ANALYSIS OF KORINDO'S PLYWOOD SUPPLY CHAIN IN 2016 & 2017

(SOURCE: KORINDO'S 2016 & 2017 PLANS FOR THE FULFILLMENT OF INDUSTRIAL RAW MATERIAL (RPBBI) SUBMITTED TO THE INDONESIAN MINISTRY OF FORESTRY)

Korindo plywood mill	Balikpapan Forest Ind.		Korindo Abadi		Korindo Ariabima Sari	
	East Kalimantan		Papua		Central Kalimantan	
Province	East Kalimantan		Papua		Central Kalimantan	
Year	2017	2016	2017	2016	2017	2016
Total consumption (m3)	204,084	177,631	358,795	318,217	253,428	172,653
From land clearing	75,510	75,058	163,490	119,488	112,388	63,365
% of total	37	41	46	40	44	37
From selective felling	97,560	71,236	164,977	146,482	114,771	58,560
% of total	48	40	46	49	46	34
From factory stocks	31,023	34,293	30,328	50,247	26,268	50,728
% of total	15	19	8	17	10	29

An assessment of one of Korindo's wood suppliers in East Kalimantan, Borneo, illustrates these sustainability risks. A logging and oil palm company named PT Tunas Alam Nusantara (PT TAN) has been clear-cutting Orangutan habitat and supplying this conversion timber to a Korindo plywood mill. Raw material verification data submitted by Korindo to Indonesian authorities confirms that PT TAN was a wood supplier to Korindo's plywood mill in Kalimantan – PT Balikpapan Forest Industries – throughout 2016 and 2017. A comparison of PT TAN's concession area and

Orangutan habitat areas (using data supplied by Indonesia's Ministry of Environment and Forestry) confirms that the vast majority of forest within PT TAN's concession area is confirmed Orangutan habitat. Satellite analysis for the years 2016, 2017 and 2018 demonstrates that throughout this period PT TAN has been actively clearing Orangutan habitat within its concession. (see Graphic 2) Plywood from PT Balikpapan Forest Industries was confirmed to have been supplied by Sumitomo Forestry for Olympics venue construction in 2017 (see Section 3).

GRAPHIC 2: FOREST CLEARANCE IN BORNEO ORANGUTAN HABITAT, 2016-18, IN CONCESSION SUPPLYING TIMBER TO KORINDO'S PT BALIKPAPAN FOREST INDUSTRIES PLYWOOD MILL IN 2016 AND 2017



ILLEGAL BEHAVIOR

Korindo has been implicated in illegal activities both at the operational and corporate level. The use of fire to clear land is illegal under Indonesian Law No. 32/2009 on Environmental Protection and Management, among others. While Korindo holds "legality certificates" for its wood exports under the Indonesian Timber Legality Assurance System (SVLK), there is evidence of serious legal violations in some of its operations as indicated in the Case Study below.

Korindo is also currently under investigation by the South Korean tax authorities over allegations that it has used offshore shell companies to evade over USD 47 million in taxes from its

businesses in Indonesia and South Korea.¹⁶ Some of Korindo's Singapore subsidiaries, which channelled at least USD 177 million to its operations since 2011, have failed to produce proper financial statements for several years, in likely violation of Singapore's Companies Act.¹⁷ In addition, one Korindo subsidiary, SIG Plantation Pte Ltd, a major shareholder and financier of Korindo's pulpwood plantation PT Korintiga Hutani, appears to have submitted false and misleading information regarding a 2 million USD loan to plywood mill PT Balikpapan Forest Industries. If convicted, this could be punishable by fine and imprisonment.¹⁸ Korindo has stated to RAN that its entities are not evading taxes or engaging in any illegal conduct and that in relation to the South Korea issue, the "dispute" concerns whether or not Korindo's Chairman Eun Ho Seung is a tax resident in South Korea.

CASE STUDY: KORINDO'S RISKY PRACTICES IN PT GMM CONCESSION

INVALID PERMITS

In Korindo's logging and oil palm concession in Gane, North Maluku Province, operated by PT Gelora Mandiri Membangun (PT GMM) (see Graphic 3), Korindo is alleged by several communities to have cleared forests and farms without the consent of certain community land owners and without following all proper permit and licensing procedures as required by Indonesian law. In 2016, clearance from this plantation was a source of logs for the two plywood mills which exported plywood to Japan.¹⁹ Logs from PT GMM may have

remained in the mills' timber stock in 2017 and therefore may have been supplied for Olympics venue construction. While Sumitomo Forestry did not deny purchasing plywood constructed with PT GMM timber before 2017, it stated that "GMM's logs were not used for plywood that we supplied for Olympic related facilities." Korindo is currently attempting to expand the PT GMM plantation into adjacent areas of primary natural forest, and is therefore likely to be a prospective source of conversion timber for plywood production in the future.²⁰

Local civil society groups and NGOs have stated that PT GMM's operation has consistently been in breach of Indonesian laws and regulations, which stipulate specific steps to establish a legal plantation. The company is accused of having illegally commenced operations in 2012 by logging and clearing forest without the mandatory Business Use Permit (HGU). In a meeting between the National Land Agency and civil society representatives in 2016, the National Land Agency confirmed PT GMM had still not been awarded a HGU at that time.

Communities also claim that the company failed to complete an environmental impact assessment before applying for a business license (IUP)²¹, and there is evidence to suggest that it also failed to properly secure the agreement of all affected community landowners as required under the terms of a location permit and Land Use Rights law, amongst others.²² Korindo did not provide RAN with its permits and licenses for review, as requested, relying instead on the legality certificates as described above. The company claimed that PT GMM had acquired all necessary licenses and permits prior to Korindo purchasing the company in July

2011. It also stated that it has operated in full accordance with all Indonesian laws, that it does not use any illegal wood, and that it acquired the agreement of most communities with claims over land in the area.

ILLEGAL USE OF FIRE

After Korindo commenced operations in Gane, satellites recorded a sharp jump in fire 'hotspots' in South Halmahera, where PT GMM is based, with 127 hotspots being recorded in 2014 and 2015 combined (see Graphic 4). In the years prior to land clearing operations, there were no recorded hotspots. These hotspots indicate use of illegal open burning, similar to practices alleged in other Korindo concessions. The satellite data is backed up by photographs taken by residents in 2014 and 2015 (see Photo below). While Korindo's use of fire took place after the harvesting of larger logs for plywood production, it further suggests Korindo's failure to observe Indonesian laws. Korindo stated to RAN that it has a zero-burning policy and quoted a Maluku State Forest Service inspection in 2016 that indicated fire was not being used.

GRAPHIC 3: SATELLITE IMAGERY OF KORINDO FOREST CLEARANCE 2010-16 IN PT GMM CONCESSION, OVERLAID WITH COMMUNITY CUSTOMARY LAND BOUNDARIES



GRAPHIC 4: SATELLITE IMAGERY ANALYSIS OF FIRES DETECTED IN PT GMM CONCESSION 2012-2016

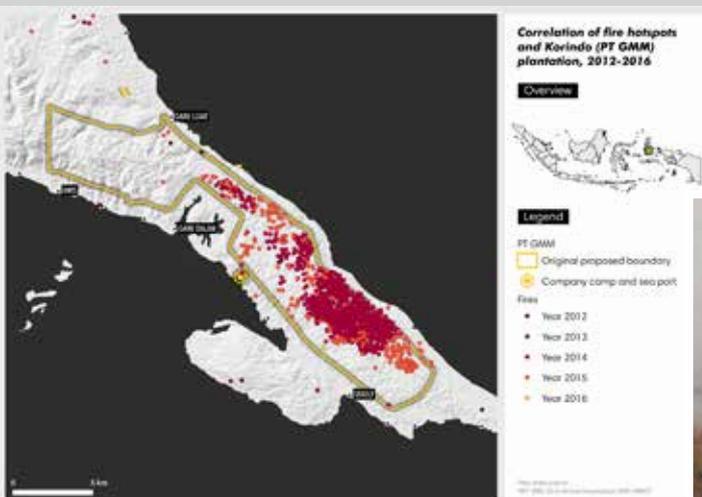


Photo of stacks of wood debris in PT GMM concession set on fire to clear the land, taken by Gane residents on 02 December 2014 near Gane Dalam



SOCIAL CONFLICT

Community landowners who have objected to PT GMM's operation have complained of being subject to police harassment, arbitrary detention, wrongful arrest, and violence. Many community members believe that local police have colluded with Korindo to enforce its operations. In 2013, residents attempted to blockade Korindo from extracting timber. Police were called in by the company, arresting 15 residents from three surrounding villages, charging them with

destruction of property and objectionable behavior. After two months of detention awaiting trial, they were eventually acquitted due to insufficient evidence. This detention was the subject of a complaint filed with the National Human Rights Commission (KOMNAS HAM), which responded with recommendations for North Maluku Police to "restore allegedly violated community rights" and for PT GMM "to ensure that any actions planned and implemented will not harm or violate human rights."²³

3. TOKYO 2020'S USE OF TAINTED WOOD AND LACK OF DUE DILIGENCE

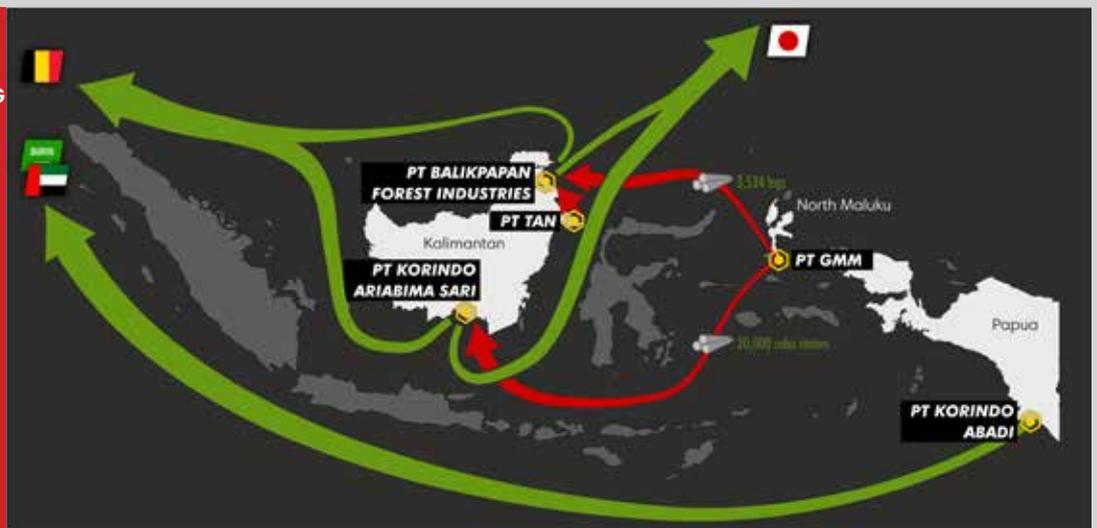
Korindo is a major exporter of Indonesian tropical plywood, representing around 4 percent of total exports by Indonesia.²⁴ Japan is the fourth largest importer of Korindo plywood, a third of which has been traded by Sumitomo Forestry according to trade data between December 2016 and March 2018.²⁵ (see Graphic 5)

This plywood was supplied by PT Balikpapan Forest Industries and PT Korindo Ariabima Sari, both of which were supplied by PT GMM in 2016. PT TAN supplied PT Balikpapan Forest Industries throughout 2017 (see Graphic 6)

GRAPHIC 5: VOLUME OF KORINDO PLYWOOD IMPORTED INTO JAPAN DEC 2016-MAR 2018, BY COMPANY (UNIT: KG).
SOURCE: INDONESIAN EXPORT DATA



GRAPHIC 6: PARTIAL MAP OF KORINDO TIMBER SUPPLY CHAIN, SHOWING SOURCING FROM PT GMM, PT TAN AND PAPUA FOR KORINDO'S THREE PLYWOOD MILLS, AND PLYWOOD EXPORTS TO JAPAN, BELGIUM, AND THE MIDDLE EAST.
SOURCE: INDONESIAN EXPORT DATA (DECEMBER 2016-MARCH 2018) AND KORINDO 2016 & 2017 RPBB. *PT GMM TIMBER FLOW FOR 2016 ONLY



Photos taken on May 11 2018 at the Tokyo 2020 Ariake Arena construction site.

(1, 2) Korindo wood in use as concrete formwork plywood, (3) logo showing Korindo Group PT Balikpapan Forest Industries, (4) logo showing importer as Sumitomo Forestry (008).



Photographs taken on May 11 2018 confirm the presence of Korindo plywood panels at the construction site of the Ariake Arena, where they were being used to mold concrete (see photos above). The stamps on these panels confirm they were exported by Korindo's PT Balikpapan Forest Industries mill and imported by Sumitomo Forestry.

Olympic organizers have defended their use of Korindo wood on grounds that its supplier, Sumitomo Forestry, assured them of compliance with the Tokyo 2020 Timber Sourcing Code. Sumitomo Forestry explained to the authors of this report that their due diligence consisted of checking for the SVLK legality certificate. A recent report by the Indonesian Independent Forest Monitoring Network (JPIK) raised concerns however that the SVLK system has multiple implementation gaps, including, "nonconformities in the use and application of the V-Legal (legality verification) logo, boundary conflicts with Indigenous communities and arbitrary boundary delineation, human rights violations, development on deep peat soil, clearing along river buffer zones resulting in degradation of river ecosystems, legality of raw materials, and

availability and legality of environmental impact assessment (AMDAL) documents."²⁶ The report also found instances of falsification of SVLK certificates. The ability of the SVLK system to assure sustainability has also been questioned, especially with respect to conversion timber.²⁷

While Olympic authorities have refused to disclose the specific volume and application of Korindo wood for Olympic venue construction, 110,200 sheets of uncertified Indonesian concrete formwork plywood were used to construct the New National Stadium as of May 2018, and it is likely that a significant proportion of this was supplied by Korindo given Korindo's position as one of few Indonesian suppliers of concrete formwork plywood. A freedom of information request to the Japan Sports Council (JSC), the national authority responsible for the construction of the stadium, revealed that aside from oral confirmation, Olympic authorities including JSC failed to obtain any proof of conformity with the Olympics' legality or sustainability provisions for the Indonesian wood used to construct the Stadium.

4. THE ROLE OF THE FINANCIAL SECTOR

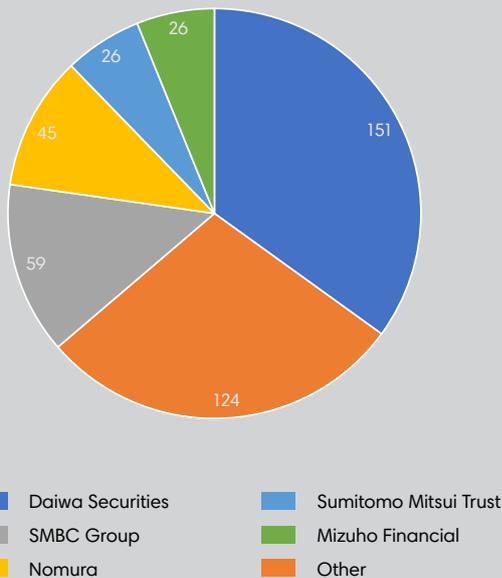
In recent years, there has been increasing scrutiny of the role of financiers and investors in facilitating the destruction of the rainforests and associated human rights abuses.²⁸ Tokyo 2020's use of high-risk tropical wood is a case in point.

Korindo's operations have been financed by private banks, principally Bank Negara Indonesia (IDX: BBNi), based on available evidence. Its pulpwood subsidiary, PT Korintiga Hutani, has also received financing from SMBC Group and the Japan Bank for International Cooperation (JBIC) in the amount of USD 40 million.²⁹ The loan was intended to finance the manufacture and sale of wood chips to the Oji Group, itself a major client of SMBC. This loan is believed to have matured at the end of 2017, but was active during the time of Korindo's egregious activities that are detailed

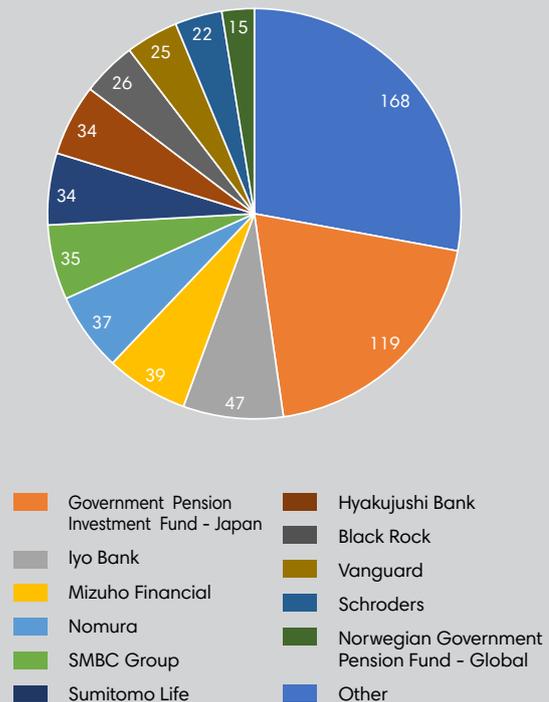
above. BNI did not respond to RAN in relation to allegations against its client Korindo, while SMBC pointed RAN to its financing policies.

Korindo's buyer Sumitomo Forestry has even more financial backers. Its prominent creditors, underwriters, and investors include Daiwa Securities as well as Tokyo 2020 Olympic Gold Sponsors SMBC Group, Mizuho Financial Group, and Nomura Holdings (see Graphic 7). While both SMBC and Mizuho adopted social and environmental financing policies for the first time in June 2018, which stipulate their commitment to finance legal operations in the forest sector that respect human rights, it is concerning that none of these four financiers explicitly prohibit the financing of rainforest destruction or the trade in illegal or unsustainable timber.³⁰

GRAPHIC 7:
SUMITOMO FORESTRY FINANCIERS - LOANS & UNDERWRITING
2015-JUNE 2018 (MILLION USD, FOREST-RISK SECTOR ADJUSTED)



SUMITOMO FORESTRY SHAREHOLDINGS & BONDHOLDINGS (JULY 2018) (MILLION USD, FOREST-RISK SECTOR ADJUSTED)



*RESEARCH METHODOLOGY: Financial databases Thomson EIKON, Bloomberg IJGlobal, Trade Finance Analytics, company register filings, as well as publicly available company reports, were used to identify corporate loans, credit and underwriting facilities provided during this period. Investments in bonds and shares were identified through Thomson EIKON and Bloomberg at the most recently available filing date in July 2018. These financial databases provide access to real time market data, news, fundamental data, analytics, trading and messaging tools. However, not all financing may be captured due to lack of transparency.

SOURCE: FORESTSANDFINANCE.ORG

5. RECOMMENDATIONS

Tokyo 2020 Olympic organizers should:

- **Investigate and disclose** the extent to which Korindo wood was used for Olympic venue construction and provide a detailed account of how the legality and sustainability of the wood was assessed by all parties involved, starting with Sumitomo Forestry.
- **Halt further use of Korindo wood** until the legality and sustainability issues in its operations and supply chain have been investigated and addressed.
- **Strengthen the Timber Sourcing Code** to prevent further use of illegal or unsustainable wood. This should include: 1) requiring risk-based due diligence, full traceability back to the forest, and third party legality and sustainability verification for the timber supply chain; 2) eliminating the current loophole for “reused” concrete formwork plywood which allows the use of timber that is not sustainable or respecting of rights; 3) committing to protect high conservation value (HCV) areas and high carbon stock (HCS) forests using the High Carbon Stock Approach³¹, which would significantly reduce the use of tropical wood including conversion timber and wood from other high risk sources; 4) requiring respect for Indigenous and local communities’ legal and customary rights to land, forests, and natural resources, including verification of their Free, Prior and Informed Consent; 5) requiring respect for workers’ rights in line with the ILO Core Conventions and UN Guiding Principles on Business and Human Rights; 6) assessing the various certification mechanisms’ ability to meet the Sourcing Code’s criteria, starting with PEFC; and 7) requiring a corporate level assessment of supplier risks in order to avoid doing business with controversial actors.
- **Strengthen sourcing requirements for all other forest-risk commodities**, namely paper and palm oil, to align with a comprehensive “No Deforestation, No Peatland, No Exploitation” policy framework³² and ensure no materials or products used by the Olympics are associated with rainforest or peatland destruction, illegal logging, or human rights violations.

The Japanese Government should:

- **Assess the effectiveness of Japan’s legality verification systems - namely the Act on Promoting Green Procurement (referenced in Tokyo 2020’s Timber Sourcing Code) and the Clean Wood Act** - in ensuring the use of legally logged wood, especially in relation to high risk sources such as Malaysia and Indonesia. This should include an assessment of the sourcing policies and practices of major Japanese timber importers including Sumitomo Forestry.
- **Provide explicit guidance on timber supply chain due diligence**, especially from high-risk source such as Malaysia and Indonesia.
- **Ensure publicly listed companies disclose all material Environmental, Social and Governance (ESG) risks**, including deforestation, human rights violations and illegalities in their direct operations as well as supply chains, as part of their obligations under the Corporate Governance Code.

Japanese timber traders should:

- **Halt further imports of Korindo wood** until the legality and sustainability issues in its operations and supply chain have been investigated and addressed.
- **Adopt robust timber procurement policies or strengthen existing standards, and improve oversight** of compliance with policies, including by establishing full traceability back to the forest.
- **Strengthen accountability** for implementation of timber procurement policies.

Financiers should:

- **Strengthen financing policies** to explicitly prohibit financing of operational and supply chain activities by clients that are illegal or negatively impact HCV areas, HCS forests, peatlands, Indigenous and customary rights, and labor rights, and require forest-risk sector clients to verify the above, particularly in relation to permitting requirements.
- **Engage with forest-risk sector clients on ESG risks in direct operations and supply chains**, starting with Sumitomo Forestry, and implement a time-bound plan to bring clients into compliance with robust policies.
- **Disclose** financial exposure to the forest-risk sector and measures being taken to address ESG risks in the sector.

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- 18 Singapore Companies Act (Cap. 50), Section 401
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- 21 Violation of Ministry of Agriculture decree no 357, 2002, Guideline for Plantation Business License (IUP).
- 22 Korindo acknowledges that all of its proposed plantation area was contested by Gane communities. PT GMM's records show that it did not begin meetings with affected villages until 2012. Records show that by the time they commenced planting, they had only agreed compensation for 6.45 ha, or less than 1% of their license area.
- 23 Letter No 3.522/K/PMT/XII/2014 from KOMNAS HAM, 15 Dec 2014, sent to Minister of Environment & Forestry, PT GMM and others
- 24 Indonesian Export data between Dec 2016 and March 2018 (inclusive) and HSS code 44123100
- 25 Id.
- 26 JPIK, SVLK : A Process toward Accountable Governance Monitoring by the Independent Forest Monitoring Network (JPIK), 2014-2017 (Feb 2018), <http://jpik.or.id/info/wp-content/uploads/2018/Laporan/SVLK-A%20Process%20toward%20Accountable%20Governance.pdf>. See also Rainforest Action Network, False Assurances: A Briefing for International Buyers and Customs Authorities On How Indonesia's Timber Legality Verification System Fails to Protect Community Rights (April 2015), <http://a.ran.org/b26>
- 27 JPIK, id, <http://www.flegtimm.eu/index.php/newsletter/flegt-policy-news/52-sustainable-forest-management-progresses-in-indonesia>, <https://www.chathamhouse.org/expert/comment/forest-governance-how-indonesia-and-vietnam-are-responding-illegal-logging>
- 28 See, i.e. Rainforest Action Network and Profundo, Every Investor Has A Responsibility, June 2017, http://forestsandfinance.org/wp-content/uploads/2017/06/RAN_Every_Investor_Has_A_Responsibility_June_2017.pdf
- 29 <http://forestsandfinance.org/?lang=ja>
- 30 <http://forestsandfinance.org/?lang=ja>
- 31 <http://highcarbonstock.org/the-high-carbon-stock-approach/>
- 32 See, for example, Wilmar "No Deforestation, No Peat, No Exploitation Policy", <http://www.wilmar-international.com/wp-content/uploads/2012/11/No-Deforestation-No-Peat-No-Exploitation-Policy.pdf>

*For further information on Korindo's operations in North Maluku and issues with Korindo's corporate governance, see Rainforest Action Network et al., Perilous: Korindo, Land Grabbing & Banks, November 2018, www.ran.org/korindo-report



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