

Headline	Steady progress along ESG journey		
MediaTitle	The Star		
Date	30 Aug 2022	Color	Full Color
Section	Supplement	Circulation	175,986
Page No	7	Readership	527,958
Language	English	ArticleSize	1167 cm <sup>2</sup>
Journalist	CALYN YAP	AdValue	RM 58,731
Frequency	Daily	PR Value	RM 176,193



By CALYN YAP  
calyn@thestar.com.my

MALAYSIA is slowly, but surely, forging ahead in the path towards a better tomorrow, as both the public and private sectors are making strides in integrating and implementing environmental, social and governance (ESG) principles within their strategies.

For starters, on the back of international reports accusing Malaysian companies of labour violations and export bans in recent years, the Government has taken a strong stance to eliminate forced labour in the country by 2030 with the launch of the five-year National Action Plan on Forced Labour (NAFPL), supported by the International Labour Organisation (ILO), in November 2021.

Not long after in March 2022, came the ratification of the ILO Protocol 2014 (ILO P29), which complements the ILO Convention on Forced Labour that was ratified in 1957. Malaysia also now has a seat as a member in the United Nations Human Rights Council (HRC) for the term 2022 to 2024.

There have also been improvements within local industries, such as the agricultural commodity (agricommodity) sector – palm oil, rubber and timber as the top agricommodity exports, as well as cocoa, pepper, plant-based kenaf fibre, biomass and biobutanol – via new policies and regulations, as well as on the ground changes in implementation to address ESG risks and concerns.

Of note is the launch of the National Agricommodity Policy (DAMN) 2030 earlier this year, with its five pillars of sustainability: productivity, value creation, market development and innovation.

The policy will serve to ensure that the agricommodity sector continue to grow without compromising sustainability, said Plantation Industries and Commodities Minister Datuk Zuraida Kamaruddin at the recent Malaysia International Agricommodity Expo and Summit.

She added, "DAMN 2030 will also focus on priorities that involve the wellbeing of smallholders, the growth of entrepreneurs and the ability to deal with issues related to the development of the agricommodity sector."

#### Foundation for growth

When it comes to international ESG developments – particularly rising concern on issues relating to deforestation, forced labour and sustainability – the recent revision of the Malaysian Standard on Malaysian Sustainable Palm Oil (MSPO), also known as the MS 2530:2022 (MSPO 2022) standard series, is a step in the right direction.

The MSPO 2022 includes environmental aspects such as high conservation value, no deforestation, greenhouse gas (GHG) monitoring and the method to measure GHG emissions; social aspects, including ILO indicators of Forced Labour and triangular employment, ethical recruitment and child rights, as well as governance via the Malaysian Anti-Corruption Commission's latest act on anti-corruption, among others.

It focuses on sustainable practices and replaces the previous MS 2530:2013 and the Supply Chain Certification Standard used under the MSPO Certification Scheme, which Malaysian Palm Oil Certification Council (MPOCC) develops and operates.

MPOCC strategic management department senior manager Mohd Hasbollah Suparyono said the revision, which balances stakeholder ideas and agenda against industry readiness, incorporates all the prominent issues or challenges that the palm oil industry faces when it comes to sustainability.

"The revision is based on both local and international input and what we try to do is address those concerns, achieve the benchmark and go beyond that. But this should be a continuous process. As the market is dynamic and evolving, the standards cannot be stagnant, as we take steps towards the end game of sustainable production of palm oil," he said.

The impact of the MSPO 2022 will be seen after it is fully implemented in the coming years, as there is a transition period for the industry to change from the 2013 version.

He added, "The MSPO value proposition is very simple. We try to have a robust, solid and credible scheme and system in terms of

# Steady progress along ESG journey

Local industries take steps to address risks, recognising the need for change to achieve a sustainable future



Malaysia's industries are forging a path towards incorporating ESG principles into strategies and operations.

sustainability requirements, governance and traceability, but at the same time, we want to ensure it is affordable."

According to Malaysian Palm Oil Council (MPOC) chairman Larry Seg, it is closely monitoring international developments in the space to analyse the impact on the palm oil industry and new requirements to be imposed on the industry.

"In addition, at MPOC, we're actively engaging our local stakeholders on social issues and the need to respect and protect the rights of migrant workers," he said, noting that it is key to work together with industry players to successfully address issues relating to the US Customs and Border Protection Withhold Release Order.

Once these companies can successfully remove themselves from such lists, Seg said it would also strengthen Malaysia's case in Europe as well, as providing a case to Europeans by showing them what the country has done to improve matters could influence their drafting of future legislation.

He stressed, "It's very important for us to continue this process of engagement, so that international parties are aware of our concerns and efforts in addressing ESG-related issues."

However, the majority of palm oil exporting companies have established their own ESG standards and the industry as a whole has also come up with a charter on how it addresses issues on forced labour.

"This is something noteworthy that we have to recognise, because it shows that the industry is being very progressive and sensitive to international concerns and ensuring that our standards are of the international and highest order," said Seg, adding that the industry is also taking concrete steps and financial measures to address ESG-related issues.

#### Enhancing traceability and value

For the Malaysia Rubber Board (MRB), ESG aspects are always taken into consideration when it comes to the development of policy and direction for the rubber industry to ensure its growth, said its director-general Datuk Dr Zairrossani Mohd Nor.

Under DAMN, its strategic aim is to transform Malaysia into a green technology hub for the rubber industry and to do so, MRB has to develop the strategy, policy, initiatives and collaborations with the stakeholders.

For the upstream sector, which has nearly 500,000 registered smallholders throughout the country, a key challenge is the technology to increase productivity and enhance transparency.

Technology such as the low intensity tapping system helps reduce tapper requirements and later simulators, which help prolong latex flow and increase production.

As part of the Malaysian Sustainable Natural Rubber Initiative, the RRMIniaga trading system sees legal smallholders given identification cards registered on

RRMIniaga, where sales and prices will be recorded and electronic receipts will be issued.

Rubber products can thus be traced to individual smallholders to ensure legal and sustainable sources, as the system provides MEB with real-time data on local rubber production to facilitate monitoring – especially as the RRMIniaga system, which can accurately determine the dry rubber content of rubber products like cup lumps, is connected to its overall database.

This not only helps enhance traceability and transparency in the rubber supply chain, but also in identifying rubber materials with specific dry rubber content, for projects such as the production of a first-of-its-kind natural rubber and graphene composite to manufacture aerospace balloons.

To extend the visibility along the supply chain is the e-Rubber Processor system, which provides information on the rubber purchased by rubber manufacturers.

Smallholders will also be reimbursed automatically for the difference under the Rubber Production Incentive via RRMIniaga, if the price of rubber falls below its activation price, ensuring that they have a stable income to combat fluctuating rubber prices.

Secondly, it's about incorporating a sustainable approach when developing new smallholdings or plantations, aligned with guidelines provided by the Department of

Environment (DOE). This is followed by standards for good practice that smallholders have to follow to operate in a sustainable way, which help address problems related to land grabbing and biodiversity.

The midstream sector, which is involved in processing rubber into technically specified rubber (TSR), faces environment-related challenges, particularly related to resources. But this has been addressed over the years as a result of MRB working with the DOE on regulations for the industry, alongside introducing ways to recycle the water via practical technological solutions.

Another issue it faces is low production due to raw material shortage. Malaysia is thus unable to compete with low-cost, volume-based producing countries as TSR is commodity rubber.

"MRB's role, in this, is to move the industry away from commodity rubber and towards producing specialty natural rubber such as ecoprene and purprena," he said, adding that the 'green rubber' is modified natural rubber with the properties of synthetic rubber.

The move also enables the downstream industry to move away from the use of synthetic rubber.

He noted that MRB is looking into the rubber life cycle, via specifications for imported rubber to enable traceability and sustainable sourcing, as well as carbon footprint label-

ling, among others.

"Sustainability is very much about data collection and control. What we need to do is ensure that the sectors are ready and able to produce the necessary data, then we will implement our own system and enforce it as part of regulation to ensure that it is sustainable from the source," he explained.

He also shared that MRB has a joint social compliance committee and works closely with the Ministry of Human Resources, ILO, as well as industry associations like the Malaysian Rubber Glove Manufacturers Association, in order to understand labour issues and assist in joint monitoring and provide training.

#### Establishing an ESG charter

With the embodied carbon of construction, refurbishment and fit-out becoming a more prominent issue, Malaysian Timber Council (MTC) chief operations officer Noraihan Abdul Rahman said buildings that incorporate timber are "far more environmentally sustainable than any other building typology".

This is because timber is a fully recyclable building material and it requires a fraction of the energy required to produce concrete or steel. When a building is demolished or renovated, the recovered timber can then be reused and recycled to other uses.

That said, Malaysia has remained committed to its pledge at the 1992 Rio Earth Summit to ensure that more than 50% of the country's land area remains under forest cover.

At the same time, there are also existing initiatives from the industry, such as industrial tree plantations, community farming and product development using alternative raw materials such as oil palm trunks and bamboo, which also bode well with ESG principles.

According to Noraihan, ESG in the timber industry can be summed up as:

- > Environmental: Sustainable forest management (SFM) and chain of custody (CoC) certification.

- > Social: Employment to local communities and talents/graduates and the welfare of workers.

- > Governance: Ensuring only legal timber is processed within the value chain.

Noting that it is only a matter of time before new rules requiring companies to submit annual environmental reports will

come into play, she advised, "The timber industry could benefit from focusing its investment on the E and S of ESG as the two core components of the industry itself: people and the environment."

She added that although there is a long way to go for the Malaysian timber industry, there are also other low-hanging fruits, such as better corporate governance, disclosure and transparency which can impact business profitability.

"I believe with the existing technology and expertise available within the field, the industry is transforming to deliver greater equity, sustainability and access for all," she said.

One way they can start is through the Malaysian Timber Certification Council's Malaysian Timber Certification Scheme, which has been endorsed by the Programme for the Endorsement of Forest Certification to certify forest areas according to internationally recognised SFM and CoC certification.

As one of the key challenges for timber players is to integrate ESG into their business models and understand its values, the council is currently undertaking to establish its ESG charter as part of MTC's five-year roadmap.

The charter, which will serve as a guide for the timber industry to better integrate ESG into their businesses, is slated to be published in the fourth quarter of 2022.

That said, she stressed that the Malaysian timber industry is endeavouring to adopt and adapt more ESG elements into its operations.

She shared, "While it must be noted that the timber industry has lengths to go to achieve full compliance with ESG, all stakeholders are trying their level best to improve the conditions in the workplaces and the industry's contribution to the environment, local communities and economy."

A recent initiative from the timber industry, in collaboration with the Malaysian Timber Industry Board and the Forest Research Institute Malaysia, is the Life Cycle Analysis for primary timber products in Peninsular Malaysia.

The project will be crucial in establishing the first element in determining the carbon footprint of Malaysian timber products.

"From this study, the findings may be used by the industry to develop the environmental product declaration to better market Malaysian timber products in environmentally sensitive markets," she added.