SHAREHOLDERS BEWARE

HOW MAJOR JAPANESE COMPANIES ARE MISREPORTING SUSTAINABILITY UNDER THE CORPORATE GOVERNANCE CODE

RAINFOREST ACTION NETWORK
レインフォレスト・アクション・ネットワーク

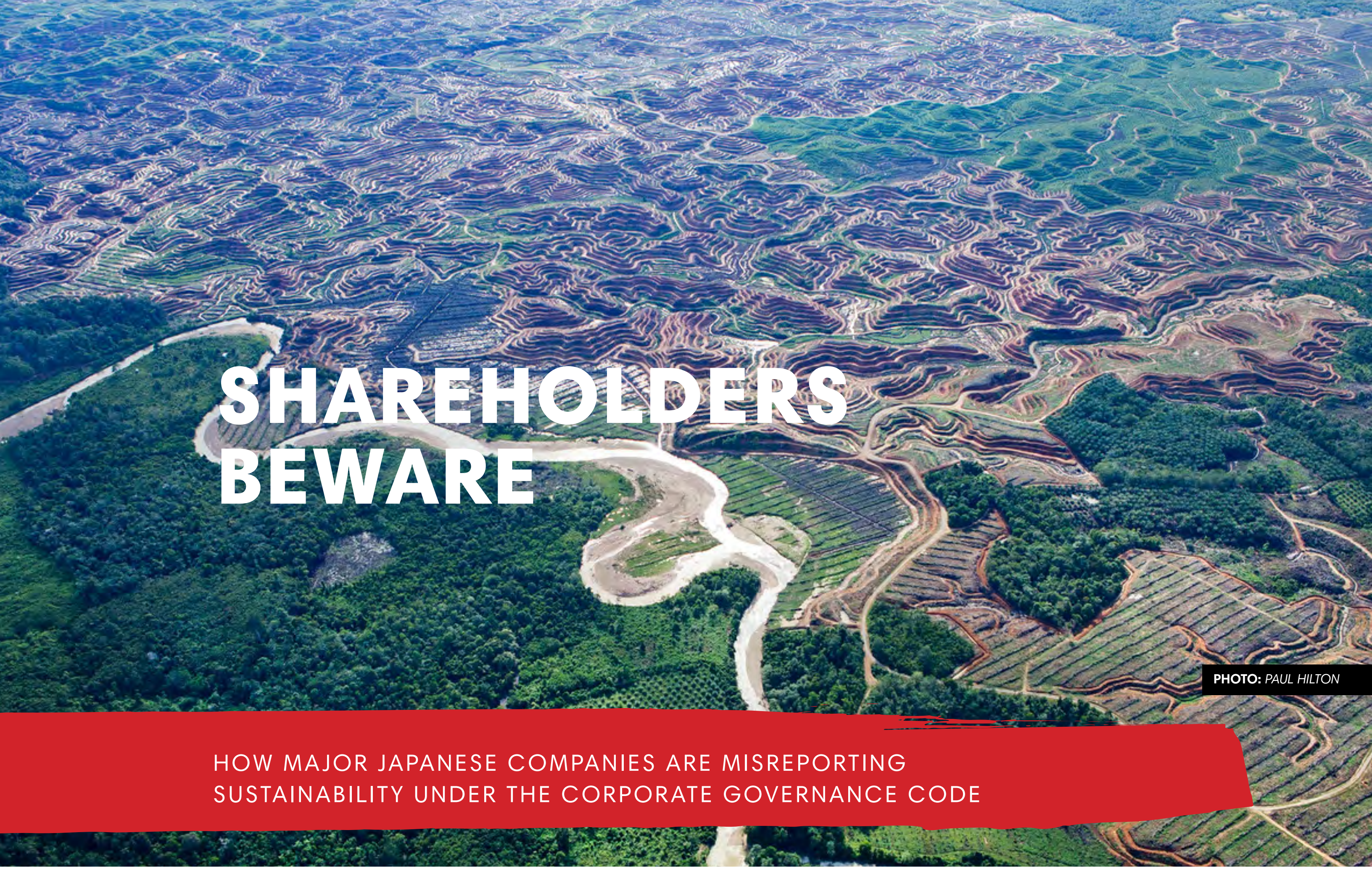

PHOTO: *PAUL HILTON*

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About Rainforest Action Network

Rainforest Action Network is an independent, non-governmental organisation that seeks to create lasting market and political solutions by inspiring corporations to embrace a deeper commitment to environmental and social justice. RAN's mission is to campaign for the forests, their inhabitants and the natural systems that sustain life.

RAN is headquartered in San Francisco, California with satellite offices in Tokyo, Jakarta and London.

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EXECUTIVE SUMMARY

The introduction of Japan's Corporate Governance Code in June 2015 was heralded as a major step forward in improving the transparency and accountability of Japanese listed companies. Whilst the Code appears to be having some positive impact on governance issues such as board independence, the same cannot be said of the Code's effect on the reporting and integration of sustainability and stakeholder issues.

The provision of environmental, social and governance (ESG) information related to business operations (including through a company's value chain) is a vital consideration for shareholders and other stakeholders in assessing a company's performance and investment potential. The omission or concealment of such information can cause unforeseen losses to investors from company links to harmful environmental or social impacts.[1] Such impacts are not only detrimental to the environment and people impacted, but can also result in brand reputation losses, cancellation of supplier contracts, supply chain disruptions, operational delays, shutdowns in production, or legal action.

The Code's key sustainability and stakeholder provisions are contained in Section 2 of the Code, while reporting of non-financial information is required under General Principle 3. According to a recent Tokyo Stock Exchange (TSE) synthesis report of company compliance with the Code, more than 99 per cent of firms self-reported to be fully complying with these specific sustainability and stakeholder provisions.[2]

Rainforest Action Network (RAN) examined the Code reports of ten major Japanese companies with known links to tropical deforestation and associated social risks through their supply chains, trading divisions or financial relationships. All ten companies surveyed reported on their measures to cooperate with stakeholders and address sustainability issues, however measures varied in quality and were generally inadequate relative to the ESG risks associated with tropical forest-risk commodities.

Key findings of our assessment are:

» All companies were exposed to significant ESG risks in their forest-commodity supply chains and/or financing relationships, including the destruction of High Conservation Value forest (HCV), High Carbon Stock (HCS) forest,[3] and conflict with local communities;
» None of the companies sufficiently disclosed these ESG risks in their Corporate Governance Code report;
» None of the companies adequately considered affected communities, a consistently overlooked stakeholder group, and none offered any grievance mechanism;
» Only two forest-sector companies, Sumitomo Forestry Corporation (Sumitomo Forestry) and Oji Holdings Corporation (Oji), reported some information on progress in implementing their sector-based policies relevant to tropical forest-risk supply chains;
» Only one financial institution, Sumitomo Mitsui Trust Holdings, explicitly considered ESG issues as part of their risk management framework and engagement with companies; and
» None of the financial institutions had publicly available, relevant and sector-specific financing policies to address their exposure to ESG risks through their client base.

The findings in this report suggest that many companies are systematically misreporting compliance with their sustainability and stakeholder obligations under the Code, or, have a fundamental lack of understanding as to what constitutes meaningful sustainability reporting and stakeholder engagement. While this is not the fault of the Corporate Governance Code itself, the ambiguity in the Code and Guidelines facilitates this misreporting. In particular, there is a lack of clarity on the range of stakeholders that should be considered, what measures are "appropriate" in addressing sustainability issues and what non-financial information should be disclosed (see Recommendations section). Consequently, Japan's Corporate Governance Code does not presently enable shareholders or other stakeholder groups to have sufficient confidence in the corporate sustainability performance of Japanese companies.

In order to remedy the deficiencies identified in this study, the Code's sustainability and stakeholder reporting obligations and guidance must be strengthened and clarified, and companies must urgently improve efforts to understand and address the serious range of sustainability and stakeholder issues connected to their business operations.

RECOMMENDATIONS TO THE FINANCIAL SERVICES AGENCY (FSA): IMPROVING THE CODE

General Principle 2: Appropriate Cooperation with Stakeholders

General Principle 2 points to the importance of "… establishing a corporate culture where the rights and positions of stakeholders are respected…," including those of "local communities".

» "Rights" to be respected should be further referenced, and include those reflected in international norms and instruments, such as the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multi-National Corporations, ILO Conventions and the UN Declaration on the Rights of Indigenous Peoples.

» In conceptualizing relevant stakeholders, including "local communities", the Code should specify that stakeholder relationships are defined by the full scope of a company's business activities and relationships, and are inclusive of stakeholders that are adversely impacted through the activities of those companies with which it enters supply chain and/or financing business relationships, and civil society groups.

» In ensuring the rights of stakeholders are respected, the Code should encourage companies to identify and elaborate on their stakeholder engagement procedures, including access to relevant grievance, conflict and dispute resolution mechanisms.

Principle 2.3: Sustainability Issues, Including Social and Environmental Matters

Principle 2.3 calls on companies to "take appropriate measures to address sustainability issues, including social and environmental issues," further noting under Supplementary Principle 2.3.1 that these matters should be addressed "positively and proactively."

» The Code should provide further clarity on the term "appropriate measures", by including reference to best-practice ESG procedures and frameworks for companies to identify, assess and seek to address the sets of sustainability issues relevant to their business, such as those found in the Global Reporting Initiative (GRI) G4 framework.

» While recognizing the value of many Corporate Social Responsibility activities, the Code should explicitly encourage companies to integrate social and environmental issues into their core business strategies, risk management and remedies to negative impacts.

» As it relates to companies with business exposure to tropical forest-risk commodities (but also more widely) the Code should encourage companies to elaborate values-led sector-specific ESG policies and commitments as a basis for "taking positive and proactive measures toward ESG matters".

General Principle 3: Disclosure of Information

General Principle 3 calls on companies to disclose information on "non-financial information" including "risks", noting that the provision of such non-financial information "is an effective means to develop shared awareness and understanding with… stakeholders, in particular given that as outsiders they suffer from information asymmetry."

» Consistent with the overall sustainability objectives of the Code and with Principle 2.3, the Code should explicitly require comprehensive disclosure of information related to ESG risks including the identification of negative impacts in company operations and wider business relationships as part of its reporting.

» The Code should require companies to consider and explain how the provision of such information improves the quality and constructiveness of their stakeholder relationships and engagement with not only shareholders, but other stakeholders including affected communities and civil society groups.

RECOMMENDATIONS TO THE TOKYO STOCK EXCHANGE (TSE): ENHANCED GUIDANCE FOR REPORTING

Section I-1, Basic Views on Corporate Governance and Other Basic Information

- Require companies to report on how they are complying with General Principle 2, Principle 2.3, and General Principle 3.

Section III-3, Status of Measures to Ensure Due Respect for Stakeholders

- Include reference to local communities and civil society in the indicative list of stakeholder groups.
- Clarify that stakeholders include those that are impacted by a company's operations and business relationships, including through the activities of companies with which it enters supply chain and/or financing relationships.
- Improve guidance to ensure that companies report the full set of reports where ESG information is disclosed, and reference by URL.

Section IV: Matters Concerning Internal Control System

- Add specification of ESG risk management systems as specific part of risk management reporting.

Other

- Add discussion and disclosure of framework(s) used to identify, assess, determine and update ESG risk priorities, targets and action plans
- Require the companies to identify and disclose the information about its sustainability issues as an important element of risk management and report how the board takes actions and considers addressing them positively and proactively.

RECOMMENDATIONS TO COMPANIES: STRENGTHENING ENGAGEMENT AND POSITIVE ESG OUTCOMES IN FOREST-RISK COMMODITY SECTORS

General Principle 2: Appropriate Cooperation with Stakeholders

- Stakeholder relationships should be considered through the full scope of a company's business activities and relationships, inclusive of stakeholders that are adversely impacted through the activities of those companies with which it enters supply chain and/or financing business relationships;
- Respect and uphold the rights of all stakeholders, paying close attention to the customary and land tenure rights of Indigenous Peoples and local communities, including their right to give or withhold permission based on Free, Prior and Informed Consent (FPIC);
- Demonstrate compliance with free and fair labor practices, including no use of forced or child labor;
- Conduct social impact assessments for relevant operations, and disclose sufficient information on the operations and assessment results to enable meaningful dialogue with stakeholders;
- Establish a framework for external stakeholders to report ESG risks and bring grievances, relating to supply chains and/or financial relationships, and commit to resolve all complaints and conflicts through an open, transparent and consultative process.

PHOTO: *PAUL HILTON*

Principle 2.3: Sustainability Issues, Including Social and Environmental Matters

- Develop and enforce policies for relevant sectors (through direct business operations, supply chain and/or financing relationships) with significant risks of adverse impacts on tropical forests. Policies should be made public and do the following:
  - Elaborate the adverse social and environmental impacts particular to the sector
  - Outline expectations for clients/partners on how these are to be best prevented and addressed as relevant
  - Establish benchmarks where relevant, and clear thresholds for disengaging with suppliers or clients that are noncompliant.
- Ensure operations are in full compliance with all relevant local, national and international laws;
- Ensure operations fully respect and uphold the rights of indigenous peoples and local communities, including their right to give or withhold permission based on free, prior and informed consent (FPIC);
- Ensure operations are in full compliance with free and fair labor practices;
- Ensure no operations are engaged in deforestation or degradation of High Conservation Value (HCV) forest, High Carbon Stock (HCS) forest, or peatland areas;
- Conduct risk-based due diligence in line with the OECD Guidelines for Multi-National Enterprises.

General Principle 3: Disclosure of Information

- Consistently identify, assess, and disclose sector-specific sustainability issues, including adverse ESG risk factors;
- Disclose sufficient company and client information to enable independent monitoring and meaningful dialogue with all stakeholders on measures taken to address environmental and social issues.[4]

ASSESSMENT METHODOLOGY

Ten major Japanese corporations were selected for this assessment based on RAN's knowledge of their direct and interconnected links to business operations causing tropical deforestation and associated social impacts. The tropical forest-risk commodities of greatest relevance to Japan's major corporations are pulp & paper, timber, and palm oil. Companies were determined to have a direct link to tropical forest-risk operations, and thus selected for this study, based on one or more of the following criteria:

- direct involvement in the production or trade of tropical forest-risk commodities;
- direct reliance on the supply of tropical forest-risk commodities;
- direct financial relationship (loans, underwritings and shareholdings) with clients engaged in the production, trade or processing of tropical forest-risk commodities.

The 10 companies selected were: ASKUL Corporation (ASKUL); Fuji Oil Holdings (Fuji Oil); ITOCHU Corporation (ITOCHU); Marubeni Corporation (Marubeni); Mitsubishi UFJ Financial Group (MUFG); Mizuho Financial Group (Mizuho); Oji Holdings Corporation (Oji); Sumitomo Forestry Corporation (Sumitomo Forestry); Sumitomo Mitsui Financial Group (SMFG); and Sumitomo Mitsui Trust Holdings (SMTH).

Each company's Corporate Governance Code report was evaluated against the key sustainability and stakeholder provisions in the Code that have relevance to tropical forest-risk commodities: General Principle 2; Principle 2.3; and General Principle 3. In general, company reports followed the framework of the Guidelines for Preparing Corporate Governance Reports set out by the TSE.[5] Under these Guidelines, companies are instructed to explain noncompliance with any principles of the Code, and otherwise report how they are complying with select principles in the Code. The Guidelines do not require companies to explain how they are complying with the stakeholder- or sustainability-related principles under Section 2 of the Code or with the requirement to disclose non-financial information under General Principle 3. However, the Guidelines encourage companies to explain how they are respecting the position of stakeholders, and it is here that companies have explained their efforts to address sustainability and cooperate with stakeholders.

OUR ASSESSMENT ASKED THE FOLLOWING QUESTIONS:

1. Does the company's report adequately describe how the company is engaging and respecting all impacted stakeholders, especially local communities?
2. Does the company's report adequately describe how the company is addressing all relevant sustainability issues, including social and environmental problems?
3. Does the company's report disclose all material non-financial information in an accurate, clear and useful manner?
4. Does the company's business operation or wider value chain have known adverse sustainability or stakeholder impacts not identified and reported through the company's Code report?

The summary assessment findings for each of the ten company reports is presented in the next section. Where companies referenced company reports such as Annual Reports or CSR reports, the content of these reports were considered to be part of the Corporate Governance Code report. In some cases, our evaluation found that companies neglected to reference initiatives that have relevance to tropical forest-risk commodities - this information was included in this assessment and indicated accordingly.

Case studies of the pulp and paper, timber and palm oil sectors are also presented to highlight typical ESG risks in these supply chains and financial relationships.

ASSESSMENT OF COMPANY REPORTS

ASKUL CORPORATION (ASKUL) Stock listing code: 2678 | Market cap: 228 billion yen

FOREST-RISK COMMODITIES:	FOREST-RISK BUSINESS:	AFFECTED FOREST AREAS AND COMMUNITIES:
	Goods purchase and sale (including private brands)	Indonesia

COMPANY'S CORPORATE GOVERNANCE CODE REPORTING[6]		RAN'S ASSESSMENT OF CRITICAL GAPS IN COMPANY CODE REPORTING
General Principle 2: Appropriate cooperation with stakeholders other than shareholders	Self-reported as "Compliant" to General Principle 2 Provisions that stipulate respect for stakeholders: » ASKUL Code of Conduct[7]	High-risk supply chain: » Pulp & paper trade with Asia Pulp and Paper (APP) in Indonesia ESG risk exposure: » Conflicts with indigenous peoples and local communities over land; » Illegal operations; » Forest fires leading to forest clearance and conversion of peatland, causing substantial CO_2 emissions; and » Destruction of High Conservation Value (HCV) and High Carbon Stock (HCS) forest areas. (See pulp & paper case study) ASKUL lacks:[8] » Minimum requirement to procure legal or sustainable paper products, or products not associated with human rights violations in its paper procurement policy; » Adequate due diligence measures to verify legality or sustainability; » Formal procedure for addressing local community dispute resolution; and » Clear thresholds for disengaging with suppliers that fail to address ESG risks.
Principle 2.3: Sustainability issues, including social and environmental matters	Self-reported as "Compliant" to Principle 2.3 Measures to address sustainability: » Initiatives are disclosed on the company website and include renewable energy production, promoting energy efficiency and recycling, and contributing to nonprofit activities;[8] » Environmental Policy;[9] » Establishment of Mid- to Long-term Environmental Goals;[10] » Paper procurement policy;[11] and » Management of environmental risks on the basis of ISO 14001-compliant management system and PDCA cycle.	
General Principle 3: Appropriate information disclosure and transparency	Self-reported as "Compliant" to General Principle 3 Policy and measures on disclosure: » ASKUL Disclosure Policy,[12] and » Disclosure of evaluation on compliance with ASKUL Environmental Policy following NGO criticism on procurement of Indonesian pulp & paper. [13]	ASKUL lacks: » Transparency on volumes, traceability, and sustainability benchmarks for pulp & paper traded by ASKUL; and » Disclosure of ESG risks in forest-risk commodity supply chain.

FUJI OIL HOLDINGS (FUJI OIL) Stock listing code: 2607 | Market cap: 174 billion yen

FOREST-RISK COMMODITIES:	FOREST-RISK BUSINESS:	AFFECTED FOREST AREAS AND COMMUNITIES:
	Trading	Indonesia, Malaysia, Papua New Guinea

COMPANY'S CORPORATE GOVERNANCE CODE REPORTING[14]		RAN'S ASSESSMENT OF CRITICAL GAPS IN COMPANY CODE REPORTING
General Principle 2: Appropriate cooperation with stakeholders other than shareholders	Self-reported as "Compliant" to General Principle 2 Provisions that stipulate respect for stakeholders: » Fuji Oil Constitution;[15] and » CSR Action Policy.[16]	High risk supply chains: » Palm Oil trade with Malaysian and Indonesian producers IOI and Kuala Lumpur Kepong Berhad (KLK). ESG risk exposure: » Illegal clearance of HCV forests and conversion of peatland; » Conflict with forest-dependent communities over land and systematic violation of indigenous rights; and » Human and labor rights violations, including child and forced labor. (See Palm Oil case study) Key protocols for implementing Fuji Oil's Responsible Palm Oil Sourcing Policy, adopted in March 2016,[17] are still pending. These should ensure: » Consultation with social and environmental stakeholder groups on the design of implementation protocols; » Full, transparent and regular disclosure mechanisms; » Time-bound implementation plans and goals for specific palm oil products and regions; » Clear dispute resolution mechanisms and procedures for stakeholders impacted by its suppliers activities; » Credible independent monitoring and verification mechanisms; » Appropriate staffing and resource allocations; and » Clear non-compliance protocols that set clear performance benchmarks for all suppliers.
Principle 2.3: Sustainability issues, including social and environmental matters	Self-reported as "Compliant" to Principle 2.3 Measures to address sustainability: » Basic environmental policy; » Environmental targets on energy saving, reduction in water usage and discharge, waste reduction, and resource recycling;[18] » ISO14001 certification for all domestic production sites; » Establishment of ESG Committee;[19] » Sustainable procurement of raw materials (palm oil, cacao, soybean, and shea), focusing on production methods, labor environments, human rights, and environment-friendliness, and by establishing a traceability system. FY 2017 targets include development of a responsible palm oil sourcing policy;[20] and » Participation in RSPO, Global Shea Alliance, and UN Global Compact.	
General Principle 3: Appropriate information disclosure and transparency	Self-reported as "Compliant" to General Principle 3 Policy and measures on disclosure: » Disclosure Policy;[21] and » Reporting of CSR initiatives in Sustainability Report.	Fuji Oil lacks: » Transparency on countries of origin, names of suppliers and volumes for palm oil supply; and » Disclosure of ESG risks in palm oil supply chain.

CASE STUDY: PULP & PAPER

By all accounts, the 2015 fire season in Indonesia ranks as one of the top global environmental disasters of the last decade. More than 2 million hectares of land and forests burned, spreading thick haze across Indonesia and into Singapore, Malaysia and Thailand.[22] Many intentionally set, the worst fires occurred on drained, carbon-rich peat land areas, which have been targeted for "development" by the pulp & paper and palm oil industries in Indonesia.[23] In just a few months the huge pulse of CO2 emissions from the fires topped Japan's annual GHG emissions from all sources.[24] Direct economic costs to the Indonesian economy exceeded $16 billion, more than negating the $12 billion in export earnings of the pulp & paper and palm oil sectors combined.[25 26]

The haze may not have reached Japan, but imports of woodchips, pulp and paper products associated with Indonesia's rainforest destruction enter Japan on a regular basis via major Japanese traders and producers including ASKUL, ITOCHU, Marubeni, and Oji Holdings.

Marubeni, Sumitomo Forestry and Oji have combined direct investments in industrial plantations in Indonesia covering 500,000 hectares, an area more than twice the size of greater Tokyo. ITOCHU and Marubeni are traders of products manufactured by APP[27] and Asia Pacific Resources International Holdings Limited (APRIL), Indonesia's two largest pulp & paper companies, estimated to be responsible for the pulping of more than 3 million hectares of Indonesia's rainforests.[28] ASKUL is also a top seller of copy paper in Japan, whose major brands source paper from APP. Major Japanese financial institutions, Mizuho Financial Group, MUFG, SMFG and SMTH, provide financial services to some Japanese companies who invest and/or buy from the forestry and pulp & paper industry in Indonesia. These direct links to the high-risk pulp & paper supply chain in Indonesia, expose these companies and financiers to the following ESG risks.

ENVIRONMENTAL RISKS

- Conversion of HCV forest and forest fires have occurred in a South Sumatra concession operated by Marubeni's subsidiary.[29]
- Sumitomo Forestry's plantation investments in Kalimantan are mostly on peat lands, which cover 82% of its concession areas, leading to unsustainable degradation and high annual CO2 emissions. Plantation operations have been documented to clear significant areas of High Carbon Stock natural forest for woodchips.[30]
- Flooding and displacement of villagers occurred as a result of land clearance by Oji's affiliate company, PT Korintiga Hutani, for its eucalyptus plantations in Kalimantan.[31]
- APP and its parent group, Sinar Mas Group, have a long history of forest clearance, destruction of habitat for critically endangered species, and developing carbon-rich peat lands. In 2015 APP Group's concessions were major sources of forest fires in Indonesia.[32]

SOCIAL RISKS

- Marubeni's pulp plantations in Sumatra have an ongoing history of social conflict over customary land tenure rights, forced evictions[33] and human rights violations.[34]
- Sumitomo failed to conduct proper social and environmental impact assessments or Free, Prior and Informed Consent (FPIC) procedures with Indigenous peoples before initiating its plantation operations.[35]
- Plantation development by Oji's affiliate, PT Korintiga Hutani, has resulted in conflicts with local farming communities.[36]
- APP Group have a long history of social conflicts and displacement of communities from customary lands.[37]

GOVERNANCE RISKS

- Marubeni's Forest Stewardship Council (FSC) Controlled Wood certification for its pulp plantation in Sumatra is currently suspended for conversion of 10% of its HCV forest to plantations.[38]
- Oji's plantation investments in Kalimantan[39] were subjected to government sanctions for setting fires, resulting in a three-month suspension of their operating license in December 2015.[40]
- Oji Lao Plantation Forest Ltd. (LPFL) had its FSC certificate withdrawn on June 29 2015 for non-compliance with several FSC principles.[41]
- APP and APRIL have been disassociated with FSC since 2007 and 2013 respectively.
- APP and APRIL group's suppliers were sanctioned for forest fire 2015.[42]

ITOCHU CORPORATION (ITOCHU) Stock listing code: 8001 | Market cap: 2,276 billion yen

FOREST-RISK COMMODITIES:	FOREST-RISK BUSINESS:	AFFECTED FOREST AREAS AND COMMUNITIES:
	Trading	Indonesia, Malaysia, Papua New Guinea

COMPANY'S CORPORATE GOVERNANCE CODE REPORTING[43]		RAN'S ASSESSMENT OF CRITICAL GAPS IN COMPANY CODE REPORTING
General Principle 2: Appropriate cooperation with stakeholders other than shareholders	Self-reported as "Compliant" to General Principle 2 Provisions that stipulate respect for stakeholders: » The ITOCHU Group Corporate Philosophy and Code of Conduct;[44] » The ITOCHU Group Environmental Policy;[45] » Basic Activity Guidelines on Social Contribution;[46] » Basic Policies for CSR Promotion;[47] and » ITOCHU Corporation CSR Action Guidelines for Supply Chains.[48]	High-risk supply chains: » Timber trade with logging companies in Sarawak, Malaysia; » Pulp & paper trade with APRIL and APP in Indonesia; and » Palm oil trade with suppliers from Indonesia and Malaysia. ESG risk exposure: » Violations of the customary rights of Indigenous peoples and local communities; » Violations of fundamental Human Rights, including use of child labor in violation of ILO Conventions; » Destruction of HCV and HCS forest areas; » Illegal logging, forest clearance, and conversion of peatlands; » Air, water and climate pollution; and » Corruption. ITOCHU lacks: » Adequate due diligence measures to verify compliance with its legality and sustainability standards; » Clear procedures for addressing noncompliance with its procurement standards; » Clear sustainability metrics or benchmarks for forest-risk commodities suppliers; and » Formal procedure for local community dispute resolution or requirement on suppliers to have a dispute resolution mechanism. (see timber, palm oil, and pulp & paper case studies)
Principle 2.3: Sustainability issues, including social and environmental matters	Self-reported as "Compliant" to Principle 2.3 Measures to address sustainability: » Support for activities to restore and conserve tropical rainforests; » Formulation of action plans in each organization and regional bloc based on Basic Policies for CSR Promotion, and their implementation based on the PDCA (plan-do-check-act) cycle;[49] » Participation in UN Global Compact and Roundtable on Sustainable Palm Oil; and » Establishment of a CSR Advisory Board that includes external experts. Additional information: » Policy on Procurement of Wood, Wood Products, Paper Manufacturing Materials, and Paper Products[50]	
General Principle 3: Appropriate information disclosure and transparency	Self-reported as "Compliant" to General Principle 3 Policy and measures on disclosure: » Reporting of CSR Activities in Annual Report, CSR Report, and website;[51] » Reporting in accordance with GRI G4 guidelines;[52] » Basic IR policy;[53] and » Participation in CDP.	ITOCHU lacks: » Disclosure of ESG risks in forest-risk commodity supply chain; and » Transparency on countries of origin, names of suppliers, traceability and sustainability benchmarks.[54]

MARUBENI CORPORATION (MARUBENI) Stock listing code: 8002 | Market cap: 889 billion yen

FOREST-RISK COMMODITIES:	FOREST-RISK BUSINESS:	AFFECTED FOREST AREAS AND COMMUNITIES:
	Trading and production	Indonesia, Malaysia

<table>
<tr><th colspan="2">COMPANY'S CORPORATE GOVERNANCE CODE REPORTING[55]</th><th>RAN'S ASSESSMENT OF CRITICAL GAPS IN COMPANY CODE REPORTING</th></tr>
<tr><td>General Principle 2: Appropriate cooperation with stakeholders other than shareholders</td><td>Self-reported as "Compliant" to General Principle 2

Provisions that stipulate respect for stakeholders:
» CSR material issues identified through dialogues with stakeholders;[56] and
» For operations overseas, Marubeni will respect local cultures and customs and strive to operate business in a way that contributes to local development.
Additional Information:
» Compliance Manual[57]</td><td rowspan="2">High-risk supply chains:
» Timber trade with logging companies in Sarawak, Malaysia;
» Pulp production and trade with producers in Indonesia; and
» Pulp & paper trade with APP and APRIL.

ESG risk exposure:
» Illegal logging
» Destruction of HCV and HCS forest areas;
» Extremely high incidence of fires in concession area;
» Persistent social conflicts over customary land tenure rights including forced evictions;
» Violation of human rights; and
» Suspension of Forest Stewardship Council certification.

(See timber and pulp & paper case studies)

Marubeni lacks:
» Sector-specific forest-commodity procurement policy;
» Clear sustainability metrics or benchmarks for forest-risk commodities suppliers;
» Adequate due diligence measures to verify legality of timber or pulp & paper supply;
» Clear procedures for countering noncompliance with Supply Chain Policy or thresholds for disengaging with forest-risk commodity suppliers that fail to meet its standards; and
» Formal procedure for local community dispute resolution or requirement on suppliers to have a dispute resolution mechanism.</td></tr>
<tr><td>Principle 2.3: Sustainability issues, including social and environmental matters</td><td>Self-reported as "Compliant" to Principle 2.3

Measures to address sustainability:
» Basic Supply Chain CSR Policy, and measures and procedures to counter noncompliance with labor standards which include on-site inspections of suppliers;[58]
» Voluntarily and actively seek to address environmental problems;
» Reduction of environmental burden and promotion of environmental businesses.
» Operation of an environmental management system (EMS) based on ISO 14001 and use of "plan-do-check-act (PDCA) cycle to ensure ongoing improvement." On-site inspections at group companies without ISO 14001 Certification and engaged in activities with a relatively high risk of exerting a significant environmental impact;[59] and
» Participation in UN Global Compact</td></tr>
<tr><td>General Principle 3: Appropriate information disclosure and transparency</td><td>Self-reported as "Compliant" to General Principle 3

Policy and measures on disclosure:
» Disclosure Policy;[60]
» Marubeni Corporate Principles;[61]
» Compliance Manual;[62] and
» Reporting on CSR activities in the Annual Report, including ESG data for internal operations</td><td>Marubeni lacks:
» Disclosure of ESG risks in forest-risk commodity supply chain; and
» Transparency on countries of origin, volumes, traceability, sustainability benchmarks and standards for forest-risk commodities traded and/or produced.</td></tr>
</table>

MITSUBISHI UFJ FINANCIAL GROUP (MUFG) Stock listing code: 8306 | Market cap: 7,143 billion yen

FOREST-RISK COMMODITIES:	FOREST-RISK BUSINESS:	AFFECTED FOREST AREAS AND COMMUNITIES:
	Finance: Loans and underwriting	Indonesia, Malaysia

COMPANY'S CORPORATE GOVERNANCE CODE REPORTING[63]		RAN'S ASSESSMENT OF CRITICAL GAPS IN COMPANY CODE REPORTING
General Principle 2: Appropriate cooperation with stakeholders other than shareholders	Self-reported as "Compliant" to General Principle 2 Provisions that stipulate respect for stakeholders: » Corporate Vision;[64] and » Principles of Ethics and Conduct.[65]	High-risk financial relationships: » Palm oil sector producers and traders including Jardine Matheson (Astra Agro Lestari), IOI and ITOCHU; » Indonesian pulp & paper producers and traders including Marubeni and ITOCHU; and » Traders in Sarawak timber, including ITOCHU and Marubeni. (see timber, palm oil and pulp & paper case studies) MUFG lacks: » Public, sector-specific ESG financing policies for tropical forest-risk commodities to which it has exposure; » Policy to address sustainability as part of risk management;[66] and » Integration of sustainability and stakeholder issues into corporate risk management structures or other board-level accountability mechanisms.
Principle 2.3: Sustainability issues, including social and environmental matters	Self-reported as "Compliant" to Principle 2.3 Measures to address sustainability: » Establishment of CSR Committee and CSR Promotion Units. Additional information: » CSR Materiality policy;[67] » Promotion of environmental businesses;[68] and » Participation in UN Global Compact, Equator Principles and UN Principles for Responsible Investment (UN PRI).	
General Principle 3: Appropriate information disclosure and transparency	Self-reported as "Compliant" to General Principle 3 Policy and measures on disclosure: » Investor Relations Policy;[69] » Disclosure publication and company website;[70] » Participation in CDP.	MUFG lacks: » Explicit requirement to disclose non-financial information, including ESG risks, in its Investor Relations Policy; and » Disclosure of ESG risks related to financial relationships

> ***"Illegal logging accounts for more than 20% of the timber on the market and 50-90% of all forestry activities in key producer tropical forests... Japan is among the world's largest importers of tropical timber***

CASE STUDY: TIMBER

Logging is a major driver of deforestation, especially in the tropics where the risk of illegal logging is high. According to INTERPOL, illegal logging accounts for more than 20% of the timber on the market and 50-90% of all forestry activities in key producer tropical forests, such as in Southeast Asia.[71]

Japan is among the world's largest importers of tropical timber, largely in the form of plywood, and nowhere are the risks of illegal logging more apparent than in the State of Sarawak, Malaysia, which supplies nearly half of the imported plywood on the Japanese market. ITOCHU, Sumitomo Forestry, and Marubeni are among Japan's largest buyers of tropical timber, and all three buy from some of the most notorious logging companies in Sarawak - Shin Yang, Samling, Ta Ann and WTK, which have been reported to be engaged in illegal and unsustainable logging.[72] Recognizing these risks, the Norwegian Pension Fund divested from all major publicly-listed logging companies in Sarawak – Samling, WTK, and Ta Ann,[73] and HSBC ended its commercial banking business in Sarawak in 2014.[74]

As traders and financiers of companies engaged in this high-risk supply chain, ITOCHU, Sumitomo Forestry, Marubeni, Mizuho, MUFG, SMFG and SMTH are exposed to the following ESG risks.

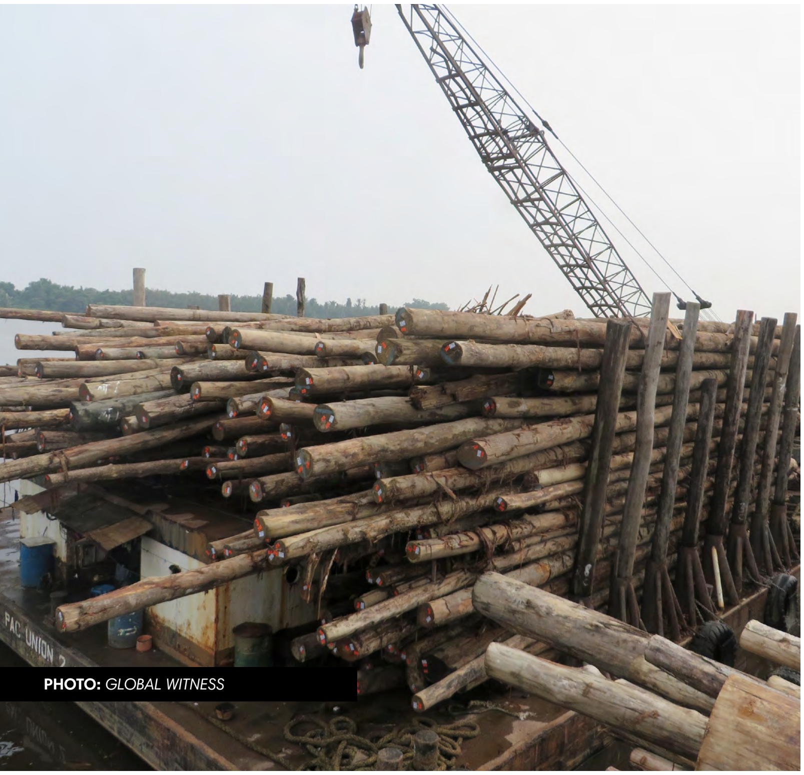


PHOTO: *GLOBAL WITNESS*

ENVIRONMENTAL RISKS

» Southeast Asia has one of the highest rates of tropical primary forest loss in the world, causing significant biodiversity loss and CO_2 emissions.

» Shin Yang, one of the largest suppliers of tropical plywood to Japan, was recently found clear-cutting forests in the Heart of Borneo transboundary conservation area at a rate of 42 soccer fields per day.[75]

» Ta Ann was found to be in the process of destroying more than 100,000 hectares of tropical rainforest in the Sundaland Biodiversity Hotspot, degrading critical habitat for endangered species.[76]

SOCIAL RISKS

» Samling, Shin Yang and Ta Ann currently face legal challenges from indigenous communities for violating their customary right to land.[77]

» Conflict and displacement of indigenous peoples and local communities, resulting in loss of traditional livelihoods, increased poverty, food insecurity and social breakdown.

GOVERNANCE RISKS

» High risk of illegal logging. UN Office of Drugs and Crime has estimated that roughly 50% of the timber produced by Sarawak is illegal.[78]

» Systematic illegal logging by Samling in 6 concessions investigated by the Norwegian Government Pension Fund.

» High incidence of corruption in the allocation of logging and plantation licenses.[79]

MIZUHO FINANCIAL GROUP (MIZUHO) Stock listing code: 8411 | Market cap: 4,110 billion yen

FOREST-RISK COMMODITIES:	FOREST-RISK BUSINESS:	AFFECTED FOREST AREAS AND COMMUNITIES:
	Financing: Loans, underwriting, and shareholding	Indonesia, Malaysia

COMPANY'S CORPORATE GOVERNANCE CODE REPORTING[80]		RAN'S ASSESSMENT OF CRITICAL GAPS IN COMPANY CODE REPORTING
General Principle 2: Appropriate cooperation with stakeholders other than shareholders	Self-reported as "Compliant" to General Principle 2 Provisions that stipulate respect for stakeholders: » Code of Conduct;[81] and » Basic Policy on Involvement in CSR Activities.	High-risk financial relationships: » Palm oil sector producers and traders including Jardine Matheson (Astra Agro Lestari), Salim Group (Indofood), and ITOCHU; » Indonesian pulp & paper producers and traders including Marubeni, ITOCHU, and Oji; and » Timber producers and traders, including ITOCHU, Marubeni and Sumitomo Forestry. (see Timber, Palm Oil and Pulp & Paper case studies) Mizuho lacks: » Public, sector-specific, ESG financing policies for tropical forest-risk commodities to which it has exposure; » Efforts to reduce environmental impacts resulting from financing of companies involved in forest-risk commodities;[82] » Explicit reference to non-financial ESG risks in its risk management policy; and » Integration of sustainability and stakeholder issues into corporate risk management structures or other board-level accountability mechanisms.
Principle 2.3: Sustainability issues, including social and environmental matters	Self-reported as "Compliant" to Principle 2.3 Measures to address sustainability: » Implementation of medium- and long-term CSR activities based on the Group CSR Initiative Policy;[83] » Efforts to reduce environmental impact of its internal business activities and the financial products and services it provides; » Establishment of CSR committees to promote CSR across the Group;[84] and » Participation in UN Global Compact, Equator Principles and UN PRI.[85]	
General Principle 3: Appropriate information disclosure and transparency	Self-reported as "Compliant" to General Principle 3 Policy and measures on disclosure: » Disclosure Policy;[86] » Annual 'Integrated Reports' include ESG information;[87] and » Participation in CDP.	Mizuho lacks: » Explicit requirement to report on non-financial information, including ESG risks, in its disclosure policy;[88] and » Disclosure of ESG risks related to financial relationships.

OJI HOLDINGS CORPORATION (OJI) Stock listing code: 3861 | Market cap: 447 billion yen

FOREST-RISK COMMODITIES:	FOREST-RISK BUSINESS:	AFFECTED FOREST AREAS AND COMMUNITIES:
	Production	Indonesia, Laos

COMPANY'S CORPORATE GOVERNANCE CODE REPORTING[89]		RAN'S ASSESSMENT OF CRITICAL GAPS IN COMPANY CODE REPORTING
General Principle 2: Appropriate cooperation with stakeholders other than shareholders	Self-reported as "Compliant" to General Principle 2 Provisions that stipulate respect for stakeholders: » Oji Group Corporate Code of Conduct;[90] and » Oji Group Behaviour Standard: Respect for Human Rights.[91] CSR activities aim to build relationships with stakeholders.[92]	High-risk supply chains: » Pulp wood production with Korindo Group in Indonesia; and » Oji Lao Plantation Forest. ESG risk exposure: » Suspension of pulp wood operation in Indonesia for illegal use of fires; » Systemic failures to properly recognize and respect customary land tenure rights of local communities and Indigenous peoples; and » Termination of FSC certification in Laos. (see pulp & paper case study) Oji lacks: » Clear procedures for addressing noncompliance with Procurement Policy or thresholds for disengaging with suppliers that fail to meet its standards; and » Formal procedure for local community dispute resolution or requirement on suppliers to have a dispute resolution mechanism.
Principle 2.3: Sustainability issues, including social and environmental matters	Self-reported as "Compliant" to Principle 2.3 Measures to address sustainability: » Oji Group Environmental Charter and Action Guidelines;[93] » Environmental Action Program 2020, which includes targets for emissions reduction, sustainable Forest Management / Paper Recycling and responsible raw materials procurement;[94] » Partnership Procurement Policy;[95] and » Wood Raw Material Procurement Guidelines.[96] Additional information: » Risk management system that considers environmental and human rights issues.[97]	
General Principle 3: Appropriate information disclosure and transparency	Self-reported as "Compliant" to General Principle 3 Policy and measures on disclosure: » CSR activities disclosed in Annual Report and on the company website, including information on forest certification area;[98] and » Disclosure of status of implementation of wood procurement guidelines.[99]	Oji lacks: » Disclosure of ESG risks in forest-risk commodity supply chain.

SUMITOMO FORESTRY CORPORATION Stock listing code: 1911 | Market cap: 263 billion yen

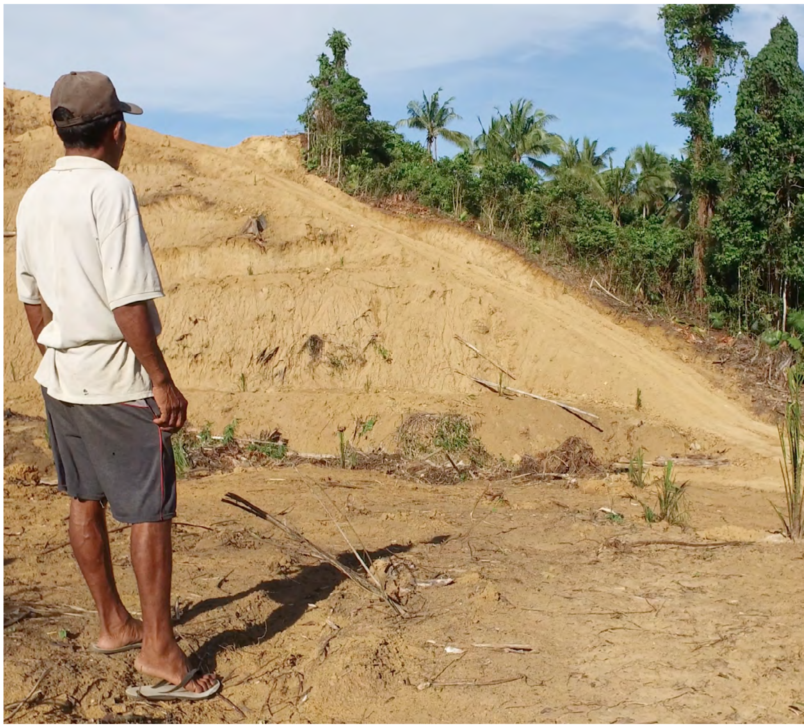
FOREST-RISK COMMODITIES:	FOREST-RISK BUSINESS:	AFFECTED FOREST AREAS AND COMMUNITIES:
	Trading and production	Indonesia, Malaysia

COMPANY'S CORPORATE GOVERNANCE CODE REPORTING[100]		RAN'S ASSESSMENT OF CRITICAL GAPS IN COMPANY CODE REPORTING
General Principle 2: Appropriate cooperation with stakeholders other than shareholders	Self-reported as "Compliant" to General Principle 2 Provisions that stipulate respect for stakeholders: » "Our Values and Ideals";[101] and » Active communication with all stakeholders in conducting its business activities. Sumitomo Forestry incorporates stakeholder opinion in the company's management.	High-risk supply chains: » Timber trade with logging companies in Sarawak, Malaysia; and » Pulp wood production in Indonesia. ESG risk exposure: » Illegal logging; » Destruction of HCV and HCS forest areas; » Pulp plantation development, including on peatlands, without adequate social and environmental impact assessments or FPIC in Indigenous peoples areas; and » Violations of the customary rights of Indigenous peoples and local communities. (See timber and pulp & paper case studies) Sumitomo Forestry lacks: » Adequate due diligence measures to verify legality of timber supply; » Clear thresholds for disengaging with forest-risk commodity suppliers that fail to meet procurement policy standards; and » Formal procedure for local community dispute resolution or requirement on suppliers to have a dispute resolution mechanism.
Principle 2.3: Sustainability issues, including social and environmental matters	Self-reported as "Compliant" to Principle 2.3 Measures to address sustainability: » Sumitomo Forestry Group Environmental Policy;[102] » Enhancement of environmental activities through PDCA (plan-do-check-act) cycle at each organization; » Sumitomo Forestry Group Procurement Policy, including benchmarks;[103] and » CSR Material issue includes: "continuing to procure wood and materials that take sustainability and biodiversity into consideration." Integration of this issue into Group's Mid-term CSR Management Plan.[104]	
General Principle 3: Appropriate information disclosure and transparency	Self-reported as "Compliant" to General Principle 3 Policy and measures on disclosure: » "Our Values and Ideals";[105] and » Reporting of CSR activities in annual CSR reports, including measures to address some timber- and pulp-related ESG risks in their supply chain.[106]	Sumitomo Forestry lacks: » Transparency on countries of origin and volumes for timber supply; and » Consistent disclosure of ESG risks in forest-risk commodity supply chain.

CASE STUDY: PALM OIL

Demand for palm oil has grown rapidly over the past twenty years, and continues to do so, at the expense of tropical forests, the communities that depend on them and the rights of palm oil workers. Japan's imports of palm oil and derivative products more than doubled between 2000 and 2014.[107] The majority of Japan's imports come from the world's top palm oil producers – Indonesia and Malaysia – where many of the world's most notorious palm oil companies operate such as AAL (Jardine Matheson), Indofood (Salim Group), IOI and Kuala Lumpur Kepong Berhad (KLK).

Many Japanese corporations are directly involved in the palm oil supply chain in Southeast Asia. ITOCHU and Fuji Oil (whose top shareholder is ITOCHU) purchase palm oil from Indonesia and Malaysia for trading and/or manufacturing purposes. Major Japanese financial institutions, Mizuho Financial Group, MUFG, SMFG and SMTH, provide financial services to palm oil companies and their parent groups. As customers and financiers of companies operating in high-risk regions, Fuji Oil, ITOCHU, Mizuho, MUFG, SMFG and SMTH are at high-risk of exposure to the following ESG risks.



ENVIRONMENTAL RISKS

- Drainage and planting on peatland in Kalimantan by AAL since 2009 released an estimated 2.0 million tonnes CO2. AAL also used fire in its concessions in Kalimantan and cleared primary forest in Central Sulawesi.[108]
- Clearance by Indofood's subsidiary PT Lonsum in East Kalimantan.[109]
- Active fires were detected in IOI's subsidiaries PT Bumi Sawit Sejahtera's (BSS) High Conservation Value (HCV) area in West Kalimantan, Indonesia, in late 2015 – destroying peat forest and habitat for endangered species.[110]
- Active clearance of forests within two KLK plantations in Kalimantan was detected in 2013 and 2014.[111]

SOCIAL RISKS

- AAL, the largest palm oil company yet to join the RSPO, is involved in land disputes with communities and indigenous peoples, such as the Orang Rimba in Sumatra.[112]
- Indofood's operations in North and South Sumatra resulted in conflict with communities, including forced evictions.[113]
- Customary land of the Long Teran Kanan indigenous group in Sarawak was taken by an IOI controlled plantation without FPIC or remedy.[114]
- KLK refuses to give up its claim to land in Papua New Guinea, despite strong opposition by local communities.[115]
- An Indofood subsidiary has been known to rely on casual laborers to fulfill core plantation work – evading fair wages, health insurance and other worker rights.[116]
- Human and labor rights violations have been reported in IOI's plantations in Sarawak, including incidents of forced and compulsory labor.[117]
- Evidence of child and forced labor was uncovered on KLK's plantations in Indonesia in 2012 and 2013.[118]

GOVERNANCE RISKS

- IOI has been found to be driving deforestation, draining peatland, operating without proper licences and failing to prevent fires in its PT BSS, PT Sukses Karya Sawit and PT Berkat Nabati Sawit concessions in West Kalimantan. IOI's PT BSS continues to illegally drain and develop peatland despite sanctions.[119]

SUMITOMO MITSUI FINANCIAL GROUP (SMFG) Stock listing code: 8316 | Market cap: 4,712 billion yen

FOREST-RISK COMMODITIES:	FOREST-RISK BUSINESS:	AFFECTED FOREST AREAS AND COMMUNITIES:
	Financing: Loans, underwriting, and shareholding	Indonesia, Malaysia

COMPANY'S CORPORATE GOVERNANCE CODE REPORTING[120]		RAN'S ASSESSMENT OF CRITICAL GAPS IN COMPANY CODE REPORTING
General Principle 2: Appropriate cooperation with stakeholders other than shareholders	Self-reported as "Compliant" to General Principle 2 Provisions that stipulate respect for stakeholders: » Corporate Governance Guidelines;[121] and » Code of Conduct. SMFG "undertakes CSR activities that respect the position of stakeholders".	High-risk financial relationships: » Palm oil sector producers and traders including Jardine Matheson (Astra Agro Lestari), Salim Group (Indofood), Fuji Oil, and ITOCHU; » Indonesian pulp & paper producers and traders including Oji, ITOCHU and Marubeni; and » Timber producers and traders, including ITOCHU, Marubeni and Sumitomo Forestry. (see timber, palm oil and pulp & paper case studies) SMFG lacks: » Public, sector-specific, ESG financing policies for tropical forest-risk commodities to which it has exposure; » Explicit reference to non-financial ESG risks in its risk management policy; and » Integration of sustainability and stakeholder issues into corporate risk management structures or other board-level accountability mechanisms.
Principle 2.3: Sustainability issues, including social and environmental matters	Self-reported as "Compliant" to Principle 2.3 Measures to address sustainability: » Stipulation of "Environment", "Next Generation" and "Community" as medium- to long- term priority CSR issues (materiality) and efforts to address them; » Management of environmental risks: Factoring of environmental risks into the credit assessment and general policy of not executing loans to companies and businesses that have an adverse environmental impact;[122] » Promotion of environmental businesses; » Reduction of operational environmental impact based on ISO140001 certification; » Establishment of Group CSR Committee and Group CSR office; and » Participation in UN Global Compact, Equator Principles and UN PRI.	
General Principle 3: Appropriate information disclosure and transparency	Self-reported as "Compliant" to General Principle 3 Policy and measures on disclosure: » Content of CSR activities disclosed on homepage, CSR Report, and Disclosure reports;[123] and » Disclosure Policy.[124]	SMFG lacks: » Requirement to disclose non-financial information, including ESG risks, in its Disclosure Policy; and » Disclosure of ESG risks.

SUMITOMO MITSUI TRUST HOLDINGS (SMTH) Stock listing code: 8309 | Market cap: 1,349 billion yen

FOREST-RISK COMMODITIES:

FOREST-RISK BUSINESS:
Finance: Loans, underwriting, and shareholding

AFFECTED FOREST AREAS AND COMMUNITIES:
Indonesia, Malaysia

COMPANY'S CORPORATE GOVERNANCE CODE REPORTING[125]		RAN'S ASSESSMENT OF CRITICAL GAPS IN COMPANY CODE REPORTING
General Principle 2: Appropriate cooperation with stakeholders other than shareholders	Self-reported as "Compliant" to General Principle 2 Provisions that stipulate respect for stakeholders: » Basic Policy on the Social Responsibility of the Sumitomo Mitsui Trust Group (Sustainability Policy);[126] and » Human Rights Policy.[127] Stakeholder dialogue identified as high priority CSR issue.[128]	High-risk financial relationships: » Palm oil trader ITOCHU; » Indonesian pulp & paper producers and traders including Oji, ITOCHU and Marubeni; and » Timber producers and traders, including ITOCHU, Marubeni and Sumitomo Forestry. (See timber, palm oil, and pulp & paper case studies) SMTH lacks: » Public, sector-specific, ESG financing policies for tropical forest-risk commodities to which it has exposure.
Principle 2.3: Sustainability issues, including social and environmental matters	Self-reported as "Compliant" to Principle 2.3 Measures to address sustainability: » CSR Policies; » Promotion of CSR activities by the CSR Promotion office; » Formulation of "Environmental Policy," "Action Guidelines for Mitigating Climate Change," and "Action Guidelines for Preserving Biodiversity";[129] » Participation in UN Global Compact, UN PRI and Equator Principles; » Consideration of ESG risks as part of their approach to risk management e.g. establishment of ESG Risk Response Project Team in 2013;[130] » ISO 14001 certification for four SMTH buildings; and » Factoring environmental and social impacts into investment and loans identified as a high priority CSR issue.[131]	
General Principle 3: Appropriate information disclosure and transparency	Self-reported as "Compliant" to General Principle 3 Policy and measures on disclosure: » Disclosure of appropriate corporate information through CSR reports, Annual reports, and website;[132] » Information Disclosure Policy;[133] » Sustainability Policy; and » Participation in CDP	SMTH lacks: » Disclosure of ESG risks related to forest-risk commodities.

CONCLUSIONS

All of the companies featured in this assessment claimed to have been compliant with the sustainability and stakeholder principles contained in the Code. The findings presented in this report bring these claims into question. RAN found that the current standards of company reporting on sustainability and stakeholder issues are generally inadequate when compared to the multitude of serious forest sector risks to which the companies in this study are connected with. None disclosed sufficient information to determine how their company is positively or proactively addressing the full suite of serious ESG forest-risks they are exposed to. In all cases, the companies were found to be linked to significant ongoing environmental and social conflicts, for which resolution is still required if claims towards sustainability are to be credible.

Until such a time as standards have improved, company reporting on sustainability and stakeholder issues should be subjected to more active monitoring and verification by Japan's Financial Services Agency (FSA) in order to:

- Accelerate uptake and support for significant improvements in how listed companies are internalizing ESG issues in their operations and business relationships;
- Encourage wider uptake and more systemic approaches to develop positive and pro-active implementing actions to address them; and,
- Promote more comprehensive, meaningful and accurate reporting and disclosure.

Concerted actions by all companies with business relationships linked to tropical forest-risk commodities will be essential for making progress to protect and conserve these unique and threatened ecosystems, while also respecting and upholding the rights of key stakeholder groups, particularly local communities. Too often overlooked and marginalized, these stakeholder groups are in fact critical partners whose cooperation, contributions and empowerment are fundamental if this endeavor is to succeed.

PHOTO: *PAUL HILTON / RAN*

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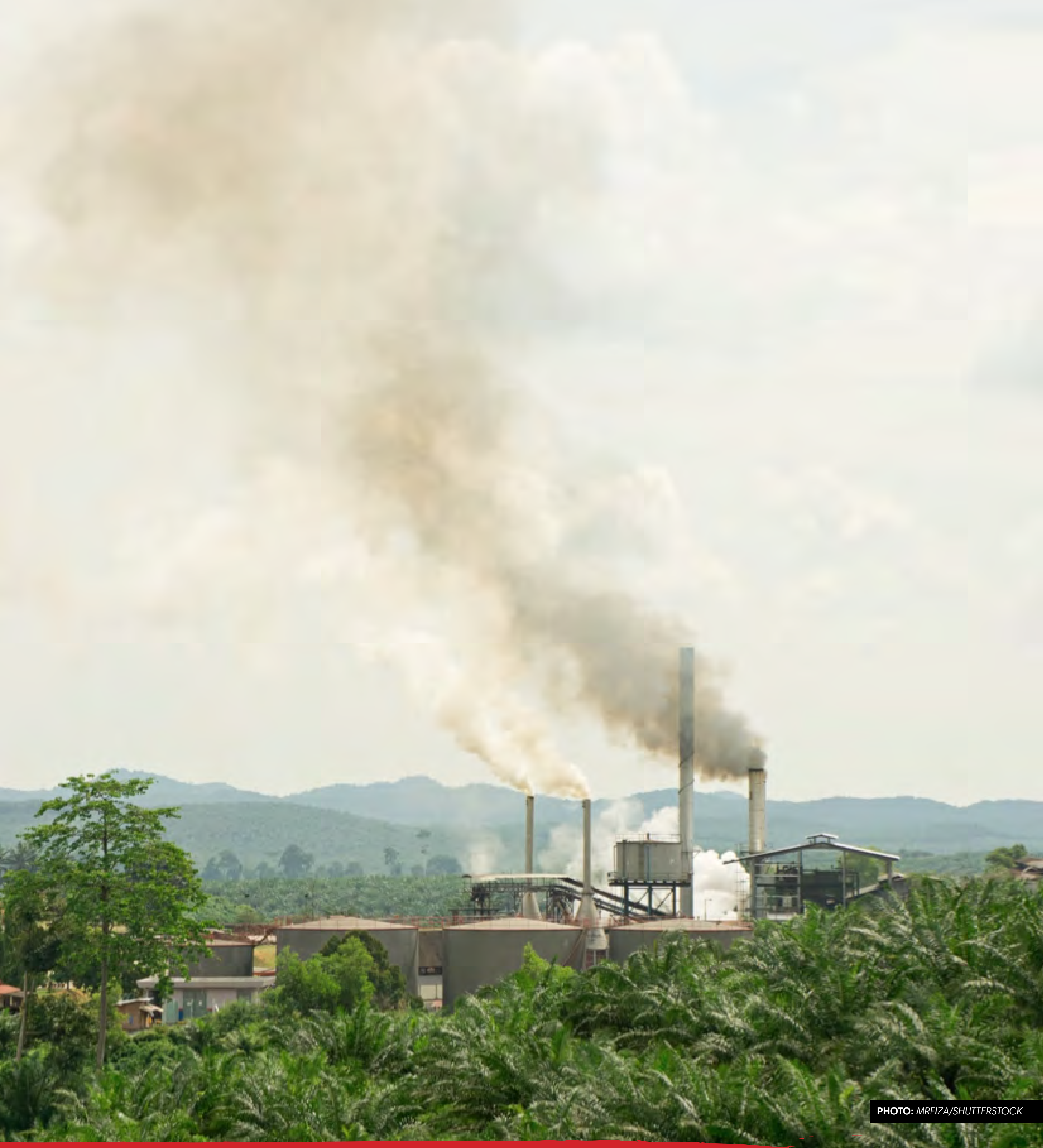

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