

Climate Capital **BlackRock Inc**

## BlackRock accused of ESG inconsistency over Indonesia palm oil

US fund manager invested in group facing allegations of land grabs and poor environmental standards



A palm oil farmer in Indonesia. BlackRock has made ambitious commitments to environmental, social and governance issues © Wahyudi/AFP/Getty

**Primrose Riordan** in Hong Kong and **Stefania Palma** in Singapore MAY 5 2021

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BlackRock has been accused of inconsistency for supporting a shareholder protest against Procter & Gamble's sourcing of palm oil from an Indonesian company in which BlackRock itself holds a significant stake.

The world's biggest investment group, which has made ambitious commitments to environmental, social and governance standards, joined an [investor rebellion at P&G](#) in October over the consumer goods group's wood pulp and palm oil supply chain, which extends into Indonesia.

P&G has since asked its Singapore-based supplier Wilmar International to investigate Astra Agro Lestari, a palm oil subsidiary of Indonesian conglomerate Astra International that activists have accused of seizing land from local farmers, among other poor environmental standards.

Rights groups and sustainable investment advocates have now turned their attention to BlackRock, which is a significant shareholder in Astra International. According to Bloomberg data, the US fund group is Astra International's third-largest investor, with a holding worth almost \$350m. It also has a small direct holding in Astra Agro Lestari.

Green finance groups said BlackRock had been inconsistent in its approach to ESG considerations by not openly pressing Astra over its environmental record. The \$8.7tn fund house has come [under increasing pressure](#) to live up to its 2020 pledges regarding ESG and sustainable investing.

“It's incoherent that BlackRock is pushing P&G to clean up its value chain while simultaneously continuing to profit from this same value chain,” said Lara Cuvelier, sustainable investments campaigner at Reclaim Finance, an investor lobby group.

BlackRock should “make time-bound and detailed requests to the company . . . and commit to divesting if the requisite changes are not forthcoming”, Cuvelier added.

The issue at Astra is a stark example of the problems facing large passive investors such as BlackRock as they grapple with the rise of ESG investing, which is one of the fastest growing sectors in the asset management industry.

Unlike active investors such as Capital Group, BlackRock cannot easily sell its holdings of a company across its index and exchange traded funds if it believes there are problems with the business.

BlackRock has long argued that behind-the-scenes conversations with board directors will drive change, but critics argue that companies often only listen to the “ultimate sanction” of divestment.

Wilmar's probe into Astra Agro Lestari stemmed from a [request](#) made in October by Wahana Lingkungan Hidup Indonesia, an environmental group, for P&G to look into claims that three subsidiaries of the palm oil company were involved in land grabs from local farmers. The alleged seizures took place in seven villages in Central Sulawesi, a remote part of Indonesia.

Astra International is majority-owned by Hong Kong trading house Jardine Matheson through its Singapore-listed unit, Jardine Cycle and Carriage. BlackRock's shareholding, which has gradually increased over nine years, is mostly held through mutual funds and ETFs, according to Bloomberg data.

Astra International did not respond directly to the allegations, but said it was working with its subsidiaries on sustainability and the livelihood of local communities. "Astra Agro Lestari has in place a comprehensive sustainability code . . . and has been working with independent experts to further strengthen its sustainability performance," Astra International said.

P&G said Astra Agro Lestari sold palm materials to Wilmar, one of the consumer goods group's suppliers. "We asked Wilmar to take steps to investigate further with their supplier Astra Agro Lestari and address the case," P&G said. Wilmar, which has disclosed the allegations through its reporting processes, said Astra Agro Lestari had so far been "forthcoming and open" in its investigation and was awaiting supporting evidence from environment groups.

BlackRock said it was "well aware" of the concerns and was "continuously engaged" with companies over sustainability concerns. "Where we believe companies are not moving with sufficient speed and urgency, our most frequent course of action will be to hold directors accountable by voting against their re-election," it said.



According to environmental campaign group Mighty Earth, a gold mine in Sumatra overlaps with the habitat of Tapanuli orangutans, which are on the brink of extinction © Aditya Sumitra for Image Dynamics/Mighty Earth



At Astra International's 2020 annual meeting, BlackRock voted against a motion regarding board changes and director remuneration over disclosure issues.

Benjamin McCarron, managing director at Asia Research and Engagement, said: "If investors want to be consistent, they should challenge palm oil producers to improve."

Mighty Earth, another environmental campaign organisation, has also pressured United Tractors, an Astra International subsidiary involved in thermal coal, over its investment in Indonesia's Martabe gold mine. According to Mighty Earth, the mine, which is located in Sumatra, overlaps with the habitat of Tapanuli orang-utans, which are on the brink of extinction.

## Climate Capital



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Astra Agro Lestari is not a member of the Roundtable on Sustainable Palm Oil, an industry body that commits companies to sustainable standards.

Capital Group, the second-largest shareholder in Astra International, declined to comment. The US-based fund manager has previously said ESG considerations were "woven into" its investment approach.

UBS and Vanguard Group, which also hold Astra International shares, declined to comment. A unit of Norway's central bank,

Norges Bank, that manages the country's sovereign wealth fund and also holds shares, has placed Astra International on an [exclusion watchlist](#) in 2015 due to the risk of "severe environmental damage".

*Additional reporting by Attracta Mooney*

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