

## CASE STUDY 3 — ANZ AND PHNOM PENH SUGAR

On the 23 January 2014, Australia's *The Age* newspaper published an article headlined "ANZ bankrolls child labour sugar cane plantation." This extract is an identical copy of that article by journalists Richard Baker and Nick McKenzie, reproduced with the permission of *The Age* newspaper.

"Banking giant ANZ is financing a Cambodian sugar plantation that has involved child labour, military-backed land grabs, forced evictions and food shortages. ANZ's support of the Phnom Penh Sugar Company's plantation is disclosed in confidential audits that reveal the project is beset by a series of social and environmental problems.

"The revelation raises serious questions over the bank's due diligence process and its compliance with a global ethical banking code it is a signatory to, as well as its own policies.

"Senior ANZ executives this week met representatives of the more than 1000 families forcibly removed from their homes in 2010 to make way for the sugar crop owned by Ly Yong Phat, one of Cambodia's richest men and a senator from the country's ruling political party. The executives were told of a former Khmer Rouge battalion's involvement in the evictions and how families got \$100 compensation for land that once provided them with food and a livelihood. The executives were also told of food shortages because resettlement sites were located on infertile land and of the destruction of community forests and crops. They heard how school-aged children were working in the cane fields to help their families earn money instead of attending class.

"The audits, prepared for ANZ and PP Sugar, reveal Senator Phat's company has failed to ensure resettled families have adequate food supplies. Nor has the company implemented environmental, health and social management programs required by ANZ to meet its ethical lending obligations.

"While ANZ would not disclose the amount it has loaned PP Sugar since 2010, it is believed to be tens of millions of dollars through its Cambodian subsidiary, ANZ Royal Bank. The Royal group of companies is owned by another Cambodian tycoon, Kith Meng. Mr Meng and Senator Phat are close associates of Cambodia's Prime Minister Hun Sen.

"An ANZ spokesman said on Wednesday the bank was monitoring the situation in Cambodia and had this week requested PP Sugar to engage with affected communities in order to resolve problems. He said the bank would review PP Sugar's social and environmental impact assessments — which have yet to be done properly — and the company's plans to mitigate the project's negative impacts. Asked if ANZ would withdraw its financial support if the situation did not improve, the spokesman said: "Where we have found that a

client does not meet our environmental and social standards and they are not willing to adapt their practices, ANZ has declined funding or exited the relationship."

"The Cambodian government gave Senator Phat's company a concession to establish two sugar plantations on about 20,000 hectares of farmland in Cambodia's Kampong Speu province, the country's most impoverished region. An investigation by non-government organisations, Equitable Cambodia and Inclusive Development International, last year discovered a considerable number of school-aged children working in the sugar plantation in potential breach of the international convention on child labour. When photographs of young children working in the cane fields were made public last year, PP Sugar stated that it was unaware of the practice, blamed contractors for hiring the children and introduced a policy to fine or sack any contractors found using underage children.

"The community representatives who met ANZ executives this week maintained that children were still working at the plantation instead of attending school because their families' forced relocation from their farms had deprived their parents of a means to earn an income. But a September 2013 audit done by Bangkok-based International Environmental Management Company at the request of PP Sugar plays down the matter of child labour, saying only 10 of 100 villagers surveyed said it remained a big issue. However, the audit noted young children were still on the plantation while their parents worked.

"The 2013 audit reveals PP Sugar has not carried out any checks to determine if resettled families had enough food. One community was assessed as having a "potential food security risk".

"The audit also found PP Sugar had not implemented any of the environmental, health and social management plans it was recommended to establish in a 2010 audit commissioned by ANZ Royal. Nor had the company established worker health and safety policies.

"The November 2010 audit, also by International Environmental Management, stressed ANZ's need to understand the social and environmental implications of the project before it made a "potentially sensitive transaction".

"The 2010 audit was necessary for ANZ to comply with its obligations as a signatory to the Equator Principles, a voluntary code adopted by 78 financial institutions around the world that have agreed to only fund projects that adhere to "sound social and environmental standards".

"The 58-page 2010 audit concluded that PP Sugar had provided or had plans for adequate housing, food, education



View of the sugar cane plantation of Omlaing that covers more than 19,000 hectares. Omlaing commune, Kompong Speu Province, Cambodia. Photo: Nicolas Axelrod/Ruom ©.

and employment for affected families. However, it appears that the audit team failed to visit the majority of resettlement sites and talked to only a handful of villagers before making its conclusion.

“David Pred, the managing associate of Inclusive Development International, said ANZ should explain to its shareholders why it financed Senator Phat’s company, especially when the English-language Cambodian press had regularly reported on its links to the army and role in forced evictions.

“This case seriously calls into question the credibility of ANZ’s due diligence process. Since ANZ does not disclose any of the corporate loans it makes, its shareholders are only left with its good word that it actually upholds the rigorous standards that it purports to apply to its corporate lending operations,” Mr Pred said. PP Sugar and International Environmental Management did not respond to questions.”

## WHAT NOW FOR THE COMMUNITIES?

Since this report was published by *The Age* newspaper on 23 January 2014, further meetings have been held between affected community members and ANZ Bank. Community members have informed Oxfam and its partners that they are seeking remedial action so that their quality of life and livelihoods can be, at a minimum, sustainably restored. Further, they are seeking corrective actions to avoid future negative impacts on their lives by the operations of the sugar plantation. To date, the request of the community members has not been fulfilled, although negotiations are continuing.

Community members are worried that they are vulnerable to a swift exit by an ANZ fearful of the reputational risk now clearly made public around this investment. These worries looked realised on the 25 March 2014 as Australia’s *The Australian* newspaper<sup>228</sup> reported that ANZ Group could exit its majority-owned joint venture bank with Cambodia’s Royal Group (ANZ Royal). Other media reported similarly with some quoting ANZ CEO stating partial stakes in Asian banks could be problematic because ANZ received only a proportion of profits but had 100% of its reputation invested in the holdings.<sup>229</sup> ANZ has since stated that its comments regarding the Cambodian partnership were taken out of context, and rather than exiting the partnership, instead ANZ was looking to get 100% ownership of the business.<sup>230</sup> Regardless of any future changes at the ANZ Royal Bank in Cambodia, Oxfam wants to see ANZ remain committed to acting responsibly in relation to the community still affected by this case.

“ANZ’S LICENSE TO OPERATE ACTIVITIES INCLUDE COMMITMENTS TO ENSURING THAT ANZ’S CUSTOMERS, PEOPLE AND SUPPLIERS, AND THE COMMUNITIES AND ENVIRONMENT IN WHICH IT OPERATES, ARE TREATED IN A MANNER BEFITTING A RESPONSIBLE CORPORATE CITIZEN.” ANZ<sup>231</sup>



Families were evicted to make way for a sugar crop in Kampong Speu, Cambodia. Photo: Nicolas Axelrod/Ruom ©.