

# Time for Asia Pulp & Paper (APP) to Come Clean to Stakeholders on its Indonesian Operations

*Letter & Report to APP Stakeholders*

10 January 2011



Printed on recycled paper

10 January 2011

## Letter to APP Stakeholders

Dear APP Stakeholders,

Greenomics Indonesia is an Indonesian NGO that focuses on research in the forestry and mining sector, and in particular on the development of pulpwood plantations to supply the pulp and paper industry in Indonesia.

This letter is a response by Greenomics Indonesia to the claims made by Asia Pulp and Paper (APP) in its ***"Open Statement: Getting the Facts Down on Paper,"*** which was published on 1 August 2010, and APP's letter of 11 August 2010 titled ***"Getting the Facts Down on Paper,"*** informing stakeholders that the company's claims in the earlier document had been confirmed by an audit of APP Indonesia's operations by Mazars.

In its letter of 11 August 2010, APP stated that the Mazars audit had confirmed the claims made in the Open Statement, which the company said set out *"numerous facts that demonstrate that APP has been fulfilling its obligations to operate in a sustainable and environmentally conscious way."*

Greenomics Indonesia would like to take this opportunity to rebut one of the crucial "facts" stated in APP's Open Statement of 1 August 2010.

This so-called fact, as confirmed by the Mazars audit, is set out in the following paragraph of the Open Statement: *"Since 1996, APP's pulpwood suppliers have been developing degraded and low conservation-value areas, legally designated by the Government of Indonesia for pulpwood plantations to support the country's sustainable development. Much of pulpwood suppliers' concession areas are denuded wasteland and community-based forest plantations. APP would not accept its pulpwood suppliers to cut high conservation value forest as defined by the Government of Indonesia".*

Greenomics Indonesia has examined the veracity of this "fact" having regard to APP's pulpwood sources, the clearing of natural forest, and the connection between these activities and climate change.

We shall, at this juncture, refrain from discussing the other "facts" that were confirmed by the Mazars audit as we intend to publish a paper on them in the future, particularly the misleading claim that "in total, APP's pulpwood supplier sets aside close to 400,000 hectares for pure forest conservation efforts".


In addition, Greenomics Indonesia also intends to publish a report in the near future on how the pulp and paper industry in Indonesia, including APP Indonesia's operations, was able to use timber from natural forests as its principal raw material by taking advantage of the government's pulpwood plantation-development acceleration program, which resulted in the massive clearing of natural forest.

This letter needs to be read in conjunction with the attached Greenomics Indonesia report titled ***"Time for Asia Pulp & Paper (APP) to Come Clean to Stakeholders on its Indonesian Operations,"*** which assesses the extent to which APP's statement, as quoted above, represents *"an honest depiction of APP Indonesia's operations."*

We hope that this will allow you, as an APP stakeholder, to make up your own mind as to whether the Mazars audit represents "an honest depiction", or is in fact the opposite.

Greenomics Indonesia would warmly welcome the opportunity to discuss our findings with you as an APP stakeholder. Should you wish to do so, please do not hesitate to contact us.

Sincerely yours,



**Vanda Mutia Dewi**

*National Coordinator of Greenomics Indonesia*

Jl. Gandaria Tengah VI No. 2 Kebayoran Baru Jakarta 12130

Phone (62 21) 72797226 Fax (62 21) 72801148

Mobile (62) 818 944 670 Email: vandamutia@greenomics.org

# Time for Asia Pulp & Paper (APP) to Come Clean to Stakeholders on its Indonesian Operations

## *Executive summary*

*In a report published on 1 August 2010, Asia Pulp & Paper (APP) made numerous claims dressed up as facts about its Indonesian operations, all of which were clearly part of an orchestrated attempt to portray the company as a paragon of forestry virtue. These claims were subsequently confirmed by an audit conducted by international audit firm Mazars. While not suggesting any deliberate wrongdoing on Mazars part, Greenomics Indonesia is nevertheless convinced that in confirming the APP claims, Mazars failed to address the real picture as regards APP Indonesia's operations.*

*The real facts are as follows:*

*The bulk of the raw materials for APP Indonesia's pulp mills since 1996 have not be sourced from pulpwood plantations established on denuded wasteland, or degraded and low conservation-value areas, as claimed by APP in its 1 August 2010 report, but rather from natural forest cleared to make way for pulpwood plantations. In a 1996 feasibility study prepared by one of APP's first pulpwood supplier firms, PT Arara Abadi, it was stated that the latter's 299,975-hectare concession consisted of 178,019 hectares of productive forest, meaning that it actually consisted of relatively intact natural forest.*

*This feasibility study also stated that the timber produced by the clearing of the productive natural forest would be used as raw material for the production of pulp, and to fuel the boilers of APP's pulp and paper mill.*

*What was done by PT Arara Abadi was also done by other APP's pulpwood suppliers. Greenomics Indonesia data shows that between 2003 and 2007, APP's pulpwood suppliers cleared at least 329,000 hectares of natural forest, producing a minimum of 36.5 million m<sup>3</sup> of timber – the bulk of which was used as feedstock by APP Indonesia's pulp and paper mills.*

*This reality is backed by a report by the Indonesian State Audit Board / BPK RI (published on 23 February 2009) on the development and operation of pulpwood plantations between 2002 and 2008 in Riau Province, where the majority of APP's pulpwood suppliers and one of its biggest pulp mills are located.*

*This report found that 19 concessions were granted for pulpwood plantations in Riau Province in forested areas having a natural-forest wood potential of between 43.12 m<sup>3</sup> and 187.64 m<sup>3</sup> per hectare. As part of the pulpwood plantation development process, these areas were earmarked for clearance. In fact, the BPK audit report found that the Riau Provincial Forestry Agency approved Annual Work Plans for the clearing of 257,497 hectares of natural forest.*

*Apart from this BPK audit report, Greenomics Indonesia can back its arguments with conclusive evidence in the form of comprehensive time-series satellite images that clearly show how the raw material needs of APP Indonesia's pulp and paper mills were satisfied using timber sourced from natural forests.*

*Thus, it is clear that APP's pulpwood suppliers have been involved on a very significant scale in the clearance of productive natural forest to supply raw materials to APP Indonesia's pulp and paper mills.*

*Accordingly, APP Indonesia needs to come clean and stop trying to blur or conceal the real facts about its pulpwood operations in Indonesia, while APP stakeholders should treat the BPK audit report as a reliable yardstick for judging just how honest the company's depiction really is.*

## Background

This report has been prepared as a response to APP's ***“Letter to Stakeholders,”*** dated 11 August 2010 and signed by Aida Greenbury, APP's Managing Director of Sustainability & Stakeholder Engagement, the contents of which stated that the claims made in an earlier document, titled ***“Open Statement: Getting the Facts Down on Paper”*** (published on 1 August 2010), had been confirmed by an audit of APP Indonesia's operations conducted by Mazars.

Greenomics Indonesia believes that this response is essential given the claim by APP in its letter that the Mazars audit confirmed what APP described as “an honest depiction of APP Indonesia's operations.”

The scope of this report is confined to only one of the “facts” – to quote the term used by APP – whose accuracy needs to be carefully scrutinized, namely, the “fact” set out in the following statement:

*“Since 1996, APP's pulpwood suppliers have been developing degraded and low conservation-value areas, legally designated by the Government of Indonesia for pulpwood plantations to support the country's sustainable development. Much of pulpwood suppliers' concession areas are denuded wasteland and community-based forest plantations. APP would not accept its pulpwood suppliers to cut high conservation value forest as defined by the Government of Indonesia”.*

This “fact” is inextricably linked to the question of whether APP fulfills its raw material needs with fiber from natural forests, the issue of natural forest clearance for the development of pulpwood plantations in violation of Indonesian law, and the contribution of the overall process to climate change.

*Our findings in this regard are backed by official legal documents and time-series satellite images covering almost all of the concessions of APP's pulpwood suppliers.*

## Methodology

In assessing the veracity and accuracy of the “fact” referred to above, Greenomics Indonesia employed data and information obtained from the official reports of APP's pulpwood suppliers. We have also used official data taken from audits conducted by the Indonesian State Audit Board (BPK RI) on the development and operation of pulpwood plantations in Riau Province, including APP's pulpwood supplier concessions.

This data and information was analyzed for the purpose of ascertaining findings that are relevant to the “fact” claimed by APP and confirmed by Mazars. Our findings in this regard are backed by official legal documents and time-series satellite images covering almost all of the concessions of APP's pulpwood suppliers.

## Findings

*The claim that it is a fact that since 1996 APP's pulpwood suppliers have been developing "degraded and low conservation-value areas" is not "an honest depiction," but rather a "misleading depiction" of APP Indonesia's operations.*

Bearing in mind that the "fact" claimed by APP is said to trace its origins back to 1996, the most relevant focus for our discussion will be the pulpwood plantation developments of PT Arara Abadi.

PT Arara Abadi was the first company owned by the family of Eka Tjipta Widjaja to become involved in the pulpwood plantation business. In a plantation feasibility study produced by PT Arara Abadi in 1996, Eka Tjipta Widjaja was named as chief commissioner of the company, and Indra Widjaja and Djafar Widjaja as commissioners. Meanwhile, Sukmawati Widjaja, Usman Widjaja, Teguh Ganda Widjaja, and Mukhtar Widjaja were all listed as directors.

In fact, almost all the members of Eka Tjipta Widjaja's immediate family held posts as either directors or commissioners of PT Arara Abadi, while only two non-family members held directorial posts.

The said feasibility study stated that PT Arara Abadi had been granted a license to develop pulpwood plantations extending to 299,975 hectares by virtue of Minister of Forestry Decree No. 1070/Kpts-II/1992, dated 19 November 1992, as subsequently amended by Decree No. 659/MENHUT-IV/1995, dated 8 May 1995.

It was also stated that PT Arara Abadi was to develop its pulpwood plantations to supply the raw-material needs of the PT Indah Kiat Pulp and Paper (PT IKPP) mill (owned by APP) at Perawang, Riau Province, which had an installed capacity of 900,000 tons of pulp per annum.

PT Arara Abadi's 1996 feasibility study stated that the company's 299,975-hectare concession consisted of 178,019 hectares of natural forest, 106,253 hectares of existing pulpwood plantations, 8,522 hectares of denuded forest, and 7,181 hectares of land with non-forest cover.

APP stakeholders should note the fact that PT Arara Abadi's own feasibility study stated that its concession consisted of 178,019 hectares of natural forest, meaning that almost 60 percent of the total concession was categorized as productive forest, according to Indonesian forestry law parlance, meaning that it actually consisted of relatively intact natural forest.

The PT Arara Abadi feasibility study was based on the Appendix to Minister of Forestry Decree No. 206/Kpts-II/95, dated 11 April 1995, on technical guidelines for the development of pulpwood plantations, which states that "Production forest that is still productive may only be used for pulpwood plantation concessions if all of the timber produced is supplied as raw material to the pulp industry."

Based on this, PT Arara Abadi felt confident that the concession was suitable for the development of pulpwood plantations as the timber produced from the clearing of the natural forest would be supplied to PT IKPP's pulp mill.

Again according to the PT Arara Abadi feasibility study, the timber produced by the clearing of the productive natural forest was used as raw material for the production of pulp, and to fuel the PT IKPP boilers, with the logs used being of > 10 cm in diameter. The feasibility study also stated that the timber potential of the natural forest in the company's concession averaged 100.39 m<sup>3</sup> per hectare. However, in two blocks the potential amounted to between 117.76 and 158.35 m<sup>3</sup> per hectare.

Based on the above description, it is reasonable to conclude that PT Arara Abadi cleared productive natural forest to feed the raw material and fuel needs of PT IKPP. This would appear to be undeniable as the feasibility study was assessed by the Ministry of Forestry, and subsequently approved on 25 September 1996.

It was on the back of this approval that operations in the field were undertaken, as evidenced by successive company Annual Work Plans, which mandated the clearing of natural forest blocks within PT Arara Abadi's concession.

What was done by PT Arara Abadi was also done by other APP's pulpwood suppliers. Greenomics Indonesia data shows that between 2003 and 2007, APP's pulpwood suppliers cleared at least 329,000 hectares of natural forest, producing a minimum of 36.5 million m<sup>3</sup> of timber – the bulk of which was used as feedstock by APP Indonesia's pulp and paper mills. These figures are based on official documents submitted to the Ministry of Forestry by APP's pulpwood suppliers.



Thus, the claim that it is a fact that since 1996 APP's pulpwood suppliers have been developing "degraded and low conservation-value areas" is not "an honest depiction," but rather a "misleading depiction" of APP Indonesia's operations.

Mazars and APP should study Minister of Forestry Decree No. 200/Kpts-IV/1994 on criteria for designation as natural production forest that is no longer productive, which in 1996 was binding on PT Arara Abadi in preparing its feasibility study. This Minister of Forestry Decree does not recognize the terms "degraded land" and "low conservation-value areas" as criteria for the granting of pulpwood plantation concessions.

Thus, it will come as no surprise that the PT Arara Abadi feasibility study also contains no mention of either term. In fact, the concession granted to PT Arara Abadi was dominated by productive natural forest.

In the light of the above, Greenomics Indonesia would urge APP to desist from its efforts to mislead its stakeholders by inaccurately portraying APP Indonesia's operations. Greenomics Indonesia has ample proof showing that APP's pulpwood suppliers used fibers from natural forest as the main source of raw materials for APP's pulp and paper mills in Indonesia.

Besides the PT Arara Abadi feasibility study, Greenomics Indonesia has also studied relevant data from the Indonesian State Audit Board (BPK RI) to assess whether the plantations of APP's pulpwood suppliers are actually located on "degraded land" and in "low conservation-value areas," and whether "much of pulpwood suppliers' concession areas are denuded wasteland," as claimed by APP and confirmed by Mazars.

The data in question is contained in the BPK audit report (published on 23 February 2009) on the development and operation of pulpwood plantations in Riau Province during the period 2002-2008. It is in Riau Province that the majority of APP's pulpwood suppliers and the PT IKPP pulp mill are located.

The relevant findings of the BPK audit report may be summarized as follows:

- a) *Under Minister of Forestry Decree No. 21/Kpts-II/2001 (on the criteria and standards for the granting of licenses for timber plantations, including pulpwood plantations, located within production forests), pulpwood plantations may be established on land that is categorized as denuded or no longer forested based on the following criteria: no trees of any species are present with diameters of more than 10 cm, and the timber potential is less than 5 m<sup>3</sup> per hectare or the number of trees of the dominant species is less than 200 per hectare.*
- b) *Government Regulation No. 34 of 2002 (on forestry management/dated 8 June 2002) provides that concessions for the development of pulpwood plantations under Minister of Forestry Decree No. 21/Kpts-II/2001 may be granted in respect of vacant land, grassland*

*and/or scrubland, This amended the formulation given in Minister of Forestry Decree No. 21/Kpts-II/2001 which referred to production forest that is no longer productive. The BPK audit report describes such land as being land that continues to be designated as forest but which no longer contains stands of trees.*

- c) *On 4 February 2008, the government issued Government Regulation No. 3 of 2008 on the amendment of Government Regulation No. 6 of 2007, which revoked Government Regulation No. 34 of 2002. With regard to licenses for pulpwood plantations, Government Regulation No. 3 of 2008 provided that their development would be focused on production forest that was no longer productive. By this, the Government Regulation was referring to land designated by the Minister of Forestry for the development of pulpwood plantations. However, the BPK audit report found that the Minister of Forestry has yet to designate such land.*
- d) *The findings of the BPK in respect of pulpwood plantations concessions granted under Government Regulation No. 34 of 2002, prior to the entry into effect of Government Regulation No. 3 of 2008, show that 19 concessions were granted for the development of pulpwood plantations in Riau Province in areas having a natural-forest wood potential of between 43.12 m<sup>3</sup> and 187.64 m<sup>3</sup> per hectare. As part of the pulpwood plantation development process, these areas were earmarked for clearance. In fact, the BPK audit report found that the Riau Provincial Forestry Agency approved Annual Work Plans allowing for the clearing of 257,497 hectares of natural forest in contravention of the law, in the opinion of the BPK.*
- e) *The BPK audit report further found that given that timber plantation concessions were granted in contravention of the law, all of the associated Annual Work Plans were unlawful, as were the relevant land clearing operations conducted by the pulpwood plantation concessionaires.*
- f) *In the light of the above, the BPK stressed that the fact that lands subject pulpwood plantation concessions still contained large volumes of natural forest wood showed that the land in question was not in fact vacant, or covered in grass or scrub, but rather continued to be productive forest.*

In view of its findings, the BPK audit report concluded that: 1) the objective of the pulpwood plantation program, namely, improving the productivity of vacant land, grassland and scrubland, had not been achieved; 2) developers had been allowed to clear natural forest without replanting; and 3) the timber plantation program had accelerated the rate of deforestation in Indonesia (in this case, 257,497 hectares in Riau Province), which had led to the destruction of forest ecosystems and the release of carbon into the atmosphere, thus contributing to climate change.

Given the above, the purported “fact” that “since 1996, APP’s pulpwood suppliers have been developing degraded and low conservation-value areas, legally designated by the Government of Indonesia for pulpwood plantations to support the country’s sustainable development ... much of pulpwood suppliers’ concession areas are denuded wasteland and community-based forest plantations,” is not a fact at all and does not represent “an honest depiction of APP Indonesia’s operations.”

As regards the “fact” that “APP would not accept its pulpwood suppliers to cut high conservation value forest as defined by the Government of Indonesia,” this needs to be clarified having regard to Minister of Forestry Decree No. 101/Menhut-II/2004.

In its audit report, the BPK said that the Minister of Forestry had exceeded his powers by issuing Decree No. 101/Menhut-II/2004. Accordingly, the granting of concessions for pulpwood plantations – and the subsequent approving of associated Annual Work Plans for the clearance of natural forest between 2002 and 2008 in contravention of Government Regulation No. 34 of 2002 – constituted a violation of forestry law as a government regulation is higher in the legal hierarchy than a ministerial decree.

The BPK audit report said that the Minister of Forestry had been negligent in the performance of his duties by granting timber plantation concessions for areas that did not comply with the statutory criteria.

Thus, the pulpwood plantations that were developed during this period, and the subsequent felling of natural forest that occurred, was not carried out in accordance with the law.

Accordingly, the question of whether or not the forest that was cut was of “high conservation value” is irrelevant.

In conducting its audit, Mazars should also have had regard to the objective of Minister of Forestry Decree No. 101/Menhut-II/2004, which in reality is aimed at pulpwood plantation concessionaires that have a direct relationship or partnership with existing pulp and paper mills that suffer from a lack of raw materials.

This is because the Decree makes it clear that a pulp and paper mill that suffers from a lack of raw materials may make up the shortfall using natural forest wood produced from the clearing of natural forest within its pulpwood plantation concessions. This is the irrefutable reality.

Even if APP believed its actions were justified by Minister of Forestry Decree No. 101/Menhut-II/2004, the company’s continued reliance on this instrument to back its claims only confirms the fact that APP Indonesia suffered from a shortage of raw materials, and that this shortage was made up by fibers sourced from the felling of natural forest – something that is proved beyond doubt by the plans and realization documents reported by APP’s pulp and paper companies to the Ministry of Forestry in connection with the fulfillment of their raw material needs.

Greenomics Indonesia can back its arguments with conclusive evidence in the form of time-series satellite images that clearly show how the raw material needs of APP Indonesia’s pulp and paper mills were satisfied using timber sourced from natural forests.

Thus, it should come as no surprise that the BPK audit report concluded that the development of the pulpwood plantation sector in Riau Province between 2002 and 2008 had further accelerated the rate of deforestation in Indonesia.

*The claims only confirms the fact that APP Indonesia suffered from a shortage of raw materials, and that this shortage was made up by fibers sourced from the felling of natural forest.*

## Latest Development:

*Use of natural forest timber as raw material by pulp and paper industry soars by more than 100 percent in 2010*

APP stakeholders need to be aware of the latest fact to emerge, namely, that the pulp and paper industry's use of timber sourced from the wholesale clearance of natural forest for pulpwood-plantation development increased dramatically in Riau Province in 2010, compared with 2009.

The volume of timber sourced from the clearance of Riau's natural forest by 11 pulpwood plantation companies soared from 4.94 million m<sup>3</sup> in 2009 to 11.28 million m<sup>3</sup> in 2010.

It is still quite possible that this figure will subsequently have to be revised upwards given that the 2010 volume target for timber sourced from the clearing of natural forest in Riau as part of the development of pulpwood plantations stands at 13.75 million m<sup>3</sup>.

The 2010 figure of 11.28 million m<sup>3</sup> is an official figure issued by the Ministry of Forestry, based on reports submitted by the pulp and paper industry as per 31 December 2010. It is a fact, not an allegation.

APP stakeholders need to be aware that the bulk of the timber produced by the clearing of natural forest for the development of pulpwood plantations is used as raw material by the pulp and paper industry, including APP Indonesia's operations.

This timber does not consist of "mixed wood residues from pulpwood plantation development in degraded areas" – the formula always used by APP Indonesia.

Indonesian forestry law does not recognize the term "residues" resulting from the clearing of natural forest for the development of pulpwood plantations, which purports to imply that the timber in question is of little or limited value.

Having regard to the official data issued by the Ministry of Forestry in a report titled "Plan and Realization for the Fulfillment of Timber Industry Raw Materials Needs," the Indonesian government recognizes, among other things, natural forest timber resulting from land clearing and preparation for the development of pulpwood plantations as one of the permissible sources of raw materials for the pulp and paper industry.

This timber cannot in any way be categorized as "residue" as it has significant economic value. In fact, since September 2009 pulpwood plantations have been required to pay compensation for timber sourced from land-clearance and preparation operations.

Prior to September 2009, timber from natural forest that was produced by land clearance was indeed categorized as "residues" as pulpwood plantation operators were not required to pay compensation for it.

In other words, the pulpwood plantation companies were able to avail of the wood was free of charge. However, the situation has now changed dramatically.

**Fact:** Timber produced by land clearing for the development of pulpwood plantations does not constitute "residues" as pulpwood plantations have to pay for it if they wish to continue supplying the pulp and paper industry.

This reality applies equally to APP's pulpwood suppliers, and can be seen from the compensation payments made for timber by pulpwood plantation companies in respect of timber produced by land clearing operations for the development of pulpwood plantations during 2010.



## Conclusions

*There are strong reasons for concluding that the claims in the APP Open Statement of 1 August 2010, as confirmed by the Mazars audit, represents an attempt to blur or conceal the real facts as it appears to be motivated principally by a desire to position APP's pulpwood suppliers as having been "clean" since 1996, as having developed pulpwood plantations on "degraded lands," "low conservation-value areas," and "wasteland," rather than on land cleared of "high conservation-value forests."*

*In fact, the reality is that APP's pulpwood suppliers have been involved on a very significant scale in the clearance of productive natural forest for the purpose of supplying raw materials to APP Indonesia's pulp and paper mills.*

---

## Recommendations

APP Indonesia should cease its efforts to blur or conceal the real facts regarding the activities of its pulpwood suppliers, which have been clearly shown to be involved in the widespread felling of productive forest to provide the principal source of raw materials for APP Indonesia's pulp and paper mills.

*APP stakeholders should use the BPK audit report as a reliable reference in viewing the operations of APP's pulpwood suppliers so as to circumvent the company's efforts to blur and conceal the true facts.*



*It should come as no surprise that the audit report of the Indonesian State Audit Board (BPK RI) concluded that the development of the pulpwood plantation sector in Riau Province between 2002 and 2008 had further accelerated the rate of deforestation in Indonesia*