

# *Asia Pulp and Paper should realize that size DOES matter when it comes to its suppliers' contributions to community empowerment*

## **Response to RAN Report and APP Press Release**

### **Background**

It was very interesting indeed to read the Rainforest Action Network (RAN)'s report (*Corruption, Land Conflict and Forest Destruction*, 17 May 2011), which presents a case study on the pulpwood plantation operations of PT Bina Duta Laksana (BDL), one of the pulpwood suppliers of Asia Pulp and Paper (APP) in Riau Province, Sumatra Island, Indonesia.

In an attempt to contain the damage inflicted by the report, APP published a press release on 1 June 2011, which contained a denial of the RAN report and was accompanied by a video featuring local leaders also denying the report – the same local leaders that were used as sources in the RAN report. The first sentence of the APP press release left no doubt as to the release's purpose: "It is not true," is the message from Pak Maharun Ibrahim to the US-based NGO Rainforest Action Network (RAN) after seeing the new RAN report "Corruption, Land Conflict and Forest Destruction."

Greenomics Indonesia feels compelled to state its views on the RAN report and the APP press release, bearing in mind that the issue concerns the contribution of BDL to the social economy of the community living in the vicinity of its concessions.

This paper will study the extent to which the planned contribution from BDL's operations to the social economy in the vicinity of its concessions using data taken from BDL's business work plan, which was signed by the Managing Director of BDL and approved by the Ministry of Forestry on 30 June 2008. The said work plan entered into effect in 2008 and is due to continue in effect until 2017. It also describes the developments that took place up to the end of 2007.

This official BDL document is used as the sole reference for the data presented herein on BDL's planned and realized contribution to the social economy of the community living in and around BDL's concessions, as well as the extent to which BDL is dependent on timber from clearance of natural forest within its concessions as a revenue source. A report by the State Audit Board (BPK) will also be used to complement the analysis on the legality of BDL's concession licenses. Finally, at the end of this paper we present a number of conclusions and recommendations directed at APP.

## Relevant Data

### ***BDL's Concession Licenses***

BDL obtained its pulpwood plantation licenses for 30,405 hectares from the then regent of Indragiri Hilir in June 2002 (the then regent of Indragiri Hilir now serves as the Governor of Riau Province). In June 2006, the said licenses were renewed by the Minister of Forestry.

A 2009 audit by the BPK concluded that the pulpwood plantation licenses issued in Riau Province between 2002 and 2008 clearly violated the law, and that the land clearing that took place on the relevant concessions was illegal. Having regard to this BPK finding, BDL was one of the holders of pulpwood plantation concessions that were issued in violation of the law.

### ***How much does BDL contribute to the social economy in the area?***

In BDL's 2008-2017 business work plan (RKU), it is stated that BDL requires 172 permanent workers on the relevant concessions. In addition, during the first five years, BDL would need to employ 1,032 workers, which figure would increase to 1,628 at the start of the sixth year, which would mark the start of harvesting.

It is also stated in the business work plan that, based on a minimum wage of USD 72 per month, the total payroll for casual workers would amount to not later than USD 118 thousand per year.

BDL's business work plan states that the added value created in the local economy as a result of the employment of some 1,628 local people over a five year cycle would be equivalent to a present value of USD 434 thousand.

As of the start of June 2011, a total of 300 workers were employed by BDL, according to APP's press release of 1 June 2011. This means that the total additional money pumped into the local economy as a result of the employment of local people will be significantly less than the figure quoted above.

Meanwhile, up to the end of 2007, BDL had spent USD 83 thousand on supporting forest community empowerment programs (PMDH), while planned expenditure on this purpose between 2008 and 2017 is pegged at USD 281 thousand. In total, BDL's total contribution to forest community empowerment programs should amount to USD 364 thousand.

### ***How much does BDL earn from the sale of timber originating from the clearance of natural forest?***

The BDL business work plan states that up to the end of 2007 BDL earned USD 34.64 million. Meanwhile, projected earnings from the sale of timber from natural forests post-2007 (2008-2017) stand at USD 18.34 million. Thus, in total, BDL will earn USD 52.98 million from the timber it obtains from the felling of natural forest. The areas colored green on the BDL work plan map represent natural forest whose timber will provide the main source of BDL's earnings, as well as the raw materials for APP's pulp and paper plants in Riau.

Having regard to BDL's profit forecasts, it is stated that BDL's operational costs in 2007 will amount to USD 17.4 million, while its total revenues will stand at USD 34.64 million (read: receipts from natural forest clearance). Thus, it should come as no surprise that BDL had profited to the tune of USD 15.17 million by 2007.

Meanwhile, BDL's overall profit between 2008 and 2017 is predicted to reach USD 16.58 million, while total revenues arising from the timber produced by natural forest clearance is predicted to amount to USD 18.34 million between 2008 and 2017. This figure does not include BDL's revenues from the sale of natural forest timber up to the end of 2007, which amounted to USD 34.64 million.

From BDL's accounts up to the end of 2007, it is clear that its only source of revenue was the sale of timber produced from the clearing of natural forest.

*It is hardly surprising that BDL states that its return on investment (ROI) from operations up to the end of 2007 amounted to 400.11%. The sale of timber from natural forests was the sole revenue stream of BDL, a revenue stream that was able to produce such an astoundingly high ROI.*

## Analysis

BDL's total revenue of USD 52.98 million from the sale of timber originating from the clearance of natural forest represents the companies gross revenue as various forestry fees and levies still need to be deducted from it. However, these fees and levies do not significantly reduce BDL's earnings from the sale of timber originating from the clearance of natural forest.

Based on BDL's accounts, BDL's revenues up to the end of 2007 (sourced from the sale of timber originating from the clearance of natural forest) amounted to USD 34.64 million. After the deduction of USD 3.44 million in forestry fees and levies (amounting to only 9.93%), BDL's revenues from the sale of timber sourced from the clearance of natural forest up to the end of 2007 amounted to USD 31.12 million.

Meanwhile, BDL's revenue from the sale of such timber during the period from 2008 up to 2017 is forecast to reach USD 18.34 million. BDL's profit forecasts stated that it will have to pay USD 701 thousand in forestry fees and levies, meaning that BDL's revenue from the sale of timber from natural forests will amount to USD 17.64 million.

If we combined the two figures -- realized revenue up to the end of 2007 and anticipated revenue between 2008 and 2017, it will be seen that BDL will earn USD 48.84 million after the deduction of forestry fees and levies.

Compare that with the planned contribution of BDL to the social economy of the community living in the vicinity of its concessions over the first 5 years -- a measly USD 434 thousand.

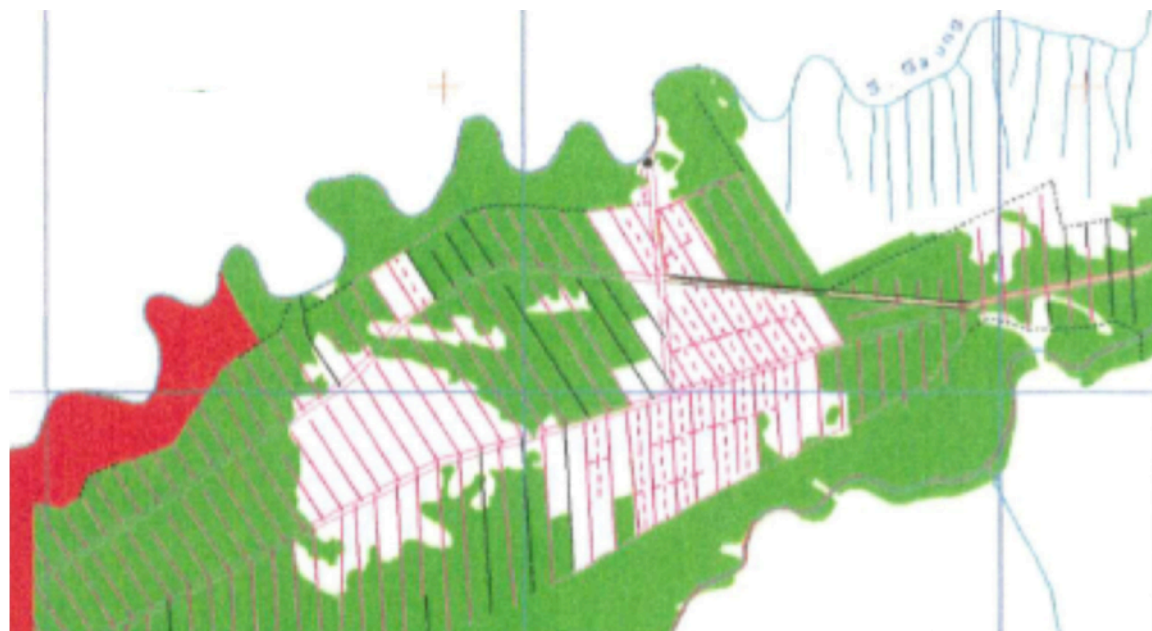
Of the total revenues that BDL will earn from the sale of timber from the clearance of natural forest, only 0.89% will be allocated by BDL to local community empowerment during the first 5 years of the company's operations.

Meanwhile, BDL's contribution to the forest community empowerment program (PMDH) -- realized up to the end of 2007, plus anticipated during the 2008-2017 period -- will amount to USD 364 thousand, accounting for only 0.75% of BDL's total revenues from the sale of timber from natural forests.

If we aggregate all the figures, it will be found that BDL's contribution to the local economy through its employment of local people during the 2008-2017 period (two 5-year cycles based on the assumptions used in BDL's business work plan) and BDL's expenditure on the forest community empowerment program up to the end of 2007 and between 2008 and 2017, the total contribution will only amount to USD 1.23 million.

This is insignificant compared with BDL's profit from the sale of timber produced by the clearing of natural forest within its concessions, which will amount to **almost half a trillion rupiah (USD 48.84 million)**.

In other words, BDL is only "contributing" 2.52% of the total revenues it expects to earn from the sale of timber originating from the clearance of natural forest to support local economic development and the forest community empowerment program.



*The areas colored green on the BDL work plan map represent natural forest whose timber will provide the main source of BDL's earnings, as well as the raw materials for APP's pulp and paper plants in Riau.*

## Conclusions

The size of BDL's contribution to local economic development and the forest community empowerment program is clearly minuscule. In fact, if BDL's contribution to the community is taken from the revenues the company earns

from timber sourced from the clearance of natural forest (after the deduction of forestry fees and levies), it will only amount to 2.52% of such revenues. Meanwhile, the other 97.48% of the said revenues goes directly into BDL's coffers.

## Recommendations for APP

We would ask APP to study BDL's business work plan so as acquaint itself with just important the proceeds of timber from natural forests is as a component of BDL's revenue, and to compare that with BDL's contribution to the "revitalization" (to quote APP's term) of the local social economy.

We would also ask APP to refrain from further aggressive PR exercises that attempt to pull the wool over the public's eyes as regards the role played by BDL in community economic development in and around its concessions. The indisputable reality is that BDL pockets up to 97.48% of the proceeds of the sale of timber from its clearance of natural forest, while only 2.52% goes to local communities.

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