

Briefing



**Friends of
the Earth**

Paper Tiger, Hidden Dragons 2: APRIL Fools

The social and environmental impacts of APRIL & the paper merchants and financiers who have supported its destructive pulp and paper operations.

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Introduction

This briefing documents the forest destruction and damaging social impacts of Asia Pacific Resources International Holding Ltd, otherwise known as APRIL, one of the biggest pulp and paper companies in the world. It also reveals the influential role played by financial institutions and paper merchants in fuelling this damage. Finally, it makes recommendations for urgent action required to help bring an end to APRIL's destructive activities.

Indonesia's Vanishing Forests

Indonesia's forest ecosystems and species are disappearing fast. Estimates of total original forest loss in Indonesia vary between 50 percent and 72 percent.¹ A World Bank study estimates that the deforestation rate in Indonesia is higher than it has ever been at 2 million hectares / year, representing an annual loss of forest equivalent in area to the size of Belgium.² This is the same deforestation rate as Brazil and represents the highest national rate of forest destruction in the world. A World Bank study estimates that unless logging practices radically change, there will be no more commercially viable lowland forest left in Sumatra by 2005 and none left in Kalimantan by 2010.²

Illegal Logging in Indonesia

Illegal logging in Indonesia is rife. A study by the UK Government funded Indonesia UK Tropical Forest Management Programme concluded that 73 percent of all logging in Indonesia is coming from undocumented and presumably illegal sources.³ The Indonesian Government estimates that the trade in illegal logs costs the country US\$3 billion dollars per year. The military relies on illegal activities, including logging, to raise at least half its operational costs and the same could be true of the police.⁴ It is estimated that Indonesian pulp producers may have obtained as much as 40 percent of the wood they consumed between 1994 and 1999 from illegal sources.⁵

The Indonesian Pulp & Paper Industry & Forest Destruction

Of the 120 million cubic metres of wood estimated to have been consumed by the Indonesian pulp industry between 1988 and 2000, only 10% was harvested from plantations.⁵ The rest has almost entirely been sourced by clear cutting natural forest, resulting in the destruction of almost 1 million hectares of highly biodiverse rainforest.⁵ The Indonesian pulp and paper industry's plantations are so undeveloped that it will continue to clear-cut rainforests for at least another six years and possibly far longer.⁵

APRIL - The background

Part of the Indonesian Raja Garuda Mas Group and owned by the business magnate Sukanto Tanoto, APRIL is a Singapore held company. APRIL's main pulp subsidiary is Riau Andalan Pulp & Paper (RAPP), located in Riau Province on the Indonesian island of Sumatra. RAPP began operating in 1995 and has now developed a pulp mill with a capacity of 2.0 million tonnes per year, making it the largest pulp mill in the world.⁵ AMEC, a UK construction multinational, helped to design and build this mill.⁶ APRIL exports some of this pulp to be manufactured into paper by other companies. It also controls its own paper manufacturing subsidiary, Riau Andalan Kertas. This company is also based in Riau and its paper mill was integrated into the same site as RAPP in 1998. With a capacity of 350,000

tonnes per year, APRIL is intending to increase its paper production capacity up to 700,000 tonnes per year.⁵

APRIL & Forest Destruction

In production since 1995, the vast majority of the fibre going to APRIL's RAPP mill has been mixed tropical hardwood obtained through the clearance of natural forest.⁵ In 2000, 100 percent of APRIL's fibre supply came from cleared rainforests. In 2001 APRIL still sourced 80 percent of its fibre from cleared rainforests. FOE estimates that up until the end of 2001, APRIL had already cleared 220,000 hectares of rainforest.

APRIL admits that it will continue to depend upon clear-cutting natural forest until 2008, when it estimates its plantations will meet all its pulp capacity requirements.⁵ Industry analysts vigorously question APRIL's claims regarding its acacia tree planting rates and some estimate that APRIL may be clearing rainforest well beyond 2008. By APRIL's own estimate it will be clearing an additional 147,000 hectares of rainforest over the next six years.

There are also strong indications that legal supplies of mixed tropical hardwood may not be available within a commercial distance of the mill by 2005.⁵ As a result of its unsustainable operations, APRIL is running out of wood.

APRIL's logging sites are the natural habitat of numerous endangered species, including the Sumatran elephant and Sumatran tiger. The destruction of these natural rainforests inevitably leads to a reduction in the area available to these species, making extinction increasingly likely.

APRIL Clear-Cuts World's Most Biodiverse Lowland Rainforest

Investigations into four areas of natural forest clearance in Sumatra demonstrate that APRIL's operations are driving the clearance of High Conservation Value Forest both within and outside APRIL's concessions. One of these areas is APRIL's largest concession area, known as the Pelalawan sector. Two of these rainforest areas are close to Bukit Tigapuluh National Park. The fourth is in an area of forest known as Tesso Nilo. WWF researchers have recently discovered that this is the most biodiverse lowland forest in the world, home to tigers, elephants, gibbons, tapirs and a staggering diversity of plant life. The WWF investigation tracked 110 logging trucks from this rainforest to the RAPP pulp mill in Riau. There are questions over whether APRIL has the necessary legal permits for clearing this forest.⁷ This logging activity may also be in contravention of a moratorium on forest conversion agreed between the Indonesian Government and international creditors, including the IMF, in 2000. WWF and local stakeholders are demanding that APRIL stops logging this area immediately and are calling on the Government to fully protect the Tesso Nilo forest without delay.

Land Disputes

A study by the independent auditors SGS found that over 40,000 hectares of APRIL's concession area has been claimed by local communities as their traditional land.⁸ The area where the RAPP factory has been built is land claimed by the indigenous people of Delik, Sering and Kerinci villages. As a result of this dispute the legal representative of these villages was imprisoned for three years.⁹ In another land dispute case at Lubuk Jambi village, a member of the community is reported to have

been stabbed to death during a protest in 1998.¹⁰

APRIL was until recently the manager of the Indorayon pulp and rayon plant, now known as Toba Pulp Lestari, in North Sumatra. For several years, Batak communities living near the mill voiced concerns over environmental damage associated with its operations, including forest degradation and the release of noxious fumes.¹¹ Violent clashes between community members and security forces led President Habibie to announce the temporary closure of the mill in March 1999. The mill remains closed due to local opposition.¹²

Marketing of APRIL Paper & False Claims

In order to market its paper from its RAPP factory, APRIL has set up a marketing subsidiary, APRIL Fine Paper, which has established a global network of sales offices and distributors. The main brand which APRIL sells under is PaperOne.¹³ As of January 2002, PaperOne paper was sold in the UK by an exclusive sales representative to the following paper merchants, most of whom are members of the AIMS distribution group: David John (Papers) Ltd, Davies Harvey Murrell, GF Smith, HV Sier Ltd, Ovenden Paper, Rosefox Ltd, The South Wales Paper Company, Fulton Paper and Frederick Johnson. It is not clear whether or to what extent these companies are aware of APRIL's environmental impacts. The Finnish pulp and paper giant UPM-Kymmene is the biggest buyer of APRIL pulp which is bought for its Changshu paper mill based in China.

APRIL would not be able to undertake its destructive activities without market support. These companies must therefore accept partial responsibility for supporting the catastrophic damage that has occurred in recent years to Indonesia's forests. By associating themselves with such practice they have also underestimated the reputational risk facing their businesses.

APRIL has also made false claims regarding the sustainability of its operations. In January 2002 it was claiming on its website that the forests it is clearing are degraded and that their forestry practices help to preserve biodiversity.¹⁴ There is clear evidence however that many of the forests being cleared to supply APRIL, such as the forests of Tesso Nilo, are High Conservation Value Forests. Their replacement with monoculture acacia plantations hardly helps to preserve biodiversity.

Responsibility of Financial Institutions

The exponential growth of Indonesia's pulp and paper industry has been fuelled by a massive injection of capital investment of between US\$12 billion and US\$15 billion.⁵ This investment was made without financial institutions ensuring that the pulp and paper companies receiving their investment had secured a legal and sustainable raw material supply.⁵ As a result these financial institutions took on a substantial if not inordinate level of financial risk. The financial institutions responsible for funding Indonesia's pulp and paper sector must accept a large degree of responsibility not only for the failure of the Indonesian pulp and paper industry to pay back its debts but also for fuelling the destruction of Indonesia's forests, one of the richest wildlife habitats on Earth.

The following financial stakeholders have a major stake in APRIL & its subsidiaries and are in a position to exert a strong influence on its operations: Sukanto Tanoto (Indonesia), Bank Mandiri (Indonesia), Bank BNI (Indonesia), Indonesian Bank Restructuring Agency (Indonesia). Financial stakeholders with a moderate stake and influence include: ING Barings (United Kingdom / The Netherlands), Bank Nasional (Indonesia), UBS Bank (Switzerland), Bank Universal (Indonesia), UPM-Kymmene (Finland). It has also been revealed that Barclays Bank (United Kingdom) was

arranging loans to APRIL in 1997 worth hundreds of millions of dollars. The loans were never extended in the end due to the Asian economic crisis.

Conclusion

The risks of ignoring the limits and value of sustainability by all parties are all too evident. It has been a lose, lose, lose situation. APRIL is now facing a serious financial crisis with a debt burden of US\$1.9 billion and is running out of wood. The global pulp and paper industry is suffering from low prices and the financial institutions are potentially facing massive losses. All these groups may also suffer irreparable harm to their reputation. Perhaps the greatest losers though may be the indigenous peoples of Indonesia who are losing their homes and livelihoods. Humanity as a whole is losing a unique natural treasure. There is still time to act to minimise the damage and save the last vestiges Indonesia's forests - but action must be swift and decisive.

Recommendations

APRIL

- To halt all logging activity in natural forest areas until an independent, public and comprehensive forest quality assessment has been conducted to identify areas of High Conservation Value Forests. To support protection of these areas.
- To conduct an independent, public and transparent assessment of all land claims affecting all areas where APRIL is sourcing timber and to stop logging in these areas until the land claims have been resolved to the satisfaction of all stakeholders.
- To reduce RAPP pulp processing capacity to a sustainable level.
- To implement an independent, on-going monitoring system to demonstrate that the company continues to operate and source its raw materials sustainably.
- To stop all forest clearance in Tesso Nilo and support its establishment as a fully protected area.

Paper Merchants

- To stop all purchases of APRIL Paper One paper made in Indonesia until APRIL has implemented the above recommendations.

Financial Institutions

- To support all the above recommendations as part of APRIL's debt restructuring plan.
- To not support any further development of pulp and paper operations in Indonesia or Malaysia until they are supported by independent, public and comprehensive sustainability plans which ensure no High Conservation Value Forest is destroyed and all local community rights are respected.
- To adopt and fully implement a Forests Policy which ensures that no financial activities destroy High Conservation Value Forest and that the rights of local communities are respected.
- Improve due diligence to fully assess the financial risks involved with the forestry sector and to ensure that funds are not being provided for illegal or unsustainable practices.

UK Government

- Make it illegal to import and sell illegally sourced timber and paper products.
- Set target date for supplying all timber and paper for entire public sector from recycled sources and sources independently certified to the standards of the Forest Stewardship Council (FSC), or equivalent.
- Make the Green Claims Code legally binding.
- Introduce a labelling law requiring country of origin to be put on all timber and paper products.

Endnotes

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