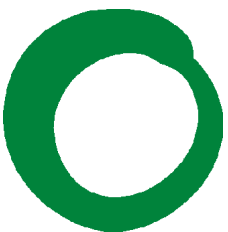


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# Paper tiger, hidden dragons 2: APRIL fools

**The forest destruction, social conflict and financial crisis of Asia Pacific Resources International Holdings Ltd (APRIL), and the role of financial institutions and paper merchants**



**Friends of  
the Earth**

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**February 2002**

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## **Executive Summary**

This report reveals the damaging environmental and 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 examines the influential role played by financial institutions and paper merchants in fuelling this damage. It provides recommendations for urgent action to be taken by all these groups in order to help bring an end to the destruction of Indonesia's forests, one of the most precious and threatened natural habitats on Earth.

### **Indonesia's Vanishing Forests**

Indonesia's forest ecosystems and species are disappearing fast. Estimates of total original forest loss in Indonesia vary between 50 per cent and 72 per cent.<sup>1</sup> A World Bank study estimates that the deforestation rate in Indonesia is higher than it has ever been at 2 million ha/year, representing an annual loss of forest equivalent in area to the size of Belgium.<sup>2</sup> 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.<sup>3</sup>

### **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 per cent of all logging in Indonesia is coming from undocumented, and presumably illegal, sources.<sup>4</sup> The Indonesian government estimates that the trade in illegal logs costs the country US\$3 billion dollars per year.<sup>5</sup> 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.<sup>5</sup> Indonesian pulp producers may have obtained as much 40 per cent of the wood they consumed between 1994 and 1999 from illegal sources.<sup>6</sup>

### **The Indonesian Pulp and Paper Industry & Forest Destruction**

Of the 120 million m<sup>3</sup> of wood estimated to have been consumed by the Indonesian pulp industry between 1988 and 2000, only 10 per cent was harvested from plantations.<sup>6</sup> The rest has almost entirely been sourced by clear cutting natural forest, resulting in the destruction of over 900,000 hectares of highly biodiverse rainforest.<sup>6</sup> The Indonesian pulp and paper industry is running out of wood and facing a plantation based raw material short-fall for at least the next six years and possibly far longer.<sup>6</sup>

### **APRIL**

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.<sup>6</sup> AMEC, a UK construction multinational, has helped to design and build the RAPP mill.<sup>7</sup> APRIL's main paper subsidiary is Riau Andalan Kertas. It is also based in Riau and was integrated into the same site as RAPP in 1998. With a capacity of 350,000 tonnes per year, APRIL is intending to bring its paper production capacity up to 700,000 tonnes per year.<sup>6</sup>

### **APRIL and 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.<sup>6</sup> In 2000, 100 per cent of APRIL's fibre came from cleared rainforest. In 2001, 80 per cent of its fibre was still sourced from cleared rainforests. As a result, Friends of the Earth estimates that by the end of 2001 APRIL's operations had already led to the destruction of 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.<sup>6</sup> 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 estimates, 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.<sup>6</sup> As a result of its unsustainable operations, APRIL is now running out of wood.

APRIL's logging sites are the natural habitat of numerous endangered species, including the tapir (*Tapirus indicus*), the Sumatran elephant sub-species (*Elephans maximus*) and the Sumatran tiger (*Panthera tigris sumatrae*).<sup>8</sup> The conversion of these natural rainforests into tree plantations inevitably leads to the reduction of the area available to these species, thus 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 the Bukit Tigapuluh National Park. The fourth is in an area of forest known as Tesso Nilo. WWF researchers have 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.<sup>9</sup> A WWF investigation tracked 110 logging trucks from this rainforest to the RAPP pulp mill in Riau.<sup>9</sup> There are questions over whether APRIL has the necessary legal permits for clearing this forest.<sup>9</sup> These logging activities 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, commissioned by APRIL in 1998, found that over 40,000 hectares of APRIL's concession area has been claimed by local communities.<sup>10</sup> 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.<sup>11</sup> 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.<sup>12</sup>

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.<sup>13</sup> 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.<sup>14</sup>

### **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**.<sup>15</sup> In the UK PaperOne paper is sold 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, G F Smith, H V Sier Ltd, Ovenden Papers, Rosefox Ltd, The South Wales Paper Company, Fulton Paper & Frederick Johnston**. It is not clear whether or to what extent these companies are aware of APRIL's impacts. The Finnish pulp and paper giant, **UPM Kymmene** is the biggest buyer of APRIL pulp for its Changshu paper mill based in China.

APRIL would not be able to undertake its destructive activities without this 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 practices they have also underestimated the reputational risk facing their businesses.

APRIL has made false claims regarding the sustainability of its operations. It has claimed for instance that the forests it is clearing are degraded and that its forestry operations help preserve biodiversity.<sup>16</sup> However, there is ample evidence that many of the areas that are being cleared to supply APRIL, such as Tesso Nilo, are High Conservation Value Forest.

### **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.<sup>6</sup> 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.<sup>6</sup> 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 is also noted that **Barclays Bank (United Kingdom)** was arranging loans to APRIL in 1997 worth hundreds of millions of dollars. The loan was never extended in the end due to the Asian economic crisis.

The following financial stakeholders have a strong stake and influence on Toba Pulp Lestari: **Sukanto Tanoto (Indonesia), ABN AMRO Bank (The Netherlands), Bank Nomura (Japan), Bank of New York (United States), Crédit Lyonnais (France), FleetBoston Financial Corporation (United States)**. Financial stakeholders with a moderate stake and influence include: **American Express Bank (United States), Crédit Suisse First Boston (United States / Switzerland), Fuji Bank (Japan), Sanwa Bank (Japan), Standard Chartered Bank (United Kingdom), Sumitomo Bank (Japan)**.

### **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. It is renegotiating repayments on US\$1.9 billion in debt while facing a possible raw material shortage in the future. 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. There is still time to act to minimise the damage 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 Forest. 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's pulp processing capacity to sustainable levels.
- 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 & support its establishment as a fully protected area.

#### **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 unless 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.

#### **Paper Merchants**

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

## Introduction

This report is the second in a series by Friends of the Earth examining the destructive social and environmental impacts of the Indonesian pulp and paper industry and the role of the global financial and paper industries in supporting it.

The first report, *Paper Tiger, Hidden Dragons*, analysed the impacts, financiers and markets of Asia Pulp & Paper (APP). This report investigates the forest destruction and adverse social impacts of APP's main pulp and paper competitor, Asia Pacific Resources International Holding Ltd, otherwise known as APRIL and a former subsidiary of APRIL, Toba Pulp Lestari. It also examines the influential role played by financial institutions and paper merchants in fuelling the damaging activities of both.

Part of the Indonesian Raja Garuda Mas Group and owned by the business magnate Sukanto Tanoto, APRIL is a Singapore held company. Its main pulp subsidiary is Riau Andalan Pulp & Paper (RAPP), which is located in Riau Province on the Indonesian island of Sumatra. RAPP began operating in 1995 and has now developed a pulp mill with a pulp capacity of two million tonnes per year, making it the largest pulp mill in the world.<sup>6</sup> APRIL's main paper subsidiary is Riau Andalan Kertas. It is also based in Riau and was integrated into the same site as RAPP in 1998. At the moment its paper mill has a capacity of 350,000 tonnes per year but APRIL is intending to install another paper machine to bring its paper production capacity up to 700,000 tonnes per year.<sup>6</sup>

Toba Pulp Lestari, based in the province of North Sumatra. Formerly known as Inti Indorayon Utama, this pulp and rayon company has an infamous track record in environmental destruction.

**Chapter 1** examines the forest crisis of Indonesia. **Chapter 2** reviews the unsustainable growth and damaging impact of the Indonesian pulp and paper industry. **Chapter 3** explains the structure and size of APRIL and the Raja Garuda Mas Group. **Chapter 4** investigates the destructive environmental impacts of APRIL. **Chapter 5** reviews the shocking case of APRIL's involvement in the clearance of Tesso Nilo, the most biodiverse lowland rainforest in the world. **Chapter 6** examines the land rights disputes between APRIL and local communities. **Chapter 7** details the marketing structure of APRIL and false claims, providing information on the global sales offices and distributors of APRIL's main paper brand, PaperOne. It also examines the business partners of APRIL, including UPM-Kymmene and the UK multinational AMEC.

**Chapters 8 and 9** analyse the financial stakeholders of the Raja Garuda Mas companies in the pulp and paper sector. **Recommendations** are made regarding the actions APRIL needs to take in order to operate sustainably. Recommendations are also made regarding the actions that financial institutions and paper merchants need to take in order to end their support for forest destruction and social conflict, thereby assisting them to reduce their business risk.

## **Chapter 1**

### **Indonesia's Forest Crisis**

#### **1.1 The Ecological and Social Value of Indonesia's Forests**

Indonesian forests are extremely diverse and rich in wildlife. Although Indonesia occupies only 1.3 per cent of the world's land area, it possesses about 10 per cent of the world's flowering plant species, 12 per cent of all mammal species and 17 per cent of all bird species.<sup>17</sup> It is home to famous species, such as the orangutan, Sumatran tiger, Sumatran rhino and Asian elephant, contributing towards its status as one of the richest countries for biodiversity in the world.

Indonesia's forests provide the homes and source of livelihood for approximately 30 million indigenous people.<sup>18</sup> They also provide essential ecological services such as water sheds, soil stabilisation and climate control.

#### **1.2 Indonesia's Vanishing Forests**

Indonesia's forest ecosystems and species are disappearing fast. Estimates of total original forest loss in Indonesia vary between 50 per cent and 72 per cent.<sup>19</sup> A World Bank study estimates that the deforestation rate in Indonesia is higher than it has ever been at two million ha/year, representing an annual loss of forest equivalent in area to the size of Belgium.<sup>20</sup> This is the same deforestation rate as Brazil and represents the highest national rate of forest destruction in the world.

Although there may be 95 million hectares of forest left in Indonesia, the majority is either in poor condition or unsuitable for logging. It is now estimated that there are only 17 million hectares of good quality production forest left, of which five million have already been marked for conversion to plantations.<sup>4</sup> This is also some of the most important forest for biodiversity. 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.<sup>21</sup>

Deforestation creates a much drier habitat which is much more likely to catch fire. Plantations are also very dry and prone to catch fire. In 1997-98 forest fires in Indonesia, mostly caused by plantation companies, destroyed 3.3 million hectares of forest, including parts of 17 protected areas.<sup>22</sup> These fires cost Indonesia's economy an estimated US\$7 billion and its neighbours US\$2 billion. Despite this catastrophic damage there has been little action against the perpetrators.<sup>23</sup>

There has been limited progress in recent years to tackle the forest crisis in Indonesia. As European Union representatives put it at an Indonesia donor's meeting in November 2001: "*The government of Indonesia has recognised the depth of Indonesia's forest crisis, but there is unfortunately little on the ground evidence of having made an impact in resolving it*".<sup>23</sup> The exploitation of Indonesia's forests is clearly out of control.

#### **1.3 Corruption**

The Suharto government (1966-1998) closely controlled the exploitation of timber and awarded licences to state companies and regime linked business people. These activities were legal in the eyes of the government, though often permeated by official corruption and favouritism.<sup>23</sup> They created some short-term economic benefits but also imposed huge costs, including environmental

destruction, conflict with local communities and embedded corruption.<sup>23</sup> The Department of Forestry manages the timber industry and the country's national parks. The Department has long been associated with corrupt practice and a recent survey of civil servants, business people and other citizens in Indonesia revealed that it is one of several state agencies regarded as "highly corrupt".<sup>23</sup>

#### **1.4 Illegal Logging in Indonesia**

Illegal logging in Indonesia is rife. A study by the UK Government-funded Indonesia-UK Tropical Forest Management Programme in December 1999 assessed the probable level of illegal logging in Indonesia by comparing official log production in 1998 with an estimation of industry output in the same year. It concluded that there was a shortfall of 56.6 million cubic metres of timber.<sup>4</sup> This is equivalent to 73 per cent of the total estimated output of 78 million cubic metres. On the basis of these figures it can be concluded that 73 per cent of all logging in Indonesia is coming from undocumented, and presumably illegal, sources. Reports from Indonesian NGOs suggest that levels of illegal logging in Indonesia have got worse since this study was conducted.

The Indonesian government estimates that the trade in illegal logs costs the country US\$3 billion dollars per year.<sup>23</sup> The Indonesian military and police are also deeply involved in illegal logging, working in partnership with private entrepreneurs or through companies and co-operatives under their control. 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.<sup>23</sup> The pulp and paper industry has been connected to illegal practice, as documented in Chapter 2.

## **Chapter 2**

### **The Indonesian Pulp and Paper Industry**

#### **The CIFOR-WWF Report**

In 2001, the Centre for International Forestry Research (CIFOR) in Indonesia, together with WWF's Macroeconomics Program Office, released a landmark study entitled "*Profits on Paper - the Political Economy of Fiber, Finance and Debt in Indonesia's Pulp and Paper Industries: Banking on Sustainability: Structural Adjustment and Forestry Reform in Post-Suharto Indonesia*".<sup>6</sup> This report provides compelling evidence that the Indonesian pulp and paper industry is causing serious damage to Indonesian forests and is likely to be responsible for a high level of illegal logging.

The study partly points the finger of blame at poor governmental regulation. Significantly, it also finds that financial institutions have played a key role in fuelling the unsustainable expansion of Indonesia's pulp and paper industry. They provide finance for massive pulp and paper processing facilities even though the industry had failed to secure a legal and sustainable source for all its raw material needs. As a result the Indonesian pulp and paper industry is running out of wood and facing a plantation-based raw material short-fall for at least the next six years and possibly far longer.<sup>6</sup> Not only have the industry's major producers been responsible for sourcing most of its timber by destroying natural forests, they will continue such damaging practice for many years to come. Financial institutions have failed to apply due diligence in assessing this raw material crisis and in doing so taken on an extraordinary amount of financial risk.

The key findings of the CIFOR-WWF report are as follows:

#### **2.1 Rapid Growth**

Indonesian pulp production capacity grew from 606,000 to 4.9 million metric tonnes per annum between 1988 to 2000 while the paper industry's processing capacity rose from 1.2 million to 8.3 million tonnes per annum. By 2000, pulp and paper products generated US\$2.9 billion in export earnings, accounting for over 50 per cent of the country's forest-related exports.<sup>6</sup> As a result, Indonesia suddenly moved into the ranks of the world's top 10 producers.

Four large conglomerates have dominated Indonesia's pulp industry. The two most significant players are the Sinar Mas Group and the Raja Garuda Mas Group, each of which is an integrated producer, operating large-scale pulp processing operations that are directly related to affiliated paper production facilities. The Sinar Mas Group has co-ordinated its pulp and paper operations through a Singapore-incorporated holding company, Asia Pulp & Paper (APP). Raja Garuda Mas Group has used another Singapore-based holding company to co-ordinate its activities - Asia Pacific Resources International Ltd (APRIL).<sup>6</sup>

APRIL controls one pulp processing facility, Riau Andalan Pulp & Paper (RAPP) located in Riau in Sumatra. RAPP began operating in 1995 and a pulp production capacity of two million tonnes.<sup>6</sup> At the moment APRIL's paper mill, Riau Andalan Kertas, has a capacity of 350,000 tonnes per year, but APRIL is intending to install another paper machine of the same size which would bring its paper production capacity up to 700,000 tonnes per year.<sup>6</sup>

There are two other significant producers of pulp in Indonesia. Kiani Kertas, a subsidiary of 'Bob' Hasan's Kalimantan Group, has a 525,000 tonne pulp mill which came online in 1998 in East Kalimantan. PT Tanjung Enim Lestari, a joint venture between the Barito Pacific Group (40 per cent) and a consortium of Marubeni, Nippon Paper and Japan's Overseas Economic Co-operation Fund (together 60 per cent), has a 450,000 tonne pulp mill which came online in South Sumatra in 2000. Japan's Marubeni Corporation and Cellmark of Sweden have agreed to purchase the pulp produced for the first 10 years.<sup>6</sup>

## **2.2 Unsustainable Supply**

The massive growth in pulp production capacity in Indonesia has far outpaced the industry's efforts to secure a sustainable supply of raw materials by developing plantations. As a result, of the 120 million m<sup>3</sup> of wood estimated to have been consumed by the pulp industry between 1988 and 2000, only 10 per cent was harvested from plantations.<sup>6</sup> The rest has almost entirely been sourced by clear-cutting natural forest.

This is despite the fact that the Indonesian government has distributed 23 pulpwood plantation licences covering an area of 4.3 million hectares.<sup>6</sup> The CIFOR-WWF report estimates that at its year 2000 capacity level, the Indonesian pulp industry would have only needed a plantation area of 1.1 million hectares to provide its pulp mills with a sustainable supply of timber. This suggests that the allocation of such a large area was motivated by the desire to make large areas of natural forest available to pulp producers regardless of whether the areas would be replanted.<sup>6</sup>

## **2.3 Forest Destruction**

On the assumption that, on average, producers are able to obtain 110 m<sup>3</sup> of pulp or wood from each hectare they clear, the pulp and paper industry in Indonesia seems to be responsible for the destruction of over 900,000 hectares of highly biodiverse rainforest since the late 1980s.<sup>6</sup> Virtually all this area was cleared to supply wood to four large mills. The pulp and paper industry will depend upon clearing rainforests to supply their pulp requirements for at least the next six years and possibly much longer.<sup>6</sup>

A financial officer from one of Indonesia's pulp companies summed up the industry's attitude towards the preference for sourcing unsustainable supplies by saying: *"We're in no rush to switch our mill to acacia if there are still cheap supplies of mixed tropical hardwoods available. Why should we be? As it stands, we have access to a very low cost supply of raw materials. Developing good plantations not only involves higher costs, but also a good deal of risk. Right now our HTI's (plantations) are essentially an insurance policy and we will cash it in when the MTH (mixed tropical hardwood's – ie wood cleared from natural forests) is no longer available."*<sup>6</sup>

## **2.4 Illegal Logging**

In addition to the large volume of legal but unsustainably harvested wood that has been felled by the pulp and paper industry, a substantial volume of fibre consumed by Indonesia's pulp and paper industry has come from undocumented sources. Government statistics indicate that the country's pulp mills processed approximately 50 million m<sup>3</sup> of wood between 1994 and 1999. Of that figure, only 30 million m<sup>3</sup> can be accounted for as originating from licensed forest clearing operations, pulp plantations or imported wood chips. While these figures are not conclusive, they

suggest that Indonesian pulp producers may have obtained as much as 20 million m<sup>3</sup>, or 40 per cent of the wood consumed during this period, from illegal sources.<sup>6</sup>

### **2.5 Poor Financial Regulation**

The Indonesian government's weak regulation of the country's financial system has enabled pulp and paper companies to gain economic advantage. Each of the major pulp and paper conglomerates was involved in the banking industry before the 1997 financial crisis and some have regularly violated the government's capital adequacy requirements and legal lending limits for capital loans to related parties, including to their associated pulp and paper companies.<sup>6</sup> The use of financial 'mark-up' practices – ie, the artificial inflation of the cost of an investment project – has allowed some pulp and paper producers to secure much larger amounts of financing for their projects than they actually need.<sup>6</sup>

Pulp and paper companies, including APRIL, have also been encouraged to expand to unsustainable levels by Indonesia's generous tax laws, which allow firms to defer paying substantial amounts of corporate income tax in the years following large capital investments. By accelerating fiscal depreciation, Indonesian pulp and paper producers have been able to avoid tax obligations that would otherwise consume up to 30 per cent of their corporate earnings.<sup>6</sup>

### **2.6 Debt Driven Expansion**

In the case of APRIL, national and international creditors and the Indonesian Bank Reconstruction Agency (IBRA) have tied debt restructuring to the installation of new processing lines at the group's Riau Andalan pulp facility. Between 2000 and 2002 APRIL tripled RAPP's processing capacity at the same time as it was defaulting on its debt payments to IBRA. The reason given for this approach is that APRIL will be able to repay its debts sooner if it is able to expand the volume of pulp that it produces. In entering into this arrangement, IBRA and the group's other creditors have failed to consider the financial risks of the impending shortage of fibre at the RAPP mill which has been exacerbated by the recent expansion of capacity. This approach is highly unsustainable and is indicative of insufficient due diligence by IBRA and the creditors.

### **2.7 Financial Risk**

The exponential growth of Indonesia's pulp and paper industry has been fuelled by capital investments of between US\$12 billion and US\$15 billion since the late 1980s.<sup>6</sup> This investment was made without financial institutions first ensuring that the pulp and paper companies had secured a legal and sustainable raw material supply that would adequately meet the volumes of wood demanded by their mills.<sup>6</sup> Financial institutions took on a substantial, if not inordinate, degree of financial risk.

## **Chapter 3**

### **Raja Garuda Mas Pulp & Paper Holdings**

#### **3.1 Description of the Raja Garuda Mas Group**

The Raja Garuda Mas (RGM) Group is a large Indonesian business group, ultimately owned by Sukanto Tanoto and his family. Tanoto was born in Medan (north Sumatra) in 1949, but his father was a Chinese immigrant who changed his name from Tan Kang Ho.

Sukanto Tanoto in 1967 took over his family business of importing car parts. At first, Tanoto tried to diversify his business interest by becoming a contract partner of the state-owned oil company Pertamina. The real start for his sprawling business empire came in 1972, when he established the lumber company CV Karya Pelita followed in 1974 by the plywood company PT Raja Garuda Mas ("The Golden King Garuda " in Indonesian).

Based on the huge profits made in the forestry industry and his good connections with the Indonesian ruling elite, Tanoto's business activities expanded rapidly until the financial crisis of 1997/98. At that time, the Raja Garuda Mas Group was active in the following lines of business:

- agribusiness: coffee, cocoa, coconut, fishery, oil palm plantation, rubber, shrimp breeding
- industry: steel products, beverages, cellulose acetate resin chemical, pulp & paper, rayon fibre, latex, foods, video tape recorders and others
- forestry: wood processing industry
- finance: insurance, banking, multi finance, securities, leasing, money changing
- trading: general trading & export and imports, retail
- mining: coal mining
- property: real estate, office buildings
- services: advertising, construction.<sup>24</sup>

Unibank, the bank of the Raja Garuda Mas Group, lent hundreds of millions of dollars of its customers money to RGM companies. These companies were unable to pay many of these loans and in October 2000 Unibank was put under the control of the Indonesian Bank Restructuring Agency (IBRA). Despite efforts to revive the bank, it was closed down at the end of October 2001 by the Bank of Indonesia, the Indonesian central bank. Unibank's closure left IBRA with the obligation to pay back US\$230 million to the customers of the bank. The IBRA has tried to hold Sukanto Tanoto responsible for the loans, but by 1999 Tanoto had already sold his shareholdings in the bank to a number of new owners.<sup>25</sup>

#### **3.2 Pulp & Paper Holdings of the Raja Garuda Mas Group**

##### **3.2.1 Asia Pacific Resources International Holdings Ltd**

The Indonesian pulp and paper interests of the Raja Garuda Mas Group are mostly concentrated under the holding company Asia Pacific Resources International Holdings Ltd (APRIL). This company is officially incorporated in Bermuda, although its head offices are located in Singapore.<sup>26</sup>

APRIL's 51 per cent interest in a Chinese paper plant in Changshu with an annual capacity of 350,000 tonnes was sold in August 2000 to UPM-Kymmene from Finland. Since then, APRIL's only asset outside Indonesia is a converting plant in Suzhou (China), with an annual capacity of 30,000 tonnes. The other operating activities of APRIL are all located in Indonesia.<sup>27</sup>

APRIL controls a pulp mill and a paper plant in Kerinci in Riau province on the island of Sumatra, through two subsidiaries:

**PT Riau Andalan Pulp & Paper – RAPP** (98.5 per cent owned by APRIL), which owns the pulp mill in Riau. Pulp production reached 935,269 tonnes of pulp in 2000.<sup>26</sup> After the completion of phase one of the second pulp line in the beginning of 2001, the mill reached an annual capacity of 1,300,000 tonnes. In the summer of 2001, RAPP installed phase two of the second pulp line, increasing pulp capacity by another 700,000 tonnes to two million, making this the biggest pulp mill in the world.<sup>28</sup> Funding has come from a consortium of investors, including the project turnkey contractor (which is a company belonging to the Raja Garuda Mas Group).<sup>29</sup>

**PT Riau Andalan Kertas** (99.8 per cent owned by APRIL), which operates a 350,000 tonnes per year uncoated wood-free paper machine and is constructing a second identical machine on the same site. Paper production reached 275,341 tonnes of uncoated woodfree (UWF) paper - mainly used for printing and copying - in 2000. This paper is marketed worldwide, mostly under the *PaperOne* brand.<sup>26</sup>

### **3.2.2 PT Toba Pulp Lestari Tbk.**

Apart from APRIL, the Raja Garuda Mas Group also has a large shareholding in PT Toba Pulp Lestari Tbk (formerly called PT Inti Indorayon Utama Tbk.). This company owns a pulp mill in north Sumatra with a production capacity of 240,000 tonnes per annum, an adjacent rayon plant with an annual capacity of 60,000 tonnes and a pulp plantation of 40,698 hectares.<sup>30</sup> The company also owns a small rayon plant in Finland called Sateri Fibers.

### **3.2.3 Sarawak Pulp & Paper company**

The Raja Garuda Mas Group also owns 55 per cent of the shares in the Sarawak Pulp & Paper company, an integrated pulp mill in Sarawak, Malaysia. The other 45 per cent of the shares is owned by the Ekran Group of Malaysia. This mill would have a production capacity of 750,000 tonnes of pulp and 300,000 tonnes of paper per annum. But it is unclear if this mill has yet been completed.<sup>31</sup>

## **Chapter 4**

### **The Environmental Impacts of APRIL**

#### **4.1 APRIL Destroys Rainforests**

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. Approximately 80 per cent of this has come from the company's 280,500 ha concessions located near its mill in Riau. Much of the remainder has come from an affiliated company's plantation development project 400km to the north of the mill.<sup>6</sup> APRIL is in the process of establishing additional plantation areas through small-holder out-grower schemes and joint ventures with local community groups.

In 2000, 100 per cent of APRIL's fibre came from cleared rainforest. In 2001, 80 per cent of its fibre was still sourced from cleared rainforests. As a result, Friends of the Earth estimates that APRIL's operations led to the destruction of 220,000 hectares of rainforest by the end of 2001. By APRIL's own estimates, it will be clearing an additional 147,000 hectares of rainforest over the next six years.

#### **4.2 APRIL Runs Out of Wood**

The amount of forest destruction has been exacerbated by two critical factors. Firstly, the RAPP pulp mill went into production several years before any of its plantations had come on-line. Secondly, the planting rate has been extremely low while pulp production capacity has rapidly increased. As a result, by APRIL's own estimate, it will continue to destroy natural forest until 2008.<sup>6</sup>

APRIL claims to have access to a net plantable area of 300,000 hectares over all sites. As of 2000 it claimed to have planted 151,000 hectares of acacia, most of which was still not mature enough to harvest. APRIL estimates that by increasing the area planted through community out-grower schemes and joint venture projects, its plantations will fully meet its pulp capacity by 2008.<sup>6</sup> However, even this projection has been cast in doubt by industry analysts who vigorously question APRIL's claims that it will increase its overall acacia planting rate from 18,730 ha in 2000 to 45,000 ha in 2002. They have doubts about the projected growth rates, logistical planting capacity and question whether APRIL even has access to enough land to meet its pulp capacity.<sup>6</sup>

One projection by CIFOR estimates that low planting rates by APRIL mean that by 2007 its plantations will only supply 32 per cent of the 10 million m<sup>3</sup> of fibre which the mill will then consume. The implication of this is that in 2007 APRIL's RAPP mill may still be sourcing almost 70 per cent of its fibre supply by clear-cutting rainforest.<sup>6</sup> There are strong indications however that legal supplies of mixed tropical hardwood may not be available within a commercial distance of the mill by 2005.<sup>6</sup> In short, APRIL is running out of wood.

One study examines land claims in RAPP's Logas North concession site and finds that RAPP was only able to plant 52 per cent of the area as a result of competing claims. It concludes that if the Logas North concession site is representative of other RAPP plantation areas, then as much as 50 per cent of the areas allocated and licensed to RAPP for their plantation activities may be lost through land use claims.<sup>32</sup> If this potential scenario is accurate, the implications would be significant. It means that in order to meet its huge pulp requirements, RAPP would need to

procure timber from other areas which is likely to lead to even higher levels of rainforest destruction.

This means that APRIL may increasingly be forced to obtain wood from outside of Sumatra, possibly exporting its forest pressure to Kalimantan and West Papua. This will also entail considerably higher raw material costs than it has paid until now. If it was to end up buying pulp at global market prices, this could cost three to four times as much as the pulp which APRIL has been sourcing in Sumatra.<sup>6</sup>

Failure by APRIL to hit its extremely ambitious planting targets would push the time when its pulpwood demand is fully met by plantation-grown fibre supply to beyond 2008. This would increase even further the disastrous level of natural forest destruction caused by APRIL's operations.

#### **4.3 Ecological Impacts**

A common claim by the Indonesian pulp companies is that they replant the area which they have cleared and so no net-deforestation takes place over time. However, a monoculture acacia tree plantation is not a natural forest and in no way resembles one, lacking the rich diversity of life that accompanies it. Clearing a good quality natural forest to replace it with a tree plantation can not be regarded as ecologically sustainable and causes the irreversible loss of the natural forest habitat and the vast majority of its associated biodiversity.

APRIL's logging sites are the natural habitat of numerous endangered species, including the globally endangered tapir (*Tapirus indicus*), the Sumatran elephant sub-species (*Elephants maximus*) and the Sumatran tiger (*Panthera tigris*).<sup>33</sup> The conversion of these natural rainforests into tree plantations inevitably leads to the reduction of the area available to these species, thus making extinction increasingly likely. It was concluded by an independent assessment of APRIL's activities by SGS in 1998 that "*there is evidence that plantation workers hunt protected species*".<sup>10</sup>

Tree species are particularly threatened by the activities of the Indonesian pulp and paper industry. On Sumatra alone, there are 200 tree species that have been classified as being endangered, which is 39 per cent of all the endangered tree species in Indonesia.<sup>34</sup> Riau's flora also includes some of the world's largest flowers of the Rafflesia-family and hundreds of orchid species. One Rafflesia-species, the *Rafflesia hasseltii*, has only been found in three places on Earth, one being the Bukit Tigapuluh National Park, to the south of APRIL's concession area.<sup>35</sup>

The ecological impacts of RAPP's operations have been criticised by the Chairman of Commission B of the House of Representatives of Riau Province, who stated that RAPP's production activities threatened the sustainability of biodiversity.<sup>36</sup>

#### **4.4 The SGS Audit**

In 1998, as a response to accusations of poor environmental management, APRIL commissioned the independent auditing firm SGS to conduct an audit of RAPP's environmental impacts. This remit of study was extremely limited but did uncover these findings regarding negative environmental impacts:

*“Protected species: there is limited information about, or training of employees on protected species found in the area or their habitat requirements. The list of protected trees is incomplete. Protected areas are not related to any species habitat requirements.*

*Greenbelts: interpretation of rules for delineating greenbelts is not uniform and some greenbelts are too narrow to achieve their function. In several instances greenbelts are not being left at all.*

*Forest conversion: much of the forest being converted still has a structure that, if protected, would allow its continued management as natural forest.*

*Preservation of representative ecosystems: planning of greenbelts does not take account of the representativeness of ecosystems within different landscapes.*

*Erosion control stream protection: structures such as silt-traps to prevent road drains causing siltation of major streams are not constructed, and some stream crossings are inadequate and have collapsed. Skid trail protection is not fully implemented.*

*Chemicals: herbicide storage and mixing procedures need improvement and herbicides may be applied in situations where they are unnecessary. There is no emergency procedure for chemical spills.”*

#### **4.5 Forest Clearance Case Studies**

Evidence that APRIL’s operations are leading to the clearance of biodiversity rich natural forests is provided by the following case studies. In all cases, investigations have shown that RAPP is buying timber or clearing timber from areas which are heavily forested.

##### **Forest Clearance in RAPP Concessions**

Much of RAPP’s concessions are still good quality natural forest that should not be cleared due to its high conservation value. RAPP’s Pelalawan concession is its biggest. It is part of one of the largest remaining areas of forest left in Sumatra and was classified as a frontier forest by WCMC in their study *The Last Frontier Forests*. Recent satellite pictures taken in 2001 showed that this area was still heavily forested although signs of logging by RAPP were beginning to emerge.<sup>37</sup>

##### **Forest Clearance outside RAPP Concessions**

RAPP’s wood procurement from outside its concession areas also contributes to natural forest destruction. The next two cases record this damage and its negative impact on the viability of the only National Park in Riau, Bukit Tigapuluh National Park.

Bukit Tigapuluh National Park is situated on the border of two central Sumatran provinces, Riau and Jambi. It was established in 1995 to protect the largest remaining block of lowland rainforest left in Sumatra.<sup>38</sup> The Park is rich in rainforest flora including such rarities as the giant flower *Rafflesia hasseltii*.<sup>39</sup> The area harbours populations of five forest dependent, globally threatened mammal species including Malayan tapir (*Tapirus indicus*), tiger (*Panthera tigris*) and clouded leopard (*Neofelis nebulosa*). All in all, 192 bird species have been recorded in the area, which is almost one-third of all Sumatran bird species, and includes 10 globally threatened, forest

dependent species such as great hornbill (*Buceros bicornis*), white-winged wood duck (*Cairina scutulata*).<sup>40</sup>

When the National Park was established, its site was only 127,698 hectares in size, half the area that was proposed.<sup>41</sup> According to WWF this was due to the opposition of logging companies that held concessions in the area.<sup>42</sup> As a result the reserve may now not be large enough to maintain viable populations of all the endangered species currently inhabiting it.

The forested areas left out of the National Park in the north have been earmarked for conversion into plantations and their destruction diminishes the value of the whole area for conservation.<sup>43</sup> Their conversion also opens up the National Park to further intrusion. The administrative head of the National Park has demanded the retraction of the licences given out to the logging and oil palm companies in the area.<sup>44</sup>

### **Case Study One**

Two oil palm concessions have already been cleared of large tracts of forest near the Bukit Tigapuluh's northern border. One of these companies, PT Sumatra Makmur Lestari (PT SML) was given a 9,100 ha oil palm concession. The other is PT Arvena Sepakat which was given a 4040 hectare concession.<sup>45</sup> They have obtained permits for the clearing but the legality behind the permits is questionable. More than 80 per cent of the combined area is steeper than 25 per cent and approximately 45 per cent steeper than 40 per cent. According to the law concerned with the management of protected areas, slopes steeper than 40 per cent or 18 degrees should be protected.<sup>46</sup> Furthermore, according to a regulation of the Ministry of Forestry and Estate Crops regarding the preparation of forest areas for oil palm production, areas steeper than 25 per cent should not be used.<sup>47</sup> Despite this, large scale conversion has gone ahead in the area, with some clearing on slopes steeper than 40 per cent.

A co-operative of local villages called Tunas Mekar (including the villages of Pangkalan Kasai, Kelasa and Beligan) has recently claimed the majority of the PT SML concession area as their traditional land and demanded the right to exploit it. The local administration and PT SML have agreed to their land claim.<sup>48</sup> This co-operative now controls an area of 6,400 ha of which approximately 4,000 ha were still forested in 2000 before conversion by the co-operative had started.

When an investigator visited the area in September 2001 clearing was in full swing. According to the co-ordinator of the co-operative, Mohammad Syafii of Pangkalan Kasai village, the clearing and wood transportation is done by a contractor, PT Surya Palma Nusa, and the wood is sold to RAPP.<sup>49</sup> Plywood quality logs are also sold to PT Sumatra Timber Utama Damai (STUD). In October 2001 the co-operative had not yet decided what they would plant after the clearing. This demonstrates that the selling of the wood to RAPP is a major incentive for the co-operative to clear the land.

### **Case Study two**

PT Kencana Amal Tani (KAT) controls a concession a little further away from Bukit Tigapuluh National Park. The company established an oil palm plantation in mid-1990 which it sought to enlarge. Its efforts proved successful after it made a deal with local villagers who had claimed

part of the neighbouring selective logging concession of PT Inti Inhutani as their traditionally owned land. One of the villages was Pangkalan Kasai and its co-operative Tani Rahmat Usaha.<sup>49</sup> This was also the co-operative involved in the PT SML case. The locals received the land and started clearing the area by hiring a contractor, PT Surya Kencana Unggul. It has been agreed between the parties that after clearing the forest, the area will be handed to PT KAT for management as a plantation.<sup>49</sup> The fact that locals have sought control of the land clearing shows again that selling the wood is a major incentive for the clearing to take place.

The wood from the clearing is sold to PT STUD (plywood quality logs) and RAPP (the rest) according to the head of the Tani Rahmat Usaha co-operative Mohammad Syafii.<sup>49</sup> This claim was verified after an investigator followed the logging trucks from the clearing to RAPP's mill in October 2001. Clearing begun in June 2001 according to logging personnel and was still going on in October 2001. The area was also burned after clearing, which is prohibited by law.

In both these cases the forest before the logging was not degraded. The trees extracted were often more than one metre in diameter and the stock per ha was high.<sup>49</sup> This is also indicated by the fact that part of the timber from these areas was sold for plywood production, which requires big, good quality logs.

## Chapter 5

### APRIL and the Tesso Nilo Forest Clearance Case

#### 5.1 RAPP Clears World's Most Biodiverse Lowland Rainforest

An investigation by WWF Indonesia in 2001 concluded that RAPP (Riau Andalan Pulp & Paper) has been clear-cutting the Tesso Nilo forest in the Riau Province of Sumatra.<sup>50</sup> The forests of Tesso Nilo are gazetted as limited production forests by the government of Indonesia. This means that they can be selectively logged but not clear-cut or converted into plantation, nor used for agriculture.<sup>50</sup>

A detailed scientific assessment of the forest by WWF has recently discovered that it has the highest plant diversity ever found in any lowland forest on Earth.<sup>50</sup> It is one of the last remaining sizeable areas of lowland forest in Sumatra and is home to numerous endangered species including tigers, elephants, gibbons and tapirs. WWF is proposing that what remains of the Tesso Nilo forest is protected as the first National Park for elephants in South-east Asia. The proposal was submitted to the Ministry of Forestry in April 2001 after a stakeholder workshop in Riau recommended that Tesso Nilo be declared as an elephant conservation area. RAPP, together with more than 250 participants, attended the workshop.<sup>50</sup> The Heads of two districts and three district parliaments that cover the Tesso Nilo area issued supportive statements soon after the workshop. The parliament of the Province of Riau also issued a similar supporting letter. Based on such support, the Director General of Nature Conservation at the Indonesian Ministry of Forestry has submitted the proposal to the Minister of Forestry.<sup>50</sup> The logging of Tesso Nilo by RAPP directly undermines these conservation efforts.

However, not only has RAPP been clearing a forest which is considered to have globally significant conservation value, it is also legally questionable whether RAPP is allowed to clear the Tesso Nilo forest at all.<sup>50</sup>

#### 5.2 Legal Questions

For RAPP to be legally allowed to clear this forest area, it is necessary for it to acquire three key permits. First, RAPP must obtain a principle permit, then a definitive permit and finally a utilization permit.

In February 2001, with the Decree of the Forestry Ministry, RAPP obtained a principle permit for a pulp plantation extension.<sup>50</sup> It covers an area of 49,500 hectares, part of which - 8,450 hectares - is located around the company corridor on the PT Hutan Sola Lestari and PT Nanjak Makmur concessions, inside the WWF proposed area for elephant conservation.<sup>50</sup> However, this principle permit only allows a pulp plantation extension on non-forested land & unproductive land in the production forest; the natural forest block has to be preserved. It is therefore necessary for RAPP to apply for a definitive permit.

In order to be granted a definitive permit, RAPP must fulfil the following four key requirements:

- a feasibility study has to be conducted and reported to the Directorate General of Production Forest Management at the Indonesian Ministry of Forestry
- an Environmental Impact Assessment has to be reported to the Riau Environmental Impact Agency

- a recommendation on the area has to be received from the Riau Governor
- a Permit has to be received to change the forest status from the Indonesian Ministry of Forestry.

Only when these requirements have been met is the land forestry office able to issue a definitive permit, which is the basis for issuing a timber utilization permit.

Although RAPP has claimed that it has obtained a utilization permit from the local forestry office, it has not been able to demonstrate to WWF that it has received either a definitive permit or a utilization permit despite being asked to provide them on numerous occasions.<sup>50</sup> Furthermore, the Head of Forestry Service in August 2001 confirmed to WWF that they never issued the utilization permit.<sup>50</sup>

In addition it should be noted that the Indonesian Minister of Forestry issued a moratorium on forest conversion in 2000 following an agreement with international creditors, including the IMF. This clearly prohibits any further forest conversion permits being issued in Indonesia. This commitment was restated by the Minister in January 2002.<sup>50</sup> A detailed field investigation by WWF has shown that RAPP has now started to clear-cut forest in the proposed Tesso Nilo conservation area.<sup>50</sup>

### 5.3 The WWF Field Investigation

The WWF Investigation assessed the land-clearing in Tesso Nilo and monitored the movement of timber from the area to the RAPP company. Within the Baserah area an estimated 1,150 hectares of land was being cleared, of which 645 hectares has been already cleared and planted with acacia and the remaining 505 hectares has been logged but will soon be cleared.<sup>50</sup>

Between the cleared land, RAPP left forested land of about 50-100 metres for the purpose of providing a corridor for elephant conservation. However, according to the WWF report: *“these small blocks mean nothing to the big mammal. The company used it as a tool for propaganda.”*<sup>50</sup>

WWF observed eight logging gangs clearing the area, each consisting of 40-50 workers. Each gang is also equipped with 6-8 bulldozers and excavators, two skidders and 18 chainsaws. This means that 392 workers were clearing the area, not including administration staff and drivers.<sup>50</sup> WWF also found that the land clearing activity was backed up by military support which included policemen from the Cerenti and Air Molek local police station and army ground forces personnel.<sup>50</sup> **Over three days 110 vehicles were tracked by WWF from this area to the RAPP pulp mill in Riau.**<sup>50</sup>

## **Chapter 6**

### **Land Disputes**

In recent years the Indonesian pulp and paper sector has been affected by a rising number of conflicts between the industry and local communities. Under the Suharto regime, the Indonesian government often used its influence to maintain tight control over local communities' access to land and forest resources and made it a policy to prohibit forest-dependent peoples from challenging the activities of timber and plantation companies.<sup>51</sup> However, in the post-Suharto period, communities have become increasingly assertive in demanding recognition of local tenure claims and compensation for loss of resources, earnings and environmental damage. In many cases, conflicts over land and forest resources have set local communities in direct confrontation with companies.<sup>52</sup>

A large part of the forest concessions handed to APRIL by the Indonesian government has also been in dispute with local communities. The SGS study commissioned by APRIL in 1998 found that over 40,000 hectares of APRIL's concession area has been claimed by local communities.<sup>10</sup> This assessment was not comprehensive and the real figure is likely to be higher. The following are four examples of land disputes between local communities and APRIL subsidiaries:

#### **6.1 Delik, Sering and Kerinci Villages**

The land dispute on the site of RAPP's factories originates from the time before RAPP was established. The present pulp mill site with its surroundings is the ancestral land of the Delik, Kerinci and Sering village communities. In 1992 the area was partially included in the concession of PT Inti Indo Sawit, an oil palm company and a sister company of PT RAPP. Indo Sawit started to clear and plant the area without consulting the local communities.<sup>53</sup>

In 1994 RAPP took over the land used by Indo Sawit as well as additional land, totalling 2,000 hectares in order to construct their pulp mill. This occurred without the agreement of the local communities, who represented 439 families.<sup>53</sup> During the land dispute, villagers of Delik, Kerinci and Sering reported that RAPP had been using the police, bribes and lawsuits to control and threaten the local communities.<sup>53</sup> The land dispute escalated in 1997 after RAPP began to build an access road through the community land. At first the villagers blocked the construction site but were forced to withdraw after RAPP brought in the police to assist them. The villagers returned in October 1997 however to blockade the road. On 8 October 1997 RAPP used a mobile police brigade to violently disperse the blockade, resulting in two serious injuries to local villagers.<sup>53</sup> Following this incident, the villagers' legal representative, Marganti Manalu, was arrested. The villages of Delik, Kerinci and Sering had chosen Marganti Manalu to officially represent them in the land dispute issue against RAPP. Manalu is a lawyer and has worked for many years in Riau on land issues, supporting local communities in their land rights struggles.<sup>53</sup>

Manalu was prosecuted in the local court and found guilty of sabotage and agitation against RAPP and sentenced to three years in prison.<sup>53</sup> Manalu has denied the accusations and villagers believe he was targeted because he was seen as an obstacle to APRIL's development plans.<sup>54</sup> He has now been released. These communities have now received compensation from APRIL regarding their land claims but have not been given their land back.<sup>55</sup>

## **6.2 Lubuk Jambi Dispute**

Another land dispute in one of RAPP's concessions, this time in southern Riau (southern corner of concession sector Cerenti), escalated in July and August 1998 when a man was stabbed to death during a demonstration. The dispute had arisen after RAPP had taken over 2,000 hectares of traditional village land for planting acacia trees. The stabbing occurred during a demonstration near a village called Lubuk Jambi on 15 July 1998. RAPP staff used a bulldozer to disperse the demonstration and as a result at least ten of the villagers motorcycles were destroyed.<sup>56</sup> One of the demonstrators, a 32 year-old man called Rasyid, was stabbed during this protest.<sup>56</sup> He died two days later in the hospital of Caltex. This resulted in a further demonstration by hundreds of student activists in Riau.<sup>56</sup>

## **6.3 Kuntu Dispute**

A local Riau NGO reports a land conflict between RAPP and the village of Kuntu, located at Kecamatan Kampar Kiri, Kabupaten Kampar in Riau.<sup>57</sup> The villagers state that RAPP cleared 800 hectares of their traditional land and planted acacia trees. They are demanding that the land is handed back to them and proper compensation paid.<sup>57</sup>

## **6.4 Indorayon / Toba Pulp Lestari**

PT Inti Indorayon Utama, now known as PT Toba Pulp Lestari, is a US\$600 million pulp and rayon mill in north Sumatra. It was a former subsidiary of APRIL and is now a subsidiary of APRIL's mother group, the Raja Garuda Mas Group. For several years, Batak communities living near the mill have voiced concerns over environmental problems associated with its operations, including forest degradation and the release of noxious fumes. In July 1998, local residents blocked trucks entering the mill to keep them from bringing in raw materials, forcing Indorayon to halt production for four months. Then, in March 1999, violent clashes between community members and security forces led President Habibie to close the mill, pending an independent audit. The Jakarta Stock Exchange, in turn, suspended trading of Indorayon shares.<sup>6</sup> Around 12 people have been killed and many hundreds seriously injured in the conflict.<sup>58</sup>

Indorayon has paid a considerable financial cost for its conflicts with the communities. The company posted net losses of US\$40 million in 1998. In March 1999, it failed to pay US\$15 million in bond coupon obligations, as well as US\$144 million owed to bond holders who wished to cash in their guaranteed notes. The company has since entered into discussions with creditors to restructure its overall debt of US\$360 million.<sup>6</sup> The mill has still not re-opened due to the continuing opposition of the local communities.

## **Chapter 7**

### **Marketing and Business Partners**

#### **7.1 APRIL's Marketing Brands**

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 paper merchants and retailers around the world who are buying APRIL paper are playing a critical role in driving the destruction of Sumatra's forests by providing an open and receptive market for APRIL's paper products.

APRIL markets its paper under the following brand names:

#### **PaperOne**

- multipurpose office paper, designed for inkjet, laser and copy printing
- available as cut paper, rolls (also makes envelopes) and folio sheets

#### **Copy & Laser**

- office paper designed for copy and laser printing

#### **Crystal Copy**

- office paper designed for copy and laser printing

#### **Perfect Copy**

- office paper designed for copy and laser printing

#### **Dunia Mas**

- office paper designed for heavy duty copying and printing machines

The main brand of paper which APRIL is selling internationally is **PaperOne**, which was launched in Singapore in 1998 at the Asian Paper Exhibition.

## 7.2 APRIL's Worldwide Sales Offices

Worldwide sales offices for APRIL's PaperOne paper products

### INDONESIA

#### Jakarta

##### *PT Riau Andalan Kertas*

Mr. Husada Budidharma  
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#### Surabaya

##### *PT Riau Andalan Kertas*

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### SINGAPORE

#### *APRIL Fine Paper*

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#### *APRIL Fine Paper*

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16 Harcourt Road,  
Hong Kong  
Tel: + 852 2529 4788  
Fax: + 852 2865 5499

### MALAYSIA

#### *APRIL Fine Paper*

Mr Peter Lim  
Lot 803, Jalan Subang 5  
Taman Perindustrian Subang  
47500 Subang Jaya  
Selangor Darul Ehsan  
Tel: 603 732 9825  
Fax: 603 734 9098

### INDIA

#### *APRIL Fine Paper*

Mr. Srinivasa Rao  
#403, Mahavir House,  
Basheerbargh Square  
Hyderabad 500 029  
India  
Tel: 91 40 322 3451  
Fax: 91 40 322 3934

### EUROPE

#### The Netherlands

##### *APRIL Fine Paper*

Mr Igor Worang  
Keizersgracht 635  
1017 DS Amsterdam  
The Netherlands  
Tel: 31 20 428 1396  
Fax: 31 20 428 1397

### CHINA

#### *APRIL Fine Paper*

Suzhou Converting Plant  
Mr. Jeffrey Hoe  
212 Zhenhei Road  
Kuatangtown, Loumenwai  
Suzhou, Jiangsu Province  
China 215122  
Tel: 86 512 274 3888  
Fax: 86 512 275 9888

### 7.3 APRIL's International Distributors

Licensed international distributors for APRIL's PaperOne products

#### **AUSTRALIA**

##### **Raleigh Papers**

Mr Graeme Ross  
5 Leeds Street  
Rhodes, NSW  
2138 Australia  
Tel: 61 2 9793 1311  
Fax: 61 2 9793 3961

##### **Consolidated Paper Industries Pte Ltd**

Mr Joe Giarratano  
41-45 Mills Rd  
Braeside Vic  
Postal Code: 3195  
Tel: 61 3 92393600  
Tel: 61 3 9239 3777

#### **NEW ZEALAND**

##### **BJBall Papers**

Mr Phipps Lyndon  
395 Church St, Penrose  
PO Box 12 544  
Auckland  
Tel: 64 9 579 0050  
Fax: 64 9 525 1382

#### **JAPAN**

##### **Kokusai Pulp & Paper Co Ltd**

Mr K Hazhizume  
Import Paper Group  
6-26, Akashi-cho  
Chuo-ku, Tokyo 104-0044  
Japan  
Tel: 81 03 3542 4174  
Fax: 81 03 3542 7397

#### **SOUTH KOREA**

##### **Heungbo Industrial Co Ltd**

Mr H Y Moon  
22 Floor, Kukdong Building  
60-1 Chungmu-Ro3-KA  
Choong-Ku, Seoul  
Tel: 82 2 2273 6131  
Fax: 82 2 2273 6132/6133

#### **MIDDLE EAST/ EGYPT**

##### **Cypap Pulp & Paper Ltd, Middle East**

Mr Adolph Emseis  
1, Tagm, Dimitriou  
PO Box 60227  
CY-8101, Paphos, Cyprus  
Tel: 357 6 234 612  
Fax: 357 6 245 281, 357 6 234 615

#### **TAIWAN**

##### **Oriental Cellulose Trading Co Ltd**

Mr Chris Ho  
11F1, No 96, Sec 3, Chung Siao E Road  
Taipei, Taiwan, ROC  
Tel: 886 2 2711 5453  
Fax: 886 2 2771 0296

#### **USA**

##### **DaiEi Papers (USA) Corporation**

Chris Burns – Sales Manager  
550 Woodlake Drive  
Chesapeake, Virginia 23320  
Tel: 757 523 2100  
Fax: 757 523 2075

#### **MYANMAR**

##### **Aung Mingalar Co Ltd**

Mt Tin Aung Lyun  
284-286 Seikkantha Road  
Kyauktada Township  
Yangon, Myanmar  
Tel: 95 1 252917/ 276864  
Fax: 95 1 252917

#### **INDONESIA**

##### **PT Datascrip**

Ms. Susilawati Suryana  
Kawason Niaga Selatan Blok B-15  
Bandar Kemayoran, Jakarta 10610  
Tel: 62 21 654 4515  
Fax: 62 21 654 4811/ 13

#### **7.4 The UK Connection**

An investigation by Friends of the Earth has discovered that APRIL PaperOne paper is freely flowing into the UK and is being sold by many members of the AIMS distribution group, among others, who in turn represent up to four per cent of the UK paper market. It is not clear whether or to what extent these companies are aware of APRIL's impacts.

Although APRIL's European sales office is based in Amsterdam in the Netherlands, APRIL appoints marketing representatives in other European countries. In January 2001, the UK Exclusive Representative for APRIL PaperOne products was:

**Tony Vermot**

Penthouse  
Lea House  
1 Mill Road  
Eastbourne  
BN21 2LY  
Tel: 01323 732 384  
Mobile: 07836 236 057  
Email: latitudeuk@aol.com

The following UK companies have admitted to researchers in January 2002 that they are selling PaperOne paper products:

**David John (Papers) Ltd**

Unit 1a  
Middlegreen Trading Estate  
Middlegreen Road  
Langley  
Slough  
Berkshire SL3 6DF  
Tel: 01753 570424

**Davies Harvey Murrel**

Mostyn House  
Record Street  
London  
SE15 1TL  
Tel: 0207 732 9988  
Website: www.dhmpaper.com

**G F Smith**

Lockwood Street  
Hull  
East Yorkshire  
HU2 0HL  
Tel: 01482 323503

**H V Sier Ltd**

Excelda House  
Unit D  
Six Bridges Trading Estate  
Marlborough Grove  
London SE1 5JT  
Tel: 020 7231 0011

**Ovenden Papers**

Swordfish House  
Bower Hill  
Epping  
Essex  
CM16 7AQ  
Tel: 01992 561561

**Rosefox Ltd**

Pendle House  
Unit 96 Seedlee Rd  
Walton Summit Centre  
Bamber Bridge  
Preston PR5 8AE  
Tel: 01772 310000

**The South Wales Paper Company**

Priority Enterprise Park  
Ty Verlon  
Cardiff Rd  
Barry  
Vale of Glamorgan  
CF63 2BG  
Tel: 01446 735522

**Fulton Paper**

4 Fulton Road  
Manor Trading Estate  
Benfleet  
Essex SS7 4PZ  
Essex  
Tel: 01268 751799

**Frederick Johnson**

Unit 2  
Alexander Business Centre  
278 Alma Rd  
Enfield  
Middlesex EN3 7RS  
Tel: 020 8364 7322

**7.5 False Claims**

Despite the ample evidence demonstrating the environmentally damaging impacts of APRIL's operations, APRIL makes false claims in its marketing literature in order to persuade customers that its operations are not destructive. For example, in January 2002 it stated on APRIL's website that "*By converting degraded lands into long-term, sustainable tree plantations, APRIL reduces pressure on natural forests in Indonesia*".<sup>59</sup> There is evidence that many of the rainforests being cleared to supply APRIL, such as Tesso Nilo, are High Conservation Value Forest. It goes on to claim that "*sustainable timber resources are attained through forestry practices that protect the environment and preserve biodiversity*".<sup>60</sup> APRIL has already cleared 220,000 hectares of rainforest and has plans to clear another 147,000 hectares. It cannot be claimed that such practices protect the environment and preserve biodiversity when these highly biodiverse forests are replaced with monoculture tree plantations.

APRIL's website also falsely claimed in January 2002 that "*by the year 2002, APRIL's reforestation programme will cover over 270,000 hectares, producing enough plantation grown wood to meet 100 per cent of our mill's fiber needs*".<sup>61</sup> It has already been shown in this study that APRIL's plantation resources will not meet its full pulp capacity needs until at least 2008. PaperOne packaging in the UK also makes the claim "*wood fibre from sustainable forests*". Clearance of a highly biodiverse rainforest is not ecologically sustainable and causes permanent damage to the forest ecosystem. All these statements by APRIL are deeply misleading and are a deliberate attempt by APRIL to fool their customers into thinking their operations are environmentally acceptable, when in fact the reverse is true.

## 7.6 The UPM-Kymmene Connection

In September 1997, APRIL and the forestry company UPM-Kymmene (Finland) announced the establishment of a strategic alliance to develop jointly their respective fine paper operations in Europe and Asia. Under this alliance, UPM-Kymmene and APRIL would swap 30 per cent of their respective fine paper operations in a non-cash transaction. In Europe, UPM-Kymmene would hold 70 per cent and APRIL 30 per cent of a new company, UPM-Kymmene Fine Paper, which would comprise UPM-Kymmene's fine paper units, Nordland Papier in Germany and Kymi in Finland. The new company would be the largest fine paper producer in Europe with a combined annual capacity of 1.7 million tonnes of paper and 460,000 tonnes of related pulp. Similarly, in Asia, APRIL would hold 70 per cent and UPM-Kymmene 30 per cent of a new company, APRIL Fine Paper, which would comprise APRIL's paper mills under construction in Riau and in Changshu in China. A large stationery plant in Suzhou (China) was also to be included.<sup>62</sup>

In January 1998, APRIL concluded an agreement with UPM-Kymmene on the sales, marketing and distribution of its fine paper in Europe, South Africa, Australia and New Zealand. A technical agreement was also signed, giving APRIL access to UPM-Kymmene's technical expertise in mill operations and environmental control.<sup>63</sup>

In March 1998, APRIL and UPM-Kymmene expanded their alliance further. UPM-Kymmene agreed to make a US\$114 million equity investment in APRIL's fine paper and stationery companies in Changshu and Suzhou, giving UPM-Kymmene a 49 per cent share in both companies. In addition, UPM-Kymmene would contribute US\$121 million in the form of a shareholder loan to the China project. UPM-Kymmene would also assume responsibility for operating the paper mill under a management contract. UPM-Kymmene had the right to convert the equity investment and the loan into a 30 per cent stake in APRIL's Riau pulp mill at a later stage.<sup>64</sup>

In December 1998, UPM-Kymmene and APRIL finalised a US\$250 million term loan facility with an international banking syndicate for their joint operations in China. The loan facility was arranged by Chase Manhattan, which now is part of **JP Morgan Chase & Co** (United States) and **Citicorp** (United States) and is structured as a seven-year term loan amortising after a 36 month grace period. This new loan made it possible for the China joint-venture to repay the US\$121 million shareholder loan to UPM-Kymmene. Consequently, UPM-Kymmene advanced a loan of the same amount (US\$121 million) to APRIL.<sup>65</sup>

Due to the financial crisis in Asia, which started at the end of 1997, the strategic alliance began to run into trouble during 1999. In April 1999, UPM-Kymmene announced that the originally intended share swap between the fine paper operations of both companies was cancelled. APRIL had not been able to meet one of the preconditions: to bring all three paper machines (one in China and two in Indonesia) in commercial operation by 31 December 1999. But UPM-Kymmene would remain a 49 per cent shareholder in the fine paper mill in China, and discussions between the two companies about revising the strategic alliance continued.<sup>66</sup>

In September 1999, it was announced that these discussions had failed and that the strategic alliance was terminated. As a consequence, APRIL in October 1999 terminated the sales, marketing and distribution agreement with UPM-Kymmene, and established its own European marketing office in Amsterdam (The Netherlands).<sup>67</sup>

In January 2000, UPM-Kymmene announced it would not exercise the option to convert the US\$121 million shareholder loan into a 15 per cent stake in APRIL's Riau pulp mill at net asset value. The loan was extended until 31 December 2001 on commercial terms.<sup>68</sup>

In August 2000, APRIL agreed to sell its 51 per cent interest in the Changshu paper mill to UPM-Kymmene for US\$150 million, giving UPM-Kymmene full ownership. At the same time, APRIL entered into a six and half year 200,000 tonnes per year pulp supply contract to the Changshu paper mill. The Changshu paper mill began production in March 1999 and serves the domestic market via sales and marketing offices in the key markets of Shanghai, Beijing, Guangzhou and Chengdu. Its paper is sold under the *Jia Yin* brand.

The converting plant in Suzhou was transferred to APRIL. APRIL will also continue to hold the US\$121 million loan from UPM-Kymmene and the loan's new collateral is Riaupulp's shares that represent approximately 12 per cent of the company's shares.<sup>69</sup> In January 2002, UPM-Kymmene announced that it is negotiating with APRIL about extension of the term and new conditions of the US\$121 million loan which matured on 31 December 2001.<sup>70</sup>

UPM-Kymmene's Changshu mill is therefore buying the majority of its pulp from APRIL which in turn is sourcing the majority of this pulp by clear-cutting rainforests. By providing such a major market for APRIL's pulp, UPM-Kymmene is playing a significant role in the destruction of Sumatra's rainforests.

## **7.7 Other Business Partners**

### **AMEC**

The UK multinational AMEC is one of the world's largest construction and engineering consortiums. On its website it has boasted of its involvement in the design and construction of RAPP's pulp mill. The website stated in January 2002:

*"Riau Andalan, Sumatra, Indonesia*

*Riau Andalan Pulp & Paper*

*We performed studies, project management, engineering co-ordination, process design, construction management and commissioning assistance in the de-bottlenecking and expansion of an existing bleached hardwood pulp mill. In addition, we also provided process design and Owner's Engineer for the procurement, construction, installation and commissioning of the vendor package islands for the new 1,000,000 ADtpa fibreline."*<sup>71</sup>

AMEC states in its environment policy that *"Our overall goal is to protect both people and the environment"*. It also states in this policy that it *"works with clients to minimise negative and maximise positive environmental impacts from their operations"*.<sup>71</sup> The Chief Executive of AMEC, Mr P Mason, has overall responsibility for implementing this policy. AMEC also lists two of its core values as *"Protect the environment"* and *"Engage with local communities"*.<sup>71</sup>

These commitments are not fully consistent with AMEC's actions in helping build the RAPP mill. By helping to build a pulp mill which has been involved in high levels of rainforest destruction, AMEC is not helping to protect the environment.

**Jaakko Poyry**

Jaakko Poyry, a Finnish company, is one of the biggest forestry consultants in the world and has been involved in the planning of RAPP's operations.

**Valmet / Metso**

Valmet (now part of Metso) from Finland, is a supplier to APRIL, supplying a paper machine with an annual capacity of 350,000 tonnes.

**KNP Leykam**

In March 1997, APRIL announced that it had signed an Memorandum Of Understanding with the paper company KNP Leykam (The Netherlands / Austria) to establish a 50-50 owned joint venture company to produce coated fine paper in Changshu (China). Shortly afterwards, KNP Leykam was acquired by SAPPI (South Africa) and APRIL formed an alliance with UPM-Kymmene. The agreement with KNP Leykam was never put into effect.<sup>72</sup>

**Hansol Paper**

Hansol Paper is one of the largest paper companies in South Korea. Originally, Hansol would have a 30 per cent stake in PT Riau Andalan Kertas. But before 1997 Hansol pulled out of the project. In 1999 it was reported that Raja Garuda Mas is a shareholder of Hansol.<sup>73</sup>

**Ekran Group**

The Malaysian Ekran Group is the partner of Raja Garuda Mas in Sarawak Pulp and Paper mill. RGM owns 55 per cent and the Ekran Group owns 45 per cent. This mill would have a production capacity of 750,000 tonnes of pulp and 300,000 tonnes of paper per annum. But it is unclear if this mill has yet been completed.<sup>74</sup> The Ekran group has acted as the promoter of the Bakun damn in Sarawak.

## Chapter 8

### Financial Stakeholders of Raja Garuda Mas Companies

#### 8.1 Financial stakeholders of APRIL

In 2000, Asia Pacific Resources International Holdings Ltd. (APRIL) realised a turnover of US\$ 652.3 million. Of this turnover, 59.6 per cent was attributable to pulp and 40.4 per cent to paper. Exports accounted for 85.1 per cent of turnover. The main export markets are Asia, the Middle East, and Europe.<sup>75</sup>

##### 8.1.1 Capital structure

- At the end of 2000, APRIL owned assets totalling US\$3,076.7 million. These assets were financed by the following stakeholders:<sup>75</sup>

Stakeholders	US\$ million	Percentage
• Shareholders	1,167.2 million	37.9
• Subsidiary shareholders	8.1 million	0.3
• Banks	1,091.2 million	35.5
• Bondholders	47.6 million	1.5
• UPM-Kymmene Loan	121 million	3.9
• Others	641.7 million	20.9

- The values of the total assets of APRIL's major subsidiaries in Indonesia, are estimated as follows:

• PT Riau Andalan Pulp & Paper	US\$1,800 million
• PT Riau Andalan Kertas	US\$1,200 million

##### 8.1.2 Shareholders

At the end of 2000, the shareholders financed 37.9 per cent of APRIL's total assets. The following information is found on these shareholders:

- Asia Pacific Resources International Holdings Ltd. (APRIL) was listed on the New York Stock Exchange (NYSE) in April 1995, raising US\$280 million in equity capital.<sup>6</sup>
- At the end of 2000, a total of 477,894,280 shares of APRIL were issued and fully paid up.<sup>76</sup>
- At the end of 2001, the following shareholders of APRIL were registered:<sup>77</sup>
  - **Bingei Tinah** (Indonesia - 48.46 per cent)
  - Smith Barney Asset Management, which is part of **Citigroup** (United States - 0.65 per cent)
  - **Merrill Lynch** Investment Managers (United States - 0.65 per cent)

Bingei Tinah clearly is the dominant shareholder of APRIL. This company is controlled by Sukanto Tanoto. According to reports Tanoto holds 65 per cent or 67 per cent of APRIL's shares, while some business friends of Tanoto hold additional stakes.<sup>78</sup>

Former shareholders of the company were:

- **Axa-UAP** (France)
  - Hansberger Global Investors, which is part of **Citigroup** (United States)
  - **Lippo Investment Management** (Indonesia)
  - Travellers Group, which is part of **Citigroup** (United States)
  - **Munder Capital** (United States).<sup>79</sup>
- In September 2001, the NYSE suspended trading in shares of Asia Pacific Resources International Holdings Ltd, because the price of APRIL's shares has traded below US\$1 over a 30-day period. The company has now been delisted. APRIL started trading its shares on the American over-the-counter Bulletin Board at the end of September 2001.<sup>80</sup>

### 8.1.3 Subsidiary shareholders

At the end of 2000, the subsidiary shareholders financed 0.3 per cent of APRIL's total assets. The two most important subsidiaries of APRIL, PT Riau Andalan Pulp & Paper and PT Riau Andalan Kertas, are not 100 per cent owned by the company. Of PT Riau Andalan Pulp & Paper 1.5 per cent is owned by outside shareholders, and for PT Riau Andalan Kertas this percentage is 0.2 per cent. But in line with general accounting rules, APRIL considers 100 per cent of their assets as belonging to the company. In reality, a part of these subsidiary-assets are being financed by the outside or minority shareholders of PT Riau Andalan Pulp & Paper and PT Riau Andalan Kertas. This implies that these outside shareholders indirectly finance a small part (0.3 per cent) of the total assets of APRIL. However, no information is available on these outside shareholders.

### 8.1.4 Banks

At the end of 2000, banks financed 35.5 per cent of APRIL's total assets. The following information is found on APRIL's banks:

- In December 1994, PT Riau Andalan Pulp & Paper secured two loans from **Bank Dagang Negara** (Indonesia): a six-year loan of Rp87.2 billion (US\$39.4 million) and a five-year loan of Rp709.1 billion (US\$320 million). Both loans are used to refinance older facilities. The present status is unknown.<sup>81</sup>
- In April 1995, PT Riau Andalan Pulp & Paper secured a seven-year US\$ 200 million syndicated loan, to refinance the construction of its new plant. The loan was arranged by Baring Brothers, now called **ING Barings** (United Kingdom) and is a subsidiary of **ING Bank** (The Netherlands). The loan will mature in April 2002. The present status is unknown.<sup>81</sup>
- In September 1996, First National Bank of Boston, which is now part of **FleetBoston Financial Corporation** (United States), applied for an export credit guarantee with the **Export-Import Bank of the United States**. This export credit would help Benoit Corporation (United States) to supply paper making equipment to the Changshu paper mill of APRIL. The export credit was denied because this transaction did not offer reasonable assurance of repayment. It is unclear if this transaction was funded in any other way.<sup>82</sup>

- In December 1996, SBC Warburg extended a US\$75 million loan to APRIL, to finance the expansion of its paper mill. SBC Warburg is now part of **UBS Bank** (Switzerland). The term and present status are unknown.<sup>81</sup>
- In September 1997, PT Riau Andalan Kertas secured a total loan package of US\$436 million from an international banking consortium. The loan package consisted of four tranches:<sup>83</sup>
  - a two-year US\$186 million letter of credit from **Bank Nasional** (Indonesia). The present status is unknown<sup>83</sup>
  - a ten-year US\$ 65 million syndicated export credit, arranged by **Barclays Bank** (United Kingdom) and Finnish Export Credit, which now is part of **Sampo** (Finland). The banks participating in the syndicate were:
    - **Barclays Bank** (United Kingdom - US\$25 million)
    - Merita Bank, which is now a subsidiary of **Nordea** (Sweden/Finland/Denmark - US\$10 million)
    - **Skandinaviska Enskilda Banken** (Sweden - US\$10 million)
    - **Crédit Lyonnais** (France - US\$10 million)
    - Finnish Export Credit, which now is part of **Sampo** (Finland - US\$10 million).

Two export credit agencies guaranteed 75 per cent of the loan:

- **EKN** (Sweden)
- Finnish Guarantee Board, which is now called **Finnvera** (Finland).

The loan would mature in September 2007. However, this loan was never extended, as the lending consortium froze the loan in the beginning of 1998 because of the unstable political situation in Indonesia.<sup>84</sup>

- a 10-year US\$152 million syndicated export credit, arranged by **Barclays Bank** (United Kingdom) and **Swedish Export Credit Corporation** (Sweden). The banks participating in the syndicate were:
  - **Barclays Bank** (United Kingdom)
  - **Swedish Export Credit Corporation** (Sweden)
  - Finnish Export Credit, which now is part of **Sampo** (Finland).

Two export credit agencies guaranteed the loan:

- **EKN** (Sweden)
- Finnish Guarantee Board, which is now called **Finnvera** (Finland).

The loan would mature in September 2007. However, this loan was never extended, as the lending consortium froze the loan in the beginning of 1998 because of the unstable political situation in Indonesia.<sup>84</sup>

- a US\$ 33 million export credit facility guaranteed by **Hermes** (Germany). Probably, this financing was intended for the Changshu paper mill in China. The providing bank, the term and the present status are unknown.<sup>84</sup>
- In December 1997 it was reported that **ING Barings** (United Kingdom), part of **ING Bank** (The Netherlands) had a mandate to prepare a securitisation of export receivables for PT Riau Andalan Pulp & Paper. This is a way of giving a company a stable flow of income from its exports, unaffected by changes in currencies. It is unclear if this deal materialized.<sup>85</sup>
- In June 2000, APRIL signed a debt restructuring agreement with its Indonesian creditors. The largest of these creditors were **Bank Mandiri**, **Bank BNI**, and the **Indonesian Bank Restructuring Agency (IBRA)**, which had taken over the bad loans of some other banks. Other creditors are **Bank Niaga**, **Bank Universal** and probably **Unibank**.

Around US\$800 million of debt of PT Riau Andalan Pulp & Paper and PT Riau Andalan Kertas was restructured. According to the agreement, the term of these loans was extended to the end of 2005.

The restructuring agreement allowed APRIL to defer interest payments with a maximum of US\$160 million until March 2001, to assist in financing the completion of the first phase of the second pulp line of PT Riau Andalan Pulp & Paper. Such an arrangement is very unusual, and therefore the IBRA first objected to the deal which was signed with the Indonesian banks in September 1999. But after IBRA-chief Glenn Yusuf was replaced by Cacuk Sudarjanto the government agency changed its position and signed the agreement.

Several members of the Indonesian parliament, as well as foreign creditors of APRIL, criticised the fact that IBRA signed this debt restructuring agreement. The foreign creditors headed by **ING Barings** (United Kingdom), part of **ING Bank** (The Netherlands) refused to sign. The foreign creditors have total loans of US\$117.8 million outstanding to APRIL.<sup>86</sup>

- In February 2001, APRIL asked its creditors to revise the debt restructuring agreement of June 2000, as the pulp prices had collapsed during the past six months. APRIL is pressing lenders to grant a three-year grace period for the repayment of principal and to extend repayment until 2012. It also wants to lower the interest charged on the loans. Creditors are balking, as APRIL at the same time has invested large sums in expanding pulp & paper production in Riau.<sup>87</sup>
- In March 2001, APRIL's subsidiaries defaulted on the first scheduled principal repayment for the month of March 2001. Interest was still being paid.<sup>88</sup>
- In June 2001, APRIL announced that it also cannot meet interest payments on its debts because of a steep decline in pulp prices. The company is discussing a debt restructuring with its creditors.<sup>89</sup>

### 8.1.5 Bondholders

At the end of 2000, bondholders financed 1.5 per cent of APRIL's total assets. The following information is found on these bondholders:

- In December 1995, Salomon Brothers, which now is part of **Citigroup** (United States) issued US\$100 million notes due in 2000 and US\$200 million notes due in 2005 on the New York Stock Exchange (NYSE) for PT Riau Andalan Pulp & Paper. The proceeds of the notes are channelled as a loan to PT Riau Andalan Pulp & Paper via the financing company RAPP International Finance Company BV in The Netherlands, to reduce tax payments. This subsidiary is managed since September 1994 by MeesPierson Trust, which now is a subsidiary of **Fortis Bank** (The Netherlands).<sup>90</sup>

In July 1997, PT Riau Andalan Pulp & Paper made an offer to repurchase all outstanding notes from both series. Apparently, a cheaper form of financing was found. **Bear, Stearns & Co** (United States) was acting as dealer manager and Chase Manhattan Bank, which now is part of **JP Morgan Chase & Co** (United States), as depository. The offer resulted in the repurchase of US\$95.7 million of the notes due in 2000 and US\$198 million of the notes due in 2005. Including early repayment premium, PT Riau Andalan Pulp & Paper payed US\$317 million.

During 2000, the remaining balance of US\$4.3 million of the notes due in 2000 was repaid. At the end of 2000 still US\$2.05 million was outstanding of the notes due in 2005.<sup>91</sup>

- In 1995 and 1996 APRIL has issued three series of bonds (*Guaranteed Asian Currency Notes*) on the international capital market. The proceeds of the bonds were channelled as loans to APRIL via the financing company APRIL Finances BV in The Netherlands, to reduce tax payments. This subsidiary is managed since December 1995 by **ATC Management** (The Netherlands).

The first two series were repurchased in 1997 for a total sum of US\$122 million. The third series of US\$50 million was issued in December 1996, and was due in December 2001. But in February 2001 the maturity date was extended until December 2002. At the end of 2000, US\$45.5 million of these bonds was outstanding.<sup>92</sup>

### 8.1.6 UPM-Kymmene Loan

At the end of 2000, a loan from the Finnish forestry company UPM-Kymmene financed 3.9 per cent of APRIL's total assets. This loan was extended in March 1998 to finance the construction of the Changshu paper mill in China. After the repayment of this loan by the China joint-venture in the beginning of 1999, it was extended to APRIL itself in April 1999. The loan matured at the end of 1999, but in January 2000 the term was extended by two years.

In August 2000, when APRIL sold its 51 per cent interest in the Changshu paper mill to UPM-Kymmene, APRIL continued to hold the US\$121 million loan from UPM-Kymmene. Shares of PT Riau Andalan Pulp & Paper representing approximately 12 per cent of the company's shares became the loan's new collateral.

In January 2002, UPM-Kymmene announced that it is negotiating with APRIL about extension of the term and new conditions of the US\$121 million loan which matured on 31 December 2001.<sup>93</sup>

## 8.2 Financial Stakeholders of PT Toba Pulp Lestari Tbk.

PT Inti Indorayon Utaman now known as PT Toba Pulp Lestari is in severe financial trouble.<sup>94</sup>

### 8.2.1 Capital structure

- In March 2000, PT Toba Pulp Lestari Tbk. was estimated to own assets with a total value of US\$40 million. The present value is probably US\$20 million or even less.<sup>95</sup>

### 8.2.2 Shareholders

- PT Toba Pulp Lestari Tbk is listed on the Jakarta and Surabaya Stock Exchanges since June 1990. Its shares are also traded in the United States through American depository receipts (ADRs).
- In January 1999, APRIL distributed its 62 per cent shareholding in PT Inti Indorayon Utama among its own shareholders. Donaldson, Lufkin & Jenrette (United States), which now is a subsidiary of **Crédit Suisse First Boston** (United States / Switzerland), was advising APRIL on this deal.

As Sukanto Tanoto is the dominant shareholder of APRIL, this share distribution made Tanoto the dominant shareholder of PT Inti Indorayon Utama directly. His shareholding of Indorayon after the share distribution was estimated at 51 per cent. Other shareholders of PT Inti Indorayon Utama at that moment were:<sup>96</sup>

- **Scan Fibre** (2.4 per cent)
- **Cellulosa International** (2.1 per cent)
- The majority shareholding of Sukanto Tanoto in PT Inti Indorayon Utama was transferred to Indorayon's creditors after a debt restructuring agreement in June 2000, which included a debt for equity swap. The most important shareholders of PT Inti Indorayon Utama are since then:
  - **ABN AMRO Bank** (The Netherlands)
  - **American Express Bank** (United States)
  - **Bank Nomura** (Japan)
  - Bank of Boston, which is part of **FleetBoston Financial Corporation** (United States)
  - **Bank of New York** (United States)
  - **Crédit Lyonnais** (France)
  - **Crédit Suisse First Boston** (United States / Switzerland)
  - **Fuji Bank** (Japan)
  - **Sanwa Bank** (Japan)
  - **Standard Chartered Bank** (United Kingdom)
  - **Sumitomo Bank** (Japan)

According to some reports, this banking consortium now owns 96.6 per cent of the shares of PT Toba Pulp Lestari.<sup>97</sup>

- The Jakarta Stock Exchange suspended the trading in the shares of PT Toba Pulp Lestari in July 2001, because the company had not submitted audited financial figures for the year 2000 in time. It may now be delisted.<sup>98</sup>
- At the end of 2001, the following institutional shareholders of PT Toba Pulp Lestari were registered:<sup>99</sup>

• <b>Finanduro</b>	Spain	0.17 per cent
• <b>Templeton Investment Counsel</b>	United States	0.03 per cent
• <b>BT Funds Management</b>	Australia	0.02 per cent
• <b>Crédit Agricole Asset Management</b>	France	0.002 per cent

### 8.2.3 Banks and bondholders

- In March 1996, PT Inti Indorayon Utama issued US\$150 million of bonds on the New York Stock Exchange (NYSE). The bonds are due in 2001. Probably they are restructured in June 2000. The proceeds were channelled as a loan to PT Inti Indorayon Utama via the financing company Indorayon International Finance BV in The Netherlands, to reduce tax payments. This subsidiary is managed since March 1996 by MeesPierson Trust, which now is a subsidiary of **Fortis Bank** (The Netherlands).<sup>100</sup>
- In April 1999, PT Inti Indorayon Utama defaulted on the payment of interest on some outstanding bonds. The company appointed Donaldson, Lufkin & Jenrette (United States), which now is a subsidiary of **Crédit Suisse First Boston** (United States / Switzerland), to advise it on a debt restructuring. At that moment the company owed US\$75 million in short-term loans, and US\$285 million in bonds. In June 2000, the company reached a debt restructuring agreement with its creditors. The creditors agreed to swap most of outstanding debt for equity, if the plant resumed production. Among the banks signing the agreement were:
  - **ABN AMRO Bank** (The Netherlands)
  - **American Express Bank** (United States)
  - **Bank Nomura** (Japan)
  - Bank of Boston, which is part of **FleetBoston Financial Corporation** (United States)
  - **Bank of New York** (United States)
  - **Crédit Lyonnais** (France)
  - **Crédit Suisse First Boston** (United States / Switzerland)
  - **Fuji Bank** (Japan)
  - **Sanwa Bank** (Japan)
  - **Standard Chartered Bank** (United Kingdom)
  - **Sumitomo Bank** (Japan)<sup>101</sup>

- In December 2000, PT Toba Pulp Lestari received a new credit of US\$4 million from an international banking syndicate, to give the new management the opportunity to try to reopen the plant. Among the banks participating in the syndicate were:
  - **ABN AMRO Bank** (The Netherlands)
  - **Bank Nomura** (Japan)
  - Bank of Boston, which is part of **FleetBoston Financial Corporation** (United States)
  - **Bank of New York** (United States)
  - **Crédit Lyonnais** (France)

The credit is probably still outstanding.<sup>102</sup>

## Chapter 9

### Influence Assessment of Financial Stakeholders

#### 9.1 Methodology

To assess the level of influence that each shareholder could have on the pulp and paper companies in the Raja Garuda Mas Group, we will use three criteria:

- **the directness of the financial service**
- **whether the financial relationship is current**
- **the financial importance of the service.**

We will elaborate on these three criteria in the following sub-paragraphs.

##### 9.1.1 Directness of the financial service

If a financial service is provided to a company which is exclusively engaged with Indonesian pulp and paper production, we will call the financial service *direct*. If the financial service is provided to a holding company which has subsidiaries in the Indonesian pulp and paper sector, but has subsidiaries in other sectors and/or countries as well, we will call the financial service:

- *direct* if more than 50 per cent of the sales of the holding company is derived from Indonesian pulp and paper production
- *indirect* if less than 50 per cent of the sales of the holding company is derived from Indonesian pulp & paper production
- *indirect* if the financial service to the holding company clearly is directed at one or more of its subsidiaries outside the Indonesian pulp and paper sector.

##### 9.1.2 Whether the financial relationship is current

We will call the financial relationship:

- *current* if at this moment a loan is outstanding, a share or bond issuance is prepared, shares or bonds are owned, or other financial services are continuously being provided
- *finished* if a loan is repaid, a share or bond issuance is finalized, or other financial services are not longer provided.

##### 9.1.3 Financial importance of the service

The financial importance of shareholdings is assessed separately, as risk-taking capital is more valuable for a company. We assess the financial importance of shareholdings as follows:

- *high* a shareholding of 10 per cent or more
- *medium* a shareholding between 1 per cent and 10 per cent
- *low* a shareholding below 1 per cent.

To assess the financial importance of other financial services, we relate the capital provided by the financial service to the total assets of the company. We will call the financial importance of the service:

- *high* if the capital provided amounts to more than 10 per cent of the total assets of the company
- *medium* if the capital provided amounts to more than 1 per cent of the total assets of the company, but less than 10 per cent
- *low* if the capital provided amounts to less than 1 per cent of the total assets of the company.

Regarding the application of this criterion, we make the following remarks:

- if the equity of the company is negative, we relate the capital provided to the total debt instead of to the total assets
- for loans we will look at the present amount outstanding
- for a loan syndicate, we will look at the capital provided by each individual bank. But for the arranging banks, we will look at the total value of the loan
- for a share or bond issuance, we will look at the amount each underwriting bank has underwritten. But for the arranging banks, we will look at the total value of the issuance
- for the bank managing a debt restructuring process, we will look at the total amount of debt which is being restructured
- credit guarantees are estimated to represent 25 per cent of the value of the credit guaranteed.

#### **9.1.4 Influence assessment**

Taking the three criteria together, we can assess the influence of the financial institution on the pulp & paper company. We will call this influence:

- *strong* if the financial service is direct, the financial relationship is current, and the importance is high
- *moderate* if the financial service is direct, the financial relationship is current, and the importance is medium, or the financial service is indirect, the financial relationship is current, and the importance is high
- *minimal* in all other cases, where the financial relationship is current
- *finished* in all other cases, where the financial relationship is *finished*.

We define these three levels of influence as follows:

- **Considerable influence**

The financial institution has such a strong financial relationship with the company, that it will be able to influence the company's policies on its own.

- **Moderate influence**

The nature and extent of the financial relationship between the financial institution and the company is such that the financial institution can assert a certain influence on the company's policies, especially when it joins forces with other banks or stakeholders.

- **Minimal influence**

The financial relationship between the bank and the company gives the financial institution in theory some influence on the company's policies, but because of the extent and nature of the financial relationship this influence is not of practical use.

- **Finished influence**

The financial institution can no longer influence the company's policies.

## **9.2 Influence Assessment of Stakeholders in Raja Garuda Mas Companies**

### **9.2.1 Asia Pacific Resources International Holding Ltd.**

Based upon the methodology described in paragraph 9.1, we assess that the following financial stakeholders at this moment have a strong influence on Asia Pacific Resources International Holding Ltd:

- **Sukanto Tanoto** (Indonesia)
- **Bank Mandiri** (Indonesia)
- **Bank BNI** (Indonesia)
- **Indonesian Bank Restructuring Agency** (Indonesia)

Financial stakeholders with a moderate influence include:

- **ING Barings** (United Kingdom / Netherlands)
- **Bank Nasional** (Indonesia)
- **UBS Bank** (Switzerland)
- **Bank Universal** (Indonesia)
- **UPM-Kymmene** (Finland)

The influence of other financial stakeholders described in this report is assessed as minimal or finished.

### **9.2.2 Toba Pulp Lestari Tbk**

Based upon the methodology described in paragraph 9.1, we assess that the following financial stakeholders at this moment have a strong influence on Toba Pulp Lestari Tbk:

- **Sukanto Tanoto** (Indonesia)
- **ABN AMRO Bank** (The Netherlands)
- **Bank Nomura** (Japan)
- **Bank of New York** (United States)

- **Crédit Lyonnais** (France)
- **FleetBoston Financial Corporation** (United States)

Financial stakeholders with a moderate influence include:

- **American Express Bank** (United States)
- **Crédit Suisse First Boston** (United States / Switzerland)
- **Fuji Bank** (Japan)
- **Sanwa Bank** (Japan)
- **Standard Chartered Bank** (United Kingdom)
- **Sumitomo Bank** (Japan)

The influence of other financial stakeholders described in this report is assessed as minimal or finished.

## Conclusion

This report has shown that APRIL's logging activities are causing high levels of natural forest destruction, often in areas of High Conservation Value Forest. These damaging impacts are no more clearly seen than in the case of Tesso Nilo. Recently identified as the most biodiverse lowland forest in the world, APRIL's operations are leading to its rapid destruction. The legal question marks surrounding this case are of particular concern.

APRIL's activities are so unsustainable that despite the fact that its RAPP pulp mill has been in operation for six years, most of its timber has been sourced by clear-cutting rainforest. The company is set to destroy another 147,000 hectares of rainforest by 2008. APRIL's social impacts have been no less catastrophic, disrespecting the land rights of indigenous local communities.

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. By ignoring the unsustainable supply of APRIL's raw materials and thereby failing to carry out sufficiently precise due diligence, they have massively underestimated the risk and are now paying the price. They must take a lead in ensuring that the Indonesian pulp and paper industry rapidly changes its management practice to ensure a transparent, legal and sustainable supply of raw materials.

APRIL would also not be able to undertake its destructive activities without the market support of hundreds of paper merchants and retailers, such as UPM Kymmene, around the world. They have also been supported by construction companies such as the UK multinational AMEC.

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 in debt to the tune of US\$1.9 billion and facing a financial crisis, the global paper industry is suffering from low paper 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 home and their livelihoods. There is still time to act to minimise the damage 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 Forest. To support the 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's pulp processing capacity to sustainable levels.
- 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.

### **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 unless 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.

### **Paper Merchants**

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

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