

# Asia Pulp & Paper

## Introduction

Asia Pulp & Paper (APP) is one of the biggest pulp and paper companies in the world and is responsible for destroying a large area of Indonesia's rainforest. This briefing examines the destructive practices of APP and the Indonesian pulp and paper industry. It also reveals how international financial institutions are responsible for funding the activities of APP and examines how APP have managed to infiltrate the UK paper market.

## Indonesia's Valuable Forests

The forests of Indonesia are home to millions of forest dependent peoples. These forests are also 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, 17 per cent of all reptile and amphibian species and 17 per cent of all bird species<sup>1</sup>. Famous species, including the Orangutan, Sumatran tiger, Sumatran rhino and Asian elephant, contribute towards its status as the second richest country for wildlife in the world.

## Indonesia's Vanishing Forests

Indonesia's forest ecosystems and species are disappearing fast. At least 72 per cent of Indonesia's original forest cover has now been destroyed<sup>2</sup> and a recent World Bank study estimates that the rate of deforestation in Indonesia is now 2 million ha / year<sup>3</sup>, equivalent to an area of forest the size of Belgium being lost each year.

Although there may be 95 million hectares of forest left in Indonesia, the majority is either seriously degraded or unsuitable for logging. It is estimated that there are only 17 million ha of good quality production forest left, of

which 5 million have already been marked for conversion to plantation<sup>4</sup>. This is also the most important forest for biodiversity. A World Bank study estimates that unless logging practices radically change, there will be no more good quality forest left in Sumatra by 2005 and none left in Kalimantan by 2010<sup>5</sup>.

## Illegal logging in Indonesia

Illegal logging in Indonesia is rife. One recent study by the Indonesia-UK Tropical Forest Management Programme found a shortfall of 73 per cent between the official supply and actual consumption of Indonesian timber<sup>6</sup>. This means that 73 per cent of all logging in Indonesia is coming from undocumented, and presumably illegal, sources.

## The Indonesian pulp and paper industry

In December 2000, The Centre for International Forestry Research (CIFOR) in Indonesia, together with WWF's Macroeconomics Program Office, released a landmark report which provided 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<sup>7</sup>. The key findings of the CIFOR-WWF report are as follows:

### Rapid Growth

Indonesian pulp production capacity grew from 606,000 to 4.9 million metric tonnes per annum between 1988 and 1999, while the paper industry's processing capacity rose from 1.2 million to 8.3 million tonnes per annum<sup>8</sup>. As a result, Indonesia suddenly moved into the ranks of the world's top 10 producers.

### Razed Forest

This massive growth in capacity was not matched by efforts to secure a sustainable supply of raw materials. As a result, of the 100 million m<sup>3</sup> of wood estimated to have been consumed by the pulp industry between 1988 and 1999, only 8 per cent was harvested from plantations<sup>9</sup>. The rest has been mostly sourced by clear cutting rainforest (cutting down *all* the trees).

As a result, the pulp and paper industry in Indonesia has been responsible for the destruction of 835,000 hectares of highly biodiverse (rich in wild animals and plants) rainforest<sup>10</sup>. Virtually all this area was cleared to supply wood to four large mills, including APP's Indah Kiat mill. The pulp and paper industry will depend upon clearing rainforests to supply their pulp requirements for at least the next 7 years and possibly much longer<sup>11</sup>.

### Illegal Logging

Industry statistics indicate that Indonesia's pulp mills processed approximately 50 million m<sup>3</sup> of wood during the period 1994/5 to 1998/99. Of that figure, less than 30 million m<sup>3</sup> can be accounted for as originating from licensed forest, pulp plantations or imported wood chips. These figures suggest that Indonesian pulp producers may have obtained 20 million m<sup>3</sup>, or 40 percent of the wood consumed during this period from illegal sources<sup>12</sup>.

### Poor financial Regulation

The use of financial 'markup' practices - that is 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.

### Debt Driven Expansion

APP's process of resolving outstanding debts to foreign creditors has been linked to further expansion of their processing operations<sup>13</sup>. APP has for example financed its growing debt in part by raising more finance to support new expansion of its pulp and paper facilities. Such a vicious circle of debt-driven destruction has directly led to forest destruction.

The activities of pulp and paper companies in Indonesia directly conflict with the needs and rights of indigenous communities and have serious impacts on the environment. Examples of the social and environmental impacts of APP's operations are given below:

The Indah Kiat company is the engine that drives APP, accounting for 77 per cent of its pulp production capacity and 40 per cent of Indonesia's overall pulp output<sup>14</sup>. In 1999, its mills ran at full capacity, consuming 6.8 million m<sup>3</sup> of wood - equivalent to one quarter of Indonesia's entire legal wood supply.

### Forest Destruction

In 1999, Indah Kiat was only able to supply 13.4 per cent of its wood fibre needs from its plantations<sup>15</sup>. It is calculated that for the year 2000, Indah Kiat has sourced approximately 75 per cent of its logs from clearing rainforest<sup>16</sup>. Indah Kiat's operations have accounted for 287,000 hectares of deforestation, almost a third of the entire total attributable to all of Indonesia's pulp and paper companies<sup>17</sup>.

Even with a growth in timber volume sourced from plantations over the next few years, by 2005 Indah Kiat will still be sourcing no more than 50 per cent of the companies timber needs from plantations. A drop in the planting levels in 1998 and 1999 means that even this inadequate level may drop in 2006/2007<sup>18</sup>.

It is also estimated that Arara Abadi, an affiliated company of Indah Kiat that supplies most of its logs, is likely to exhaust its legal supply of timber from its own and nearby natural forest concessions by 2001<sup>19</sup>.

Subsidiaries of Indah Kiat are reported to have been granted logging permits by the forestry ministry covering tens of thousands of hectares of swamp forest in Riau despite the fact that a 1990 Presidential Decree prohibits exploitation of this type of forest.<sup>20</sup>

### Forest Fires

It is estimated that during the massive fires of 1997/98 over 3.3 million hectares of forest were destroyed in Indonesia, including parts of 17 protected forest areas.

The smog affected over 70 million people in the region and the economic cost has been calculated at US\$10 billion. Up to 80 per cent of the big fires were assessed to have been started by plantation companies clearing land<sup>21</sup>.

In 1997 Arara Abadi / Indah Kiat was named by the Forestry Department as one of 176 companies whose concessions had been affected by fire, based on monitoring from 1 August to 15 September 1997. It is reported that Arara Abadi's wood use licence was temporarily suspended on October 3<sup>rd</sup> for failing to submit reports proving that they had not started fires in their area<sup>22</sup>.

## Social Conflict

**Indah Kiat:** A large part of the forestry concession held by Arara Abadi is land traditionally belonging to the local Sakai people. It is reported that Indah Kiat has clear cut over 3000 hectares of the Sakai peoples' forest gardens.<sup>23</sup>

According to various reports, employees of Arara Abadi were involved in serious clashes with the villagers of Betun Village, Pangkalankuas sub-district, in Riau Province on 3 February 2001<sup>24</sup>. According to those reports, at least five villagers were injured in the clashes, two seriously, and 52 people were detained by Arara Abadi security forces before being handed over to local police. These villagers were subsequently released following representations by the Pelelawan community leaders and Non-Governmental Organisation representatives. It is believed that the clashes resulted from an attack on the villagers following their blockade of the road through the village leading to the pulp plant's feeder plantation. The blockade occurred as a result of community frustration at the damage being caused to the forest.

**Borneo Pulp & Paper:** APP is engaged in a joint venture, Borneo Pulp & Paper, with Malaysia's state owned Sarawak Timber Industry Development Corporation to set up an acacia tree plantation and build an integrated pulp and paper mill in Bintulu, Sarawak.

The joint venture project has been given access by the Malaysian Government to more than 600,000 ha of land. As a result, up to 20,000 Iban indigenous people may be

forced off their land. Although a local indigenous group estimates that over 60 per cent of the land belongs to the Iban people, the Government only recognises 28 per cent of the land as indigenous<sup>25</sup>.

The Iban recently won a landmark legal action in the High Court of Sarawak against Borneo Pulp & Paper. In that action, the Iban claimed that they had native customary rights over certain parts of land that had been wrongly granted to BPP by the Government of Malaysia. The Court held that the Iban did have customary and native rights to the disputed land and held that those rights "*were exercised in the disputed area by (the Iban) and their ancestors until they were prevented to do so by the total destruction of the trees by (BPP) for the purpose of planting pulp trees.*"

The Court declared that the land title issued to BPP which included the disputed area was void. Two similar actions against BPP are proceeding in the Sibiu High Court in Malaysia, having been brought by more than 20 other Iban communities.<sup>26</sup>

## The UK Market

Public interest in the destructive impacts of the Indonesian pulp & paper industry has created problems for the Indonesian multinational paper groups, by limiting their ability to market paper and pulp products in some countries. As a result, companies such as APP have designed marketing strategies to bring paper to those markets in a way which obscures their identity as the original manufacturer of the paper.

## The UK Chain of Indonesian Custody

An investigation by Friends of the Earth into the marketing of APP paper in the UK confirms that the company sells few APP branded products. Instead the focus is on selling un-branded paper to UK agents and distributors, for on-selling under those companies' own brands.

Wholesale stationery product distributors sell APP material to either retail stationery distributors or directly to customers themselves. It would appear that both the re-branded products and un-branded products sourced from APP do not even have country of origin labels. Using indirect marketing distribution ensures that the origin of the paper is "unknown".

## Environmental Green Wash

APP and its main distribution outlets are well aware of the sensitivity surrounding the issue of importing Indonesian paper and have worked hard to create an environmental persona for the company should its defences be breached. Brochures depicting ISO14001 certification (an international standard for environmental management systems) with references to plantation based forestry obscure for most the reality behind the APP story, that the majority of its paper has been sourced by destroying Indonesian rainforest.

## Growth in Indonesian Paper Imports

An analysis of Indonesian pulp and paper exports to the UK by weight and value show that there has been a significant increase in recent years. Between 1995 and 1999, imports into the UK rose from approximately 10,000 tonnes to 85,000 tonnes<sup>27</sup>. By sourcing their raw material by clear cutting rainforest and avoiding the costs of setting up sustainable plantations, APP are able to provide their paper at very low cost and significantly undercut many of their competitors. This analysis backs up claims from industry sources that APP agents are trying to flood the UK with cheap Indonesian paper.

While it is extremely difficult to identify all the paper products in the UK made from APP paper, in-depth research has shown how this paper circulates in the UK market. The following companies and products have been identified as being involved in the import of APP paper into the UK. We should point out that it is not clear the extent to which any of the following are aware of APP's social and environmental record.

### UK distributors of APP Paper

<b>Robert Horne</b>	Office Point A4 copier paper; Gold East copier paper
<b>Spicers</b>	5 Star listing paper / 5 Star copier paper
<b>Kingsfield Heath</b>	Q Connect listing paper, Q connect copier paper

It is estimated that given the size of these distributors and the buyers groups that they feed in to, over 50 per

cent of the stationary wholesale supply business in the UK is contaminated with Indonesian paper from APP.

**Robert Horne:** The Robert Horne Group, with branches in 24 cities around the UK, presents itself as “the UK’s leading paper merchant”. It claims in its environment policy that “we have adopted responsible environmental policies that go beyond statutory requirements and ensure that care of the environment is a fundamental consideration in all spheres of our operation.”<sup>28</sup> This commitment is clearly in stark contrast to the reality of APP’s destructive forestry practices.

## The Responsibility of Financial Institutions

International financial institutions have played a pivotal role behind the finance of APP. APP’s assets total US\$ 17.5 billion. Shareholders have financed 25 per cent, bondholders 38 per cent and banks 20 per cent of these assets. Over **300** international financial institutions, including many leading financial institutions and export credit agencies, have been identified by Friends of the Earth-EWNI as being heavily involved in providing and guaranteeing this finance over the last 10 years. The private financial institutions include : Barclays Bank, NatWest, Morgan Stanley Dean Witter, Credit Suisse First Boston, Goldman Sachs, Franklin Templeton, Capital Group, Merrill Lynch, Bank of America, Deutsche Bank, ABN Amro and Bank of China.

Barclays Bank and NatWest have belonged to syndicates which have helped arrange loans of more than US\$1 billion to APP and its subsidiaries.

As a result of their inadequate investigation and understanding of the Indonesian pulp and paper industry,

combined with their substantial investment in those companies over a number of years, these financial institutions must accept their share of the responsibility for the destruction of the Indonesian rainforest. They must recognise that unless they take immediate action to address the environmental and social impacts of APP's operations, they will be knowingly facilitating further rainforest destruction and social conflict.

## Recommendations for UK Government

- ! Make it a legal requirement for timber products (inc. paper) imported and sold in the UK to have an independent chain of custody certificate showing forest origin of timber. Government to take a lead to adopt this law at the European and G8 level.
- ! Make it illegal to import and sell illegally sourced timber products (inc. paper) in the UK. Government to take a lead to adopt this law at the European and G8 level.
- ! Make UK's Green Claims Code legally binding.
- ! Track chain of custody of all timber products (inc. paper) purchased by the entire public sector to ensure they are supplied from a legal and sustainable source. To work towards ensuring all such purchases are accompanied by an FSC chain of custody certificate.
- ! Stop all purchases of Indonesian paper by the public sector.

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## Recommendations for UK paper merchants / retailers

- ! Track chain of custody of all paper purchases to ensure they are supplied from a legal and sustainable source.
- ! Work towards FSC certification of all paper products purchased and sold.
- ! Increase purchase of recycled paper.
- ! Stop all purchases of Indonesian paper.

## Recommendations for Financial Institutions

- ! Financial institutions should adopt and enforce more effective due diligence practices to fully assess the financial risks involved with the pulp and paper sector and to ensure that they are not providing funds for illegal or unsustainable practices.
- ! Financial institutions should not provide funds for any new pulp and paper processing capacity in Indonesia and Malaysia for the foreseeable future.
- ! Financial institutions supporting APP and its subsidiaries should take immediate action to ensure that the fibre supply to APP's pulp mills comes from sustainable sources.

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