



OPEN LETTER TO FINANCIAL INSTITUTIONS

6 November 2012

Dear Sir/Madam,

with this letter the 60 undersigned non-governmental organisations (NGOs) wish to ask you to carefully screen any pulp industry investment projects related to Indonesia, such as new mills, particularly those of companies associated with the Sinar Mas Group, notably Asia Pulp & Paper (APP).

Our concern is the environmental and social consequences of the massive destruction of natural forests that can be shown to be linked to past and current over-capacity in pulp milling plants in Indonesia. We would contend, however, that investment in further milling capacity that relies on natural forest or utilizes land without the free, prior and informed consent of affected communities carries considerable reputational hazard and economic risk to financial institutions.

Our concern is heightened by reports in the Indonesian and trade press that APP is preparing to build a new pulp mill in Sumatra in Indonesia. This would reportedly be one of the world's biggest pulp mills¹, with a planned production of between 1.5 and 2.0 million tonnes per year.

The undersigned NGOs are very concerned about the threat any such new mill might pose to the remaining natural forests in Sumatra and beyond. According to a recent estimate by Sumatra-based NGO coalition Eyes on the Forest, APP has pulped more than 2 million hectares of tropical forests in Sumatra since it started pulp production there in 1984².

Drainage of deep peat soils both for natural forest clearance and for plantation establishment is an issue of global concern in relation to climate change^{3, 4, 5}. Impacts on indigenous peoples and local communities⁶ and the role of habitat destruction in pushing Sumatra's elephant to critically endangered status, and its tigers and elephants into deadly conflicts with people and in some cases local extinctions have activated civil society campaigns globally^{7, 8, 9, 10, 11}. It has been reported that three wood suppliers of APP are among the 14 companies which the Ministry of Environment has under examination for possible liability suits over environmental damages¹². Four wood suppliers who also supply APP have so far been implicated before courts in the proven bribery of public officials in connection with the issuing of licenses to clear certain natural forest areas^{13, 14, 15, 16, 17}. APP has lost a number of high-profile customers (such as Disney, Hasbro, Mattel, Unilever, Nestle, Danone, Xerox, Mondi) in recent years, as a result of concerns about its deforestation practices, community conflict and the business and reputational risk to buyers^{18, 19, 20}.

APP has put considerable resources into trumpeting its sustainability credentials, but this campaign has been undercut by the company's failure to meet its own publicised commitments in protecting forest areas it has

previously designated as tiger sanctuary^{21, 22,23}, forest areas it has identified as high conservation value forests for protection^{24, 25} and forest areas it has promoted as part of the Giam Siak Kecil-Bukit Batu UNESCO Man and Biosphere Reserve²⁶. It has committed to sole plantation sourcing for its pulp supplies by 2004²⁷, 2007²⁸ and 2009²⁹ and missed all these self-imposed deadlines³⁰. In its most recent (2012) sustainability roadmap it is clear APP intends to rely on natural forest clearance beyond 2015, a situation which will be exacerbated by the addition of any new pulping capacity^{31, 32, 33, 34, 35}.

Some of the tactics employed in campaigning on APP's behalf have also come under question ³⁶ and independent sustainability certification agencies have rejected APP's claims of their endorsement³⁷.

We would suggest that special caution is required in relation to Sinar Mas, APP and companies associated with them, in view of the economic risks of adding pulp production capacity in large increments despite manifestly inadequate pulp supplies outside of their continuing and increasingly controversial assault on natural forests.

Financial institutions should particularly note the circumstances and consequences of the previous failure of APP's business model, graphically illustrated when APP declared a moratorium on the servicing of \$US 14 billion in debt in 2001 and was subsequently delisted from the New York Stock Exchange^{38, 39}. Although many of the details remain unclear, this resulted in substantial and unresolved losses to financial institutions and investors.

Much controversy still rages around this default. APP currently faces US court orders to pay back more than \$900 million in defaulted debt to US creditors, but the company continues for various reasons to delay in complying with asset disclosure or payment orders⁴⁰. There are indications that environmental covenants agreed to with export credit agencies for the restructuring of debt have not been complied with, something that NGOs are continuing to pursue with the institutions concerned^{41, 42, 43}.

Given the above, we would welcome your assurance that you would not be investing in or supporting any investment in increased pulp milling capacity by companies associated with the Sinar Mas Group.

The issue is one that all the undersigned NGOs – and others - feel strongly about, and will continue to monitor and campaign on.

We look forward to your response and would also welcome any opportunity to further brief you on the issue. Please send your response to sergio.baffoni@environmentalpaper.eu.

Sincerely,

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Aidil Fitri Wahana Bumi Hijau, South Sumatra, Indonesia

Usman Gumanti, Ketua AMAN Jambi, Indonesia

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Thomas Wenidoppler, Director, ECA Watch Austria
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Sara Van Dyck, Bond Better Leefmilieu, Belgium
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Sini Eräjää, Suomen luonnonsuojeluliitto / Finnish Association for Nature Conservation, Finland
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Vittorio Cogliati Dezza, Legambiente, Italy
Giulia Franchi, Re-Common, Italy
Fabio Ciconte, President, Terra!Onlus, Italy
Yoshihiro Fujii, Finance GreenWatch, Japan
Junichi Mishiba, Friends of the Earth Japan, Japan
Yoshio Nishioka, Hutan Group, Japan
Akira Harada, Japan Tropical Forest Action Network, Japan
Graziella Cavlan, Nature Trust, Malta
Lars Løvold, Director, Rainforest Foundation Norway
Maria Huma, Polish Green Network, Poland
Nuno Sequeira, Quercus, Portugal
Alba Valle, Euronatura, Portugal
Andrey Laletin, Chairman, Friends of the Siberian Forests, Russia
Tom Kucharz, Ecologistas en Acción, Spain
Almuth Ernsting, Biofuelwatch, UK/USA
Simon Fairlie, The Land Magazine, UK
Archie Beaton, Chlorine Free Products Association, USA
Scott Quaranda, Dogwood Alliance, USA
Michelle Chan, Director, Economic Policy Programs, Friends of the Earth USA
Stephanie Fried, Ulu Foundation, USA
Wim Dekok, Executive Director, World Animal Net, USA
Teresa Perez, Coordinator, World Rainforest Movement, Uruguay

¹ <http://www.risiinfo.com/blogs/Worldu2019s-largest-market-pulp-line-planned-for-2015-16-in-Indonesia.html>.

RISI, "The world's largest market pulp line is being planned for startup in 2015-16 in Indonesia", *RISI Viewpoint*, 31 January 2012; RISI, "APP plans greenfield mill in South Sumatra to run the world's largest pulp line", *RISI*, 1 February 2012; RISI, "Asia mega pulp plant challenges new BEK pulp projects in South America", *RISI*, 9 February 2012. <http://www.bisnis.com/articles/market-moving-sinar-mas-builds-a-2-million-tons-capacity-pulp-plant>

² Estimate from APP sources, independent studies, sources in table pp22-26, Eyes on the Forest *The truth behind APP's greenwash*, (14 December 2011).

[http://www.eyesontheforest.or.id/attach/EoF%20\(14Dec11\)%20The%20truth%20behind%20APPs%20greenwash%20HR.pdf](http://www.eyesontheforest.or.id/attach/EoF%20(14Dec11)%20The%20truth%20behind%20APPs%20greenwash%20HR.pdf)

³ Remote Sensing Solution, Hokkaido University and WWF-Indonesia, *Deforestation, Forest Degradation, Biodiversity Loss and CO2 Emissions in Riau, Sumatra, Indonesia* http://assets.panda.org/downloads/riau_co2_report_short_wwf_id_27feb08_en_lr_.pdfhttp://assets.panda.org/downloads/riau_co2_report_short_wwf_id_27feb08_en_lr_.pdf

⁴ Hooijer, A., Page, S., Jauhiainen, J., Lee, W. A., Lu, X. X., Idris, A., and Anshari, G.: Subsidence and carbon loss in drained tropical peatlands, *Biogeosciences*, 9, 1053-1071, doi:10.5194/bg-9-1053-2012, 2012. <http://www.biogeosciences.net/9/1053/2012/bg-9-1053-2012.html><http://www.biogeosciences.net/9/1053/2012/bg-9-1053-2012.html>

⁵ Miettinen, J., Hooijer, A., Shi, C., Tollenaar, D., Vernimmen, R., Liew, S.C., Malins, C. and S.E. Page. (November 2012) Extent of industrial plantations on Southeast Asian peatlands in 2010 with analysis of historical expansion and future projections. *Global Change Biology Bioenergy* Volume 4 Issue 6 pages 908-918. <http://onlinelibrary.wiley.com/doi/10.1111/j.1757-1707.2012.01172.x/abstract>

⁶ Social conflict and environmental disaster: A report on Asia Pulp and Paper's operations in Sumatra, Indonesia", 2006. Rivani Noor and Rully Syumanda. Published by WRM, CAPP, WAHLI. <http://www.forestpeoples.org/sites/fpp/files/publication/2010/08/indonesiasocconflictwrmaug06eng.pdf><http://www.forestpeoples.org/sites/fpp/files/publication/2010/08/indonesiasocconflictwrmaug06eng.pdf>. See also media report on conflicts between communities and APP suppliers: <http://www.tempo.co/read/news/2011/12/24/058373551/Tuntut-Hak-Ribuan-Petani-Duduki-Lahan-Perusahaan>

⁷ Gopala, A., Hadian, O., Sunarto, ., Sitompul, A., Williams, A., Leimgruber, P., Chambliss, S.E. & Gunaryadi, D. 2011. *Elephas maximus ssp. sumatranus*. In: IUCN 2012. IUCN Red List of Threatened Species. Version 2012.1. <www.iucnredlist.org>.

⁸ WWF Indonesia (2010) Sumatra's Forests, their Wildlife and the Climate. Windows in Time: 1985, 1990, 2000 and 2009. http://awsassets.wwf.or.id/downloads/wwf_indonesia_2010_sumatran_forests_wildlife_climate_report_for_dkn_bappenas.pdf

⁹ WWF Indonesia (2008) *Deforestation, Forest Degradation, Biodiversity Loss and CO2 Emissions in Riau, Sumatra, Indonesia*. <http://www.worldwildlife.org/who/media/press/2008/WWFPresitem7596.html>

¹⁰ Eyes on the Forest (17 March 2009) Forest Clearing by Paper Giant APP/Sinar Mas Linked to 12 Years of Sumatran Tiger, Human Fatalities. http://www.eyesontheforest.or.id/attach/EoFRiauTigerConflictPR_17Mar09.pdf

¹¹ Reports by various NGOs are collected at <http://www.eyesontheforest.or.id>, <http://www.environmentalpaper.eu/app/www.environmentalpaper.eu/app/> and <http://www.greenpeace.org/international/en/campaigns/forests/asia-pacific/app/>.

¹² TEMPO Magazine (22 April 2012) Going After The Big 14.

¹³ TEMPO Magazine (22 April 2012) Going After The Big 14.

¹⁴ The Jakarta Globe (19 May 2011a) Special Report: How a \$115b Illegal Logging Probe Was Felled. www.thejakartaglobe.com/nvironment/special-report-how-a-115b-illegal-logging-probe-was-felled/441679

¹⁵ The Jakarta Globe (19 May 2011b) Timeline of the Riau Investigation. <http://www.thejakartaglobe.com/nvironment/a-timeline-of-the-riau-investigation/441823>

¹⁶ Anti Forest-Mafia Coalition of NGOs (4 May 2012) APP, APRIL and Corruption – Buyers Beware! [http://www.eyesontheforest.or.id/attach/KLAKH%20\(04May12\)%20Factsheet%20APP%20APRIL%20and%20Corruption_FINAL_20120525080524.pdf](http://www.eyesontheforest.or.id/attach/KLAKH%20(04May12)%20Factsheet%20APP%20APRIL%20and%20Corruption_FINAL_20120525080524.pdf)

¹⁷ "Riau Corruption Trial" (<http://riaucorruptiontrial.wordpress.com/http://riaucorruptiontrial.wordpress.com/>) is a blog managed by Riau civil society to monitor corruption trials pulp & paper industry, including those related to APP.

¹⁸ World Wildlife Fund (October 2012) Does your toilet paper cause rain forest destruction? Latest News. <http://worldwildlife.org/pages/don-t-flush-tiger-forests>

¹⁹ Greenpeace Campaign updates <http://www.greenpeace.org/international/en/campaigns/forests/asia-pacific/app/updates/><http://www.greenpeace.org/international/en/campaigns/forests/asia-pacific/app/updates/>

²⁰ Greenpeace blog (4 May 2012) Illegal logging contract cancellations fuel investor flight from APP. <http://www.greenpeace.org/international/en/news/Blogs/makingwaves/illegal-logging-contract-cancellations-fuel-i/blog/40264/><http://www.greenpeace.org/international/en/news/Blogs/makingwaves/illegal-logging-contract-cancellations-fuel-i/blog/40264/>

²¹ Eyes on the Forest, Page 11-14, Example 1 of Chapter 3 (14 December 2011)

²² WWF International (14 December 2011) Massive APP greenwash campaign is mostly hogwash, finds new report. http://wwf.panda.org/wwf_news/?202809/Massive-APP-greenwash-campaign-is-mostly-hogwash-finds-new-report

²³ WWF International (16 December 2011) Document pulps APP's tiger sanctuary claims. http://wwf.panda.org/wwf_news/?202873/Documents-pulp-APPs-tiger-sanctuary-claimshttp://wwf.panda.org/wwf_news/?202873/Documents-pulp-APPs-tiger-sanctuary-claims

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- ²⁵ Eyes on the Forest (March 2012) APP: default on environmental covenant.
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- ²⁶ Eyes on the Forest (November 2010) EoF calls on SMG/APP and APRIL to keep their promises: Stop conversion of natural forest and drainage of peat to produce pulp, stop violation of the country's climate commitments.
<http://www.eyesontheforest.or.id/attach/EoF%20%2830Nov10%29%20Riau%20RKT%202010%20natural%20forest%20and%20peat%20conversion%20EN%20FINAL.pdf>
- ²⁷ Barr, C. (2000) Profits on Paper: The Political Economy of Fiber, Finance, and Debt in Indonesia's Pulp and Paper Industries. CIFOR.
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- ²⁸ Asia Pulp & Paper (2004) APP Sustainability Action Plan.
- ²⁹ Asia Pulp & Paper (May 2007) APP 2005/06 Environment Report. [http://www.asiapulppaper.com/portal/APP_Portal.nsf/Web-MenuPage/1B2BBDDDE7FB9B64C4725739B00232E6A/\\$FILE/SR1.PDF](http://www.asiapulppaper.com/portal/APP_Portal.nsf/Web-MenuPage/1B2BBDDDE7FB9B64C4725739B00232E6A/$FILE/SR1.PDF)
- ³⁰ Eyes on the Forest, Page 3, Chapter 2.2 (14 December 2011)
- ³¹ Asia Pulp & Paper (5 June 2012) Asia Pulp & Paper Group (APP) charts a course to world-class industry standards in sustainable business. <http://www.rainforestrealities.com/newsroom/press-releases/asiapulppaper-group-app-charts-a-course-to-world-class-industry-standards-in-sustainable-business><http://www.rainforestrealities.com/newsroom/press-releases/asiapulppaper-group-app-charts-a-course-to-world-class-industry-standards-in-sustainable-business/>
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- ³³ WWF International (25 July 2012) APP's latest promise no more than protecting already protected forest.
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- ³⁴ Asia Pulp & Paper (5 September 2012) Announcement: APP Quarterly Update on Vision 2020 Sustainability Roadmap.
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- ³⁶ NYTimes (30 March 2011) Odd Alliance: Business Lobby and Tea Party.
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- ³⁸ Asia's Worst Deal, Michael Shari, Business Week, New York, 13 August 2001.
- ³⁹ Export Credit Agencies (3 February 2003) Position Paper on APP Restructuring: Resolving Critical Issues in the December Agreement, cited by Setiono, B. (2007) Debt Settlement of Indonesia Forestry Companies. Assessing the Role of Banking and Financial Policies for Promoting Sustainable Forest Management in Indonesia. CIFOR Report.
http://www.cifor.org/publications/pdf_files/Books/BSetiono0701.pdf
- ⁴⁰ JP Morgan Chase Bk v. PT Indah Kiat Pulp, et al, US District Court, Northern District of Illinois, Case No. 02 cv 6240; U.S. Bank National v. APP International Finance Co., NY Supreme Court Index No. 600405/2004. Here is more on the court case of May 2012:
<http://dockets.justia.com/docket/circuit-courts/ca7/12-2123/>
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- ⁴² WWF International (27 March 2012) APP's double default on creditors. http://wwf.panda.org/wwf_news/?203983/APPs-double-default-on-creditors
- ⁴³ European Environmental Paper Network, Fern, FoE Japan, Greenpeace and many other NGOs (June 2012) Joint open letter: Asia Pulp & Paper (APP) Default in its Obligations with the Export Credit Agencies. <http://www.environmentalpaper.eu/wp-content/uploads/2012/06/APP-defaults-with-ECAs.pdf>