

Defeat RAPP and the Importance of Sustainable Finance

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There are many environmental related events that occurred throughout 2017. But among the events, it seems that one of the most concerned about the environmental movement is the dispute between PT Riau Andalan Pulp and Paper with the Government of the Republic of Indonesia, in particular the Ministry of Environment and Forests (KLHK) .

Following major forest and land fires by 2015, at the end of 2016 the Government of Indonesia issued Government Regulation No. 57/2016 on the Protection and Management of Peat Ecosystems. The PP includes mandating peat restoration, including those already concessioned for various companies, especially plantations and industrial plantations. The Peat Restoration Agency said that of the 2.4 million hectares of peatlands to be restored, 1.4 million hectares are located in the concession area.

It is not easy to solve. The idea is through land swap or replacement land for the affected concession. However, at the beginning of November 2017 there were only 12 revisions of Business Work Plan (RKU) with replacement land already completed and approved by KLHK. In fact, there are 85 HTI companies that have to submit a revision.

Instead of making RKU revisions that fit fully with the PP, RAPP chose another path that made it unpopular, especially among environmental movements. RAPP went to PTUN Jakarta to request the cancellation of the Decree of the Minister of Environment with the number SK.5322 / MenLHK-PHPL / UHP / HPL.1 / 10/2017 which concludes that the revision of RKU RAPP has not fully fulfilled the PP and therefore the RKU is canceled. Dated December 21, 2017, the Administrative Court of the Republic of Indonesia declares that KLHK shall win the case and the Minister's decree shall remain valid. There are many environmental law analyzes conducted by various competent parties to it. This paper does not intend to add to the legal debate, but wants to see it from another perspective, which is sustainable finance. By following the logic that RAPP is a company that has a profit-seeking interest through investment and bank loans, a search about the corporate structure and financial resources of RAPP and its parent group will be able to provide additional explanation of the dispute.

Company Structure



Ownership structure of APRIL, RAPP parent and relevant group.

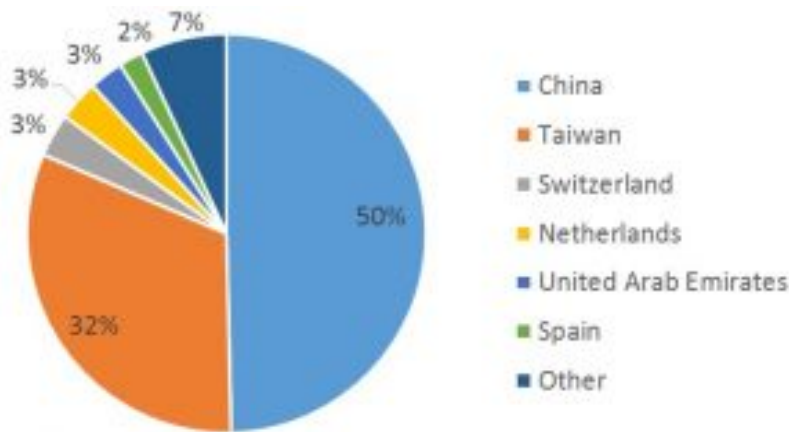
From the ownership structure of APRIL, the RAPP parent, and the relevant groups, it is clear that APRIL is a non-Indonesian based company. Sukanto Tanoto's family divides ownership into two structures. First is Blu Diamond Inc. listed as a company in the Cayman Islands; second, RGE Inc. located in the British Virgin Islands.

Under the Blu Diamond Inc there are three groups, namely Pinnacle Ltd, Asia Pacific Resources International Holdings Ltd., as well as Peak Forest Ltd. All three groups are listed as a company in Bermuda. Pinnacle is the owner of 97.42% shares of Toba Pulp Lestari. Asia Pacific Resources International Holdings Ltd is the holding company of three other companies, APRIL Fine Paper Holdings Ltd, a company in Bermuda; April International Group Ltd, a company in British Virgin Islands; and PT Riau Andalan Pulp and Paper are listed in Indonesia.

Meanwhile, Asia Pacific Resources International Holdings Ltd is the owner of PT Riau Andalan Kertas through a more complex, multi-layered structure through the ownership of APRIL Fine Paper Holdings Ltd. Riau's own Mainstay Paper Stock of 97.25% belongs to Asia Pacific Forest Products Pte Ltd, a Singapore company, and 2.75% is owned by PT Prima Konsultansi Unggulan, which is an Indonesian company. However, 95% of PT Prima Konsultansi Unggulan is also owned by Asia Pacific Forests Products Pte Ltd.

Peak Forest Ltd is the holding company for Asia Symbol China Holding based in Hong Kong, under which there are two Singapore companies listed. However, most of the businesses run are in China, including Hong Kong. There, Tanoto's family business also goes to real estate, property management, and commerce.

Financial Resources

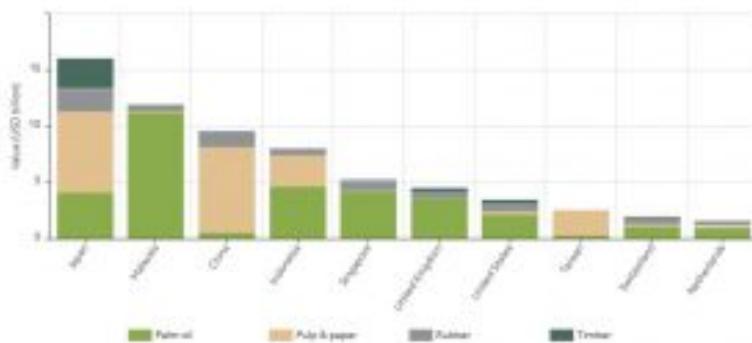


Komposisi pinjaman dan penjaminan untuk APRIL berdasarkan negara

Kelompok usaha ini diketahui mendapatkan pinjaman sebesar USD1 miliar untuk membangun Riau Complex, yaitu pabrik kertas terintegrasi. Di dalam sindikasi perbankan yang memberikan total pinjaman tersebut terdapat Bank Mandiri, BNI, Panin, Niaga, dan Danamon. Namun, pinjaman tersebut tampaknya terjadi dan berakhir sebelum tahun 2010, lantaran analisis keuangan pada periode setelah 2010 tidak menunjukkan adanya lembaga jasa keuangan Indonesia yang terlibat dalam pembiayaan kelompok usaha ini.

Kelompok usaha APRIL ini antara tahun 2010-2016 tercatat mendapatkan pinjaman dan *underwriting services* sejumlah USD5,8 miliar atau mendekati Rp79 triliun. Dari jumlah sebesar itu, 50%-nya berasal dari Tiongkok, 32% dari Taiwan, dan 18% sisanya berasal dari Swiss, Belanda, UEA, Spanyol dan lainnya. Secara total, terdapat 53 lembaga jasa keuangan yang memberikan pinjaman, dan tidak satupun merupakan lembaga jasa keuangan Indonesia. Di lima besar perusahaan yang memberikan jasa keuangannya, terdapat Bank of China, yang memberikan jasa keuangan sebesar USD708 juta pada periode tersebut, disusul China Development Bank (USD611 juta), ICBC (USD449 juta), Cathay Financial Holding (USD331 juta), dan CITIC (USD275 juta). Kecuali Cathay Financial Holding yang merupakan perusahaan Taiwan, sisanya adalah perusahaan Tiongkok.

Analysis



Corporate and securities credit by country and sector (2010-2016)

The Tanoto business group in Indonesia is a good example to show that risky financial resources-not necessarily bringing sustainable forest-related problems in Indonesia are not just from Indonesia. The results of data collection and analysis of RAN, Profundo and TuK Indonesia collected and disclosed to the public via microsite www.forestsandfinance.org show that capital from Japan, Malaysia and China exceeds the capital of Indonesia alone -those in the 4th rank. pulp and paper, capital from China and Japan also surpass Indonesia.

Another note is that without dissecting the structure of business groups and financial resources, it is impossible to understand the complexity of the issue. Access to the information itself is not easy, and often not cheap. Therefore, the microsite, tailored to showcase the financial resources at risk of Indonesia's forests, is expected to help Indonesian stakeholders understand the issue more comprehensively.

In the Sustainability Report 2015-2016, it can be seen that RAPP has reason to worry about losing more than 50% of its production area. This is because 60% of its landbank is in the peatlands. Considering that the Riau Complex is built on the assumption of a certain capacity, which is certainly made without calculating the likelihood of loss of the landbank, the loss of landbank on peatland will certainly create the problem of excess capacity (idle) from the processing plant. The consequences of idle plant capacity have been expressed by RAPP itself, such as possible layoffs, shrinking local economy, and social unrest. Of course, RAPP will also find it difficult to meet the demands of its customers with a shrinking supply of timber resources.

Nevertheless, the problem clearly arises not only as a consequence of government regulation, especially Regulation No. 57/2016, but also from RAPP's own practice of changing world demands. If the RAPP consumer has No Deforestation, No Peat, No Exploitation (NDPE) policy, which is now the norm of business among progressive companies, they will also terminate the business relationship with RAPP because of the origin of part of the wood supply in the peatlands. From a financial perspective, RAPP will obviously find it difficult to repay the loan, and APRIL may lose assets to pay for it. The USD1.1 billion loan received by APRIL International Enterprise Pte Ltd in 2016 is bound by the following terms: "The loan is secured by an assignment of certain off-take arrangements with customers, a fixed and floating charge over the assets of certain fellow subsidiaries and an enterprise pledge of two fellow subsidiaries, "as it can be read in the 2016 APRIL International Enterprise Pte Ltd. report. Likewise with some other loans that will mature in time not too much longer.

Understood Disputes

Under such circumstances, it is understandable that the RAPP appears to give resistance to the Government's decision. However, will the resistance be able to save RAPP if its international customers apply NDPE? No. Therefore, what happens in RAPP may be an example of a case of stranded assets-where forests that were originally counted as assets suddenly declined and even lost value in a short time.

It is also important to note that these stranded assets are not solely the problems faced by RAPP, but also all industries that may lose assets due to being on peatland-including but not limited to pulp and paper

and oil palm-or other related causes attention to sustainability. Stranded assets should also be the concern of the public and the government, since the loss of economic potential will obviously have an impact on the social conditions of the community.

However, the most important lessons on stranded assets must also be taken by investors and the financial services industry, which can no longer ignore environmental, social, and governance aspects of financing decision making. The banks that lend to this APRIL business group will feel the impact of their decisions that in the past did not carefully count the world trend of increasing concern for the sustainability of peatlands, which is then reflected in GOI regulations.

By law, the enactment of such regulations may be debatable, but social and environmental justice and sustainability reflected in the regulation may be difficult to resist. And when the sense of justice is also captured as an economic signal-for example in the form of stranded assets-by economic actors at the global and national levels, then the opposition to it will actually be in vain.

The important question then is whether Indonesians-and especially businesses that are run in Indonesia-will make decisions that are compatible with the future, namely sustainability, restoration and regeneration. Or will the business here strive against the ideology of primacy shareholder, short-term perspective, and externalization of social and environmental costs? If we choose the first one, then we need to prepare earnestly its transformation, including managing the economic and social impacts of the transformation. It certainly will not be easy, but we have a chance to give a better future for our children and grandchildren. The second option does not need to be discussed because it will make the future pitch.

** Some of the contents of this article have been submitted to the Press Conference "Corruption-Destroyer Corporation Versus Government: Who's Playing Politics?" In Jakarta on December 8, 2017. Rahmawati Retno Winarni is the Executive Director of Transformation for Justice Indonesia, an agency that concentrates on sector-based policy advocacy land, including and especially oil palm plantations and industrial plantations. Jalal writes essays on sustainability, corporate social responsibility, and social business. He holds a number of positions in these areas, including as a reader in corporate governance and political ecology at Thamrin School of Climate Change and Sustainability; chairman of the advisory board of Social Investment Indonesia; sustainable financial adviser in Transformation for Indonesian Justice; and founder and commissioner at the WISESA social company.*