

Financiers' risks **in the Indonesian** **pulp & paper sector**



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2019

About this report

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Summary

In January 2018, a group of CSOs and local communities from Riau, Jambi, North Sumatra, South Sumatra, West Kalimantan, North Kalimantan, Central Kalimantan and Merauke District of West Papua Province has been planned a national action to stop deforestation and forest degradation caused by the pulp & paper industry. The fundamental goal of this national action is to achieve good governance in timber plantations industry especially pulp & paper that stop deforestation and respected to local community rights.

TuK Indonesia, as one of the CSOs that collaborate in this national action, has asked Profundo to provide research and analysis to support this national action, especially for advocacy toward the financial institutions (priority no. 3). This report is the result of the research and analysis on the major company groups active in the Indonesian pulp & paper sector and the financial risks in their businesses relevant to this sector.

This report shows that each of the eight pulp & paper companies in this research has been implicated in some form of ESG issue and the company structures of a number of these companies are potentially designed to facilitate base erosion and profit shifting (BEPS) and transfer mispricing (tax avoidance strategies).

The identified issues include, among others:

- **Environmental issues**

Such as deforestation, development on (deep) peat, development of HCV forests area, used of fire for land clearing, fire hotspots, and contamination of water sources.

- **Social issues**

Such as land grabbing, land conflicts, and labour issues (e.g. unpaid wages).

- **Governance issues**

Such as bribery, corporate structures potentially designed to facilitate BEPS, and non-conformance with government regulations.

In spite of these serious ESG issues, the eight researched companies received at least US\$ 18 billion in pulp & paper attributable loans and underwriting services in the period 2013 to June 2018. Almost 80% of this credit came from financial institutions based in East Asia, and 15% came from Indonesian financial institutions.

Financial institutions can prevent exposure to the ESG risks of their financial companies with utilizing ESG risk mitigation frameworks. One of frameworks pillar is an

ESG risk mitigation policy related general policy of human rights and environmental standards, which is the policy of financial institutions expected that each the companies as well as financing partnership conducted the ESG risk policy, specifically each sectors that their clients operation like forest commodities, mining or manufacturing.

An analysis of assessments of forest-commodity sector specific ESG risk mitigation policies found that financial institutions scored on average 28% in total for all categories of assessment. They scored better in terms of the scope of their commitments and the social standards they expect of their clients, scoring on average 37% and

30% respectively for these categories. The expected of the environmental and governance standards of their clients have scored comparatively lower, at 27% and 21% respectively.

There were significant differences in the scores of financial institutions from different jurisdictions. Figure 1 shows that financial institutions with higher average policies scores provided comparatively little financing to the companies active in the pulp & paper sector in Indonesia. The financial institutions that provided the highest levels of finance – i.e. those from China, Japan and Indonesia – also had the poorest policies.

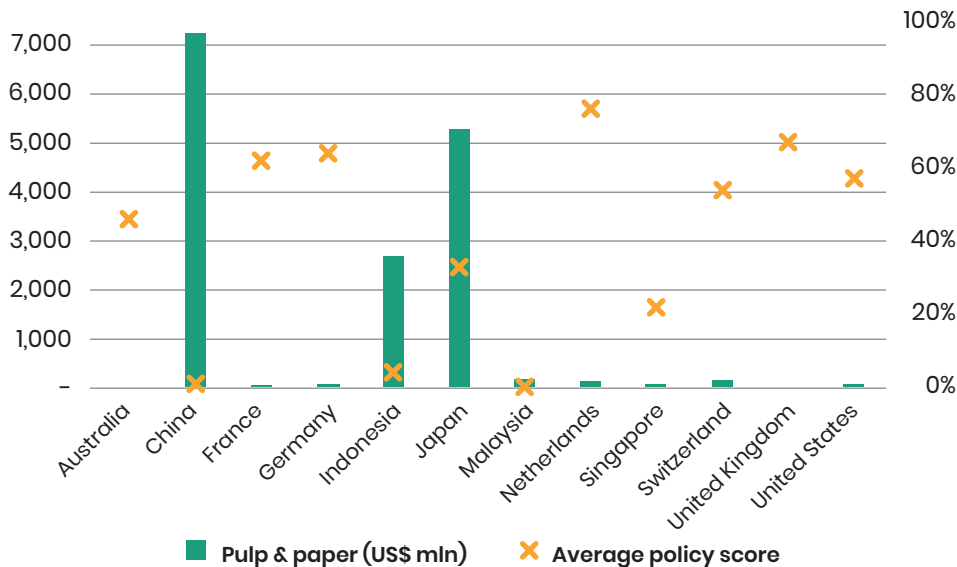


Figure 1. Policy scores & financing value correlation (2013-2018 June, US\$ mln)

Source: *Forests & Finance* (n.d.), *Explore the Data*, online: <https://forestsandfinance.org/>, viewed in May 2019; *Forests & Finance* (n.d.), *Bank Profiles*, online: <https://forestsandfinance.org/>, viewed in May 2019.

Notably, Indonesian and Chinese financial institutions scored 0% in the environmental and social standards to they expect of their clients. This particularly disconcerting given the findings that the majority of ESG related issues the selected companies were implicated in relate to environmental and social issues.

Corporate practices of companies active in the pulp & paper sector in Indonesia can translate into financial risks for the financial institutions that supported by them. For example, if a company has land rights conflicts with communities in its concessions, it may violate the NDPE policies of its buyers, meaning that the buyers will terminate the relationships, resulting in lower revenues for the company, reducing free cash flow decreasing its ability to repay its loans, putting pressure on the solvency ratios of the banks that finance it, reducing their profitability. Similarly, if a company engages in the development of pulp & paper timber plantations on peat land it will violate Indonesian government policy, meaning that those concessions become stranded assets, reducing the collateral value of the concessions which banks rely upon in their credit agreements, putting pressure on the solvency ratios of the banks that finance the company, ultimately reducing the profitability of those banks.

Therefore, financial institutions are encouraged to be urged to develop policies in managing and reducing ESG risks. Financial institutions must make these policies and be available to the public, so that they can carry out public oversight which will ultimately produce stronger and better and more complete policies in managing and reducing the ESG risk of the funded company.

Abbreviations

APP	Asia Pulp & paper
APR	Asia Pacific Rayon
APRIL	Asia Pacific Resources International Holdings Ltd
BEPS	Base erosion and profit shifting
CBRC	Chinese Banking Regulatory Commission
EoF	Eyes on the Forest
ESG	Environmental, Social and Governance
HCV	High Conservation Value
HTI	<i>Hutan Tanaman Industri, Industrial Forestry Concession</i>
IUPHHK-HA	Business Permit for Timber Forest Product Utilization – nature forest
IUPHHK-HT	Business Permit for Timber Forest Product Utilization – timber plantation
MDF	Medium density fibreboard
MHP	PT. Musi Hutan Persada
MoEF	Indonesian Ministry of Environment and Forestry
OJK	Otoritas Jasa Keuangan (Financial Services Authority of Indonesia)
RAN	Rainforest Action Network
RAPP	PT Riau Andalan Pulp & Paper
RGE	Royal Golden Eagle
TEL	PT. Tanjung Enim Lestari
TuK Indonesia	<i>Tranformasi untuk Keadilan Indonesia, Transformation for Justice in Indonesia</i>
WWF	World Wildlife Fund

Introduction

In January 2018, a group of CSOs and local communities from Riau, Jambi, North Sumatra, South Sumatra, West Kalimantan, North Kalimantan, Central Kalimantan and Merauke district (West Papua) planned a national action to stop deforestation and forest degradation caused by the pulp & paper industry. The fundamental goal of this national action is to achieve good governance in timber plantations for pulp & paper industry that stop deforestation and respect local community rights.

TuK Indonesia, as one of the CSOs that collaborate in this national action, has asked Profundo to provide research and analysis to support this national action, especially for advocacy toward the financial institutions (priority no. 3). This report is well the result of the research and analysis on the major company groups active in the Indonesian pulp & paper sector and the financial risks in their businesses relevant to this sector.

Chapter 1 of this report provides an overview on the current state of the Indonesian pulp & paper sector. Chapter 2 provides an overview of eight major companies or groups that are active in the Indonesian pulp & paper sector. These eight companies are:

- Alas Group;
- Asia Pulp & paper (APP);
- APRIL Group;
- Djarum Forestry;
- Kertas Nusantara;
- Korindo Group;
- Marubeni Corporation; and
- Oji Holdings Corporation.

The overview provide information on among others: the groups' businesses relevant to pulp & paper sector, ownership information (company structure), HTI holdings, and controversial cases involving the groups and their subsidiaries in the pulp & paper sector.

Chapter 3 provides an overview of the financing provided to the selected pulp & paper Companies active in Indonesia. Chapter 4 provides an analysis of the environmental, social and Governance Risk mitigation policies of a number of the main creditors of the pulp & paper sector in Indonesia. Finally, Chapter 5 concludes the report, summarizing the findings and outlining recommendations.

A summary of the findings of this report can be found on the first pages of this report.

Chapter 1

Overview of Indonesian pulp & paper industry

The Indonesian pulp & paper sector has been expanding rapidly since the late 1980s. It was estimated that approximately US\$ 12 billion has been invested for the development. In 2017, Indonesia was the 10th largest producer in the world, with an estimated annual production of over 10 billion metric tonnes.¹

The Indonesian pulp & paper sector also plays a major role in the Indonesian economy, accounting for 6.7 percent of the gross domestic product (GDP) of Indonesian manufacturing industry, and providing employment to 260,000 direct workers and 1.1 million indirect workers. In 2016, Indonesia's pulp & paper industry

ranked seventh in terms of biggest foreign exchange earners (excluding the oil and gas sector) when it gained US\$ \$3.79 billion.²

The Indonesian Ministry of Environment and Forestry (MoEF) has allocated a large area of Production Forest (*Hutan Produksi*) to be converted into timber plantations. In 2017, there were an estimated 336 valid HTI for permits (IUPHHK-HT; *Izin Usaha Pemanfaatan Hasil Hutan Kayu – Hutan Tanaman*) for timber plantations covering an area of approximately 11.2 million hectares. Most of these plantations are located in the provinces East and North Kalimantan, West Kalimantan, Riau, South Sumatra and Jambi.³ Figure

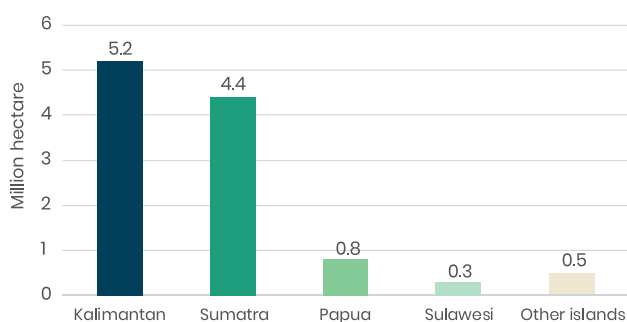


Figure 2. Timber plantations area per island

Note: This figure presents all types of timber plantations (e.g. for pulp, plywood, wood manufacturing, etc.)

Source: Indonesian Ministry of Environment and Forestry (2018, August), *Statistik Lingkungan Hidup dan Kehutanan Tahun 2017*, MoEF, Jakarta, Indonesia, p. 169.

2 presents an overview of timber plantation area in Indonesia based on the HTI permits (IUPHHK-HT)

There is a slight increase (approximately 300,000 hectares) in the timber plantation area from 2016 to 2017. This increase mostly took place in the provinces of Papua.⁴ Papua and other eastern regions of Indonesia, such as provinces in Sulawesi and Maluku islands, are new areas for the development of timber plantations.

A report prepared by Forest Trends and the Anti-Forest Mafia Coalition in 2015, stated that the Indonesian plantation sector is under performing and unable to provide sufficient feedstock for the forest industries, implying that the processing industries will need more timber, in most cases sourcing from primary forest conversion.⁵ The total planted area of these HTI for timber plantations is not published in the MoEF's Forestry Statistic 2017. However, it was estimated that only 4.9 million hectares were considered planted area in 2016, approximately 44 % of the total HTI for timber plantations.⁶ It means about 6.3 million hectares of HTI areas for timber plantation have not yet been converted.

The size of the timber plantation HTI areas is not equal to the area that can be converted into timber plantation. The HTI area is the gross area under IUPHHK-HT license. The area that can actually be converted into a timber plantation is not specified in any detail in the IUPHHK-HT document. In reality, conditions such as land tenure conflicts with local communities, HCV and peat areas, determine whether the area under HTI for timber

plantation can be converted. It was estimated that the average net convertible area within HTI area for timber plantation is around 60–65% of the gross area.⁷

With 6.3 million hectares of HTI area for timber plantation currently not converted, and the average convertible area of 60% (using the lowest estimation), it can be estimated that the extent of native forest that is likely to be converted into timber plantation is about 3.8 million hectares. Figure 3 provides an overview of the estimated future native forest conversion for timber plantation in Indonesia.

There are estimated seven important company groups controlling the HTI for timber plantations –excluding Oji Holdings, which is only active in Indonesia through its joint venture with Korindo. These seven company groups are estimated to control a combined area of HTI for timber plantation of approximately 5.65 million hectares, or equivalent to 50% of the total HTI for timber plantations. An overview of the land banks of these seven company groups are presented in Table 1

In Sumatra, the seven company groups (combined) control over 60% of the areas for timber plantations. While in Kalimantan, these company groups control about 39% of the areas for timber plantations. Figure 4 provides an overview of HTI holdings of the seven major company groups active in the Indonesian pulp & paper sector per major island in Indonesia.

The trend in the Indonesian pulp & paper sector has always been the development of large scale pulp & paper plants. Currently, there are five

important company groups that own pulp and paper mills in Indonesia. These five company group are:

- Asia Pulp & paper (APP), part of Sinar Mas Group
- APRIL, part of Royal Golden Eagle (RGE) Group
- Korindo Group
- Marubeni Group
- Kertas Nusantara

In addition, in 2017, Djarum Forestry (part of Djarum Group) also started a venture in the sector by establishing a pulp & paper plant with expected production capacity of 1 million metric tonnes in East Kalimantan. Table 2 provides an overview of production capacities reported by the five major company groups with pulp & paper mills in Indonesia.

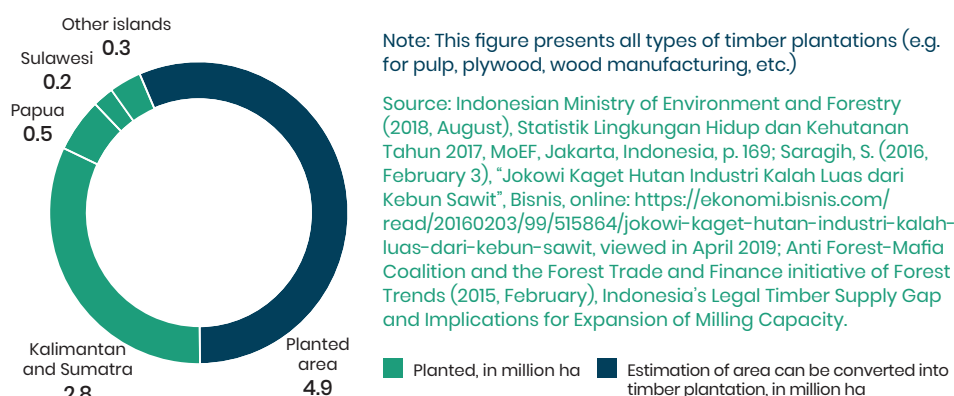


Figure 3. Estimated future native forest conversion for timber plantation, million hectares

Table 1. HTI holding of seven major company groups in the Indonesian pulp & paper sector

Company Group	Location	HTI for timber plantation holding, in thousand hectares
Sinar Mas (APP)	East Kalimantan, West Kalimantan, South Kalimantan, South Sumatra, Riau, Jambi and Papua	3,323
RGE (APRIL)	East Kalimantan, North Sumatra, West Sumatra and Riau	1,026
Korindo	East Kalimantan and Central Kalimantan	174
Marubeni	South Sumatra	296
Kertas Nusantara	East Kalimantan and Aceh	300
Alas Kusuma	West Kalimantan	281
Djarum forestry	East Kalimantan and West Kalimantan	254
Total		5,654

Source: Website of the Indonesian Ministry of Forestry (2016), *Perusahaan pemegang IUPHHK-HT 2016*. (the page has since been deleted) and Company Websites.

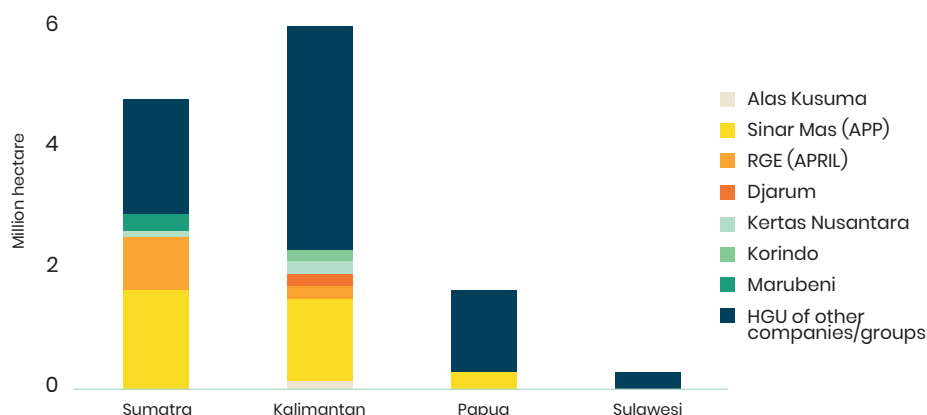


Figure 4. HTI holdings of the seven major company groups active in the Indonesian pulp & paper sector

Note: Figure for Sumatra includes Bangka and Belitung

Source: Website of the Indonesian Ministry of Forestry (2016), *Perusahaan pemegang IUPHHK-HT 2016*. (the page has since been deleted) and Company Websites.

Table 2. Estimated production of the five major company groups, relevant in the pulp & paper sector in Indonesia

Company Group	Industry	Location	Total production capacity, million metric tonnes
Sinar Mas (APP)	Pulp, paper, tissue and chipboard	Jakarta, East Java, Riau, Jambi, and South Sumatra	13.39
RGE (APRIL)	Pulp, paper and viscose rayon	Riau	4.19
Korindo	News print paper and wood chips	West Java and Central Kalimantan	1.44
Marubeni	Pulp & paper	South Sumatra	0.49
Kertas Nusantara	Pulp, paper, and MDF	East Kalimantan	0.73
Total			20.24
Djarum Forestry	Pulp & paper	East Kalimantan	1.00
Total (incl. Djarum Forestry)			21.24

Note: Total production capacities include figures for all plants for pulp & paper owned by the respective company groups in Indonesia. These figures include production of pulp, MDF, chip wood, and paper. This company groups' report (current production of 20.24 million metric tonnes) is considered very low, considering World Atlas report on Indonesian pulp & paper production in 2017 was 10 billion metric tonnes and these five company groups are major producers of pulp & paper.

Eight major companies active in the Indonesian pulp and paper sector

This chapter provides an overview of eight major companies or groups that are active in the Indonesian pulp and paper sector. The companies or groups have been selected predominantly based on the size of their operations. These eight companies are:

- Alas Kusuma Group
- Sinar Mas Group (APP)
- RGE Group (APRIL)
- Djarum Forestry
- Kertas Nusantara
- Korindo Group
- Marubeni Corporation
- Oji Holdings Corporation

The overview includes information on:

- Company businesses in the pulp and paper sector
- Ownership information
- Geography of management activities related to pulp & paper industry or timber plantation;
- Figures on land under management in hectares
- An overview of documentation on controversies around the companies' activities in the pulp &

paper sector, with a focus on the operations in Indonesia in the last 3 years.

2.1 Alas Kusuma Group

2.1.1 Company overview

Alas Kusuma Group is one of the leading company groups in the Indonesian forestry sector. The Group started its business as a logging venture in 1962, specialized in timber industry and natural forest management. Alas Kusuma Group currently holds around 750,000 hectares of native forest concessions for selective logging operations (IUPHHK-HA; *Izin Usaha Pemanfaatan Hasil Hutan Kayu pada Hutan Alam*), mostly on Kalimantan Island.⁸

In 2009, Alas Kusuma Group established a joint venture together with Sumitomo Forestry Co. Ltd. (a forestry company and timber product manufacturer based in Japan) to develop timber plantations in Indonesia. A joint venture firm, PT. Wana Subur Lestari was established

with each party holding a 50% equity stake. The timber plantations were started with 40,000 hectares and then expanded to around 280,000 hectares.

⁹ Currently, Alas Kusuma manages at least three timber plantations companies, of which (at least) two of them are joint ventures with Sumitomo Forestry.¹⁰

Alas Kusuma is a private business, the group does not have any listed subsidiaries. Alas Kusuma does not provide any accessible information regarding its group structure or operations.

2.1.2 Ownership information

Alas Kusuma is owned by five Indonesian individual investors. The majority shares are owned by Sabak Indah and Suhadi. Sabak Indah is likely the child of one of the other shareholders as he was born in 2008.

2.1.3 Geography of management activities related to pulp & paper industry and plantation

Alas Kusuma Group manages a number of logging concession companies in West, Central and East Kalimantan and Riau, Sumatra. The Group’s timber plantations are all located in West Kalimantan. Two of these timber plantations (PT. Mayangkara Tanaman Industry and PT. Wana Subur Lestari) are listed as the suppliers of APRIL Group, which has timber processing facilities in Riau Province.¹¹

2.1.4 Timber plantation under the management of Alas Kusuma Group

As previously mentioned, the Alas Kusuma Group does not provide publicly available information on the group’s business operations and activities. This research identified

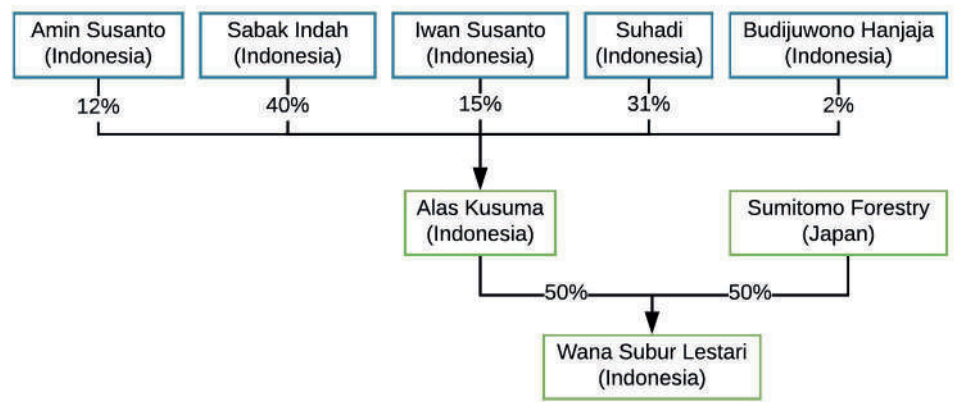


Figure 5. Ownership of Alas Kusuma
Source: AHU (2019, March), *Profil Perusahaan PT Alas Kusuma*, p. 7-8.

Table 3. Timber plantation subsidiaries of Alas Kusuma Group

Company	Location	Permits	Concession (ha)
PT. Mayangkara Tanaman Industri	West Kalimantan	227/Menhut-II/2007	29,755
PT. Mayangkara Tanaman Industri	West Kalimantan	480/Menhut-II/2009	74,870
PT. Mayawana Persada	West Kalimantan	723/Menhut-II/2010	136,710
PT. Wana Subur Lestari	West Kalimantan	220/Menhut-II/2007	40,040
Total			281,375

Source: Website of the Indonesian Ministry of Forestry (2016), *Perusahaan pemegang IUPHHK-HT 2016*. (the page has since been deleted)

around 281,375 hectares of landbank for timber plantations controlled by Alas Kusuma Group. Table 3 provides a list of timber plantation subsidiaries of Alas Kusuma Group.

2.1.5 Controversial cases involving Alas Kusuma Group

In the last five years (2014 – 2019), Alas Kusuma Group was reported to be involved in two controversial cases, both are related to clearance of HCV and peat areas. Other ESG-related issues were not identified. Table 4 provides an overview of these conflicts.

2.2 Sinar Mas Group (APP)

2.2.1 Company overview

Asia Pulp and Paper (APP) is one of the largest pulp & paper companies in the world. It was founded by Eka Tjipta Widjaja, the original owner of Sinar Mas Group, which is also active in the palm oil sector, consumer goods manufacturing, financial services, construction and real estate, communications and technology and in the energy and infrastructure sectors.¹² Sinar Mas started as a small trading company in the 1960s, which focused on exporting natural

resources and importing textiles to Indonesia. Then in 1972, Eka Tjipta Widjaja ventured into a caustic soda manufacturing business by establishing PT. Tjiwi Kimia, which later became PT. Pabrik Kertas Tjiwi Kimia, in Mojokerto, East Java.

Sinar Mas Group is also active in the palm oil sector through its subsidiaries Golden Agri-Resources (GAR) and PT. Sinar Mas Agro Resources Technology (SMART). In the pulp & paper sector, Sinar Mas Group also controls a number of other company groups in Indonesia and abroad.

APP controls two pulp & paper companies listed on the Indonesia Stock Exchange (IDX): PT. Indah Kiat Pulp & Paper and PT. Pabrik Kertas Tjiwi Kimia. APP controls PT. Indah Kiat Pulp & Paper through PT. Purinusa Ekapersada, which holds 52.72% of Indah Kiat.¹³ The same company, PT. Purinusa Ekapersada also holds 60% of PT. Pabrik Kertas Tjiwi Kimia.¹⁴ The main activities of Indah Kiat are the production of pulp, various types of culture papers, photocopy paper and industrial paper (i.e. packaging paper which comprises containerboard, corrugated shipping containers, boxboard, food packaging and specialty coloured papers etc.).

Table 4. Controversial cases involving Alas Kusuma in the pulp & paper sector

Entity	Parties involved	NGO involved	Year	Descriptions	Reference
PT. Mayangkara Tanaman Industri-Alas Kusuma Group	-	Greenpeace	2015	Greenpeace reported that another subsidiary of Alas Kusuma Group active in the palm oil sector cleared peat and HCV areas. In addition, the report also mentioned that PT. Mayangkara Tanaman Industri was developed on a deep peat forest.	Greenpeace report ¹¹⁰ ; Mongabay ¹¹¹
PT. Mayawana Persada	-	Greenomics Indonesia	2014	PT. Mayawana Persada was reported to developing plan to clear HCV areas that are important for orangutan habitat. Further development of PT. Mayawana Persada was not halted in 2015. ¹¹²	Greenomics report ¹¹³

In addition to these two listed companies, APP also controls five other pulp & paper companies in Indonesia. These are:

- PT Univernus in Riau
- PT. Pindo Deli Pulp & paper Mills in West Jakarta
- PT. Ekamas Fortuna, in East Java
- PT. Lontar Papyrus Pulp & paper Industry Tbk. in Jambi
- PT. OKI Pulp & paper Mills in South Sumatra¹⁵

APP further owns a number of pulp & paper mills in China (not included in Figure 6). The major pulp & paper mills in China are:¹⁶

- Gold East Paper Co, Ltd (Jiangsu)
- Gold Hongye Paper Co, Ltd (Suzhou Industrial Park)
- Gold Huasheng Paper Co, Ltd (Suzhou Industrial Park)
- Hainan Jinhai Pulp & Paper Co, Ltd (Jinhai)

- Ningbo Asia Pulp & Paper Co, Ltd (Ningbo)
- Ningbo Zhonghua Paper Co, Ltd (Ningbo)

Sinar Mas Group also has control over a Dutch holding company, which operates a pulp & paper mills in Canada, France and Brazil, Paper Excellence B.V. Through its subsidiaries Paper Excellence owns pulp & paper mills in Canada, France and Germany, as well as paper marketing companies in several countries in Europe, Japan and Australia. In Canada, the company operates three mills in British Columbia, in Nova Scotia and in Saskatchewan, with the total capacity of 1.6 metric tonnes annually.¹⁷ In September 2017, Paper Excellence has also entered into a share purchase agreement to buy the equity interest in Eldorado Brazil Cellulose, the world's biggest and most modern pulp mill according to its own website.¹⁸

Globally, APP runs operations an annual combined pulp, paper, packaging, tissue and converting products capacity of around 19 million tons per annum.¹⁹

2.2.2 Ownership information

Figure 6 presents an overview of APP's ownership structure focused on its activities in Indonesia. The figure shows that the group of companies

are ultimately owned by the Widjaja family. Of note are the multitude of investment holding companies and trading companies located in low tax jurisdictions such as the British Virgin Islands, Mauritius and the Netherlands. These are most likely also controlled by the Widjaja family, and are potentially designed to facilitate base erosion and profit shifting (BEPS) and transfer mispricing (tax avoidance strategies).

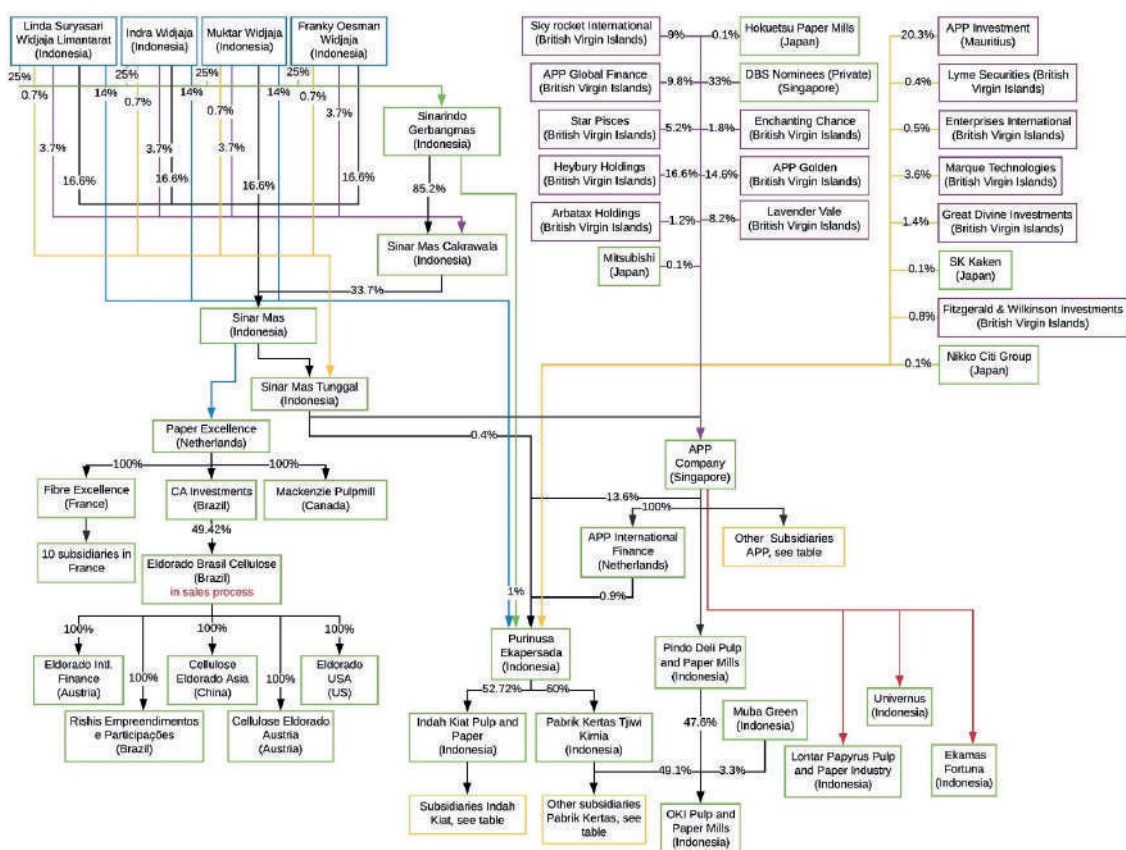


Figure 6. Ownership of Asia Pulp & Paper (APP)

Source: AHU (2019, March), Profil Perusahaan PT Purinusa Ekapersada, p. 2-4; AHU (2019, March), Profil Perusahaan PT Sinar Mas Tunggal, p. 3; AHU (2019, March), Profil Perusahaan PT Sinarindo Gerbangmas, p. 3; AHU (2019, May), Profil Perusahaan PT Sinar Mas, p. 2-3; AHU (2019, May), Profil Perusahaan PT Sinar Mas Cakrawala, p. 2-3; Indah Kiat (2019, April), Annual Report 2018 Indah Kiat, p. 13; Pabrik Kertas Tjiwi Kimia (2019, April), Annual Report 2018, p. 12; BankTrack (2017, January), "Ok! Pulp & Paper Mills", online: https://www.banktrack.org/project/oki_pulp_paper_mills/pdf, viewed in May 2019; ORBIS (2017, November), Paper Excellence ownership structure; Eldorado (2019, March), Annual Report 2018, p. 21; Kamer van Koophandel Handelsregister (2019, May), Concernrelaties APP International Finance Company; Accounting and Corporate Regulatory Authority (2019, March), Filing of Annual Return by Local Company - Asia Pulp & Paper Company, p. 2.

Table 5 provides more details on the direct subsidiaries of three APP group companies. As with the general group company structure, there are a large number of subsidiaries located in low tax jurisdictions indicating potential base erosion and profit shifting.

2.2.3 Geography of management activities related to pulp & paper industry and plantation

As briefly mentioned before, APP operates mills in Indonesia and China. In Indonesia, APP manages ten mills.

Five mills are located in Java and the remaining five mills are located in Sumatra. These mills are listed in Table 6.

Figure 7 provides an overview of the location of APP mills in Indonesia.

APP markets its products to more than 120 countries across six continents.²⁰ These include China, Taiwan, South Korea, Japan, Southeast Asian countries, Middle Eastern countries, African countries, European countries and USA.²¹

Table 5. Additional APP group company subsidiaries

APP Group company	Subsidiary	Country	% of shares
Asia Pulp & Paper Company (Singapore)	APP Chemicals International	Mauritius	100
	APP International Equipment Company	Mauritius	100
	APP International Packaging Company	Mauritius	100
	Andalan Prapanca Pertiwi	Indonesia	90
	APP International Finance Company	Netherlands	100
	APP International Finance (BVI)	British Virgin Islands	90
Indah Kiat Pulp & Paper (Indonesia)	Indah Kiat International Finance Company	Netherlands	100
	Indah Kiat Finance Mauritius	Mauritius	100
	IK Trading Limited	Cayman Islands	100
	Indah Kiat Finance (IV) Mauritius	Mauritius	100
	IK Import & Export	British Virgin Islands	100
	Indah Kiat Finance (VIII) Mauritius	Mauritius	100
	Global Fibre	Malaysia	100
	Imperial Investment	Malaysia	100
	Graha Kemasindo Indah	Indonesia	99.2
	Paramitra Abadimas Cemerlang	Indonesia	95.2
	Paramitra Gunakarya Cemerlang	Indonesia	99
	Indah Kiat Global Ventura	Indonesia	99
	Indah Kiat Power	Indonesia	99
	Sinar Mas Specialty Minerals	Indonesia	50

APP Group company	Subsidiary	Country	% of shares
Pabrik Kertas Tjiwi Kimia (Indonesia)	Mega Kertas Pratama	Indonesia	99.2%
	Tjiwi Kimia Trading III (BVI)	British Virgin Islands	100%
	Tjiwi Kimia Finance Mauritius	Mauritius	100%
	TK Trading	Cayman Islands	100%
	Tjiwi Kimia Trading (II)	Cayman Islands	100%
	IK Import & Export	British Virgin Islands	100%
	Marshall Enterprise	Malaysia	100%
	Sumalindo Hutani Jaya	Indonesia	100%
	OKI Pulp & paper mills	Indonesia	49.1%

Source: Indah Kiat (2019, April), Annual Report 2018 Indah Kiat, p. 13; Pabrik Kertas Tjiwi Kimia (2019, April), Annual Report 2018, p. 12; Asia Pulp & Paper Company (2018, December), *Financial Statements for the Year-ended 31 December 2017*, p. 54.

Table 6. Pulp & paper mills managed by APP in Indonesia

Mills	Location	Production line	Annual production capacity ('000 ton)
Indah Kiat Perawang	Siak, Riau	Pulp & paper	2,593
Pindo Deli Perawang	Siak, Riau	Tissue	413
Univernus Perawang	Perawang, Riau	Tissue	18
Lontar Papyrus	Kota Baru, Jambi	Pulp and tissue	1,022
Indah Kiat Serang	Serang, Banten	Paper	2,627
Indah Kiat Tangerang	Tangerang	Paper	532
Pindo Deli Karawang	Karawang, West Java	Paper, tissue and chipboard	1,123
Tjiwi Kimia	Sidoarjo, East Java	Paper	2,240
Ekamas Fortuna	Malang, East java	Paper	323
OKI	Palembang, South Sumatra	Pulp	2,500
Total			13,391

Source: APP (2018), Sustainability Report 2018, pp. 16-21



Figure 7. Map of APP mills in Indonesia

Source: APP (2018), Sustainability Report 2018, p. 21

Sinar Mas also manages a vast number of land banks for industrial timber plantation in Indonesia and China. In Indonesia these timber plantations are controlled by Sinar Mas Forestry (SMF). Their plantation is located in Riau, Jambi, South Sumatra, West Kalimantan and East Kalimantan. Detailed on the plantations managed by Sinar Mas Forestry is provided in Table 7.

2.2.4 Timber plantation under the management of Sinar Mas Forestry

Sinar Mas (main company of APP), controls a vast land bank allocated for industrial timber plantation under Sinar Mas Forestry (SMF). The company does not publish its land bank. It is estimated that SMF's land bank (HTI holding) is approximately 3.3 million hectares in 2018.²² Table 7 provides a list of timber plantation subsidiaries of Sinar Mas Group.

Table 7. Timber plantation subsidiaries of Sinar Mas Group

Company	Location	Permits	Concession (ha)
PT. Sumalindo Alam Lestari Unit I	East Kalimantan	267/Menhut-II/2009	32,550
PT. Sumalindo Alam Lestari Unit II (Sangkulirang)	East Kalimantan	349/Menhut-II/2008	24,500
PT. Sumalindo Hutani Jaya (Unit Sungai Pesab)	East Kalimantan	407/Kpts-II/1996	10,000
PT. Sumalindo Hutani Jaya Unit II	East Kalimantan	675/Kpts-II/1997	70,300
PT. Sumalindo Lestari Jaya (Gonpu)	East Kalimantan	722/Kpts-II/1996	24,500
PT. Acacia Andalan Utama I	East Kalimantan	620/MENHUT II/2010	22,051
PT. Acacia Andalan Utama II	East Kalimantan	87/Menhut- VI/2007	39,645
PT. Kelawit Hutani Lestari	East Kalimantan	160/Kpts-II/1997	33,516
PT. Sumalindo Hutani Jaya I	East Kalimantan	407/Kpts-II/96	9,780
PT. Surya Hutani Jaya	East Kalimantan	156/Kpts-II/96	194,788
PT. Tebo Multi Agro	Jambi	401/Menhut-II/2006	19,866
PT. Wirakarya Sakti	Jambi	SK.346/Menhut-II/2004	293,812
PT. Wira Karya Sakti (Addition)	Jambi	11/Menhut- VI/2010 06	7,960
PT. Arara Abadi	Riau	703/MENHUT-II/2013	299,975
PT. Bukit Batu Hutani Alam	Riau	365/Kpts-II/2003	33,000
PT. Mitra Hutani Jaya	Riau	101/Menhut-II/2006	9,668
PT. Riau Abadi Lestari	Riau	542/Kpts-II/1997	15,786
PT. Satria Perkasa Agung	Riau	244/Kpts-II/2000	75,158
PT. Satria Perkasa Agung Unit	Riau	102/Menhut-II/2006	11,864
PT. Sekato Pratama Makmur	Riau	366/Kpts-II/2003	44,735
PT. Bumi Andalas Permai	South Sumatera	339/Menhut-II/2004	192,654
PT. Bumi Mekar Hijau	South Sumatera	179/Menhut-II/2007	279,961
PT. Bumi Persada Permai I	South Sumatera	337/Menhut-II/2004	60,483

Company	Location	Permits	Concession (ha)
PT. Bumi Persada Permai II	South Sumatera	79/Menhut-II/2009	24,789
PT. Rimba Hutani Mas	South Sumatera	90/Menhut-II/2007	110,274
PT. SBA Wood Industries	South Sumatera	347/Menhut-II/2004	142,355
PT. Sumber Hijau Permai	South Sumatera	29/Menhut-II/2006	30,097
PT. Buana Megatama Jaya	West Kalimantan	715/MENHUT-II/2009	44,679
PT. Finnantara Intiga	West Kalimantan	750/Kpts-II/1996	286,928
PT. Mega Alam Sentosa*	West Kalimantan	425/Menhut-VI/2009	191,328
PT. Kalimantan Subur Permai	West Kalimantan	348/Menhut-VI/2009	77,710
PT. Kalimantan Subur Permai	West Kalimantan	332/Menhut-II/2007	13,416
PT. Wanakerta Ekalestari	West Kalimantan	210/Menhut-II/2007	27,045
PT. Hutan Rindang Banua	South Kalimantan	86/Menhut-II/2006	268,585
PT. Wanakerta Eka Lestari	Papua	185/Menhutbun-VI/1998	300,000
Total			3,323,758

Note: The permit has been revoked in 2015 due to fires and haze.¹⁴

Source: Website of the Indonesian Ministry of Forestry (2016), *Perusahaan pemegang IUPHHK-HT 2016*. (the page has since been deleted)

2.2.5 Controversial cases involving APP

In the last five years (2014 – 2019), APP was reported to be involved in several of controversial cases related to land conflicts, illegal logging, deforestation, forest fires and bribery.

The controversial cases listed here are limited to subsidiaries operating in the timber and pulp & paper sectors. Other conflicts involving Sinar Mas' subsidiaries in the palm oil sector are not listed in this report. The following tables provide an overview of these conflicts.

Table 8. Land conflicts involving Sinar Mas in the pulp & paper sector

Entity	Parties involved	NGO involved	Year	Descriptions	Reference
PT Oki Pulp Mill and PT. Bangun Rimba Sejahtera, South Sumatra	Local community of Ogan Kemiring Ilir	Wahana Bumi Hijau, RAN, FPP	2014 –present	The company started construction of Oki Pulp Mill before the FPIC process was completed.	RAN Website ²³
APP, in several provinces of Indonesia	Local communities (not specified)	Green Peace	2017	Greenpeace called for an investigation into the relationship between Sinar Mas and its wood suppliers that are involved in land conflict and deforestation.	Associated Press ²⁴

Entity	Parties involved	NGO involved	Year	Descriptions	Reference
PT. Arara Abadi, Riau	Local community of several villages	Ekuatorial (Earth Journalism Network)	2016	<p>PT. Arara Abadi was reported to have been involved in land conflicts with the following local communities:</p> <ul style="list-style-type: none"> • Suku Sakai, Pinggir, Bengkalis; • Solok Bongkal sub-village, Koto Pait Beringin, Bengkalis; • Doral Kampung Dosan, Siak Sri Indrapura; • Minas Barat, Siak Sri Indrapura; • Suku Sakai Minas Asal, Siak Sri Indrapura; • Bunut Village, Pelalawan 	Ekuatorial Website ²⁵
PT Wirakarya Sakti, Jambi	Lubuk Mandarsah communities	RAN, Walhi,	2006 – present	Lubuk Mandarsah people are now actively farming on land that they have used for generations, but the land is currently legally part of APP's plantations. The community still lives in fear of losing their land.	RAN Website ²⁶
PT. Bumi Persada Permai, South Sumatra	Local community Musi Banyuasin	–	2009 –present	The company built roads on the community land without compensation/ community consent.	Local news ²⁷

Table 9. Illegal loggings, deforestations and forest fires cases involving Sinar Mas' subsidiaries in the pulp & paper sector

Entity	NGO involved	Year	Controversial case	Reference
APP/Sinar Mas	Greenpeace	2018	Greenpeace ends all engagement with APP/Sinar Mas over links to deforestation	Environmental Paper Network, Greenpeace Website ²⁸
APP	Coalition of NGOs (Auriga)	2018	Auriga reported that despite of the company's "no deforestation policy", APP is still involved in deforestation in East Kalimantan, by purchasing timber that was gathered from clearing the natural forest.	Auriga report ^{29;30}
APP	WWF	2018	WWF recommends that companies and financial investors avoid doing business with Sinar Mas Group/APP and its affiliates. As the company received supplies from illegal logging.	WWF report and Websites ³¹
APP	-	2018	APP is questioned on its deforestation policy as the company purchased pulp feedstock from natural forest in East Kalimantan.	CNN Indonesia ³²
APP	NGO Coalition	2018	The NGO coalition states that APP's conservation policies have the following issues: Do not prevent deforestation Land conflicts resolution is slow Lack progress in restoration and trading of degraded peatlands for areas that may have natural forest and community claims There is misinformation about relationship with wood suppliers, a lack of transparency, and a lack of independent monitoring	FPP Website ³³
Sinar Mas	Eyes on the Forest (EoF), NGO coalition	2015	Sinar Mas was partly responsible for the 2015 fire disasters in Riau.	EoF Website ³⁴
APP in Riau	Eyes on the Forest (EoF), NGO coalition	2015	Suppliers of APP were detected to have fire hot spots from January to August 2015.	The Straits Times ³⁵

Entity	NGO involved	Year	Controversial case	Reference
PT Bumi Hijau Mekar, South Sumatra	Indonesian MoEF	2015	The Indonesian Ministry of Environment and Forestry (MoEF) sued PT. BHM of IDR 7.8 trillion for causing fires in their concession.	CNN Indonesia ³⁶
PT. Mega Alam Sentosa	Indonesian MoEF	2015	PT. Mega Alam Sentosa licence was revoked due to fires and haze occurrence in their concession	The Straits Times ³⁷
APP	Walhi	2015	APP was in Walhi's list of companies involved in 2015 fire disasters	Mongabay ³⁸
PT OKI Pulp Mill, South Sumatra	RAN, Eyes on the Forest (EoF), NGO coalition.	2014 –present	APP's new pulp mill endangers Indonesia's climate change commitments. The mill's wood supply is grown mostly on drained peatlands that causes high carbon emissions and, at times, prone to the occurrence of fires.	RAN Website, EoF website ³⁹

Table 10. Bribery case involving Sinar Mas' subsidiaries in the pulp & paper sector

Entity	NGO involved	Year	Controversial case	Reference
PT. Satria Perkasa Agung (subsidiary)	ICW, AURIGA and Jikalahari	2017	PT. Satria Perkasa Agung was involved in bribery case against the former Riau Governor Rusli Zainal.	Jikalahari Website ¹¹⁵

2.3 RGE Group (APRIL)

2.3.1 Company overview

Asia Pacific Resources International Holdings Ltd (APRIL Group) is one of the world's largest producers of pulp & paper. It is a subsidiary of RGE Group (Royal Golden Eagle Group), which was founded by Sukanto Tanoto in 1973. In 1993, APRIL Group began plantation development in Riau province and mill construction in the town of Pelalawan Kerinci in Riau. Commercial pulp production was started in 1995, followed by commercial paper production in 1998. The group

continued to expand production of pulp & paper by establishing an integrated pulp & paper mill that is considered one of the largest mills in the world, with a production capacity of 2.8 million tonnes of pulp and 1.15 million tons of paper annually.⁴⁰

In 1995, APRIL became the first Indonesian pulp & paper company to be listed on the New York Stock Exchange. Eight years later, the company was de-listed and privatized.⁴¹ Currently APRIL Group is a private entity. In Riau province, Riau Andalan Pulp & Paper (PT. RAPP) is the main branch operating of APRIL. Its flagship brand is PaperOne™.

RGE Group is also active in the palm oil sector through its subsidiaries Asian Agri and Apical. In the pulp & paper sector, RGE Group also controls a number of other company groups in Indonesia and abroad. These companies are APR, Sateri, Bracell and Asia Symbol. Brief descriptions of these affiliate companies are the following:

- **APR (Asia Pacific Rayon) (Indonesia)**

APR is a viscose fibre producer. The mill is located in the vicinity of APRIL mill in Pangkalan Kerinci Riau. APR manages a mill with a production capacity of 240,000 tonnes capacity annually. It produces natural and biodegradable viscose rayon used in textile and personal hygiene products.⁴²

- **Sateri (China)**

Sateri also produces viscose fibre. The company manages several mills in China with a combined production capacity of 800,000 tonnes annually. The company operates in Jiangxi, Fujian, Jiujiang and Nanjing.⁴³

- **Asia Symbol (China)**

Asia Symbol is a pulp & paper producer established in China in 2005. The company has a combined production capacity of 2 million tonnes of pulp, 1 million tonnes of fine paper and 530,000 tonnes of paper board annually. It manages mills in Shandong (Rizhao) and Guangdong (Xinhui) provinces in China. Its main products are bleached hardwood Kraft pulp (BHKP), northern bleached kraft pulp (NBKP), liquid

packaging board, high-grade ivory board and uncoated wood free printing and office paper.⁴⁴

- **Bracell (Singapore, operates mainly in Brazil)**

Bracell is a producer of specialty cellulose. The company is headquartered in Singapore, and has sales offices in Asia, Europe and the United States. Bracell manages mills with a production capacity of 500,000 tonnes of specialty cellulose annually and approximately 233,000 hectares of timber plantation in Brazil. In October 2018, Bracell acquired Lwarcel Celulose, a pulp mill in State of São Paulo. The São Paulo mill has a production capacity of 250,000 tonnes of pulp annually.⁴⁵

2.3.2 Ownership information

Figure 8 shows the ownership structure of APRIL and its related pulp & paper companies in Indonesia. APRIL's pulp & paper business activities are grouped under Blu Diamond Inc. in the Cayman Islands. The Blu Diamond Group can be said to have two branches: namely the APRIL branch with productive activities primarily in Indonesia, and; the Asia Symbol branch with productive activities primarily in China, though more than likely also supplied by pulpwood produced in Indonesia. Both branches (Asia Symbol and APRIL) have investment holding and trading companies located in Singapore.

The investment holding companies in low tax jurisdictions such as Bermuda and the Cayman Islands are potentially designed to facilitate base



erosion and profit shifting (BEPS) and transfer mispricing (tax avoidance strategies).

2.3.3 Geography of management activities related to pulp & paper industry and plantation

As briefly explained in the company overview (2.3.1), RGE owns subsidiaries that are active in Indonesia, China and Brazil. In Indonesia, RGE, through APRIL and APR, the company manages an industrial complex producing pulp, paper and viscose fibre in Pangkalan Kerinci, Pelalawan, Riau Province. Figure 9 presents RGE operations. This

figure provides an overview of overall RGE businesses, not only in the pulp & paper sector, but also in the palm oil and energy (oil and gas) sectors.

Its flagship brand, PaperOne™, is sold in more than 70 countries. PaperOne™, has more than 28 sales and support offices worldwide.⁴⁶

RGE also holds approximately one million hectares of land bank for industrial timber plantation in Indonesia. These plantations are located in East Kalimantan, West and North Sumatra and Riau. Details of the plantations managed by APRIL has provided in Table II.

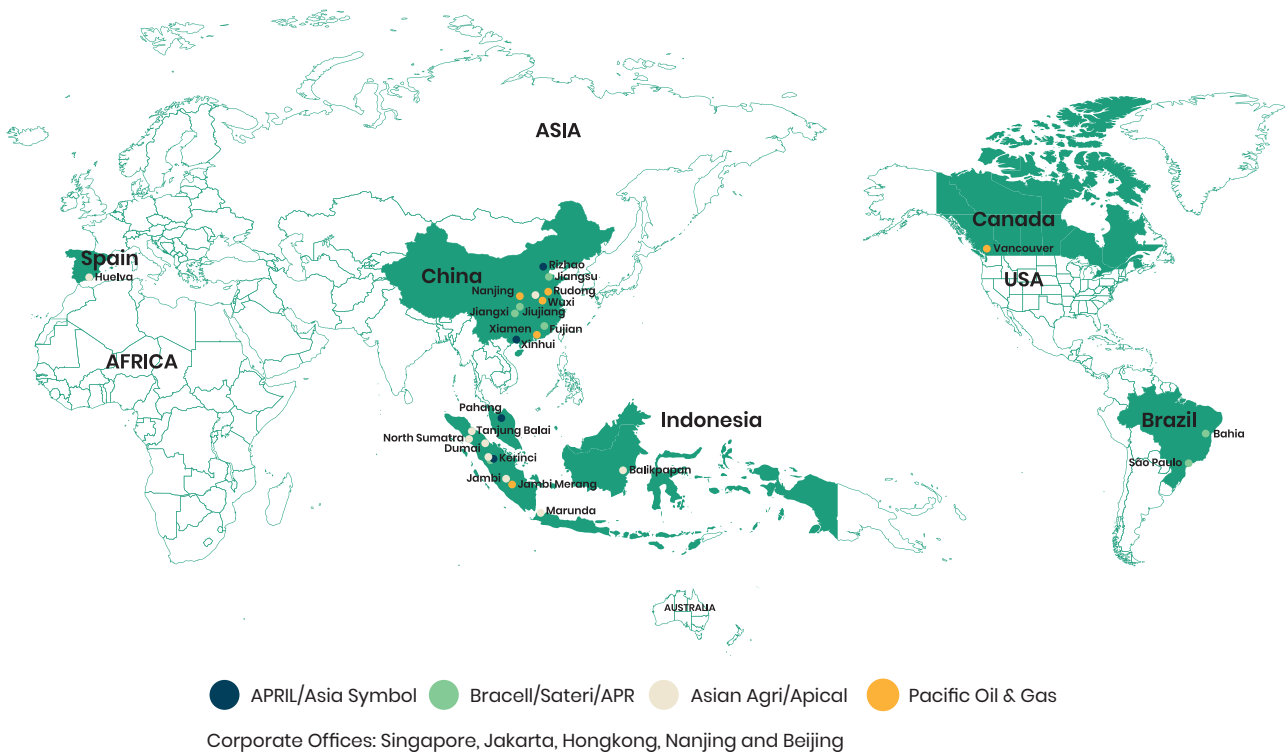


Figure 9. RGE's operations

Source: RGR (n.d.), "Where we operate", online: <https://www.rgei.com/about/our-company>, viewed in March 2019.

Table 11. Timber plantation subsidiaries of RGE Group

Company	Location	Permits	Concession (ha)
PT. ITCI Hutani Manunggal	East Kalimantan	184/Kpts-II/1996	161,127
PT. Sinar Belantara Indah	North Sumatra	170/Menhut-II/2010	6,200
PT. Sumatera Riang Lestari	North Sumatra	208/Menhut-II/2007	67,230
PT. Sumatera Silva Lestari	North Sumatra	82/Kpts-II/2001	42,530
PT. Toba Pulp Lestari	North Sumatra	58/Menhut-II/2011	188,055
PT Lestari Unggul Makmur	Riau	217/Menhut-II/2007	10,390
PT. Hutani Sola Lestari	Riau	Permit cancelled (temporary)	45,990 ^a
PT. Nusa Prima Manunggal	Riau	522,1/Dishut/XI/2002/002	4,412
PT. Riau Andalan Pulp & paper	Riau	180/Menhut-II/2013	338,536
PT. Selaras Abadi Utama	Riau	52221/IUPHHKHT/XII/2002/005	13,600
PT. Sumatera Riang Lestari	Riau	208/Menhut-II/2007	148,075
PT. Sumatera Silva Lestari	Riau	82/Kpts-II/2001	9,140
PT. Tuah Negri	Riau	215/Menhut-II/2007	1,480
PT. Wananugraha Bina Lestari	Riau	362/Menhut-II/2007	7,465
PT. Bukit Raya Mudisa	West Sumatra	257/Kpts-II/2000	28,617
Total			1,026,857

Note a: The total does not include area managed by PT Hutani Sola Lestari as the timber plantation permit of the company has been cancelled.

Source: Website of the Indonesian Ministry of Forestry (2016), *Perusahaan pemegang IUPHHK-HT 2016*. (the page has since been deleted)

2.3.4 Timber plantation under the management of RGE Group

RGE Group (parent company of APRIL), controls a vast land bank allocated for industrial timber plantations. The company does not publish its land bank. This research identified around 1.03 million hectares of HTI for timber plantations controlled by RGE Group. Table 11 provides a list of timber plantation subsidiaries of RGE Group.

2.3.5 Controversial cases involving APRIL (RGE) in Indonesia

In the last five years (2014 – 2019), APRIL (or RGE) was reported to be involved in several of controversial cases related to land conflicts, deforestation, forest fires, bribery and tax avoidance.

The identification controversial cases listed here is limited to subsidiaries operating in the timber and pulp & paper sectors. Other conflicts involving RGE's subsidiaries in the palm oil sector are not listed in this report. The following tables provide an overview of these conflicts.

Table 12. Land conflicts involving RGE in the pulp & paper sector

Entity	Parties involved	NGO involved	Year	Descriptions	Reference
PT. Toba Pulp Lestari (subsidiary)	Local community Batak	AMAN Tano Batak, Hutan Rakyat Institute (HaRI), and Walhi	Earlier, 2017 and present	PT. Toba Pulp Lestari was reported to be involved in land conflict with local community. The company concession overlaps with “adat” forests as well as agricultural land of the local communities.	AMAN Website ^{47,48}
PT. RAPP	Local communities of 3 villages in Pulau Padang	Jaringan Masyarakat Gambut Riau (JMGR)	2016, present	PT. RAPP was reported to be involved in land conflict with local communities in Bagan Melibur, Mengkirau, and Lukit villages, in Merbau District, Meranti, Riau. The company concessions overlap with the villages' land.	Kompas ⁴⁹
PT. RAPP	Farmer Group Tani Bekato Basamo	Ekuatorial (Earth Journalism Network)	2016	PT. RAPP was reported to have been involved in land conflicts with Tani Bekato Basamo farmer group from Kuantan Senggigi.	Ekuatorial Website ⁵⁰
PT. Sumatera Riang Lestari and PT. Sumatera Sylva Lestari	Local communities of several villages	Ekuatorial (Earth Journalism Network)	2016	The companies were reported to have been involved in land conflicts with local communities of the following villages: <ul style="list-style-type: none"> • Sei Kumago, Tambusai, Rokan Hulu • Bayas Jaya, Tampuling, Indragiri Hilir • Titi Akar, Bengkalis 	Ekuatorial Website ⁵¹

Table 13. Deforestation, and forest fires/peat protection cases involving RGE subsidiaries in the pulp & paper sector

Entity	NGO involved	Year	Controversial case	Reference
APRIL	Coalition of NGOs (Auriga)	2018	Despite of the company's "no deforestation policy", APRIL purchased wood from PT. Fajar Surya Swadaya that gathered wood from clearing natural forests in Borneo.	Mongabay ⁵²
APRIL	Greenpeace	2017, February	Greenpeace accused APRIL of failing to be transparent about its supply chain by excluding reference to suppliers with "key issues" such as forest fires (e.g. Korintiga Hutani).	Mongabay. ⁵³
APRIL/ PT. RAPP	Eyes on the Forest (EoF) and Transformasi untuk Keadilan Indonesia (TuK)	2017	RAPP general workplan (RKU) was suspended by the Ministry of Environmental and Forestry as the company denied revising its workplan to conform with the recent Indonesia Peat Protection and Management Regulation.	EoF Website ⁵⁴
APRIL	Coalition of 30 NGOs	2017	The coalition urged APRIL's buyers and banks to support the affected communities and ecosystems by not supporting APRIL and disengaging from any existing support to the company.	EoF Website ⁵⁵
PT. RAPP	WWF Indonesia, Eyes on the Forest (EoF) and Greenpeace	2014, 2016, present	PT. RAPP was reported to violate government regulations and its own sustainability policy in Pulau Padang, Riau. WWF and Greenpeace suspended their partnership with APRIL after peatland drainage canals were discovered on Padang Island, Indonesia.	EoF report ⁵⁶ WWF Website ⁵⁷ Guardian ⁵⁸
APRIL	Walhi	2015	APRIL was in Walhi's list of companies involved in the 2015 fire disasters.	Mongabay ⁵⁹
APRIL	WWF Indonesia, GAPETA Borneo, Relawan Pemantau Hutan Kalimantan (RPHK)	2014, May	APRIL's supplier, PT. Adindo Hutani Lestari cleared peat forest. The clearing represents not only a breach of APRIL's commitment, but a violation of Indonesia's law governing conversion of deep peat areas.	WWF Website. ⁶⁰

Table 14. Bribery and tax avoidance cases involving RGE subsidiaries in the pulp & paper sector

Entity	NGO involved	Year	Controversial case	Reference
PT. Selaras Abadi Utama (subsidiary)	ICW, AURIGA and Jikalahari	2017	PT. Selaras Abadi Utama was involved in a bribery case against the former Riau Governor Rusli Zainal.	Jikalahari Website ⁶¹
APRIL	International Consortium of Investigative Journalists (ICIJ)	2017	The Paradise Papers reported APRIL as using offshore companies to avoid paying taxes. The paper outlined a series of corporate practices and contracts that APRIL could have used to avoid paying its fair share of taxes.	ICIJ ⁶² Eco-Business ⁶³

2.4 Djarum Forestry

2.4.1 Company overview

Djarum Forestry is a business division of Djarum Group, which is one Asia's leading diversified conglomerates. The group started as a tobacco company in 1951, founded by Oei Wie Gwan in Kudus, Central Java. It is a private group of companies, it does not have any publicly listed companies and publishes little information about its business and finances. Oei Wie Gwan passed away in 1963. Currently his two sons, Michael Bambang Hartono and Robert Budi Hartono, continue to privately control the group of companies.⁶⁴

The group owns a controlling stake in various big companies in Indonesia. The following is a list of these companies identified during the research:⁶⁵

- Bank Central Asia (BCA), the largest privately owned bank in Indonesia
- Property and hotels, such as Grand Indonesia, Daan Mogot Mall, WTC Mangga Dua
- E-commerce (Bibli, Kakus, Infokost, etc.)

- Polytron, electronic household good manufacturer
- Hartono Plantation (HPI Agro), palm oil plantations
- BMJ Paperpack, premium packaging and cigarette paper manufacturer
- Ecogreen Oleochemicals, one of the largest natural fatty alcohol producers
- Agra Bareksa Indonesia; timber plantations in East Kalimantan
- Djarum Forestry (Araya Bumi Indonesia); timber plantations in East and West Kalimantan

In 2015, through PT. Agra Bareksa Indonesia, Djarum Group entered a joint venture with Fajar Paper (PT. Fajar Surya Wisesa and YKPBS Foundation (*Yayasan Keuangan Panglima Besar Sudirman*)) to establish PT. Fajar Surya Swadaya, a timber plantation located in East Kalimantan.⁶⁶ Following the joint venture, in 2017 and 2018, PT. Agra Bareksa Indonesia was reported to be developing a pulp & paper plant in the vicinity of PT. Fajar Surya Swadaya's plantation in Penajam Paser Utara Regency, East Kalimantan. The plant will have an annual production capacity of 1 million metric tonnes.⁶⁷ The Agra Bareksa Indonesia stake was

transferred to Muria Rimba Lestari, which also belongs to the Hartono brothers (see section 2.4.2).

2.4.2 Ownership information

As Figure 10 shows, three branches together hold an 87% of Fajar Surya Swadaya through Lingkarmulia Rimba Khatulistiwa. Winarko Sulistyio and Vilia Sulistyio, through Intercipta Sempana, own the remaining 13%. The Sulistyio's and Hartono's also share ownership over Silva Rimba Lestari, owning 12% and 88% respectively, as well as Wana Hijau Pesaguan with 10% and 90%

respectively. The Sulistyio's also own 89% of stock listed paper company Fajar Surya Wisesa (Fajar Paper). Only 4% of the shares of Fajar Paper are listed on the stock exchange. 6% is owned by the Hartarto family.

2.4.3 Geography of management activities related to pulp & paper industry and plantation

Djarum Group's plantations are located in West and East Kalimantan. As previously mentioned the group is now developing a pulp & paper plant in East Kalimantan.

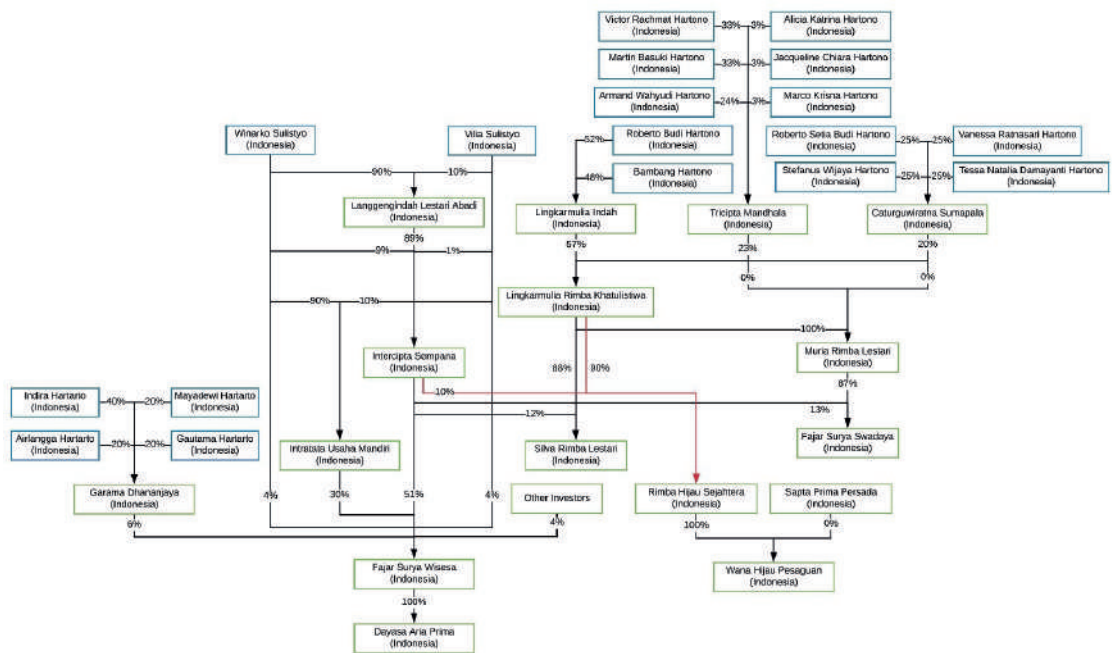


Figure 10. Ownership of Djarum Forestry

Source: AHU (2019, May), *Profil Perusahaan PT Fajar Surya Swadaya*, p. 2-4; AHU (2019, May), *Profil Perusahaan PT Muria Rimba Lestari*, p. 2-3; AHU (2019, May), *Profil Perusahaan PT Intercipta Sempana*, p. 1, 10; AHU (2019, May), *Profil Perusahaan PT Lingkarmulia Rimba Khatulistiwa*, p. 1-3; AHU (2019, May), *Profil Perusahaan PT Triipta Mandhala*, p. 2-3; AHU (2019, May), *Profil Perusahaan PT Caturguwiratna Sumapala*, p. 2-3; AHU (2019, May), *Profil Perusahaan PT Langgengindah Lestari Abadi*, p. 2-3; AHU (2019, May), *Profil Perusahaan PT Lingkarmulia Indah*, p. 2-3; Fajar Surya Wisesa (2019, April), *2018 Annual Report: Growth with Sustainability*, p. 55, 57; AHU (2019, May), *Profil Perusahaan PT Garama Dhananjaya*, p. 2, 20; AHU (2019, May), *Profil Perusahaan PT Wana Hijau Pesaguan*, p. 3-4; AHU (2019, May), *Profil Perusahaan PT Rimba Hijau Sejahtera*, p. 3.

Currently the plantations of Djarum Group sell their timber from land clearing to APP and APRIL.⁶⁸

2.4.4 Timber plantation under the management of Djarum Forestry

Djarum Group controls timber plantations in Indonesia through Djarum Forestry and PT. Agra Bareksa Indonesia. The Group manages a large plantation with total HTI area of 254,445 hectares. Table 15 provides information on the Djarum Group.

2.4.5 Controversial cases involving Djarum Group in the pulp & paper sector

In the last five years (2014 – 2019), subsidiaries of Djarum Group in the pulp & paper sector were reported to be involved in land conflicts and deforestation. The following table provides an overview of these conflicts.

Table 15. Timber plantation subsidiaries of Djarum Group

Company	Location	Permits	Concession (ha)
PT. Wana Hijau Pesaguan	West Kalimantan	719/Menhut-II/2009	104,975
PT. Silva Rimba Lestari	East Kalimantan	165/Menhut-II/2011	88,000
PT. Fajar Surya Swadaya	East Kalimantan	428/Menhut-II/2012	61,470
Total			254,445

Source: Website of the Indonesian Ministry of Forestry (2016), *Perusahaan pemegang IUPHHK-HT 2016*. (the page has since been deleted); *Detik* (2017, November 7), "Grup Djarum dan 5 Investor Garap Hutan Tanam Industri Rp 22,92 Triliun", online: <https://finance.detik.com/berita-ekonomi-bisnis/d-2084993/grup-djarum-dan-5-investor-garap-hutan-tanam-industri-rp-2292-triliun>, viewed in May 2019; *Mongabay*, (2014); "Pemerintah 'Murah Hati', Izin HTI Terobos Kolong Rumah Warga" online: <https://www.mongabay.co.id/2014/09/14/pemerintah-murah-hati-izin-hti-terobos-kolong-rumah-warga/>, viewed in May 2019.

Table 16. Controversial cases involving Djarum Group in the pulp & paper sector

Entity	Parties involved	NGO involved	Year	Descriptions	Reference
PT. Fajar Surya Swadaya	Community of Muara Lambakan	Forest Watch Indonesia	2016–present	PT. Fajar Surya Swadaya was reported to be involved in land conflict with the community of Muara Lambakan. The company concession overlaps with "adat" forests as well as agricultural land of the local communities.	FWI ¹⁶
PT. Fajar Surya Swadaya and PT. Silva Rimba Lestari	–	NGO Coalition	2018	A coalition of NGOs (WWF, Walhi, Pusakan, HAKI, Auriga, Jikalahari, Gapeta, Environmental Paper Network, and Woods and Wayside International) reported that both companies have cleared approximately 32,000 hectares of native forests since 2013.	WWF ¹⁷

2.5 Kertas Nusantara

2.5.1 Company overview

Kertas Nusantara – formerly known as Kiani Kertas – was established in 1991. The infamous Kiani Kertas was a company controlled by Bob Hasan (also known as one of Suharto's close friends). A number of scandals involving this company in the past, e.g. receiving 10 years of tax holidays from Suharto's regime, reported to have used IDR 250 billion Government Reforestation fund in 1996 (later the Ministry of Forestry denied the use of this fund by Kiani Kertas), and company's massive debt.⁶⁹

In 2003, when Kiani Kertas faced financial problems, the Indonesian Bank Restructuring Agency (IBRA) sold 60% shares in Kiani Kertas to Nusantara Energy Group with an agreement that Kiani Kertas' IDR 1.7 trillion debt (equal to approximately US\$ 200,000) would be repaid with interest in four years to the government-owned Bank Mandiri. Nusantara Energy Group also took over majority of shares in timber plantations that supplied the feedstock to Kiani Kertas such as, Tanjung Redep Hutani, and Belantara Pusaka.⁷⁰ Nusantara Energy Group is a company group controlled by Prabowo Subianto, which manages a variety of businesses such as agriculture, forestry, mining, and fisheries.⁷¹

Currently Kertas Nusantara is controlled by Fayola Investment Ltd., an investment company based in Port Louise, Mauritius.⁷² Fayola Investment is an entity that was reported to control by Prabowo Subianto.⁷³ Prabowo

Subianto through Alas Helau also controls a similar company, PT. Tusam Hutani Lestari, in Aceh Province.

Kertas Nusantara is registered as a foreign investment and private entity. Its mills have an installed production capacity of 525,000 tonnes per year for pulp production and of 200,000 tonnes per year for medium-density fibreboard (MDF) production. These mills are located Mangkajang, Berau, East Kalimantan.⁷⁴

2.5.2 Ownership information

Figure 11 shows the ownership structure of part of the Kertas Nusantara group. Notable is that even though Prabowo Subianto claims ownership of Kiani Lestari and Tanjung Redeb Hutani, the company structure research utilizing AHU official corporate registry information finds that the ultimate owner of these two companies is Edhy Prabowo.⁷⁵

Figure 12 shows the ownership structure of Belantara Pusaka. Again, Prabowo Subianto claims ownership of this company.⁷⁶ However, company structure research utilizing AHU official corporate registry information finds a consortium of different individuals as the ultimate owners of Belantara Pusaka.⁷⁷

Additional research was carried out on the backgrounds of a number of the individuals linked Belantara Pusaka and other companies claimed by Prabowo Subianto.

- **Edhy Prabowo**

Edhy Prabowo is currently a parliament member and Deputy Chairperson of the Gerindra

Party. Gerindra is a political party lead by Prabowo Subianto. He was one of Prabowo's confidants when both were still active in the

Military. He became a person who accompanied Prabowo while living in self-exile Germany and Jordan.⁷⁸

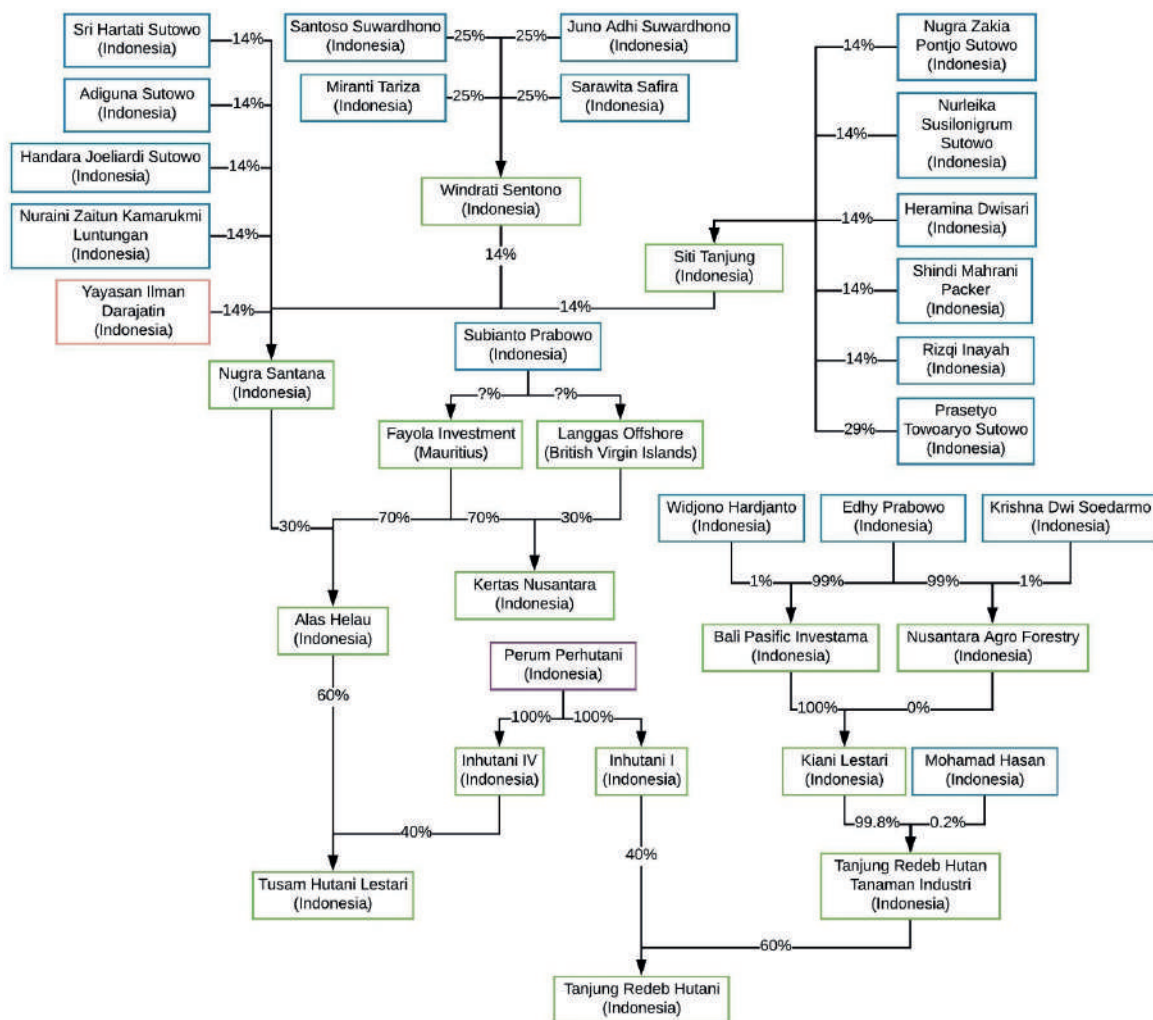


Figure 11. Ownership of part of Kertas Nusantara group companies

Source: AHU (2019, March), *Profil Perusahaan PT Kertas Nusantara*, p. 3; AHU (2019, March), *Profil Perusahaan PT Tanjung Redeb Hutani*, p. 3; AHU (2019, March), *Profil Perusahaan PT Tusam Hutani Lestari*, p. 3; AHU (2019, March), *Profil Perusahaan PT Tanjung Redeb Hutan Tanaman Industri*, p. 3; AHU (2019, March), *Profil Perusahaan PT Alas Helau*, p. 3; AHU (2019, March), *Profil Perusahaan PT Kiani Lestari*, p. 2; AHU (2019, March), *Profil Perusahaan PT Nugra Santana*, p. 8-9; Perum Perhutani (n.d.), "Company group", online: <http://www.perhutani.co.id/profil/group-perusahaan/>, viewed in March 2019; AHU (2019, March), *Profil Perusahaan PT Siti Tanjung*, p. 2-3; AHU (2019, March), *Profil Perusahaan PT Bali Pasific Investama*, p. 2-3; AHU (2019, March), *Profil Perusahaan PT Nusantara Agro Forestry*, p. 3-4; AHU (2019, March), *Profil Perusahaan Yayasan Ilman Darajat*, p. 1; AHU (2019, March), *Profil Perusahaan PT Putra Windrati Sentono*, p. 6-7; AHU (2019, March), *Profil Perusahaan PT Kapital Bravo*, p. 2, 6; AHU (2019, March), *Profil Perusahaan PT Bina Indovita*, p. 1-2; AHU (2019, March), *Profil Perusahaan PT Alas Kusuma*, p. 7-8.

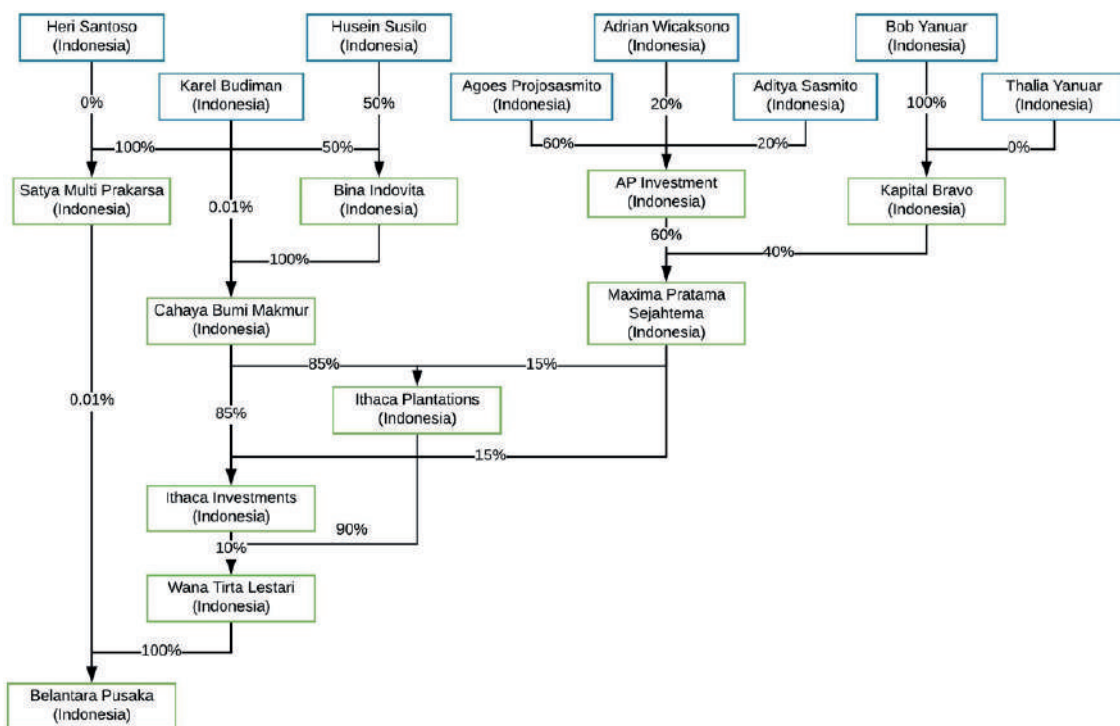


Figure 12. Ownership of Belantara Pusaka

Source: AHU (2019, March), *Profil Perusahaan PT Belantara Pusaka*, p. 3; AHU (2019, March), *Profil Perusahaan PT Wana Tirta Lestari*, p. 3; AHU (2019, March), *Profil Perusahaan PT Satya Multi Prakarsa*, p. 3; AHU (2019, March), *Profil Perusahaan PT Ithaca Investments*, p. 3; AHU (2019, March), *Profil Perusahaan PT Ithaca Plantations*, p. 3; AHU (2019, March), *Profil Perusahaan PT Maxima Pratama Sejahtera*, p. 2-3; AHU (2019, March), *Profil Perusahaan PT Cahaya Bumi Makmur*, p. 2-3; AHU (2019, March), *Profil Perusahaan PT AP Investment*, p. 2-3.

- **Agus Projosasmito:**

Agus Projosasmito is an investment banker. He was the President Director of PT Danareksa Securitas until 1982. He serves as. Accordingly, he has held various key positions in major financial companies in Indonesia, including Vice President Director of PT DBS Securities Indonesia, Director of PT Merincorp Securities Indonesia, President Commissioner at PT Nusantara Capital Securities and Director of PT. Mandiri Securitas.⁷⁹

Agus Projosasmito is also active in the mining sector. He is the founder and CEO of coal mining company

PT Ithaca Resources, shareholder of PT. Medco Energy International through PT. AP Investment, shareholder and a director of PT. Amman Mineral Nusa Tenggara, PT. Amman Mineral Investama, PT. Amman Mineral Ventura, and PT. Amman Mineral International.⁸⁰

- **Sutowo Family**

Adiguna Sutowo, Sri Hartati Sutowo, Handara Joeliardi Sutowo and Pontjo Sutowo are the children of Ibnu Sutowo, the founder of Pertamina and one of Suharto main confidant. Ibnu Sutowo was dismissed from Pertamina in 1978 after rumour of corruption and

bad business decision that left Pertamina with US\$ 10,5 billion of debt.⁸¹ After being dismissed from Pertamina Ibnu Sutowo and his family went on active in various businesses. Ibnu Sutowo died in 2001, and current his children are known to control various business including property, hotels, luxurious car dealer, radio stations, pharmacy, cafes, etc.⁸²

- **Husein Susilo**

No information found

- **Karel Budiman**

No information found

It is unclear why Prabowo Subianto claims ownership of companies where official corporate registry information shows that he has not invested in. His claims may indicate that he has influence over the individuals who actually own those companies, and that he may benefit financially from the gains of these companies. In fact, Prabowo Subianto's name only appears in the official corporate registry information of *one* of the companies – Kertas Nusantara – and in that case he is only listed as a director. The shareholders of Kertas Nusantara, as described above and seen in Figure 11, are Fayola Investment and Langass Offshore, both companies located in tax havens. His ownership of these companies is thus implied, since the corporate registries in both tax havens do not provide ownership details.

Of course, it is also curious why an individual who was a candidate to serve the people of Indonesia feels the need to own companies in Indonesia through companies in tax havens

which may potentially be used for tax avoidance/evasion.

2.5.3 Geography of management activities related to pulp & paper industry and plantation

Kertas Nusantara operates pulp & paper mills in Mangkajang District and Sambaliung District in Berau Regency, East Kalimantan. Two of the plantations that belong to the same group (Tanjung Redep Hutani and Belantara Pusaka) are located in the same regency. In addition, the parent company owns another timber plantation (Tusam Hutani Lestari), which is located in Aceh Province.

Some of the plantations under Kertas Nusantara provide feedstock for mills of other companies/groups. For example, Tanjung Redep Hutani, provides feedstock to APRIL's mills in Riau province.⁸³ While Tusam Hutani Lestari supplies timber for PT. Kertas Kraft Aceh. However, since 2007, the mill was not operational.⁸⁴

The flagship product of Kertas Nusantara is Esa Kertas Nusantara (EKN). The majority of EKN products are sold in the United States.⁸⁵

2.5.4 Timber plantation under the management of Kertas Nusantara and the sister companies

Kertas Nusantara and his associate companies controls three (active) timber plantations in Indonesia. This research identified a land bank of around 300,000 hectares controlled by Kertas Nusantara and similar companies. Table 17 provides a list of timber plantations of Kertas Nusantara and similar companies.

Table 17. Timber plantation subsidiaries of Kertas Nusantara and Similar companies

Company	Location	Permits	Concession (ha)
PT. Belantara Pusaka	East Kalimantan	20/Kpts-II/1998 07 January 1998	15,610
PT. Tanjung Redeb Hutani	East Kalimantan	329/Menhut-II/2011 22 June 2011	187,920
PT. Kiani Hutani Lestari	East Kalimantan	Permit cancelled	134,950 ^a
PT. Tusam Hutani Lestari	Aceh	325/Menhut-II/2004 27 August 2004	97,300
Total			300,830

Note a: The total does not include area managed by PT Kiani Hutani Lestari as the timber plantation permit of the company has been cancelled.

Source: Website of the Indonesian Ministry of Forestry (2016), *Perusahaan pemegang IUPHHK-HT 2016*. (the page has since been deleted)

2.5.5 Controversial cases involving Kertas Nusantara

In the last five years (2014 – 2019), Kertas Nusantara and its sister companies were reported to be involved in two controversial cases

related to negligence of plantation area management that lead to the occurrence of illegal logging, labour conflict and tax arrears. Other types of conflict were not identified. The following table provides an overview of these conflicts.

Table 18. Controversial cases involving Kertas Nusantara in the pulp & paper sector

Entity	Parties involved	NGO involved	Year	Descriptions	Reference
PT. Tusam Hutani Lestari	Local community	Walhi Aceh	2019, February	The plantation area of Tusam Hutani Lestari has been neglected by the company, and this condition has made illegal logging by the local community possible in the area and neighboring forests.	Merdeka online ⁸⁶
Kertas Nusantara	Employees of PT Kertas Nusantara in Berau	Trade union (SPKAHUT) and Indonesia Legal Aid Foundation (YLBHI)	2018, June, 2019, February	Dispute between Kertas Nusantara and its employees. The company has not paid wages of the employees since 2014.	CNN Indonesia ⁸⁷ , Tempo ⁸⁸
Kertas Nusantara	District Government of Berau	-	2018, May	Kertas Nusantara was reported to have tax arrears of IDR 26 billion.	Jawa Pos ⁸⁹

2.6 Korindo Group

2.6.1 Company overview

Korindo is a private group of companies (conglomerate) founded by South Korean businessman Eun-Ho Seung. It is a tightly controlled family conglomerate with business entities registered in at least seven countries, with much of the group financing and ownership concentrated in Korindo entities registered in the British Virgin Islands.⁹⁰ Many of Korindo's Indonesian affiliates are owned by Singapore or Hong Kong registered companies, which are most likely owned by other companies in other jurisdictions. The group does not have any publicly listed companies and publishes little information on its business and finances.

Korindo started its business in Indonesia around 1969 by managing a logging concession in Kalimantan. Korindo started its ventures in the production of plywood/veneer in 1979, then expanded its business to newsprint paper in 1984, timber plantations in 1993, and palm oil plantations in 1995. In the 1970s, Korindo was considered as one of the largest producers of plywood in Indonesia.⁹¹

Currently Korindo Group is active in the following businesses around the world:⁹²

- Paper and timber product manufacturing
- Construction and heavy industry (e.g. wind tower, plant and steel construction, special purposed vehicle, etc.)
- Logistics (shipping, transportation and distribution centre)

- Financial services; and
- Real estate

Korindo Group controls large landbanks in Indonesia for the following business:⁹³

- Logging concessions with a total concession of approximately 525,000 hectares in Papua and Kalimantan.
- Oil palm plantation with a total concessions of approximately 160,000 hectares in Papua and North Maluku;
- Rubber plantation with a total concessions of approximately 27,000 hectares in Maluku Province;
- Timber plantation with a total concession of approximately 192,500 hectares in South, East and Central Kalimantan.

Korindo Group is one of the biggest plywood manufacturer in Indonesia. The productions of plywood are in the following three plants:

- PT. Korindo Abadi in Asiki, Boven Digul, West Papua;
- PT. Korindo Ariabima Sari in Pangkalan Bun in Central Kalimantan; and
- PT. Balikpapan Forest Industries in Balikpapan in East Kalimantan.

The plywood plants in Central and East Kalimantan were reported to lay off half of their temporary employees due to a decrease in production.⁹⁴

Korindo Group also controls one of the largest newsprint manufacturers in Indonesia, PT Aspex Kumbong. PT Aspex Kumbong provides services to major Indonesian media companies, such as Kompas Gramedia, and

Tribun. Annually it has a production capacity of approximately 440,000 metric tonnes. The company was also reported to import waste paper from Australian Oceanic Holding, and export newsprint to Australis, New Zealand and South Africa.⁹⁵

Korindo Group has a large pulpwood concession in Central Kalimantan under the management of PT Korintiga Hutani and in East Kalimantan under the management of PT Belantara Subur. In 2010, Oji Holding acquired 34.34% shares in PT Korintiga Hutani. PT Korintiga Hutani also owns a chip mill located in Pangkalan Bun, Central Kalimantan, with an annual production capacity of 1 million cubic meters of wood chips.⁹⁶

In late 2016, the Korindo Group had plans to establish 12,000 hectares of timber plantation for wood pellets production in West Papua. However, recent development on this plan is unknown.⁹⁷

2.6.2 Ownership information

Figure 13 shows that Oji owns 34% of Korintiga Hutani through Panindo Investment. South Korean businessman Eun Ho Seung own 63%, and his son Robert Seung owns the remaining 3%. Robert Seung is also the full and ultimate owner of Belantara Subur through a complicated web of companies.

2.6.3 Geography of management activities related to pulp & paper industry and plantation

As previously mentioned, Korindo Group has timber plantations for pulpwood in Central Kalimantan (PT

Korintiga Hutani) and East Kalimantan (PT Belantara Subur). PT Korintiga Hutani sold its production to Japanese Marubeni subsidiary PT Tanjung Enim Lestari Pulp & Paper (PT TELPP) (see section 2.7), which is located in South Sumatra in 2013, and to Oji paper manufacturing in Japan in 2013 and 2014. More recent information of PT Korintiga Hutani's customers could not be identified. The production of wood pellet from PT Korintiga Hutani are likely to be sold to Korea and Japan.⁹⁸

2.6.4 Timber plantation under the management of Korindo

The Korindo Group controls a number of timber plantations in Indonesia. This research identified around 174,875 hectares of timber plantation for pulp & paper owned by the Korindo Group. Table 19 provides a list of timber plantations for pulp & paper owned by the Korindo Group. Please note that this table includes only the Group's HTI holding relevant to pulp & paper sector, and does not include the land banks for other sector, such as logging, rubber and palm oil plantations.

2.6.5 Controversial cases involving Korindo

There are various reports published on the involvement of Korindo's subsidiaries in deforestation, land grabs, forest fires, etc., in the last five years (2014 – 2019). Most of these controversial cases involve Korindo subsidiaries in the palm oil sectors and logging concessions.

The identification controversial cases listed just limited to subsidiaries operating in the timber, and pulp

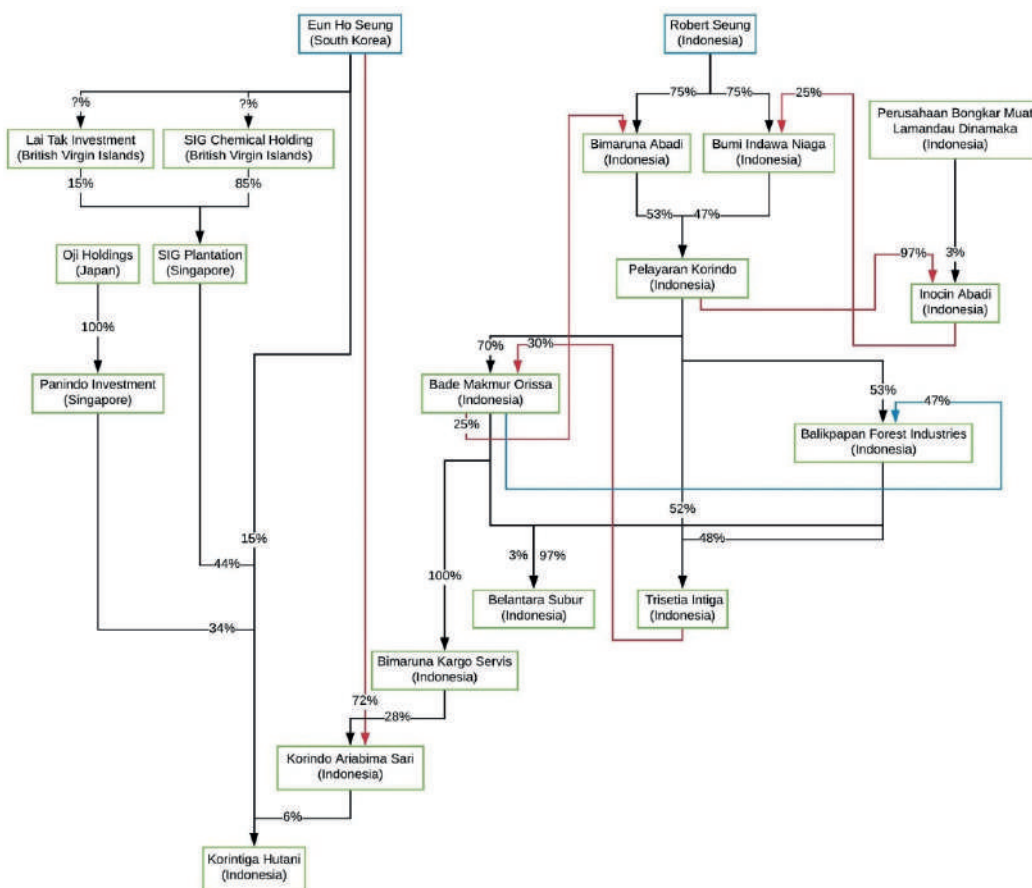


Figure 13. Ownership of Korindo pulp & paper companies

Source: Accounting and Corporate Regulatory Authority (2017, September), *Filing of Annual Return by Local Company - SIG Plantation*, p. 1-2; Accounting and Corporate Regulatory Authority (2017, May), *Filing of Annual Return by Local Company - Panindo Investment*, p. 1; AHU (2017, December), *Profil Perusahaan PT Korintiga Hutani*, p. 50-51; AHU (2017, December), *Profil Perusahaan PT Korindo Ariabima Sari*, p. 36-37; AHU (2018, February), *Profil Perusahaan PT Bimaruna Kargo Servis*, p. 4-5; AHU (2017, December), *Profil Perusahaan PT Bade Makmur Orissa*, p. 31-32; AHU (2017, December), *Profil Perusahaan PT Trisetia Intiga*, p. 20-21; AHU (2017, December), *Profil Perusahaan PT Belantara Subur*, p. 12; AHU (2019, May), *Profil Perusahaan PT Balikpapan Forest Industries*, p. 3; AHU (2017, December), *Profil Perusahaan PT Pelayaran Korindo*, p. 26; AHU (2017, December), *Profil Perusahaan PT Inocin Abadi*, p. 20; AHU (2018, January), *Profil Perusahaan Bimaruna Abadi*, p. 15; AHU (2018, January), *Profil Perusahaan Bumi Indawa Niaga*, p. 19.

Table 19. Timber plantation subsidiaries of Korindo Group

Company	Location	Permits	Concession (ha)
PT. Korintiga Hutani	Central Kalimantan	201/Menhut-II/2011	94,384
PT. Korintiga Hutani	Central Kalimantan	718/Menhut-VI/2009	64,016
PT. Belantara Subur	East Kalimantan	784/kpts-II/1996	16,475
Total			174,875

Source: Website of the Indonesian Ministry of Forestry (2016), *Perusahaan pemegang IUPHHK-HT 2016*. (the page has since been deleted)

Table 20. Controversial cases involving Korindo in the pulp & paper sector

Entity	Parties involved	NGO involved	Year	Descriptions	Reference
PT. Korintiga Hutani	Farmer group Maju Bahaum, Lamandau Regency.	Pusaka Foundation	2015 until present	Approximately 1,500 hectares of oil palm plantations managed by the farmer group is reported to overlap with Korindo's timber plantation concession	Pusaka ¹¹⁸
PT. Korintiga Hutani	MoEF Indonesia	-	2015	The company permit was suspended due to the occurrence of 72 hotspots (fires) on the plantation in 2015. The permit was re-instated after three months.	Borneo News ¹¹⁹
PT. Korintiga Hutani	FSC	Mighty Earth	2017 – present	FSC accepts the complaint filed by Mighty Earth on Korindo Group operations Papua that destroyed HCV forests and violated traditional and human rights. Korintiga Hutani is one of the subsidiaries that is an FSC certificate holder. Currently, the FSC investigation is still going on.	FSC ¹²⁰ ; REDD-Monitor ¹²¹
PT. Korintiga Hutani	Financial institutions	RAN	2017	RAN reported that Oji Holding is directly exposed to sustainability risks due to its direct business relationship with Korindo Group in PT. Korintiga Hutani.	RAN report ¹²²

& paper sectors. Other conflicts involving Korindo's subsidiaries in the logging activities and palm oil sector (e.g. land grabs in North Maluku and West Papua involving Korindo's oil palm plantations and deforestation in West Papua involving Korindo's logging activities) are not listed in this report. In the pulp & paper sector Korindo reported to be involved in land conflicts, forest fires that led to temporary permit suspension, sustainability certificate investigations, and financial risks due to deforestation committed by sister company. The following tables provide an overview of these conflicts.

2.7 Marubeni Corporation

2.7.1 Company overview

Marubeni Corporation is a Business major trading and a company group based in Japan. Through its subsidiaries, the group is active in a diverse range of businesses including food, consumer products, chemical and forest products, energy and metals, transportation and industrial machinery and power plants. In addition, the group offers a variety in global services, and makes internal and external investments.⁹⁹

In the Indonesian pulp sector, Marubeni Corporation invests in two major companies: PT Tanjung Enim Lestari and PT Musi Hutan Persada. Below are brief descriptions of the two companies:

- **PT Tanjung Enim Lestari Pulp & paper Paper (PT TELPP)**

PT Tanjung Enim Lestari Pulp & paper Paper (PT TELPP) is a pulp & paper manufacturer located in South Sumatera. The company was established on June 18, 1990. The mill construction commenced in mid-1997 and commercial operations started in 2000. TELPP is a Foreign Investment Company (PMA) and a private entity.

The mill is located on 1,250 hectares in Muara Enim Regency. The mill has an annual production capacity of 490,000 tonnes.¹⁰⁰

- **PT. Musi Hutan Persada**

PT Musi Hutan Persada (MHP) was established in 1990 as a joint venture company between PT INHUTANI V (Persero) and Barito Pacific Group in South Sumatera. In 2015, Marubeni Corporation acquired all shares of MHP and became the sole owner of the company.¹⁰¹ The core business of MHP is managing timber plantations to supply raw materials of TELPP. The plantations are located in three forest units, which are¹⁰²:

- Forest unit in Subanjeriji, Muara Enim, with a management area of 97,894 hectares
- Forest unit in Benakat, Muara Enim, with management area of 190,072 hectares
- Forest unit in Lematang, Lahat, with management area of 8,434 hectares

2.7.2 Ownership information

Figure 14 shows that Marubeni's pulp & paper subsidiaries in Indonesia under its Forest Products Division. They are fully-owned subsidiaries of the company.

2.7.3 Geography of management activities related to pulp & paper industry and plantation

As previously mentioned, Marubeni Corporation controls pulp manufacturer company (TELPP), and timber plantation company (MHP). Both of these companies are located in South Sumatera, Indonesia.

TELPP sells its pulp products in both the domestic (Indonesian) market and international markets. The company sells its pulp through Marubeni Marketing division to Japan, China, Taiwan, South Korea, India and other Southeast Asian countries.

In Japan, Marubeni Corporation manages two paper mills: Koa Kogyo in Fuji City and Fukuyama Paper in Osaka City. Both mills are container board and packaging material manufacturers.¹⁰³ Marubeni Corporation also has small shares (30%), in Marusumi Paper, a printing paper manufacturer based in Ehime, Japan, with production capacity of 700,000 tonnes annually.¹⁰⁴

In 2000, Marubeni Corporation acquired 100% share of two companies, WA Chip & Pulp Co Pty Ltd (WACAP) and WACAP Tree Farms Pty Ltd, that are active in managing plantations and woodchips productions in Australia. Later the two companies were merged into WA Plantation Resources (WAPRES).¹⁰⁵

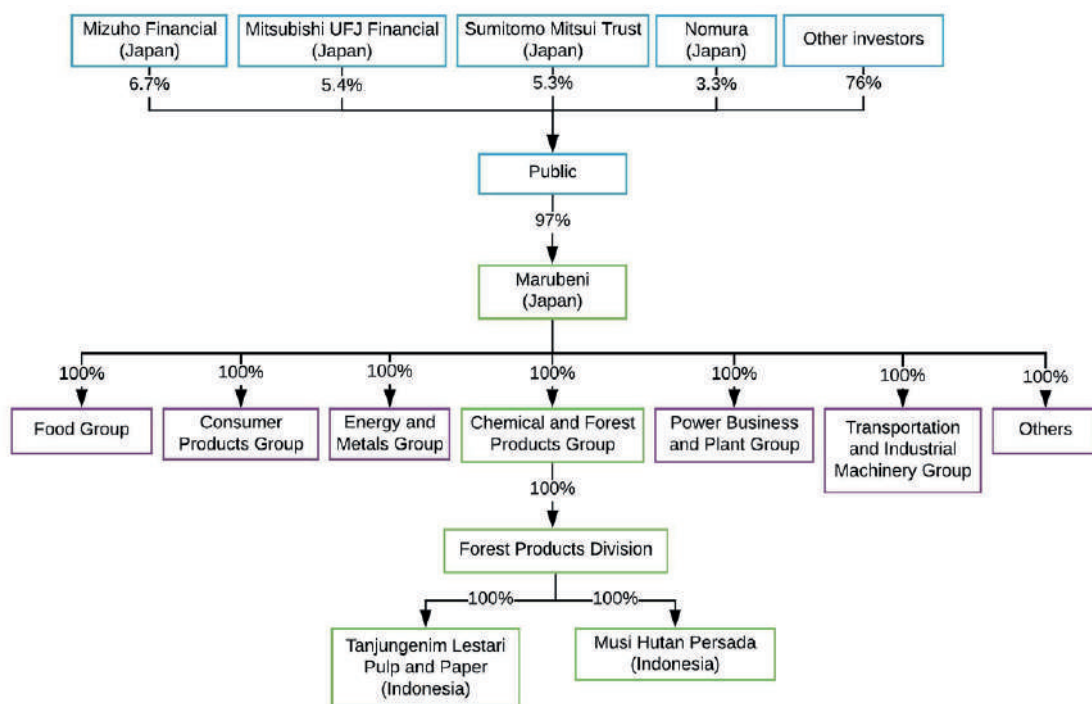


Figure 14. Ownership of Marubeni’s pulp & paper subsidiaries in Indonesia

Source: Thomson EIKON (2019, May), *Shareholders: Marubeni*, viewed in May 2019; Marubeni (2018, August), *Integrated Report 2018* p. 119.

In addition, in early 2019, Marubeni Corporation established Kraft of Asia Paperboard & Packaging Co, a container board and packaging material manufacturer based in Vung Tau, Vietnam. The company is planned to start its commercial production in 2020 with annual production capacity of 350,000 tonnes. As yet it is unclear where this plant will source its fibre from.¹⁰⁶

2.7.4 Timber Plantation under Marubeni Corporation

Marubeni Corporation controls timber plantations in Indonesia through MHP. MHP manages a large plantation with

total HTI area of 296,400 thousand hectares. Table 21 provides information on the MHP.

2.7.5 Controversial cases involving Marubeni Corporation in Indonesia

In the last five years (2014 – 2019), TELPP and MHP were reported to be involved in several controversial cases. The main controversial cases were land conflicts between the plantation company and local communities. Additional cases related to the use of illegal logs, conversion of HCV areas and pollution. The following tables provide an overview of these conflicts.

Table 21. Timber plantation subsidiaries of Marubeni Corporation

Company	Location	Permits	Concession (ha)
PT. Musi Hutan Persada	South Sumatra	38/Kpts-II/1996	296,400
Total			296,400ⁱ

Note: i Approximately 11,167 hectares of the total area was released to the local community. The local community who controls this area have agreed to join the Community Forest Program where the area is planted with Acacia or Eucalyptus to supply TEL.¹²³

Source: Website of the Indonesian Ministry of Forestry (2016), *Perusahaan pemegang IUPHHK-HT 2016*. (the page has since been deleted); Company website of PT. Musi Hutan Persada.

Table 22. Land conflicts involving Marubeni Corporation in the pulp & paper sector

Entity	Parties involved	NGO involved	Year	Descriptions	Reference
MHP	Local Communities	Walhi, Rainforest Action Network, TuK Indonesia	2017	MHP was reported to be involved in 26 active cases of social conflicts, including land conflicts, as of November 2016.	RAN publication ¹²⁴ TuK Indonesia ¹²⁵
MHP	Local community of Merbau Village, OKU	-	1990 – present	MHP often did not heed the official government decisions for the land conflict resolution between the company and the Merbau village community.	Konsorsium Pembaruan Agraria ¹²⁶
MHP	Cawang Gumilir Community	Walhi	2008 – present	Land conflict between MHP and the local community started in 2008, when MHP evicted the local community from their agricultural land. The conflict involves a total area of approximately 5,000 hectares and has led to human rights defender (Walhi staff) harassment and abuse.	Mongabay ¹²⁷ ; Walhi ¹²⁸
MHP	Local community of Arahan and Gedung Agung	Wira Lentera Jiwa	2012 – present	MHP was reported to be involved in land conflict with communities of Arahan Village and Gedung Agung Village	Local news ¹²⁹

Table 23. Illegal loggings, deforestations and pollution involving Marubeni Corporation in the pulp & paper sector

Entity	Parties involved	Year	Descriptions	Reference
TELPP	Forum Komunikasi Masyarakat Rambang Lematang Bersatu	2018	The local community protested against TELPP that contaminated the rivers in the area by discretely disposing liquid waste through underground pipes to the Lematang river. In the protest, the community also demanded TELPP to reduce the traffic of heavy trucks passing the village roads, transporting logs from the plantation to the mill.	Local news ¹³⁰
TELPP	Forest and Finance.org	2017	In 2016, FSC suspended (for the second time) MHP certification, after MHP converted 2,817 hectares of HCV areas into plantations	Forest and Finance.org ¹³¹
Marubeni Corporation	Global Witness	2013/2017	Marubeni sourced timber from Sarawak through Shin Yang and Ta Ann, that posed risk for severe environmental damages as well as land conflict with Penan community.	Global Witness ¹³² ; Forest and Finance.org ¹³³
Marubeni Corporation	Rainforest Action Network (RAN)	2016	RAN listed Marubeni Corporation as a company with serious ESG risks for investment.	RAN report ¹³⁴

2.8 Oji Holdings Corporation

2.8.1 Company overview

Oji Holdings is the leading pulp & paper Company was familiar in Japan. Ei-ichi Shibusawa, the founder of the company started a paper manufacturing company in 1873. Twenty years later, the company was renamed Oji Paper to respect place of its founding. In 1993, Oji Paper merged with Kanzaki Paper to become New Oji Paper, and furthermore, in 1996, New Oji Paper and Honshu Paper merged to become Oji Paper. Eventually, Oji Paper transformed into a holding company system and renamed Oji Holdings.¹⁰⁷

The company is active in manufacturing the following goods:¹⁰⁸

- Industrial Materials: boxboard, packaging materials and containerboard, folding cartons, paper bags and corrugated containers;
- Household and consumer products: tissue, toilet tissue, paper diapers, wet wipes;
- Functional materials: imaging media, specialty paper, adhesive products, functional film;
- Forest resources and environment marketing: lumber, pulp, energy;
- Printing and communications media: newsprint, printing and writing paper, communications paper; and

- Others: real estate, machinery, trading, etc.

Japan Oji Holdings began its business ventures overseas in the 1970s, with the establishment of a pulp production operation in Brazil. Since then, it has continually expanded its overseas operations. Summary of Oji Holdings' operations abroad in industries relevant to the pulp & paper sector has presented in Table 24.

As previously mentioned in section 2.6, Oji Holdings Corporation acquired 34.34% shares in PT Korintiga Hutani in 2010 from Korindo Group. PT Korintiga Hutani is a timber plantations located in Central Kalimantan. PT Korintiga Hutani also owns a chip mill located in Pangkalan Bun, in the vicinity of the timber plantation, with an annual production capacity of 1 million cubic meters of wood chips.¹⁰⁹ It is unclear whether the ownership of Oji Holdings also includes the chip mill.

Table 24. Overseas activities of Oji Holdings Corporation

Country	Company	Type of Business
Indonesia	PT. Korintiga Hutani	Timber plantations
Malaysia	GS Paperboard & Packaging Sdn Bhd	Manufacturing and sales of containerboard and corrugated containers
	United Kotak Berhad	Manufacturing and sales of containerboard, corrugated containers
	Dazun Paper Industrial Co. Sdn Bhd	Manufacturing and sales of corrugated containers
	Harta Packaging Industries Sdn Bhd	Manufacturing and sales of corrugated containers
	Harta Packaging Industries (Selangor)	Manufacturing and sales of containerboard, corrugated containers
	Harta Packaging Industries (Perak) Sdn Bhd	Manufacturing and sales of containerboard, corrugated containers
	Trio Paper Mills Sdn Bhd	Manufacturing and sales of containerboard, paperboard
	Hyper-Region Labels Sdn Bhd	Manufacturing and sales of labels, cartons and brochures
Thailand	Oji Paper (Thailand) Ltd.	Manufacturing and sales of carbonless paper and thermal paper
	Oji Label (Thailand) Ltd.	Manufacturing and sales of self-adhesive paper & film and release paper
	Union and Oji Interpack Co., Ltd.	Manufacturing and sales of triple-wall corrugated fibreboard "HiPLE-ACE"
	S. Pack & Print Public Company Ltd.	Manufacturing and sales of corrugated containers and carton box
	Sahakij Packaging Co., Ltd.	Manufacturing and sales of corrugated containers and containerboard
Cambodia	Harta Packaging Industries (Cambodia) Ltd.	Manufacturing and sales of corrugated containers and plastic bags
	Ojitex Harta Packaging (Shihanoukville) Ltd.	Manufacturing and sales of corrugated containers

Country	Company	Type of Business
Lao	Oji South Lao Plantation Forest Co.	Timber plantation
Myanmar	Oji GS Packaging (Yangon) Co., Ltd.	Manufacturing and sales of corrugated containers and of corrugated board
	Oji Myanmar Packaging	Manufacturing and sales of flexible packaging
Vietnam	Ojitex (Vietnam) Co., Ltd.	Manufacturing and sales of corrugated containers
	United Packaging Co.,Ltd.	Manufacturing and sales of paper articles and decorative corrugated containers
	Japan Paper Technology (VN) Co., Ltd.	Manufacturing and sales of large Kraft paper
	Quy Nhon Plantation Forest Company of Vietnam Ltd.	Timber plantation
	Truong Thanh Oji Plantation Forest Company Ltd.	Timber plantation
China	Jiangsu Oji Paper Co., Ltd.	Manufacturing of coated paper
	Huizhou Nanyou Forest Development Co.,Ltd.	Timber plantation
	Sunshine Oji Specialty Paper Ltd.	Production and sales of decorative paper
	Suzhou Oji Packaging Co., Ltd.	Manufacturing and sales of heavy-duty packaging materials and corrugated containers
	Dalian Mori Mitsui Packaging Co., Ltd.	Manufacturing and sales of corrugated containers
	Cheng Yuang Paper Business Co., Ltd.	Manufacturing and sales of triple-wall corrugated fibreboard "HiPLE-ACE"
Korea	Oji Interpack Korea Ltd.	Manufacturing and sales of triple-wall corrugated fibreboard "HiPLE-ACE"
India	Oji India Packaging Pvt. Ltd.	Manufacturing and sales of corrugated containers
	Oji Interpack India Pvt. Ltd.	Manufacturing and sales of "HiPLE-ACE" and packing material
The US	Kanzaki Specialty Papers Inc.	Manufacturing and sales of communications papers
	Yupo Corporation America	Production and synthetic paper YUPO
Brazil	Celulose Nipo-Brasileira S.A. (CENIBRA)	Afforestation and manufacturing and sales of wood pulp
	Oji Papéis Especiais Ltd.	Production and sales of communications papers
Australia	Albany Plantation Forest Company of Australia Pty. Ltd.	Timber plantation
	Albany Plantation Export Company Pty. Ltd.	Timber plantation
	Green Triangle Plantation Forest Company of Australia Pty. Ltd.	Timber plantation

Country	Company	Type of Business
New Zealand	Pan Pac Forest Products Ltd.	Forest operations, manufacturing and sales of pulp and lumber products
	Oji Fibre Solutions	Manufacturing and sales of pulp, paper and packaging products
	Southland Plantation Forest Company of New Zealand Ltd.	Timber plantation
Germany	Kanzan Spezialpapiere GmbH	Manufacturing and sales of communications papers

Note: Oji Holdings Corporation is not necessarily the major shareholder of the companies listed in this table.

Source: Oji Holdings Corporation (n.d.), “Overseas activities”, online: <https://www.ojiholdings.co.jp/english/group/overseas/>, viewed in May 2019.

2.8.2 Ownership information

As described in section 2.6, Oji owns 34% of PT Korintiga Hutani. The remaining shares are owned by

Korean father and son Seung. Figure 16 shows that Korintiga Hutani under Oji’s Forest Resources and Environment Marketing business.

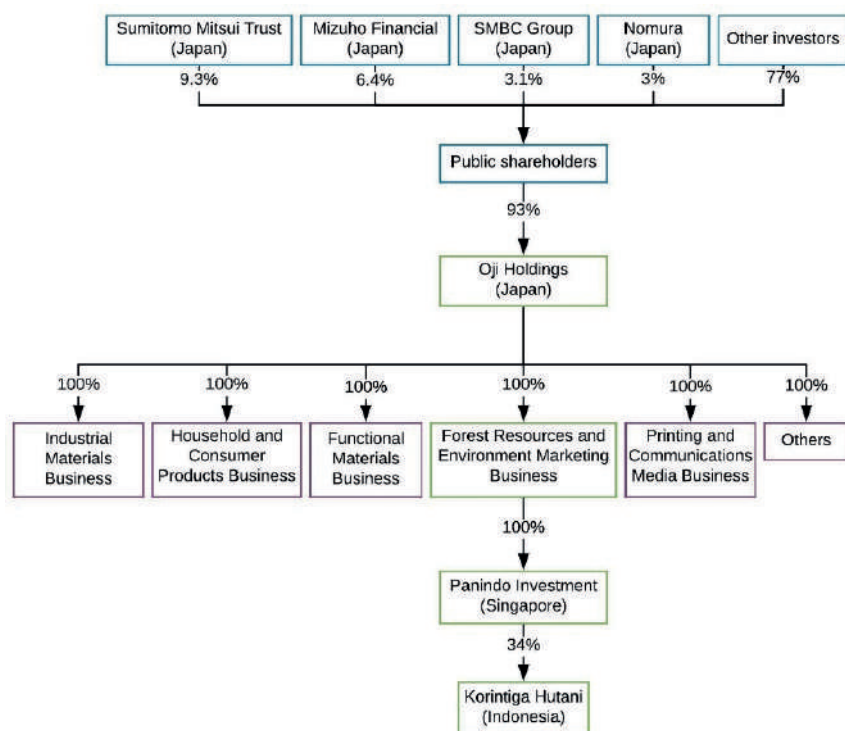


Figure 15. Ownership of Oji’s pulp & paper activities in Indonesia

Source: Accounting and Corporate Regulatory Authority (2017, May), *Filing of Annual Return by Local Company – Panindo Investment*, p. 1; AHU (2017, December), *Profil Perusahaan PT Korintiga Hutani*, p. 50–51;

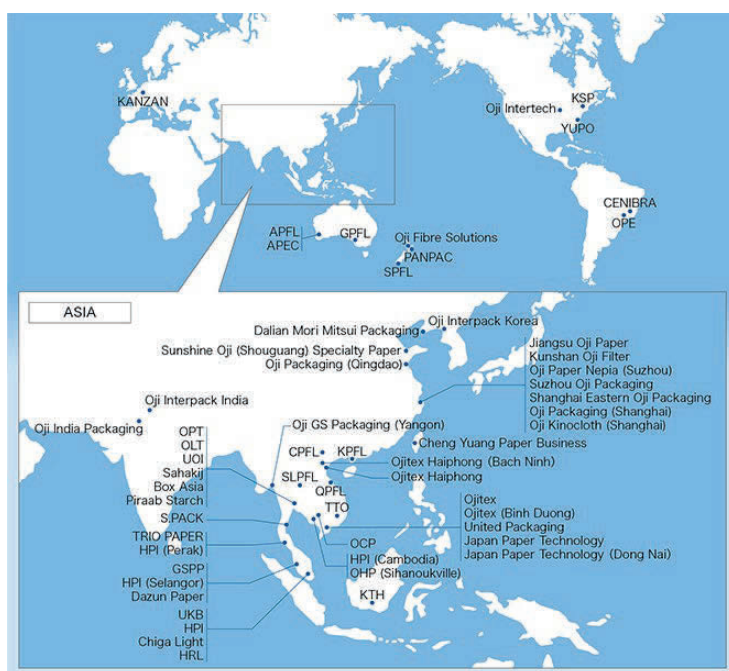


Figure 16. Oji Holdings Corporation's activities overseas

Source: Oji Holdings Corporation (n.d.), "Overseas activities", online: <https://www.ojiholdings.co.jp/english/group/overseas/>, viewed in May 2019.

2.8.3 Geography of management activities related to pulp & paper industry and plantation

As listed in the Table 24, Oji Holdings is a leading pulp & paper manufacturer in Japan, also involves in the pulp & paper sectors in fifteen countries overseas. Figure 16 provides overviews of locations of Oji Holdings Corporation businesses overseas.

2.8.4 Timber plantation under the management of Oji Holdings Corporations

In Indonesian pulp & paper sector, Oji Holdings is only involved through PT Korintiga Hutani, which is majority controlled by the Korindo Group (see section 2.6.4). PT Korintiga Hutani holds two HTIs located in Central Kalimantan. Table 25 lists HTI holdings of PT Korintiga Hutani.

Table 25. Timber plantation subsidiaries of Oji Holdings Corporation

Company	Location	Permits	Concession (ha)
PT. Korintiga Hutani	Central Kalimantan	201/Menhut-II/2011	94,384
PT. Korintiga Hutani	Central Kalimantan	718/Menhut-VI/2009	64,016
Total			158,400

Source: Website of the Indonesian Ministry of Forestry (2016), *Perusahaan pemegang IUPHHK-HT 2016*. (The page has since been deleted)

2.8.5 Controversial cases involving Oji Holdings Corporation

Through its affiliate, PT Korintiga Hutani, Oji Holdings Corporation is reported to be involved in land conflicts, forest

fires that lead to temporary permit suspension, sustainability certificate investigation, and financial risks due to deforestation committed by sister company. The following tables provide an overview of these conflicts

Table 26. Controversial cases involving Oji Holdings Corporation in the pulp & paper sector

Entity	Parties involved	NGO involved	Year	Descriptions	Reference
PT Korintiga Hutani	Farmer group Maju Bahaum, Lamandau Regency.	Pusaka Foundation	2015 until present	Approximately 1,500 hectares of oil palm plantations managed by the farmer group is reported to overlap with Korindo's timber plantation concession	Pusaka ¹³⁵
PT Korintiga Hutani	MoEF Indonesia	–	2015	The company permit was suspended due to the occurrence of 72 hotspots (fires) on the plantation in 2015. The permit was re-instated after three months.	Borneo News ¹³⁶
PT Korintiga Hutani	FSC	Mighty Earth	2017 – present	FSC accepts the complaint filed by Mighty Earth on Korindo Group operations Papua that destroyed HCV forests and Violated traditional and human rights. PT Korintiga Hutani is one of the subsidiaries that is an FSC certificate holder. Currently, the FSC investigation is still going on.	FSC ¹³⁷ , REDD-Monitor ¹³⁸
PT Korintiga Hutani	Financial institutions	RAN	2017	RAN reported that Oji Holding directly exposed to sustainability risks due to its direct business relationship with Korindo Group in PT Korintiga Hutani.	RAN report ¹³⁹

Chapter 3

Financing to the Indonesian pulp & paper sector

This chapter presents the financial flows to the selected companies active in the Indonesian pulp & paper sector. This research based on data available on *Forests & Finance*. The chapter organized as follows: section 3.1 presents credit – loans and underwriting services – flows, while section 3.2 presents the figures on investment in bonds and shares.

3.1 Credit

In the period 2013 to June 2018, financial institutions provided at least US\$ 18 billion in loans and underwriting services (reduce emission) to the selected companies attributable to pulp & paper. Almost 80% of this credit came from financial institutions based in East Asia (Figure 17). In 15% of identified credit to the selected companies came from Indonesian financial institutions.

The largest identified financier of pulp & paper companies active in Indonesia was Japanese SMBC Group, which provided a total of US\$ 2.7 billion in loans and underwriting. It is followed by Indonesian Bank Rakyat Indonesia, which provided US\$ 1.5 billion primarily in loans to companies active in the

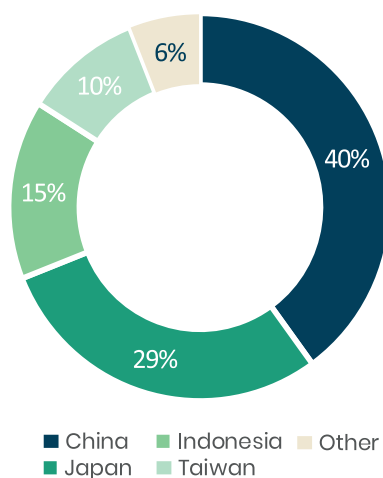


Figure 17. Countries providing loans & underwriting services to selected pulp & paper companies (2013–2018 June, US\$ Mio)

Source: *Forests & Finance* (n.d.), *Explore the Data*, online: <https://forestsandfinance.org/>, viewed in May 2019.

Indonesian pulp & paper sector. The third largest creditor was the Industrial and Commercial Bank of China, which provided US\$ 1.4 billion in loans and underwriting services during the period of study (Figure 18).

Financial flows has identified for five of the selected companies (no financing identified for Alas Kusuma, financing for its joint venture partner Sumitomo Forestry has reported instead).

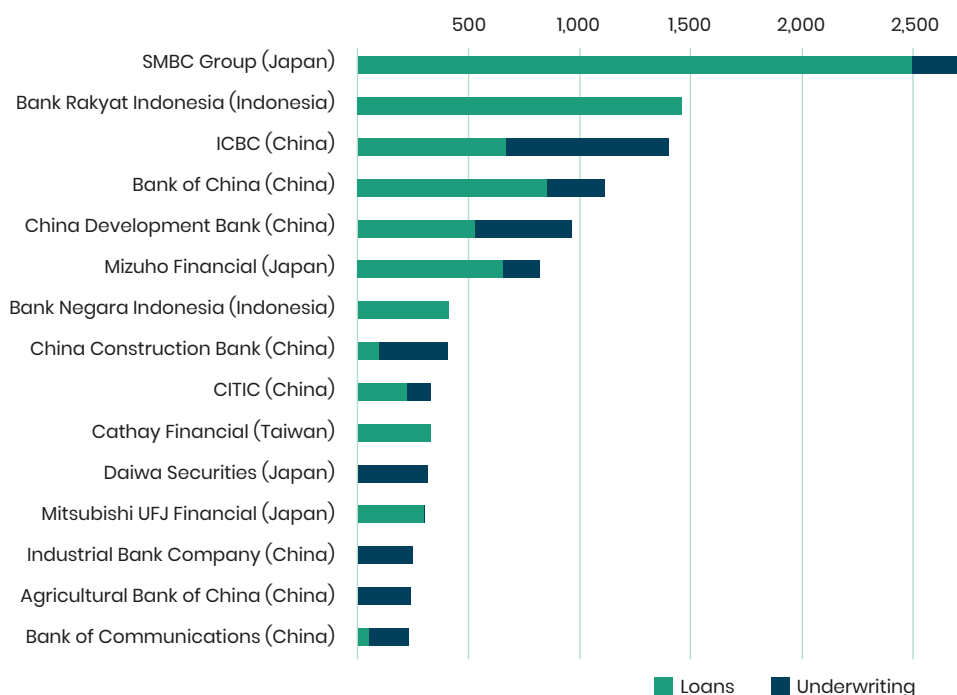


Figure 18. Top 15 creditors of selected pulp & paper companies (2013–2018 June, US\$ mln)

Source: *Forests & Finance* (n.d.), *Explore the Data*, online: <https://forestsandfinance.org/>, viewed in May 2019.

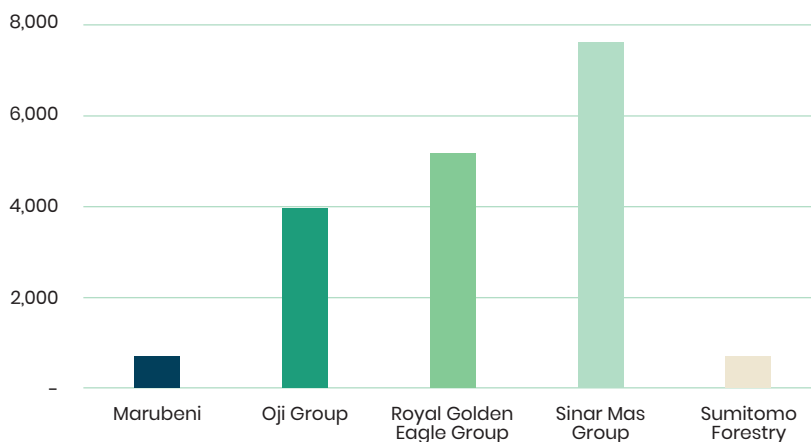


Figure 19. Recipients of loans & underwriting services (2013–2018 June, US\$ mln)

Source: *Forests & Finance* (n.d.), *Explore the Data*, online: <https://forestsandfinance.org/>, viewed in May 2019.

The largest recipient of identified pulp & paper credit was the Sinar Mas Group where Asia Pulp & Paper (APP) falls under. Sinar Mas attracted US\$ 7.6 billion in pulp & paper attributable

credit. Followed by the Royal Golden Eagle Group (RGE), which is APRIL member. RGE attracted US\$ 5.2 billion in credit attributable to pulp & paper in the period 2013 to June 2018.

Korindo had US\$ 152 million in outstanding loans to Bank Negara Indonesia in the third quarter of 2018. As this is an outstanding bank balance, and further details regarding when this credit has provided are not available, this relationship has not been included in the *Forests & Finance* database. Moreover, Korindo is active in a number forestry commodity related sectors (see section 2.6), and it is not clear what proportion of the outstanding loans are attributable to pulp & paper.

3.2 Investments

At the most recent filing date in June 2018, investors had investments of US\$ 3.7 billion in the selected companies attributable to pulp & paper. In 60% of these investments were made by financial institutions based in Japan, slightly less than a third of the investments were made by financial institutions in the United States.

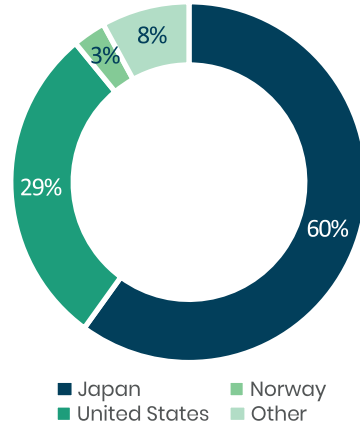


Figure 20. Countries investing in the bonds & shares selected pulp & paper companies (2018 June, most recent filing date, US\$ mln)

Source: *Forests & Finance* (n.d.), *Explore the Data*, online: <https://forestsandfinance.org/>, viewed in May 2019.

The largest investor – unsurprisingly given that three of the selected companies are Japanese – is the Government Pension Investment Fund (GPIF) of Japan. At the most recent filing date in June 2018,

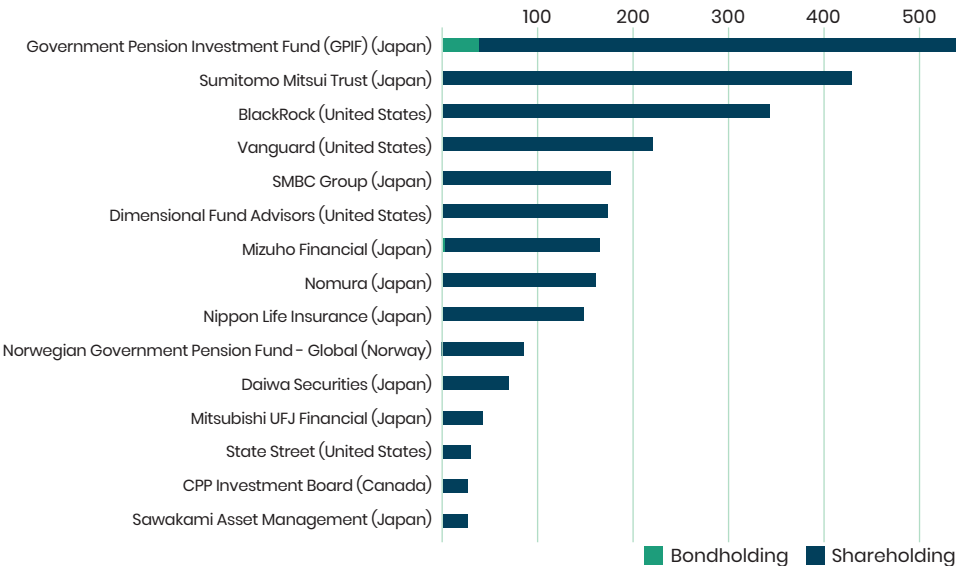


Figure 21. Top 15 investors in selected pulp & paper companies (2018 June, most recent filing date, US\$ mln)

Source: *Forests & Finance* (n.d.), *Explore the Data*, online: <https://forestsandfinance.org/>, viewed in May 2019.

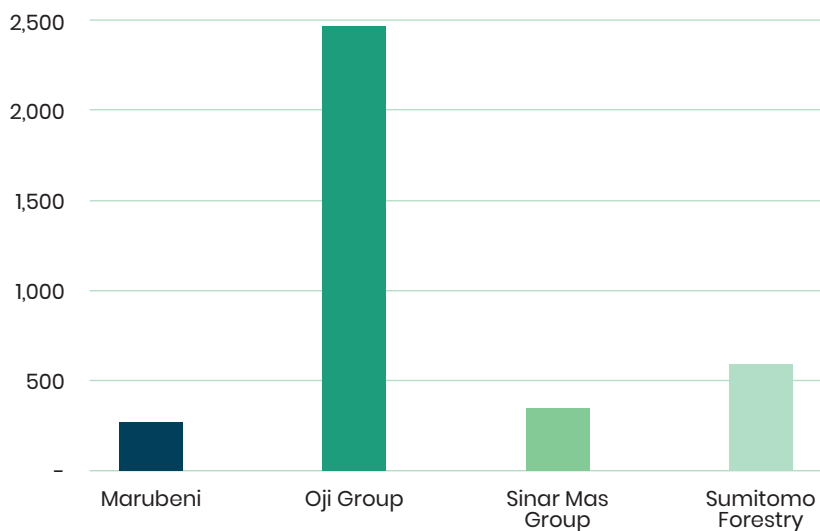


Figure 22. Recipients of bond- and share investments (2018 June, most recent filing date, US\$ mln)

Source: *Forests & Finance* (n.d.), *Explore the Data*, online: <https://forestsandfinance.org/>, viewed in May 2019.

GPIF had investments in selected companies attributable to pulp & paper with a value of almost US\$ 660 million. Followed by Sumitomo Mitsui Trust (Japan) with investments of approximately US\$ 440 million, and BlackRock (United States) with pulp & paper investments of approximately US\$ 370 million.

The largest investee was the Japanese Oji Group, which received investments in its bonds and shares worth US\$ approximately US\$ 2.5 billion. The other companies received between US\$ 275 million and US\$ 600 million in pulp & paper investments.

Chapter 4

Policy analysis

Financial institutions can prevent exposure to the ESG risks of their companies has financed by utilizing ESG risk mitigation frameworks. One pillar of these frameworks is an ESG risk mitigation policy. Such policies can be both general – i.e. policies on human rights and environmental standards the financial institutions expect their companies has financed as findings and specific to sectors that their clients operate e.g. forest commodities, mining or manufacturing.

This chapter presents an analysis of the publicly available environmental, social and governance (ESG) risk mitigations policies of the financial institutions, which provide financing to the Companies active in the pulp & paper sector in Indonesia. The analysis, based on the financial institutions' ESG policy assessments presented on *Forests & Finance*. These tools to assessment of financial institutions policy by public on the following elements:

- **Scope of commitments by financier**
 - Have forest-risk commodity sector policies.
 - The Policies applicable to all forms of financial services.
- The Policies applicable to all relevant investees and clients and their subsidiaries at the corporate group level.
- Supports the main international forestry and land use covenants / frameworks.
- Supports the main international human and labour rights covenants / frameworks.
- **Environmental standards for clients**
 - Companies must identify and protect High Conservation Value (HCV) areas.
 - To identify and or use of species, prohibited to genetically modified or alien species or harmful pesticides.
 - Prohibited from carrying out operations that have an impact on forest areas.
 - Prohibited from doing forest conversion or reducing HCSF.
 - Do not convert or change the natural habitat of the forest
 - In carrying out its operations, prohibited to dry or reduce the water level in peatlands.
 - Prohibited from trading or harvesting registered with IUCN or CITES species which are stated as protected.

- Prohibited from fire use (burning) for land clearing.

- **Social standards for clients**

- Forced, compulsory and child labour prohibited.
- Living wage and compliance with ILO maximum working hours required.
- Precautions to protect health and safety of workers and communities required.
- Providing access to an effective grievance mechanism required.
- Respect for Indigenous and customary land use rights required, including FPIC.
- Upholding rights to freedom of association, collective bargaining and freedom from discrimination required.

- **Governance standards for clients**

- Abusive tax arrangements prohibited and publication of full group structure required.
- Anti-corruption policy required.
- Compliance with credible certification schemes required across the client's supply chain.
- Proof of legality in operations and sourcing required.
- Publication of geo-referenced concession maps of forest holdings required.
- Publication of social and environmental impact assessments required.

Further details on the policy assessment methodology followed on *Forests & Finance*. The remainder

of this chapter presents an analysis of the assessments of the policies of financial institutions providing credit to the selected Companies active in the pulp & paper sector in Indonesia.

Figure 23 presents the average scores of the policy assessment. It shows that in each category average policy scores are below 40%. In policy assessment that the financial institutions have slightly stronger policies in terms of the scope of their commitments, and social standards for clients. However, they have comparatively weaker policies with regard to the environmental and governance standards they require from their clients.

Figure 24 has shown that financial institutions from Europe and North America had stronger policies rather than their Asian counterparts.

A lack of stronger ESG risk mitigation policies indicates an unawareness of how ESG risks that the practices of companies pose can be interpreted into financial risks for financial institutions. The assessed financial institutions even more concerning when the policy scores are placed next to the value of financing to the pulp & paper sector provide this. Figure 25 shows that financial institutions with higher average policies scores provided comparatively little financing to the companies active in the pulp & paper sector in Indonesia. The financial institutions that provided the highest levels of finance – i.e. those from China, Japan and Indonesia – also had the poorest policies.

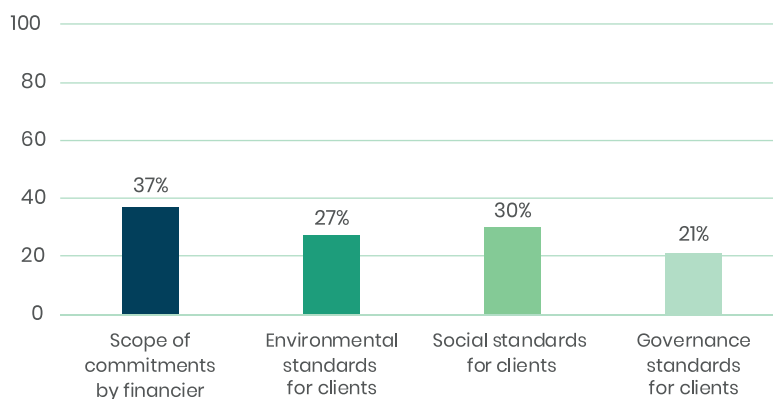


Figure 23. Average policy scores of pulp & paper creditors

Source: *Forests & Finance* (n.d.), *Bank Profiles*, online: <https://forestsandfinance.org/>, viewed in May 2019.

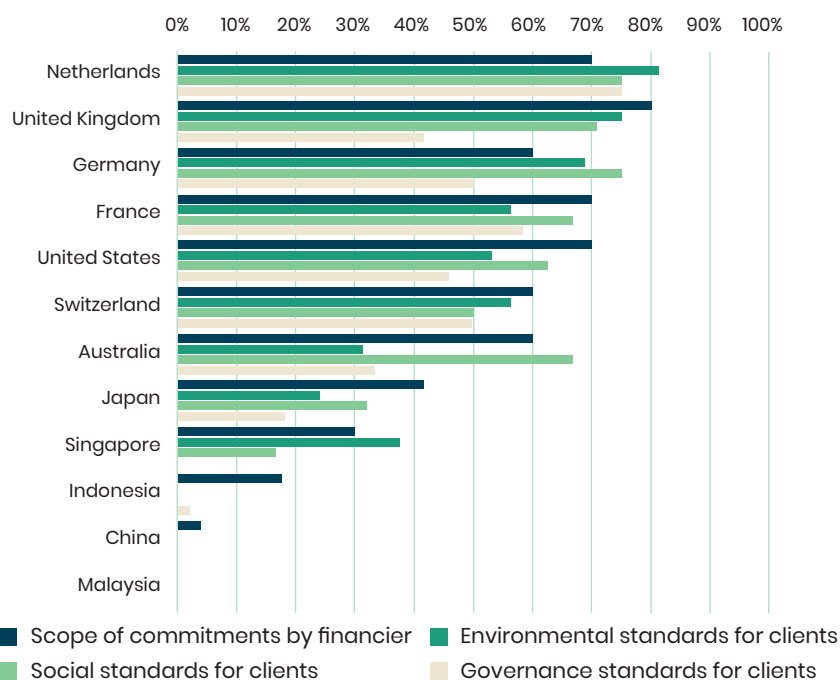


Figure 24. Average policy scores of pulp & paper creditors by country of origin

Source: *Forests & Finance* (n.d.), *Bank Profiles*, online: <https://forestsandfinance.org/>, viewed in May 2019.

It is possible that financial institutions have internal policies to manage and mitigate ESG risks. In China, for example, after the Green Credit Guidelines were issued by the Chinese

Banking Regulatory Commission (CBRC) in 2012, many financial institutions started to develop both general and sector specific policies. The Industrial Commercial Bank of

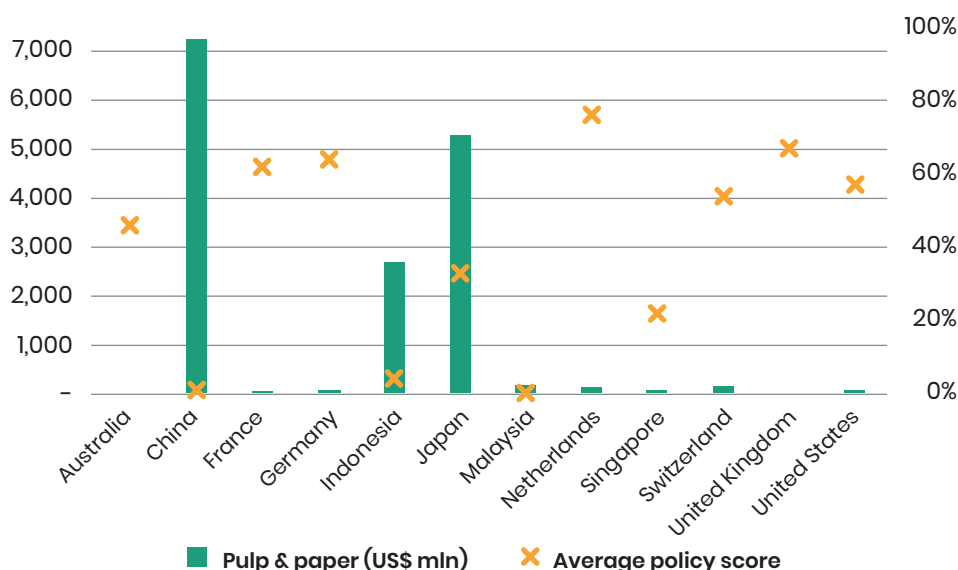


Figure 25. Policy scores & financing value correlation (2013-2018 June, US\$ mln)

Source: *Forests & Finance* (n.d.), *Explore the Data*, online: <https://forestsandfinance.org/>, viewed in May 2019; *Forests & Finance* (n.d.), *Bank Profiles*, online: <https://forestsandfinance.org/>, viewed in May 2019.

China – the world’s largest bank by total assets – claims to have 54 industry specific policies.

In Indonesia, the government has also issued sustainable finance regulations. The Regulation on Sustainable Finance (POJK) was published in July 2017, and was a continuation of the Sustainable Finance Roadmap, which had been launched December 2014. Together the eight largest banks in Indonesia established the Indonesia Sustainable Finance Initiative for knowledge sharing and dialogue. So far, there have not been indications the Indonesian banks have developed internal general or sector specific ESG risk management policies.

Forests & Finance could only assess publicly available policies. As long as financial institutions do not published of their ESG risk management policies, so there cannot be an independent and objective assessment the strength and quality of these policies. Financial institutions are experts in the financial sector, but they are not experts on all ESG risks.

Conclusion

This report has shown that each of the eight pulp & paper companies in this research has been implicated in some form of ESG issue and the company structures of a number of these companies are potentially designed to facilitate base erosion and profit shifting (BEPS) and transfer mispricing (tax avoidance strategies) (Chapter 2). The identified issues include, among others:

- **Environmental issues**

Such as deforestation, development on (deep) peat, development of HCV forests, use of fire for land clearing, fire hotspots, and contamination of water sources.

- **Social issues**

Such as land grabbing, land conflicts, and labour issues (e.g. unpaid wages).

- **Governance issues**

Such as bribery, corporate structures potentially designed to facilitate BEPS, and non-conformance with government regulations.

In spite of these serious ESG issues, the eight researched companies received at least US\$ 18 billion in pulp & paper attributable loans and underwriting

services (reduce emission) in the period 2013 to June 2018. Almost 80% of this credit came from financial institutions based in East Asia, and 15% came from Indonesian financial institutions.

Financial institutions can prevent exposure to the ESG risks of the companies they finance by utilizing ESG risk mitigation frameworks. One pillar of these frameworks is an ESG risk mitigation policy. Such policies can be both general – i.e. policies on human rights and environmental standards the financial institutions expect the companies they finance to meet – and specific to sectors that their clients operate in – e.g. forest commodities, mining or manufacturing.

Chapter 4 presented an analysis of assessments of forest-commodity sector specific ESG risk mitigation policies of a number of financial institutions with clients active in the pulp & paper sector in Indonesia. The analysis found that financial institutions scored on average 28% in total for all categories of assessment (Scope of commitments by financier; environmental standards for clients; social standards for clients, and; governance standards for clients). Financial institutions scored better in terms of the scope

of their commitments and the social standards they expect of their clients, scoring on average 37% and 30% respectively for these categories.

The environmental and governance standards they expect of their clients scored comparatively lower, at 27% and 21% respectively.

There were significant differences in the scores of financial institutions from different jurisdictions. Financial institutions from the Netherlands scored overall the best, with average scores of 76%. Concerning to warning, the largest financiers of the pulp & paper companies active in Indonesia – financial institutions from East Asia and Southeast Asia – had the worst ESG risk mitigation policies, scoring on average 16% and 5% respectively.

Financial institutions from China provided 41% of the financing to the eight pulp & paper companies, but had average scores of policy assessment only 1%. Japanese financial institutions provided 26% of the credit to the pulp & paper companies, but and scored on average 28%. Finally, Indonesian financial institutions provided at least 16% of the credit to the selected pulp & paper companies, but only scored an average 4% in the policy assessments. Notably, Indonesian and Chinese financial institutions scored 0% in the environmental and social standards they expect of their clients. This particularly disconcerting given the findings in Chapter 2 which show that the majority of ESG related issues companies are implicated in relate to environmental and social issues.

Figure 26 illustrates how unsustainable corporate practices of companies active in the pulp & paper sector in Indonesia can interpreted into financial risks for the financial institutions that support them. For example, if a Company has tenure conflicts, it may violate the NDPE policies of its buyers, meaning that the buyers will terminate the relationships, resulting in lower revenues for the company, reducing free cash flow decreasing its ability to repay its loans, putting pressure on the solvency ratios of the banks that finance it, reducing their profitability. Likewise, while a company engages to develop of pulp & paper timber plantations on peatland, if it has violated Indonesian government policy, so their company have a risk management. Like risk of those concessions, become stranded assets, reducing the collateral value of the concessions, which banks rely upon in their credit agreements, putting pressure on the solvency ratios of the banks that finance the company, ultimately reducing the profitability of those banks.

These risks are real, as can be illustrated by an example. In 2017, the annual working plan of PT RAPP, Subsidiary APRIL group. In 2010–2019, that used of product from industrial timber forest from PT RAPP was cancelled by the Indonesian Ministry of Environment and Forestry. PT RAPP asked to comply with the rules, including peat regulations, as other companies also must do.

This work plan cancellation put APRIL/RAPP's concessions assets at risk as well as lowering its revenues as production in these concessions was suspended.

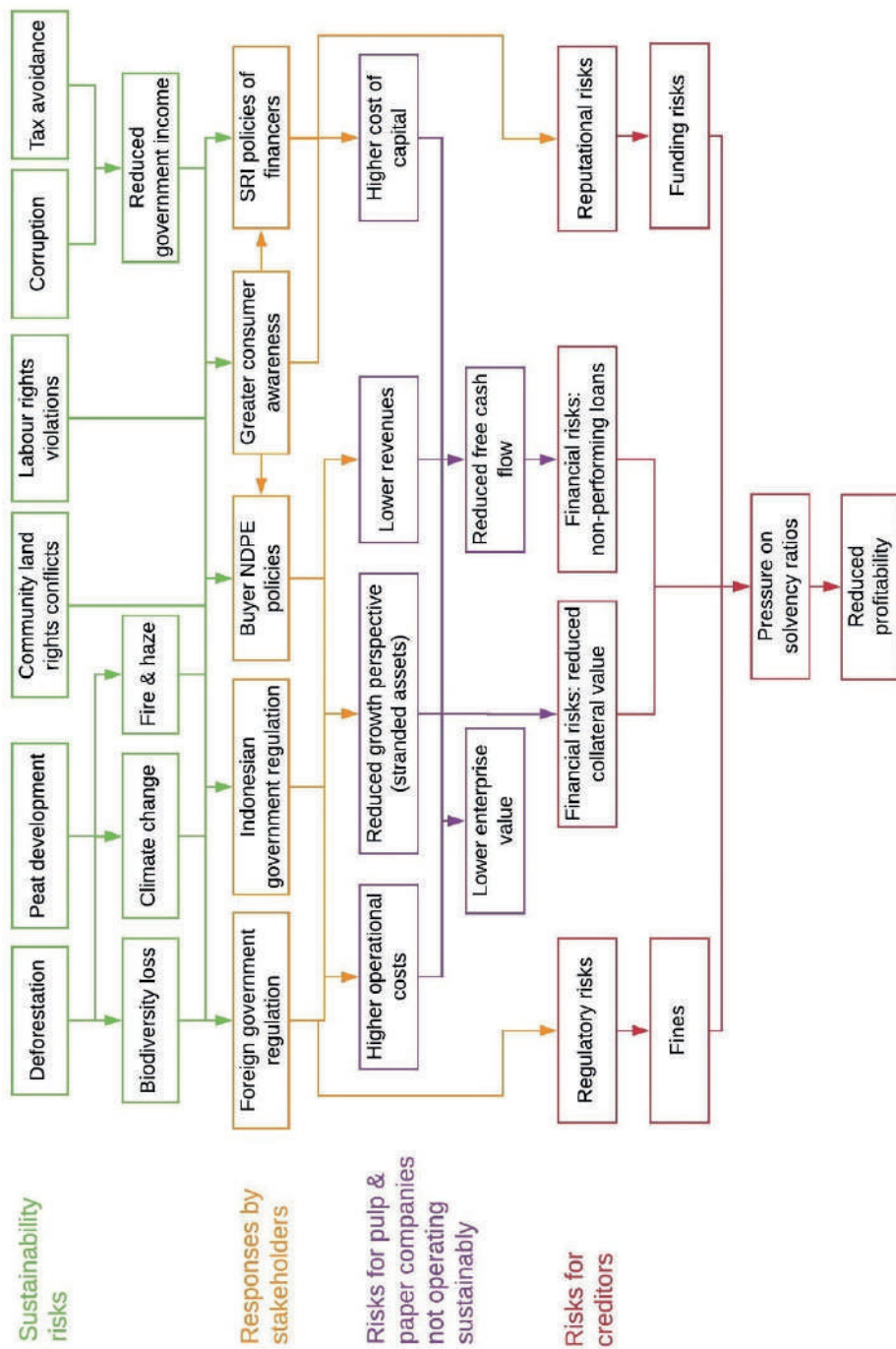


Figure 26. Flowchart how ESG risks become financial risks

Source: Van Gelder, J.W., A. Sari, P. and Pacheco (2017, November), *Managing Palm Oil Risks: A brief for financiers*, Kuala Lumpur: RSPO, p. 4.

These issues put pressure on APRIL's loans from banks. In December 2016. The last available financial report before the work plan suspension, APRIL had approximately US\$ 2 billion in outstanding loans to banks. The terms of one of the loans states (approximately US\$ 1 billion) that it is secured by *off-take agreements* with APRIL customers, charges over assets of subsidiaries, and enterprises by pledges by fellow subsidiaries.

The risks here are that APRIL could no longer fulfil its *off-take agreements* as production was suspended, therefore this collateral no longer be relied upon by the banks. Moreover, as the assets of subsidiaries consisted of peatlands that could no longer be cultivated, this form of collateral devalued with respect to the initial valuation provided to banks, when the terms of the loan were agreed. Implying that this form of collateral also no longer be used to repay APRIL's loan commitments to the extent that had been initially calculated. Moreover, it is unclear whether the enterprise pledges by fellow subsidiaries fulfilled if their land banks were also in peat zones, as the listed names of these subsidiaries are not given. Together this illustrates, that this ESG risk as well on peat development, can have regulatory repercussions that affected the ability of a company to conduct its debt obligations putting the profitability of its creditors at risk.

Other companies in this study have similar terms in their loan agreements. The example has illustrated sustainability issues, the response from stakeholders, which creates risks for Companies not

operating sustainability, which in turn creates risk for the financial institutions that finance them. In this case related need for financial institutions to develop policies to manage and mitigate the ESG risks, financial institutions should make such policies publicly available so that they can undergo public scrutiny, which will ultimately result in stronger and better policies that more completely manage and mitigates the ESG risks of the companies to their sustainable financing.

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