



**Legality of Timber Consumed by
Asia Pulp and Paper's Mills in Indonesia
January – October 2003**

WWF Indonesia

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Summary

This report analyses the legality of timber consumed by APP's pulp mills in Riau and Jambi, Sumatra. In the first ten months in 2003, APP's two pulp mills consumed almost four million cubic meters of timber whose legality was far from certain. This is equivalent to 35 per cent of all timber consumed by the two mills during that period.

This difficult-to-trace timber was purchased from land clearing operations that operated under the authority of district governments, some of which were found to be located inside the national forest estate, which is illegal under national law. In view of these findings, this report maintains that all APP's timber from district licensed sources should be regarded as of uncertain legal origin.

The fact that Indah Kiat was unwilling to stop purchasing raw material from sources whose legality could not be assured was one factor that led WWF Indonesia to not renew its Letter of Intent with APP that lapsed in February, 2004. The publication of this report represents part of a process of data disclosure by WWF Indonesia, so that government, the public, the financial community and actors in the pulp and paper business can better understand the nature of APP's Indonesia operations.

Background

Indah Kiat and Lontar Papyrus are the two pulp factories in Indonesia owned by Asia Pulp and Paper (APP), the largest pulp and paper producer in Asia. APP is owned by the Sinar Mas group (SMG).

On 19 August 2003, APP signed a Letter of Intent with WWF Indonesia, agreeing to comply with all national laws in its operations in Indonesia. In light of this commitment, this study sets out to answer one question: To what extent is illegal timber consumed by APP?

To answer this question, this report analyses the actual lists of the timber (logs from plantations or natural forests) consumed by Indah Kiat and Lontar Papyrus during the first ten months of 2003. The lists were provided to the *Lembaga Ekolabel Indonesia*

(LEI) to assist it with a legal origin verification audit carried out during the first week of November, 2003. WWF Indonesia sent observers to accompany that audit.

Categories of timber consumed by the Indah Kiat and Lontar Papyrus pulp mills

For the purposes of this report, the companies listed as having supplied timber to APP are separated into five groups. The first four are nominally legal. The last group raises questions.

1. Legal plantation timber grown by the Sinar Mas group;
2. Mixed tropical hardwood from the legal clear felling of natural forests areas licensed to the Sinar Mas group for growing industrial timber plantations;
3. Legal plantation timber from outside the Sinar Mas group;
4. Mixed tropical hardwood from the legal clear felling of natural forests areas licensed to companies outside the Sinar Mas group for growing industrial timber plantations;
5. Legally disputed mixed tropical hardwood from the clear felling of natural forests areas.

1. Plantation timber from within APP.

The first category of timber supplied to APP is fast-growing acacia planted in industrial timber plantations licensed to the Sinar Mas group. The largest source of acacia drawn upon by Indah Kiat is that planted in the Arara Abadi industrial timber plantation. The largest source of acacia drawn upon by Lontar Papyrus is that planted in the Wira Karya Sakti industrial timber plantation. Plantation timber is nominally legal, by virtue of its location inside nationally authorized industrial timber plantations.

It is important to note however, that the Department of Forestry often designated areas as national forest estate and industrial timber plantation without consultation with local communities, whose traditional lands, according to forestry regulations, should be excised from such concession areas. It is outside the scope of this report to consider this aspect of legality, as it primarily concerns regulatory failure by government rather than a plantation company. Hopefully future studies of legality of wood supply will consider this issue.

2. Mixed tropical hardwood from the clear felling of natural forests areas granted by the national government to Sinar Mas group.

The second category is timber obtained from the clear felling of natural forest standing within areas nationally authorized to become industrial timber plantations, and licensed to APP or one of its sister companies within the Sinar Mas group. SMG has many such industrial timber plantations containing natural forests that have been authorized by the national government to be felled in order to create room for plantations. Such activity is legal, with the important exception of industrial timber plantations that clear “productive natural forests” according to the criteria specified under Department of Forestry regulation SK 200 /1994¹, or those which clear forests on top of peat soils with a depth of greater than 3 meters or on a slope above 40, which is prohibited by PP 47 / 1997. The extent to which SMG breaks these two laws could not be quantified, and calculations in this report assume that SMG nationally authorized land clearing activities are legal.

3. Plantation timber from outside APP.

The third category of timber is fast-growing acacia planted in industrial timber plantations licensed to non-APP groups, but purchased from these groups by APP. This category, like category 1 above, is nominally legal.

4. Mixed tropical hardwood from the legal clear felling of natural forests areas granted by the national and/or provincial governments to companies outside the Sinar Mas group.

The fourth category is timber sourced from the clear felling of natural forests areas standing within nationally authorized industrial timber plantations that have been licensed to companies outside the Sinar Mas group. This category is legal, again with the important exception of industrial timber plantations that clear “productive natural forest,” those that cut timber on top of deep peat soils, or break other crucial laws. As in category 2, for the sake of simplicity, this report assumes that all nationally-authorized non-SMG land clearing activities did not break such laws.

5. Legally-disputed mixed tropical hardwood acquired from land clearing permits licensed by district governments.

¹ SK 200, 1994 defines productive forest areas as those with a standing stock of commercial timber of more than 20 cubic meters per hectare. It is believed that APP does not follow this regulation with any degree of regularity. Moreover, a senior APP official recently stated that the company should not be bound by this regulation on the grounds that it is so rarely followed in Indonesia (30 October 2003 remarks of APP’s Director of Sustainability and Stakeholder Engagement to Verification of Timber Source Legality Breakout Session of the APP Stakeholder Workshop). In its assessment, LEI was asked not to look at whether APP was breaking this regulation.

The final category of timber consumed by APP is that coming from land clearing activities licensed by district forestry agencies. Such agencies operate under the authority of district heads or *bupati*. Timber from such sources represents the single largest source of raw material consumed by APP. Such timber is legally disputed.

District licensed land clearing activities fall into two categories, that which takes place *inside* the national forest estate, and that which takes place *outside* the national forest estate.

With respect to the clearing of forest *inside* the national forest estate, the authority to issue or extend such licenses was banned by SK Menhut 541/Kpts-II/2002 on 21 February 2002. (Existing permits were grandfathered in. But in view of the fact that district permits run for only one year, these permits would have expired by the time this study took place.) As for district permits to fell forests *outside* the national forest estate, the authority to issue or extend such licenses is thought to be legal, according to Surat Menhut No. 1794/Menhut-VI/2001.

A problem arises due to the fact that it is impossible to tell, on its face, whether timber purchased by APP from district licensed land clearing permits comes from the first or second category. As district permits are usually (although not always) licensed to entities outside the company, APP itself often does not know whether such permits are located in or outside the national forest estate. As can be seen from the list of companies in Appendices 1 and 2, virtually nothing is known about most of these companies, other than their names. In its recent legal origin verification audit, *Lembaga Ekolabel Indonesia* sent a team of auditors to examine five land clearing permits licensed by district authorities to supply natural forest timber to the larger of APP's two factories, Indah Kiat.

Box 1: The case of the Mapala Rabda industrial timber plantation

The largest of the five district licensed felling permits examined by LEI assessors was the Mapala Rabda industrial timber plantation. Mapala Rabda and its joint venture partners is a major supplier of timber to Indah Kiat, providing it with 1,404,770 cubic meters of natural forest timber, or a fifth of the factory's total raw material intake during the first ten months of 2003.

Although the general license for the concession was granted by the national government, the specific license to clear fell the natural forest timber standing in the concession was granted by the district head of Bengkalis. This license was granted in July 2002, four months after the February 2002 prohibition on the further granting of such licenses inside the national forest estate went into effect. Mapala Rabda is gazetted in the national forest estate. Thus, in view of the fact that the concession was operating with a district license granted after the issuance of such permits were declared illegal, its timber can be considered illegal.

LEI assessors also found strong indications that Mapala Rabda was logging in the Bukit Batu Game Reserve, which is illegal under any circumstances (LEI 2003: 43-44). APP's justification for allowing this activity to take place was that national and provincial government maps of the Bukit Batu Game Reserve were mistaken. Therefore, argued APP, it had undertaken an internal mapping exercise to re-draw the boundaries of the reserve. The maps that were then appended to the *bupati* licensed felling permit reflected the boundaries that APP had unilaterally created. A map of the Bukit Batu reserve, with both its authentic boundaries, as well as the recreations of APP and Bengkalis district authorities, can be viewed in Appendix 3.

Of the remaining five district-licensed permits assessed by LEI, another two – Tuah Melayu and Agro Mandiri – were technically legal, as they were gazetted outside the national forest estate. However, assessors found that they were ghost units - areas where operations should have been active, but whose forests were already cut down and showed no signs of activity. Moreover, at the very moment assessors were on the ground in these units, dozens of truckloads of natural forest timber, purportedly originating from one of these desolate ex-forests, Agro Mandiri, mysteriously continued to roll into the gates of the Indah Kiat mill. Where this timber actually originated from is unknown. Together, these two inactive units accounted for more than 270,000 cubic meters of natural forest timber, more than 3 percent of the consumption of Indah Kiat during the first ten months of 2003 (LEI 2003: 56-76).

A fourth district licensed unit, Bunga Idaman, was technically legal, in that it was located outside the national forest estate. However, the company denied access to a LEI assessor, thus making it impossible for the assessor to draw any conclusions about the legality of the unit (LEI 2003: 84). Only the fifth district licensed unit, Arba Perkasa Utama, was located outside the national forest estate, permitted access to an assessor, and appeared to be operating in a more or less legal fashion.

In summary, the LEI assessment raised serious questions regarding the legality of district licensed permits upon which APP relies for a substantial portion of its timber. Of five such units assessed, the largest by far was illegally located in the national forest estate, and was even found to be removing timber from a conservation area. Another two, although technically located outside the forest estate, were inactive, while actively trucking timber from some other place into the factory. Another denied access to auditors. Only one appeared to be legitimate. Table 1 below quantifies the volume and percentage of timber consumed by Indah Kiat and Lontar Papyrus pulp factories, and the percentages that fall into each of the five categories discussed above.

Table 1: Category, volume and percentage of timber consumed by Indah Kiat and Lontar Papyrus pulp factories during first ten months of 2003

Category of timber	Indah Kiat		Lontar Papyrus	
	Volume (m3)	Percentage	Volume (m3)	Percentage
1	1,790,972	23	958,978	39
2	1,819,402	23	1,132,402	47
3	210,038	3	0	0
4	313,631	4	143,496	6
5	3,759,994	47	189,496	8
Total	7,893,987	100	2,424,372	100

Source: Indah Kiat 2003a, Lontar Papyrus 2003.

Table 1. shows that 47 percent, nearly half, of the raw material consumed by Indah Kiat during the first ten months of 2003 was category 5 timber, of legally uncertain origin. Eight percent of the timber consumed by Lontar Papyrus was from similarly difficult to ascertain sources. Taken together, 3,949,490 out of 11,318,839 cubic meters, or 35 percent of the timber consumed by the two mills, was from Category 5 sources whose legality is far from assured.²

Also worth noting: The two factories obtained only 2,959,988 cubic meters or 26 percent of their total raw material supply from plantation timber (categories 1 and 3). This runs contrary to the perception that APP primarily consumes plantation-grown timber. That the company still relies on natural forests for three quarters of its timber suggests that APP will continue to place pressure on the remaining lowland forests of Riau and Jambi provinces. A sign of things to come is the company's "Sustainability Action Plan," which forecasts that APP will largely stop consuming plantation timber in 2004 and 2005 (APP 2004: 20), and almost exclusively consume natural forest timber during that period.

² The names of all companies that supplied timber to Indah Kiat during the first ten months of 2003 are listed in Appendix 1. These companies are then sorted according to the five categories above and totalled in Appendix 2. Detailed appendices on Lontar Papyrus are not included, in view of the comparatively small percentage of illegal timber consumed by that mill, but may be available upon request from *Lembaga Ekolabel Indonesia*.

Conclusion

In the space of only ten months in 2003, APP's Indonesia pulp mills consumed almost 4 million cubic meters of timber whose legality was far from certain. This timber, which made up more than one third of APP's consumption for that period, was purchased from land clearing operations with authorisation from district governments. According to national law, such district permits are only legal if they are located outside the national forest estate, but according to the results of the LEI legal origin verification exercise, this was often not the case.

In view of these findings, this report maintains that all APP's timber from district licensed sources should be regarded as of uncertain legal origin, until such time as APP can provide a written guarantee and geo-referenced maps which prove that each of its wood sources are located outside the natural forest estate, and its suppliers allow assessors authorized by APP immediate access to any such units to ensure that they are active and not simply place-holders for timber taken from other locations.

The fact that Indah Kiat was unwilling to stop purchasing raw material from sources whose legality could not be assured was one factor that led WWF Indonesia to not renew its Letter of Intent with APP that lapsed in February, 2004. The publication of this report represents part of a process of data disclosure by WWF Indonesia, so that government, the public, the financial community and actors in the pulp and paper business can better understand the nature of APP's Indonesia operations.

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... 2003c. "Daftar IPK Luar Kabupaten Siak." Palawang [Indonesia]: Indah Kiat, December 23. Internal document.

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Lontar Papyrus 2003. "Daftar Penerimaan Bahan Baku Serpih Di IPKH PT. LPPPI." Tungkal Ulu [Indonesia]: Lontar Papyrus, 2 November. Internal document.

Appendix 1

Table of all timber consumed by Indah Kiat Pulp and Paper Corporation during the first ten months of 2003

No.	Name of source	Cubic meters	Code
1	PT. Arara Abadi – Acacia	1790972	1
2	PT. Arara Abadi – MTH	66677	2
3	PT. Indah Kiat	1752725	2
4	PT. Mapala Rabda	1404770	5
5	PT. Satria Perkasa Agung	55940	4
6	PT. Bukit Batu Hutani Alam	175197	5
7	PT. Sekato Pratama Makmur	49331	5
8	PT. Riau Abadi Lestari – Acacia	20808	3
9	PT. Sribuana Dumai	4806	5
10	KLP. Mutia	10220	5
11	PT. Haditi Surya Pratama	23339	4
12	KUD Ustimal	18188	5
13	KOP. Siak Mandiri	74210	5
14	PT. Riau Bumi Bina Makmur	111127	4
15	CV. Vidia Mandiri	26816	4
16	KUD Panca Eka Lestari	50823	5
17	KOPTAN Keluaraga Harapan	17215	5
18	KOP. Agro Mandiri	126428	5
19	Kopsa Merangkai Sejahtera	77557	5
20	PT. Kencana Amal Tani	66510	4
21	Koperasi KKIPP	20277	5
22	KOP. Kalam Perkasa	86000	5
23	KOP. Kopperindo	71968	5
24	KOP. Rimba Winaka	47872	5
25	KOP. Karimai	25499	4
26	KOP. Tani Saiyo	104382	5
27	Koptan Sejahtera	79960	5
28	PT. Tridaya Hutan Lestari	36881	4
29	KPS. Usaha Bersama	12639	4
30	KUD Sawit Redang Seko	1308	5
31	KOP. Tuah Melayu	151605	5
32	KOP. Ramindo Utama	31318	5
33	PT. Triomas FDI	46689	4
34	PT. Perawang Sukses – Acacia	189230	3
35	KUD Sumber Bahagia	13154	5
36	PT. Hamidah Hamidi	19771	4
37	PT. Ekawana Lestari Dharma	101363	4
38	PT. Rimba Mutiara Permai	3828	4

39	CV. Punti Riau Mandiri	13307	5
40	CV. Osmar	30549	5
41	CV. Agung Jaya	35057	5
42	KSU. Sumber Rezeki	174020	5
43	CV. Sinar Asia	3815	5
44	KUD Bina Bonai	60335	5
45	CV. Ade Putra	26482	4
46	CV. Linjago	34123	4
47	KT. Suka Makmur	2384	5
48	PT. Arba Perkasa Utama	44142	5
49	KUD Prima Sehati	3371	5
50	Koppontren Al-Kautsar	8682	5
51	Kopsa Bunga Idaman	132741	5
52	PT. Citra Sarbela Abadi	44747	5
53	KOP. Lesung Bertuah	20223	4
54	CV. Aulia Multi Guna	4785	4
55	PT. Surya Mitra Abadi	33798	4
56	PT. Surya Buana Bersama	36944	4
57	PT. Alam Rokan Nuansa Abadi	48391	4
58	PT. Sarana Pembangunan	59649	4
59	KUD Karya Indah	7387	5
60	KUD Tani Pura Usaha	8353	5
61	PT. Rimba Lazuardi	17177	4
62	PT. Rimba Peranap Indah	1354	5
63	KOP. Harapan Maju	984	4
64	CV. Welly Rahmat Yuli	27804	4
65	KUD Tunas Sejati	4027	5
66	CV. Putri Lindung Bulan	9774	4
67	PT. Alamgema Citra Indah	28344	4
68	KOP. Bunut Abadi	3835	5
	Total	7893987	

Source: Indah Kiat 2003 a,b,c

Appendix 2

Table of all timber consumed by Indah Kiat during the first ten months of 2003, sorted by sources that are legal (categories 1-4) vs. legally uncertain (category 5) according to national law

No.	Name of source	Cubic meters	Code
1	PT. Arara Abadi – Acacia	1790972	1
	Subtotal	1790972	
2	PT. Arara Abadi – MTH	66677	2
3	PT. Indah Kiat	1752725	2
	Subtotal	1819402	
4	PT. Riau Abadi Lestari - Acacia	20808	3
5	PT. Perawang Sukses - Acacia	189230	3
	Subtotal	210038	
6	PT. Satria Perkasa Agung	55940	4
7	PT. Haditi Surya Pratama	23339	4
8	PT. Riau Bumi Bina Makmur	111127	4
9	PT. Kencana Amal Tani	66510	4
10	PT. Hamidah Hamidi	19771	4
11	PT. Surya Buana Bersama	36944	4
	Subtotal	313631	
12	PT. Mapala Rabda	1404770	5
13	PT. Bukit Batu Hutani Alam	175197	5
14	PT. Sekato Pratama Makmur	49331	5
15	PT. Sribuana Dumai	4806	5
16	KLP. Mutia	10220	5
17	KUD Ustimal	18188	5
18	KOP. Siak Mandiri (30)	74210	5
19	CV. Vidia Mandiri	26816	5
20	KUD Panca Eka Lestari	50823	5
21	KOPTAN Keluaraga Harapan	17215	5
22	KOP. Agro Mandiri	126428	5
23	Kopsa Merangkai Sejahtera	77557	5
24	Koperasi KKIPP	20277	5
25	KOP. Kalam Perkasa	86000	5
26	KOP. Kopperindo	71968	5
27	KOP. Rimba Winaka	47872	5
28	KOP. Karimai	25499	5
29	KOP. Tani Saiyo	104382	5
30	Koptan Sejahtera	79960	5

31	PT. Tridaya Hutan Lestari	36881	5
32	KPS. Usaha Bersama	12639	5
33	KUD Sawit Redang Seko	1308	5
34	KOP. Buah Melayu	151605	5
35	KOP. Ramindo Utama	31318	5
36	PT. Triomas FDI	46689	5
37	KUD Sumber Bahagia	13154	5
38	PT. Ekawana Lestari Dharma	101363	5
39	PT. Rimba Mutiara Permai	3828	5
40	CV. Pundi Riau Mandiri	13307	5
41	CV. Osmar	30549	5
42	CV. Agung Jaya	35057	5
43	KSU. Sumber Rezeki	174020	5
44	CV. Sinar Asia	3815	5
45	KUD Bina Bonai	60335	5
46	CV. Ade Putra	26482	5
47	CV. Linjago	34123	5
48	KT. Suka Makmur	2384	5
49	PT. Arba Perkasa Utama	44142	5
50	KUD Prima Sehati	3371	5
51	Koppontren Al-Kautsar	8682	5
52	Kopsa Bunga Idaman	132741	5
53	PT. Citra Sarbela Abadi	44747	5
54	KOP. Lesung Bertuah	20223	5
55	CV. Aulia Multi Guna	4785	5
56	PT. Surya Mitra Abadi	33798	5
57	PT. Alam Rokan Nuansa Abadi	48391	5
58	PT. Sarana Pembangunan	59649	5
59	KUD Karya Indah	7387	5
60	KUD Tani Pura Usaha	8353	5
61	PT. Rimba Lazuardi	17177	5
62	PT. Rimba Peranap Indah	1354	5
63	KOP. Harapan Maju	984	5
64	CV. Welly Rahmat Yuli	27804	5
65	KUD Tunas Sejati	4027	5
66	CV. Putri Lindung Bulan	9774	5
67	PT. Alamgema Citra Indah	28344	5
68	KOP. Bunut Abadi	3835	5
	Subtotal	3759994	
	Total	7893987	

Appendix 3

Map of APP logging activities inside the Bukit Batu Wildlife Reserve

