



APP acknowledges links to controversial suppliers, but fails to release an auditor's report

Seven takeaways from a new report by Asia Pulp & Paper on links to its pulpwood suppliers in Indonesia

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KOALISI ANTI MAFIA HUTAN



Memperkuat Komitmen Pencegahan dan Pemberantasan Korupsi



Hutan Kita Institute



On March 15, 2019, Asia Pulp & Paper (APP)/Sinar Mas Group (hereafter APP/Sinar Mas) released an Executive Summary of a report entitled, “APP Assessment on its Links with Industrial Forest Plantations in Indonesia”. This assessment was initiated in June 2018, following a series of media articles and NGO reports documenting:

- ownership and management links between APP/Sinar Mas and at least 24 wood supplier companies it had previously described as being “independent”; and
- supply chain linkages and/or affiliation with forestry companies involved in deforestation, peatland destruction, and/or fires.

A group of NGOs under the Anti Forest Mafia Coalition has prepared the following summary of seven (7) takeaway messages from the Executive Summary released by APP/Sinar Mas.

1. The Executive Summary was prepared by APP/Sinar Mas and is not an independent auditor’s report.

Nine months ago, in May 2018, the Associated Press reported that the Forest Stewardship Council (FSC) sent an ultimatum to APP to “come clean” following evidence it has “has extensive behind-the-scenes ties and significant influence over wood suppliers linked to fires and deforestation.”¹ At that time, APP promised to “engage a third party auditor to look into the shareholding of all forestry businesses in Indonesia to determine if any APP employees are involved in businesses that present a conflict of interest.”²

The Executive Summary APP has now released is far from an independent auditor’s report, and APP/Sinar Mas gives no indication that an auditor’s report will be shared with the public at a later date.³ Instead, APP in the Executive Summary explains that an unnamed “Big Four” accounting firm sampled the data for verification purposes and has yet to present its final report to APP. Without an auditor’s report of these issues, it is difficult to see how the release of the Executive Summary is anything other than an effort by APP/Sinar Mas to avoid a genuinely independent analysis of the group’s complex network of corporate entities, many of which appear to be controlled by the same beneficial owners.

Figure 1. Top of recently released report by APP/Sinar Mas.



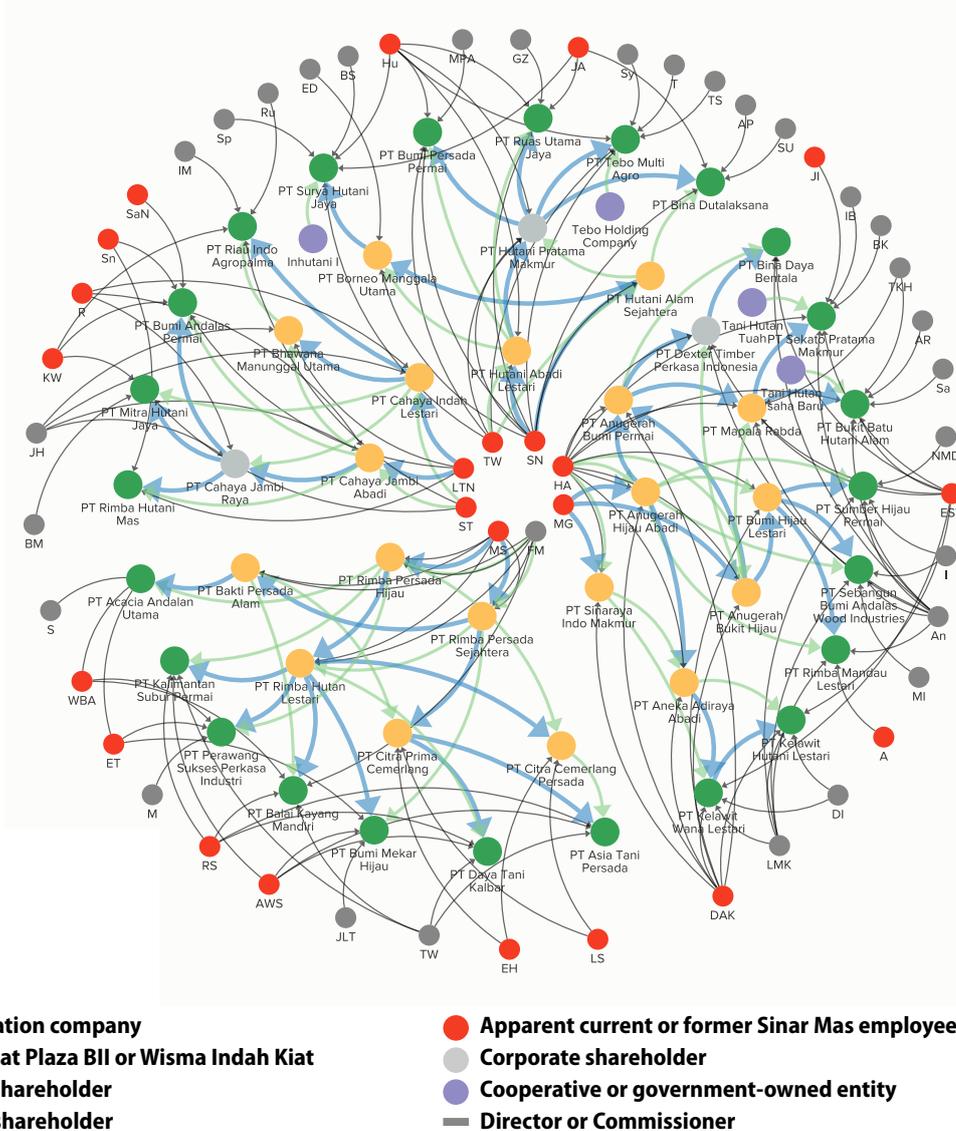
Source: APP/Sinarmas. 2019. “APP Assessment on its link with industrial forest plantations in Indonesia.” Executive Summary, March 15. <http://www.fcpmonitoring.com/Pages/OpenPDF.aspx?id=1422>.

2. APP/Sinar Mas does not deny claims that current and/or former employees are shareholders, directors, and commissioners of pulpwood suppliers that APP previously described as “independent”.

The summary prepared by APP/Sinar Mas was purportedly intended to address claims made by the Associated Press and by the Koalisi Anti Mafia Hutan that at least 24 of 27 wood supplier companies described by APP as “independent” partners appear to have close links, through ownership and management connections, with the Sinar Mas Group and related entities.⁴ In the Executive Summary, APP/Sinar Mas does not deny the existence of these companies’ connections to current or former employees of APP and/or Sinar Mas entities, nor does it specifically refute the possibility that these are nominee structures.

Furthermore, APP/Sinar Mas gives no indication that it now prohibits the use of nominee structures in its supply chain. Indonesia regulations explicitly prohibit the use of nominee structures, and according to Law 25 of 2007 on Capital Investment, contracts established using nominee structures are legally declared null and void.⁵ The Forest Stewardship Council admonished APP for such practices, in a letter dated May 28, 2018, stating that its “pattern of using corporate proxies to control operations without legal ownership is very alarming.”⁶

Figure 2. Consolidated shareholder, commissioner, and director map for 24 of APP’s “independent” supplier companies and holding companies, as of April 16, 2018.

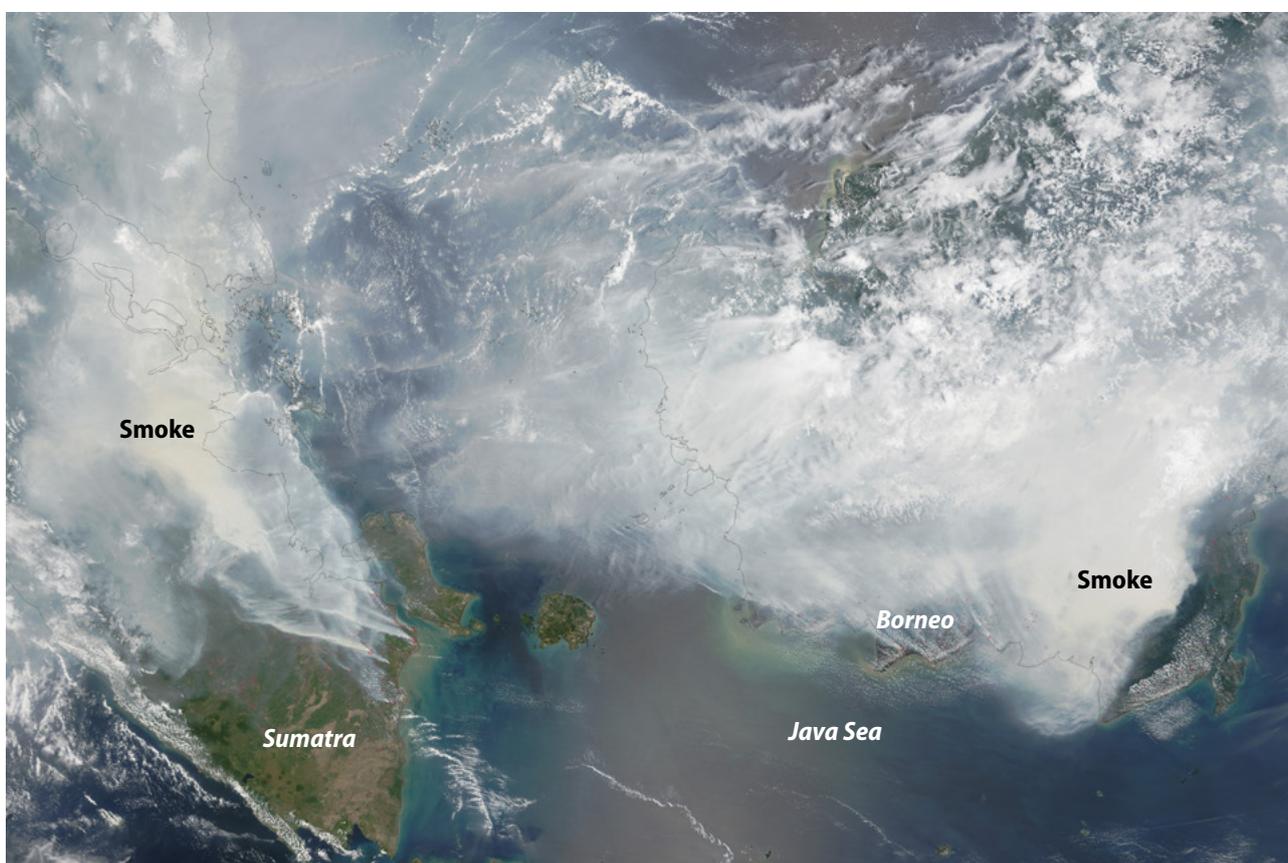


Source: Koalisi Anti Mafia Hutan et al. 2018. Removing the Corporate Mask: An Assessment of the Ownership and Management Structures of Asia Pulp & Paper’s Declared Wood Suppliers in Indonesia. May 30. Jakarta, Indonesia.

3. APP admits that four wood suppliers involved in the 2015 fires are partners over which it has “significant influence”, including possible ownership and management links.

In 2015, disastrous fires burned large areas within four forestry concessions managed by PT Bumi Mekar Hijau (BMH), PT Sebangun Bumi Andalas Wood Industries (SWI), PT Bumi Andalas Permai (BAP) and PT Rimba Hutani Mas (RHM), all of which are long-term wood suppliers to APP.⁷ In December 2015, APP claimed these supplier companies were “independently owned and operated”⁸, in an apparent attempt to distance itself from responsibility when Singapore’s National Environmental Agency issued “Preventative Measures Notices” and started to investigate these four suppliers for possible violations of the Transboundary Haze Pollution Act.^{9,10} Contrary to its previous claims, APP now acknowledges it has “significant influence” over these suppliers, including possibly having the same shareholders and key management personnel (i.e. Board of Directors and/or Board of Commissioners).¹¹

Figure 3. Observation by NASA’s Terra satellite of smoke from land fires over Sumatra and Borneo in September and October 2015.



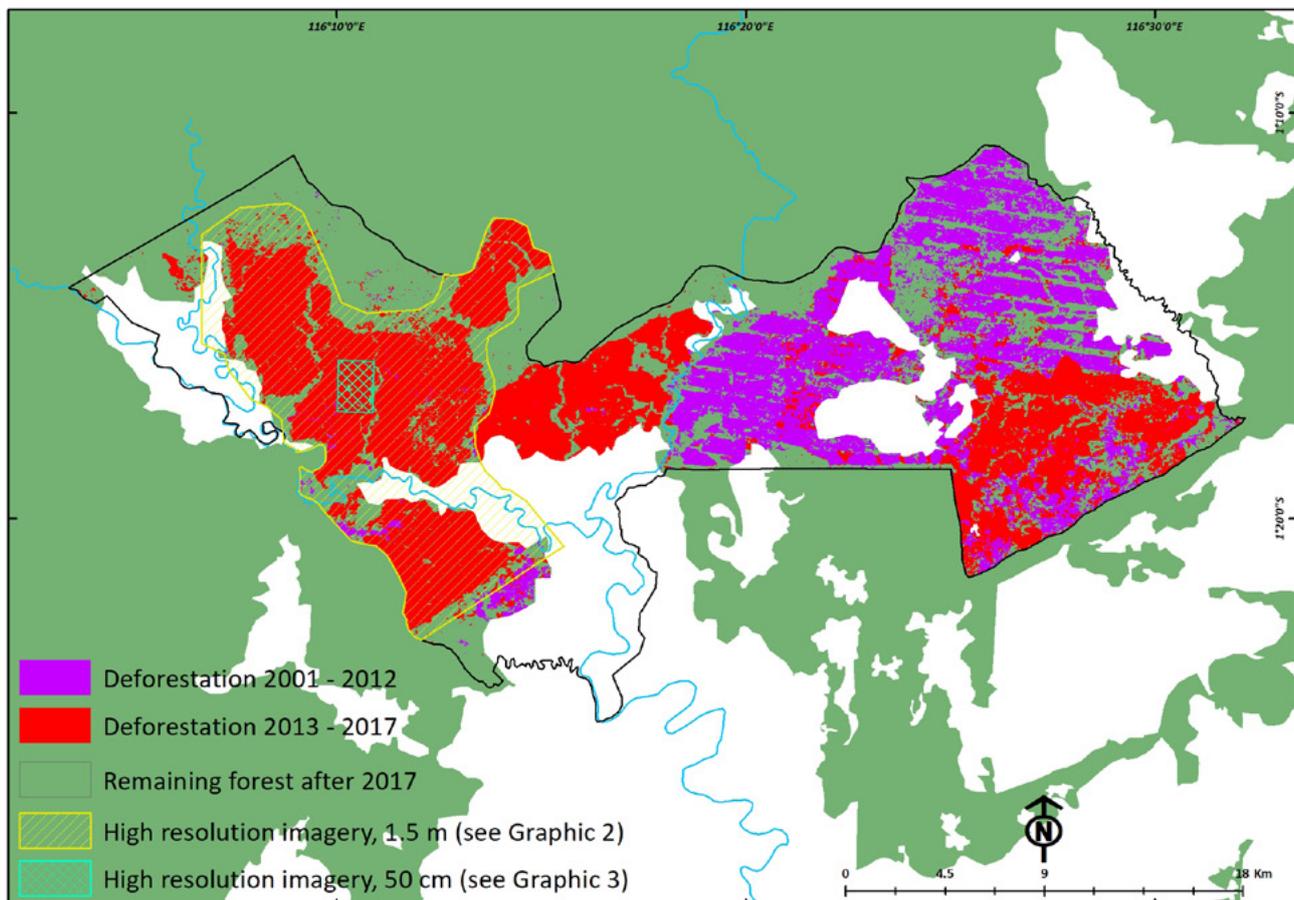
Source: Jeff Schmaltz of NASA’s LANCE/EOSDIS Rapid Response in Voiland, Adam. 2015. “Seeing through the smoky pall: Observations from a grim Indonesian fire season.” NASA Earth Observatory. December 1. <https://earthobservatory.nasa.gov/features/IndonesianFires>

4. APP acknowledges wood purchases from PT Fajar Surya Swadaya, an East Kalimantan supplier engaged in deforestation.

In August 2018, Koalisi Anti Mafia Hutan reported that both APP and APRIL had violated their zero-deforestation policies by purchasing wood from PT Fajar Surya Swadaya (FSS), a concession-holder that had cleared nearly 20,000 ha of natural forest since 2013 without showing evidence of having done proper High Conservation Value (HCV) and High Carbon Stock (HCS) assessments.¹² Citing official wood utilization reports, the NGO report found that in 2017, PT Indah Kiat Pulp & Paper had purchased 24,863 m³ of plantation-grown wood from FSS and that PT Sarana Bina Semesta Alam, the APP-affiliated wood chip mill in East Kalimantan, had purchased 14,726 m³ (together, about 1,000 truckloads).

In the Executive Summary just released, APP/Sinar Mas reiterates earlier claims that its wood purchases from FSS were limited to “a trial shipment of logs” and that “after further field verification, APP [. . .] found there were forest conversion in FSS’ concession area [. . . and] that areas defined by FSS as non-HCS were actually HCS areas.” APP/Sinar Mas attributes its purchases from FSS, amounting to around 800 truckloads of wood, to an “administration lapse.” The company claims that “no fibre from this shipment has entered APP’s production supply”, even though it admits some of the wood was used for pallets and as fuel in the boiler.¹³ These findings raise fundamental questions about the oversight of APP’s sustainability commitments and whether APP would have acknowledged its involvement in deforestation if journalists and NGOs had not discovered it.

Figure 4. Satellite imagery analysis of PT Fajar Surya Swadaya’s concession in East Kalimantan indicating deforestation during 2001–2017 and remaining natural forest cover.

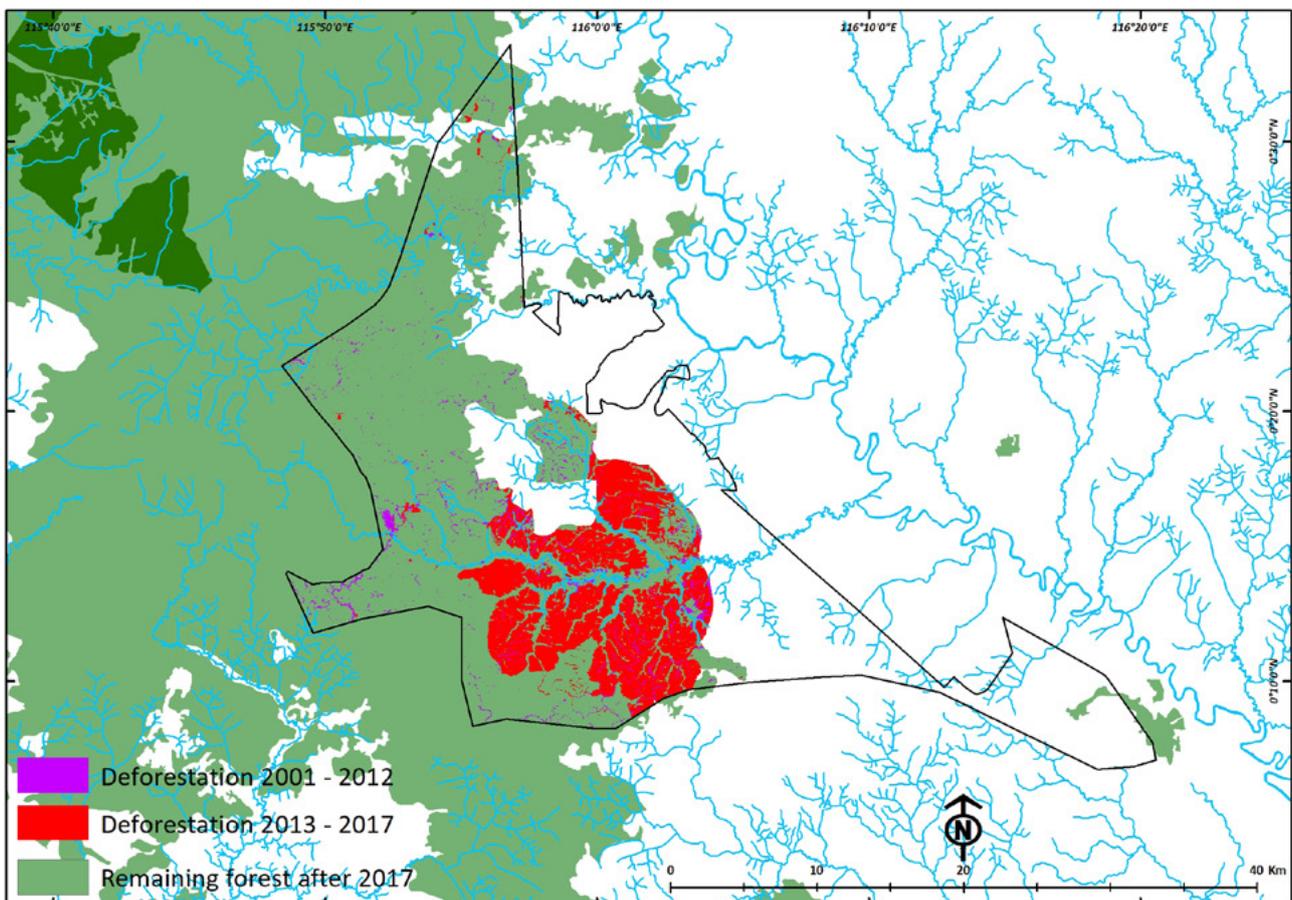


Source: Koalisi Anti Mafia Hutan et al. 2018. APP and APRIL violate zero-deforestation policies with wood purchases from Djarum Group concessions in East Kalimantan. August 15. <https://wwf.panda.org/?333258/APP-and-APRIL-violate-zero-deforestation-policies-with-wood-purchases-from-Djarum-Group-concessions-in-East-Kalimantan>.

5. Following previous denials, APP acknowledges a partner relationship with PT Sarana Bina Semesta Alam, an East Kalimantan chip mill, which sourced rainforest wood from deforestation.

An NGO report in August 2018 documented that PT Sarana Bina Semesta Alam (SBSA), a wood chip mill in East Kalimantan affiliated with APP, was also receiving rainforest wood from a land-clearing operation from another supplier, PT Silva Rimba Lestari.¹⁴ Initially, APP denied that it “own[s] or control[s] PT Sarana Bina Semesta Alam”.¹⁵ Now, in the new summary, APP acknowledges it has “significant influence” over its “partner” wood chip mill SBSA, which has historically exported wood chips to APP’s Hainan Jinhai pulp mill in China.¹⁶ APP even confirms that SBSA purchased wood from PT Silva Rimba Lestari, the supplier allegedly destroying natural forest in East Kalimantan, but claims that the wood was used only for “infrastructure purposes”.¹⁷ This case raises fundamental questions about the oversight of APP’s sustainability commitments and demonstrates APP’s apparent attempt to deny its responsibility for the deforestation.

Figure 5. Satellite imagery analysis of PT Silva Rimba Lestari’s concession in East Kalimantan indicating deforestation during 2001–2017 and remaining natural forest cover.



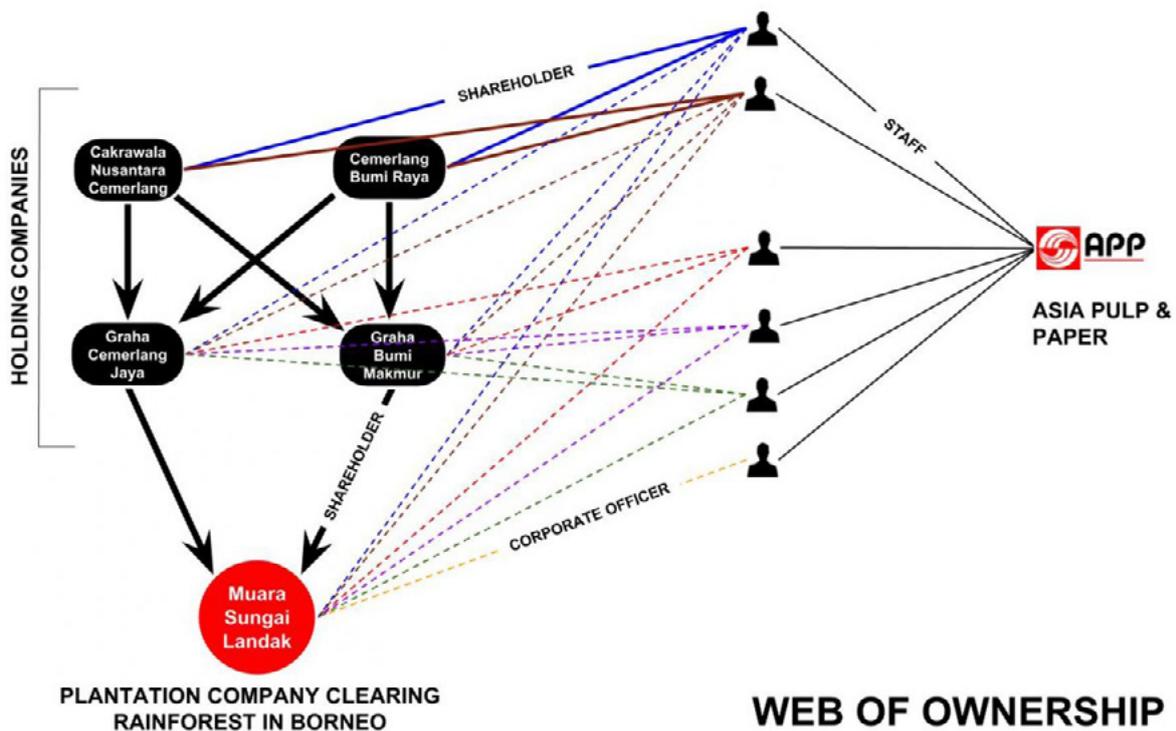
Source: Koalisi Anti Mafia Hutan et al. 2018. APP and APRIL violate zero-deforestation policies with wood purchases from Djarum Group concessions in East Kalimantan. August 15. <https://wwf.panda.org/7333258/APP-and-APRIL-violate-zero-deforestation-policies-with-wood-purchases-from-Djarum-Group-concessions-in-East-Kalimantan>.

6. Ownership of PT Muara Sungai Landak (MSL), a plantation company found to be responsible for deforestation and peatland destruction, is attributed to a few rogue ex-employees, when even APP's current Sustainability Director is a former shareholder.

An investigation by the Associated Press published in December 2017 found that MSL, a forest plantation company with links to APP, had cleared rainforest and destroyed peatlands in Kalimantan since 2014.¹⁸ APP acknowledges that its own investigation “found that three of MSL’s shareholders had relationships with APP.”¹⁹ APP’s summary explains that “Two were ex-employees of APP who left in October 2015 and November 2015 and one was a current employee who had not declared his shareholdings and position within MSL” (and was subsequently terminated).

A subsequent investigation into MSL by Mongabay, published in July 2018, found substantially deeper links to APP and the Sinar Mas Group than APP’s position acknowledges.²⁰ Mongabay reported that “Two of APP’s ex-employees interviewed by Mongabay said management had used their names on official filings for the company [...] One said that he had received a monthly payment to compensate for the arrangement, and that he had been afraid to protest for fear of losing his job.”²¹ According to this investigation, “Interviews with the ex-employees of APP also indicate that efforts to obscure ownership links are being coordinated from within the conglomerate.”²² Further investigation has found that APP’s current Sustainability Director was a minority shareholder of MSL’s holding companies until 2012 while reportedly an employee of Sinar Mas Forestry, according to corporate registry documents obtained from the government’s Ditjen AHU database (www.ahu.go.id).

Figure 6. Links between PT Muara Sungai Landak and APP staff.



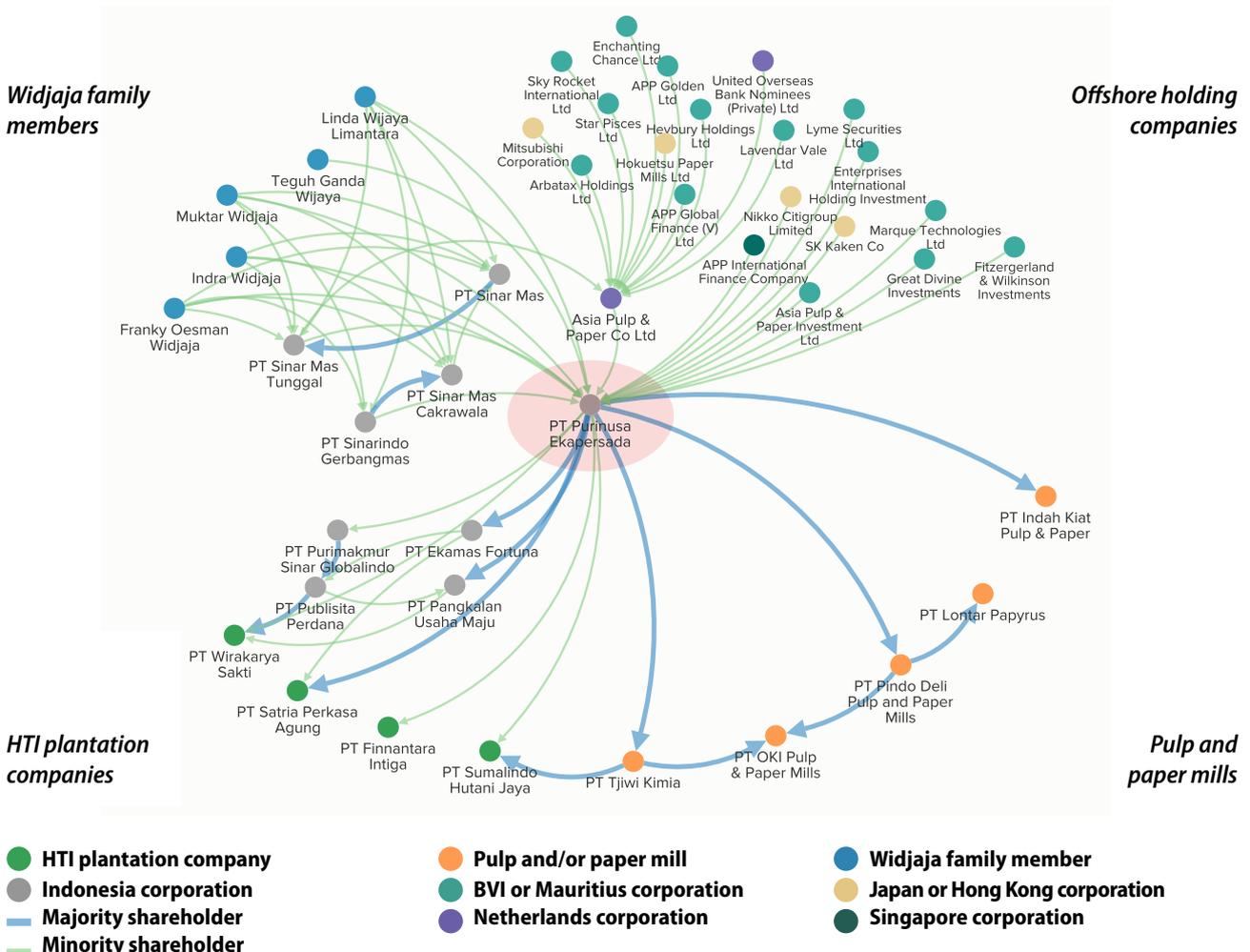
Source: Jacobson, Philip. 2018. “Revealed: Paper giant’s ex-staff say it used their names for secret company in Borneo.” Mongabay. July 10. <https://news.mongabay.com/2018/07/revealed-paper-giants-ex-staff-say-it-used-their-names-for-secret-company-in-borneo/>.

7. The declared list of APP companies does not cover the full scope of the APP/Sinar Mas Group's corporate structure.

The Executive Summary released by APP/Sinar Mas provides a list of "APP Companies", which includes: six (6) companies identified as "Pulpwood Supplier (Forestry Operation)"; three (3) companies identified as "Pulp Mill/ Integrated Pulp & Paper Mill"; and four (4) companies identified as "Paper Mill". The statement provides no clear explanation of why numerous other companies which appear to be closely affiliated with APP and the Sinar Mas Group through ties of ownership and/or management, some of which were listed in the 2018 NGO report, are not classified as "APP Companies".²³

One significant omission is PT Purinusa Ekapersada, the brand-holder of Asia Pulp & Paper.²⁴ Purinusa Ekapersada is the holding company under which much of APP's pulp and paper companies are consolidated, according to corporate registry documents analyzed in the *Koalisi Anti Mafia Hutan et al.'s 2018 report*.²⁵ In many other ways, APP/Sinar Mas's disclosure of "APP companies" falls well short of meeting the Forest Stewardship Council's ultimatum in May 2018 that the group provide "a full disclosure by June 11 [2018] of Asia Pulp & Paper's corporate structure including its wood suppliers, shell companies, and offshore companies and their true ownership."²⁶

Figure 7. Shareholder map of PT Purinusa Ekapersada, as of April 16, 2018.



Source: *Koalisi Anti Mafia Hutan et al. 2018. Removing the Corporate Mask: An Assessment of the Ownership and Management Structures of Asia Pulp & Paper's Declared Wood Suppliers in Indonesia. May 30. Jakarta, Indonesia.*

Recommendations

Based on the above findings, the Anti Forest Mafia Coalition repeats the same recommendations published in May 2018, urging:

Asia Pulp & Paper and the Sinar Mas Group to:

- fulfill the requirements of Presidential Regulation 13/2018 to declare the beneficial owners of all companies listed in Appendix A of *Removing the Corporate Mask*;
- disclose the names, legal shareholders, and beneficial owners of all corporate entities controlled by, affiliated with, and/or linked to APP and the Sinar Mas Group in all jurisdictions globally;
- release audited financial statements for all HTI concession companies that supply wood fiber to APP's pulp mills in Indonesia.

The President of the Republic of Indonesia to:

- apply a single identity number (SIN) to close potential gaps for all people to misuse false information;

The House of Representatives of the Republic of Indonesia to:

- work with the Government to revise Law 40/2017 on Limited Liability Companies, to clarify the liability of parent companies, subsidiary companies, group companies, or holding companies under Indonesia's corporate law.

The Ministry of Environment and Forestry to:

- require APP and Sinar Mas Group to disclose the corporate structures and beneficial owners of all companies holding HTI concessions and other forestry licenses under the group's control;
- require all beneficial owners of APP- and Sinar Mas-affiliated companies to affirm their ultimate responsibility for ensuring the forestry and peatland assets are managed fully in accordance with the terms of the license under which they have been allocated;
- require APP and the Sinar Mas Group to immediately release a credible and verifiable long-term wood supply plan for each of the group's pulp mills in Indonesia;
- not allocate new HTI licenses as land swaps to companies affiliated with or related to the Sinar Mas Group until the entire inspection is conducted on possible tax avoidance and monopsony practices by the Sinar Mas Group;

The Ministry of Finance c.q. Directorate General of Taxes to:

- audit the performance of corporate and individual tax payments of corporations, management, and shareholders affiliated with Sinar Mas and APP;
- review wood supply agreements and other contracts between APP and the Sinar Mas Group and APP's declared wood supplier companies to assess whether related-party purchases have been conducted as arms-length transactions;

The Ministry of Law and Human Rights to:

- require companies affiliated with Sinar Mas Group to declare their beneficial owners, as stipulated in Presidential Regulation 13/2018;
- evaluate the existence of shareholders allegedly presumed as the *nominee* owners at the companies affiliated with Sinar Mas Group;
- improve the system for the formation of legal entities so as to identify from the outset *nominee* share-holding structures, as well as companies that are within a single ownership group, which have overlapping share-holding structures, and/or in which officers hold multiple positions.

The Financial Services Authority (OJK) to:

- conduct a full audit of the compliance and validity of information released by companies affiliated with Sinar Mas Group which have gone public;

The Commission of Business Competition Supervisory (KPPU) to:

- inspect the business structure of Sinar Mas Group to assess indications of overlapping share-holding structures, vertical integration, and potential for transfer pricing on wood fiber supply to industries, which is prohibited by Law 5/1999;
- take appropriate action upon companies that are suspected of committing violations;

The Financial Transaction Reports and Analysis Centre (PPATK) to:

- analyze potential risks of money laundering by Sinar Mas Group related companies, especially through/by/ with companies in offshore jurisdictions.

Endnotes

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