

Earthworm Foundation Update on Asia Pulp & Paper's (APP) progress



A review of the company's
progress against its Forest
Conservation Policy

Asia Pulp & Paper (APP) > May 2019



In May 2018, Greenpeace announced that **it had ended its engagement** with Asia Pulp & Paper (APP). This decision was made following a report from the **Associated Press** which stated that APP, a member of Earthworm Foundation (Earthworm) since 2013, had breached its 'no deforestation' commitment through undeclared links with other companies involved in clearing forests.

After reviewing the company's progress, Earthworm (previously The Forest Trust) released **a response**, declaring its intention to continue working with the company to review the concerns raised and make improvements where needed. This decision was taken with the firm understanding that work remains to be done for APP to continue to implement its sustainability and Forest Conservation Policy (FCP) commitments. At that time, Earthworm saw collaboration and continued dialogue as the best approach to assist the company in realising its vision.

On the basis of the progress captured in this report, we remain firm in our belief that the company is committed to making progress, and we will continue collaborating to bring about the agreed changes. In this report we have also formulated recommendations that we see as key for APP to adopt as part of their ongoing commitment to their FCP and its implementation.

In this update, Earthworm reviews progress made over the last year on the following topics:

- **APP ownership and links to deforestation**
- **Ensuring a deforestation-free supply chain**
- **Surveying APP's wood supply**
- **Developing collaborative solutions to combat deforestation**
- **Conflict resolution and improving social engagement**
- **Supporting full implementation of sustainable forestry practices**
- **Transparency – improving the FCP Monitoring Dashboard**

APP ownership and links to deforestation

In accordance with the commitment that has been made, APP conducted an assessment to shed light on the organisation's structure and any possible links to deforestation¹. The scope of the review included potential links between APP group² and the plantations through employment, key management and financial relations. A global auditing company was commissioned to carry out an independent assessment on APP's financial relationship with other forest plantation companies in Indonesia, as well as review the robustness of the methodology to identify any employment or key management links. APP has shared the result of this assessment at a stakeholder workshop in Jakarta on 15 March 2019, and published the summary of the assessment process and result on its **Forest Conservation Policy (FCP) dashboard**. The full report can be made available upon request to APP. Having had the

¹ The report specifically mentioned two companies named PT Muara Sungai Landak and PT Hutan Rindang Banua

² APP Group consisted of 6 forestry companies and 7 mills i.e. PT Arara Abadi, PT Wirakarya Sakti, PT Sumalindo Hutani Jaya, PT Finnantara Intiga, PT Riau Abadi Lestari, PT Satria Perkasa Agung, PT Indah Kiat Pulp and Paper Tbk, PT Lontar Papyrus Pulp & Paper Industry, PT OKI Pulp & Paper Mills, PT Pabrik Kertas Tjiwi Kimia Tbk, PT Pindo Deli Pulp and Paper Mills, PT Ekamas Fortuna and PT Univenus.

opportunity to run through the assessment report, Earthworm is confident of the robustness of the assessment and recommends that APP shares this report publically to provide others with the same visibility.

Earthworm oversaw the process and concluded the following:

- There are 34 partner companies consisting of: 27 long-term suppliers, one carbon project partner, four community forests, one trader³ and one chip mill. The term 'partner' represents companies where APP has significant influence⁴. All transactions with these partners were processed through and in accordance with the APP Supplier Evaluation and Risk Assessment (SERA) mechanism⁵ and were publicly announced on the FCP dashboard.
- In total, six APP group forestry companies and 27 long-term suppliers are already subject to MDA satellite monitoring⁶, while four community forest suppliers were analysed spatially⁷ during the SERA process.
- It was clarified that two former APP employees held formal positions as directors on the board of PT Muara Sungai Landak (PT MSL). As of 2018, these employees no longer worked for APP (backed by evidence of resignation letters), and APP management has asserted that they had no knowledge regarding the positions held as the individuals did not declare to APP their connection to any other business entity, despite the APP employment requirement to do so.
- A publicly available annual report released by Dian Swastatika Sentosa (Sinar Mas Energy and Infrastructure) has identified that PT Hutan Rindang Banua (PT HRB) is one of the subsidiaries of Golden Energy and Resources Limited (GEAR), a public company listed in Singapore, under Dian Swastatika Sentosa. Dian Swastatika Sentosa is a company owned by Mr. Franky Widjaja, Mr. Muktar Widjaja and Mr. Indra Widjaja, the shareholders of APP. No similarities between the Board of Directors of APP companies, GEAR and DSS were identified.

In support of the assessment above, Earthworm conducted additional spatial analysis on the companies that were identified to have links with APP but are not currently monitored by MDA and/or not evaluated through SERA. These included one carbon project partner (PT Putra Riau Perkasa) and two companies that were alleged as having links to APP employees and/or shareholders (PT MSL and PT HRB). The Earthworm analysis results are as follows:

- No evidence of forest cover change was identified in PT Putra Riau Perkasa. Over 16,000 ha of the company's concession located in Riau province still consist of forest cover.

³ A trader company that is identified as APP's partner is PT Dexter Timber Perkasa. Although still listed as a member in the Indonesian Forestry Plantation Association (*Asosiasi Pengusaha Hutan Indonesia*) website, a government letter in 2015 has confirmed that PT Dexter has returned its concession license to Indonesian government due to the large part of the area were permanently flooded and high rate of community occupancy, which made it non conducive for PT Dexter to manage or carry out production activity. At the moment, PT Dexter operates as trader that sources from PT Suntura Gajapati.

⁴ Significant influence are identified through the existing situation i.e. (a) Long-term supply relationships for purchasing or selling wood, (b) Outstanding balance of advance payment related to wood transactions, (c) Non-economic supply of fixed assets in the location of Plantation Companies (for individual asset amount greater than Rp 500 million), (d) Supply of services related to wood transactions (greater than Rp 500 million), (e) Unusual trading relationships related to wood transactions, (f) Same shareholder(s), (g) Same key management personnel, i.e., Board of Directors (BOD) and Board of Commissioners (BOC).

⁵ APP suppliers vetted tool. For potential suppliers, SERA is used to evaluate the level of risk which might be caused by their operation. For APP suppliers it is used as an annual evaluation tool.

⁶ Since May 2017, APP used a Canadian-based satellite monitoring service, Mac Donald Dewittler (MDA) to be able to mitigate deforestation that happens in its concession. MDA is providing forest cover change alert to APP every 24 days.

⁷ Spatial analysis to potential new suppliers is carried out to look at the forest cover change – whether or not the company is involved in natural forest clearance since 2013. If this is the case, APP will not be sourcing from the company due to its Forest Conservation Policy.

- In PT MSL, 2,987 ha of forest cover change was identified between 2014 and 2018, of which 2,820 ha was identified as conversion from natural forest to forest plantation. Given that APP does not have any formal links with PT MSL, there is little they can do to remedy the situation.
- In PT HRB, 4,588 ha of natural forest was lost during 2014 to 2017 through smallholder palm and rubber activities as well as coal mining. Almost all of PT HRB's area is subject to conflicting permits for oil palm plantations and coal mines.

Based on Earthworm interviews with APP management (legal and human resources), and the results of an independent financial assessment, there is no evidence to suggest that APP has profited from PT MSL. APP mills did not receive any wood supply from either PT MSL or PT HRB, and the independent financial audit concluded that there were no financial records or transactions between APP and the two companies.

Following this assessment, Earthworm provided a number of recommendations to APP. These are as follows:

- Proactively ensure that the FCP commitment applies to APP shareholders, management and employees. Action should not only be taken in a situation where there is a possible conflict of interest from a business point of view, but also when APP personnel are involved in a business that is not in line with APP's sustainability values.
- Proactively ensure the sustainability of the operations of companies identified as partners or third party suppliers complies with the FCP commitments. Presently, all plantation company partners are subject to meeting the FCP. The compliance is evaluated on a yearly basis and all suppliers are required to put in the same efforts, i.e. to adequately protect forests already set aside and to resolve conflicts responsibly. There is no indication that APP takes less responsibility to its wood supplier partners. It is also important for APP to ensure that its other partners, i.e. trader and chip mill companies, implement sustainable processes.
- Use the result of this assessment to ensure that wood supply from companies that are directly or indirectly linked to deforestation does not enter the APP supply chain.

Ensuring a deforestation-free supply chain

In March 2018, Earthworm learned that APP received a shipment of 27,300 tons of logs from PT Fajar Surya Swadaya (PT FSS), a subsidiary of the Djarum Group, prior to the completion of a SERA assessment⁸. Previous satellite analysis carried out in November 2017 had linked PT FSS to deforestation. In response, APP confirmed the deviation from standard SERA protocol citing an administrative lapse, and demonstrated that none of the logs were used for production and quarantined at the mill storage. This was confirmed in a visit by Earthworm to the Indah Kiat Pulp and Paper (IKPP) mill in Perawang in April 2018. In the interest of transparency, APP presented the lapse and facts during a Stakeholder Workshop in May 2018. The [chronology of events](#) was published in the FCP dashboard.

In order to avoid such lapses in the future, the SERA procedure was updated in July 2018 to include a public consultation process allowing all stakeholders 14 days to provide feedback on any new potential APP supplier. Additionally, APP also made several other adjustments, including over the scope of the 'no deforestation' policy of its potential suppliers. The previous APP Association Procedure stated that the supplier and its associated organisations – with any level of ownership or voting power, regardless of stake – should not be involved in any activities that are related to natural forest clearance after the cut-off date of February 2013. In July 2018, the scope of this policy was



changed to the supplier and its associated organisations in the pulpwood businesses. APP also adjusted the term “association” as “parent or sister companies that have significant level of ownership or voting power”. The reason behind this was APP’s reflection following four years of SERA implementation, in which the company found challenges in obtaining relevant documents from potential suppliers related to the possibility of their affiliated companies in the non-pulpwood business being involved in deforestation. This change is therefore made to make SERA more implementable.

These adjustments have been announced and discussed with stakeholders during the [Stakeholder Advisory Forum](#) in October 2018. Having worked with APP in updating the SERA mechanism, Earthworm was satisfied with the addition of a public notification scheme. Nevertheless, Earthworm advised against the amendment regarding the ‘no deforestation’ scope being limited to pulpwood companies, as it remains a risk to APP’s commitments. While we understand that this adjustment was made in order to make the procedure more practical and implementable, Earthworm encourages APP to use the best of its ability to check and take into account the affiliated companies of all its potential suppliers, in order to avoid any situation that can be conflicting with APP’s sustainability values.

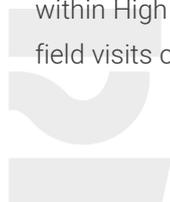
Surveying APP’s wood supply

There have been concerns raised by APP stakeholders in relation to whether or not it has access to sufficient wood to meet its production needs, while still adhering to its FCP. To respond to this, APP has underlined that under no circumstances will they be using material coming from natural forest clearance for their production. In the situation where the company requires additional pulpwood material, they will be sourcing the additional material from the global market, while still ensuring that it comes from responsible sources. SERA, as previously mentioned, should provide assurance that the material sourced from third parties is in compliance with APP’s ‘no deforestation’ commitment. All potential and existing suppliers are announced in the corresponding [transparency dashboard](#).

Following the growth and yield study conducted by Earthworm and Ata Marie in 2014, a set of recommendations have been provided by Rainforest Alliance in their review of the study, including a recommendation that APP should continue to monitor its internal wood stock periodically, given that estimations from the growth and yield studies evolve over time. APP assembled a task force to follow up on this recommendation, including: (i) to start surveying its standing stock, (ii) to detect imminent challenges in the field, and (iii) to mitigate them at the first opportunity. Earthworm believes that this was a good step forward, and recommends that APP continues strengthening its strategy and mechanism to determine the current stock. We believe that these actions will lead to more comprehensive steps that can address broader issues, and strengthen APP’s strategy to meet the increasing business demand for responsible paper.

Developing collaborative solutions to combat deforestation

Deforestation is still one of the major challenges facing Indonesia and many other countries. For APP, illegal logging and land encroachment (through conversion of natural forests to oil palm plantations or agriculture), were still found within High Conservation Value (HCV) and High Carbon Stock (HCS) areas in APP concessions, as identified during field visits carried out by Earthworm throughout 2017 and 2018. APP has invested in an advanced satellite tracking



service (MDA satellite monitoring) used since May 2017 to track changes in forest cover in concessions where its own forestry companies, as well as suppliers, operate. APP has additionally worked with a number of partners to address this challenge, such as the Zoological Society of London (ZSL). In 2018, another programme which aims to resolve the problem in a sustainable way was launched together with Earthworm, called Collaborative Conservation Management (CCM).

CCM's objective is to preserve the function of conservation areas (HCV and HCS) using a collaborative approach with local communities and other key stakeholders. To pilot the CCM programme, a 3000 ha protected area in the Duri, Riau province was selected. Considering that the encroachment was very active in this site, the first measure taken was to activate and strengthen the security patrol together with security forces. During the patrol in January 2019, some heavy equipment was seized and a number of perpetrators were detained. As a result, groups of loggers were identified; and the current threat of illegal logging in this area was reduced significantly according to satellite monitoring. Along with boosting security patrols, Earthworm and APP also carried out engagements with local communities and village officials to dig further into the situation that currently enables deforestation and explore potential solutions that might enable collaborative protection of the remaining forest. Among the aspects that can drive positive change is clarity regarding the boundaries of the villages, the company, and its protected area. To follow up on this, APP and Earthworm conducted boundary reconstruction which also involves community representatives. In this activity, the company re-socialised the boundaries of its concession to the community, as well as identified the location where there is overlap with community claims. This is a good step forward, where the company and community are able to confirm their access to land. APP now needs to replicate the process in other areas, involving other villages, as well as to follow up on the recommendation and action plan that was agreed upon following the boundaries reconstruction.

Although satellite monitoring showed that the threat in this area has decreased since the CCM was launched, Earthworm and APP need to continue the work to ensure that there is a long term commitment from both the community and company to protect the remaining forest from any illegal activities. CCM will continue to be carried out during 2019 and will be replicated in the Musi Banyuasin and East Kalimantan regions, where threats to the HCV and HCS areas remain high.

Conflict resolution and improving social engagement

In 2018, Earthworm provided recommendations to APP to address concerns raised by NGOs and other stakeholders about its operation's impacts on traditional and/or indigenous tribal or nomadic communities. APP responded by revisiting its land dispute resolution procedure. In the latest version, more detail on the engagement with indigenous groups, including nomadic local communities, was added. This process included stakeholder consultation during the [APP Stakeholder Advisory Forum](#) in October 2018.

From Earthworm's perspective, this revision is only the first step in positively engaging with indigenous people whose traditional lands overlap with APP and APP supplier operational areas. In Jambi, for example, there are several groups of *Suku Anak Dalam (SAD)* indigenous communities who live in and/or access the area inside APP concessions. Of these groups, some already reside in permanent settlements and others still practice nomadic life. Earthworm has

encouraged APP to meaningfully engage with these groups, explore where APP can resolve historic land displacement as well as add value to the groups' current quality of life. This includes mediation in situations where the company's interests are in conflict with the groups' interests. This is a significant change, and currently the engagement still needs to be scaled up to be able to reach the wider SAD community. APP has informed Earthworm that it intends to do this through collaboration with its **Regional Social Working Group**.⁹ Earthworm supports this plan and will continue to monitor the development of this initiative.

In relation to social conflict or land dispute resolution, APP announced they resolved 49 percent of conflicts in its area up until the first quarter of 2019. As the company has mentioned in several occasions, a conflict is considered resolved when it reaches either phase 3 (MOU signing) or phase 4 (MOU implementation), in accordance with the APP conflict resolution procedure. In this context, Earthworm had expressed a concern to APP that there were several cases where APP had reached a signed agreement (Phase 3), but the implementation of actions prescribed in the signed MOU were delayed due to various circumstances.

We understand the delays in implementation were due to 'external' factors, such as clarity on government regulations. Nevertheless, it poses a risk of distrust between the parties involved and potential conflict escalation. As such, Earthworm recommends APP improve the monitoring and evaluation of its MOU implementation by mapping out the number of MOUs currently or potentially not fully implemented, the cause and the potential mitigation plan, and to ensure that all relevant stakeholders are involved in the collaborative effort to guide the implementation forward. Having been involved on the ground during the land dispute resolution process, Earthworm understands that there are multiple and complex causes that lead to disputes; and there might not be a prescriptive method to resolve all disputes. Hence, the development of the conflict resolution process might not be as fast as hoped for, despite APP's efforts. Earthworm also understands that considering the complexity of the stakeholders that are involved in a conflict, it can be quite delicate to share information on social conflicts.

Nevertheless, APP should continue to collaborate with stakeholders, listen to their views and maintain an open and constructive dialogue in order to find innovative yet practical solutions for different kinds of conflicts. APP also needs to constantly reflect on the underlying problem of its conflicts with communities and focus on resolving them through, for example, strengthening its Free, Prior and Informed Consent (FPIC) process, its community engagement programmes, and community development programmes. Earthworm will continue to support APP's efforts to improve its conflict resolution and social engagement.

Supporting full implementation of sustainable forestry practices

In 2016, APP, Earthworm, other NGOs and representatives from the government developed the Integrated Sustainable Forest Management Plan (ISFMP) as guidance for the company to manage its operations in a responsible way. The plan integrated High Carbon Stock (HCS) and High Conservation Values (HCV) assessments, conflict mapping, and growth and yield studies. Since its completion, ISFMP has been shared at workshops with all

⁹ Adhoc groups that were formed in 2017 in Riau, Jambi and South Sumatra provinces consisted of individuals and or local NGOs or CSOs. The purpose of this group is to speed up conflict resolutions collaboratively.

APP suppliers to ensure their staff have a clear understanding of the process, so that they can effectively implement it in the field. Earthworm believes that by committing to thorough and consistent implementation of ISFMP, APP can address existing production, environmental and social challenges in its supply chain. However, it has become apparent that further progress on the implementation of the ISFMP is needed.

To address the problem, Earthworm and APP carried out an ISFMP implementation pilot in the East Kalimantan region and used this as a platform to evaluate current implementation and identify points for improvement. It is still too early to assess the impact of this pilot towards the full implementation of ISFMP, considering that this activity has just been carried out in the third quarter of 2018. More insights should be available this year. In the meantime, APP and Earthworm are working on a mechanism to make the ISFMP mainstream within the company's whole operations. The implementation of ISFMP will be closely monitored by Earthworm as well as a group of Independent Observers (IO) which consist of local NGOs, civil society organisations and government agencies. In 2017 and 2018, three independent monitoring visits were held in the Ogan Komering Ilir, East Kalimantan and Musi Banyuasin regions. The activity will continue for other regions in 2019.

Supporting Transparency – improving the FCP Monitoring Dashboard

APP's FCP monitoring dashboard was launched in mid-2013, a few months after the release of its FCP. This pioneering dashboard became the model for transparency platforms in the pulp and paper industry. Several adjustments have been made since then, incorporating input from stakeholders and others, to make it more user-friendly and up-to-date. Information such as potential and approved suppliers, results of the Stakeholder Advisory Forum, and summaries of past HCV and HCS studies can all be accessed by the public. APP has also committed to making available on the dashboard ongoing MDA monitoring alerts to provide more visibility regarding the forest conservation status and actions being taken to address encroachment. Earthworm encourages APP to deploy these public forest status updates as soon as possible and will continue to support APP in carrying out further improvements.

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About Earthworm Foundation

Earthworm Foundation is an impact-driven non-profit that works on the ground to create conditions for nature and people to thrive. Partnering with businesses, civil society and governments, it focusses on implementing responsible sourcing commitments in value chains, innovating practical solutions to the social and environmental challenges of production practices, and catalysing industry-wide chain reactions to help achieve transformation at scale. Should there be questions or requests for clarifications regarding our organisation and its work with APP, please reach out to Anggita Paramesti at a.paramesti@earthworm.org.

About APP

Indonesia-based Asia Pulp & Paper (APP) is one of the largest pulp and paper companies globally, producing more than 19 million tons of pulp, paper and packaging every year from its operations in Indonesia and China. In 2013, APP became an Earthworm Foundation member. The APP sustainability commitment is translated into the *Sustainability Roadmap: Vision 2020* and the *Forest Conservation Policy (FCP)*. The progress of APP's implementation of its commitment can be accessed at <http://fcpmonitoring.com>.

