

APP ASSESSMENT ON ITS LINK WITH INDUSTRIAL FOREST PLANTATIONS IN INDONESIA

EXECUTIVE SUMMARY

BACKGROUND

Responding to calls from stakeholders in 2012, we carried out an independent assessment to clarify APP's link with pulpwood suppliers in Indonesia. This was completed in 2014. In June 2018, APP took on the initiative to commence the second assessment with an expansion of scope. The second assessment was completed in March 2019.

OBJECTIVE

The main objective of the exercise is to demonstrate APP's zero deforestation commitment through:

- Ensuring that APP's supply chain is deforestation-free
- Ensuring that APP's shareholders, Board of Directors (BOD), Board of Commissioners (BOC) and employees of APP are not involved in deforestation.
- Providing clarity on APP's governance and corporate structure

SCOPE

1. APP Companies

No	Company Names	Pulpwood Supplier (Forestry Operation)	Pulp Mill/Integrated Pulp & Paper Mill	Paper Mill
1	PT AraraAbadi	x		
2	PT Wirakarya Sakti	x		
3	PT Sumalindo Hutani Jaya	x		
4	PT FinnnantaraIntiga	x		
5	PT Riau Andalan Lestari	x		
6	PT Satria Perkasa Agung	x		
7	PT. Indah Kiat Pulp & Paper Tbk		x	
8	PT. Lontar Papyrus Pulp & Paper Industry		x	

9	PT. OKI Pulp & Paper Mills		x	
10	PT. PabrikKertas Tjiwi Kimia Tbk			X
11	PT. Pindo Deli Pulp and Paper Mills			X
12	PT. Ekamas Fortuna			X
13	PT. The Univenus			X

2. The Association of Indonesia Forest Concession Holders (AsosiasiPengusahaHutan Indonesia (APHI), <http://www.rimbawan.com/daftar-anggota-aphi/>) website states that there are 192 plantation companies (HTIs) across 23 provinces in Indonesia (valid for the period of 2016 – 2021).

However, as of July 2018, only 188 HTIs were listed on the website, hence these 188 HTIs are referenced as the basis for this exercise.

METHODOLOGY

To ensure that the exercise is robust, there were two approaches applied simultaneously:

- **Approach 1: To identify links between APP and other plantation companies in Indonesia through shareholding, key management and employment**

The approach is applied to all APP companies through the following:

- 1.1 A comparison was conducted between the shareholders, BOD and BOC of the HTI companies listed on the APHI website against the list of employees and shareholders of APP companies.
- 1.2 Identification of conflict of interest through the e-Kinship program, which is an internal mechanism within APP to allow the employees to declare any potential conflict of interest to the company. This is including, but not limited to any family relations with APP's competitors or suppliers and/or ownership or involvement in other businesses similar to APP's line of business.

- **Approach 2: Determination of links through financial transaction**

All APP companies that either supply or purchase pulpwood with forestry operations and pulp or integrated pulp & paper mills, were assessed through identification of significant financial transactions between APP companies against the 188 HTI companies from the APHI website.

- The relationships of Plantation Companies to APP Companies are categorized into:
 1. **Partners:** Plantation Companies where APP Companies have Significant Influence*
 2. **Third Party Suppliers:** Plantation Companies where APP Companies do not have Significant Influence*
 3. **No Existing Relationship:** Plantation Companies that have neither transactions nor any agreement with APP Companies

***Significant Influence** means that any of the following relationships exist with the APP Companies in relation to wood supply:

- 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)

➤ **These exercises involved the following parties:**

1. One of the Big Four, the identity of this institution will not be made public due to a non-disclosure agreement, obtained sampling data based on Approach 1 & 2 for verification and testing purposes. The final report containing factual findings will be presented to APP for its follow up actions, if any.
 2. Earthworm Foundation (EF, previously known as The Forest Trust) provided oversight during the data collection and subsequently cross references the data by conducting a deforestation trace when links were found between APP and other HTI companies in Indonesia. EF also provided recommendations on how to further improve the transparency on APP's corporate structures, how to maintain deforestation free supply chain and strengthen the no deforestation commitment implementation.
- The standard and definition of the assessment in this context refers to the Agreed Upon Procedure (AUP) as stated in International Standard on Related Services 4400 issued by The Indonesian Institute of Certified Public Accountant (adopted from International Federation of Accountants).

RESULTS

1. Database

- Of the 192 member companies of APHI website, only 188 companies are listed as HTI. However, information on 19 Companies was not available in the Ditjen AHU (Direktorat Jenderal Administrasi Hukum Umum/Directorate General of Law Administration) website, www.ahu.go.id. Meanwhile, 1 company was identified as APP's competitor. Therefore, the Database for Plantation Companies in Indonesia is based on the 168 companies.

Description	Total Companies	Remarks
Members of APhi	192	
List of HTI Companies in APhi	188	
No information in AHU website	19	out of scope
APP Competitor	1	out of scope
Total workable companies	168	

Category of Partnership

PARTNERS

Plantation Companies

No	Name	Relations	No	Name	Relations
1	PT Acacia Andalan Utama	Long term supplier	15	PT Mutiara Sabuk Khatulistiwa	Long term supplier
2	PT Asia Tani Persada	Long term supplier	16	PT Perawang Sukses Perkasa Industri	Long term supplier
3	PT Balai Kayang Mandiri	Long term supplier	17	PT Putra Riau Perkasa	Significant outstanding balance of other receivable (for carbon project)
4	PT Bina Daya Bentala	Long term supplier	18	PT Riau Indo Agropalma	Long term supplier
5	PT Bina Duta Laksana	Long term supplier	19	PT Rimba Hutani Mas	Long term supplier
6	PT Bukit Batu Hutani Alam	Long term supplier	20	PT Rimba Mandau Lestari	Long term supplier
7	PT Bumi Andalas Permai	Long term supplier	21	PT Ruas Utama Jaya	Long term supplier
8	PT Bumi Mekar Hijau	Long term supplier	22	PT Sebangun Bumi Andalas Wood Industries	Long term supplier
9	PT Bumi Persada Permai	Long term supplier	23	PT Sekato Pratama Makmur	Long term supplier
10	PT Daya Tani Kalbar	Long term supplier	24	PT Sumber Hijau Permai	Long term supplier
11	PT Kalimantan Subur Permai	Long term supplier	25	PT Suntara Gajapati	Long term supplier
12	PT Kelawit Hutani Lestari	Long term supplier	26	PT Surya Hutani Jaya	Long term supplier
13	PT Kelawit Wanalestari	Long term supplier	27	PT Tebo Multi Agro	Long term supplier
14	PT Mitra Hutani Jaya	Long term supplier	28	PT Tri Pupajaya	Long term supplier

Community Forest

No	Name	Relation
1	KTH Indah Hawa	Long term supply through conflict resolution scheme
2	KTH Jabung Jaya Bersama	Long term supplier
3	KTH Lubuk Jambi	Long term supplier
4	KTH Wana Kapuas Lestari	Long term supply (but no longer supply in 2018)

Trader & Chip Mill

No	Name	Relation
1	PT Dexter Timber Perkasa Indonesia	Trader, sources from PT Suntara Gajapati
2	PT Sarana Bina Semesta Alam	Chip mill, sources from the following: PT Acacia Andalan Utama PT Surya Hutani Jaya PT Sumalindo Hutani Jaya PT Kelawit Hutani Lestari PT Kelawit Wanalestari

THIRD PARTY SUPPLIERS

No	Name
1	PT Fajar Surya Swadaya
2	PT Wanakasita Nusantara

Explanation on PT Fajar Surya Swadaya

- A trial shipment of logs occurred after PT Fajar Surya Swadaya (FSS) passed the SERA desktop assessment, before the SERA onsite assessments were completed.
- After further field verification, APP together with EF found there were forest conversion in FSS' concession area.
- APP found that areas defined by FSS as non HCS were actually HCS areas.
- The final report categorized FSS as significant risk not aligned with APP's commitment.
- Therefore, the woods delivered were flagged and quarantined in IKPP's log yard.
- Detail explanation can be found in APP's Public Announcement in FCP Monitoring Dashboard
(http://www.fcpmonitoring.com/Pages/updatecontent_details.aspx?nid=200082)
- The Accounting Firm noted there is no long time supply agreement between IKPP and FSS.

Explanation on PT Wanakasita Nusantara

- An external stakeholder (NGO) raised an issue on the possible link between PT Wanakasita Nusantara (WN) and PT Agronusa Alam Sejahtera (AAS).

- APP ran a legality check by downloading the Article of Association of both companies in the Ditjen AHU (Direktorat Jenderal Administrasi Hukum Umum/Directorate General of Law Administration) website, www.ahu.go.id.
- The results showed that one of the shareholders of WN is also a shareholder in AAS.
- AAS was still involved in natural forest conversion, therefore APP terminated relationship with WN who were found to have a link with AAS.

2. Companies with no existing relationship

Other than the companies listed above, the other companies out of the 168 are identified as having no relations to APP. The following are the samples of those companies, with the ones highlighted in red being the companies that were questioned by the stakeholders during 2017-2018.

No	Name	No	Name	No	Name
1.	PT Acehnusa Indrapuri	30.	PT Hutan Kusuma	93.	PT Rimba Timur Sentosa
2.	PT Adindo Hutani Lestari	31.	PT Hutan Mahligai	94.	PT Rimba Wawasan Permai
3.	PT Agrindo Persada Lestari	32.	PT Hutan Rindang Banua	95.	PT Sari Hijau Mutiara
4.	PT Agronusa Alam Sejahtera	No	Name	96.	PT Selaras Abadi Utama
5.	PT Alam Lestari Nusantara	59.	PT Mayawana Persada	97.	PT Selaras Inti Semesta
6.	PT Alfa Borneo Hutan Lestari	60.	PT Menggala Rambu Utama	98.	PT Sendawar Adhi Karya
7.	PT Arangan Hutani Lestari	61.	PT Meranti Laksana	99.	PT Sentosa Bahagia Bersama
8.	PT Aya Yayang Indonesia	62.	PT Meranti Lestari	100.	PT Seraya Sumber Lestari
9.	PT Bangun Rimba Sejahtera	63.	PT Meranti Sembada	101.	PT Siak Pakan Raya
10.	PT Belantara Persada	64.	PT Mitra Jaya Nusaindah	102.	PT Silva Inhutani Lampung
11.	PT Belantara Pusaka	65.	PT Mitra Kembang Selaras	103.	PT Silva Rimba Lestari
12.	PT Belantara Subur	66.	PT Mitra Taninusa Sejati		
13.	PT Berkat Hutan Pusaka	67.	PT Muara Sungai Landak		
14.	PT Bhineka Wana			47.	PT Kirana Chatulistiwa
15.	PT Boma Plantation			48.	PT Kodeco Timber
16.	PT Buana Megatama Jaya			49.	PT Korintiga Hutani
				50.	PT Kusuma Perkasa Wana
				51.	PT Kusuma Puspawana

PT Bangun Rimba Sejahtera (BRS)

Through several media reports, it was implied that that APP deliberately kept concessions off the radar screen for the purposes of flouting our FCP commitments. It is insinuated that APP “plans” to flout our commitment to obtain Free, Prior and Informed Consent (FPIC) from local communities.

We had carried out an evaluation of the supplier and understand that BRS has yet to commence land preparation or planting activity. It is still in the process of engaging the community to obtain FPIC. Approval for BRS was consequently put on hold subject to their FPIC process completion.



PT Muara Sungai Landak (MSL)

It is insinuated that MSL is indirectly enabling APP to violate our zero-deforestation pledge. We conducted an investigation and found that three of MSL's shareholders had relationships with APP. 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.

This constituted a violation of APP's Code of Conduct as it presented a direct conflict of interest. The employee was terminated with immediate effect. APP never received any pulpwood from this company.

PT Hutan Rindang Banua (HRB)

The Company is under the Golden Energy Resources (GEAR), and accused of deforestation practices. HRB is not supplying wood to APP, and their response to the allegation can be seen through their website at: <http://www.gear.com.sg/csr>

PT Buana Megatama Jaya (BMJ)

Stakeholders' concern through the report released by the Anti Mafia Coalition is that BMJ have the same shareholder with some of APP Partners.

BMJ applied to be APP pulpwood suppliers in 2018 and undergone the SERA process on March 2018. They passed the requirement but there is no commercial agreement signed as per end of 2018.

PT Silva Rimba Lestari (SRL)

An NGO report titled "APP and APRIL violate zero-deforestation policies with wood purchases from Djarum Group concessions in East Kalimantan" raises the concern around wood supply of PT Sarana Bina Semesta Alam (PT SBSA), which is alleged to have acquired fibre supply from SRL.

Through the assessment, it is confirmed that there is no wood supply from SRL to APP. Based on our clarification to PT SBSA, they did purchased wood from SRL which was used for infrastructure purposes.

PT Korintiga Hutani (KTH)

After passing APP Suppliers Evaluation and Risk Assessment Process (SERA) in May 2018, the Company started supply to APP using a One Time Supplier scheme (short tem contract). A concern was raised during this period, stating that the company was still implementing deforestation practices on a group level in other business. APP responded to the concern by reviewing the supply contract.

Based on the new version of SERA (which was consulted during Stakeholder Advisory Forum 7 in October 2018) KTH has gone through APP SERA process for Continuous Supply scheme in November 2018 and meet APP requirements as supplier. Therefore the company started supply to APP in Q3 2018.

SUMMARY

Based on the procedure performed, it was concluded that:

- The companies identified as APP Partners are consistent with the ones we have declared in APP FCP Monitoring Dashboard (www.fcpmonitoring.com).
- The companies that were identified as involved in deforestation practices are no longer supply to APP
- Other companies that were alleged to have relationship to APP have been identified as having no relationship to APP supply chain

NEXT STEPS

To strengthen our Supplier Evaluation & Risk Assessment (SERA) process, we will:

1. Align e-Kinship system to APP sustainability commitment
2. Crosscheck shareholders in our Suppliers Evaluation System
3. Continue to publish new suppliers' risk sssessment report