

Swedish involvement in the Indonesian paper and pulp industry

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Abbreviations

APP	Asian Pulp & Paper
APRIL	Asia Pacific Resources International Holdings Ltd
BHK	Bleached Hardwood Kraft
BHKP Mill	Bleached Hardwood Kraft Pulp Mill
ECF	Elemental Chlorine Free
HPH	License to undertake selective logging on the concession
HTI	License to clear-cut the concession
HTR	Community forest which is cultivated in co-operation with a forest company on a profit-share basis
IKPP	Indah Kiat Pulp & Paper
IPK	License to start logging
IPPC	Integrated Pollution Prevention and Control
KK	Kiani Kertas
MTH	Mixed Tropical Hardwood
PT MBBM	PT Marga Buana Bumi Mulia
PT MHB	PT Menara Hutan Buana
PT TEL	PT Tanjungenim Lestari Pulp & Paper
RAPP	PT Riau Andalan Pulp & Paper
TCF	Totally Chlorine Free
UFS	United Fiber Systems

Case study 1:

Introduction: Pulping the Indonesian forests

Indonesia's forest ecosystems and their species are rapidly disappearing. Estimates of total original forest loss in Indonesia vary between 50 and 72 percent. A World Bank study estimates that Indonesia loses an area of forestland equivalent to the size of Belgium per year (Walton, 2000). This represents the highest national rate of forest loss in the world, paralleled only by Brazil. According to the same study, there will be no commercially viable lowland forest left in Sumatra by 2005 and none left in Kalimantan by 2010, unless logging practices radically change.

The capacity of Indonesian pulp production grew from 606 000 to 4.9 million metric tons per year between 1988 and 2000. Indonesia is now one of the top ten pulp producers and exporters in the world. The capacity of the paper industry rose from 1.2 million to 8.3 million tons per annum in the same period (Ryan, 2002).

Within Indonesia, there are currently sixteen producers of Bleached Hardwood Kraft (BHK) - pulp, of which eleven are principally producing pulp for their own internal production of paper. Five plants are currently producing pulp for the Indonesian and world market (Van Gelder, 2001):

PT Indah Kiat Pulp & Paper (IKPP)	Sinar Mas Group
PT Lontar Papyrus Pulp & Paper Industry	Sinar Mas Group
PT Tanjungenim Lestari Pulp & Paper (PT TEL)	Barito Pacific Group
PT Kiani Kertas	Kalimanis Group
PT Riau Andalan Pulp & Paper (RAPP)	Raja Garuda Mas Group

SwedWatch decided to concentrate its research on IKPP and RAPP, since these companies are the largest Indonesian paper and pulp producers with major Swedish business connections.

1.1 Methodology

SwedWatch undertook a desk study during autumn 2002, including telephone interviews and e-mail correspondence with concerned companies in Sweden and Indonesia, and with NGOs in Europe and in Sumatra. The NGOs were selected after careful evaluation, including recommendations by people with long experience from the area.

After the desk study had been completed representatives from SwedWatch visited the Riau district in Sumatra during January 25 to February 5, 2003. During their stay, the team visited IKPP and RAPP production plants and interviewed company representatives. The team also visited villages affected by the companies' operations and interviewed residents as well as illegal loggers. NGO personnel were also interviewed, especially those working with the environmental and social problems caused by the operations of the companies.

1.2 Issues of concern

1.2.1 Forest destruction

Of the 120 million cubic meters of wood, estimated to have been consumed by the Indonesian pulp industry between 1988 and 2000, only one tenth was harvested from plantations (Matthews & Van Gelder, 2001:2). The rest of the demand for timber has almost entirely been met by clear cutting natural forest, resulting in the destruction of almost 10 000 km² of highly biologically diverse rainforest. According to a report from the Center for Indonesian Forestry Research (CIFOR) and WWF International, the plantations of the Indonesian pulp and paper industry are so undeveloped that the industry will continue to clear-cut rainforests for at least another four years and possibly far longer (Barr, 2000).

1.2.2 Land claims

Both IKPP and RAPP received their major concessions in the mid-1990s. At that time, before President Suharto was removed from office in 1998, local people were often afraid to protest (Human Rights Watch, 2003). Today Riau is shaken by the conflicts over unfair land take-overs. The local people have started to protest loudly and demand compensation for their land. At the same time, the companies are very dependent on all their concessions in order to supply wood to their paper- and pulp factories.

A report from Human Rights Watch, published in January 2003, shows that uprising against the forest companies are currently occurring all across Indonesia (ibid). The report refers to a review of Indonesian newspaper clippings between 1997-1998, which shows that 4 000 cases of conflicts between local people and the forest industry have been reported, especially in Riau and central Kalimantan. The Agrarian Reform Consortium (KPA), which bases its analysis on reports from nineteen provincial field offices 1998-1999, have recorded a long list of human rights violation due to conflicts over land claims between local people and forest companies. These include 18 deaths, 190 maltreatments, 44 shootings, 12 kidnappings, 1 rape, 775 arrests, 275 cases of house arson, 3 071 km² of burned gardens, 14 missing persons and 2 578 persons who have been terrorized (ibid: 29).

One ongoing example of violent protests against a pulp mill is the conflicts around PT Toba Pulp Lestari. A plant which is owned by the Raja Garuda Mas Group, who also owns RAPP. The plant first started its activity in Northern Sumatra in 1984. The protests reached their climax in 1999 when seven people were shot, two fatally. The local people believed that the pulp plant destroyed their living environment. After this incident, the newly elected President Habibie closed the plant. In January 2003 the company prepared to reopen the plant again, but the local protests were strong. Thousands of people protested on the 28th of January, when the reopening of the pulp plant was planned (Jakarta Post, 2003). The police were reported to have beaten the protesters with sticks. At least one demonstrator was injured and a number of people fainted.

Human Rights Watch states that complaints and conflicts are particularly common in connection with the paper and pulp industry. The local people experience negative consequences such as: (Human Right Watch, 2003:30)

- 1) State sponsored appropriation of their land, without any opportunity to appeal. On the few occasions when they have received compensation, it has been handed out to corrupted leaders.
- 2) Loss of their traditional life style, due to the deterioration of the environment, including logging and the pollution of watercourses.
- 3) Lack of employment or low wages and irregular employment.
- 4) Either no access to the companies Community Development programs or access to programs which are badly adapted to the needs of the local people.
- 5) Violations of the right to free speech and the right to organize. Repeated violence against the groups and individuals who try to protest.

This list of complaints against paper and pulp companies is confirmed by SwedWatch's observations throughout our visit to the area, from January to February 2003. See the case studies of IKPP and RAPP below for more specific information.

1.2.3 Illegal logging

Illegal logging in Indonesia is rife. A study by Indonesia UK Tropical Forest Management Programme, funded by the UK Government, concluded that 73 percent of all timber in Indonesia comes from undocumented and presumably illegal sources. The Indonesian Government estimates that the trade in illegal timber costs the country three billion dollars per year. The military relies on illegal activities, including logging, to raise at least half its operational costs and the same could be true of the police. It is estimated that Indonesian pulp producers may have obtained as much as 40 percent of the wood they consumed between 1994 and 1999 from illegal sources (Matthew, 2001).

According to Michael Stuwe, Technical Advisor at World Wildlife Fund (WWF), the extensive illegal logging of the forests in the Riau is a consequence of the presence of the forest companies. This statement was confirmed by villagers who SwedWatch talked to during the field study. WWF Pekanbaru undertook an undercover study during 2002. The study proves that illegally logged wood is delivered to both RAPP and IKPP (WWF Pekanbaru, 2002).

Numerous people living in the villages around Pekanbaru are dependent on the income from illegal logging to survive. The timber that is illegally logged is sold to both the large paper and pulp industries in the area, RAPP and IKPP, and to smaller local sawmills. For more specific information about IKPP and RAPP roll in illegal logging, see below.

Effluents

In the beginning of the 1990s there was a heated debate in Sweden about the effluent of chlorine compounds. Then the debate turned to a discussion about gaseous chlorine, which was described as the main problem. Two major techniques for bleaching pulp are used nowadays, the ECF (Elemental Chlorine Free) technique which still uses chlorine compounds, and the TCF (Total Chlorine Free) technique, which does not use any chlorine at all (Södra, 2002). Some European pulp- and paper mills use TCF technique, but they constitute a minority. It seems as if most pulp mills in Indonesia produce ECF paper. But IKPP still uses the old chlorine bleaching technique, which is the most harmful for the environment. IKPP's management told us that they plan to change to ECF technique in the

coming years, but that such an investment would be too large to bear right now. According to the documentary 'Pulping the People' the effluent from paper mills in Sumatra has destroyed water courses and the ecosystem through severe dumping of effluent into the rivers (Altmeier & Hornung Filmproduction, 2001). The river Siak, that provides drinking water for 11 000 people living in the area, is also used by the IKPP plant. The film shows several cases of people with skin diseases and reports that a local doctor received 500 patients with severe skin and lung diseases. The ecosystem has been destroyed, the fish have disappeared and the coconut harvests are decreasing. The film crew reported that they took water samples in the river where IKPP released their effluent. They brought the samples back to Germany to have the levels of AOX (Absorbable Organic Halogens) measured in a professional laboratory. The result showed 80 times higher levels than the amount accepted in Germany.

The problems of the local people concerning the effluents around the site of IKPP's plant was confirmed by SwedWatch during its visit to the village of Desa Pinang Sebatang on 2nd of February 2003. The villagers told us of numerous cases of skin diseases and fish deaths. Junustibu, who was born in the village, told us that he has been struggling for ten years to make IKPP clean their effluent. According to Junustibu, the first major fish death occurred in May 1995. The local people became scared and begged the company to take responsibility for the effluent. The villagers received some compensation, such as drilled wells, but they still suffer because they can no longer make a living from fishing. Junustibu tells us that it has been proven that the water in the river Siak is heavily polluted, but that no one has succeeded in proving that IKPP is responsible for this situation.

1.3 Swedish involvement

Sweden has a very strong pulp and paper industry, using and producing top of the line technology. Many Swedish pulp and paper companies, equipment suppliers, consulting firms and traders have expanded into foreign markets, offering investments, equipment supplies, technological know-how and trading opportunities. This foreign expansion is partly financed by Swedish banks and the Swedish Export Credit Guarantee Board (EKN). Swedish companies play a key role in the industrial exploitation of tropical forests in Indonesia. They provide direct investments and financial services or distribution and trading services, are advisers for commercial forestry and plantation schemes or deliver equipment and technical know-how. This report aims at unraveling which Swedish companies and financial institutions are involved, and exactly which activities they have undertaken. These facts are presented in the chapters that discuss IKPP, RAPP, United Fiber Systems (UFS) and the import of Indonesian pulp.

Chapter 2 Indah Kiat (IKPP)

The Sinar Mas Group, which is one of Indonesia's largest business conglomerates, owns IKPP (Figure 1). The group, controlled by the Indonesian Widjaja family, is mainly active in pulp and paper, palm oil, food, real estate, hotels, telecommunications and finance (van Gelder, 2001). The Singaporean company Asia Pulp & Paper Company Ltd. (APP) is the central holding company for the Sinar Mas subsidiaries in the pulp & paper sector. The APP Group employed 80 000 people in 22 countries, before the company started selling its assets in the spring of 2001. Until then, APP and its subsidiaries owned logging concessions of at least 15 000 km² in Indonesia: pulp and paper manufacturing facilities in Indonesia, China, and India; packaging plants across Indonesia, China, Singapore, USA, India and Mexico and marketing offices in more than 60 countries on six continents.

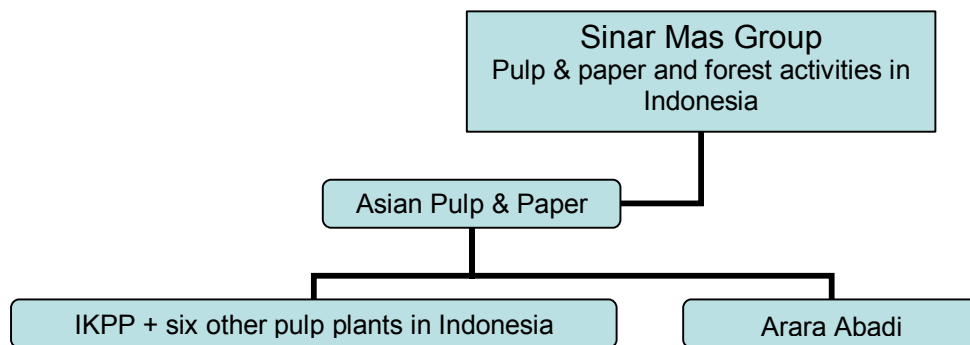


Figure 1. Owner structure of Sinar Mas Group.

APP announced a standstill on interest and capital payments on its staggering 13.4 billion US dollar debt in March 2001. This debt is owed to more than 300 companies, including some of the world's major banks, but also to Swedish financial institutions, such as Nordea and the Swedish Export Credit Guarantee Board (EKN). Around one billion dollars is owed to the Indonesian Bank Restructuring Agency (IBRA). To give an idea of its size, the 13.4 billion dollar debt is more than four times the total assistance pledged by the Consultive Group on Indonesia (CGI) creditor group to the Indonesian Government in 2001 (Down to Earth, 2002). APP owns a total of seven paper- and pulp factories in Indonesia. IKPP is the largest of their facilities. SwedWatch visited the IKPP plant on February 4th, guided by Anil Raina, the head of marketing of the Sinar Mas Groups. The team also met a number of other personnel from IKPP on the same day. Many of the local activists who have been working with issues concerning IKPP, and villagers who were affected by the plant have expressed their wish to stay anonymous due to the risk of harassment.

2.1 Corporate information

IKPP is situated close to the city of Perawang in the middle of Sumatra. IKPP was planned in 1982 and started its production in 1984¹. IKPP has the capacity to produce over 1 800 000 tons of pulp per year and 700 000 tons of paper annually. The company exports 65 percent of their production. The export is mainly to Asia, but also to Europe and North America. IKPP does not sell any pulp on the open market; instead all of their pulp is used for APP's own production of paper (in Indonesia and other parts of Asia). Most of IKPP's paper is sold in Asia, but some is exported to Italy, France, Belgium and Great Britain as well. The company's brand names are Paperline, Sinarline, Mr Copy och Britex. They also produce so-called "in house brands", customer's own brand names. IKPP is among the world's largest producers of stationery. Swedish and Scandinavian companies have supplied equipment to IKPP from the very start.

2.2 Scandinavian equipment suppliers

¹ IKPP's management, personal communication, 2003-02-04.

According to the Swedish Export Credit Guarantee Board (EKN), the following Swedish or Scandinavian companies have supplied IKPP with equipment during the last ten years: ABB, Hägglunds Drives Sea, Kvaerner Pulping, Noss and Sunds Defibrator (later bought by Metso Paper). Below is a short presentation of the equipment suppliers that deliver equipment to IKPP.

- **ABB**

Asea Brown-Boveri (ABB) is a Swedish-Swiss conglomerate. The principal activities of the company are the manufacturing of machinery and composite plants. But ABB is also a technology and engineering company that deals with pulp and paper.

In 1995 ABB Process Industries received an export credit guarantee from EKN equivalent to 4.7 million US dollars, because the subsidiary supplied IKPP with a complete cellulose dryer. The guarantee is still valid². In 1999 ABB Industry received an export credit guarantee from EKN, which is still valid, equivalent to 0.8 million dollars for supplying IKPP with upgrading for the Perawang Mill.

- **Hägglunds Drives**

Hägglunds Drives, of which 77 percent is owned by Ratos, manufactures complete hydraulic drive systems, including a range of hydraulic motors, accessories, power units and control systems (Hägglunds, 2003). In 2000 Hägglund Drives received an export credit guarantee from EKN, equivalent to US\$ 80 000, in order to supply IKPP with spare parts, consisting of valves, hoses and fittings for use in hydraulic systems. The guarantee is still valid³.

- **Kvaerner**

Kvaerner is an international Norwegian oil services and products, engineering and construction, and shipbuilding group (Kvaerner, 2002). The principal activities of Kvaerner Pulp & Paper are located in Sweden, Finland, Norway, USA, Canada, Japan and Brazil. Kvaerner Pulping has its head office in Karlstad, Sweden.

² Eva Björklund, Swedish Export Credit Guarantee Board, EKN, e-mail communication, 2002-08-21.

³ *ibid.*

In 1995, Kvaerner Pulping Pte Ltd received 33.7 million dollars in export credit guarantees from EKN. Kvaerner supplied IKPP with a complete fibre line including bleaching and oxygen delignification. The guarantee is still valid⁴.

- **Metso Paper**

Metso Paper is a Finnish company and one of the world's leading suppliers of technology, systems and equipment for the pulp, paper and converting industries. The company offers a range of products and services from single processes and production lines to complete projects. Metso Paper was formed in the summer of 1999 when the Finnish paper technology company Valmet Corporation merged with Sunds Defibrator from Sweden.

In 2001, Metso Papers net sale was approximately three and half billion US dollars and it had 10 785 employees (Metsopapers, 2002). Metso Paper has its head office in Finland, but many branches are located in Sweden: Metso Paper Manufacturing AB, Metso Paper Skandinavien AB, Metso Paper Sundsvall AB and Metso Paper Karlstad AB. In 1997, Sunds Defibrator AB received an export credit guarantee from EKN equivalent to three million dollars for supplying IKPP with a sub-filtering construction. The guarantee is still valid.

- **Noss**

Noss AB develops systems and equipment for the pulp and paper industry. The products are used for the refinement of pulp. The construction plant is located in Norrköping and the company has service and sales offices in Finland, Germany, France, USA, Canada, Brazil, Japan and Indonesia (AMS, 2002). In 1995 Noss AB received an export credit guarantee from EKN equivalent to US\$ 8.2 million for supplying IKPP with screening and cycloning equipment for a pulp mill⁵.

In 1998 Noss AB received another export credit guarantee from EKN equivalent to US \$ 2.2 million for supplying IKPP with one hydro cyclone system for expansion of the purification of pulp at the Perawang factory. The guarantees are still valid.

⁴ Eva Björklund, EKN, e-mail communication, 2002-08-21.

⁵ *ibid.*

- **Remote Control**

Remote Control Sweden AB is a privately owned Swedish company, located in Falun. The company specializes in supplying pneumatic, hydraulic and electric actuators for standard and special valves to a number of industries, including the pulp and paper industry. Remote Control claims to have supplied equipment to major Indonesian pulp and paper companies, among others IKPP (Remote Control Sweden, 2002).

2.3 Swedish financial involvement

IKPP has received accepted credits and export credit guarantees from Swedish institutions, equivalent to US\$ 44.5 million since the beginning of 1990s. Nordea has given a loan to the Sinar Mas Group, IKPP's owner⁶. The loan was for equipment and for IKPP's plantation company Arara Abadi, to establish plantations. The loan was given before Nordea's environmental policy was adopted (October, 2002) and Nordea has not placed any environmental or social demands before granting the loan.

As Asian Pulp & Paper (APP) has stopped all repayments to creditors since 2002, there is now a process of reconstruction of IKPP. The negotiations between creditors and APP are very slow according to Barbro Johansson, who is responsible for APP at the Swedish Export Credit Guarantee Board, EKN⁷. EKN demands that an independent management take over APP and that the creditors receive a certain amount of shares in the company so that they gain insight into the management of the company. EKN states that only if these conditions are fulfilled will it be able to make environmental demands.

When EKN first gave their guarantees in the mid-1990s, it had no environmental policy. EKN has lost a total of approximately US\$ 35 million on the guarantees given to IKPP. Today those guarantees would probably never have been offered, according to Barbro Johansson at EKN. She doubts that APP's crises will ever be solved.

2.4 Environmental issues

According to Christopher Barr at the Center for International Forestry Research (CIFOR), IKPP alone is responsible for deforestation of rainforest equivalent to over one third of the total deforestation caused by Indonesia's pulp industry during the last 12 years (Barr, 2002a:66).

⁶ Erik Evrén, communication manager, Nordea, personal communication, 2003-03-17.

⁷ Barbro Johansson, EKN, personal communication, 2003-03-11.

2.4.1 Plantations

The main supplier of pulpwood to Indah Kiat is PT Arara Abadi, a company belonging to the Sinar Mas Group. The locals regard Arara Abadi and IKPP as the same company. Arara Abadi has converted approximately 2 170 km² of rainforest into tree plantations in their concession areas in the Jambi and Riau provinces since the company was founded (AMEC, 2001:4).

The consultancy firm AMEC has undertaken a Preliminary Sustainable Wood Supply Assessment Report for APP. According to this report around half of Arara Abadi's forestlands are estimated to have consisted of degraded land (previously logged or brush lands). The report concludes, however, that this fact has been very difficult to confirm.

“...There will need to be careful consideration of the international market acceptability”, states the AMEC report when commenting on the fact that Arara Abadi has licenses to log another 2 900 km² of rainforest and convert it into plantations until the year 2011 (ibid). APP also has 250 km² areas of small-scale tree plantations.

IKPP/Arara Abadi has overestimated the growth rate for its plantations, according to Christopher Barr at CIFOR. Arara Abadi's Research and Development Unit states that they have an annual growth rate of 30-35 m³ per hectare, and that the goal is to achieve 45 m³ per hectare annually⁸. CIFOR argues that these figures are based on experimental areas with extremely good conditions (Barr, 2002b). It is clear that even at Arara Abadis Research & Development Unit there is an uncertainty about the possibility of growing acacia on a large scale on rainforest soil.

⁸ SwedWatch's visit on Arara Abadis research & development unit in Perawang, 2003-02-04.

When we asked how many rotations the soil could accommodate Budi Riyanto at the Tree Improvement Department, PT Arara Abadi, argued that the soil could accommodate three rotations without problems. He believes that it would probably even be possible to use a system of seven rotations. “If we get problems, we will have to find a solution”, says Budi Riyanto. According to IKPP the target of the company is to only use planted wood as supply by the year 2007 (AMEC, 2001). So far IKPP has only reached 70 percent of this target, according to the AMEC report. Anil Raina of the Sinar Mas Group, says that IKPP will succeed in achieving their target if they do not get more problems with land claims from the villages. At the same time the company is well aware that villagers have potential land claims on IKPP of 600 km² ⁹.

2.4.2 Forest Conservation Value

WWF Indonesia now demands from both APP (IKPP) and APRIL (RAPP) that they survey their forest concessions for High Valuable Conservation Forests, HVCF. The studies ought to include information about species under the threat of extinction, water catchments areas, habitat values as well as cultural and social valuable areas. WWF demands that the companies refrain from logging the HVCF areas.

APP did agree on conducting a so-called Sustainable Report Assessment over its concessions but the investigation has been delayed several times¹⁰. Michael Stuewe at WWF Pekanbaru told SwedWatch that he suspects that IKPP will try to log as much of their concession areas as possible before the investigation.

According to Anil Raina from Sinar Mas Group, which is the owner of IKPP, the investigation will be conducted during the spring of 2003¹¹. He is critical, however, of WWF’s demand on refraining to cut the HVCF: “There is a limit to how much we can conserve. Then we would need alternative sources!”

2.5 Land claims

⁹ Anil Raina, corporate marketing, Sinar Mas, personal communication, 2003-02-04.

¹⁰ Michael Stuewe, technical advisor, WWF, Pekanbaru, personal communication, 2003-01-27.

¹¹ Anil Raina, corporate marketing, Sinar Mas, personal communication, 2003-02-04.

According to Anil Raina, IKPP has negotiated and solved land claims concerning about 10 percent of their concessions, which is equivalent to 300 km². The company declares that problems of land claims have to be solved on another 500-600 km². The AMEC report concludes that IKPP/AA does not have control of large parts of its 2 900 km² concession. It is probable that the local population will claim parts of this area. The auditor of the AMEC report asserts that the extent of potential land claims and conflicts has been underestimated (AMEC, 2001:4).

Human Rights Watch (HRW) notes that company security guards have resorted to violence in three villages, Mandi Angin, Angkasa/Belam Merah and Betung. HRW representatives interviewed the villagers about the incidents. SwedWatch also visited Mandi Angin (see below).

Arara Abadi has its own private security guards. The company also has close contacts with the local police and Arara Abadi has told HRW that the police train the company's guards and that APP has financed a new police station in Perawang (where IKPP is situated) (Human Rights Watch, 2003:32). Arara Abadi's security guards and the police also patrol together. SwedWatch's visit to Perawang on the third of February 2003 confirms this picture. When we were eating lunch together with a man, who is known for his protests against IKPP's effluents in the river Siak, the security guards from IKPP/Arara Abadi came and interrogated our local guide. Several of our local contacts, which belong to different NGOs, were evidently nervous about Arara Abadi's security guards.

Several clashes have occurred between employees of Arara Abadi and villagers of the Betung village (the sub-district of Pangkalankura), when the latter group tried to protect its land. 700 employees of Arara Abadi, supported by paramilitary and police forces, attacked the villagers of Betung in February 2001. Homes were destroyed and 58 villagers were arrested. At least five villagers were injured in the attack, two of them seriously (Matthew & van Gelder, 2001).

SwedWatch visited Pak Tenas Effendi in Pekanbaru who have worked for twenty years with the local villagers in the forests in Riau. Tenas Effendi enjoys very high respect, by both companies and NGOs in Riau. Our taxi driver called him "the uncle of Riau".

Although Tenas Effendi has a lot of complaints against the companies, he points out that most of the people do not want the plants to close. But he argues that the behavior of the companies must change and that they should help to develop the region. “They must respect and understand the different cultures and traditional values that are here in Riau.” He criticizes the fact that the companies’ profits do not reach the local people, that very few locals become employed and that the community development programs set up by the companies are not planned together with the local people.

Tenas Effendi showed us three thick files with the inventories of all households in several communities that are situated within IKPP’s concessions. The inventory showed the size of the area people used before the companies came. According to Effendi hundreds of thousands of people have been affected by IKPP’s activities. The local villagers gave the inventory to the companies, the provincial government and to the provisional parliament two years ago, but so far they have not received any response. Effendi argues that the reason for the lack of response is that the local government receives bribes from the companies. The villagers feel that no one listens to their complaints and this force them resort to physical protests. “There is a big risk for violent outbreaks. There are already hundreds of examples of violent conflicts. When these outbreaks occur the police and the military are ordered to intervene”, says Tenas Effendi to SwedWatch.

According to the Human Rights Watch-report, there is a law that states that the companies are not allowed to plant acacia closer than 1.5 kilometres from the villages or the roads. During SwedWatch’s visit to the village Mandi Angin the team could document that this distance is not respected. Acacia is planted all the way up to the houses. Tenas Effendi claimed that people couldn’t make a living when acacia is grown so close to their villages.

When SwedWatch asked IKPP about this law, Mr Bali, operations director at IKPP, was angered. He alleged that this law is not in use and that it is just a recommendation on regional level.

“People demand 1.5 kilometre on this side and 1.5 kilometre on the other side. If we complied it would give us some serious problem when we build the infrastructure”, he said.

“The problem is not the local people, but the people who come from outside. They are not natives of the villages, but they demand to get parts [of the compensation]. These demands are made in an organized way”, said Anil Raina at the Sinar Mas Group. Anil Raina said that there are “troublemakers”, who come from the outside. They sell land, according to him, that does not belong to them but to the locals and later on the locals demand compensation and “the trouble makers” take part of the compensation. He said that these cases are very difficult and unfortunate, since the local people are cheated.

Tenes Effendi confirmed that such cases of fraud exist. But it is hard to estimate how widespread this problem is. Both RAPP and IKPP argue that such practices are very common. SwedWatch concludes, however, after speaking to NGOs and villagers who have been affected, that it is more likely that these outside “troublemakers” constitute a minority.

It is obvious that Arara Abadi/IKPP is frustrated with the growing unrest and the protests by the local people¹². During our visit to the plant, the management of IKPP argued that it was calmer and there was more order during Suharto’s regime, which was characterized by human rights violations. The management alleged that the situation has got out of hand and that there is too much civil disobedience, although they seem to understand that it is no longer acceptable to use violence against local protests.

“We are talking of right and wrong here, but in our position we actually have the right to be supported and protected by the Government”, said one of the responsible executives at IKPP to SwedWatch.

Mr Bali, Director of Operations at IKPP, reflected on how they could create a better co-operation with the locals:

“It is up to us to raise their level of consciousness. They are used to living in one way only. If we give them something, they don’t know what to do with it. In this case it is our duty to tell them what they want! Personally, I would concentrate on education and religion. If they can express their inner needs in religion it is positive. We can build a mosque”.

One of the executives told us that the local people are lazy and do not want to go to school. Bali does not agree, however.

“If IKPP’s representatives call the locals lazy, they will face problems, since they have to meet them every day”.

¹² Anil Raina, Mr Bali and others from the IKPP management team, IKPP, Perawang, personal communication, 2003-02-04.

2.5.1 Example: The village of Mandi Angin

Mandi Angin is a village within the concession area of Arara Abadis. According to the locals the conflict with the company started in 2000 when IKPP/AA began to log 20 km² of the forest that the village had received from the provincial government. IKPP/Arara Abadi started planting acacia on the land without asking permission from the locals. The villagers protested to the company and to the head of the district, but nothing happened.

“At last we took the company’s trucks and blocked the road to force them to negotiate with us”, said one of the villagers to SwedWatch.

The villagers told SwedWatch that 13 trucks with over 200 people suddenly arrived at the village on the 10th of November 2000. According to the villagers, several of the people were policemen and some of them wore Arara Abadi uniforms. Three villagers were beaten. One man told us:

“I was held still by two men and beaten with a bamboo stick on the head and on my back”. He later had to receive eight stitches. One man told us how twelve people mistreated him before he succeeded in escaping into the forest. In the evening after the fight the people who had relatives in neighbouring villages fled there. Others hid in the forest. They told us that they let their children stay home from school for two weeks and that they did not dare to go out and work in their garden plantations. The villagers are still angry and afraid of IKPP/Arara Abadi. They have noticed that the company is currently trying to use less harsh methods, but their memories of the repression they have suffered has made them sceptical of these attempts.

According to the villagers IKPP/Arara Abadi have continued to exploit the area of conflict and they have now planted acacia in the entire area.

The villagers have engaged a lawyer to bring an action against the company, both regarding illegal land appropriation and the cases of mistreatment. The villagers have collected money from all the households to pay the lawyer’s fees.

“If we do not let this lawyer take proceedings against the company at this stage we will not be able to afford a lawsuit in the future”, commented one of the villagers with resignation.

However, up to this date, no negotiations have yet been initiated and the villagers do not know how the action is proceeding. Today the inhabitants of the village plant rubber trees and oil palm on the small area of land that they feel is theirs. According to the villagers the acacia trees invade their plantations and destroy their plants.

The villagers of Mandi Angin have not received an official apology from IKPP/Arara Abadi.

“We demand that the company gives us enough land so that we can survive. Two hectares with rubber and oil palms per household would be enough. We want to get back our 20 km² of land now, while the soil is still fertile”, said one man.

There are two different versions of the violent conflicts. One stems from Arara Abadis/IKPP and one from the locals. Anil Raina from the Sinar Mas Group claimed that the violent clashes are only spontaneous outbursts. IKPP, on the other hand, argued that the villagers started the action by occupying the company’s vehicles . The drivers were upset by this and went to the village and a row broke out. Anil Raina denied that IKPP or AA had ordered the drivers to do this.

“In Indonesia a sparkle gets lit so fast. It’s like in high school. If we had sent guards it would have been different. But in this case it is simply local employees against the villagers. The drivers reacted spontaneously”, said mister Bali at IKPP.

Mr Bali told SwedWatch that since it was not possible for IKPP to convince the villagers to give back their trucks (which the villagers had commandeered to get their land back), IKPP decided to make ”a little show of force”. He does not agree, however, that this led to the violence that the villagers claim. Instead, they call the villager’s witnesses “a rumor”.

Human Rights Watch’s (HRW) interviews with the victims of the different cases of violent clashes, demonstrates that IKPP sometimes lies and sometimes reduces their part in the violence (Human Right Watch, 2003:36). It is obvious that both HRW and SwedWatch were given contradicting statements from the company and the villagers as to what happened in Mandi Angin in November 2000 and February 2001.

It is important to underline that 600 km² of IKPP’s land areas is either claimed by the local population or runs the risk of being claimed. Land is a scarce asset in the province of Riau and the number land conflicts will probably increase in the future.

Arara Abadi/IKPP’s security guards have been involved in several violent clashes with the local population, and yet the company has not condemned these acts of violence, nor the ones that took place in 2000 and 2001.

2.6 Illegal logging

During SwedWatch's field study, the team met with several inhabitants of the villages Desa Pinang Sebatang, Mandi Angin and Desa Kuntu, who explained their severe situation after the forest companies had appropriated their land. The villagers are struggling to survive from day to day and in many villages the main income is generated from the sales of illegally logged wood from the areas abandoned by the forest companies¹³. SwedWatch was also told that the companies, which are buying the timber, are fully aware of the fact that they are buying illegally logged wood. The companies on the other hand argue that the wood is classified as legal, according to official documents. SwedWatch also interviewed one of the staff from WWF Pekanbaru who has undertaken an undercover study of the illegal trade of wood to RAPP and IKPP throughout 2002. Since illegal logging is such a controversial issue, the villagers and the staff from WWF Pekanbaru wished to remain anonymous. Below is a description of how the trade works.

The villagers log and transport the timber to the nearest town, in this case Perawang. In order to obtain legal documents they contact a broker of illegal timber. The brokers are easy to find in public places, such as local restaurants.

The broker supplies documents that certify that the timber is legal and originates from an existing IPK, a permit for a clear-cut issued by the local government. These documents emanate from the owner of the actual IKP. The villagers receive a lump sum and the assignment to transport the timber to the pulp factory.

The payment is:

- 105 000 Rs per ton for transport in a small truck (the equivalent of 12 US dollars).
- 115 000 Rs per ton for transport in a large truck (the equivalent of 13 US dollars).

The timber is weighed in the factory and the payment is sent to the owner of the IPK, who pays the broker for his service. According to SwedWatch's findings the villager's monthly sale is four trucks of five tons each, logged illegally with axes. Consequently, when the timber arrives at Indah Kiat it is certified with the required documentation, and this is the only inspection undertaken by the company. We asked the villagers in Mandi Angin what the result would be if the company refuses to buy their timber.

“What shall we do? There is nothing left for us to live on, they have taken our land, killed the fish and we would die if they stopped buying the wood from us. IKPP has to buy! It is because of them that we lack possibilities to support ourselves”.

¹³ In some cases they log areas that the companies have left for conservation.

The villagers explain that they estimate that the supplies of illegal timber will be exhausted during the coming year.

“The only thing we can do then is to invade the plantations and that will lead to violence”.

During an investigation undertaken by the AMEC consultancy¹⁴ no trucks were found that lacked legal documents, but they seemed to be unsatisfied with IKPP’s degree of control.

“Log tracking systems are implemented according to Forestry Department regulations, and the Auditor *believes* that the companies are *generally* meeting these regulations.”

First Anil Raina of the Sinar Mas Group, told SwedWatch that IKPP does not use illegal timber, since they demand legal documents from every delivery. He said that it is the manufacturers of furniture who use illegal timber¹⁵. When we confronted Raina with the facts about timber being sent with false documents he said that there are no effective methods to control the documentation. He informed us that IKPP has had discussions with WWF since January 2003 about possible actions. Raina uses a common argument in the region:

“Illegal logging is a problem of social character. The military, the police and the villagers are all involved”.

He said that they have tried to discuss the issue with NGOs and other parties. “We are requesting help from all the NGOs. We would like to co-operate with all actors who are really interested in stopping the illegal logging”.

“If illegal logging is stopped it will be a hard blow against the local communities, however, since some of them may depend on this activity. Until we find some way to provide either some jobs or support for villagers, so they can survive, we will not enforce a total ban on logging”.

Raina said this is the reason why the company supports the community development programs, which offer the villages certain help for development. He denies the allegation that IKPP is dependent on illegal timber for their wood supply, but he cannot explain, however, how IKPP solves its supply of timber considering the fact that there is a fibre wood supply deficit in Riau.

¹⁴ In the end of 2001 AMEC Simons Industry Consulting undertook an inventory on IKPP’s environmental behaviour and wood supply.

¹⁵ Anil Raina, corporate marketing, Sinar Mas, visit to IKPP, personal communication, 2003-02-04.

Chapter 3 **Riau Andalan Paper and Pulp (RAPP)**

The Raja Garuda Mas Group is a large Indonesian business group, active in agribusiness forestry, pulp and paper, steel, chemicals, finance, trading, mining, property and services. The Raja Garuda Mas Group owns a pulp mill and an adjacent paper mill in Riau, Sumatra, called Riau Andalan Pulp & Paper (RAPP) (Figure 2). The holding company for these Indonesian pulp and paper interests is Asia Pacific Resources International Holdings Ltd (APRIL), which has its head office in Singapore (Matthew & Van Gelder, 2002:4). APRIL owns 98.5 percent of RAPP, which is located in the Riau province in Sumatra, Indonesia. Riau Andalan Kertas is the paper facility within RAPP.

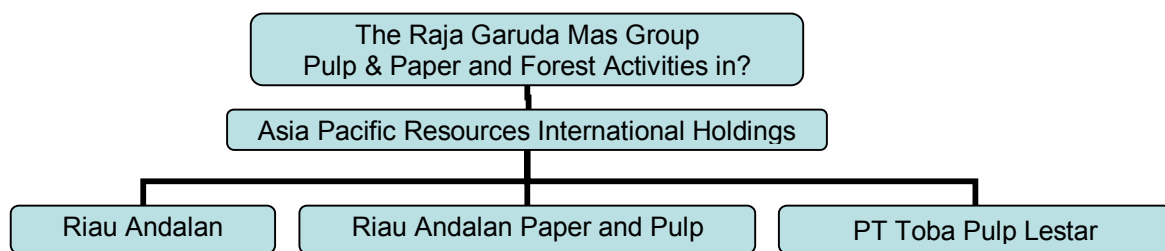


Figure 2. Ownership structure of Raja Garuda Mas Group

3.1 Corporate information

RAPP’s current annual production capacity is two million tons of pulp. During 2002 the company produced 1.74 million tons of pulp and 294 000 tons of paper. Most of the pulp is exported to Asia, while 16 percent is exported to Europe. Approximately 220 000 tons are used for RAPP’s own paper production.

Approximately one third of the paper produced at RAPP is sold under the brand name Paper One. Paper One is produced with only acacia as raw material. Other brands that are produced are Galaxy Universal, Dunia Mas, Mbest, Xerox and Latitude Plas, all produced from mixed tropical hardwood. Only 13 percent of the paper produced is exported to Europe¹⁶.

3.2 Scandinavian equipment suppliers

¹⁶ Roland Offrell, environment director at APRIL, e-mail communication, 2003-07-02.

Swedish business relations with RAPP are extensive both among suppliers of machinery, forestry companies and pulp importers. According to Roland Offrell, Environmental Director of APRIL, Swedish companies have played an important role, both as consultants and suppliers of machinery for the construction of the plant, and for the early stage of forestry operations. When the plantations were founded in 1993, Swedish companies were involved, among them Domänverket. Two Swedes are currently employed by APRIL, Roland Offrell and Ann Burman, who is working part-time as Technical Advisor. Burman is located in Europe, however¹⁷.

When SwedWatch visited RAPP's paper and pulp mill in Sumatra the team found machinery produced in Scandinavia. We found Scandinavian Valmet (Finland), ABB Fläkt and a Seleco Control system and a drying system from ABB.

The pulp that RAPP produces is exported through the trading company Korimpeks. This pulp constituted approximately half of the imports of Indonesian pulp to the Swedish market in 2001/2002. (See also information regarding import below).

- **Asea Brown Boveri (ABB)**

In 1987, ABB supplied a pulp dryer to the Inti Indorayon pulp mill owned by the RGM Group. In 1992, ABB supplied two pulp dryers to the RAPP pulp mill, followed by a third in 2000 (ABB, 2002).

In September and October 2001, ABB installed its IT process and control optimization solution at the paper machine at the Riau Andalan Kertas mill, leading to large increases in productivity. Later, the same technology was installed in one of the three dryers at the RAPP pulp mill, and an order has been received to install this technology in the other two dryers and in a recausticizer plant (ibid).

- **ÅF-Industrins Processkonsult AB (ÅF-IPK)**

ÅF-Industrins Processkonsult AB, based in Stockholm, produces the energy status reports for Riau Prima Energi, which belongs to the Raja Garuda Mas Group. It is this Group that supplies the RAPP and Riau Andalan Kertas mills.

¹⁷ Roland Offrell, environment director at APRIL, e-mail communication, 2002-09-04.

- **Metso Paper**

Metso Paper was the leading contractor for an expansion of the production capacity of the RAPP pulp mill. The mill was completed in 2001.

Other Scandinavian companies involved were: Kone (cranes), Noss (fiber line equipment), Tampella Power (recovery boiler and evaporator), Outokumpu (power boiler), Ahlstrom (lime kiln, recausticizing plant, effluent treatment and pumps), ABB (motors) and ABB Elsig Bailey (DCS) (Pulp and Paper Technology, 2002).

3.3 Environmental issues

3.3.1 Plantations

Indonesian and international NGOs criticize RAPP for its unsustainable fiber supply. Between the start of pulp production in 1995 and 2000, the company's operations relied solely on the clearance of natural forest for its fiber supply (Barr, 2000). According to the report "Profits on Paper" by CIFOR and WWF, by the end of 2001 RAPP had already cleared 2200 square kilometers of rainforest (Ibid).

The area within its concessions where RAPP will be able to plant trees is 1 920 km² (Table 1). Of this 1 380 km² is held by associated and joint-venture companies and 200 km² are managed by nearby communities, who, in their turn will sell the wood to RAPP¹⁸.

Table 1. RAPP's minimum planting target, progress and plan for 2003. Of the planting target about 200 km² is replanting of old acacia plantations (Source: Roland Offrell, environment director at APRIL, 2003-07-02).

Minimum planting target, progress and plan for 2003			
Land Resources	Minimum overall planting target in square kilometres	Actual Dec. 2002 in square kilometres	Planting Target 2003 in square kilometres
APRIL Forest Plantation Area	1920	1073	270
Partners/Joint Operations	1380	645	140
Smallholder Tree Farms or HTR	200	32	60
TOTAL	3500	1751	470

¹⁸ Roland Offrell, environment director at APRIL, 2003-07-02.

Harvesting of the company's plantations started in 2001 and supplied 20 percent of the fiber demand in that year. During 2002 the share of mixed tropical hardwood, used as raw material for pulp production, was 70 percent. The remaining 30 percent came from the company's acacia plantations. According to the company this amount should double by 2008/2009¹⁹. The 500 square kilometers of natural forest reserves on RAPP's concessions are, according to the company, preserved because of its conservation value.

The company is preparing to obtain forest certification for sustainable plantation management in 2004-2005. The Indonesian eco-labelling and sustainable plantation management organization, Lembaga Ekolabel Indonesia, is currently studying RAPP's application for certification. ISO 14001 certification was obtained in December 2002 for the entire mill complex.

According to the NGOs, after the recent expansion of the pulp mill's capacity to two million tons per year, it is very unlikely that RAPP will be able to supply 100 percent of its wood demand from its own plantations from 2008.

Christopher Barr at the forest research institution CIFOR, argues that the company's calculations are too optimistic regarding the growth rate of acacia, the rotation time and the fact that RAPP does not take potential land conflicts into consideration. He states that the company has postponed the planned dates several times as regards when they expect to be able to use raw material solely from plantations, and that economical sustainable solutions are lacking (Barr, 2002b).

RAPP has a more positive estimate regarding the yield from its plantations than CIFOR. The current average annual yield is 30 m³ per hectare according to RAPP's Environmental Director, Roland Offrell. He believes that Christopher Barr has made an underestimation.

"According to Barr's calculations we would only have a yield of 25 m³ per hectare, but he has not taken into consideration that we already have 30 m³ per year and hectare", argued Roland Offrell.

During the trade fair Asian Paper, which was held in Singapore in 2002, Sukanto Tanoto, the Chief Executive Officer of APRIL, declared that the production would expand further, and that already during 2007 the annual production capacity will have increased to three million tons of pulp. The current annual production capacity is two million tons of pulp (Malmström, 2002:90). SwedWatch asked Canesio Munoz, the Environmental Manager of RAPP, about his view on this increase.

¹⁹ Ibid.

“I am not sure that we will have reached a production of three million tons until then, but it is the role of the Chief Executive to have visions”.

2.3.1 Forest conservation value on RAPP’s landholdings

RAPP’s concession area is in the middle of a natural habitat for numerous endangered species, including the tapir, the Sumatran elephant and the Sumatran tiger. This region includes the Bukit Tigapuluh National Park, as well as the Teso Nilo forest. WWF researchers recently indicated that Teso Nilo, home to the Sumatran tigers, the Sumatran elephants, gibbons, tapirs and a staggering diversity of plant life, might be the lowland forest with the highest degree of bio-diversity of the world.

In July 2001, WWF conducted a week-long investigation (WWF Pekanbaru, 2001). During this time the investigation team tracked 110 logging trucks, which drove from the Teso Nilo forest to the company’s pulp mill. These logging activities may contravene a moratorium on forest conversion from 2001, between the Indonesian Government and international creditors, including the International Monetary Fund (IMF). WWF and local stakeholders have demanded that RAPP immediately stops its logging activities in this area (WWF, 2002).

In April 2002, the company announced a moratorium on logging in its concession in the Teso Nilo area (UPM-Kymmene, 2002). To uphold that moratorium a Wood Tracking Audit was carried out by the independent auditors, Société Générale de Surveillance S.A. (SGS), in November 2002, while WWF acted as an observer. An audit was made in May 2003.

WWF Indonesia has demanded that RAPP must preserve all so-called High Valuable Conservation Forests, HVCF, within their concessions. RAPP’s Environmental Manager, Canesio Munoz, however, does not support this demand.

“We could do this if we were given additional land! If you want to conserve more forest it will kill the business!”

2.4 Land claims

NGOs, both in Indonesia and overseas, criticize the way in which Riau Andalan Pulp & Paper treats the land rights of the indigenous communities in its concession area. A study by the independent auditors, SGS, commissioned by APRIL in 1998, found that local communities made claims on over 400 square kilometres of APRIL’s concession area. The report also points out that all claims have not yet been resolved but the process was ongoing. SGS considered the process to be transparent and found no evidence of coercion.

The area where RAPP has constructed its factory has been built on land claimed by the indigenous people of the Delik, Sering and Kerinci villages. As a result of this dispute the legal representative of these villages was imprisoned for three years, accused of being a provocateur. This case was commented upon by SGS in the 1998 report:

“A significant dispute over land concerns about 800 hectare in Delik Village where the pulp mill is located. In 1987, the land had been allocated as a transmigration village. The villagers had agreed that Indosawit (a palm oil company within the RGM group) should lease about 1 750 ha for plantations, leaving 50 ha for the residential use. In 1993, RAPP announced that it had taken over the land from the Indosawit. Pulpmill construction was started and surrounding forest of about 2 900 ha was logged. Relocated transmigrates were compensated.

However, local Melayu villagers who claim customary ownership of the land complained that the pulp mill was constructed without consultation with them, that the compensation for the 1 750 ha was too low, and that alienation of 1 250 hectare required for the pulp mill was illegal. In addition RAPP closed the corridor road for log delivery to the mill to prevent small-scale logging along it.

The issue caused significant social unrest culminating in a mass demonstration and attacks on the RAPP security post in November 1997. The police took over the case and the provocateur was arrested.

RAPP’s response to resolving the issue was to co-ordinate with the local Kabupaten (District Office) to re-activate the “Batins” (local customary leaders) whose authority in solving customary land disputes is respected by the Melayu. Meanwhile all action related to the claim have been postponed until the Batin institution is appointed by the Bupati (District Head)”.

In another land dispute case within APRIL’s concession area, a member of the Lubuk Jambi village community is reported to have been stabbed to death during a protest in 1998 (Matthew & van Gelder, 2002). According to RAPP’s Environmental Manager, Canesio Munoz, there is potential for land claims in all of RAPP’s joint-venture areas, as on all land in Indonesia, since almost all legal land titles are disputed. Customary rights were not recognized until the fall of the Suharto regime, and legislation is still trailing behind. He said that there are both sincere as well as opportunistic land claims.

“As we see it there are two types of land claims. You have the legitimate ones made by local villagers and you have the ones made by agitators, with the sole purpose to collect money as compensation. In between these groups you have the transmigrates²⁰ who have started to use land which never belonged to them”.

According to APRIL, no one has been forced to move. APRIL has kept the villages in its concession areas intact, in accordance with Indonesian legislation and traditional land rights (ADAT). Of the land registered in the Land Dispute Resolution Department, 40 percent consists of cases where the local government has given licenses to villagers that are overlapping the licenses handed out to the forest companies by the national government.

RAPP has no written policy that stipulates what kind of compensation should be offered. According to Roland Offrell the company’s aim is to give compensation that benefits the whole village and not individuals. The compensation shall also be of a permanent nature, such as water facilities, clinics, schools or mosques.

The only case where individuals may receive compensation is when the land is cultivated or if there are other productive resources on the land.

“If we would compensate for land holdings we would encourage people to take advantage of this. Everyone will yearn for more and more”, explained Canesio Munoz.

The villagers are opposed to this. They claim that the land has a lasting value for them. They are used to utilising the large forest areas for hunting, collecting fruit and honey, etc. Ibu Awo in the village Desa Pinang Sebatang told us:

“Traditionally our children have inherited our land, but now there is no such land left”.

Pak Tenas Effendi has worked for twenty years with local people in the affected villages. He told SwedWatch that almost all villages close to the companies’ concessions have problems of making a living nowadays.

“People have nowhere to move to either. All the inhabitants of the towns are people from the outside, not natives from this area. They have nowhere to go”. Tenas Effendi confirmed the picture that RAPP is relatively better in its community relations than IKPP, even though he is critical of both companies.

2.4.1 Example: The village of Desa Kuntu

²⁰ Indonesia has carried out extensive trans-imigration programmes where large number of people from mostly Java have been encouraged to move to less populated parts (such as Sumatra and Kalimantan). Then they have been granted land by the Government.

SwedWatch visited the village Desa Kuntu during January 2003. The village has had conflicts with RAPP over the last twenty years. The village has received some compensation for the land appropriated by RAPP, but many disputes remain to be solved. The two village leaders were Jafri and Datuk Khalipha.

“In 1994 the company, without asking, appropriated land which has been used by the villagers since the ninth century. RAPP had authorisation to clear-cut their concession, a so called HTI. The company logged the forest right in front of our eyes! The women cried but we did not dare to protest since this took place during the Suharto regime. We asked the company to leave two kilometres of natural forest as a belt around our village, but they didn’t. Now we have acacia trees just a few hundred meters from the village”, said Jafri Khalipha.

“We cannot live in the same way anymore, the forest is gone and there is nothing useful for us to do in the acacia plantation”, concluded Datuk Khalipha.

2.5 Illegal logging

When SwedWatch first asked the Environmental Manager of RAPP, Canesio Munoz, as to whether the company used illegally logged timber in its production, he flatly denied. He argued that all wood is inspected on arrival to make sure that it is guaranteed by official documents. Later on in our discussion, he changed his mind and stated that the company is aware of the existence of illegally logged wood. He added, however, that these quantities are so small that they are negligible.

Heikki Hassi, Operations Manager at RAPP, asserted that people in the West do not realize the complexity of the problem.

“It is easy, as many European stakeholders do, to criticize from a distance the Indonesian pulp and paper industry regarding illegal logging. I would suggest that they come here and study the situation, then they would understand that there are no simple solutions. It is good that the awareness is high, but it is important to understand the local conditions.

“There is no doubt that illegal logging has to be eliminated, but it has to be done in a planned way. The illegal logging consists of marginal volumes. Ten percent of RAPP’s demand for wood is supplied by sources outside the company and only a fraction of this is illegally logged. For us it would be easy to isolate us from the problem by excluding external suppliers of wood, but we have experienced that this creates tension”.

An example of such tension is described in APRIL's Corporate Social Responsibility Update, Third Quarter 2002. In the beginning of 2002 the company increased its control to avoid timber that lacked legal documents being accepted into the plant. This act made the villagers block the entrance to the wood intake during the 19th and 20th of September. The reason for the villagers' protests was that APRIL was taking away the villagers opportunities to support themselves.

RAPP has contracted the company Anugrah to take care of external wood supply. Anugrah purchases wood from external suppliers and sells it to RAPP. The wood is transported directly from the logging location to the mill. On arrival it should be accompanied by transportation documentation from the Ministry of Forestry, certifying that it originates from a legal concession.

During 17th to 25th of October 2002, SGS Malaysia, in co-operation with WWF Pekanbaru, investigated RAPP's supply of raw material from local external suppliers in the Riau province. SGS and WWF inspected a selection of Anugrah's suppliers. In the presentation of the results from the inspections SGS found clear cases of illegitimate use of documentation, in order to prove that the wood has been legally logged. RAPP is explicitly recommended to cease all co-operation with suppliers from areas outside the licensed areas. The company should prioritize the development of long-term jointventures to establish acacia plantations in accordance with the company's official policy. The organizations also highlight the fact that the company ought to carry out external audits on a regular basis.

According to the SGS report three cases of illegal timber supply to RAPP were discovered. When SwedWatch asked Munoz how RAPP will deal with this, he first replied that the co-operation with these suppliers had been terminated. When we informed him, however, that WWF had provided us with information which showed that the only step that had been taken was that a warning had been sent to the concerned suppliers, he answered that a warning was sent out and later the agreements were terminated.

SwedWatch requested to see the documentation regarding the termination of the contract. The documents that Munoz showed us, however, only proved that a warning has been delivered to the suppliers. Munoz then modified his earlier statement and said that it was not possible to terminate the agreement straight away. First the suppliers had to be given a chance to improve. Munoz argued that there are other cases where the company has abandoned suppliers when legal documents had either been missing or something else has not been consistent with the company's policy.

After SwedWatch's visit to RAPP the following has happened: After the last SGS audit in May 2003, RAPP cancelled all contracts with third party suppliers. Roland Offrell informed SwedWatch that this decision has caused disturbance among the communities around the mill and demonstrations outside the mill gate. To mitigate this RAPP is trying to make HTR contracts where the communities plant acacia on their own land and sell it to the company, on a profit-share basis.

Chapter 4 United Fiber System Ltd (UFS)/BHKP (Bleached Hardwood Kraft Pulp) Mill – South Kalimantan

Since 1995 the Singaporean company Poh Lian have planned to build a pulp factory in South Kalimantan. The project was delayed because of the economic crises in Asia, but the project was restarted when the Singaporean company, United Fibre Systems (UFS), bought the project in 2000. In December 2002, China's largest construction company, China National Machinery, agreed to guarantee 80 percent (US\$ 720 million) of the financing. United Fiber System will finance the remaining 20 percent (US\$ 176 million) (Braconier, 2002). United Fiber System has not been able to receive credits from any European Export Credit Agency.

It is calculated that the construction of the plant will take 33 months, which means that the factory can be ready for production during 2005. The annual production capacity is planned to be 600 000 tons of chemically bleached pulp. With an annual production capacity of 600 000 tons, UFS will need 2.8 million cubic meters of wood per year. The company's forest concessions are 2 734 km², of which 1 750 are considered to be suitable for plantations, and 1 000 km² already converted to plantation (ibid). The company claims that this is sufficient for raw material sourcing (Poh Lian Holdings Ltd, 2002). The concessions, valid until 2041, that will supply UFS with wood are spread around five areas in South Kalimantan (Kintap, Sebamban, Riam Kiwa, Teluk Kepayang, Pamukan) (ibid). These areas are all so called HTIs, which means that they will be clear-cut.

The factory area will consist of a pulp factory, a power plant, a chemical plant and a wastewater plant and an adjoining township. China National Machinery will construct the pulp factory and deliver it prefabricated to United Fiber System.

From 2008 and onwards the company estimates to be self-sufficient regarding wood supply from its own plantations. According to calculations made by United Fibre Systems, the plantations will generate 3.9 million cubic meters of wood annually, equivalent to the company's estimated demand (ibid).

4.1 NGO-criticism

Environmental organizations in both Europe and Indonesia have harshly criticized this project. The criticism is based on experiences of the environmental and social effects caused by the paper and pulp industry in other parts of Indonesia. This was one of the factors that made AkzoNobel decide to withdraw from the project. The organizations object to the fact

that United Fiber System are now logging and selling natural forest to make way for its plantations before the factory is ready for production in 2005. According to a report made for Friends of the Earth Netherlands, the United Fiber Systems will need four million cubic meters of wood to fulfill their wood supply, rather than of the company's estimate of 2.5 million cubic meters, supplied by external sources for the period until 2008 (Wakker & Van Gelder, 2002). The authors predict that the deficit will be met through locally logged natural forest, since there are no other viable solutions for the company (ibid).

4.2 AkzoNobel terminates agreement

Already in 1998 AkzoNobel's Swedish daughter company, Eka Chemicals AB, signed a letter of agreement with the Singaporean company, Poh Lian (later United Fiber System), to build the plant, producing chemicals for the pulps bleaching process. This caused strong protests from different environmental organizations. In November 2002, 27 NGOs demanded that the Indonesian Government should enforce a moratorium, concerning all activities connected to mining and forestry in South Kalimantan. In December 2002 the organization Milieudefensie (Friends of the Earth Netherlands) published the report 'Paper from Forest Giants' that criticized the project. At the same time demonstrations were carried out outside AkzoNobel's head office in Arnhem.

The criticism from Milieudefensie can be summarized in four points:

- The Indonesian Government is trying to control activities in the forestry sector, is it then possible to be involved in a project that will contribute to the increased logging of Indonesia's already threatened natural forests?
- The Indonesian Government is also trying to decrease the overproduction of pulp in relation to the supply of sustainable raw material for pulp production. Is it then acceptable for AkzoNobel to support a project that will result in the opposite?
- Probosutedjo, a half-brother of the ousted dictator Suharto, who's company originally received the concessions in South Kalimantan, is currently on trial accused of having overestimated the concessions in order to receive larger credits.

- Pulp importers in Europe face an increasing demand from consumers not to buy products made from Mixed Tropical Hardwoods, and financial institutions are reluctant to give credits to activities that involve the increased logging of rainforests.

On 31 December 2002 AkzoNobel announced that they would terminate their co-operation with United Fiber System, partly with the following motivation:

*“The four points raised by Milieudefensie in their executive summary actually reflect our own views: Akzo Nobel share their concerns over mismanagement and deforestation in Indonesia as well as in other countries. It is in our interest and a basis for our pulp and paper chemicals business to develop and market more environment compatible products and systems for pulp bleaching and paper manufacturing”.*²¹

AkzoNobel’s share in the total financing of United Fiber System was eight percent. When SwedWatch spoke to Erik Widén, Communication Manager of Eka Chemicals, in March 2003, he said that Eka Chemicals may reconsider their involvement if United Fiber System can show that they have a sustainable source of raw material and an environmental impact assessment has been undertaken. He also told SwedWatch that environmental considerations were not the main reason for the termination of the agreement.

4.3 CellMarks involvement in United Fiber System

The Swedish company CellMark plays an important role in the United Fiber System project.

In April 2001, Cellmark made an agreement with the owners of UFS, which meant that CellMark guaranteed to market 90 percent of UFS’s pulp production over a ten-year period from the date production started (Poh Lian Holdings Ltd, 2002).

According to a circular to shareholders regarding the probable purchase of the planned pulp factory, the company Tektronix, registered in the British Virgin Islands, is the main owner of United Fiber System. According to the same document nine Swedish individuals, who also have interests in the company CellMark Holdings, own Tektronix. Their ownership in CellMark exceeds 25 percent (ibid).

The people involved in Tektronix are:

²¹ Erik Widén, communication manager, Eka Chemicals AB, e-mail communication, 2003-03-10.

Håkan Arne Björnhage	CEO CellMark Holdings AB
Bengt Thomas Leifsson Hallberg	CEO Singapore Pulp (a CellMark-subsiidiary)
Bror Thomas Hedberg	
Per Waldemar Hultengren	CEO CellMark Paper
Hans Östen Kling	CEO CellMark Pulp
Sven Edström	Ex-CellMark, now CEO, for UFS
Jan Lennart Meuller	
Bo Peter Mikael Norrman	
Bengt Ragnar Stenbeck	CEO CellMark Pulp North America

According to Hans Kling, Managing Director for CellMark Pulp, Tektronix is a company that only exists on paper, in order to boost the confidence among potential investors for the UFS project²². Kling said that he and the other individuals involved agreed to lend their names to build confidence, something he now regards as a mistake. He is concerned about how Poh Lian Holdings uses the names Tektronix and CellMark in the circular to shareholders. CellMark does not want to be linked to Tektronix, and in May 2002 CellMark sent out a disclaimer declaring that CellMark does not have any ownership in the pulp project. Hans Kling admits that UFS has threaten to terminate the agreement with CellMark (the partner agreed to market 90 percent of production) if they withdraw their names from any information sent to potential investors. CellMark officials have, however, chosen to continue using their names.

According to the circular to the shareholders, Tektronix has promised to provide a loan of up to US\$ 182 million, for the construction of the pulp factory (Poh Lian Holdings Ltd, 2002). However, according to Kling this information is false.

This information is completely made up! Kling said.

CellMark has no plans to terminate the agreement with UFS, because of environmental concerns. CellMark claimed that it has not yet committed itself by signing any contract, but the company finds no reason to make a complete environmental assessment. Kling considered the criticism towards Indonesian paper and pulp industry “wrong and exaggerated”. CellMark’s business concept is to buy and sell pulp and they constantly require new customers. Kling believed that AkzoNobel’s decision to terminate its agreement was not based on environmental concerns, but on calculations of profitability.

²² Hans Kling, CEO, CellMark Pulp, personal communication, 2003-03-12.

4.4 Other Swedish involvement in United Fiber System

It is most likely that Swedish manufacturers will produce a large part of the machinery for United Fiber System. Barbro Johansson, responsible for Asian Pulp & Paper (APP) at the Swedish Export Credit Guarantee Board (EKN), states that the exporters of machinery for the paper- and pulp industry usually contacts EKN to lobby for credit to ventures such as these²³. Apart from Sweden, only Finland, Germany and, to some extent, Austria are able to deliver the required machinery.

ABB's sales manager in Singapore, Håkan Nytorp, told SwedWatch that his company is very interested in closing a contract with United Fiber System for the plant in Kalimantan, although no detailed plans have thus far been made²⁴. Nytorp was unaware of the criticism against the project, and stated that it is not until the contract is to be signed that ABB requires an environmental impact assessment. He was not aware that AkzoNobel had terminated their agreement and cannot comment on whether this will effect ABB's decision.

The Export Credit Agency told SwedWatch that it is not interested in giving loans to another paper and pulp factory in Indonesia. The bank Skandinaviska Enskilda Banken (SEB) also told SwedWatch that they would have not given credit to PT TEL in 1997 (see Appendix) if they had known what they know today²⁵. EKN bases its view on its earlier bad experiences, mostly from APP/Indah Kiat, which has received large export credits from Sweden. There are also environmental reasons behind this standpoint.

—There is neither the raw material nor the demand for the products. Furthermore, there is no economical or environmental sustainability. It is totally out of the question that EKN can give credits to yet another paper and pulp plant in Indonesia, says Barbro Johansson, EKN.

However, after Barbro Johansson had talked to her superior, she modified EKN's standpoint stating that the Board cannot give any more credits to APP in Indonesia and that other Indonesian paper and pulp projects will be evaluated on a case-to-case bases. Barbro Johansson believed that the manufacturers of machinery should take a larger responsibility as regards the environmental and social effects if they chose to supply equipment to projects such as this.

²³ Barbro Johansson, EKN, personal communication, 2002-03-11.

²⁴ Håkan Nytorp, ABB, personal communication, 2003-03-05.

²⁵ Lars Burman, SEB, personal communication, 2002-09-12.

Chapter 5 Swedish import of pulp from Indonesia

Before 1995 there was almost no import of pulp from Indonesia. Since then, however, import has increased, and currently fluctuates between two and five percent per year. In 2002 Swedish import was only 4 174 tons, but in 2001 the Swedish import of pulp from Indonesia increased to 18 600 ton, which is equivalent to 5 percent of the total import of pulp to Sweden (SCB, 2002).

5.1 Trading Houses

Several Swedish trading houses buy and sell pulp all over the world. Many of them are active in the Indonesian market; CellMark, Ekman & Co, Elof Hansson and Korimpeks. CellMark markets 80 percent of the pulp from PT TEL and Ekman & Co sells 90 percent of the pulp coming from Kiana Kertas (see Appendix 2). RAPP's pulp, which represents about half of the Indonesian import to Sweden, has up until April 2003 been imported through the trading house Korimpeks in Gothenburg. RAPP has also sold pulp indirectly through CellMark's associated company Unifibra in Geneva. According to Hans Kling, Chief Executive of CellMark Pulp, from March/April 2003 the APRIL group will run all their business via their own marketing office in Genève²⁶. This means that Korimpeks and CellMark/Unifibra have lost their business contracts with RAPP.

According to the information given to SwedWatch, none of the Swedish trading houses have any detailed environmental demands on their suppliers. Nor do they make any social demands on the Indonesian pulp and paper producers.

5.1.1 Korimpeks

²⁶ Hans Kling, CEO, CellMark Pulp, personal communication, 2003-03-12.

Korimpeks, a trading house in Gothenburg, has functioned for a long time as an agent for APRIL (RAPP) in the Swedish market²⁷. Korimpeks had previously bought and sold pulp from APP (IKPP) and PT TEL²⁸ as well, but because of difficulties in the co-operation these business relations were ended. Up until 2003 Korimpeks had bought around 8-10 000 tons of pulp per year from Indonesia, which was sold on the Swedish market. This was equivalent to half the import of pulp from Indonesia in 2001²⁹. According to Korimpeks, APRIL accounts for a majority of the Swedish import of Indonesian pulp. Technically speaking it is the paper mills which import the pulp, but Korimpeks actually manages the whole trading chain. The imported pulp is for the production of fine paper, special paper and soft paper. Korimpeks import to Sweden consists of around 30 percent acacia and 70 percent MTH (mixed tropical hardwood). According to Korimpeks, MTH-fiber is especially well suited for high quality book papers, tissues and toilet paper. Korimpeks does not wish to reveal the names of their costumers.

Jörgen Kvint, Market Communication Manager of Korimpeks AB, alleged that their Indonesian supplier, RAPP, has a good environmental work record. He refers to the environmental report made by APRIL.

5.1.2 The CellMark Group

The CellMark Group is one of the world's largest marketing corporations, specializing in pulp and paper. The company is active in some 90 markets world-wide and has 45 company offices established in 23 countries. The company has around 600 employees, and approximately 2000 customers and 600 suppliers. The company has four different product areas: pulp, paper, packaging and recycling.

²⁷ Jörgen Kvint, marketing manager, Pulp division, Korimpeks AB, personal communication, 2002-12-03.

²⁸ PT TEL is a pulpmill in South Sumatra (see Appendix 1).

²⁹ Kenneth Englund, sales manager, CellMark, says that the other half most probably comes from StoraEnso, UPM Kymmene and Georgia Pacific, through their purchasing departments in Europe, personal communication, 2003-03-06.

PT TEL sells 80 percent of its production through CellMark, which is permitted to sell the pulp on all markets, except Japan. Apart from Europe and Asia, a small amount of the production is sold in the Middle East, USA and Africa. According to Chief Executive Hans Kling, CellMark pulp does not have any investments in production facilities in the pulp and paper sector³⁰. During the development of the PT TEL plant, CellMark played the part of guarantor for the sale of future production, which was necessary to attract potential investors. CellMark plays a similar role in the controversial plans for a new pulp mill in South Kalimantan, United Fiber Systems (see above). CellMark has also bought and sold pulp from RAPP through CellMark's associated company Unifibra, in Genève. The last time CellMark made transactions with RAPP's products was in April 2003.

Hans Kling stated that CellMark does not put any environmental demands on the suppliers of the companies. According to Kling the only current environmental problem concerns the supply of wood³¹, but CellMark does not place any written demands on their suppliers concerning this issue either.

5.1.3 Ekman & Co

Ekman & Co is one of the world's leading trading houses, working for the global forest industry. The company is active in the field of marketing, sales and distribution of pulp and paper world-wide. Ekman has 20 offices throughout the world. In addition, the company has a network of agents and representatives covering markets where pulp or paper is produced or consumed. The operations are co-ordinated from Gothenburg, Miami and Hong Kong. The two main operational divisions within the Ekman Group are Pulp and Paper. Currently Pulp accounts for about 75 percent of the total volume and Paper for the remaining 25 percent.

Ekman & Co has the sole right to market the production of Kiana Kertas on all markets, except in Indonesia. According to Lars Appelgren, Manager at the Pulp Division, the work to develop plantations on the concession area has been delayed due to the Asian economic crisis in 1997/98. Because of this crisis only around 70 percent of the planned area has been replanted³². Appelgren assumes that in the near future the Indonesian pulp and paper industry will be forced to lower its production for some years, due to lack of wood locally.

³⁰ Hans Kling, CEO, CellMark Pulp, personal communication, 2002-08-22.

³¹ I.e. no longer any problems with effluent due to cleaner techniques.

³² Lars Appelgren, manager pulp division, personal communication, 2002-09-05.

Lars Appelgren, who is responsible for the pulp division, said that the company does not have an environmental policy that includes the suppliers. The environmental demands differ depending on the eventual demands that the customer might have. One of those demands could, for example, be that the pulp should reach a certain certification standard.

5.1.4 Elof Hansson AB

Elof Hansson AB is a pure trading house, active world-wide in import and export of forestry, industrial and consumer products. The Group's business volume totals approximately US\$ 700 million and it employs more than 400 people, 190 of whom work at the head office in Gothenburg (Elof Hansson, 2002).

The company owns PT Indoswed Pratama, an Indonesian company that exports paper produced by all of the major Indonesian paper mills. Elof Hansson AB also has a representative office in Indonesia, importing and exporting machinery and equipment for the Indonesian paper and pulp industry, and importing pulp for the Indonesian market³³. Elof Hansson has marketed pulp from RAPP on foreign markets, but not on the Swedish market.

Anders Ählström, Information Officer at Elof Hansson, told SwedWatch that the company has a written environmental policy stipulating that the company should take environmental responsibility in its affairs. This policy, however, is aimed at the companies within the Elof Hansson group and does not include suppliers. Ählström also told SwedWatch that the Group is about to formulate a social policy as well.

5.2 Paper mills

SwedWatch asked eight Swedish producers of paper if they imported pulp from Indonesia and if that was the case, in which products the pulp is used³⁴. Billerud, Klippan (Mölnådal), SCA Forest Products, StoraEnso, Grycksbo and StoraEnso Kvarnsveden stated that they did not import any Indonesian pulp.

5.2.1 Munkedals

³³ Anders Ählström, corporate communication Elof Hansson AB, personal communication, 2002-09-12.

³⁴ Two paper mills from StoraEnso have not answered.

Munkedals said that they do not currently buy any pulp from Indonesia, but that they did earlier (during 2000 and 2001)³⁵. They bought the pulp from the RAPP-mill (APRIL) in Sumatra. Munkedals believed that APRIL had approved its own system for evaluation of their suppliers. They compare parameters such as effluent and forest management. Representatives of Munkedals had also visited the mill. Their conclusion was that RAPP is among the best performing paper and pulp mills in the world. According to Munkedals APP (IKPP) is too controversial, and they would therefore not buy pulp from APP.

5.2.2 Klippan Paper

Klippan Paper said that it does not currently buy any pulp from Indonesia, but they have done during certain periods³⁶. The pulp, manufactured by RAPP, has been bought through the trade house Korimpeks in Gothenburg (see above). First, they imported MTH (mixed tropical hardwood) pulp and later acacia. Nowadays they use eucalyptus from Tofte/Södra instead. According to the Purchase Manager, Lars Altgård, the company was interested in RAPP, because of its relatively new mill with low air and water effluent levels, and in RAPP's work to receive the Nordic Swan environmental certification.

5.2.3 Duni AB

Duni AB bought a total of around 4 000 tons of mixed hardwood pulp from the APRIL group (RAPP) in 2001³⁷. In January and February 2002 the company bought around 40 tons of akacia pulp from RAPP. Leif Granqvist, Purchase Manager at Duni Tissue & Airlaid, said to SwedWatch in November 2002 that the import concerned an external customer for soft tissue, toilet tissue and facial tissue.

5.3 Conclusions Indonesian case study

It is obvious that there are severe problems concerning deforestation and environmental degradation in both Sumatra and Kalimantan. This also includes a social dimension with great implications for the local population. There seems to be a vicious circle, where paper and pulp mills, through converting natural forests to plantations, take away people's livelihoods and instead force them to be dependent on illegal logging for the mills.

³⁵ Thomas Åsehäll, purchase manager, Munkedals, personal communication, 2002-11-28.

³⁶ Lars Altgård, purchase manager, Klippan Paper, e-mail communication, 2002-11-28.

³⁷ Leif Granqvist, purchase manager, Duni, Tissue & Airlaid, personal communication, 2002-11-28.

There is a clear link between pulp and paper production and forest destruction in Indonesia. Before 1995 there was no import of pulp from Indonesia to Sweden, but since then the import ranges from two to five percent. This implies that paper which is labelled as Scandinavian may well be produced from pulp originating from Indonesia's disappearing natural forests.

SwedWatch has recognised that the Swedish connections to the Indonesian pulp and paper industry have many forms: direct investments in pulp, the production of wood and chemicals in Indonesia, distribution and trading agreements, equipment supplies, consultancy services and financial services. Through Sweden's traditional involvement in the field of pulp and paper production it has become natural progression for Swedish corporations and experts to be involved in projects in Indonesia, often together or in co-operation with colleagues from Finland.

The reaction from the companies and banks varies from an awareness of the risks of corruption and environmental destruction, to a defensive stand and in some cases with statements such as "our production plant does not have the problems others have".

Banks currently seem to be more reluctant to give credits to pulp and paper producers in Indonesia than they were five years ago. The environmental debate and on-going criticism is one of the reasons mentioned, another is the economic situation most companies have faced.

One of the conclusions from this study is that trading companies such as CellMark, Ekman and Elof Hansson seldom place any environmental or social demands on the producers other than that which the buyer demands. Nevertheless, they play a key role in this sector. However, if they took a strong stand, putting pressure on the producers regarding environmental and social factors, they would contribute to creating more awareness locally.

There are strong indications that several Swedish connections with serious environmental- and/or social problems exists:

CellMark is involved in the planned UFS-mill in South Kalimantan, which will cause destruction of tropical forest.

EKN has given several guarantees and **Nordea** has given credits to Indah Kiat, a plant where there are many indications of forest destruction and environmental problems through effluents.

ABB is involved in both the RAPP mill (APRIL) and the IKPP mill (APP). Both mills obviously log tropical forests in sensitive areas in Sumatra.

Pulp from the RAPP mill is imported to Sweden and used in consumer products, such as toilet paper, facial tissue, book paper etc.

Since March 2003 the Swedish Society for Nature Conservation and the Indonesian environmental movement have put several demands on the Swedish companies and banks involved. They believe that the companies and banks should use their influence to end the rainforest destruction and the crimes against human rights. Five demands have been put forward:

1. Local people should be given their legal rights to their lands.
2. No more high value forests should be converted into plantations.
3. Wood supply should come from socially and environmentally sustainable production.
4. Local people that have lost their livelihood must be given alternative sources of income than illegal logging.
5. Expansion of the already oversized Indonesian pulp industry should be stopped immediately, until the wood supply problems are solved.

Appendixes

Appendix 1.

PT Tanjungenim Lestari Pulp & Paper (PT TEL)

PT TEL is a pulp and paper mill in South Sumatra. Barito Pacific Timber holds a 40.2 percent shareholding in PT Tanjungenim Lestari Pulp & Paper (PT TEL). The Barito Pacific Group is a large Indonesian business group active in chemicals, forestry, wood processing, banking, plantations and mining.

The central holding company of the Barito Pacific Group is PT Barito Pacific Timber Tbk. This company is Indonesia's largest integrated timber company, processing logs into higher value-added wood-based panel products. During the 1990s the company produced more than 1 million m³ of wood products annually, but over the past two years the volume has been much reduced (0.65 million m³ in 2000) (Van Gelder, 2001).

At the end of 2000, the Barito Pacific Group owned logging concessions in Kalimantan, Sulawesi, Maluku and Irian Jaya, with a total area of 1.6 million hectares. At the end of 1999, the Barito Pacific Group had developed 257 288 hectares of industrial forest plantations (ibid).

PT TEL has an annual production capacity of 450 000 tons³⁸. The mill commenced production in June 2000, and is operated by Nippon Paper (Japan). CellMark markets 80 percent of the pulp production (see the paragraph below on CellMark), the remaining 20 percent is distributed in Japan by Marubeni (Japan)³⁹.

PT Musi Hutan Persada, a subsidiary of the Barito Pacific Group, supplies the mill with 2.5 million m³ of wood per annum from its plantation of 193 715 hectares of land in South Sumatra. According to PT TEL the total wood supply required comes from local acacia plantations, which are owned by PT Musi Hutan Persada (PT Barito Pacific Timber Tbk, 2001).

1 ton of pulp requires 5 m³ of wood, which means that PT TEL is probably the only Indonesian pulp plant that can be supplied by its own plantations⁴⁰.

³⁸ James Cikaliuk, PT TEL, e-mail communication, 2002-09-04.

³⁹ Hans Kling, CEO, Cellmark Pulp, personal communication, 2002-08-22.

⁴⁰ James Cikaliuk, PT TEL, e-mail communication, 2002-09-04.

NGO-criticism

PT TEL is criticised by both local NGOs and international NGOs such as Down to Earth (United Kingdom) for the way in which it treats the land rights of the indigenous communities in its concession area. Down To Earth started a campaign against PT TEL in 1997 because of large land conflicts with local landowners (Down to Earth, 2002). According to Down to Earth many villagers refused to give up their land rights. It was also a conflict about compensation. The Palembang Legal Aid Bureau in 1997 handled cases against PT TEL and PT MHP involving over 20 villages spread over seven sub-districts in South Sumatra⁴¹.

Down to Earth also described the flooding of local rubber farmers' plantations caused by land clearance for the pulp mill. Down to Earth is also critical towards the Environmental Impact Assessment commissioned by PT TEL. This states that waste from the pulp mill will be discharged into the river Lematang and provides little information about waste treatment. This river is the main source of water for drinking, domestic use and bathing for some 32 villages. It also provides an income for local fishermen, fish farmers and others.

There are a large number of reports about local people in the concession area of Musi Hutan Persada whose crops, forest gardens and community forests were destroyed by the company without proper compensation. Musi Hutan Persada was found guilty of illegally using fire to clear forestlands by a court in Palembang, South Sumatra in October 1998 (Down to Earth, 1999).

⁴¹ The Palembang Legal Aid Bureau and other local organizations that have worked against PT TEL, personal communication with November 2002.

Since 1991, several thousand inhabitants from twelve villages in the sub-district of Rambang Lubai demanded the return of 26 000 hectares and Rp 301 billion (US\$ 30 million) in compensation for the loss of income since Musi Hutan Persada appropriated their forestlands. The local people were evicted from their forests, rubber plantations and fields to make way for acacia plantations. Attempts to claim their rights were met with intimidation by the military and police, until the fall of the Suharto regime. However, in April 2000, the Department of Forestry and Plantations decided that Musi Hutan Persada should hand back 12 050 hectares to the villagers and that they should be compensated for land, which the company had cleared and turned into plantation (Down to Earth, 1997 & 2000). In another dispute, over 200 families from three villages in Babat Toman are accusing Musi Hutan Persada of appropriating 1 500 hectares of their land in 1993 (ibid).

Hans Kling, CEO at CellMark Pulp admits that there have been conflicts (during the second quarter of 2000) with the local population due to land disputes. According to Kling, 13 communities were involved and an agreement was settled during 2000, involving the building of a school and a local plantation offering work opportunities. Kling viewed these conflicts as a result of “activists travelling around with the purpose to build public opinion with local disputes as a result”⁴².

Since Tanjung Enim Lestari began production trials in December 1999, local people have been complaining about the smell from the plant and pollution of the river Lematang, into which the plant discharges 70 000 m³ of effluent every day. Local villagers use the river for all their domestic needs, including drinking water, cooking and bathing. Fishermen from Kuripan complain they cannot sell their catches, as customers are afraid their fish are tainted. A local action group, Lembar, has been formed which calls on the local government to prevent pollution from the factory and to reconsider its operating licence (Down To Earth, 2000).

The film “Pulping the people” also shows how people around the river have experienced problems from water pollution, and the film states that PT TEL discharge untreated effluent into the river from time to time (Altmeier & Hornung Film production, 2001).

⁴² Hans Kling, CEO Cellmark Pulp, personal communication, 2002-08-22.

According to PT TEL their mill complies with all the Governmental regulations with respect to the testing frequency of a multitude of air emissions and effluent standards. They state that tests are undertaken as outlined by the Government regulations.

Mr Cikaliuk, PT TEL, states that the AO_x-Level for the year 2001 was 0.13 kg/ton of production. This should be regarded as an extremely low level. Europe Integrated Pollution Prevention & Control (IPPC) has a standard of less than 0.25 kg/ton. According to PT TEL they have 50 percent lower levels than the IPPC standard. PT TEL is ISO 9001 Certified and ISO 14001 EMS.

According to PT TEL they comply with all laws, rules, and regulations with respect to working hours and wages. Their employees have long-term employment. In forestry they use some short-term employees to supplement the permanent employees, due to the cyclical aspect of the planting season. They did not respond to any details concerning working hours, wages etc.

Swedish business involvement: CellMark and equipment suppliers

CellMark

The CellMark Group is one of the world's largest marketing companies specializing in pulp and paper. The CellMark Group offers producers and end-users a range of services that support the companies marketing role (CellMark, 2002). PT TEL sells 80 percent of its production through CellMark in all markets except Japan. Apart from Europe and Asia, a small amount of the production is sold in the Middle East, USA and Africa (Roberts, 2000).

According to Hans Kling, CEO, CellMark pulp does not have any investments in production facilities in the pulp and paper sector⁴³. During the development of PT TEL plant, CellMark played the part of guarantor for the sale of future production, which was crucial in gaining interest from potential investors (see below financial involvement).

Equipment suppliers

⁴³ Hans Kling, CEO Cellmark Pulp, personal communication, 2002-08-22.

The companies with Scandinavian connection that have supplied PT TEL are Sunds Defibrator, Kvaerner, VCE, Ahlströms and Sisu. Sunds Defibrator provided engineering services, main machinery and training. The equipment was manufactured at the company's manufacturing facilities in Sweden and Finland. It included a US\$ 64 million fiber line consisting of wood handling, washing, delignification, bleaching and baling systems. Ahlstrom Machinery will be supplying equipment for cooking, washing and oxidising the pulp and the evaporation and limekiln units worth US\$ 60 million. Kvaerner Pulping has announced the supply of US\$ 48 million soda and power boilers, which will be built in Finland (Down to Earth, 1999).

“The links between Scandinavian companies and the project form an intricate network. Sunds Defibrator is part of the Finnish Rauma Group. The main owner of Rauma Group is UPM-Kymmene, which became the focus of international attention in 1998, after a share-swap deal with APRIL, the holding company that owns the controversial Riau Andalan Pulp and Paper development also in Indonesia. The Finnish company Tampella Power, formerly listed as a participant in PT TEL, is now owned by the Kvaerner Group which is partly Norwegian-owned”(ibid).

Swedish financial involvement: Nordea, SEB and EKN

In March 1997, PT Tanjungenim Lestari Pulp & Paper secured a financing package consisting of four different loans, with an aggregate value of US\$ 991 million. The financing package is intended to finance the pulp mill. The details of the four loans were as follows: (Van Gelder, 2001)

A US\$ 40.9 Million loan from Kreditanstalt für Wiederaufbau (Germany). The loan will mature in 2010, and is outstanding at present.

A ten-year US\$ 250 million syndicated loan. Among the banks arranging the loan was Merita Bank, which is now a subsidiary of Nordea (Sweden/Finland/Denmark - US\$ 12 million)⁴⁴. The loan will mature in January 2007, and is outstanding at present.

⁴⁴ Erik Evrén, communication manager, Nordea, personal communication, 2003-03-17.

A ten-year US\$ 50 million syndicated revolving credit. Among the banks arranging the loan was Merita Bank, which is now a subsidiary of Nordea (Sweden/Finland/Denmark - US\$ 3 million). The revolving credit will mature in January 2007, and is outstanding at present.

A twelve-year and six months guaranteed US\$ 650 million syndicated export credit. Among the banks arranging the export credit was Merita Bank, which is now a subsidiary of Nordea (Sweden/Finland/Denmark). Among the banks participating in the syndicate was Skandinaviska Enskilda Banken (Sweden - US\$ 52.6 million).

According to SEB their credit is now reduced to US\$ 0.8 million, due to repayments. SEB's credit concerned the delivery of machinery from Sunds Defibrator, Kvaerner, VCE, Ahlströms and Sisu⁴⁵.

SEB regards this credit as a problem, both because of strictly financial reasons, and also because of risks concerning environmental and social issues. Lars Burman, who is responsible for the credit at SEB, explained that there has been: "a considerable amount of protests, not the least in Germany concerning mostly social issues for the local people". He continued: "We would not give this credit today, if we knew what we know today"⁴⁶.

Export credit agencies from Sweden and Finland have guaranteed US\$ 650 million in export credits. EKN was among these export credit agencies. In 1994, EKN gave a guarantee with a value of US\$ 49 million, which is 7.5 percent of the total export credit value. According to EKN, they cannot stipulate when the credit will end⁴⁷.

⁴⁵ Ingrid Jansson, SEB, e-mail communication, 2002-09-11 and personal communication 2002-09-12.

⁴⁶ Lars Burman, SEB, personal communication, 2002-09-12.

⁴⁷ Eva Björklund, EKN, e-mail communication, 2002-08-21.

Appendix 2.

Kalimanis Group and Kiani Kertas

Kalimanis is a group of companies involved in the integrated wood industry, founded in 1970 as a joint venture with the US company, Georgia Pacific International Corporation. Under a forestry agreement between the Indonesian Government and PT Georgia Pacific International, PT Kalimanis Plywood Industry was established in 1973 in Selili, Samarinda, it began by producing 36 000 m³ of plywood per year and now produces at least 150 000 m³ per year finished goods (Kalimanis, 2002).

The Kalimanis Group is controlled by Bob Hasan, former minister of forestry and presently imprisoned because of corruption. Two foundations chaired by ex-president Suharto were reportedly also among the shareholders of Kalimanis. As part of Kalimanis' debt restructuring efforts, the Kiani Kertas mill was placed under the control of the Indonesian Bank Restructuring Agency in May 2001.

Kiani Kertas is a bleached market hardwood pulp mill in Mangkajang in the Berau District of East Kalimantan. The Kiani Kertas mill has an annual capacity of 525 000 tons of bleached hardwood craft pulp (Barr, 2000).

Kiani Kertas has established commitments to be Elemental Chlorine Free from the start, has achieved ISO 9000 Certification, and according to the company they follow air and water effluent standard equivalent to North America mills. The company says that it is committed to sustainable forest practices, including conservation areas for biodiversity.

Kiani Kertas is expected to produce some 400 000 tons of pulp this year, all of it for the market, of which 360 000 tons will be acacia. Customers are primarily fine paper producers (Roberts 2002).

PT Tanjung Redep Hutani, another subsidiary of the Kalimanis Group, mainly supplies pulpwood for PT Kiani Kertas. This company owns a forest concession of 180 330 hectares in East Kalimantan, which will be converted into a pulp plantation. In January 2000, the planted area was 77 342 hectares.

Two other plantation companies from the Kalimanis Group in East Kalimantan could also supply Kiani Kertas: PT Surya Hutani Raya and PT ITCI Hutani Manunggal. These companies hold concession areas of 183 300 hectares and 161 127 hectares respectively, of which 125 642 and 88 180 hectares were planted in January 2000, Indonesia Forestry Sector - Out to test the limits of growth (Spek, Ometraco, 2000)

NGO-criticism

Several Indonesian and international NGO's have criticized Kiani Kertas since the pulp mill opened in 1997, long before the company's pulp plantations were ready to supply it. It is also reported that the use of poor quality seedlings is jeopardizing the harvest. This means the pulp mill up until now and in the coming years will be mainly supplied by logging tropical rainforest in East Kalimantan.

By the time the plantations are fully on-stream, their wood yield will be about three or four times higher than the wood supply needed by Kiani Kertas. It is unclear if this surplus will be sold to other pulp plants with a supply deficit (a.o. in Sumatra), or if it will be used to feed expanded pulp capacity in East Kalimantan (Spek, Ometraco 2000).

Swedish business involvement: Ekman & Co.

Ekman & Co is one of the world's leading trading houses, working for the global forest industry. Ekman & Co markets 90 percent of the pulp production from Kiani Kertas. Ekman is the sole marketer of Kiani Kertas production outside Indonesia⁴⁸.

Ekman & Co does not have an environmental policy that applies to their contractors. Mr Appelgren stated that the environmental demands from Ekman to Kiani Kertas are based on the customer's demands. These demands vary. Frequent demands are, for example, for specific raw material (wood), in which the product meets the requirements for specific environmental labelling, etc. Ekman & Co. has so far not had any incident where the production at Kiani Kertas could not meet the required demands.

According to Ekman, the wood used at Kiani Kertas is two-thirds Acacia from local plantations and one-third eucalyptus imported from Australia. Appelgren estimates that within 3 to 5 years all wood used will come from own plantations, and that there is a plan that these should be certified although what type of certification has not been decided yet.

According to Appelgren, the work to lay out plantations on the concession area has been delayed due to the Asian economic crisis in 1997/98. Based on this so far only approximately 70 percent of the planned area has been replanted.

⁴⁸ Lars Appelgren, manager pulp division, Ekman, personal communication, 2002-09-05.

Appelgren assumed that the Indonesian pulp and paper industry will be forced in a not to distant future to lower its production for some years due to lack of wood locally.

Ekman & Co. does not have a social policy based on the fact that they do not have any production of their own.

Swedish interests in the Indonesian Paper and Pulp industry (March 12th, 2003)

Pulp mills	Financers, Credit agencies	Suppliers of machinery	Pulp trading companies	Consultants
RAPP (APRIL)		<input type="checkbox"/> Valmet (Finnish, now part of Metso) <input type="checkbox"/> ABB Fläkt <input type="checkbox"/> ABB Automation <input type="checkbox"/> Seleco <input type="checkbox"/> Lorentzon & Wettre <input type="checkbox"/> Noss	<input type="checkbox"/> Korimpeks <input type="checkbox"/> Elof Hansson <input type="checkbox"/> CellMark (via associated company Unifibra in Switzerland)	<input type="checkbox"/> ÅF-Industrins Process-konsult <input type="checkbox"/> Domänverket (1992)
Indah Kiat (APP)	<input type="checkbox"/> Merita (Nordea) <input type="checkbox"/> Exportkreditnämnden (EKN)	<input type="checkbox"/> ABB Industry <input type="checkbox"/> ABB Process Industries <input type="checkbox"/> Beloit Asia Pacific <input type="checkbox"/> Hägglunds Drives Sea <input type="checkbox"/> Kvaerner Pulping <input type="checkbox"/> Noss <input type="checkbox"/> Sunds Defibrator (Finnish, now part of Metso) <input type="checkbox"/> Emba Machinery <input type="checkbox"/> Ircon Drying Systems <input type="checkbox"/> Remote Control	<input type="checkbox"/> CellMark (filed a bankruptcy petition in 2001 against APP based on debts. The petition was not sanctioned)	
UFS (in planning stage)	Tektronix (6 of 9 owners have CellMark connections)	ABB has expressed interest, currently no contracts.	CellMark (will market 90% of production)	ÅF-Industrins Processkonsult
PT TEL	<input type="checkbox"/> EKN <input type="checkbox"/> SEB <input type="checkbox"/> Merita (Nordea)	<input type="checkbox"/> Ahlströms <input type="checkbox"/> Sunds Defibrator (Finnish, now part of Metso) <input type="checkbox"/> Remote Control	<input type="checkbox"/> CellMark (markets 80% of production)	
Kiani Kertas		<input type="checkbox"/> Valmet (Finnish, now part of Metso)	<input type="checkbox"/> Ekman&Co (markets 90% of production)	

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