



Letter to Stakeholders
Getting the Facts Down on Paper

Jakarta, 11 August 2010

Dear Stakeholder,

We are writing to you today to provide you with information regarding Asia Pulp & Paper (APP) that refutes the recent false allegations made by certain NGOs.

APP recently published a report – ‘**Getting the Facts Down on Paper**’ – outlining APP Indonesia’s commitment to sustainability. This report contains numerous facts that demonstrate that APP has been fulfilling its obligations to operate in a sustainable and environmentally conscious way.

The figures, highlighted in the report, are in response to allegations made by particular NGOs, including, but not limited to, WWF and Greenpeace. An audit company, Mazars, was subsequently engaged to assess and verify the facts contained in the report. Mazars is an international, independent organisation, specialising in audit and advisory services based in 56 countries across the globe.

The audit conducted by Mazars found that the facts contained in the APP report were accurate and, therefore, the allegations made by the environmental NGOs were indeed baseless, inaccurate and without validity. This is of significant importance as the information contained in the APP report also rebuts the statements made by Greenpeace, their recent report and letter regarding the activities of APP.

The Mazars audit also identifies that third-party, independent research into the operations of APP rejects and refutes the false allegations made by the above mentioned NGOs and shows the real facts regarding APP’s sustainability efforts. Please read the attached documents, which will provide you with an honest depiction of APP Indonesia’s operations.

We have attached the letter from Mazars, which outlines their findings, and the original APP report – ‘Getting the Facts Down on Paper’ – for your consideration.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Aida Greenbury', with a stylized flourish at the end.

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To the Board of Directors of PT. Indah Kiat Pulp & Paper Tbk
PT. Pindo Deli Pulp & Paper Tbk
PT. Pabrik Kertas Tjiwi Kimia Tbk
PT. Lontar Papyrus Pulp & Paper Industries
PT. Ekamas Fortuna Tbk

Bali, 09 August 2010

Dear Sirs:

ASSURANCE REPORT ON THE FACTS AND FIGURES INSERTED IN THE REPORT 'OPEN STATEMENT – GETTING THE FACTS DOWN ON PAPER'

We have been engaged to provide assurance on the facts and figures inserted in the report OPEN STATEMENT – GETTING THE FACTS DOWN ON PAPER (the "Report") prepared under the brand name APP on behalf of PT. Indah Kiat Pulp & Paper Tbk, PT. Pindo Deli Pulp & Paper Tbk, PT. Pabrik Kertas Tjiwi Kimia Tbk, PT. Lontar Papyrus Pulp & Paper Industries, PT. Ekamas Fortuna Tbk ("the Companies"), dated 1 August 2010.

We have performed evidence-gathering procedures on the following subject matter:

- The facts identified as such in the Report; and
- The figures provided in the Report;

We have considered the subject matter against the following evaluation criteria:

- The accuracy and verifiability of the facts and figures included in the Report; and
- The existence of external supporting documentation as primary source of information.

Our statement should be considered in conjunction with the inherent limitations of accuracy and completeness for CSR data.

The Boards of Directors of the Companies are responsible for both the subject matter and the evaluation criteria.



Our responsibility is to report on the existence of external documentation that supports the accuracy and verifiability of the subject matter. Currently there are no statutory requirements or generally accepted verification standards in Indonesia that relate to the preparation, presentation, and verification of the Report prepared by the Companies. We used the international standards for CSR approved by the International Auditing and Assurance Standards Board as a guideline. We planned and performed evidence-gathering procedures to provide a basis for our conclusion.

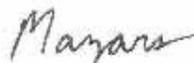
Our evidence-gathering procedures included, among other activities, the following:

- Reviewing relevant internal documentation, including corporate policies, reporting to key management personnel, internal communications;
- Reviewing relevant external documentation, including licenses, certifications, expert reports, external assurance reports, contracts;
- Assessing whether the documentation is verifiable and giving greater weight to external sources than to internal ones; and
- Performing tests, on a sample basis, of documentation and systems used to collect, analyze and compile reported information and data.

Evidence-gathering procedures were conducted from 26 May 2010 to 9 August 2010.

In performing our work, we were assisted by members of our teams specialized in sustainable development issues.

In our opinion, based on our work described in this report, the facts and figures included in the Report are reasonably accurate, verifiable and supported by documentation and information provided by external parties.



PT. MAZARS
Bali, Indonesia



Open Statement

Getting the Facts Down on Paper

Jakarta, 1 August 2010

Dear Stakeholder,

We would like to take the opportunity to provide you with some facts about Asia Pulp & Paper (APP) in Indonesia. These facts are independently verified by Mazars¹ and we hope they will go some way towards addressing any inaccuracies and misconceptions about our operations and our commitment to responsible and environmentally-sustainable, paper-making.

By way of introduction and clarification, APP is a brand umbrella for paper products manufactured by several pulp and paper companies in Indonesia including, PT. Indah Kiat Pulp & Paper Tbk, PT. Pindo Deli Pulp and Paper Mills, PT. Pabrik Kertas Tjiwi Kimia Tbk, PT. Lontar Papyrus Pulp & Paper Industries, PT. Ekamas Fortuna and PT The Univenus². APP does not directly own or manage any forest concessions.²

From its humble beginnings, APP Group now represents one of the largest pulp and paper companies in the world³. This couldn't have been achieved without the support of our customers and stakeholders in Indonesia and around the world.

In the past five years, only a few of APP customers discontinued their paper supply from APP due to their FSC procurement requirements, which are not relevant to pulp and paper industry operations in Indonesia. It should, however, be noted that FSC implements an Association Policy and excludes the establishment of plantations developed after 1994⁴. Subsequently this excludes the majority of Indonesian plantations, regardless of whether they are sustainably-managed and legal.

Fact: APP is not a "subsidiary of Sinarmas Group as it is not a legal entity but a brand name used by different legal entities. There is no legal entity named Sinarmas Group.

Indonesia – Background

Indonesia is a developing country and the world's largest archipelago with close to 240 million people, spread over thousands of islands, spanning from Asia to Australasia. Under Dutch rule for over 350 years, Indonesia didn't gain independence until 1945 and has since focussed much of its attention toward the development of its economy and lifting its population out of poverty⁵. However, even now, nearly 35 million people in Indonesia live below the poverty line and approximately 60% of the population live in rural areas where forestry and agriculture are the main sources of livelihood⁶.

Achieving UN Millennium Development Goals by alleviating poverty in Indonesia, means addressing a myriad of socio-economic problems, including: malnutrition, high mortality rates, poor education and health care systems, and improving access to safe and clean drinking water⁷.

Despite a series of disasters, including the December 2004 tsunami in Sumatra, earthquakes in Java in 2005 and 2006, as well as spikes in food and energy prices, terrorist attacks and global crisis, Indonesia has steadily been growing a foundation for sustainable development of the country⁸.

Natural resources are an important contributor to Indonesia's Gross Domestic Product. Agriculture, forestry, and mining contribute about 25% of Indonesia's GDP, with the forestry sector alone contributing roughly US\$ 7 billion a year to state income⁹.

Indonesia's Green House Gas Emissions

While we do not dispute the very real problem that climate change presents, some scientists do not support claims that some NGOs have made suggesting that Indonesia is the third largest emitter of greenhouse gasses¹⁰. The Indonesian Government's Second National Communication – a formal executive summary on the state of Indonesia's emissions, supported by the UNDP – was submitted to the UN on November 23, 2009¹⁰. This report refutes a World Bank study that cited Indonesia as the world's third largest emitter and states that Indonesia's GHG emissions in 2000 were less than half the number reported by the World Bank¹¹.

In fact, this questionable data, which has been repeated many times, is based on one study by Susann Page et al, focusing on one year, in one Indonesian province¹². This one year saw an inordinate amount of forest fire in Kalimantan – a result of the fact that it was an El Nino year (1997), meaning the province was unusually dry and prone to forest fire^{10,57,58}. The data from that one year, in that one province, was then extrapolated to assume that all Indonesia would emit the same amount of carbon, every year. Other longitudinal studies disagree with Page's single-point findings, yet Page's numbers have become the norm¹².

The fact remains that forest fires are one of the biggest challenges for Indonesian's contribution to global climate change, just as they are in many other parts of the world¹³. The fact also remains that, while poverty and poor agricultural practices are causes of forest fires, several scientific studies, such as by Otsuka (1997)¹⁴ and Arino et al (1999)¹⁵, have shown that the primary cause is natural occurrences such as El Nino and the Indian Ocean Dipole, both of which temporarily create the conditions for forest fires¹⁶. To date, we have not found scientists that have a solution to these natural phenomena. To continue efforts to stop forest fire, we must control what we can control. That means fighting to stop illegal logging and managing forests sustainably¹⁷. Since 1996, APP and its pulpwood suppliers have also implemented a strict no burn policy¹⁸.

In 2005, UNDP reported that Indonesia's CO₂ emission per capita was only 1.7 ton¹⁹. This emission is significantly lower than its neighbouring developed country of Australia, which emits 16.2 ton of CO₂ per capita, or the USA, which emits 20.6 ton of CO₂ per capita^{20,21}.

Indonesia's tropical rainforests are among the most beautiful and diverse on Earth, home to a wide variety of flora and fauna, some of which can only be found in Indonesia. That is why Indonesia, like other developing Asian countries, has a set of priorities to ensure sustainable development. These priorities cover three aspects; economic development to alleviate poverty, social welfare, and environmental protection, which includes protection of high conservation value forests, biodiversity, and endangered species and actions to tackle climate change²². In its strategic policy, the Ministry of Forestry of the Republic of Indonesia places natural resource development and industry side by side with other priorities aimed to protect and rehabilitate forest biodiversity and to implement actions for climate change adaptation and mitigation²².

Fact: The Indonesian Government's Second National Communication refutes previous study that cited Indonesia as the world's third largest emitter.

APP and the Reduction of Its Environmental Impact

During post-Kyoto negotiations, Indonesian President Susilo Bambang Yudhoyono pledged to reduce carbon emissions by 2020 to 2005 levels^{23,24}. In line with this, APP is committed to making its carbon



footprint as small as possible and is working with credible, independent environmental consultants to chart its progress toward carbon reduction and the long-term goal of producing carbon-neutral paper²⁵.

In 2007, APP partnered with the world-leading, independent, UK-based sustainability consultancy, Environmental Resources Management (ERM), to carry out the world's first Carbon-Socio Footprint Assessments for a pulp and paper company²⁶.

In undertaking the Carbon footprint calculation on APP's pulp and paper mills, ERM utilised existing industry-standard tools and guidelines such as ICFPA (2005) Calculation tools for estimating GHGs emissions from Pulp and Paper Mills; WRI (2004) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard; IPCC (2006) Guidelines for National Greenhouse Gas Inventories; NCASI (2001) Technologies for reducing Carbon Dioxide emissions: A resource manual for pulp, paper, and wood products manufacturers; and all other appropriate methodology tools approved by the UNFCCC²⁶.

When carrying out the Carbon Footprint Assessment for APP's pulpwood supplier – plantation stocks – ERM utilised existing industry-standard tools and guidelines such as WRI (2006) The Greenhouse Gas Protocol: The Land Use, Land-Use Change, and Forestry Guidance for GHG Project Accounting; IPCC (2003) Good Practice Guidance for Land Use, Land-Use Change and Forestry; WRI (2004) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard; and all other appropriate methodology tools approved by the UNFCCC²⁶.

According to ERM's report in 2008, which evaluated eight production facilities in Indonesia, APP's weighted average carbon footprint for 2006 was 1.56 tCO₂e/t-paper, excluding pulpwood plantation sequestration²⁶. This is on the low end of the 1.46 to 2.20 tCO₂e/ton range of the North American paper industry²⁶. The result is in line with academic research that was conducted as far back as 1999 regarding the pulp and paper industry by the highly regarded Ecological Modernization theorist, David Sonnenfeld²⁷. He concluded that the industry in Southeast Asia is more efficient and uses more advanced technologies than the traditional industry centres in Europe and North America.

When plantation sequestration is considered, APP's weighted average carbon footprint is reduced considerably, close to neutral per ton of paper, according to ERM²⁶. These carbon emissions calculations have not included the massive carbon storage of APP supported conservation areas both below and above ground.

Currently APP is working with ERM to conduct Carbon Footprint Monitoring (CFM), which includes the following assessments²⁸:

- Best practice carbon footprint assessments in compliance with international standards, such as the GHG Protocol and ISO 14064; and
- ISO 14044 consistent assessment of the entire gate to end-use emissions of most common paper products.

The objective is for tangible emissions to be reduced through the Clean Development Mechanism (CDM)²⁹ – and other initiatives – and the production of carbon neutral paper in the long-term.

Fact: APP is making efforts to reduce its environmental impact.

Plantation Forestry



In 2010, Asia has the highest proportion of forest area within legally protected areas compared to other continents³⁰. The region's net loss of forest area in the 1990s turned into a gain between 2000-2010 according to a recent report by the Food and Agriculture Organisation (FAO) of the United Nations^{31,32}. That same report found that afforestation is significantly reducing the net loss of forest area globally³².

As of December 2009, APP's established pulpwood plantation stock in Indonesia had reached above 900,000 hectares³³.

Production forest is allocated according to the Government of Indonesia's Spatial Plan, a strategy designed to support its programs for development and poverty alleviation whilst preserving high-conservation value forest³⁴. Based on the Spatial Plan, the government allocates around 3% of Indonesia's total landmass, which it defines as wasteland, or low value and degraded forest, for pulpwood plantation development. These areas are also subject to rigorous multiple socio-environment assessments, including environmental impact assessment (AMDAL)³⁵ as well as micro and macro-delineation by third parties to ensure that high conservation value areas remain protected³⁶. These assessments, which include: community/stakeholder consultation, protection of cultural heritage and values, and the impact of the surrounding community's standard of living and health, have become the basis of the government-approved pulpwood plantation development plan.

APP has a strict no illegal wood policy, which it imposes on its pulpwood suppliers³⁷. To support its policy, APP has implemented stringent, rigorous, and externally-audited Legal Origin Verification and Chain of Custody (CoC) systems and protocols^{84,89}. APP and its pulpwood suppliers' systems are continuously audited by independent third parties with respect to national law, Eco-label Institute and Timber Legality, and Traceability Verification standards by SGS, a Geneva-based world leading environmental auditor³⁸. APP's pulp and paper main mills³⁹ successfully achieved CoC certification under the Indonesian Ecolabelling Institute (LEI) certification program. In addition to this, APP's main paper mills⁴⁰ have obtained PEFC CoC certification after a careful, independent review by SGS⁹⁹. The implementation of these systems acts as a guarantee to assure stakeholders that only pulpwood coming from areas allocated by the government for pulpwood plantation and managed by legal concession holders, which operate strictly within the regulations, will be accepted by our mills.

Sustainable operations are an integral part of APP's business model. We intend to be around for the long run and continue to grow in this industry, so one priority is to ensure the sustainability of our raw materials in the future. Therefore, APP sources the majority of its raw materials – around 80% on average in the past three years⁴¹ – from rapidly renewable plantation forests in the tropics where planted trees can grow to maturity within six years⁴², up to ten times faster than trees in temperate and boreal region. In the past five years, APP's pulp mills have steadily increased the percentage of its plantation raw material, to achieve the optimum capacity in conjunction with the processing of waste material, in support of the Indonesian Government spatial planning policy¹²⁸.

Furthermore, purchasing pulpwood from plantation forest in developing countries, such as Indonesia, helps support its social and biodiversity aspects. By developing areas designated for economic development, APP not only provides tens of thousands of direct jobs, but supports over a million more families indirectly through upstream and downstream industries^{43,44,45}. By providing this alternative and sustainable means to improve their livelihood, fewer people in these sensitive areas will be tempted or forced by poverty to turn to illegal activities such as illegal logging, poaching, and encroachment⁴⁶. In addition, APP and its pulpwood suppliers are engaged in community empowerment programs that include educating the community on sustainable farming and sustainable-forest-based industry². Through education, APP hopes to promote long-term changes in attitudes, which will support conservation. The development of plantation forests near conservation



areas also strengthens the protection of these delicate high-conservation value areas by becoming a buffer or security zone from illegal logging, encroachment, poaching, and forest fires⁴⁷.

As reported in the FAO report⁴⁸, “Sustainable management planning and rehabilitation of forests can conserve or increase forest carbon stocks; deforestation degradation and poor forest management reduce them.” APP understands this and has set itself a challenging target – to lead the way for the Indonesian forestry industry in conservation and sustainability best practices.

According to the Global Forest Resources Assessment 2010⁴⁹, deforestation shows signs of decreasing in several countries, but continues at a high rate in others. Both Brazil and Indonesia, which had the highest net loss of forest in the 1990s, have significantly reduced their rate of loss, while in Australia, severe drought and forest fires have exacerbated the loss of forest since 2000⁴⁹.

Fact: Since 1996, APP's pulpwood suppliers have been developing degraded and low conservation-value areas, legally designated by the Government of Indonesia for pulpwood plantations to support the country's sustainable development. Much of pulpwood suppliers' concession areas are denuded wasteland and community-based forest plantations³³. APP would not accept its pulpwood suppliers to cut high conservation value forest as defined by the Government of Indonesia³⁶.

Biodiversity

APP and its pulpwood suppliers play a leading role in the sustainable protection of endangered flora and fauna. In line with our Sustainability and Procurement policies³⁷, APP funds and works together with our pulpwood suppliers and other stakeholders on four major large-landscape forest protection programs in Indonesia:

- The 172,000 hectares of UNESCO approved Giam Siak Kecil - Bukit Batu (GSK-BB) Biosphere Reserve in Riau province, Sumatra⁵⁰. The reserve is rich in biodiversity and a massive carbon sink due to its deep and unique peat domes, critical for the hydrology systems of the region⁵¹.

GSK-BB Biosphere Reserve consists of:

- Core Area: 178,722 hectares = 70,271 hectares of conservation area set aside by APP's pulpwood supplier + 108,451 hectares National Reserves
- Buffer Zone: 222,425 hectares = APP's pulpwood supplier's plantations
- Transition Area: 304,123 hectares

In 2008, URS estimated that the underground carbon stored in Giam Siak Kecil alone could be in vicinity of 1.7 billion ton CO₂. To date, many researchers, academics, and NGOs have been assessing the Reserve for biodiversity⁵¹ and eco-friendly farming for the local community. According to initial studies, many endangered flora and fauna are protected inside the Reserve. This is the only Biosphere Reserve initiated by the private sector in the world⁵².

- The 10,000 hectares Taman Raja Nature Preserve in Jambi province, Sumatra. The Preserve is rich in vital biodiversity and social value. A team, consisting of APP and our pulpwood suppliers – and other relevant stakeholders – are joining efforts to integrate a collaborative management model between the Preserve and Bukit Tigapuluh National Park by a wildlife corridor, which unites both areas maximising the efforts to protect the Sumatran tiger (*Panthera Tigris Sumatrae*)⁵³.



- The 110,000-hectare Senepis Sumatran Tiger Sanctuary in Riau province, Sumatra. By setting aside 106,000 hectares of production forest as the core area of tiger sanctuary, APP's pulpwood suppliers and other concession holders are making a vital contribution to the survival of the species by expanding the existing wildlife reserves^{54 55}. The establishment of a tiger sanctuary within production forests is a pioneering initiative.

Senepis Sumatran Tiger Sanctuary consists of:

- Core area: 106,000 hectares = 90,956 hectares from PT Diamond Raya Timber concession + 15,025 hectares from APP's pulpwood supplier's concession
 - Conservation corridor from APP's pulpwood supplier: 4,325 hectares.
- The Kutai Orang-utan Program. The Kutai National Park, in East Kalimantan, is one of the last remaining strong holds of the Bornean Orang-utan⁵⁶. The park suffered extensive damage during the 1997 El Nino fires that swept through Kalimantan^{57,58}. In 2007, APP and its pulpwood supplier Surya Hutani Jaya initiated an investigation into options that would ensure the survival of the orang-utan, and, also provide for the economic viability of the plantation⁵⁹. A multi-stakeholder working group has been set up to find and implement best practice solutions to support a viable orang-utan population⁶⁰.

In total, APP's pulpwood supplier sets aside close to 400,000 hectares for pure forest conservation efforts⁶¹. In addition to these direct surfaces set aside, APP's contribution includes the time of its experts, technicians and managers who participate actively in the large-landscape forest conservation management of the projects referred to above. Outside its operational areas, APP recently embarked on a crucial program to save the critically-endangered Javan rhino⁶². This hugely significant joint venture will focus on the development of a Javan Rhino Sanctuary in Ujung Kulon National Park – a 76,000 hectares reserve in West Java, Indonesia. The development of the sanctuary is aimed not only to conserve the Javan rhino through intensive scientific studies, but also to expand its habitat, protecting it from interference from domestic animals – ensuring population growth – which are the main goals of the program⁶³.

As far as we know, APP is one of the very few pulp & paper players worldwide to have implemented conservation and carbon storage initiatives on such a scale.

Fact: By Participating to various conservation projects, APP actively fighting against deforestation and the destruction of the habitat of Sumatran tiger, elephant, rhinoceros, and orang-utan in the Sumatran tropical forests of Indonesia.

Bukit Tigapuluh National Park Protection

Bukit Tiga Puluh National Park is a 143,000 hectares area on the low land of eastern Sumatra, which has been legally allocated as a protected National Park by the Indonesian government, according to the national spatial plan policy⁶⁴. The Park is surrounded by areas legally classified as production forest and many other land use purposes. Production forest is a classification used by the Indonesian Government for area that is allocated for wood production activities, either in the form of selective logging or plantation forest concessions⁶⁵.

On June 17, 2009, the Directorate General of Forest Protection and Nature Conservation of the Ministry of Forestry the Republic of Indonesia held a multi-stakeholder meeting to discuss matters related to Bukit Tigapuluh buffer zones and the relevant management issues. During the meeting, the Director General of Forest Protection and Nature Conservation and Director General of Forestry Production Development, decided that a credible independent multi-stakeholder team will be set up to



assess the ecological and social condition of the buffer zone areas of BTNP. In addition to the two Directorate Generals and Rimba Hutani Mas (one of APP's pulpwood suppliers), the multi-stakeholder team will consist of a number of concerned stakeholders who attended the meeting, including WARSI, WWF, and the Frankfurt Zoological Society⁶⁶.

APP fully supports the implementation of this assessment. APP will fully respect the findings of the independent, multi-stakeholder team and support the decision made by the Government⁶⁷.

APP will not receive any pulpwood from the area unless the multi-stakeholder assessment is completed and the sustainable development plan for the area is officially approved by the Government of Indonesia⁶⁷.

In addition, we'd like to clarify that APP and its pulpwood supplier will do their utmost to support the following:

- The protection of Bukit Tigapuluh National Park⁶⁸, its buffer zones, and the development of wildlife corridors, including the management of Taman Raja Nature Preserve⁶⁹; and
- The protection of conservation areas against illegal encroachment and poaching, working together with the National Park's authorities.

Sumatran Tigers

APP is committed to the protection of endangered species, including the Sumatran tiger⁷⁰. On 28 July, 2006, representatives of APP, the Riau based Forestry Service, the Natural Resources and Conservation Agency (BKSDA), forestry concession holders, and the Sumatran Tiger Conservation Program agreed to work together to protect Sumatran Tigers, in a program that would soon be known as the Senepis – Buluhala Tiger Sanctuary⁷¹.

The Sumatran tiger is one of five remaining tiger species and with an estimated population of just 500, is listed on the International Union for Conservation of Nature's (IUCN)⁷² critically endangered list. The Senepis, Buluhala Core Conservation Area, is 106,000 hectares in the Senepis Forest of Northern Riau, an area known to have one of the highest densities of tigers in Sumatra⁷³.

In an effort to ensure humans and tigers can co-exist in the region harmoniously APP's pulpwood suppliers set aside 15,025 hectares of core conservation area and an additional 4,325 hectares of conservation corridor in Senepis. Additionally, another selective logging concession outside of APP's pulpwood suppliers, PT. Diamond Raya Timber, set aside 90,956 hectares of core conservation area⁷⁴

The establishment of a tiger sanctuary within production forests is a pioneering initiative, which intends to effectively combine programs that meet social and economic needs along with efforts for the protection of endangered species⁷⁵.

This kind of initiative can only be supported if the right structures are in place. The Tiger Conservation Working Group is a case in point. Ratified in July 2007, it has expanded from humble beginnings and today comprises: forest concession holders; representatives from the Riau Province's Forestry Service and other local forestry services; BKSDA, the Wildlife Conservation Society Indonesia Program (WCS-IP); and the Foundation of Sumatran Tiger Conservation (PHS). It is a multi-stakeholder conservation effort authorised by the Forest Service of Riau Province to develop and participate in the protection of the Sumatran tigers.⁷⁶

Over the past three years, the Working Group has collaborated on a number of projects, including⁷⁷:



- Combating illegal logging and land encroachment, which are among the main reasons for the decline in tiger numbers;
- Extensive tiger monitoring through radio collar and camera traps, which enable the Group to learn about the tiger's habitat and monitor the number of tigers in the area; and
- Placing hundreds of signs along the borders of the conservation area to clearly mark the boundaries of the area and prevent human intrusion.

The Sanctuary is further protected by the existence of an APP pulpwood supplier concession area, which rests in the southeast boundary of the conservation zone². This plantation serves as a buffer zone, a practical boundary which limits the impact of further illegal human activities⁴⁷.

Currently, APP, its pulpwood suppliers, and other Working Group members are planning to implement a Fenced Tiger Prey Study as a means to find new ways to address human/tiger conflict. The study will involve placing live prey in fenced areas to observe the feeding behavior of tigers and will be used to develop strategies to balance the needs of the tigers and local human populations.

Long-term, our shared yet challenging vision is to develop a wildlife corridor connecting the Senepis – Buluhala Tiger Sanctuary to Giam Siak Kecil – Bukit Batu Biosphere Reserve (GSK-BB), a recently approved UNESCO Man and Biosphere reserve.

Through our long-term plans⁷⁸, we hope to increase the numbers of this native Indonesian endangered species and provide a more sustainable habitat for Sumatran tigers. These efforts demonstrate the ongoing successful collaboration between responsible private enterprise, governments, and NGOs in Indonesia to develop long-term strategies that protect our precious natural heritage and economic development.

Fact: APP and its pulpwood suppliers are actively involved in the expansion of protected forests and conservation of natural forests with high carbon storage in Indonesia.

Certification

APP and its pulpwood suppliers in Indonesia base their certification on the national forestry certification systems, defined by the Government of Indonesia and Lembaga Ekolabel Indonesia (LEI)⁷⁹ respectively. LEI, a robust independent certification scheme, has been accepted and acknowledged by other credible certification schemes and customers worldwide⁸⁰.

In addition to its product quality certifications, such as labels under the Global Ecolabelling Network, APP's commitment to responsible procurement, legal pulpwood origin verification, and chain of custody systems has extended beyond LEI³⁷. The company has also gained PEFC⁸¹ Chain of Custody for its major paper mills. With a consumption of more than 30% of certified material, excluding its consumption of recycled paper, APP has the highest level of fibre certified, equal to any other paper product manufacturer in the world.⁹⁹

APP's position is to embrace all credible certifications, recognising that each certification scheme has its own set of strict standards to assure certain attributes of the product carrying its seal of approval. APP also strongly believes in the power of the market to exercise its "freedom of choice" and make its own determination as to which certification systems are acceptable.

PEFC is the largest certification in the world in terms of area certified⁸¹. Its bottom-up approach is widely respected by many countries around the globe. Our door remains open to constructive



dialogue with FSC should they decide to re-engage with us, implement principles and criteria relevant to pulp and paper industry in Indonesia, and be willing to consistently implement their Association Policy to all their stakeholders. We note that some of the methods used by FSC have been questioned for their aggressiveness. A report titled 'Forest Certifications – Experiences with PEFC in Germany' produced by Dirk Teegelbeekers, General Secretary of PEFC Germany, in 2003, is testimony that those who have opted to support PEFC rather than FSC certification, have faced a backlash, not only from FSC but also from some NGOs⁸².

Fact: APP and its pulpwood suppliers' operations are periodically and independently audited for legal verification, chain-of-custody, and sustainability of their raw material.

Chain of Custody

APP implements stringent externally-audited Legal Origin Verification (LoV) and Chain of Custody (CoC) systems and protocols⁸³. These systems and protocols have been continually improved based on external auditor's GAP analysis and recommendations⁸⁴. APP and its pulpwood suppliers' LoV and CoC systems have been independently audited using national law and Ecolabel Institute and Timber Legality and Traceability Verification (TLTV-VO) standards by SGS – one of the world's leading environmental auditors⁸⁵. As stated in their audit reports, the SGS auditing team found no significant indication of any illegal pulpwood being harvested by our suppliers or being introduced into APP's mills⁸⁶.

APP's main production facilities are PEFC and Indonesian Eco-labeling Institute (LEI) Chain-of-Custody certified⁸⁹. To achieve these certifications, over the past five years, APP has been restructuring and improving its sourcing and Chain-of-Custody policies, which have been independently audited⁸⁷. The PEFC CoC certification has also enhanced the sustainability of our pulpwood suppliers' plantations by complying with PEFC's Non-Controversial Guidelines through strict external LEI and TLTV audits^{88,89}.

PEFC's paper certification standard is similar to FSC's⁹⁰. Their certified products contain noncertified material, which are classified as Non-Controversial and Controlled Wood⁹¹. One of APP's largest pulpwood sources, Wirakarya Sakti, has successfully achieved Sustainable Forest Management (SFM) certification for its 300,000 hectares of pulpwood plantation forest using LEI Standards⁹². This represents the largest LEI SFM certified forest in Indonesia⁹³. Only 1% of Indonesia's total production forest is LEI certified⁹⁴. LEI is the only SFM standard applicable for pulpwood plantation in Indonesia⁹⁵.

Today, around 30% of APP's pulp raw materials originate from Sustainable Forest Management (SFM)⁹⁶ certified sources such as LEI, PEFC, and FSC, while 35% originates from independently audited non-controversial legal origin⁹¹ sources under a phased approach toward SFM certification. The balance is of recycled material⁹⁷. APP is one of the few companies in Asia that has actively promoted the use of recycled paper⁹⁸. Given that less than 10% of the world's forests and less than 2% of Asia's forests are certified. APP's consumption of certified raw material is significantly higher than the global standard.

Fact: APP produces and promotes LEI certified, PEFC certified, and recycled paper⁹⁹. LEI is the only Sustainable Forest Management Certification scheme applicable for pulp and paper industry in Indonesia⁹⁵. PEFC represents the largest Sustainable Forest Management and Chain-of-Custody certification scheme in the world.



Poverty Alleviation

Understanding the development challenges Indonesia faces is important, if one is to understand APP-Indonesia as a company. Poverty alleviation is a major development goal for the Indonesian government.

According to the Indonesian Central Bureau of Statistics, as of March 2008, nearly 35 million Indonesians live below the poverty line; these people cannot afford food amounting to 2100 calories per day^{100,101}. There is a direct connection between continued economic development, political stability, and security in Southeast Asia.^{102,103}

Natural resources are an important contributor to Indonesia's Gross Domestic Product (GDP) and the central government's budget⁹. World Bank figures show that agriculture, forestry, and mining contribute about 25% of Indonesia's GDP and about 30% of overall government budget revenue¹⁰⁴. An estimated 75% of Indonesians earn their living through agriculture according to the World Bank¹⁰⁵. In a 2007 publication, the Department of Industry estimated that 242,822 people were directly employed in the pulp and paper industry in Indonesia^{106,107}. APP employs a significant percentage of these people².

Forests play a vital role in Indonesian society, and whilst a number of NGOs may claim that forestry is the biggest cause of deforestation, a World Growth report states that "the two primary drivers are commercial agriculture (32%) and subsistence farming (48%). The cause is the requirement for greater production of food for expanding populations and developing economies."¹⁰⁸

I would urge you to consider that a sustainable, managed forestry industry in Indonesia can actually be of benefit to the long-term preservation of biodiversity and high conservation value forest, while alleviating the poverty, which drives many Indonesians to log illegally.

Despite the hundreds of thousands of livelihoods that depend on the forestry industry in Indonesia, in January 2010, Greenpeace called for a total moratorium on forestry in Indonesia¹⁰⁹. In response to the call Forestry Minister Zulkifli Hasan told the Jakarta Globe:

"What should we do with our industry? Can [Greenpeace] provide any solutions for the logging industry and people who make their living from forestry sector?" According to Zulkifli, the moratorium would cause economic stagnation. Besides, he said, the country already had programs in place for sustainable forestry management: "If we want to blame somebody because of deforestation, blame the illegal loggers and their buyers," he added¹¹⁰.

Fact: In Indonesia, APP directly employs more than 62,000 workers. In addition, through its pulpwood suppliers, APP provides employment for an additional estimated 8,500 workers, bringing the estimated total direct employment of APP in Indonesia to over 70,000 persons². Directly and indirectly, APP provides over one million jobs in the plantation, pulp, and paper industries and other supporting upstream and downstream industries worldwide.¹¹¹ In the case of Indonesia, this addresses a root cause of illegal logging and illegal forestry encroachment; it provides livelihoods and careers for current and future generations and contributes to sustainable economic development.

Human Rights



In line with its Sustainability Policy, APP is committed to respecting and protecting human rights and ensuring its pulpwood suppliers implement strict Conflict Resolution Standard Operating Procedures (SOPs) to respect the land rights of indigenous people¹¹².

Through the jobs APP creates – community development centre programs, education and health programs, working with local cooperatives, developing community infrastructure, and other initiatives – the company has been trying to address the endemic poverty in Indonesia; one of the real causes of a myriad of social, health and economic problems and a root cause of illegal logging^{113,114,115,116,117}. As one of Indonesia's largest private employers, APP is committed to assisting the Government of Indonesia in alleviating poverty and meeting the country's U.N. Millennium Development Goals^{113,118}.

In December 2008, it was reported in several media outlets that Arara Abadi (AA) and APP were involved in human rights violations in relation to a land dispute in Riau province^{119,120,121}. Naturally, we were very concerned about these reports and the events they described and co-operated fully with the authorities' investigation.

The allegations were extensively investigated by the Bengkalis Court with contributions and statements from local authorities, the Fact Defender Independent Alliance, villagers, and several NGOs of the indigenous community in Riau province – including from the Association of the Traditional Community of Sakai (Lembaga Adat Masyarakat Sakai) and the Association of the Dignified Community of Sakai Riau (Lembaga Swadaya Masyarakat Marwah Sakai Riau)^{122,123,124}.

The history of the case is that from 2006, the Riau Farmers Union, Serikat Tani Riau (STR), had conducted a campaign to claim land from AA concessions in Riau, involving illegal land transactions and including ongoing destruction of the existing plantation forest area. On Friday 16 January, Judge Agus Trianto rejected claims made by the STR against the Riau police, announcing that the authority had followed legal and appropriate procedures^{119,120,121}.

In addition, the statements made by the Association of the Traditional Community of Sakai and the Association of Dignify Community of Sakai Riau – both indigenous community NGOs based in Riau – emphasised their support of the authority's action on December 18, 2008 in order to implement law and order on the illegal and uncontrollable actions conducted by STR in AA's concession area. The statements also pointed out that STR is not representing the indigenous Sakai community, but instead most of STR's members are in fact migrants to this area)^{121,122}.

The Independent Fact Finding Alliance (Aliansi Independen Pencari Kebenaran / AIPK), a fact finding team consisting of six local NGOs, conducted an investigation over the incident on December 18, 2008. The excerpt of AIPK findings are as follows¹²⁵:

- Proof of the destruction of the existing plantation forest in the area of the incident;
- The incident did not happen in Suluk Bongkal village, which is located outside AA area;
- Public deception occurred in particular with regard to claims of accidents and the use of excessive forces during the incident.

In 1996, the Government of Indonesia through the Ministry of Forestry granted the pulpwood plantation license (Ministry of Forestry Decree no. 743/Kpts-II/1996) to Arara Abadi¹²⁶. The license gave AA the permission to develop around 299,975 hectares of concession land in Riau Province into a pulpwood plantation, which is in line with government's relevant laws and regulations¹²⁷. This area was in the Production Forest Area designated for pulpwood plantation through the government's spatial planning policy¹²⁸.



APP's pulpwood suppliers implement strict Conflict Resolution SOPs¹²⁹, which requires all of APP's fibre suppliers to respect the land rights of indigenous people and legal land claims. Any unresolved claims need to be processed according to the laws and regulations of the Republic of Indonesia^{37,112}.

APP and its pulpwood suppliers do not condone any violence of any kind. APP and its pulpwood suppliers are committed to sustainable forest management, which conserves areas of outstanding habitat and operates in harmony with local communities^{37,112}.

Fact: APP is committed to work in harmony with local communities. APP Policies intend to respect the human rights of local populations.

Relationship between WWF and APP

In August 2003, APP signed a letter of intent with WWF, a western NGO with operations in Indonesia¹³⁰. Among the action items pledged by APP and our suppliers was to place 58,500 hectares of concession area under permanent protection as a conservation area, subject to independent audit and national spatial planning policies. Another was to place 8,500 hectares near Bukit Batu and Giam Siak Kecil under temporary moratorium. APP and our pulpwood suppliers agreed to commission an independent audit of the legality of its wood sourcing system, and APP committed to share those findings publicly. These actions have all been completed. In fact, of the actions committed to by APP and our pulpwood suppliers, all substantive points have been conducted. WWF has, following its withdrawal from the partnership, failed to honour its commitments under the letter of intent.

Fact: APP implements an open door policy to respond to and engage with credible and responsible NGOs, including WWF.

Allegations against APP operations

APP has been subject to a negative publicity campaign from a number of environmental non-government organizations (ENGOS), principally WWF. APP believe that the reason for the attack on APP is straightforward: it is the largest pulp and paper producer in Indonesia, a country myriad with social challenges and recently highlighted under climate change issues without fair justifications. In 2008, ITS Global was commissioned by APP to analyse the allegations against the company and evidence behind the claims and to provide clarification for claims that are erroneous or inaccurate. The report attempts to explicate the campaign led by WWF as well as rebut all major claims made by other international NGOs. In all, 95 claims were closely analyzed. They are allegations of¹³¹:

- Illegal logging
- Deforestation
- Impact on biodiversity
- Responsibility for forest fires
- Poor financial viability
- Human rights abuses
-

Of the 95 claims that were closely analyzed by ITS Global, the claims were broken down as such¹³¹:

Categorization of claim	Total
Inaccurate	28
Incorrect	31



Unsubstantiated	16
Unverifiable	11
Speculative	5
Interpretative	3
Correct	1

Fact: Only around 1% of Environmental NGOs allegation against APP operations is correct according to ITS Global analysis in 2008¹³¹.

What have all these got to do with APP's customers?

Governments, civil society, and stakeholders realise that the private sector – your organisations and ours – have a massive role to play in implementing the Indonesian policies to support economic development to alleviate poverty and improve social welfare and environmental protection. This includes protection of high-conservation value forests, biodiversity, endangered species, and actions to tackle climate change^{9,102,132}. Without a well-functioning private sector, creating jobs, and prosperity, sustainable economic development in Indonesia fails¹³³. APP believe by supporting APP, you are supporting our country to achieve fair and sustainable development for the people, flora, and fauna in Indonesia.

Fact: APP believe that by buying APP products customers are supporting APP as the main direct employer in the pulp and paper industry and indirect employer in upstream and downstream supporting industries. Buy buying APP Products, customers help APP supporting many biodiversity and greenhouse gas reduction programs in Indonesia.

Transparency

Fact: APP first publicly launched its Environmental, Social & Sustainability Report in 2007. Our Sustainability Report is based on the current best practice guidance provided by the Netherlands-based Global Reporting Initiative Sustainability Reporting Guidelines and the AA1000 Global Assurance Standard². The Reports issued by APP include an Assurance Statement of Independent Review Body.

APP, as all private companies, is striving to fulfill the expectations of all its responsible stakeholders. And if anyone receives information from Greenpeace, WWF, and other groups, who claim that APP is not doing enough to protect the environment, we urge you to consider the points above. Contact us, come and examine our operations for yourself, and work with us to seek solutions that balance the complex and interconnected needs of the developing world. As part of its commitment to transparency, APP opens its door to credible and responsible NGOs and independent auditors to trace the chain-of-custody of its products, to enable them to better understand the sustainability aspects of its raw materials and to work with the company to enhance its sustainable practice.

In conclusion, not only are we taking the concerns of our stakeholders seriously, we have also instituted policies and long-term plans, which are already beginning to have positive effects on conservation, poverty alleviation and afforestation, which compare very favourably with the efforts of our competitors in Asia and in the developed world.



We are more than happy to further discuss any concerns you may have. Should you have any questions, please do not hesitate in contacting us.

A handwritten signature in black ink, appearing to read 'Aida Greenbury', with a small dot above the 'i'.

Aida Greenbury

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¹ Mazars is an international, integrated and independent organisation, specialising in audit, accounting, tax and advisory services www.mazars.com

² Independently audited APP Social & Environmental Sustainability Report according to Global Reporting Initiatives (GRI) guidelines www.asiapulppaper.com

³ Pulp & Paper Production Capacity, Annual & Sustainability Reports and www.risiinfo.com

⁴ FSC Policy, Principles & Criteria www.fsc.org

⁵ Publicly available Indonesian history & Government Policies

⁶ "Number and Percentage of Poor People, Poverty Line, Poverty Gap Index, Poverty Severity Index by Province March 2009" by Indonesian Central Bureau of Statistics & International Fund for Agricultural Development, an agency of the U.N.

⁷ <http://www.undp.or.id/mdg/>

⁸ <http://www.antaraneews.com/en/news/1262673742/president-satisfied-about-countrys-2009-economic-performance>

⁹ http://www.bps.go.id/tab_sub/view.php?tabel=1&daftar=1&id_subyek=11¬ab=1

¹⁰ Summary for Policy Maker : Indonesia Second National Communication under United Nations Framework Convention on Climate Change, page 7

¹¹ Executive Summary: Indonesia and Climate Change, Working Paper on Current Status and Policies by PEACE, World Bank and DFID, page 1

¹² Current Issues of Tropical Peatland in Indonesia by Basuki Sumawinata and Darmawan, Department of Soil Science and Land Resources, Faculty of Agriculture, Bogor Agricultural University referring to: Page, S.E., F. Siebert, J. O. Rieley, Hans-Dieter V. Boehm, A. Jaya & S. Limin. 2002. The amount of carbon released from peat and forest fires in Indonesia during 1997. *Nature* 420: 61-65

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- ³² <http://www.fao.org/news/story/en/item/40893/icode/>
- ³³ APP pulpwood supplier plantation update
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- ³⁶ RI Ministry of Forestry Decree SK.101/Menhut-II/2004 and Interpretation Ministry of Forestry S.06/MENHUT-VI/2006 regarding acceleration of the development of estate forest to accommodate the raw material requirement for the pulp and paper industry, <http://www.euflegt.org/images/reference/law/2004%20SK%20Menhut%20No101%20eng.htm>
- ³⁷ Responsible Purchasing & Chain-of-Custody Policy – Lontar Papyrus; SOP for procuring Certified/Verified Wood (SSE/SOP/001); Responsible wood supply & Chain-of-Custody Policy – WKS; Operating Procedure – WKS (HCD/OP/01); APP Fiber Procurement Policy
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- ³⁹ Indah Kiat Pulp & Paper Perawang, Lontar Papyrus, Pindo Deli Kerawang, Tjiwi Kimia
- ⁴⁰ Indah Kiat Pulp & Paper Perawang, Pindo Deli Kerawang, Univenus, Lontar Papyrus, Indah Kiat Serang, Indah Kiat Tangerang, Pindo Deli Kerawang, Tjiwi Kimia.
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- ⁴² [APP](#) Pulpwood Consumption 2005 - 2009
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- ⁵⁵ Ratification Letter Forest Service of Riau province 922.4/PH/2158 dated July 6th 2007
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- ⁸⁸ SGS Non Controversial Statement
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- ⁹⁰ <http://www.cpet.org.uk/evidence-of-compliance/category-a-evidence/approved-schemes> ; http://www.skog.no/skog_data/attachments/284/NSF_Report_final.pdf ; <http://www.gbca.org.au/green-star/materials-category/revised-timber-credit/2693.htm>
- ⁹¹ Non-controversial : PEFC Guidelines Appendix 7 of Annex 4;

Controlled wood : FSC Controlled wood standard FSC-STD-30-010

⁹² WKS LEI SFM Certification

⁹³ <http://www.lei.or.id/sertifikasi-phtl>

⁹⁴ www.lei.or.id

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⁹⁶ www.dephut.go.id

⁹⁷ PEFC Guideline for Recycle Material under Appendix 6 of Annex 4

⁹⁸ APP Mill (Tjiwi Kimia) PEFC certification and Green Seal Certification

⁹⁹ APP mills PEFC and LEI Chain of Custody Certifications

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- ¹²⁶ Ministry of Forestry Decree no. 743/Kpts-II/1996
- ¹²⁷ Ibid
- ¹²⁸ Source: 1) Eksekutif DATA STRATEGIS KEHUTANAN 2007, DEPARTEMEN KEHUTANAN, Direktorat Jenderal Bina Produksi Kehutanan (BPK) 2008; 2) Statistik Kehutanan Indonesia 2006, 2007, Departemen Kehutanan; 3) Keputusan Menteri Kehutanan tentang Penunjukkan Kawasan Hutan dan Perairan; 4) Tata Guna Hutan Kesepakatan, 1984
- ¹²⁹ Example: Operating Procedure on Solving Land Dispute: FPD/OP/03
- ¹³⁰ APP and WWF LoI 2003
- ¹³¹ *Purchasing Pulp and Paper from Indonesia - Supporting Sustainable Development* by ITS Global, July 2008
- ¹³² World Bank (2006a) *Sustaining Economic Growth, Rural Livelihoods, and Environmental Benefits: Strategic Options for Forest Assistance in Indonesia*, Washington D.C.

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¹³³ "The Impact of Private Sector Growth on Poverty Reduction: Evidence from Indonesia" Daniel Suryadarma and Asep Suryahadi, The SMERU Research Institute, April 2007