

**ASIA PULP & PAPER (APP) DEFAULT IN ITS OBLIGATIONS WITH THE EXPORT CREDIT AGENCIES**

May 2012

Dear Sir/Madam,

We are writing to you to draw your attention to the failure of the paper conglomerate Asia Pulp & Paper (APP) in fulfilling its obligations with export credit agencies.

Due to its corporate activities, APP has for a long time been exposed to criticism by civil society actors for its alleged repeated involvement in legally questionable activities in Indonesian/South-East Asian rainforests. In 2001 APP, as part of the Sinar Mas Group, defaulted on a debt of U.S. \$13.9 billion in Asia's biggest corporate debt default at that point.

In reaction to this spectacular development, APP and its creditors, including the export credit agencies of Austria, Denmark, Finland, France, Germany, Italy, Japan, Spain and Sweden, negotiated a Master Restructuring Agreements (MRA) which included the delay of the debt repayment for many years as well as "environmental covenants".

APP's environmental obligations included the protection of 77,000 hectares of high conservation value forests (HCVF) and the commitment to fully rely on renewable, plantation-grown fibre from socially, environmentally and legally responsible sources by 2007.<sup>1</sup>

In March 2012, the Indonesian coalition Eyes on the Forest released an investigation report<sup>2</sup> proving that APP had yet again begun clearing the HCVF as early as 2007, only three years after it had signed its legally binding obligation and publicly committed to achieve "full sustainability". Ever since then, APP has continued to convert HCVF, destroying a total of 12,000 hectares about one third of the forest it had pledged to creditors to protect. Meanwhile, the clearing of these precious rainforests is still ongoing.

Another environmental condition for APP was to fully rely on renewable, plantation-grown fibre by 2007.<sup>3</sup> This commitment was also broken, the deadline being shifted by eight years to 2015.<sup>4</sup> On the basis of evidence to date, it is unlikely the company will respect this new deadline: especially after it

Open letter from:



has recently announced plans for a new production plant in South Sumatra with a planned production of between 1.5 and 2.0 million tonnes per year of bleached hardwood kraft pulp (BHK), making it the largest single pulp line in the world.<sup>5</sup> At the same time, APP has decided to add twelve more tissue machines with a combined capacity of 240,000 tonnes/yr to its ongoing tissue paper expansion plan in China.<sup>6</sup>

APP's business largely relies on deforestation in Indonesia for conversion into plantations. It is estimated to have pulped more than 2 million hectares of natural rainforests in Sumatra<sup>7</sup>, and its plants are still substantially relying on mixed tropical hardwood (MTH) fibres, coming from deforestation. A further expansion of its production capacity will inevitably lead APP to further deforestation – and to further violate the terms of the 'environmental covenants' of the Master Restructuring Agreements.

**For these reasons, we ask you to inform us how you are monitoring APP's compliance with its commitments made under the Master Restructuring Agreements. Furthermore we ask you to inform us how you are holding APP to account for breaching commitments made to develop sustainable forestry operations and pulp and paper production.**

**We also ask you to formally exclude any form of participation in operations involving APP or any other business linked to deforestation, in Indonesia or elsewhere.**

1 Print Week, 23 September 2004, <http://www.printweek.com/news/451863/APP-signs-deal-keep-green-practice/>

2 Eyes on the Forest, APP Default on Environmental Covenant, March 2012, [http://www.eyesontheforest.or.id/attach/EoF%20\(Mar12\)%20APP%20default%20on%20environmental%20covenant%20report%20FINALS.pdf](http://www.eyesontheforest.or.id/attach/EoF%20(Mar12)%20APP%20default%20on%20environmental%20covenant%20report%20FINALS.pdf)

3 Asia Pulp & Paper, APP Sustainability Action Plan, 2004

4 Aida Greenbury (Asia Pulp and Paper): why activists are wrong over destructive logging allegations, The Ecologist, 31 January 2011 [http://www.theecologist.org/blogs\\_and\\_comments/commentators/other\\_comments/751770/asia\\_pulp\\_and\\_paper\\_why\\_activists\\_are\\_wrong\\_over\\_destructive\\_logging\\_allegations.html](http://www.theecologist.org/blogs_and_comments/commentators/other_comments/751770/asia_pulp_and_paper_why_activists_are_wrong_over_destructive_logging_allegations.html)

5 RISI, 6 February 2012, <http://www.risiinfo.com/blogs/Worldu2019s-largest-market-pulp-line-planned-for-2015-16-in-Indonesia.html>

6 RISI, 5 March 2012, <http://www.risiinfo.com/pulpandpaper/news/APP-China-plans-twelve-tissue-machines-with-a-combined-capacity-of-240000-tonnesyr-for-Haikou-complex-in-China.html?source=rssfw>

7 Eyes on the Forest, Investigative report, The truth behind APP's greenwash, December 2011, [http://eyesontheforest.or.id/attach/EoF%20\(14Dec11\)%20The%20truth%20behind%20APPs%20greenwash%20HR.pdf](http://eyesontheforest.or.id/attach/EoF%20(14Dec11)%20The%20truth%20behind%20APPs%20greenwash%20HR.pdf)