



**Fact Sheet on Letter of Intent**  
between  
**WWF Indonesia,**  
Asia Pulp & Paper Co. Ltd.  
and  
**SMG Forestry Companies**

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## **A. The Signing of the Letter of Intent**

**Date of LoI signing:** August 19, 2003

**Duration of the LoI:** until February 19, 2004

**LoI Signed By:** Mubariq Ahmad (Mr.), Executive Director of WWF Indonesia  
Michael Black (Mr.), Deputy CEO Indonesia, Asia Pulp & Paper Co. Ltd.  
Muktar Widjaja (Mr.), Managing Director of Sinar Mas Group forestry companies

**Signing Location:** WWF Indonesia,  
Kantor Taman A9, Unit A-1  
Jl. Mega Kuningan  
Jakarta 12950  
Indonesia

### **Mubariq Ahmad, Executive Director of WWF Indonesia**

PhD in Agricultural Economics from Michigan State University. Formerly director of LEI (Lembaga Ekolabel Indonesia), Senior Natural Resource Economist in the USAID-funded NRM (Natural Resource Management) Program, currently also teaching at the University of Indonesia.

### **Michael Black, Deputy CEO Indonesia, Asia Pulp and Paper Co. Ltd.**

An engineering graduate with an MBA from the London Business School, Michael Black has experience both working within, and consulting to, industry. He was previously a Partner with McKinsey & Company where he worked for eight years in Asia and the United States, advising a number of sectors including pulp and paper. Today he is overseeing Asia Pulp and Paper's Indonesian operations to align the company to external expectations of business efficiency and corporate responsibility.

### **Muktar Widjaja, Managing Director of Sinar Mas Group forestry companies**

A business administration graduate from Concordia University in Canada, Muktar Widjaja started work in his family's edible oil factory in Manado, Sulawesi developing his career with various positions during the 1980s. Today he is responsible for managing several Sinar Mas Group companies with interests covering forestry, agriculture and property. Muktar Widjaja heads the Group Board that oversees the professional managers running SMG's various forestry operations.

## **B. Parties to the Memorandum of Understanding**

The **World Wide Fund for Nature (WWF) Indonesia** . World Wide Fund for Nature (WWF), with almost 5 million supporters and a global network in more than 90 countries, is one of the world's largest conservation organizations. WWF's mission is to stop, and eventually reverse, the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature. WWF has been active in Indonesia since 1962.

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([ssakti@wwf.or.id](mailto:ssakti@wwf.or.id))

**Asia Pulp and Paper (APP)**, [www.asiapulppaper.com](http://www.asiapulppaper.com), is one of the world's leading pulp and paper companies. With current pulp capacity of 2.3 million tonnes, and paper and packaging capacity of 5.7 million tonnes, it ranks number one in non-Japan Asia. Headquartered in Singapore, APP currently has 16 manufacturing facilities in Indonesia and China and markets its products in more than 65 countries on six continents.

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([anil\\_raina@app.co.id](mailto:anil_raina@app.co.id))

The **Sinar Mas Group forestry companies** are the primary wood fiber suppliers for the pulp mills of Asia Pulp and Paper (APP). These companies—PT Arara Abadi, PT Mapala Rabda, PT Satria Perkasa Agung and PT Wira Karya Sakti—operate according to globally recognized environmental procedures and have in excess of 88,000 direct and contract employees.

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## C. Main points of Letter of Intent

### 1. Protection Of Forests With High Conservation Values

#### Permanent Protection Area

**Location:** Near the Giam Siak Kecil and Bukit Batu Conservation Areas in Riau, Sumatra, Indonesia (see attached map)

**Action:** WWF, APP and SMG intend to develop a management plan for a 58,500-hectare area within SMG's concessions.

**Reason:** SMG has set aside almost half of its concessions in this part of Riau for conservation, by including these 58,500 hectares of peat swamp forest.

The objective of this action is to maintain the conservation values of peat swamp forest, which are of particular value because the peat provides a rich soil for flora growth and this forms a complex habitat.

The 58,500 hectares links two existing conservation areas, which now forms a total conservation area of over 165,000 hectares. (In comparison, Singapore is 70,000 hectares and [ACTION: PLEASE INCLUDE A REFERENCE RELEVANT TO YOUR LOCAL AUDIENCE]). By linking these two areas, SMG is creating wildlife corridors that enable animals to cross wider areas of land, breed more easily and reduce possible damage to crops.

**Background:** After the Government of Indonesia awards a concession, which is designated in large blocks, then the concessionaire and the Government of Indonesia work together to determine whether there is any High Conservation Value Forest (HCVF) within smaller areas through the Environmental Impact Assessment and feasibility studies.

**Future Actions:** Consultations are to be held with the joint venture partners, the Government, NGOs and the local communities on the preparation of the management plan.

#### Temporary Moratorium and Alternative Land for Plantations

**Location:** Within SMG's concessions near the Bukit Batu and Giam Siak Kecil Conservation areas (see attached map)

**Action:** SMG will immediately place 8,500 hectares of forest within its concessions near the Bukit Batu and Giam Siak Kecil conservation areas under a temporary moratorium.

**Reason:** APP, SMG and WWF agree that protected areas within, and adjacent to, SMG's plantations should be redesigned to maximize conservation benefits by including wildlife corridors and greater border protection.

The 8,500 hectares in themselves have no proven high conservation value, but linking these areas to the new protected areas would be of possible benefit. In situations such as this, SMG is prepared to support the wider community's goals

but requires assistance from other stakeholders to identify other replacement forestland suitable for conversion to plantations.

**Future Actions:**

WWF will conduct an assessment of waste lands in Riau Province that have the potential to be used to establish new plantations. SMG may then use that study to help it obtain non-forest lands that can be planted with *Acacia*.

Should this process result in an additional 8,500 hectares of land being available and acceptable to SMG, it will place the 8,500 hectares in Riau earmarked earlier under permanent protection. These areas will then become part of the conservation area management plan.

2. **Chain Of Custody**

**Location:** PT Indah Kiat Pulp and Paper Tbk. (Riau, Sumatra) and PT Lontar Papyrus Pulp and Paper Industry (Jambi, Sumatra)

**Action:** APP and SMG will upgrade their chain of custody<sup>1</sup> systems to enhance the identification of any wood not coming from legal wood harvesting and transport operations.

APP will commission an independent audit to evaluate the quality of the company's existing Chain of Custody (CoC) system to ensure the legality of all the wood supplied to APP's Indonesian pulp mills. The Terms of Reference for the audit will be based on the legal verification process outlined in the LEI Chain of Custody procedures. LEI, the Indonesian Ecolabeling Institute, which cooperates with the Forest Stewardship Council, offers a national certification system.

WWF will participate in the selection of the LEI assessor and may also accompany the auditors as an independent observer during their mission.

The audit findings and implementation steps for APP will be shared with WWF by November 30, 2003. WWF will be consulted in the design of the implementation steps.

**Reason:** APP and SMG are evolving their systems to go beyond the current legal requirements to support independent third-party auditing and higher standards of disclosure. The next step forward is transferring that commitment into the field. However minimizing the risk of the contamination of one's wood fiber supply from illegal logging within Indonesia is extremely complex.

APP and SMG cannot make significant progress on this issue without the assistance of many other stakeholders. A multi-stakeholder approach is being advocated to improve existing industry systems, to ensure that fiber supplied to Indonesian pulp mills can be proved to come from verifiable sources.

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<sup>1</sup> Note: Chain of custody refers to the channels through which the products are distributed from their origin in the forest to their end use (The Rain Forest Foundation: Trading in Credibility, 2002)

**Future Actions:**

APP and SMG will commission a follow-up independent audit to assess progress on Chain of Custody after the release of the initial assessor's audit findings and implementation steps. The results of this second audit will also be shared with WWF.

The findings and implementation steps from these activities will then be incorporated in the Action Plan on Long-Term Sustainability (see point 4 below).

**3. Resolution of Social Conflicts**

**Location:** APP and SMG in both Riau and Jambi, Sumatra

**Action:** SMG is developing new systems to manage any social conflict within its land holdings and monitor those within its fiber supply chain. Part of this includes using the experience of a professional Community Forester with 20 years' experience to develop procedures and training programs to improve its approach. The Community Development and Community Forestry teams will work to develop improved communication with SMG's host communities, to discuss events with those concerned and other relevant organizations to resolve any claims.

SMG commits not to convert forests to *Acacia* in areas under its concession where communities possess a legal or reasonable customary claim to ownership, until such time as a claim is resolved. However, APP and SMG must continue to work with relevant government institutions to resolve encroachments on its concessions, where no legal or reasonable customary claim is held, including the conservation areas under its management.

A third-party professional acceptable to the communities concerned may also be recruited to assist in resolving serious land disputes.

**Background:** The social and political upheaval (*reformasi* — the period of reform) at the end of the 1990s and into the early 2000s was a time of exceptional change. After 32 years of ex-President Soeharto's authoritarian regime, Indonesian people asserted their right to speak out and defend their traditional resources. But there were few rules for engagement or social traditions of how to protest constructively.

Human Rights Watch has described what follows as an "epidemic of community protest". The company has accepted some claims to land under SMG's concessions are bona fide, while others are seen as opportunistic.

At present, SMG's mechanisms for resolving land claims are established and implemented by a specific land claims task force, which operates at every level of the company. This means a complaint/dispute is brought up from ground to central level as necessary, ensuring it gets the attention it needs at the right level.

When a land claim is made, SMG first investigates the legality of the claim. If the investigation confirms that there is a valid "traditional land claim", SMG will then provide compensation. In addition it may include the previous land claimant in its community outreach programs, such as participating in a forest operations cooperative working for the company.

If investigations indicate an invalid claim but local community members continue to claim this land, SMG asks the local government to arbitrate. At this stage, the

dispute will usually cease. If it does not, the Ministry of Forestry is called up to cordon off or designate the disputed area and is therefore legally required to provide SMG with replacement land.

#### 4. **Multi-Year Action Plan**

**Action:** By January 31, 2004, APP and SMG will share with WWF an Action Plan for 2004 onwards which will draw on material from a number of sources, including the 12-Year Sustainable Wood Supply Review being carried out by AMEC, the findings of other studies such as the WWF waste lands study and the independent Chain of Custody assessor's report.

The Action Plan will include a detailed, time-bound plan for APP and SMG to:

- achieve a Sustainable Wood Supply
- document its conservation policy, which protects any remaining high conservation value forests under the management of SMG and its suppliers in Riau and Jambi Provinces;
- ensure upgraded chain of custody to guarantee all suppliers are fully legal compliant and eliminating any wood deliveries that are of doubtful legality;
- resolve legitimate social conflicts with local communities.

It has been agreed that the internal company process for preparing the Action Plan will include regular consultations with a formal stakeholder review group. APP will provide WWF with the final published report produced by AMEC on sustainable wood supply as soon as it is available.

**Reason:** APP recognizes the strategic importance of wood supply to its long-term commitment to achieve economic, social and environmental sustainability. To further that goal, a formal policy framework has been created within APP, as well as its major wood supplier, SMG.

## D. APP and SMG Forestry Companies' Conservation Work

SMG, as APP's primary fiber supplier, is a major land owner and understands the need for a formal system to manage its conservation challenges. The company's programs include the following activities<sup>2</sup>:

### 1. Preventing Illegal Logging in Tesso Nilo

**Tesso Nilo:** 153,000 hectares

**Location:** Between the Bukit Rimbang, Bukit Balang and Kerumutan Reserves in Riau, Sumatra, Indonesia (see attached map)

**Action:** In April 2003, on the recommendations of WWF Indonesia, PT. Arara Abadi (one of the Sinar Mas Group forestry companies) blocked three access roads to the Tesso Nilo area. To stop illegal loggers taking out logs, PT. Arara Abadi dug deep trenches in the road to impede vehicle access.

**Reason:** The Tesso Nilo area is the proven habitat of a range of indigenous species including the Sumatran elephant and tigers as well as myriad species of plants. This rich diversity is at serious risk from illegal logging.

### 2. Sustainable Wood Supply Assessment and Plan

**Area Covered:** All concessions and plantations

**Location:** Riau and Jambi

**Action:** In June 2003, aerial mapping of all SMG's concessions and plantations commenced. The independent consultant AMEC E&C SERVICES, INC, based in Georgia, USA, will use this high-quality imaging to produce a formal forest resources assessment of SMG as part of the information required for APP to develop its 12-year sustainable wood supply plans. This consultant is also working to determine alternative fiber supplies for APP.

**Reason:** APP and SMG are committed to sustainable forestry. APP is actively pursuing its goal of a supply chain that is based on 100%-rotation-plantation forestry. APP is aiming for achievement of this goal by 2007, which involves a comprehensive assessment of the current SMG land holdings to verify whether the achievement of its goal is attainable in practice from within APP's existing supplier base.

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<sup>2</sup> Please note this is not a complete list of APP and SMG conservation activities. For information about: restoring degraded forest; complying with the landscape requirement, establishing greenbelts for biodiversity, wildlife corridors, water catchments and other services; establishing germplasm conservation areas; carrying out immediate planting to reduce erosion; preserving the 'Sialang' tree for local honey bee industries; using recycled fly ash and waste sludge for fertilizer; monitoring the water quality of various rivers; or wildlife monitoring, please contact: Joice Budisusanto, Corporate Communications and Public Relations ([ccprsmg@dnfnet.net.id](mailto:ccprsmg@dnfnet.net.id))

## E. Background to Forestry Issues in Sumatra, Indonesia

**Location:** Sumatra is one of the largest islands in the Indonesian archipelago, running alongside the Malacca Straits from the Malay Peninsula and Singapore.

**Historical Background:** During the last century, due to the exploitation of its natural resources and transmigration from the crowded Indonesian island of Java, the social structure and economic patterns on Sumatra changed dramatically. Fifty years ago Sumatra was a continuous expanse of forest. Human development is fragmenting these habitats as land is being converted for other purposes such as agriculture or industrial forestry.

**Ecological Background:** Sumatra has a unique flora and fauna, including major mammals such as the Sumatran elephants and tigers. There are three key bio-types or habitats. These are the montane forests, lowland forests, such as Tesso Nilo in Riau, Sumatra, and the peat swamp forests, some of which are found in the Giam Siak Kecil area. The latest research<sup>3</sup> indicates that the lowland rainforests of Riau have one of the highest known plant diversities anywhere in the world.

International agencies are concerned about the future of these biological systems because of the rapid changes taking place in Sumatra. The World Bank estimates that lowland forest in Sumatra will disappear by 2005 with peat forest eliminated after 2010, without urgent action<sup>4</sup>.

**Source of Pressure on Forests:**

Human activities and our need for land is the key factor in changing the landscape in Sumatra. During the last century, selective logging was the dominant feature of the forestry system in the region, largely supplying the plywood industry and sawmills. Land was also awarded to people migrating to the island.

After years of activity by the logging industry with many large trees lost, the Indonesian government then adopted the formal policy of awarding concessions to convert these 'degraded' forest areas into agricultural and forest plantations. This policy played a key part in the national economic development strategy, particularly under Soeharto's regime. During the 1990s, the awarding of concessions increased dramatically.

The policy of land conversion coupled with an upsurge in illegal logging in the allocated protected areas has alarmed environmentalists and those concerned about maintaining Sumatra's unique habitats. Today, regional and local priorities can conflict with national and international perspectives on how best to preserve Sumatra's natural heritage.

From the environmentalist's perspective, conversion should not always be the preferred option and degraded forests should be rehabilitated or regenerated. WWF's view is there are areas where the forests' degradation is such that, given sufficient time, the natural systems could regenerate. Not everyone thinks this is even technically possible. Given a lack of consensus, the conversion continues.

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<sup>3</sup> A. Gillison, 2001, Vegetation Survey and Habitat Assessment of Tesso Nilo Forest Complex, Center for Biodiversity Management.

<sup>4</sup> D. Holmes, 1992, Where Have the Forests Gone, the World Bank.

## F. WWF Indonesia's Pulp and Paper Industry Strategy

### Activity

#### Rationale:

Over the last few years, WWF Indonesia has increased its efforts to engage the local private sector, in line with WWF International's policy of engagement with key industrial and commercial organizations worldwide. WWF believes that corporations are key stakeholders in the battle to help save Indonesia's remaining forest habitats because of their economic and political power and their ability to influence the national debate.

### Campaign

#### Demands:

WWF is asking major pulp and paper producers to study the conservation values of the forest under their suppliers' conversion licenses, according to its principles of High Conservation Value Forestry (HCVF). These principles form part of both an Indonesian and international movement to include the ecological and social values of forests (including the habitats of rare and endangered species) in national forestry policy. All national forestry policies should then include these values in a commonly defined manner, including indicators for the socio-economic values of forests to local communities.

WWF is asking for:

- No conversion of HCVF;
- Respect for local communities' rights;
- Sound forest stewardship, including independent third party certification where possible;
- Robust sustainable wood supply planning;
- Independent and transparent monitoring.

### Proposed

#### WWF HCVF

#### Indicators:

The HCVF principles that WWF is advocating are as follows:

No. of Principle <sup>5</sup>	Area of Concern
HCV1	Forest areas containing globally, regionally or nationally significant concentrations of biodiversity values (e.g., endangered species).
HCV2	Forest areas containing globally, regionally or nationally significant large landscape level forests, contained with, or containing the management unit, where viable populations of most if not all naturally occurring species exist in natural patterns of distribution and abundance.
HCV3	Forest areas that are in or contain rare, threatened or endangered ecosystems.
HCV4	Forest areas that provide basic services of nature in critical situations (e.g. watershed protection, erosion control).
HCV5	Forest areas fundamental to meeting basic needs of local communities (e.g. subsistence or health)
HCV6	Forest areas critical to local communities' traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in co-operation with such local communities)

<sup>5</sup> Identifying High Conservation Values At a National Level: A Practical Guide, Proforest, Oxford, UK 31.10.02, WWF/IKEA partnerships

The above criteria come from 'Identifying High Conservation Values At a National Level: A Practical Guide' and any process for implementing these will require the involvement of all the stakeholders in developing an Indonesia -relevant set of criteria. WWF is asking APP and SMG in conjunction other companies to work with it to review these criteria from an Indonesian perspective.

**Role of  
Buying Groups  
Worldwide:**

WWF International has developed a network of collaborations with companies involved in buying and trading in wood and paper products: the Global Forest Trade Network (GFTN). WWF Indonesia has collaborated with companies from Japan, Germany and the USA to voice market expectations of APP and the Indonesian pulp and paper industry to enter into dialogue on the issues raised by WWF Indonesia.

## G. Background to Conservation Policy in Sumatra, Indonesia

**Location:** Out of a total land area of 43,491,000 hectares in Sumatra, 8,486,710 hectares of land<sup>6</sup> has been formally allocated by the central government for conservation purposes'. In addition, there is a legal obligation for at least 20% of the land granted to any forest concession holder to be set aside for conservation and protection.

**Background:** The Indonesian national economic strategy has historically been based on converting a proportion of its natural capital to develop its economy, a process undertaken by all other industrializing and industrialized nations. The plan has always been that these changes will be balanced by a commitment to create formal conservation areas.

However most commentators agree that there are major threats to the long-term security and ecological viability of some of the areas set aside for conservation, due to illegal logging and incursions for human settlement.

In addition many of the areas allocated for conservation were chosen prior to a full understanding of many of today's accepted principles of conservation system management. In brief, a land mass with small pockets of protected areas is not as secure for the future as areas that are aggregated into larger blocks or linked by wildlife corridors.

Environmental groups such as WWF are advocating a review of the historical legacy of forestry concessions in line with the new awareness of best practice for wildlife and habitat protection. The "land swap" concept which forms part of this LoI is an attempt by APP, SMG and WWF to see if a new technique can be used to improve the conservation status of the areas around the Giam Siak Kecil and Bukit Batu Conservation Areas, without making excessive demands of any individual land owner.

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<sup>6</sup> Forest Planning Agency, Ministry of Forestry, 2000, Informasi Hutan Indonesia

## H. Background to the Pulp and Paper Industry in Indonesia

**Location:** The pulp and paper industry in Indonesia is spread across the major islands of the archipelago, however the largest pulp mills are found in Sumatra. APP owns one of the largest pulp and paper mills in Sumatra. Throughout Indonesia, APP employs over 50,000 directly and nearly 90,000 indirectly through its fiber suppliers.

**Historical Background:** There was no pulp and paper industry in Sumatra before the early 1980s. Pulp was designated as a strategic industry by both the Soeharto government and its successors. Under the Soeharto regime (1966–1998), companies were encouraged to establish and build a fully-functioning pulp mill before the government would issue a forestry concession. As land for forestry remains under the ownership of the government, the only access to land for the pulp companies was via these licenses to convert land from degraded forests into plantations. Today the industry is a major consumer of fiber from the Indonesian forestry sector, some of which is based on clearing degraded forest. Resolving this historical legacy is the ongoing challenge for the Indonesian pulp and paper industry.

During the period from the mid-1980s to date, production within the paper and pulp industry has grown rapidly. In 2002, pulp production reached 6 million tons<sup>7</sup>. Growth of this multibillion-US-dollar industry has created more than 100,000<sup>8</sup> direct jobs in Indonesia and become one of the country's main earners of much-needed foreign exchange.

**Background to APP:** Asia Pulp and Paper is the largest group of pulp and paper companies in Indonesia with 40% of national pulp production. APP's Indonesian production is 2.3 million tons of pulp and 3.6 million tons of paper and board per annum. The majority of this is exported, estimated to be worth US\$2.5 billion. This scale of pulp production requires a national wood fiber input of 10.4 million m<sup>3</sup>. This is why WWF has entered into a dialogue with APP and SMG to ensure that this material is sourced in the most environmentally benign way.

APP is targeting that, by 2007, 100% of its fiber requirements will originate from plantation sources. In addition to existing major suppliers with their own concessions, this will be achieved through additional planting a maximum of 200,000 hectares, including community forestry and joint ventures. The Sustainable Wood Supply Assessment and Plan detailed in Section C.2 relates to the detailed planning of that activity, including where these plantations will be established. WWF as a key stakeholder has agreed to contribute to the assessment of that plan over the coming months.

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<sup>7</sup> Chris Barr, 2003, Fiber Constraints and Financial Risks Facing APP and APRIL, CIFOR

<sup>8</sup> WWF, Forest Sector Employment in the Tesso Nilo Region in Riau, Sumatra, in publication