



## **WHY COMMON PEOPLE SHOULD PAY FOR PRIVATE SECTORS' BAD DEBTS?**

### **Export Credit Agencies' Roles in Environmental and Social Destruction through Investment of Pulp and Paper Sector in Indonesia**

**By Avi Mahaningtyas**

#### **Background Information**

- Seven existing pulp and paper mills operating in Sumatra since 1990s belonging to Barito Pacific Group, Raja Garuda Mas (APRIL), Sinar Mas (APP) and Kiani Kertas. The four groups have been severely affected by the 1997 economic crisis. This is just a tip of the iceberg for the public to see huge financial and ecological mess in this industry.
- All mills did not have sufficient fiber supply from the promised on-line plantations despite the fact that the Government of Indonesia has made a pre-requisite requirement in the regulations that each pulp mills must harvest their wood supply from pulp plantations. Only 8% of supplies from 1988-1999 came from plantations, the remaining 92% supplies of 100 million m<sup>3</sup> came from unclear sources. There is strong indication that the mills receive woods from illegal logging from surrounding, mainly Sumatran rainforests.
- Rate of deforestation in Indonesia is at least 1.7 million hectares annually. The World Bank estimated 2 million hectares per annum. The later also stated that the Sumatran low land forest would be vanished in 2005 if concerned parties continue to exercise weak legal enforcement and impunities to curb forest destruction.
- In all cases, the establishment of pulp mills and plantations sparked social conflicts, conversion of primary forests, violation of human rights and military involvement. (Cases of Inti Indo Rayon, Arara

Abadi, Tanjung Enim Lestari, Indah Kiat, Lontar Papyrus and most recently Toba Lestari Indah). These cases also indicated heavy corruption, collusion and nepotism among governments agencies, military, business communities, middle men, capital owners and community members who are often forced to cut trees for survival.

- Weak financial regulations in Indonesia had made possible for owners of pulp and paper companies to borrow money from their own banks. (Asia Pulp and Papers owns Bank International Indonesia with bad debts = 1,3 billion US\$ ; APRIL owns Unibank)
- Since the 1997 *Reformasi*, under the pressure of International Monetary Fund, Indonesia has agreed to implement moratorium on new conversion of forestland. However, the scenario of industrial practices adopts business as usual mode. Research and observation in the fields show that designated land for pulp plantation has been shifted to oil palm. Communities are told to plant oil palm. Low price on pulp trees have discouraged farmers and community to knit joint venture with companies for pulp trees trading.

**Did all of the above facts affect the decision making process within the international financial institutions such as ECAs?**

- The above facts did not seem to be taken into account by export credit agencies. Profit oriented and short term gain without sound estimate on the supply side and sustainable business practices.
- The ailing and destructive companies such as APP and APRIL don't seem to give enough lessons for ECAs. A new establishment of pulp mill in South Kalimantan is underway and already created controversy. The owner of the company is Probosutedjo, the stepbrother of Suharto, the former president of Indonesia, and is facing court case for misuse of state's fund for reforestation. Observation from the field shows that the plantation will not be able to sustain the production.
- Indonesia Bank Restructuring Agencies have been dragging its feet in resolving the bad debts and stopping further destruction of Sumatra forests and livelihoods of millions of communities. None of the owners of these companies are held responsible for violation of government's law and regulations on forest conversion ban, human

right violation and stealing hard tropical timbers to feed the pulp machineries. None of the owners of the pulp companies signed any personal guarantee for debt restructured under IBRA. Most recently, IBRA has pressured the government to forgive the company owners by issuance of Release and Discharge letter. Basically, these people can walk free and guaranteed by the government after stealing money from the International Monetary Funds.

### **The Case of Asia Pulp and Paper (APP)**

- APP Ltd, a holding company based in Singapore, owns Indonesia's largest pulp and paper producers that mothers four major companies: Indah Kiat, Lontar Papyrus, Pindo Deli and Tjiwi Kimia. It also operates the same business in China and India. Indah Kiat and Lontar Papyrus run mills and plantation in Sumatra. The group also own palm oil plantation and food production.
- Pulp production: 2,3 million tones. (Compare the increase of production: 750,000 tones in 1996)
- Forest Concession: estimated about 1 million ha forest concession (including: logged over and primary forests, sometimes in areas protected by customary laws and national laws).
- Asia Pulp and Paper Ltd announced that they could not pay their debt and interests in 1999. APP total debt is 13,4 billion (instead of the companies formal statement of 12,4 billion US dollars) borrowed from 300 different creditors from all over the world who most probably was convinced to lend money by considering the magnitude of support from some export credit agencies from Canada, Switzerland, Spain, Japan, Germany, Finland and United States.
- Because of the company's bad debt of 1,2 billion USD to the Bank International Indonesia (owned by the same tycoon that owned APP), the Indonesian Bank Restructuring Agencies stepped in to keep the company going. (until now IBRA has never done any assessment of debts that they took over).

- Although the law forbids the government to guarantee private debts, the banking regulations in Indonesia stipulates that teth government guarantees all monies deposited in Indonesian banks. The government had to guarantee the payment of all deposits of BII clients amounting mega trillion of rupiahs; about 50,000 people will have to lose jobs.
- IBRA had paid all interests and capital debt taking from the state national budget (derived from tax payers and loan from World Bank as Indonesia has a deficit budget. Each Indonesian has to pay about 7 USD).

### **What happened to APP, owners and ECA's?**

- Under heavy pressures from bad publication and international NGO campaign, APP commissioned an audit in 2001. AMEC was selected as the leading audit company despite the fact that some auditors work as consultant to the company. AMEC is currently the advisors for APP's forest department.
- Audit results revealed that the mills are facing serious problem of lack of supply from legal source. However, APP campaigned to obtain fresh fund for expansion promising that they will be largely supplied by their plantation by 2007 (this time frame keeps moving and now they said to be sustainable in 2015.)
- The owners of APP are not held liable and could possibly re-purchase the companies cheaply in an auction. (Look at APRIL case: auctioned in Singapore, 11 February. No further data.)
- APP's proposal for debt restructuring was turned down by creditors in recent attempt to mend good relationship and corporate image among consumers.
- The ECAs and creditors are fighting their ways to get the money back. APP has consistently show reluctance to do anything with paying its debts.

## **What ECAs are expected to do?**

- Undertake independent review or evaluation on their project in Indonesia looking into the ecological and social impacts of their supported investment.
- Implementing stringent environmental and social standards that prevent the practice of using double standard.
- In the case of pulp and paper: stop investment and conversion of forest land (as Indonesian has implemented moratorium on new conversion).
- Compensation scheme should be done to victims (communities and labors), and take into consideration of job losses as implication of industrialization.

For more information please contact:

NADI

Attn: Avi Mahaningtyas and Novi

[nadi2001@cbn.net.id](mailto:nadi2001@cbn.net.id)

Jl. Rawajati Timur V/no: 10A

Jakarta 12750

Ph/fax: ++62 21 797 3387