OPEN LETTER TO FINANCIAL INSTITUTIONS

6 November 2012

Dear Sir/Madam,

with this letter the 60 undersigned non-governmental organisations (NGOs) wish to ask you to carefully screen any pulp industry investment projects related to Indonesia, such as new mills, particularly those of companies associated with the Sinar Mas Group, notably Asia Pulp & Paper (APP).

Our concern is the environmental and social consequences of the massive destruction of natural forests that can be shown to be linked to past and current over-capacity in pulp milling plants in Indonesia. We would contend, however, that investment in further milling capacity that relies on natural forest or utilizes land without the free, prior and informed consent of affected communities carries considerable reputational hazard and economic risk to financial institutions.

Our concern is heightened by reports in the Indonesian and trade press that APP is preparing to build a new pulp mill in Sumatra in Indonesia. This would reportedly be one of the world's biggest pulp mills[1], with a planned production of between 1.5 and 2.0 million tonnes per year.

The undersigned NGOs are very concerned about the threat any such new mill might pose to the remaining natural forests in Sumatra and beyond. According to a recent estimate by Sumatra-based NGO coalition Eyes on the Forest, APP has pulped more than 2 million hectares of tropical forests in Sumatra since it started pulp production there in 1984[2].

Drainage of deep peat soils both for natural forest clearance and for plantation establishment is an issue of global concern in relation to climate change[3, 4, 5]. Impacts on indigenous peoples and local communities[6] and the role of habitat destruction in pushing Sumatra's elephant to critically endangered status, and its tigers and elephants into deadly conflicts with people and in some cases local extinctions have activated civil society campaigns globally[7, 8, 9, 10, 11]. It has been reported that three wood suppliers of APP are among the 14 companies which the Ministry of Environment has under examination for possible liability suits over environmental damages[12]. Four wood suppliers who also supply APP have so far been implicated before courts in the proven bribery of public officials in connection with the issuing of licenses to clear certain natural forest areas[13, 14, 15, 16, 17]. APP has lost a number of high-profile customers (such as Disney, Hasbro, Mattel, Unilever, Nestle, Danone, Xerox, Mondi) in recent years, as a result of concerns about its deforestation practices, community conflict and the business and reputational risk to buyers[18, 19, 20].

APP has put considerable resources into trumpeting its sustainability credentials, but this campaign has been undercut by the company's failure to meet its own publicised commitments in protecting forest areas it has

previously designated as tiger sanctuary[21, 22,23], forest areas it has identified as high conservation value forests for protection[24, 25] and forest areas it has promoted as part of the Giam Siak Kecil-Bukit Batu UNESCO Man and Biosphere Reserve[26]. It has committed to sole plantation sourcing for its pulp supplies by 2004[27], 2007[28] and 2009[29] and missed all these self-imposed deadlines[30]. In its most recent (2012) sustainability roadmap it is clear APP intends to rely on natural forest clearance beyond 2015, a situation which will be exacerbated by the addition of any new pulping capacity[31, 32, 33, 34, 35].

Some of the tactics employed in campaigning on APP's behalf have also come under question [36] and independent sustainability certification agencies have rejected APP's claims of their endorsement[37].

We would suggest that special caution is required in relation to Sinar Mas, APP and companies associated with them, in view of the economic risks of adding pulp production capacity in large increments despite manifestly inadequate pulp supplies outside of their continuing and increasingly controversial assault on natural forests.

Financial institutions should particularly note the circumstances and consequences of the previous failure of APP's business model, graphically illustrated when APP declared a moratorium on the servicing of $US 14 billion in debt in 2001 and was subsequently delisted from the New York Stock Exchange[38, 39]. Although many of the details remain unclear, this resulted in substantial and unresolved losses to financial institutions and investors.

Much controversy still rages around this default. APP currently faces US court orders to pay back more than $900 million in defaulted debt to US creditors, but the company continues for various reasons to delay in complying with asset disclosure or payment orders[40]. There are indications that environmental covenants agreed to with export credit agencies for the restructuring of debt have not been complied with, something that NGOs are continuing to pursue with the institutions concerned[41, 42, 43].

Given the above, we would welcome your assurance that you would not be investing in or supporting any investment in increased pulp milling capacity by companies associated with the Sinar Mas Group.

The issue is one that all the undersigned NGOs – and others - feel strongly about, and will continue to monitor and campaign on.

We look forward to your response and would also welcome any opportunity to further brief you on the issue. Please send your response to sergio.baffoni@environmentalpaper.eu.

Sincerely,

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Hariansyah Usman, Director, WALHI Riau, Indonesia
Rudiansyah, WALHI Jambi, Indonesia
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Johan Frijns, Director, BankTrack, The Netherlands
Tom Griffiths, Forest Peoples Programme, UK
Deborah Lambert Perez, ECA Watch, Belgium
Jane Madgwick, Chief Executive, Wetlands International, The Netherlands
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Fabio Ciconte, President, Terra!Onlus, Italy
Yoshihiro Fujii, Finance GreenWatch, Japan
Junichi Mishiba , Friends of the Earth Japan, Japan
Yoshio Nishioka, Hutan Group, Japan
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Graziella Cavlan, Nature Trust, Malta
Lars Løvold, Director, Rainforest Foundation Norway
Maria Huma, Polish Green Network, Poland
Nuno Sequeira, Quercus, Portugal
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Andrey Laletin, Chairman, Friends of the Siberian Forests, Russia
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Almuth Ernsting, Biofuelwatch, UK/USA
Simon Fairlie, The Land Magazine, UK
Archie Beaton, Chlorine Free Products Association, USA
Scott Quaranda, Dogwood Alliance, USA
Michelle Chan, Director, Economic Policy Programs, Friends of the Earth USA
Stephanie Fried, Ulu Foundation, USA
Wim Dekok, Executive Director, World Animal Net, USA
Teresa Perez, Coordinator, World Rainforest Movement, Uruguay

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