INHERENT RISK:

APRIL'S PLANNED PULP EXPANSION POSES MATERIAL FINANCIAL RISKS FOR BANKS AND INVESTORS

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A briefing for banks and investors by the Forests & Finance Coalition
(Rainforest Action Network, TuK Indonesia, Profundo, Amazon Watch, Repórter Brasil, BankTrack, Sahabat Alam Malaysia and Friends of the Earth US)

Endorsed by:

Auriga

Environmental Paper Network (EPN)

Responsibank Indonesia Coalition
(A civil society coalition to reform Indonesia's financial sector)

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(A civil society coalition to reform the pulp and paper sector in Sumatra)

EXECUTIVE SUMMARY

Asia Pacific Resources International (APRIL), part of the Royal Golden Eagle Group (RGE), is one of the world's largest pulp & paper companies with a well documented track record of deforestation and human rights abuses across its operations in Indonesia. APRIL has historically expanded the processing capacity of its pulp mills beyond the ability of its plantation resources to deliver sustainable wood fiber, and the resulting deficit has driven deforestation.

In 2015, APRIL launched a Sustainable Forest Management Policy (SFMP 2.0) that committed to protecting forests and resolving community conflicts, among other pledges. The policy includes a criteria of wood fiber 'self-sufficiency' before further expanding the pulp capacity of its mills.

APRIL has not yet met this target for 'self-sufficiency', nor has it made significant progress on several pillars of SFMP 2.0. Chronic social and environmental risks remain 'locked in' to its business model. However, APRIL is now sidestepping these commitments with plans to dramatically expand the pulp capacity of its Kerinci mill in Indonesia's Riau Province by 55%, so that the annual wood fiber requirement would increase from 13 million to 20 million tons.

APRIL is reportedly seeking to arrange a USD 650 million loan from international banks, while APRIL's sister company Asia Pacific Rayon, which manufactures at the same site, recently secured a USD 300 million syndicated loan to expand production (see Section 1.3). Recent reports indicate that the pulp operations of RGE are also expanding internationally. Banks exposed to RGE's previous expansionary phase reportedly suffered steep losses after APRIL was delisted from the New York Stock Exchange in 2001 and the Indonesian government, national and international creditors restructured its debts.

This briefer focuses on the material financial risk of diminished returns or credit losses to banks exposed to APRIL Group and the pulp and paper operations of RGE. It contains data and analysis relevant to assessing the full risks of this expansion to APRIL's overall operations. These risks are not accurately disclosed in APRIL's publicly available corporate and sustainability publications.

It is critical that banks, investors and Indonesia's regulators are aware that APRIL's wood fiber supply continues to rely on an inherently risky resource base that fuels Indonesia's fire and haze crisis, generates vast levels of greenhouse gases and carries the prospect of supply disruptions. Instead of acknowledging and mitigating these risks, APRIL plans to further leverage it's problematic supply base by increasing the mill's annual wood fiber requirement by 55%.

Key findings:

- **APRIL's peatland exposure and climate impact constitute regulatory, supply and operational risks**

  Around a third of the concession area supplying APRIL is located on carbon-rich peatlands. When cleared and drained for plantations, these areas release globally significant amounts of greenhouse gases through fires and subsidence. APRIL

claims to have calculated estimates of these emissions, but has not published them. Based on geospatial analysis and recent scientific research, we estimate that the peatlands within APRIL's wood fiber supply base produced around 100 million tons CO2e between 2015-2019, equivalent to over 36% of Indonesia's annual energy emissions from coal.

Indonesia cannot tackle its national emissions or fire and haze crisis without strong measures to raise peatland water tables and restore large areas of drained peatland within plantations. APRIL's plantation base is extremely vulnerable to such restoration measures. APRIL has previously attempted to sue the Indonesian government for its peatland protection measures arguing that it would severely affect production. We estimate that APRIL would lose more than 25% of its planted area if the government re-introduced peatland protection regulations similar to those implemented in 2016 in response to the fire and haze crisis of the previous year.

Indonesia claims to meet 85% of its emissions reductions under the Paris Climate Agreement by mitigating emissions from Forestry and Land Use Change. APRIL's plans to intensify tree growth on drained peatlands will compound current emissions and fire risk, undermining Indonesia's commitments under the Paris Climate Agreement.

- **Lack of credible long term wood fiber supply plan constitutes supply, reputational and market access risks**

  APRIL has not presented a credible long-term wood fiber supply plan for public review that demonstrates how it will supply sufficient wood for a much bigger mill. The plan it has presented to the Government of Indonesia shows a 55% increase in wood supply from all categories of suppliers, violating APRIL's SFMP 2.0 sustainability policy of "self-sufficiency".

  If the mill expansion proceeds, APRIL will become significantly less 'self-sufficient' by 2025 and more dependent on open-market and imports, which carry substantial deforestation risk and land conflict risk. If historical wood supply trends continue, we project that APRIL will not be able to meet its expanded wood fiber requirement, even while continuing to rely on non 'self-sufficient' sources. APRIL may therefore seek to acquire new plantation land. likely to overlap with areas of natural forest and be subject to land tenure claims).

  Both scenarios risk losing market access due to the widely adopted 'no deforestation' criteria of buyers. When asked about its supply-side requirements, APRIL stated that it currently has no plans to apply for new industrial plantation concession licenses or expand its concession areas, and that wood fiber to meet its proposed mill expansion will come entirely from its existing supply chain.

  APRIL's current policies and standard operating procedures (SOPs) are inadequate to prevent deforestation, and do not align with the emerging global standard of the High Carbon Stock Approach (HCSA).

- **Enduring social conflicts constitute operational, supply and reputational risk**

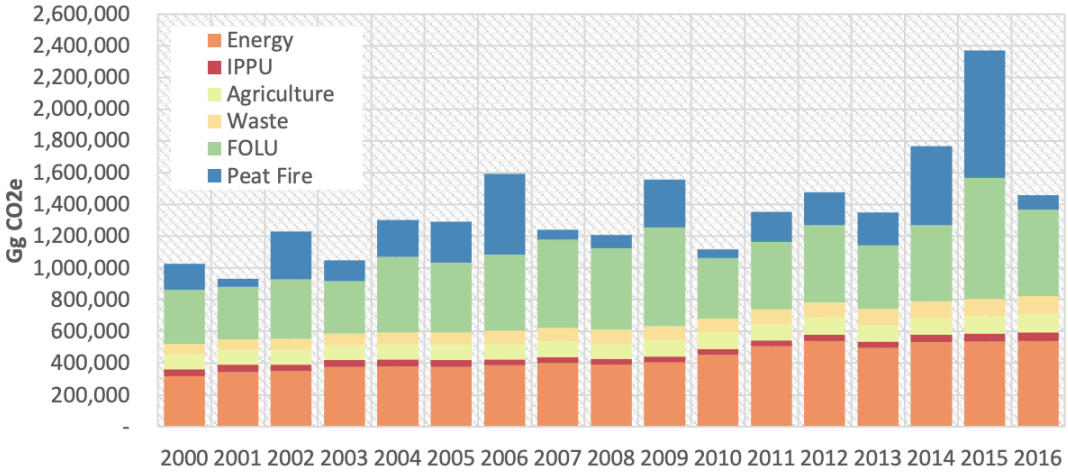
  Since it launched its 2015 Sustainability Policy, APRIL has not made any significant progress in resolving active conflicts and disputes it has with over 72 villages across its plantations and affiliates. Expanding production with so many enduring conflicts means heightened risk of social unrest from tenure disputes, protest and other operational impacts.

1.1 RISKS FROM PEATLAND EXPOSURE

A. Land-Use Change Emissions, Fire and Transboundary Haze

Emissions from carbon-rich peatlands release 1.3 gigatonnes of CO2e into the atmosphere every year[1], equivalent to 5.6% of global emissions. Indonesia accounts for about 36% of global tropical peatlands, sequestering an immense amount of carbon - about 28 gigatonnes.[2] The clearing, draining and burning of these peatlands is a primary driver of Indonesia's greenhouse gas emissions (captured within FOLU and peat fire in the graph below).[3] Indonesia is one of the top ten countries contributing to global greenhouse gas emissions, and its emissions continue to rise.[4]

Figure 1 Indonesia's Emission Sources (UNFCCC second biennial submission 2018)



Reducing emissions from land-use change and forestry is *the* central component of the Indonesian government's strategy to meet its commitments under the Paris Climate Agreement, accounting for 85% of the projected reductions the government can achieve independently, without international assistance.[5] Indonesia's strategy to reduce emissions and fires entails restoring a large area of drained peatland within plantations. This process of rewetting and revegetating will inevitably reduce the area to grow acacia for pulpwood and curb plantation productivity. Current NDC plans and Presidential regulations include the restoration of 1.2 million hectares of peatland by 2024 and 2 million by 2030.[6] The majority of this restoration area lies within existing pulpwood and palm oil concessions.[7]

Around 32% of the total concession area supplying APRIL is located on peatland. Over the five years 2015-2019, the subsidence of this drained peatland area is estimated to have

produced 74 million tonnes CO2e, more than the 2018 national emissions of Austria, a country of over 8 million people.[8] APRIL's concessions are also extremely high fire-risk, burning every year from 2015 to 2019 and receiving 12 civil sanctions which resulted in a three year suspension of operations in some areas.[9] In its 2020 Sustainability Report, APRIL disclosed that it had again received a civil sanction due to peat fires.[10]

Geospatial analysis from Trase.earth estimates that between 2015 and 2019 around 55,000 ha burned inside the concessions of APRIL's subsidiaries and affiliates, around half of which was on peatland. We estimate these peat fires added to APRIL's peat-linked emissions by 26 million tonnes CO2e over the five years.[11] So in total, APRIL's cumulative gross GHG emissions from peatlands are estimated at more than 100 million tons CO2e, equivalent to 36% of Indonesia's annual emissions from burning coal, the country's largest source of energy.[12] These figures do not include substantial emissions from fires in non-peat areas or emissions from peatlands outside plantation boundaries affected by drainage. Neither do these estimates represent a full carbon accounting of the supply chain that would include other sources of emissions, as well as sequestration from plantations.

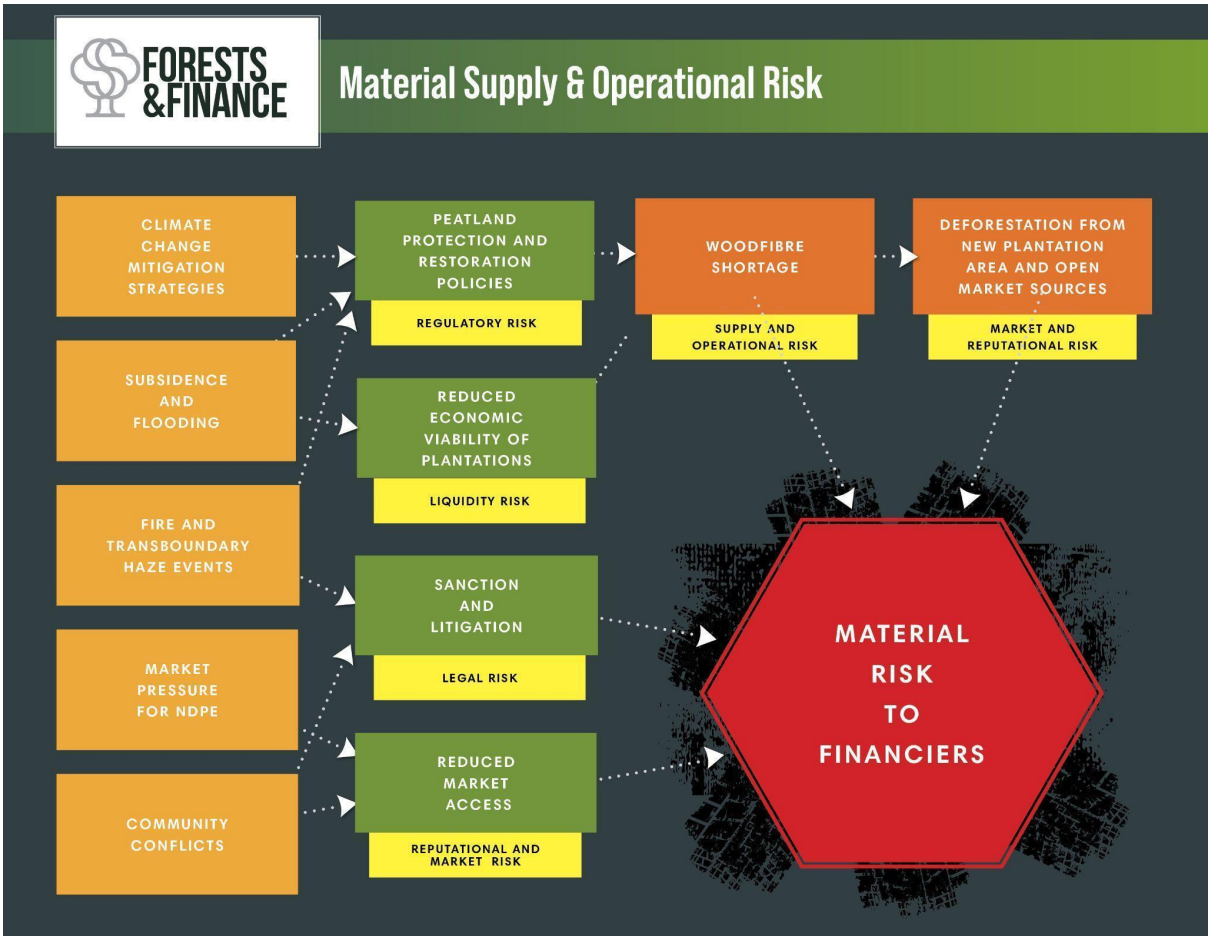
APRIL claims to have undertaken a full carbon accounting in 2019, but it only has disclosed estimates for its mill emissions, at 2.2 million tons CO2e.[13] APRIL omits the emissions estimates for land use change, which it acknowledges to be the largest source of its emissions (we estimate this to be at least eight times the annual emissions of its mill).[14] Given this omission, APRIL has not complied with its SFMP 2.0 policy to "*track its carbon emissions and report progress on reducing its overall carbon footprint"*, which makes its commitment to "*continuous reduction of its carbon footprint*" sound hollow.[15]

"The largest source of APRIL Group's organisational GHG inventory (Scope 1 and Scope 2) is land use change emissions" - APRIL Sustainability Report 2020

We presented our assessment of GHG emissions from peatlands as described above to APRIL for comment and requested that it share its own analysis. APRIL responded, "We are not publishing baseline emissions levels at this time, but we can provide some initial broad indicators below." As part of its explanation, APRIL mentioned peat restoration projects, fire mitigation strategies, and acknowledged, *"Globally, peatlands are significant sources of GHGs emissions.*"

While 2020 was a low fire year due to the cooler and wetter La Niña atmospheric cycle, the fires are highly sensitive to drought conditions brought on during El Niño cycles (occurring on average, every 2-7 years[16]). The drought-induced fires increase **legal risk** from government sanction and potential transboundary haze civil litigation. The Singapore government, for instance, has opened investigations into several pulpwood suppliers of rival pulp group Asia Pulp & Paper (APP) for damages under Singapore's Transboundary Haze Pollution Act (THPA).[17]

Figure 2 Compounded Material Risks to APRIL Supply Chain



B. Regulatory Risk to Wood Fiber Supply

Government policies to tackle national emissions and prevent fires and haze by protecting and restoring peatlands present major short to medium term **regulatory and supply risks** to APRIL's wood fiber supply.

> ***"The petitioner [APRIL] is avoiding its legal obligation to protect peat ecosystems...They want things to be business as usual even though our regulation clearly mandates peat protection" -*** Bambang Hedroyono, Secretary General, Indonesian Ministry of Environment and Forests, 2017

This was demonstrated in 2016, when the government changed regulations on peatland management, requiring companies to conserve larger peatland areas within their concessions. Indonesia's Ministry of Environment and Forestry designated around 27% of

APRIL's supplier concession area as a peat protection zone, prohibiting cultivation.[18] In response, APRIL filed a lawsuit against the government's decree but was rejected in the courts.[19] It also reportedly refused to comply with the ministry's orders arguing that it would **severely affect production**.[20] The 2016 regulation was weakened in 2019 after pressure from industry, allowing companies far more discretion to define protection areas.[21] However, stricter measures in line with 2016 regulations could be re-introduced in the event of future severe fire seasons. Table 1 provides estimates of how APRIL's wood fiber supply stood to be impacted by the 2016 regulation.

Peat protection regulations present medium to long-term **liquidity risks** as economically unviable plantations become **stranded assets** on APRIL's balance sheet (subject to premature write-downs, devaluations or conversion to liabilities).

Table 1 Estimated Loss of Wood Fiber Supply from Retirement of Protected Peatland - as per 2016 regulation in APRIL plantations[22]

Proportion of Protected Peatland Retired		Loss in Planted Area
25%	40,742 ha	7%
50%	81,485 ha	13%
75%	122,227 ha	20%
100%	162,969 ha	27%

APRIL states that the 2016 peatland indicative map "*was superseded by a definitive map published by the Ministry of Environment and Forestry in 2019 which has served as the basis for the government-approved work plans for these areas. APRIL's peatlands operations are fully compliant with Indonesian regulations and with APRIL's science-based, responsible peatland management.*"

C. Subsidence and Economic Viability

Subsidence and flooding of peatland areas in its plantations also present a long-term risk to APRIL's wood fiber supply. A 2015 study by Deltares - a consultancy formerly contracted by APRIL - projected that several of APRIL's subsidiary and affiliate plantations would reach flooding limits by 2039, ultimately making them economically unviable and resulting in abandonment. The area affected includes around 40% of APRIL's flagship plantation subsidiary PT Riau Andalan Pulp & Paper.[23]

In response to the above analysis, APRIL stated that "*the flood predictions made by Deltares represent the short-term risk of acute flooding (i.e. days-to-weeks), and do not represent the risk of chronic or permanent inundation of the area".* It declined to provide estimates from its own research of the flood risk faced by its peatland plantations.

D. Productivity Impacts of Raising Water Tables

APRIL cannot substantially reduce its impact on climate, fire and subsidence, while maintaining its current dependence on peatland plantations. The Deltares study concludes that "*water management [of peatland areas in its plantations] improvements can somehow, but not greatly, reduce rates of subsidence and carbon loss*". A group of peatland scientists commissioned by APRIL - the Independent Peat Expert Working Group (IPEWG) - concluded subsidence and emissions rates could be reduced by 25-30% through raising water tables in line with government target depth of 40cm.[24] However, APRIL has not endorsed this measure. In 2019, APRIL's research team reported to the IPEWG that the data indicates that "High WT [water tables] lower early [tree] growth and survival", producing "significantly lower growth and yield". It continues that initial data shows "40cm WT tree heights are significantly lower than 60cm or 80cm."[25]

APRIL's research strongly suggests that raising water tables to levels prudent for mitigating emissions, fire risk and subsidence, would have a significant negative impact on plantation productivity.

In response to our questions to APRIL on its water table management, it commented that APRIL "*is currently monitoring the impacts to plantation growth across a range of water tables depths" Further, it stated that "Optimal mean water table depth changes across the landscape with season, plantation age, peatland elevation, and peat soil type. APRIL's publicly reported subsidence levels and fire prevention strategies are fully aligned with peatland best management practices*".

Rather than phasing-out plantations on drained peatland, APRIL's plan to expand its mill capacity will result in more intensive cultivation on peat, exacerbating carbon emissions, subsidence and fire risk.

1.2 LACK OF CREDIBLE WOOD SUPPLY PLAN RAISES RISKS OF FIBER DEFICIT AND CONTRADICTS SUSTAINABILITY PLEDGES

APRIL has historically expanded processing capacity beyond the means of its plantation resources. The resulting deficit has driven deforestation, as suppliers converted natural forests to develop new plantation land.

APRIL's proposed expansion will create an annual demand of 22.1 million cubic meters of wood.[26] However, APRIL has failed to provide a coherent and credible plan for how it will satisfy this substantially higher wood demand without greatly expanding its environmental footprint in ways that would violate SFMP 2.0.[27] The pressure this expansion will put on APRIL to acquire new plantation areas and/or rely on high-risk long term suppliers and open market sources represents another critical supply and operational risk.

A. APRIL is violating SFMP 2.0 with its misleading claim of 'self-sufficiency'

The corporate communications accompanying APRIL's proposed mill expansion emphasize wood fiber "self-sufficiency" as an ongoing sustainability goal, meaning only sourcing fiber from its own plantations or those of its long-term supply partners (affiliates). Under SFMP

2.0, APRIL committed to "*not establish a new pulp mill and/or a new pulp line until it achieves plantation fibre self-sufficiency*". According to APRIL's own reporting on wood fiber sourcing, it is not self-sufficient and remains dependent on open-market and imports to fulfil 20% of its wood fiber needs (see years 2015-2020, Figure 3). In violation of SFMP 2.0, APRIL intends to press ahead with a new pulp line that will increase wood fiber demand of its mill by 55%.[28]

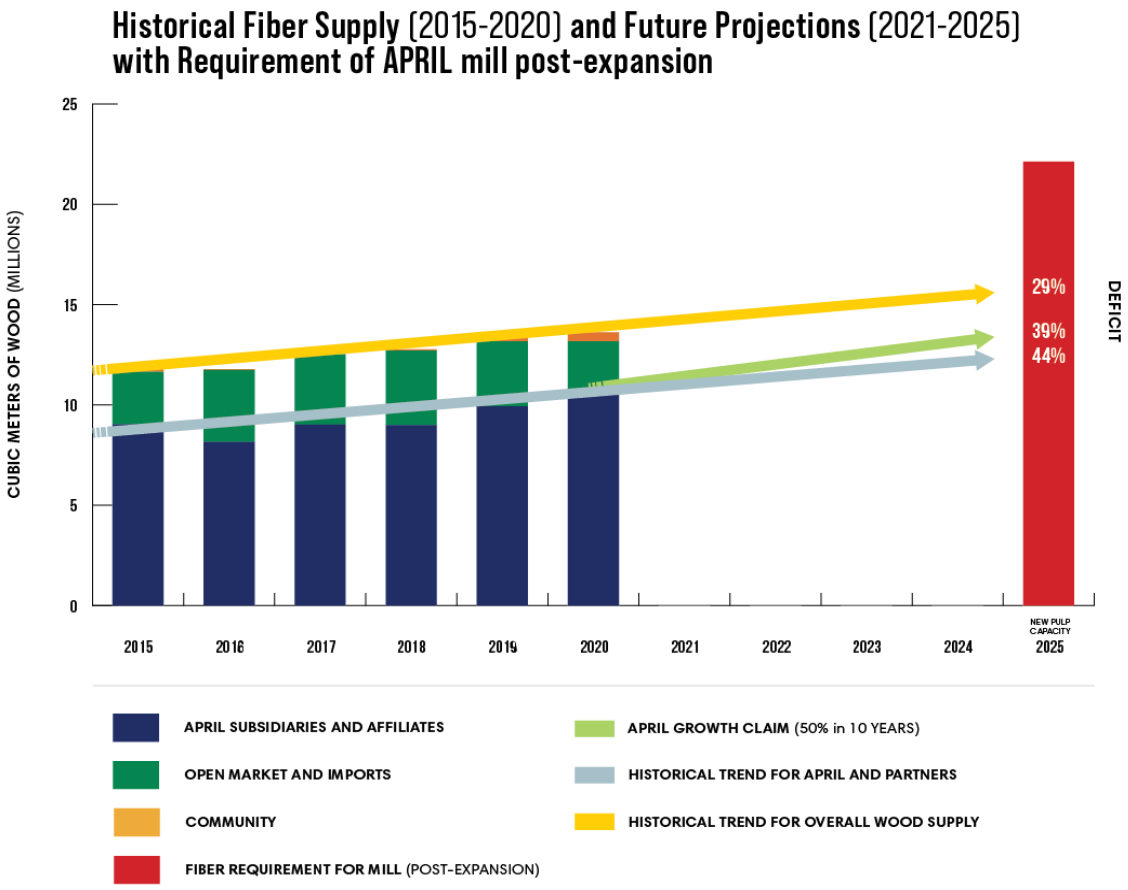
In response to the fact that APRIL has not achieved self-sufficiency, APRIL explained that it has achieved "*the capability to be self-sufficient". It elaborates,"however, the capability to be self-sufficient* does not mean we will phase out open market supply. *Maintaining access to open market supply, subject to SFMP 2.0 compliance, is a standard and sensible business risk mitigation strategy and enables us to continue to foster sustainable forestry management best practice with suppliers.*"

APRIL cites a 2019 review of its wood fiber supply by the Finnish consultancy Indufor as evidence that it can achieve fiber self-sufficiency and therefore grow its business sustainably.[29] This is misleading as the assessment only reviewed APRIL's current capacity and did not address the material question of whether APRIL's wood supply is adequate to meet the demand of a mill that requires 55% more wood. Asked to respond to this fact, APRIL stated that the Indofur assessment "*focused on….forest management information systems, forest inventory methods and growth and yield models*" and "*confirms that there are no fundamental flaws...Any change in production capacity does not affect Indufor's conclusions*".

We assert, however, that the change in production capacity must affect Indufor's conclusion that "*By 2024, APRIL's RAPP mill is expected to be self-sufficient in terms of wood supply*." The Indufor report qualifies this conclusion with a warning that the "*target timeframe is strict and allows little space for setbacks or recession in growth development*" and depends on optimizing water tables for tree growth on peatlands, which can be counter to best-practices for minimizing fire risk and carbon emissions.[30] If the Indufor assessment found that APRIL's "self-sufficient" wood supply would barely be adequate by 2024 for the current fiber requirement, it seems unlikely that Indufor would expect the wood supply to meet a fiber requirement that was 55% greater.

APRIL's apparently misleading use of Indofur's assessment to make the mill expansion appear in compliance with SFMP 2.0 should arouse the suspicion of banks and investors. APRIL's claims of 'self-sufficiency' do not reflect the group's ability to meet the material requirements of its mill, which poses major supply and operational risks.

Figure 3 Pulpwood supply to APRIL's Kerinci mill, 2015-2020



B. APRIL's widening deficit in 'self-sufficient' wood fiber

APRIL claims that it can meet demand for an expanded mill through rapid productivity gains at its plantations, projecting gains of 50% over the next decade. Even if these ambitious gains are realized, its 'self-sufficient' wood fiber supply will be 8.7 million cubic meters short of the overall mill requirement when the new capacity comes online in 2025, a deficit of 39% (see 'APRIL Prediction' scenario, Figure 3). The Environmental Impact Assessment (EIA) for the mill expansion confirms these numbers, with APRIL anticipating a scenario where self-sufficient sources, i.e. "*HTI dan kerjasama operasi",* make up just 60%, and roundwood and woodchip purchases on the open-market and from imports comprise the other 40%.

It is likely, however, that APRIL will not achieve the productivity growth figures mentioned above. The company's actual data of wood supply reported to the Indonesian government indicate a lower growth trajectory of 17% over the last five years ('Historic Trend' Scenario Line, Figure 3).[31] This would result in a 9.8 million cubic meters wood fiber shortage, or 44% deficit.

As noted in Section 1.1, plantation productivity growth will also likely be impeded by government mandated measures to raise water tables in peatlands, and other policies to restore protected peatlands that overlap with a quarter of APRIL's current planted area.

All these models demonstrate that with the proposed expansion of its mill, APRIL will expand its dependence on open-market suppliers and imports, moving away from 'self-sufficiency'. In response to this analysis, APRIL stated that "*Maintaining access to open market supply, subject to SFMP 2.0 compliance, is a standard and sensible business risk mitigation strategy and enables us to continue to foster sustainable forestry management best practice with suppliers*".

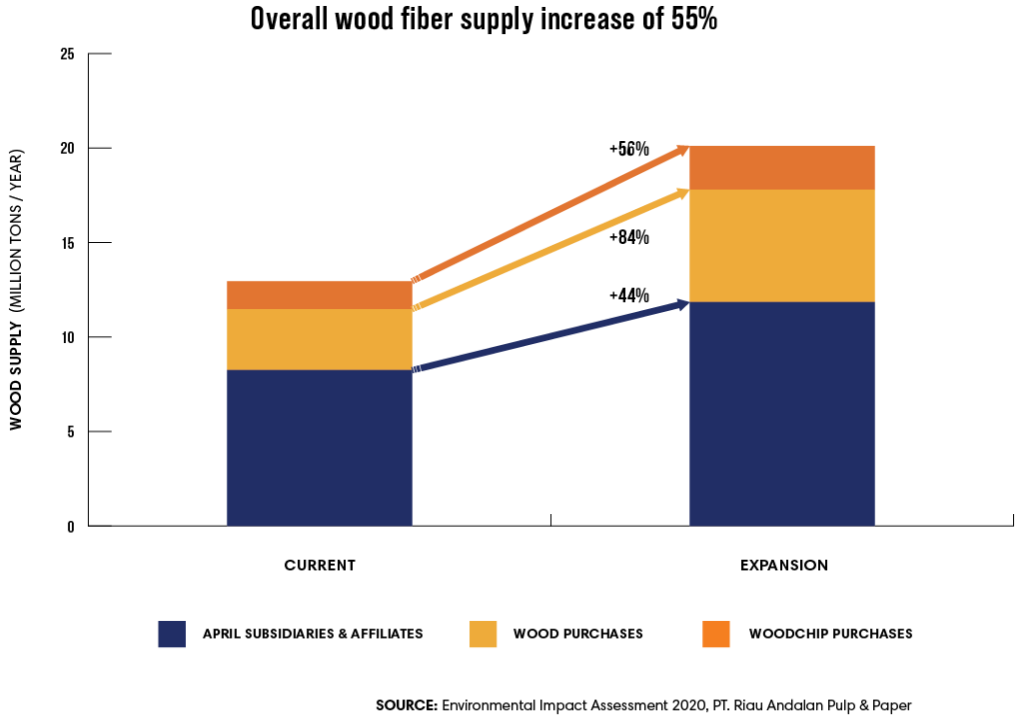
As covered below in part C, if historical trends continue APRIL is unlikely to be able to meet its expanded wood fiber requirement, even if it continues to rely on open market suppliers.

C. Increased dependency on high-risk sources

According to the projections above, if the new mill capacity comes online in 2025, APRIL will have to more than triple its open market and import purchases of roundwood and woodchips, from 2.6 million cubic meters in 2020 to between 8.7 and 9.8 million cubic meters of wood fiber. (See Figure 4).

This increasing dependency carries substantial deforestation risk and social risk (see Section 1.3). APRIL states that there is no evidence of deforestation in its wood supply chain. However, the evidence presented against open-market suppliers PT Tanjung Redeb Hutani[32], PT Fajar Surya Swadaya[33], and PT Adindo Hutani Lestari[34] demonstrates that APRIL remains exposed to suppliers that have persisted in the conversion of forests since the cut-off date in SFMP 2.0. Satellite analysis indicates that between 2015 and 2019, APRIL suppliers experienced over 60,000 ha of deforestation inside their concessions.[35]

Figure 4 Overall wood fiber supply increase due to proposed expansion



SOURCE: Environmental Impact Assessment 2020, PT. Riau Andalan Pulp & Paper

APRIL's continued exposure to high deforestation risk suppliers is indicative of the inadequacy of its policies and standard operating procedures (SOPs) to prevent deforestation in its supply chain.[36] They do not explicitly require implementation of the High Carbon Stock Approach (HCSA) to identify areas to set aside from conversion into plantation across company group operations, since the SFMP 2.0 cut-off date.[37] APRIL claims that its fiber supply must comply with "No Deforestation" requirements and that it has made "*significant and comprehensive commitments to HCV and HCS processes"*.

Even if APRIL continues to buy from open-market suppliers, it is still unlikely to be able to meet the overall wood fiber requirement of its expanded mill. Over the last five years, APRIL's total wood supply increased by 15%. If this trend continues over the next five years, it will still result in a deficit of 6.4 million cubic meters, or 29% of the total fiber requirement.

This clear risk of a wood fiber shortage means that APRIL could also seek to acquire new areas of land for plantations and categorize them as 'self-sufficient'. SFMP 2.0 allows for the acquisition of land that has been converted from forests prior to 2015, and also for conversion post-2015 if the seller did not "knowingly" convert the forests or peatlands or if the forests were not designated as High Conservation Value (HCV) or High Carbon Stock (HCS).[38] Meeting this wood deficit would require developing plantations on between 216,000 and 385,000 ha of land, depending on the productivity of the plantations.[39]

In response to the above analysis, APRIL responded "*We have no plans to apply for new industrial plantation concession licenses or expand our concession areas. Fibre supply to meet any proposed increased production capacity will come entirely from plantation fiber from APRIL's current concessions and long term supply partners, and open market suppliers.*" APRIL's claims notwithstanding, it is difficult to see how it will get so much more wood without seeking to secure new plantation land in areas of natural forest and/or sourcing from open market suppliers linked to deforestation.

Beyond its current wood suppliers, APRIL has been connected through overlapping personnel and historical ownership records to companies with licenses for industrial wood fiber concessions that are currently being deforested but are not yet active suppliers to APRIL. This includes a group of six companies under the banner of the Nusantara Fiber Group that cleared 26,000 ha of forest in Kalimantan over the last five years, according to a report by Aidenvironment.[40] RGE, the corporate group that controls APRIL, denies having relations with these six companies. The report also linked APRIL to a concession in West Papua covering a large, mostly forested area of 87,225 ha.[41] If APRIL starts developing new plantation areas to support a bigger mill, forest areas like these in Kalimantan and Papua will likely be first to come under threat.

1.3 RIGHTS VIOLATIONS AND SOCIAL RISKS

APRIL's wood fiber supply chain is also exposed to social risks from the proliferation of conflicts with local communities, over land tenure, impacts on farming and subsistence crops and allegations of company violence and criminalization.[42] A 2019 study revealed that at least 72 communities are in active conflict with APRIL affiliates or suppliers in Riau province alone.[43] APRIL pledged to resolve conflicts such as these in its 2015 SFMP 2.0 sustainability policy.[44]

Accountancy firm KPMG, appointed by APRIL to review its performance against its Sustainability Policy, indicates that between 2017 to 2019, the group had not made significant progress in resolving conflicts, with its inactive area due to conflict falling just 1% to 103,000 ha, and the number of claimants increasing.[45]

In response, APRIL stated that its 2020 Sustainability Report notes that the total area with unresolved land disputes fell from 28,249 ha in 2019 to 22,985 ha in 2020. It added that "*Land disputes are complex and take time to resolve to the satisfaction of all parties….areas under claim are inoperable for us until such time that the claim is fully and fairly resolved. It is, therefore, also in our interest that these claims are resolved as quickly as possible.*"

APRIL also claims it will submit all outstanding High Carbon Stock Approach (HCSA) assessments by December 2022, including its Social Requirements. This requires the fulfilment of communities' rights to give, withhold or withdraw Free, Prior and Informed Consent (FPIC) to development on their lands in both new and existing concessions. There is no evidence that APRIL has initiated efforts to implement this process.

APRIL's planned expansion in wood fiber will very likely expose its subsidiaries and suppliers to more land conflicts. Ongoing and unresolved conflicts with local communities represent **operational**, **legal** and **reputational risks** to APRIL Group, and are another factor that threaten APRIL's wood fiber supply and market access.

These risks are illustrated by recent developments at APRIL's sister pulp company PT Toba Pulp Lestari Tbk (TPL), (IDX:INRU). TPL is in an active conflict with at least 23 Indigenous communities over control of more than 20,000 ha of land.[46] Protests led the Indonesian government to temporarily close the mill in 1998[47] and the reemergence of a broad alliance of affected communities aims to once again 'Shut Down TPL' (Tutup TPL) and get the mill's permits revoked.[48]

In July 2020, the Indonesian Ministry of Forestry and Environment reduced TPL's concession by over 16,000 hectares, partly to redesignate it in recognition of Indigenous land rights to customary forests.[49] In June 2021, the Ministry of Forestry and Environment decreed to resolve forest tenure and environmental destruction associated with TPL's operation, including reviewing its legal compliance.[50] TPL's insistence on planting pulpwood seedlings on contested land and prohibiting community economic activity has resulted in protests in which violence and criminalization was used against community members.[51] Over 90 community activists have been criminalized and subject to violent acts by TPL since 1998, pointing to a long record of human rights violations.[52] In August 2021, community representatives held high level meetings with the Indonesian President Jokowi to discuss their customary land claims and how TPL is infringing their rights.[53]

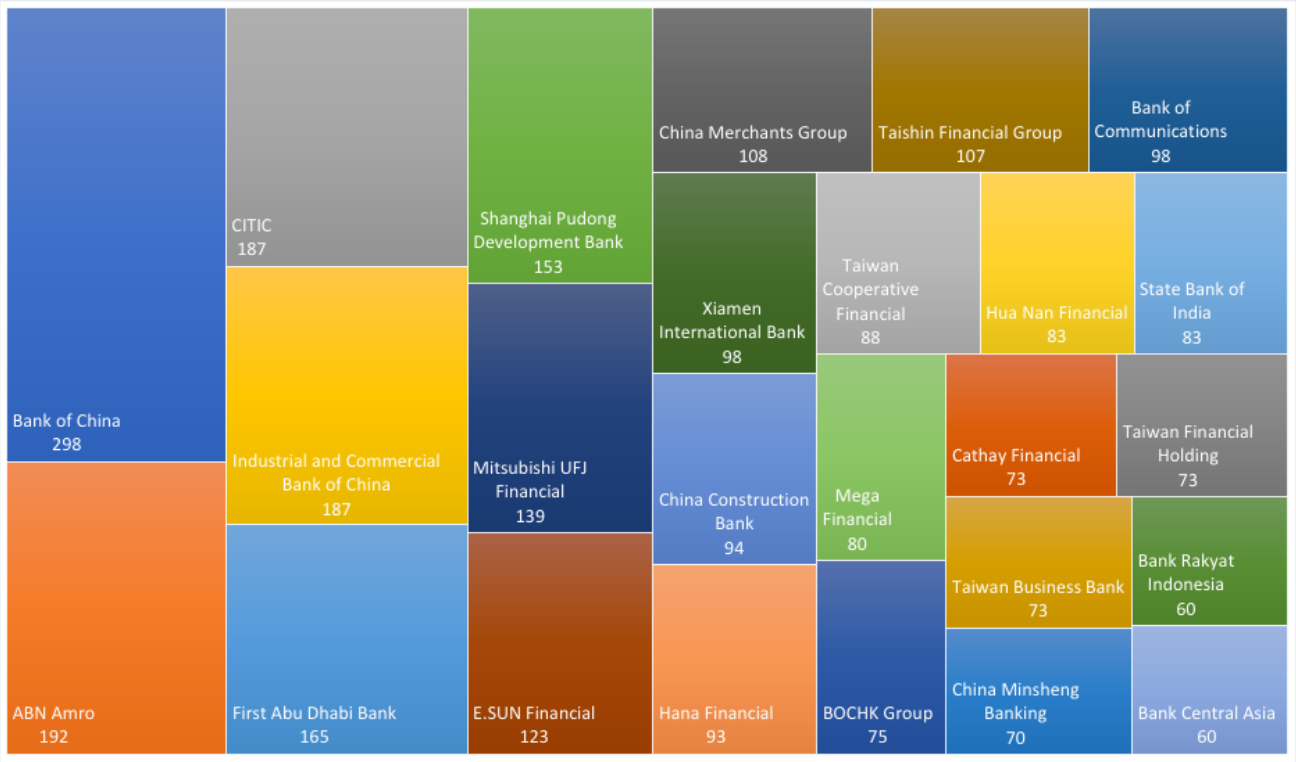
In response to the social conflicts outlined above, TPL claims that it "*currently has 10 registered land claims, covering approximately 10,384 hectares" and that nine of these have been resolved, Further, the company denies that it "unfairly 'criminalised' community activists or any other persons through its operations."*

1.4 BANKS WITH EXPOSURE TO APRIL

APRIL is part of Royal Golden Eagle Group, which is an international conglomerate with common beneficial owners in Sukanto Tanoto and members of his family. RGE group contains other wood fiber companies such as Toba Pulp Lestari (Indonesia) Asia Pacific Rayon (Indonesia), Sateri Viscose Rayon (China), Asia Symbol (China) and Bracell (Brazil). Figure 5 illustrates RGE's 25 largest creditors for its pulp and paper division (2016-2020 April).

In late August 2021, it was reported that APRIL had entered negotiations with banks including ICBC and CITIC for USD 650 million 'sustainability-linked' loans, which may be linked to its planned mill expansion.[54] Reports suggest that the loans are linked to key performance indicators including CO2 emissions and investment in sustainability of wood fiber production. Earlier this year, APRIL's sister company Asia Pacific Rayon (APR), which produces viscose rayon in the same mill complex as APRIL, secured a USD 300 million syndicated loan for capital expansion from a consortium of Indonesian and Korean banks, including Bank Rakyat Indonesia, Bank Central Asia and Bank PAN Indonesia.[55]

Figure 5 Royal Golden Eagle Group Largest 25 Creditors for pulp and paper sector (2016-2021 August in USD million). Source: forestsandfinance.org



TPL is not a significant recipient of bank credit and is largely financed by its majority shareholder Pinnacle Company Pte Ltd[56], whose beneficial owner is RGE Chairman Sukanto Tanoto.[57] Additionally, all of TPL's pulp output was sold to companies within the RGE group.[58] The relationship between TPL and RGE fits a number of the criteria of a common corporate group, as defined by the Accountability Framework Initiative.[59] However, both RGE and TPL maintain that TPL is not part of the Royal Golden Eagle group of

companies. TPL notes that "*The company is a publicly listed company in Indonesia with its own Independent Board and Management team and is not part of Royal Golden Eagle group of companies.*"

RECOMMENDATIONS

For banks with exposure to APRIL Group or banks considering financing APRIL Group (or pulp operations of the broader Royal Golden Eagle Group)

- Refrain from providing new finance and/or engage with client until the following standards are met:

- **Mitigate climate, fire and haze risks** by requiring that APRIL

    - Make publicly available its greenhouse gas emission inventory undertaken by Carbon Trust in 2019, and ensure that this includes all land use change emissions.

    - Present a time bound plan for the phasing-out of plantations on drained peatland.

    - Make publicly available a plan for how APRIL intends to achieve and publicly report on its progress towards "'*net zero' from land use and land use change*", a goal of APRIL2030. This must include methods used for independent verification of claimed emission reductions and sequestration.

- **Mitigate deforestation risk** by requiring APRIL to disclose a credible and independently reviewed long-term wood supply plan that incorporates all fiber requirements to fulfil the wood supply needs of the pulp mill expansion proposal. Ensure wood supply plan factors in loss of productivity from a) raising of water tables in peatlands and retirement of plantations on drained peatland b) resolution of land conflicts.

  Require APRIL to revise its policy and SOPs to explicitly require adherence to the High Carbon Stock Approach for all new development involving land use change in their concessions and those of their subsidiaries, affiliates and open market suppliers. This requirement must be enforced since the 2015 cut-off date as per SFMP 2.0.

- **Mitigate social risks:** Ensure APRIL is fulfilling the rights for Indigenous Peoples and affected communities to the principles of Free, Prior and Informed Consent (FPIC) and conflict resolution, in accordance with international human rights norms and best practise.[60] This includes respecting communities' right to say "no" to plantations on their land, even if the land has already been planted. Require APRIL to carry out and publish mapping of social conflicts and mutually agreed procedures to resolve them in a clear and transparent manner.[61]

- **Adopt and implement** a NDPE policy that covers the pulp & paper sector. This policy should restrict financing to only pulp and paper clients that maintain Forest Stewardship Council Full Forest Management Certification.

For Investors in Banks

- Engage with financial institutions that may be considering financing APRIL's expansion, or have existing exposure to APRIL Group to ensure that they are fully aware of the material financial risks.

- Request that financial institutions adopt an explicit 'No Deforestation, No Peatland, No Exploitation' (NDPE) policy that covers the pulp & paper sector.

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[23] Approximately 137,000 ha of PT RAPP is peatland situated on the Kampar Peninsula. PT RAPP total concession area is 338,246 ha

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[27] SFMP 2.0. I (j) states that APRIL will not acquire new land or forestry licences unless for conservation purposes

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[29] Correspondence from APRIL, 31 August 2021, "*APRIL has been able to demonstrate the capability to achieve fiber self-sufficiency to the satisfaction of the Stakeholder Advisory Committee (SAC), based on an assessment completed by Indufor. Achieving this milestone demonstrates that we have a stable foundation and robust fiber supply on which to grow our business sustainably.*"

[30] Even APRIL's International Peat Expert Working Group (IPEWG) acknowledges that water tables managed at higher levels to minimize subsidence reduces tree productivity. IPEWG's October 2019 meeting notes that APRIL's research team found that "High WT [water table] lowers early growth and survival as well as impacts tree form (lean) [...] WT impact on growth and yield: only initial data available but 40 cm WT tree heights are significantly lower than 60 to 80 cm WT", see IPEWG Meeting 13, p4, https://bit.ly/38BRnoY

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[36]APRIL's policy fails to align with HCSA Toolkit for best practice in the following ways: 1) it does not explicitly require implementation of HCSA to identify areas to set aside from conversion across their operation since its 2015 cut-off date; 2) it does not require use of the Integrated HCV-HCSA Manual and assessors approved by the Assessor Licensing Scheme (ALS) since November 2017; 3) its use of the terms 'High Conservation Value Forests (HCVF)' and 'HCS areas' are not consistent with the definitions of HCV areas and HCS forests used in the HCSA. These loopholes are problematic as APRIL has sourced from suppliers or company groups that have cleared High Conservation Value areas and High Carbon Stock forests since June 2015 on the basis of flawed HCV assessments or assessments that did not identify and set-aside HCS forests (see Aidenvironment, August 2021 and Environmental Paper Network, 2020).

[37] KPMG, Report on APRIL Group's Implementation of Sustainable Forest Management Policy, Nov 2020, https://bit.ly/3n873ZS

[38] SFMP 2.0 criteria I (j) states "*APRIL will not acquire any new land, or forestry licenses; or receive wood from land licensed to third parties, where after 3 June 2015 the seller has knowingly cleared HCV or HCS forests or forested peatlands 3 . This shall not apply to acquisition of land or licences for the purposes of restoration or conservation activities under clause II.d of this Policy.*"

[39] This plantation requirement projection is based on fiber deficits of 8.7 and 9.6 million cubic meters and incorporates a range of mean annual increments (MAI), i.e. average annual tree growth rates, between 25 m3/ha/year to 40 m3/ha/year. It assumes a five year rotation, therefore yields ranged between 125 m3/ha and 200 m3/ha of wood. No field or transport losses were included.

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[49] Keputusan Menteri Lingkungan Hidup dan Kehutanan Republik Indonesia Nomor SK.307/MenLHK/Setjen/HPL.0/7/2020. Note that only about 2,300 ha was redesignated for customary forests (hutan adat) which is less than half of the actual demands of the pandumaan sipituhuta community of 5,172 ha. The majority is redesignated for a government food estate project which is also in conflict with Indigenous land rights.

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[61] Conflict resolution procedures and remediation for harm must be agreed with all affected communities' chosen representative and align with international human rights norms, including the United Nations Guiding Principles on Business and Human Rights (UNGP)