

Indonesian pulp mill supplies & legality risks

An Lambrechts
Senior Campaigner
Indonesia Forest Campaign Political
Coordinator
Greenpeace

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Overview

1. Indonesia's governance context

- (1) National legality scheme SVLK
- (2) Prevalence of illegal logging
- (3) Corruption

2. Pulp mill fibre supplies: risks and mitigation

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Governance context: SVLK (1)



All timber supposed to be SVLK certified as of end 2013

State of play: mainly manufacturing firms like pulp mills certified

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Governance context: SVLK (2)

SVLK reality check:

- Less than 50% of timber sources certified
- Pulp mill certificate doesn't say much about legality of supplies:
 - Permitting and harvesting processes not audited
 - No segregation SVLK/ non-SVLK timber
 - No mandate for auditor to assess land tenure rights violations, incl. concession overlaps

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Governance context: illegal logging rate

- Dramatic decrease since late 1980's: from 87% to 40-60%
- Caveat: illegal harvesting figures don't say anything about illegal licencing processes
- Better law enforcement but no parallel decline in deforestation => **legalisation of forest conversion is problematic**

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Governance context: corruption

- Deputy Head KPK: 'Forestry sector is a source of unlimited corruption' (2010)

- Recent case:

<http://news.mongabay.com/2014/0313-dparker-zainal-corruption-riau.html>

- HRW study: corruption & mismanagement in forest sector cost Indonesia over \$7 billion in losses from 2007 to 2011

<http://www.hrw.org/reports/2013/07/15/dark-side-green-growth>

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Fibre supplies pulp mills

2 major sources:

- **Plantation fibre: acacia**
 - No (CITES) protected species
 - General governance context problems applicable => legality risks remain but how to verify?
- **Rainforest fibre: Mixed Tropical Hardwood (MTH): high risk**

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Fibre supplies: MTH

To be avoided because of:

- (1) Likelihood of CITES protected species:
ramin – defining presence of ramin fibres
very difficult
- (2) Conversion timber, large amount from
agriculture e.g. palm oil

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Fibre supplies: MTH – conversion timber

Indonesian Log Production based on source of Productions 2006-2010								
	Selective Logging (IUPHHK-HA / HPH)	Forest Conversion (IPK)	State Plantations	Industrial Timber Plantations (HTI)	"Other" Permits (Izin Lain Sah)	Total Log Production	Conversion Timber (IPK) as % of Total	Conversion timber (IPK) as % of Natural Forest Total
2006	6,445,263	4,456,952	28,566	21,981,822	1,179,881	34,092,484	13.07	40.88
2007	6,437,685	4,391,657	48,034	20,614,209	705,462	32,197,046	13.64	40.55
2008	4,629,017	2,764,015	97,480	22,318,886	2,191,387	32,000,786	8.64	37.39
2009	4,857,150	6,619,247	87,828	18,953,930	3,802,381	34,320,536	19.29	57.68
2010	5,251,576	14,488,152	98,003	18,556,254	3,720,785	42,114,770	34.40	73.40
2011	5,088,695	600,598	112,858	19,840,679	21,786,505	47,429,335	1.27	10.56

Sources: Table Table IV.2.2., page 182 in Bina Usaha Kehutanan, Forestry Business Development Report, at <http://www.scribd.com/doc/88508089/STATISTIK-KEHUTANAN-2010>, and Buku Statistik Kehutanan Indonesia, Ministry of Forestry Indonesia, July 2012, http://www.dephut.go.id/files/BUku%20Statistik%20Juli%202012_terbaru.pdf - last two columns EIA analysis

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Fibre supplies: avoiding MTH?

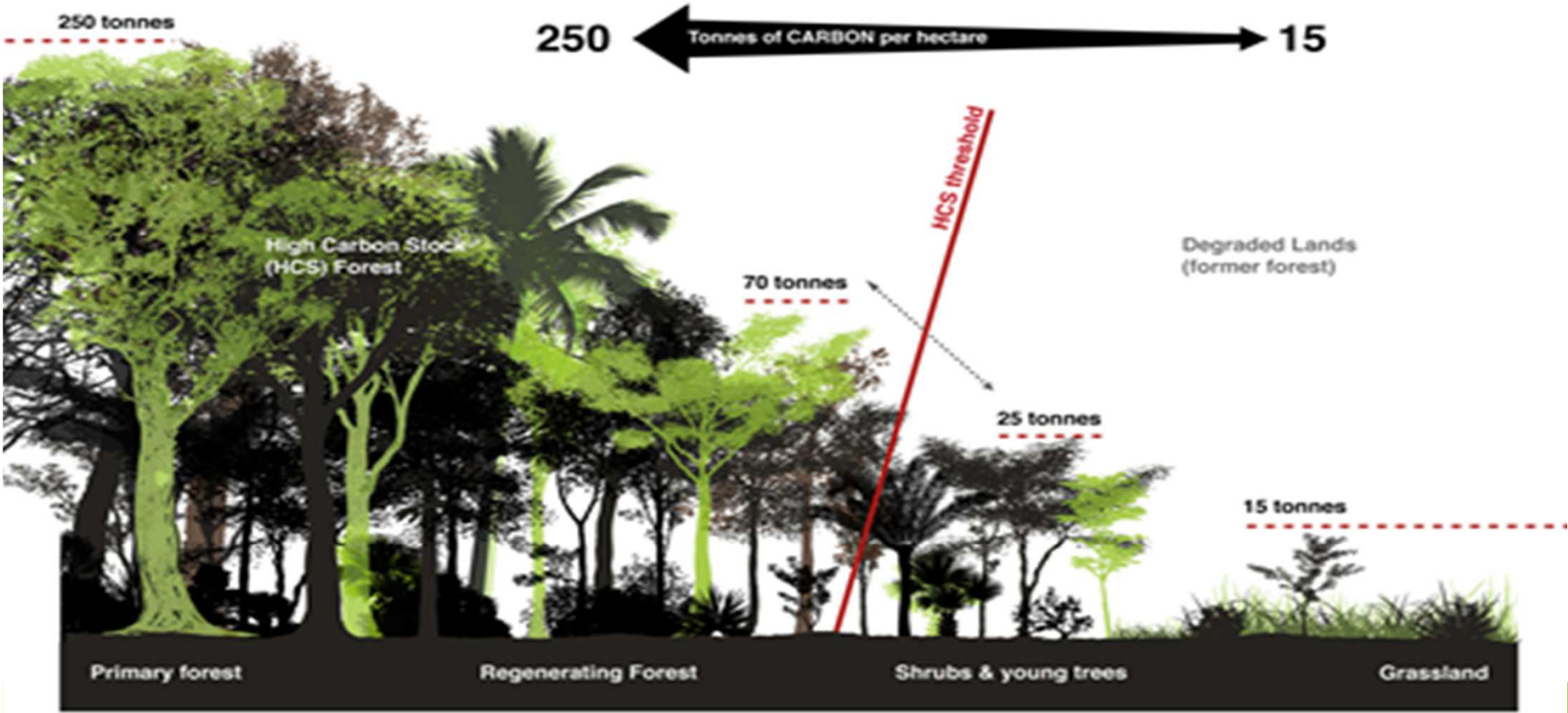


- APP moratorium on forest clearance 2013
- Violations & remedies communicated on dashboard:

<https://www.asiapulppaper.com/sustainability/tracking-progress/monitoring-dashboard>

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Fibre supplies: avoiding MTH?



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Conclusions

- All pulp & paper from Indonesia remains high-risk and warrants serious scrutiny
- Corporate policies, monitoring & reporting, NGO evaluation important reference point, but needs to be combined with broader legality check
- Legality scheme: SVLK has loopholes and doesn't address key sustainability issues such as forest conversion – therefore not a credible solution for paper sector yet

Thank you

- an.lambrechts@greenpeace.org
- Twitter: lambrechtsan

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