

Open letter to actors of forestry, pulp & paper and banking sectors in Europe

June 4, 2004

No support for the planned pulp mill of United Fiber System in Indonesia

We, the undersigned organisations, want to express our deep concern regarding plans to build a pulp mill in the province of South Kalimantan, Indonesia. We expect the new mill to follow suit with other Indonesian mills whose development plans suggested responsibility and profitability while in practise these mills bring about environmental, social and economic havoc. The planned pulp mill would be operated by a company called PT Marga Buana Bumi Mulia, a joint venture by United Fiber System, Singapore, and China National Machinery & Equipment Import & Export Corporation. Thus far we are aware of involvement by Jaakko Pöyry (Finland), which made the pre-feasibility study, CellMark (Sweden), which has been mentioned as a buyer of pulp (90% of production) and whose owners are investors in UFS, ÅF-IPK (Sweden), which assessed environmental impacts of the mill, and Vivendi Water (France), supplier of the water treatment plant. Eka Chemicals (Sweden) has withdrawn from the project.

A new pulp mill has to be viewed against the background of forest situation in Indonesia. There is a huge overcapacity in the pulp industry. According to government policies, the pulp industry should be based on plantations. When the existing, modern pulp mills were engineered and constructed by western companies, they were supposed to quickly establish plantations and become self-sufficient regarding their raw-material base¹. This has not materialized in most cases, as the pulp companies have expanded their capacities and focused on wood procurement from natural forests instead. Approximately 75-80% of wood used in pulp industry in Indonesia originates in natural forests, half of the use being from somehow illegal sources². Use of natural forests as a resource base leads to wide-spread deforestation. Every single one of the big pulp mills in Indonesia has caused either major social problems, pollution³ or deforestation¹, in most cases all of these. Economically, pulp and paper companies are heavily indebted and have caused massive losses to their lenders and to the Indonesian government².

The planned pulp mill in South Kalimantan claims to avoid deforestation by using readily established plantations in the near-by areas⁴. However, the company does not have enough plantations in place to feed the planned 600 000 t/y pulp mill at present, and with present pace of planting, there never will⁵. The pulp-wood plantation companies in South Kalimantan are far from fulfilling their planting targets and yield predictions, and the annual planted area has been minimal after 1999. Without sustainable plantations established before the mill is started to construct, there is no reason to believe that the project would be on sustainable basis. We do not find company's claims of not converting natural forests to either make way for plantations or for pulping

convincing given its record in plantation establishment and previous plans of large-scale conversion of natural forest⁶. Since South Kalimantan has already lost most of its forests, wood procurement of the planned mill potentially has severe effects on the remaining natural forests. Furthermore, the lack of raw material is an economic problem in the long term since the mill can not operate without sufficient fibre resources after running out of natural forests and plantations.

Probably much of the deforested areas that the project will use for plantation establishment consist of bushy areas with natural forest regeneration potential. "Reforestation" of such areas to pulp plantations accelerates loss of biodiversity in the area. The establishment of plantations has resulted, and will result if the plantations are extended, in land conflicts with the local people. Land tenure situation in the existing and planned plantation areas should be mapped and conflicts solved before further plantation establishment. In addition, establishment of the pulp mill is seen as a threat by the community in the mill site near Java Sea due to its potential effect on water quality. The community depends on fishing as their source of living.

The main supplier of the planned pulp mill, plantation company ex-Menara Hutan Buana, has been found guilty in defrauding governmental reforestation funds by inflating its annual planting figures. Its licence was already once revoked by the Ministry of Forestry in 2002. However, the licence of the company was handed over to United Fiber System that has taken over the plantation and company infrastructure and changed its name into Hutan Rindang Buana. Status of the licence is disputable and the whole issue points to the direction of high-level corruption.

The new mill project presents itself as environmentally and socially progressive, claiming to be transparent. Yet despite requests, United Fiber System has not released Environmental Impact Assessment (EIA) of the mill project. In Europe, EIA of such a project would be a public document, and the project's policy of not to distribute it raises further questions about the environmental sustainability of the project.

In this situation, building a new pulp mill can not be justified. It can not be justified from the national-level point of view, with problems related to deforestation, overcapacity, illegal logging, and land tenure unresolved. Nor it is acceptable in the local and provincial point of view, with land conflicts, corruption, criminal companies, and deficit of natural forests and plantations present. We urge you to make sure for your part that this project does not materialize.

Sincerely,

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(1) E.g. Kiani Kertas in East Kalimantan, Riau Andalan and Indah Kiat in Riau, Lontar Papyrus in Jambi

(2) Barr, C. 2000: Profits on Paper: The Political-Economy of Fiber, Finance and Debt in Indonesia's Pulp and Paper Industries. - CIFOR, Bogor.

(3) e.g. PT Tanjung Enim Lestari, PT Toba Pulp Lestari

(4) PT Hutan Rindang Buana, PT Kirana Katulistiwa, PT Inhutani II, PT Inhutani III

(5) The company claims it has 81000-84000 ha of plantations in its possession, all planted before year 2000. According to company figures, the yield of plantations it has is 157.5 m³/ha, and 2.8 million m³/y are needed to feed the mill capacity of 600 000 t/y. Assuming 7-8 years rotation, 124000-142000 ha of plantations would be needed to feed the mill. Thus according to this model, there is a need to establish new, good quality plantations in a rapid pace of nearly 20000 ha/y to feed the mill after four to five years of operation. This model may turn out to be overly optimistic. E.g. industry analyst G. H. Goh in their assessment of the project in 2001 used less optimistic assumptions and ended up with 180000 ha of plantations needed to feed the pulp mill. A total net plantable area of 131 000 ha is controlled by the company, excluding natural forests of 44000 ha. If company's projections on plantation yield fail, this area is not sufficient. Additionally, there are approximately 70 000 ha of plantations potentially available that belong to other companies in South Kalimantan. One estimate of the average yield of these plantations is 95 m³/y based on field research in Inhutani acacia plantations in South Kalimantan (Barakaturrehim 2003: Analisis Persediaan Bahan Baku Industri Pulp Yang Akan Dibangun Di Kecamatan Satui Kabupaten Tanah Bumbu. WALHI KalSel). If these figures would apply to all plantations in South Kalimantan, for a pulp mill of capacity of 600 000 t/a, all the plantations in South Kalimantan could supply raw material for 4.5 years (assuming 5.38 m³/t standing volume in the plantation needed to produce pulp, Jaakko Pöyry figures from (2), and 95 m³/ha yield). Since the rotation in plantations is 7-8 years, the mill would run out of wood unless large enough new plantation area is established starting three years before the mill starts operating even given that all plantations in South Kalimantan are available. Only few hundreds of hectares of plantations have been established yearly in South Kalimantan after 2000 (according to Forestry Department of South Kalimantan), although the pulp mill project has been planned for all of this time. Finnantara Intiga, a plantation company in West Kalimantan controlled by Stora Enso, has similar principles for plantation establishment as UFS claims to have. Plantation establishment in Finnantara Intiga area has been much slower than the planned planting speed of 18000 ha/y needed to feed UFS's pulp mill according to UFS's own figures.

(6) According to the mill project's circular to investors (Poh Lian Holdings Ltd. March 28, 2002) and valuation report by Jaakko Pöyry (2001), 44000 ha of natural forests in the concession areas would have been converted to plantations and sold to finance build-up of the mill.