

Environmental Defense International Case Studies

SINAR MAS: INDAH KIAT PULP MILL (INDONESIA)

Background

Asia's largest paper and pulp company outside of Japan, Asia Pulp and Paper (APP), owns the Indah Kiat pulp mill in Perawang, Sumatra which is financed through a \$500 million investment package supported by Exportkreditnamnden, the Finnish Guarantee Board, Spain's CESCE, Denmark's Exportkreditfonden, and Canada's Export Development Corporation. Hermes and U.S. EXIM have also apparently provided a \$5.6 million guarantee, and a \$4.5 million loan, respectively, for this mill, under separate financial arrangements. ¹

The 790,000 ton per year Indah Kiat mill is slated to consume 200 square kilometers of old growth forest per year "until its plantations mature." ² According to the head of Indonesia research at a Singapore brokerage firm, Indah Kiat accounts for 77 percent of APP's paper capacity and 50% of its operating profit. ³

In 1999, Indah Kiat used 8.9 million cubic yards of pulpwood, approximately 87% of which was mixed tropical hardwoods from natural forests, not from plantations. According to research conducted by the Center for International Forestry Research (CIFOR), Indah Kiat has deforested about 278,000 hectares (1,074 square miles) over the past 12 years, an area about the size of Luxembourg. ⁴ Indah Kiat revised its goal of obtaining all of its wood from plantations — the company formerly claimed that it would be using plantation timber by 2004. In a recent filing with U.S. regulators, the company now says that it is aiming at 2007. ⁵

According to CIFOR researcher, Chris Barr, "It is clear that Indonesian pulp and paper producers have assumed a high degree of financial risk by developing large-scale processing facilities without first securing a legal and sustainable fiber supply." ⁶

For years, the mill has been embroiled in conflicts pertaining to the source of its timber for pulping and in 1993 was fined \$1.4 million for the utilization of illegally felled timber. ⁷ To supply land for its pulp plantation program and to obtain an inexpensive pre-plantation timber

harvest, Indah Kiat seized and clear-cut over 3,000 hectares of the indigenous Sakai people's forest gardens, leaving the Sakai without cultivable land for their subsistence needs.⁸

One of Indonesia's most prominent environmental coalitions, WALHI, documented the terribly polluted conditions of the Siak River downstream from the mill, noting dead fish bobbing by the factory's waste outlet and recording complaints of skin rashes by local villagers bathing and obtaining drinking water from the river downstream from the mill.⁹ The results of WALHI's surveys indicated that Indah Kiat appeared to utilize its wastewater treatment facility primarily when there was an official pollution inspection and only sporadically, otherwise.¹⁰

Articles

["Unusual Suspects: Unearthing the Shadowy World of Export Credit Agencies"](#) - Doug Norlen, Rory Cox, Miho Kim, and Catriona Glazebrook, Pacific Environment (5/01/02) pdf file

Footnotes

1. Barr, C. *ibid.*, and Bloomberg, "Asia Pulp and Paper Faces Shortages of Wood Fiber, Research Shows" 11/27/00
2. Carerre, R. and L. Lohmann, "Pulping the South: Industrial Tree Plantations and the World Paper Economy", Zed Books, London, 1996, p.220.
3. Bloomberg, *ibid.*, 11/27/00.
4. Barr, C. *ibid.*, cited in Bloomberg, 11/27/00.
5. Bloomberg, *ibid.*, 11/27/00.
6. Bloomberg, *ibid.*, 11/27/00.
7. "Laporan Utama," *Majalah Prospek*, 10/16/93; see also Carerre, p.221.
8. Walhi p.38, Carerre p. 222.
9. Walhi, p.36.
10. Walhi, p.36.