



MEDIA BRIEFER
SEPTEMBER 2020

International Brands and Banks Financing Conglomerate with Largest Connection to Indonesia's Annual Fires and Haze Crisis, Analysis Reveals

The conglomerate Sinar Mas Group also received the most financing of any company in the forest-risk commodity sector, receiving USD 20 billion in credit (2015-Q120)

Tropical forest fires are anything but natural — tropical rainforests are intentionally set on fire and this must stop. Tropical rainforests would never burn by themselves — these are not “wildfires”. It's the ‘cheapest’ and quickest way to clear land for Big Agribusiness; tropical forests are being intentionally burned for beef, cattle, soy, palm oil, pulp and paper production. This is an annual emergency. Following last year's international outcry against the forest fires, this year is proving to be even worse. There are more fires burning in the Amazon and in Indonesia, and deforestation rates are up.

Corporations are driving these fires — by investing in the companies behind the burning and by purchasing the products made on deforested land. Global banks, such as Indonesia's Bank Rakyat Indonesia (BRI) and Bank Negara Indonesia (BNI) and Japanese megabanks Mizuho Financial Group and Mitsubishi UFJ Financial Group have funneled in total USD 150 Billion into deforestation industries since the signing of the Paris Agreement, bankrolling forest destruction. It is not just banks that are supporting the companies failing to end the fire crisis for palm oil and pulp plantations in Indonesia. Major brands Colgate-Palmolive, Ferrero, Kao, Mars, Mondeléz, Nestlé, Nissin Foods, PepsiCo, Procter & Gamble, and Unilever are sourcing from a long list of palm oil companies associated with forest fires that swept across Indonesia last year. Data published by RAN in our Keep Forests Standing report shows all ten brands have links to the 10 most influential forestry and agribusiness producers in Indonesia—many which failed to halt fires in 2019 including BEST Group, Genting, Rajawali Group, Royal Golden Eagle (RGE) Group, Sinar Mas, Wimar and its investee Bumitama Agri.

One of the most compelling cases which shows how these banks and brands are complicit with the Big Business of Burning is setting fire to the world's remaining rainforests is their financing and sourcing of forest-risk commodities from the Sinar Mas Group.

The Sinar Mas Group (SMG) is one of the largest conglomerates in Indonesia and is controlled by the family of the late tycoon Eka Widjaja. Its pulp and paper business (known as Asia Pulp

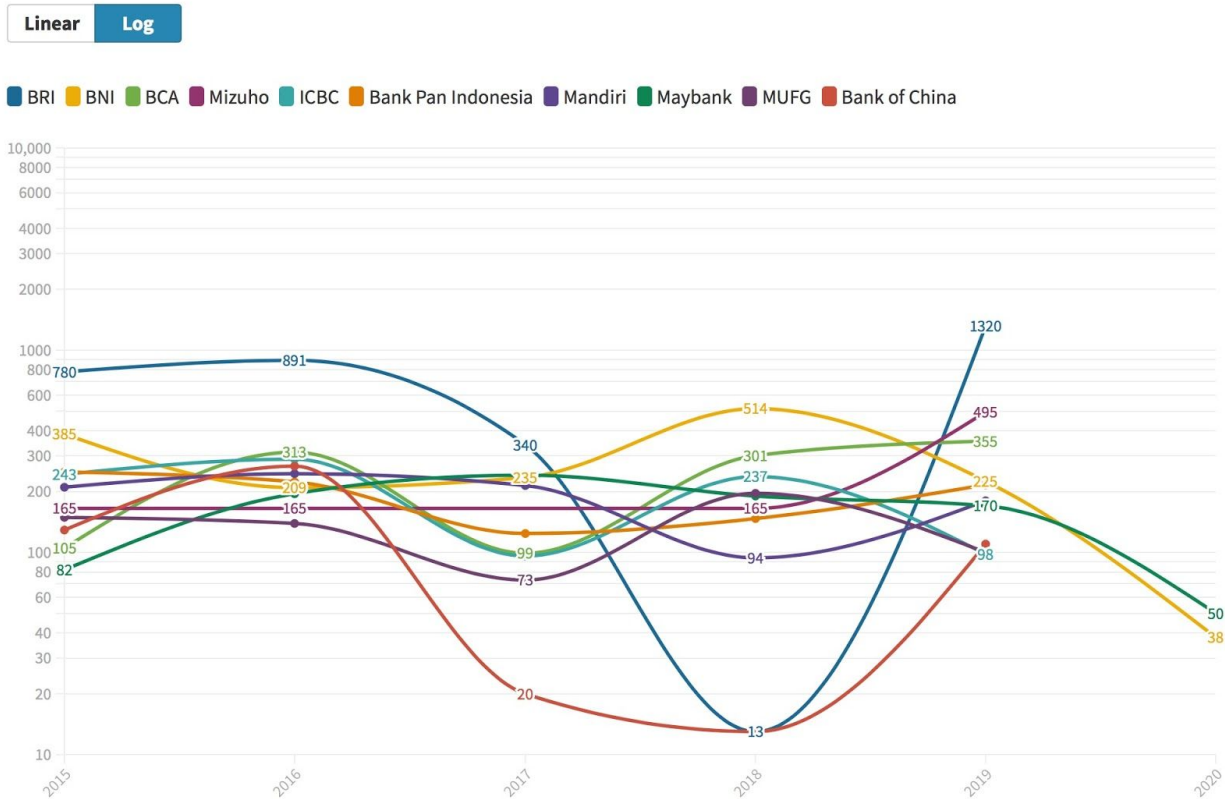
and Paper or APP¹) and palm oil business (listed in Singapore as Golden Agri Resources or GAR SGX:E5H) are Indonesia's biggest pulp and paper and [palm oil producers](#). Despite APP and GAR publishing sustainability policies over five years ago, the group has deep-rooted environmental, social and governance risks associated with its operations.

This is powerfully illustrated by its expensive culpability for Indonesia's annual fire and haze crisis, connected to its high dependence on Indonesia's carbon-rich peatlands to grow acacia and oil palms for its pulpwood and palm oil mills, both through its own operations and those of its suppliers. As noted below, there are concerns of intentional burning in its concessions and those of its suppliers.

SMG has also been the largest beneficiary of bank financing to forest-risk commodities in Southeast Asia, receiving USD 19 billion of credit over the last five years (2015-20Q1), USD 14.3 billion was for its pulp and paper operations, and 4.5 billion for its palm oil operations. The largest financiers have been Indonesia's Bank Rakyat Indonesia (BRI) and Bank Negara Indonesia (BNI), neither of which have public policies that prohibit development on peat or use of fire by clients. Japanese megabanks Mizuho Financial Group and Mitsubishi UFJ Financial Group (MUFG) have also been significant financiers over recent years, despite their adoption of environmental and social policies for financing since 2018.

Table X - Top 10 financiers of Sinar Mas Group operations (2015-April 2020) USD millions

¹ PT Indah Kiat Pulp & Paper Tbk (IDX: INKP)



SMG also remains a supplier of palm oil and pulp and paper to major global brands manufacturing snack foods, personal care products and instant noodles. It's palm oil arm, Golden Agri Resources (GAR) remains a major supplier of palm oil to Consumer Goods Forum companies which made promises to cut deforestation from their product supply chains by 2020 but are failing to do so. 2020 is here, and recently RAN investigations have exposed brands such as Mars, Mondelez and Procter & Gamble for sourcing from GAR despite its connection to forest fires in its own palm oil plantations on the island of Borneo, and the intentional burning of forests by suppliers destroying lowland rainforests in the Leuser Ecosystem (details of these cases are below). Despite their commitments to end deforestation for pulp and paper, many of these brands including Mondelez and Procter & Gamble fail to report on suppliers of raw materials used to make the paper and packaging used in their consumer goods products so we are unable to confirm if these brands also source from SMG's pulp and paper arm Asia, Pulp and Paper. Nestle, Mars, Colgate-Palmolive and Unilever do disclose their pulp suppliers. Nestle sources from APP's pulp mills in China, which use pulp sourced from Indonesia, and Unilever is highly exposed to sourcing from APP's highly controversial pulp plantations in Indonesia via suppliers in Indonesia and China.

Asia Pulp and Paper's Massive Fire Footprint

Since 2015, fires in APP concessions and those of its partners and affiliated suppliers have resulted in the largest burned area among any corporate group in Indonesia, but the company

has continued to flout measures necessary to avoid the fires. A [significant source of the fires](#) is APP's suppliers development of plantations on peatlands - extremely carbon-rich swamps that when cleared and drained become flammable and vulnerable to underground fires that are difficult to extinguish and can burn for weeks or months.

APP's three enormous pulp and paper processing facilities in Sumatra are supplied by a constellation of at least [38 pulpwood plantation](#) companies, nine of which the group acknowledges it "owns" and 28 it claims are "partners" exclusively supplying its mills (while APP has previously described these partners are "independent", there is considerable evidence that they have ties to the ownership/management of APP/Sinar Mas Group this is false and that they are controlled SMG).² APP's exposure to high risk suppliers is likely to continue into the future as it is determined to find new pulpwood suppliers to meet the massive appetite of its pulp and paper mills, including its new three million ton capacity PT. OKI mill in South Sumatra.

Seven of its current 'partners' were issued with compliance orders or had their licences temporarily frozen by the Indonesian Government due to extensive fires in their pulpwood plantations, between 2015-2018. Four of the same 'partners' were also issued with legal notices by the Singapore government on suspicion of creating dangerous levels of transboundary haze- notices that they have yet to comply with. Together, Greenpeace estimates the total burned area by APP subsidiaries, partners and suppliers is over [250,000 hectares](#) (2015-2018).

Last year saw thousands of fire alerts in several of the same APP partner concessions, [concentrated](#) within peatlands areas. Government regulations from 2017³ required AAP suppliers to revise their operations to restore and/or protect over 700,000 hectares of priority peat areas found in their concessions.⁴ A [2019 investigation](#) found that four APP suppliers had violated these regulations by continuing to plant on designated peat domes. These regulations were later [watered down](#) - likely in a compromise with industry - allowing companies to continue exploiting protected peat areas.

Evidence of Recent Fires

Instead of restoring fire-risk peatlands, APP's subsidiaries and partners suppliers have continued to clear and drain new areas of peatlands, totalling [3,500 hectare](#) since 2018, including areas within the priority protection and restoration zones designated by the Indonesian Government. Recent field investigations allege that this expansion has been accompanied by instances of burning. In July 2020, Riau-based NGO Jikalahari [filed a criminal report](#) with the Indonesian police against APP subsidiary [PT Arara Abadi](#). Geolocated [drone footage](#) taken on 3 July, a week after the fires burned inside its concession area, show still smouldering areas of

² <http://auriga.or.id/wp-content/uploads/2018/05/Removing-the-corporate-mask.pdf>

³ Minister of Environment and Forestry Regulation P.16/MENLHK/SETJEN/KUM.1/2/2017 concerning Technical Guidelines for the Restoration of Peatland Ecosystem Functions Restoration. Dated 27 February 2017.

⁴ See analysis in Environmental Paper Network, 2019, [Perpetual Haze](#), p13-14

peatland prepared for planting. Satellite imagery confirms that the area was forest in January, and was cleared and drained in the months preceding the burning. Hotspot data indicates this took place on 28 June. The burning of areas within PT AA is not only a violation of Indonesian regulations it is also a violation of APP's public commitments and policies. PT AA, is a [repeat offender](#), having had fires in its concessions every year since 2015, resulting in an estimated total burned area of over [12,000 ha](#).

APP [states that it](#) has a long-standing "No-Burning policy and its 2013 [Forest Conservation Policy](#) commits to protect forested peatland and prohibit canal and infrastructure development in non-forested peatlands in suppliers undeveloped concessions until HCV assessments are completed. The company also claims to implement a Peatland Best Management Practice approach and Integrated Fire Management System, but the PT AA cases shows that its failing to halt forest fires by a repeat offending company under its control. Concerns also arose recently when APP updated its [fibre procurement policy](#)—the policy that sets sustainability requirements for suppliers of virgin wood fibre sourced both locally and internationally—but failed to set strict requirements for "no-burning" or the protection of all peatlands and secondary forests.

In addition to fires, APP's subsidiaries and partner-suppliers have an [extensive](#) track record of community conflict and land rights violations, with over [100 active community conflicts](#). PT AA, the company alleged to have intentionally burned its plantation has a track record of violating indigenous peoples rights and [criminalizing](#) community members involved in these disputes. Earlier in March, APP subsidiary PT Wira Karya Sakti in Jambi allegedly used a [drone to spray crop-killing](#) herbicide on local community Lubuk Mandarsah's farms. The company also brought a military official to the contested lands who then opened fire in the air twice nearby the community, the latest tactic in a long history of intimidation against communities to get them off their land. Ninety local and international NGOs sent a [joint letter](#) demanding financiers and APP's buyers to end their business with APP.

Recently cleared and burned area in PT AA prepared for planting, Jikalahari, 03 July 2020



Palm Oil & Fires

SMG's palm oil division, known as Golden Agri Resources (GAR SGX:E5H) remains a culprit for fires within its landbank, and those of its third party palm oil suppliers, both of which overlap with vast peatland areas in Indonesia. While GAR has committed to stop developing and protecting peatlands and has a 'zero burning' policy, it has also reported incidents of fires inside its palm oil concession areas and acknowledges that fires and haze have a current and potential impact on its business.⁵

In 2019, satellite imagery and hotspot data show that August-September, three of GAR's plantations had fires with a total affected burned area of over 2,500 ha.⁶ None of these concessions, however, were sealed off by the Indonesian government and are seemingly not being sanctioned. There are also serious fire footprints through GAR's third party suppliers. In June 2020, Rainforest Action Network field investigators [documented](#) a mill supplying to GAR's palm oil refineries sourcing palm oil from a rogue palm oil producer that intentionally burning lowland rainforests in the Leuser Ecosystem—the forests [torched and found ablaze in March 2020](#) were critical habitat for Sumatran orangutans and elephants.

Satellite imagery showing fires in PT Agrolestari Mandiri, West Kalimantan

⁵ <https://goldenagri.com.sg/sustainability/sustainability-report/>

⁶ PT Primatama Kreasimas (1,158ha, Jambi), PT Kresna Duta Agroido (73ha, Jambi), PT Agrolestari Mandiri (1,398ha, West Kalimantan)



In September 2019, [GAR was exposed](#) for sourcing palm oil illegally produced in a nationally protected peatland area called Rawa Singkil Wildlife Reserve and a month later was [caught](#) sourcing from a mill being supplied by a company actively clearing nearby lowland rainforests. This month, GAR was also [exposed](#) for continuing to source from a company operating a palm oil plantation on lands stolen from the Pante Cermin communities without their Free, Prior and Informed Consent.

Corporate Governance Risks

Despite Widjaja family members retaining clear beneficial ownership and management of Sinar Mas Group entities like APP and GAR, they deny SMG operates as a corporate group. This strategy of utilizing nebulous, opaque corporate structures is present throughout their operations, and represents serious corporate governance risk for financiers, especially in light of the group's recent [history](#) of "highly-questionable" intra-group trading and related \$14 billion default to its creditors in 2001.

The group has a track record of disguising the true extent of its ownership and control over the most contentious companies within, or affiliated with, the group; those linked to deforestation, fires and rights abuses. For instance, while it was planning the construction of APP's enormous OKI Pulp Mill, the group [denied](#) that the companies developing the mill were not linked to them, despite evidence to the contrary.

In a potentially similar pattern, APP continues to deny that its fire-linked partner-suppliers are owned and/or controlled by the group. Yet there is a growing body of evidence that this claim is false. A detailed [analysis](#) of ownership and directorships by Koalisi Anti Mafia Hutan revealed that numerous directors of these so-called "independently owned and operated" suppliers are current or former employees of APP/Sinar Mas Group, and that many of the companies have been registered to Sinar Mas offices. In a similar fashion, another [investigation](#) found that SMG

had taken deliberate measures to disguise its ownership of two other companies in West Kalimantan, one of which had its plantation sealed due to fires in 2019.

The question of ownership over APP's partners has important implications for liabilities over the vast damages caused by fire and haze in Indonesia and Singapore. The Singapore government recently [confirmed](#) it still has open cases against four pulpwood plantation companies under the Transboundary Haze Protection Act (THPA) linked to their role in land fires and resultant toxic haze of 2015. The companies have not cooperated with the Singapore authorities and a director of one of the companies has an outstanding court warrant against him. All four companies are pulpwood suppliers to APP/SMG. This is another example of the serious corporate governance risk for financiers associated with the SMG.

For over five years since the adoption of sustainability policies from APP and GAR, SMG has consistently failed to stop forest fires in its landbanks and those of its third party pulpwood and oil palm suppliers. As a matter of urgency, all financiers must recognize the high level of risks associated with funding SMG's operations or its new ventures as it looks to expand its market share in forestry and agribusiness sectors and increase its stake in other sectors, such as the biofuels and bioenergy and markets. operations and influence.

What Can Banks and Brands Do?

Sinar Mas Group is routinely [failing to meet its core sustainability commitments](#); not only on fire and haze, but on land rights and conflict and zero deforestation. In the absence of effective government sanction for its various transgressions, financiers and brands need to engage with and exert leverage over the group. The most obvious place to start is to halt new financing and business with SMG and to demand transparency and require that the group disclose which entities it actually owns and controls (this has obvious benefits for banks in reducing corporate governance risks).

Secondly, banks and brands must adopt and fully implement, unambiguous No Deforestation, No Peatland, No Exploitation (NDPE) policies that require corporate group-wide compliance of any client, including the Sinar Mas corporate group. This policy must apply to all affiliated SMG companies, in addition to APP, GAR and PT AA. Thirdly, banks and brands must insist clients and suppliers - including SMG and its partners and suppliers - protect and restore peatland areas in their land banks, at a minimum ensuring peat areas designated by the indicative map produced by Indonesian Government Peatland Restoration Agency in 2016. For GAR, it is vitally important to end forest fires, and the destruction of lowland rainforests and peatlands of the Leuser Ecosystem.

Lastly financiers and brands need a clear zero-tolerance approach to burning, whereby if clients/suppliers intentionally start fires or are negligent in preventing them, then banks and brands must stop providing new lines of credit / business, and phase them out at clients / suppliers.

###

Additional images and evidence available on request.