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## “Pulping” the Local-Food

One of Indonesia’s pulp and paper giants, Asia Pulp&Paper (APP), is planning to build a new pulp mill to supply not only pulp to paper companies within the APP Group, but also to have its own paper production. The destruction of the peat lands where several of the villages that would be affected by the construction and operations of such mill are located could result in floodings and the disruption of long-established agricultural systems. Moreover, the continuous expansion of industrial tree plantation concessions into South Sumatra’s peat lands is already leading to increased air pollution, fires and increased social negative impacts.

Back in 2012, Asia Pulp&Paper (APP), one of Indonesia’s pulp and paper giants, announced their plan to build a new pulp mill with an installed capacity of 2 million tons annually. The mill, called “PT OKI Pulp&Paper”, was to be situated in South Sumatra Province, to be precise in Air Sugihan, Ogan Komering Ilir (OKI) District. The aim was not only to supply pulp to paper companies within the APP Group, but also to build its own paper mill. PT OKI was reportedly to become the largest pulp and paper mill in Asia.

The estimated investment needed for the pulp mill amounted to US\$2.6 billion. As the new company would further build a US\$500 million tissue paper mill, the total investment would stand at more than US\$3 billion. Part of the funds would come from a credit investment from China Development Bank (CDB), amounting to US\$1.8 billion. The credit agreement was signed by then-President Susilo Bambang Yudhoyono and Chinese President Xi Jin Ping in Jakarta during the Indonesia-China business luncheon on 3 October 2013 (1). The balance (US\$839 million) to build the pulp mill would be obtained from PT OKI’s shareholders.

According to the Letter on Investment Principles Permit from Indonesia’s Investment Coordination Board (*Badan Koordinasi Penanaman Modal*, BKPM) Number 361/1/IP/I/PMA/2012, dated 5 June 2012, all the needed capital would come from foreign sources, namely PT Muba Green Indonesia (99%) and Green Unity Holding Pte, Ltd (1%); both based in Singapore. The total investment of IDR23 trillion would come from its own capital (IDR250 billion) and a loan (IDR22.75 trillion). The mill was estimated to employ 2,200 workers, 200 of which were female.

The BKPM’s Letter also notes that PT OKI must provide its own electricity as well as avoid sulphite/chlorine bleaching and obtain raw materials from imports or the existing industrial tree plantation concessions, (e.g. the Timber Supply Cooperation Agreement between PT OKI Pulp&Paper Mills and PT Bumi Mekar Hijau, which has held a Timber Use Permit since 2004).

In South Sumatra Province, the Sinar Mas Group, one of the largest conglomerates in Indonesia that has APP as a subsidiary, has 8 industrial tree plantation concessions, managed by its local subsidiaries, namely PT Rimba Hutani Mas (67,100 Ha), PT Sumber Hijau Permai (30,400 Ha), PT Bumi Persada Permai (60,433 Ha & 24,050 Ha), PT Tripupa Jaya (21,995 Ha), PT Sebangun Bumi Andalas (142,355 Ha), PT Bumi Mekar Hijau (250,370 Ha) and PT Bumi Andalas Permai (192,700 Ha).

According to the public information available for the shareholders of PT Pabrik Kertas Tjiwi Kimia Tbk – the underwriter of PT OKI – the composition of shareholding of PT OKI Pulp&Paper is as follows: PT Muba Green Indonesia (29.42%), Perseroan (35.29%) and PT Pindo Deli Pulp and Paper Mills (35.29%). PT Pindo Deli Pulp and Paper Mills is the parent company of PT Lontar Papyrus Pulp & Paper Industry – a pulp and paper mill operating in the Jambi Province (2). The largest shareholder of PT Pindo Deli Pulp and Paper Mills, PT Purinusa Ekapersada (97.73%), is also the largest shareholder of PT Tjiwi Kimia Tbk (60%). So, it was a business deal within one business group – a low-risk and tightly controlled business model that provides guarantee and support for each other.

What needs to be scrutinized is the form and scheme of the funding. For example, the credit agreement with China Development Bank (CDB) involved two presidents – what was the status of the then-President Susilo Bambang Yudhoyono or Indonesia as a country in this regard? Indonesia was once severely struck by economic crises as a result of the enormous amount of foreign loans taken on by the private sector, in which the State has to bear all the consequences. The CDB itself is a Chinese government-owned bank and hence it is fully controlled by the Chinese State Council.

The province of South Sumatra, where PT OKI was to be built, has initiated a program called “South Sumatra: a National Food Barn”. The master plan has been developed. It sets out the mid-term planning of the provincial government, ambitiously aiming at achieving certain production targets of some important commodities: rice (2 million tons), corn (200 thousand tons), rubber (800 thousand tons), Crude Palm Oil (1.8 million tons), coffee (150 thousand tons), copra (70 thousand tons), cattle (623,740 heads), shrimp (35 thousand tons), farmed fish (28 thousand tons) and timber for pulp (10.3 million cubic meters) (3).

The inclusion of Crude Palm Oil and pulp in the master plan reflects dependency on large-scale monocrop models aimed at supplying export-oriented industrial giants. On the other hand, the environmentally and socially destructive natures of these monocrop commodities, which have no direct correlation with local food cultivation system, are not taken into consideration.

Several villages in Air Sugihan Subdistrict, OKI District, are potentially affected by the construction and operation of PT OKI, namely Suka Maju, Tirta Mulya, Sri Jaya Baru, Mukti Jaya, Bandar Jaya, Banyu Biru and Jadi Mulya. Most of the villages are situated on peat lands and grow rice, a local staple crop in Indonesia.

Let's take the Jadi Mulya village as an example, which is located in Parit 23 Block D, Air Sugihan. The villagers practice rain-fed rice cultivation and they built an integrated settlement that suits the characteristics of peat lands (i.e. building canals to regulate water circulation and provide water transportation). The villagers said that PT OKI would be built on peat land that, if not managed well, would flood the village, disrupting the long-established agricultural system. In addition, PT OKI would border the protected area home to crocodiles and several other endemic species. Another concern is the waste management – where would the company dispose of the waste? Dumping the waste into the river will greatly affect the local agricultural system.

A critical note from Friends of the Earth / WALHI - South Sumatra reveals that the expansion of industrial tree plantation concessions into South Sumatra's peat lands, including those in the OKI District, has led to increased air pollution. More than 500 fires were identified within the Sinar Mas Group's concession during August and September 2014 (4). A national daily newspaper also reported that the OKI District was among the most polluted in the province (5).

On 5 February 2013, Asia Pulp&Paper (APP), the parent company of the Sinar Mas Group, launched

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its Forest Conservation Policy (FCP), which is committed to low emission, which surely relates to land fire control. It is important for APP to publicly provide information on the impacts of the expansion of its industrial tree plantations (e.g. on the numerous land fires and increasing air pollution).

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(1) *APP dapat Pinjaman US\$ 1,8 Untuk Bangun Pabrik Pulp Terbesar di RI*, Okezone.com

(2) Annual Report 2009 PT Lontar Papyrus Pulp & Paper Industry

(3) Master Plan Lumbung Pangan Sumatera Selatan, 2005

(4) [www.walhi-sumsel.blogspot.com](http://www.walhi-sumsel.blogspot.com)

(5)

<http://news.metrotvnews.com/read/2014/11/03/313616/oki-tolak-dianggap-penghasil-asap-di-sumsel>