

**Greening the  
Supply Chain and Beyond:  
The Case of  
Asia Pacific Resources Holdings  
International (APRIL)**

**Indonesia**

Written by

**Chrysanti Hasibuan-Sedyono**

Vice Chair, Board of Management  
Indonesia Business Links

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## Executive Summary

This case is about the behavior of Asia Pacific Resources Holdings International (APRIL), a company which main production arm-RAPP - is in Riau Province, Indonesia. Contrary to the perception in the global market that majority of the Indonesian companies are ignorant or choose to ignore corporate social responsibility (CSR) RAPP as a part of APRIL is one of the few corporations in Indonesia which has made CSR an integral part of its business strategy and has regarded stakeholder engagement as a serious concern.

As a major producer of fiber, pulp and paper, APRIL believes that it has a fundamental role in developing ways to meet the world's growing demand for its products and at the same time integrating sustainability in its operations, as a seller in the global supply chain and as a buyer of raw materials.

The market and business review of pulp and paper indicates very good prospects. Nevertheless, APRIL is conscious of increasing customer awareness and concern with sustainability issues. APRIL recognizes that in markets where a commitment to environmental responsibility is fostered at the government level, customers want to be assured that relevant external standards are practiced by their suppliers. APRIL's commitment to sustainability and adherence to standards will differentiate the company and provide it a competitive edge.

APRIL also regards as a key challenge the general perception of overseas buyers that Indonesian business players act irresponsibly towards the environment. Therefore the company is very serious in greening the supply chain through various initiatives like protecting High Conservation Value Forest (HCVF) and developing the Mosaic Plantation Concept (MPC). Another challenge is the insistence of some buyers that the suppliers should have the Forest Stewardship Council certification which APRIL cannot have because it is automatically disqualified since its plantations were mostly developed after 1994. APRIL is addressing this by pursuing some initiatives, besides earning the national LEI certification on Sustainable Forest Management.

On the other hand, since APRIL believes that sustainability is key to its long term profitability, it has also imposed strict requirements on its suppliers to ensure that the supply chain is untainted. For example, it imposes the Pulpwood Legal Tracking system and works against illegal logging. Beyond that, APRIL also implements in other areas a number of CSR projects like the Integrated Farming System, SME Development, and social, infrastructure and educational programs.

The APRIL case demonstrates that the application of the Triple Bottom Line concept in the industry by managing forest resources into sustainable plantations that harmonize commercial, social and environmental development needs is a winning strategy.

## Introduction

Involvement in a global supply chain opens new opportunities for business, but at the same time imposes new challenges to meet international standards and rules. In particular, growing pressures on corporate social responsibility (CSR) issues – whereby business activities are scrutinized by various stakeholders – has become a very real challenge, so much so that some CSR aspects have been viewed as non-tariff barriers by some local suppliers. However, the practice of CSR throughout the global supply chain is considered inevitable and all players have to be prepared for its adoption.

Indonesia is an economy which is perceived as not being too concerned with intellectual property rights, labor practices, environment protection and having one of the lowest scores in the Corruption Perception Index (CPI) of the Transparency International. In other words, there is a perception in the global market that majority of Indonesian companies are ignorant or choose to ignore the CSR elements.

For this reason, APRIL (Asia Pacific Resources Holdings International), a company whose production arm -RAPP (Riau Andalan Pulp and Paper) - is in Riau Province, Indonesia, was deliberately chosen as the subject of the case study. Unlike typical Indonesian companies, APRIL is a player in the global supply chain, and one of the few corporations in Indonesia where CSR is an integral part of the business strategy and stakeholder engagement is taken seriously.

In the global supply chain APRIL is a seller of pulp and paper and at the same time a buyer of raw materials for its products. From the perspective of APRIL both as a buyer and seller, greening the supply chain is of utmost importance to ensure sustainability in the industry. Thus, APRIL has been very serious in greening the supply chain and has even established its own standards, as a means of building its competitive advantage. APRIL has also pursued CSR initiatives in other areas, some of which take into consideration the local and cultural aspects of the surrounding community.

The case of APRIL captures the responsible behavior of the company in doing its business as part of a global market where the customers are increasingly concerned that the products they buy should be produced in an environmentally responsible manner. Since APRIL believes that sustainability is key to its long term profitability, it has imposed strict requirements on its suppliers to ensure that its supply chain is untainted. The lessons learned which are shared through the case, hopefully will contribute to a pool of learning which other players in the APEC economies can draw upon.

## **APRIL Profile**

APRIL is Indonesia's leading producer of fiber, pulp and paper. It has forestry and mill operations in Riau province, central Sumatra. As a signatory to the UN Global Compact, APRIL embraces its responsibility to the communities within its sphere of influence. The company uses the influence that the scale of its operations has built up to promote development and advance sustainable growth in the areas where it operates. This has been done largely through the company contributions to the economy and the creation of employment opportunities.

APRIL's presence in Riau continues to be one of the reasons why people in search of a better life are attracted to Riau. As a leading economic force and major employer in Riau, APRIL provides livelihood to about 100,000 of the population. A study conducted by the University of Indonesia reported that in 2004, APRIL operations generated a total income of IDR 184.1 billion or USD 17 million for the local community, through direct and indirect employment.

APRIL embraces the sustainable development concept, and firmly believes that commercial, environmental and social imperatives must coexist. Its vision statement is:

*To be one of the largest, best managed, most profitable and sustainable pulp and paper companies in the world, and be a preferred supplier to our customers and the preferred company to our people.*

The APRIL Group comprises of:

- PT Riau Andalan Pulp and Paper (RAPP or Riaupulp), which has been operating since 1995 one of the largest pulp mills in the world in Riau, Sumatra, with a design capacity of

two million tons per year on a 1,750 hectares site, with fiber drawn primarily from government granted concessions.

- PT Riau Andalan Kertas (Riaupaper) which operates a 350,000 ton per year uncoated wood free paper machine.
- Asia Pacific Enterprises LTD (APEL) and APRIL Fine Paper Trading (AFPT), which markets the Group's pulp products and paper products, respectively

In 2006 APRIL had 3,713 Indonesian employees, 70% of them had been with the company for six or more years. Since the safety of employees is a key priority for APRIL, several initiatives have been implemented to maintain a culture of safety in its fiber plantations and within the mills. Since 2005, APRIL has obtained certification for its Occupational Health and Safety (OHSAS) Management System according to OHSAS 18001:1999 Standard. As a company which truly cares for its human capital, APRIL instills an instinctive belief in 'the APRIL way' of doing things and provides everyone of its people opportunity to develop themselves.

In 2005, APRIL established the Learning Institute (ALI) to take care of company-wide human resource development. Its mission is to ensure that the company attracts, trains and retains world-class employees and that the culture and competence of the organization support the sustainability, improvement and growth of APRIL. The ALI has adopted a Faculty Organization Model to reinforce its belief in self-empowerment and in quality rather than hierarchy. ALI development programs are designed to address one or more of the essential competencies required to enhance individual as well as organizational performance as reflected in the three APRIL Cultural Pillars (Customer Focus, Performance-driven and Proactive Teamwork), as well as in the 4Cs (Competence, Commitment, Character, Complementarity) and 4Es (Energy, Energize, Edge, Execution) models.

APRIL also realized that an intrinsic element of a sustainable business is a commitment to continual improvement, and as it has grown and developed, there has been a need to formalize its approach. To institutionalize continual improvement in APRIL, a new Business Continuous Improvement Department (BCID) was created in mid 2005 to effect sustainable continual improvement mindset through a standardized and formalized APRIL Improvement Management System (AIMS).

Under the AIMS philosophy, staff thinking and practice are expected to shift towards measurable and sustainable improvements. With support from the BCID team, the AIMS approach is being introduced company-wide. Following their training, individuals and groups of employees have proposed improvement ideas and projects. Approved ideas and projects are carried out and management gives appropriate recognition to successful proponents of these ideas. To support the embedding process, benchmarking among and within departments is undertaken and additional tools are provided.

Further, as a business operating in a sector with multi-stakeholders who might wish to know more about or even challenge what it does, APRIL has adopted the accessibility and transparency approach. Its "Open Door" policy allows all the stakeholders to observe the company operations and other initiatives first hand. The company also believes in understanding and learning the interests and concerns of its stakeholders, hence it regularly conducts dialogues with different stakeholders in various forms, including sending its own people around the world to meet with stakeholders. APRIL welcomes opportunities for constructive feedback and collaboration with interested stakeholders on issues of mutual interest. Engaging stakeholders at all levels has been the company policy right from the start.

## Market and Business Review

### *Overview*

Asia which includes China; India; Japan; and Indonesia, has 56% of the world's population and a market size exceeding that of the US or Europe. It is estimated that by 2020, Asia alone will require an additional 100 million cubic meters of fiber annually. In order to satisfy this demand, 3.5 million hectares of fast growing plantation will be needed. This provides an opportunity for Indonesian fiber producers, applying internationally recognized and certified forest management practices, to command a significant share of the potential market. As one of the major producers, APRIL markets to 56 economies. The Asia Pacific region is its largest market for both its pulp and paper products and Europe is its major market for paper. Japan is an important market accounting for about 15% share of APRIL's total paper sales.

### *Pulp Business Review*

Asia's continuing economic rise has led to the growth in paper consumption, which in turn has driven an increase in demand for Kraft pulp in recent years. With its strategically located manufacturing bases, APRIL is well positioned to take advantage of this high-growth segment. Coupled with an increasing industry appetite for sustainable supplies of BAKP (Bleached Acacia Kraft Pulp), as well as a favorable foreign exchange rate, its pulp sales grew by 15.6%, with market pulp volume increasing to 1.65 million tons in 2005 from 1.62 million tons in 2004.

Asia accounted for more than 80% of APRIL's sales volume in 2005, a marked increase from the 75% share of Asian sales in 2004. More notably, the company successfully grew the key markets of China and Korea, capturing significantly increased market shares in both countries: more than 20% in China and about 30% in Korea. The operations in Riau generated pulp production volume exceeding 1.9 million tons. Some 1.65 million tons were sold to APRIL's customers as market pulp and the remaining volume was used for the company's own paper production.

In 2004 and 2005, APRIL made significant headway in developing the market for acacia pulp, which increased its sales by 35% in 2005 alone. The expansion of the market was being helped by the growth of the digital print market which increased demand for higher resolution and quality color printing. With its unique fiber morphology, acacia pulp exhibits superior surface qualities compared to other hardwood pulp, making it an ideal raw material for printing paper. Acacia is now also recognized as one of the best choices for tissue as it is softer than other fibers.

The market for pulp continued to see major structural changes in 2004 to 2005. Older mills in the Northern Hemisphere increasingly failed to compete with the more cost-effective manufacturers in Asia and South America. While cost competitiveness is a key deciding factor, APRIL is increasingly conscious of customer awareness and concern with sustainability issues. APRIL recognizes that in markets where a commitment to environmental responsibility is fostered at the government level, customers want to be assured of relevant external standards practiced by their suppliers. Hence the company believes that its commitment to sustainability, and the standards it adheres to, will provide a point of differentiation and competitive edge to its business operations.

### *Paper Business Review*

Propelled by sustained GDP growth across the region and increased consumption in China and India, Asia also played a significant role in advancing the paper business. It is predicted that

within 10 years Asia, including Japan, will be as big a market as the US and Europe combined.

On a global scale, Asia represented a third of the worldwide demand for writing and printing paper in 2005. APRIL therefore focused its efforts on growing key markets in the region. As a result, sales volume of uncoated wood free (UWF) paper grew by 9% to reach 379,861 tons. The Asian market accounted for more than 64% of this volume in 2005, up from 56% in 2004.

One of the driving factors behind the strong performance of the paper business was the sales growth of its value-added products, folio and cut-size, which posted a volume of 293,397 tons or a 9% increase over the 2004 volume. Most notably, PaperOne, the company's flagship brand, saw demand climb by 17% in 2006 to reach 107,579 tons. This premium brand of office paper, which is made from 100% plantation fiber, currently sells in more than 50 economies and continues to enjoy growing demand. Its strong market performance reflects the product's superior quality and the increasing market preference for responsibly produced paper.

In 2005, APRIL continued to fulfill the demand for environmentally responsible, quality fine paper by delivering only products that were certified to be made from plantation fiber to markets that included Japan, Europe, Australia and the United States. The company was also recognized as having production methods with the most technologically advanced and environmentally efficient processes, especially when compared with generally older mill operations in the Northern Hemisphere.

With predicted average growth rates of 4% in printing and writing paper demand in Asia over the next four years, APRIL believes it is in a position to harness this opportunity through its reliable and environmentally sound production capability.

## **Opportunities and Challenges for APRIL in the Supply Chain**

As a player in the global market, APRIL is very conscious that its customers also face pressures from their stakeholders to buy only 'green' products, and greening the supply chain is a critical issue that is challenging but at the same time opening opportunities for a company like APRIL. Therefore APRIL is very serious about being a green company, producing only green products, and at the same time enforcing the same concept among its suppliers. This commitment explains why APRIL is passionate about doing the right things right, and communicating this to all the stakeholders.

### *Challenges to APRIL as Supplier*

As supplier of pulp and paper products, APRIL faces the following basic challenges:

- 1. The general perception of overseas buyers that Indonesia is an economy where the government does not care for the protection of its forest resources, and where business players behave irresponsibly towards the environment.** Indonesia is known for its lack of protection of the economy's rich forest resources from illegal logging and other threats which have destroyed ecologically valuable forests and compromised the development potential of communities. The World Bank estimated that if this condition remained unabated, irreversible damage to the environment and the people of Indonesia would take place in 2005.

A 2005 qualitative perception study conducted by an independent PR consultant, Edelman-Melbourne, among Australian stakeholders highlighted the cynicism that still existed towards environmental initiatives promoted by the Indonesian pulp and paper industry (“From time to time we’ll have a customer cancel an order of paper because it came from Indonesia”), though a considerable proportion of those interviewed conceded that external certification of environmental practices was having a positive impact. (“Finally the Indonesian industry realizes that to compete on a truly global scale it needs to be competitive in environmental as well as quality and pricing standards.”)

APRIL recognizes that in markets where a commitment to environmental responsibility is fostered at the government level, customers particularly want to be assured that the relevant external standards are practiced by their suppliers. While this poses as a challenge to the company, APRIL believes that by behaving responsibly, it can be an opportunity to develop a competitive edge. The company’s commitment to sustainability and adherence to standards will continue to provide a point of differentiation which will in turn benefit the economy and the people of Riau.

**2. The need to acquire the Forest Stewardship Council (FSC) certification, which is required by a number of global customers (e.g. five out of 50 buyers in the Japan market) and regarded by APRIL Sales/Marketing Director for Paper as a trade barrier.** As it is now, it seems impossible to get the FSC certification because one of the criteria is exclusion of all plantations established in areas converted after November 1994. Majority of APRIL’s plantations do not meet this criterion.

It is widely accepted that forest resources and associated lands should be managed to meet the social, economic, ecological, cultural and spiritual needs of present and future generations. Because of the growing public awareness of forest destruction and degradation, consumers demand that their purchases of wood and other forest products should not contribute to the destruction of forest resources, but instead help secure these for the future. In response to this concern, certification and self-certification programs of wood products have proliferated. In all cases, the process of certification is initiated voluntarily by forest owners and managers who request the services of a certifying organization.

The Forest Stewardship Council (FSC) is an international body which aims to promote environmentally responsible, socially beneficial and economically viable management of the world's forests, by establishing a worldwide standard of recognized and respected Principles of Forest Stewardship. The FSC accredits certification organizations in order to guarantee the authenticity of their claims.

The scale and intensity of forest management operations, the uniqueness of the affected resources, and the relative ecological fragility of the forest are considered in all certification assessments. Differences and difficulty in interpretation of the principles and criteria are to be addressed in national and local forest stewardship standards. These standards are to be developed in each country or region involved, and will be evaluated for purposes of certification, by certifiers and other affected parties on a case to case basis. If necessary, FSC dispute resolution mechanisms may also be called upon during the course of assessment.

The FSC trademark provides international recognition to organizations which support the growth of responsible forest management. Its product label allows consumers to recognize products that support the growth of responsible forest management worldwide. Over the past 12 years, over 84 million hectares in more than 82 economies have been certified according to FSC standards while several thousand products are produced using FSC certified wood with the FSC trademark. FSC operates through its network of National Initiatives in 40 economies.



To overcome this stumbling block, APRIL has been actively seeking accreditation from LEI (Lembaga Ekolabel Indonesia or Indonesian Eco Labeling Institute). Since 2004, the company has started the Certification Support Program (CSP) under the QUALIFOR Program of SGS (Societe Generale de Surveillance) using FSC principles and criteria.

### *Opportunities for APRIL as Supplier*

The following opportunities are presented to APRIL as supplier:

**1. Secure and faster supply because the fiber comes from their own plantations and those of their partners.** APRIL fiber plantations are located in Riau province, Sumatra, Indonesia. The plantations are in government land concessions granted for a period of 35 years plus one cycle of 326,340 hectares gross with a net plantable area (HTI) of 198,871 hectares as of June 2006. Additional plantations are obtained through joint ventures and joint operations (JV/JO) and community fiber farms (*HTR-Hutan Tanaman Rakyat*). Total accumulated net plantable area is 360,057 hectares, about 76% of which had already been planted.

**2. Compared to European plantations, APRIL plantations in Indonesia with its tropical climate, have more favourable production conditions and shorter production cycle (yielding harvest at a much shorter turnover).** The acacia plantations in areas around the equator such as Indonesia has a much lower turnover harvesting cycle (originally seven years), compared to pine plantations located in 4-season economies which need 30 years. The continuous research and development done at RAPP has even resulted in seeds which only take six years to harvest. This is definitely a significant competitive advantage for APRIL.

**3. APRIL's mills are relatively new and very modern, hence highly efficient compared to the older mills in the Northern hemisphere which are mostly over 20 years old.** APRIL's integrated pulp and paper mills at RAPP in Riau are benchmarked against the world's best. They have world class manufacturing facilities and practice clean and green production process. The modern, efficient mills at RAPP definitely contribute to cost efficiency. In addition, APRIL has the added advantage of having stable, secure and fast supply of raw materials for its mills since the plantations are company owned or partner owned.

### *Opportunities and Challenges for APRIL as Buyer*

As a buyer of raw materials, one major opportunity presented to APRIL is the **development of HTR or Community Fiber Farms**. APRIL does not receive logs from third parties. To meet its fiber requirements, APRIL develops Joint Venture/Joint Operation and HTR partners in each of its fiber estates, which is possible under the Government of Indonesia Regulations. The well-established contractual arrangements with community partners provide the company a guaranteed supply of fibers. As of June 2006, APRIL had 61 HTR partners, including those located within APRIL's concessions.

On the other hand, controlling the HTR partners and combating illegal logging are the major challenges that APRIL is facing as a buyer.

**Controlling the HTR partners.** The HTR partners naturally are subject to strict checks from the company which makes sure that its supply chain is untainted. While the APRIL staff provide advice and support to the partners, this has not always been easy because most of these partners have been used to the "slash and burn" type of operations, which is irresponsible but is definitely much easier.

The company staff and partners are both expected to persuade the wider community to believe in the value of conserving and protecting the natural and planted forests.

**Illegal logging.** Illegal logging in Indonesia occurs in a number of ways which are: a) logging without a permit, where trees are extracted openly by small scale chainsaw gangs and large scale well-organized operations using heavy equipment; b) smallholder farming, where forest land is cleared for agriculture without the required permit and the timber sold in the black market; c) excessive logging of forest concession, meaning over-cutting of trees from forest concession meant for selective logging; and d) misuse of logging licenses, where trees are cut from areas other than designated cutting blocks both from government forest and company-owned plantations, including APRIL's.

APRIL realizes that illegal logging is one of the biggest threats to Sumatra's forest resources and is therefore very serious in combating the practice, which is probably the biggest challenge, because very often it is perceived by the local people as getting in the way of economic opportunities for them.

## **Greening the Supply Chain**

Predictably, with Indonesia's reputation, the biggest pressure coming from APRIL customers are environment-related.

APRIL takes the environmental issue very seriously. The company believes that in Indonesia, leaving the forests alone is not an option since socio economic pressures would inevitably lead to their destruction over time. Through its operations and wider influence, APRIL has been working to protect the remaining high conservation value forest resources while developing renewable supplies of sustainable fiber to generate economic and social growth opportunities that the region needs and deserves. Likewise, APRIL is making sure that environmental related issues are also properly addressed in its manufacturing sector.

APRIL has pursued a number of initiatives to address the challenges and fulfill the requirements of the customer on greening the supply chain. The company believes that pursuing these initiatives would alter the buyers perception of Indonesian companies' irresponsible business practices.

### *APRIL as Supplier*

#### **A. Manufacturing Operations**

APRIL's integrated pulp and paper mills at RAPP in Riau are benchmarked against the world's best. The company constantly improves its operations to ensure the health and safety of the employees and the surrounding communities. Optimizing the mill's environmental performance is also integral to its commitment to sustainability.

Approximately 90% of total energy produced in the power plant comes from black liquor, a bio-fuel by-product of the production process, and the balance comes primarily from wood bark and rejected wood chips with some coal and oil. The pulp and paper mills use the most advanced technology and processes. Both mills have been awarded ISO 9001:2000 certification for their quality management systems.

The power plant, pulp and paper mills have ISO 14001:2004 certification for their environmental management systems. Throughout the production process APRIL applies the 5R policy – reduce, recover, reuse, recycle, replace.

#### *Environmental Management Rating*

The Indonesian Ministry of Environment in its Satisfactory Compliance checks awarded APRIL mill operations the “Green Rating” for PROPER 2004-2005. This is a significant improvement over the “Blue Rating” obtained in 2002 and 2003. The rating system is given as part of the national Program for Pollution Control Evaluation and Rating (PROPER), a public reporting initiative implemented by the Indonesian government to promote compliance with environmental standards and strengthen transparency. Under PROPER, industrial firms are evaluated by the Ministry of Environment for their environmental performance on indicators like air emissions, waste water management, and solid wastes management. The results are given in the form of a five-color rating scheme-gold, green, blue, red and black – and reflect performance ranging from excellent to poor. The Green Rating indicates that the company’s mill performance is 50 percent above legal standards and that the mills use technology that is clean and green, minimizes wastes, prevents pollution, and conserves resources.

## **B. Fiber Operations**

#### *The Mosaic Plantation Concept*

Indonesia’s highly diverse natural forests are shrinking at an extremely fast rate due to agricultural development, the establishment of all kinds of industrial plantations, and rural settlement. Since leaving the forests alone is not an option because of threats from illegal logging, forest fires, shifting agriculture, and poor forestry practices, the company strives to develop sustainably managed plantation forestry which increases forest productivity and eases pressure on the natural forests. APRIL is very serious in adopting the Mosaic Plantation Concept (MPC), and is committed to High Conservation Value Forest (HCVF) protection in plantation landscape, which it believes to be the best, if not the only way to stop forest degradation and loss in Indonesia.

The MPC is designed to integrate sustainable fiber production and environmental conservation while providing local communities with adequate natural forest (as source of timber and non-timber forest products and services) and land for livelihood. HCVFs are set aside to protect biodiversity and ecological and social values in plantation landscape. Under the MPC, the plantations are designed as integrated composites of fiber plantations, conservation areas, and community settlements. It incorporates fire prevention and control through the establishment of green buffer zones (e.g. riparian strips, greenbelts in the middle of the plantation and natural forest serving as wildlife corridors).

#### *Acacia Ring Concept*

Closely related to the MPC is the company's Acacia Ring Concept in which a ring of acacia is planted around the area of forest to be preserved to prevent encroachment by illegal loggers and the establishment of illegal plantations. It also provides employment to the local community. This innovative approach was first proposed to be applied in the Tesso Nilo forest complex to discourage elephants from invading nearby villages where crops may be damaged, villagers harmed and elephants slaughtered. APRIL was concerned, however, that the massive destruction in Tesso Nilo due to illegal logging and ‘slash-and-burn’ land-clearing would pose increasing

threat on the viability of the proposed Ring solution. The company has also proposed a similar approach in the Kampar Peninsula, a lowland area that has been targeted by illegal loggers and oil palm developers in recent years.

APRIL's strategy to manage forest resources by maintaining sustainable plantations balances commercial, environmental and social development needs. It focuses on the planet by conserving biodiversity and preventing environmental degradation; on the people by providing opportunities for social development and poverty alleviation; and on profit by ensuring a steady supply of renewable, high-quality and low-cost fiber. In developing well-managed mosaic plantations, the company can respond to the increasing fiber demand in Asia while enhancing and protecting the remaining HCV forests in Indonesia.

### *High Conservation Value Forest (HCVF) Protection*

Within every fiber estate in its concessions, APRIL has delineated at least 20% conservation areas and has committed that no fiber should be sourced from these areas and none of them should be converted to plantation.

This complements APRIL's decision to adopt a policy for assessing and protecting HCVF in its concessions. As a first step in the implementation of this policy, during the third quarter of 2004, ProForest UK implemented a program to develop the company's technical and operational capability to conduct a full HCVF assessment. The guidelines and standards drawn up by ProForest followed the Indonesian HCVF Toolkit which was developed in 2003 by the Rainforest Alliance and ProForest. This in turn reflects the principles established by the Forest Stewardship Council (FSC) in 1999. After the training, the company formalized its commitment to identify, protect and manage HCVFs in its new concession areas within its Environment, Social, Health and Safety Policy.

By taking this step APRIL has become one of only two companies in the global pulp and paper industry to make a public commitment to protect HCVFs.

### **C. Control of Fire and Haze**

To control fire and haze, APRIL adopted the following measures:

#### *1. Greenbelts to help stop forest fires*

The spate of forest and land fires in Riau demonstrated the importance of greenbelts in protecting fiber plantations by putting a break on raging fires.

In February 2005, a fire that started from the adjacent community, crossed over to the APRIL acacia plantation in Mandau Fiber Estate. The fire spread rapidly due to very dry and windy conditions brought about by a prolonged dry spell. The blaze was contained because of early detection and quick response by the Fire and Safety Teams and contractors. However, it was observed that the fire could have spread had there not been a 200-meter wide forested greenbelt to cut off the rapidly spreading three-meter high flames. The fire ran almost 1.5 km through an 8-month old acacia plantation before being stopped at the greenbelt. The shade and moist vegetation of the natural forest trees stopped the fire from spreading. This incident demonstrated how the greenbelt acted as a break, allowing fire-fighting teams to prioritize their fire suppression efforts on areas that were threatening the acacia plantation.

## 2. “No-Burn” Policy and Haze Prevention

APRIL has employed a ‘No Burn’ policy from the very outset of its operations and considers the slash and burn form of land-clearing as detrimental to the company’s operations. In developing its fiber plantation, the company uses only mechanical methods to prepare the land for planting because woody biomass provides a source of long-term soil nutrients and protects water quality. It also prevents mixing of the carbon from fire residues with the wood chips needed for pulp and paper production. Hence, APRIL plays its part in eliminating smoke/haze in Indonesia for the protection of air quality.

On 10 May 2006, with the endorsement of the Indonesian Government Ministries of Environment and Agriculture, APRIL and its partners, as well as other private companies in Riau, signed the Joint Declaration on Stopping Forest and Land Fires. This event was in response to the call of Indonesian President Susilo Bambang Yudhoyono to stop the “export of haze” during World Earth Day on 22 April 2006.

### **D. Conservation**

APRIL readily accepts the responsibility to conserve as well as to develop its operations in an environmentally sustainable way. The company has taken major steps in earning external recognition for its conservation policies and practices and hopes to show others that it is possible to combine commercial considerations with the preservation of unique environments for future generations.

### **E. Sustainable Forest Management**

In 2006 APRIL became the first and the only plantation forest company to attain certification under the Lembaga Ekolabel Indonesia (LEI) standards. The LEI is a multi-stakeholder body that comprises communities, NGOs, industry and eminent persons in Indonesia. Its certification standards are supported by the ITTO and other international organizations. This certification is expected to bring concrete assurance to the company’s customers that the fibers used in the manufacture of its pulp and paper products come from plantations that are nationally certified as sustainably managed.

This achievement affirms APRIL’s leadership position in sustainable plantation forest management in the region and brings it closer to its goal of international forest management certification. To address the insistence of certain buyers on FSC certification, APRIL is continuing with its Certification Support Program (CSP) on applicable FSC Principles, Criteria and Indicators with SGS which started in 2004. Its target completion date for the CSP is end 2008. Completion of the CSP-FSC will not entitle APRIL to a formal issuance of an FSC Certificate, though, because of FSC Principle 6.10 and 10.9 which allows only limited forest conversion (FSC 6.10) and no plantations developed after November 1994 (FSC 10.9) from forest conversion shall be qualified to be certified under FSC.

Nevertheless, despite the fact that no formal FSC certification will be issued to APRIL by completing the Certification Support Program (CSP)-FSC, APRIL keeps on implementing the program to benchmark its forest plantation management practices against the FSC standard and demonstrate that its forest plantation management practices satisfy FSC Principles & Criteria except FSC Principle 6.10 (contradicts Indonesian Government official policy on forest conversion) and FSC Principle 10.9 (which is just a date; not a performance criterion). Through these efforts APRIL expects to encourage the FSC to review its principle which disqualifies the company from fully pursuing FSC certification.

## **F. Embedding Sustainability Practices**

In order to ensure that its commitment to sustainability should become firmly established within both culture and practice, APRIL adopted the Environmental, Social, Health and Safety Policy (ESHS Policy) in February 2005. The company determined that this policy should become the living expression of its commitment and therefore should be reviewed as knowledge and experience grow. The first revision of the policy was done in June 2005 when APRIL adopted the policy towards its HCVF commitment.

The ESHS Policy commits APRIL to the following:

- Creating national wealth and renewable raw material on land designated by the government for fiber plantation development; and supporting the government to reach and maintain favorable conservation status in the regions where it operates.
- Ensuring that only legal pulpwood enters its fiber flow and supporting the government's fight against illegal logging.
- Managing the concessions in a sustainable manner by applying the MPC to produce fiber, and to maintain or enhance representative natural ecosystem in the concession.
- Promoting and protecting the health, safety, and well-being of its employees, contractor personnel and the surrounding communities; continual improvement of Environmental, Social, Health and Safety performance; and achieving sustainable forest management certification.

Each aspect of the policy is supported by well-established practices and procedures which reflect external standards where applicable.

### *APRIL as Buyer*

#### **A. Fiber Sources**

As stated before, APRIL does not receive logs from third parties. Instead it develops fiber farms with local community farmers as partners which will supply the needed fibers to the company, hence making sure its supply chain is untainted. And the partners undergo strict control from the company as elaborated underneath.

#### *Community Fiber Farms (HTR)*

APRIL has well-established contractual arrangements with community partners in each of its fiber estates. Aside from providing the company with a guaranteed supply of fiber through these partnerships, the communities also become self-reliant through the management of their own fiber farms. APRIL plantation staff provide advice and support and, with the partners, help to persuade a wider community of the value in conserving and protecting the natural and planted forests.

As of June 2006, APRIL had 61 HTR partners, including those which are located within its concessions.

#### **B. Acacia Chain-of-Custody (CoC)**

APRIL has implemented the Acacia Chain-of-Custody (CoC) System since 2004 to monitor, trace, document, and independently verify the flow of acacia fiber into its mill operations. The Acacia

CoC System is consistent with its Wood Purchase Policy which is part of the overall Wood Tracking System, established to prevent illegal pulpwood from entering its supply chain.

As a further step in this direction, APRIL commissioned Rainforest Alliance Smartwood Program to carry out FSC CoC and Controlled Wood assessment. Started in late 2005, the assessment is now in progress for fiber and mill sectors.

### **C. Pulpwood Legal Tracking System**

To ensure that all pulpwood coming from JV/JO and HTR has come from an approved source, APRIL has a Legal Wood Tracking System to verify legal source and origins. It uses a mechanism called Request for Contract (RFC), serving both as an application form for a pulpwood supply contract with the company and as a verification document to evaluate the application. Both documentary and field inspections are carried out to determine that suppliers have complied with all the legal requirements and APRIL's policy.

In November 2005, the company incorporated new requirements into the RFC system in line with the HCVF and the FSC standards relating to non-FSC certified controlled wood entering the supply chain. Under these new requirements, APRIL will not accept any wood from identified and delineated HCVFs. In addition, the company will not source any wood harvested from any of the following FSC source categories:

- Wood from forest areas that violate traditional or civil rights
- Wood from non-FSC certified forest areas that have High Conservation Value (HCV)
- Wood from genetically modified trees
- Wood illegally harvested
- Wood harvested from areas which have been converted from natural forest to plantations which are inconsistent with government-approved land use plans

The third Wood Tracking Audit was carried out by SGS in February 2006. In addition to the normal audit, SGS conducted diagnostic steps towards eventually assimilating FSC controlled Wood Standard into the Wood Tracking System. APRIL wanted the February 2006 SGS Audit to verify its compliance with the FSC Controlled Wood standard, in addition to checking existing standards and procedures. While noting some corrective actions, SGS concluded that the company was moving towards compliance with the FSC Controlled Wood standard. A formal audit on FSC CW had since been implemented with Smartwood and APRIL is awaiting the assessment result from the certification body.

### **D. Combating Illegal Logging**

APRIL realizes that illegal logging is one of the biggest threats to Sumatra forest resources. The best hope to conserve Sumatra's forest resources depends on sustainable forest management, which protects environmental values while generating social development opportunities for the local people.

Apart from its own unceasing efforts to stop illegal logging in its concessions and to secure the integrity of its fiber supply against illegitimate sources, APRIL has been actively participating in multi-stakeholder initiatives to identify preventive initiatives. The company realizes that it cannot halt illegal logging on its own and needs support from law enforcement authorities. APRIL also continues to develop relationships with other key stakeholders and further strengthen its collaboration with WWF.

Taking the matter beyond the discussion halls, in 2005 APRIL carried out a series of security actions against illegal logging along the Ukui-Gondai Access Road, located on the eastern boundary of the Tesso Nilo Forest in Riau. Working together with the Task Force that includes WWF Indonesia and concerned government authorities, strategic checkpoints and composite patrols were organized, reinforced by the blocking or cutting off of access roads used by illegal loggers.

Despite protests and even threats of force against the company, APRIL remains firm in its resolve to help combat illegal logging in the areas over which the company has responsibility. APRIL understands that economic necessity generally underlies the proliferation of this illegal activity. However, through the company operations, APRIL generates 35 direct and indirect jobs for every 100 hectares managed. These provide a legitimate livelihood option to people who might otherwise engage in illegal logging.

## **CSR in APRIL**

APRIL is one of the few companies in Indonesia where CSR is already built into the company strategy, and APRIL has earned recognition and awards from various institution for its various CSR programs, the most recent one being the “Asian CSR Award of Excellence in Poverty Alleviation” granted to RAPP (the production arm of APRIL) by the Asian Forum on CSR 2007 in Ho Chi Minh City held in September 2007. RAPP is also the first and only Indonesian company accepted as member of the World Business Council for Sustainable Development in 2007. While greening the supply chain might be the obvious strategy for the sustainability of the company, APRIL has gone way beyond. For APRIL, CSR is the way of doing business, since it believes in the inseparable values of people, planet and profit.

The company’s commitment to sustainability has been reflected in various CSR programs of nature conservation mentioned above such as fire and haze prevention, combating illegal logging, and clean and green production process intended for greening the supply chain (planet-related). The profit-related elements are implemented by doing business responsibly and practicing good corporate governance. The people-related CSR initiatives are reflected in the wide-reaching community development programs and other programs discussed below.

### *CECOM Programs*

APRIL believes that the natural partner to the development of sustainable forestry is the creation of a commercial environment in which the local community can also prosper. This continues to be the principal objective of its community development program which encourages self-empowerment by developing skills and a livelihood base that are self-sustaining

To develop self-sufficient communities through partnerships between the company and the local government, universities and non-governmental organizations, the program focuses on:

- transferring skills to local people to enable them to be self-sufficient and develop at a pace they can handle;
- contributing to social infrastructure development; and
- participating in fostering good governance in newly formed local district government units.



APRIL used to implement its massive CD program on its own, employing over 100 CD officers as facilitators. To create a positive impact on the broader community for future generations, the company established in July 2005 CECOM (Care and Beneficiaries of APRIL CD Program Empowerment for Community), an independent local foundation and non-profit organization, created to enable its programs to grow beyond their own capabilities by allowing partnerships and involvement with other parties.

APRIL will eventually turn over responsibility for relevant programs to CECOM. It currently provides the funding, management and human resource to enable CECOM to become self-functioning. This move was also made to distinguish between forestry and non-forestry related support by being open to those partnerships that, while generating value for the community, are also integral to its business. Over time, CECOM is expected to make the community understand the benefit of properly managing local resources and developing locally based, vibrant economies. Likewise, CECOM will encourage greater partnership and participation between employers and the community to train and develop the skills of the local workforce.

CECOM programs include the Integrated Farming System (IFS) which offers training on horticulture and livestock rearing, freshwater fish farming, composting and waste recycling, and food processing in four training centers in Riau. The farmers are also given cattle and/or fish, fertilizer, seeds and pesticides. They will in turn conduct the training in their respective villages, and this strategy has significantly increased the number of IFS farmers to 3,819 in 99 villages in 2006.

Another program is Support for SME Entrepreneurship, which APRIL helped to establish for SMEs in areas not related to its business-ranging from tailoring, weaving, beauty salons and bakeries to a motorcycle workshop, dynamo rewinding, brick making, and bee honey production. The individuals starting these new businesses join APRIL's Vocational Training Program, which is another program that CECOM implements under Capacity Building.

APRIL also has various social and infrastructure programs, educational and sport programs, and religious and cultural support programs in their CSR portfolio.

### *Community Involvement Program*

#### *Working in Partnership*

The company continues to encourage the establishment of SMEs in lines of work directly applicable to its needs such as pallet production, plantation development, construction, landscaping, general supplier, and transportation. These business start-ups have the same access to advice and funding through the cooperative schemes with local banks facilitated by the company. By 2006, this particular program has created 1,300 jobs among 101 partners.

#### *Community Fiber Farms (HTR)*

APRIL's Community Fiber Farm Program develops unmanaged lands into acacia plantations through joint ventures with the villagers. The company provides start-up and technical support and offers villagers a 40% share in production on dry lands and a 30% share on lowlands. The scheme runs for up to six rotations, or approximately 40 years. By integrating Community Fiber Farms into its operations, farmers are given alternative means of livelihood other than illegal logging. As of June 2006, APRIL had a total of 61 HTR partners and some 26,000 hectares planted with acacia.

In 2005, APRIL's community programs received the Indonesian CSR Awards, Asian CSR Awards in Environment in Thailand and the Asian Forum on CSR Awards for its Community Fiber Farm program. The program was also cited as Best Practice in Social Program for all industries in the 2005 Asian CSR conference in Indonesia.

## **Conclusion**

APRIL's business model (founded on the inseparable values of people, planet and profit) adopted in the supply chain, brings out the following learnings:

- In renewable resource industries like pulp and paper, stakeholder pressures are very real issues; to address them positively by greening the supply chain will provide significant competitive advantage to the company.
- Sustainability is key to long term profitability. It reinforces the company license to operate and expand, creates competitive edge for its products as it responds to a global market growing in environmental consciousness, and helps build trust that enables access to resources.
- Application of the triple bottom line concept in the industry by managing forest resources as sustainable plantations that harmonize commercial, social and environmental developmental needs:

**Profit** - Ensuring a steady supply of renewable, high quality and low cost internationally-competitive fiber, hence ensuring healthy profitable business;

**People** - Providing opportunities for social development and poverty alleviation; and

**Planet** - Conserving biodiversity and minimizing environmental degradation

is a winning strategy.