

CSR update

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SGS Audit Confirms Full Tracking

of Acacia from Plantations to Mill

By Sharon Chong, Eliezer Lorenzo

APRIL's Acacia pulp and paper products are produced from fiber harvested from plantations developed and/or managed by the company and its partners. This was confirmed by the results of the Acacia Chain of Custody (CoC) System Audit conducted by Societe Generale de Surveillance on 20-22 April this year.

The Acacia CoC System ensures that the flow of Acacia fiber from the plantations to the mill can be reliably monitored, traced and documented. Through this System, Acacia wood can be identified and segregated from the mixed hardwood (MHW) at any point in the plantation-to-mill production chain. It is consistent with APRIL's Wood Purchase Policy and part of the overall Timber Tracking System, which was established to prevent illegal wood from entering the supply chain.

The SGS Audit was conducted to:

- Verify that APRIL has a CoC System for segregating Acacia from other wood materials during harvesting, delivery, receiving, processing, and product finishing
- Evaluate and confirm that controls exist at all critical control points within the CoC System to allow production and clear identification of Acacia products that are sold to customers.

Strengths

The results identified APRIL's main strengths in the process controls and harvesting-delivery-receiving stages, concluding that:

- APRIL has a CoC System in place which identifies and segregates Acacia from MHW throughout the processing chain.
- The System is effectively implemented where controls exist at all critical control points to prevent mixing. Acacia pulp and paper are clearly distinguishable from those produced from MHW. This is based on the production system and confirmed by physical quality check.
- Documentation is adequate and allows tractability of the raw materials back to the origin. Additionally, the online computerized system enables immediate rejection of materials with wrong identification or documentation.

Areas for Improvement

Based on its evaluation, SGS recommends that APRIL:

- Integrate and formalize the SOPs for the CoC System and include a clear functional organizational chart
- Strengthen the System to allow continuous tractability of materials to a harvesting compartment (block) both at the depot and at the laydown/stockpile area in the mill
- Adopt a system to avoid storing both Acacia and MHW in the same stockpile area.
- Include a CoC System statement in the sales documentation.
- Maintain summary records to be made available at every surveillance visit on raw materials received, raw materials issued to production, and products manufactured and sold.

Listening and Responding

APRIL Meets with NGOs in Europe | By Sharon Chong, C.P. Munoz

As part of its ongoing strategy of pursuing constructive dialogues with critical NGOs, APRIL participated in a meeting in Berlin, Germany on key social and environmental issues concerning its forest management operations in Indonesia.

Led by Robin Wood, an international environmental NGO, the meeting was also attended by representatives of Papier Union, APRIL's paper customer in Europe, and other NGOs, including WALHI, RobinWood, Watch Indonesia, ProRegenwald and the Community Alliance for Pulp & Paper Advocacy (CAPPAA).

Below are some of the concerns raised during the dialogue and APRIL's responses to these:

APRIL continues to destroy natural forests in Indonesia.

APRIL does not destroy the natural forests of Indonesia. Our plantation development activities are conducted mostly in degraded areas zoned by the Indonesian government for industrial plantation purposes. Last year, APRIL reforested about 52,000 hectares, bringing the total aggregate area of sustainable tree plantations to more than 200,000 hectares.

Illegal logging activities continued in Tesso Nilo and APRIL's collaboration with WWF did not protect the forests in Tesso Nilo from illegal logging.

Illegal logging is a problem rooted to poverty and weak law enforcement. It is not only prevalent in Tesso Nilo (TN) but throughout Indonesia. APRIL is committed to the enforcement of its wood purchase policy that only accepts wood with valid licenses and permits.

APRIL has instituted strict controls over its wood supply that comes from its main sources: concessions, joint

ventures, and community plantations. Third-party purchases, comprising less than 1% of total wood supply as of end June this year, also are monitored using equally strict standards. APRIL has long-term supply contracts with legitimate timber harvesting licensees. We do not make spot purchases at the mill gate.

Improvements in APRIL's wood purchase system were confirmed by Societe Generale de Surveillance (SGS) during their audit conducted on 19 to 24 May 2003. This latest audit was a follow-up to the first assessment which SGS conducted in October 2002, with assistance from WWF Indonesia. The 2002 and 2003 audits showed that no undocumented wood entered APRIL's system.

Aside from the alliance with the Indonesian Government and WWF to combat illegal logging in Tesso Nilo, we also support WWF's call for the re-classification of Tesso Nilo forest as a National Park. Covering more than 100,000 hectares, the area will serve as a sanctuary for Sumatran elephants, tigers and other wildlife. An Acacia fence shall also be developed to provide a buffer between the natural forest and agricultural activities, and between the villagers and the elephants.

APRIL denied the rights of local communities to live in forests and to utilize forest resources for their livelihood.

We develop plantations in concession areas under licenses awarded by the Indonesian government. Where indigenous communities exist within our concession areas, their habitats are maintained in accordance with Indonesian laws.

We seek to resolve all land claims as quickly as possible while ensuring we do so in a socially responsible manner. This has been independently verified by Societe Generale de Surveillance (SGS-UK) in 1998.

And a more recent audit conducted this year by Proforest confirmed that we have a clearly defined process for resolving land claims. The report also noted that there is no evidence of the use of coercion at any point of the resolution system. The auditor, however, recommended that we involve not just the village heads but also other members of the communities in the process.

APRIL violates some of the Indonesian laws that seek to protect the resources of the country.

APRIL operates legally in areas allocated by the government for plantation development. Prior to any land development activities, Indonesian regulations require every plantation development company to conduct environmental impact assessments (e.g. AMDAL) of the areas under its care, feasibility studies, as well as annual development plans that must be approved by the authorities. APRIL has met all these requirements. Our policy is to strictly comply with all legal and other regulations guiding forest operations in Indonesia.

APRIL causes air and river pollution.

The use of state-of-art manufacturing processes enables APRIL to meet and exceed the environmental specifications of national and global standards. Our operations in Kerinci, Riau, Sumatra continue to be health-friendly, bearing no adverse impact on the health of the surrounding communities.

- The water quality of the Kampar River into which treated mill effluents are discharged remain safe; and
- The ambient air condition in the locality, despite the mill emissions, is within acceptable levels.

We collaborate with various institutions and NGOs on community health and environmental issues, including:

APRIL Receives SUPER Award for Environmental Performance

By Sharon Chong, Edward Wahab

The Governor of Riau has conferred the SUPER Award on APRIL for its full compliance with the criteria instituted by the Indonesian Environmental Impact Management Agency (Bapedal – a government institution).

The environmental agency paid a surprise surveillance visit to the APRIL pulp and paper mill in early April and conducted various checks and evaluations on environmental management systems, including the mill's effluent discharge system - spillage control and sewage systems. The team concluded that the levels of BOD, COD, TSS and pH are within the parameters of the Indonesian Environmental Management Program.

Periodic checks will be carried out to ensure that companies adhere to the Indonesian laws. On companies that failed to observe these environmental regulations, the agency would make recommendations to the Riau Governor to have their operating licenses suspended.

National University of Singapore on the relationship of river water quality to skin conditions of villagers living in areas along the river, and the respiratory health of six villages; the Finnish Environmental Research Group (MFG-Finland); University of Riau; and Yayasan Mandiri (a local NGO) on the aquatic biology and quality of the nearby Kampar River.

Youth's Aspiration Fulfilled through Vocational Training By Audrey

His motto, “when there’s a will, there’s a way,” paved his way to success. At 22, Fachri is one of the youngest entrepreneurs in Pekanbaru (capital city of Riau Province), running his own motorcycle repair shop.

He started a small workshop two years ago and has since expanded to a more spacious shop with two mechanics to support his growing business.

Fachri had set his eyes on an automotive career since his junior high school days and had planned to study in the Technical Senior High School but was instead persuaded to enroll in the General Senior High School. After graduation, he took up the job of a public bus driver.

His dreams of an automotive career remained until he finally found the opportunity to pursue his aspirations while praying at the mosque one fateful Friday. “There was an announcement about APRIL’s vocational training program in automotive. I was ecstatic and jumped at the opportunity immediately! What moved me most was that I was able to sign up for the training with full blessings and support from my parents. I guess they were touched by my zeal,” Fachri recalls.

Fachri diligently attended the three-month automotive course in Pekanbaru that ran daily on weekdays from 7am to 5pm.

During the course, Fachri was able to focus on his training without worries of livelihood or course fees as accommodation and other expenses were fully covered by APRIL.

Fachri appreciated most the course’s pragmatic approach. “Our training was not limited to just theoretical lessons or workshops. We were also given skill application opportunities – we went out into the streets and offered our ‘amateur’ mechanical skills to motorists for free under the supervision of our trainers.”

Fachri did his parents proud – he graduated as the best trainee in his batch. Moved by his talents and determination, Fachri’s uncle unconditionally offered him financial assistance to start a small

auto-mechanic shop in the village. APRIL complemented this with equipment support. His fledgling business served an average of eight customers a day and after three months was able to establish a foothold in the village even among the more established competitors.

Initially, his income from his repair shop was similar to his previous job but he was contented. “Running my own business gave me so much satisfaction – I earned my own living and picked up business management skills at the same time. The sky’s the limit – I believe my business has a lot of potential to grow.”

Indeed, Fachri’s drive to succeed, coupled with good business sense and prudent management, enabled him to upgrade to a larger workshop and to afford two employees just after a year. “With a larger space and more help, I am able to serve more customers with more and better services.”

Though the recent economic slowdown in the region affected his business, he remained undaunted. The entrepreneur in him recognized opportunities amidst the crisis. “I envisioned that the future of my business is not in the village but in bigger and more established towns like Pangkalan Kerinci or even Pekanbaru. There are more motorists there and the range of services needed is wider,” he said resolutely. Despite his achievements, Fachri remains a modest man. He maintains close relations with his trainer and now mentors his 17-year-old brother, a school dropout, in automotive skills. He hopes his younger brother will take after him and eventually carve out a career in automotive.



Fachri is one of the youngest entrepreneurs in Pekanbaru.

APRIL Intensifies Fire Prevention Drive | *By Bradford Sanders*

APRIL has put on alert its firefighting and prevention team to control fire during this dry season. As part of APRIL's strategies of prevention and preparedness, fire response teams have been trained and positioned in each of its 10 plantation sectors in Riau to ensure active detection and rapid response to any fire occurrence that threatens its forest plantations. Company security patrols also help in detecting, reporting and attacking fires, while contractors are required to have firefighting training and equipment at the work sites.

The company recently purchased a US\$90,000 Airboat to ensure quick response and monitoring in lowland plantation areas. This was in addition to more than US\$500,000 worth of specialized water pumps, hose and other firefighting accessories acquired in 2003.

As a result, fire incidents over the past two months in APRIL's operations have been immediately contained and limited to a few hectares. These incidents have been caused by accidents and community land-clearing fires near its areas of operation.

The annual dry season from June to September is usually the period for community land-clearing fires despite the ban from the Indonesian Government on the use of fire for land preparation after the devastating fires in 1997. These fires result in the proliferation of smoke and haze in the environment, which endangers the health of the communities, as well as pose fire hazards to the forest plantations.

"Often forestry management companies like APRIL are mistaken by the public and environmental groups to cause these fires despite our strict implementation of the No-burn Policy since 1994," states Bradford Sanders, Fire, Health and Safety Manager of APRIL. Aside from

environmental considerations, APRIL's No-Burn Policy enables maximum economic value as trees harvested from areas authorized by the government for plantation development are used as pulpwood and not burnt. Forest residues, like stems and leaves, also are not burnt but spread evenly over the areas to minimize erosion and return nutrients to the soil.

The company's forest plantations are designed to have greenbelts, natural forest buffer zones, and water management systems in lowland areas, as further fire control measures. Training of the fire and safety staff in the 10 sectors is conducted quarterly. Presently, as part of its external assistance in upgrading firefighting skills, APRIL is conducting a one-month training for six Dinas Kehutanan forest guards from the Integrated Forest Fire Management Project (IFFM) in Samarinda, East Kalimantan.

As a co-founder of the Haze Prevention Group, APRIL cooperates with the local governments and helps promote the adoption of the No-Burn practice among forestry and agricultural companies in Indonesia.



The use of the airboat can substantially improve the response time for fire crew to arrive at the scenes of reported fires.

Community Development Program Receives National Recognition

By Sharon Chong, Rudi Fajar

Reaching out to the villagers and farmers of Riau, Indonesian President Megawati Soekarnoputri led a dialogue with the leaders of the Riau community in a visit to APRIL's Community Development Training Center on 28 May.

Over 5,000 community members, including government officials and members of the local and national media, attended the event. In her message, President Megawati emphasized the importance of corporate citizenship and cited APRIL's Community Development (CD) program as a model of sustainable development in action. The President further called on other businesses whose representatives were in attendance during the event to organize similar community support programs.

In further appreciation of APRIL's CD initiatives, President Megawati, together with the Minister of Forestry M. Prakosa, Minister of Manpower and Transmigration Jacob Nuwawea, and Governor of Riau H. M. Rusli Zainal conferred on APRIL the Award of Community Empowerment from the Ministry of Forestry.

APRIL won the citation specifically for the Community Tree Farm (Hutan Tanaman Rakyat or HTR) component of its CD program. Under the HTR, APRIL partners with villagers to jointly develop their lands into Acacia plantations. The company works on the land, provides seedlings, fertilizers, chemicals, and training, and maintains the plantations at its own costs. At the end of each seven-year rotation, the villagers profit under the program's benefit-sharing scheme. As of end March this year, some 2,375 hectares have been developed into Acacia plantations under the HTR.

"Our objective is to help achieve a qualitative improvement in the overall quality of life of the communities in Riau



Elyas, APRIL's Community Development Director, shows the guests led by President Megawati the various agricultural produce from its organic farms that are based on Integrated Farming System (IFS)

through economic empowerment and social infrastructure support. This is part of our sustainable approach – we balance the pursuit of growth with social and environmental values," states Ibrahim Hasan, Vice President for Corporate Affairs.

Aside from the HTR, the CD program includes integrated farming system (IFS); social infrastructure contribution in the areas of education and health care; support for small and medium enterprises; and development of vocational skills through training. As of end June 2004, 2,055 participants from 73 villages have benefited from the IFS training on the latest techniques in animal husbandry (cattle breeding and rearing), cash-crop cultivation, and fish farming.

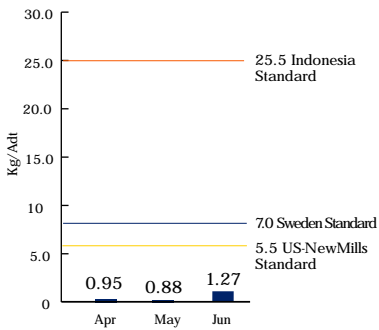
Following President Megawati's call for more community involvement, nine major Indonesian corporations visited APRIL on 15-17 June. The visit was organized by the Corporate Forum for Community Development, a non-profit organization that promotes social stewardship, to enable the participants to learn more about the APRIL's CD program.

Environmental Performance Indicators | By Edison Sugeng, Edward Wahab

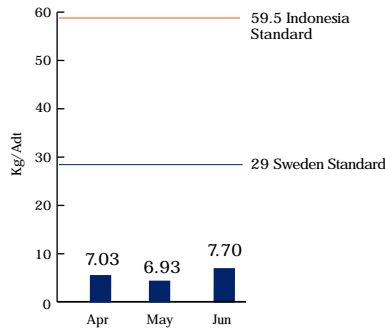
Mill Effluents

Mill effluents for Q2 2004 remained within Indonesian and International Standards. This means that normal aquatic and ecosystem functions of the Kampar River into which the effluents are discharged are maintained.

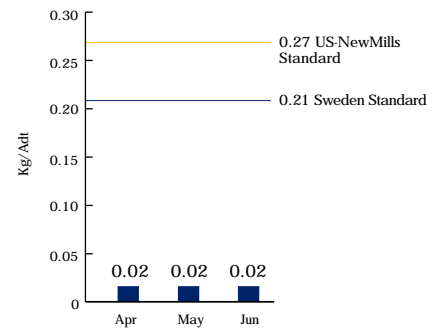
Biological Oxygen Demand (BOD₅)



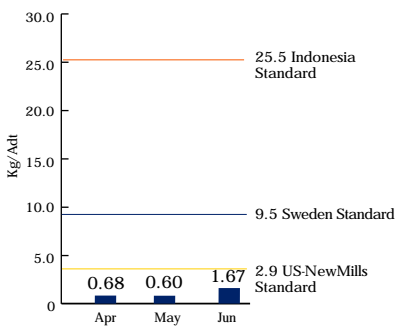
Chemical Oxygen Demand (COD)



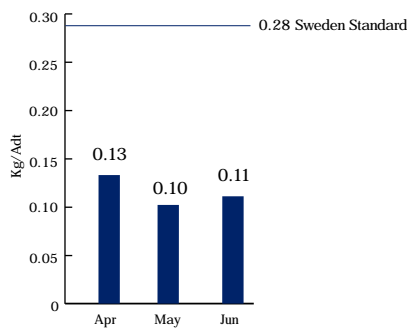
Absorbable Organic Halide (AoX)



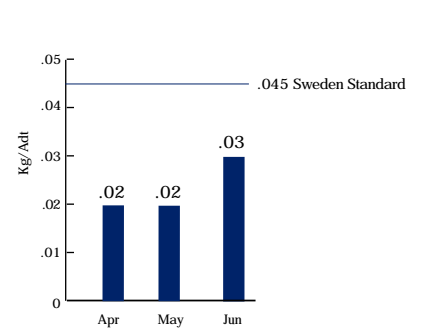
Total Suspended Solid (TSS)



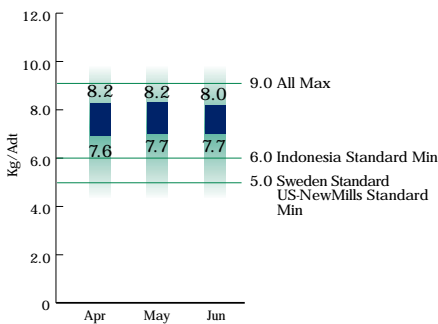
Total N (Nitrogen)



Total P (Phosporus)



pH Values



Letter from Nazir Foad, WWF Indonesia

In the spirit of transparency in our operations and communications, concerned stakeholders are encouraged to directly seek information from and verify APRIL's environmental and social performance with NGOs and other third parties with whom we engage.

Herewith we reprint with permission a direct reply from Nazir Foad, Director of the Species Program of WWF Indonesia, to Markus Schinerl, Sustainability Manager of Neusiedler AG, APRIL's pulp customer in Austria. As part of its environmental and procurement policies, Neusiedler sought to confirm APRIL's compliance with the principles of sustainability that the company requires of its major suppliers.

*From: Nazir Foad [mailto:nfoead@wwf.or.id]
Sent: Monday, July 12, 2004 2:04 PM
To: Schinerl Markus
Cc: Duncan Pollard
Subject: Re: Feedback regarding APRIL*

*Dear Mr. Schinerl,
I am sorry for not replying to your email sooner.*

"1. What is from your point of view really the actual status regarding APRIL's environmental behavior?"

APRIL has spent quite a remarkable effort to help WWF to protect Tesso Nilo forest from illegal logging. APRIL also managed to stop any pulpwood supply coming from Tesso Nilo forest either legally or illegally harvested. We have seen a rather dramatic decrease of illegal logging operations in Tesso Nilo since APRIL made this commitment in 2002. Furthermore, APRIL is making notable efforts to collaborate with WWF in initiating Tesso Nilo National Park for tiger and elephant conservation.

However, apart from Tesso Nilo, APRIL is still carrying out clear-cutting activities in other forests of Riau. This forest conversion activities are happening in APRIL's legal concession. We are worried that the clear-cutting activities are happening in relatively intact forest which may house tigers and elephants. APRIL needs MTH (mixed tropical hardwood) which are mainly harvested from natural forest to support its 2m tons pulp production. APRIL's Acacia plantation has not supplied enough fiber for the mill. APRIL's projection is that the mill will be fully run from Acacia fiber starting from 2009. WWF is concerned that between now and 2009, APRIL will clear-cut important Sumatran remaining lowland forests.

"2. Is WWF actually satisfied with their environmental development?"

WWF is satisfied with APRIL's efforts in helping the conservation actions in Tesso Nilo (such as fighting illegal logging), and expects that APRIL will maintain its commitments to do so. However, WWF wishes that APRIL's operation in other forest areas follows the results of independent high conservation value forest assessment.

"3. If there are still some main concerns, can you give us an overview, what APRIL would have to do, to really fulfill your expectations?"

- a. WWF has suggested that APRIL allow an independent expert to study the ecological and cultural values of the forests (high conservation values) before the clear-cutting takes place.*
- b. APRIL should soon run a log tracking audit to verify if the company has installed a robust system to avoid illegal timber from entering the mill. The last audit took place in May 2003.*
- c. APRIL should commission independent experts to verify its sustainable fiber supply plan, and prepare for options to either decrease pulp production level or buy more sustainable plantation fiber if the current plan is not robust enough.*

Please do not hesitate to contact me for further clarification.

Regards,

*Nazir Foad
WWF Indonesia*

The CSR Update is produced by the APRIL Corporate Communication Department, with contributions from Audrey; Brad Sanders; C P Munoz; Edward Wahab, Edison Sugeng and Eliezer P. Lorenzo

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