Pulp & Paper Sourcing
Country Profile: Indonesia
PULP & PAPER INDUSTRY CONTEXT:

Forestry in Indonesia - Indonesia is one of the most forested countries on the planet with a forest cover of 94 million ha, which is equivalent to 52% of the total land area. The forest industry contributes 1.7% to Indonesia GDP\(^1\) of which the pulp and paper industry is a key sector and is one of the largest producers in the world.

Key element of the P&P supply chain – The pulp and paper supply chain in Indonesia comprise both domestic and international elements. The majority of virgin fibre inputs is produced in Indonesia with comparatively small volumes of imports of fibre, pulp and paper from a number countries. The country is one of the largest producers in the world and is a key exporter of pulp and paper products to the region.

<table>
<thead>
<tr>
<th></th>
<th>Imports (1,000 T)</th>
<th>Domestic production (1,000 T)</th>
<th>Exports (1,000 T)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fibre - Industrial round wood</td>
<td>289</td>
<td>85,675</td>
<td>1,651</td>
</tr>
<tr>
<td>Pulp for paper</td>
<td>813</td>
<td>5,282</td>
<td>2,622</td>
</tr>
<tr>
<td>Paper and paperboard</td>
<td>401</td>
<td>7,777</td>
<td>3,574</td>
</tr>
<tr>
<td>Total</td>
<td>1,503</td>
<td>98,734</td>
<td>7847</td>
</tr>
</tbody>
</table>

Table 1: P&P table showing volume of fibre imports, domestic production and exports and top five trading countries\(^1,2\)

Main species used by the industry – The principal domestic species used in pulp and paper production in Indonesia include Acacia and Eucalyptus. Waste paper also plays a large role in certain products, much of it sourced domestically but it is also imported for example from New Zealand and Japan.

Plantation vs Natural forest – Indonesia’s plantation forest resource has grown considerably in recent years and supplies much of the raw fibre for the industry.

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However, virgin fibre from natural forests is also used, principally from conversion to pulp plantations.

**Spatial concentration of the industry** – The sector predominantly comprises large integrated mills in Sumatra close to their fibre sources and paper mills mainly in West and East Java. (See Annex 1)

**Forest ownership (State vs Private)**
- Community or privately administered - 0%
- Government administered - 100%

**Legality issues** –
- The 2014 Transparency International CPI score for Indonesia was 34. This is lower than 50 and indicates a high concern for governance and corruption in Indonesia and the forest sector in general. Illegal logging in the country has been prevalent in recent years and as a key exporter to Europe has engaged in a Voluntary Partnership Agreement (VPA) to improve forest governance and trade between the two. As part of this the Indonesian government has developed a Timber Legality Assurance System known as SVLK. This is a mandatory system for all forestry companies (forest and processing) and once they meet the legality requirements are issued a SVLK certificate.
- Global Forest Registry states that Indonesia has unspecified risk based on its forest governance and law enforcement related to logging and trade.

**ENVIRONMENTAL CONTEXT:**

**Forest cover/growth** – Between 2000 and 2010 Indonesia’s forest cover has declined by 1.7%. This decrease is principally due to natural forest conversion in Sumatra for pulp plantations and other agricultural commodities such as palm oil.

**Concerns raised about the industry** – Plantations are not yet able to supply sufficient volume of fibre required and some mills rely upon fibre sourced from natural forest clearance in the process of developing their plantation resource. These large scale monoculture plantations replace some of the most biodiverse forests on the planet and adversely affect the ecosystem through drainage and can

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precipitate forest fires. Concessions are typically granted by the government in natural forest areas rather than degraded land due to land tenure claims and as such further promote forest degradation and clearance. Nonetheless some companies are now committed to “zero deforestation” pledges and develop only on low carbon stock forest areas.

**Impacts on HCV** – High Conservation Values (HCVs) are biological, ecological, social or cultural values which are considered outstandingly significant or critically important, at the national, regional or global level. Large scale forest clearances are threatening the habitat of endangered species such as the Orangutan, Sumatran Tiger and Rhino and require protection. Forests supplying the pulp and paper industry should identify HCV areas in their management plans and demonstrate that they are monitored and protected.

**Peat resources and associated use/activities** – Indonesia has a peat resource that comprises 22 million ha, which account for approximately 5% of total global peat land. Decline is being driven by the expansion of pulp and oil palm plantations through clearance and drainage that provoke changes in the ecosystem and can cause forest fires, forest degradation and the release of GHG.

**Impacts on water resources** – The water risk score for Indonesia is 3.3 and is considered high risk despite the precipitation in the tropics. Drainage of peatland also affects the water table and can precipitate forest fires. Water pollution due to discharge from pulp and paper production have also been documented.

**SOCIAL CONTEXT:**

**Forestry and forest-based industry employment** - Out of the 445,000 people employed in the forest industry 131,000 people (30%) are employed in the pulp and paper sector.

**Concerns about FPIC or other social issues** – Social tensions exist due to the limited forest rights of local communities/indigenous people and the government,

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which administers 100% of Indonesia’s forests. With numerous indigenous communities and the ever growing drive for land conflicts do and are likely to arise in the country.10

FOREST CERTIFICATION CONTEXT:

Certification Schemes available in the Indonesia - 20.5% of Indonesia's forest (1,93 million ha)11 is certified by FSC. To date there is no PEFC certification12 in the country. Forest certification is increasing and much of this the certified forest area covers the plantations supplying the pulp and paper industry, rather than natural forest areas.

Criticisms of the schemes – In 2008, there were criticisms against FSC where environmentalists condemned the scheme for relaxing its requirements to enable the certification of a company that under stricter conditions the company might not otherwise be certified13.

GENERAL OVERVIEW-Indonesia is rich in forest resources and is a dominant player in the pulp and paper industry with some of the largest producers in the world. However, this dominance has often come at the expense of Indonesia’s natural forest which have seen a significant and steady decline. This is also associated with confusion about land tenure that deprive indigenous communities of their customary rights and also the drainage of peat which reduce water resources and precipitate forest fires in the region.

<table>
<thead>
<tr>
<th>Responsible Sourcing Values</th>
<th>Legal Values</th>
<th>Environmental Values</th>
<th>Social Values</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Corruption Perception Index (CPI)</td>
<td>Global Forest Registry</td>
<td>Protection of HCS</td>
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<tr>
<td>Indonesia</td>
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ANNEX 1: PULP AND PAPER MILL LOCATIONS IN INDONESIA
(Source: RISI database, accessed on December 14, 2015)