

Indonesia's corporate clean-up

By Joe Leahy in Hong Kong
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It has not rained for two weeks in Riau, in Indonesian central Sumatra, and already the air is pungent with the smoke of thousands of illegal fires being used for wholesale forest clearing.

"Yesterday . . . I called the police and said: 'I hope you take action straightaway. Otherwise, a month from now this whole area will be covered in haze again'," says Sukanto Tanoto in an interview in Riau, near the Indonesian tycoon's pulp mill. Run by his company, Asia Pacific Resources International (April), the mill is one of the two largest of its kind in the world.

Mr Sukanto, whose group was the subject of allegations of human rights violations and pollution problems in the 1990s, may seem an unlikely protector of the environment. But April is among a number of Indonesian conglomerates that are adopting western business practices in corporate and social responsibility in an attempt to rebuild images tarnished during the corrupt rule of former military strongman, Suharto.

This change is being driven by the rise of democracy in Indonesia, which has left companies more vulnerable to public protests, and the need to improve reputations in order to do business. Boycotts of products by some western non-governmental organisations are another influence.

One of Mr Sukanto's companies, Sateri, is expected to try soon to relaunch an international bond issue.

The challenge for these companies, however, is how to reform a corporate culture that was once unmoved by external pressure and to convince the outside world they are serious even as they draw up aggressive expansion plans.

Even by Indonesia's standards, the country's forestry business has a troubled history. After seizing power in 1965, Mr Suharto designated 75 per cent of the country as "state forest". He then awarded vast timber concessions to the military and friendly businessmen, laying the foundation for future social disputes with indigenous residents, according to a 2003 report by Human Rights Watch.

One of the most notorious cases was a conflict surrounding Mr Sukanto's original pulp and rayon mill, Inti Indorayon Utama, in north Sumatra, near the island's most spectacular natural landmark, Lake Toba. After it started operations in the 1980s, the mill became a focus for local opposition amid allegations of pollution and land disputes.

In a crackdown on protesters in March 1999, according to Human Rights Watch, police allegedly shot seven people, killing one instantly. Another 90 people were allegedly abducted and tortured or otherwise mistreated; one later died.

The company says it had nothing to do with the police action and that "certain parties" stirred up the trouble for "their own commercial reasons". But Mr Sukanto was forced to close the mill for five years and later diluted his interest.

The group switched focus to its flagship operation, the Riau Andalan pulp and paper mill, near Kerinci Pangkalan, in Riau. An imposing complex, it has sparked environmental rather than social concerns, although Human Rights Watch re-ports one protest, in October 1997, in which police fired on demonstrators near the mill.

Known by many around the mill simply as "the chairman", 56-year-old Mr Sukanto, who through his privately held Raja Garuda Mas group also has interests in energy and palm oil, is philosophical about his past "mistakes".

"At that time [the Suharto era], we thought that poverty and society and taking care of the people was a government job - the government should provide me with security and law and order," he says. "So I think we learnt the hard way, we made some mistakes. In the end, we realised that when you come to a certain size of operation, you must have a very clear sense of social responsibility."

The crunch for the Kerinci mill came during the Asian financial crisis in 1998. Unemployed locals began raiding the site to steal materials; some were killed when they cut through live wires looking for copper.

"We saw chaos and we didn't know who to ask for protection," says AJ Devanesan, president of April.

Some managers wanted to leave the problem to the police. Instead, after a survey of villagers, they opted to launch a series of poverty-reduction programmes.

The company began what it calls the integrated farming system, under which it runs four training centres teaching villagers livestock rearing, fish farming and waste recycling to help wean them off illegal logging and slash-and-burn agriculture.

Other initiatives include "community fibre farm programmes", in which April partners small landowners to help them grow sustainable acacia plantations for the mill's use.

The company also confronted the problem of illegal logging by potential suppliers by introducing wood-tracking audits in 2002. Run by SGS Malaysia, an independent certification company, and monitored by the conservation group WWF Indonesia, these aimed to ensure its timber sources were legal. "The audit is getting better and better results," says Nazir Foead, species programme director at WWF Indonesia.

To help improve April's image abroad, Mr Devanesan says he began producing an independently verified sustainability report. Convincing staff of the benefit of such a programme took time "but once it gets going it becomes part of the culture".

Convincing outsiders will prove more difficult. Some forestry experts say the measure of April's intentions will be whether it can meet a key commitment to source all its timber from sustainable plantations by 2009.

Christian Cossalter, principal scientist at the Centre for International Forestry Research (Cifor), estimates April has planted only about half the 510,000 hectares of acacia plantations it needs to keep the 2m tonne-a-year Kerinci pulp mill running at capacity. He says planting is proceeding too slowly to meet the 2009 target. April says it is on track to meet its goal, and is planting an average 60,000ha a year.

Chris Barr, a scientist at Cifor, says April and its main competitor, Asia Pulp & Paper, built their giant mills in Riau before their plantations could hope to supply their needs. "I don't think anyone is going to criticise companies like APP and April for making investments in schools and development programmes," Mr Barr says. "But how do you weigh the benefits from those types of programmes with the very substantial negative impacts of clearing large areas of native forests?"

For its part, April insists it will not repeat past mistakes. Because, as Mr Sukanto says of the Indorayon case: "One thing I have learnt in life is that, once you get into that kind of trap, it's very difficult to get out."