

Sub-theme: *Balancing Asia's Growth & Environmental Sustainability*



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Balancing Growth and Sustainability: The Case of APRIL

Good morning everyone,

I would like to thank Hitachi for giving me the opportunity to be here today to share with Asia's future leaders APRIL's experience as a real-world case study of how growth is balanced with sustainability.

My presentation is structured into four parts:

1. A more demanding world
2. Indonesia today
3. APRIL's experience, and
4. Blue print for the future

A More Demanding World

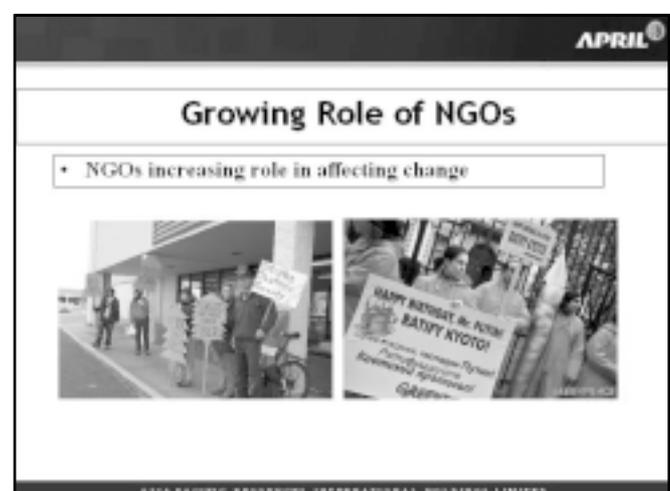
Let me start with the changing world of today. First, there has been a rise in the general environmental awareness and demands.

There is a widening consensus on global environmental and social objectives. Example - the Kyoto Protocol, which requires a minimum of 5 percent reduction in greenhouse gas emissions below 1990 levels by 2012.

Another example is the Johannesburg Summit, which targets among others, a reduction in biodiversity losses by 2010, and a 50 percent reduction in poverty by 2015

Secondly, NGOs are gaining increasing importance in the world.

As shown in the 4th Edelman Trust and Credibility



Survey, NGOs have surpassed other institutions in terms of public trust. Business comes second to NGOs, followed by government. Worst is the media, which lies at the bottom of the trust hierarchy. And we have seen how NGOs affect change in many areas.

Thirdly, there has been a growing acceptance of Corporate Social Responsibility. Sixteen global banks have adopted the Equator principles to assure selection and implementation of projects, which are environmentally sound.

A survey done by KPMG revealed that almost half of 2,000 top global companies produce environmental, social, and recently sustainability reports in addition to their annual reports. Sustainability reports differ from the standard environmental report in that it is not only an account of past performance but is also forward-looking. Furthermore, sustainability reports are verified by third parties unlike environmental reports, which are solely produced by company.

The same survey also found that the use of third-party verifications, as in sustainability reports, was undertaken by 29 percent of those surveyed in 2002 up from 1996 in 1999.

Indonesia Today

Let us turn now to snapshots of Indonesia today.

Indonesia is a country abundant in natural resources. Oil, gas, coal, gold, fertile agricultural lands, forests, you name it, and we've got it. But it is also abundant in people. There is increasing population pressure, in urban centers like Jakarta and also in rural areas.

The Asian Development Bank (ADB) estimates that 15 percent of the urban population and 20 percent of the rural population is living below the poverty line of US\$1.00 per day.

Turning now to politics, after 32 years of President Soeharto's strong hand approach, the process of democratization finally began in earnest. The pendulum may have swung too far though before eventually finding a new equilibrium somewhere in middle ground.

As part of the learning process, we are now witnessing rules and regulations, which are not wholly consistent one with another, reflecting in part the tug of war between central authorities and regional governments. The implementation of regional autonomy has created grey areas and uncertainties for the business community.

Indonesia needs to look to the future while battling to solve the urgent problems of the day.

APRIL's Experience

Let us turn now to APRIL.

Asia Pacific Resources Internal Holdings Limited or simply APRIL is one of the world's major pulp and paper manufactures. Our operation in Riau, Indonesia produces about 10 percent of the short-fibre wood pulp traded in global markets. Our operation is self-sufficient in energy as we produce steam and electricity from bark and non-fiber parts of the wood. Almost no fossil fuel is used in energy generation.

Our environmental performance is benchmarked against global environmental standards such as the US Cluster Rules for New Mills, and the European Union's Integrated Pollution Prevention & Control based on Best Available Technology.

We are certified ISO 9002 (Quality Management System), certified ISO 14001 (Environmental Management System), and also certified ISO 9706 on paper permanence. They say our paper can last 200 years! As we are only 10 years old, we have a long way to test this out yet.

“A survey done by KPMG revealed that almost half of 2,000 top global companies produce environmental, social, and recently sustainability reports in addition to their annual reports.”

One important area is the wood supply for our mill. Today we have 190,000 hectares of acacia plantations, or some three times the size of Singapore, and continue to plant and replant acacia at a rate of some 80 million trees per year. We are proud to have pioneered the "No Burn" method of land clearing some three years before the government's policy initiative on the matter.

Despite all we have done to ensure sustainability, the challenge remains: How can we be a world-class company with a global paradigm and yet be responsive to local needs and problems?

Given the realities in today's Indonesia, specifically poverty and the conflicting rules and regulations, not all local views are in line with world views.

Let me take two examples to illustrate.

First let me look at the issue of forest burning, which was mentioned in this morning's speech by the Secretary-General of ASEAN.

The world view is there should be no forest burning for obvious reasons.

The local view on the other hand is that burning is the cheapest way to clear land, normally for oil palm development.

So what is APRIL's solution to this dilemma?

APRIL's solution consists of three parts:

1. Pioneered the "No Burn" land clearing method
2. Trained farmers and convinced them to adopt "No Burn" methods in their operations
3. Established the Haze Prevention Group, a private sector initiative to prevent forest fire and do public education on the subject

The second example is illegal logging.

The word you hear is no illegal logging under any circumstances. The local view is that selling logs, legal or not, is the only way out of poverty.

APRIL's immediate solution is to tighten the wood purchase system which was installed to handle the 5-10 percent of wood supplied by third parties to our mill. This is further strengthened by commissioning Societe Generale de Surveillance (SGS) to audit the system with an NGO - World Wildlife Fund (WWF) - as observer.

APRIL has recently taken this a step further by launching cooperation against illegal logging in the Teso Nilo forest area near our acacia plantation areas together with the central and local governments and WWF.

We believe this is the first step of many steps that private, public and NGO corporations will be doing in Indonesia on this issue and we are proud to be one of the first to take this initiative.

However, there are plenty of negative reactions and outright attacks against APRIL for our firm stance against illegal logging. In fact, our mill was blocked by illegal loggers, and in one particularly violent incident two of our security guards were brutally murdered. The case is still pending judgment in court.

So to get the root cause of illegal logging, APRIL has to participate in poverty alleviation. This we do through our community development program.

APRIL's community development program is very comprehensive in deed. We have four training centers that train hundreds of villagers every year. Successful participants are then assisted in implementing their projects with support in kind and help to get bank financing. APRIL's field officers are there to help with technical and marketing problems.

We have helped villagers to start integrated farms, encouraged and helped them to be our partners by becoming community forest owners, supplying wood to our mill, and to become home industry owners supplying the mill's simple requirements such as wooden pallets for our export products.

We also spend a lot of time and energy to benefit the children in our local communities. They are the next generation, which we hope will bring prosperity to their families.

Blueprint for the Future

To conclude, our experience has crystallized into a blueprint for the future:

1. Maintain world class operations
2. Balance local and global factors
3. Strengthen community development programmes and poverty alleviation initiatives
4. Underline the triple bottom line approach of Profit, People, and Planet
5. Improve transparency (third party verifications, sustainability report, good corporate governance)
6. Widen our NGO engagement

I would like to end by quoting Confucius who says:

“I hear and I forget; I see and I remember; I do and I understand.”

I have tried to use pictures so you will remember. But if any of you - the young leaders of the initiatives - happen to be in Indonesia, I would like to extend a special invitation for you to come and visit us in Riau, so you may understand us better.

Thank you very much.

