VERIFICATION REPORT ON POTENTIAL BREACHES OF APP’S NATURAL FOREST CLEARANCE MORATORIUM IN THE CONCESSION AREAS OF

PT. SEKATO PRATAMA MAKMUR AND PT. BINA DUTA LAKSANA

FCP Implementation Team

11 SEPTEMBER 2013
1. BACKGROUND

On 15 May 2013, Eyes on the Forests (EoF) issued a report alleging a violation of APP’s moratorium commitment, by PT. Riau Indo Agropalma (RIA), one of APP’s suppliers.

An investigation conducted by APP/TFT senior management and the Forest Conservation Policy (FCP) implementation team confirmed the clearance of 70 Ha of natural forest in RIA. The breach was determined to be the result of a process failure relating to the clearance approval of forested land allocated for community use under the government’s community livelihood area (Tanaman Kehidupan/TK). Full details of the investigation and its recommendations can be found in TFT’s RIA Verification Report (26.06.2013).

As a result of the RIA case, all FCP Implementation Team staff were recalled to APP’s Head Office for re-briefing. APP immediately sent notifications, verbally and followed with a formal letter dated 30th May 2013, to its suppliers to ensure that no land clearing for TK development was to take place in other areas. An additional procedure was introduced to address the process failure identified in the RIA case and an urgent review was ordered by APP’s Joint Steering Committee¹ (JSC) to determine whether other similar cases existed that could threaten APP’s moratorium or implementation of its FCP. This report details the findings of that review.

2. ACTIONS TAKEN BY THE FCP IMPLEMENTATION TEAM

As a result of the review process, two HTI suppliers of APP, namely; PT. Sekato Pratama Makmur (SPM) and PT. Bina Duta Laksana (BDL) in Riau were identified as having similar TK cases as the one in RIA. The following steps were taken:

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¹ APP’s Joint Steering Committee (JSC) consists of Sinar Mas Forestry’s CEO, APP’s Sustainability MD and TFT’s Executive Director. The committee was established to directly address high-level issues relating to the moratorium and FCP implementation.
a. On 25 June 2013, the JSC requested that the FCP Implementation Team assessed the situation at the two flagged suppliers.

b. A Field Verification Team combining TFT and APP staff was formed and sent to SPM and BDL.

c. On 9 July 2013, the Field Verification Team commenced the verification activity and data gathering, including:
   - Verification of documents
   - Interviews of relevant parties
   - Field verification
   - Verification reporting

3. CONCLUSION OF THE FIELD VERIFICATION TEAM

Based on the result of the field verification and field data collated (details of the verification result can be seen in Annex 01), the Field Verification Team concluded:

a. SPM
   - There was no breach of the moratorium. No clearance took place at SPM. The notification letter sent to APP suppliers to ensure that no land clearing for TK development was taking place arrived before SPM started working on its TK area.

b. BDL
   - An area of 27.8 hectares was cleared in the TK area of the BDL concession after the 1 February 2013. It was not possible to determine whether the area was originally HCS, and therefore whether its subsequent clearance would be in breach of the moratorium.
   - The area cleared was on peatland, which is in breach of APP’s FCP policy on new peatland development.
   - This clearance of 27.8 hectares commenced on 5 March 2013 through to 17 March 2013. Clearance in the TK development areas had already taken place before the notification letter was received by BDL on 30th May 2013.
The 27.8 Ha was cleared because on the 2 March 2013 the APP/TFT implementation team had wrongly approved the continuation of the development of the TK area in the field without prior consultation with JSC. This decision was made due to a prior agreement with the communities to develop the area. The scope of the TK engagement was agreed by the community on 24th of November 2012 and the formal agreement between the APP supplier BDL and the community was finally signed on 18th February 2013.

As in the RIA case, the FCP Implementation Team mistakenly assumed that if all the criteria for TK development were met, including the legal obligation to develop the area, it could therefore be cleared.

195.39 m³ of wood was produced from this clearance of TK land, post 1 February 2013. Given the approval was given to clear this area, this volume of wood was entered into the SO (stock inventory) system and therefore sent to the IKPP Perawang mill on 26 March 2013.

HCS and HCV assessments are ongoing in this area, therefore it is not possible to determine if HCS was cleared. However, given that 195.39 m³ of wood was produced from a total area of 27.8 Ha, it can be assumed that the average yield per Ha would level out at only 7 m³/ Ha. It is therefore unlikely that this area was HCS.

4. RECOMMENDATION

SPM

a. FCP Implementation Team and JSC to consult with relevant stakeholders, including community, government and NGOs, to address SPM’s legal obligation to develop TK area for the benefit of the local community against its commitment to APP’s FCP.

BDL

b. APP to engage with BDL, community, government and relevant NGOs to address the current and future realization of BDL’s legal obligation to develop TK area for the benefit of the local community and APP’s FCP.
A. VERIFICATION PROCESS

1. DATE AND TEAM MEMBERS

The field verification was conducted between the 9 July 2013 to 12 July 2013 for both SPM and BDL. The Implementing Team included:
- Boby Bayu Prakoso (TFT)
- Abidin Lakadimu (TFT)
- Widya Purnama (SMF)
- Agung Roestiyanto (SMF)

2. VERIFICATION OF DOCUMENTATION
   a. SPM

Documents related to the land clearing in TK areas were verified, these include:

   ❖ RKU

RKUPHHK ï HTI of PT. Sekato Pratama Makmur for the period of 2011 ï 2020 that was legalized in accordance with Decree Number: SK.168/VI-BPHT/2010, dated 21 December 2010.

In this document the activity plans include:
1. Planting details:
   - Principal species: Acacia crassicarpa : 26,404 Ha/cycle
   - Superior Plants: Meranti, Bintangur, Geronggang & Kedondong : 4,643 Ha/cycle
   - TK species: Jackfruit, Durian, Ambacang, Acacia sp: 2,280 Ha/cycle
2. Cutting / harvesting:
   - Main Plants: 26,404 Ha/Cycle
   - Superior Plants: 4,643 Ha/cycle

   ❖ RKT

RKT 2013 was legalized in accordance with number: SK.01/SPM/XII/2012, valid from 22 December 2012 through to 21 December 2013. The planting plan within this RKT document included the following details:
- Main Planting: 4,558 ha (Humus District) + 877 Ha (Hampar District)
- TK: 83,620 ha (Hampar District) → open land.

- MOU of the company with the community/cooperative
  There is a MOU (Cooperation Agreement) with Tuah Sekato Forest Farmer Cooperative in Temiang Village, Bukit Batu Sub district, Bengkalis District, regarding the development of TK areas in PT. SPM in accordance with Agreement Number: 001/TK/SPM/XI/2010 signed on 19 November 2010. This cooperation agreement includes the development of TK areas within a total land area of 1,102 Ha.

- TK Verification Notification by the StockOpname (SO) Team
  On the 1 March 2013 the SO Team (a sub unit of the FCP implementing team) conducted a verification of the TK in SPM. The criteria for TK development included: (a) the TK shall has been designated in the approved RKU document, (b) the TK shall has been designated in the approved annual work plan (RKT) document, (c) there is a valid MoU between concession holder and the community for the TK, and (d) there is a clear delineation of the TK area on the ground. The verification result confirmed that SPM had met all the requirements as stated in the TK Area Verification Notification No: 01/TFT-APP/SPM/MC.BA-VER.TK/III/2013 dated 1 March 2013.

b. BDL

Documents related to the land clearing in TK areas were verified, these include:

- RKU

- RKT
  The 2012 Annual Business Work Plan on the Utilization Forest Wood Produce in Industrial Plantation Forests Document (Dokumen Rencana...
Kerja Tahoma Usaha Pemanfaatan Hasil Hutan Kayu Hutan Tanaman Industri (RKTUPHHK-HTI) was legalized in accordance with Directive Number 01/BDL/III/2012. This document is valid from RKT 22 March 2012 to 22 March 2013. For RKT 2012, 51.4 Ha have been allocated for TK use.

- **TK Verification Notification**
  The SO team has conducted a verification against the TK development requirements. These include (a) legal, include the approval of RKU and RKT, (b) MOU with the Kelompok Tani Setia Amanah, Desa Sungai Empat, Kecamatan Gaung, Kabupaten Indragiri Hilir, (c) the marking of the boundaries in the field. The verification result concluded that SPM have completed all the requirements as stated in the TK Area Verification Notification No 01/TFT-APP/BDL/MC.BA-Ver.TK/III/2013 dated 02 March 2013.

- **Details of the Notification on the Boundary of TK by BDL dated 11 February 2013 include:**
  a. Length of the boundary between TK and natural forest area: 1,769 meter
  b. Number of compartments: 2 Compartments (Compartment 9005 and Compartment 9038)
  c. Number of Poles: 19 Poles

- **MOU/agreement with the community/cooperative.**
The MoU is included in the TK Cooperation Agreement Number 014/TK/BDL/II/2013 signed by both the Chief Director of BDL and the Chairperson of the Tani Setia Amanah Group on 18 February 2013. The location of the TK in the MoU is within in the area of Rambian village, Gaung Anak Serka Sub district, Indragiri Hilir District, Riau Province. The scope of the cooperation covers 51.4 Ha. The MOU was based on a prior agreement by the community on the TK scope which was set forth in a Minute of Meeting signed by the parties on 24th of November 2012.
The clearance of 27.8 hectares of potential HCS commenced on 5 March 2013 through to 17 March 2013. This clearance took place in compartment 9005 (11 Ha) and compartment 9038 (16.8 Ha) as presented in the picture below.
22.2 Ha of the area that was not cleared is located on peat soils with a combination of remaining natural forest trees, scrub, and oil palm plantation on this land. The full HCV/Peat and HCS assessments in BDL are currently ongoing.

The following heavy equipment was used in the land clearing activities between 5 March 2013 through to 17 March 2013 in the TK Area in BDL:

List of Equipment used for land clearing after 1 February 2013

<table>
<thead>
<tr>
<th>No.</th>
<th>Equipment</th>
<th>Type of Equipment</th>
<th>Code of the Equipment</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Excavator</td>
<td>Kobelco SK-200-8</td>
<td>WK.188</td>
<td>Land Clearing</td>
</tr>
<tr>
<td>2</td>
<td>Excavator</td>
<td>Kobelco SK-200-8</td>
<td>WK.187</td>
<td>Land Clearing</td>
</tr>
<tr>
<td>3</td>
<td>Excavator</td>
<td>Kobelco SK-200-8</td>
<td>WK.181</td>
<td>Ditch Digging</td>
</tr>
</tbody>
</table>

Planting activities in the TK area in Compartment 9005 and Compartment 9038 commenced on 13 March 2013 through to 21 March 2013 and the total area planted was 27.5 Ha.

The location map of planted TK in BDL
Wood Administration (TUK) Document, cutting and transportation of the natural forest wood from the TK area.
The volume of the wood produced from the land clearing was 195.40 M³, the details are as follows:

Natural forest wood produced from TK clearance in BDL

<table>
<thead>
<tr>
<th>No.</th>
<th>Compartmnt</th>
<th>Stacking Measurement</th>
<th>Number Of Stacking</th>
<th>Type</th>
<th>Volume (M³)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>L (M) X T (M)</td>
<td>Length (M)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>9005</td>
<td>2.50 X 2.20</td>
<td>20.80</td>
<td>662</td>
<td>KBK</td>
</tr>
<tr>
<td>2.</td>
<td>9005</td>
<td>2.50 X 2.70</td>
<td>29.00</td>
<td>663</td>
<td>KBK</td>
</tr>
<tr>
<td>3.</td>
<td>9038</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total</td>
</tr>
</tbody>
</table>

The natural forest wood produced from the clearing of the TK area was measured on 17 March 2013 and entered in LHP KBK (No: 000043 dated 18 March 2013).

The natural forest wood produced from the clearing of the TK area was transported from the TPn (Log Landing) to the TPK (Log Yard) using a steel *sampan* on 21 April 2014 Under Delivery Order Number 017436. The total volume transported was 195.395 M³ (compartment code 9005). The details of the data on the transport of the wood from the TK going to TPK Antara Belantaraya are as follows:
The transport of natural forest wood cut from the TK in BDL

<table>
<thead>
<tr>
<th>No</th>
<th>Date of Transport</th>
<th>Means of Transport</th>
<th>Number of Transport</th>
<th>FAKB Type of Wood</th>
<th>Vol M3</th>
<th>DKBK Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>21/04/2013</td>
<td>Truck</td>
<td>BM8065CU</td>
<td>A.016193</td>
<td>KBK</td>
<td>18.90</td>
</tr>
<tr>
<td>2.</td>
<td>21/04/2013</td>
<td>Truck</td>
<td>BM8081CU</td>
<td>A.016194</td>
<td>KBK</td>
<td>18.90</td>
</tr>
<tr>
<td>3.</td>
<td>21/04/2013</td>
<td>Truck</td>
<td>BM8078CU</td>
<td>A.016195</td>
<td>KBK</td>
<td>18.90</td>
</tr>
<tr>
<td>4.</td>
<td>21/04/2013</td>
<td>Truck</td>
<td>BM8239ZU</td>
<td>A.016196</td>
<td>KBK</td>
<td>18.90</td>
</tr>
<tr>
<td>5.</td>
<td>21/04/2013</td>
<td>Truck</td>
<td>BM8254CU</td>
<td>A.016197</td>
<td>KBK</td>
<td>18.90</td>
</tr>
<tr>
<td>6.</td>
<td>21/04/2013</td>
<td>Truck</td>
<td>BM8241ZU</td>
<td>A.016198</td>
<td>KBK</td>
<td>20.16</td>
</tr>
<tr>
<td>7.</td>
<td>21/04/2013</td>
<td>Truck</td>
<td>BM8239ZU</td>
<td>A.016199</td>
<td>KBK</td>
<td>18.90</td>
</tr>
<tr>
<td>8.</td>
<td>21/04/2013</td>
<td>Truck</td>
<td>BM9821CU</td>
<td>A.016200</td>
<td>KBK</td>
<td>18.90</td>
</tr>
<tr>
<td>9.</td>
<td>21/04/2013</td>
<td>Truck</td>
<td>BM8091CU</td>
<td>A.016201</td>
<td>KBK</td>
<td>21.42</td>
</tr>
<tr>
<td>10.</td>
<td>21/04/2013</td>
<td>Truck</td>
<td>BM8111CU</td>
<td>A.016202</td>
<td>KBK</td>
<td>20.16</td>
</tr>
</tbody>
</table>

**Total** | **194.04**

The transport of the natural forest wood from the BDL TK area from TPK Antara Belantarayaon route to PT. IKPP i Perawang, was carried out on 26 April 2013 using Tug Boat TB.SB II and barge TK.ISM III. The documents that accompanied the wood included; (a) an Invoice for the Transportation of Round Wood (FA-KB) with the serial number PT. IKPP. A 067256 (b) DKBK number 0067; and (c) Delivery Letter Serial Number B.003458 (SO stamp affixed).

### 3. FIELD VERIFICATION

#### a. SPM

A field verification was conducted in the following coordinate points:

- Boundary coordinates of the TK Area Pole HM 33, 01° 28'38"N and 101° 39'20"E.
- Boundary coordinates of the TK Area Pole HM 29, 01° 28'09"N; and 101° 39'21"E
- Boundary coordinates of the TK Area Pole HM 30, 01° 28'09"N; and 101° 39'36"E

The result of the field verification confirmed that there was no land preparation in the TK area in SPM after 1 February 2013. All land preparation
and planting of the Acacia crassicarpa in this TK area was conducted in 2012 only (14.1 Ha of a total of 1,102 ha TK area).

- The condition of the area in the TK in SPM was visually confirmed to be open peat land and peat land covered by cogon grass, ferns, and sporadic wild Acacia species as shown in the pictures below. The HCV/Peat and HCS assessments in SPM are ongoing.

Visual scene from the TK boundaries in BDL

b. BDL

The results of the field verification in the TK area in BDL confirmed the following:

- From the 50.4 Ha TK management plan, as stated in the MOU between BDL and Tani Setia Amanah Group:
  - 27.8 Ha were cleared from 5 March 2013 through to 17 March 2013.
  - Of this areas cleared 27.5 Ha of Acacia crassicarpa were planted through to 21 March 2013. See pictures below
Picture plate 5.TK planted with Acacia crassicarpa in BDL
During the verification, it was confirmed that all of the natural forest woods generated as a result of the land clearing in the TK area had been entered into the SO (stock inventory) system and therefore already transported to the PT IKPP Perawang mill with nothing left behind in the TK locations. The boundary marking in the TK location is still visible (red ribbon).

The condition of the remaining 22.2 Ha can be described as open peat land with remaining natural forest trees, scrub, and oil palm plantations as shown in the pictures below. The HCV/Peat and HCS assessments in BDL are ongoing.

The remaining TK in BDL consists of natural forest standing, scrub and oil palm plantations