CLEAR-CUT EXPLOITATION
How International Investors & REDD+ Donors Profit from Deforestation in West Papua
SUMMARY

- Indigenous landowners in Sorong, West Papua province, are being exploited by the Kayu Lapis Indonesia Group (KLI) for plantations development – at great cost to them and their forests.

- Documents obtained by EIA/Telapak reveal “land rental” agreements provide Moi landowners with as little as US$ 0.65 per hectare – land projected to be worth US$ 5,000 per hectare once developed.

- Timber payments are equally bad: KLI has paid landowners as little as US $25 per cubic metre of merbau – wood KLI sells for US$ 875 on export.

- Legal norms in permit allocation and timber harvesting have been routinely flouted, with little to no law enforcement by either the national or provincial government.

- International investors – including Norway’s Government Pension Fund Global (GPFG) – are profiting from the situation. This highlights a failure to incorporate commodity and investment market reforms into the REDD+ agenda, resulting in the perverse financial incentives of those markets continuing to undermine efforts to reduce deforestation and deliver sustainable development for Indonesia’s indigenous peoples.
In an April 2009 investigation into the impacts of plantations expansion on the environment and indigenous peoples of Papua and West Papua provinces, EIA and Telapak interviewed Moi landowners in Sorong, West Papua province, who had released land to two oil palm plantation companies - PT Henrison Inti Persada (PT HIP) and PT Inti Kebun Sejahtera (PT IKS).

Both plantations were set up by the Sutanto family, owners of the Kayu Lapis Indonesia Group (KLI).

The 2009 fieldwork documented testimony of exploitative practices by PT HIP and PT IKS during land acquisition. Highly one-sided negotiations were characterised by persuasion and pressure from company staff backed by local government officials and, at times, intimidation from military and police.

Landowners unanimously reported they had initially agreed to release large areas following up-front cash offers, but also largely due to company promises of benefits such as new houses, vehicles, and free education for their children.

In 2011, EIA/Telapak returned to Sorong, hearing of continued dissatisfaction, uncovering new evidence of shockingly low land compensation agreements and documenting significant new forest clearance and other problems.

EIA/Telapak also informed landowners of the new corporate and sovereign wealth fund owners of their land, and the huge profits these external actors will likely make.

60 CENTS (PER HECTARE)

In 2009, EIA/Telapak heard that no landowners had been able to retain copies of land rental ‘contracts’ signed with PT HIP or PT IKS. However, in 2011 investigators acquired one such contract, exposing the true extent of exploitation by PT HIP.

The ‘contract’ - hastily hand-scrapped on notepad paper - is signed by PT HIP General Manager Agnes Winaryati and thumbprint-signed by the head of the Gilik clan. It states: “on October 13th 2006, it was agreed to release indigenous / customary land of the Gilik Clan covering 1,420 hectares with a yield [return] of Rp. 8,500,000 (eight million five hundred thousand rupiah) and money for betel nut for an indigenous ceremony equalling Rp. 4,000,000 (four million rupiah)”.

The document evidences how, discounting the Rp.4 million (US$ 434) for a tribal ceremony, the Gilik clan of Malalis village received a one-off payment of US$923 (Rp. 8,500,000) for 14.2 square kilometers of forest lands – equivalent to just US$65 per square kilometer, or US$0.65 per hectare.

While the “release” period is not stipulated, the company will hold its official permit for 25-35 years, with a guaranteed extension if it chooses.
CHILDREN SIGNING CONTRACTS

In 2009, the Gisim family in Klamono testified how in 2006, at the age of four, oldest son Manu Gisim was persuaded to sign a contract with PT HIP so that if his father died the company had evidence the next generation had released their land. While the family had tried to preserve areas of forest and had erected blockades to stop land clearance, the company bulldozed and cleared more land than agreed.

When EIA/Telapak visited the family in 2011, they confirmed none of the promised benefits — such as a house and schooling — had to date been honoured.

PROMISED EDUCATION RESTRICTED

Education was the key reason landowners cited for providing lands to PT HIP and PT IKS. Local schools are expensive and of poor quality. However, it has emerged the offer may be strictly limited, and comes with conditions verging on indentured labour.

In February 2011, the Citra Widya Education Oil Palm Polytechnic announced that 89 local high school graduates from PT HIP’s plantation areas in Klamono, Aimas, and Salawati had been tested in formal examinations; those who passed would be further interviewed for “suitability”.

Only students passing the selection process will be offered three years of further education and lodgings at the polytechnic in Java. Further, while PT HIP will finance the scheme under its “CSR program”, those students selected are subsequently obliged to work for PT HIP for seven years. An average of only five students a year have been educated in this fashion since 2007.

The vast majority of children of those landowners who provided land to PT HIP will not benefit at all from this polytechnic-level education, and those benefiting do so only because PT HIP sees their value as future employees.

LEGAL IRREGULARITIES IN PLANTATION PERMITTING PROCESSES

EIA/Telapak research has highlighted a systematic pattern of legal irregularities in the licensing procedures surrounding both PT HIP and PT IKS.

In the case of PT HIP, satellite images (see above) clearly demonstrate that forest clearance began illegally in 2003 — one year before the company’s IUP (Plantation Operation Permit) for 32,500 hectares was issued in November 2004, and two years before the Ministry of Forestry finally released the land from the forest estate in July 2006. Under the prevailing law at the time, the maximum area a company could develop in a single province was 20,000 hectares — a factor completely ignored by the government and company.

PT IKS also began illegal clearance in January 2008, before an IUP for 38,300 hectares was issued on September 5, 2008. Landowners testified how the environmental impact assessment (AMDAL) — a legal requirement before an IUP can be issued under the newer 2007 plantation law that prevailed when PT IKS was processing its permits — did not take place until September 2008.

IPK permits — allowing the utilisation of timber from forests cleared for plantations — cannot be issued without a forest relinquishment approval letter (SPKH) from the Ministry of Forestry. Yet from early 2008 countless truckloads of logs from PT IKS’ plantation were delivered to PT Henrison Iriana, the local plywood
and saw mill of the Kayu Lapis Indonesia (KLI) Group. Ministry of Forestry records indicate that a “principle” or preliminary approval to release 20,075ha of land from the forest estate was issued for PT IKS in October 2009, but that as of June 2011, the company still had not received a full SPKH, as required by law.

The same illegality occurred in the PT HIP plantation between 2003, when clearance began illegally before the plantation permit was issued, and 2006. In 2006, then-Forestry Minister MS Kaban recommended that KLI’s Sorong logging subsidiary PT Intimpura should “answer questions” concerning utilisation of illegal timber from 400ha of Moi land within the PT HIP concession, and instructed the head of the West Papua Forestry and Agriculture Office to “evaluate and revoke” KLI’s wood utilisation permits. The timber from PT HIP was also sent by PT Intimpura to PT Henrison Iriana’s plywood mill in Sorong.

To date, none of the Government officials or the companies involved in either plantation – all controlled by the powerful Sutanto family – have ever been prosecuted for systematic illegal logging, and products have been sold onto international markets.

International trade records indicate that between December 2007 and May 2008, PT Henrison Iriana shipped 33 consignments of plywood to one of the US’s biggest independent plywood traders. Between 2008 and 2011, KLI exports of valuable merbau wood (Intsia Spp.) products amounted to 8,000 tons (about 9,000m³), earning the company just under US$ 9 million. Nearly 4,000m³ (worth about US$ 3.5 million) of KLI’s merbau exports were shipped to Australia – a major consumer of merbau. KLI would have sourced this merbau from its Papua concession base, including from the PT HIP and PT IKS areas. Average KLI group merbau product export values equalled approximately US$ 875 per cubic metre.

Timber returns for Papuan landowners who have “leased” land to PT HIP and PT IKS are significantly lower. One landowner informed EIA/Telapak that PT IKS had paid merely Rp. 25,000 (US$25) per cubic metre of timber, including for valuable merbau, and that from 300 hectares of forest they had received merely US$ 5,000. This equates to merely 6.6 cubic metres per hectare – far lower than the 16.5 cubic metres per hectare PT HIP was licensed to harvest in similar forests.

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**Timber revenue distribution in Kayu Lapis Indonesia’s (KLI’s) Sorong plantations (US$ per cubic metre)**

| KLI payments to Moi landowners for merbau wood on their land | US$ 25 |
| Price attained by KLI Group on export of semi-finished merbau products | US$ 875 |
During the May 2011 visit to Sorong, EIA/Telapak updated Moi landowners on significant developments in the ownership of the PT HIP plantation on their land, and the huge profits international investors – including Norway’s US$570 billion sovereign wealth fund – would reap. Moi tribe landowners were completely unaware of any of these developments.

These two Sorong plantations appear to have been strategically separated from the wider KLI Group by incorporating them into a company called Kalia Agro. EIA believes this may have been done to safeguard the Sutanto family’s multi-million dollar plantations assets from the group’s US$140 million in outstanding debts, due to be repaid to bank Mandiri from 2011.

**NOBLE INTENTIONS**

In mid-June 2010, the Hong Kong-headquartered Noble Group made its first foray into oil palm plantation ownership, buying a majority 51 per cent stake in PT HIP. With 2011 revenues exceeding US$88 billion and 2010 profits of over US$600 million, Noble is a huge Singapore stock exchange-listed commodities trading corporation. Noble’s 2010 annual report reveals it paid US$24,525,000 (Rp.276.7 billion) for control of PT HIP, estimating the plantation firm’s tangible assets at US$48,303,000, including “cash and cash equivalent of US$19,963,000, agricultural assets of US$46,060,000 and property, plant and equipment of US$7,666,000”. Media coverage of Noble’s PT HIP acquisition suggested the plantation could be worth US$162 million once developed, based on a US$5,000 per hectare biological asset baseline.

While Noble’s PT HIP acquisition press release only referenced the 32,500ha concession in Sorong, in 2011 EIA/Telapak learned from Government sources in Sorong that PT HIP also owns or controls the 38,300ha plantation of PT IKS. Indeed, the website of Kalia Agro, which promotes PT IKS, is actually registered by PT HIP, and the palm oil refinery PT HIP is building in Klasafet will also process palm fruits from the PT IKS plantation, massively increasing PT HIP’s value.

With Moi landowners receiving as little as US$0.6 per hectare from PT HIP, the perversities are clear and highlight the utter failure of Indonesia’s and West Papua’s governments to safeguard the interests of citizens, particularly the fragile and marginalised indigenous communities supposedly protected under the Province’s so-called Special Autonomy provisions.

**NORWEGIAN WOODS**

Ironically, Noble’s ownership of PT HIP drags Indonesia’s biggest REDD+ donor into the exploitative deforestation occurring in West Papua province.
In December 2009, Norway’s Government Pension Fund - Global (GPFG) – the world’s largest sovereign wealth fund – held US$38,973,707 of shares in the Noble Group, having increased its stake nearly tenfold from December 2008 holdings of US$3.9 million. During 2010, the year Noble bought PT HIP, Norway’s GPFG increased its stake by a further US$8 million to US$47,053,410.

With further GPFG holdings in other major plantations firms across the two provinces, Norway is perhaps now the biggest state investor – albeit indirectly – in deforestation in Papua and West Papua, highlighting how unreformed global investment markets maintain the perverse incentives that are the biggest threat to forests and the success of REDD+.

For example, in June 2011 Noble spent US$30,915,000 to acquire 90 per cent of PT Pusaka Agro Lestari (PT PAL), a company holding permits for a separate 38,159ha of new oil palm plantations soon to be carved from the forests of Timika, in Papua province. RSPO documents indicate Noble Group subsidiary, Noble Plantation Pte Ltd, is the direct parent of PT PAL, and maps of the concession correspond directly with areas removed from the Moratorium on new forest conversion agreed under Norway’s Letter of Intent on REDD+ with Indonesia.

The year Noble purchased PT PAL, Norway’s GPFG increased its percentage stake in Noble yet again.

EIA’s efforts to persuade the Norwegian Government to divest these and similar shares have been rebuffed for more than two years. The country’s Finance Ministry and Prime Minister’s office continue to authorise increased investment in Indonesian forest destruction – investment far greater than that paid to Indonesia thus far to reduce emissions from deforestation via Norway’s well-meaning International Climate & Forests Initiative (NICFI).

GREEN-WASHING EXPLOITATIVE DESTRUCTION

On purchasing PT HIP, Noble announced its intention to certify the concession under the Roundtable on Sustainable Palm Oil (RSPO). However, even PT HIP’s RSPO application note hints at legal breaches by the company.

In its RSPO profile, PT HIP claims that “PT HIP and its investors and financier are committed to ensuring that high standards of environmental and social safeguards are implemented at all stages of development”. It adds that, of the 26,400ha it can convert within the 32,500ha concession, only 4,400ha – 16 per cent of the convertible area – will be set aside for smallholder or “plasma” estates. Under Indonesia’s 2007 plantations law, at least 20 per cent must be smallholder estates for local people.

In 2011, EIA/Telapak learned that smallholder areas in PT HIP’s plantation – two hectares per clan member – had still not been developed in the seven years since the plantation began, despite PT HIP claiming in its June 2010 RSPO application to have developed 6,500ha of land.

In Modan, where PT IKS operates, landowner Lois Masinau finally obtained copies of documents detailing the 55 members of 18 families from his clan recognised as “plasma candidates”. With each granted only two hectares, the entire clan would get merely 110ha of plantation from the 1,350ha of land they had provided. Under the 20 per cent plasma requirement they should get at least 270ha.

When EIA/Telapak filmed an interview with Mr Masinau on his land in the plantation, PT IKS’s Estate Manager arrived, claiming permission was needed to enter the area and pressuring Mr Masinau to immediately leave with him. When informed that EIA/Telapak were conducting interviews to gauge the effects of plantations on Papuan livelihoods, the Estate Manager assured Mr Masinau his plasma area would be developed soon – over three years after land clearance began.

Despite Noble’s RSPO intentions, a job advert for an Estate Manager at PT HIP stipulated that any applicant should have at least six years of “jungle clearing” experience. Environmental impacts are already evident.

EIA/Telapak’s 2011 fieldwork and new satellite images show destructive “jungle clearing” continues in both the PT HIP and PT IKS plantations.

Many houses in Distra village, Beraur District have been repeatedly flooded since forest clearance for the plantation significantly increased rainfall runoff from the PT HIP concession.

In a newer PT HIP clearance area south-west of Klamono, where locals say the military and local bupati (regent) control the plantation, the forest has been cleared right up to the major Klamono river and well into the 100m buffer zone required by law. The rivers of Sorong increasingly run brown.

“Unreformed investment markets maintain the perverse incentives that are the biggest threat to forests and the success of REDD+.”

BELOW:
Lois Masinau’s clan is fighting to secure smallholder estates within PT HIP’s plantation on his land.
**RECOMMENDATIONS**

**West Papua’s Provincial Government should:**
- Work harder to secure the rights and interests of indigenous Moi landowners in land negotiations, and ensure written contracts that stipulate concrete development benefits for landowners are both drafted and made available.
- Ensure PT IKS and PT HIP honour the legal requirement to develop at least 20% of their planted areas as smallholder or Plasma estates.
- Employ the SVLK law to investigate the use of timber from clearance of the PT IKS area without a Forest Relinquishment Permit.

**The Indonesian Government should:**
- Investigate the issuance of timber utilisation permits for forest cleared without a forest relinquishment permit.
- Publish the details of KLI Group’s debt repayment obligations and actual repayment details to date, and ensure that debts repaid by KLI group are not financed by illegal logging and land clearance.
- Work to ensure the Norwegian International Climate and Forests Initiative (NICFI) budget for Indonesia provides financial incentives for Papuan landowners in Sorong and elsewhere to conserve their forests.

**The Norwegian Government pension Fund (GPFG) should:**
- Ensure investments in forests and land use are coherent with the Norwegian government’s efforts to reduce deforestation in Indonesia.
- Investigate whether Noble Group’s plantations investments in Papua and West Papua comply with the Ethical Guidelines of the GPFG.

**The Norwegian Government should:**
- Employ the Norwegian International Climate and Forests Initiative (NICFI) budget for Indonesia to provide financial incentives directly to Papuan landowners in Sorong and elsewhere to conserve their forests.
- Establish an Inter-Departmental Working Group tasked with ensuring the GPFG’s investment practices are reformed to help Norway meet its Cancun Agreements commitments on REDD+.
- Mandate this Working Group to commission a strategic study on the GPFG’s role in driving deforestation, and how this can be mitigated through reform.

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PT HIP has cleared forests right up to major rivers, in contravention of Indonesian law.
REFERENCES

5. Ministry of Forests, M S Kaban, to GreenpeaceSEA's forest campaigner.
6. Indonesia’s Financial Sector Policy Committee allowed Indonesian state-owned Bank Mandiri following the Asian Financial Crisis to issue a new international loan of USD 140 million of debt.