



Press Statement of Koalisi Anti Mafia Hutan

Implementing Presidential Regulation 13/2018: Sinar Mas Group Must Declare the Beneficial Owners of All Affiliated and Related Companies

Jakarta, 30 May 2018—A new report published today by the Koalisi Anti Mafia Hutan is calling on the Government of Indonesia to take firm actions against global pulp and paper producer Asia Pulp & Paper (APP) after unmasking their corporate links with wood fiber plantation companies (HTI). The report entitled *Removing the Corporate Mask* reveals an apparent close relationship between the Sinar Mas Group, the parent conglomerate of APP, and 24 declared wood suppliers that APP has called "independent partners". The report also traces out the ownership structure of the forestry business group within the Sinar Mas Group, which extends to a network of companies in numerous offshore jurisdictions.

This analysis is a response to APP's statements concerning two of APP's supplier companies, namely PT Bumi Mekar Hijau (BMH) and PT Sebangun Bumi Andalas Wood Industries (SBAW), both of which had their permits suspended by the Environment and Forestry Ministry (KLHK) over allegations related to the 2015 fires. The report released today shows that APP's public statement indicating both companies were "owned and operated independently" was a blatant lie. The Coalition offers this analysis to push for the transparency and accountability of business actors in Indonesia's pulp and paper industry to support the implementation of Presidential Regulation 13/2018, issued by President Joko Widodo in March 2018, requiring all companies in Indonesia to declare their beneficial owners within one year. SMG/APP is by far the single biggest group in Indonesia's forestry sector, therefore the Coalition considers SMG/APP's transparency in adherence to the regulation a critical step in better forest governance.

The main source of data for this analysis are corporate registry profiles released by the Directorate General of Public Law Administration (Ditjen AHU), in the Ministry of Law and Human Rights. The analysis of the data indicates that a majority of the "independent" HTI plantation companies are or recently were registered at the same addresses as Sinar Mas Group's corporate headquarters in Jakarta and PT Indah Kiat Pulp & Paper Tbk, one of APP's paper mills in Serpong, Tangerang outside of Jakarta. The corporate ownership flows to eight people, seven of whom appear to be current or former employees of Sinar Mas related entities, including Sinar Mas Forestry. Sixteen other individuals listed as the HTI concession companies' and holding companies' commissioners and directors also appear to be current or former employees of Sinar Mas related entities.

Similar links to the Sinar Mas Group are also apparent in two HTI concession companies APP has proposed to add as wood suppliers: PT Buana Megatama Jaya in West Kalimantan and PT Bangun Rimba Sejahtera on Bangka island. An APP official has also claimed these companies to be "independent suppliers [which] have no affiliation to APP or Sinarmas."



The analysis raises the possibility these are nominee structures, which are prohibited under Law 25/2007 on investment. Article 33 (1) of the law “prohibits agreements and/or statement of shareholding of companies for and on behalf of others.” Violations of said provisions will result in the agreement being null and void. Nominee structures are commonly used to circumvent restrictions on foreign ownership in companies involved in particular investments. In addition, they are also often used to conceal the identity of the real beneficiaries of assets from financial crimes and money laundering.

APP’s brandholder PT Purinusa Ekapersada’s direct and indirect shareholders include 13 companies incorporated in the British Virgin Islands and seven companies incorporated in Mauritius, Singapore, and Japan, and the Netherlands. While the ultimate beneficial owners of these offshore companies are, as yet, unknown, the existence of corporations in tax haven countries presents the appearance of risk. Shell companies in these jurisdictions are often used as vehicles for various economic crimes such as tax evasion, money laundering, and the concealment of actual money owners.

In addition, the study highlights PT Hutan Rindang Banua, which has an HTI concession license for 265,095 ha in South Kalimantan, the ownership of which flows into some of the same holding companies as APP’s “owned” HTI plantation companies and pulp and paper mills. But APP has never declared PT Hutan Rindang Banua’s HTI plantation concession as their supplier and it is not covered under APP’s Forest Conservation Policy even though the natural forest has been converted in the concession.

The use of nominee share-holding structures and ownership through entities incorporated in offshore jurisdictions are common practices in Indonesia as in other countries, especially in the natural resource sectors. For this reason, the Government, based on Presidential Regulation No. 13/2018, must require companies in Indonesia to disclose their beneficial owners. Greater corporate accountability in the natural resource sectors will result in decreased environmental damage, a reduction in company-community conflicts, and an increase in tax collection by the state. The Coalition recommends the Government to analyze potential risks of money laundering by Sinar Mas Group related companies, especially through/by/with companies in offshore jurisdictions.

In light of this report, the Coalition finds it difficult to trust Asia Pulp & Paper’s statements about even basic aspects of its operations and sustainability commitments, which it has claimed to be implementing since 2013. To achieve the transparency it claims to prioritize, APP needs to commit to be truly accountable for all of its corporate environmental and social footprint and not only a part of it, starting with public release of the fundamental data including its beneficial owners, all affiliated and related companies and their operations and their impacts. The Coalition also calls on APP to have these data and their operations independently verified, instead of continuing to depend on consultants to mislead the public.



Based on the analysis, the Koalisi Anti Mafia Hutan urges:

the President of the Republic of Indonesia to:

- apply a single identity number (SIN) to close potential gaps for all people to misuse false information;

the House of Representatives of the Republic of Indonesia to:

- work with the Government to revise Law 40/2017 on Limited Liability Companies, to clarify the liability of parent companies, subsidiary companies, group companies, or holding companies under Indonesia's corporate law.

the Ministry of Environment and Forestry to:

- require APP and Sinar Mas Group to disclose the corporate structures and beneficial owners of all companies holding HTI concessions and other forestry licenses under the group's control;
- require all beneficial owners of APP- and Sinar Mas-affiliated company to affirm their ultimate responsibility for ensuring the forestry and peatland assets are managed fully in accordance with the terms of the license under which they have been allocated;
- require APP and the Sinar Mas Group to immediately release a credible and verifiable long-term wood supply plan for each of the group's pulp mills in Indonesia;
- not allocate new HTI licenses as land swaps to companies affiliated with or related to the Sinar Mas Group until the entire inspection is conducted on possible tax avoidance and monopsony practices by the Sinar Mas Group;

the Ministry of Finance c.q. Directorate General of Taxes to:

- audit the performance of corporate and individual tax payments of corporations, management, and shareholders affiliated with Sinar Mas and APP;
- review wood supply agreements and other contracts between APP and the Sinar Mas Group and APP's declared wood supplier companies to assess whether related-party purchases have been conducted as arms-length transactions;

the Ministry of Law and Human Rights to:

- require companies affiliated with Sinar Mas Group to declare their beneficial owners, as stipulated in Presidential Regulation 13/2018;
- evaluate the existence of shareholders allegedly presumed as the *nominee* owners at the companies affiliated with Sinar Mas Group;
- improve the system for the formation of legal entities so as to identify from the outset *nominee* share-holding structures, as well as companies that are within a single ownership group, which have overlapping share-holding structures, and/or in which officers hold multiple positions.



the Financial Services Authority (OJK) to:

- conduct a full audit of the compliance and validity of information released by companies affiliated with Sinar Mas Group which have gone public;

the Commission of Business Competition Supervisory (KPPU) to:

- inspect the business structure of Sinar Mas Group to assess indications of overlapping share-holding structures, vertical integration, and potential for transfer pricing on wood fiber supply to industries, which is prohibited by Law 5/1999;
- take appropriate action upon companies that are suspected of committing violations;

the Financial Transaction Reports and Analysis Centre (PPATK) to:

- analyze potential risks of money laundering by Sinar Mas Group related companies, especially through/by/with companies in offshore jurisdictions;

Asia Pulp & Paper and the Sinar Mas Group to:

- fulfill the requirements of Presidential Regulation 13/2018 to declare the beneficial owners of all companies listed in Appendix A of *Removing the Corporate Mask*, no later than March 31, 2018;
- disclose the names, legal shareholders, and beneficial owners of all corporate entities controlled by, affiliated with, and/or linked to APP and the Sinar Mas Group in all jurisdictions globally;
- release audited financial statements for all HTI concession companies that supply wood fiber to APP's pulp mills in Indonesia.

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