

Burning Paradise

*The oil palm practices of Korindo in
Papua and North Maluku*



Commissioned by

Mighty, the Korea Federation for Environmental
Movements, SKP-KAMe Merauke and PUSAKA

August 2016

Photo: Pristine forest in Papua



© Greenpeace / Ardiles Rante, 2008

Photo: Korindo having cleared forest for oil palm in Papua



© Mighty; 4 June 2016; Latitude 6°45'43.49"S, Longitude 140°48'27.70"E; Credit: Yudhi Mahendra

Colophon

Aidenvironment report:

Burning Paradise:

The oil palm practices of Korindo
in Papua and North Maluku

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Mighty, the Korea Federation for Environmental Movements,
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Date:

August 2016

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Cover photo:

Smoke rising from burning wood rows in
Korindo's PT Berkas Cipta Abadi concession
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Executive summary

Korindo, a company whose name constitutes a composite of the words Korea and Indonesia, is a large enterprise that employs around 20,000 people in Indonesia. The company's main businesses are in natural resources with operations involving logging, pulpwood and oil palm concessions, and plywood, wood chip and palm oil production. Other Korindo businesses include newsprint paper manufacturing, heavy industries including wind towers, financing, and real estate. Korindo is controlled by the South Korean Seung family.

In 2013, Korindo began its aggressive clearing of tropical lowland forests for oil palm plantations. It has eight areas totaling 160,000 hectares. Seven of these, covering 149,000 hectares, are in Papua where Korindo is the largest palm oil company. The remaining 11,000 hectares are in the province of North Maluku. In addition, Korindo helps the Korean company Daewoo with its 30,000-hectare plantation in Papua.

As of June 2016, 75,000 hectares of valuable forests remained in Korindo's oil palm concessions. These forests are all at risk of clearing in the coming years. According to Indonesian government data, more than half of them are previously untouched, so-called primary forests.

There are three main findings with regard to the sustainability of Korindo's oil palm practices:

- **Deforestation** - In total, Korindo has cleared more than 50,000 hectares of tropical lowland forests in Papua and North Maluku, Indonesia; an area approximately the size of South Korea's capital city, Seoul. Since 2013 alone it has cleared 30,000 hectares of forests in the two provinces, 12,000 hectares of which were primary forests. Korindo makes little effort to identify and preserve conservation areas within its concessions.
- **Fires** - Korindo contributed significantly to Indonesia's haze disaster in 2015, which resulted in enormous environmental and economic losses for the country. Korindo was the largest contributor in Papua. All evidence - satellite imagery, hotspot data, and aerial photographs - points to Korindo's systematic and abundant use of fire during its land clearing processes. This is illegal in Indonesia, which Korindo is well aware of. In October 2015, the Papua Deputy Governor stated that companies causing fires should immediately be shut down.
- **Community rights** - In general, Korindo has failed to recognize the right of local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments on community lands. Korindo's subsidiary, PT Gelora Mandiri Membangun is occupying the farmland and forests of communities in South Halmahera district in North Maluku. Most of the communities, which have lived there for hundreds of years, are strongly opposed to an oil palm plantation. Korindo is disregarding their customary rights by continuing its operations there.

Trade data show that, until recently, Korindo's palm oil ended up with consumers in Europe and North America, China and India. Products were bought by main trading/refining companies, many of which are actively working on ensuring suppliers' compliance to their No Deforestation, No Peat, No Exploitation (No Deforestation) policies. Korindo does not comply with these policies, as shown by the three findings above. Two companies that were a main customer of Korindo, Wilmar and Musim Mas, have already stopped sourcing from the company. This was after repeated warnings from both companies that Korindo should change its practices. Presently, it is unclear to which companies Korindo sells its palm oil.

Korindo presents itself as an environmentally friendly company. However, its oil palm operations cause problems of global concern, such as biodiversity loss, climate change, hazardous air quality, and loss of livelihoods. Companies accounting for the vast majority of globally traded palm oil have committed

themselves to strict No Deforestation policies. Korindo, however, has yet to publish a specific sustainability policy.

Another concern is Korindo's sourcing of logs from third parties for plywood production. The company has no known safeguards for ensuring that illegally harvested timber or timber from deforestation does not enter its supply chain.

Photo: Lesser bird of paradise



© Greenpeace / Takeshi Mizukoshi.

Foreword

For years, Korindo has gotten away with devastating some of the last pristine rainforest landscapes left in Indonesia, flouting Indonesia's no-burning laws, running roughshod over local communities, and violating the responsible sourcing requirements of its major customers. As a result, Korindo has already lost two major customers: Wilmar and Musim Mas. Both were major direct buyers of Korindo oil palm. If Korindo continues down this path, it will be at high risk of losing additional customers, losing investors, facing extreme reputational damage, and being held legally accountable for its actions. Or, Korindo could choose to join the revolution in responsible agriculture and turn a new leaf by doing the following:

- Immediately enforce a moratorium on all new forest clearing and burning;
- Adopt and immediately implement a cross-commodity policy that protects high carbon stock landscapes (following the High Carbon Stock Approach available at <http://www.highcarbonstock.org>), high conservation value forests and peatlands of any depth, and that respects human, community, and labor rights. This policy should apply to all of Korindo's global operations, subsidiaries, joint venture and supply chain partners. Korindo should also issue an implementation plan, work with a credible implementation partner, issue regular progress reports, and verify compliance through an independent third party.
- Cease all operations in PT Gelora Mandiri Membangun in South Halmahera (North Maluku), where Korindo is encroaching onto the customary lands of local communities, and immediately excise community customary lands from license areas;
- Address and remedy its legacy of environmental harm, land grabbing and human rights violations – including by returning customary lands, resolving social conflicts and grievances and restoring damaged ecosystems. Finance the restoration of an area at least equivalent to that which it has destroyed over the past two decades.
- Agree to broad transparency, including releasing the location of its mills and concession boundaries across all commodities, revealing the names and locations of third party suppliers, and reporting regularly on third party supplier compliance.
- Comply with any legal proceedings regarding Korindo's use of fire to clear land and seizing control of customary lands without the consent of communities to whom those lands belong.

There is much at stake: 75,000 hectares of forests remain in Korindo's concessions and are at imminent risk of destruction. The fires Korindo will likely set this dry season will contribute to hazardous air quality, endangering the health of people across the region, and contributing massively to climate change. The rich cultural heritage of Papua and North Maluku will be further eroded if Korindo continues to seize control of, and destroy, the customary lands of communities. Species on the brink, like the tree kangaroo, may be lost forever. And Korindo could set a dangerous precedent of commercial exploitation of one of the last forested landscapes left in what was once a global epicenter of thriving rainforests and biodiversity.

We know we can save these forests and stop the destruction if enough people around the world demand that Korindo reform and call on the Indonesian and Korean governments to hold Korindo legally accountable. Visit our campaign website for more information, additional photos and videos of Korindo's operations, and to take action: www.MightyEarth.org/BurningParadise.

Thank you,

Deborah Lapidus
Campaign Director
Mighty

Photo: A tree kangaroo with a baby in her pouch



© Mighty; 13 July 2016.

Photo: Forest clearing by Korindo for oil palm in Papua



© Mighty; 4 June 2016; Latitude 6°47'2.69"S, Longitude 140°45'48.58"E. Credit: Yerimia Leo.

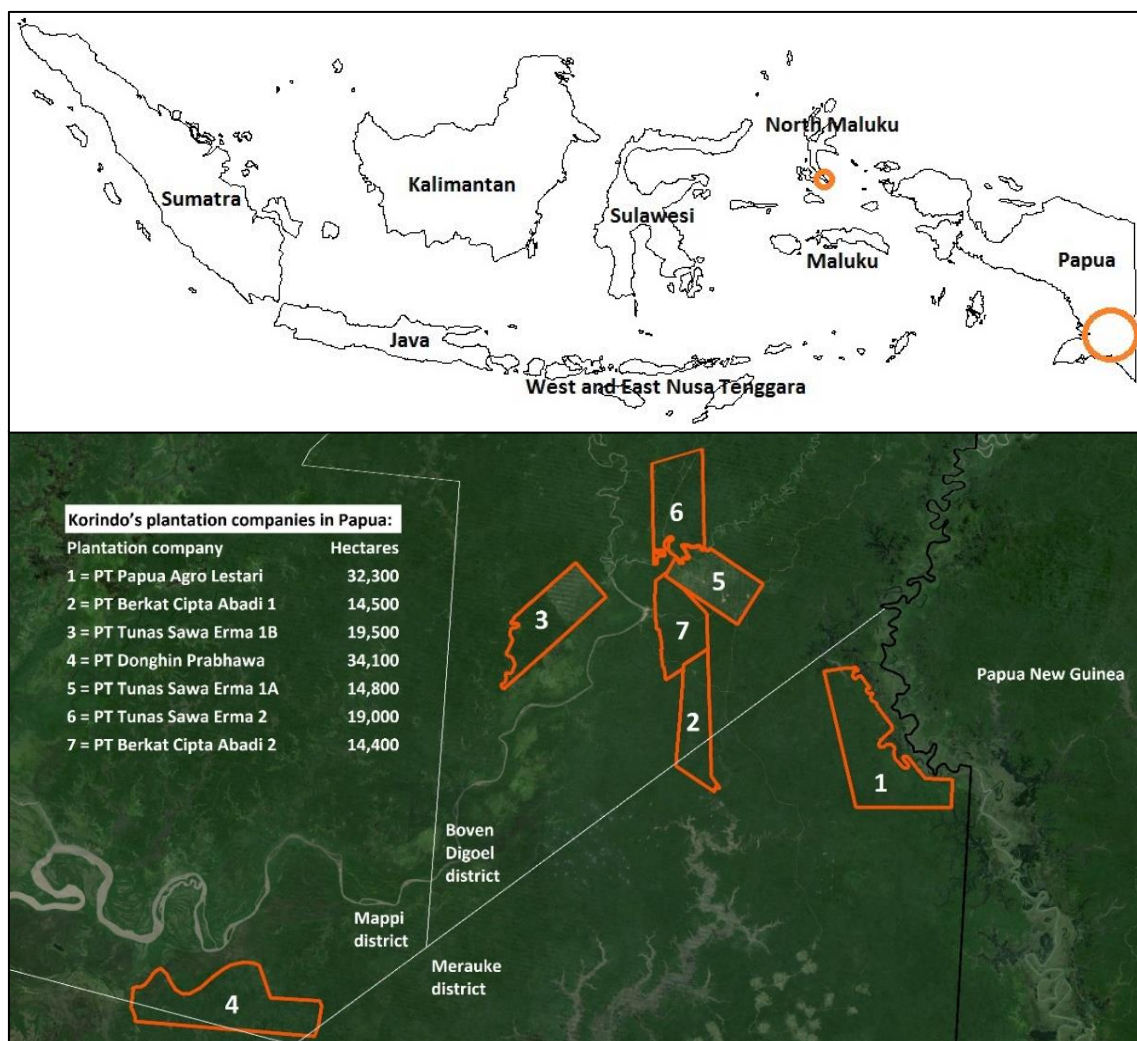
1. Korindo's oil palm businesses

1.1 Plantations

Korindo employs around 20,000 people. Its main businesses are in natural resources with operations involving logging, pulpwood and oil palm concessions, as well as plywood, wood chip and palm oil production. Other Korindo businesses include newsprint paper manufacturing, heavy industries including wind towers, financing, and real estate.¹ Korindo is controlled by the South Korean Seung family.

Korindo's oil palm operations take place in the Indonesian provinces of Papua and North Maluku. The company began its logging operations in Papua in 1993, while development of its first oil palm plantation commenced in 1998.² Korindo has eight concession areas totaling 160,000 hectares. Seven of these, covering 149,000 hectares, are in Papua where Korindo is the largest palm oil company. Korindo's plantation company PT Gelora Mandiri Membangun (PT GMM) accounts for the other 11,000 hectares, and is located in South Halmahera district in North Maluku. On its website Korindo states a target of 200,000 hectares of oil palm plantations by 2020.³

Figure 1. Locations of Korindo's oil palm operations in Indonesia



Concession boundaries and ownership

The concession areas - sizes as well as boundaries - used for this report were derived from maps and forest land release permits from the central government. Table 1 below shows the size of these areas, according to the forest land release permits. Palm oil companies are also required to acquire Plantation Business Permits (IUP, *Izin Usaha Perkebunan*) and/or Rights to Exploit (HGU, *Hak Guna Usaha*) for their concession areas. These are issued by district governments. In many cases, our investigation found no evidence of such permits ever being issued.⁴

Table 1. Forest land release permits received by Korindo

Abbreviation	Plantation company	Forest land release permit	Hectares
PT TSE 1A	PT Tunas Sawa Erma 1A	171/KPTS-II/1998 (27 February 1998)	14,800
PT TSE 1B	PT Tunas Sawa Erma 1B		19,500
PT GMM	PT Gelora Mandiri Membangun	SK.22/MENHUT-II/2009 (29 January 2009)	11,000
PT DP	PT Donghin Prabhawa	SK.623/MENHUT-II/2009 (5 October 2009)	34,100
PT BCA 1	PT Berkas Cipta Abadi 1	SK.328/MENHUT-II/2011 (22 June 2011)	14,500
PT PAL	PT Papua Agro Lestari	SK.52/MENHUT-II/2012 (4 October 2012)	32,300
PT BCA 2	PT Berkas Cipta Abadi 2	SK.835/MENHUT-II/2014 (29 September 2014)	14,400
PT TSE 2	PT Tunas Sawa Erma 2	SK.844/Menhut-II/2014 (29 September 2014)	19,000
Total			159,600

Source: Ministry of Environment and Forestry, Progress in releasing forest land, May 2015, <http://bit.ly/1R5haD5>

Korean partners: Hyosung and Daewoo

Hyosung Corporation, a South Korean industrial conglomerate, is the only entity other than Korindo with a share in Korindo's plantation companies. In 2014, the corporation bought 15% shares in PT Papua Agro Lestari and PT Gelora Mandiri Membangun. As of 31 December 2015 it still owned these shares. Primarily, Hyosung manufactures and sells synthetic fiber products and electronic products, but it is also engaged in construction and other related business activities.⁵

The Korean conglomerate Daewoo has an oil palm concession in the same region as Korindo's Papuan oil palm concessions. Daewoo's plantation company, PT Bio Inti Agrindo (PT BIA), is located in Merauke district, and according to its forest land release permit, the concession covers an area of 36,400 hectares.⁶ In May 2016, Daewoo confirmed that Korindo advises it with regard to its plantation operations.⁷ Daewoo has an 85% stake in PT BIA. It is unknown who owns the remaining 15%, though Korindo may be the phantom owner.

Korindo's products

Oil palms start bearing fruit (Fresh Fruit Bunches (FFB) after approximately four years. This means that in order for Korindo to be able to harvest FFB in 2015/2016, its oil palms must have been planted in or before 2011/2012. This is certainly the case for the Korindo plantation companies PT TSE 1A and PT TSE 1B, where approximately 17,700 hectares of oil palms were planted before 2010. Both plantation companies have palm oil mills inside their concession that process harvested FFB into Crude Palm Oil (CPO). Combined total production from these mills amounted to 109,000 tonnes of CPO in the period from October 2014 to September 2015. In addition, 23,800 tonnes of palm kernel were harvested.⁸

PT Donghin Prabhawa (PT DP) has also begun harvesting FFB from oil palms planted by early 2011. As yet, PT DP has no palm oil mill. The harvested FFB are likely transported to PT TSE palm oil mills. Palm oil mills for both PT Dongin Prabhawa and PT Berkas Cipta Abadi are currently under construction.⁹

1.2 Introduction to Papua

Of all regions in Indonesia, Papua hosts the largest area of previously untouched primary tropical rainforest. At the end of 2012, primary forest was estimated to cover 35.2 million hectares, or 86.2% of its total land area. By comparison, in Sumatra only 13.4 million hectares of primary forest remained, covering only 28.3% of its surface area. Figures for Kalimantan were 27.6 million hectares and 51.9%.¹⁰

Papua hosts around 50% of Indonesia's biodiversity. It is home to 15,000 – 20,000 plants (55% endemic), 602 birds (52% endemic), 125 mammals (58% endemic) and 223 reptiles (35% endemic). Endemic species include tree kangaroos, birds of paradise, rainbow fishes, birdwing butterflies, various orchids and thousands of other flora and fauna species.¹¹

In 2010, Papua had a population of 3.6 million people. It has the highest population growth of all Indonesia's regions, caused by transmigration and a high birth rate.¹² It is home to around 312 different tribes, including some uncontacted peoples.¹³ The situation in areas with new activities, such as oil palm planting, is often tense due to the military presence. The military's violent and indiscriminate repression of alleged OPM members (Organisasi Papua Merdeka - the Free Papua Movement) in Papua is well known, and often causes widespread panic within villages.¹⁴

Large tracts of land have become increasingly difficult to find in Sumatra and Kalimantan because so much area has already been deforested, and due to increasing implementation of both government and private sector limits on deforestation, peatland conversion, and expropriation of indigenous community land. Consequently, plantation companies have been looking to expand in Papua. In 2005, there were only five oil palm plantations operating in Papua. By the end of 2014, there were 21 operational plantations, with another 20 concessions at advanced stages of their permit processes.¹⁵ Korindo, active in the forestry sector in Papua since 1993, has expanded its oil palm area in Papua most aggressively over the last five years, and is the biggest oil palm company in Papua.

Photo: Tree kangaroo



© Greenpeace / Gerald Cubitt

1.3 Introduction to South Halmahera

The Korindo subsidiary company PT Gelora Mandiri Membangun is located in South Halmahera district on Halmahera Island, in North Maluku. Halmahera is one of the original "Spice Islands" and part of the Wallacea ecoregion, which contains a very distinctive fauna representing a mix of Asian and Australasian species.¹⁶ Communities in the area, who have lived there for hundreds of years, live mostly off the sea and the land, which provide sources of carbohydrates, protein, minerals and vitamins, wood for houses and boats, as well as herbal medicines. They also rely heavily on local gardens, where they grow fruits, vegetables, yams, chili, coconut, nutmeg and cloves.¹⁷

Figure 2. South Halmahera in May 2016 (forests cleared by Korindo are inside the yellow boundary)



Source: Landsat 7 imagery for 8 May to 9 June 2016.

2. Practices and sustainability commitments

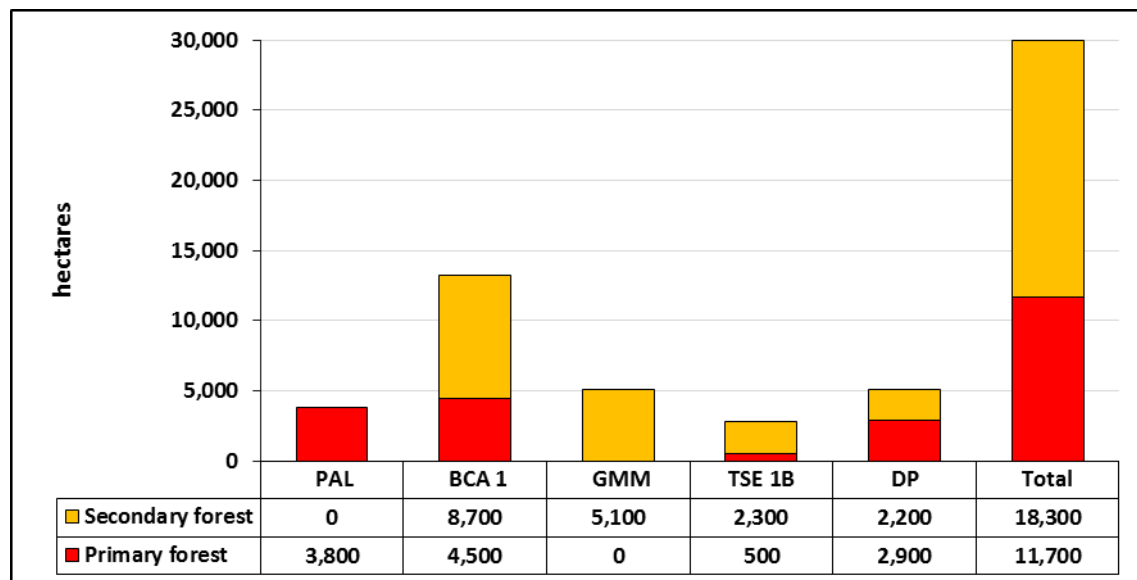
2.1 Practice: extensive deforestation

Accelerated clearing since 2013

Korindo has been accelerating its clearing and planting in Papua since 2013, and in 2014 commenced widespread clearing in South Halmahera. Figure 3 shows the loss of forest cover from 2013 up until the end of May 2016, which can be summarized as follows:

- Total deforestation by Korindo in the period from 2013 to May 2016 amounted to 30,000 hectares, comprising 11,700 hectares of primary forest and 18,300 hectares of secondary forest.
- The most recent clearing of primary forest has been by PT PAL (3,800 hectares since late 2015) and PT TSE 1B (500 hectares in 2016).

Figure 3. Area of forest cleared since 2013



Source: Landsat 8 imagery, compared with Indonesian Ministry of Forestry forest cover maps for 2011, and in the case of PT DP forest cover maps for 2009.

Clearing before 2013

Korindo started planting oil palm in Papua in 1998, after PT Tunas Sawa Erma received a release permit for 34,300 hectares of forest land. By 2000, PT TSE 1A had already planted 7,500 hectares of oil palm. PT TSE 1B started its development in 2006 and had planted 7,000 hectares by 2008.¹⁸ By 2010, the total area developed by PT TSE 1A and 1B amounted to 21,400 hectares.¹⁹ Most of this development came at the expense of primary forest.²⁰

Korindo began developing the PT Donghin Prabhawa (PT DP) concession in late 2010. By 2012, a total of 1,600 hectares of secondary forest had been cleared.

In total, Korindo has cleared more than 50,000 hectares of forest to make way for oil palm plantations. This area is approximately the size of Seoul, the capital of South Korea.

Timber in the oil palm concession areas

The timber from trees Korindo cuts down to make way for oil palms probably goes to its plywood mill in Asiki. Timber revenues may finance a substantial portion of its oil palm plantation development. In 2014, the Center for International Forestry Research (CIFOR) estimated that the 22,000 hectares of mostly primary forest cleared by TSE 1A and 1B before 2010 would generate enough timber revenue to finance the costs of developing at least 10,000 hectares of oil palm plantations.²¹

Photo: Logs made ready for transport from Korindo's PT Papua Agro Lestari oil palm concession



© Mighty; 4 June 2016; Latitude 6°45'42.82"S, Longitude 140°48'17.75"E. Credit: Yerimia Leo

Photo: Korindo truck taking out logs from Korindo's PT GMM oil palm concession in North Maluku



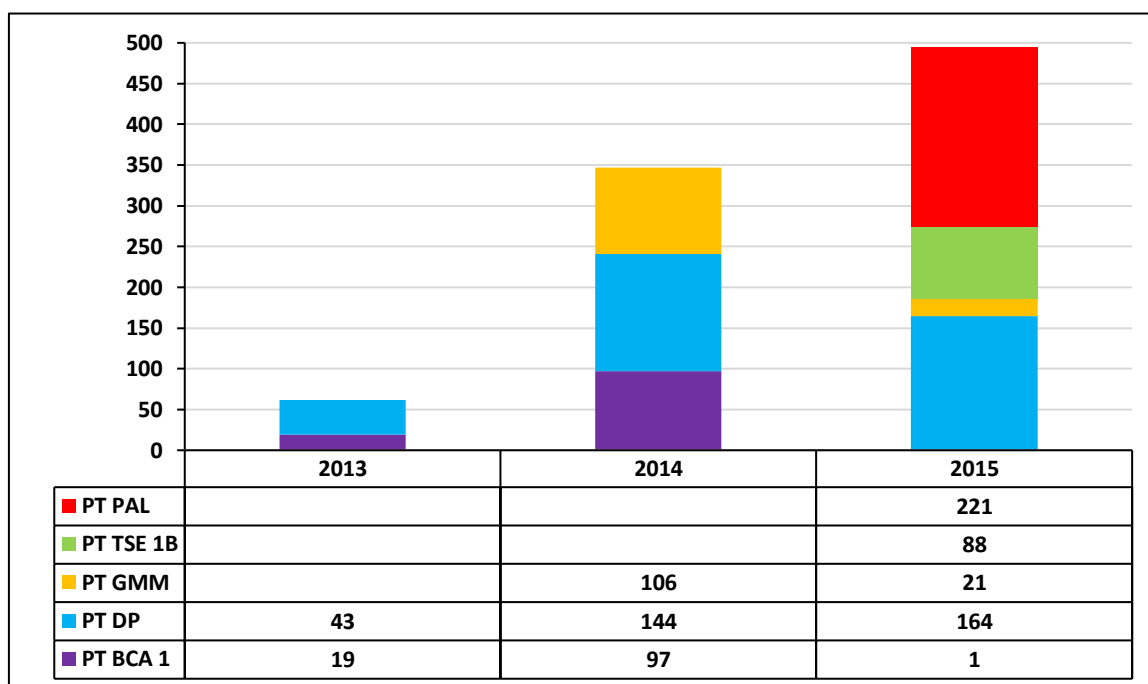
© Walhi, November 2014.

2.2 Practice: systematic use of fire to clear land

Systematic use of fire by Korindo

All evidence gathered by Aidenvironment points to Korindo's systematic use of fire during its land clearing processes.²² In the period from 2013 to 2015, no less than 894 hotspots (>50% confidence) were recorded within Korindo subsidiary company concession boundaries. In 2013, Korindo was clearing forest and land in two concession areas, in three concessions in 2014, and four concessions in 2015. Figure 4 below shows a clear correlation between the amount of concessions being cleared by Korindo and the number of hotspots recorded.

Figure 4. Hotspots inside Korindo concession boundaries, 2013-2015



Source: Fire Information for Resource Management System (FIRMS), <http://go.nasa.gov/27awNFg>

Hotspots appeared after Korindo had cleared the forest and before it started planting oil palm. The typical sequence of activities performed by Korindo while converting forest into oil palm plantations is as follows:

- Lining (carving out of plantation blocks in the forest);
- Logging (extracting high-quality timber from the forest);
- Clearing (uprooting the forest with excavators or bulldozers);
- Stacking wood rows (pushing wood residue, branches etc. into rows);
- Setting fire to wood rows after a few weeks. Papuan forests have a lot of biomass, and fires will accelerate the breakdown of this material. After a bad burn, Korindo may set the wood rows on fire again a few weeks later; and
- Planting.

Korindo's management likely believes the chance of being held accountable for open burning through legal sanction or as a result of public opinion to be small. Local indigenous groups have little access to media for reporting illegal practices, and Korindo is well connected with the local armed forces. In May 2016, in its response to an inquiry by the Korean news outlet SisaIN, a Korindo group representative

denied its strategic use of fire in land clearance processes saying, “Our company does not create plantations through intentional man-made arson.”²³ However, the company offered no evidence to substantiate this claim or to counter the substantial evidence to the contrary.

Fires are illegal in Indonesia

Burning to clear forests and/or land is prohibited under Indonesian Law No. 32/2009 on Environmental Protection and Management, among others. Possible penalties for those found guilty of breaking this law include fines and prison terms.²⁴ For example, on 11 August 2016 the judges of the South Jakarta District Court ordered the Indonesian company Sampoerna Agro to pay IDR 1.07 trillion (equivalent to USD 76 million) for compensation and environmental restoration, in a case of forest fires covering an area of 3,000 hectares in Riau province (Sumatra) in 2014.²⁵ In September 2015 Indonesia’s Supreme Court in Jakarta found the oil palm company PT Kallista Alam to be in breach of Law No. 32/2009. The company was ordered to pay IDR 366 billion (approximately USD 26 million) for illegally burning forests within the Tripa Peat Swamps, part of the protected Leuser Ecosystem in Sumatra.²⁶ Laws prohibiting people from deliberately starting forest or land fires were also established in 1999 and 2001.²⁷

In October 2015, the Papua Deputy Governor, Klemen Tinal, spoke out against companies “that reduce the cost of clearing by burning”. He said that companies causing forest fires should immediately be closed down.²⁸ However, despite flouting laws, by and large Korindo has got away with its forest burning, with one notable exception: In November 2015 Korindo received a permit suspension of six months due to fires in 2015 in one of its pulpwood concessions, PT Korintiga Hutani, located in Central Kalimantan.²⁹ By the end of February, after three months, the minister re-instated Korintiga’s license. It was decided that Korintiga had fulfilled its obligations or orders by the minister.³⁰ In May 2016, Korindo stated to the Korean weekly magazine SisaIN that the suspension was due to administrative measures by the Indonesian Government “that we cannot comprehend”.³¹ In 2015, there were 72 hotspots inside PT Korintiga Hutani’s concession, following 43 in 2014.³²

Indonesia’s burning problem

Throughout late 2015, much of Southeast Asia suffered from record levels of haze caused by fires in Indonesia. The clearing of land for oil palm, pulp and paper, and other agricultural commodities was one of the main reasons for the fires. The haze crisis caused millions of people to suffer respiratory illnesses, and the World Bank estimated it led to Indonesia suffering economic damages of USD 16 billion.³³

Due to the fires, Indonesia’s emissions contributed more to climate change in 2015 than those of Japan, Germany, and South Korea, and on many days during the haze crisis, Indonesia’s carbon pollution was higher than the emissions of the entire US economy.³⁴

The total number of hotspots inside Korindo oil palm, pulpwood and logging concessions in 2015 was 856, of which 495 occurred in oil palm plantations undergoing development. Total fire detections in Indonesia in 2015 stood at 122,568.³⁵ This means 0.7% of these fires occurred inside Korindo concession areas. This percentage is particularly high, considering the hundreds of forestry and oil palm companies active in Indonesia, and that the oil palm and forestry sectors were two of the main reasons for the fires.

Photo: Smoke rising from burning wood rows in the PT Berkat Cipta Abadi concession



©Ardiles Rante/Greenpeace; PT Berkat Cipta Abadi (Korindo Group); 26 March 2013

Photo: Wood rows stacked by PT Papua Agro Lestari, ready for burning?



© Mighty, 4 June 2016; Latitude 6°45'41.80"S, Longitude 140°48'18.78"E

2.3 Practice: denial of community rights

Customary rights

On 16 May 2013, the Indonesian Constitutional Court ruled certain provisions of the 1999 Indonesian Forestry Law to be unconstitutional due to their classification of customary forest as state forest, thus improperly denying indigenous communities rights to their lands in favor of an ownership right asserted by the State.³⁶ Something Korindo's oil palm concessions have in common is that they are all located in forest areas subject to indigenous peoples' customary rights, which the central government has released to Korindo as if they were theirs. However, the Constitutional Court has ruled that these customary forest areas belong to the indigenous people, thus bringing the legality of Korindo's oil palm concessions into serious question.

Korindo's PT Gelora Mandiri Membangun concession is occupying the farmland and forests of communities in South Halmahera, North Maluku. Most of the communities, who all have lived there for hundreds of years, are strongly opposed to the oil palm plantation. Korindo is disregarding their customary rights by continuing to operate there. This case is described in more detail in Section 4.1.

Photo: Sign on house in Gane Dalam village telling PT GMM (Korindo) to leave



© Rainforest Action Network, May 2016.

In Papua, Korindo usually seems to make agreements with the owners of customary or *adat* forests. This does not mean, however, that Korindo has recognized the right of local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments on community lands:

- In the case of PT Dongin Prabhawa, an agreement was made in 2012 *after* Korindo had already commenced oil palm operations in late 2010. Despite the agreement, the indigenous Ngguti people regretted the forests and swamps they had previously used for hunting and gathering being replaced.³⁷

- In the case of Korindo's PT Tunas Sawa Erma 1A (PT TSE 1A), eleven clans with traditional lands covering more than 7,000 hectares agreed to the oil palm development in 2005, but later stated they had not been adequately informed.³⁸
- The 25 clans owning more than 12,000 hectares in the PT TSE 1A concession area rejected the plantation proposal in 2006. Korindo had respected their rejection,³⁹ but in 2015, development started in this part of the concession area, apparently due to an agreement with the landowners.

Social issues in Papua

There is little information publicly available either on the plight of laborers on the plantations or on the people living adjacent to Korindo's concessions in Papua. This is what we know from the information available:

- The Papuan NGO Yayasan Pusaka reported in June 2016 that PT TSE 1A threatened to lay off three workers. The three workers held a demonstration together with hundreds of native Papuan workers in front of the PT TSE 1A office in May 2016. The workers protested the company paying little attention to careers, capacity building and raising technological knowledge for Papuan workers. It appears Korindo has not accepted the workers' protests and demands.⁴⁰ In 2010, only 13% of the 3,400 people employed by PT TSE 1A and 1B were indigenous Papuans. The great majority of employees were migrants from other regions of Indonesia.⁴¹
- In January/February 2014, the Indonesian organization JPIC MSC Indonesia conducted a field investigation into the PT Dongin Prabhawa concession. It found a number of human rights violations by the company and by the police and military on duty in the company's work area. Employees and casual laborers had no access to clean drinking water, and had received no groceries from PT Dongin Prabhawa for three months. Police officers were involved in selling confiscated liquor and gambling. In 2013, a PT Dongin Prabhawa employee was arrested and allegedly tortured by a member of the armed forces. The UK-based NGO Business & Human Rights Resource Centre invited Korindo to respond to the allegations, but no response was forthcoming.⁴²
- In April 2010, the Center for International Forestry Research (CIFOR) interviewed 97 workers, customary landowners, and people living adjacent to the PT TSE 1A and 1B plantations. All three respondent groups said the plantation had reduced their income from forest products, and their ability to collect wood for housing and fuel. The landowners in particular noted the diminished access to food and income from forest resources. From being self-sufficient they had become dependent on subsidized rice to fulfill their food requirements. Over 60% of landowners and people in the vicinity of these plantations reported reduced water quality. Both groups used river and lake water for drinking, bathing and fishing.⁴³

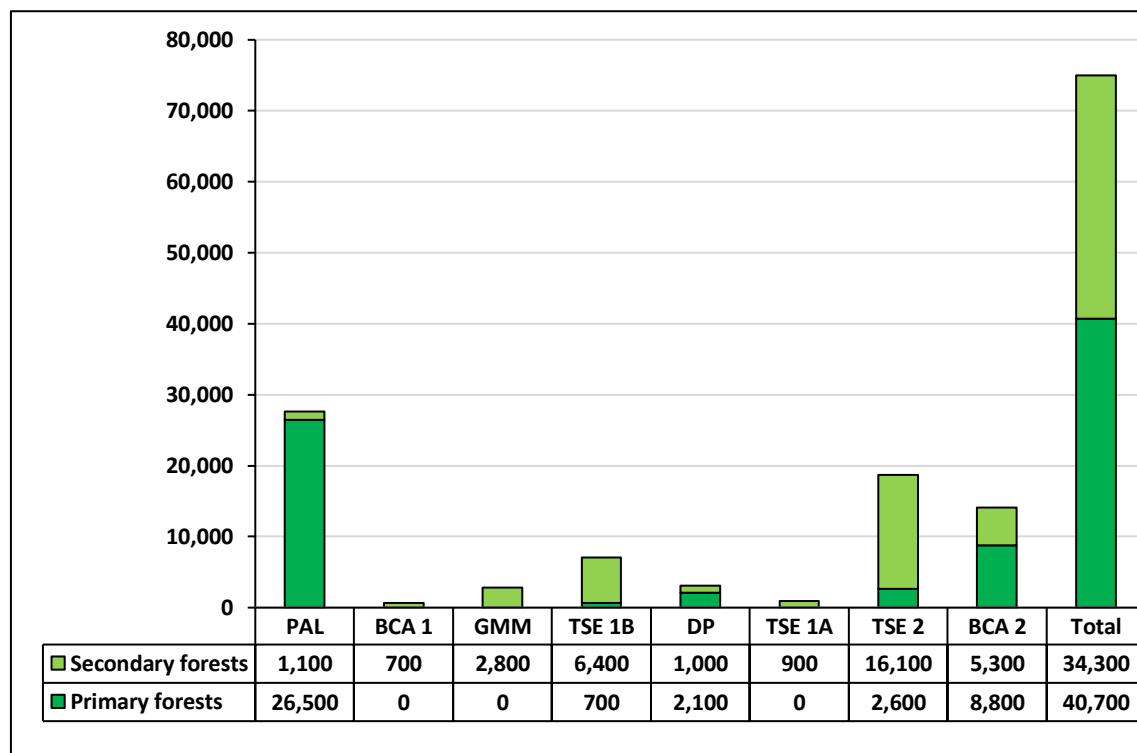
2.4 Forests at risk of being cleared

Currently, 75,000 hectares of forests remain in Korindo's concessions. These forests are at high risk of being cleared. The four plantations currently being developed by Korindo (PT PAL, PT GMM, PT TSE 1B and PT DP) still have 29,300 hectares of primary forest and 11,300 hectares of secondary forest.

It is common practice among oil palm companies to identify and conserve High Conservation Value (HCV) areas within their concessions. Signatories to No Deforestation, No Peat, No Exploitation (No Deforestation) policies even go one step further, identifying and conserving High Carbon Stock (HCS) areas as well. So far, Korindo has shown little or no effort to conserve any significant areas inside its concessions. The areas it has developed so far have been completely cleared, with the exception of an occasional river buffer or small patch of forest.

Korindo has yet to start developing the PT TSE 2 and PT BCA 2 concessions; areas that currently have 11,400 hectares of primary forest and 21,400 hectares of secondary forest.

Figure 5. Remaining at-risk forests in Korindo's concessions as of May 2016 (hectares)



Source: Landsat 8 imagery, compared with Indonesian Ministry of Forestry forest cover maps for 2011, and in the case of PT DP forest cover maps for 2009

2.5 Commitments

No sustainability policy for oil palm

Korindo has published no specific sustainability policies with regard to its oil palm and forestry operations, and is not even one of the 2,800 members of the Roundtable on Sustainable Palm Oil (RSPO).⁴⁴

On the Korindo website, Chairman of the Korindo Group, Seung Eun-ho, says, “The KORINDO Group is reaching out to the world to emphasize its role as an environmentally friendly company.”⁴⁵ The company has also put a promotional video on its website, in which it profiles the company as ensuring a “green tomorrow”.⁴⁶ In 2015, the company did engage in several environmental projects, such as cleaning the Ciliwung river through the city of Bogor in West Java, donating 50,000 seedlings to East Timor, and donating IDR 1 billion (approximately USD 74,000) to an environmental organization Paguyuban Budiasi for various activities.⁴⁷ It is also currently building a health clinic in Asiki, Papua.⁴⁸ Such measures cannot, however, substitute for the lack of a strong sustainability policy or the negative environmental and human rights impacts of Korindo’s operations.

Major customers with No Deforestation, No Peat, No Exploitation (No Deforestation) policies

Wilmar and Musim Mas, which were both major direct buyers of Korindo oil palm, have adopted No Deforestation, No Peat, No Exploitation policies (hereinafter No Deforestation policies). Wilmar, the world’s largest oil palm trader, was the first to announce such a policy, in December 2013.⁴⁹ Musim Mas adopted its policy in December 2014.⁵⁰ Companies that have adopted No Deforestation policies commit themselves to a number of actions including:

- Ending all deforestation and conserving High Conservation Value (HCV) areas and High Carbon Stock (HCS) areas (using the High Carbon Stock approach);
- Protecting all peatlands (regardless of depth);
- Recognizing the right of local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments;
- Complying with the fundamental conventions of the International Labour Organisation (ILO)⁵¹ and upholding the wider United Nations Guiding Principles on Business and Human Rights.⁵²

The policies apply to a signatory’s own plantation operations and their third-party suppliers. When a supplier is found to be non-compliant, the traders’ procurement and sustainability teams typically engage with the supplier to explain the purpose and impact of their No Deforestation policy. If the supplier is found to be developing land in contested (forest, peat, conflict) areas, it is typically requested to issue a “stop-work order” until relevant (HCV, HCS) studies are completed and/or land conflicts are resolved. Supplier groups who fail to enforce such “stop-work orders” run a particularly high risk of seeing their trade with No Deforestation policy signatories suspended or ceased. As this report details below, Korindo companies have repeatedly and egregiously violated both Wilmar and Musim Mas’ No Deforestation policies, despite repeated warnings from both companies that they must change their practices. As a consequence, Korindo has lost Wilmar and Musim Mas as customers, which will have a serious impact on Korindo’s net income.

Dozens of other companies across the palm oil supply chain have adopted strong conservation policies, including the major traders Apical Group⁵³, Golden Agri-Resources⁵⁴ and ADM,⁵⁵ as well as major producers such as Astra Agro Lestari, First Resources, and Bumitama. Together, No Deforestation signatories cover the vast majority of the globally traded palm oil market.⁵⁶ The pace set to ensure

suppliers' compliance is the critical factor as to whether the adopted policies have a big impact on the ground.

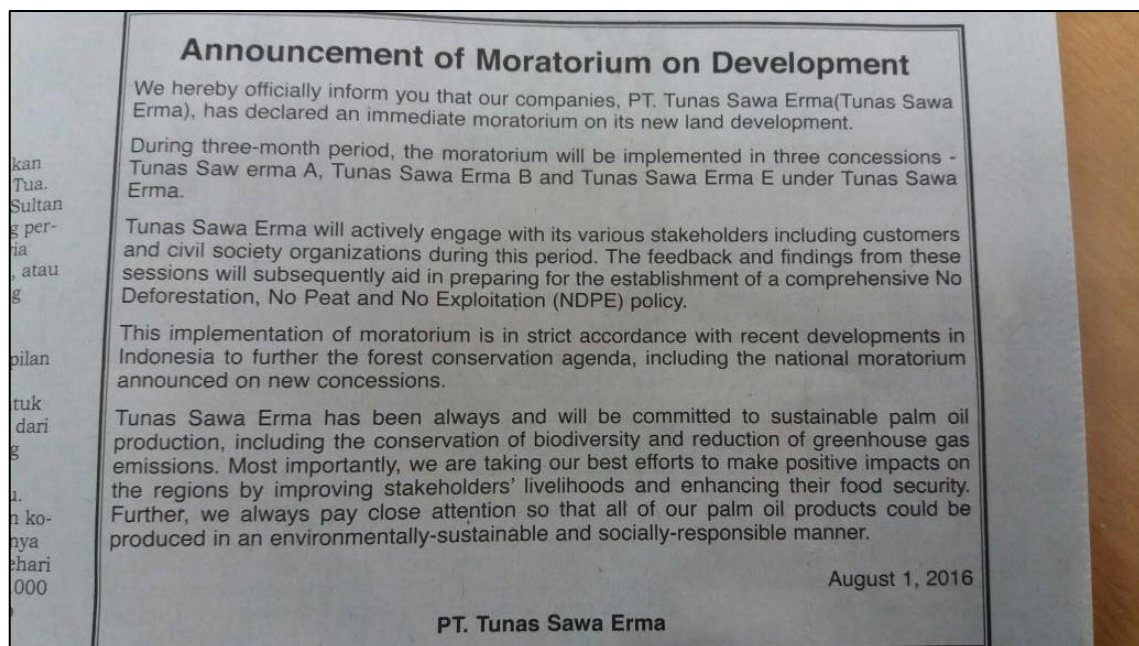
PT Tunas Sawa Erma (PT TSE) announces moratorium

Recently, after being engaged on sustainability matters by Musim Mas⁵⁷ and Wilmar, Korindo's subsidiary PT Tunas Sawa Erma (PT TSE) has declared a three-month moratorium on its new land developments. PT TSE announced this in a local newspaper on 9 August 2016 (see photo below). During the three months PT TSE plans to establish a comprehensive No Deforestation, No Peat, and No Exploitation policy and conduct stakeholder engagement.

PT TSE controls three plantations. PT TSE 1A is already planted with oil palm, for PT TSE 1B clearing activities were going on in 2016, for PT TSE 2 no development has been started yet. As of May 2016 around 25,000 hectares of forests were remaining in the plantations of PT TSE 1B and PT TSE 2. Subjecting PT TSE to a No Deforestation policy would bring about significant benefits for ecology and the communities, as compared to previous developed oil palm plantations by Korindo.

Korindo's subsidiaries PT GMM and PT PAL are presently also developing oil palm plantations. Yet, for these companies Korindo has not declared a moratorium and has not announced a No Deforestation policy. Perhaps the fact that these two plantation companies are 15% owned by the Korean company Hyosung (in contrast to PT TSE, which is a 100% Korindo company) has something to do with this. Korindo has also not declared a No deforestation policy for its wood-related businesses.

Photo. The announcement by PT TSE in a local newspaper on 9 August 2016



3. (Former) Customers of Korindo oil palm

Supply chain transparency

Six major global palm oil traders/processors have committed themselves to supply chain transparency. These companies have made information publicly available regarding which mills they source their palm oil (Crude Palm Oil and/or Palm Kernel) from. From the information these companies have provided it appears that four large palm oil traders/processors: Wilmar, Musim Mas, ADM and IOI were sourcing palm oil from Korindo recently. However, Wilmar and Musim Mas have stopped sourcing from Korindo as of July/August 2016. IOI and ADM did not source directly from Korindo, and have been buying Korindo palm oil from Wilmar and/or Musim Mas. Presently, it is unclear to which companies Korindo sells its palm oil.

Table 2. Known Former Customers of Korindo's Papuan Oil Palm

Processor	Processing unit	Processing unit location	Period for which companies revealed supply chains
Musim Mas ⁵⁸	PT AMR, Bitung PT AMR, Madidir	North Sulawesi, Indonesia	2015
Wilmar ⁵⁹	PT MNS, Bitung PT WINA, Gresik PT SAP, Palembang	North Sulawesi, Indonesia East Java, Indonesia South Sumatra, Indonesia	January - Dec 2015
ADM (indirectly) ⁶⁰	ADM Europe, SIO ADM North America (all facilities) ADM Europe, Czernin ADM Europe, Noblee ADM Europe, Purfleet	France North America Poland Germany UK	July 2015 – Sept 2015
IOI Loders Croklaan (indirectly) ⁶¹	Channahon Rexdale Rotterdam Wormerveer	USA Canada Netherlands Netherlands	1Q 2016

Where did Korindo's produce end up?

Table 2 above shows that Korindo's produce ended up at European and North American markets through ADM and IOI Loders Croklaan. In addition, refineries in the following countries were sourcing from Wilmar's processing units PT MNS, PT WINA and PT SAP: China and India (both various locations), Netherlands (Rotterdam and Rozenburg), Germany (Brake) and the United States (Stockton).⁶² All in all, until recently, the end consumers of Korindo's palm oil could be found in at least Europe, North America, China and India.

4. Issues by plantation company

4.1 PT Gelora Mandiri Membangun

Social issues

Korindo's PT GMM has failed to recognize the right of local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments on community lands. From the outset of the project, the communities have been inadequately informed. In January 2012, residents demonstrated, demanding an end to PT GMM operations. In the middle of 2013, the conflict escalated with the arrest/criminalization of 13 villagers from Gane Dalam and Sekely by the South Halmahera police over a land conflict with PT GMM. Residents filed a complaint alleging human rights violations over the detention of the 13 villagers. This triggered an investigation by the Indonesian Human Rights Commission (Komnas HAM), which made a statement emphasizing that, when making investments, governments and companies should consider that indigenous peoples' lives are highly dependent on natural resources. The commission further noted that the reporting of 13 villagers to the police had had an adverse effect on communications between the company and the communities, and that in general the presence of the company had caused insecurity and disrupted people's lives.⁶³

In February 2016, the conflict between villagers and the company flared up again. The company evicted people from their productive farmland, and threatened those who refused to leave. It also pressured people into giving up their land at prices set by the company.⁶⁴

On 11 May 2016, the North Maluku branch of the Indonesian environmental NGO Walhi announced it would sue Korindo over a number of issues, including restricting community access to clean water, not fulfilling Environmental Impact Assessment (EIA) procedures, its lack of a Right to Exploit (HGU, *Hak Guna Usaha*) permit, planting oil palm on steep slopes, burning, and disregarding communities' customary rights.⁶⁵

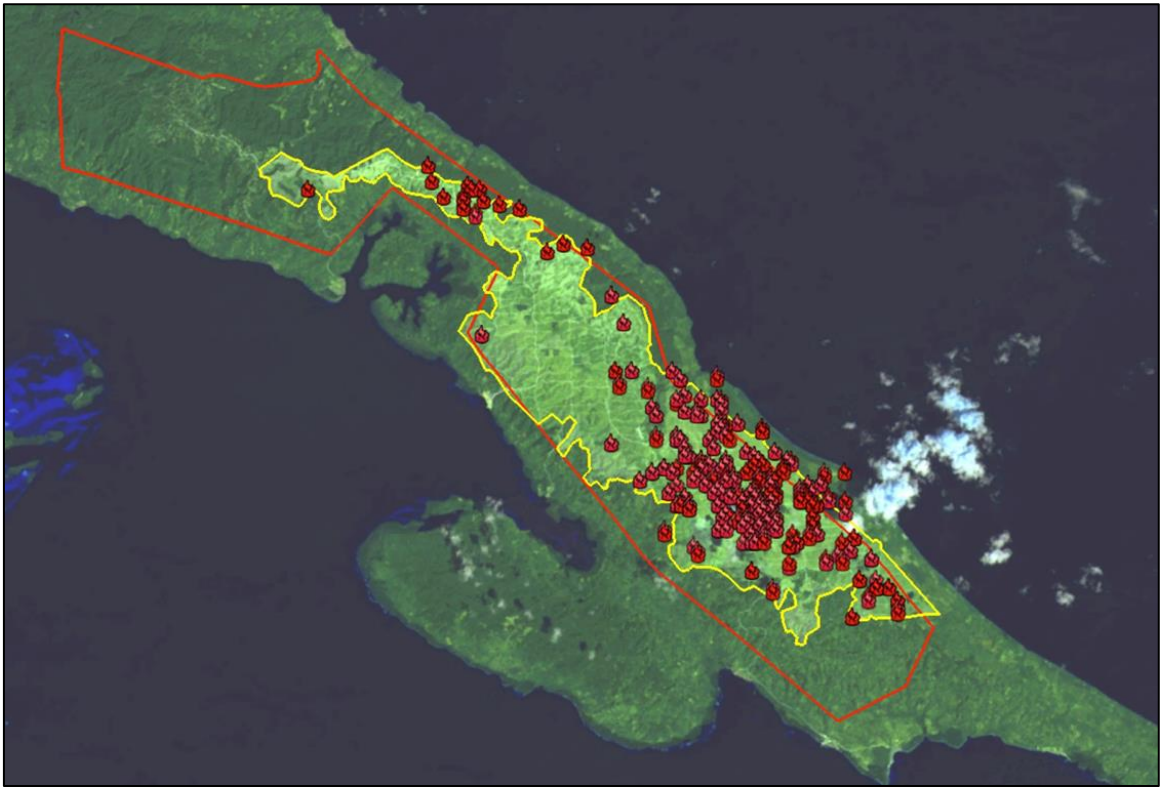
In May 2016, villagers from Gane Dalam, Jibubu, Pasipalele, Sekely, and Gane Luar submitted a formal letter to the National Land Agency (BPN), rejecting the project and asking the head of BPN not to issue an HGU.⁶⁶ On 5 August 2016 Korindo started logging in the area along the river Dukolo, despite an earlier agreement with the community Gane Luar not to do so. The agreement was made in April 2015 in attendance of the police. The river is the source of clean water for the community.⁶⁷

Hotspots and deforestation

By the beginning of December 2015, PT GMM had already cleared 5,200 hectares. Clearing continued in 2016, increasing to 6,100 hectares by the end of April.⁶⁸ The area of secondary forest lost to clearing amounted to 5,100 hectares.

There have been many fires in the area, suggesting a serious risk that Korindo has violated Indonesia's laws against burning. As many as 127 hotspots were recorded in 2014 and 2015 (106 in 2014 and 21 in 2015), whereas in 2013, prior to Korindo's land development, there had been none. In September 2015, fires inside the Korindo concession spread to farmland belonging to villagers from Sekely. The company took no action. Instead, it accused the villager reporting the fires of accidentally burning his own farm land.⁶⁹ In May 2016, Tom Picken of the US-based NGO Rainforest Action Network conducted a field investigation in the concession area. He stated that "Many villagers confirmed that the Korindo Group expands oil palm plantations through the use of fire."⁷⁰

Figure 6. Hotspots in 2014 and 2015 in areas cleared by PT GMM



Sources: Landsat 8 imagery: 3 to 11 December 2015. FIRMS, <http://go.nasa.gov/27awNEg>

Photo: Cleared forests and haze within Korindo's PT GMM concession



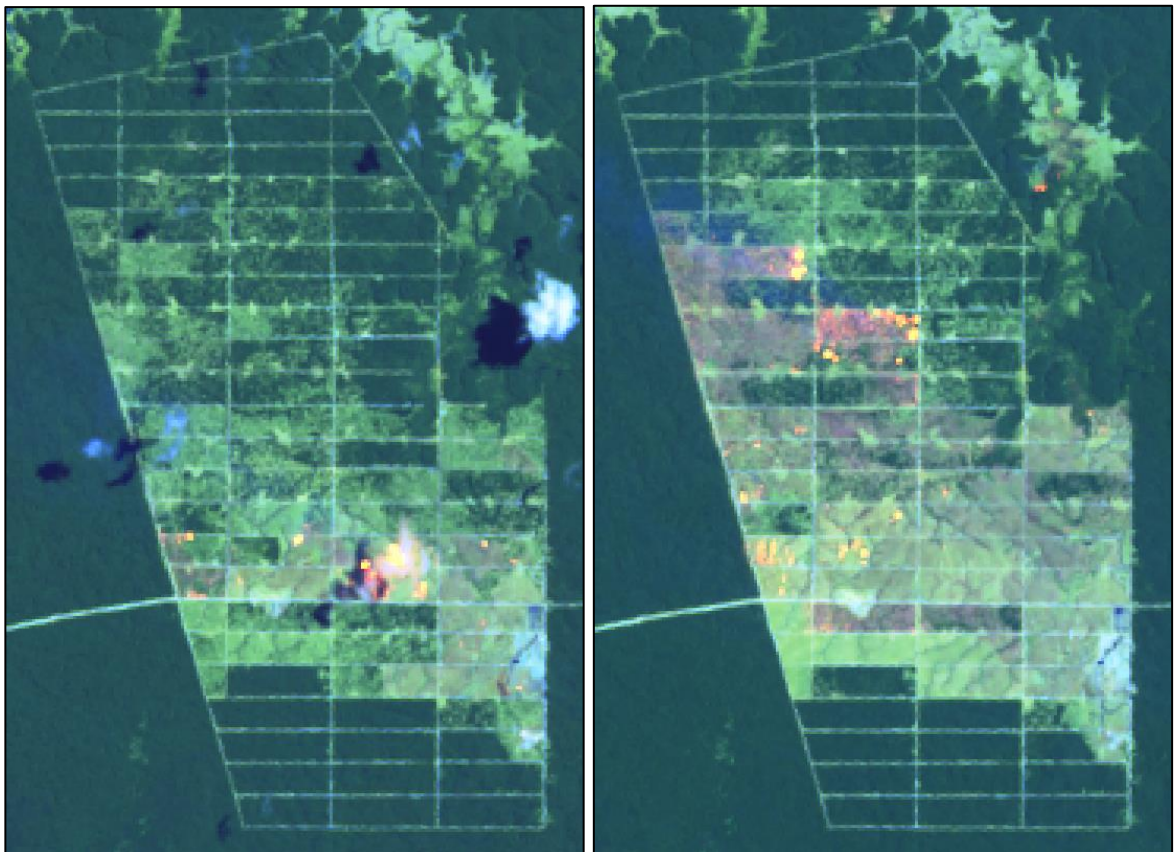
© Walhi, November 2014.

4.2 PT Papua Agro Lestari

Clearance of primary forest in 2015

Land development by PT Papua Agro Lestari (PT PAL) began after April 2015. The concession area comprises 32,300 hectares, of which 94% contained primary forest. By the end of 2015, some 2,600 hectares of primary forest had already been cleared.⁷¹ The clearing was accompanied by fires with a total of 221 hotspots recorded between August and November 2015. In the years 2013 and 2014, prior to land development, there had been none.

Figure 7. Fires raging in the PT Papua Agro Lestari concession, September 2015

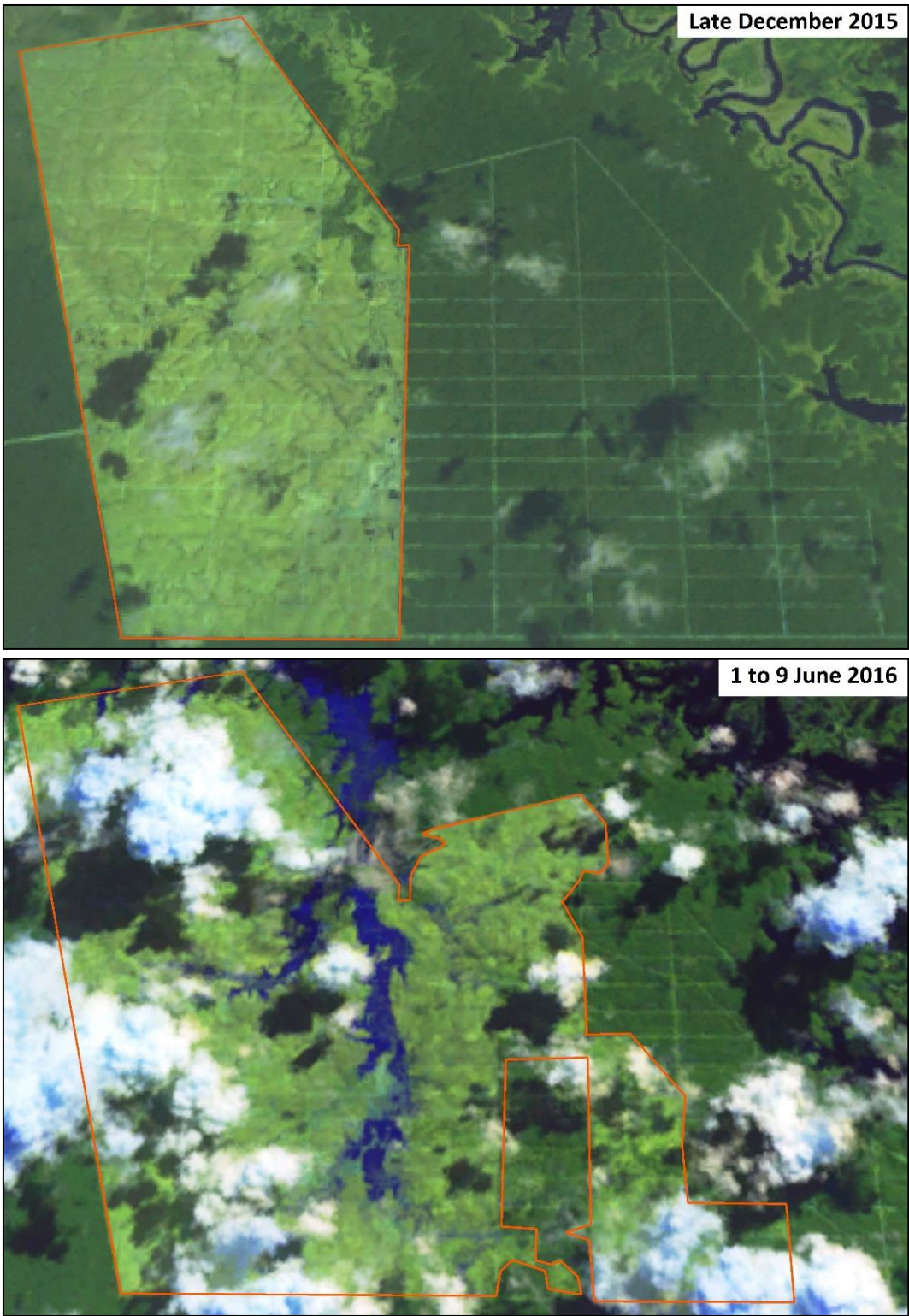


Sources: Image left, Landsat 8 imagery, 6 to 14 September 2015. Image right, Landsat 8 imagery, 22 to 30 September 2015

Clearing continuing in 2016

By late December 2015, PT PAL had carved out plantation blocks in 2,300 hectares of primary forest east of the cleared area as part of preparations for developing the oil palm plantation. By the first week of June 2016, 1,200 hectares of primary forest had already been cleared inside the new plantation blocks.⁷² The satellite imagery below from June 2016 also shows no riparian buffers around the flood area. This means there has been no proper assessment of High Conservation Value (HCV) areas.

Figure 8. Clearing continuing in 2016 (cleared areas marked in orange)



Source: Landsat 8 imagery

4.3 PT Berkat Cipta Abadi 1

Forest loss

The entire PT BCA 1 concession area was forested before Korindo started its oil palm operations. During 2013 and 2014, a total of 4,500 hectares of primary forest were cleared, along with 8,700 hectares of secondary forest. Only a river corridor of 700 hectares was spared, as shown in Figure 9 below.

Figure 9. PT BCA 1 forest loss in 2013 and 2014

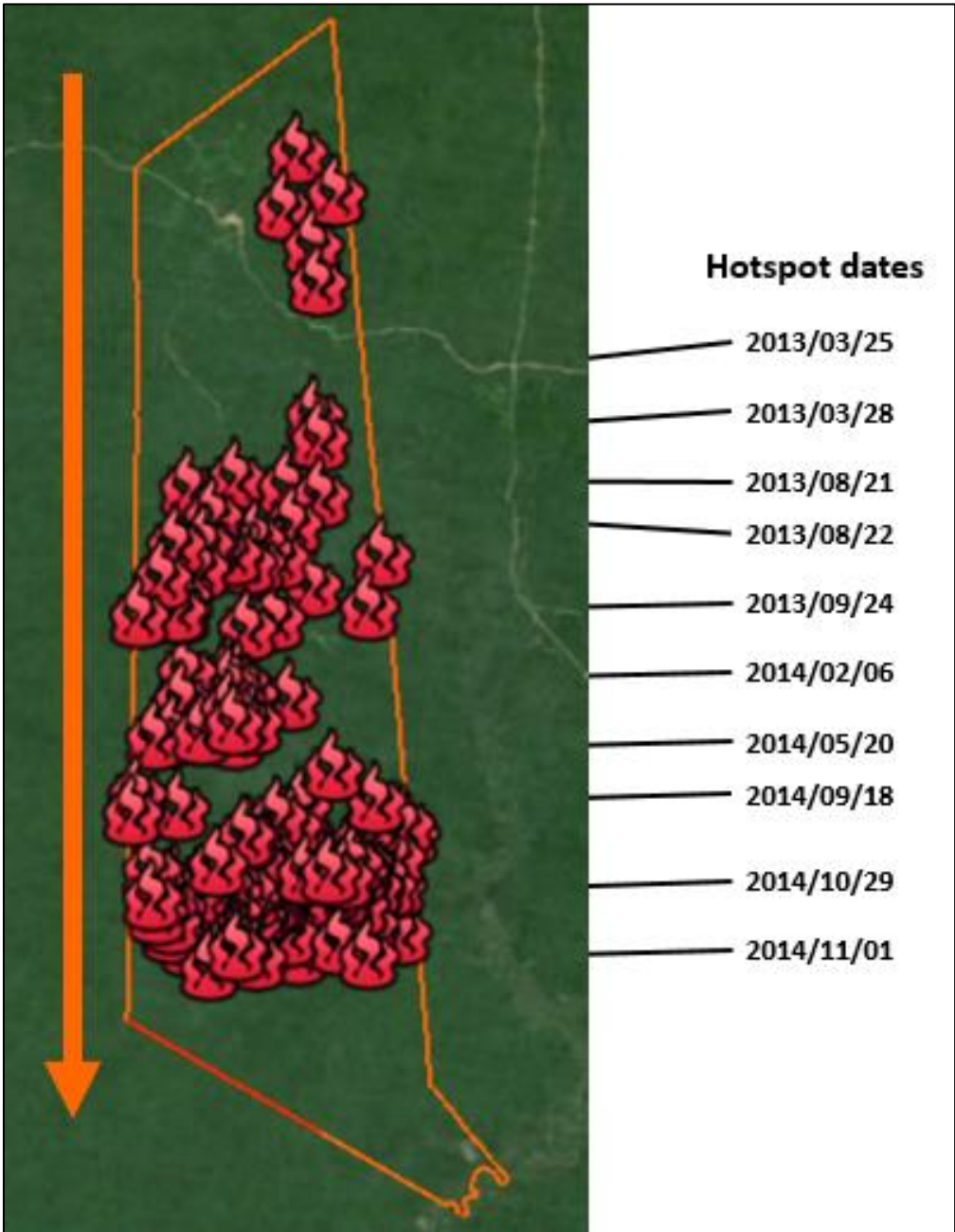


Sources: Indonesian Ministry of Forestry forest cover maps for 2011; Landsat 8 imagery for 22 to 30 September 2015.

Hotspot pattern

Forest clearance and oil palm planting took place in 2013 and 2014 inside the PT Berkas Cipta Abadi 1 (PT BCA 1) concession area. Land development began in the north and ended in the south. Hotspots followed deforestation and subsequent land development. In total, 106 hotspots were recorded in 2013 and 2014 (19 in 2013 and 97 in 2014). In 2015, after the land had been fully developed, only one hotspot was recorded.⁷³ In a letter dated 22 June 2011, the Indonesian Ministry of Forestry specifically prohibited PT BCA from burning wood waste, when it released forest land to PT BCA 1 that year.⁷⁴ Burning would have been illegal anyway, yet Korindo also ignored this extra warning.

Figure 10. PT BCA hotspot pattern in 2013 and 2014



4.4 PT Tunas Sawa Erma 1B

Northern section: already developed by 2008

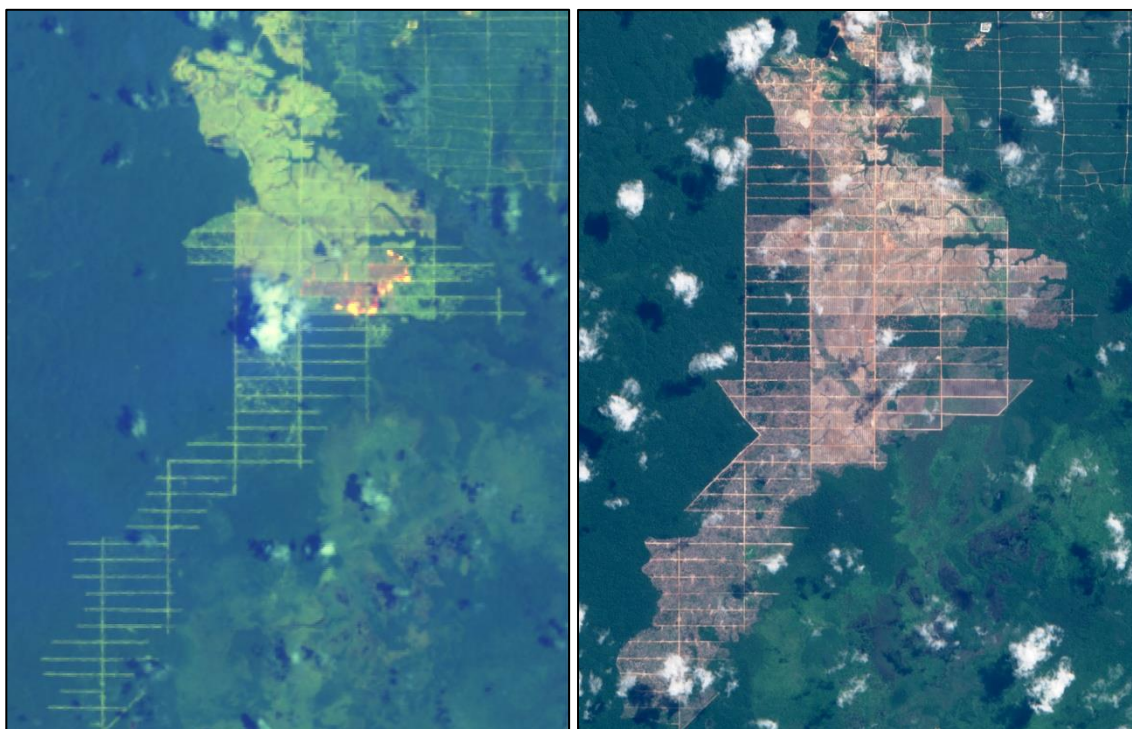
PT Tunas Sawa Erma 1B (PT TSE 1B), which holds an area of 19,000 hectares, began working in 2005. It approached inhabitants in the villages of Getentiri and Ujung Kia, and identified the clans that owned the land. Clans from the Auyu Jair tribe own customary land in both villages. In Getentiri village, 11 clans have traditional lands covering more than 7,000 ha in the northern part of the concession area. On 25 August 2005, a traditional ceremony called *Upacara Derma Adat* was held in Getentiri village to mark the establishment of the oil palm plantation. By 2008, 7,000 hectares had been planted with oil palm.⁷⁵

Southern section: new development recently started

In the Southern part of the concession area, 25 Auyu Jair tribe clans own more than 12,000 hectares of land. On 22 March 2006, the landowners in Ujung Kia rejected the plantation proposal.⁷⁶ Nevertheless, land clearing commenced in the Southern part of the concession area in 2015. Along with this development, 88 hotspots were recorded in 2015 with a further 6 in January 2016 (see the massive fires shown in Figure 11 below).

By the end of April 2016, some 2,800 hectares had been cleared (see the brownish color on the right hand image in below) comprising 500 hectares of primary forest and 2,300 hectares of secondary forest.⁷⁷

Figure 11. PT TSE 1B, new development since 2015

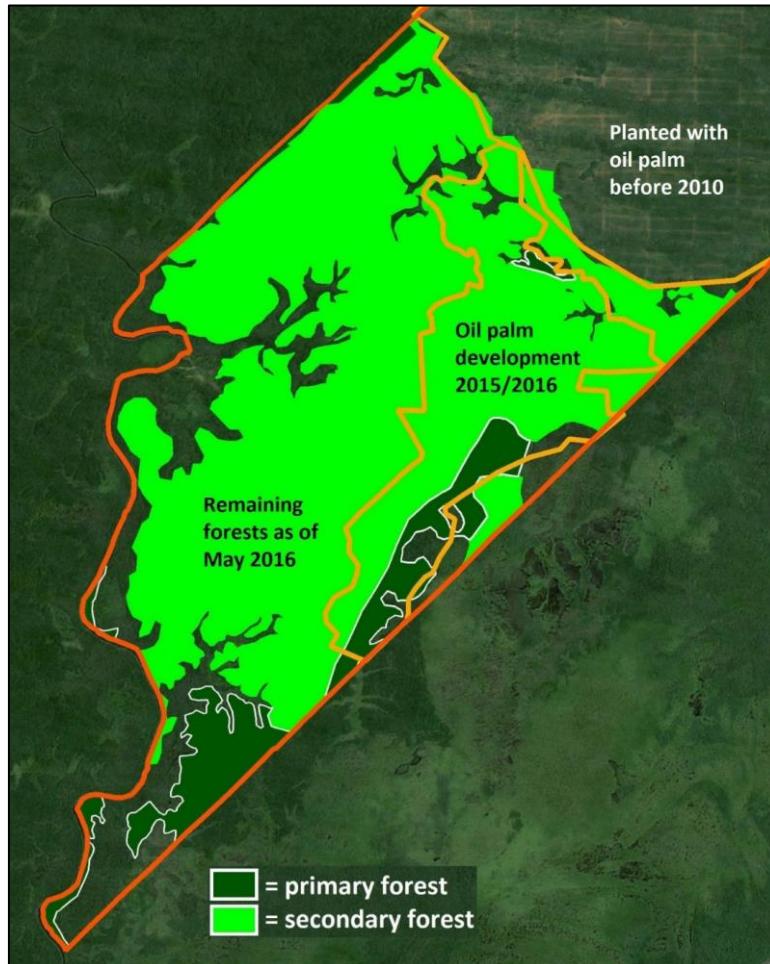


Sources: Left: Landsat 8 imagery for 24 October 2015 to 1 November 2015. Right: Sentinel-2 image, 11 May 2016

Remaining forests

In May 2016, most of the undeveloped area in the PT TSE 1B concession was covered with primary and secondary forest, as is shown by Figure 12 below. The remaining forest stands comprise 700 hectares of primary forest and 6,400 hectares of secondary forest. These are at imminent risk of destruction.

Figure 12. Remaining forest in PT TSE 1B concession as of May 2016



Sources: Sentinel-2 satellite image for 11 May 2016
and Indonesian Ministry of Forestry forest cover maps for 2011

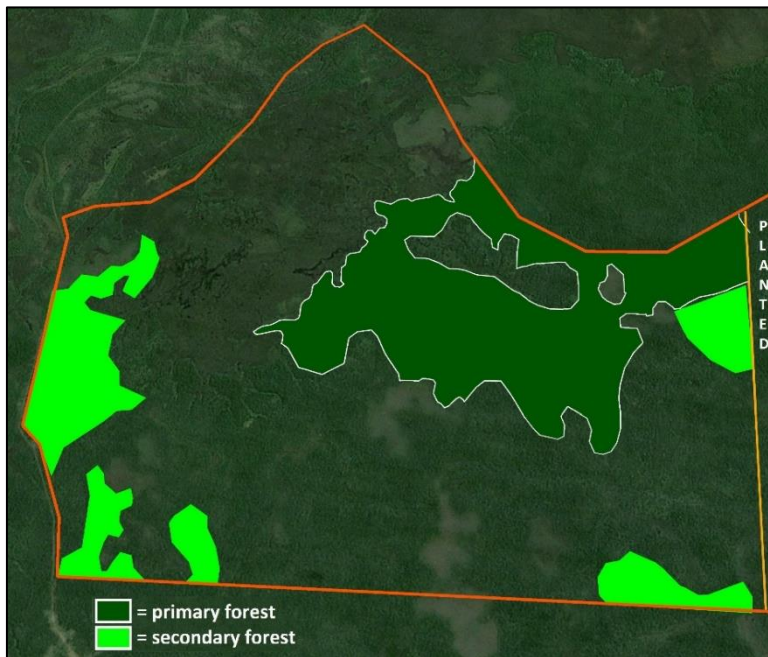
4.5 PT Donghin Prabhawa

24,000 hectares already planted

Land development by Korindo's PT Donghin Prabhawa (PT DP) commenced at the end of 2010. By the end of 2015, it had already planted 24,200 hectares. A total of 6,700 hectares of forest were cleared in the period from 2011 to May 2016, 2,900 hectares of which was primary forest.⁷⁸

As of May 2016, the western side of the PT DP concession had not been cleared. Approximately 2,100 hectares of primary forest and 1,000 hectares of secondary forest remained, as is shown in Figure 13.

Figure 13. Remaining forest in the PT DP concession as of May 2016

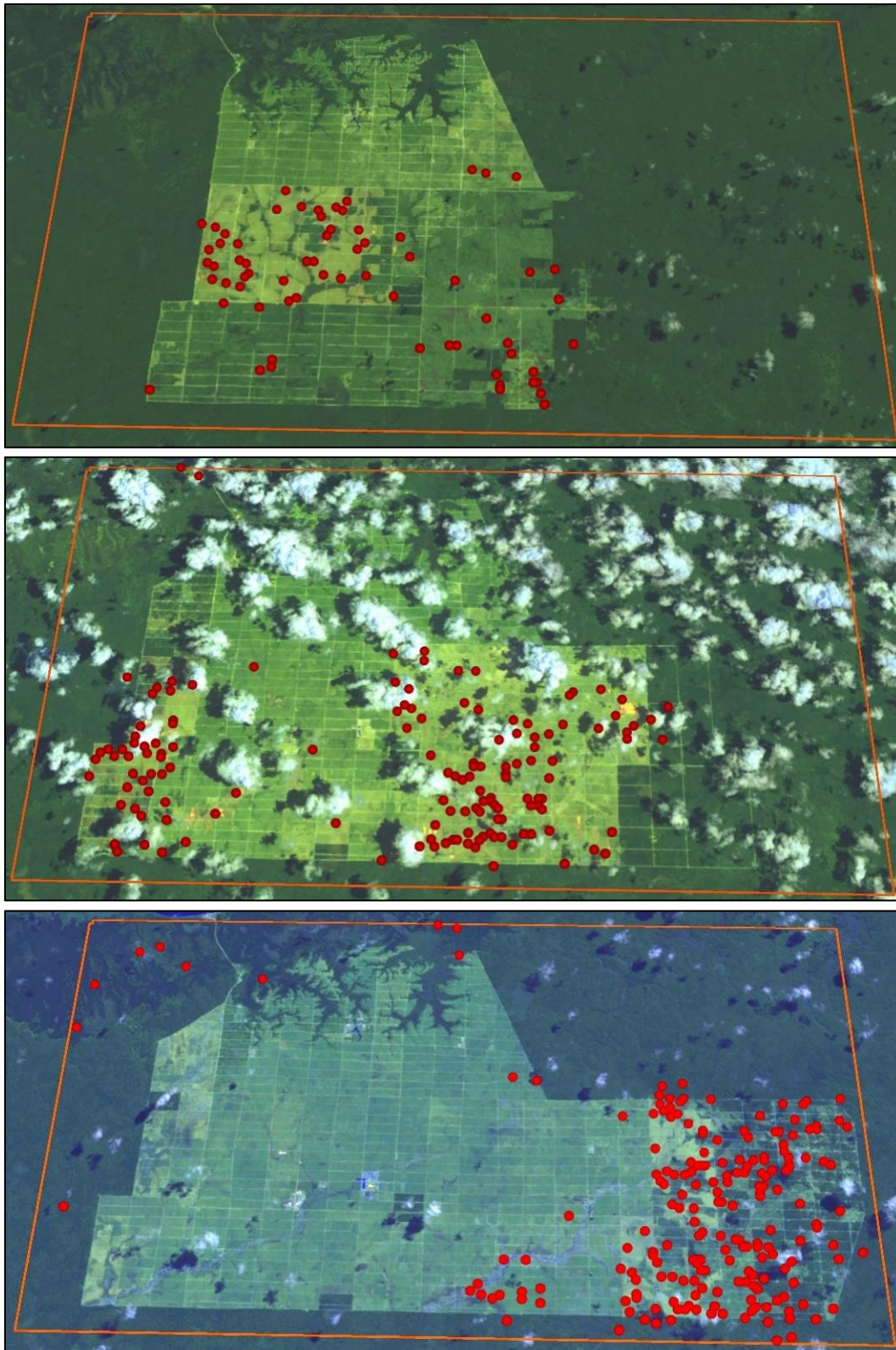


Source: Indonesian Ministry of Forestry forest cover maps for 2009

Fire analysis

Figure 14 below shows the hotspots recorded in 2013, 2014 and 2015, each overlaid with satellite images of their respective years. PT DP's development has been accompanied by fires. In total, 351 hotspots were recorded in the PT DP concession during the period from 2013 to 2015 (43 in 2013, 144 in 2014 and 164 in 2015). Fires typically followed a few months after deforestation, making it clear that Korindo used fire to clear biomass from the land in preparation for planting.

Figure 14. Hotspots in 2013, 2014 and 2015



Sources: Landsat 8 imagery for 21 to 29 August 2013, 24 October to 1 November 2014, and 16 to 26 June 2015 respectively. Fire Information for Resource Management System (FIRMS), <http://go.nasa.gov/27awNFg>

Hotspot data was retrieved for the area inside the orange rectangle. Figure 14 above shows that during the period from 2013 to 2015, there were almost no fires in the forested area surrounding the plantation development, and also no fires in the areas that had already been planted with oil palm. This shows that fires occurred only during the land clearing stage, with the vast majority of fires occurring during the dry season between July and October.

Figure 15 below shows all the hotspots recorded in the period from 2013 to 2016. In 2016, 12 hotspots had been recorded by mid May.

Figure 15. Hotspots in the PT DP concession, 2013 – 2016



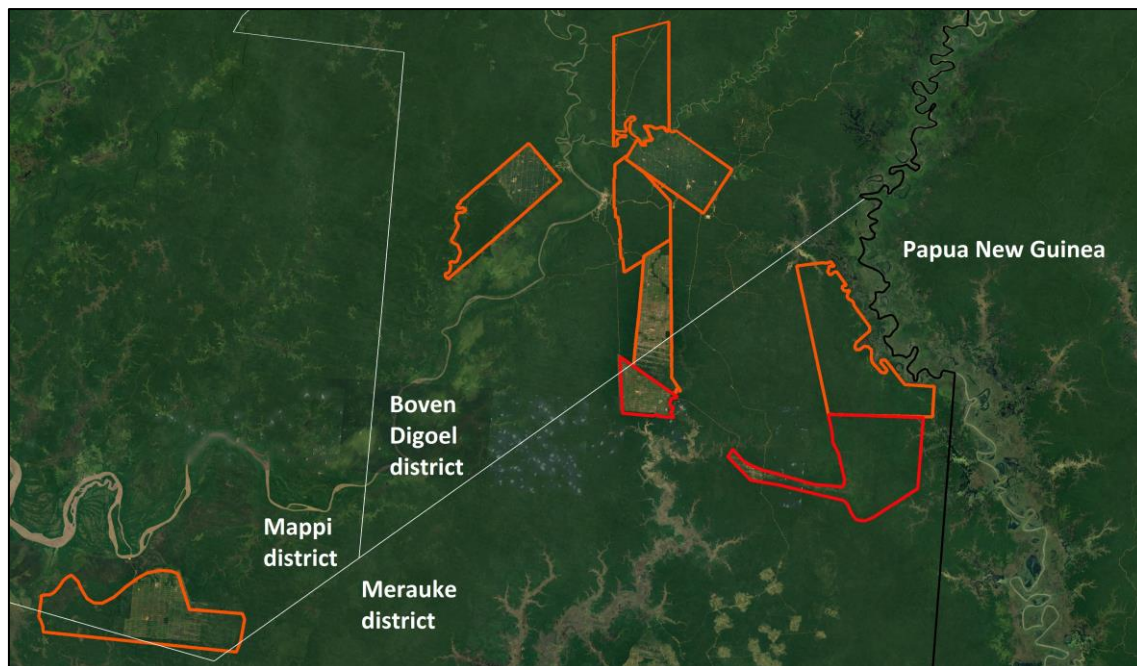
Sources: Landsat 8 imagery for 8 to 16 May 2016. Fire Information for Resource Management System (FIRMS), <http://go.nasa.gov/27awNFg>

4.6 Daewoo's PT Bio Inti Agrindo

The Korean conglomerate Daewoo (recently renamed Posco Daewoo) has an oil palm concession adjacent to Korindo's. Figure 16 below shows Korindo plantations marked in orange, while Daewoo's is marked in red. Daewoo's plantation company, called PT Bio Inti Agrindo (PT BIA), is located in Merauke district, and according to its forest land release permit, covers an area of 36,400 hectares.⁷⁹

Daewoo has recently confirmed (May 2016) that it gets advice from Korindo with regard to its plantation operations.⁸⁰ Daewoo acquired an 85% stake in PT BIA in September 2011.⁸¹ The owner of the remaining 15% of the company is unknown, though in all likelihood it is Korindo.

Figure 16. Locations of Daewoo's PT Bio Inti Agrindo plantation company (marked in red)



Exclusion from the world's largest sovereign wealth fund

The world's largest sovereign wealth fund, the Norwegian Government Pension Fund Global (the Fund), is a major player in the field of Socially Responsible Investing (SRI). On 17 August 2015, it announced the exclusion of Daewoo and its parent company POSCO, because PT BIA represented an unacceptable risk of severe environmental damage.⁸² Earlier, the Fund had already divested from 27 palm oil companies on account of their "unsustainable production practices".⁸³ Increasingly, the Fund sees companies and sectors with "unsustainable social and environmental practices" as a risk to its long-term financial objectives, and has completed strategic sales of equities in the palm oil, coal, and mining sectors.

Hotspots

As with Korindo's plantation companies, with PT BIA all evidence also points to the systematic use of fire during its land clearing processes. Clearing of PT BIA's 6,800-hectare western block commenced in 2012, continued in 2013 and finished in 2014.

Figure 17 shows the correlation between deforestation and the fires in the western block, as published on the website Awas MIFEE in November 2015.⁸⁴ The purple color marks deforestation, while the fires are shown in orange.

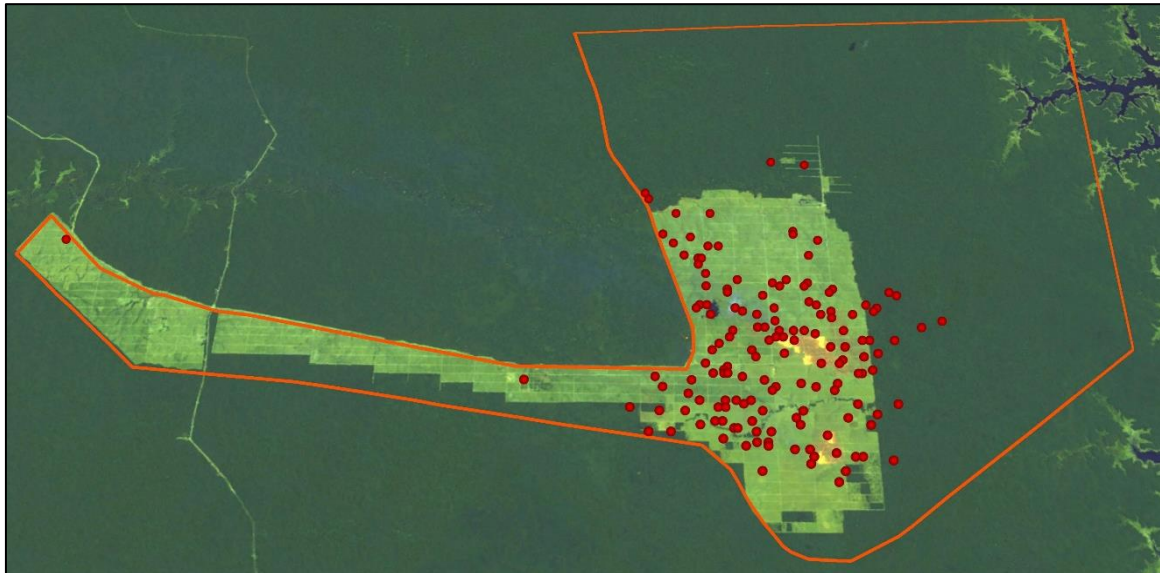
Figure 17. Deforestation and fires in the western block of PT BIA in 2012, 2013 and 2014



Source: AwasMiffee, Merauke burns, but were the plantations to blame?, 20 November 2015, <http://bit.ly/28LFIFf>.

In September and October 2015, 158 hotspots were recorded in the concession's 29,400-hectare eastern block, concentrated in the area that was deforested earlier that year. The satellite image in Figure 18 below also shows two large fires, together covering more than 200 hectares.

Figure 18. Hotspots in the PT BIA concession area in September and October 2015



Sources: Landsat 8 imagery 22 to 30 September 2015. FIRMS, <http://go.nasa.gov/27awNFg>.

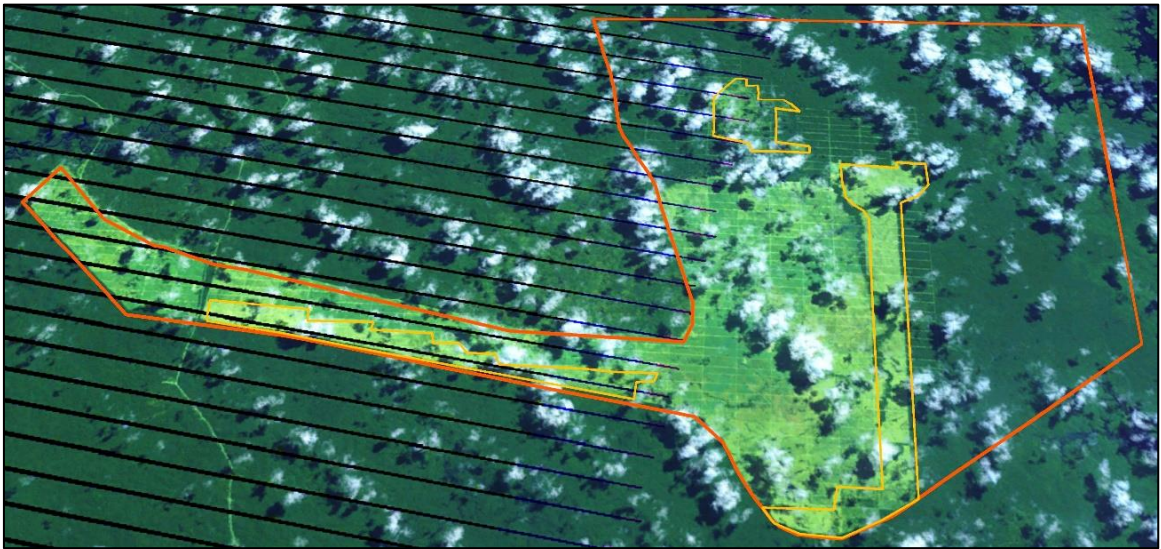
Deforestation

According to Indonesian Ministry of Environment and Forestry forest cover maps, the PT BIA concession area comprised 19,800 hectares of primary forest, 15,900 hectares of secondary forest and 500 hectares of waterways in 2011.

While PT BIA's western block had been fully converted to oil palm plantation by the end of 2014, deforestation is currently ongoing in its eastern block. Figure 19 below shows the area of the eastern block cleared by May 2016. The areas marked in orange (a total of 3,300 hectares) were cleared in the 8-month period from October 2015 to May 2016.

In May 2016, approximately 16,000 hectares of forest was still standing inside the PT BIA concession area, more than 9,000 hectares of which was primary forest.⁸⁵ This means that since 2012, Daewoo has deforested more than 10,000 hectares of primary and 9,000 hectares of secondary forest.

Figure 19. Area cleared in PT BIA’s eastern block by May 2016



Sources: Landsat 7 imagery for 8 May to 9 June 2016. Landsat 8 imagery for 22 to 30 September 2015

Photo: PT BIA, Western block



© Mighty; 5 June 2016; Latitude 6°54'53.46"S, Longitude 140°28'26.20"E

5. Korindo company profile

5.1 Businesses and ownership

Korindo has around 20,000 employees and comprises more than 30 affiliated companies. Its main businesses are in natural resources with operations involving logging, pulpwood and oil palm concessions, as well as plywood, wood chip and palm oil production. Other Korindo businesses include newsprint paper manufacturing, heavy industries including wind towers, financing, and real estate.⁸⁶ Its revenues are not disclosed.

Photo: The Korindo office tower in Jakarta



Source: Flickr, BxHxTxCx, taken on 22 December 2011, <http://bit.ly/1t2Rjbe>

An opaque company

Korindo is an opaque company. Since it is not a public company, it is not subject to the transparency requirements of stock exchanges. Korindo does not make its annual reports available to the public, and thus provides no information on business areas, revenues and earnings. Korindo has a complex business structure with 30 affiliated companies operating in several quite diverse businesses. Many of Korindo's Indonesian affiliates are owned by Singapore or Hong Kong registered companies, which are most likely owned by other companies in other jurisdictions. Though links to these companies in other jurisdictions could not be tracked down, through the Panama papers Korindo Chairman Seung Eun-ho was found to have several companies registered in the British Virgin Islands.⁸⁷ The complex business structure, among other things, makes it impossible to determine the exact ownership of these businesses and whether or where the company fulfils its tax obligations.

Ownership

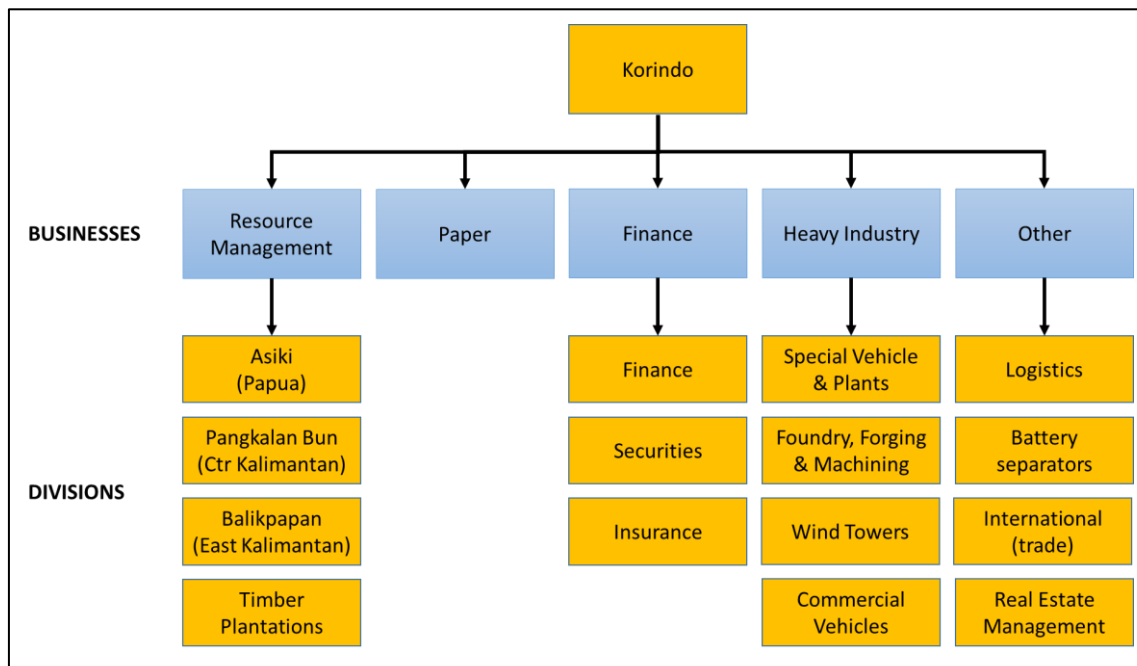
Korindo is majority owned by the South Korean Seung family. In 1948, the Korean company Dongwha Enterprise was founded by Seung Sang-bae, who passed away in 2009.⁸⁸ Since the mid-1960s, Dongwha has imported timber from Indonesia, Malaysia and other countries. Seung Sang-bae's son, Seung Eun-ho travelled to Indonesia in 1969 in search of higher quality timber. In 1970, Dongwha bought a logging concession in Kalimantan and established an Indonesian company. In 1976, the Korindo Group was launched, its name being a composite of the words Korea and Indonesia.⁸⁹ Seung Eun-ho remained in Indonesia as the Chief Executive Officer (CEO) of Korindo, extending business operations to other sectors, such as plywood and newsprint, and later adding heavy machinery and oil palm. Seung Eun-ho has been reported as being the Chairman and CEO of Korindo.⁹⁰ However, several documents show him currently acting as Chairman, while Beom Soo (Robert) Seung is named as CEO.⁹¹

Seung Sang-bae's second son, Seung Myung-ho currently serves as CEO of Dongwha Enterprise Co. Ltd (Dongwha). The total 2015 revenue of Dongwha, which is listed on the Korea Stock Exchange⁹², was KRW 675 billion, equivalent to USD 0.6 billion.⁹³ The company produces a wide range of processed woods, such as MDF (medium-density fiberboard) and particle board. It also sells timber products, and owns two Korean newspapers (the Korea Times and Hankook Ilbo).⁹⁴ As of 31 December 2015, Seung Eun-ho, the Chairman of Korindo, had a 9.3% share in Dongwha Enterprises.⁹⁵ In the past, Seung Eun-ho was also Chairman of Dongwha Holdings.⁹⁶ Now, the businesses of Dongwha Enterprises and Korindo appear to be run separately and for the most part have different owners.

Korindo's business activities

Figure 20 below provides an overview of Korindo's businesses based on its website.⁹⁷ Resource Management has always been the main component of Korindo's operations, comprising logging, timber processing (plywood, wood chips), pulpwood plantations and oil palm operations.

Figure 20. Korindo's businesses and divisions



5.2 Logging and plywood

One of the largest Indonesian plywood manufacturers

Korindo's Resource Management operations have three geographical clusters: Asiki in Papua, Pangkalan Bun in Central Kalimantan and Balikpapan in East Kalimantan. These three clusters represent the company's logging and wood processing – predominantly plywood - operations.

Korindo is one of the largest plywood manufacturers in Indonesia. In 2004, its share of world production was estimated at 4%.⁹⁸ Now, however, Indonesia exports less plywood, while global plywood production has increased significantly.⁹⁹ In 2014, Japan (27%), China (26%) and the Middle East (14%) were the main export destinations for Indonesian plywood.¹⁰⁰

Korindo's present annual plywood production capacity is in the range of 500,000 – 800,000 cubic meters (m³). Recent documentation by certification bodies state that Korindo's total plywood capacity amounts to 772,000 m³.¹⁰¹ Korindo itself reports an annual production capacity of 564,000 m³ on its website, though this seems outdated information.¹⁰² Information on Korindo's actual production of plywood is not publicly available.

Asiki (Papua)

Korindo started logging in Papua in 1993 in its 464,000-hectare PT Bade Makmur Orissa logging concession.¹⁰³ At present, it has two active logging concessions in Papua: PT Tunas Timber Lestari and PT Inocin Abadi, with concession areas of 215,000¹⁰⁴ and 100,000¹⁰⁵ hectares respectively. Figure 21 below shows the locations of Korindo's Papuan logging concessions (in red) and oil palm concessions (in purple). Production from the large PT Bade Makmur Orissa concession was last reported for 2012.¹⁰⁶

The company PT Korindo Abadi processes wood in Asiki village. It has a license to produce 100,000 m³ of plywood, 100,000 m³ of film faced plywood, and 8,000 m³ of sawn timber annually.¹⁰⁷

It is likely that Korindo uses its own logged timber in the PT Korindo Abadi plywood factory. Nevertheless, it probably has third-party suppliers as well. Korindo is also a third-party supplier of produce unsuitable for plywood and sawn wood production. It is likely, for example, that Korindo sells some of its wood produce in Papua to the large PT MedcoPapua Industri Lestari factory in Merauke; a factory with annual production capacities of 1,800,000 m³ for wood chips and 200,000 m³ for wood pellets. The Korean company LG International has secured a 50% offtake of output and a 40% stake in the project.¹⁰⁸

Figure 21. Locations of Korindo operations in Papua

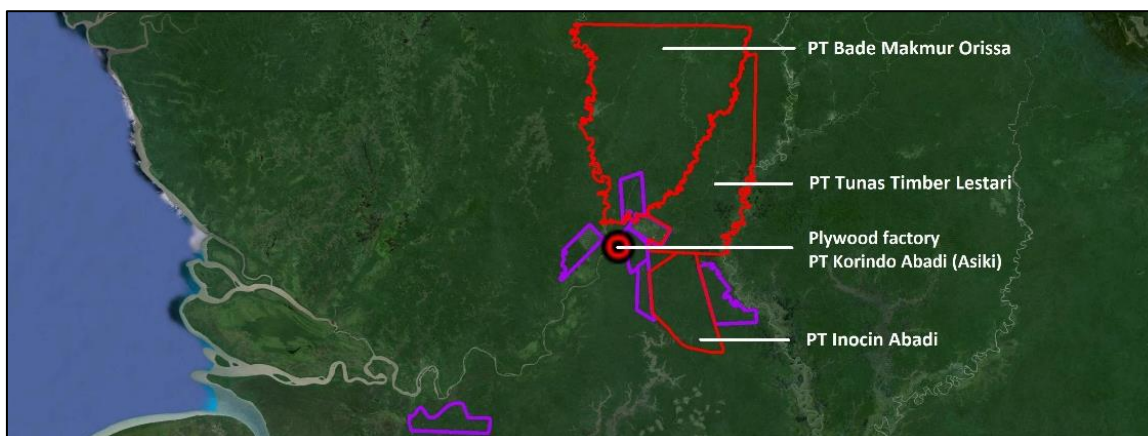


Photo: Sign boards for Korindo's PT Inocin Abadi logging concession

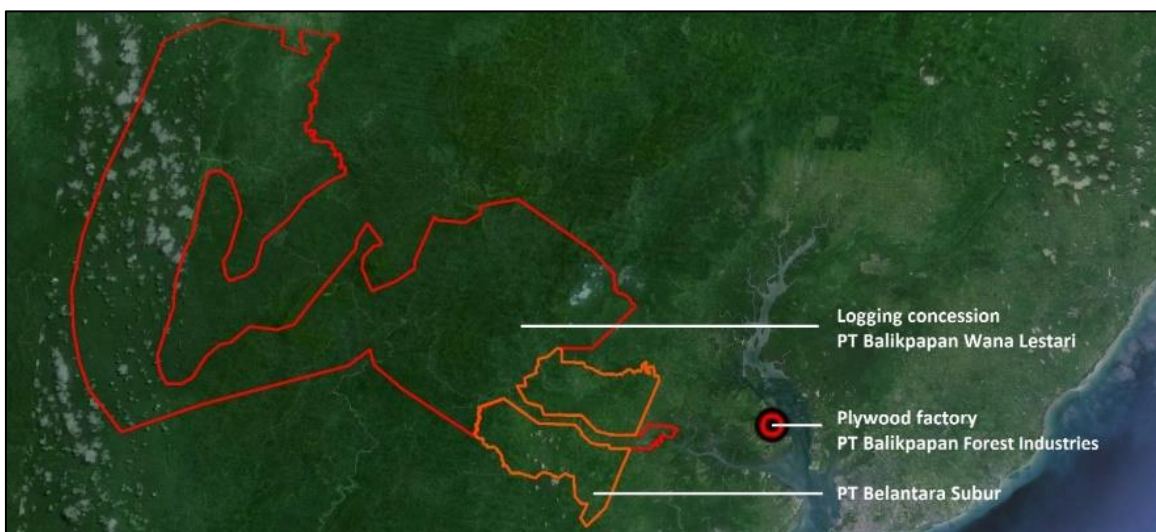


© Mighty; 4 June 2016; Latitude 6°46'32.46"S, Longitude 140°38'32.78"E

Balikpapan (East Kalimantan)

PT Balikpapan Wana Lestari, formerly PT Balikpapan Forest Industries, has a 141,000-hectare logging concession spanning the three districts of Paser, North Penajam Paser and West Kutai.¹⁰⁹ PT Balikpapan Forest Industries' factory, located in Jenebora village in North Penajam Paser district, has annual production capacities of 100,000 m³ for plywood, 52,000 m³ for film faced plywood and 7,000 m³ for sawn timber.¹¹⁰ The company ceased operations in December 2012 and laid off 1,700 employees after making losses in the period from 2009 to 2011. It reopened in 2013 with a new work system. Reportedly, in 2013 its produce was exported mainly to Saudi Arabia (55%) and Japan (25%).¹¹¹

Figure 22. Location of Korindo operations in East Kalimantan



Pangkalan Bun (Central Kalimantan)

Korindo currently has one active selective logging concession in Central Kalimantan belonging to PT Trisetia Intiga. The concession covers an area of 69,000 hectares and is located in Lamandau district.¹¹² The southern part of the concession overlaps with oil palm plantations covering an estimated 18,000 hectares. According to certification body PT Equality Indonesia there has been no resolution process with regard to the overlapping areas.¹¹³

The company PT Korindo Ariabima Sari operates in the city of Pangkalan Bun producing plywood, film faced plywood and UCP (Urethane Coated Plywood).¹¹⁴

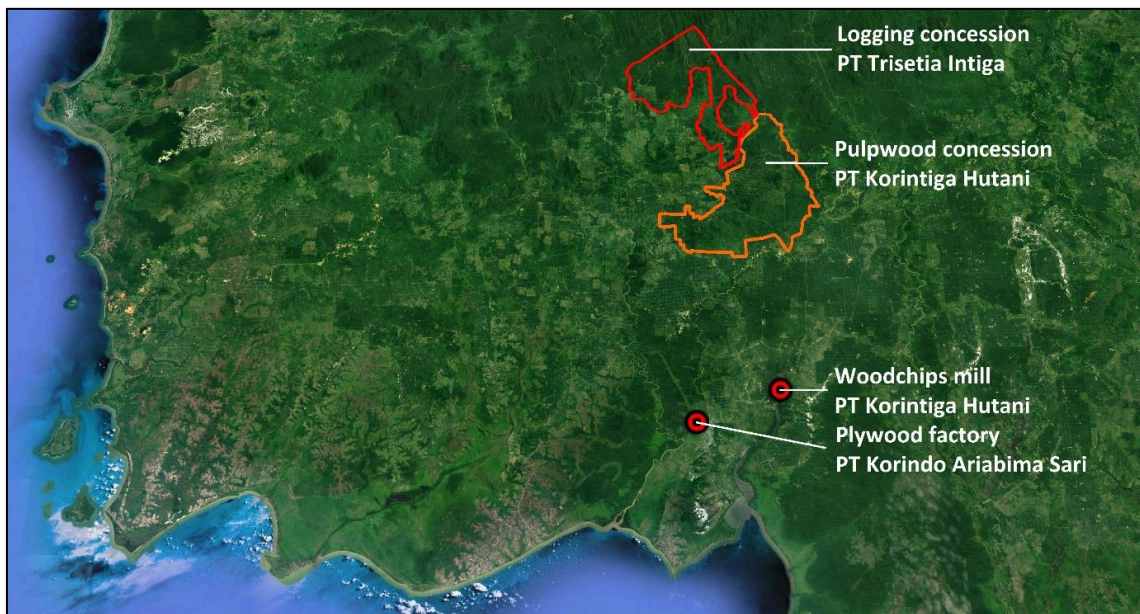
Its annual capacity is said to be 210,000 m³ of plywood, 20,000 m³ of veneer, 137,500 m³ of film faced plywood, 72,500 m³ of Urethane Coated Plywood, 24,000 m³ of block board and 16,000 m³ of sawn timber.¹¹⁵ In addition, 15,000 tonnes of formaldehyde and 24,500 tonnes of urea formaldehydes can be used.¹¹⁶

A report in February 2016 said the company had 1,228 permanent employees and 645 temporary employees, and that Korindo planned to lay off half of the temporary employees, and reduce the permanent employees' working hours due to a lower demand for its plywood in the Middle East. Workers planned a mass strike in response.¹¹⁷

PT Korindo Ariabima Sari also likely has third-party suppliers that deliver high-quality timber needed for plywood production.

On 1 August 2016 the governor of Central Kalimantan province, Mr. Sugianto Sabran, visited the factory of PT Korindo Ariabima Sari in Pangkalan Bun. Citizens had been complaining about the smoke and dust coming from the factory's chimneys. This caused itches and other illnesses. The factory is located near to a densely populated area. The governor told Korindo that it should solve the pollution problem within 6 months. Otherwise, sanctions would follow.¹¹⁸

Figure 23. Locations of Korindo operations in Central Kalimantan



Customers of Korindo's plywood

Reports suggest that Korindo's plywood is mainly exported to the Middle East.¹¹⁹ The company Transcontinental Indenting Co. LLC (TIC), located in Dubai in the United Arab Emirates, claims to be the representative office of Korindo's plywood products for the Middle East (excluding Saudi Arabia), booking in excess of 200,000 Korindo products every year.¹²⁰ An article in April 2009 stated that Korindo ships to all ports in the Gulf Cooperation Council (GCC) region¹²¹ on a monthly basis in order to meet client needs. "[Korindo] charters its own vessel at the end of every month due to the high volume of orders from their GCC customers," said TIC managing director Jitendra Bhatia.¹²²

5.3 Pulpwood

Korindo has a large pulpwood concession in Central Kalimantan belonging to PT Koritinga Hutani (PT KTH). The 94,000-hectare concession area spans the two districts of Lamandau and West Kotawaringin.¹²³ In 2014, 29,000 hectares were planted with eucalyptus (*Eucalyptus pellita*), 25,000 hectares with acacia (*Acacia mangium*) and 2,500 hectares with waru (*Hibiscus similis*).

PT KTH also has a chip mill in Pangkalan Bun for processing its pulpwood. It has an annual production capacity of 963,636 m³ for wood chips. Additionally, the factory is able to produce 265,000 m³ of wood pellets, 50,000 m³ of veneer, and 35,000 m³ of sawn timber.¹²⁴ PT KTH customers in the period from May to November 2013 included PT Tanjungenim Lestari Pulp and Paper (PT TELPP) owned by the Japanese Marubeni Corporation¹²⁵, PT Alam Abadi Perkasa (PT AAP), and UD Fayar Jaya.¹²⁶

The Japanese pulp and paper conglomerate Oji Holdings has a 34.34% share in PT KTH.¹²⁷ It acquired the stake in March 2010 for USD 103 million.¹²⁸ Reports in July 2013 and March 2014 said substantial volumes of PT KTH's wood chips would be supplied to Oji in Japan for paper manufacturing.¹²⁹ The wood pellets are likely shipped to Korea and Japan.¹³⁰

PT Belantara Subur is another Korindo pulpwood concession. It covers 16,475 hectares and is located adjacent to Korindo's PT Balikpapan Wana Lestari logging concession in East Kalimantan.¹³¹

A new pulpwood plantation in Papua?

In September 2015, Korindo and Papuan government sources reported that Korindo is considering establishing a pulpwood plantation in Papua. Papua Governor, Lukas Enembe, and Korindo are both interested in setting up a biomass plant to generate electricity, combined with a pulpwood plantation. Discussions were already underway over the acquisition of 12,000 hectares of land in Jayapura district and Jayapura Municipality. The location of the land under discussion is unclear, so the present forest cover situation also remains vague. However, Jayapura district currently has substantial primary and secondary forest cover. According to a Korindo spokesperson, 10MW of electricity could be generated from 7,000 hectares of eucalyptus.¹³²

5.4 Indonesia's largest newsprint manufacturer

PT Aspex Kumbong

Located in Cileungsi near Jakarta on the island of Java, PT Aspex Kumbong (Aspex), a 100% Korindo company, is Indonesia's largest newsprint manufacturer with a production capacity of 440,000 tonnes per year.¹³³ Large Aspex customers include the Indonesian media company Kompas Gramedia - publisher of the national Kompas newspaper and regional Tribun newspapers among others¹³⁴ - and the Australian company Oceanic Holding.¹³⁵ Oceanic exports waste paper to Aspex, which is then imported back into Australia as newsprint, as well as going to New Zealand and South Africa. Aspex's newsprint paper is said to be made from 100% recycled paper collected from Australia, New Zealand, the USA and Indonesia.¹³⁶

Aspex is also reported to produce paper grades other than newsprint, such as paper for notebooks, textbooks and telephone directories.¹³⁷ Little information was available on this aspect of Aspex's business; however, it does have an FSC Chain of Custody certificate for newsprint, printing & writing and food wrapping paper.¹³⁸

Korindo's US subsidiary Kousa International is Aspex's exclusive US purchasing agent.¹³⁹ Dealing in both recovered and prime paper, the company is said to handle volumes exceeding 200,000 tonnes a year. The prime paper sold is said to comprise newsprint, telephone directory paper, printing & writing paper and paper for other uses. However, a database that tracks shipments to the US revealed no imports of paper by Kousa International to the US. Kousa's most recent export of recycled paper to PT Aspex Kumbong was from July 2015.¹⁴⁰

Tax evasion?

Aspex is related to a case of alleged tax evasion by Korindo Chairman Seung Eun-ho and his sons. The Korean National Tax Service first investigated the case and referred it to the Seoul Central District Prosecutors' Office in April 2014. According to the prosecutor, Seung Eun-ho, a Korean citizen, and his sons allegedly used a paper company set up in an overseas tax haven with the names of other people in order to avoid paying taxes in Korea. Seung has reportedly claimed that he has no reason to pay taxes in Korea, because he is currently not a resident. The NTS, however, believed that he and his sons stayed in Korea for more than one year during the 2-year taxation period, so they would be obliged to pay taxes in accordance with Korean law. As of October 2014, Seung Eun-ho had yet to be summoned for questioning.¹⁴¹ Inquiries into his whereabouts and income were still being reported on a Korean National Tax Service website in April 2016.¹⁴²

5.5 Finance

Korindo has a 20% share in the Indonesian company PT NongHyup Korindo Securities Indonesia.¹⁴³ Among other activities, the company is engaged in equity brokerage and investment banking.¹⁴⁴ It currently runs Korindo's Finance and Securities businesses, which were listed separately on Korindo's website in 2010. The majority owner, the NongHyup Financial Group, is Korea's second largest financial group by assets.¹⁴⁵

PT Meritz Korindo Insurance is a joint venture general insurance company involving Meritz Fire & Marine Insurance Company, Ltd. (51%) and the Korindo Group (49%). The company provides several insurance products, such as fire insurance, property all risk, marine cargo, contractor/construction and motor vehicle insurance.¹⁴⁶

5.6 Heavy industry

According to the 2010 Korindo website, Korindo's Heavy Industry business comprises four divisions: wind towers, foundry forging (steel structures), special vehicles and commercial vehicles.¹⁴⁷ During the course of preparing this report, it was not possible to get a complete updated picture of Korindo Heavy Industry activities, so the information below should be viewed in that light.

Korindo wind towers have been installed in the US, India, Australia and New Zealand. The production area is located in Cilegon in Banten province on Java. Since 2006, Korindo has produced more than 1,200 towers for the US market. Korindo's US subsidiary Kousa International is the exclusive agent for Korindo Wind. The president of Kousa International is Ricky Seung.¹⁴⁸ Checking a database of shipments to the US, Kousa International was found to have imported 5,900 tonnes of wind tower components from PT Korindo Heavy Industry in February 2016, and another 2,000 tonnes in April 2016.¹⁴⁹ Korindo wind Energy customers include the Spanish energy company Iberdrola¹⁵⁰, the German company Siemens¹⁵¹, the Danish company Vestas, the US-based company Clipper and the Spanish company Gamesa.¹⁵²

Over the years, clients of Korindo's foundry and forging business have included PT Doosan Heavy Industries (2010-2012), Sookook Engineering (2012), PT Krakatau Steel (2011-2012), PT Hanazono Engineering Indonesia (2012), PT Adhi Karya/PT GS -Korea (2013-2014), PT FLSmidt Indonesia (2011-2012), PT JGC Indonesia; a subsidiary of Japan Gas Corporation (2012), and SWC-BRE JO (2012).¹⁵³ It appears this area of Korindo's business has not had many clients since 2012. Of those clients listed, many typically stem from South Korea and Japan. Recently, Korindo Heavy Industry has also worked on the construction of its own CPO Mills for PT Dongin Prabhawa and PT Berkas Cipta Abadi.¹⁵⁴

Korindo Energy (Singapore) Pte. Ltd. was incorporated in Singapore on 3 November 2010, and was not listed on Korindo's 2010 website.¹⁵⁵ It provides engine services for the marine and energy sectors, and its brochure refers to a long list of clients; mainly in the marine sector.¹⁵⁶

In 2007, Korindo became Hyundai's assembly partner for the production of trucks and buses. It established a plant in Banten province in the western part of Java after investing USD 25 million.¹⁵⁷ Hyundai ended the contract in 2012.¹⁵⁸

According to Korindo's 2010 website, Korindo Heavy Industry produced automobile components for a wide range of customers at its plant in Tangerang in Banten province.¹⁵⁹ The Indonesian conglomerate Bakrie & Brothers acquired the company in 2012 or 2013¹⁶⁰, though some parts of the company still appear to exist. In March 2015, Chen Chong Kyong, one of the directors of Korindo Motors (also located in Tangerang) was arrested for alleged involvement in a corruption case surrounding the government's procurement of Transjakarta buses in 2013.¹⁶¹

Korindo Special Vehicles' business boasts a wide range of customers according to the 2010 Korindo website. These customers are mainly transportation and mining companies.¹⁶²

5.7 Coal mining

Korindo holds a stake of at least 30.6% in a large coal project located in Kapuas district in Central Kalimantan. Estimated reserves are 337 million tonnes of bituminous coal, and estimated annual production capacity is 4 million tonnes. However, delays in obtaining the necessary permits from the Indonesian government have meant the project being unable to start.¹⁶³

5.8 Smaller businesses

Some of Korindo's smaller companies include:

- PT Dongbang Development - this is the company behind Korindo's real estate business. It manages the 16-floor Wisma Korindo office tower in Jakarta, and 163 apartments for lease to externals and employees.¹⁶⁴
- PT Magna Digital Lab - this company focuses on digital applications.¹⁶⁵
- PT Separindo Industry - this is Korindo's battery separator business, located in Cileungsi, near Jakarta on Java.¹⁶⁶
- PT Bumi Indawa Niaga - a trading company.
- PT Korindo Konstruksi - a construction services company.¹⁶⁷
- On its website, Korindo states that it also has a rubber plantation, but no information on this rubber plantation could be found.

Conclusion

Korindo's oil palm practices flout Indonesian law. All evidence points to systematic and widespread use of fire by Korindo during land clearing processes. This is illegal in Indonesia. Korindo was a large contributor to Indonesia's haze disaster in 2015 accounting for almost 1% of all fires.

Korindo's oil palm practices fall far short of the sustainability commitments made by the main companies that grow, refine, and trade palm oil. Korindo is, therefore, at serious risk of losing its main oil palm customers. Two of Korindo's main customers, Wilmar and Musim Mas, have recently already stopped sourcing from Korindo.

Not even the relatively lax standards of the Roundtable on Sustainable Palm Oil (RSPO) allow the clearing of primary forests, which Korindo is doing. The main companies in the oil palm supply chain demand much higher standards than those of the RSPO.

Clearly Korindo does not respect the customary rights of communities in North Maluku that have been living in the region for hundreds of years. Korindo should return the land there to its owners.

Korindo is passing its hazardous practices on to other Korean conglomerates like Posco Daewoo. It is also setting a dangerous precedent for commercial exploitation in Papua, home to the largest remaining tracts of pristine rainforest in Indonesia. In addition to its practices of deforestation and burning, the company is also surrounded by allegations of tax evasion and corruption.

Korindo is an extremely opaque company. It should embrace transparency, so its customers, investors and global consumers can assess whether its actions live up to its dubious claims of being a "green" company.

Photo: Clearing of primary forests by PT Papua Agro Lestari (Korindo).



© Mighty (drone photo); 4 June 2016; Latitude 6°45'42.90"S, Longitude 140°48'28.38"E. Credit: Yudhi Mahendra

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