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ASIA-PACIFIC

Paradise Papers pulp giant faces profit-shifting accusations

APRIL may have misclassified exports to reduce its tax bill in Indonesia, a new report by the Tax Justice Forum says.

By [Scilla Alecci](#)

Image: Photo by Ahmad Zamroni/AFP via Getty

Images

November 5, 2020



Smoke rises from the factory of pulp and paper giant Asia Pacific Resources International Holdings Limited in Pangkalan Kerinci, outside Pekanbaru, Riau, photographed on November 4, 2007.

Controversial Indonesian paper giant APRIL may have misreported its wood pulp exports while shifting large profits overseas, enabling it to avoid tax, a new report by a consortium of 25 organizations claims.

One of the world's largest paper and pulp producers, APRIL, or Asia Pacific Resources International Holdings Ltd, and its affiliates have been involved in past conflicts with local communities over forest and peatland clearing on the islands of Sumatra and Borneo.

The report by the Tax Justice Forum alleges that, from 2016 to 2018, APRIL classified exports of dissolving pulp — typically used to manufacture viscose fiber for textiles — as paper-grade pulp, a less valuable type used to make tissues and packaging.

According to the report's authors, who noted that companies may have legitimate reasons to practice profit shifting, the scheme could have allowed APRIL to understate its revenues by as much as \$242 million and to reduce its tax bill.

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“This is a double loss for Indonesians,” said Mouna Wasef, one of the researchers with the coalition, originally named Forum Pajak Berkeadilan. “They are missing out on the full tax benefits that the government should be getting from natural resource industries while at the same time, they are losing the underlying natural resources on which these industries are based.”

The 82-page report, titled [The Macao Money Machine](#), is designed to provide the Indonesian government and others with an analysis of profit shifting and discrepancies in the nation’s pulp trade with China.

APRIL rejected the profit-shifting allegations and said that “all export activities and tax arrangements comply with national and international laws and regulations,” Charles Hogan, the company’s head of international communications, wrote in an email to the International Consortium of Investigative Journalists.

He added that, as a privately held company, APRIL “does not disclose financial or commercially sensitive information.”

In 2017, ICIJ [found that APRIL](#) — a member of the Singapore-based Royal Eagle Group controlled by Indonesian billionaire Sukanto Tanoto — had shuffled billions of dollars through a web of offshore companies and used its subsidiaries to obtain bank loans.

The [Paradise Papers investigation](#) showed that some of those loans financed APRIL’s subsidiaries that local communities have accused of destroying their livelihoods and felling trees in fire-prone areas, contributing to climate change.

Last month, a group of researchers [under the name of Anti-Forest Mafia Coalition](#) reported that one of APRIL’s wood suppliers cleared peatland forest in Borneo, another vulnerable region, despite the company’s 2015 “no deforestation” pledge.

APRIL [denied](#) the deforestation allegations.

Data mismatch

APRIL began producing textile-grade pulp at its Sumatra mill in 2016. It sells it to China-based Sateri, another member of Tanoto’s Royal Eagle Group, which [reportedly](#) processes the cellulose into viscose fiber for clients such as Zara and H&M.

In a recent [report by Canopy](#), an organization that grades viscose-manufacturers according to their sustainability policies and other criteria, Sateri was considered “high risk” because of “sourcing from ancient & endangered forests and other controversial sources.”

Sateri “adheres to a strict pulp sourcing policy which upholds the principle of No Deforestation and Exploitation,” the company’s sustainability vice president Sharon Chong wrote in an email to ICIJ. Chong added that Canopy’s assessment “is not based on any factual, objective assessment.”

Between 2016 and 2018, APRIL produced more than 800,000 tons of textile-grade pulp, according to a letter by the company’s sustainability director to

six nongovernmental organizations cited in the report.

However, those numbers are not reflected in Indonesian trade data, the Tax Justice Forum researchers found.

“When [companies] go through these third countries, it gets very complicated to track down who really paid for what, or who paid how much for what ... It’s very difficult for investigators to peel away the layers of the onion”

— Rick Rowden, Global Financial Integrity

“This omission in the export data raises the question of whether APRIL also adopted the practice of reporting and apparently valuing dissolving pulp as paper-grade pulp,” their report said.

APRIL’s spokesman said that, between 2016 and 2018, the company reported exporting its product as paper-grade pulp because it was developing a new type of cellulose and was evaluating whether that could be used to make viscose fiber for textiles.

“Our export price reflected the fact that this was an experimental product and did not yet meet the full technical specifications of Dissolving Pulp,” Hogan wrote in his response to ICIJ.

Sateri confirmed that the company collaborated with APRIL’s operating unit in the trial and “obtained a small quantity (relative to our total production needs) of [their modified] pulp for trial purposes.”

The companies didn’t disclose the price for the experimental pulp they traded.

The price may vary according to market conditions but dissolving pulp, used to make textile fibers, was valued \$150 to \$300 per ton more than paper pulp during the three years examined in the report.

The researchers’ findings indicate that APRIL may have used its marketing affiliates in tax havens such as Macao to under-invoice its pulp exports and reduce its tax bill in Indonesia by \$60 million.

By reselling the product at the market price for textile pulp, the more expensive kind, those offshore affiliates were able to capture “quite substantial spreads,” the report said.

APRIL didn’t comment on the alleged use of an affiliate to reduce its tax bill but said it works with market affiliates when it requires expertise beyond its capabilities as manufacturer.

“Product pricing in any given period is set in accordance with market prices in the respective export destinations,” APRIL spokesman said.

Profit shifting and trade misinvoicing are two major contributors to governments' revenue losses, according to a [study by Global Financial Integrity](#), an organization specialized in researching illicit money flows.

In 2016 alone, Indonesia lost \$3.9 billion in uncollected corporate income tax and royalties due to export under-invoicing, GFI study says.

"Indonesia has this leakage problem at customs," Rick Rowden, the report's author, told ICIJ. "The revenue that Indonesia should be getting for a huge amount of this trade, which is not being taxed properly, constitutes a loss for the Indonesian people. That's money that could have gone to education, or health, or development, public investment in some way. And now it's not going there."

From Indonesia to China, passing through Macao

Before APRIL, another company linked to Tanoto, PT Toba Pulp Lestari Tbk, was accused of shifting its profits offshore too.

Like APRIL, Toba Pulp has often been at the center of [conflicts with indigenous populations](#) over land rights and alleged human rights abuses.

In a [complaint](#) filed to the International Labour Organization last year, the Ompu Ronggur community living near Toba Lake in northern Sumatra claims that, since 2004, the company has been damaging their livelihood and resin forests, and that the government has failed to protect their traditional occupations. The case is pending, and Toba Pulp spokeswoman told ICIJ that the company "respects local and indigenous community's rights."

Two members of the community were [sentenced to nine months](#) in prison in February of this year after they protested company representatives' order to stop farming, Mongabay reported.

That month, Toba Pulp's export practices [became the subject of a journalistic investigation](#) by Indonesialeaks, a collective of Indonesian media organizations including Tempo, an ICIJ partner.

Their investigation began in Belawan, one of Indonesia's busiest ports, where trucks travelling hundreds of miles from the company's Sumatra plant carry the wood pulp that's shipped overseas.

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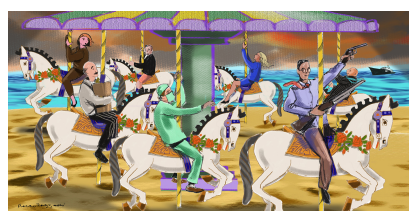
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“Every day these heavily-loaded long haul trucks are the key links in a chain that connects Toba Pulp’s products to offshore export activities,” Tempo’s report said.

The reporters documented a decade-long series of alleged financial irregularities by Toba Pulp and its trading partners: DP Marketing International, based in Macao, and Sateri, the same China-based viscose manufacturer that trades with APRIL.

Toba Pulp’s alleged scheme is similar to the one identified by Tax Justice Forum researchers for APRIL.

From 2007 to 2016, Indonesia exported only 150,000 tons of textile-grade pulp, the more expensive type of wood pulp, according to their analysis. China, on the other hand, reported more than 1.1 million tons of that material imported from Indonesia.

“This sizeable gap,” the researchers concluded, “would appear to hold significant implications for Toba Pulp, as the company was the only reported producer of dissolving pulp in Indonesia until 2016.”

The product misclassification “appear[s] to have resulted in the movement of substantial taxable profits generated within Indonesia to at least one offshore tax haven,” they wrote.

Toba Pulp spokeswoman Norma Hutajulu said the company is “fully committed to complying with the laws and regulations in all locations where we operate and would strongly reject any suggestion that PT Toba Pulp Lestari Tbk has understated its revenue.”

In an emailed response to ICIJ, she added that “product pricing in any given period is set in accordance with market prices in the respective export destinations.”

According to Tax Justice Forum’s analysis of trade data and corporate records, Toba Pulp allegedly shifted its profits offshore, to the affiliate in Macao, a low tax rate jurisdiction. As a result, the company understated its revenue by approximately \$426 million from 2007 to 2016, the report said.

Toba Pulp’s Hutajulu said the company “work[s] with market affiliates, along with a range of other service providers, where we require access to access to market and international networks so that the company can focus on manufacturing best quality of pulp products.”

In a [statement released to the Indonesian Stock Exchange](#) after the Tempo exposé in February, Toba Pulp corporate secretary Anwar Lawden said that the company sells its products through its Macao affiliate because it “has more control over the market share.”

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But experts warn that the use of entities in secrecy jurisdictions makes it difficult for authorities and the public to scrutinize companies' operations.

“When [companies] go through these third countries, it gets very complicated to track down who really paid for what, or who paid how much for what,” Rowden said.

“It’s very difficult for investigators to peel away the layers of the onion... so [companies] can hide their transfer mispricing activity very, very well,” he said.

Toba Pulp’s spokeswoman Hutajulu told ICIJ that “as a public listed company, we subject ourselves to independent financial audits and various other forms of business scrutiny, internally and externally, as part of a strong good governance practice.”

The Organisation for Economic Co-operation and Development considers Indonesia’s tax revenues low compared to other developing countries but, in the past few years, the country has taken several measures to curb illicit flows, tax evasion and corporate tax avoidance, including the establishment of a beneficial ownership registry.

Fixing the profit-shifting and trade misinvoicing problems should be on the list too, GFI’s Rowden said.

To do that, “there has to be the political will, from the highest levels of the government,” he told ICIJ. “You have to be willing to anger your entrenched, powerful business establishments who have used this mechanism for years. And they know that it means they’re going to have to pay more tax revenue.”

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