

# Cross-border timber trade in Indonesia: critical or overstated problem? Forest governance lessons from Kalimantan

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## SUMMARY

Illegal logging has been at the centre of policy debates about the current state and future prospects of Indonesia's forestry sector. One of the prevailing views is that clandestine cross-border timber trade is responsible for illegal logging in the country. This paper shows the core of the illegal logging problem lies not in timber smuggling in remote locations but in licensed forestry operations that engage in gross over-harvesting and violate shipping regulations. These actions, in turn, are necessitated by a vast supply-demand disparity in Indonesia's wood-working sector. The current timber trade system in Indonesia that stresses administrative and document compliance is insufficient because it is easy to manipulate and its enforcement is lax. Therefore, there is an urgent need for a more stringent timber legality standard that would be simpler to enforce and easier to evaluate. However, this will only work if a serious effort is made to restructure (downsize) forest industries and develop sustainable industrial timber plantations.

Keywords: Illegal logging, smuggling, forestry, Indonesia

## Contrebande de bois en Indonésie: état critique ou problème exagéré? Des leçons de gestion des forêts en provenance du Kalimantan

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La coupe illégale du bois a été au centre de débats de politique sur l'état actuel et les espoirs futurs du secteur de foresterie indonésien. L'un de points de vue prépondérants est que le marché clandestin du bois est responsable pour la coupe du bois illégale dans le pays. Cet article démontre que le coeur du problème de la coupe illégale du bois ne réside pas dans la contrebande du bois, mais dans les opérations forestières sous licence qui contreviennent aux réglementations de la récolte et du transport. Le marché actuel du bois en Indonésie encourageant le respect des documents et de l'administration n'est pas suffisant, car il est facile à manipuler et sa mise en pratique est très passive. Il est par conséquent urgent que le standard de la législation du bois soit plus serré, simple à mettre en pratique et plus facile à évaluer.

## Tráfico ilegal de madera en Indonesia: un problema serio o exagerado? Experiencias de manejo forestal en Kalimantan

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Los debates políticos sobre el estado actual y las perspectivas futuras del sector forestal indonesio se han centrado en el tema de la tala ilegal. Según uno de los puntos de vista más comunes, el comercio clandestino de madera es responsable de la tala ilegal en el país. Este artículo demuestra que el meollo del asunto de la tala ilegal no se halla en el tráfico ilegal de madera, sino en las operaciones forestales legales que violan los reglamentos de cosecha y exportación. El sistema actual de comercio de madera en Indonesia, que pone énfasis en el cumplimiento administrativo y burocrático, resulta insuficiente, ya que el sistema es fácil de manipular y no se hace respetar la ley. Por eso resulta fundamental el desarrollo de una norma legal para madera más estricta, que se podría hacer cumplir y evaluar más fácilmente.

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## INTRODUCTION

Over the last several years, illegal logging and illegal

timber trade have dominated debates on the current state and the future of Indonesian forestry. Both issues have been associated with a range of negative impacts on Indonesia's

economy and society and are seen as major contributors to deforestation and forest degradation in Indonesia (Gatra 2003; Pikiran Rakyat 2003). Illegal logging and illegal timber trade also result in a significant loss of national tax revenue, estimated at US\$ 600 million annually (Asia Pulse 2003a; Media Indonesia 2003). Finally, the illicit wealth generated from illegal timber is a source of social conflict as well as widespread corruption.

The decline of Indonesia as a major producer and exporter of plywood and sawn timber is often blamed on timber smuggling. Illegal timber trade in Indonesia's key forested regions of Kalimantan, Sumatra and Papua are most often pointed out as the cause of the forestry sector's struggles and of illegal logging as a whole. This is the view of Indonesia's main timber producer and exporter associations such as APHI (*Asosiasi Pengusaha Hutan Indonesia* - Association of Indonesian Forest Concession Holders) and APKINDO (*Asosiasi Panel Kayu Indonesia* - Indonesian Wood Panel Association) - a view regularly communicated at national and international fora (Jakarta Post 2001).

While the Indonesian Ministry of Forestry (MoF) officially holds a more complex view of illegal logging and illegal timber trade which is anchored on structural imbalance between the available supply and effective demand for timber, on numerous occasions MoF has echoed APHI and APKINDO's sentiments about the causes and implications of the illegal logging crisis. MoF has criticized a number of timber importing countries, particularly Malaysia and China, for accepting what it calls timber stolen in Indonesia that gives an unfair advantage to wood-working industries in both countries (Jakarta Post 2003b). MoF has also been complaining about international timber smuggling rings operating in Indonesia's border regions as well as about the lack of transparency in major regional timber trade hubs such as Singapore and Peninsular Malaysia (Asia Pulse 2003). Forest law enforcement (FLE) measures deployed in Indonesia have often reflected the assumption that illegal timber trade is externally funded and it is key part of the illegal logging problem in vulnerable border and transit regions (Kompas 2003a; Pontianak Post 2003).

## OBJECTIVES AND METHODS

Since FLE measures deployed in Indonesia to reduce illegal logging by zeroing in on illegal timber trade involve substantial financial and human resources as well as social and political cost, it is important to examine the claims that are being made about the importance of tackling timber smuggling in remote border regions as part of combating the illegal logging problem in Indonesia. In doing so, this paper aims to inform the on-going debates among government institutions, private sector, donors, NGOs and research organizations about the relationship between timber smuggling and the illegal logging problem in

Indonesia. It also seeks to highlight the adjustments needed in the Indonesian government forest policy-making aimed at combating forest crimes.

The paper focuses on the following key questions:

- What is the extent of timber smuggling in the border regions of Indonesia?
- Is timber smuggling of this kind responsible for illegal logging in Indonesia?
- Are there other forms of timber trade that contribute to illegal logging in Indonesia?
- Are current FLE policies to curb timber smuggling and illegal logging appropriate?
- What additional measures, if any, are necessary?

The sample unit of analysis for this paper is the border zone between Indonesia and Malaysia on the island of Borneo. Field work has been carried out in several locations along the entire length of the border in the provinces of East and West Kalimantan as well as in the Malaysian states of Sabah and Sarawak. The field research and subsequent analysis were structured around the following methodological steps:

- Review of the available, published and unpublished, sources on cross-border timber trade, plantation establishment and infrastructure development.
- Analysis of the available timber trade documentation.
- Analysis of remote sensing imagery for the border zone in Kalimantan.
- Aerial survey of the borderline to assess cross-border road intrusions and the potential for overland timber traffic.
- Investigation of a sample of timber traffic points along the border.
- Collaboration and exchange of information with partners engaged in similar analyses in other parts of Indonesia.

## THE BORDER ZONE IN KALIMANTAN

The Indonesian government officially defines the border zone in Kalimantan (Indonesian part of the island of Borneo) as the area within the districts (*kabupaten*) contiguous to the international border line that runs across the island for 1,840 km. Following such definition, the Kalimantan border zone comprises 3 *kabupaten* in East Kalimantan (Nunukan, Malinau, Kutai Barat) and 5 *kabupaten* in West Kalimantan (Sambas, Bengkayang, Sanggau, Sintang, Kapuas Hulu) with the total area of 7.2 million hectares. Nearly 60 percent of this area, or just over 4 million hectares, is covered by sub-mountain and mountain tropical forest that dominates the upper parts of all major river systems in central Borneo.

<sup>1</sup> Forest Crime as a Constraint on Development By Mark Baird, Country Director, Indonesia The World Bank 13 September 2001

As of 2005, 4 existing national parks covered about 2.4 million hectares of this forest, while another 7 conservation areas were under consideration.

This vast area has always been very sparsely populated. In 2005, the total population of Kalimantan's border zone was estimated at about 260,000 people. Since most of the population lives in villages and small towns near the main communication arteries (rivers), a large portion of the border lands in Kalimantan is effectively uninhabited. The indigenous communities in the area (Dayak, Melayu) have until fairly recently ignored the border all together, moving freely along hundreds of footpaths and waterways connecting the villages on both sides, mainly for trade purposes. Until 1993, the cross-border trade in Borneo was officially classified as barter trade whereby traders crossed the border back and forth bringing Indonesian raw materials to Malaysia, and "smuggling manufactured articles back home" (Lee 1976:5). In 1993, the cross border trade between the Indonesian province of East Kalimantan and the Malaysian State of Sabah was placed under the regulatory framework of Tawau Barter Trade Association (BATS). Similarly, in the late 1990s, the cross border trade between West Kalimantan and Sarawak was subsumed by the Free Trade Zone (FTZ) chapter in Sarawak (e.g. Tirtosudarmo 2002)<sup>2</sup>.

#### TIMBER TRADE ACROSS THE BORDER IN EAST KALIMANTAN

Beginning in 2000, the Indonesian government turned increasingly more attention to the border zone in Kalimantan for a number of reasons. On the political front, Indonesia faced a difficult case of territorial dispute with Malaysia over the islands of Sipadan and Ligitan – a dispute which the Indonesian government eventually lost (The International Court of Justice 2002; Jakarta Post 2004). The government in Jakarta also struggled at that time to manage a wave of decentralization exuberance that swept across the country. In the borderlands of East Kalimantan, this wave meant, among other things, practically unrestricted flow of timber for export (Muhtadi 1999). There has also been an increase in drug trafficking as well as in the trade of weapons, ammunition and explosives (HRW 2006).

It is estimated that in 2001 and 2002, East Kalimantan supplied up to 2 million m<sup>3</sup> of timber per annum to the Malaysian state of Sabah – nearly all of it illegally (Smith et al. 2003, Tacconi et al., 2004). According to MoF, large-scale sea based smuggling (barges, container ships) through the port of Tarakan accounted for up to 1.2 million m<sup>3</sup> of smuggled timber (Radar Tarakan 2004). Small-scale sea based smuggling (rafts, wooden vessels) supplied 330,000 m<sup>3</sup> per year. The remaining volume of timber (about 500 000 m<sup>3</sup>) was delivered to Sabah overland. The overland timber traffic benefited greatly from the completion of a 180 km-long branch of Kalabakan-Sapulut Highway that runs along

the border with Indonesia, in some places less than 500 meters from the international border line. From that major road, dozens of dirt tracks (*jalan tikus*) were constructed into the ex-Yamaker forest concession area in East Kalimantan (Muhtadi 1999).

#### Yamaker's tale: new faces, old habits

In 1967, the Ministry of Forestry (MoF) granted a company called PT Yamaker (an Indonesian military cooperative called Yayasan Maju Kerja) forest concessions licenses (HPH, *Hak Pengusahaan Hutan*) extending over 1 million hectares along the border with Malaysia – 843 500 hectares in West Kalimantan and 265 000 hectares in East Kalimantan. Despite PT Yamaker being one of the earliest and most extensive HPH concession holders in Indonesia, the company never developed a comprehensive plan for systematic management of the area it was officially in charge. Until the cancellation of its license in 1999, Yamaker's position was that of a permit holder that preferred to receive fees per cubic meter of harvested timber from hired logging sub-contractors.

The scant attention Yamaker paid to its forest concessions turned them into a hotbed of mismanagement and irregularities. There are indications that already in the late 1960s, Yamaker concession-holders, possessing little forestry experience and no operational capital, had been oriented towards arrangements for cross-border timber trade and investment with little concern about the illegality aspect of such activities. Local government reports from mid 1980s describe heavy boat traffic between Yamaker's concession in East Kalimantan and Malaysia (Kanwil Dirjen Perhubungan Laut 1987). In 1987, for instance, at least 150 boats daily plied the Nunukan-Tawau border area between Indonesia and Malaysia without proper documentation.

Side-by-side the small-scale traffic, there were large scale illegal operations as well. An indication of Yamaker's large scale timber smuggling for the first time came to light in 1997. In January of that year, Malaysian press reported on a timber smuggling case involving a Tawau based company Syarikat Raspond Sdn Bhd and 'a major forest concessionaire from the Indonesian side of the border.' Syarikat Raspond Sdn Bhd was caught ferrying over 3 000 undocumented logs from East Kalimantan (Bangkuai 1997). It soon became known that this was only about one-seventh of the total amount that had already been shipped illegally to a timber importing company Shinko Kaiun Co Ltd in Japan (Bingkasan 1997; *New Straits Times* 1997a, b).

While Yamaker survived the fallout from this case, it could do little to halt the criticism and public pressure after the resignation of President Suharto in 1998. In 1999, all Yamaker forest concession areas were cancelled and handed over to PT Perum Perhutani. However, PT Perhutani's strength had been the management of teak forests in Java, not tropical rainforest concessions in Kalimantan. The company's limited managerial capacity was further eroded by pressure from

<sup>2</sup> Press Release: Indonesian Timber Passing Through Malaysia's Free Trade Zone (FTZ), (MTC) Malaysian Timber Council 14 May 2004

the military for production sharing arrangements. While Perhutani struggled to draw up a plan to manage the ex-Yamaker concession areas, ex-Yamaker players and a Sabah-based company Saleha Sdn Bhd constructed several roads cutting up to 10 km into the Indonesian territory, extracting vast amounts of timber as it moved along and shipping it to Kalabakan log yards (e.g. Huttche 2000).

PT Perhutani never produced a comprehensive management plan for the forest areas in Kalimantan with which it was entrusted. Instead, in 2002 it proposed a number of plantation projects – all starting with land-clearing of forest areas officially deemed degraded beyond recovery. In the same year, a military backed company PT Agrosilva Beta Kartika (ABK) and a military cooperative (Inkopad) in Nunukan were given green light to turn a part of ex-Yamaker concession in East Kalimantan into an oil palm plantation. Predictably, ABK and Inkopad hired a Malaysian counterpart from Sabah – Tunghup Sdn Bhd – to carry out land-clearing (NGO Otonomi Centre, Nunukan – pers. comm.). As in the case of Saleha Sdn Bhd, Tunghup constructed dozens of dirt roads from Sabah into ex-Yamaker concession, extracting vast amounts of timber for export to Malaysia. However, once the land-clearing permit expired in 2003, all three venture partners disappeared without planting a single palm

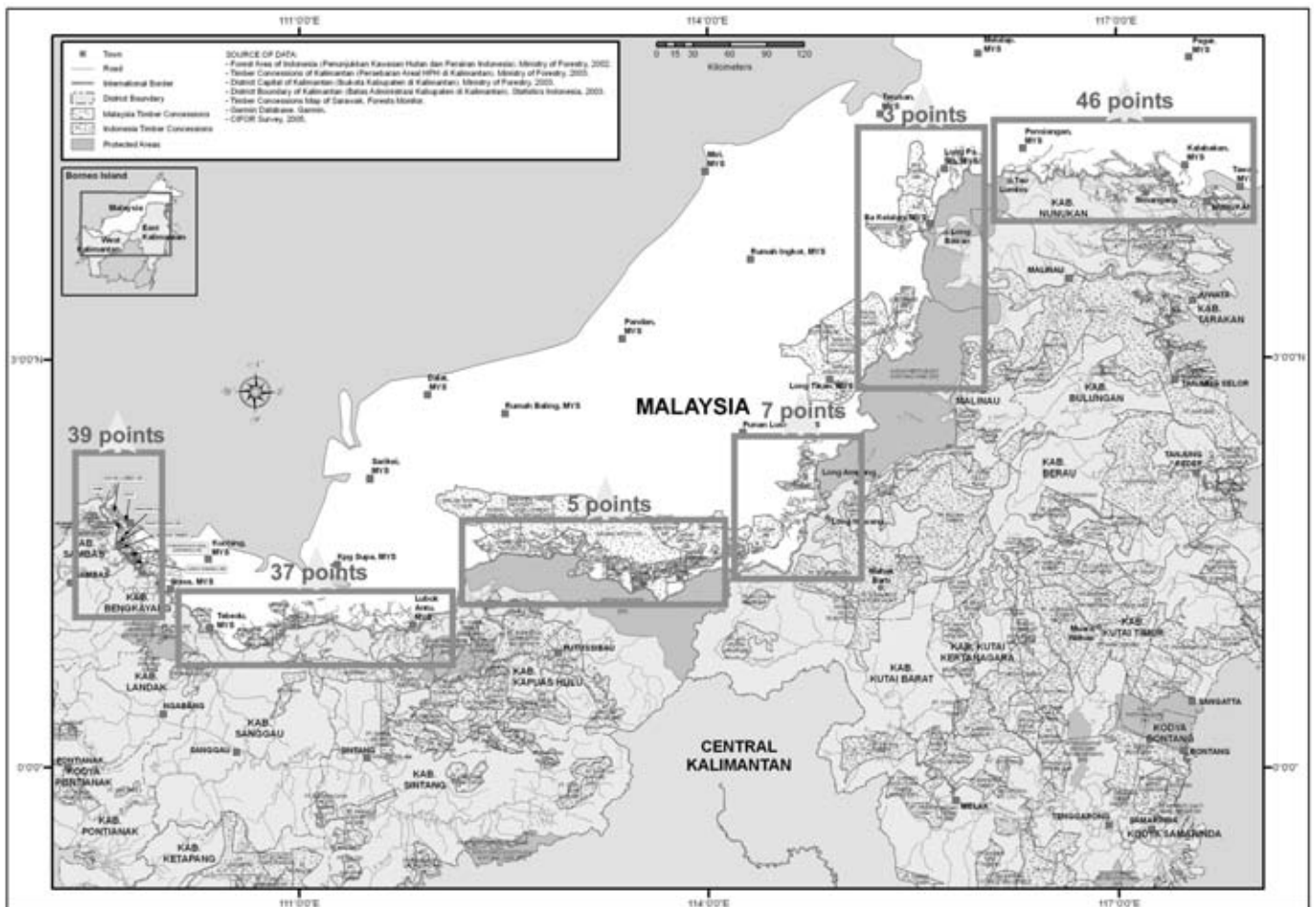
tree.

Simultaneously with the operations of ABK-Inkopad-Tunghup, Riau-based Surya Dumai group became involved in oil palm projects in the ex-Yamaker area as well (Tempo 2006). In late 2002, one of Surya Dumai’s subsidiaries was caught illegally shipping barges of logs to Tawau (NGO Otonomi Centre, Nunukan – pers. comm.). Although the subsidiary as well as the parent company evaded any legal repercussions, the dispute over their land-clearing permits proved more difficult to neutralize. In 2003 it was revealed that Surya Dumai’s land-clearing permits covering over 400 000 ha of ex-Yamaker HPH concession had been issued illegally (Kompas 2005b). The case implicated top government officials in the province of East Kalimantan, including the Governor and the Head of the Provincial Forestry Bureau.

**Stray Roads**

As exemplified by Yamaker and its partner companies, the illegal construction of cross border roads has been a common way to extract timber illegally in East Kalimantan’s border zone (Kaltim Post 2003). In 2002, WWF Tarakan office came forth with a report that Sarawak-based logging companies

FIGURE 1 Roads crossing the international border line in Borneo



Samling Plywood-Miri and Baram River Club illegally built roads into Kayan Mentarang National Park (Kaltim Post 2002).

CIFOR 2005 survey confirms these intrusions. The analysis of 2003 satellite imagery for the border area in East Kalimantan showed at least 56 points along the international border line where roads from Malaysian states of Sabah and Sarawak intrude into Indonesian territory:

- 43 roads penetrated the ex-Yamaker HPH area
- 1 road connected Lumbis with Long Pasia
- 1 road connected Long Bawan with Ba'kalalan
- 2 roads from the Malaysian forest concession Samling Plywood-Miri intruded (about 2 km each) into Kayan Mentarang
- 1 road from the Malaysian forest concession Jebadi Sdn Bhd intruded (about 1 km) into Kayan Mentarang
- 6 roads from the Malaysian side (concession ownership is not clear but it appears to be Jebadi) intruded (about 1 km) into Kayan Mentarang
- 2 roads from the Malaysian forest concession Curiah Sdn Bhd intruded into the Apo Kayan area

The flight over the border area revealed that as of 2005 all of these roads were still clearly visible (Figure 1). It seemed certain that all roads in the ex-Yamaker area had been out of use. The same was the case with Lumbis and Long Bawan. On the other hand, the remaining 9 road intrusions into Kayan Mentarang and Apo Kayan appeared to be still in use. Overall, however, it is clear that land-based trafficking of timber in East Kalimantan is not significant. Since the overall length of road intrusion into Kayan Mentarang amounts to approximately 11 km and since timber extraction is unlikely to be possible beyond 200 meters from the road due to rough terrain, the total volume of available timber that could have been harvested is about 100 000 m<sup>3</sup>. The intrusions into Apo Kayan are more difficult to estimate but are likely to be even less significant because parts of the area contain grassland.

#### **Trade in square logs out of Nunukan: then and now**

As of 2005, the only continuously on-going timber smuggling activity in East Kalimantan was centred in the Nunukan area and involved illicit extraction and transport of squared logs to Tawau, Sabah. Timber trade of this kind is carried out within the framework of barter under Tawau Barter Trade Association (BATS). BATS is an organization that handles the trade of raw materials from Indonesia for Malaysian consumer goods, but in recent years it has had a strong focus on timber. This is because there are about 40 timber-processing facilities in Tawau that require at least 1 million m<sup>3</sup> of raw material annually. In the heyday of cross border timber trade (2000-2003), BATS received significant institutional support from the largest forest industry lobby in Sabah – STIA (Sabah Timber Industries Association). In 2001, for instance, BATS succeeded in getting timber importation duties reduced from 40 to 10 Malaysian Ringgit

(MR) per m<sup>3</sup>.

The timber trade from Nunukan has historically followed the route through the Nunukan straits to the Malaysian port of Tawau. The alternative route around Sebatik Island is the one preferred by round wood exporters who operated until the re-imposition of log export ban by the Indonesian government in 2002. This route is also used by square log/sawn timber smugglers arriving from central and southern parts of East Kalimantan. In the aftermath of log export ban, log smuggling continued along this route, on much diminished scale. The modus operandi of round wood smuggling reportedly involve small barges or log rafts being towed from the coast to large barges or container ships parked near the international waters and destined to China, India and Japan (Kompas 2004b). The sources in the field indicate, however, that these activities have been relatively rare as they require the collaboration of top level officials.

The Nunukan Straits route is preferred by timber traders who hire logging teams in the Sebuku-Sembakung area to produce square logs. BATS officials in Tawau state that until 2003 about 180 timber boats (each with the load of 40-60 m<sup>3</sup> for a monthly total up to 11 000 m<sup>3</sup>) arrived from Nunukan each month. In addition, numerous boats from other parts of Kalimantan and Sulawesi made port calls as well.

In 2005, the volume of square logs shipped across the border was about 4 000 m<sup>3</sup> per month. However, increasingly uncertain passage and less interest among Tawau buyers due to the international scrutiny place considerable limitations on the trade. The small volumes traded are simply not worth the risk for the Tawau industry operatives who are inclined to obtain more raw materials from Sarawak, Papua New Guinea and elsewhere.

Overall, the current cross border timber traffic in East Kalimantan's border zone is a fraction of what it used to be. While in 2001-2002 the province supplied up to 2 million m<sup>3</sup> of timber to Sabah, the volumes of timber smuggled across the border in 2005 are estimated at about 200 000 m<sup>3</sup>.

#### **TIMBER TRADE ACROSS THE BORDER IN WEST KALIMANTAN**

In comparison to East Kalimantan, West Kalimantan has a much more intense history of cross border interactions with the Malaysian state of Sarawak, particularly overland. One of the largest ethnic groups in West Kalimantan are the Iban, who are also a dominant indigenous community in Sarawak. As a result, the traffic of goods and people between the communities on both sides of the border has always been lively – and it continues to be the case today. There are at least 50 known footpaths and numerous waterways that connect native communities on both sides of the border, along which the traffic is entirely unregulated (Pontianak Post 2004b).

The uncontrolled traffic of this kind was not a problem within the context of traditional subsistence economy. However, this has changed with the progress of modernization and increasing integration of West Kalimantan's border zone

into the world market. Such intensification was facilitated, among others, by favourable geographical and transport conditions. Practically the entire border belt in West Kalimantan is accessible through the Kapuas River and its many navigable tributaries. By the late 1990s, a substantial road network was put in place as well (e.g. Kartodihardjo and Simangunsong 2004).

### Trucking and floating the timber

The expansion of illegal timber trade in West Kalimantan appears to have been greatly facilitated by the development of new cross-border roads and their minimal control (e.g. Lawrence *et al.* 2003). Just a few years after feeder roads from the main Pontianak–Putussibau artery reached Entikong and Badau and linked both towns with the neighbouring urban areas in Sarawak, hundreds of timber-loaded trucks plied the routes daily. It is estimated that in 2004, about 200 trucks transported timber from West Kalimantan to Sarawak through the border crossing at Entikong, an equivalent of 1,000 m<sup>3</sup> per day, up to 30 000 m<sup>3</sup> per month, or 360 000 m<sup>3</sup> per year (Pontianak Post 2004e). Approximately the same intensity of truck traffic in Entikong was observed in 2005 (Kompas 2005a, 2005c). Badau in Kapuas Hulu used to be far ahead of Entikong in terms of the volumes of timber traded. In 2003 up to 500 trucks (most of them Troton vehicles capable of ferrying 20–30 m<sup>3</sup> of timber each) plied the route to the Malaysian town of Lubok Antu in Sarawak. In 2004, the traffic was reportedly down to 200 regular size trucks (Pontianak Post 2004f). This means the current volume of timber leaving West Kalimantan through Badau is about 360 000 m<sup>3</sup> per year (West Kalimantan Anti Illegal Logging Alliance– pers. comm.).

In addition to illegal timber traffic at official border crossings, there have also been instances of cross border intrusions into West Kalimantan from logging concessions on the Malaysian side. The 2003 satellite imagery indicates there were 81 points along the border in West Kalimantan where roads from Sarawak entered the Indonesian territory (see Figure 1). There were 5 roads intruding into Betung Kerihun National Park (2 roads from Hak Holdings Sdn Bhd concession and 3 roads from Pasin Sdn Bhd concession). Other roads along the border originated from the concessions of: Sabal Sawmill Sdn Bhd, Jangkar Timber, Syarikat Jaya Kayu Asal Sarawak Sdn Bhd, Lundu Sawmill Sdn Bhd, BTSF, Lanab and Sanyan Lumber Sdn Bhd. NGOs in West Kalimantan report that these intrusions did not continue in 2005 (West Kalimantan Anti Illegal Logging Alliance– pers. comm.).

The illegal timber traffic in West Kalimantan is not limited to land-based operations, although land transport is the dominant means of shipping timber across the border. River and sea transport play a significant role in cross-border timber trade as well. Just as in East Kalimantan the main destination of timber ferrying boats to Sabah is the port of Tawau, in West Kalimantan's neighbouring state of Sarawak the equivalent is the port of Sematan (Radar Tarakan 2004). It is estimated that up to 500 000 m<sup>3</sup> of timber is shipped

from the hinterland of West Kalimantan down the Kapuas River and then along the coast to Sematan (EIA/Telapak 2001; West Kalimantan Anti Illegal Logging Alliance– pers. comm.).

Overall, in 2005 illegal timber trade in West Kalimantan reached approximately 1.2 million m<sup>3</sup>. This figure has been a cause for concern for local government officials, NGOs and national development and forest policy-makers alike. The most common response has been to blame agents and financiers from Malaysia for fuelling the timber smuggling and to deploy numerous forest law enforcement (FLE) operations in the border region.

### Timber gangsters?

It is true the influence of Malaysian timber buyers in West Kalimantan's border zone is strong. However, the import of sawn timber and square logs from West Kalimantan is carried out not by Malaysians alone. In fact, timber traffic to Sarawak would never be possible without the involvement of thousands of people in West Kalimantan – from villages, to loggers, district/province officials and security officers (Pontianak Post 2003). In Bengkayang district, timber trucks cross the border unobstructed after paying Rp 100–200,000 per shipment to the security personnel at the checkpoint. Similarly, in Sambas and Kapuas Hulu districts timber trucks pay a similar amount to 3 border posts (police, army, customs) on the way to Sarawak.

If the above payments may be seen as illegal bribes, at least one district in West Kalimantan, Kapuas Hulu, decided to introduce legislation that enabled it to impose a tax on timber exported illegally from its territory. The tax went into effect and at least until 2004 Kapuas Hulu collected Rp 50,000 from each truck crossing into Sarawak at Badau (Dermawan 2004, Kompas 2004a). The timber entering Sarawak from West Kalimantan at all key entry points (Sematan, Biawak, Serikin, Tebedu, Lubuk Antu) is bought by Harwood Sdn. Bhd – a company appointed by the main regulator of the forestry sector in Sarawak, Sarawak Timber Development Corporation (STDC), to pool and process all timber entering the FTZ. The timber is charged an import tax of 10 Ringgit per m<sup>3</sup> subsequent to which it can be distributed to any place in Malaysia. While originally virtually no Indonesian documentation was required to process the imported timber in FTZ, due to increasing international scrutiny in 2005 Harwood Sdn. Bhd began to require SKSHH (*Surat Keterangan Sahnya Hasil Hutan*) legality certificates.

### HOW SIGNIFICANT IS CROSS BORDER TIMBER SMUGGLING WITHIN THE CONTEXT OF ILLEGAL LOGGING IN INDONESIA?

It is a commonly accepted view that clandestine timber trade at remote border crossings has resulted in vast volumes of timber being stolen from Indonesia, depriving domestic timber processing industry of valuable raw material, causing serious economic losses, and resulting in extensive

environmental damage. Cross-border timber smuggling has also been presented as the main cause of illegal logging. In 2003, Indonesia's MoF reported that up to 10 million m<sup>3</sup> of timber was smuggled out of the country annually (Dephut 2003). Papua alone was estimated to supply up to 600,000 m<sup>3</sup> per month for illegal export, primarily to China. According to MoF, in 2003 Papua supplied between 6 and 7 million m<sup>3</sup> of timber for illegal trade, while the remainder (approximately 3 million m<sup>3</sup>) was provided by Kalimantan and Sumatra. A year later, to EIA/Telapak reported that Papua's contribution to timber smuggling dropped to 300 000 m<sup>3</sup> per month (EIA/Telapak 2005).

Following the extensive FLE crackdown on timber smuggling in Papua in early 2005 – a crackdown brought about by MoF 2003 and EIA/Telapak 2005 reports – illegal timber shipments from Papua have virtually stopped (Telapak pers.comm.). In Kalimantan, while in 2002 cross-border timber smuggling reached about 4 million m<sup>3</sup> annually, as a result of FLE and international pressure in 2005 the smuggling dropped to around 1.5 million m<sup>3</sup>. Partner reports from Sumatra indicate the current level of timber smuggling from the island are in the vicinity of 1 million m<sup>3</sup> annually. As a result, over the last 2-3 years the overall magnitude of timber smuggling across Indonesia's porous borders appears to have declined dramatically from 10 million m<sup>3</sup> to less than 3 million m<sup>3</sup> – a decline of over 70%. The combined effect of FLE operations, international scrutiny and public as well as market pressure appears to have led to this remarkable turnaround.

While indeed successful, the progress in curbing illegal cross-border timber trade has been achieved in what arguably is the area of least concern. This is because the reduction, or even outright elimination, of cross-border timber smuggling can only be of marginal help for bridging the supply-demand imbalance that is dogging Indonesia's forestry sector and, by all accounts, is the primary driver of illegal logging and illegal timber trade. The MoF reports that in 2005 and 2006 the supply-demand imbalance averaged about 40 million m<sup>3</sup> annually and was filled with illegally harvested logs (Sinar Harapan 2006).

The origins of this imbalance can be traced back to uncontrolled expansion of timber processing industries in Indonesia (plywood and sawn wood mills) in the 1980s and the promotion of pulp and paper mills in the 1990's – all without ensuring a sustainable supply of timber. As a result, the gap between the effective demand and available legal and sustainable supply of timber was already significant in the 1980s and illegal cutting wide-spread throughout the 1990s and early 2000s (Table 1; MFP 2006).

The systematic failure of Indonesia's forestry supervisory organizations (Association of Indonesia's Forest Concessionaries, Association of Indonesia's Plywood Producers, Association of Indonesia's Sawn Timber Producers) and of more recently established timber trade control bodies (Body for Revitalization of Forest Industries – BRIK; Registering Body for the Exporters of Timber Products – ETPIK) has over the years resulted in massive illegal logging. Moreover, since most of the timber processed

TABLE 1 *Illegal log production in Indonesia, 1985-2004*

Year	Official log consumption	Official log production	Illegal log production
1985	23.5	14.6	8.9
1989	40.4	24.4	16
1990	37.9	25.3	12.6
1997	47.4	29.5	17.9
1998	45.3	19	26.3
1999	44.9	20.6	24.3
2000	47.8	13.8	34
2001	49.1	11.2	37.9
2002	50.5	9	41.5
2003	50.5	11.4	39.1
2004	50.5	13.5	37

Source: The World Bank (2006)

in Indonesia is destined for export, rubber stamped yet illegal timber flows out of Indonesia amounting to hundreds of millions of cubic meters has been feeding international timber trade networks over the last 30 years. This officially sanctioned trade in timber products derived from massive over-harvesting of the raw material is at the core of the illegal logging problem in Indonesia.

The continuous massive over-harvesting necessitated by the vast timber supply deficit has over the years resulted in spiralling deterioration of Indonesia's forest resources. Over the last 8 years, deforestation has been hovering at around 3 million hectares annually (Sinar Harapan 2006). The available supply of commercially viable natural timber stocks has been declining sharply as well. For example, out of 23 million m<sup>3</sup> of timber harvested in 2006, only 2.2 million m<sup>3</sup> originated from natural forest logging concessions (IUPHHK, *Izin Usaha Pemanfaatan Hasil Hutan Kayu* – former HPH, *Hak Pengusahaan Hutan*), far below the allocated selective logging quota of 8.1 million m<sup>3</sup> (Bisnis Indonesia 2006a, 2006b). The vast majority of harvested timber came from the clearing of natural forest for other uses (IPK, *Izin Pemanfaatan Kayu*). This reflects, among others, the declining ability of Indonesian forests to sustain commercial logging caused by decades of over-exploitation (The World Bank 2006:23).

The declining ability of Indonesia's forests to support the country's woodworking industry with the current capacity of over 60 million m<sup>3</sup> per year is illustrated by sharp deterioration in the performance of these industries. Over the last three years (2004-2006), for instance, the export of plywood from Indonesia decreased by nearly 75% from 6.2 million m<sup>3</sup> in 2004 to 2.2 million m<sup>3</sup> in 2006 (Koran Tempo 2006). In the same time period, the export of sawn timber fell by over 50% from 3 million m<sup>3</sup> 2004 to 1.4 million m<sup>3</sup> in 2006. The production and export reductions of such magnitude have had significant social impacts, particularly in terms of employment loss. Over the last 4 years, nearly one-

third (800 000) of the estimated 3 million people employed directly and indirectly in the forestry sector have lost their jobs (Investor Indonesia 2006).

Given these trends, the end game for Indonesia's traditional core forestry industries (plywood, sawn wood) appears to be near. Such situation calls for immediate and far reaching measures. While eliminating 7 million m<sup>3</sup> in illegal harvest by tackling illegal cross-border timber smuggling helps, it does not go nearly far enough. A collaborative research carried out by the Center for International Forestry Research (CIFOR), Bogor Agricultural University (IPB), DFID (the UK's Department for International Development) and the World Bank indicates that a reduction in industrial processing capacity and a robust timber plantation development effort are both necessary if there is to be hope of bridging the supply-demand imbalance within the next 20 years (Brown *et al.* 2005).

#### PRIORITIZING THE GOVERNMENT POLICIES AGAINST ILLEGAL LOGGING IN INDONESIA

The main problem facing Indonesian forestry is not market distortions, environmental damage or lost tax revenue caused by timber smugglers at remote border crossings. Rather, it is the illegal logging by Indonesian forest concessionaries, plantation developers and road construction activities that escapes the checks of the Forestry Service, passes through its administrative system and enters trade through the Indonesian timber trade system regulated by ETPIK and BRIK (MFP 2006). This is the primary venue for trade in illegal wood products from Indonesia. A study carried out by the Centre for International Forestry (CIFOR) and The Nature Conservancy (TNC) in 2004 shows how these processes work in Berau and East Kutai districts, East Kalimantan, where nearly half of harvested and processed timber was not properly reported and due taxes were not collected, yet the timber entered the official trade system (Obidzinski 2005).

The current timber trade system under ETPIK and BRIK has serious weaknesses that enable trade in vast quantities of timber that is technically illegal. While the government holds that both ETPIK and BRIK impose sufficient legality requirements that stress administrative and document compliance of forestry businesses in Indonesia, these requirements are not enough because they are relatively easy to manipulate and their enforcement is lax.

There is a great need for a more strict timber legality standard (e.g. the standard developed collaboratively by the Indonesian Eco-labelling Institute LEI, TNC and other parties) that would be clearer, simpler to enforce and easier to evaluate. Such a standard would offer hope for real and lasting solution to the illegal logging problem in Indonesia, but it would require a number of courageous steps on the part of MoF, including:

- Endorsing a stricter legality standard as the only proxy for legality in Indonesia
- Developing an implementation framework to enable

concessions to achieve a stricter legality standard in a set period of time

- Providing public policy incentives for companies to comply (e.g. removal of disincentives that encourage illegal practice)
- Enforcing mandatory legality verification checks by independent third parties
- Development and implementation of key tools to control, monitor and evaluate timber supply and demand

In many ways the weak control of the extraction and trade of timber in Indonesia stems from the necessity to feed the country's timber processing industry that has significantly out-grown sustainable levels of log production. This is the most fundamental problem in Indonesian forestry and as long as it remains unsolved not much progress on eliminating illegal logging and illegal timber trade can be expected. The solution, while not easy, is possible. It involves a combination of re-structuring (downsizing, re-tooling) of the timber processing sector and a simultaneous, vigorous and sustainable timber plantation development effort that will reduce pressure on natural forest. The above steps require a lot of political will and sustained effort from a range of government agencies. While it is a lot to hope for, it seems to be the only way to make meaningful and lasting progress on the illegal logging issue in Indonesia.

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