



Governance Brief

Illegal Forest Activities in Berau and Kutai Timur Impacts, Driving Forces and Remedies

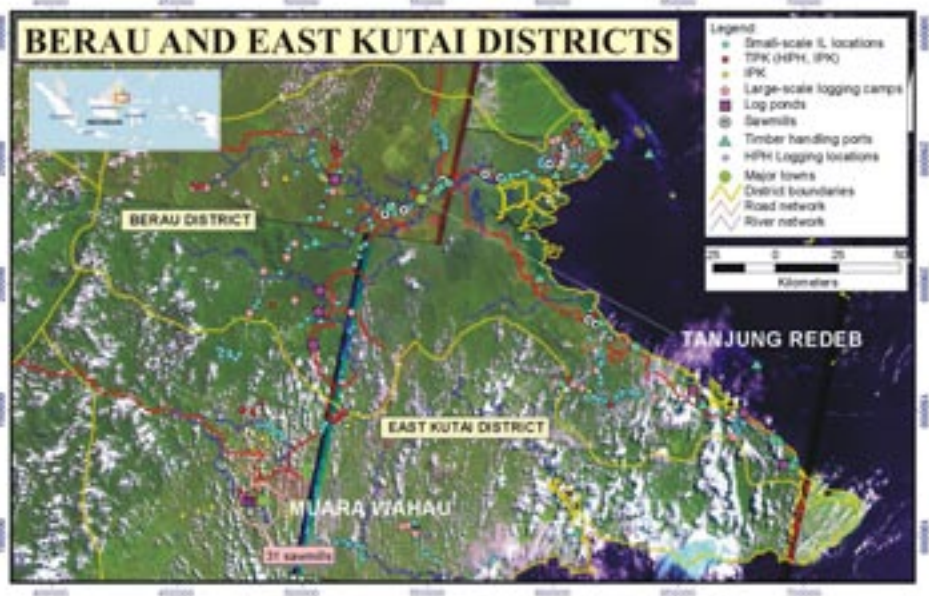
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This study examines illegal forest activities in Berau and East Kutai Districts in Indonesia's East Kalimantan province. By analyzing all types of extractive and processing forestry activities, the study identifies illegalities associated with these operations and assesses their economic, social/livelihood and environmental impacts. It also identifies the key driving forces behind illegal forest activities and proposes corrective measures.

Illegal Forestry Activities in Berau and East Kutai

The analysis of logging and woodworking in Berau and East Kutai indicates illegalities are widespread. They occur mainly in the following forms:

- 1) Logging operations cutting out of block
- 2) Logging companies pretending to be stagnant while in fact they extract timber
- 3) Land-clearing (IPK) permits issued for dubious plantation schemes
- 4) Unlicensed small-scale logging
- 5) Log/sawn timber production is under-reported and shipping documents are illegally altered
- 6) Logging and woodworking enterprises in both districts routinely evade taxation
- 7) Logging as well as woodworking enterprises engage in tax evasion





Economic Impact of Illegal Forestry Activities in Berau and East Kutai

The 2003 analysis shows the illegal forestry activities cause large budgetary losses in Berau. In 2003, such losses amounted to over **Rp 103 billion**. However, this revenue lost is not literally 'lost' as a substantial part of it is appropriated by individuals and government institutions in position to do so.

Similarly, economic losses resulting from illegal activities in the forestry sector in East Kutai district are large and they far outweigh the gains. In 2003, the losses amounted to **Rp 126 billion**, mainly in lost tax revenue on HPH, IPK and unlicensed small-scale logging. As in Berau, most of the revenue 'lost' is appropriated by well-connected individuals and government institutions in the district.

Illegal Forestry Activities in Berau and East Kutai and Local Livelihoods

While illegal forest activities in Berau and East Kutai are a drain on the finances of the local government, it must be admitted they generate employment opportunities, particularly for the unskilled labor force. In 2003, unlicensed forestry operations in Berau generated **4,000 jobs**, while licensed operations created **2,000 jobs**.

The licensed and unlicensed forestry activities also generate significant employment opportunities in East Kutai. The licensed forestry sector supported **5,500 jobs** in the district due to disproportionately high number of IPK land-clearing jobs that will be available for a very short time only. The unlicensed forestry activities created **2,500** employment opportunities.

The Impact of Illegal Forest Activities in Berau and East Kutai on the Environment

Illegal forestry activities in Berau and East Kutai are having an increasingly negative impact on forest, soil and water resources in both districts. In 2001, the EU's Berau Forest Management

Project estimated the rate of deforestation in Berau at 1.9 percent, or 42,500 ha per year. This study estimates that logging, both licensed and unlicensed, in Berau annually affects nearly twice as much forest. In 2003, the official log production in the district (521,965 m³) was generated from at least 23,713 ha of forest, whereas small-scale logging teams extracted 350,000-380,000 m³ of timber from between 35,000 and 38,000 ha of forest. Cumulatively, logging in the district affects between 58,713 and 61,713 ha of forest (or 2.7-2.8 percent of the total forest cover) annually.

East Kutai is facing far more serious forest degradation and deforestation problems. As of 2002, there were at least 890,403 ha of degraded forest in the district, 690,000 ha of which was located in the Production and Limited Production Forest zones and 200,000 ha in conservation areas. The latter includes the Kutai National Park, which is almost completely destroyed.

Why Do Illegalities Occur?

By far the most important driving force behind illegal forest activities in Berau and East Kutai is their economic significance as a source of enormous rents - well over **Rp 100 billion** annually in each district. This large pool of money is an important source for personal enrichment, as well as institutional budgetary augmentation, for various district government institutions, private companies and communities.

This renders forestry a gold mine for rent-seekers, an unbeatable opportunity for quick enrichment. The logging and woodworking enterprises underreport production and tamper with timber transportation records because by doing so they minimize tax liabilities and make windfall profits.

The vast riches available from illegal forest activities in Berau and East Kutai cause competition and conflict among key players seeking to benefit from them - e.g. District/Province Police, District/Province UPDT, District Forestry Bureau and other institutions. Constantly maneuvering to maximize their respective shares, these parties engage in shifting alliances to undermine the opponent(s) in whichever way possible. The scramble for rents from illegal forest activities

BERAU	Revenue collected (Rp billion)	Revenue lost (Rp billion)
HPH/IPK/HTI		
PSDH	14.65	12.15
<i>Retribusi Produksi</i>	1.2	0
DR	71	0
IPPK/IPKTM		
DR-PSDH	0	29.3 ^a
<i>Retribusi Produksi</i>	10	0
Small-scale logging teams		
Informal tax	3.6	0
DR-PSDH	0	65.1
<i>Retribusi Produksi</i>	0	0.8
Sawmills		
<i>Retribusi Pengelolaan</i>	0.3	1.89
Informal tax	2.03 ^b	0
Lumber kiosks and ship-building		
Informal tax	0.2	0
Pulp and paper		
Water tax, PBB	0.4	0
TOTAL	103.38	109.24

Note: a This number has been derived by dividing the official figure of lost DR-PSDH of Rp. 88 billion for the period 2000-2003 by three to obtain a yearly average. b This estimate is based on the information that on average each of 37 sawmills in Berau operates 11 months a year and each has a monthly 'informal budget' of Rp 5 million.

hampers the cooperation between different government institutions in Berau and East Kutai and fundamentally undermines forest governance in both districts.

What Can Be Done to Prevent Them?

In order to curtail the illegal forest activities in Berau and East Kutai, law enforcement measures alone (such as detection, prevention and suppression) undertaken by the security agencies are unlikely to be sufficient. This is because the benefits from illegal forestry activities, **vast rents in the form of bribes or windfall corporate profits**, far outweigh the risks (applicable legal sanctions).

EAST KUTAI	Revenue collected (Rp billion)	Revenue lost (Rp billion)
HPH/IPK		
PSDH	17.1	23.4
DR	46.5 ^a	63.5
Small-scale logging teams		
PSDH	0	10.5
DR	0	28.6
Informal tax	2.1	0
Sawmills		
Informal tax	3.4	0
TOTAL	69.1	126

Note: a The amount of DR revenue gained is based on the assumption that about 31 percent of the total DR revenue generated from the production of logs in 2003 was transferred to East Kutai.

In order to narrow the gap between the costs and benefits of illegal forest activities in both districts, the official detection, prevention and suppression measures need to be complemented by a range of other initiatives pursued simultaneously:

- 1) Maintain the spotlight on a difficult, yet critical, issue of restructuring the enormous overcapacity of Indonesia's woodworking industries which drives the insatiable demand for logs
- 2) Operationalize bilateral agreements between Indonesia and timber importing countries to eliminate illegal timber trade
- 3) Generate incentives for Indonesian timber producers to adhere to the legal standard through tenure security and certification schemes
- 4) Help synchronize the forestry legal framework and strengthen tenure security for local communities
- 5) Support grass-root movements to pressure for greater accountability and transparency in the district forestry sector.

Making the on-going detection, prevention and suppression operations by the government's law enforcement agencies work in tandem with these additional initiatives and the grass-root pressure would result in a more potent tool with which to limit illegal forest activities in both districts.

BERAU	Employment in 2003
Licensed logging sector	
HPH/IPK	434
HTI	250-300
Unlicensed logging sector	
Small-scale logging teams	3,000
Licensed woodworking sector	
Kiani Kertas pulp and paper mill	1,410 (70 percent skilled jobs)
Unlicensed woodworking sector	
Sawmills, moulding	393
Timber kiosks	124
Ship-building	256
Total licensed forestry sector (logging + woodworking)	2,094-2,144
Total unlicensed forestry sector (logging + woodworking)	3,773
Total forestry sector (licensed + unlicensed)	5,867-5,917

Source: CIFOR survey 2004

EAST KUTAI	Employment
Licensed logging sector	
HPH/IPK	5,319 ^a
Unlicensed logging sector	
Small-scale logging teams	2,000 ^b
Licensed woodworking sector	
Reporting woodworking mills	95
Unlicensed woodworking sector	
Other sawmills, moulding	505-605 ^c
Total licensed forestry sector (logging + woodworking)	5,414
Total unlicensed forestry sector (logging + woodworking)	2,505-2,605
Total forestry sector (licensed + unlicensed)	7,919-8,019

Source: CIFOR survey 2004.

Note: a About 74 percent of these jobs (or 3,953) were generated by IPKs; b This is an extrapolation from the situation in the Wahau-Kombeng area where 55 logging teams (about 550 loggers) annually supply 210,000 m³ of logs to 31 local sawmills that produce 105,000 m³ of wood products; c This is an extrapolation from the situation in the Wahau-Kombeng area, where 31 sawmills employ 171 people and annually produce 105,000 m³ of wood products (production/employment ratio: 615 m³/person/year).



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CIFOR's Forests and Governance Programme examines how decisions about forests and forest-dependent people are made and implemented in order to promote the participation and empowerment of disadvantaged groups; the accountability and transparency of decision-makers and more powerful groups; and democratic, inclusive processes that support fair representation and decision making among all groups.