

**INDONESIA: NATURAL RESOURCES
AND LAW ENFORCEMENT**

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INDONESIA: NATURAL RESOURCES AND LAW ENFORCEMENT

EXECUTIVE SUMMARY AND RECOMMENDATIONS

The exploitation of Indonesia's natural resources since the 1960s has brought economic benefits to the country, but it has often damaged the natural environment and society in resource-rich areas in a way that fosters social tensions and has led to violent conflict. Indonesia needs to manage its natural resources in a way that is fairer and more sustainable than in the past.

The exploitation of resources like timber and minerals during the rule of President Soeharto was dominated by companies connected to the regime elite. Though formally legal, this exploitation was often heedless of local communities and the environment and permeated by official corruption and rule-breaking. It created the conditions for violent conflict in forested areas like Central Kalimantan, where a culture clash between indigenous Dayaks and ethnic Madurese immigrants led to a massacre of more than 500 hundred Madurese early in 2001 and the expulsion of thousands more from the region.

Indonesia now has an opportunity to develop a less damaging model of resource management, but instead there has been a rapid upsurge of illegal resource extraction across the country since 1998. The major forms of illegal extraction are logging, mining and fishing, and they can be organised by licensed companies who violate the law or by "wild" operators who act outside it. All of these damage the environment, deprive the state of revenues and raise the spectre of future conflict. In the case

of logging, the problem is so serious that it threatens to destroy some of Indonesia's largest forests within a decade.

The illegal resource industry is protected and sometimes even organised by corrupt elements in the civil service, security forces and legislature. It plays on the resentments of poor people who feel they were excluded from natural wealth during the Soeharto era but, like the legalised exploitation of the past, it mainly benefits a small circle of businesspeople and corrupt officials. It is thus a problem of governance and crime, not only of the environment.

The Indonesian government has committed itself to dealing with illegal resource extraction and, in the case of logging, has come under heavy pressure to do so from foreign donors and lenders and from the NGO movement at home. Although reformist officials have made some gains recently, the government is still a very long way from turning the tide. This is because of the vast geographical scale and complexity of illegal resource extraction, and because of the complicity in illegal activities of many officials and legislators.

The problems begin with the state agencies responsible for regulating resource use. Although they contain some honest and dedicated officials, corruption and apathy run deep. In the case of the security forces, the profits drawn from the illegal resource trade are a major source of operational funds as well as personal wealth. Coordination between state agencies is often poor and a further

level of complexity has been added by decentralisation, which has encouraged some local officials to resist directives from Jakarta and even to impose taxes on illegal logging and mining. There are scattered signs of hope, however, notably in the firmer line being taken by the Department of Forestry against illegal loggers.

NGOs and foreign donors have worked with local communities in some resource-rich areas, trying with mixed results to persuade them not to take part in unsustainable extraction. Some community members are worried about the negative impacts of such extraction. However, the lure of quick profits is powerful and there is a widespread lack of awareness about long-term impacts, which can include erosion and deadly floods in the case of logging, pollution from mining and loss of stocks with fishing. The influence of corrupt officials and business interests at the local level is also strong, meaning that change in attitudes is unlikely to be rapid.

As well as tackling the perpetrators and backers of illegal resource extraction, the government needs to address the sources of demand. In the case of timber this means downsizing the Indonesian wood products industry, which grew so big in the economic boom of the mid-1990s that it now consumes far more than can be legally supplied by Indonesia's forests. State agencies which view this industry from a purely commercial perspective, notably the Department of Trade and Industry and the Indonesian Bank Restructuring Agency, need to appreciate that if it is not scaled back, it could deplete its remaining sources of domestic raw materials, with ruinous results.

Countries which consume Indonesian resources also have a major responsibility to deter the import of illegally-extracted commodities. In the case of timber, governments and companies in Southeast Asia, Northeast Asia and the West all need to take more action. Malaysia, in particular, should crack down on massive cross-border trade in illegally-felled Indonesian timber.

Few experts believe that ending illegal resource extraction in Indonesia will be an easy or a rapid task given the scale of the problem and its deep roots in official corruption and patronage politics. There is much pessimism that the tide can be turned on logging before irreparable damage is done to the forests. However, the efforts of reformist officials and local NGOs suggest that, if the government can find the necessary political will to overcome vested interests within its ranks, it is not too late at least to curb the scale of the damage and preserve some of Indonesia's natural assets for future generations.

RECOMMENDATIONS:

TO THE GOVERNMENT OF INDONESIA

1. Focus law enforcement efforts on the key organisers of illegal extraction and their backers in the bureaucracy, the security forces and the legislature.
2. Impose tougher punishments for resource crimes and set up a credible witness protection program.
3. Reduce capacity of wood-processing companies, focussing on large exporters and consulting with legislators, workers and the public to explain why cutbacks are needed.
4. Oblige the Indonesian Bank Restructuring Agency to review any existing debt restructuring agreements that may encourage the use of illegal timber.
5. Revitalise the Inter-Departmental Committee on Forestry and ensure that it gets the necessary funding and political support to do its job.
6. Simplify the regulation of natural resources, including cancelling regional rules that tax illegally extracted resources.

**TO THE LEADERSHIP OF THE TNI AND THE
POLICE**

7. Punish officers who engage in or protect illegal resource extraction.
8. Encourage extra training for the police in investigating environment-related crime.

**TO COUNTRIES THAT IMPORT OR TRADE
IN INDONESIAN TIMBER AND MINERALS**

9. Empower law enforcement officials to block the import of illegally-extracted resources and take appropriate action against those involved in the trade.
10. Review procurement policies to keep out illegally extracted resources and cooperate with Indonesia on measures to deter the trade in illegal resources.

**TO MEMBERS OF THE CONSULTATIVE GROUP
FOR INDONESIA AND TO LENDERS**

11. Consider offering debt write-offs in return for tangible success in curbing illegal resource extraction.
12. Offer technical aid to help Indonesia scale back its wood-processing industries.
13. If vested interests continue to block reform, consider linking future loans to Indonesia to the curbing of illegal resource extraction.
14. Do not provide capital to resource-processing companies that lack an independently assessed source of legal and sustainable raw materials.

Jakarta/Brussels, 20 December 2001



INDONESIA: NATURAL RESOURCES AND LAW ENFORCEMENT

I. INTRODUCTION

Indonesia is rich in natural resources, the exploitation of which has played an important part in the country's rapid economic growth since the 1960s. But this exploitation has often been managed for the benefit of the well-connected few, while damaging the natural environment and social fabric in resource-rich areas and increasing the potential for violent conflict. Indonesia needs to manage its natural resources in a way that is fairer, more sustainable and less likely to create social tensions. To do so, it will have to curb a problem which has grown rapidly since the fall of Soeharto in 1998: the illegal extraction of resources such as timber, minerals and fish.¹

The Soeharto government (1966-1998) closely controlled the exploitation of timber, minerals and wildlife, awarding licences to state companies and regime-linked businesspeople, both Indonesian and

foreign. These activities were legal in the eyes of the state, though often permeated by official corruption and favouritism. They created economic benefits, but also imposed huge costs that are still felt today, ranging from environmental destruction (which destroys biodiversity and can increase poverty) to the alienation of local people in resource-rich areas, to the embedding of corruption within the state.

Logging has cleared the way for violent conflict in some regions of Indonesia. The heedless deforestation of Kalimantan since the 1970s, for example, created feelings of frustration and anger among the indigenous Dayak people who lived in the forests. This anger was compounded by a culture clash with an immigrant group, the ethnic Madurese, which escalated into a series of violent clashes and massacres of Madurese. The most recent of these outbreaks, around the town of Sampit in February and March 2001, claimed at least 500 lives and forced most of the Madurese population of Central Kalimantan province into exile.² Papua (formerly Irian Jaya) is another forested region where local people have been marginalised by timber companies, and it is possible that logging there could accentuate the conflict between the independence movement and the Indonesian state.³

¹ This report focuses on the illegal extraction of resources. For this reason it does not cover Indonesia's biggest natural resources, oil and gas, because these are too difficult to extract illegally, though there is a major problem with the smuggling of subsidised oil products. The report mostly focuses on the emergence of illegal extraction as a serious problem as this often relates directly to conflict issues. Legal extraction also presents a large number of social, environmental and economic problems but these are not tackled in detail in this report.

² See ICG Asia Report no. 19, *Communal Violence in Indonesia: Lessons from Kalimantan*, Jakarta/Brussels, 27 June 2001.

³ See ICG Asia Report no. 23, *Indonesia: Ending Repression in Irian Jaya*, Jakarta/Brussels, 20 September 2000.

Since Soeharto's fall, the old arrangements have given way to a struggle for control of natural wealth that is waged among state agencies, businesspeople and communities, both of local people and immigrants from other regions. This struggle can contribute to outbreaks of violence. In North Maluku, for example, the presence of a gold mine exacerbated local tensions which led in early 2000 to brutal communal conflict, and there have been numerous small clashes within communities, or between communities and resource companies.⁴ As fish stocks come under pressure from intensive fishing, much of it by foreign vessels, violence has broken out among rival groups of fishermen including multiple murders and the burning of boats.⁵ Unmanaged competition over natural resources does not necessarily lead to violence but can make it more likely if some communities feel they are losing out.

To reduce the risk of conflict and mitigate the other destructive effects of resource extraction, Indonesia needs to engineer a better balance between the claims of the state, private corporations and ordinary citizens to natural wealth, while ensuring that extraction is environmentally and socially more sustainable. This will take time and requires tradeoffs between economic growth, environmental sustainability and the interests of different stakeholders which would be best left to the Indonesian people themselves to determine through the democratic process.

No attempt at reform will work, however, unless prompt and effective action is taken to curb the problem analysed in this report: the illegal extraction of natural resources. As a World Bank report noted in the context of logging: "Where regulations are not enforced or have little meaning, it is unlikely

that any measure to control the destruction of forests is likely to succeed".⁶

Illegal resource extraction existed in the Soeharto era, alongside those forms of extraction that were considered legal by the state, but it has greatly increased in scale since 1998. This report examines two kinds of illegal extraction which are attracting increasing attention in Indonesia and abroad, logging and mining. Illegal fishing is also a major problem, as is looting from plantations and, further down the processing chain, the smuggling of subsidised oil products. Each of these activities has its own characteristics but there are underlying similarities.

Illegal resource extraction is an industry providing thousands of jobs for the poor. Many workers feel they have a right to share the profits from resources that were previously monopolised by the political and business elite. But as in the Soeharto era, the bulk of the profits go to the organisers, financiers and protectors of the illegal activity, while ordinary people generally earn little and are left to cope with the social and environmental consequences.

The organisers of illegal resource extraction, often known in Indonesia by the pejorative term *cukong*, may be executives of established resource companies that are breaking the law, or they may be from a new generation of illegal resource barons that has arisen since 1998.⁷ They collude with corrupt state officials, avoid taxes and royalties and ignore environmental rules, and their activities are increasingly seen as a problem not only of the environment but also of crime and bad governance on a national scale. In the case of illegal logging, there has been heavy pressure for action from the foreign lenders and donors in the Consultative Group for Indonesia (CGI). This pressure also comes from within Indonesian society, notably from a vocal community of

⁴ See ICG Asia Report no. 10, *Indonesia: Overcoming Murder and Chaos in Maluku*, Jakarta/Brussels, 19 December 2000.

⁵ In one case, men armed with sharp weapons attacked traditional fishing boats off North Sumatra, burned the boats and murdered nine crew members. See *Kompas*, 9 August 2001.

⁶ "Indonesia: The Challenge of World Bank involvement in Forests", World Bank, 2000.

⁷ *Cukong*, a term of Chinese origin, denotes a broker or financier and implies shady behaviour. It reflects a widespread prejudice against ethnic Chinese in Indonesia, though many natural resource *cukong* (and the officials who collude with them) are not of Chinese origin.

NGOs which campaigns against damaging forms of resource extraction.

The government has responded to this pressure with promises of action that have rarely been fulfilled. Reform-minded officials are starting to win victories against illegal loggers in particular, but the scale of the problem remains huge. Obstacles include the confusion created by an over-hasty devolution of power to Indonesia's regions, poor co-ordination between state agencies and a widespread lack of understanding among officials. Perhaps the greatest obstacle, however, is institutionalised corruption. The profits of illegal resource extraction are a key part of the budgets of the military, the police and some local governments. The lure of personal gain or the fear of powerful vested interests are reasons for many officials and legislators not to uphold the law.

Illegal extraction of resources could be reduced, albeit slowly and incrementally, by a holistic approach that blends carefully-targeted law enforcement with programs that give local communities other economic options, reforms to state agencies and a reduction of demand for illegally extracted resources, both within Indonesia and abroad. Indonesia has already adopted this approach on a rhetorical level but struggles to implement it, while some foreign countries make the problem worse by providing markets. It will take a sustained effort by Indonesia's leaders to back up reformist officials and win over or neutralise those people opposed to change.

II. ILLEGAL LOGGING

A. THE DESTRUCTION OF INDONESIA'S FORESTS

Indonesia has the third largest expanse of tropical rainforest in the world⁸ but it is shrinking rapidly under the onslaught of logging, land clearance and man-made forest fires.⁹ It is generally accepted that a country has a right to manage its forests for economic purposes, but in Indonesia exploitation is running out of control. A recent World Bank study warned that the lowland forests of Sumatra could be gone soon after the year 2005 and those of Kalimantan by 2010, sparing only those areas too hilly for loggers to reach. Large forests remain in Irian Jaya, but the pace of logging is accelerating there as well.¹⁰

This heedless deforestation began under Soeharto, whose regime saw the forests solely as an economic commodity and a source of private wealth. Trees were turned into logs, into plywood and, increasingly in the 1990s, into pulp and paper. The expansion of oil palm plantations, transmigration and mining also eroded the forests, as did the clearing of land for smallholdings. Most of this exploitation was legal in the narrow sense of being licensed by the state, but a high degree of corruption, fraud and other forms of illegality was associated with it.

The dominance of the Soeharto-era timber tycoons, who used the law to their advantage, is

⁸ The two biggest areas of tropical forest are in Brazil and the Democratic Republic of the Congo, according to data from the "Assessment of the Status of the World's Remaining Closed Forests", United Nations Environmental Programme, 2001.

⁹ Forests, which covered 120 million hectares of Indonesia in 1985, are now thought to cover only 96 million hectares, and this area is shrinking by at least 1.7 million hectares each year. See "Indonesia: Environment and Natural Resource Management in a Time of Transition"; World Bank, February 2001. The remaining area of commercially exploitable forest that lies outside protected areas could be as low as 20 million hectares.

¹⁰ "Logging West Papua"; Down To Earth No 45, May 2000, on www.gn.apc.org/dte. On the political context in Irian Jaya, see ICG Asia Report no. 23, *Indonesia: Ending Repression in Irian Jaya*, Jakarta/Brussels, 20 September 2001

now being challenged by newly-emergent illegal operators who forge alliances with officials, military and police officers and legislators in the regions, emulating the corrupt business practices of their predecessors.

Reckless deforestation has taken a heavy toll on the environment, causing loss of biodiversity and hurting the livelihoods of people who live off forest products. This can increase poverty and with it the potential for communal conflict. Deforestation has led to erosion and floods that have killed hundreds of people. It could eventually drive much of Indonesia's wood-processing industry out of business by depleting its sources of supply. The government estimates the trade in illegal logs costs the country 30 trillion rupiah (U.S.\$3 billion) a year, though such figures may have to be treated with caution because current rates of logging would be unsustainable even if they were entirely legal.¹¹

The clearing of forests has encouraged yearly fires which blanket the region with smoke and haze, creating a health hazard and disrupting economic activity across a large swathe of Southeast Asia. These fires are often set by plantation companies as a cheap but illegal way to clear logged-over land: the worst outbreak in 1997-98 cost Indonesia's economy an estimated U.S.\$7 billion and its neighbours U.S.\$2 billion, yet there has been little action against the perpetrators.¹²

B. LOGGING AND CONFLICT IN CENTRAL KALIMANTAN

A stark example of the social damage done by reckless deforestation in the past is in

Central Kalimantan, where the felling of forests by timber companies since the 1970s led to the marginalisation of the Dayak peoples who had previously lived in them. Resentment amongst Dayaks at their treatment during the Soeharto era paved the way for the massacre of ethnic Madurese in the town of Sampit in February and March 2001, although this was not the sole factor behind the conflict.¹³ ICG has not researched earlier massacres of Madurese in West Kalimantan in 1997 and 1999, but it is likely that similar factors played a part there as well.¹⁴

Before the 1970s, most of the inland people of Central Kalimantan lived as shifting cultivators, hunters and collectors of non-timber products in the forests which then covered the largest part of the province. The Soeharto government parcelled out the forest to timber companies, which often stopped Dayaks from exercising their traditional rights. Local people moved into new areas rather than resist. By 1999 about half the territory of the province, or an area larger than Ireland, had been allocated to timber companies.¹⁵ These companies were often accused of logging illegally outside their concessions and reneging on promises to develop local communities.

The numbers of wild pigs and deer, an important food source for forest people, are said to have fallen as their habitats shrank. The removal of trees from watersheds and other ecologically sensitive areas led to greater flooding of riverbanks, where forest people often build houses and grow crops, and to the deposit in the rivers of large volumes of silt, as well as chemicals used to treat timber. Freshwater fish, another important food source, are said to be smaller in numbers, size and variety of species than in the past. The impact of each of these

¹¹ The Co-ordinating Minister for Politics and Security, Susilo Bambang Yudhoyono, quoted in *Kompas*, 19 November 2001.

¹² Presentation by World Bank Indonesia director Mark Baird to the East Asia Regional Ministerial Conference on Forest Law Enforcement and Governance, Bali, September 2001.

¹³ See ICG Report, *Communal Violence in Indonesia*, op. cit.

¹⁴ These two massacres cost hundreds of lives. The 1999 violence is less easy to link to the dispossession of the Dayaks because it was mainly carried out by local "Melayu" people, who in West Kalimantan are a fusion of ethnic Malays and Dayaks.

¹⁵ The area of Central Kalimantan is just over 15 million hectares. According to the Forestry Department, timber concessions in the province now cover 6.7 million hectares, though the Association of Indonesian Forestry Concession Holders, an industry group, puts the total at more than eight million hectares. The reason for this discrepancy is not clear.

factors is difficult to gauge: among urban Dayaks, analysis often seems tinged with nostalgia for a supposedly Arcadian past. It is clear, however, that the timber industry had a disruptive impact on the lives of many forest people.

The timber industry was the spearhead of an intrusion by outside forces that also included the expansion of plantations and mines and the undermining of customary forms of local government in favour of structures dictated by Jakarta. Since the 1970s, outsiders have flooded into Central Kalimantan, whether posted as state officials, settled through transmigration programs or arriving of their own accord to farm or trade. Among them were the Madurese, immigrants from an island east of Java who are often stereotyped by other ethnic groups in Indonesia as aggressive and clannish. Outsiders dominated the civil service, military and police: three of the five governors of the province since 1984 have been non-Dayaks.

Even after 30 years of development, nine out of every ten villages are officially classified as “poor” (*miskin*).¹⁶ This rural poverty was exacerbated by the economic crisis that struck Indonesia in 1997. Poverty in the towns remained constant at around 5 per cent of the population, but among the mostly Dayak rural population, it doubled to 30 per cent.¹⁷

The timber industry helped to build anger and alienation among Dayaks, but did not in itself create the conflict. All sources agree that a more immediate reason was a culture clash between Dayaks and Madurese immigrants, who began to enter the province in large numbers from the 1980s onwards and came to account for 6-7 per cent of its population.

The activities of Madurese thieves and hoodlums led many Dayaks (and people

from other ethnic groups) to view all Madurese as criminals working in collusion with the police, although some now admit that there were also “good Madurese”.¹⁸ A local journalist described the frustrations of many Dayaks as follows: “They’re pushed aside by a timber concession, and then they’re pushed aside by another timber concession, and then their motorbike gets stolen”.¹⁹

Madurese were involved in the illegal logging which has flourished in the region since 1998 and used the port of Sampit as its export point, but they do not seem to have been dominant in a business which involved several ethnic groups, including Dayaks, and tended to be run at the higher levels by ethnic Chinese. Madurese are said to have made up more than half the population of Sampit and a Madurese businessman controlled the labour in the port where logs were loaded onto ships as well as, according to one interviewee, a fleet of small vessels used to transport illegal timber to Java.

However, most people interviewed by ICG identified the Madurese with control of the port, the markets and public works contracts rather than the timber industry.²⁰ Two interviewees, one a non-Dayak sawmill owner, suggested loggers from other ethnic groups may have fuelled the violence to get rid of Madurese competition. There is no evidence for this view though other ethnic groups have moved into the gaps left in the local economy, including the timber industry, by the exodus of Madurese.

Dayaks interviewed by ICG six months after the massacre were adamant that it was an act of self-defence against Madurese attempts to take over Sampit by force on 18 and 19 February 2001.²¹ They argued that if the violence had been motivated by economic jealousy, they would have fought the ethnic Chinese and not the Madurese because the former are economically more influential. Whereas the link between the violence

¹⁶ Figures from Central Bureau for Statistics

¹⁷ Figures from Central Bureau of Statistics for 1996-1999.

¹⁸ ICG interviews in Sampit and Palangkaraya

¹⁹ ICG interview in Sampit

²⁰ ICG interview with Rachmadi Lentam, a local human rights activist.

²¹ For the build-up to the massacre, see ICG Report, *Communal Violence in Indonesia*, op.cit.

and Soeharto-era forestry policies is indirect but strong, there is no clear connection with illegal logging since 1998.

Unrestrained logging could increase the risk of conflict in future, however. Central Kalimantan's economy still depends heavily on timber, much of it illegally felled, and its importance is indicated by the fact that two districts in the province (including the one of which Sampit is the capital) have issued decrees allowing the export of illegal timber on payment of a fee, even though this contradicts national law.²² The central government has tried to cancel these regulations but appears to lack the power to enforce its will on the districts.

The real profits of logging, legal and illegal, do not stay in the province but go to wood processors and traders in neighbouring South Kalimantan, Java or overseas. A logger might be paid 150,000 rupiah, or about U.S.\$15, for a cubic metre of wood the price of which will double when it reaches Sampit. By the time it has been turned into a finished product in Java, the wood may be worth ten times this amount.²³ Little of the profit from the trade appears to be reinvested in Central Kalimantan. Since wood supplies may run out within a decade or so, the province is running down its main natural resource on the cheap and getting few if any long-term benefits.

²² Kotawaringin Timur, the district of which Sampit is the capital, raised U.S.\$2.4 million in taxes from illegal logging in a three-month period in 2000. See Anne Casson, "Decentralisation of Policy Making and the Administration of Policies Affecting Forests and Estate Crops in Kotawaringin Timur," CIFOR, 18 September 2001 (draft).

²³ ICG interview with sawmill owner in Sampit. For ramin, a rare wood logged illegally in national parks, importers of moulded wood in the United States may pay U.S.\$1,000 for a cubic metre of wood that was cut in Central Kalimantan for a mere U.S.\$2. See "Timber Trafficking: Illegal Logging in Indonesia, South East Asia and International Consumption of Illegally Sourced Timber"; Environmental Investigation Agency/Telapak Indonesia, September 2001.

Some officials are aware of this problem. The provincial deputy governor, Nahson Taway, has warned that villagers should not depend on logging because it is unsustainable.²⁴ Since October 2001 there has been a crackdown on illegal loggers, and a number of *cukong* and members of the military and police are said to have been arrested, though there have been accusations in the press that small-scale loggers are being victimised while wealthier operators go free.²⁵

The favoured strategy of local officials is now to encourage palm oil plantations to take the place of timber, though this could in itself foment future conflict. If plantations end up employing mainly migrant labour from other regions, as those in Indonesia commonly do, Dayak resentments may persist.²⁶

Central Kalimantan needs to scale back the rate of logging so that supplies of timber and other forest products are not exploited beyond the point of recovery, removing a key source of jobs and income. If this is not done, and if other economic opportunities are not created that are attractive to Dayaks, there is a risk that tensions with other ethnic groups could re-emerge.

Renewed conflict is not inevitable: many Dayaks maintain that they avoid violence unless provoked and bear no grudges against immigrant neighbours except the Madurese. There are also some aspects of the conflict which remain unclear, such as the role of an urban Dayak elite, which may have used communal tensions to increase its influence.²⁷ But the underlying cause of Dayak anger – marginalisation within a timber-dominated economy controlled by outsiders – still needs to be addressed.

²⁴ Media Kalteng, 31 October 2001.

²⁵ Ibid

²⁶ Dayaks readily admit that immigrants from places like Java and Madura tend to be more willing to work hard for low wages and to take orders from managers, although growing numbers of Dayaks are working as manual labourers.

²⁷ One theory about the conflict is that it was triggered by a power struggle within the local civil service. See ICG Report, *Communal Violence in Indonesia*, op. cit.

C. ILLEGAL LOGGING

Perhaps the greatest obstacle to the reform of forest management in regions like Kalimantan is illegal logging, which has grown hugely since 1998. A report by the Department of Forestry, completed in March 2000, defined illegal loggers as “financiers and organisers who mobilise ordinary people, both from the area in question and those brought in from other areas, to enter the forest and carry out illegal logging”. These loggers are backed by powerful individuals and/or office-holders in the civil service, military, law enforcement agencies and legislature.²⁸

The report identified four overlapping categories of illegal logging.²⁹ In the first category are timber companies which fell trees outside their concession areas or obtain logging licences for resale to others. Timber companies have been accused of supporting illegal logging in some regions while themselves falling victim to encroachment by illegal loggers in others.³⁰ Other dubious practices, not listed in the report, include the clearcutting of forests that are supposed to be selectively felled and the obtaining by companies of licences to clear forest land for plantations when their real intention is to log the area and move on.³¹

The second category is that of “wild loggers” who operate outside the law and are protected by hoodlums, corrupt officials, the military and the police. These people may present themselves locally in forest areas as benefactors or charismatic leaders.³² Tanjung Lingga, a company in Central

Kalimantan accused repeatedly since 1999 of fostering illegal logging in a national park, has just been lauded by the provincial governor for its contributions to charity.³³ The third category is of state officials, usually working in collusion with businesspeople.

A fourth category consists of Malaysians operating across the Kalimantan-Sarawak border. They supply Indonesians with capital and equipment in return for illegal logs. According to the Department of Forestry and independent research by NGOs, these logs are then “laundered” by Malaysian companies which certify them as coming from legal sources.³⁴ One of these is the subsidiary of a Malaysian state-owned company, and it has been alleged that Malaysian soldiers are also involved in this trade.³⁵ Malaysian and other Asian wood buyers also operate in parts of the country.³⁶

The scale of the problem is huge. A much-cited study from 1999 estimated that Indonesian domestic demand for wood was nearly four times greater than the legal supply. It is likely that most of this shortfall is filled with illegal timber.³⁷

Indonesia classifies its forests as zones for logging, for conversion into other uses, and to be protected for ecological reasons, but illegal loggers pay little heed to these distinctions. Some logs are stolen from forests designated for commercial timber production. Others come from protected areas and national parks. An estimated 40 per cent of Tanjung Puting National Park in Central Kalimantan, to take one of many examples, has been damaged by logging and

²⁸ “Overcoming Illegal Logging and the Distribution of Illegal Forest Products”; Department of Forestry, Jakarta, March 2001, p.1.

²⁹ “Overcoming Illegal Logging”, op. cit., p. 8.

³⁰ An example is the Djajanti group, which is facing encroachment on its timber concessions in Central Kalimantan while being accused of illegal logging in Irian Jaya. See *Tempo*, 24-30 July 2001 and *Jakarta Post*, 27 September 2001.

³¹ ICG interviews with forestry experts in Jakarta

³² “Overcoming Illegal Logging”; op. cit., p. 8.

³³ *Kalimantan Express*, 27 October 2001.

³⁴ “Overcoming Illegal Logging”, op. cit., p. 9, and “Timber Trafficking”, op. cit.

³⁵ An authorised biography of Suropto, former secretary-general of the Department of Forestry, states that Indonesian troops found cartridge cases and food wrappers with Malaysian army markings in a logging camp near the border and later caught two loggers who said Malaysian soldiers protected them. See “Menguak Tabir Perjuangan”, Jakarta 2001; p. 166.

³⁶ ICG observations and interviews in the ports of Banjarmasin and Sampit.

³⁷ “Roundwood supply and demand in the forest sector in Indonesia”, draft paper for Indonesia-UK Tropical Forest Management Programme, December 1999.

forest fires.³⁸ Some 80 per cent of the smaller Gunung Palung National Park in West Kalimantan has been damaged by loggers.³⁹ Similar reports come from Sumatra, Java and Sulawesi.

D. THE STATE'S RESPONSE

Indonesia has committed itself, under pressure from foreign creditors and forestry reformers at home, to tackle illegal logging. In February 2000, the government pledged to carry out eight measures to improve forest management, most of which have an impact, direct or indirect, on illegal logging. These measures, which remain at the core of any approach to the problem, included:

- ❑ a more co-ordinated crackdown on illegal loggers and sawmills;
- ❑ a fresh assessment of the current state of the forests;
- ❑ a moratorium on converting natural forest for other uses;
- ❑ downsizing of the wood products industry;
- ❑ Linking debt write-offs for wood industry companies to capacity reduction;
- ❑ Linking Indonesia's reforestation program with its wood industry;
- ❑ Recalculating the real value of timber (undervalued by illegal logging);
- ❑ using decentralisation to encourage better forest management; and,
- ❑ creation, as agreed earlier with the IMF, of an interdepartmental committee on forestry.⁴⁰

There has been progress on some of these issues, but far short of what is needed to turn the tide. As European Union representatives put it at a donors' meeting in November 2001: "The government of Indonesia has recognised the depth of Indonesia's forest

crisis, but there is unfortunately little on-the-ground evidence of having made an impact in resolving it".⁴¹

There are Indonesian officials, some at a senior level, who want to curb illegal logging, and they are starting to achieve results in the form of more frequent seizures of timber cargoes and disciplinary action against the accomplices of loggers within the state. The problem is complex and spreads over a vast geographical area, however. It requires not only law enforcement but also the reduction of demand for wood from Indonesia's bloated wood-products industry and the creation of other kinds of work for local people who now take part in illegal logging. All this has to be done in a context where many officials are indifferent to the problem, unaware of it or actively involved.

E. THE BUREAUCRACY

The Department of Forestry manages the timber industry and the country's national parks, though some of its powers have been devolved to the regions in 2001. The department has long been afflicted by corruption and political interference: a recent survey of civil servants, businesspeople and other citizens revealed that it was one of several state agencies regarded as "highly corrupt".⁴²

One expert estimates that a timber company is obliged each year to present 1,599 documents and a host of other data to sixteen state agencies in Jakarta and another eight in the regions, for each of its concessions.⁴³ This mass of regulations is thought to be used by officials to extract bribes. The department is also vulnerable to lobbying by the timber industry and pressure from party politicians seeking money for patronage purposes. Political instability has been disruptive: there have been seven changes of forestry minister

³⁸ "Timber Trafficking", op. cit., p. 22.

³⁹ *Kompas*, 30 July 2001.

⁴⁰ Keynote address by the Department of Forestry to the CGI meeting of February 2000, text available on www.worldbank.or.id.

⁴¹ "Working Group Statement on Enforcing Sustainable Forest Management", November 2001, on www.worldbank.or.id.

⁴² *Jakarta Post*, 19 October 2001.

⁴³ This estimate was made to ICG by Hariadi Kartodihardjo, an official of the state Environment Impact Management Agency (Bapedal) and a lecturer in forestry.

since 1998, each accompanied by a staff reshuffle.

There has been some progress, beginning with the Wahid government, which in April 2001 ordered firmer action against illegal loggers via a presidential decree and issued a ban on the logging and trade of *ramin*, a rare wood favoured by loggers. The current minister under President Megawati Soekarnoputri is a forestry economist, Mohammad Prakosa, who earns praise from some experts for making a serious effort to tackle the problem.⁴⁴

The Department of Forestry, working with the Department of Trade and Industry, has just imposed a six-month ban on log exports to curb the overseas trade, an issue discussed later in this report. Prakosa said in early December 2001 that from 2003, all timber companies will be compelled to get certification that they are managing their concessions in a sustainable manner – a move which, if implemented effectively, should curb the violations of forestry rules.⁴⁵

The department is also forging high-level links with the police and military, notably the navy, to improve co-operation and put moral pressure on commanders to discipline officers implicated in illegal logging. The role of the navy is significant because it has the capacity to seize ships caught with contraband goods – a potentially expensive blow to the pockets of the people who own and finance shipments of logs. In one recent success, navy personnel and forestry officials seized three ships off Central Kalimantan that were heading for Hong Kong and Singapore with U.S.\$4 million worth of stolen timber on board.⁴⁶

More action is needed. Until now, almost everyone suspected of organising illegal logging or of other forest-related crimes escaped prosecution. The department is now

investigating a list of suspects, including some of its own officials.⁴⁷ The directorate in charge of Indonesia's national parks is weeding out its less trustworthy staff and has formed a team of picked personnel which played a part in the recent log seizures. There may well be resistance to such initiatives, however, from forestry officials opposed to reform. They have managed in the past to rewrite draft laws in their own interests, as happened in 1999 when NGO and community inputs into a new forestry law were watered down at the last minute, to the dismay of reformist officials.⁴⁸

Obstacles also lie with other departments, which tend to regard illegal logging as purely a "forestry problem" even though their own policies may actually encourage it.⁴⁹ The licensing of new wood-processing companies by the Department of Trade and Industry or local governments can increase demand for illegal wood, while plans to build roads in protected forests can open the way for loggers and, given the private business interests of some senior officials, may be intended for exactly that purpose. Mines and plantations can unintentionally give access to loggers by clearing land and building roads within forests for their own purposes. The government is under pressure from foreign mining companies which want to be exempted from a ban on open-pit mining in protected forests.

At the request of foreign donors, Indonesia did create an interdepartmental committee on forestry in 2000, with the aim of bringing the various state agencies together with NGOs and timber industry executives. By early 2001 there were fruitful discussions, but the committee has lost steam and one source describes it as "defunct".⁵⁰ The problem seems to be a lack of political will. Funding for some committee activities may have been held up by officials opposed to forestry reform.⁵¹ In practice, critics complain, the Department of Forestry continues to design policies largely on its own.

⁴⁴ ICG interviews in Jakarta.

⁴⁵ *Jakarta Post*, 4 December 2001.

⁴⁶ EIA/Telapak press release, 13 November 2001.

⁴⁷ ICG interview.

⁴⁸ ICG interviews.

⁴⁹ ICG interview with forestry source.

⁵⁰ ICG interview.

⁵¹ ICG interview with forestry source.

F. THE SECURITY FORCES

The Indonesian military and police are deeply involved in illegal logging, working in partnership with private entrepreneurs or through companies and co-operatives under their control. The military relies on illegal activities, including logging, to raise at least half its operational costs, and the same could well be true of the police.⁵² Apart from the funding problems of the military and the police, there is also a culture of personal enrichment amongst many officers, though not all are necessarily involved in illegal logging.

When the Forestry Department proposed action in 2000 against one prominent logging boss, Abdul Rasyid of Central Kalimantan, it was reportedly asked to desist by a senior military officer because “the welfare of the army” was involved.⁵³ Rasyid had become notorious in early 2000 after his staff kidnapped two environmental activists, one British and one Indonesian, who had exposed the role of his Tanjung Lingga industrial group in using illegal logs from the nearby Tanjung Puting National Park. The two were threatened with death and only released after intense diplomatic and NGO pressure was applied and with the help of a sympathetic cabinet minister and a police general in Jakarta.

Rasyid is a member of the People’s Consultative Assembly (MPR), the highest legislative body in Indonesia and then-President Wahid promised in 2000 to revoke his immunity to prosecution, though it is not

clear if this has actually happened.⁵⁴ He is said to have handed over his business interests around Tanjung Puting to relatives and moved his activities to remoter areas, but his allies in the security forces and the political establishment have so far enabled him to escape prosecution.⁵⁵

Loggers commonly pay the military and police for protection against prosecution. One wood trader in West Kalimantan explained that the local police levied fees by volume on the transport of illegal logs, charging up to 200 million rupiah (U.S.\$200,000) for large shipments.⁵⁶ Police and other officials often seize cargoes of logs, but these are sometimes sold off in a way that allows the officials to pocket part of the proceeds, or even to sell them back to logging bosses.⁵⁷

It has been suggested that the profits of illegal logging (and of marijuana growing) provide an incentive for the military to keep a presence in the rebellious province of Aceh.⁵⁸ In the eastern part of the province, the military is involved in logging in and around the Gunung Leuser national park. A recent book, based on fieldwork by Acehnese NGOs, suggests that sporadic violence in this area is linked to competition over logging as much as to the separatist rebellion. A well-placed forestry source in the region told ICG that he saw no evidence of this, however, and the military, police, civil service and legislators appear to have divided up the business amicably amongst themselves.⁵⁹ Nevertheless, there are occasional shootouts between military and police units around the country, and it cannot be ruled out that rivalries over logging might foster turf

⁵² This figure was provided to ICG by a former senior government official. See ICG Asia Report no. 24, *Indonesia: Next Steps in Military Reform*, Jakarta/Brussels, 11 October 2001, which discusses the extent to which the military supplements the relatively small official budget provided by the government through extracurricular activity, both legal and illegal, in order to support its personnel and its operations.

⁵³ ICG interview.

⁵⁴ Wahid announced numerous decisions, on a range of issues, which were ignored by officials.

⁵⁵ ICG interviews. See “The Final Cut” (1999) and “Timber Trafficking” (2001), op. cit. Both are available on www.eia-international.org.

⁵⁶ *Kompas*, 31 July 2001

⁵⁷ “Decentralisation, Local Communities and Forest Management in Barito Selatan”, draft report by John F. McCarthy for the Centre for International Forestry Research (CIFOR), September 2001, p. 19. Available at www.cifor.cgiar.com.

⁵⁸ ICG Asia Report no. 17, *Aceh: Why Military Force Won’t Bring Lasting Peace*, Jakarta/Brussels, 12 June 2001.

⁵⁹ “Suara Dari Aceh”, YAPPIKA, Jakarta, February 2001, page 59; ICG interview.

battles of this kind.⁶⁰

After persistent lobbying, the Department of Forestry persuaded the army leadership to replace the garrison commander in the district of Southeast Aceh, Colonel Mochamad Sakeh, in July 2001. He is one of several officers who have been transferred from forest regions at the instigation of the department, and illegal logging has declined in the area since then.⁶¹ Such moves suggest the military leadership is not totally impervious to pressure for action against officers who are too blatant in their violation of the law, but they do not alter the structural relationship between logging and military funding.

There are other reasons why law enforcement is weak. Police units may be short of funds or reluctant to take on crowds of loggers or sawmill workers at a time when people are much more willing to confront the police than during the Soeharto era.

In Tanjung Puting National Park, a conservation group claims some success in getting the police to crack down on illegal loggers by the simple expedient of paying each policeman a salary supplement of 50,000 rupiah (U.S.\$5) a day. The police have stopped using weapons to intimidate the loggers, because the latter react with angry protests, and now try to persuade them to leave the park.⁶² Police raids around the country are often ineffective, however, as the loggers are often tipped off in advance, and those arrested tend to be low-paid workers rather than the wealthy backers of the logging.⁶³

Witnesses can be reluctant to give evidence against illegal loggers in court because of the risk of retaliation. Marzuki Usman, who served briefly as forestry minister under President Wahid, says this is a serious obstacle to prosecutions since Indonesia does not have credible arrangements for witness protection.⁶⁴

Police may also simply lack the training to investigate environment-related crimes. The problem of corruption further applies to prosecutors and judges, who in any event tend like the police to have little understanding of environmental crime and give light sentences to illegal loggers. They are helped in this by the failure of the law to lay down a minimum punishment for forest crimes.⁶⁵

G. LOCAL GOVERNMENT

Since January 2001, the regional autonomy laws have transferred significant powers to Indonesia's 350-plus districts (*kabupaten*), including the right to licence small-scale logging concessions. The proliferation of these licences, which began even before the autonomy laws took effect, has undermined a moratorium adopted by the central government on the conversion of natural forest.

The regional autonomy laws put an onus on districts to raise as much of their own revenues as possible, and the easiest way to do so for districts in forest regions is to issue these licences, often to businesspeople from outside the district who use local communities as a front. The desire to raise money fast is reinforced by corruption and patronage in local political life, a widespread lack of environmental awareness and the fact that, after decades of centralised government, many local officials lack experience in managing forests on their own. The result tends to be rapid and damaging deforestation.⁶⁶

⁶⁰ One such incident took place near Sampit during the violence in February, when a quarrel over the payment of bribes by fleeing Madurese led to a shootout between police and soldiers, in which a soldier and a civilian were killed. See ICG Report, *Communal Violence in Indonesia*, op. cit., p. 10.

⁶¹ *Kompas*, 31 July 2001.

⁶² ICG interviews at Tanjung Puting.

⁶³ "Menguak Tabir Perjuangan"; p. 164, describes a raid on illegal loggers in Kalimantan which was

mysteriously delayed by a day, giving the loggers a chance to evade capture.

⁶⁴ ICG interview with Marzuki Usman.

⁶⁵ Ibid.

⁶⁶ Six detailed reports on local government and forests in parts of Kalimantan and Sumatra can be found at the Centre for International Forestry Research, www.cifor.cgiar.org.

The autonomy laws put much power into the hands of the district heads (*bupati*), some of whom have crossed the line into illegality by granting logging permits for areas within the existing concessions of larger timber companies or by tolerating illegal logging. As noted earlier, two districts in Central Kalimantan have issued regional regulations (*peraturan daerah*) taxing illegal logs, and this tax has become an important component of the district budget. A local activist and lawyer in Central Kalimantan petitioned the Supreme Court in Jakarta in November 2000 to conduct a judicial review of these regulations and brought a civil action against the officials who signed the regulations, but the court seems not to have taken any action since receiving the petition.⁶⁷

Not all districts are indifferent to deforestation. In southern and eastern Aceh, where it has caused serious flooding and erosion, local legislators and officials are said to be acting to curb legal as well as illegal logging.⁶⁸ In parts of East Kalimantan, NGO activists are now invited to local government meetings to discuss forestry issues.⁶⁹ Nonetheless, there is unlikely to be a rapid shift nation-wide in the attitudes of officials who formed their views in the Soeharto era and may have a personal interest in the profits of logging.

The Megawati government is uneasy about the extent of powers given to the *kabupaten* by the decentralisation laws, which were designed by an earlier government in 1999, and there are plans for revisions. Advocates of this would argue that since the *kabupaten* are not prepared to manage their own affairs, some authority should be returned to the provinces or even to Jakarta. There may be

merit to this argument but such a move would not in itself guarantee better forest management if it simply shifts the power over forests from vested interests in the *kabupaten* back to vested interests elsewhere. It would also erode a key potential benefit of regional autonomy, which is that over time it should make government more responsive to local communities.⁷⁰

H. LOCAL COMMUNITIES

A history of migration amongst the islands of Indonesia has created populations in forest regions that are often ethnically diverse and do not have uniform or static attitudes towards logging. Members of some communities may want to protect forests in order to gather other products like rubber, rattan or game, or because the forest has spiritual or cultural significance for them. There are scattered examples of communities working to prevent illegal logging, often with NGOs. Other communities, or some of their members, may be willing to see forests cut down as long as they derive some financial benefit.

An underlying factor in illegal logging is poverty. When logging entrepreneurs arrive in villages offering to supply chainsaws and pay what in local terms are good rates, many take up their offer because there are few other opportunities. They are encouraged by the popular belief that regional autonomy and *reformasi* (the post-Soeharto era of political reform) give local communities the right to exploit their forests, irrespective of what the law says. Some wild loggers feel justified by the misbehaviour of timber companies who break the law or fail to provide benefits to local communities. Others know that what they are doing is destructive in the long term, but see no economic alternative.⁷¹

As noted earlier in the case of Central Kalimantan, illegal logging is eating into the remaining supplies of timber and creating the risk

⁶⁷ This activist, Rachmadi Lentam showed ICG a letter from the Supreme Court, sent in November 2000 confirming receipt of the petition.

⁶⁸ ICG interview with foreign forestry source.

⁶⁹ Anne Casson: "Decentralisation of Policy Making and Administration of Policies Affecting Forests and Estate Crops in Kutai Barat, East Kalimantan", CIFOR, September 2001 (draft).

⁷⁰ One former minister asserted to ICG that powerful people in Jakarta want to recapture the powers of the regions over forestry, mining and land use because they are so lucrative.

⁷¹ ICG interviews with officials and environmental activists in Jakarta and Central Kalimantan.

that those now employed in the industry will run out of work. If the main beneficiaries of illegal logging – the traders and processors of wood – are of a different ethnic group from the people who cut down the trees, then there may be a risk of communal conflict.⁷²

Donor-funded projects in several parts of Indonesia have attempted to involve local communities in managing the forests and/or to create alternative sources of income to logging. These projects have a mixed record.

Illegal logging has fallen around the Gunung Leuser park in northern Sumatra after five years of work by donors and local NGOs, aided by the growing distress among local people about the floods and erosion that logging causes. Now only four trucks come out of the park each night loaded with illegal logs, compared to twenty in the past. There are still threats, however, from plantation and mining companies and the plans of two local *bupati* to build roads in the park.⁷³

By contrast in the Kerinci-Seblat National Park in Central Sumatra, the World Bank has been warning for some time that a major community project is in danger of collapse because the local authorities are failing to uphold the law against logging bosses.⁷⁴

A World Bank review of community projects has argued that they often aim in the wrong direction: the main threat to parks is not so much logging by local communities as state-sponsored economic development. Another major problem is that if logging

bosses can offer more money than the returns on alternative income schemes, and if the local authorities are not willing to crack down on them, then logging will go on.⁷⁵

Such difficulties in other countries have led some forestry analysts to suggest paying local communities a fee to conserve forests, though forestry experts interviewed by ICG were doubtful this would work in Indonesia because of the risk the money would go to the wrong people. It can be difficult to ensure that any kind of development funding reaches the poorest villagers, rather than being appropriated by village elites.⁷⁶

Since 1998, many NGOs have emerged both at the local and the national level to champion the claims of people in forest areas. NGOs have helped to push the problems of the forests and forest-dwelling peoples higher up the government's agenda, and some state officials now recognise the need for meaningful consultation with civil society.

NGOs also draw attention to forest crime. The work of the Environmental Investigation Agency and Telapak Indonesia in exposing loggers in Central Kalimantan seems to have had a significant influence on government policy, leading to the decision in 2001 to ban exports of *ramin*, a rare wood found in Tanjung Puting National Park.

NGOs still struggle to make headway in the face of entrenched vested interests. There are also differences between NGOs on strategy and tactics, while each has its own internal politics, and suspicions endure between NGOs and donors like the World Bank. The latter now admits that its failure to consult more widely in the past cost it the goodwill of activists who share some objectives.⁷⁷

Some local NGOs may be short of the necessary

⁷² "Decentralisation, Local Communities and Forest Management in Barito Selatan", op. cit., cites ethnic Dayak commentators as warning that the dominance of illegal logging in this district of Central Kalimantan by ethnic Banjarese could cause conflict with the Dayaks.

⁷³ *Jakarta Post*, 26 October 2001; ICG interview with foreign forestry source. A recent report in the *Jakarta Post* that the European Union has withdrawn funding for this project is incorrect.

⁷⁴ World Bank Indonesia country chief Mark Baird, speaking to the Forestry Law Enforcement and Governance Conference in September 2001.

⁷⁵ "Indonesia: Environment and Natural Resource Management", op. cit., p. 45.

⁷⁶ ICG interview with foreign forestry expert in Jakarta.

⁷⁷ "Indonesia: The Challenges of World Bank Involvement in Forests", op. cit., p. 80.

technical skills or find it hard to evolve from an adversarial style adopted in the Soeharto era to a more flexible, solution-oriented approach.⁷⁸ There are also dummy NGOs, set up purely to attract foreign funds. Nonetheless, the growth of NGOs is a key aspect of the evolution of a more active civil society which is badly needed as a counterweight to the power of officials and logging bosses in forest regions.

I. REDUCING DEMAND FOR ILLEGAL LOGS

There is strong demand for illegal timber, both within Indonesia and overseas. Within Indonesia, wood-processing companies expanded their capacity during the economic boom of the 1990s without first ensuring a sustainable supply of legal wood. They were helped by banks and investors from developed countries who provided the finance without looking too deeply into the books of their borrowers.

The short-sightedness of this approach is illustrated by the failure of Indonesia's Asia Pulp and Paper group, which borrowed heavily in the 1990s and in March 2001 announced that it could no longer afford the payments on U.S.\$13.4 billion in world-wide debt.⁷⁹ Experience with other Indonesian conglomerates suggests that investors may lose most of their money.⁸⁰ In addition to these big players, thousands of sawmills have sprung up since 1998, many illegal.

Some wood products companies claim they cannot easily distinguish between legal and illegal timber. A supervisor at Indah Kiat, an APP subsidiary, was reported as saying that "there's no hurry to use more sustainable wood because that's more expensive to process. So we are using tropical hardwood

and not asking too many questions about how legal it is".⁸¹ The pulp and paper companies argue that they are increasingly planting their own trees rather than using forest timber.⁸² Detailed analysis suggests, however, that these forecasts are overly optimistic and companies will continue to rely on forest timber, very likely including illegal timber, for some years to come.⁸³

Other sources are even more frank. One small businessman in Sumatra's Jambi province admitted the local wood industry could not stay afloat without illegal timber, whose price was less than half that of legal wood.⁸⁴ But since the rate of logging far exceeds the rate that Indonesia's forests can regenerate or the amount of new planting, the industry is eating its own tail. If domestic supplies dry up, which might happen within a decade in some regions, then companies which cannot afford to import logs will go out of business.

To break this circle, the government imposed on 8 October 2001 a ban on log exports for a trial period of six months. Within weeks, the ban had been breached by a senior official of the Department of Trade and Industry, who granted waivers to eleven timber companies to continue exporting. In an encouragingly rapid response by the Trade and Industry Minister, Rini Soewandi, the official has been relieved of his duties and is being investigated.⁸⁵

There is no consensus amongst experts on whether log export bans are effective, though it is generally agreed that they can only be part of a solution to illegal logging and have little effect unless they are properly enforced. The government now plans to push ahead with an arguably more important measure: reducing the capacity of local industry so that it does not

⁸¹ *The Guardian* (UK), 26 June 2001.

⁸² APP has commissioned an audit into its sources of wood and says it aims to use only its own plantations by 2007. Given APP's notorious lack of transparency, analysts may well treat such claims with caution.

⁸³ Christopher Barr and Bambang Setiono, "Corporate Debt and Moral Hazard in Indonesia's Forestry Sector Industries" (draft paper), 2 September 2001.

⁸⁴ *Kompas*, 30 July 2001.

⁸⁵ *Kompas*, 30 November 2001.

⁷⁸ ICG interviews with foreign aid and NGO workers.

⁷⁹ *Asian Wall Street Journal*, 12 September 2001.

⁸⁰ See ICG Asia Report no. 15, *Bad Debt: The Politics of Financial Reform in Indonesia*, Jakarta/Brussels, 13 March 2001.

depend on illegal logs.

As noted earlier, this industry is based mainly on Java (with some big factories in Sumatra) and sucks logs out of forested regions, undermining their economic prospects and creating the possibility of future social tensions. Any reduction of industrial capacity would mean scaling back the large, export-oriented companies that have hitherto dominated timber supplies, though it might be advisable to preserve those smaller companies which play an important role in the local economy even though they are using illegally-supplied wood.

There is even an argument for encouraging the growth of small-scale wood processing in forest regions so that more of the added value of the timber industry goes to the people of these regions, as long as the overall amount of timber used in Indonesia is reduced towards a sustainable level.

The collapse of Indonesia's banks after 1997 placed in state hands some U.S.\$3.1 billion of the domestic debt owed by the wood products industry (as opposed to the foreign debts of companies like APP), so the government should in theory have a strong hand in negotiating with major plywood, pulp and paper companies. In practice little has happened, though it is not clear whether this is because the government is nervous about causing job losses, or because of lobbying by timber interests, or simply because of the inertia created by more than three years of political upheaval.

The government has just formed a working group of officials and industry representatives to assess how to go about downsizing the industry, with some foreign technical input.⁸⁶ This body will have to look, among other issues, at ways to help any workers made redundant.

Resistance to such a strategy could come from the Indonesian Bank Restructuring Agency, the state body that controls the debt. IBRA is judged by how much money it can recover from debtors and is therefore likely to object to anything that reduces the earning capacity of companies on its books. The agency is in danger of making the problem worse by allowing these companies to settle their debt on generous terms in the hope of making them more profitable. But debt relief for companies that use illegal timber is in effect a subsidy for them to use even more. One estimate suggests that the total value of this subsidy could be as high as U.S.\$6.5 billion, nearly twice the amount of money pledged to Indonesia by foreign lenders and donors this year.⁸⁷

A senior Forestry Department official says some IBRA staff understand the problem but at the moment they are few in number and mostly of middle ranks.⁸⁸ The agency may also prove vulnerable to the influence of timber industry interests. In one recent case, a wood-products company has been granted favourable treatment, despite its earlier refusal to co-operate with IBRA, after the intervention on its behalf by one of IBRA's own senior officials.⁸⁹

Some Indonesian NGOs argue, often from a conservationist perspective, for a moratorium on all commercial logging in Indonesia's forests, legal and illegal. They argue that such a ban should be phased in over two or three years and last for another two or three years. The aim of a moratorium would be to give the forests a respite, allow time to reform forestry management and compel wood-processing companies to become less wasteful since those unable to import logs would be forced out of business. Several other Asian countries have imposed full or partial logging bans, including China, Thailand and Papua New Guinea.⁹⁰

⁸⁶ ICG interview with foreign forestry expert in Jakarta.

⁸⁷ "Corporate Debt and Moral Hazard", op. cit., p. 31.

⁸⁸ ICG interview with Director-General Wardoyo of the Department of Forestry.

⁸⁹ Information known to ICG.

⁹⁰ For a detailed discussion of this idea, see www.walhi.or.id/KAMPANYE/moratorium.htm.

J. INTERNATIONAL DIMENSIONS

Awareness is spreading globally that illegal logging is a cross-border problem which needs to be tackled by the countries that consume the timber as well as those which produce it. Imports of Indonesian timber in Asia and the West far exceed Indonesia's recorded legal exports. There are said to be four major timber smuggling routes: two from Kalimantan overland into Sarawak in Malaysia, one by sea from Sumatra to peninsular Malaysia and Singapore and another by sea from Irian Jaya to China. This timber may be moved with false documents, or with no documents at all, and it has been argued that Malaysian timber companies are turning to Indonesia because forests at home have been depleted by logging.⁹¹ Products that may be made from illegal timber also end up in the West and Japan.⁹² In Britain, they are inadvertently used by schools and local governments that espouse environmentally friendly behaviour.⁹³

Such involvement in the illegal timber trade runs counter to the efforts of countries who want Indonesia to curb illegal logging. It puts an onus on them to review import regimes and public procurement policies, as Britain has done.⁹⁴ It puts the same onus on the private sector in the West, and a number of big companies have now announced deadlines after which they will only use wood that has been certified as environmentally friendly.⁹⁵

⁹¹ "Timber Trafficking", op. cit., p. 12.

⁹² Ibid., p. 4.

⁹³ *The Guardian*, 26 June 2001. Some UK users of wood products have reportedly stopped buying from Asia Pulp and Paper in recent months because of the controversy over timber supplies.

⁹⁴ Environment News Service, 9 August 2000.

⁹⁵ *Jakarta Post*, 22 September 2001. The issue of certification is summarised in "Certification and Indonesia: A Briefing", Down to Earth, June 2001, at www.gn.apc.org/dte.

III. ILLEGAL MINING

A. MINING AND ILLEGALITY

The blossoming of illegal mining in Indonesia since 1998 is, like illegal logging, an aspect of the post-Soeharto struggle for control of natural resources. There are no visible links between illegal mining and violent conflict on any significant scale but the phenomenon is interwoven with corruption amongst state agencies and the military and can therefore be seen, like logging, as a problem of governance. All the legal mine sites in Indonesia have a combined area less than 0.5 per cent of the national territory.⁹⁶ It is likely that illegal mining affects a still smaller area. Nonetheless, it can be very damaging.

Mining companies in the Soeharto era, many controlled by Western investors, had a record on the environment and relations with local people that was often very poor. Mining companies were major generators of tax and royalties for the state and creators of jobs, often attracting thousands of labour migrants to their concession areas. But the bulk of their profits flowed overseas or to Jakarta, which failed to reinvest the money in mining regions. There are many cases of the security apparatus using force to suppress local complaints against the industry.

Illegal mining is part of a response to this history, which also includes numerous claims for land compensation and occupations of mining concessions, though it can be difficult in practice to tell the difference between legitimate grievances and opportunistic attempts to extort money from mining companies.

There are many similarities between illegal logging and mining, and the two often take place in proximity. As with logging, the beneficiaries of illegal mining are its organisers, financiers and backers, who are not poor or even necessarily from the same area as the miners. In one area,

⁹⁶ "Indonesia: Environment and Natural Resource Management in a Time of Transition", World Bank, February 2001, p. 55.

South Kalimantan, illegal mining is a large-scale and mechanised industry with buyers in Indonesia and Asian countries including Singapore, Malaysia, the Philippines and India.⁹⁷

Illegal mining creates tensions with mining companies on whose land it encroaches and in some cases with local people (who may also have quarrels with mining companies). It is one of several reasons why exploration by mining companies in Indonesia has all but dried up since 1998. (Other reasons include the regulatory confusion caused by regional autonomy, an upsurge in mass protests over land use, labour and environmental issues and investors' worries about the country's stability.)⁹⁸ This falloff in exploration will have the knock-on effect that fewer mines will be brought into production in the next few years, with a resulting loss of potential revenue to the state.

The most dramatic recent example of the impact of illegal mining on state revenues is the case of PT Timah, a once well-regarded tin mining company controlled by the state. More than 30,000 illegal miners on the island of Bangka, the site of its operations, are producing so much tin that they have depressed the world price and brought the company to the brink of bankruptcy. The local government has made the illegal trade easier by granting export licences for tin concentrate to businessmen who do not have any legitimate mining contracts in Bangka. Belatedly, it has now promised to stop issuing such licences.⁹⁹

Illegal mining can damage the environment in ways that affect the health and livelihoods of people in mining areas. There is particular

concern about gold mining because mercury is commonly used to process the gold. Although the miners may try to conserve and reuse the mercury to save money, some inevitably makes its way into rivers from where it could enter people's bodies.¹⁰⁰

The use of mercury has been reported in parts of Sumatra, Kalimantan, Java and Sulawesi. The most serious case may be North Sulawesi, where mercury is polluting the sea near the provincial capital Manado, a centre for fishing and dive tourism. Some observers warn of an impending tragedy on the scale of Japan's Minamata Bay.¹⁰¹ The case has been complicated by a quarrel between Walhi, a local NGO, and the U.S. company Newmont Mining over blame.¹⁰²

Not all mining companies are affected by illegal mining. Three of the biggest mines – the Grasberg copper and gold mine in Irian Jaya, the Kaltim Prima Coal mine in East Kalimantan and the Batu Hijau copper and gold mine in Sumbawa – have no major problems with illegal mining for reasons that range from geographical isolation to the technical difficulties of extracting ore from rock.

At the same time, the Australian company Aurora Gold abandoned one concession in North Sulawesi after an invasion by thousands of illegal gold miners in 1999. Another of its mines in Central Kalimantan has been disrupted by a prolonged dispute involving local protests against the company, illegal miners and a campaign by NGOs.

The mining subsidiaries of BHP Billiton, another Australian-based company, have been badly affected by illegal coal mining in South Kalimantan. An Indonesian state-owned company, Aneka Tambang, has contained an incursion of illegal miners on a concession in

⁹⁷ From the archive of www.petromindo.com, 29 November 2000.

⁹⁸ One industry observer says some mining companies closed their exploration operations in Indonesia as long ago as mid-1999.

⁹⁹ *Jakarta Post*, 21 November 2001; *Asian Wall Street Journal*, 20 November 2001; *Far Eastern Economic Review*, 6 December 2001.

¹⁰⁰ ICG observation of illegal gold refining in West Java in late 1999.

¹⁰¹ Mercury dumped in Japan's Minamata Bay over several decades afflicted nearly 3,000 people with a central nervous system disorder. Dozens died before the case was made public in 1968.

¹⁰² Newmont blames the illegal miners for the pollution. Walhi blames Newmont. See *Jakarta Post*, 1 May 2001 and Letters to the Editor, *Jakarta Post*, 4 May 2001.

West Java by a blend of community development and law enforcement, which included the removal of an army unit implicated in the illegal mining.¹⁰³

An official team reported in November 2000 that it had recorded 713 illegal mining sites nation-wide. The team estimated that illegal mining was costing the state 315 billion rupiah in lost revenues, or about U.S.\$37 million at current exchange rates. This is a small fraction of the revenues paid by legal miners, estimated to be U.S.\$877 million in 1999.¹⁰⁴ The illegal miners were estimated to be digging 30 tons of gold a year, or nearly a quarter of Indonesia's legal output in 1999. They were also estimated to be producing 4.3 million tons of coal, equal to 7 per cent of legal output. This volume, though large, has to be kept in perspective: equally large amounts of coal are lost by the legal mining industry through wasteful production methods.¹⁰⁵

As with illegal logging, the team found that most illegal mining was organised by entrepreneurs or trading companies and protected by members of the security forces. In North Sulawesi, illegal gold mines have been guarded by soldiers in uniform.¹⁰⁶ The entrepreneurs often sign quasi-legal agreements to pay fees to local communities and provide workers with equipment on credit, binding them to pay off their debt. Thus, the miners themselves may be motivated by poverty but they are part of a fully-fledged commercial enterprise.

B. THE STATE'S RESPONSE

Attempts to curb illegal mining, both by central and local government, have had little

enduring success. Official raids can stem the mining for a while, but it tends to re-emerge once the pressure slackens. As with illegal logging, many state officials are involved in the mining or paid off to ignore it. The latter are thought to include officials in local government and the Ministry of Mines and Energy as well as police and military officers, though there is no reliable information on the identities of these people.

Some state agencies have co-operative arms that engage in illegal mining. Not all officials are necessarily corrupt, however, nor is the degree of corruption necessarily the same in all areas of government. One senior former official argues that illegal mining did not have the same high-level backing as illegal logging because it is less profitable.¹⁰⁷

There are often squabbles between districts and provinces over who has the right to handle resource issues, which can undermine the effectiveness of a province-wide attempt to deal with the problem. State agencies like the police, the prosecutors and the highway and port authorities tend to stick within their own narrow mandates. They may also have an imperfect understanding of their own responsibilities.

Understaffed police forces in the regions can be reluctant to confront large numbers of illegal miners who may be armed with traditional weapons or even guns. Lack of funds is also a problem. After one raid in North Sulawesi, the authorities could not afford to keep a continuous watch on mining sites, and the miners had returned within three months.¹⁰⁸

Some mining companies, faced with incursions of illegal miners, have insisted that the government uphold their contractual rights by force if necessary, as in the Soeharto era. This rarely happens, for the reasons described above, and the recent upsurge of illegal mining is a signal in any case that the Soeharto government's coercive approach did not solve the underlying problems.

¹⁰³ Published company documents.

¹⁰⁴ Figures for illegal mining from *Bisnis Indonesia*, 24 November 2000. Figures for legal mining based on data from "Indonesian Mining Industry Survey 2000". Calculations by ICG.

¹⁰⁵ From the archive of www.petroindo.com, 22 September 2001.

¹⁰⁶ *Time Asia*, 28 May 2001.

¹⁰⁷ ICG confidential interview.

¹⁰⁸ Harvey Martens: "An Assessment of Small-scale mining in Sulawesi", Collaborative Environmental Project in Indonesia, June 1998.

This point is better understood by government officials and the police, who tend to oppose the use of force against illegal miners, than it is by some industry figures. One of the latter, an Indonesian, complained to ICG that an excessive preoccupation with human rights was deterring the police from shooting at people who obstructed the operations of mining companies.

Some companies take a more pragmatic approach, allowing the illegal miners to work on a part of their concession as subcontractors. The aim of this approach is to limit the disruption to the company's operations. Adaro, a coal company in South Kalimantan, says it used this approach with some success by employing several hundred illegal miners as subcontractors on condition that they kept other miners out of its concession area.¹⁰⁹

There is no guarantee that the illegal miners or their backers will stick to such an agreement if breaking the law is more lucrative. Some miners may have no interest in being brought into any sort of agreement that might reduce their profits. Nonetheless, given that exhortations to the authorities to uphold the law have had little effect, mining companies may feel they have little choice but to adopt this kind of approach. The tactic does not always work, however. Timah tried it at its tin mines on Bangka Island in the late 1990s but the company could not absorb all the metal dug by illegal miners, who sold it to other buyers instead.

C. COAL MINING IN SOUTH KALIMANTAN

The biggest illegal mining industry in terms of tonnage may be that of South Kalimantan, whose recent history shows how difficult the problem is to deal with once it has become entrenched. This small province is more

developed and stable than its giant neighbour, Central Kalimantan, and there has been little or no communal violence since a devastating riot in the capital, Banjarmasin, in 1997. South Kalimantan's forests have been mostly destroyed by logging, and businessmen who made their first money in timber are said to have moved into illegal coal mining.¹¹⁰

Coal has been mined since the 1970s by legal companies and since the 1980s by illegal miners. The latter flourished after Soeharto's fall and are said to have produced four million tons in 1999, compared to about 23 million tons by the bigger mining companies. Reports on the current size of the industry vary, with some sources suggesting that it has fallen and others that it may have grown to five million tons per year.¹¹¹ Much of the coal is from concessions held by subsidiaries of Australia's BHP Billiton, notably PT Arutmin Indonesia.¹¹² These concessions are dispersed and close to the sea, so they are hard to protect and convenient for loading coal onto barges.

The illegal miners use bulldozers, employ hundreds of workers and buy the tolerance of local people and state officials through systematic payoffs. The mining is organised by dozens of entrepreneurs, or *cukong*, including local Muslim businessmen who use the religious title "Haji"¹¹³. Other investors include professional traders, industrial concerns in Java and co-operatives belonging to the provincial police, the local military command, the public prosecutor's office and military veterans.¹¹⁴

¹¹⁰ ICG interviews in Banjarmasin.

¹¹¹ ICG interviews in Jakarta.

¹¹² The figure of 22 million tons combines the 1999 output of Adaro Indonesia and Arutmin Indonesia. Although BHP controlled Arutmin at the time this report was researched, the company announced plans in October 2001 to sell its shares to the local Bumi Resources.

¹¹³ Haji denotes a Muslim who has made the pilgrimage to Mecca.

¹¹⁴ ICG interviews with Indonesian mining official and observers in South Kalimantan. Police in the province announced in November 2000 a list of fifteen entities suspected of involvement in illegal mining. They included a co-operative owned by the local Tanjungpura military command, a unit of state-controlled cement company Semen Gresik, and the Djajanti Group, a conglomerate active in logging and fishing. Djajanti denied its involvement. See *Bisnis Indonesia*, 25 November 2000.

¹⁰⁹ ICG interview with Adaro chief executive Graeme Robertson. ICG has not visited Adaro's sites.

The entrepreneurs strike a deal with local landowners, sometimes formalised in a document stating how much the latter will be paid for each ton of coal.¹¹⁵ The workers at the mining sites are a mixture of locals and men from other parts of the province. Local people may charge small fees to passing coal trucks, set up food stalls and garages or work at illegal stockpiles and docks where the coal is loaded onto barges. Officials, military and police posts are paid off at every stage: the authorities in one district even widened a canal to ease the transport of coal barges. A measure of the scale of the industry is that in a single month of 2001 illegal coal trucks made 28,000 journeys from mine sites to the docks.¹¹⁶ The coal is marketed by traders from Indonesia or other Southeast Asian countries, and, as with illegal logging, the profits are high because no taxes, royalties or land reclamation costs are involved.

Because the state does not control illegal mining, there is no way to regulate its impact on the environment and nearby human settlements. Arutmin fills in its sites after they are worked and plants trees, but the illegal miners simply leave holes with acid-tainted water. While a mining company exploits an entire seam, illegal miners dig up only what is nearest the surface and cheapest to extract. This makes it uneconomical to exploit the rest, thereby costing the state potential revenue.

The illegal miners in South Kalimantan have an ambivalent relationship with local people. A World Bank survey found that 75 per cent of interviewees from the local community said they had a good or neutral relationship with the illegal miners, though there was concern about road damage by their vehicles. The remainder said there were

conflicts. By contrast, only 5 per cent of the miners felt they were in conflict with the local community.¹¹⁷

This relationship can break down if the *cukong* do not fulfil their promises. In one village near Arutmin's Satui mine, a prominent *cukong* known as Haji Aman lost the support of villagers who claimed that he had not paid the promised fee, his activities had caused pollution and only "certain people" in the village had benefited from the agreement.¹¹⁸ When his equipment was seized by police in July 2001, however, a crowd of several hundred protested.¹¹⁹

The local government response to illegal mining, both at the province and *kabupaten* level, has ranged from promises to stop it to attempts to tax it. The most effective tactic, a ban on coal trucks using public roads, was imposed in early 2000. It was adopted because raids on mining sites had led to confrontations with miners, while efforts to stop coal being loaded onto ships were thwarted by corrupt port officials.¹²⁰ The ban hit illegal miners hard because they relied on public roads. (Mining companies have private roads connecting their mines with ports.)

Less than a month after the ban came into effect, officials were claiming that illegal mining in South Kalimantan had shrunk by as much as 90 per cent. But the ban was soon rescinded by a new governor who allowed the illegal miners to sell stockpiled coal provided they paid a fee described as a "third party contribution" (*sumbangan pihak ketiga*). Critics say this amounted to tacit legalisation of the mining, since far more coal was sold than had been in the stockpiles. Most of the fees are reported to have been embezzled, and a senior official is now under investigation.¹²¹ The governor, Syahril Darham, has since announced a harder stance against illegal mining.

¹¹⁵ This account of illegal mining is based on ICG interviews with executives of Arutmin, government officials, journalists, a local academic and a provincial legislator.

¹¹⁶ Estimates provided to ICG by Arutmin staff.

¹¹⁷ "Indonesia: Environment and Natural Resource Management"; op. cit., p. 68.

¹¹⁸ These villagers wrote to Arutmin withdrawing their support for Haji Aman. Arutmin provided ICG with a copy of this letter.

¹¹⁹ Media Indonesia, 13 August 2001.

¹²⁰ ICG confidential interview.

¹²¹ *Banjarmasin Post*, 23 August 2001.

The *kabupaten* of Kotabaru, where most of the illegal mining now occurs, has insisted the governor has no right to tell it how to manage the problem. The district, like the province, has swung between taxing illegal mining and threatening to crack down.

A crackdown in South Kalimantan in mid-2001 was backed by Jakarta officials after the local parliament complained that provincial officials were failing to do their job. The appointment of a new provincial police chief, Brigadier-General Basyir Barmawi, appears to have had a positive effect. In July 2001, police seized equipment used by Haji Aman's miners at Satui and in August arrested Haji Aman himself. He was released on probation but rearrested after being caught with ammunition in his car.

Having insisted in vain that the authorities take action, Arutmin has adopted a more direct approach. The company signed an agreement putting the co-operative arm of the provincial police in charge of part of the Satui concession. The police co-operative will be a subcontractor to Arutmin, using some of the illegal miners as labour. Arutmin will provide equipment and help and undertake to reclaim the site afterwards.

This approach is similar to that adopted by Adaro, another coal company in the western part of the province. Arutmin plans to adopt this approach also with the local military in another area where illegal miners are active. The police say they are only "facilitators" and already have their own mining concession but it seems likely they will make some profit. In effect, the company appears to be giving the police a financial incentive to protect its operations.¹²²

The provincial police chief, General Barmawi, says that police raids alone are not the solution and he wants mining companies to do more to win local people with community development schemes that give employment. At Satui, he says, such schemes have shifted some local sympathies from the illegal miners to Arutmin. Illegal mining has fallen off in recent months, partly because the local government has sold licences to some illegal miners. This resolves the legal problem but does not ensure proper regulation.

Illegal miners are still digging coal on Arutmin's concessions. The net effect of the police raids in Satui, maintains one well-placed source, was simply to push them into other parts of the concession. In short, there has been some action but local government's political will to deal with illegal mining on a province-wide scale and provide alternative jobs for miners appears to be lacking.

¹²² It is accepted in Indonesia that companies contribute to the operational costs of the police, so this arrangement is not necessarily improper. A mining source not connected to Arutmin told ICG the company could have solved its problems by paying bribes, but objected to doing so.

IV. CONCLUSIONS

Poor resource management in the past has created the conditions for violent conflict in parts of Indonesia by damaging the environment, disrupting society in resource-rich areas and seeding resentment among local communities. There is a risk that the current struggle to control natural resources could also lead to conflicts, and Indonesia needs to evolve a fairer, more sustainable style of resource management. Illegal extraction is only part of a wider problem of injustice and unsustainability in the resource sector but needs to be tackled as a priority because of its potential to undermine any attempt at wider reforms.

Such wider reforms, which give local people a greater say in the management of natural resources in their areas, may over time help to stem illegal resource extraction. But they will take years to have an effect, and Indonesia does not have the luxury of waiting. There is a need in the short term for law enforcement to restrain the problem until measures aimed at its causes can start to take hold.

Making the law work as it should in Indonesia is very difficult. The legal system is stacked in favour of the wealthy and powerful but even limited progress can have an important symbolic impact. Law enforcement has to be carefully targeted if it is not to create more conflict, however. Action should be taken against not only “wild” loggers and miners who operate outside the law, but also resource companies (especially timber companies) who violate the law or the terms of their contracts.

The police are generally reluctant to mount armed raids against logging and mining camps for fear of igniting violence, and this stance is probably correct. A more effective strategy, and an easier one to justify to the public, would be to target not the low-paid workers of the industry but the *cukong* and corrupt officials who organise and facilitate it. Law enforcement will have to be

continuous: if one *cukong* is removed, others are likely to take his place unless there is a serious chance that they, too, will be arrested. The ships that carry illegal timber and minerals are expensive, and if they can be seized or detained by the authorities, it will make illegal resource extraction a more risky and thus less rewarding business.

There are encouraging signs that some senior officials, notably the ministers of forestry and trade and industry, are taking concerted measures to deal with certain aspects of illegal logging. There needs to be more internal reform of the state agencies that regulate natural resources. For now, the incentives point in the wrong direction: there are few rewards for upholding law and significant rewards, in the form of bribes, for helping others to break it. There may be an argument for rethinking the salary and incentive structures of state agencies so that professionalism is rewarded.

Law enforcement alone will not resolve the social and economic factors that drive illegal resource extraction, just as social and economic approaches will not work without law enforcement. A crucial element of any strategy is demand reduction. As long as there is demand for illegal timber and minerals, someone in Indonesia will attempt to fill it. The government should be prepared to take firm action against companies that buy illegally-mined minerals such as coal.

The government has accepted the need to scale back the domestic wood-processing industry so that it no longer absorbs huge amounts of illegal timber, and discussions have begun on how to do this. If the current policy does not work, then the arguments of NGOs for a complete ban on commercial logging will become more compelling.

The precedent of Indonesia’s privatisation program, which has run into trouble because of interest group objections, shows that careful planning is essential if the wood-products industry is to be shrunk to fit the legal supply. The shrinking should be gradual, with efforts to find new jobs for people put out of work, and it should focus on scaling back the large-scale companies with debts to IBRA. At the same time,

there may be a case for sparing small and medium-size enterprises, especially in forest regions, because of their important role in the local economy.

IBRA officials will need to be convinced to support the downsizing of the wood products industry because the policy goes against its mission to maximise the value of assets on its books. IBRA officials should probably be directly involved with the governmental working group set up to examine the downsizing of the industry.

There is also need to re-examine existing debt restructuring deals which give companies an implicit subsidy to use more illegal timber. IBRA's terms of reference may have to be amended so that the agency is obliged to consider the legality and sustainability of raw material supplies when restructuring a company. Foreign funders should not only offer technical help, as they have, but also look at ways of creating work for wood industry workers who lose jobs.

There may be hostility from the DPR and the public to a strategy that reduces exports and cuts jobs. The timber industry will likely foster this hostility to protect its own interests, presenting itself as essential to economic growth. The obvious rejoinder is that some of the companies have done huge environmental damage, reinvested little in forest communities and now expect the state to bail them out of bad debts. Nonetheless, there is need for prior consultation between government agencies, legislators and civil society groups to anticipate such objections and try to win the companies over. The government should emphasise that it is trying to save the industry from destroying itself by using up Indonesia's remaining sources of commercial timber.

The other core groups that must be convinced of the need to curb illegal resource extraction are the security forces, local governments, local legislators and communities. Military and police involvement is so entrenched that it will be difficult to end quickly, although the

military leadership has shown signs of being willing to act against more blatant offenders. The security forces should be adequately and transparently funded through the state budget, but this is a long-term aim. An intermediate goal would be to regularise existing military and police income and wean them off illegal sources.¹²³

Even assuming government officials in the regions were free from personal interests (which many are clearly not), they would still face a dilemma over illegal resource extraction. Local governments need to raise more money under the regional autonomy program. It is perhaps not surprising that those with few resources other than forests or mines are tempted to tax rather than clamp down on illegal activity. There seems no obvious way forward other than for the central government, NGOs and donors to work with local governments and legislators to convince them that resource extraction that makes money in the short term may be highly destructive in the long term.

This process would be helped if funds allocated to the regions from the state budget were transferred promptly and in full since delays leave local governments hunting for other revenue sources. There needs to be more transparency in the regulation of natural resources and more co-ordination between regions on managing resources that cross regional boundaries. Simply rolling the powers granted to the districts back to the provincial or central level will not solve the problem without thorough reform of the state agencies. Local regulations that contravene national law, like those which impose fees on illegally-extracted logs or minerals, should not be tolerated. If Jakarta is unable to stop local governments from breaking national laws in such a flagrant way, then the outlook for the Indonesian state is bleak.

Some members of local communities do not want their forests cut down or their rivers polluted by mining but many are willing to take part as long as they get some of the profits or feel they have no alternative. Again, there is no shortcut through the arduous process of talking to local communities, explaining impacts and trying to

¹²³ See ICG Report, *Next Steps in Military Reform*, op. cit.

create other jobs, while working to reform Indonesia's laws and the attitudes of its officials so that local communities have a meaningful role in managing natural resources.

The use of force to keep people out of conservation areas in cases where they have a customary right to use the land may well be counter-productive. At the same time, poverty should not be used by officials as an excuse to avoid action against the well-to-do organisers of illegal resource extraction.

Consumer countries need to take more active steps to prevent the import of illegally-extracted resources by giving their law enforcement agencies greater powers to detain cargoes of suspicious origin. The governments of neighbouring Asian countries such as Malaysia, Singapore and Thailand have a particularly important role, given the involvement of their citizens in trading illegal logs and minerals from Indonesia, though consumer countries in northeast Asia and the West also need to act.

As illegal resource trading is increasingly seen as a form of organised crime, the reputation of any government perceived to be turning a blind eye to it is likely to suffer. Importing countries and companies are increasingly keen to be reassured that the goods they bring in from Indonesia come from legal sources, and further bilateral cooperation between these countries and Indonesian officials should be encouraged.

CGI member countries could also look at debt-for-nature swaps of the kind currently being discussed between Indonesia and Germany, which would write off DM50 million in bilateral debt in return for more spending on conservation areas as a way of offering incentives to improve forest management.¹²⁴ If it becomes clear over time that Indonesian reformers are struggling, then CGI members may have to

be prepared to impose stronger forestry-related conditionality on loans.

Nobody familiar with the situation believes that there is a rapid or easy solution to the problem of illegal resource extraction because the dead weight of vested interests is so heavy. In the case of logging, there is much pessimism that a solution can be put in place before the bulk of the lowland forests in western Indonesia are destroyed. Nonetheless, the situation does not seem entirely hopeless: awareness is slowly growing within Indonesia's government and society that natural resources need to be managed fairly, sustainably and within the law, even if this awareness is not yet widespread. Progress is likely only in small increments, but these should be welcomed if they help to turn the tide.

Jakarta/Brussels, 20 December 2001

¹²⁴ See *Jakarta Post*, 13 November 2001.

APPENDIX A

MAP OF INDONESIA



APPENDIX B

LIST OF ACRONYMS AND ABBREVIATIONS

APP:	Asia Pulp and Paper.
DPR:	National Parliament. (Dewan Perwakilan Rakyat)
CGI:	Consultative Group for Indonesia.
IBRA:	Indonesian Bank Reconstruction agency.
MPR:	People's Consultative Assembly. (<i>Majelis Permusyawaratan Rakyat</i>)
TNI:	Indonesian National Military (<i>Tentara Nasional Indonesia</i>)

APPENDIX C

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is a private, multinational organisation committed to strengthening the capacity of the international community to anticipate, understand and act to prevent and contain conflict.

ICG's approach is grounded in field research. Teams of political analysts, based on the ground in countries at risk of conflict, gather information from a wide range of sources, assess local conditions and produce regular analytical reports containing practical recommendations targeted at key international decision-takers.

ICG's reports are distributed widely to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, www.crisisweb.org. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analysis and to generate support for its policy prescriptions. The ICG Board - which includes prominent figures from the fields of politics, diplomacy, business and the media - is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; former Australian Foreign Minister Gareth Evans has been President and Chief Executive since January 2000.

ICG's international headquarters are at Brussels, with advocacy offices in Washington DC, New York and Paris. The organisation currently operates field projects in nineteen crisis-affected countries and regions across four continents:

Algeria, Burundi, Rwanda, the Democratic Republic of Congo, Sierra Leone, Sudan and Zimbabwe in Africa; Myanmar, Indonesia, Kyrgyzstan, Tajikistan, and Uzbekistan in Asia; Albania, Bosnia, Kosovo, Macedonia, Montenegro and Serbia in Europe; and Colombia in Latin America.

ICG also undertakes and publishes original research on general issues related to conflict prevention and management. After the attacks against the United States on 11 September 2001, ICG launched a major new project on global terrorism, designed both to bring together ICG's work in existing program areas and establish a new geographical focus on the Middle East (with a regional field office in Amman) and Pakistan/Afghanistan (with a field office in Islamabad). The new offices became operational in December 2001.

ICG raises funds from governments, charitable foundations, companies and individual donors. The following governments currently provide funding: Australia, Canada, Denmark, Finland, France, Germany, Ireland, Japan, Luxembourg, the Netherlands, Norway, the Republic of China (Taiwan), Sweden, Switzerland and the United Kingdom. Foundation and private sector donors include the Ansary Foundation, the Carnegie Corporation of New York, the Ford Foundation, the William and Flora Hewlett Foundation, the Charles Stewart Mott Foundation, the Open Society Institute, the Ploughshares Fund and the Sasakawa Peace Foundation.

December 2001

APPENDIX D

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