CHAPTER 6

THE SMALL CONCESSION BOOM AND THE CHANGING DYNAMICS OF THE ILLEGAL TIMBER SECTOR IN EAST KLINMANTAN IN TIMES OF POST-1998 DECENTRALIZATION AND AUTONOMY

The NV Star Orient affair was one of the last acts of conventional timber smuggling from Berau, because beginning in late 1998, the illegal timber sector both in districts in the province of East Kalimantan as a whole, moved into a system of more officially recognized operations through a system of community logging concessions.

With the onset of decentralization in Indonesia following the fall of Suharto in 1998, government regulations at various levels created conditions conducive to tremendous growth of small logging concessions, very similar to the banjir kap of the late 1960s and early 1970s. The late 1990s shared many characteristics with the time of the proliferation of kapersil: little legal supervision and numerous irregularities.

This chapter discusses this recent boom in small forest concession in East Kalimantan which were marked by a significant intensification and mechanization of kuda-kuda logging operations. However, an intensification of illegalities went parallel with such processes of transition. I analyze these aspects of small concession
logging in detail, pointing to the fact that just as in the period of *banjir kap* in the 1960s, 1970s and earlier, such logging activities constitute an important source of economically and politically unofficial income for government institutions at different administrative levels.

This chapter opens with the description of post-1998 political developments in Indonesia which were responsible for the boom in small timber concessions in East Kalimantan. Then, it discusses the managerial structure of such concessions, questioning to what extent they constitute domestic enterprises operated by *masyarakat* (common people), as intended. In the sections that follow, the chapter scrutinizes the practices involved in setting up IPPK community concessions, analyzes production reporting and financial obligations associated with small concession ventures and explores their timber export activities. Finally, it explains why illegalities present in nearly all aspects of small concession operations are tolerated.

### 6.1 Political transition in Indonesia and the small concession boom

In May 1998, the student-led “popular uprising” against the government of president Suharto, whose greed and nepotism was seen as the primary reason for Indonesia’s economic collapse, reached its peak. Under unrelenting domestic and international pressure, Suharto soon stepped down, opening the door to political change that was hoped would lead to greater democratization in the
country (Reformasi). Since the fall of Suharto in May 1998, political and regulatory changes arising from Reformasi helped create conditions that led to boom in the small concession logging sector in East Kalimantan and other Indonesian provinces with substantial forest cover (McCarthy 2000, 2002; Casson 2001; Khan 2001; Casson and Obidzinski 2001; Obidzinski et al. 2001; Visser 2001a, b).

Soon after president Suharto stepped down, president Habibie’s interim government had to show that it was willing to reform the forestry sector, which, until then, had been dominated by enterprises with direct links either to Suharto himself or to his family (Barr 1998, 1999; Bisnis Indonesia 1999a; Brown 1999, 2001; Jakarta Post 1999a). In an attempt to facilitate a less exclusivist management of forest resources, the Ministry of Forestry and Plantations issued instructions allowing communities in or near forest areas to be involved in extractive forest activities (including timber) through cooperatives, work groups, and associations. These instructions were intended to mollify critics, especially those in environmental non-government organizations (NGOs), who had long argued that rural communities be given a greater degree of participation in forest management to derive greater benefits from it – a privilege reserved until then for HPH elites in Jakarta (Kompas 1998; Republika 1998; Bisnis Indonesia 1999c). At the same time, these regulations also sought to limit the


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destruction of forests caused by rural impoverishment (see *Jakarta Post* 1999b).

Thus, Habibie’s government passed new legislation on regional governance and on fiscal balance between the central government and the regional governments.\(^{153}\) Both these laws gave greater financial and decision-making powers to local government, particularly at the district and lower level. Shortly after these new laws were released, the central government initiated the decentralization process in natural resource management also passing legislation that devolved elements of authority to manage forests from Jakarta to the provincial and district authorities.\(^{154}\) This legislation gave governors and regents the authority to issue small forest concessions permits. Governors were allowed to grant concessions of up to 10,000 ha, while *Bupatis* could issue concessions up to 100 ha. The concessions granted by *Bupatis* came to be known as either HPHH (*Hak Pemungutan Hasil Hutan*, or license to collect forest resources) or IPPK (*Izin Pemungutan dan Pemanfaatan Kayu*, or license to extract and use timber).

Within weeks after putting these policies into effect regent offices in East Kalimantan were flooded with applications for small logging concessions, mostly of the IPPK type (*Kaltim Post* 2000n, o). By June 2000, there were already hundreds of them. The dramatic growth of IPPK concessions continued after the

\(^{153}\) Law No. 22/1999 and Law No. 25/1999

implementation of the regional autonomy policy in Indonesia in January 2001, as districts began drafting their own regulations (Perda) on community land/forest rights (hutan adat) and the exploitation and use of timber. This has taken place even though that the central government in Jakarta, fearing that the situation was becoming unmanageable, tried to prevent the issuing of new IPPK licenses and threatened to take legal action against Bupatis who did not comply. Regardless of Jakarta’s directives, small concessions in East Kalimantan continued to multiply in 2001 with a total concession permits in the district of West Kutai already in excess of 800; in Bulungan there were more than 600 permits; in Kutai Kartanegara over 200; in Berau about 150 and 100 in Malinau (Casson and Obidzinski 2001). Cumulatively, these concessions already covered hundreds of thousands of hectares of forest in the province.

There are several reasons for such a rush on small logging concessions in East Kalimantan. As illustrated by the table below, IPPK concessions offered a better business environment and higher profit margins than HPH and HPHH concessions. They required as small initial investment, faced a much shorter bureaucratic network and few legal and tax obligations. Most importantly, IPPK concessions could be obtained legally.
Table 11. Comparative profitability of HPH, HPHH, IPPK concessions and illegal logging (in US $ per cubic meter)

<table>
<thead>
<tr>
<th></th>
<th>HPH</th>
<th>HPHH</th>
<th>IPPK</th>
<th>Illegal Logging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timber (log) prices per cubic meter</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>55</td>
</tr>
<tr>
<td>Tax obligations:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Felling/extraction/transport permits (SKSHH)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Reforestation (DR)</td>
<td>18</td>
<td>18</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Central government tax (IHH/PSDH)</td>
<td>7</td>
<td>7</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>District income tax</td>
<td>No</td>
<td>Yes (3)</td>
<td>Yes (3)</td>
<td>No</td>
</tr>
<tr>
<td>(Retribusi)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>District export tax</td>
<td>No</td>
<td>No</td>
<td>Yes (15)</td>
<td>No</td>
</tr>
<tr>
<td>Informal payments</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>Extraction</td>
<td>20</td>
<td>16</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>Total Cost</td>
<td>65</td>
<td>64</td>
<td>54</td>
<td>23</td>
</tr>
<tr>
<td>Net revenue</td>
<td>35</td>
<td>36</td>
<td>46</td>
<td>32</td>
</tr>
<tr>
<td>Investment</td>
<td>Large</td>
<td>Moderate</td>
<td>Small</td>
<td>Very Small</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td>Extensive</td>
<td>Limited</td>
<td>Limited</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>(district level only)</td>
<td>(district level only)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: District and province forestry offices, HPH concessionaries, IPPK operators and timber brokers in the area.

Note: District export tax is based on export regulations in Bulungan that became effective in April 2001.
The cost-benefit equation was an important consideration, given the fact that the export of logs from Indonesia, although officially allowed again in 1998\textsuperscript{155}, was subject to significant regulatory limitations, the most significant of which were: 1) a quota system (each company had to apply for an export quota to the forestry department) and 2) an export tax to the amount of 30 percent of the estimated international timber prices (\textit{Bisnis Indonesia} 2000b). Given such constrains, only IPPKs offered a means to meet such obligations and still make a substantial profit. However, as a result of the need to generate revenue from exports to alleviate a ballooning budget deficit, most of these regulatory measures were eliminated, resulting in a much-liberalized log export environment being entrusted to the supervision of local government authorities (\textit{Bisnis Indonesia} 2000b).

Second, once village communities gained a degree of control over surrounding (adat, or customary) forests as a result of the 1999 Forestry Act, most of them were eager to liquidate some of these assets for ready cash income. And the easiest and quickest way of doing so was through the IPPK scheme. As venture partners with IPPK companies, village benefits were mainly in the form of monthly fees per cubic meter of extracted timber. While in absolute terms, such income was very small, capturing only a fraction of the market value of timber, it was nevertheless much more than communities had been able to obtain through any other means

\textsuperscript{155} Previous log export ban was imposed in 1983 and remained in effect until 1998.
before (e.g. PMDH, IDT, or PKMT programs\textsuperscript{156}). The ability to generate quick monetary return with little or no investment rendered IPPKs attractive to village communities, despite emerging problems with the distribution of new “timber wealth” and the associated potential for conflict. In time, the small concessions scheme has highlighted the monetary value of timber to such an extent that village communities throughout East Kalimantan have put increasingly more emphasis on delineating village borders and mapping customary (adat) forest areas to stake their claims. This resulted in growing pressure on conventional free-lance logging (kuda-kuda), adding further momentum for transition to small-scale concessions.

The aforementioned growth of IPPK logging was obvious not only from the number of licenses issued, but also from its increasing share in overall timber production, particularly in the northern part of East Kalimantan. Although the area of IPPK concessions was and continues to be cumulatively far smaller than that of the HPHs, nevertheless over the last few years, in many districts, they have been at the forefront of generating valuable timber output, as illustrated by the table below.

\textsuperscript{156} TPMDH means Pembinaan Masyarakat Desa Hutan (development of villages in forest areas), and it is a rural development program required from all HPH concession holders. IDT stands for Impres Desa Tertinggal and signifies occasional cash dispensation by Jakarta to isolated villages. PKMT or Pembinaan Kesejahteraan Masyarakat Terasing (improvement of the welfare of isolated communities) has been a rural extension program implemented by the Department of Social Affairs.
Table 12. Timber production (in m$^3$) by HPH and IPPK concessions in 2000 and 2001.

<table>
<thead>
<tr>
<th>Forestry District</th>
<th>2000</th>
<th>2001</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HPH</td>
<td>IPPK</td>
<td>HPH</td>
<td>IPPK</td>
</tr>
<tr>
<td>South Bulungan</td>
<td>180,000</td>
<td>360,000</td>
<td>80,000</td>
<td>275,000 (until July)</td>
</tr>
<tr>
<td>Central Bulungan</td>
<td>95,800</td>
<td>101,200</td>
<td>65,000</td>
<td>214,000 (until July)</td>
</tr>
<tr>
<td>Northern Bulungan</td>
<td>59,000</td>
<td>7,300;</td>
<td>12,000</td>
<td>31,200;</td>
</tr>
<tr>
<td></td>
<td>IPK-353,000</td>
<td>IPK-297,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Berau</td>
<td>500,000</td>
<td>100,000</td>
<td>350,000</td>
<td>350,000</td>
</tr>
</tbody>
</table>

Sources: District forestry offices.

Notes:

1. Forestry districts in East Kalimantan are not the same as administrative ones. Thus, forestry districts of northern, central and southern Bulungan constitute administrative districts of Bulungan, Malinau and Nunukan.

2. IPK stands for Izin Pemanfaatan Kayu (License for the Utilization of Timber) that is issued by the Ministry of Forestry in Jakarta for large-scale conversion of natural forest.

As regional autonomy took effect at the beginning of 2001, IPPK concessions not only emerged as a vibrant venue for the production of timber, but also as a dominant source of exports of this commodity. This resulted from the fact that while HPH concessionaries had to continue the lengthy procedures of obtaining export clearance from Jakarta, IPPK companies were able to accomplish the same at the district level only. In April 2001, for
instance, Bulungan passed a district regulation (*perda*) allowing for direct export of IPPK logs extracted from community or privately owned forests (*Hutan Adat* or *Hutan Milik*). This decision reduced red tape substantially and resulted in a surge of IPPK log exports, attracting the attention and interest of neighboring districts (*Kaltim Post* 2001f).

The table below illustrates the development of timber exports via the ports of Tarakan and Nunukan in 2000 and 2001:\(^{157}\)


<table>
<thead>
<tr>
<th>Ports</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tarakan</td>
<td>44,000 (all IPPK)</td>
<td>130,000 (108,000 IPPK)</td>
</tr>
<tr>
<td>Nunukan</td>
<td>12,000 (all IPK)</td>
<td>30,500 (all IPK)</td>
</tr>
<tr>
<td>Total</td>
<td>56,000</td>
<td>160,500</td>
</tr>
</tbody>
</table>

Sources: Industry & Trade, Forestry and Customs offices in Tarakan and Nunukan. Notes: In 2001, HPHs exported 22,000 m\(^3\) through the port of Tarakan.

As can be seen, in 2000 IPPKs accounted for all officially recorded log exports, while in 2001 they exported an equally impressive 83 percent of much larger total of 130,000 m\(^3\).

Despite such clear signs of a boom, one could still view IPPK concessions as only a small subelement of the overall forestry

\(^{157}\) In addition to these, there is one other major timber exporting port in East Kalimantan, i.e., Samarinda.

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sector in East Kalimantan, officially estimated to have produced 4.5 million m$^3$ of timber in 2001 and approximately 7 million m$^3$ both in 2000 and 1999 (Obidzinski and Palmer 2002; Palmer and Obidzinski 2002). That is indeed the case if only officially reported figures and statistics are considered. However, a more in-depth look indicates that the official figures are only a tip of an iceberg of widespread informal activities.

6.2 Are IPPKs domestic enterprises?

The small concessions policy has been put into effect largely in order to benefit village people and small and medium size forestry enterprises – parties that have been marginalized by the New Order forestry policies. However, it was clear from the outset that neither had the necessary experience and financial means to undertake logging and trading activities of this kind. Therefore, a clear pattern quickly emerged whereby the communities’ role was limited to providing forest areas (*lahan*) for logging, whereas local (district) timber entrepreneurs took on the role of license holders and “contractors” for those who actually operated and financed the system largely from abroad, for instance, Malaysia (*Suara Kaltim* 2001e, h). Not all Indonesian logging operators could seize on such business opportunities with equal success. Larger entrepreneurs who either had previously-established relations with timber buyers and financiers in Malaysia were in better position to capitalize on arising IPPK opportunities. Scores of smaller traders and newcomers could not have established such relations on their own.
Therefore, they filled the hierarchically lower rung of subcontractors and “deal fixers”.

The reasons for such limited access to contacts with Malaysian financiers and timber buyers is the substantial costs and risks associated with setting up IPPK operations. It takes at least between US $300,000 and 400,000 in start-up capital to initiate a small concession venture. Considerable expenses of this kind requires that all parties involved be thoroughly familiar with each other, and therefore if legal or other problems arise in Indonesia, the participating parties are able to solve them. As shown in Figure 6, this places well-established and influential operators called “strongmen” in East Kalimantan in the crucial position of facilitators.\(^{158}\) As indicated in Chapters 3 and 5, such “strongmen” are Tarakan-based timber businessmen such as Dedy, Tomi and Jerry and their network of partners (e.g. Haji Joni, Edy in Berau) throughout the region. Regardless of the size of the intended enterprise, building a relationship based on trust with “strong men” is the key to success. This is because such trust is critical for gaining access to financial resources and for obtaining the necessary support in dealing with local security forces. Whether it is a sawmill (e.g. Samson’s case in Chapter 5) or a log shipment (Edy’s operation in Berau), it is in winning the confidence of the business patron that careers are made and lost.

\(^{158}\) Interviews with timber buyers in Sandakan, Malaysia, September 2001.
The prolonged devaluation of Indonesian currency after 1998 significantly depressed domestic log prices in Indonesia, resulting in considerable price differential, particularly within the Asia-Pacific region. The price differential between Indonesia and its closest neighbor is illustrated below:


<table>
<thead>
<tr>
<th>Country</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>60-70</td>
<td>60</td>
<td>30-35</td>
<td>45-50</td>
</tr>
<tr>
<td>Malaysia</td>
<td>115-125</td>
<td>110-115</td>
<td>80-95</td>
<td>100-105</td>
</tr>
</tbody>
</table>

Sources: Province and district forestry offices in East Kalimantan; MTIB and Sabah state forestry offices; timber traders.
Note: figures are for the period until April-May only.

Such price differences made IPPKs a unique and extremely lucrative business opportunity. Not surprisingly, interest among Malaysian, Chinese and Japanese timber importers was high, tempered only by the political instability of the transition period in Indonesia and the accompanying risks.

Although high, however, such risks are not unmanageable. Chinese, Japanese, Korean and Malaysian buyers seeking IPPK timber opportunities in East Kalimantan and other parts of Indonesia initiate the process by selecting Malaysian brokers based in Tawau with experience and contacts in the timber trade in East Kalimantan (see Figure 6). The contacts in East Kalimantan are the "strongmen" who, through a network of smaller partner companies in East Kalimantan, arrange IPPK licenses and await opportunities to obtain major financing to get them off the ground. In affect, this system of participating stakeholders and their interactions is identical to the one involved in large-scale timber smuggling to Malaysia before the availability of IPPK concessions (see Chapter 4, especially the NV Star Orient smuggling case).

Once connections are established and terms are agreed upon, the investors make a deposit in offshore banks (usually in Hong Kong or Singapore) with Tawau-based partner(s) in the form of a letter of credit (LC) for the amount necessary to get the logging operation started. With such credit in hand, Tawau partners are then able to dispense funds to Indonesian counterparts in a similar manner and
subsequently deploy the infrastructure (i.e. logging machinery) to selected locations in order to get the venture underway (*Kaltim Post* 2000c, k).

### 6.3 Setting up an IPPK

The process of obtaining an IPPK concession licence begins with local timber contractors (or *kontraktors*) searching for village forest areas with potential for logging. This has been the most common way of initiating a search for IPPK concessions, although in recent times village communities have been increasingly active in seeking out venture partners on their own (*Republika* 1999).

In most cases, however, it is still contractors who initiate the process by surveying villages in order to assess the suitability of the forest for timber production. As already indicated, such entrepreneurs are local timber operators who previously had been involved in small-scale *kuda-kuda* logging. Since *Reformasi*, they have vigorously sought to expand their timber business operations, particularly through IPPK concessions. They have been doing so by working with local “strongmen” who helped facilitate financial, technical and logistical support from timber financiers in neighboring Malaysia (locally known as *investors*). Newcomers from all walks of life have also been pouring into the emergent IPPK sector, attracted by its profit potential. However, they also
found it necessary to rely on the mediation of already established IPPK parties to secure financial backing\textsuperscript{159}.

If the visited community forest areas have potential for commercial log production, contractors draw up IPPK joint venture agreements offering communities compensation in the form of timber fees, infrastructure projects and/or village plantations. In the Sekatak River area in Bulungan, for instance, where PT Wana Prima Mandiri firm (controlled by a Tarakan-based "strongman" Tomi) had numerous IPPK contracts totaling nearly 7,000 ha, Rp. 49 million (US $ 5000) was distributed in the village of Bengara as a down payment for a logging plot of about 2,800 ha. Of this amount, the head of the village (\textit{kepala desa}) received Rp. 15 million (US $ 1500), the village cooperative obtained Rp. 28 million (US $ 2800) and a village meeting called for the purpose of deciding on the concession was given an allocation of Rp. 6 million (US $ 600).

Once the community agrees to a contract, the next step is to establish a corporate body (\textit{badan hukum}) in the village that can serve as the basis for an IPPK application. Most often, this entails the formation of a village cooperative. It is also possible to arrange contracts with individuals or families. However, timber traders prefer village-level agreements because they are more effective in containing individual anti-	extit{investor} sentiments, should they arise. In addition, village contracts invariably cover areas of much larger size.

\textsuperscript{159} Interviews with timber traders in Malinau, Nunukan and Bulungan (business partners of the "strongmen" from Tarakan), August 2001.
The aforementioned *badan hukum* for the purpose of the IPPK contract usually takes the form of either village cooperatives (*Koperasi Unit Desa* or KUD) or village work groups (*Kelompok Tani*, or KT). In areas where the Dayak population is dominant and where the revival of traditional forest and land rights (*hak adat/hak ulayat*) has been vibrant, *adat* organizations (*yayasan adat*) can also provide the necessary basis for IPPK applications. This has been the case, for instance, in the district of Malinau as well as in upriver areas of Bulungan. Drawing up a KUD or KT is a relatively uncomplicated affair. The key elements are: 1) drafting a general statement explaining the goals of the planned cooperative and its intended activities and 2) compiling a list of participating members (*anggota*). These two documents, once signed by the head of the village and *camat* (head of the sub-district), are submitted for approval to the economic section of the Regent’s Office.

Most KUDs and KTs that have been formed in East Kalimantan over the last few years uniformly declared the establishment of

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160 It is important to mention that the current notion of *hutan adat*, or village forest owned exclusively by a particular community, is considered a recent interpretation of the situation that is significantly at odds with the past. Descendants of royal families in Bulungan and Berau, for instance, indicate that in the past it appointed aristocrats held control rights over particular river systems (see the concept of *pusaka* in Chapter 3). In such areas, local Dayaks could own trees that they first encountered (e.g. honey trees, *gaharu* trees). The same was the case with bird’s-nest caves. However, there was no such a thing as individually or communally “owned forest”. The situation with the present-day claims of *hutan adat* are further complicated by the fact that vast majority of Dayak communities migrated from the interior (Apo Kayan, Bahau, Pujungan, etc.) to their current downstream areas of residence in the 1960s and 1970s. As a result, the question of where their *hutan adat* should actually be is open to varying interpretations.
village plantations as their main objective\textsuperscript{161}(Obidzinski and Suramenggala 2000a). Village leaders present such plantations as the main step toward the improvement of the well-being of village communities. For this reason, they explain, some of the village forest land needs to be opened, and the best way to do this is through IPPK. Increasingly, however, village KUDs and KT s are relinquishing this benign representation of IPPK schemes. Instead, they have been increasingly stating their objectives simply as “timber exploitation for financial benefits of community members” (Kaltim Post 2000j).

As the community moves to establish *badan hukum*, the contractor finalizes preparations on the ground by preparing a map that shows the position, size, and approximate boundaries of the planned concession. However, the preparation of the concession proposal and maps is generally viewed as only a formality.

This is because in reality, once logging operations are underway, location coordinates and boundaries are both flexible and negotiable. Such malleability of terms is achieved with the participation of local forestry officials. The CDK forestry office plays a crucial role here district foresters issue “technical advice” (*advis teknis*) upon which IPPK licenses are either issued or denied by *Bupati*. CDK officials are quick to point out that they only provide technical advice and are not responsible for subsequent decisions on concession licenses. However, their advice does

\textsuperscript{161} The intended type of plantation is most often oil palm or rotan.
constitute the basis upon which such decisions are made (Kaltim Post 2000r).

It is also clear that such technical advice recommendations are given on demand and in exchange for substantial unofficial payments (Suara Kaltim 2001c). According to timber brokers and IPPK contractors in Bulungan and Malinau, CDK staff rarely, if at all, verifies any documents or data supplied to them as the basis for IPPK contracts. The contractors render this unnecessary with payoffs as high as to Rp. 150 million (US $ 15,000) per concession area\(^{162}\). Such payments are not delivered in full at the outset. The usual practice is to pay 50 percent at the time when the application is submitted to CDK and to deliver the remaining half once Bupati authorizes the permit. According to timber brokers in Malinau, the total cost of an IPPK license can reach about Rp. 300 million (US $ 30,000), indicating where the other Rp. 150 million (US $ 15,000) is injected\(^{163}\). These costs are variable, however. In Bulungan, for instance, one IPPK contract of 2,850 ha carried an unofficial price tag of nearly Rp. 400 million (US $ 40,000)\(^{164}\). A similar system of unofficial payments associated with IPPK licensing has been reported in other areas of East Kalimantan (Bisnis Indonesia 2001; Suara Kaltim 2001f, g).

\(^{162}\) By concession area I mean the total of IPPK plots being arranged. A single IPPK plot covers 100 ha. However, contractors usually arrange for a number of them that cumulatively cover from about 500 to 2,000 ha. The payment to the CDK is for this total area. It is not per 100 ha.

\(^{163}\) Interviews in Malinau, 12 August 2001.

\(^{164}\) Interviews in Tanjung Selor, 7 August 2001.
An important implication of the arbitrariness of the IPPK licensing process is that it seriously limits the ability of the local HPH sector to operate, contributing significantly to the observed divergence in production between small and large forest concessions (see table 12). This is because virtually all IPPKs in East Kalimantan are located either partly or entirely within HPH concessions\textsuperscript{165}. This is one of the consequences of issuing “blanket” HPH permits in the New Order period without consideration for human settlement and subsistence activities. After the New Order regime fell in 1998, village communities moved energetically to reclaim large HPH areas as their ancestral or adat lands (e.g. Kaltim Post 2000a; Suara Kaltim 2000a). Within the context of the widespread criticism of insensitive and monopolistic activities by HPH concessionaries, IPPKs thrived. However, for district government authorities, the growth of IPPKs within HPH concessions, while politically acceptable or perhaps even necessary, also meant an increased potential for conflict and diminishing revenues from HPH timber. As a result, officials were at loss to try to find some sort of compromise.

One of the mechanisms they tried to use to minimize conflicts between community IPPKs and HPHs was the landscape criteria, whereby community concessions would be limited to the zone called KBNK (Kawasan Budidaya Non-Kehutanan, or degraded/non-forest area) whereas HPH concessions would operate within KBK (Kawasan Budidaya Kehutanan, or forest area). The

\textsuperscript{165} For instance, in Bulungan all 600 IPPK permits are within HPH concessions.
idea was to have small-scale logging in forests of low commercial value and HPH operations in production forests. However, problems with forest classification in Indonesian often result in situations where large areas of production forest are classified as KBNK, degraded forest is included in KBK, and vice versa. In practice the issue has not been resolved and, to the chagrin of HPHs concessionaries, IPPK companies continue to obtain permits allowing them to operate within HPHs based on community adat claims (e.g. Suara Kaltim 2001a).

6.4 Running IPPK business: production, reporting and financial obligations

Despite the uncertain and often precarious conditions in which IPPK operations are conducted, IPPKs' share of overall timber production in East Kalimantan has been on a steady increase. However, this and other accomplishments of small concession holders have been largely due to widespread irregularities in their business practices.

This is evident in matters as fundamental as the reporting of production. The impressive growth of official IPPK timber production in 2000 and 2001 was achieved despite very erratic work schedules by the companies, according to official monthly production reports (Laporan Hasil Produksi or LHP) filed with CDK officers. For instance, in the southern Bulungan forestry district (the largest producer of IPPK timber in the northern part of East Kalimantan), most IPPK companies shown in 2000 and 2001
production records were seldom active. Their production reports appear only once every three or four months, if at all.

However, according to interviewed timber brokers and IPPK operators in the district, such reporting most definitely does not reflect the realities on the ground. In Malinau district, for instance, contractors were adamant that such figures did not make economic sense because sporadic production of this kind would mean constant losses and inevitable bankruptcy. According to them, this was decidedly not the case. Rather, many of these ventures, by virtue of being sub-branches of dominant IPPK companies (which is substantiated by their permits being issued in batches on the same dates), acted as “sleepers” for mother-firms. The timber they produced was passed on to the holding company for handling while the actual producers claimed a non-active status due to technical or other difficulties.

As with the preparation of concession maps and work plans, this takes place because there is no real control or verification of IPPK activities on the ground\(^\text{166}\). According to timber brokers in the area, contractors make financial arrangements with CDK staff as a result of which they report only a fraction of production and, consequently, pay only a small amount in transportation SKSHH

\(^{166}\) Interviews in Bulungan, Malinau and Nunukan, August 2001.

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fees\textsuperscript{167}. IPPK contractors estimate that at least half of their production escapes the official record.

In addition, very few pay SPK (\textit{Sumbangan Pihak Ketiga}, or third party contribution tax) district tax as required. SPK is a one-time tax paid by timber companies that is calculated either based on timber extracted or per hectare of the concession area. In the districts of Bulungan, Malinau and Nunukan, for instance, SPK is charged at the rate of Rp. 200,000 (US $ 20) per hectare, whereas in Berau SPK is based on timber production volumes. In 2000, it was assessed at Rp. 10,000 (US $ 1) per cubic meter and in 2001 it was increased to Rp. 30,000 (US $ 3). However, regardless of how it is charged, the common problem with SPK has been that the amounts officially collected are nowhere near what is officially due.

In Bulungan in 2000, for instance, SPK fees received by the district corresponded to only 750 ha of active IPPK concessions, even though at least 10,000 ha were in effect that year. This amounts to a collection rate of only 7.5 percent. In 2001, this rate rose to about 21 percent. The same is the case in Nunukan. In 2000, even though there were 3 IPPK concessions operating the area of 3,700 ha, the district essentially did not get any financial contribution from them at all\textsuperscript{168}. In 2001, the area of active small concessions increased to

\textsuperscript{167} SKSHH fees vary from Rp. 25,000 (US $ 2.5) per cubic meter of a less valuable species, to Rp. 125,000 (US $ 12.5) per cubic meter of the timber industry standard red Meranti.

\textsuperscript{168} Nunukan did not yet have SPK legislation in place at that time.
5,100 ha but from a total of Rp. 500 million in SPK fees expected to be collected that year, only about Rp. 36 million, or mere 3.5 percent, was deposited by August. The situation was only marginally better in this respect in Malinau. As a result of such practices, in the first half of 2001 around *half a million* cubic meters of logs escaped official taxation in the districts above (Obidzinski and Palmer 2002; Smith et al. 2002).

Table 15. Log production (in m³) based on tax revenues collected and IPPK log production data in 2000 and 2001

<table>
<thead>
<tr>
<th>District(s)</th>
<th>Log production estimated on the basis of:</th>
<th>2000</th>
<th>2001 (January to July)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulungan</td>
<td>District tax receipt data</td>
<td>625</td>
<td>1,990</td>
</tr>
<tr>
<td></td>
<td>District forestry data</td>
<td>360,000</td>
<td>275,000</td>
</tr>
<tr>
<td>Malinau</td>
<td>District tax receipt data</td>
<td>13,169</td>
<td>11,765</td>
</tr>
<tr>
<td></td>
<td>District forestry data</td>
<td>101,200</td>
<td>214,000</td>
</tr>
<tr>
<td>Nunukan</td>
<td>District tax receipt data</td>
<td></td>
<td>149</td>
</tr>
<tr>
<td></td>
<td>District forestry data</td>
<td>7,300</td>
<td>31,200</td>
</tr>
</tbody>
</table>

**Source:** Smith *et al.* (2002)  
**Note:** *No tax levied*

In short, IPPK concessionaries resort to various evasive techniques in order to circumvent the existing regulations. Concession maps and production plans are largely a work of fiction, as comprehensive fieldwork is rare and verification of the produced documents by the forestry officials is equally scarce. Once logging begins, IPPK companies routinely under-report production, under-
declare timber shipments and pay much less in taxes than they should.

Manipulative IPPK business strategies are not limited only to the interaction with government bureaucracies over production reports, shipping permits and taxes. Similar strategies are also evident in relationships with host village communities. This is exemplified by the fact that amongst IPPK-community joint ventures active in four northern districts of East Kalimantan, rare cases the infrastructure and financial inputs stipulated by contracts have been realized only in extremely (Kaltim Post 2000j).

Typically, IPPK operators “reduce” community development commitments to access roads and some cash for other village infrastructure works, which is mainly house construction. There are also individual cash advances (perorangan) that are intended for direct consumption. However, these sums are not delivered directly to the people but, instead, are distributed through village leadership. Accusations of collusion and embezzlement associated with this manner of distribution of finances are common and lead to intra and inter village tensions and conflicts.

IPPK village timber fees range from the maximum of Rp. 150,000 (US $ 15) in Kutai districts to the standard of Rp. 30,000 (US $ 3) per m³ in the rest of East Kalimantan (Suara Kaltim 2001i). However, paying IPPK village timber fees is just as problematic as meeting district tax obligations. This is because villagers have no effective means of knowing precisely the volume of timber
produced in their forest area as they are not directly involved in logging operations. Instead, most of the time, they rely on IPPK companies’ goodwill to pay what is due. This, however, is rarely the case. In 2001, a survey in the Sekatak River area in Bulungan revealed that villagers knew of less than half of the volume of timber shipped by IPPKs from the concession area (Smith et al. 2002).

It is clear that IPPK activities, despite being lawful, depend on business practices that result in irregularities in production reporting and meeting relevant tax obligations. Informalities of this kind are also extensive in export activities.

6.5 IPPK export operations

Until October 2001, timber companies in Indonesia were officially permitted to export logs. As indicated earlier, in the early days of Reformasi such export, though legal, was significantly hampered by the quota system on export volumes and by the export tax amounting to 30 percent of international prices (Bisnis Indonesia 2000b). However, these limitations were gradually dismantled. By 2000, the quota system was dropped and the export tax was reduced to 10 percent (Bisnis Indonesia 2000b). As a measure to further ease regulation timber export activities, in April 2001 in the spirit of on-going regional autonomy the district of Bulungan issued regulation no. 45 allowing for direct export of timber extracted from village and privately owned forests in the district. Despite criticism by HPH lobby in East Kalimantan and Jakarta,
Kabupaten Bulungan authorities persisted in their autonomous right to export logs directly and the neighboring districts took an increasing amount of interest in promulgating similar legislature.

The impact of this regulation was immediate. As already indicated, official export of logs through Tarakan and Nunukan increased significantly and by mid-2001 export had never been greater. IPPK companies thrived in this new environment, being by far the most dominant force (see Table 13).

However, Malaysian and Indonesian government officials involved in regulating the timber trade between Sabah and East Kalimantan acknowledge that log exports as officially recorded are only a small fraction of much larger volume that finds its way across the border to Sabah, Malaysia.¹⁶⁹

The significant timber price differential between Indonesia and Malaysia indicated earlier (see Table 14) is among the primary factors responsible for this. At least as significant, though, is the deepening discrepancy between the capacity of the timber processing industry in Sabah and the available domestic supply of logs. Since 1997, the capacity of Sabah’s timber industries decreased steadily as a result of sharply declining domestic supplies of logs that went from 7 million cubic meters in 1997 to 2.6 million m³ in 2001. However, the drop in supply of logs was much faster than contraction is processing capacity, causing a

¹⁶⁹ Interviews with customs and forestry officials in East Kalimantan and Sabah, 2001 and 2002.
widenin gg  ga p  betwee n  th e  availabl e  suppl y  o f  log s  i n  Saba h  an d
industria ll  deman d  tha t increase d  fro m 1  millio n  m$^3$ i n 199 7  t o  ove r
2 million in 2001 (Obidzinski and Palmer 2002; Smith et al. 2002).

This is a very large shortage, and since local forests are nearing
depletion, Sabah has little choice but to import logs from wherever
and by whatever means possible. Sabah’s official trade statistics
indicate that in 2000 and 2001, log imports from East Kalimantan
were in the order of 150-200,000 m$^3$only (Smith et al. 2002).
However, forestry officials openly admit that log supply deficit in
the state is entirely met with logs smuggled from East
Kalimantan$^{170}$.

As indicated in Chapter 5, the organization that plays a particularly
active role in channeling logs from East Kalimantan to Sabah is the
Barter Traders Association (BATS) headquartered in the border
town of Tawau. BATS is a cartel, a monopoly organization
grouping individual timber traders that specialize in illegal timber
imports from Indonesia. Its president, Frankie Seng, is the largest
timber importer in Tawau, reportedly bringing in between 10,000
and 15,000 m$^3$of timber from across the border each month.
Another major operator, Ling of the Khas Permata Sbd Bhd
company, not only brings in logs but also sawn timber from the
island of Nunukan in East Kalimantan$^{171}$. In all, there are about 40
integrated timber-processing complexes in Tawau and in order to

$^{170}$ Interviews at Sabah Forestry Department headquarters in Sandakan, October


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supply them with logs BATS representatives say they “import” about 300,000 m³ for this area alone. In doing so, BATS receives significant institutional support in their endeavors from the largest forest industries lobby in Sabah, the STIA (Sabah Timber Industries Association). This is because key members of the board of directors at BATS simultaneously hold seats at STIA, and are thus being finely in tune with the needs of the state timber establishment.

The timber that BATS imports into the Tawau area is transported mostly by sea. It enters the Tawau port through two points: 1) the eastern side of Sebatik Island and 2) Nunukan island. all logs from IPPKs pass Sebatik Island, whereas Nunukan specializes in squared logs, or bantalan. According to BATS, Sebatik records a monthly traffic of 120 native ships carrying timber and Nunukan about half that number. In addition, log rafts and log barges are hauled in.

As indicated, IPPK log shipments for export travel through these areas either entirely without or with “fixed” export documents that give strongly underreported volumes (Kompas 2002b). If such shipments run into Indonesian Navy or Customs patrols as they usually do, each agency is given unofficial payments ranging from a few to hundreds of millions of Rupiah, and the trade continues172 (Jakarta Post 2001b). Haji Joni of Berau, an accomplished timber trader who, after 1998 invested heavily in the IPPK sector, estimated that these bribes (which he calls “operational expenses”)

172 For similar encounters experienced by timber smugglers of pre-IPPK period, see Chapter 4.

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add up to 10 percent of the market value of logs. This is substantially less than the official tax obligations and therefore it makes economic sense for timber traders. On occasions when large or particularly valuable shipments are at stake, security forces (i.e. police) are “hired” to accompany the shipment to their destination in Malaysia (Kompas 2002b; Sinar Harapan 2002). Upon entering Malaysian territory, declared volumes of timber are issued importation certificates at the rate of 10 Malaysian Ringgit (US $ 2.5) per cubic meter and are thus legalized (Daily Express 2001a, c).

In addition to smuggling IPPK timber by sea into Sabah for domestic use, Malaysian importers also take in substantial amount of logs from East Kalimantan for transit export to China. Smuggled logs from Indonesia are shipped through Tawau to the designated transit port of Labuan on the west coast from where re-export to China takes place. Direct illegal export of IPPK logs from East Kalimantan to China is also undertaken with the use of large sea-going barges that have a capacity of more than 5000 m$^3$. Such vessels are said to be parked in international waters off the coast of East Kalimantan awaiting deliveries by smaller boats. In early 2002, China allegedly had about 700,000 m$^3$ of Indonesian logs stocked at the docks from Shanghai to Guangzhou. Indonesian

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173 Haji Joni often complained that even if one wanted to timber business honestly, there are still informal fees that need to be paid in order for the paperwork to move forward.

174 The costs of shipping logs directly to China are US $ 20 per cubic meter, whereas to Malaysia US $ 10. Informers seemed to indicate that log shipments to China via Sabah were marginally cheaper than direct shipments.

175 Interviews with timber traders in Sandakan, Sabah, October 2001.
trade records reflected the knowledge of only a small fraction of this total\textsuperscript{176}.

Besides shipping by sea, IPPK operators also send timber to Sabah by land routes. They do so via so-called “rat trails” (\textit{jalan tikus}), illegal roads in the district of Nunukan that provide access to the all-weather state road in Sabah running East-West virtually along the entire length of the border with East Kalimantan (Asnawie 1998; \textit{AFX-Asia} 2000; \textit{Jakarta Post} 2000; Kimman 2000). In some places, it is located less than 500 meters from the borderline.

As with sea-borne shipping, virtually all financing for \textit{jalan tikus} (and IPPK logging operations associated with them) comes from timber businessmen in Sabah or their partners from other countries. Logs transported by such roads are delivered mostly to Kalabakan, – an important timber-processing center west of Tawau. From there, logs are distributed further throughout Sabah, but some are also re-exported to China, Korea and Japan. As on sea, log shipments delivered through \textit{jalan tikus} most of the time encounter Indonesian border patrols. However, these too are dealt with systematic “passage fees”.

Because the export of IPPK logs has largely been accomplished through such extensive and systematic payoffs, it is doubtful whether the Indonesian government’s decision in October 2001 to re-introduce the log export ban would show immediate results, or

\textsuperscript{176} Interviews with BATS based timber traders exporting Indonesian logs to China, 2001.
any at all (Jakarta Post 2001a). The preliminary indications have been that, while causing some uncertainty and a slow-down in log traffic, this policy is far from accomplishing its goals of stopping illegal trade in IPPK-produced and other timber. Forestry officials timber traders in East Kalimantan have expressed similar views on many occasions.

Since informal payments govern the trade, the increased presence of Indonesian border officials caused by the imposition of the ban meant such payments would increase accordingly. And they indeed have increased. However, rising payoffs off levels still have not been enough to make a serious dent in profits and therefore discourage trade. The main market for logs from East Kalimantan, i.e. buyers in Sabah, confirmed this and indicated that log imports from Indonesia continue despite the ban (Musthofid and Wijaksana 2002; Obidzinski and Palmer 2002; Palmer and Obidzinski 2002). Traders based in Sandakan say that the ban in Indonesia has had a minimal effect so far, and cross-border timber trade and IPPK timber operations sponsored by businessmen from Sabah continue uninterrupted. BATS has been somewhat more reserved saying than the ban did cause some disruption. However, they hoped that the main factors responsible – i.e. Jakarta’s task force stationed across in the border in Nunukan – would get tired after some months and return to their bases, as has happened before.

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177 Economists often refer to such gradual slow-down as a “delay factor”. In their view, a delay of this sort does not necessarily indicate the measure’s failure. I am indebted for this observation to Richard Dudley.
178 Interviews in Samarinda and Berau. April, May 2002.
179 Interview in April 2002.
6.6 From *kuda-kuda* to IPPK concessions: why illegalities do continue?

The foregoing discussion has made it clear that irregularities such as evasion of official taxation through bribes take place virtually at every stage of IPPK operations. As in decades past when *banjir kap* and *kuda-kuda* logging and timber smuggling constituted a source of important informal incomes for personal as well as institutional needs in the districts, IPPK concessions seem to continue this pattern. On the annual basis, informal payments of this kind translate into very substantial economic benefits.

6.6.1 *Informal economic contributions from IPPK logging*

Based on the information from IPPK and district forestry sources (Table 16), informal economic benefits generated from IPPK concessions far exceed the tax revenue officially collected from IPPK operations.

**Table 16. Informal payments generated from IPPK timber.**

<table>
<thead>
<tr>
<th>Payments for approval of permits</th>
<th>Estimated payments (US $)</th>
<th>Tax receipts as percentage of informal payments**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>2001 (by August)</td>
</tr>
<tr>
<td>Bulungan*</td>
<td>142,000</td>
<td>311,000</td>
</tr>
<tr>
<td>Malinau</td>
<td>451,000</td>
<td>684,000</td>
</tr>
<tr>
<td>Nunukan</td>
<td>52,000</td>
<td>124,000</td>
</tr>
</tbody>
</table>

*Source: Smith et al. (2002).*

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Notes: * Bulungan stands here for the administrative district, not forestry district; ** Tax receipts are based on SPK levy.

These informal payments are limited to IPPK license processing only and it is clear that at this early stage they have already been contributing substantial amounts to the personal and administrative budgets of the institutions involved. This is also the case when timber is being shipped and exported. A breakdown of profits earned by different stakeholders at these stages of IPPK operations (Table 17) illustrates this point well.

**Table 17. Profit distribution from IPPK logging and shipping operations in 2000-2001.**

<table>
<thead>
<tr>
<th>Village</th>
<th>Indonesian kontraktor</th>
<th>Local government officials</th>
<th>Police, Army, Navy, Customs</th>
<th>Investor (Malaysia)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-3.5</td>
<td>12</td>
<td>2.2 informal payment</td>
<td>5-10 informal payment</td>
<td>23</td>
</tr>
</tbody>
</table>

**Source:** Smith *et al.* (2002).

Considering that actual log exports to Malaysia may be at a level of up to 2 million m³ per year, this would indeed translate into a tremendous amount of income from transport charges. As a result, in most districts IPPK activities have overtaken sawmills in terms of the significance of unofficial financial contributions. Complementary to this process of generating off-book finances in
districts might have been the desire by IPPK operators to reduce production costs as a result of depressed international timber prices in 2000, and particularly in 2001. Since informal payments constitute only a fraction of the official tax obligations and since the risks of getting caught are low, the obvious choice has been to reduce costs by evading official taxation and by handing out bribes instead (Smith et al. 2002).

In addition to generating economic benefits, IPPKs have developed political significance. I illustrate the political potential of small concession logging with the following account from the district of Berau.

6.6.2 IPPK logging as a political tool – the case of FMPL and AJRI/ASBBS in Berau

In Berau, the first organization to realize the economic and political potential of IPPKs operated in partnership (kemitraan) with village communities was an NGO called FPLM. The organization was established in late 1998 by charismatic but also enigmatic individual in the area, Rachman.

Rachman is a Bulungan Melayu who began his entrepreneurial career in the forestry in the district of Bulungan in the late 1980s. He did not have any specific technical skills or qualifications, but he did posses a valuable asset in the form of talent for polemic and public oration. The ability to influence and steer the masses, be they company workers or villagers, was seen as important enough
to get him a job in one of timber companies owned by Dedy, one of three “timber kings” in Tarakan who, at that time, worked as a supplier for HPH concessionaries in Bulungan.

In the aftermath of the 1998 political developments in Indonesia, Dedy anticipated emerging opportunities in the forestry sector based on community jointventures and positioned himself to capitalize on them by setting up a network of “community oriented organizations” (e.g. yayasan, forum). He wanted to bring these organizations together into alliances, and eventually work contracts, with villages possessing forest areas suitable for logging.

At that time, already a few years past his association with Dedy in Bulungan, Rachman was in Berau where he made a name for himself as a speaker for political change and social justice. He led protests of becak drivers and helped coordinate village demonstrations demanding compensatio HPH concessionaries and coalmining firms such as PT Berau Coal180. His strong position as a champion of the disenfranchised made him perfectly suited for Dedy’s new community based business initiative.

On Dedy’s suggestion and with his financial backing, Rachman established FPLM in Berau with the declared objective to striring for the socio-economically just development of rural communities through small-scale logging joint-ventures. Such mission seemed both respectable and popular.

180 Interviews with Mr. Rachman and other local political figures in Berau in 2000.
As plans for FPLM began to take shape in early 1999, Rachman and Dedy were approached by the functionaries (pengurus) of the PAN party (Partai Amanat Nasional) in Berau. They offered financial and organizational support (particularly with “speeding up” of the concession permits) in return for FPLM’s help with generating support for PAN (particularly in rural areas) for the national elections of 1999. Acting as an intermediary, the FPLM was to obtain IPPK concession licenses for villagers under the banner of PAN. In order to coordinate these efforts, Rachman frequented PAN party meetings in Surabaya and Jakarta. He met with the party’s senior leaders, including chairman Amien Rais, of which he was very proud of these meeting and displayed photos from at every available occasion.  

Other yayasans of similar orientation were slow to organize in Berau, giving PAN directorate in Berau hopes of making significant electoral gains in the district dominated by Golkar and the Indonesian Democratic Party of Struggle (PDI-P). The latter, while campaigning in rural areas, also promised support for village cooperatives interested in obtaining forest concession licenses, but most of these cooperatives (around 24 in total) were already contacted by the FPLM.

It seemed, therefore, that the small concession scheme operated by the FPLM would secure exclusive political benefits for PAN in

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Berau. However, this did not happen\(^{182}\). The reason for this was not the villages’ disinterest in politics or dislike for PAN. In fact, Amien Rais (PAN’s leader) was a very popular figure in Berau, second only to Megawati Sukarnoputri. The problem that affected PAN was the gradual marginalization of the political agenda by the FPLM in pursuit of economic interests.

Rachman’s drive to increase profits by pressuring village timber fees resulted in communities’ progressive disillusionment with FPLM, thus significantly undermining PAN’s campaign. In the case of FPLM, the political potential of IPPKs would thus remain unfulfilled. Subsequent to the elections of 1999, Rachman’s organization moved on to focus more on the economics of small concession business (Suara Kaltim 2000b; Kaltim Post 2000m). However, due to his close cooperation with the police in Berau (Polres), politics were never far away (Kaltim Post 2001a, b, c).

After the 1999 elections, local yayasan organizations facilitating village IPPKs began to multiply, attracting the attention of various local party functionaries. One such new organization was AJRI, a group that originated from KUD Sipatuo.

KUD Sipatuo was established Ruslan in the village of Sambaliung in early 2000 and subsequently it entered into an IPPK contract with the FPLM. The goal was to cut small diameter timber for

\(^{182}\)Golkar emerged as the overall winner in Berau with PDI-P as a very close second. PAN managed only fifth place.
deliveries to the PT Kiani Kertas pulp and paper mill in Mangkajang. As the FPLM began reducing the cooperative’s timber fees for a variety of reasons, Ruslan decided to part ways with the FPLM, and together with two associates working for the local bureau of East Kalimantan daily Kaltim Post, he established a yayasan with the somewhat idiosyncratic name of AJRI (Asosiasi Jurnalis Reformasi Indonesia, or Association of the Reformasi Journalists of Indonesia).

The AJRI adopted the same populist rhetoric as whom of community empowerment through village ventures, such as IPPK logging. However, what differentiated it from the FPLM was that it promised not to require any predetermined timber fees from communities, settling for sumbangan or voluntary contributions from villages. This proved economically untenable and in trying to find a solution Ruslan was helped by contacts at the PT Kiani Kertas pulp and paper mill. Since the mill was chronically short of raw material, the managers were willing to provide some start up capital and backing to get community based BBS logging ventures off the ground. Mr. Ruslan enthusiastically seized this opportunity and turned AJRI into ASBBS (Asosiasi Suplier BBS, or Association of BBS timber Suppliers).

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183 Such small diameter timber from natural forest is called BBS (Bahan Baku Serpih).
184 For more on PT Kiani Kertas and its original owner Mohammad Bob Hassan, see Barr (1998).
PT Kani Kertas also ensured that ASBBS would encounter no difficulties in obtaining IPPK permits by enlisting the help of the Berau charter of the Golkar party and its key member Bupati Masdjuni. In return for his support on the IPPK front, the company had apparently committed itself to put its weight behind Masdjuni’s re-election bid as Bupati in 2000 (Kaltim Post 2000l). Kiani also promised to be more forthcoming on paying tax obligations to district authorities rather than to Jakarta and as a throw-in they added a recreational villa for Bupati on the island of Derawan.

With Masdjuni’s successful re-election as Bupati and the Golkar fully in power in Berau, it seemed that ASBBS had ideal conditions to develop and grow. However, it was nagged by managerial and logistical (transport) problems. Financially, Kiani could not pay for ASBBS’s timber regularly, due to constant liquidity problems. There was also the factor of increasing tensions between Kiani and Berau government. Emboldened by re-election success and with regional autonomy regulations no. 22 and 25 due to take effect in January 2001, Bupati Masdjuni began pressing local forestry and mining companies to pay taxes directly to district authorities and relinquish a portion of corporate shares to district companies (Suara Kaltim 2001d; Kaltim Post 2000t). In doing so, he met with some resistance, particularly from Kiani (Obidzinski and Barr forthcoming).

Despite such deteriorating conditions, IPPKs had already been too deeply entrenched and adaptable. ASBBS reverted to AJRI and began a transition towards cutting hardwoods for export to
Malaysia. They did this in association with Dedy, who facilitated contacts and negotiations with Malaysian *investors*.

Once in late 2000 IPPKs became the subject of increasing criticism by the Ministry of Forestry in Jakarta as too uncontrollable, IPPK operators reacted quickly by changing the name of logging plots to IPKTM (*Izin Pemanfaatan Kayu Tanah Milik*, or license to use timber from privately-owned land)\(^{185}\). They did so in anticipation of an attempt by the Ministry of Forestry (MoF) to revoke district authority to issue IPPK concessions. Such an attempt indeed took place in September 2000 in the form of a ministerial directive (*Surat Edaran Dirjen Pengelolaan Hutan Produksi No. 288/VI-PHT/2000*). However, district authorities in Berau, East Kalimantan and other parts of Indonesia refused to comply (*Kaltim Post* 2000s). Besides viewing the minister’s act as going against the spirit of regional autonomy, they claimed that ministerial instructions were below district regulations in legal hierarchy and therefore were not binding. Another attempt by the MoF in early 2002 to clamp down on IPPKs was similarly ineffective.

Clearly, IPPK operations and the illegalities associated with them have been allowed to flourish because small concession logging has become one of the most important sources of unofficial income for individuals and local government institutions, suprasssing the previously dominant sawmill sector. In addition, IPPKs have

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\(^{185}\) The principle difference between IPPK and IPKTM is that the latter is based on letters from HPHs that release parts of those concessions for community use (*surat pelepasan*).
proved very useful politically for the purposes of influencing and generating support of the local voters.

6.7 Summary

This chapter has been devoted to the analysis of the post-1998 transition in Indonesian forestry and its implications for the illegal logging and trafficking of timber in East Kalimantan. As a result of the fall of New Order regime and subsequent introduction of several pro-masyarakat policies in forestry, the government allowed the establishment of village timber enterprises based on small IPPK concessions. This created an opportunity for small-scale kuda-kuda loggers with access to foreign (Malaysian) financing and trade networks to make a transition into legal IPPK business and to intensify their operations.

It appears, however, that following the entry into the IPPK sector, the operational activities of such timber operators have continued to be largely illegal. Such illegalities are clearly present in the form of uneven venture relations with host communities, manipulation in work plans, concession licenses and production reports. In addition, the evasion of government taxes is rampant, and the smuggling of timber for export continues.

Despite widespread irregularities, IPPKs have generally been supported by district authorities, frequently against the wishes of the government in Jakarta. There are two primary reasons for this. First, IPPK logging generates important off-book financial
resources for individual and institutional use in districts, far exceeding official budgets and payrolls. This is very important in the context of economic crisis in Indonesia and its lingering effects. Second, in the replay of the situation from 1955 and 1971, village-based logging concessions of this kind have been also useful for political reasons as well. If in 1998 they were an important part of the Reformasi rhetoric benefiting the authorities in Jakarta, subsequently such concessions also proved to be a very effective tool for the purposes of political mobilization and manipulation of rural masses in outer Indonesia.

As such, the economic importance and political utility of the IPPK sector continue the trend of kapersil, banjir kap and kuda-kuda logging from decades past. This is because they constitute key elements in governance in East Kalimantan that, despite post-1998 changes, still operates on the principles of dependency relations of patronage and clientelism.