Indonesia: The pulp and paper sector's unsustainable growth

A recent study, sponsored by CIFOR and WWF International’s Macroeconomics Program Office, provides an in-depth analysis of the features and consequences of the rapid expansion of the pulp and paper sector in Indonesia during the last decade.

Concerned Indonesian NGOs have for years been denouncing the severe process of deforestation and forest degradation affecting the country and the role played by the pulp and paper industry in this respect. The CIFOR/WWF-sponsored study reveals some interesting facts and figures, which show that such allegations were well founded. Since the late 1980s, the Indonesian pulp and paper industry has grown by nearly 700 %. Investments in pulp and paper processing capacity have far outpaced the development of pulpwood plantations and as a result, most of the raw material has come from the clear-cutting of forest --mostly illegally-- resulting in the deforestation of over 800,000 hectares per year. To understand the importance of the pulp and paper sector in the country's overall deforestation, it is important to point out that according to the World Bank, deforestation rates reach one million hectares annually, which would mean that this sector is the major actor in the destruction of Indonesia's forests. Even taking into account the NGO figures on deforestation --which they estimate in some 2.4 million hectares/year-- this sector would also be considered at the top of the list. The study states that the sector will suffer a growing fibre supply deficit over the next 5-7 years, which will have further implications for the country's forests.

The study reveals that many pulp and papers projects now in operation entail a substantial decree of financial risk, since several companies have made investments in infrastructure without first securing a legal and sustainable raw material supply. The seemingly irrational behaviour of the investors is explained by the fact that the owners have been able to avoid much of the financial risk involved by taking advantage of the government's subsidies, including the provision of pulpwood fibre at costs well below its value, the weak regulations reigning in the country for the financial sector and the failure on the part of international financial institutions to adequately assess the risks involved in pulp and paper industry investments. Poor corporate governance of large-scale pulp and paper companies --promoted by the Indonesian Bank Restructuring Agency (IBRA), which allowed companies in bankruptcy to continue operating under their pre-crisis management teams-- is also mentioned as a factor for the present crisis.

In sum, the research illustrates on how unsustainable the "Indonesian economic miracle" in the pulp and paper sector has been. After a decade of unbridled growth, based on the destruction of the country's forest heritage, the expansion of tree monocultures, the violation of indigenous peoples' land rights, and the spread of social conflicts between local peasants and industrial workers, the result is negative even adopting the limited approach of conventional economy.

The case of Indonesia shows clearly that the much publicized myth that plantations help to alleviate pressures on native forests and consequently help to preserve them is totally false. On the contrary, they constitute a major factor for their destruction, given that enormous areas of forests are actually being cut and set on fire to make way for pulpwood plantations.

Article based on information from: "Profits on Paper: Fiber, Finance, and Debt in Indonesia's Pulp and Paper Industry by Christopher Barr, CIFOR, November 2000.