

**Social conflict and environmental disaster:  
A report on Asia Pulp and Paper's  
operations in Sumatra, Indonesia**

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**CAPPA**



**WRM**



# Contents

<b>Introduction</b> .....	7
<b>Chapter One: INDONESIA'S FORESTRY</b> .....	9
1.1 The forestry industry's impact on the forests .....	9
1.2 Forestry militarism .....	11
1.3 Indonesia's pulp and paper boom .....	13
<b>Chapter Two: ASIA PULP &amp; PAPER</b> .....	17
2.1 The largest deforesting timber industry .....	17
2.2 PT Indah Kiat Pulp Paper (PT IKPP) .....	20
2.3 PT. Arara Abadi (PT AA) .....	22
2.4 PT. Lontar Papyrus Pulp and Paper Industry .....	23
<b>Chapter Three: ENVIRONMENTAL IMPACTS</b> .....	25
3.1 Deforestation, destructive logging and unsustainable supply .....	25
3.2 Forest fires .....	31
<b>Chapter Four: SOCIOECONOMIC IMPACTS OF APP'S OPERATIONS ON LOCAL COMMUNITIES</b> .....	33
4.1. Province of Riau .....	33
4.1.1 Mandiangin Village, Minas Sub-district, Siak District .....	36
4.1.2 The history of Pinang Sebatang Village and Tualang Village in Siak District, Riau Province .....	41
4.1.3 Local economy and a change for the worse .....	42
4.1.4 Changes in social, cultural and environmental aspects .....	45
4.2 Province of Jambi .....	47
4.2.1 History of the village Pematang Lumut .....	48
4.2.2 The local economy and the change for the worse .....	49
4.2.3 Changes to social, cultural and environmental aspects .....	49
<b>Chapter Five: LABOUR</b> .....	51
5.1 Riau .....	51
5.2 Jambi .....	53
<b>Chapter Six: CONTRIBUTION TO LOCAL ADMINISTRATION REVENUES</b> .....	55



## INTRODUCTION

Asia Pulp and Paper (APP) is one of the world's largest pulp and paper companies. The company is responsible for the large-scale destruction of Indonesia's forests. APP has also generated a number of conflicts with various community groups in Indonesia which have yet to be settled. In Riau Province, Sumatra, the company is responsible for the impoverishment and economic degradation of the Sakai community, one of the indigenous groups in the province.<sup>1</sup>

The deforestation by this voracious company has not only resulted in the loss of most of the forest cover in Riau province, where this study was carried out, but has also intensified annual floods. This has created large-scale deficits in the provincial budget, which had to cover the impacts of forest destruction rather than finance a development plan for the province.<sup>2</sup>

APP is part of the Singapore-based Sinar Mas Group. It is also Asia's largest pulp and paper producer. Following the Asian economic crisis in 1997-98, APP convinced foreign investors that an expansion in production was essential if they were going to get any of their money back. International financial institutions including leading banks, investment groups and export credit agencies seemed to race after one another to offer loans and guarantees to accelerate the company's expansion. Three years later, APP was almost bankrupt, with a debt of almost US\$14 billion, the largest of any company in Asia. The company's value on the New York stock exchange crashed.

This report discusses the social, economic and environmental impacts of APP's operations. Chapter one gives an overview of Indonesia's forestry industry development paradigm, which led to the industrial tree plantation policy (or Hutan Tanaman Industri [HTI]) to satisfy the pulp and paper industry's demand for raw materials. Chapter two gives an overview of APP and its operations in Sumatra. Chapter three discusses the environmental impacts of APP's operations in the provinces of Riau and Jambi in Sumatra. Chapter four describes the social and economic impacts of APP's operations, as well as the impacts on local communities. Chapter five discusses the rights of workers employed by APP. The report ends with a summary of the impacts caused by APP's operations.

More than any other Indonesian company, APP became the target for environmental campaigners because of its deforestation record and the conflicts between the company and local communities. APP was chosen as the object of this study because it is Indonesia's largest pulp and paper producer and has drawn more attention from the international financial community than any other Indonesian firm. APP's US\$13.9 billion debt has also affected other industries and financial institutions in Indonesia. Despite the company's debt it continues to expand, with new mills and plantations in China. As with the mills in Sumatra, APP failed to secure raw material supplies before starting up these mills. As a result, woodchips from Sumatra's forests have recently started supplying APP's factories in China.

<sup>1</sup> Prof. Tabrani Rab, *Dampak Lingkungan dan Pembersihan Etnis*, RCI 2003.

<sup>2</sup> WALHI Riau's Press Release – The 2003 flood caused 64% loss to the previous provincial budget, March 2004, page 4.



## Chapter One

### INDONESIA'S FORESTRY SECTOR<sup>3</sup>

#### 1.1 The forestry industry's impact on the forests

Indonesia has the world's third largest area of tropical forest, after Brazil and the Democratic Republic of Congo. Although only 1.3 per cent of the world's total forest area, Indonesia's forests are home to 10 per cent of the world's flora species, 12 per cent of the world's mammals, 17 per cent of the world's reptiles and amphibians, and 17 per cent of the world's birds. Indonesia is the second country in the world in terms of wildlife richness. Indonesia's forests are also home to endangered species such as orangutan, tigers, rhinos and Asian elephants.

Forests are the second largest contributor to the Indonesian national economy after oil.<sup>4</sup> The State used revenue from the forests to maintain its power during the 32 year New Order regime under the former President Suharto. Forestry operations – in the form of forest concessions (Hak Pengusahaan Hutan – HPHs), industrial tree plantations (Hutan Tanaman Industri – HTIs) and other plantations (such as oil palm and rubber) – were distributed among the ruler's families, friends and partners, among key military officers and political elites as a reward for their loyalty. Those who controlled the forests had considerable wealth and power.

For forest-dependent village communities, forests have a completely different meaning. Abusive and destructive forest management has stripped forests and has greatly affected the rural poor. For these people, forests embrace cultural values. Most rural communities living outside the densely-populated islands of Java, Bali and Madura practice a combination of subsistence and commercial agriculture with *gogo* rice (upland, unirrigated rice), other annual crops and tree crops. They also collect various forest products, such as rattan, honey, resins, herbs, fruits, fish and wildlife, for both commercial and domestic purposes. About seven million people in Sumatra and Kalimantan rely for their livelihoods on their rubber gardens, which cover a total area of about 2.5 million hectares. In Sumatra, local communities manage about four million hectares of forest using various agroforestry practices which combine natural forest management and fruit gardens, without external aid.<sup>5</sup>

<sup>3</sup> Much of the information in this chapter is based on "Without Remedy: Human Rights Abuse and Indonesia's Pulp and Paper Industry", Human Rights Watch, January 2003. Available at: <http://www.hrw.org/reports/2003/indon0103/index.htm>.

<sup>4</sup> In 2001, Indonesia's oil and gas exports generated US\$12 trillion. Forest product exports, including pulp and paper, plywood and sawn wood but excluding oil palm, accounted for US\$5.3 trillion. Bank of Indonesia, 2002. [http://www.bi.go.id/bank\\_indonesia2-utama/data\\_statistik/data.asp?head=7](http://www.bi.go.id/bank_indonesia2-utama/data_statistik/data.asp?head=7) – cited in HRW 2003.

<sup>5</sup> H. de Foresta, A. Kusworo G. Michon, and W.A. Djamiko, eds., *Agro-forest Khas Indonesia: Sebuah Sumbangan Masyarakat* (Bogor, Indonesia: International Center for Research on Agro-Forestry, 2000) – cited in HRW 2003.

Forest communities have a profound understanding of traditional forest management, which they inherited from their ancestors. This traditional forest management has been specifically acknowledged in the 1945 National Constitution.<sup>6</sup>

As most forest peoples have no written or official certificates of ownership, the state under President Suharto ignored indigenous rights and exercised control over Indonesia's vast, profitable forest lands. Suharto's "New Order" regime included a development agenda which was driven by logging the country's forests. The state claimed more than 90 per cent of the total forest land outside Java. This so-called "state forest" was designated without either due process or proper compensation for local communities. Mature forests which had been managed sustainably by indigenous communities for generations and which were rich in flora and fauna, were exploited for timber and converted into vast plantations of monocultures of exotic fast-growing trees.

The rapid expansion and development of wood processing industries exceeded the supply capacity of production forest areas and the plantations. As a result, the loggers expanded ever deeper into natural forests, logging in protected areas as well as state forest still claimed by indigenous communities. The World Bank, which has more recently produced critiques of illegal logging driven by the over-development of the pulp industry,<sup>7</sup> is itself partly responsible for the problem. In the 1980s, the World Bank was one of the agencies involved in promoting the expansion of the pulp and paper industry. In 1984, for example, the World Bank financed a study, carried out by Finnish forestry consulting firm Jaakko Pöyry, aimed at "strengthening the structure of the Indonesian pulp and paper industry".

WALHI's research indicates that at least 72 per cent of Indonesia's natural forests have been destroyed. In a press release in 2004, WALHI pointed out that the deforestation rate in Indonesia had reached 3.8 million hectares annually, the highest rate of forest loss in the world.<sup>8</sup>

To put this rate of forest destruction into perspective, the United States Agency for International Development (USAID) has calculated that an area of forest equivalent to six football pitches is destroyed in Indonesia every minute. Based on this calculation, every minute the Government of Indonesia loses US\$1,300 in unpaid tax and customs (three times the average annual income of an Indonesian family), while a few conglomerates and elite business people pocketed US\$24,000 from the theft of Indonesia's forests.<sup>9</sup>

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<sup>6</sup> Amended in August 2000, Article 18B(2) of the Constitution, states that: "The state shall recognize and respect the units of traditional society with their traditional rights as long as they still exist and are in accordance with community development and the principle of a Unitary State of the Republic of Indonesia, as regulated by the laws." "The Second Amendment to the 1945 Constitution of the Republic of Indonesia", The People's Consultative Assembly of the Republic of Indonesia, Jakarta, 18 August 2000. Available at:[http://www.gtzsfgg.or.id/csr/docs/constitution/amd2\\_uud\\_1945\\_en.pdf](http://www.gtzsfgg.or.id/csr/docs/constitution/amd2_uud_1945_en.pdf).

<sup>7</sup> Mulyadi AT, Ministry of Forestry dan Estate Crops-U.K. Tropical Forest Management Programme, "Pasokan dan Permintaan Kayu Bulat di Indonesia;" and World Bank, "Indonesia: Environment and Natural Resource Management in a Time of Crisis." Jakarta, 2001.

<sup>8</sup> Suara Pembaharuan Daily, 72% Indonesian forest destroyed, September 2004.

<sup>9</sup> Tim Brown, chief of Party, USAID funded Natural Resources Management Project, cited in Human Rights Watch (2003).

The impacts of this rapid deforestation have been widespread and various. Impacts on the environment include the loss of unique biodiversity, increasing occurrence of floods and drought, decreasing water quality and quantity, and increasing occurrence of forest fires that pollute the air and contribute to global climate change. Although more and more people have become aware of the environmental impacts, they know little about and rarely discuss the impacts of illegal logging on human rights. The over-capacity of the wood processing industry and the inability of industrial tree plantations to supply the demands of this industry have driven the destructive exploitation of Indonesia's forests, both legal and illegal. As in other sectors that are illicitly profitable, criminal networks play an important role as blackmailers and protectors of illegal operations, which unhesitatingly use violence to put down opposition to their operations. In Indonesia, the illegal sector and the use of violence are often linked to governmental officials.

Ironically, deforestation and the loss of local communities' livelihoods are driven by government policies which the government claimed were designed to bring prosperity to the nation. Suharto's development concept, like the one adopted by many emerging industrialised countries, was to accelerate the expansion of the economy through natural resource exploitation. However, the goal of expansion of the economy became less important and was eventually, replaced by Suharto's agenda to consolidate his power through political patronage, where he handed out permits for exploitation of natural resources. More than 62 million hectares of forest land were awarded as forestry concessions (HPHs), without a proper tendering process, to tycoons and state-owned forestry companies that had family ties to Suharto's family, or ties to the military.<sup>10</sup> Although Suharto fell in 1998, the nation still lives with his regime's legacy of bad forestry governance and law enforcement.

## **1.2 Forestry militarism**

Indonesia's military and police have long benefited from the state's policy (particularly during the Suharto years) of taking control over large areas of land, even when local communities have legitimate land claims. The military and the police played a key role in consolidating and maintaining state power under the New Order regime, and had their own economic interests within the national five-year plans. This, inevitably, resulted in conflicts of interest as national legislation, was supposed to regulate the forestry industry. The security forces have continued to play an important role since the fall of the Suharto regime. For example, the military and the police have a close relationship with certain forestry concessions (HPHs) or timber companies. Although the relationship is well hidden and is not seen in company documents, it is influential in the companies' operations.

From the beginning of the Suharto regime in 1965, the military has been involved in commercial forestry as concessionaires and business partners, owners of timber companies and financiers

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<sup>10</sup> David Brown, "Addicted to Rent: Corporate and Spatial Distribution of Forest Resources in Indonesia," Indonesia U.K. Tropical Forestry Management Programme: Jakarta, September 1999.

and protectors of illegal logging. In the late 1960s and early 1970s, the government rewarded a number of military generals with huge forestry concessions (HPHs) to consolidate their political support for the regime. Their involvement in business was also a clever manoeuvre to compensate for the military's limited budget. The involvement of senior officials, either institutionally or individually, was not only allowed, it was actively encouraged. Reliable sources, among others a former Minister of Defence, stated that this "extra" military income reached 65 to 75 per cent of the total official budget and 65 per cent of the official budget went to individual officers.<sup>11</sup>

Lacking capital or management skill, these military officers co-operated with investors, in particular by setting up "non-profit" or "charitable" foundations, limited companies, co-operatives or military-owned companies. By 1995, more than one million hectares was controlled directly by the army,<sup>12</sup> in addition to other companies with minority military ownership or operating illegally. An analysis by forest economist David Brown in 1999 calculated that, collectively, the military along with its various companies was Indonesia's seventh largest concessionaire, and eleventh largest sawn timber and plywood producer. The military invested very little capital in the business, but gained a large portion of the profit through their "foundations". The military contribution was not financial but political capital to gain access to forest land and to press the government officials to develop favourable state investment.<sup>13</sup>

At a local level, the military and the police were law enforcers who acted in favour of companies, both to quell local community protests and to smooth the process of land annexation. In Riau, Brimob (the police's elite armed mobile brigade) frequently used violence in dealing with community's protests. In October 1997, the police attacked demonstrators from Delik Village, who protested the annexation of their land by the second largest pulp and paper company in the province, Riau Andalan Pulp and Paper. The police shot one demonstrator, wounded two others and arrested one of the community organizers, who was also a reporter, named Marganti Malanoe.<sup>14</sup> Malanoe was sentenced to three years imprisonment for provoking the community and instigating attempted sabotage.

Another case of forestry-related violence in Riau took place in 1999 when the Mahato and Dalo-Dalo villages held a demonstration protesting the annexation of their land by an oil palm plantation named PT Tor Ganda in Rokanhulu District. The company annexed more than 10,000 hectares of forest land and local rubber gardens in 1996, allegedly without any permit. During the demonstration, the villagers were attacked by groups of policemen and hoodlums who burned

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<sup>11</sup> McCulloch's interviews with former Minister of Defence Juwono Sudarsono. Lesley McCulloch, "TriFungsi: Soldiers in Business," presented at the International Conference on Soldiers in Business, Jakarta, 17-19 October 2000, <http://www.bicc.de/budget/events/milbus/confpapers/mcculloch.pdf>, cited in Human Rights Watch (2003).

<sup>12</sup> Brown, "Addicted to Rent."

<sup>13</sup> Christopher Barr, "Bob Hasan, the Rise of Apkindo, and the Shifting Dynamics of Control in Indonesia's Timber Sector," *Indonesia* 65: 1-36, 1998, cited in Human Rights Watch (2003).

<sup>14</sup> Marganti Manaloe, *Penjaraku: Ironi Penegakan Hak Asasi* (Pekanbaru, Riau: Opsi, 2001).

down 100 houses in three villages and shot at the demonstrators, killing one person and wounding 30 others.

The military and the police have strong economic reasons to protect the forestry industry. Little has been done since the fall of Suharto to improve their accountability or their involvement, formally or informally, in the forestry sector. In a 2003 report, US-based NGO Human Rights Watch notes that the State's failure to disclose military-related business and their operational budget was one of the main obstacles in improving their accountability and reducing armed conflicts in regions that are rich in natural resources such as Aceh, Papua, Maluku, and Poso.<sup>15</sup> Police and military pay is still low and state budgets only cover one-third of the security forces' wages; the rest must be made up themselves by legal or illegal means.

Former Forestry Director General Suropto acknowledged that the State was deeply involved in illegal logging. He claims to have received death threats for his efforts to curb the complicity of military and governmental officials in illegal logging. Many believe that his effort to combat corruption in the forestry sector led to his dismissal. Previously, he submitted evidence of corrupt practices by major tycoons and 18 illegal logging syndicates to the Indonesian Supreme Court and the police. Among the tycoons were timber baron and Suharto crony Prajogo Pangestu and Suharto's daughter Siti Hardijanti "Tutut" Rukmana. Suropto said there were strong indications that they were involved in fraud, misuse of reforestation funds (by deliberately marking up the size of the reforested land to obtain more funding), tax evasion, and deliberate use of fire to clear land. To date, no official charges have been laid against them.<sup>16</sup>

### **1.3 Indonesia's pulp and paper boom**

The security forces' deep involvement in the forestry sector and the weakness of law enforcement provided an opening for timber businesses to exploit the vast, valuable forests outside Java. While the expansion of the forestry industry promoted by Suharto made Indonesia one of the world's largest tropical timber exporters, it was unsustainable, and contributed nothing to the economy long-term but adverse environmental and social impacts.

The Dutch colonial government started logging teak forests and establishing teak plantations in Java in the 17<sup>th</sup> century and in Sumatra in the 1920s. In the 1960s, the pace of large-scale commercial logging and establishment of industrial tree plantations accelerated. Since then, almost half of Indonesia's forests has been logged and deforestation rates have increased from year to

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<sup>15</sup> "Without Remedy: Human Rights Abuse and Indonesia's Pulp and Paper Industry", Human Rights Watch, January 2003. Available at: <http://www.hrw.org/reports/2003/indon0103/index.htm>.

<sup>16</sup> "Documents on Alleged Graft by Prajogo Submitted," Jakarta Post, April 19, 2001, cited in Human Rights Watch (2003).

year. By the late 1970s, Indonesia's annual timber production was larger than that of America and Africa combined.<sup>17</sup> As noted previously, the New Order's policy promoted political patronage and rapid land conversion, which generated enormous profits.

Through the course of its development, the forestry sector created a snowball effect, which greatly affected the environment and deprived local communities of their rights. Initially Indonesia exported raw logs. The forestry industry then moved on to plywood manufacture and later to pulp and paper production. The log-export boom started in the early 1970s. Logging concessions covered more than 30 per cent of the Indonesia's total forest land area. Most of the concessions belonged to Suharto's relatives, business partners and political and military allies. The government paid little attention to either the long-term economic feasibility of these commercial operations, or how the concessionaires managed the forests.

During the 1980s, the forestry industry aimed at getting even more profits, by focusing on the development of value-added timber products: first plywood and later pulp and paper. By the end of 1980s, Indonesia's forestry sector had become a world leader, accounting for 79 per cent of global tropical plywood supply. This apparent success in trade terms had massive economic, ecological and social impacts at local levels. The official ban on log exports coupled with a series of subsidies to the plywood industry led to the domination of the sector by a small number of Suharto's cronies. The log-export ban lowered the price of domestic timber, in effect ensuring a cheap wood supply to the plywood industry. With a supply of cheap wood, the plywood industry expanded dramatically. Massive over-capacity fueled yet more logging and loss of forests, land and livelihoods for local communities.

By the end of the 1990s, the massive destruction that the plywood industry had caused to Indonesia's forests and local communities was clear. Even the World Bank finally noticed that over-production was the driving force behind illegal logging in Indonesia.. In January 1998, the IMF demanded that a series of subsidies and market controls be removed by the end of the year.<sup>18</sup> In 1999, the US embassy in Jakarta did not even try to defend the New Order's forestry policies when it reported that:

“Inefficient but favored companies with deep pockets and political influence ran their operations with little or no regulatory oversight. Trees were harvested as quickly and cheaply as possible with few environmental safeguards. Illegal logging flourished with the complicity of local officials.”<sup>19</sup>

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<sup>17</sup> M. Gillis, “Indonesia: Public Policy, Resource Management and the Tropical forest,” in R. Repetto and M. Gillis, eds., *Public Policies and the Misuse of Forest Resources* (Cambridge, U.K.: Cambridge University Press, 1988), cited in Human Rights Watch (2003).

<sup>18</sup> IMF acknowledged the bad impacts of the subsidies and the market control, and required that they were terminated by 15 January 1998, Letter of Intent and Memorandum of Financial Policies, cited in Human Rights Watch (2003).

<sup>19</sup> U.S. Embassy Economics Section, “If a Tree Falls in the Forest, Who Has the Export Rights? Indonesia Forestry Regulations 1999”. <http://www.usembassyjakarta.org/econ/forestreg.html>, cited in Human Rights Watch (2003).

The pulp and paper industry took off in the late 1980s, supported by subsidies from the government. The most obvious subsidies were the forest concession areas allocated for plantation establishment, (which were granted by the government without consulting the customary owners), and interest-free loans from the Reforestation Fund (which the government had collected from logging companies but which had never been used for reforestation). Other subsidies included start up capital, petrol subsidies and tax holidays. International finance institutions, including the World Bank and the Asian Development Bank paid for studies aimed at expanding the pulp industry. The pulp and paper industry also benefited from cheap labour and the fact that Indonesia is close to major Asian pulp and paper markets. Indonesia's pulp and paper mills soon boasted the lowest production costs in the world.<sup>20</sup> From 1988 to 2001, pulp production increased ten times from 606,000 tons to 6.1 million tons annually. Paper production increased seven times from 1.2 million tons to 8.3 million tons annually during the same period. By 2001, pulp and paper accounted for 50 per cent of total forestry exports<sup>21</sup> and was the largest contributor to the state's revenue from forestry sector. Since 2001, the pulp and paper industry has expanded little, although three new mills are planned in Kalimantan.

Although the government promoted industrial tree plantations supposedly as a means of ensuring a sustainable pulp and paper industry, plantations have continued the destruction of Indonesia's forests. Not only have industrial tree plantations encroached on areas with high ecological values, they have invaded local community's land, destroying local community forests.

As pulp and paper production expanded, so too did the demand for raw material. Demand for wood rose from three million cubic metres in 1990 to 30 million cubic metres by 2002. However, this supply came mostly from natural forests, not from industrial tree plantations (HTIs). Between 1988 and 2000 only 10 per cent of the total 120 million cubic metres of wood used for pulp production came from plantations.<sup>22</sup>

The industrial tree plantation (HTI) initiative developed from an idea first presented in a seminar on Indonesia's Timber Estates in 1984.<sup>23</sup> At the seminar, recommendations were put forward for a programme which was intended to rehabilitate degraded and unproductive land. A number of research studies and experiments followed on degraded land in Benakat and Sumberjeriji in South Sumatra, Padang Lawasa in North Sumatra and Riam Kanan in South Kalimantan.<sup>24</sup>

In the course of its development, the HTI initiative changed from a means of rehabilitating land and forest to a means of supplying raw material for the timber industry. At the start, the HTI initiative was carried out by state-owned enterprises. In 1990, the government passed a new

<sup>20</sup> The production cost was estimated to be not more than US\$200 per ton, far below that in North America, which was the world's largest pulp producer.

<sup>21</sup> US\$3.5 billion in foreign exchange, according to Human Rights Watch (2003).

<sup>22</sup> Barr, *Banking on Sustainability* – cited in Human Rights Watch (2003).

<sup>23</sup> Muayyat Ali Muhshi, *Hambatan Dan Tantangan Pembangunan Hutan Tanaman Industri*, 1999.

<sup>24</sup> *ibid*, *Hambatan Dan Tantangan Pembangunan Hutan Tanaman Industri*, 1999.

regulation on HTI, which allowed private concessionaires to manage plantations.<sup>25</sup> The promotion of industrial plantations was driven by the government's policy of promoting pulp and paper. Pulpwood plantations accounted for more than 70 per cent of the 8 million hectares of industrial tree plantations (HTI).

In reality, the industrial tree plantations were often established not on severely degraded forest lands but on existing forest concessions (HPHs) where there were still some trees, including lowland natural forests and peat swamp forests. Timber Use Permits (IPK) issued by the government, allowed companies to clearcut and sell any timber remaining in logging concessions, before converting the land to industrial tree plantations.<sup>26</sup>

Industrial tree plantations have failed to meet the demand of the pulp and paper industry. By the end of 2003, the government had issued 23 plantation licenses covering an area of 4.3 million hectares. Of this, only 1.3 million hectares had been planted with industrial tree plantations.<sup>27</sup> In 2001, plantations supplied only 3.8 million cubic metres of wood, hile the demand from the six massive pulp and paper operations active in Indonesia was 30 million cubic metres.<sup>28</sup>

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<sup>25</sup> Governmental Regulation NO. 7 Year 1990.

<sup>26</sup> "Spotlight on Indonesia's Forests", *Down to Earth*, No. 44, February 2000. <http://dte.gn.apc.org/44for.htm>

<sup>27</sup> "Risk Analysis and Impact Assessment for Pulp and Plantation Investments: The case of Indonesia", Presentation by Chris Barr, CIFOR, at International Forum on Finance and Investment in China's Forestry Sector, Beijing, September 22-23, 2004. NB - Direktorat Jendral Bina Produksi Kehutanan, Direktorat Bina Pengembangan Hutan Tanaman, *Kebijakan Pembangunan Hutan Tanaman Di Hutan Produksi Di Indonesia*, 2004 states that 2.6 million hectares out of a total area of 8.2 million hectares has been planted.

<sup>28</sup> Forestry Department of Indonesia.

## Chapter Two

### ASIA PULP & PAPER

#### 2.1 The largest deforesting timber industry

Asia Pulp and Paper (APP) is part of Sinar Mas, a massive Singapore-based conglomerate, which is controlled by Eka Tjipta Widjaja and the Widjaja family. The Sinar Mas Group controls several overseas operating units in the USA, Australia, Singapore, China, Hong Kong and the Netherlands. Sinar Mas has major operations in oil palm plantations, property, finance (it owns Bank Internasional Indonesia – BII) and the pulp and paper sectors.<sup>29</sup>

Sinar Mas established APP in 1994, to consolidate all its pulp and paper business assets. APP was listed on the New York Stock Exchange the following year. APP's assets total US\$17.5 billion, 25 per cent of which came from shareholders, 38 per cent from bondholders and 20 per cent from bank loans. Among the banks supporting the company were Morgan Stanley Dean Witter, Barclays Bank, Credit Suisse First Boston, Goldman Sachs, Bank of America, Deutsche Bank, ABN Amro and Bank of China. Among the export credit agencies supporting the company were Hermes (Germany), Export Import Bank (USA), EKN (Sweden) and the Finnish Guarantee Board.<sup>30</sup>

APP's largest pulp mill is Indah Kiat Pulp and Paper, at Perawang in Riau Province, Sumatra. The first pulp mill on the site was built in 1984 as a joint venture between Berkat Indah Agung (Indonesia) and two Taiwanese firms, Chung Hwa Pulp and Yuen Foong Yu.<sup>31</sup> Chung Hwa shipped one of its used pulp lines to Perawang. The mill used elemental chlorine to bleach the pulp and dumped its wastes into the Siak River.<sup>32</sup> Since then, Indah Kiat's Perawang pulp operations have expanded to two million tons a year.<sup>33</sup>

<sup>29</sup> *Kompas Daily*, 15 July 2001, *Kasus Sinar Mas Bisa Rusak Ekonomi*. In common with many forest-based conglomerates which diversified into other sectors, such as banking, Sinar Mas was hit hard by the collapse of Indonesia's currency in 1997-98. The Indonesian Bank Restructuring Agency (IBRA) was tasked with recovering funds owed to the state by heavily indebted forestry industries and their associated banks.

<sup>30</sup> Matthew, Ed and Jan Willem van Gelder (2001), "Paper Tiger, Hidden Dragons", Friends of the Earth England, Wales and Northern Ireland.

<sup>31</sup> "Indah Kiat Pulp and Paper Corp", FBR Asian Company Profiles, 2005.

<sup>32</sup> Wheeler, David et al (1999) "Greening Industry: New Roles for Communities, Markets and Governments", The World Bank, Oxford University Press, New York.

<sup>33</sup> "Risk Analysis and Impact Assessment for Pulp and Plantation Investments: The case of Indonesia", Presentation by Chris Barr, CIFOR, at International Forum on Finance and Investment in China's Forestry Sector, Beijing, September 22-23, 2004.

APP's other pulp and paper mills include PT Pindo Deli, PT Lontar Papyrus (pulp capacity 650,000 tons a year<sup>34</sup>) and PT Tjiwi Kimia.

The Asian financial crisis initially helped APP make windfall profits. In 1997, about two-thirds of APP's costs were in Indonesian Rupiah (which depreciated by almost 80 per cent by the end of 1997) while almost two-thirds of sales were in US dollars or Japanese yen.<sup>35</sup> APP's pulp production costs fell to US\$100 a ton,<sup>36</sup> while pulp prices on the international market were about US\$550 (down from a record of almost US\$1000 in 1995).<sup>37</sup>

However, APP ran up enormous debts to finance its expansion. In March 2001, the company admitted that it could no longer service these debts, and it announced a moratorium on repayments on a staggering US\$13.9 million in debts. Shortly afterwards, APP announced that it had lost US\$220 million from two swap contracts in 1997 that did not appear in company financial statements. The company's auditor, Arthur Andersen (infamous as Enron's auditor), resigned.<sup>38</sup>

In 2001, the New York Stock Exchange suspended trading in APP shares and removed APP from the Stock Exchange.<sup>39</sup>

Pricewaterhouse Coopers, in its 2004 annual review of the paper industry, estimates that APP ran at a loss of US\$1.3 billion in 2003. The previous year, APP lost US\$1.45 billion. Pricewaterhouse Coopers has estimated the company's losses because APP has not issued audited financial statements since 1999.<sup>40</sup>

In April 2005, APP paid US\$145 million in interest to its creditors – the company's first interest payment on its US\$13.9 billion debt for four years.<sup>41</sup>

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<sup>34</sup> "Risk Analysis and Impact Assessment for Pulp and Plantation Investments: The case of Indonesia", Presentation by Chris Barr, CIFOR, at International Forum on Finance and Investment in China's Forestry Sector, Beijing, September 22-23, 2004.

<sup>35</sup> Fallon, Robert (2003) "Asian Corporate Finance and Business Strategy: Asia Pulp and Paper Company, Ltd.", Chazen Web Journal of International Business, Columbia Business School, Spring 2003. [http://www2.gsb.columbia.edu/journals/files/chazen/Asia\\_Pulp\\_and\\_Paper.pdf](http://www2.gsb.columbia.edu/journals/files/chazen/Asia_Pulp_and_Paper.pdf)

<sup>36</sup> Barr, Chris (2000) "Profits on Paper: The Political-Economy of Fiber, Finance, and Debt in Indonesia's Pulp and Paper Industries", CIFOR and WWF, November 2000.

<sup>37</sup> Roberts, Jonathan (2003) "Don't Hold Your Breath", Pulp and Paper International, January 2003. [http://www.paperloop.com/db\\_area/archive/ppi\\_mag/2003/0301/ppi4\\_key.html](http://www.paperloop.com/db_area/archive/ppi_mag/2003/0301/ppi4_key.html).

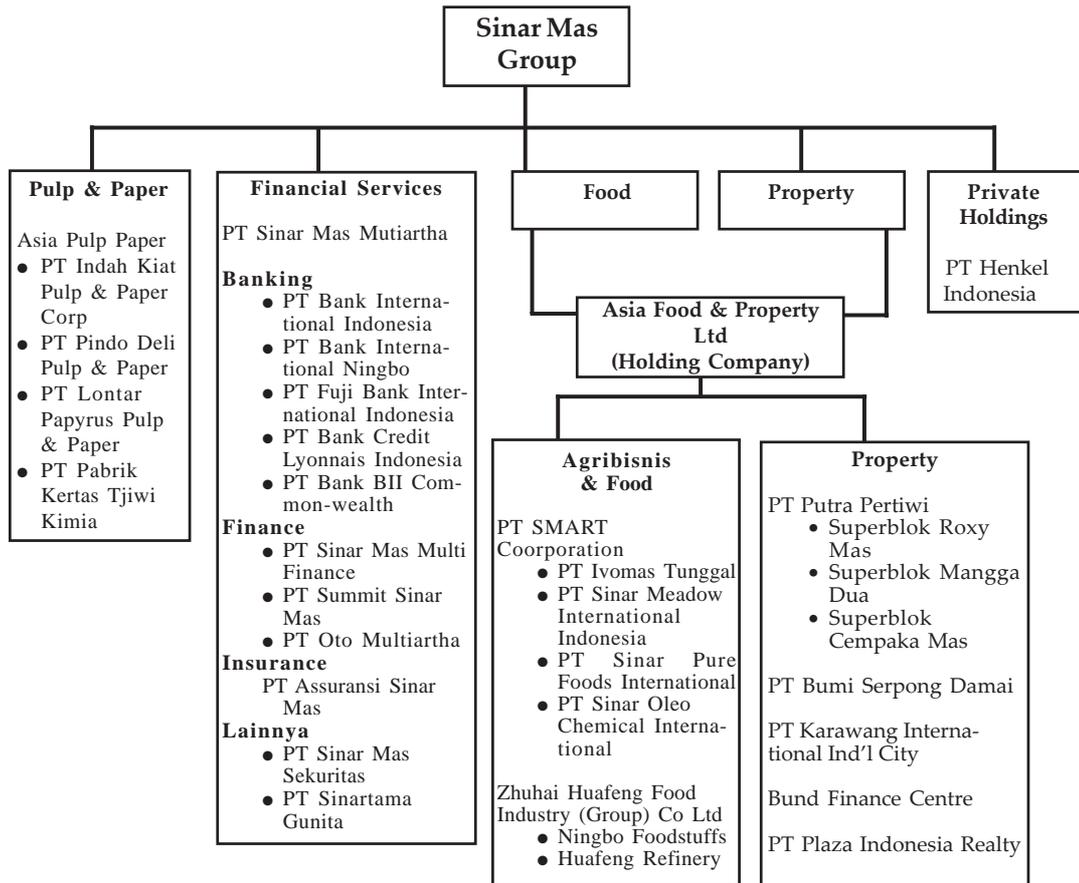
<sup>38</sup> Fallon, Robert (2003) "Asian Corporate Finance and Business Strategy: Asia Pulp and Paper Company, Ltd.", Chazen Web Journal of International Business, Columbia Business School, Spring 2003. [http://www2.gsb.columbia.edu/journals/files/chazen/Asia\\_Pulp\\_and\\_Paper.pdf](http://www2.gsb.columbia.edu/journals/files/chazen/Asia_Pulp_and_Paper.pdf)

<sup>39</sup> "NYSE Suspends Trading in Asia Pulp & Paper Company Ltd. and Moves to Remove from the List", New York Stock Exchange, press release, 3 July 2001. <http://www.nyse.com/Frameset.html?displayPage=/press/1043969862950.html>

<sup>40</sup> PWC (2004) "Global Forest and Paper Industry Survey – 2004 Edition – Survey of 2003 Results", PricewaterhouseCoopers.

<sup>41</sup> "New York court affirms part of judgment against APP businesses", Paperloop, 20 May 2005. [http://www.paperloop.com/db\\_area/archive/pponews/2005/wk05\\_16\\_2005/105\\_key.html](http://www.paperloop.com/db_area/archive/pponews/2005/wk05_16_2005/105_key.html)

## Sinar Mas Group and its business units<sup>42</sup>



APP's strategy is simple. While it refuses to pay off its debts, it continues to raise new money to expand its operations. In 2004, APP China opened a new one million tonne a year pulp mill in Hainan. Sinar Mas and APP are continuing to take over industrial tree plantations (ex-HTIs) and forest concessions (ex-HPHs) in Indonesia.<sup>43</sup> Today, the Sinar Mas Group controls a total area of timber and pulpwood plantations in Indonesia covering more than one million hectares.<sup>44</sup>

<sup>42</sup> Kompas Daily, 15 July 2001, *Kasus Sinar Mas Bisa Rusak Ekonomi*.

<sup>43</sup> Nur Hidayati, Rivani Noor, Rully Syumanda, *Misleading Aid, Involvement of Internasional Donor in Forestry Sector in Indonesia : Reflection of Asia Pulp & Paper (APP) Case*, January 2005.

<sup>44</sup> *Agroindonesia* (tabloid), Vol I, No 18, 5 October 2004, *Menembus Batas 1 Juta Ha*.

Despite its massive debts and yearly losses, APP survives. The company is the leader in Indonesia's pulp industry development. It is the largest producer in Indonesia with production accounting for more than half of the total national pulp production and a quarter of the total paper production. APP has a total pulp capacity of 2.3 million tons and paper and board capacity of 5.7 million tons.<sup>45</sup> APP is the largest pulp and paper producer in Asia excluding Japan and the world's tenth largest producer. Today, APP has 16 factories in Indonesia and China, and markets its products in more than 65 countries worldwide.

## 2.2 PT Indah Kiat Pulp Paper (PT IKPP)

Indah Kiat is the largest subsidiary of APP, accounting for 77 per cent of the APP's total capacity and 40 per cent of Indonesia's total pulp production.<sup>46</sup> PT. Indah Kiat Pulp & Paper Corporation (IKPP) was established in 1976 in Tangerang, Banten Java. In 1982 a second IKPP mill established in Perawang, Riau, Sumatra. Both of the IKPP Mills produce printing and writing paper. In 1990 IKPP was established a third mill, producing industrial paper & board, located in Serang, 60 km from Jakarta.<sup>47</sup>

International sales activities of APP are coordinated through APP branch offices worldwide selling to more than 50 countries.

In 1999, IKPP's mills ran at full capacity and consumed more than 6.8 million cubic metres of timber.<sup>48</sup> In its annual report, APP acknowledged that it consumed 22,000 cubic metres of timber per day or equivalent to 1,000 trucks of logs. To run its Perawang pulp mills at full capacity of more than two million tons a year Indah Kiat requires 9.8 million cubic metres of wood.<sup>49</sup>

In order to supply the wood to keep its mills running at full capacity, the company needs more than 500,000 hectares of industrial tree plantations.<sup>50</sup> However, according to July 2003 figures (see

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<sup>45</sup> Asia Pulp and Paper, Hoovers, no date. [http://www.hoovers.com/free/co/factsheet.xhtml?COID=51079&cm\\_ven=PAID&cm\\_cat=OVR&cm\\_pla=CO4&cm\\_ite=asia\\_pulp\\_paper](http://www.hoovers.com/free/co/factsheet.xhtml?COID=51079&cm_ven=PAID&cm_cat=OVR&cm_pla=CO4&cm_ite=asia_pulp_paper)

<sup>46</sup> Barr, Chris (2000) "Profits on Paper: The Political-Economy of Fiber, Finance, and Debt in Indonesia's Pulp and Paper Industries", CIFOR and WWF, November 2000.

<sup>47</sup> Indah Kiat Pulp & Paper Corp Tbk Pt. <http://www.alibaba.com/company/10223545.html>

<sup>48</sup> Ibid.

<sup>49</sup> "Risk Analysis and Impact Assessment for Pulp and Plantation Investments: The case of Indonesia", Presentation by Chris Barr, CIFOR, at International Forum on Finance and Investment in China's Forestry Sector, Beijing, September 22-23, 2004.

<sup>50</sup> Based on the following assumptions: 4.15 cubic metres of wood (solid wood under bark) is needed to produce one ton of pulp; plantations are grown on a seven year rotation; average mean annual increment is 24.5 m<sup>3</sup>/ha/yr (70 per cent of APP's plantations are on peat soils [MAI = 23 m<sup>3</sup>/ha/yr], 30 per cent on mineral soils [MAI = 28 m<sup>3</sup>/ha/yr]); 20 per cent of harvested volume is non-commercial. See Barr, Chris and Christian Cossalter (2004) "China's development of a plantation-based wood pulp industry: government policies, financial incentives, and investment trends", International Forestry Review, Vol. 6 (3-4) 2004, p. 272 and "Risk Analysis and Impact Assessment for Pulp and Plantation Investments: The case of Indonesia", Presentation by Chris Barr, CIFOR, at International Forum on Finance and Investment in China's Forestry Sector, Beijing, September 22-23, 2004.

Table 1, below) Indah Kiat's main supplier (Sinar Mas subsidiary PT Arara Abadi and its joint ventures) had only established 193,849 hectares of plantations out of the total 454,332 hectares of industrial tree plantations (HTI) awarded to the company. Arara Abadi and its joint ventures could only satisfy about 40 per cent of Indah Kiat's demand. The rest came from areas covered by IPKs (Timber Use Permits) and timber theft!

**Table 1. List of suppliers to PT Indah Kiat<sup>51</sup>**

No.	Company name	Concession area (ha)	Usable area (ha)	Area planted (ha)
<b>A</b>	<b>HTI (industrial tree plantations)</b>			
1	PT Arara Abadi	299,975	230,937	155,121
2	PT Satria Perkas Agung Subtotal	76,017	27,200	9,707
	Subtotal	375,992	258,137	164,828
<b>B</b>	<b>Partnerships</b>			
1	PT Riau Abadi Lestari Joint venture PT Arara Abadi - PT Inhutani IV	12,000	7,000	7,000
	Community partnerships			
2	PT Mapala Rabda - KTH Tuah Sekato (PT Sekato Pratama Makmur)	44,735	20,242	11,774
3	PT Mapala Rabda - KTH Usaha Baru (PT Bukit Bahu Hutani Alam)	33,605	22,901	10,247
	Subtotal	78,340	50,143	29,021
	<b>TOTAL(A + B)</b>	<b>454,332</b>	<b>308,280</b>	<b>193,849</b>
Cumulative area planted in first cycle. Data to July 2003.				

A number of indications point to Indah Kiat's responsibility for the degradation of 82 per cent of the *Taman Hutan Ray* protected forest area and 20 per cent of the Giam Siak Kecil Forest Reserve. Indah Kiat received illegal timber, at a rate of up to 7,000 cubic metres per day during 2003 from these two places<sup>52</sup>.

Data from the Department of Forestry also show that this forest destruction will not stop, at least not in the near future: APP plans to clear some 160,000 hectares of mature forests by 2007.

<sup>51</sup> These companies also supply other companies as well as Indah Kiat. PT Inhutani IV is a state-owned forestry company operating in Sumatra. KTH Tuah Sekato and KTH Usaha Baru are local farmer groups (Kelompok Tani Hutan).

<sup>52</sup> Investigative Report and analysis by KALIPTRA (member of WALHI Riau), 2003.

### 2.3 PT Arara Abadi (PT AA)

Arara Abadi is one of the industrial tree plantation companies that supplies the Indah Kiat pulp mills. The company controls a plantation concession totalling 299,975 hectares under permits issued by the Minister of Forestry in 1996.<sup>53</sup>

According to the company's 2003 general report, the concession comprises several blocks spread over four districts in Riau (see Table 2, below). Each area is managed by a separate unit ("resort") under the control of local forest offices.<sup>54</sup>

**Table 2. Distribution of Arara Abadi's concession**

District	Resort	Area of Forest/Concession	Local Forestry Authority
Minas	Gelombang, Rasau Kuning	Parawang and Sungai Mandau	CDK Minas DinHut, Siak District
	Tapung	Pantai Cermin	CDK Kampar DinHut, Kampar District
Siak	Pusaka	Sungai Rawa	CDK Sungai Apit DinHut, Siak District
	Barbari, Sei Rawa	Sugai Apit	
Duri	Sebanga, Beringin	Sungai Air Jamban and Sungai Empohan	CDK Mandau DinHut, Bengkalis District
	Melibur		CDK Minas DinHut, Siak District and CDK Mandau DinHut, Bengkalis District
	Bukit Kapur	Bukit Kapur and Sungai Bangko	Korwil Sedinginan DinHut, Rokan Hilir District
Kampar	Sorek	Sungai Telayap Hulu	Korwil Sorek DinHut, Pelelawan District
	Sei Nilo	Sungai Nilo	CDK Langgam DinHut, Pelelawan District
	Malako	Sungai Buluh and Sungai Kerumutan	CDK Kerumutan DinHut, Pelelawan District
	Sei Kampar	Sungai Merawang	CDK Penyalai DinHut, Pelelawan District

<sup>53</sup> Ministry of Forestry's Permit No. SK No 743/Kpts-II/1996 issued on 25 November 1996.

<sup>54</sup> Areas of forest in this part of Sumatra are often named after local rivers (*sungai* in Bahasa Indonesia; *sei* in local languages).

According to the government's 1994 Forest Land Use Consensus, all the areas managed by Arara Abadi were classified as Permanent Production Forests. The forests were classified as wet tropical forests with dry-to-wet soil. Vegetation cover consisted of 40 per cent "rarely-exploited" land, 30 per cent plantations, with the rest consisting of scrubland and dry farmland. The topography ranges from level to hilly areas with slopes from 0-15 per cent, and elevation from 0-150 meters above sea level. The annual rainfall is 2426 millimeters, with 200 rain days throughout the year.

There are 27 villages in four administrative sub-districts in two districts near to Arara Abadi's concessions. The villagers work as permanent farmers, shifting cultivators, rubber tappers, fishermen, traders and plantation workers.

Arara Abadi is part of the Sinar Mas Group. Indah Kiat, also part of the Sinar Mas Group, relies on Arara Abadi for a large part of its raw material supply. While APP's debtors might wish for APP to sell Indah Kiat in order to raise the money to repay the company's debts, Eka Tjipta Widjaja once gave a warning that Arara Abadi would not supply Indah Kiat if it was no longer part of the Sinar Mas Group.

## **2.4 PT Lontar Papyrus Pulp and Paper Industry**

Lontar Papyrus is another subsidiary of the Sinar Mas Group. It is located in Tebing Tinggi, in the Tanjung Jabung Barat district of Jambi and is the only pulp and paper company in the province.

In addition to pulp for paper, the company produces tissue and chemicals. While tissue is the end product, the chemicals are waste by-products. Production reaches 430,000 tons a year, or 1,365 tons a day. To produce this quantity of pulp requires 1.8 million cubic metres of wood annually. In addition to supplies from Sinar Mas's pulpwood plantations, Lontar Papyrus has been relying on forest conversion or illegal timber.

Lontar Papyrus's timber supply comes from (i) Sinar Mas's pulpwood plantation, namely PT Wira Karya Sakti (PT WKS), (ii) several other pulpwood plantations within the Sinar Mas Group, such as PT Rimba Hutani Mas, (iii) partners' plantations, commonly known as community HTIs (industrial tree plantations), and (iv) purchase, either from non-group plantations or local communities.



## Chapter Three

### ENVIRONMENTAL IMPACTS

#### 3.1 Deforestation, destructive logging and unsustainable supply

The Indonesian government's industrial tree plantation (HTI) policy stipulates that pulpwood plantations are developed on critical land within areas zoned as production forest.. However, pulpwood plantations are often developed on healthy secondary forests which have commercial logging potential. In addition, it is no secret that the pulp industry relies on natural forests for the majority of its wood supply, as the area of pulpwood plantations that has been established is still low.

The former Minister of Forestry under President Megawati's government, M. Prakosa, publicly acknowledged that many pulp and paper companies depended on illegal timber supplies:

“Many companies are supplied not from HTIs [industrial tree plantations], but from natural forests and even illegal operations. It is a rapacious industry and accordingly tends to be detrimental to the environment. The industry would not have a supply deficit if it established its plantations in accordance with agreed plans and mill capacity.”<sup>55</sup>

Many pulp mill managers have relied on timber supplies from forest conversion and neglected the establishment of plantations on their HTI concessions. According to recent data from CIFOR, the six largest pulp operations in Indonesia (five of which are in Sumatra) have a total demand of 28.7 million cubic meters per year.<sup>56</sup> The supply from industrial tree plantations (HTIs) reaches only 20.3 million cubic meters, leaving a deficit of 8.4 million cubic meters annually.

To run all its mills at full capacity, Indah Kiat and Lontar Papyrus needs 11.8 million cubic metres of raw material annually. Indah Kiat was founded in 1984. Arara Abadi planted its first acacia plantations in 1987. As it takes seven years before acacia is ready to be harvested, for the first ten years Indah Kiat relied completely on wood from natural forest, including forest which was logged and converted to oil palm plantations and, of course, illegal and destructive logging.

<sup>55</sup> WASPADA, 8 October 2003, *Pulp industry devastates Sumatra's forests*.

<sup>56</sup> “Risk Analysis and Impact Assessment for Pulp and Plantation Investments: The case of Indonesia”, Presentation by Chris Barr, CIFOR, at International Forum on Finance and Investment in China's Forestry Sector, Beijing, September 22-23, 2004.

Since 1987, Arara Abadi has continued to establish plantations. By 1999, it had planted 160,000 hectares. Annual planting rates varied from a low of 10,000 hectares to a high of 35,000 hectares. In 1999, Arara Abadi harvested 900,000 cubic metres from its plantations, accounting for 20 per cent of the fibre consumed by Indah Kiat that year.<sup>57</sup>

In 2000, CIFOR reported a financial officer from one of Indonesia's two largest pulp companies as saying:

“Of course we are bringing our plantations online. But we're in no rush to switch our mill to *acacia* if there are still cheap supplies of mixed tropical hardwoods (*kayu campuran*) available. Why should we be? As it stands, we have access to a very low-cost supply of raw materials. Developing good plantations not only involves higher costs, but also a good deal of risk – the trees have to be there for harvest seven years from now. Right now, our HTIs are essentially an insurance policy, and we will cash it in when the MTH is no longer available.”<sup>58</sup>

Whether this was someone from Indah Kiat or not, it accurately reflects the company's attitude to its tree plantations. Throughout the 1990s, Indah Kiat stated in its annual reports that by 2004, “substantially all” of the mills wood requirements would come from Arara Abadi's plantations.<sup>59</sup> Indah Kiat has since revised its target to meet all its fiber needs from plantation grown acacia wood until 2007.

It appears extremely unlikely that Indah Kiat will meet this revised target. Since Arara Abadi's plantations are on a seven year rotation, the area of plantations that can be harvested in any year is the same as the area planted seven years previously. In 2004, CIFOR reported that APP has never planted more than 35,000 hectares a year. An area of 35,000 hectares would yield less than 50 per cent of Indah Kiat's raw material supply.<sup>60</sup>

Today, Indah Kiat has a capacity of more than two million tons a year pulp production and paper and board capacity of more than five million tons.<sup>61</sup>

<sup>57</sup> Barr, Chris (2000) “Profits on Paper: The Political-Economy of Fiber, Finance, and Debt in Indonesia's Pulp and Paper Industries”, CIFOR and WWF, November 2000, page 16.

<sup>58</sup> Ibid, page 11.

<sup>59</sup> Ibid, page 16.

<sup>60</sup> Based on the following assumptions: 4.15 cubic meters of wood (solid wood under bark) is needed to produce one ton of pulp; plantations are grown on a seven year rotation; average mean annual increment is 24.5 m<sup>3</sup>/ha/yr (70 per cent of APP's plantations are on peat soils [MAI = 23 m<sup>3</sup>/ha/yr], 30 per cent on mineral soils (MAI = 28 m<sup>3</sup>/ha/yr); 20 per cent of harvested volume is non-commercial. See Barr, Chris and Christian Cossalter (2004) “China's development of a plantation-based wood pulp industry: government policies, financial incentives, and investment trends”, *International Forestry Review*, Vol. 6 (3-4) 2004, p. 272 and “Risk Analysis and Impact Assessment for Pulp and Plantation Investments: The case of Indonesia”, Presentation by Chris Barr, CIFOR, at International Forum on Finance and Investment in China's Forestry Sector, Beijing, September 22-23, 2004.

<sup>61</sup> “Asia Pulp & Paper Company Ltd.”, Hoovers, no date. [http://www.hoovers.com/free/co/factsheet.xhtml?COID=51079&cm\\_ven=PAID&cm\\_cat=OVR&cm\\_pla=CO4&cm\\_ite=asia\\_pulp\\_paper](http://www.hoovers.com/free/co/factsheet.xhtml?COID=51079&cm_ven=PAID&cm_cat=OVR&cm_pla=CO4&cm_ite=asia_pulp_paper)

The main raw material is wood from forests. One of the staff at Indah Kiat's mill said that acacia accounts for not more than 30 per cent of the total supply. Moreover, the price that Indah Kiat will pay for acacia is much lower than for natural forest logs. At Mandiangin, one of the villagers told us, "Indah Kiat buys natural forest logs at Rp35,000 per ton and buys acacia at only Rp15,000 per ton."<sup>62</sup>

An Indah Kiat employee said, "The company is reluctant to use acacia, that's why the price is low."<sup>63</sup>

For example, in 2003 WALHI Riau found out that PT Mapala Rabda another APP subsidiary illegally logged out an area up to 1.3 kilometres from its western concession boundary. More than 57,200 cubic metres of wood were taken illegally (assuming that 1 hectare yields 110 cubic metres of timber).

In 2003, PT Tuah Sekato (also connected to PT Mapala Rabda/APP) illegally logged a 200 hectare area outside its eastern concession boundary, giving Indah Kiat 20,000 cubic metres of 'free logs'.<sup>64</sup> In the same year, Arara Abadi was proven to have logged illegally inside Giam Siak Kecil Wildlife Reserve, giving Indah Kiat more than 76,000 cubic metres of 'free logs'.<sup>65</sup>

Several protected areas also have been degraded due to illegal logging practices involving Sinar Mas Group's subsidiaries. In Giam Siak Kecil Wildlife Reserve, for example, 11,256 hectares of the total area of 55,000 hectares has now become bare patches. Arara Abadi transports the felled logs to its own log ponds to give a false impression that the logs are from its concession area. Local businessmen are also involved in the illegal logging, including a Police Captain stationed in Riau Provincial Police Headquarters.

Indah Kiat is also responsible for the destruction of 4,800 hectares of a 6,000 hectare protected forest within the municipal boundaries of Pekanbaru, the provincial capital of Riau. More than 80 per cent of the timber was transported out of the area to Indah Kiat; the rest was transported to a sawmill named Rusna in Pekanbaru. Indah Kiat received about 6,000 logs each month of the following species: Meranti, Kempas, Cengel, Merbau, Kulim, Semenai, Cimpur, Rengas and Gaharu.

Rimbang Baling Wildlife Reserve has also suffered from Indah Kiat's rapacious operations. Around 42 per cent of this protected area has been degraded by illegal logging. More than 82 per cent of logs from the area were transported directly to Indah Kiat.

In March 2005, illegal logging was documented in the natural forest in Libo Block, western Riau. Eyes on the Forest, a forest monitoring group (WALHI Riau, Jikalahari and WWF Riau)

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<sup>62</sup> Interview with the community of Mandiangin.

<sup>63</sup> Interview with staff of Indah Kiat.

<sup>64</sup> Investigation by WALHI Riau, 2003, joint operation with Milieudefensie.

<sup>65</sup> Investigation by WALHI Riau, 2003, joint operation with Milieudefensie.

confirmed that PT Indah Kiat purchased the timber from these illegal suppliers who did not have the proper logging permits. By purchasing this wood, Indah Kiat violated Forestry Law No. 41/1999 article 50 clause (3) point (f) which prohibits accepting, purchasing, or selling, exchanging, storing or processing forest products known or suspected of being illegal.

In April 2005, illegal logging was documented in the Senepis Game Reserve. Eyes on the Forest also confirmed that PT Indah Kiat purchased the timber from this supplier who did not have the proper permits for cutting and transporting wood.

Eyes on the Forest has documented that 34 companies received licenses from the heads of districts in Riau to clear 289,809 hectares of natural forest. If the forests covered by these licenses are inside the national forest estate, then the licenses are illegal, as only the national government can issue such permits, and only for forest areas that are designated for conversion. The companies receiving wood from these licenses include Riau's two pulp and paper companies, Asia Pacific Resources International Holdings, Ltd. (APRIL) and Asia Pulp & Paper Co., Ltd. (APP).

Another problem caused by pulp plantation companies is establishing canals and plantations in peat swamps, damaging the ecological function of these areas and affecting water supplies, exacerbating floods in the rainy season and increasing illnesses such as cholera, malaria and dengue fever.<sup>66</sup>

In January 2005, hundreds of citizens of the Bukit Kerikil Village blocked excavators belonging to Arara Abadi which had damaged their water supply and transport system by digging long deep canals across peat swamp forests.<sup>67</sup> APP's plantation company in Jambi Province, PT Wira Karya Sakti (PT WKS), has been largely supplying mixed tropical hardwood to APP's Jambi pulp mill. PT WKS has been relying on supply from its partner's pulpwood plantation and natural forests, either through a contractor or direct purchase at the market. According to data from the Jambi Forestry Agency,<sup>68</sup> PT WKS has been granted logging permits in natural forests in Tanjung Jabung Barat District (4,432 hectares), Batanghari District (542 hectares), Muaro Jambi District (1,410 hectares) and Tanjung Jabung Timur District (5,942 hectares). However, until mid-2004 PT WKS has only planted 4,882 hectares of plantations.

APP's Jambi pulp mill, Lontar Papyrus has an annual capacity is 430,000 tons of pulp, equivalent to between 32,000 and 49,000 tons a month, or 1,500 tons of pulp a day. The figure exceeded the official installed capacity (1,300 tons per day) by 15.4 per cent.<sup>69</sup>

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<sup>66</sup> Pembangunan dan Kerusakan Alam Riau, Prof. Tabrani Rab, Riau Cultural Institute, 2003.

<sup>67</sup> Riau Mandiri Daily News, Januari, 4, 2005.

<sup>68</sup> Production Data, Jambi Forestry Agency, April-June 2004.

<sup>69</sup> Research report on The Impacts of Timber Industry on Forests (The case of PT Lontar Papyrus and PT Wira Karya Sakti in Jambi Province), a collaborative work of P4K Unja and Warsi, 1999.

Although PT WKS may be able in future to reduce its dependence on timber supply from natural forests, the reality remains that the company's impact on forests has been enormous – the company has been logging out natural forests since the very beginning of pulpwood plantation development. Large-scale pulpwood plantation development has altered the landscape and the monoculture plantations themselves also have environmental impacts and are no substitute for the forests that PT WKS destroyed.

Neither Indah Kiat nor PT WKS have ever undertaken any comprehensive research on the soil type of their concessions or on planting any other species except acacia.<sup>70</sup> It appears that the companies plant acacia in all concessions regardless of the soil type.

In March 2003, 310 households, or more than 700 people in the villages of Bramitam Kanan and Bramitam Kiri suffered from floods that destroyed their gardens and rice fields. People's daily activities were disturbed and some suffered from diarrhoea.

The flood was caused by the development of PT WKS's canal which had altered the peat swamp forests – the natural catchment areas.

Local people held the company accountable for the disaster and demanded compensation. They also demanded that the company plan water and land management to minimise flood risk. After long negotiations, in May 2003, the company fulfilled some of the community's demands.

Source: *Jambi Ekspres Daily*, 23 March 2003 and 23 May 2003.

About 70 per cent of APP's plantation concessions are located in swamps and peat forests, particularly in the regions of Mendahara, Pematang Lumut and Klagian in Jambi Province and in Siak, Bengkalis and Kampar Districts in Riau Province. The technology used to expand the production is to build canals, i.e. dredging and drying the swamps and the peat forests to open areas for planting acacia. APP has built primary, secondary and tertiary canals totaling 2,444,752 metres in length (up to 2004).<sup>71</sup> The canals were intended not only to drain the swamps and the peat forests, but also to allow transportation of the harvest.

<sup>70</sup> Discussion held by PT Mutu Agung Lestari in March 2005, during the certification processes of PT WKS. APP does have some trials of Eucalyptus, and it does have two main types of Acacia, one for peat swamp soils, and one for dry soils.

<sup>71</sup> Progress Report, Participation and Contribution of HTI & Pulp Industry in regional development, PT Wira Karya Sakti, May 2004.

The decision that the swamps should be drained and the peat forest removed to make way for acacia plantation inevitably generates impacts to the environment. The land on which acacia is planted gets drier and drier and during the dry season it is susceptible to fire. Furthermore, as the peat swamp species are replaced with acacia the area loses its ability to hold water, threatening the local community with floods during the wet season.

Based on PT WKS's feasibility study, there are at least 4,600 hectares of protected forests and 640 hectares of protected peat forests, within the company's concession area. The management and the protection of these protected areas and peat forests are the responsibility of PT WKS.

However, the company's ignorance of the management of peat forests as conservation areas has led to the destruction of almost all peat forests in its concessions. Instead of contributing to sustainable peat forest conservation, the company ignites conflicts with the local community.

Take the case of Rawa Panjang for an example. The region lies within an area of peat forest, the conservation of which is the responsibility of PT WKS. In 1996, people from Jambi and from outside Jambi – such as Palembang and Medan – came to the region, built shelters for themselves, fished and set up plantations. They lived on the fish caught and crops, some of which were sold at Tebing Tinggi market.

The local governments (Village and Sub-district Administrations) did nothing to prevent them from settling in the region. They were even allowed to participate in the 1999 Election, meaning that their existence was recognized by the local governments.

However, in March 2003 their peaceful life was disturbed. Heads of Pematang Lumut Village and Head of Betara Sub-district issued a letter asking them to leave the region, as the region was a conservation area. They refused to leave. They had lived there for years and did not want to lose their livelihoods.

PT WKS, supported by the Tanjung Jabung Barat District Administration and the District Police, intimidated the people. In mid 2004, two people, Darmawi and Mulyadi, were arrested for encroaching on the conservation area. They were charged with violating Forestry Law No. 41/1999 Article 50 (3), and Article 185 of the Criminal Code.

This arrest was not the end of the intimidation. In September 2004, PT WKS and the District Police demolished the shelters. Supported by NGOs in Jambi, CAPP, Yayasan Keadilan Rakyat and Yayasan Citra Bina Mandiri (YCBM), the people protested against the violence. The people continue to do everything they can to continue their livelihoods and to continue living in the area.



*One of Asia Pulp and Paper's acacia plantations.*



*One of Asia Pulp and Paper's eucalyptus trial plantations.*



*One of Asia Pulp and Paper's eucalyptus trial plantations. APP's monoculture is replacing forest, and in the process destroying local livelihoods.*

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**Examples of Asia Pulp and Paper's (APP)  
Operations in Sumatra, Indonesia**



## **3.2 Forest fires**

Fire is still used by the plantation industry in Indonesia to clear forests. Each year since 1980 the area burned and the haze generated have increased, even though using fire to clear forests has been illegal for a decade.

Using fire to clear forests is still being used by oil palm and pulp wood plantation companies, as this method of reducing bushes and logging debris is quick and cheap.

Burning forest land increases the soil pH, and can raise it from 3 - 4 to a pH of 5 - 6 making the soil more suitable for planting Acacia or oil palm.

The El Nino weather system is connected with increased drought and forest fires in Indonesia. However el Nino does not cause forest fires but makes them easier to start, and means that they will burn larger areas. Debris on the forest floor as a result of logging, along with damage to the forest canopy greatly increase the likelihood and intensity of forest fires in Indonesia. Without logging, rainforests rarely burn, even in a drought year.

Government and industry often blame swidden or shifting agriculture for causing forest fires. However, the fires started by shifting cultivation are low intensity and rarely spread beyond the small areas of secondary forest cleared for agriculture.

The Indonesian Government doesn't take the issue of forest fires lit by plantation companies seriously, and has rarely taken action against the perpetrators of the burning. Since the disastrous forest fires in 1997, various studies and policy plans to address forest fires were prepared, but none have been implemented.

The National Forestry Law No 41/1999 also does not give adequate attention to the problem of deliberate forest fires. For example, the ban on use of fire to clear forests can be ignored if a company obtains permission from the authorized official (article 50.3 d).

In comparison, Malaysia has put a firm no burn policy into effect, which bans (without exception) the use of fire to convert forest or peat swamp areas. Company directors found responsible can be fined up to US\$150,000 or sent to jail for up to five years.

Riau is among the provinces that suffers the most from frequent fires. Since 1997 no single year has passed without widespread forest fires. In 2000, forest fires destroyed more than 300,000 hectares of Riau forests. The area destroyed decreased to 175,000 hectares in 2001 because of the high rainfall that year. Forest fires increased in 2002 and 2003, destroying up to 475,000 hectares.

In mid 2003, WALHI Riau prepared a lawsuit against 54 companies and 7 local governments due to their failure to put out forest fires or to give early warning to the community about the

dangers of forest fires and haze. Arara Abadi is one of the companies that was sued. WALHI Riau recorded nine concessions belonging to PT Arara Abadi (Bukit Rayal, Minas, Tanah Putih, Hutan Melintang, Pangkalan Kuras, Langgam, Kerumutan, Bunut and Mandau) that burnt in 2003.<sup>72</sup>

The lawsuit was dismissed by the court on technical grounds. The court considered it necessary for WALHI Riau to make the lawsuit at the State Administrative Court and not at the Country Court, even though the relevant 2001 national law clearly states that district courts can hear such cases.

During 2004, similar fires again struck Riau. In February 2004 more than 89 companies burned forest lands causing 669 fires. 64 of these fires were within 4 concession areas belonging to Arara Abadi.

In February 2005, forest lands on the concessions of Arara Abadi again burnt in Bunga Raya District (8 fires), Siak District (11 fires), Sungai Apit District (2 fires), Bukit Kapur District (2 fires), Minas District (2 fires) and Mandau District (1 fire). In March 2005, fifty fires were burning on ten Arara Abadi concessions.<sup>73</sup>

The government seems to be unable to prevent the fires. The local government has a fleet of small fire engine that can penetrate thick forests; however, these are of no use without drivers and committed fire fighters.

For example, in a fire outside Pekanbaru a fire engine was busy trying to put out the fire. After two hours it ran out of water. The firemen returned to base although the fire had not been put out. When asked why, they just said, "Oh, we'll do it tomorrow. If the fire has already been put out, we'll have nothing to do tomorrow."

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<sup>72</sup> Hotspot Riau 2003, Analyzed by WALHI Riau based on NOAA Satellite Images, June 2003.

<sup>73</sup> For more information about the 2005 fires, see "More than 40% of Riau's fires burn in APP and partner's concessions", Eyes on the Forest News, 23 March 2005. [http://www.eyesontheforest.or.id/eofnew/eof\\_news\\_march232005.pdf](http://www.eyesontheforest.or.id/eofnew/eof_news_march232005.pdf).

## Chapter Four

# SOCIOECONOMIC IMPACTS OF APP'S OPERATIONS ON LOCAL COMMUNITIES

There has been a close relationship, directly and indirectly, between human rights violations and forest degradation in relation to the development of pulp and paper industry in Riau. The weaknesses and the vulnerabilities of local communities can be attributed to the violation of their civil and political rights. The dispossession of forest-dependent communities smoothed the way for the development of the pulpwood plantation industry and resulted in degraded forest in both Riau and Jambi. Large-scale deforestation of community forests and a recruitment policy that prioritised workers from outside local communities made it difficult for forest-dependent communities to survive on their customary lands. This is clearly a kind of violation of their social and economic rights.

The reforms since the fall of the Suharto regime in 1998 have brought a lot of changes, including freedom of expression and of association. Yet these reforms tend not to be of great significance to the rural poor and dispossessed. The legal system is still weak and unresponsive and does not yet reflect its problem-resolving function. Under such circumstances, many observers believe that the condition of forest-dependent communities is getting worse, as is forest degradation. Also, in order to earn the money needed to repay their huge foreign debts, pulp companies run their mills beyond their licensed capacity. As a result, demand for timber supply increases as does the threat to communities' natural resources. With weak law and order, and powerful plantation companies allowed to fund their own militia, local communities and activists will continue living in fear.

This chapter details the adverse socioeconomic, cultural and ecological environmental impacts of pulp wood plantations on local communities in Riau Sumatra. This chapter also provides some illustrations of the situation and the condition of the workers in the companies.

### 4.1 Province of Riau

The Province of Riau lies in the heart of Sumatra Island. It borders the Malaka Strait and Singapore Strait to the east, the Province of Jambi and Berhala Strait to the south, the South China Sea to the east, and the provinces of West Sumatra and North Sumatra to the west.

The province covers a total land area of 94,502 square kilometres.

**1) POPULATION<sup>74</sup>**

- RIAU - total	:	4,612,796
- City	:	1,975,381
- Rural	:	2,637,415

**2) Gross Regional Domestic Products (GRDP)<sup>75</sup>**

- Value	:	20,311.4 billion rupiah
- Value per capita	:	4.8 million rupiah

**3) GRDP per sector<sup>76</sup>**

- Agriculture	:	8.20%
- Industry	:	18.92%
- Commercial	:	14.28%
- Transportation	:	3.15%
- Mining	:	52.56 %

**4) GRDP by expense<sup>77</sup>**

- Governmental	:	8.71%
- Domestic consumption	:	61.04%
- Capital	:	29.47%
- Changes in Stock	:	-2.56%
- Export	:	59.81%
- Import	:	56.47%

Based on the 1986 TGHK (Forest Land Use Consensus) (MoF Decree No. 173/Kpts-II/1996), the total forest land of the province is 9,456,160 ha, consisting of:

- Protected Forests	:	397,150 ha
- Nature Reserve and Tourism Forests	:	451,000 ha
- Limited Production Forests	:	1,971,000 ha
- Permanent Production Forests	:	1,866,132 ha
- Converted Production Forest	:	4,770,085 ha

Classified by its designated use, the forest land totals 9,035,588 consisting of:

- Forest concessions (HPH) based on Minister's Addendum	:	5,909,493 ha
- IPKH [Timber Use Permits]	:	2,158,290 ha
- Industrial Tree Plantations (HTI)	:	967,805 ha
- Forests outside protected areas	:	<b>420,572 ha</b>

<sup>74</sup> Riau in Figures, 2003, BPS.

<sup>75</sup> Riau in Figures, 2003, BPS.

<sup>76</sup> Riau in Figures, 2003, BPS.

<sup>77</sup> Riau in Figures, 2003, BPS.

Up to mid-2003, WALHI Riau observed forest degradation to the following areas: 35,622 hectares out of a total of 50,238 hectares of fresh water and peat swamp forests was gone; and 241,722 hectares (27.5 per cent) out of 848,159 hectares of protected forests was severely degraded due to illegal logging. The remaining area of 600,000 hectares of protected forest is under serious threat.

About 60 per cent of the forest concessions (HPH) has been logged out.

Large-scale deforestation in Riau is due to rampant, destructive logging and forest conversion promoted by district administrations. Any idea of "selective cutting" has lost out to destructive logging. There have always been buyers who willingly buy small-sized logs.

The main factors contributing to the deforestation, can be summarized as follows:

### **1) The two massive pulp companies in Riau**

Two pulp companies are operating in the province (APP and APRIL). Both companies started to operate before establishing industrial tree plantations (HTIs) to supply wood to their mills.

Today, the combined production capacity of these two companies is 3.9 million tons of pulp a year. To supply this capacity from industrial tree plantations, the companies would require an area of 800,000 hectares of plantations. In fact less than 325,000 hectares of industrial tree plantations have been planted. There remains a huge discrepancy between the plantation wood supply and pulp wood demand, leading both to intensive and ongoing forest conversion in the province and to illegal logging.

### **2) Over-capacity**

In 2001, the Riau Forestry Agency recorded that to run Riau forest industries at full capacity, the pulp industry required 15.7 million tons of wood. At the same time, according to the Agency, the maximum could sustainable supply from industrial tree plantations and natural forests was 7.7 million tons a year. That is an 8 million ton discrepancy between supply and demand.

Moreover, during the year the Agency issued 112 Timber Use Permits (IPK) on more than 52,000 hectares of forest. In 2002, the Agency issued another 53 IPKs on more than 34,000 hectares of forest. The permits were intended to supply 10 plywood companies, two pulp companies, three chipmills, 352 sawmills and 27 moulding companies operating in the province.

In 2003, the government passed a new regulation which transferred the authority for granting forestry permits back to the central government. However, this failed to reduce the issue of such permits at regional level. Regional administrations changed or falsified the number and the date of previous permits or issued permits for other areas to allow the exploitation to continue.

### **3) Ambition to make Riau the largest crude palm oil (CPO) producer in South East Asia**

Riau is now the largest crude palm oil exporter in Sumatra, having overtaken North Sumatra, which had been the largest exporter on the island for decades. Riau now has 1.5 million hectares of oil palm plantations.

About 80 per cent of the total area of oil palm plantations in Riau is owned by big businesses, mostly from Malaysia and Singapore. Palm oil from Riau is mostly exported to Europe. About 20 per cent goes to the US.

The Riau Provincial Government plans to expand the plantation area of oil palm to two million hectares. Production is expected to reach 2.7 million tons of crude palm oil annually, 0.7 million tons higher than current production.

The forest conversion promoted by the Provincial Government is applied not only to bare land but also to other concessions. 400,000 hectares of the forest area designated for conversion to oil palm overlaps with industrial tree plantations (HTIs) or forest concessions (HPHs), while another 200,000 hectares overlaps community lands.

Areas within several protected areas have also been converted to palm oil plantations. For example, in Bukit Rimbang Bukit Baling Wildlife Reserve the district government has issued concessions allowing 20 per cent of the total area of the Reserve (25,000 hectares) to be planted with oil palm.

#### **4.1.1 Mandiangin Village, Minas Sub-district, Siak District**

The Mandiangin Village Area lies in Minas Sub-district, Siak District, a three hour drive from the provincial capital, Pekanbaru. From its founding in 1927 until the late 1970s Mandiangin covered more than 36,000 hectares and its inhabitants lived a prosperous life. Now, it covers only over 4,800 hectares, although the local community still regard the full 36,000 hectares to be their customary lands. The reduced size confuses them as they have never sold or transferred any piece of land from the village.

The people living in Mandiangin before the companies came with their industrial tree plantations were largely Sakai and Malay indigenous peoples.

Today they are mostly oil palm and rubber farmers, with a few working as daily workers for PT. Nursery, a contractor producing Acacia seedlings for Arara Abadi. Arara Abadi started to clear the forest around the village in 1983 and began to plant acacia in 1988. The clearing destroyed around 200 Sakai graves.

Arara Abadi also destroyed Sakai graves in nearby Minas Asal village. "In 1984, Indah Kiat and Arara Abadi came and cleared the forest and the land surrounding our village for Acacia, including our ancestor's cemetery," said Khaidir, a Sakai from Minas Asal.

The Mandiangin Village consists of 1,765 people in 766 households. Today the percentage of original inhabitants is 25% while 75% have immigrated to the village in the last 20 years from Java, Flores, NTB and elsewhere in Sumatra. Most immigrants came as part of official transmigration programs, while some came without government assistance.

The name Mandiangin (meaning "in the wind") was given by Datuk Munti Kato of the Melayu Mandau group, who along with five other households,<sup>78</sup> came and established the village in 1927. They gave the village its name because when they arrived, strong winds and heavy rain destroyed several hectares of the forest. According to tradition, this was the typical "welcoming ceremony" in the area and would happen to anybody coming to the area. However, only heavy rain welcomes visitors nowadays and the forest is gone.

The first settlement set up in the village area was called Kebun Tua (Old Garden), lying by the Mandiangin River. The community lived from fishing, planting vegetables, collecting fruits in the forest, hunting and planting crops (rotational cultivation of root crops and rice).

In 1934, the Dutch administration took over the land from the community (the Dutch 'compensated' the local community with a small amount of money and the land became the property of the Dutch administration). In 1968, Datuk Munti Kato returned to Mandiangin and set up a new village near the former site of Kebun Tua.

The first road connecting Mandiangin to another village nearby was built in 1972 by a French timber company, PT. STC. Other village roads were built in 1987 by Caltex,<sup>79</sup> which is owned by US oil giants Texaco and Chevron and is the largest multinational operating in Riau. Caltex's Riau oil fields used to account for about half of Indonesia's oil production.

In 1992, Mandiangin was designated part of a transmigration programme known as HTI Trans, which was designed to resettle people from Java, Bali, Madura who would work for companies developing industrial tree plantations. The government supported Arara Abadi through the Reforestation Fund to develop HTI Trans. The authorities awarded an industrial tree plantation (HTI) permit to Arara Abadi in 1994, two years after the beginning of HTI Trans activities in Mandiangin, more than 10 years after the clearing started (1983), and six years after Arara Abadi first planted acacia (1988).

<sup>78</sup> The Makaib family, the Gudangs, the Jakpars, and the two other unknown families. From the six households, three were from the Sakai group and the three others from the Melayu Mandau group.

<sup>79</sup> Ery M. Nur, 50 years, head of a community group (RW1) in Mandiangin Village.

In the beginning, the local community accepted the government's HTI Trans programme in the hope that it would bring prosperity to the village. The government gave compensation of Rp500,000 (about US\$230) per hectare for the community's land used for HTI Trans. About 100 hectares were used to build 360 houses. From 1992-1994 the government provided local and HTI Trans communities with food as the gardens and plantations had not yet become productive.

The government agreed to built semi-permanent houses, established four hectares of acacia plantation per household, and set up electrical and clean water facilities for the transmigrants. However, when the transmigrants under the HTI Trans programme arrived at the site, they found that it was still forested and they did not know how to survive. At that time, there were 60 households of local community and 240 households of HTI Trans.<sup>80</sup>

In 1994 and 1998, people who had moved to Mandiangin under the HTI Trans programme carried out a demonstration demanding the fulfillment of the government's and Arara Abadi's promises. In 1998 Jesinco, one of Arara Abadi's field managers, agreed to set up a 600 hectare oil palm plantation to be managed by 300 households. One of Arara Abadi's contractors, PT Riau Abadi Lestari, carried out the planting. However, only 150 hectares was successfully planted; the rest of the plantings failed.

According to M. Darus Empong, head of Mandiangin in 1997, about 2,000 hectares of their *ulayat* (communal) land was annexed by Arara Abadi in 1999.<sup>81</sup> For generations, the land had been the traditional source of livelihood for the Sakai. Arara Abadi said that they also had the right to the land as it had a Permit from the Minister of Forestry through Decree No. 743/kpts-II/ 1996 dated 25 November 1996.<sup>82</sup> To date, Arara Abadi still claims the land, which it calls Resort Rasau Kuning.

The local authorities tried to bring the two parties to a dialogue to discuss the boundaries. On 23 February 2000, the case was forwarded to Riau Regional Forestry Office and the Minister of Forestry in Jakarta. Until a decision was made, the land was set aside for communal use, but neither the company nor the villagers could log it.<sup>83</sup> However, on 27 October 2000, the company stole 5,000 cubic meters of wood from the land, causing a Rp2 billion (about US\$220,000) loss to the local community. The community responded by detaining 20 of the company's logtrucks.<sup>84</sup>

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<sup>80</sup> Syaiful Wakni, 33 years, Head of Mandiangin Village.

<sup>81</sup> According to the Regional Office of the Riau Forestry and Estate Crop Department dossier dated 18 March 2000 on the checking of the exact location of the conflicted land. After the land had been mapped and measured by the Regional Office of the Riau Forestry and Estate Crop Department, Sub. Biphut Pekanbaru, Kasubag. Kehutanan Setwilda TK. I Riau, Head of Spatial and Utilization division of Kanwil BPN Riau, Setwilda TK. II Siak, Minas Sub-district Administration, BKPH Minas, Head of Mandiangin Village, local leaders and PT. AA Planning Survey, the land claimed by the community measured 1,933.20 Ha. On the land were built 6 metre wide canal running for 38.8 metres, 6-12 metre wide road running for 8.6 km, and 47 hectares of Acacia Mangium plantation (the trees were 2.5 years old). Also found on the land were Base camp, communication radios and an excavator.

<sup>82</sup> Riau Pos, Tuesday, 22 February 2000.

<sup>83</sup> Agreement between Mandiangin community, PT. AA, Minas Sub-district Head, Mandiangin Village Head, local leaders and Siak Regent, 15 February 2000; and Letter of Siak Regent No.500/ EK/ II/ 107 dated 19 February 2000, addressed to Head of Regional Office of the Riau Forestry and Estate Crops Department.

<sup>84</sup> Pekanbaru Pos, Sunday 12 November 2000.

“We have become desperate and frustrated as we don’t know what else we should do to have the case settled. So we blocked the road and detained some of their trucks for five days. We made a list of the trucks along with their registration numbers so the company could not accuse us of stealing the trucks. We did it in a peaceful way. We let the drivers go. We didn’t destroy the trucks or cause any damage to them. We just wanted them to solve the conflict.”<sup>85</sup>

On Friday, 10 November 2000, at 14.30, the local community, including women and children, had just arrived at the village from the mosque when 17 of the company’s logtrucks (the people recognized the trucks because they passed the village several times a day), a police car, and an ambulance came to the village, along with hundreds of the company’s employees and a field manager (Jensen Ko). Then, without a warning, around two hundred people in black uniform with letters saying “Pam Swakarsa PT Arara Abadi” (“Civilian Militia of Arara Abadi Ltd.”), some wearing masks, started to chase and beat the villagers with wooden bats and metal rods. The company’s employees destroyed the village’s security post, villagers’ furniture and windows.

A witness reported, “The Pam Swakarsa ran about, chasing and beating anyone they found, like crazy people. We were very scared and ran away to save ourselves.”<sup>86</sup>

500 Pam Swakarsa members hired by Arara Abadi attacked Mandiangin. They came on 10 trucks and brought with them various kinds of arms: machetes, axes, and metal rods. Two houses were burned and 30 people were wounded. The most seriously wounded were Ramlidang, Jais, Taheran and Polius, who had to be sent to hospital (Tabrani Rab hospital).<sup>87</sup>

One witness said, “We managed to enter our houses, but Jais did not. He even fought back. The Pam Swakarsa members beat him up and he lost several of his teeth.”

A former head of Mandiangin, M. Darus Empong, said, “The attack was organized by Tagor and Mr. Jan Sen Kho, a Taiwanese and staff of Arara Abadi. They ran amok for one and-a-half hours. After jumping from the truck, they attacked us shouting “Mana kunci, mana kunci” (where’s the key, where’s the key to start the trucks that had been detained by the villagers). We were very, very scared.”

“They attacked us and then tried to give us first aid. After the violence stopped, one of them tried to give us bandages and medicine. Suddenly, we were told to run. We all ran into the forest at once. We heard gunshots several times.”<sup>88</sup>

<sup>85</sup> M. Darus Empong, former Mandiangin Head.

<sup>86</sup> Human Rights Watch, 2003.

<sup>87</sup> M. Darus Empong, former Head of Mandiangin. The incident report 020/ PPRC/ XI/ Pbr-2000 dated 14 November 2000 was submitted to Riau Provincial Police Head by H. Ramlan Cornel, the villager’s lawyer. Riau Pos, Pekanbaru Pos, 12 and 14 November 2000.

<sup>88</sup> M Syaidan, 54 years old.

Another witness said, "I'm sure they came to our village to assault us. They had provided medicine, paramedics and even an ambulance. I'm sure that the police somehow got involved in this. I saw a police car among the trucks."

When Human Rights Watch asked Arara Abadi about the incident, they received conflicting statements from the company. The company's field representative of security and risk management said "The employees became very emotional-seeing their trucks there and also because the community didn't want to bargain. Some people got hurt. The company medical officers gave them first aid."<sup>89</sup>

Arara Abadi officials later produced an "incident report" which they gave to Human Rights Watch, which denied that any violence had taken place:

"It was necessary to return security and order to the work area (Block RKT 1999/2000) from illegal logging activity by perpetrators in Mandiingin, which had resulted in the seizure by Mandiingin residents of several company vehicles ( $\pm$  33 trucks and 2 motorcycles) and 1 computer. To gain the release of the vehicles the company first tried persuasive/educative methods but these were not successful, so an approach that used a little 'show of force' was undertaken by the drivers of the impounded trucks. Even this last effort did not produce the physical conflict or violence or destruction of community property, as it has been rumored."<sup>90</sup>

Arara Abadi also reported that the villagers had brought charges of wood theft and assault against the company to Bengkalis court and demanded compensation, but had lost the case. Villagers interviewed by Human Rights Watch said that they made no agreement with the company, but security directors from Arara Abadi said that the case had been "settled".

Up to the end of 2004, the Head of Mandiingin, Syaiful Wakni, continued to send letters to the company demanding the returning of their plantation and *ulayat* land.

Land conflicts in Mandiingin are still occurring. Arara Abadi still claims that each piece of land "annexed" is really part of its industrial tree plantations (HTI) permit. However, the company has never been able to provide or show any map or documents to substantiate its claim.

In October 2004, about 60 hectares of newly-planted oil palm plantation owned by the local community was bulldozed by the Arara Abadi. The company argued that the land, which was certified as belonging to the community in 1984, was included in the industrial tree plantation (HTI) area. At present the land remains idle as the conflict has not been resolved. The company and the local community in turn destroyed each other's plants until both parties realized that it would be useless to plant on the land as the other party would destroy it.

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<sup>89</sup> Human Rights Watch, 2003.

<sup>90</sup> Letter sent by APP to Human Rights Watch, 20 February 2002.

The community of Mandiangin continues to demand that Arara Abadi respect all the community lands, and return the 2,000 hectares of community land which the company took over in 1999.

The right to land, which is the most basic right of forest-dependent communities, is at the core of the community's demand. Arara Abadi should have respected this right to land and should have ensured that its contractors did the same. Land rights are relevant because it raises questions about Arara Abadi's legality and authenticity of its claim over land granted to it (under the New Order regime). Land rights are also crucial in the light of an announcement by APP/Sinar Mas Group that it plans to expand its plantation operations over the next five years (up to 2010). To date, the company has never expressed its commitment to respecting the local community's land rights. Even in the statement of intent that APP signed with WWF in 2003, APP agreed to respect the legal and customary land rights of communities, and to work to amicably resolve all disputes over land with communities.

APP/Sinar Mas Group now controls 700,000 hectares of concessions for the establishment of industrial tree plantations (HTI) in Riau and Jambi, but the company apparently considers this area is not large enough to fulfill its pulp mills' demand for wood and to meet its expansion plans. APP claims that only 50 per cent of its HTI area can be converted into pulp wood plantations due to community claims or "other problems". As noted above, APP plans to increase its concession size in 2007 through "joint ventures" with the local community's cooperative and other licensed companies, including oil palm companies, forest concessionaires (HPHs) or other pulp companies.

#### **4.1.2 The History of Pinang Sebatang Village and Tualang Village in Siak District, Riau Province**

Perawang City, Pinang Sebatang Village and Tualang Village are 80 kilometres from the provincial capital, Pekanbaru. Indah Kiat's pulp factory is in Perawang, and covers an area of more than 500 hectares. It was built in 1980 and started to operate in 1983 under the name PT. Surya Agung.

Tualang Village covers over 30,147 hectares. The village is named after the Tualang River. The word Tualang means "adventure". The village borders on its west with Perawang City.

In 1980, Indah Kiat bought some land which belonged to members of Tualang Village and neighboring villages for its pulp factory. The land was bought at a very cheap price because, the company claimed, villagers did not have a land certificate for the land. Moreover, the company bought the land from the Village Head, so the local community did not even know that the land they worked on had been taken over by the company. To date, the local community has never received any compensation.

The 500 hectares of land used by the company to establish the Indah Kiat pulp and paper factory and facilities for its workers was land that belonged to the Tualang community.

### 4.1.3 Local Economy and A Change for The Worse

The community of Mandiangan previously used a rotational cultivation system, which could give them an average of 600 kilograms of rice a year from one hectare of land. In 1980, their total area of rice land was 1,320 hectares, and the community produce US\$47,520 worth of rice (at the then market price of US\$6 cents per kilo). The land annexation by Arara Abadi in 1984 destroyed all the community's riceland. Unlike in the past when the community could grow their own food, after 1984 they had to spend money to provide for their basic needs.

Among the crops villagers used to grow was *Ubi Manggalo* (a kind of sweet potato). Besides rice, it has been the staple food for the Sakai group for generations. It is black, big and poisonous. The Sakai possess a technique which has been passed down for generations, to remove the poison and make a delicious food out of it.

In the past, every household in Mandiangan had up to 35 hectares of rice fields and produce 300-1000 [please convert to kilos] each year. Since 1987, however, there have been no fields of rice in Mandiangan; and since 1989 villagers have not planted *Ubi Manggalo*. The fields have been converted into Acacia plantations.

“In 1984 when the company opened the land in the Minas Asal Village about 200 cemeteries of Sakai people were destroyed by Indah Kiat. In 1984 we expelled the company's workers who opened the forest in our village. Because their workers were often expelled by us, the company finally gave 116 hectares of forest to the Sakai. But the Sakai community did not accept this offer, because they know that their forest was much bigger than this. Now the company plans to increase our land to 800 hectares.”<sup>91</sup>

The local community also used to collect rattan, a profitable non-timber forest product. In the 1980s, rattan harvesters could collect 150 kilogrammes of ordinary rattan, or 200 kilogrammes of flooring rattan, per person per day. Rattan was generally sold at US\$ 7 cent a kilogramme. In a month, rattan harvesters collected rattan for 15 days. It took a week for them to bring the rattan to their village, where it was soaked in a special concoction to remove the thorns. The harvesters could earn up to US\$3,780 a year from raw rattan. If processed into wicker furniture, the price would be much higher.

People no longer find rattan near the village. The forest has been converted into Acacia plantations. Some of the rattan craftsmen (four households out of 34 households in 1980) have moved to the provincial capital, where rattan is easier to obtain. Some other rattan craftsmen become plantation workers or have moved to find work in Malaysia.

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<sup>91</sup> Khaidir, 40 year old member of the Sakai from Minas Asal.

Sir Eri, one of the villagers, explained that “Members of 60 households used to work as rattan gatherers. For ten of these households, this was their primary income source. Each household collected rattan for their own everyday requirements such as floor mats, house walls etc. and each house had rattan left over to sell.”

In addition to rattan, another profitable non-timber forest product was resin. No fewer than 23 households in Mandiingin relied on it for a living. They could collect up to 250 kilograms a day, which they sold at US\$3.5 cents a kilogramme. The price was relatively low as the resin was not of high quality. Nonetheless, each household might earn up to US\$260 a month, which was enough to buy basic needs that they could not provide for themselves.

For fuel, the community used firewood collected from the forest or the swamp. Up to 1980, the forest could easily fulfill this need. However, as their forest was increasingly converted to acacia plantations, villagers no longer had access to the forest for firewood and had to buy kerosene.

In the past, when villagers went into the forest to collect firewood, they would also set traps to catch deer. Each person usually set two to four traps. In a week, a person might catch between one and three animals. Some of the trapped animals were brought home for food, others were sold. As the forest has been converted into acacia plantations, the animals have disappeared.

Villagers relied on fish caught from the Mandiingin River and its tributaries, such as Leboui, Jojab, Utuh, Dwi, Sutan Lelo, Guntung and Air Pahang. One person could catch between 15 and 20 kilogrammes a day, which provided food for their family and could be sold at an average of 75 US cents a kilogramme.

In the past, more than 121 households fished at Mandiingin River or the Mandau River. If they fished 24 days a month, they could each earn US\$48 with traditional fishing tools.

“Most of the households caught fish to fulfill their food needs. There were around 8 households that had primary work as fisherman at the end of 1988. Now there are no fish in the Mandiingin River.”<sup>92</sup>

PT Arara Abadi's operations have drastically altered the geography and the physical features of the Mandiingin River. The company built a canal system to drain the swamp and cleared the peat swamp forest so that it could establish acacia plantations. The canal was used to transport the felled logs to the logponds before they were transported to Indah Kiat's pulp mills.

Plantations are planted with Acacia trees right up to the riverbanks. Acacia plantations need a lot of water and nutrition and the plantations drain the rivers and suck up nutrients from the soils.

<sup>92</sup> Sir Eri, 43 years old.

Some rivers have in fact disappeared, dried out by the acacia plantations and drained by the canals.

The community of Mandiangin has been forced to give up its dependence on the river. In 1997, more than 100 households were forced to move to another area due to lack of water. Some settled along the banks of rivers outside Mandiangin, such as the Inderagiri Hulu River and the Kampar River. Before 1988, more than 80 per cent the villagers living close to the Mandiangin River worked as fisherman. Now they have lost their livelihood and have found it difficult to become farmers or plantation workers. Some have gone to Malaysia, becoming factory workers.

“Since 1987 the local economy has greatly changed for the worse,” said one of the villagers.

“Forests have been replaced with acacia plantations. The river has been replaced with canals. Only boars and fierce animals remain. The forests we used to live on are gone. The river we used to fish has no fish now as the river is badly polluted by mud and chemical waste from the company. The chemical waste smells very bad and kills the fish. Now, we have to dig wells to get fresh water and we do it by ourselves as the company does not take care of it.”

Today, Mandiangin has a population of 1,765 (766 households), consisting of rubber farmers (25%), oil palm farmers (25%), loggers (25%), traders and government employees (25%).

Rubber farmers can produce up to 50 kilogrammes of sap per week. The sap can be sold at 40 US cents a kilogram. Rubber farmers harvest their rubber plant four times a month (every week), giving each household a monthly income of US\$ 80 a month.

Villagers' oil palm plantations are located in Sei. Liboui, Sei. Jojab, Sei. Air Padang, Pematang Sialang and around Mandiangin Village. Oil palm farmers can harvest up to 500 kilogrammes of fresh fruit bunches from one hectare in one day. The oil palm is sold for 5 US cents a kilogramme. Oil palm is harvested three days each hectare each month. That works out at most US\$75 per month. After paying labourers' salary (US\$10.5 per hectare) insecticide and fertilizer (US\$26.3 per hectare), the farmer is left with only US\$38.2 per ha per month.

Loggers are paid quite badly.<sup>93</sup> Illegally logged timber gets a price far below the official rate. Chainsaw operators are paid US\$11 for each cubic metre of the felled logs. Log draggers and loading workers are paid US\$6.2 a cubic metre. Loggers usually work in groups of six or seven and stay in the forest until the logs are collected or sold (this usually takes a week). In a very good week, a group of loggers might sell six or seven cubic metres. That works out at most, at US\$77 per week for two chainsaw operators and US\$7.2 per week for the loading workers (there are usually two chainsaw operators and five loading workers in one team).

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<sup>93</sup> The Provincial Minimum Wage in 2004 was Rp 450,000/month/person.

On average, the number of logger groups from Mandiangin, and from other traditional villages in the region, is somewhere between three and seven. They are seasonal workers. In addition to local loggers, there are also outside loggers, mostly from South Sumatera and Jambi. WALHI Riau estimates that they outnumber local loggers.

All the facts above indicate that from 1927 to 1987 the Sakai and Malay people of Mandiangin were a creative and productive community. They got their basic needs from nature and lived relatively prosperous lives. They did not have to buy rice, vegetables, or fish. They could sell some of their production, such as rattan, resin, rubber, hunted animals, fish and rice to other community groups.

The income generated from this trade, excluding hunted animals and rubber, might have fetched them US\$32 a day, or US\$ 800 a month. This was the average income of a single household. The trade was beneficial not only from economic aspects, but also from sociocultural ones. After work, they still had quite a lot of free time for their social lives.

Nowadays, the sources of livelihood have changed. 25 per cent of the total of 766 households of Mandiangin have become rubber farmers with a monthly income reaching US\$500 if a farmer has two hectares of rubber. Another 25 per cent have become oil palm farmers. Assuming that the oil palms grow well and can be harvested on time (twice a month), they can earn US\$110 a month from a two hectare plantation. The rest of the community have become government employees, traders and loggers.

#### 4.1.4 Changes in Social, Cultural and Environmental Aspects

##### Mandiangin Village

Mandiangin is subject to Bathin 5 Beromban's administration, which covers the region of Minas up to the banks of the Sei. Mandau stream. Acacia plantations were established on community gardens and community land in the regions of Pematang Ibul, Tanah bolang (which was formerly sacred forest), Padang Linau (formerly an Areca nut forest covering about three hectares), and on the banks of Sei Libuoi, Sei Jojab, Sei Dwi, Sei Sutan Lelo, Sei Utuh, Sei Air Padang, Sei Guntung and Batang Siminai. The plantations have caused sedimentation in the tributaries.

Formerly, one could find hundreds of *Sialang*, a tall tree where bees used to build their honeycombs. From each tree, the local community could collect honey with a commercial value between US\$55 and US\$110 twice a year. It was forbidden to fell a *Sialang* tree. Anyone felling the tree would be subject to a sanction, i.e. having to give up a quart of rice and a goat, and the tree had to be wrapped in white cloth (like Moslems do to dead bodies before burial). Anyone felling trees near *Sialang* trees had to give up a hen. In 1983, when Indah Kiat and Arara Abadi cleared the area, they refused to pay the sanction. Today, there are no more *Sialang* trees in the area, only acacia plantations.

The industrial tree plantation (HTI) development in Mandiangin has generated new problems. Now, there are a lot of mosquitoes in the area and the local community is subject to malaria, coughs and respiratory problems. Agricultural practices are disturbed by acacia, which sprouts up everywhere like a weed. Acacia quickly colonizes land which has been burned for the next planting. The quick growing Acacia smothers other plants growing in the same area.

Villagers in Mandiangin told us that since plantations replaced the forest, animals have become pests:

“Prior to the company’s operation, we had no problems with pests. There were no pests although the riceland was surrounded by forest. Since the operation, we have had a lot of problems with pests, such as boars, sparrows, monkeys and porcupines. And even bears came to our village in 1992 for food.”<sup>94</sup>

In 1992, villagers reported that there was an influx of boars and other pests. To the local community, acacia itself is a troublesome and disturbing pest. Villagers said that they no longer find tigers, deer, jungle fowl, bears or peacock, which vanished in 1986.

In the health sector, Isna Hutapea, a midwife in local health centre (*puskesmas*), said that the company does not provide any medical insurance for the local community. The most common diseases are respiratory problems due to a great amount of dust from the roads, which is made worse by the companies’ timber trucks, and, in the nursery, malaria (see Table).

**Table 3. Common diseases in Mandiangin in 2004 (January-December)<sup>95</sup>**

No.	Disease	Number
1	Respiratory problems (ISPA)	352
2	Malaria	141
3	Diarrhea	121
4	Gastritis	84
5	Rheumatic	78
6	Skin infection	67
7	Sore eyes/Eye problems	66
8	Allergic	65
9	Tooth-aches/Tooth problems	60
10	Hypertension	57

*Source: Isna Hutapea, 28 years, midwife at Puskesmas Pembantu Mandiangin*

In 2004, two workers from the Arara Abadi harvesting section died from malaria and TB.

<sup>94</sup> Interview between WALHI Riau and the community of Mandiangin, January 2005.

<sup>95</sup> Isna Hutapea, 28 years, midwife at Puskesmas Pembantu Mandiangin.

## 4.2 Province of Jambi

Jambi Province is in the middle of Sumatra. The province contains three mountain ranges: the Tiga Puluh mountains, the Dua Belas mountains and the Kerinci Seblat mountains. All three mountain ranges are part of Sumatra's central mountain range, the Bukit Barisan,<sup>96</sup> stretching north-south along the island of Sumatra. The three mountain ranges have been designated national parks.

According to the Jambi Spatial Plan, the province covers 5,100,000 hectares, with forestland covering 42.73 per cent (2,179,440 hectares).<sup>97</sup> However, many believe that the forestland has decreased drastically in size. As an illustration, Berbak National Park (a wetland area protected under the Ramsar convention), has experienced a high deforestation rate, reaching 40 per cent,<sup>98</sup> due to illegal logging. Both legal and illegal sawmills and other timber companies in the area pay local communities to supply them with illegal logs.<sup>99</sup>

The legal forest concession scheme (HPH) has led neither to well managed forests nor has it met industrial demand for wood. In 2002, the Provincial Forestry Agency listed 10 forest concessions actively operating in the province. The Allowable Cut in the Province for the year 2002 was 500,000 cubic metres,<sup>100</sup> while industrial demand reached three million cubic metres. In 2004, only two forest concessions<sup>101</sup> were still operating. The annual allowable cut was 600,000 cubic metres, and industrial demand was 3.8 million cubic metres. These facts clearly show a great discrepancy in supply and demand.<sup>102</sup>

Many forest concessions stopped operations after removing all saleable logs, leaving behind degraded forest areas. In effect, the forest concessions (HPH) have converted about 1.6 million hectares of forest in Jambi into degraded land. In 2004, the Minister of Forestry transferred the management of 15 ex-forest concessions, covering 1.2 million hectares, to the state company Inhutani V Jambi.<sup>103</sup> Inhutani has stated that it will 'reforest' ex-HPHs under an HTI-scheme, meaning that the former selective logging concession areas will be converted into industrial tree plantations.

<sup>96</sup> WH Keuchenius, *Nota Singkat Tentang Keresidenan Jambi (Menurut Sumber-Sumber Resmi)*, 1912.

<sup>97</sup> Governor's Decree No. 108/1999.

<sup>98</sup> *Jambi Ekspres* daily, 5 May 2003, *Sawmill Liar Bertaburan di TNB*, and *Kompas* daily, 26 March 2005, *40 Persen TN Berbak Sudah Habis Dijarah*.

<sup>99</sup> Investigative film: *Harapan Yang Musnah*, People Justice Foundation & Telapak, December 2004.

<sup>100</sup> The realization of the JPT only reached 170,000 cubic meters (34.69%), due to the company's preference for cheap and 'efficient' illegal supply. The assumption grew stronger when the anti-illegal logging operation intensified. The Jambi Forest People Organisation, approached the provincial legislative and executive on 29 December 2004, submitting a letter and holding a hearing. The organization demanded that the Provincial government review the central government's soft-landing policy and allow the community to collect the logs on ex-HPHs.

<sup>101</sup> Basic Data of the Jambi Forestry Agency, second quarter, April-June 2004.

<sup>102</sup> The Forestry Agency said that the discrepancy was to be fulfilled with logs from Plantation Forest (HTI); however, the problem was that HTIs themselves like HPHs, did not perform well.

<sup>103</sup> Rivani Noor, *Inhutani V : Peluang Atau Ancaman?*, 2002.

Discrepancy in supply and demand, badly-performing forestry companies, inconsistent public policies and rampant illegal logging are serious problems in Jambi Province, as they are in other regions of Indonesia. These problems have generated, and continue to generate, social, economic, and cultural problems for the people living in Jambi.

#### 4.2.1 History of The Village Pematang Lumut

Pematang Lumut Village lies in Tungkal Ilir Sub-district, Tanjung Jabung Barat District. The village lies along the main route from the district capital to Tungkal Port, which connects Jambi to Riau, Malaysia and Singapore.

The population is a very diverse mix of cultures and ethnic groups. The major ethnic groups are the Banjar from South Kalimantan, the Bugis from South Sulawesi, and the Melayu Jambi.

In the 1960s, the Banjar and the Bugis set up the village now called Pematang Lumut. In the beginning they came in small groups. The subsistence economy was based on fish, rice, rubber and coconuts.

The inter-provincial road built by the government and the development of forest concessions (HPHs) in early 1970s added to the socio-economic complexity in the village. The village grew in the mid-1970s; more and more families from different regions came to settle in the village.

From the establishment of the village, the villagers had a communal agreement on which land belonged to which family. Reportedly, there were almost no conflicts over land or no overlapping land, because they always consulted each other before opening a piece of land.

In the 1970s the village was officially designated as a 'village'. During this time, the government assigned the *Datuk* (village head) and *Pasirah* (sub-district head) to register all lands under private ownership. Thus, the land under the communal system was replaced with official certificates of private ownership (SKT – *Surat Keterangan Tanah*) issued by the Village Head. More than 5,000 hectares of community land was converted to private title by this programme.

The operation of PT Heeching Timber Industry, the holder of a 72,000 hectare logging concession, in 1971 and the enactment of *Program Transmigrasi Swakarya Mandiri* (Self-supporting Transmigration Program) created greater changes in the community-land relationship pattern.

PT Heeching claimed that more than 800 hectares of the community's land belonged to its concessions. The conflict was still unresolved when PT Heeching was taken over by PT Rimba Hutani Mas (PT RHM) in 1996-1997, an industrial tree plantation company.

The local community demanded that Rimba Hutani Mas resolve the problem. In 1998, the authorities revoked the company's license after it was in breach of forestry regulations. In 2002,

Wira Karya Sakti (PT WKS, part of the Sinar Mas Group) came to the area, holding a new permit to develop pulpwood plantation. The local community had, once again, to face a new adversary without knowing if the conflict could be resolved.

The silviculture system is a concept introduced by the Ministry of Forestry. It requires the company to fell trees along a certain path, disturb no natural forest in a certain path and re-plant logged out areas. One of its schemes is known as TPTJ (Selective Cutting and Path-based Planting). Before its permit was revoked, PT RHM managed HPHs under the silviculture system with the TPTJ scheme. The management failed and the permit was revoked, but was re-granted after the company was taken over by Sinar Mas Group.

#### **4.2.2 The Local Economy And Changes for the Worse**

Prior to the industrial development, the local community could catch the fish and plant vegetables, either for domestic consumption or trade.

They used to get between three and five kilogrammes of fish per day, which was sufficient for up to a week's consumption for an average household of two parents and three children. From their rubber gardens, each week villagers could earn US\$83 a hectare (this figure has been adjusted for inflation since the 1970s). They also planted vegetable crops between the rubber trees.

The demolition of their rubber garden and cropland by the company greatly changed their lives and their economic pattern.

They can no longer catch as many fish as they used to. The company has taken control over the swamps and built canals, causing the disappearance of swamp fish.

Becoming the company's partner and growing acacia trees is also problematic as the reward is not promising enough. First they will only receive any income in seven years time, when the trees are harvested, and second they will not earn a great deal of money: only US\$1,332 per hectare.

#### **4.2.3 Changes to Social, Cultural and Environmental Aspects**

Besides the conflicts over land tenure, PT WKS generated internal conflicts among the local community. Some agreed to becoming partners with the company and planted acacia, others rejected the offer. This adversely affected their relationship.

Moreover, some of the land within the concession was still under the traditional communal ownership. The land certificates issued by the village head became the subject of hot debate between the company and the government in the effort to resolve the tenurial conflict.



## Chapter Five

### LABOUR

#### 5.1 Riau

PT. Arara Abadi employs workers to set up its industrial tree plantations on a contract basis. They come from Java, Kalimantan, Nias, Medan, and Flores. Previously, Arara Abadi was directly responsible for its workers, but it transferred this responsibility to a contractor.

The workers are usually contracted for three months of work. In this period their target is to produce 2,000 tons of acacia wood, the raw material for pulp. The work includes applying pesticides and fertilizers and planting the trees. At the end of the three month period, the contract may be extended. The contract, however, is not written, it is just an oral contract. Local people employed by Arara Abadi's contractors are uncontracted daily workers.

The three month contract workers are divided into two main groups: harvest and nursery groups. The harvest group is mainly people from Javan and Kalimantan. The contractor directly recruits them. The contractor pays for the transportation from their village to the workplace, plus US\$11 for food and a US\$55 loan for their family. The workers repay the "family" loans by having their wages deducted by the contractor.

The harvest group base camp is about eight kilometres away from Mandiingin Village. The contractor or the company does not provide any shelter for them so they have to put up their own camps. One camp is for four to six people. To fulfill their daily needs, the workers usually have to borrow money from the contractor, which they repay with part of their wages. There is no set work time. The contract states simply that the harvest should be ready in three month's time. Medical costs for work injuries are provided for the workers. When sick, the workers usually pay for the medicine before receiving a reimbursement. The wages are paid after the harvest is over,<sup>104</sup> on a tonnage basis. The workers get US\$1.43 per ton of *Acacia crassicarpa*, and US\$1.32 per ton of *Acacia mangium*. The pay is lower for *Acacia mangium* as the species has a lot of branches.

In the nursery, the workers are divided into three groups: seed cultivation, maintenance, and seed sowing. Previously, the applicants had to apply for work. Educational background was among the qualifications. Now, the contractor directly recruits the workers on an oral contract basis. The contract varies in length depending on the worker's desire: six-month, one year or even

<sup>104</sup> The workers have to harvest 2,000 tons of acacia in three months.

longer. The contractor, in this case PT Nursery, provides water and housing faculties as well as electricity. Unlike the harvest group, the nursery group has no medical allowance and workers must pay their own medical expenses.

The wage is based on the amount of seeds produced. Male workers get US\$2.75 per kilogramme, US\$1.98 for female workers.

The company also employs local people on daily basis. In 2004, the wages for various jobs were follows:

- |                |                            |                  |                            |
|----------------|----------------------------|------------------|----------------------------|
| - <b>male:</b> | 1. Rp18,000/day (US\$1.98) | - <b>female:</b> | 1. Rp14,000/day (US\$1.54) |
|                | 2. Rp22,000/day (US\$2.42) |                  | 2. Rp18,000/day (US\$1.98) |
|                | 3. Rp26,000/day (US\$2.86) |                  | 3. Rp22,000/day (US\$2.42) |

The percentage of foreign workers should be noted. Most of those working in the general affairs department, warehouse and supply department, human resource development department, finished goods department, sawmill department, raw wood department, and purchasing department are foreign workers.<sup>105</sup>

It is quite strange, however, that not all of the foreign workers have high educational background. The foreign workers in the chemical plant are high school graduates from Sabah, while the Indonesians working in the same department are university graduates. Most of the foreign workers are from Taiwan, unlike RAPP (Riau Andalan Pulp and Paper, owned by Asia Pacific Resources International Holding Limited – APRIL) where most of the foreign workers are from Finland and India.

According to a local government official, “Only 30.9 per cent of the total of Indah Kiat’s Indonesian staff are from the surrounding villages. While 25 per cent of the total are from West Sumatera and 25.1 per cent are from North Sumatera, the rest are from other provinces except those at the second level management and above.”<sup>106</sup>

Out of more than 1,200 graduates employed by Indah Kiat, only 107 university graduates were from Riau. The rest were from other provinces: 607 from North Sumatera, 199 from West Sumatera, 154 from Yogyakarta and 140 from West Java.

Moreover, Indah Kiat always advertises job vacancies in the national newspaper. As it is located in Riau, it would be more natural and appropriate if it advertised in local newspapers and gave priority to local applicants.

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<sup>105</sup> *Pembangunan dan Kerusakan Alam Riau*, Prof. Tabrani Rab, 2003.

<sup>106</sup> Dialogue with Commission 5 of Riau DPRD, *Riau Pos*, February 2004.

Early in 2005, it was revealed that Indah Kiat employed foreign workers without official paperwork. The only document they had was a temporary stay permit (*Kartu Izin Menetap Sementara/KIMS*). This is regularly practiced to avoid tax.

A women's rights organization based in Jakarta once reported that there were Indonesian women working as contracted wives for the foreign workers. On hearing this, the Immigration Bureau formed a team to further investigate the claims. Three days before the operation started, the Bureau held a press conference. Although the investigation plan was been reported in a local newspaper, the government has never publicly disclosed the progresses of the operation.

## 5.2 Jambi

In May 2004, PT WKS and Lontar Papyrus Pulp and Paper employed a total of 1,651 workers. They were predominantly high school graduates (63.42 per cent); only a few were graduates from university (2.85 per cent).<sup>107</sup> The Table 4 below summarizes the payroll:

**Table 4. Payroll** <sup>108</sup>

No	Educational Level	Monthly Salary	
		Apprentices	Permanent Workers
1	High School graduates without former experience	Rp513,360 (US\$56.52)	Rp660,780 (US\$72.75)
2	D3 graduates without former experience	Rp744,000 (US\$81.91)	Rp1,105,350 (US\$121.69)
3	University graduates without former experience	Rp980,000 (US\$107.90)	Rp1,341,350 (US\$147.68)
4	Daily workers	Rp 10,560/day (US\$1.16)	

In terms of origin, 689 are from Jambi, 249 from Central Java, 173 from South Sumatra, 165 from North Sumatra, 127 from West Sumatra, 50 from East Java, 38 from Riau, 44 from West Java, and the rest from other provinces, including 116 foreign workers.<sup>109</sup> It is clear that the payroll was dominated by workers from outside Jambi.

<sup>107</sup> Progress Report, Participation and Contribution of HTI and Pulp Industry in Regional Development, PT Wira Karya Sakti, May 2004.

<sup>108</sup> Progress Report, Participation and Contribution of HTI and Pulp Industry in Regional Development, PT Wira Karya Sakti, May 2004.

<sup>109</sup> Progress Report, Participation and Contribution of HTI and Pulp Industry in Regional Development, PT Wira Karya Sakti, May 2004.

The payroll scheme is like many other large companies operating in Indonesia. There is a great discrepancy between the wage received and the cost of living. On average, the workers working for Lontar Papyrus and PT WKS in the region of Tebing Tinggi lived in crowded conditions with minimum facilities.

Tebing Tinggi is far from Jambi the long transportation makes prices and cost of living higher. Yet the wage standard used by Lontar Papyrus and PT WKS is that for city lives.

A high school graduate with monthly salary of Rp750,000 (US\$82.57) told us that he had to work overtime to fulfill his basic needs.

In fact, the contract workers, who are not included in the payroll, constitute the backbone of the company. They carry out almost all of the production processes – from the plantation setting-up, the planting, to the harvesting. It is estimated that the number of contracted workers amounts to 5,000.

The scheme turns out to be very beneficial to PT WKS because it is the contractor who is responsible for the workers, the production equipment and the supply.

When setting up a plantation and harvesting, the contractor tries to meet the deadline as there is a bonus from the company if the deadline is achieved. The consequence of this is that when the plantation to be set up belongs to the local community, the contractor will tend to be pragmatic; it will clear the land and plant the trees as quickly as possible in order to meet the deadline. Otherwise, the contractor will lose the bonus and the payment for the contract by the company will also be delayed.

The contractor has the responsibility of expanding the supply network from community groups to ensure that raw material supplies are sufficient. This means that the contractor buys logs from the local community to fill any deficit in raw materials.

Through village cooperatives or farmers' groups, the contractor builds a partnership scheme called HTI Mitra with the local community. The community can, however, directly build the partnership with the company. Under the scheme, the village cooperative or the farmers' groups are the company's partner in supplying the materials. In practice, the village cooperative or the farmers' groups only "rent" their land as it is the company which establishes the plantation, plants the trees, applies fertilizer, maintains the plantations and harvests the trees.<sup>110</sup> Based on our observations, the partnership scheme has been developed not only to fulfill the demand for materials but also to resolve conflicts in the company's way.

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<sup>110</sup> The rent value under the scheme is beneficial to individual farmers that own large areas of land, but not to those with small areas of land. For example, a partner farmer that owns 3-4 hectares of land in Bukit Baling Village can get a total of Rp12 million (US\$1,321) in one harvest cycle (7-8 years) or an average Rp95,000 (US\$10.46) per month.

## Chapter Six

### CONTRIBUTION TO LOCAL ADMINISTRATION REVENUES

In its development report on the accumulated fees paid to the local administration (see Table 5, below), PT WKS not only paid a pulpwood plantation fee. From 1994 to 1998, PT WKS also paid for logs extracted under its Timber Use Permit (IPK), which was usually managed by the village cooperative or farmer's group. The Timber Use Permit was applied in natural forests. The Timber Use Policy helped to accelerate the rate of deforestation in Jambi Province.

**Table 5. Fees paid by PT WKS (up to December 1998)**

Year	Location	Chip Wood (BBS) (cubic meters)	Fee (Rupiahs)
1994	HTI	225,237.82	494,921,395.00
	IPK	646,667.05	1,940,001,150.00
1995	HTI	2,187,905.73	4,148,271,535.00
	IPK	625,640.61	2,227,315,171.00
1996	HTI	1,503,139.51	4,509,418,530.00
	IPK	547,940.00	2,191,700,000.00
1997	HTI	2,294,263.15	6,882,789,450.00
	IPK	197,629.21	790,516,840.00
1998	HTI	1,362,849.98	6,814,245,650.00
	IPK	218,606.98	1,093,034,900.00
<b>Total</b>		9,809,879.19	31,092,214,621.00

**Table 6. Logs Received and Forest Revenues Paid (up to May 2004)  
(the taxes paid by PT WKS to the government)**

Logs Received (cubic meters)	District	Forest Revenues			
		Reforestation Fund (DR) (Rupiahs)	DR (US\$)	IHH*/PSDH**	BPPHH***
60,337.94		1,734,884,627		818,454,531	
3,525.70		106,509,011		59,825,795	24,780,194
126,752.83		3,994,562,349		2,574,254,237	31,136,408
51,368.98		2,149,830,274		1,118,942,445	9,003,500
81,744.73		4,178,555,475		1,824,951,159	
73,613.35		2,353,743,950	340,310.42	2,170,563,976	
29,238.31			366,646.50		
7,930.31					
	Tanjabbar		299,765.28	1,011,759,750.36	
	Tanjabt看		91,065.22	255,726,134.36	
	Batanghari		7,128.92	23,742,564.36	
<b>434,485.15</b>		<b>14,518,085,686</b>	<b>1,104,916.34</b>	<b>11,024,543,970</b>	<b>64,920,102</b>

\* IHH (tax on forest products).

\*\* PSDH (tax on the use of forest resource) are taxes levied as the substitute for the intrinsic values of forest products extracted from State's forests. IHH is usually collected by regional governments and PSDH by the central government.

\*\*\* BPPHH used to be a tax paid for forest product check. A company would gain more credibility if the check concluded that the company was 'good'. The company had to pay a sum of money for the service. BPPHH was abolished in 1998.

During 2004, PT WKS still received logs and paid (see Table 6, above) for forest revenues, both in Rupiah and US dollars. The Reforestation Fund can be paid either Rupiahs or dollars; however, not all businesses in Indonesia use dollars.

Data of The Production Target of Natural and Plantation Forests up to June 2004 (Government's policies permitting logging in natural forests. In Jambi, Permit No.188.4A/181/Kpts/Dinhut/2003 dated 29-12-2003 granted a permit to PT WKS to log natural forest in the districts of Tanjung Jabung Barat, Tanjung Jabung Timur, Batanghari and Muaro Jambi) also show that the Government of Indonesia tolerated the supply from natural forest exploitation to Lontar Papyrus. The policy was reinforced by the production target endorsed by Jambi Forestry Agency, which said that

during April-June 2004, PT WKS was granted a permit to exploit natural forests in four districts in the province.<sup>111</sup> This illustrates a structural problem with Indonesia's forestry legislation, which is based on allowing destructive forestry practices. In effect Indonesia's forestry policy has permitted the destruction of Indonesia's forests.

On the other hand, in relation to the loss to the State economy, CAPP's field investigations indicated that PT WKS manipulated the type of the species supplied to PT LPPI. In some of its plantations in Batanghari District and Tanjung Jabung Barat District, PT WKS changed the status of the log with chip wood. (Logs are transported with chipwood, but the logs are not declared in the paperwork. What is transported to the company is in fact logs, mixed with chips, although the paperwork states that it is chipwood.) According to the regulations applicable in Indonesia, a US\$12 charge is imposed on each cubic metre of log while it is only US\$2 on chip wood. Through the manipulation, the State loses US\$10 for any cubic metre of logs.

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<sup>111</sup> Second quarterly Basic Data of Jambi Forestry Agency, April-June 2004.





