


GREENPEACE



PARTNERS IN CRIME

**A GREENPEACE INVESTIGATION OF THE LINKS
BETWEEN THE UK AND INDONESIA'S TIMBER BARONS**



Greenpeace's ancient forest campaign is dedicated to **protecting** the world's remaining ancient forests and the plants, animals and peoples that depend upon them. We **investigate** and **expose** the trade in illegal and destructively logged timber. We **support** the rights of forest peoples. We **challenge** governments and industry to end their role in ancient forest destruction. We **promote** real alternatives such as products certified by the Forest Stewardship Council (FSC), which ensures that timber comes from environmentally and socially responsible forest management.

INDONESIA

GREENPEACE – UNCOVERING ANCIENT FOREST CRIME

'Expecting or asking one country to combat illegal logging while at the same time, receiving or importing illegal logs does not support efforts to combat these forests crimes... In fact, allowing the import and trade of illegal timber products could be considered as an act to assist or even to conduct forest crime.'

Muhammed Prakosa, Indonesian Forest Minister, 26 January 2003

The UK is participating in Indonesian forest crime. Even the UK Timber Trade Federation admits that 'increasingly, Indonesian mills are not able to identify where a large proportion of their timber is coming from'.³ Evidence suggests that at least 88% of all timber is logged illegally.

Greenpeace has been uncovering UK Government and timber trade use of illegal and destructively logged timber from Indonesia's rainforests. This investigation has taken us from UK Government building sites

and Travis Perkins and Jewson warehouses all the way to unlawful industrial logging camps in the heart of Kalimantan supplying the UK. Our evidence includes photographic and video documentation from the forest to UK end-users, testimonies from indigenous forest-dwelling communities as well as industry loggers in Kalimantan, the expert opinion of individuals working within the Indonesian Department of Forestry, respected scientific research institutes and the UK Government and timber industry sources.

The key findings:

- The overwhelming majority of Indonesian timber harvest is illegal.
- Indonesia's timber industry is environmentally destructive and a threat to its unique biodiversity.
- This goes hand-in-hand with corruption and human rights abuses including oppression and violence.
- And the UK is knowingly buying it.

2010 year by which the lowland forests of Sumatra and Kalimantan will be destroyed if current rates of logging and forest conversion continue.

Because this is not meant to be a comprehensive analysis of the problem but illustrative, it focuses on one company, Barito Pacific, which exports large quantities of Indonesian timber products, particularly plywood and doors (including door blanks and firedoors), to the UK. However, evidence suggests that many of the crimes of this company are equally applicable to other Indonesian logging companies.

FOREST CRIME IS DESTROYING INDONESIA'S FUTURE

The Indonesian archipelago of 17,000 islands forms one of the most biologically diverse regions in the world. Yet what remains of Indonesia's ancient forests is in a perilous state, together with hope for the future of species such as the orang-utan and the survival of many indigenous peoples' customs and traditional economies.

Indonesia's timber processing industries are based upon wholesale asset stripping of the



Logging trucks on an illegal Barito Pacific concession in East Kalimantan.

#1 Indonesia is experiencing the highest rate of forest loss in the world.

70%–80% percentage of Indonesia's timber harvest that is illegal – for 2003, that could rise to 88%.

50% percentage of the UK's tropical plywood that is imported from Indonesia's rainforests.

country's rainforests – every year, at least 2.5 million hectares of forest is destroyed.⁴ Indonesia looks set to enjoy the dubious distinction of logging out the largest remaining expanse of rainforest in Asia Pacific. Sulawesi's lowland rainforest has now virtually disappeared.⁵ All the lowland forests of Sumatra and Kalimantan will be gone by 2010, according to a report by the World Bank.⁶

This destruction of the rainforests has gone hand-in-hand with the abuse of the rights of indigenous peoples who have owned and managed Indonesia's forests for millennia. While there is much talk of the importance of the logging industry to the country as a way of raising state revenue, the pockets it lines are those of Indonesia's military, corrupt officials and timber barons, as well as a few key players in the international timber trade.

Leaving aside the fundamental issues of indigenous peoples' rights and the sustainability of logging, an examination of Indonesia's production figures alone leads to the conclusion that 70%–80% of the timber feeding Indonesia's mills has been coming from sources that break Indonesian forestry laws.⁷ The actual proportion for 2003 is set to be much higher: estimates based on the difference between legal supply and historical demand suggest at least 88% of timber will be sourced illegally. The social and environmental costs of this illegal and destructive industry is borne first and foremost by poor Indonesians.



Indonesian rainforest plywood arriving at Tilbury in the UK – in two weeks in March 2003 more than 6000 pallets arrived.

CONSUMER COUNTRIES & INDUSTRIES ARE PARTNERS IN FOREST CRIME

The destruction of Indonesia's rainforests is fuelled by international demand for cheap plywood and paper – more than 50% of UK tropical plywood imports are from Indonesia. The dirty profits flow to UK timber traders including Jewson and Travis Perkins.

The rapid development of Indonesia's timber industry was funded by billions of dollars of

international investment and the support of Export Credit Agencies. Although donor nations have recently stipulated that Indonesia closes down many of the wood processing mills to curb demand for illegal timber, Indonesia has failed to do so and goes unpunished; donor countries continue to pledge millions in loans each year.⁸ Perverse investments from some of these same countries continue to fund the expansion of Indonesia's processing capacity.



No country or company investing in the Indonesian timber industry or importing Indonesian timber products in the current context can claim to have a credible environmental or social policy. As Indonesia's Forest Minister made clear in January 2003 at the Consultative Group on Indonesia (CGI) meeting which includes the UK, countries and companies involved in this import and trade are partners in forest crime.

'The UK Government gives absolute priority to combating the importation and use of illegally logged timber in the UK.'

Michael Meacher, UK Environment Minister, 4 July 2002

ACT NOW

The world's ancient forests are in crisis. As this case study shows, there is no developmental or economic justification for the further destruction of Indonesia's rainforests. This wholesale liquidation of Indonesia's natural forests is a bleak forewarning for the future of the island of Papua, Asia Pacific's final forest frontier.

The partners in this forest crime – governments and companies in consumer countries such as the UK – must now take action without delay to **stop buying the problem** – suspend trade in Indonesian rainforest timber products – and **ban imports of illegal timber**.

This work is compiled from official and authoritative data, as well as testimonies, field observations, and expert opinions. Greenpeace is indebted to the generosity of countless people, from officials at the Indonesia Department of Forestry to the dollar-a-day labourers on logging camps and to activists for their dedication and work uncovering evidence of forest crime.



'The Government procurement policy on timber applies to all wood and products made from wood used in performing Government contracts. That includes the wood used temporarily during construction works as well as wood fixed as part of a finished structure.'

Michael Meacher, 13 May 2003

The new UK Government Home Office construction site in Westminster uses Indonesian rainforest plywood for hoardings and formwork.



'Forests have cultural values. For indigenous peoples, it is a source of income and livelihood, their home and source of life.'¹⁵

Togu Manurung, Forest Watch
Indonesia, 2 January 2003

WHAT'S AT STAKE? THE LIFE OF INDONESIA'S RAINFORESTS

Every year in Indonesia, an area of forest larger than Wales is destroyed – and with it, hope for the future of species such as the orang-utan and the survival of indigenous peoples' customs and traditional economies.

Constituting just 1.3% of the Earth's land surface, the Indonesian archipelago of 17,000 islands is home to some of the most magnificent tropical forests in the world, with unique biological richness. These magnificent tropical rainforests represent 10% of the world's remaining forest cover, surpassed in area only by the tropical forests of Brazil and Congo.¹⁵

*'(Indonesia) is almost certainly undergoing a species extinction spasm of planetary proportions.'*¹⁴

World Bank Report, 2001

Indonesia is one of the two most biologically diverse countries in the world,¹⁶ home to 25% of the world's known species of fish, 17% of

birds, 16% of reptiles and amphibians, 12% of mammals, 10% of plants and an unknown number of invertebrates, fungi and microorganisms.¹⁷ The majority of these species depend on forests for their survival.

Indonesia's remaining forests are important to both the nation's rural economy and the global environment. They provide food and livelihood for at least 40 million to 50 million indigenous people who have owned and managed Indonesia's forests for millennia.¹⁸

Many people mix subsistence and commercial pursuits, combining shifting cultivation of rice and other crops with fishing, hunting and the gathering or harvesting of forest products such as rattan, honey and resins, edible leaves and fruits and timber.¹⁹ The huge value to forest-dwelling peoples of medicinal plants and forest products is not reflected in formal market transactions. Their subsistence economies are not included in national economic statistics. Being invisible, their



40% percentage of Indonesia's forests that has been logged since 1950; half of what remains has been fragmented by roads and plantations for pulp wood or oil palm.⁹

5 hectares the area of Indonesian forest that is destroyed every minute – that's an area of forest the size of a football pitch that goes every 12 seconds.¹⁰

40 million – 50 million the number of people in Indonesia directly dependent upon the forests for their livelihood and way of life.¹¹

50% percentage of fall in orang-utan numbers over the last ten years.¹²

economic activities are ignored, overridden and destroyed in the pursuit of cheap timber products like plywood.

The range of benefits from Indonesia's forests extends far beyond local communities and national borders. Forests are habitat for a myriad of unique species of plant – many with potential as life-saving medicine. Forests purify the air we breathe. They stabilize soil, prevent erosion and reduce the risk of landslides. They preserve watersheds and improve the quality and quantity of freshwater supplies. They also serve the global environment as a vast carbon reservoir, helping to stabilize the Earth's climate.

LOGGING IS DESTROYING INDONESIA'S ANCIENT FORESTS

Indonesia is experiencing the highest rate of forest loss in the world. Industrial logging is the leading cause of forest loss and species decline in Asia Pacific. The lowland forests of Malaysia, the Philippines and much of Indonesia have already been logged out. Habitats most affected are Indonesia's lowland forests, richest in biodiversity. These forests have been almost entirely cleared in Sulawesi, and the World Bank predicts they will disappear in Sumatra by 2005 and Kalimantan by 2010 if the current rate of destruction continues.²⁰

As their timber resources are liquidated, logging companies are shifting to the last place in Asia Pacific with any significant areas of undisturbed ancient forest left to strip: the island of Papua. International

logging companies are already destroying the forests even here.

According to a World Bank analysis, based on cutting and conversion from 1996 onward, the annual rate of forest loss in Indonesia has been two million hectares.²¹ With increased political instability in recent years, the pace of deforestation has increased, with 2.5 million hectares a year being commonly cited.²² An article in *New Scientist* in 2002 suggested that the level of annual destruction is now approaching 3.6 million hectares a year – a quarter of the natural forests lost globally according to the UN.²³ This logging is about as far removed from environmental sustainability and social responsibility as it is possible to imagine, and the vast majority of it is illegal according to Indonesia's own forestry laws.

FOREST DESTRUCTION HAS UNACCEPTABLE COSTS

The severe consequences of ancient forest destruction are wide ranging:

- catastrophic loss of habitat and species decline
 - social impacts resulting from loss of the forest resources on which forest-dependent peoples' traditional cultures and economies rely
 - global environmental impacts
- The inequitable nature of the profit and loss is clear: the World Bank itself concedes that whereas the costs of Indonesia's unsustainable timber production are borne by the environment and society, the profits are enjoyed by the agents of deforestation.²⁵



Victims of Indonesia's forest destruction: a demonstrator wounded by the military in Papua and orang-utans permanently dislocated by forest fires.

BIODIVERSITY PAYS THE PRICE

Indonesia has the world's longest list of species threatened with extinction,²⁶ which includes the orang-utan. Orang-utans are only found on the islands of Sumatra and Borneo. Industrial logging, timber plantations and mining activities in these threatened habitats have resulted in 80% of orang-utan habitat disappearing over the last 20 years. In the last ten years, orang-utan numbers have halved. Habitat destruction has been hard on Indonesia's other primates – only



300-400 Javan gibbons are thought to be left²⁷ – as well as other mammals such as the sunbear and tigers. As recently as 1930 there were three subspecies of tiger in Indonesia – today only one subspecies is left and the 400-500 remaining individuals are confined to poorly protected national parks in Sumatra.²⁸ Both the Sumatran and Javan rhinoceros are critically endangered species.²⁹

PEOPLE PAY THE PRICE

Indonesia's indigenous and forest-dwelling peoples have next to no legal rights under Indonesian law to manage and protect the forests they depend on for survival. The corporate scramble for timber provokes persistent violations of human rights of local communities.³⁰ Nearly all logging operations are in conflict with local communities as a result of the environmental and social impacts of forest destruction.³¹

While the forest sector has contributed significantly to Indonesia's growth performance, the gains have been achieved at great environmental and social costs. Not only has the use of forest resources been unsustainable, the distribution of benefits has been highly inequitable. Large-scale commercial logging interests have dominated the sector, almost completely bypassing forest-dwelling communities. Depriving villagers of access to forest resources has been the cause of some of Indonesia's most serious social problems.³²

The World Bank, 2002

The result of industrial logging is not only violence and environmental destruction, but also loss of local economies, which cannot develop or provide adequate standards of living for members of forest communities. Also lost is peoples' control over their own future. Once the forest is gone, there are few alternatives for forest-dependent

communities except flight to the cities, adding to the already severe problem of urban poverty.

In strict financial terms, while the plunder of Indonesia's forests is ostensibly aimed at supporting economic growth to improve the quality of life for all Indonesia's citizens, figures from the World Bank show that from the illegal timber cut every minute, the Indonesian Government loses US\$6700 in foregone revenues (over the course of a year, that's more money stolen from the central government by the timber industry than the entire income of eight million average Indonesian families).³² This has a social impact – less money is available for health care and education as well as basic governance institutions and environmental protection.³³

OUR ENVIRONMENT PAYS

Degradation and loss of forest leads to vast environmental impacts including increased flooding, landslides, drought, decline of water quality and increased forest fires that pollute the air with toxic fumes and greenhouse gases, adding to climate instability.

FOREST FIRES ARE DEVASTATING

'One of the world's largest environmental disasters in recent history was the forest fires that raged across Sumatra and Kalimantan in 1997 and East Kalimantan in 1998.³⁴

The World Bank, 2002

One of the most visible results of the last 30 years of forest mismanagement is the severe fires that now threaten the survival of Indonesia's lowland forests. Logging dries out the forest making logged-over forests fire-prone. Deliberate setting of fires to clear land for industrial timber plantations has led to uncontrolled wildfires. Indonesia's 1997–1998 forest fires damaged over 9 million hectares.³⁵ Despite the then Minister of Forestry finding 176 companies responsible, no serious punitive action was taken.³⁶ The financial damage caused by these fires to Indonesia and neighbouring countries is estimated at US\$9.3 billion.³⁷ A World Bank report found that Indonesian fires were responsible for a quarter of all the world's greenhouse gases emissions in 1998.³⁸

According to Nigel Sizer, The Nature Conservancy: *'Fire is a huge threat to the forest, following on behind the loggers. Every dry season for the last few years in Indonesia, we have seen catastrophic wild fires, which have destroyed millions and millions of hectares of forest that otherwise could have been conserved for its wildlife.³⁹*



'The notion of there being a quantifiable amount of legal logging in the nation is a pure abstraction.'⁴⁸

Brown, WWF-World Bank Alliance, 2002



BAD BUSINESS: THE SCANDAL OF THE TIMBER INDUSTRY

The wholesale destruction of Indonesia's forests for internationally traded timber commodities like plywood, pulp and paper – some 88% of it set to be illegally sourced in 2003 – is lining the pockets of the Indonesian military, corrupt officials and timber barons as well as international timber traders like Jewson and Travis Perkins in the UK.

THOUSANDS OF HUNGRY MILLS DRIVE THE DESTRUCTION

Indonesia's timber processing industry is hungry for timber: the amount of timber required to feed its sawmills, plywood manufacturing plants, pulp mills and papermaking plants was reported in January 2003 to be 80 million cubic metres a year.⁵⁰ A further 10 million cubic metres is illegally smuggled abroad.⁵¹ This huge demand drives the destruction of the ancient forests. The scale of consumption is far above the Indonesian government's own authorized timber harvest from Indonesia's natural

forests, which in 2003 is 6.9 million cubic metres,⁵² itself still beyond responsible management of the remaining natural forests. An additional 4 million cubic metres of pulpwood may theoretically come from industrial timber plantations.⁵³ The remaining 69 million cubic metres used by Indonesia's mills will be illegal.⁵⁴

*'Industrialized governments source a lot of cheap materials that drive environmental destruction in poorer countries such as Indonesia, rather than using their money to support real solutions. Think of the consequences, the bigger costs, not just the cost to your pocket. Until Indonesia can enforce its laws effectively, you should stop buying Indonesian timber products.'*⁴⁹

Togu Manurung, Forest Watch
Indonesia, 2 January 2003

5 cents the average hourly wage of workers in mills and factories... less than US\$1 for each 14-hour shift.

This helps make Indonesian plywood some of the cheapest in the world.⁴⁶

2003 BALANCE OF LEGALITY		/MILLION CUBIC METRES
Timber consumption by Indonesia's mills ⁴⁰		80
Amount smuggled to neighbouring countries ⁴¹		10
Legal harvest set by the Indonesian government ⁴²		6.9
Plantation harvest for pulp ⁴³		4
Total demand		90
Total legal supply ⁴⁴		10.9
Difference (illegal) ⁴⁵	79 million cubic metres	(88%)

US\$3.5 billion Indonesian government income losses through illegal logging in 2001,⁴⁷ in addition to the loss of human

life and property from the floods and landslides that follow illegal logging and deforestation.

Nomor Seri: DA 865390

DEPARTEMEN KEHUTANAN DAN PERKEBUNAN
DIREKTORAT JENDERAL PENGELOLAAN HUTAN PRODUKSI

SURAT KETERANGAN SAHNYA HASIL HUTAN (SKSHH)

UNTUK
Karya Sialak

Berlaku 12 hari, dari tanggal 29-04-2002 s.d 10-05-2002

Dinas Kehutanan Prop. Dati I : Kalimantan Tengah
DOK / Dinas Kehutanan Dati I : Barito Utara

A asal Hasil Hutan	Asal Hasil Hutan	Tujuan Pengangkutan
- Nama dan Alamat Lengkap	: Hutan Leling	- Nama dan Alamat
- Kantor Perusahaan Penghantar / Perjual / Perorangan	: Nomor 1 112/2001	- Lengkap Kantor
	: tgl. 12 Desember 2001	- Perusahaan Pembeli / Perorangan
	: An. H. NURH/PT. Intern	
	: Hindia Makmur Masru Tawah	
	: Kalimantan Tengah.	
- Pengangkutan melalui	: "Sewa Kapal (Sewa Kapal)"	- Alamat lengkap
- Jenis Alat Angkut	: Kapal Motor & Bekit	- Persepsi / Persepsi /
- No. Pelat / Nama Kapal / No. Lambung / Nama Tongkang	: NO. HIRIARA 1001	- Lokasi Pengolahan / Perorangan
- Alamat Lengkap Lokasi Tempat Muat	: Logpond Damban	- Alamat Lengkap Lokasi
	: Kab. Barito Utara	- Tempat Bongkar
	: Kalimantan Tengah	: PT. Barito Pacific Timber
		: Logpond Jalapat Banjarmasin
		: Kalimantan Selatan

An SKSHH transport document: in theory, this document shows that the wood in shipment is of legal origin. In practice, there is a large black market for these documents.

CORRUPTION MAKES TIMBER LAUNDERING ROUTINE

Very little of the illegally felled timber that goes through Indonesia's timber mills does so without some form of official sanction – at some point in the production chain, 'some official, or some official document is misused in order to legitimize an illegal shipment of wood'.⁵⁶ The ease of such administrative smuggling shows that illegal logging and official corruption cannot be taken separately.

In the timber supply chain from forest to mill, it is standard practice for log brokers to

purchase fraudulent 'legalizing' documents from corrupt company and government personnel in order to launder illegal logs to mills: 'Buyers of illegal timber choose which province, district, and even concession they wish to claim that a particular shipment of timber came from.'⁵⁷ Mill managers openly admit they buy logs from brokers without knowing the wood's real source.⁵⁸

Timber's potential as a source of revenue affects local government attitudes toward illegal logging, and timber companies take advantage of this power struggle to get

Illegal logging has come to constitute a well-organized criminal enterprise with strong backing and a network that is so extensive, well established and strong that it is bold enough to resist, threaten, and in fact physically tyrannize forestry law enforcement authorities. (Accomplices include) investors, including traders, concessions holders or holders of legal timber cutting permits (IPK) and buyers of illegal timber from processing industries, and government officials (both civilian and military), law enforcement personnel, and certain legislators.⁵⁵

Ministry of Forestry, 2000

round central government restrictions on timber supplies. In some regions, district heads have put in place quasi-legal mechanisms to convert illegal products including timber harvested from indigenous lands or national parks into 'legal' supply by paying a district tax.⁵⁹ While the central government imposed a moratorium on further clearfelling of natural forest for conversion to plantations in May 2000, this is widely disregarded at the provincial and district levels.⁶⁰ In Papua, the provincial government has refused to revoke the logging concession licenses it granted in 2002 for an area of 12 million hectares, despite clear statements from central government that these licenses are illegal.⁶¹

BY ANY DEFINITION, FOREST CRIME IS OVERWHELMING

Greenpeace's concern is not just with legality, but rather that if the current rate of logging continues, Indonesia's rainforests will be destroyed. Forest crime includes not only destructive logging practices and poor management, but also corruption, tax fraud and human rights abuses that transgress international law on the rights of indigenous peoples.⁶⁴

For indigenous peoples, the first forest theft was by the Indonesian state itself, which since the 1970s has forcibly denied communities access to their forests so that the land can be given out as concessions to political cronies of the ruling elite.⁶⁵ From this perspective, all industrial timber products violate Indonesia's own constitutional laws on 'native communities'⁶⁶ as well as internationally recognized laws on human rights.⁶⁷

*'What is the 'legality' of Indonesian timber from indigenous peoples' perspective? Legality – that's just paper. Timber produced by industrial logging companies is taken without free and prior informed consent from indigenous communities.'*⁶²

Abdon Nababan, Executive Secretary, Coalition of Indigenous Peoples of the Archipelago (AMAN), 6 January 2003



Even in basic terms of formal compliance with Indonesian forestry law, illegal logging is insidious and systematic. *'Probably no log in Indonesia is produced in a way that is not characterized by the breaking or manipulation of some regulation.'*⁶⁸

Even in 2000, when the legal harvest was much higher than it is today, calculations for the WWF–World Bank Alliance based on conservative figures suggested that 78% of timber was felled illegally.⁶⁹ Official involvement, both of civilians and military, is pervasive.⁷⁰ The incentive for logging companies is clearly to cut and run.

Common types of illegal logging include:⁷¹

- logging outside concession areas and in protected areas
- logging without authorization and obtaining concessions by corrupt and illegal means (bribery and coercion)
- overcutting and felling of undersized trees
- under-declaration of harvest, tax avoidance and fraud

Although laws require mills to report their annual timber consumption and supply to the government,⁷² these have not been enforced. In 2001, for instance, only half of large mills submitted such reports.⁷³ Further, a large portion of the timber supplying Indonesia's industrial timber processing industries comes from untraceable sources via brokers.⁷⁴

While the true extent of illegal logging can only be estimated, what is unquestionable is that the vast majority of wood harvested in Indonesia is illegal. And the UK is knowingly buying it.

*'When (Forestry) Department headquarters does not know from where the nation's large mills are obtaining their raw materials, how much they are consuming, or even whether they are operating at all, it is impossible for it to carry out, even on paper, the type of exercise that would be needed in order to bring the demand of the nation's timber mills in line with the nation's legal supply.'*⁶⁵

Brown, WWF–World Bank Alliance, 2002



This handgrenade was dropped by the Indonesian forces in 1999, when they opened fire on demonstrators near a US-run mine in Papua, killing three and injuring 175 civilians.

FOREST CRIME FUELS – AND IS FUELLED BY – THE MILITARY

Agents of the Indonesian military, notorious for human rights abuses throughout the archipelago, are heavily involved in commercial forestry as concession holders, business partners, and security for forest companies as well as financial backers and protectors of illegal loggers.⁷⁶ Up to 75% of the military's total budget is off-budget income (e.g. outside business interests). While these are ostensibly legal business activities, agreed to by the government,

which cannot meet the full costs of the military budget, the proportion of the military's business budget 'leaking' to individuals is about 65%.⁷⁷ This conflict of interest has contributed to the failure to prosecute forest crimes and human rights crimes committed by timber companies.⁷⁸

As the sixth largest concession holder, the Indonesian military has a high stake in the plywood industry.⁷⁹ Military forces and police consistently use intimidation or force against communities that inhabit areas set to be

logged.⁸⁰ They routinely act as private enforcers for companies, both quashing protests and hiring themselves out to companies for 'land acquisition' from local communities.⁸¹

For instance, the pulp, paper and rayon mill *PT Inti Indorayon Utama*, owned by the conglomerate Raja Garuda Mas – which also exports plywood to the UK that is being used on a major Government construction site – has been the cause of human rights abuses in North Sumatra following the seizure of community land for plantation without compensation.⁸² According to Human Rights Watch and the Indonesian environmental NGO Walhi, between 1998 and 1999 police were called in to quell local community protest: seven people were shot by the police; 90 are alleged to have been abducted and tortured or otherwise mistreated, one of whom later died in hospital of injuries, two have 'disappeared' and are presumed dead, five remain blinded or crippled from injuries, seven had their homes or shops vandalized.⁸³

Much of the military involvement in the sector is hidden because the links are often between particular timber concessions or mills and local military commanders.⁸⁴

'Involvement in illegal sectors has been a long-standing strategy for augmenting the military budget as well as individual fortunes, especially in the mining and forestry sectors. According to well-placed observers and undercover investigators,

*agents of the military, as well as police and local government officials, act as both financial backers and as protectors at all stages of illegal logging operations including log extraction, transport and processing. This pervasive involvement has been well documented in the protected forests of Aceh and Central Kalimantan.'*⁸⁵

For instance, in 1998 the UK's Department for International Development documented 23 illegal sawmills around Sumatra's Bukit Tiga Puluh National Park, of which 12 had military backing, one had police backing, and five had forestry department backing.⁸⁶

UK timber importers are directly linked to notorious military concessions. Montague Meyer and Fepco buy Barito Pacific's plywood processed by its Sangkulirang Bhakti mill in Samarinda, which is supplied by the military company ITCI.⁸⁷ Plywood manufactured by Sumalindo,⁸⁸ slated to be taken over by a reported military holding company, is being used as hoardings on the new Home Office headquarters building site in Westminster and plywood from Raya Garuda Mas is being used as formwork for pouring concrete on the same site.

*'Private sector actors, often with assistance or acquiescence of law enforcement authorities, are increasingly relying on civilian militias, 'youth brigades', hired gangs, and vigilantes of various types.'*⁷⁵

Harwell, Human Rights Watch, 2003



Only 25% of Kutai National Park is in good condition, and even that is in fragments.⁹⁰

PROTECTION IS PAPER THIN

Protected area boundaries are a poor defence against illegal logging. Nearly 20% of all protected areas have been destroyed by illegal logging, according to the Department of Forestry.⁸⁹ In Central Kalimantan, Tanjung Puting National Park is famous for its orang-utans. More than half its area – 40,000 hectares – has been plundered.⁹¹ Destruction of protected forests on the border between Kalimantan and Malaysia has also reached crisis level.⁹²



Misleading words on Indonesian rainforest plywood at Tilbury – statements such as these are used to dupe consumers of Indonesian rainforest products into thinking they are acceptable.

INDUSTRY STANDARDS ARE HOLLOW

Indonesia's timber companies try to increase the acceptability of their products in the international marketplace by misleading use of certifications as evidence of social or environmental performance. In particular, ISO 9000 series and ISO 14001 certifications are cited.⁹⁴ ISO certification is designed to rationalize international trade by defining technical specifications worldwide – standardizing credit cards for instance. It is not designed to provide standards or criteria

for performance. ISO 9000 and ISO 14000 series certificates offer no evidence of a company's social or environmental impact.⁹⁵ Indeed, making claims of sustainability in association with an ISO14001 certificate is forbidden by the ISO; any company so doing is in *de facto* nonconformance.

Even more simply, Indonesian plywood or door blanks are often stamped 'sustainable', a clear case of rhetoric triumphing over reality – these claims are bogus.



FSC IS THE ONLY MARK TO BUY

The Forest Stewardship Council (FSC) is the only internationally recognized standard that ensures buyers that timber comes from environmentally and socially responsible forest management. The FSC is the largest global forest certification system. It has certified 35 million hectares of forests and plantations in 55 countries. Compliance with the FSC enables access to a number of key international markets. FSC products are preferred by many key wood product companies, including the world's three largest DIY retailers: Home Depot, Lowes and B&Q as well as the world's largest furniture retailer, IKEA.

FSC Principles 2 and 3 ensure that the right of local communities and indigenous peoples to own, use and manage their lands and resources is recognized, respected and legally established.⁹⁶

ISO 14001 is not a label signifying a 'green' or 'environmentally friendly' product.⁹⁵

ISO website



BARITO PACIFIC TIMBER GROUP
PT. BARITO PACIFIC



BARITO PACIFIC – CASE IN POINT

Headed by Soeharto-crony Prajogo Pangestu, the Barito Pacific conglomerate is implicated in numerous forest, financial and human rights crimes. As Indonesia's Forest Minister made clear in January 2003, by ignoring overwhelming evidence of the lawlessness, brutality and forest destruction wrought by Indonesian companies such as Barito, and continuing to import their products, the UK is a partner in these crimes.

Former President Soeharto used the award of forest concessions to consolidate power with his cronies. Centuries-old systems of customary rights over forests and traditional resource management impeded the state's political and economic objectives and were swept aside. Laws were brought in declaring that the central government owned the 75% of the nation's land area designated as forests. Over 62 million hectares of forest were handed out to companies with ties to the military and the Soeharto family. Local communities were barred from the

forest resources on which their way of life depended.¹⁰² As a consequence, just a few key players dominate the forestry sector: Bob Hasan's **Kalimanis** Group, Burhan Uray's **Djajanti** Group, Eka Tjipta Widjajaj's **Sinar Mas** Group, Sukanto Tanato's **Raja Garuda Mas** Group and Prajogo Pangestu's **Barito Pacific** Group.¹⁰³

The Barito Pacific Group is the largest logging concession holder in Indonesia. The Group holds 52 timber concessions covering over five million hectares. It is also the largest plywood exporter in the world. Its 31 plywood mills and sawmills consumed over 4.3 million cubic metres of timber in 1998.¹⁰⁴ At 500,000 tonnes per year, it is the second largest pulp exporter in Indonesia.¹⁰⁵ The conglomerate is involved in oil palm and further timber industries in Malaysia, Papua New Guinea and China.¹⁰⁶

This empire was built with EU money, including UK pension funds.¹⁰⁷ For example in

2001, two Barito Pacific Group subsidiaries alone owed nearly US\$800 million in foreign debt between them to companies including German and Finnish Export Credit Agencies, Credit Suisse First Boston, Credit Lyonnais, Lehman Brothers and Morgan Stanley.¹⁰⁸ Other major creditors for the Group include Bearings and Asia Kapitalindo.¹⁰⁹

The inflated capacity of this company forces it to depend on illegal sources to supply its mills, and there is no hope that this can change in the future. In 2001, two-thirds of timber processed by Barito sawmills and plywood mills was from untraceable or illegal supplies.¹¹⁰ The authorized timber supply has since shrunk. Today, two-thirds of Indonesia's total legal timber supply would be required to meet Barito's plywood and saw mill demand alone.¹¹¹

Recent accounts of company practice include many examples of illegal and grossly unsustainable logging practices, illegal



burning of rainforests, social conflicts – one Barito Pacific timber plantation in South Sumatra has land claims against it by 31 different villages¹¹² – and use of conflict timber from the civil war zones of Maluku and Papua. The UK buys 20% of Barito's plywood.¹¹³ UK companies dealing in Indonesian plywood such as that produced by Barito are partners in these crimes – this includes Travis Perkins, Jewson, Montague Meyer, Finnforest, as well as timber merchants, joinery companies and the construction industry.

US\$1 billion amount of bad debt Indonesia has forgiven Prajogo Pangestu in a series of sweetheart deals.⁹⁷

2000 year Barito's Tunggal Agathis mill was closed temporarily due to 'social riot'.⁹⁸

65% percentage of timber processed by Barito mills coming from unaccountable or illegal supplies in 2001.⁹⁹

20% share of Barito's plywood production imported to the UK.¹⁰⁰



UP CLOSE AND PERSONAL – MEET PAK PRAJOGO

Prajogo Pangestu was born Phang Djun, meaning 'big bird that flies above the clouds' in Chinese. *The Far Eastern Economic Review* dubbed him 'Lord of the Forest'.¹¹⁵

Both directly and through Barito Pacific, Prajogo has been a major financial beneficiary and supporter of the former Soeharto dictatorship and the military. He has been implicated as a principle financier of military and paramilitary operations to repress pro-democracy activism in East Timor.¹¹⁶

Born in 1944, Prajogo started as a salt vendor and has risen to become the timber tycoon of Barito Pacific Group – parent of 120 companies. The first rung on the corporate ladder came in the mid-1960s when Prajogo got to know the owner of *PT Djajanti*, who

was heavily involved in smuggling timber.¹¹⁷ Ten years on, Prajogo cut loose, bought up a failing company, and changed its name to *Barito Pacific*. Soon he was logging the forests of Kalimantan, Maluku and Sumatra.¹¹⁸

Tempo, an Indonesian current affairs magazine which investigated Prajogo's business dealings, reported: 'According to a source in the Ministry of Forestry, Barito's success was inseparable from the forest concessions that Prajogo illicitly obtained in East Kalimantan.' Shares in these concessions were owned by one of Soeharto's cousins and a former minister for forestry. 'It was normal practice for forest concessions to be parcelled out and divided up among [Soeharto's] relatives and their 'retainers,' especially in military circles.' In violation of forestry laws, these people did not undertake the logging of the forests themselves, but got in third parties to do it for them.¹¹⁹ Prajogo was able to assist: 'One such form of assistance was the smuggling of timber into Malaysia using local partners.'¹²⁰

To overcome the Indonesian Government log ban in 1980, Prajogo was able to build a wood processing industry thanks to a loan from Credit Lyonnais Bank for 150 million francs (US\$23 million). This was the first step to establishing Prajogo as the largest plywood producer and exporter in the world.¹²¹ Once established, he also took advantage of his political connections to secure US\$550 million uncollateralized loan from a state-owned bank at Soeharto's insistence, as well as US\$45 million in subsidy from a state-owned forestry corporation.¹²²

In the mid 1980s, in partnership with Soeharto's eldest daughter Tutut, Prajogo became involved in a number of timber processing companies and forest concessions based in Sumatra.¹²³ 'By this stage, he had entered into the most intimate of Soeharto's inner circles and was often to be seen accompanying Soeharto on the golf course, albeit acting as his caddy.'¹²⁴

'Pangestu is a national asset.'¹²⁴

Former Indonesian President
Abdurrahman Wahid

In 1990 Prajogo also went into partnership with Soeharto's son Bambang Trihatmodjo to set up Bank Andromeda¹²⁵ and develop the Chandra Asri petrochemicals plant in West Java. Prajogo borrowed US\$1.1 billion from the Indonesian government, which he failed to pay back. Bank Andromeda was shut down because, in violation of Indonesia's banking laws, more than 20% of its loans went to a sister company – none other than Chandra Asri.¹²⁶ After a series of suspect dealings, all but US\$100 million of Prajogo's US\$1.1 billion debt for the plant has been 'forgiven'.¹²⁷

When Soeharto was forced to step down, the Department of Forestry decided to take action against the well-established practice of embezzling from the Reforestation Fund (intended to support industrial timber plantations). In 2001, Suropto, then Director General of Forestry, presented Attorney General Andi Ghalib with evidence that Prajogo personally misappropriated US\$34 million from the Reforestation Funds.¹²⁸

The evidence compiled by Suropto included inflating the amount of land for an industrial timber plantation by over 100,000 hectares in order to gain a larger grant from the Reforestation Fund, getting the financial grant from the Reforestation Fund before the plantation was even licensed (Prajogo simply sent a letter to Soeharto directly), defaulting on loans and other financial irregularities, tax avoidance by underreporting total timber use, cutting outside concession areas, cutting on community land, using intimidation, tax manipulation, and bribery.¹²⁹

Prajogo continued 'to move in an agile fashion between business and politics'. Of the money the military-backed Golkar party spent in the June 1999 elections, nearly a quarter of that amount was a personal contribution from Prajogo.¹³⁰ Though he had lost Soeharto, he soon found a new political protector in President Abdurrahman Wahid, who issued a guarantee that the government would not be pursuing 'big businessmen who render good services to economic development'.¹³¹

Wahid ordered the deferment of a criminal investigation into Prajogo's history and praised him as a national asset who provided employment and added value for exports.¹³² Prajogo is also alleged to have made a substantial transfer of funds to the personal bank account of Attorney General Andi Ghalib,¹³³ and the charges against Prajogo were dropped. Wahid fired Suropto, accusing him of plotting against the government and 'spying for a foreign nation'.¹³⁴

BARITO PACIFIC IS BAD BUSINESS

The Barito Pacific Group now has the second largest burden of non-performing corporate domestic debt in Indonesia.¹³⁵ Indonesian law requires that all timber concessions and mills maintain a set level of profitability in order to operate.¹³⁶ Be that as it may, in 2002, nine of Barito's operational forestry companies alone owed the Indonesian Bank Restructuring Agency (IBRA) over US\$140 million.¹³⁷ In addition, Barito Pacific Timber, the Group's publicly listed flagship, owes US\$428 million in foreign debt.¹³⁸ Prajogo's giant *Tanjung Enim Lestari* (TEL) pulp plant, whose expansion was funded by many hundreds of millions of dollars in loans guaranteed by Export Credit Guarantee Agencies in Europe, the USA and Japan, has in excess of US\$350 million in foreign debt, which it cannot or will not repay.¹³⁹ There is no indication that any of these companies are to be shut, despite the Government of Indonesia's commitment to do so since 1999.¹⁴⁰

'Barito's idea of repaying its debt to us is to (make a rude hand gesture). Of all the loans our bank has made in South East Asia, none has come back to bite us in the (area of the human body) like our loans to Barito.'¹⁰¹

Head of SE Asia lending,
a European bank, 5 November 2001



BARITO OPERATIONS ARE ILLEGAL AND DESTRUCTIVE

Barito Pacific has engaged in numerous unsustainable and illegal practices in its natural forest timber concessions, plantations and mills across Indonesia. Types of destructive operations linked with Barito include illegal logging,¹⁴¹ logging protected areas,¹⁴² tax evasion, illegal burning of the rainforest, bribery, inciting social conflict, involvement with the military and use of conflict timber.¹⁴³

THE EU IS FUNDING A PR EXERCISE

In South Kalimantan, Barito's *PT Aya Yayang Indonesia (PT AYI)* concession is part of a joint European Commission–Indonesian Government pilot project to develop model sustainable forest management practices. This approach has been lauded to the UK timber trade by the UK Department for International Development; sourcing timber from these pilot schemes is recommended to its members by the UK Timber Trade Federation.¹⁴⁴ The truth is that this pilot scheme is nothing but a dangerous and ill-considered EU-funded PR exercise, perpetuating the illusion that somehow timber can be responsibly sourced from Indonesia's rainforests at this time.

PT AYI claims to be aspiring to FSC certification. However, an environmental audit using FSC criteria found that it failed in all areas.¹⁴⁵ 'Illegal logging is rampant',¹⁴⁶ including logging of protected areas¹⁴⁷ and involves 'an interrelated and supportive network [including] tree fellers, investors,

transporters, processors and buyers [with] direct and indirect cooperation between the perpetrators of illegal logging and agency officials. Examples of this are payment of bribes, escort protection provided by officials for the transportation of timber, and issuance of false certificates of origin for processed timber.'¹⁴⁸

A study for the programme found that 'the only factors limiting the amounts of trees felled appeared to be the number of chainsaws available, the extent of roads accessible to trucks and distance from a road'.¹⁴⁹ The study predicts that 'illegal felling will continue and become progressively more damaging' and consequently 'sustainable forest management in the *PT AYI* concession area is not possible'.¹⁵⁰ Economic evaluation found that 'if all taxes were paid, the logging operation would be financially unviable'.¹⁵¹ The overall conclusion reached: '*PT AYI* depicts a picture of "logging that does not make sense" ... this then raises the obvious questions of why and how the operation still exists.'¹⁵² *PT AYI* is Barito's flagship concession for its Barito Pacific Timber mill in Banjarmasin. The company uses this type of operation to insinuate to UK traders that certified timber is just around the corner. In reality, the claim that Barito will be able to source legal timber from concessions such as this is clearly fantasy.

BARITO IS BUYING LAUNDERED TIMBER

In January 2003, Greenpeace field investigators received evidence that Barito Pacific has knowingly bought tens of thousands of cubic metres of illegal timber.



One of Barito Pacific's illegal logging concessions in East Kalimantan – this supplies the *Tunggal Yudi* mill which exports to the UK.



According to forestry law, confiscated timber that is not claimed should be destroyed. But in November 2001, confiscated illegal timber was auctioned when no one had claimed ownership. Barito Pacific was both the reported original owner of the timber and the successful bidder. The amount auctioned was only a small fraction of the volume Barito Pacific ultimately received – the whole operation has been a massive laundering exercise to generate SKSHH transport documents to 'legalize' illegally logged timber.

- Firstly, the volume originally slated for auction (6,500 cubic metres)¹⁵³ was smaller than the actual volume of timber receiving SKSHH transport documents as a result of the auction (20,000 cubic metres).¹⁵⁴
- Secondly, during the five months prior to transport to the Barito Pacific Timber mill in Banjarmasin, further timber was added and additional SKSHH documents issued.
- Thirdly, when the logs were transported the following month under armed escort of 13 forestry police, yet more timber was added. More SKSHH documents were issued to cover an additional 20,000 cubic metres of timber, but the volume continued to swell.¹⁵⁵

The district government has been accused of laundering 200,000 cubic metres of illegal timber in this way.¹⁵⁶ The district head, the head of the district forestry department and the head of the local council are all currently under investigation for forest crime. Irrespective of the corruption attributable to

government officials, it is clear that Barito Pacific is implicated in ongoing collusion and corruption as it milks the illegal logging market to the full.

THERE ARE MANY EXAMPLES OF BARITO'S ILLEGAL ACTIVITIES

The following examples illustrate some of Barito's other illegal activities:

- Barito has been repeatedly implicated in illegal use of fires to clear logged areas. Overflights by the German development agency GTZ showed that more than 95% of some Barito plantations were burnt in the fires of 1997-98, as well as serious damage to concessions and neighbouring protected forest areas.¹⁵⁷ Greenpeace field investigators heard how the illegal fires repeatedly lit by Barito's *PT Ananga Pundinusa* plantation in 1999 caused the death of one local woman trying to protect her rice fields.¹⁵⁸ In 2001, NOAA satellites spotted fires in four further Barito Pacific concessions.¹⁵⁹
- Since late 2002, many Barito industrial timber plantations for pulp have had their licenses withdrawn because of bad management such as failure to plant trees on land that has been cleared. These include *PT Rimba Equator Permai* and *PT Ananga Pundinusa*.¹⁶⁰
- In Central Kalimantan, the *PT Marga Daya Woodworks* was found to be bribing ministry officials. The issuing of the concession did not conform to regulations.¹⁶¹

- In Riau, Barito logging concession *PT Industries et Forest Asiatique (IFA)*, among others is driving indigenous Suku Rimba and Talang Mamak peoples out of their ancestral territory. Logging of their customary forest in and around the highly endangered Bukit Tigapuluh National Park is providing wood for 31 mills in the area.¹⁶²

'All mills visited asked about the possibility of price premiums for legal timber.'¹⁶⁴

UK Timber Trade Federation,
Mission to Indonesia, March 2003

- The log yard at *PT Tunggal Agathis* mill in Maluku is reported to be stacked high in unmarked (illegal) logs but permission for an advisor in the Department of Forestry to inspect this mill was denied on the grounds that it was 'too dangerous'. Of the raw logs it used in 2001, 83% by volume came from sources that are either untraceable or not approved by the national government including what were alleged to be private forests (*hutan rakyat*) mostly in the war-torn provinces of Maluku and Papua.¹⁶³



BARITO COOKS THE BOOKS AND THE UK BUYS IT

Barito mills are reliant on illegal timber. A 2002 report¹⁶⁵ for the WWF–World Bank Alliance gives a comprehensive précis of Barito Pacific's plywood mill dependence on untraceable or illegal sources of timber in 2000 and 2001; legal timber supplies have since fallen sharply. The following examples are Barito mills supplying the UK trade:

TUNGGAL YUDI, SAMARINDA

An analysis of the profile of the raw material supply to the mill in 2000 shows 81,000 cubic metres came from type sources that were untraceable or have since become illegal.¹⁶⁶ Field investigation by Greenpeace tracked down one large 'joint venture' supplying the mill and ultimately the UK, which breaks Indonesian forestry law. Tunggal Yudi exports a large quantity of plywood to the UK. Buyers of products from this mill include Jewson, Travis Perkins, Montague Meyer, Finforest, Caledonian Plywood, Hawthorn, Hanson, Arnold Laver, Rembrand and Thornbridge.

BARITO PACIFIC TIMBER MILL, BANJARMASIN

In 2001, the Barito Pacific Timber mill in Banjarmasin, South Kalimantan had a legally licensed capacity of 165,000 cubic metres but produced 245,300 cubic metres of plywood.¹⁶⁷ The mill's annual operating report¹⁶⁸ to the Department of Forestry for 2001 only chronicles 334,000 cubic metres of timber. Given that the conversion rate for plywood is 2:1 (i.e. the volume of plywood



Barito Pacific mills in Banjarmasin and Samarinda

produced is half that of the raw material needed), and the mill produced 245,000 cubic metres of plywood, it can be concluded that about 490,000 cubic metres of log was actually required for plywood alone. The mill also produced 32,000 cubic metres of sawn timber. From this, Greenpeace infers that the mill officially reported only about half the logs it consumed. Of those it *did* report, 64% came from logging activities not sanctioned by the national government.¹⁶⁹



The Banjarmasin mill exports a large quantity of plywood and door blanks to the UK. Buyers of products from this mill include Travis Perkins, Caledonian Plywood and Hawthorn.

SANGKULIRANG BHAKTI, SAMARINDA.

In 2001, the Sangkulirang Bhakti factory declared that it consumed 93,000 cubic metres in raw logs and produced 48,500 cubic metres of plywood. The untraceable and/or non-government sanctioned raw material coming into the mill accounted for

about 35,000 cubic metres. These sources included timber purchased from 30 individuals (probably middlemen) about whom the company provides no information other than their names.¹⁷⁰

Sangkulirang Bhakti exports a large quantity of plywood to the UK. Buyers of products from this mill include Montague Meyer, Fepco and Premier Forest Products.

'Consumers have a huge responsibility, perhaps more so in the case of Indonesia than many other sources of tropical timber, because we have seen again and again that Indonesia itself is unable to control this problem. If the market doesn't help then there's no hope for Indonesia's forests.'¹⁷²

Nigel Sizer, The Nature Conservancy,
4 January 2003



PARTNERS IN CRIME – THE UK ACTORS AND ACCOMPLICES

In the context of environmental and social chaos that exists in Indonesia, buyers of Indonesian rainforest timber are inevitably supporting corruption, social conflict and environmental destruction. Responsibility for tackling illegal logging and asset stripping of Indonesia's rainforests lies with the major consumers such as the UK.

About 90% of Indonesia's plywood production is exported. Important markets include Japan, which receives about one-third of production, the USA, China, and the EU.¹⁷⁴

*'Indonesian mills are not able to provide sufficient evidence of legality and sustainability for the UK market.'*¹⁷⁵

UK Timber Trade Federation,
9 May 2003

The UK is the largest EU importer and the sixth largest importer of Indonesian plywood

90% proportion of Indonesia's plywood that is exported.

in the world. According to HM Customs and Excise, the UK imported 237,000 cubic metres of plywood from Indonesia in 2002, worth £52 million¹⁷⁵ – nearly half its tropical plywood imports.¹⁷⁶ The same year, the UK imported 23,000 cubic metres of Indonesian door blanks worth nearly £26 million.¹⁷⁷ During 2001, £50 million of pulp and paper was imported to the UK from Indonesia.¹⁷⁸

NOTORIOUS TIMBER EXPORTERS SUPPLY THE UK

There are many companies exporting Indonesian plywood to the UK. According to industry sources, the four main brands are Barito Pacific, Rimba Sunkyong, Tjipta Rimba, and Sukses Sumatra's Krakatau. Other brands include Mujur, Korindo, Gazelle, Sumalindo, Besitang and Fujii.¹⁷⁹

Barito Pacific Timber is the largest plywood manufacturer in the world, and according to the Timber Trade Federation, the UK takes 20% of its exports.¹⁸⁰ Plywood from two

#1 UK ranking among European buyers of Indonesian timber products – it is the sixth largest buyer in the world.

notorious companies exporting to the UK has recently ended up being used on the new Home Office headquarters construction site in Westminster: Sumalindo Lestari Jay and Raja Garuda Mas.

BARITO PACIFIC

Three Barito Pacific mills in Kalimantan supply the UK market: Tunggal Yudi and Sankulirang Bhakti in Samarinda and Barito Pacific Timber in Banjarmasin. All three mills are heavily dependent on illegal or unverifiable sources of timber (see 'Barito cooks the books' case study). The main importers and traders in the UK include Jewson and Travis Perkins. According to industry sources, in 2002, Jewson imported 17,000 cubic metres of Barito plywood. Other companies importing Barito plywood include Hawthorn, Lamboard, Arnold Laver, Thornbridge, Montague Meyer, Premier Forests Products, Caledonian Plywood and MBM Timber. Barito agents in the UK are Wood International and Cipta.

15% percentage of UK timber procurement for which the UK Government alone is responsible.¹⁷¹

SUMALINDO LESTARI JAYA

Until late 2002, the company was a subsidiary of the Astra Group, owned by Soeharto crony and convicted criminal Bob Hasan who is currently in jail for defrauding the Department of Forestry, and a 10% shareholding by Barito Pacific. Plans are afoot to give 75% control of Sumalindo to a reported Indonesian military front company Hasko Jaya/ PT Sumber Graha Sejahtera. According to sources, the sale price will be US\$1, with Indonesian state banks forgiving Sumalindo's debts of over US\$4 million.¹⁸¹ The Hasko Group does not control any timber concessions, which means it must look to outside and often irregular sources to maintain its output of plywood.¹⁸² There is a long history of social strife on Sumalindo concessions and according to sources, the company is reported to have torched its plantations and then claimed they were damaged by forest fires in order to receive compensation. At the plywood mill owned by Sumalindo, which exports to the UK, workers

ISO14001 a misleading label placed on Indonesian plywood that attempts to dupe consumers into thinking companies meet high social and environmental standards.

went unpaid for over four months in early 2002. Many were striking to raise wages to 7 cents an hour. Company officials said the workers, mostly women, had 'voluntarily' agreed to non-payment.¹⁸³ Sumalindo plywood is imported by Finnforest and is being used for hoardings on the UK Government Home Office construction site.

ASIA FORESTAMA RAYA (AFR) – PART OF RAJA GARUDA MAS GROUP (RGM)

RGM Group, ultimately controlled by Sukanto Tanoto and his family, owns seven plywood/saw mills in strife-torn Aceh and Riau in Sumatra. It also owns pulpmills, one of which is estimated to have cleared 220,000 hectares of rainforest in less than six years.¹⁸⁴ Some of RGM Group's clearfelling operations are funded by European financial institutions, including Barclay's Bank.¹⁸⁵ PT AFR uses timber from some of Sumatra's last remaining lowland rainforests to manufacture plywood. Demand for old growth tropical hardwoods is rapidly destroying these rainforests, the only place on earth where the endangered Sumatran orang-utan exists. Collusion with Aceh's illegal logging networks inevitably involves the Indonesian military, as here and elsewhere the armed forces receive most of their budgetary shortfall in payoffs from illegal activities, including logging. RGM has had intense conflicts with indigenous communities. Importers of RGM's plywood from its Besitang mill include Montague Meyer. It is currently being used for formwork on the new UK Government Home Office construction site.¹⁸⁶

UK AGENTS DEAL IN TAINTED TIMBER

According to UK industry sources, 80% of all Indonesian plywood imported to the UK comes through four companies: **Cipta Ltd, Fepco, Pacific Rim Wood (UK) Ltd** and **Wood International (Far East) Ltd.**

"There has been much misguided and false comment about the world's forests. Forests are being replanted or restocked all the time following any cutting and there is ample evidence to demonstrate that the annual growth is in excess of the annual cut on a global basis."¹⁸⁷

Wood International website, 2003

CIPTA

Cipta is owned by Tjipta Rimba. It is one of the main Indonesian plywood agents in the UK. Montague Meyer is by far its largest client. Cipta trades under four different company names: Cipta, Eurindo, Sentry Doors and Sinowood. Cipta's plywood mainly comes from Tjipta. Cipta trades doors under the Sentry Doors brand from Barito among others. Importers of these doors include Montague Meyer, Finnforest, and Travis Perkins.

FEPKO

Based in Brussels, Fepco is the biggest volume trader in Europe, claiming about 25% of the EU market and 12% of the UK market in Indonesian plywood. It sells Korindo and Barito Pacific among others. Fepco sells to many UK importers, including James Latham, Jewson and Travis Perkins.

PACIFIC RIM WOOD (UK) LTD

Pacific Rim is a subsidiary of Rimba Sunkyong (RSK). Pacific Rim is a major player in the UK market. Pacific Rim acts as agent for RSK and Kayu Lapis Asli Murni (KALAMUR). It also acts as agent for KTI Flamebreak Doors – KTI is 36% owned by the jailed murderer Tommy Soeharto.

WOOD INTERNATIONAL

Wood International has dealt with many exporters from Indonesia including Sumalindo and Sukses Sumatra. Barito is by far its largest plywood supplier. Wood International works with three Barito mills in Kalimantan – the Barito Pacific mill in Banjarmasin and the Tunggal Yudi mill and Sankulirang Bhakti mill in Samarinda. The bulk of Barito's timber imported by Wood International is sold to Travis and Jewson.

Other agents include **Plaut, C. Lear, Flateau Dick** and **John Wright.**

TRADERS AND IMPORTERS PEDDLE ILLEGAL GOODS

TRAVIS PERKINS

With over 600 branches in the UK, Travis is one of the leading builders merchants in the UK. It is estimated that Travis is on course to capture 20% of the UK timber market.¹⁸⁹ Turnover in 2002 was £1.4 billion, with profits of £137.6 million. Timber products accounted for 19% of its business. Via Wood International, Travis is a buyer of large volumes of Barito plywood from the Tunggal Yudi mill and Barito Pacific Timber mill in



Banjarmasin – about 3,000 cubic metres every 1–2 months according to industry sources. Travis also buys Barito doors from Tunggal Yudi via Finnforest. Krakatau plywood, supplied by Wood International, is also a very common brand in Travis stores.

"We require... suppliers to abide by high ethical standards"¹⁸⁸

Travis Perkins, 2002 Annual Report and Accounts 2002

JEWSON

Owned by Saint Gobain, Jewson is part of the WWF 95+ Group. Jewson is one of the biggest timber and builders merchant in the country with 440 branches. The company is also an official supplier to Government. Jewson has 61 TimberPlus stores around the country that focus heavily on timber products. According to industry sources, in 2002 Jewson purchased at least 25,000 cubic metres of Indonesian plywood, of which 17,000 cubic metres came from Barito's Tunggal Yudi mill. For 2003, Jewson forecasts buying in excess of 30,000 cubic metres of Indonesian plywood.

'(We liase) with our suppliers...
to promote the best possible
environmental practice.'¹⁹⁰

Jewson Environmental Statement, 2003



MONTAGUE L. MEYER

Montague Meyer is said to be the biggest importer of plywood in the UK. It also owns William T. Eden Ltd, a major panel distributor in the UK with over 500 different lines of sheet materials. Meyer has nine sites around the country. Meyer is buying large quantities of Tjipta (Seal Brand) plywood and doors from Barito's Tunggal Yudi sawmill via Cipta and plywood from Barito's Sankulirang Bhakti mill via Wood International. Meyer also buys plywood from Rimba Sunkyong, Besitang and Mujur – a four-person inspection team for The Nature Conservancy was murdered in 1999 while inspecting one of Mujur's concessions in civil war-torn Aceh.

FINNFOREST

With a 2002 turnover of £1.4 billion, Finnforest is probably the biggest importer of plywood after Montague Meyer. The company is currently stocking Barito doors and Rimba Sunkyong and Fuji plywood.

Other importers of Indonesian plywood or doors include **Arnold Laver, Caledonian Plywood, Hanson, Hawthorn, International Plywood, Lathams, Premier Forest, Rembrand and Thornbridge.**



PORTS ARE ENTRY POINTS FOR FOREST CRIME

Thousands of pallets laden with Indonesian plywood come into ports around the UK. These include **Tilbury, Newport, Hull, Portbury and Rosyth.**

END USERS ARE PARTNERS IN FOREST CRIME

Indonesian plywood gets everywhere. The construction industry uses it regularly as hoardings to surround building sites and for formwork to hold wet concrete in place.

Often, it is used only once and then thrown away. What a fate for the world's rainforests.

The UK Government is a major buyer of timber, responsible for upwards of 15% of UK timber procurement.¹⁹² Despite the fact that the UK Government has made a public commitment to buy only legal and sustainable timber, Indonesian rainforest products are still being used on Government construction sites and by the construction industry generally.

The Government are a major purchaser of both timber and timber products, and have a responsibility to ensure their own house is in order... Current voluntary guidance on environmental issues in timber procurement will become a binding commitment on all central government departments and agencies actively to seek to buy timber and timber products from sustainable and legal sources, for example those identified under independent certification schemes such as that operated by the Forest Stewardship Council.¹⁹¹

Michael Meacher, 28 July 2000

The list of companies recently confirmed using Indonesian plywood or doors includes **Ruddy Joinery, Stafford Bridge Doors, Swift Caravans, Leaderflush Shapland, Kilby and Gayford, Lift Cars/Cavendish Joinery** and **JB Kind**. The client list of several of these companies, including Ruddy Joinery and Stafford Bridge Doors numbers Government departments such as the Treasury and the Ministry of Defence as well as major household companies.

Indonesian rainforest plywood is also used for furniture, shelves and work surfaces. Basic door blanks and fire doors made from Indonesian rainforest plywood are sold to developers, builders and contractors, and to the general public.



Indonesian plywood being used at the new UK Government Home Office building site in Westminster, Central London.

AIDING AND ABETTING – RESPONSIBILITY FOR FOREST CRIME IS INTERNATIONAL

The UK Government and companies have a special responsibility as major importers and consumers for acknowledging the cost of the international timber trade to Indonesia's forests and the peoples who depend upon them. As the UK Government recognizes: *'Illegal logging damages both the environment and society. It reduces government revenues, destroys the basis of poor people's livelihoods and in some*

*cases even fuels armed conflict.'*¹⁹⁴ However, EU governments are failings at three levels: timber procurement, legislation and aid and investment.

PROCUREMENT IS LACKING

Over the last three years, the UK Government has repeatedly announced its intention to crack down on illegal logging and clean up the timber trade by, among other means, requiring its suppliers to produce 'credible evidence that the source of their products was indeed legally harvested trees from



well-managed forests'.¹⁹⁵ In 2001, Tony Blair stated: *'We have already promised that as a Government we will purchase timber only from legal and sustainable sources.'*¹⁹⁶ Yet despite a firm Government policy to use only legal wood from independently certified well-managed forests,¹⁹⁷ the UK Government continues to fuel the destruction of the world's ancient forests by failing to implement its own procurement policy.



Tony Blair has repeatedly stated that the UK will only use legal and certified timber.

LEGISLATION IS LACKING

In April 2002, the UK signed a Memorandum of Understanding (MoU) with Indonesia to 'work together to reduce and eventually eliminate illegal logging and the international trade in illegally logged timber and wood products'.

One of the UK's commitments in this Memorandum was to identify legislation required to prevent the import and trade in illegally logged timber. No European or UK legislation currently exists to stop the import

of illegal timber and timber products. The European Commission is developing an action plan to combat the illicit production and trade in timber and wood products, on which it will present a communication to the EU Council and the European Parliament during 2003.¹⁹⁸ In order to be credible and effective, this communication must include a commitment and timetable for the introduction of new laws to prevent the import and sale of illegally logged timber and timber products in the European Union.

The UK Government is unable to confirm that new EU laws will be included in the Commission's action plan, yet without such laws the UK will be powerless to prevent illegally logged timber from entering the country. In the meantime, timber from Indonesia's last rainforests continues to pour into the UK. The UK and all EU member states must now insist on credible EU action on this issue.

*'As a purchaser of timber products, you have the power to make a conscious decision of, from whom, and from where, you source your products. By buying timber sourced from Indonesia, you are facilitating the destruction of our rainforests and national parks.'*¹⁹⁹

Nabiel Makarim, Indonesia Minister for the Environment, 4 September 2002

AID AND INVESTMENT HAS BEEN PERVERSE

Aid and investment continues to be based on the fact that the rights of Indonesia's indigenous and forest-dwelling peoples are ignored. Donors pay lip service to their own loan requirements of accountability and environmental and social reform.

Indonesia's principal aid donors including the UK have, through the Consultative Group on Indonesia (CGI),¹⁹⁹ stipulated a 12 point action plan for Indonesia as part of loan conditions. This includes a crack down on illegal logging and closing illegal sawmills,

a moratorium on conversion of natural forests, downsizing and restructuring the timber industry, closing heavily indebted companies under the control of the Indonesian Bank Restructuring Agency, and addressing land rights. Despite the fact that Indonesia has so far failed to meet any of these conditions (and indeed has even recapitalized some of its bankrupt timber industries), it has gone unpunished as the donor nations continue to pledge millions in loans at the yearly CGI meeting.²⁰⁰

Every single part of the action plan is completely undermined by lack of action on procurement in consumer countries, a failure to move beyond words to ban illegal log imports, and continuing perverse subsidies. Incredibly, a consortium of countries from across the EU, as well as the USA, China, Japan and Singapore is currently planning to fund the US\$1.2 billion construction of yet another mammoth Indonesian pulp mill.²⁰¹ Already the mill is politically tainted, fraudulent and – given the lack of legal, sustainable plantation timber – set to become yet one more driver of Indonesia's illegal rainforest destruction.²⁰²

Real action must now include tackling the environmentally unsustainable capacity of Indonesia's own timber manufacturing industries, recognizing and upholding the rights of indigenous peoples and forest communities, ending military involvement with the forest industry, and cracking down on corrupt practices at all levels of government and industry.



INDONESIA'S ODIUS DEBT: INTERNATIONAL INVESTMENT MADE THE MONSTER

Investment insurance and export credit agencies (ECAs) provide the largest source of government support including insurance and guarantees to large infrastructural projects in less industrialized countries. European Union ECAs are not subject to any binding environmental, human rights or development guidelines. In spite of being funded by public taxpayer money, ECAs are not accountable to national parliament and are heavily influenced by industry lobbies.²⁰⁴

For instance, in 1994 ECAs from Germany, Japan, Finland, Sweden and Canada supported a US\$1 billion finance package for Barito Pacific's *PT Tanjung Enim Lestari*, one of Indonesia's largest paper and pulp mills and its sister company *PT Musi Hutan Persada*. The company has been embroiled in conflict with surrounding communities, due in part to forced seizures of village lands. Indonesian security forces are reported to have threatened villagers with

subversion charges if they resisted company land grabs.²⁰⁵

The billions of dollars for industry expansion came from international investment banks, the Indonesian government and the misappropriation of Reforestation Funds. *'Production expansion was based on the assumption that local communities would continue to be powerless and without a voice.'*²⁰⁶ EU lenders account for 60% of all Indonesia's forestry sector foreign debt.²⁰⁷

For instance, Barclays Bank is one of a number of European financial institutions and ECAs which have issued loans and guarantees for giant pulp mills operating near Tesso Nilo, once one of the world's richest rainforests on Sumatra and home to the threatened Sumatra elephant: 64% of Tesso Nilo has now been converted to pulp plantations.²⁰⁸

After the 1997 Asian financial crisis, most Indonesian conglomerates stopped servicing their loans. Some could not pay. Others chose not to, realizing that the country simply did not have a functioning bankruptcy enforcement system.²⁰⁹ This left most Indonesian banks on the verge of collapse. The Indonesian government bailed them out with billions of dollars of taxpayer and donor funds. In return, the banks handed over their bad loans to the government, which created the Indonesian Bank Restructuring Agency (IBRA) – now purportedly responsible for seeing that companies pay these loans back.

The forestry conglomerates have kept on with business as usual, despite the bad debts and despite the requirements of Indonesian law that all timber concessions and mills maintain a set level of profitability in order to operate.²¹⁰ The pulp and paper sector alone has debts of more than US\$20 billion.²¹¹ An examination of large plywood mills for the WWF–World Bank Alliance found that 60% of those studied were financially insolvent, thus by definition illegal.²¹²

Despite the massive overcapacity of the industry, these indebted companies have not been closed. Timber conglomerates continue to fell some of the world's most valuable rainforests while donor countries and Indonesia's peoples pick up the tab. *'When a company kept afloat by IBRA is using illegal timber, that means that Indonesia's peoples are directly subsidizing the destruction of their own forests.'*²¹³

In 2000, the CGI called on the Indonesian government to close down these indebted companies and to downsize remaining production capacity. But so far, according to donors' own analysis: *'Very few tangible results have been achieved... [the forest situation is] rapidly deteriorating... Persons that manage illegal logging operations continue to do so with impunity.'*²¹⁴

At the same time, there is huge financial and legal pressure from international companies who invested in the mills for these destructive operations to continue regardless of the ecological and social costs.²¹⁵

IBRA plans to sell the loans for whatever price investors – potentially even the timber conglomerates themselves indirectly – are willing to pay.

Greenpeace demands that the EU action plan to tackle illegal logging include requirements that ECAs immediately adopt common, binding, minimum environmental and social standards. ECAs must be used to support environmentally and socially responsible development that meets the needs of the poor, not to continue to support the transfer of dirty and inappropriate technology through perverse subsidy.²¹⁶

*'Barito Pacific never explained what it intended to do with the bridging loans. It just showed up in the offices of various banks and said: 'We want a loan. You have 36 hours to decide, or we take our business elsewhere.' At that time, our bank had just completed a US\$750 million deal with (a large Indonesian pulp conglomerate) and was confident about making loans in the Indonesian forestry sector. We decided to go for it.'*²⁰⁵

Indonesian portfolio lending officer, a European bank, 29 November 2001

DEMANDS

'Consumer countries are also responsible for Indonesian forest destruction. When you compare the market price of timber with the problems we face in Indonesia, the real price to indigenous peoples is not included – the social price, cultural, spiritual impact, environmental impacts of logging. We pay for that. We call on consumer countries to stop buying timber from Indonesia and other producing countries, until they fulfil the social and environmental principles of FSC.²¹⁷

Abdon Nababan, Executive Secretary, Coalition of Indigenous Peoples of the Archipelago (AMAN), 6 January 2003



MORATORIUM ON LOGGING IN INDONESIA

Greenpeace supports Indonesian NGOs in calling for a **moratorium** on all industrial logging in natural forests in order to effectively crack down on illegal logging and develop coherent plans to protect the remaining ancient forests.²¹⁸

UK AND EU GOVERNMENTS – BAN ILLEGAL TIMBER

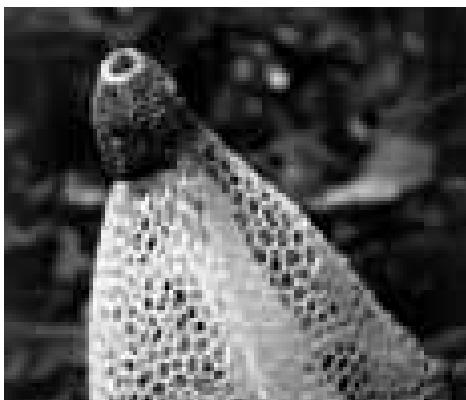
The EU Commission, through its action plan to tackle illegal logging, must commit to immediate legislation to ban illegal timber imports, placing the burden of proof upon timber importers to demonstrate timber is legally obtained. Such legislation must be demanded by all member states.

TIMBER TRADE – STOP BUYING THE PROBLEM

As Indonesia's Forest Minister has made clear, the continuing trade in Indonesian rainforest timber products is a forest crime. In order to maintain any social or environmental credibility, UK companies must immediately stop buying Indonesian timber products from natural forests.

GOVERNMENT AND INDUSTRY – SUPPORT THE SOLUTION

Government and industry procurement policies must insist on the use of timber certified to Forest Stewardship Council (FSC) or equivalent standards. This is the only way to guarantee that timber is from socially and environmentally responsible forest management.



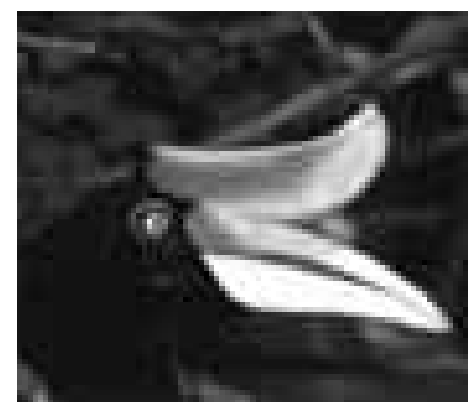
- 1 Prakosa (2003) 'Remarks'.
- 2 Meacher (2002) 'Minutes'.
- 3 TTF (2003).
- 4 Reuters (2003) 'Restructure'.
- 5 FWI/GFW (2002).
- 6 Holmes (2000).
- 7 see Brown (2002) *Regulation*.
- 8 Harwell (2003) and Brown (forthcoming) *Forgive*.
- 9 FWI/GFW (2002).
- 10 Based on deforestation figures of 2.5 million hectares/annum. Source: Reuters (2003) 'Restructure' and Harwell (2003) citing personal communication with USAID staff using figures presented at the World Bank post CGI forestry meeting in January 2000.
- 11 viz. Lele (2002) and FWI/GFW (2002).
- 12 Hooper (2003).
- 13 pers. comm. 2 January 2003.
- 14 World Bank (2001) *Indonesia*.
- 15 McCarthy (2001) *Decentralisation*.
- 16 Lele (2002).
- 17 Lele (2002); FWI/GFW (2002) offer slightly different figures, but the biological significance is clear.
- 18 Lele (2002) sets the figure for 40 million as the number of people directly and substantially dependent on forest resources for their livelihood; Indonesia's indigenous and environmental NGOs put the figure at 50 million; the World Bank (2001) sets the figure at 65 million where the definition of forest-dependent people includes both indigenous peoples and transmigrants.
- 19 Harwell (2003).
- 20 Holmes (2000).
- 21 World Bank (2001).
- 22 viz. Reuters (2003) 'Restructure'.
- 23 Pearce (2002); simple equations based on volume of demand divided by approximate volume of cut per hectare do suggest a figure of over 3 million hectares/annum excluding community logging.
- 24 Lele (2002).
- 25 Lele (2002).
- 26 see www.redlist.org – the IUCN redlist.
- 27 FWI/GFW (2002).
- 28 FWI/GFW (2002).
- 29 FWI/GFW (2002).
- 30 Harwell (2003).
- 31 The struggle over land and natural resource rights is a key aspect of the conflict in Indonesia. It is thought to have cost many thousands of lives since the 1960s, mostly Papuan civilians killed by the security forces. Among the most recent victims were three employees of the giant mining company, PT Freoport Indonesia, killed in a well-planned attack on 31 August 2002. The resource industry with the widest geographical impact in Papua is the logging industry, whose concessions cover nearly a third of the province. ICG research in Papua suggests widespread abuses by logging companies which exploit and deceive local people, pay little or no heed to environmental sustainability and rely on the military and police to intimidate villagers who protest. Source: ICG (2002).
- 32 Harwell (2003) citing Arnoldo Contreras-Hermosilla, 'Law compliance in the forest sector: an overview' Working Paper 3720 for the World Bank 2002.
- 33 Harwell (2003) and Brown (forthcoming) *Forgive*.
- 34 Lele (2002) citing Casson.
- 35 Lele (2002).
- 36 Lele (2002).
- 37 Lele (2002) citing BAPPENAS.
- 38 Brown (forthcoming) *Forgive*.
- 39 Pers. comm. 4 January 2003.
- 40 Reuters (2003) 'Restructure'.
- 41 Brown (2002) *Analysis*.
- 42 Prakosa (2003).
- 43 FWI/GFW (2002).
- 44 This figure excludes timber cut from clearfelling licenses for forest conversion, which ceased to be issued in 2000.
- 45 The equation based on conservative estimates indicates the volume of timber that will be felled illegally according to Indonesian forestry laws in

- 2003 if demand from the timber processing industries remains unchecked. This excludes bad practice within a legal concession, something that can only be proven through on-the-ground inspection as opposed to this paper exercise. Further, 90% of state forestlands have never been gazetted and legally transferred to jurisdiction of the Department of Forestry (source: Fern (2003) 'EU'). Hence, actual levels of illegal logging will be higher.
- 46 Pay for workers at Sumalindo mill in Samarinda; Bob Hasan's Kalimantan mill, which exports to the UK from its Kiani Lestari mill, failed to pay its workers for three months in 2002, and then only paid up one month's back wages rather than the entirety. Sources: Lawrence (2003); *Tempo* (2002) 'Kalimanis'.
- 47 Harwell (2003) citing Arnoldo Contreras-Hermosilla, 'Law compliance in the forest sector: an overview' Working Paper 3720 for the World Bank 2002.
- 48 Brown (2002) *Analysis*.
- 49 pers. comm. 2 January 2003.
- 50 Reuters (2003) 'Restructure'. Figures for demand vary widely. In 2000, according to Brown (2002) *Analysis*, 69 million cubic metres was roughly the (official) installed capacity of the larger mills. However, using a database constructed by Fraser, Brown estimates that in 1998 Indonesia's mills had a demand of 74.5 million cubic metres. Another estimate by Scotland (1999 – mentioned in Brown's 2002 *Analysis*) that is widely cited puts demand at 84 million cubic metres a year. FWI/GFW (2002) cite the Department of Forestry for a 1999 estimate of 76 million cubic metres installed capacity for wood processing industries and go on to say that 76-80 million cubic metres is conservative. All these estimates are historical: investment in pulp and paper expansion has continued; in addition, 'current demand for processed timber' on the international market is 'at its peak', with prices for plywood in late 2002 'at an all-time high of US\$300-\$340', so there is no downturn in the plywood market. Source: *Tempo* (2002) 'Kalimanis'. Harwell (2003) citing Scotland (1999) and Scotland (2000) paper for the World Bank) gives the figures of 30 million cubic metres demand for pulp industry in 2002 (a figure with which FWI/GFW concur) and then notes that the plywood and sawmill industry 'is by far the largest consumer of wood, roughly 70 million cubic metres annually', which suggests a total of about 100 million cubic metres demand. As for relation between installed capacity and actual production, FWI/GFW use the tentative, unexplained estimate of production equalling 80% of installed capacity; however, analysis of a sample ten mills by Brown (2002) *Analysis* for the WWF-World Bank Alliance shows that it is entirely fair to assume that many of the nation's plywood mills run at 100% capacity – indeed 40% exceeded this. In this light, 80 million cubic metres is a conservative estimate of Indonesia's industrial timber processing demand. This figure excludes timber harvested for community use and demand from Indonesia's many small-scale illegal sawmills.
- 51 Brown (2002) *Analysis* estimates that 7 million cubic metres of raw logs are smuggled to Malaysia, 3 million to China; the Philippines and Singapore also rely on Indonesian rainforests for supply.
- 52 Prakosa (2003).
- 53 FWI/GFW (2002) citing the Department of Forestry (March 2001) put the plantation harvest at a generous 3.8 million cubic metres for 2000 and question the plausibility of even this volume, noting that harvest levels will remain insignificant, meeting optimistically 5% of industry demand. While industrial plantations have been widely promoted and subsidized through the Reforestation Fund (a type of subsidy for the conversion and planting of trees for industrial timber plantations) as a means of supplying demand from the timber processing industries, in practice, plantation harvests make only a tiny contribution to meeting the industry demand. Even for pulp and paper they are of limited importance, because of the small harvests. Instead, to meet its timber demand, the timber processing industry has been relying on licenses allowing the clearfelling of 'degraded forest land' (often this takes place in natural forest against forestry law) for conversion to industrial plantation. This has devastated the forests and local access to natural resources, while failing to create the resource base for a socially and environmentally sound industry (see Harwell 2003). While the forest has been felled, only a quarter of the nearly nine million hectares of land allocated for development as industrial timber plantations has been replanted, and much of this was destroyed in the 1997/1998 fires. Plantations in Indonesia have so far proven capable only of producing fast growing species suitable solely for pulp mills, and not the

- slower growing dipterocarp species on which plywood mills rely.
- 54 The Department of Forestry outlawed district head issued land clearing permits at the start of 2002 under Indonesian forestry law PP 34, 2002. These have been increasingly critical, if legally dubious, sources of timber. Brown (2002) *Analysis* observes that during the short period when district head issued licenses were quasi-legal, this source of timber comprised 40% of total intake by industrial plywood mills. Regencies in Kalimantan, Sumatra and Papua issued an average of 150 timber licenses since 2000, covering an area of up to 10,000 hectares – one regency in East Kalimantan has issued over 700. Sources: Reuters (2003) 'Restructure' and Casson (2001). The Department of Forestry also stopped issuing clearfelling licenses in 2000. Clearfelling licenses, ostensibly for the conversion of degraded forest land to industrial timber plantation and other ends, have counted for up to 85% of industry's pulpwood needs. Although many licenses continue to operate under long-term permission 'in principle' given before July 2000, the Indonesian government itself fails to quantify current volumes of felling, but most of the timber has now been cut, the legal volume will no longer be significant according to expert sources. Sources: FWI/GFW (2002), Brown (2002) *Regulation*; see also Barr (2001) *Banking*.
- 55 cited by FWI/GFW (2002).
- 56 Brown (2002) *Regulation*.
- 57 Brown (2002) *Regulation*.
- 58 Rainforest Action Network field investigations 2002.
- 59 McCarthy (2001).
- 60 FWI/GFW (2002).
- 61 Witalar (2003) 'Papua' – 3 million cubic metres are set to be logged from these concessions.
- 62 pers. comm. 6 January 2003.
- 63 Brown (2002) *Regulation*.
- 64 Article 17 (2) of the Universal Declaration of Human Rights, the UNCERD General Recommendations for Indigenous Peoples and the International Labour Organization Convention No 169 Concerning Indigenous and Tribal Peoples in Independent Countries. Source: Harwell (2003) Although Indonesia has not signed up to the ILO 169, some importer countries have and it should therefore be indicative of their own minimum procurement standards.
- 65 FWI/GFW, Brown (1999) *Addicted* and Brown (forthcoming) *Forgive*.
- 66 Article 18 of Indonesia's 1945 constitution. Source: Centre for International Environmental Law (2002).
- 67 Harwell (2003).
- 68 Brown (2002) *Regulation*.
- 69 Brown (2002) *Analysis* – Brown's figure of 62 million cubic metres of timber felled illegally in Indonesia is substantially higher than FWI or World Bank previous figures. For instance Lele (2002) leaves current volumes unquantified, but writes: 'because of growing demand from the pulp and paper industries, illegal logging is estimated to have risen as high as 56.6 million cubic metres in 1998. This probably rose again in 1999.' Industry (e.g. UK agents) frequently cites the figure of 20 million cubic metres, a very old World Bank figure for the mid-90s.
- 70 The military itself conceded this just before the CGI meeting in Bali in January 2003.
- 71 see FWI/GFW (2002).
- 72 The information is supposed to be disclosed in the annual request for permission to operate known as RPBB.
- 73 Brown (2002) *Analysis*.
- 74 Brown (2002) *Analysis*.
- 75 Harwell (2003).
- 76 Harwell (2003).
- 77 Harwell (2003) citing McCulloch personal interview with former Defence Minister Juwono Sudarsono.
- 78 Harwell (2003).
- 79 Brown (1999) *Addicted*.
- 80 Lawrence (2003). Greenpeace field investigation (2003) noted military presence at a timber concession on the Mahakam river above the rapids at Long Bagun – local sources explained the military's presence in terms of stirring up conflict with the local community to ensure continued payment from the concession holder.
- 81 Harwell (2003).
- 82 see Harwell (2003).

- 83 see Harwell (2003) citing Walhi and HRW interviews in 2002; public outcry forced the mill to be closed but the massive corporate debt of RGM has created pressure to reopen the plant.
- 84 Harwell (2003); Greenpeace field investigation (2003) noted military presence at the helm of timber barge travelling down the upper Barito river to Muara Teveh – local sources explained this in terms of ensuring a trouble-free passage of timber.
- 85 Harwell (2003) see also EIA.
- 86 Harwell (2003) citing unpublished Indonesian UK Tropical Forest Management Programme report.
- 87 Shares also held by the convicted fraudster Bob Hasan and former president Soeharto's son Bambang Trihatmodjo.
- 88 Formerly controlled by Bob Hasan via the Astra Group with Prajogo Pangestu's Barito Pacific holding about 10% of shares.
- 89 Reuters (2003) 'Indonesia'.
- 90 Lories, Samarinda, pers. comm. 20 January 2003.
- 91 See Environmental Investigation Agency (2003) *Above the law – EIA and Telapak* have done investigations into the ongoing illegal logging of Tanjung Puting by the timber baron and parliament member Abdul Rasyid, even uncovering 25,000 cubic metres of illegal log shipments to China; no prosecution resulted and the police auctioned the timber.
- 92 Reuters (2003) 'Restructure'.
- 93 www.iso.ch/iso/enn/prods-services/otherpubs/pdf/pub9k14ke.pdf
- 94 ISO 9000 series certificates are concerned with product quality control, and hence have no relevance to issues of environmental and social impact. ISO 14001 certification is designed to verify that a company has established an internal management system to identify, measure and monitor its environmental impacts. It does *not* set requirements for environmental performance; these are set by the company. It does *not* verify that the company meets its internal objectives, only that there is system in place for doing this. Hence the certification is no indicator of a company's actual environmental or social impacts. Source: Harwell (2003) citing ISO website.
- 95 www.iso.ch/iso/en/prods-services/otherpubs/pdf/pub9k14ke.pdf
- 96 see Colchester (2003) *Draft*. FSC certification in Indonesia is not currently viable, due to lack of coherent laws that allow for indigenous peoples' rights in forests. FSC and many Indonesian environmental and indigenous organizations are currently working to make FSC standards a reality in Indonesia. In the meantime, illegal logging, destruction of ancient forests, and ubiquitous human and indigenous rights violations by forestry concessionaires make Indonesia's timber industry a global pariah.
- 97 Brown (forthcoming) *Forgive*.
- 98 Brown (forthcoming) *Forgive* citing Barito Pacific annual report for 2000 'Developing the future through exports: a world class plywood producer'.
- 99 Brown (forthcoming) *Forgive*.
- 100 TTF (2003). 'Mission'.
- 101 Brown (forthcoming) *Forgive* citing pers. comm. According to financial sector sources 'Barings, CSFB and a couple other firms gave over US\$200m in short-term bridge financing that he defaulted on.'
- 102 FWI/GFW, Brown (1999) *Addicted* and Brown (forthcoming) *Forgive*.
- 103 Aditjondro (2000) *List*.
- 104 Brown (1999) *Addicted*.
- 105 Brown (forthcoming) *Forgive*.
- 106 PDBI (1996).
- 107 Sunday Times (1994).
- 108 Brown (forthcoming) *Forgive* – the subsidiaries are Barito Pacific Timber and the pulp mill, *PT Tanjung Enim Lestari*.
- 109 www.laksamana.net/vnews.cfm?ncat=41&news_id=3665
- 110 Brown (forthcoming) *Forgive*.
- 111 Brown (1999) *Addicted*. Brown (forthcoming) *Forgive* estimates plywood mill demand at 1.6 million officially, though some mills appear to underreport (viz. Banjarmasin).
- 112 Brown (forthcoming) *Forgive*.
- 113 TTF (2003).
- 114 *Tempo* (2001) 'More drama'.
- 115 *Tempo* (2001) 'Flying blind'.
- 116 Lawrence (2003) citing Aditjondro 1997 and 2000.
- 117 *Tempo* (2001) 'Flying blind'.
- 118 *Tempo* (2001) 'Flying blind'.
- 119 *Tempo* (2001) 'Flying blind'.
- 120 *Tempo* (2001) 'Flying blind'.
- 121 *Tempo* (2001) 'Flying blind'.
- 122 Brown (1999) *Addicted* citing PDBI (1996) and Schwarz (1994). According to documents leaked by a joint Bank Indonesia–Ministry of Finance committee, by the mid-1990s, loans such as these made Barito Pacific the country's single largest debtor to state banks for a period. Source: Brown (1999) *Addicted* citing Brown (1998) *Pulp faction*.
- 123 *Tempo* (2001) 'Flying blind'. This includes Barito's massively indebted US\$1.1 billion Tanjung Enim Lestari pulp plant; Tutut was given 15% holdings in PT TEL.
- 124 *Tempo* (2001) 'Flying blind'.
- 125 *Tempo* (2001) 'Flying blind'.
- 126 Brown (1999) *Addicted*.
- 127 Brown (forthcoming) *Forgive*. According to financial sector sources, Prajogo's relationship with Megawati's husband Taufik Kiemas is so strong that it is 'equivalent to a get out of jail card ... he was able to convince the Indonesian government to convince the Japanese government to allow him and his partners to continue as shareholders in the Chandra Asri Petrochemical plant'.
- 128 *Tempo* (2001) 'Volume control'.
- 129 *Tempo* (2001) 'Prajogo'.
- 130 Brown (1999) *Addicted* citing Cohen (1999).
- 131 *Tempo* (2001) 'Knocking on wood'.
- 132 *Tempo* (2001) 'Flying blind'.
- 133 Brown (1999) *Addicted*.
- 134 *Tempo* (2001) 'The spy'.
- 135 Brown (forthcoming) *Forgive*. Prajogo owns half of the Chandra Asri petrochemical plant, this ranking is largely due to debts run up in connection with Chandra Asri.
- 136 Brown (2002) *Regulation*.
- 137 Lawrence (2003) citing IBRA (2002).
- 138 Brown (forthcoming) *Forgive*.
- 139 ECA Watch (1999), Soentoro (2002) 'Summary' and Brown (forthcoming) *Forgive*.
- 140 See section 'Aiding and Abetting: International Responsibility' regarding Indonesia's commitments to the Consultative Group on Indonesia (CGI).
- 141 In 2001, Barito companies reported to have engaged in illegal logging include *PT Industries et Forest Asiatiques (IFA)*, *PT Dexter Kencana Timber*, *PT Kawanu Sakti*, *PT Kalpika Wanatama*. Illegalities include logging outside permitted area, harvesting below regulation sized timber, receiving logging permits 'by way of a shortcut', and failure to fully report timber logged (tax avoidance). Source: Brown (forthcoming) *Forgive* and *Tempo* (2001) 'Investigasi'.
- 142 Logging concessions in Riau and Papua overlap protected areas. In other words, the Department of Forestry has given out a forest license that does not correspond with forestry laws, which forbid industrial timber felling in protected areas. Sources: *Tempo* (2001) 'Investigasi' and Brown (2002) *Regulation*.
- 143 Conflict timber is timber that has been traded at some point in the chain of custody by armed groups, be they rebel factions or regular soldiers or by a civilian administration involved in armed conflict either to perpetuate conflict or take advantage of conflict situations for personal gain. Global Witness definition.
- 144 Forests Forever (2001).
- 145 SCKPFP (2001) 'Environmental audit'.
- 146 SCKPFP (2002) 'Economic'.
- 147 *Tempo* (2001) 'Investigasi'.
- 148 SCKPFP (1999). 'Illegal logging'.
- 149 SCKPFP (2002). 'Amounts'.
- 150 SCKPFP (2002). 'Amounts'.
- 151 SCKPFP (2002) 'Economic'.
- 152 SCKPFP (2002) 'Economic'.
- 153 Banjar Post (2002).
- 154 Banjar Post (2002) and Badaruddin (2002).
- 155 Badaruddin (2002).
- 156 MPI (2002).
- 157 Hoffman (1999).
- 158 Greenpeace field investigations, 24 January 2003. One week prior to the woman's death, the local community leader had written to company

- officially asking that the fires be halted. This was one of many historic conflicts between Barito and the local community. Greenpeace field investigation found that Barito concessions range across nearly 90,000 hectares of community land. Some areas are being logged over for the third time since the 1970s. An associated clearance for plantation transgresses sacred areas of forest where traditional community law forbids forest destruction.
- 159 Brown (forthcoming) *Forgive*.
- 160 see *Jakarta Post* (2002) '15 forestry concessions' and *Jakarta Post* (2003) 'Dozens'.
- 161 *Tempo* (2001) 'Investigasi'.
- 162 *Jakarta Post* (2003) 'Riau'.
- 163 Brown (2002) *Regulation*.
- 164 TTF (2003) 'Mission'.
- 165 Brown (2002) *Regulation*.
- 166 Brown (2002) *Analysis*.
- 167 Brown (2002) *Analysis*.
- 168 Barito Pacific Timber (2002) *Rencana Pemenuhan Bahan Baku Industri Pengolahan Kayu Hulu, Tahun 2002*.
- 169 According to Brown (2002) *Regulation* 'although timber from non-HPH, non-IPK sources was not illegal in 2001, it is illegal to use such timber now, at least from the standpoint of PP34, 2002 ... what this suggests is that if in 2002 the mill maintained its high levels of production and was unable to change its wood suppliers, it would have been manufacturing at illegal levels and buying illegal timber'; Brown was not commenting on the unreported 165,000 cubic metres.
- 170 Brown (2002) *Regulation*.
- 171 Estimate by Andrews (2002).
- 172 pers. comm. 4 January 2003.
- 173 TTF (2003). 'Letter'.
- 174 USDA (2002) *Hardwood productions*.
- 175 Nigel Griffiths (2003) parliamentary written answers.
- 176 hardwoodmarkets.com
- 177 Nigel Griffiths (2003) parliamentary written answers.
- 178 World Trade Atlas (2002).
- 179 Not all companies exporting to the UK are members of the Indonesian Plywood Exporters Association (APKINDO), but 20 of its 73 members do export to the EU.
- 180 TTF (2003). 'Mission'.
- 181 Lawrence (2003).
- 182 Lawrence (2003).
- 183 Lawrence (2003).
- 184 Riau Andalan Pulp & Paper. Source: WWF Deutschland (year).
- 185 WWF (2003).
- 186 Lawrence (unpublished) 'Company research for Greenpeace UK: Asia Forestama Raya/Raja Garuda Mas' April 2003.
- 187 http://ourworld.compuserve.com/homepages/wood_international_agency/ (2003) – such statements from the timber industry give a false impression of their true environmental impact: on a global basis, natural forests, with their millions of species, are disappearing. Monoculture plantations of exotic species, whether for timber or pulp, may make the global growth rates appear positive, but the effects of logging ancient forests threatens the ecological health of the biosphere.
- 188 Travis Perkins (2002).
- 189 www.itto.or.jp/market/archives_2002/mns010102.html (2003).
- 190 www.jewson.co.uk/pdf/content/jewson/policy/jewson_en.pdf (2003).
- 191 *Hansard* (2000).
- 192 Estimate by Andrews (2002).
- 193 4 September 2002, World Summit on Sustainable Development.
- 194 Meacher (28 July 2000) *Hansard*.
- 195 DEFRA (23 November 2001) Press release.
- 196 WWF conference 'Rio +10: words are not enough'.
- 197 In a letter to Greenpeace (23 May 2001) Meacher stated that this timber procurement policy 'is more than a recommendation for its buyers to actively seek to purchase sustainably produced timber and timber products, it is a firm requirement'.
- 198 see http://europa.eu.int/comm/external_relations/flegt/intro/index.htm
- 199 Donors coordinate their assistance through a consortium called the Consultative Group on Indonesia (CGI), chaired by the World Bank, and including the European Commission, the USA, Japan and the UK. Until





recently, this Group largely ignored human rights and the environment in its discussion, despite 'good governance' being a major concern of the international donors to Indonesia.

- 200 Brown (forthcoming) *Forgive* and Harwell (2003).
 201 The output will be 600,000 tonnes.
 202 In late April 2003, Soeharto's brother Probosutedjo was sentenced to four years imprisonment for corruption and graft. He embezzled Reforestation Funds by overstating the size of the timber estate from which the mill's timber is supposed to be supplied. Source: Jakarta Post (2003) 'Soeharto'.
 203 Brown (forthcoming) *Forgive* citing pers. comm.
 204 Fern (2003) 'Responsibility'.
 205 www.eca-watch.org/problems/indonesia/rfb_indonesia.html citing Down to Earth 'Pulping the people'.
 206 Harwell (2003). For instance, the Commonwealth Development Corporation (CDC) controlled by the UK DfID, has recently taken over the *Harapan Sawit Lestari* Group covering 32,000 hectares in West Kalimantan; just over half of this has been planted with oil palm so far. In July 2002, the company started to clear indigenous villagers' customary land for palm plantation and desecrated graves. Villagers from two communities have appealed to the National commission for Human Rights in Jakarta in what could become a test case for indigenous land rights. Source: Down to Earth (2002) *Conflicts*.
 207 Harwell (2003) citing John Keating, Director of the EU-Indonesia Liaison Review in Jakarta (2000).
 208 WWF (2003) 'New WWF'.
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 211 Harwell (2003). US\$6.7 billion is owed by the Indonesian units of Asia Pulp & Paper and IBRA is APP's largest single creditor. Source: Reuters (2003) 'Restructure'.
 212 Brown (2002) *Regulation*.
 213 Bambang Setiono, pers. comm. 3 January 2003.
 214 cited in FWI/GFW (2002).
 215 Harwell (2003).
 216 See www.fern.org/pubs/ngostats/ECAdemands.pdf (2003). ECA-supported projects must undergo truly independent and rigorous human rights, environmental and social impact assessments to ensure that the approval of any export credit, credit guarantee or insurance contributes to the overall goal of responsible, sustainable development. ECAs must ensure that affected communities, particularly indigenous groups and other vulnerable minorities are adequately consulted and give free and informed consent before the approval and throughout the life of the project. ECA-supported projects must not increase the debt burden of developing countries to unsustainable levels, nor may they support projects that involve corruption. Forestry operations meet the standards of the FSC. At the current time, legal obstacles in Indonesia prevent implementation of the FSC principles, most crucially indigenous rights to manage traditional forests.
 217 pers. comm. 6 January 2003.
 218 Led by Walhi, The Indonesian Forum for the Environment, a national coalition of over 500 local environment and social groups is calling for a moratorium on industrial logging in the country's natural forests and a boycott on purchases of Indonesian timber products in order to create the necessary context for the government to implement its twelve commitments to the CGI. This would ensure that illegal loggers and corrupt officials no longer had recourse to a legal smokescreen. The current 'logging moratorium' announced by President Megawati Sukarnoputri is weak, having been interpreted by Indonesia's Director General of Production Forestry Management as 'Continuation of logging of trees over 50cm in diameter in forests with timber harvest potential of 75m³ per ha for all species' – effectively leaving primary forests open for logging. Source: Bisnis Indonesia (2002).

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Since we apparently cannot stop the supply, it has become clear that Indonesia will not overcome illegal logging without stemming the foreign demand for Indonesian logs and forestry products.

As a purchaser of timber products, you have the power to make a conscious decision of, from whom, and from where, you source your products. By buying timber sourced from Indonesia, you are facilitating the destruction of our rainforests and national parks. The people and government of Indonesia thank you in advance for your understanding.

Nabiel Makarim, Indonesia Minister for the Environment



JUNE 2003

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