Suggestions on Policies for The Ministry of Forestry

ISSUE PAPER DEVELOPMENT OF PRODUCTION FOREST RESOURCES

By:
The Forestry Faculty Team of IPB
in Collaboration with National and International Experts

Notes:
This summarizes some of the analysis made. The statements in this non-paper do not necessarily represent an official position of the Government of Indonesia or any other institutions.

FACULTY OF FORESTRY
BOGOR AGRICULTURE UNIVERSITY
2003
15. Non-Transmigration and Transmigration HTIs proposed for liquidation both have a burden of Government Capital Participation nearly doubling the proposed amount for reschedule and transfer. Such condition is shown in Figure 8.

![Graph showing government capital participation in Non-Transmigration and Transmigration HTIs.]

16. The mending of Joint Venture HTI's condition cannot be separated from the status of PT. Inhutani that set up a joint venture with the private sector. Over the last two years, PT. Inhutani has been in critical condition particularly as related to the local government's authority to manage the production forest. In this regard, the Riau community has conveyed their opinion through a poll about PT. Inhutani IV showing various aspirations ranging from returning PT
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Inhutani's working area is to the community and to reposition of PT. Inhutani's function by referring to the forest management at the regional level (See Figure 9).

![Figure 9. The Riau Community's View of PT. Inhutani IV](image)

### 2.3. Forestry Levy

17. There are 6 types of levy in forest utilization according to Law No. 41 year 1999, which is the authority of the Ministry of Forestry:

1. Licensing fee of forest utilization business (IIUPH)
2. Reforestation Fund (DR)
3. Provision of forest resources (PSDH)
4. Performance bond (DJK)
5. Forest conservation investment fund (DIPH)

18. According to Suparna (2002) there are 2 types of charges levied on logs based on the Governor Decree, such as in East Kalimantan:

1. Compensation fund for the community within and around the forest in the province of East Kalimantan is a levy paid by a company exploiting the forest to the community within and around the forest according to the wood produced by the company in East Kalimantan (Decree of the Governor of East Kalimantan No. 20 year 2000). It amounted to Rp. 3,000/m³.

2. The Fund for Fostering Human Resources and Developing Science and Technology and Investment Fund for Forest Conservation is provided from the log production by the holder of forest utilization license such as the HPH's holder, or IPK holder, or another legal license holder (ISL). The fund is directed to finance all
Management system of production forest which has been undertaken up to now has not been able to show achievement of sustainable forest management (SFM), moreover, the forest production decreases progressively. In relation to such condition, Ministry of Forestry (MOF) has established five priority programs, namely eradication of illegal logging, restructuring of forest industry, rehabilitation of forest and land, forest fire control, and decentralization of forestry.

Constraints for achieving SFM from the point of view economics aspects are (a) lack of certainty in business, (b) increasing levies on forestry after the transition period of regional autonomy, (c) low price of round wood due to abundance of illegal logging, which make forest certification and/or policy do not create sufficient incentive to stimulate forest resources conservation. Beside that, the policy of natural forest production management still regards timber in the forest as public goods, and there are still weaknesses in the performance evaluation of management unit.

Effort by MOF to conduct industry restructuring to reduce pressure on natural forest have so far been unable to be implemented by The Indonesian Bank Restructuring Agency (IBRA). Gap of interest between IBRA and Ministry of Trade and Industry in one hand, and Ministry of Forestry in the other hand, can not be bridged so far. In relation with the development Industrial Plantation Forest (HTI), the existence of subsidy from reforestation fund (DR) has not been able to serve as incentives for HTI development. Those facts cause the business of production forest in Indonesia has not been able to respond positively to the global market share of forest product, which develops progressively, which tends to be utilized by developed countries.

With such situation of production forest management as described above, improvement of business behavior in utilization of production forest to achieve SFM, does not occur in general. Several forms of incentives, either from national or international policy (trade and politics), do not go well. Problem, which appears at present, is the weakness of the government in policy implementation due to lack of synchronization in the policy of production forest management between national, provincial and district level.

Deliberation of basic problems as described above shows that the role of government is very important and critical, because the root of problem lies on the policy of forest management and there is a divergence between national, provincial and district level. Therefore, if instructional approach in implementing national policy - which is limited only in translating law, government regulation, and ministerial regulation – is still maintained, it is predicted that the problem of policy divergence cannot be overcome.

Therefore the required strategy is improvement of coordination and cooperation between MOF, Provincial Government and District Government with the focus on the following fundamentals problems: (a) Synchronization of policies at national, provincial and district/municipality level, (b) certainty of land and the right of community for resources of production forest, (c) Potency of forest and forest product market, both domestically and internationally, (d) Transformation of forest concession area (HPH), Industrial Plantation Forest (HTI) and PT. Inhumane I-IV.

Policy reforms on management of production forest should be conducted with long term orientation to avoid being misled by the present symptom and complication of problem occurring in the field. Therefore, it is recommended that Ministry of Forestry form or add more assignments to new or to the existing working groups to formulate various policies as mentioned above.
kinds of activities assuring forest conservation, such as the fostering of human resources, development of Science and Technology, conservation cost, protection cost, forest fire management and promotion cost and so forth. A management body and a board of experts established by the Governor (the Decree of Governor of East Kalimantan No. 27 year 2000) collectively managed the fund. In the stipulation, it amounted to Rp. 15,000/m3 of log with a diameter of 30 cm and up.

Although not all Governors issued Decrees on levy of logs, there is a tendency that it may also be followed by other Provinces. Table 3 shows this.

Table 3. The Issues of Forest Utilization in Region (Oct 2001)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Riau</th>
<th>Central Java</th>
<th>South Kalimantan</th>
<th>East Kalimantan</th>
<th>Southeast Sulawesi</th>
<th>Papua</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extra Collection (1)</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>1. Province</td>
<td>X</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>XX</td>
</tr>
<tr>
<td>2. District</td>
<td>X</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>X</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>3. Sub-District</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>X</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>4. Local Community</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>XX</td>
</tr>
<tr>
<td>Overlapping Land HPH-IPHH</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Duplication in Management</td>
<td>X</td>
<td>XX</td>
<td>-</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Additional Entries of HH Levy</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: Ministry of Industry and Trade (Departement) - Sucofindo (Oct 2001).

1) There is a statutory basis (local government regulation)

Levies on logs based on Level II Local Government Regulation (Perda) (Suparna, 2002):

East Kotawaringin Local Government Regulation
The Kabupaten of East Kotawaringin issued Local Government Regulation No. 16 year 2001 as replacement for the Local Government Regulation No. 14 year 2000, where every license holder is required to pay a levy on log in the form of Contribution Fund for Regional Development of Rp. 25,000 per m3 of log and Rp. 50,000 per m3 processed wood sold by auction (section 85 paragraph (5)). Also, it is stipulated that the DR and PSDH to be allocated for kabupaten must be paid directly to the Regional Treasury (section 85 paragraph (2)).

Decree of the Bupati of West Kotawaringin No. 17 yr. 2000
Third Party Revenues of 15,000 per m3 shall be imposed on legal logs, while for illegal logs it shall amount to:
- Type of Ramin/Indah Wood: Rp. 150,000/m3
- Type of Meranti/mixed Rimba: Rp. 75,000/m3

The levy on logs stipulated by the Kabupaten Government is not only prevailing in the above two Kabupatens, but also in the other Kabupatens in different ways and amounts (See Table 3 above).
19. The amount of levy on logs from planted forest is classified into type groups and areas. For example, meranti type group originates from Kalimantan and Maluku:

1. **Levies stipulated by the Central Government:**
   a. Reforestation Fund (DR) \( \pm \text{US$}1.6/m^3 = \text{Rp. 160,000/m}^3 \)
   b. Provision of Forest Resource (PSDH) = \( \text{Rp. 64,000/m}^3 \) (10% of the fixed price)
   c. Land and Building Tax (PBB) is calculated on the basis of dimension, class of land and profit = \( \pm \text{Rp. 4,500/m}^3 \)
   d. Licensing Fee for Forest Utilization Business = \( \text{Rp. 50,000/ha} = \pm \text{Rp. 1,500/m}^2 \)
   Thus, the Total Levies by the Central Government = \( \pm 230,000/m^3 \)

2. **Levies stipulated by the Provincial Government**
   For the Province of East Kalimantan:
   a. Compensation Fund for the Community: \( \text{Rp. 3,000/m}^3 \)
   b. Fund for the Fostering of NGOs and Development of Science and Technology and Investment Fund for Forest Conservation = \( \text{Rp. 15,000/m}^3 \)

3. **Levies stipulated by the Kabupaten Government**
   Many Kabupatens/Cities have stipulated levies for logs from planted forest in different ways and amounts. For example in 2 Kabupatens:
   a. In East Kotawaringin Kabupaten
      - Contribution Fund for Regional Development: \( \text{Rp. 25,000/m}^3 \)
   b. In West Kotawaringin Kabupaten
      - Third Party Revenues: \( \text{Rp. 15,000/m}^3 \)

4. **Other legal levies**
   Besides the aforementioned levies imposed on every m\(^3\) of log, there are also other levies such as: Vehicle Tax, Excavation Tax, etc. outside Income Tax and Corporate Tax.

   Accordingly, the amount of legal levy on every m\(^3\) of log from natural forest is estimated at \( \pm \text{Rp. 300,000/m}^3 \)

2.4. **Transaction Fee**

20. To enhance export-import efficiency, the Ministry of Industry and Trade together with Sucofindo (2001) have studied the licensing procedure for forest utilization. The forest utilization sector was considered inefficient, because a good businessman has to overcome at least 88 matters before obtaining a business license and running the business (See Table 4). Besides, the private party should also bear the costs of fostering, supervising, and controlling (BINWASDAL). Surveys in five provinces indicate that the costs to be incurred by the private parties ranges from \( \text{Rp. 215 million} \) to \( \text{Rp. 440 million per HPH per year} \) (See Table 5). Of course, such condition would financially overburden the forest utilization.
I. PREFACE

01. Since the last three years the condition and role of forest utilization in Indonesia has been declining. The number of HPHs in operation has drastically decreased from 447 units (54.09 million ha) in 1997 to 351 (36.4 million ha) in 2002 (DEPHUT, 2002). In East Kalimantan, HPH and HP-HTI in active production in 1999 were 116 units and 62 units in 2002. In line with the above condition, the export price of plywood has continued decreasing. The average export price of plywood in 1997 was US$ 444 per m$ and US$ 230 in early 2002 (Komda APHI Kaltim, 2002).

02. The decreasing role of the forest utilization is in parallel with the economic crisis, national political change, and the initial implementation of regional autonomy. Uncertain relationship between the central and local governments has become a trigger for the decreasing business certainty and growing destruction of production forest by various causes. To deal with the rapid forest destruction, the Ministry of Forestry has prepared five priority programs: 1). Illegal logging eradication, 2). Prevention of forest fires, 3). Restructuring of wood processing industry, 4). Development of reforestation and forest rehabilitation, and 5). Decentralization of forestry sector.

03. Private parties, donor agencies, and universities held an informal meeting on 7 June 2002 discussing and identifying the matters to be carried out in regard to the Ministry of Forestry’s program, mainly within the jurisdiction of Directorate General for Forestry Production Development (Ditjen BPK). The Forestry Faculty Team of IPB is assigned to formulate a paper on the policy.

04. This paper consists of the condition, issues, and measures to be taken by the Ditjen BPK and Dephut. In formulating this paper, the Forestry Faculty Team of IPB did not specifically carry out a study, but analyzed the existing references. It is expected that Ditjen BPK could set up a Working Group or strengthen the existing Working Group to follow up the measures recommended by this paper.

II. CONDITION OF PRODUCTION FOREST MANAGEMENT

2.1. Destruction of Production Forest and HPH Performance

05. Since 1997 the log production of HPH has continued decreasing and in 2001 the HPH production was below the HTI and IPK production. Meanwhile, Perhutani and another legal permit/SL also supplied the logs (DEPHUT, 2002). The average productivity of natural forest (HPH logs production/areas
Table 4. Activities Requiring Authorization from Related Agency, Broken Down as Activity Groups.

<table>
<thead>
<tr>
<th>No</th>
<th>Activity Groups</th>
<th>Qty</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business Licensing</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Production Licensing</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Production BINWASDAL</td>
<td>42</td>
</tr>
<tr>
<td>4</td>
<td>BINWASDAL of Socioeconomic &amp; Cultural Activity</td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td>Fostering of NGO and Research &amp; Development (LITBANG)</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Payment of Tax &amp; Other Levies</td>
<td>13</td>
</tr>
<tr>
<td>7</td>
<td>Supervision of Manpower</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>88</td>
</tr>
</tbody>
</table>

Source: Deperindag & Sucofindo (2001).

Table 5. Number, Frequency of Visits, Duration of Visits, Number of Personnel Involved, and Estimated HPH’s Financing Support for BINWASDAL per Year.

<table>
<thead>
<tr>
<th>Description</th>
<th>South Kalimantan</th>
<th>East Kalimantan</th>
<th>Central Sulawesi</th>
<th>Papua</th>
<th>Riau</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of activities</td>
<td>13</td>
<td>20</td>
<td>21</td>
<td>21</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>Frequency per year</td>
<td>22</td>
<td>25</td>
<td>26</td>
<td>25</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>Duration of visit</td>
<td>96</td>
<td>153</td>
<td>164</td>
<td>228</td>
<td>141</td>
<td>157</td>
</tr>
<tr>
<td>Number of visitors</td>
<td>66</td>
<td>115</td>
<td>80</td>
<td>68</td>
<td>42</td>
<td>74</td>
</tr>
<tr>
<td>Estimated cost (Mill Rp/year):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. SPJ</td>
<td>193.4</td>
<td>137.8</td>
<td>108.7</td>
<td>123.9</td>
<td>46.3</td>
<td>122.0</td>
</tr>
<tr>
<td>b. Transportation</td>
<td>50.3</td>
<td>55.9</td>
<td>63.4</td>
<td>86.9</td>
<td>48.1</td>
<td>60.9</td>
</tr>
<tr>
<td>c. Accommodation</td>
<td>28.6</td>
<td>31.8</td>
<td>36.0</td>
<td>49.3</td>
<td>27.3</td>
<td>34.6</td>
</tr>
<tr>
<td>d. Allowance</td>
<td>130.1</td>
<td>214.6</td>
<td>91.4</td>
<td>64.2</td>
<td>92.8</td>
<td>118.6</td>
</tr>
<tr>
<td>Total</td>
<td>402.4</td>
<td>440.1</td>
<td>299.5</td>
<td>324.3</td>
<td>214.5</td>
<td>336.2</td>
</tr>
</tbody>
</table>


Remarks: BINWASDAL = Guidance, Supervision and Control; each sample case is based on an HPH calculation with annual cutting of 1,000 ha or the average log production of 30,000 m³/yr. Thus the unofficial levy is averaging between Rp. 9,980/m³ to Rp. 14,670/m³.

21. In the beginning of regional autonomy era today, the Local Government starts to organize the forest utilization. The materialization of such organization is reflected in the local government regulations already stipulated. The result of study by the Ministry of Industry and Trade and Sucofindo (2001) in 6 provinces shows that there are 50 to 52 new regulations related to forest utilization sector. Up to 26 to 28 regulations are related to the collection of levy, 15 regulations govern the technical scope of forestry, 5 regulations have to do with the conservation of land and natural resources, and 4 regulations provides for licensing (See Table 6).
08. BAPLAN (2001) has carried out recalculation of the production forest area. This provides data on forest cover areas categorized into primary forest, logged-over forest (medium-good) and damaged forest/uncultivated land and separated according to the HPH area and ex HPH area, that is, the HPH with the concession period having expired as shown in Figure 4. The forest's damage is clearly spotted in the ex HPH area the management of which is handed over to PT. INHUTANI I-V, where the primary forest remains 11% (0.6 million ha) out of the entire ex HPH. While in the active HPH area, the primary forest remains 18.3 million ha (45%).

09. Result of Dirjen BPK's evaluation (2001) on the entire HPH in operation shows that in general none of the HPH's performance exceeds the score of 60. Yet, generally, except in Sumatra and Nusa Tenggara, the HPH's performance increases (see Figure 5.)
As regards the Government Regulation No. 22 year 1999 and No. 25 year 1999, the number of regulations governing the levy indicates that the natural resources carries a very heavy burden in support of the region's own revenues. This is because the format of income distribution between the central and local government as embodied in the Government Regulation No. 25 year 1999 on financial balance between the central and local government has not been clear. This has caused an overlapping levy.

### III. INDUSTRY AND TRADE

#### 3.1. Wood Processing Industry

22. The 2001 data shows that the need for raw material for wood processing industry in Indonesia is 48.4 million m3. The pulp industry uses the largest portion or about 16.9 million m3; plywood industry uses about 16.5 million m3; sawmill industry about 8 million m3; MDF about 4.6 million m3; chip mill 2 million m3 and block board 0.3 million m3 (DEPHUT, 2002) (See Figure 10). While the average production of RKT and total production (RKT, IPK, HTI, ISL) in the last 6 years were 9.4 million m3/yr and 18.1 million/yr (DEPHUT, 2002). This indicates that the legal source of raw material was only 37% of 2001's need for raw material being 48.4 million m3.

23. Sumatra and Kalimantan were the two large islands needing the largest volume of raw material in 2001. These two islands absorbed 93% of the aggregate raw material needed during 2001 (See Figure 11). Thus, natural forests of these two islands undergo a large pressure compared with the other large islands (See Figure 2 above).
The result of Ditjen BPK's evaluation (2001) proves that out of 354 units of HPH 62 units (18%) conduct violation. While, the result of evaluation by APHI (2002) indicates that out of 30 HPHs in training of trainer for implementing ITTO's criteria and indicators of sustainable forest management, 4 HPHs (13%) gets an excellent score, 8 HPHs (26%) a good score, 15 HPHs (50%) a fair score, and 3 HPHs (11%) a bad score.

The HPH's performance assessment system is still considered inadequate so far because, in general, the result of government's assessment has not yet reflected the real situation in the field (Kartodihardjo, 1998).
24. Until March 2001, Asset Management Credit (AMC) handled bad credits of 128 forestry companies including HPH companies. Table 7 below presents the data on 10 large bad creditors in forestry sector under The Indonesian Bank Restructuring Agency (IBRA).

![Figure 10. Composition of the Need for Industrial Raw Material according to its Type, 2001](image)

![Figure 11. Distribution of the Supply of Raw Material for Wood Processing Industry, 2001](image)

25. From the restructuring of the forestry company's bad debt, we could draw conclusions as follows (Setiono, 2002):

1. The government has not invented a favorable financial model to settle the forestry company's debt.
Evaluation of the HPH's assessment system carried out by the government using 1995's data indicates that the higher the HPH's performance, the more damaged the condition of the HPH's forests was. This is because the government put more emphasis on assessment based on administrative report rather than on actual performance of forest management in the field. Figure 6 shows the result of Kartodihardjo's research (1998) on that matter.

2.2. PT. Inhutani

2.2.1. Natural Forest Management

Out of the production forest covering 36.4 million ha in 2001, 22.3 million ha (61%) was managed by the HPH (purely private). PT. Inhutani (Purely State-Owned Enterprise) managed a forest covering 4.4 million ha (12%). The production forest covering 8.4 million ha (23%) was also managed in the form of share allocation, and 1.4 million ha (4%) in the form of joint venture. Likewise the HPH, so far the performance of PT. Inhutani's (I to V), managing the natural production forest as well, also declined. The number and spread of conflicts in PT. Inhutani can be seen in Table 1.

Table 1. The Number and Spread of Conflicts in PT. Inhutani 1997-2001

<table>
<thead>
<tr>
<th>LOCATION</th>
<th>PT. Inhutani</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td>1. Nanggroe Aceh Darussalam</td>
<td>-</td>
</tr>
<tr>
<td>2. Bengkulu</td>
<td>-</td>
</tr>
<tr>
<td>3. Jambi</td>
<td>-</td>
</tr>
<tr>
<td>4. West Kalimantan</td>
<td>-</td>
</tr>
<tr>
<td>5. South Kalimantan</td>
<td>1</td>
</tr>
<tr>
<td>7. East Kalimantan</td>
<td>2</td>
</tr>
<tr>
<td>8. Lampung</td>
<td>-</td>
</tr>
<tr>
<td>9. Maluku</td>
<td>4</td>
</tr>
<tr>
<td>10. Riau</td>
<td>-</td>
</tr>
<tr>
<td>11. South Sulawesi</td>
<td>2</td>
</tr>
<tr>
<td>12. Central Sulawesi</td>
<td>3</td>
</tr>
<tr>
<td>13. Southeast Sulawesi</td>
<td>2</td>
</tr>
<tr>
<td>15. West Sumatra</td>
<td>-</td>
</tr>
<tr>
<td>16. South Sumatra</td>
<td>-</td>
</tr>
<tr>
<td>17. North Sumatra</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: The Arupa Study Team (2001)

2.2.2. The Plantation Forest Management

The Ministry of Forestry developed an Industrial Plantation Forest (HTI) through a loan scheme with a joint venture between the private sector and PT. Inhutani. According to the result of Ditjen BPK's evaluation until May 2002, the aggregate size of the joint venture HTI was 3,335,342 ha, while the realization of the planted area was 1,200,198 ha (36%). The total amount of the government's Capital Participation for developing the HTI was Rp. 922.1
2. The company can only afford to repay 20% of its debt, meaning the company would not be able to pay Rp. 80,- for every Rp. 100,- of its debt to IBRA.

3. Corporate assessment and calculation of the book value of company’s debt prove that many forestry companies have negative equity.

4. The AMC failed to restructure most of the bad debts.

5. There was only one restructured bad debt, which has been sold out to a financial institution. Some debts already restructured have not been sold out to any financial institution.

6. Debtors still have normal control over the companies’ operation without adequate supervision of their obligations to repay their debts to IBRA.

The aforementioned conclusions show that forestry industries have a very low capacity to repay debt. Investors feel that the risks in the forestry sector are not proportionate to the debt value offered. This has caused difficulties in restructuring the forestry sector’s bad debts and even if they could be restructured it would be difficult to sell them to investors of financial institutions. Even the companies considered good and quick in restructuring process such as Sumalindo Lj, Hargas Industries, Riau Andalan Kertas, Riau Andalan Pulp and Paper, and Tjiwi Kimia have failed to be sold to new investors.

Table 7. Ten Bad Creditors in Forestry Sector

<table>
<thead>
<tr>
<th>Obligors (Debtors)</th>
<th>Total Debt (Rp. Thousand billion)</th>
<th>% Total</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bob Hasan</td>
<td>7.02</td>
<td>32.1</td>
<td>16</td>
</tr>
<tr>
<td>Dianti</td>
<td>3.32</td>
<td>15.2</td>
<td>6</td>
</tr>
<tr>
<td>Raja Garuda Mas</td>
<td>1.48</td>
<td>6.7</td>
<td>7</td>
</tr>
<tr>
<td>Banito</td>
<td>1.38</td>
<td>6.3</td>
<td>9</td>
</tr>
<tr>
<td>Batasan</td>
<td>1.16</td>
<td>5.3</td>
<td>4</td>
</tr>
<tr>
<td>Dirgahayu</td>
<td>0.92</td>
<td>4.2</td>
<td>2</td>
</tr>
<tr>
<td>Andatu</td>
<td>0.50</td>
<td>2.3</td>
<td>1</td>
</tr>
<tr>
<td>Sumatra TUD</td>
<td>0.47</td>
<td>2.2</td>
<td>5</td>
</tr>
<tr>
<td>Hutan Raya Indonesia</td>
<td>0.46</td>
<td>2.1</td>
<td>5</td>
</tr>
<tr>
<td>Surya Dumai</td>
<td>0.43</td>
<td>1.9</td>
<td>4</td>
</tr>
<tr>
<td>Others</td>
<td>4.47</td>
<td>20.6</td>
<td>69</td>
</tr>
<tr>
<td>TOTAL</td>
<td>21.88</td>
<td>100.0</td>
<td>128</td>
</tr>
</tbody>
</table>


26. To generate revenue for National Budget, IBRA is now pursuing a policy on selling the bad debt cheaply. Not only could this policy affect the banking system, which is still unstable, but it could also harm the forest sustainability. Also, this could cause moral hazard.

27. Through IBRA, the government controls most of the capital of private forestry industry except for sawmill industry. The government also plays quite a strategic role in the private HPH companies. Table 8 presents proportions of influence IBRA could have on forestry sector. Except for sawmill industries,
billion, while the debt of reforestation fund with 0% interest was Rp. 1.1 trillion and a commercial interest debt of Rp. 320.2 billion.

13. The result of data analysis of 95 Joint Venture HTIs covering 3 million ha shows that a forest area covering about 1 million ha (Gross - Net Area, or 33% of total HTI area) would not be cultivated, while an area covering 889,000 ha (29%) was not yet planted. The evaluation also indicates that the further development of an HTI covering 616,000 ha (20%) would be rescheduled, there would be a transfer of shareholder for an HTI covering 455,000 ha (15%), and an HTI covering 90,000 ha (3%) would be liquidated.

![Figure 7. Allocated HTI Area and the Policy Direction](image)

14. Further evaluation of the HTI condition is shown in Table 2. The average debt of Non-Transmigration HTI was greater than Transmigration HTI, but the entire type of the HTI appeared to be illiquid. A small-planted area and a low price of log worsened such condition (See Annex I).

**Table 2. Evaluation of 95 HTI Joint Venture Companies (May 2002)**

<table>
<thead>
<tr>
<th>Policy Direction</th>
<th>Qty of Units</th>
<th>Width of HTI (Ha)</th>
<th>Percentage</th>
<th>Ratio of Debt (Thousand Rp/ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Gross</td>
<td>Net</td>
<td>Plant</td>
</tr>
<tr>
<td>A. Non-Transmigration HTI</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reschedule</td>
<td>12</td>
<td>807,962</td>
<td>519,437</td>
<td>397,930</td>
</tr>
<tr>
<td>Share transfer</td>
<td>9</td>
<td>1,158,780</td>
<td>669,103</td>
<td>370,570</td>
</tr>
<tr>
<td>Liquidation</td>
<td>6</td>
<td>191,798</td>
<td>150,881</td>
<td>33,679</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>2,158,540</td>
<td>1,339,421</td>
<td>802,179</td>
</tr>
<tr>
<td>B. Transmigration HTI</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reschedule</td>
<td>32</td>
<td>494,955</td>
<td>424,404</td>
<td>218,108</td>
</tr>
<tr>
<td>Share transfer</td>
<td>19</td>
<td>215,760</td>
<td>158,453</td>
<td>84,017</td>
</tr>
<tr>
<td>Liquidation</td>
<td>17</td>
<td>194,615</td>
<td>127,051</td>
<td>55,927</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>905,530</td>
<td>709,908</td>
<td>358,052</td>
</tr>
</tbody>
</table>

IBRA has control over forestry industry because it acquired more than 60% of the industries' capacity. Thus, in fact, there is no better condition than the present for the government to restructure forestry industry on the basis of sustainable forest management.

28. The forestry sector has a strategic role because the companies under IBRA have a debt of Rp. 26 trillion that cannot be repaid, both the interest and the principal. By settling such bad debts through converting debts into share, IBRA could become the shareholder of the companies. According to IBRA, companies with a level of operation in line with the forestry regulation could not pay 80% of their debt. This part of debt is referred to as unsustainable loan. Hence, 80% of the company’s debts could be converted into shares. The amount of conversion, according to IBRA’s analysis, mostly will give a sufficient share for IBRA or government to take over such private forestry companies. This position would enable the government to restructure the forestry industry more efficiently and effectively. Also, the government could implement the most appropriate industrial restructuring scenario both from the social aspect (employment) and economic aspect (industry health and foreign exchange), as well as political aspect. The government can close down unhealthy companies and shift the manpower to companies that are healthy and still working under allowed capacities.

Table 8. IBRA’s Control over Forestry Industry

<table>
<thead>
<tr>
<th>No</th>
<th>INDUSTRY</th>
<th>NATIONAL</th>
<th>IBRA</th>
<th>%IBRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Plywood (m³)</td>
<td>9,433,093</td>
<td>5,620,993</td>
<td>59.59</td>
</tr>
<tr>
<td>2</td>
<td>Blockboard (m³)</td>
<td>2,085,738</td>
<td>1,561,422</td>
<td>74.86</td>
</tr>
<tr>
<td>3</td>
<td>Sawmill (m³)</td>
<td>11,048,083</td>
<td>978,000</td>
<td>8.85</td>
</tr>
<tr>
<td>4</td>
<td>Pulp (ton)</td>
<td>5,888,100</td>
<td>4,602,000</td>
<td>78.16</td>
</tr>
<tr>
<td>5</td>
<td>Paper (ton)</td>
<td>9,904,080</td>
<td>5,732,300</td>
<td>57.88</td>
</tr>
<tr>
<td>6</td>
<td>HPH (ha)</td>
<td>32,062,785</td>
<td>7,622,656</td>
<td>23.77</td>
</tr>
</tbody>
</table>

Source: IBRA, the Ministry of Forestry, Deperindag in Setiono (2002).

29. The absolute requirement for realizing the government’s strategic role in the forestry sector as described above is the integration of policy amongst related government organizations, including IBRA and the Committee for Financial Sector Policy (KKS). The ministries related to the realization of the government’s strategic role comprise the Minister of Economy, KKS, IBRA, the Ministry of Forestry, the Ministry of Industry and Trade, the Ministry of Manpower, and the Provincial, District and City Government. Coordination is indeed always costly and difficult. But there is no other better strategy but to put much effort to integrate the policies made by the government agencies. Weak integration of policies between IBRA, the Ministry of Forestry, and Ministry of Industry and Trade in dealing with the forestry companies under IBRA (see Table 9) has currently afflicted a loss to the government as described formerly.

30. Table 9 shows disharmony between the policies of IBRA, MoF and Ministry of Industry and Trade on dealing with companies under IBRA. The most contradictory was the MoF’s policy, while IBRA and Ministry of Industry and
Trade seem to have similar interests. If MoF persists with its policy, IBRA and Ministry of Industry and Trade would have difficulties in achieving their policy objectives. On the other hand, MoF also bears the pressure of considering the government’s economic interests represented by IBRA and Ministry of Industry and Trade.

<table>
<thead>
<tr>
<th>Table 9. Policy Divergence between Three Government Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No</strong></td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
</tbody>
</table>

Source: IBRA, Dephut. Deperindag

3.2. Global Market Condition

31. The trade of today’s forestry products is estimated to reach USD 150-200 billion or has increased almost four times (in real term) over the last three decades. The international trading has reached an average 30% of the world’s forestry production and consumption (Tables 10 and 11). Almost every country imports forestry products, but only a few countries export most of the forestry products. The main net exporters of the world’s forestry products comprise: Canada, Sweden, Finland, Indonesia, Malaysia, Austria, Brazil, Russian Federation, and Norway.

32. While, the main net importers of the world’s forestry products comprise: Japan, England, United States of America, Italy, Korea, Germany, China, Netherlands, Spain, Belgium, Luxembourg, France, and Switzerland. Although the United States of America and Germany are the net importer countries, they are also the main exporter of forestry products. The USA is the second largest exporter in the world, while Germany is the fifth largest exporter in the world (Sedjo and Simpson, 1999).
3. Present condition policy adaptation to vision of future production forest management.

Adaptation of present policy, as formulated in the evaluation of HPH, HTI performance, should be inline with social forestry vision, in which social forestry stated as solution of future forest production management. How the management of production forest system could be transformed or be able to accommodate social forestry is the key answer. Another problem is looking for the solution of land right issue. Position and role of Inhutani as executing agency of reforestation and its another public function also problems that should be answered.

VI. STRATEGIC STEPS

6.1. To Convergence Government’s Roles

47. The above description of underlying causes indicates that the government’s roles are very essential and central because the source of such issues lies with the public policy and there is divergence of national, provincial and district policies. Therefore, if the instructional approach to the implementation of national policy on production forest management—namely limited to the elaboration of Laws, Government Regulations, Ministerial Decrees—remains in place, it is expected that the above divergence of policies cannot be solved. As a result, the effort to improve the policy on production forest management will also be inhibited.

48. A necessary strategy is therefore to improve coordination and cooperation between the Ministry of Forestry, Provincial Government and District. Because the implementation of such coordination and cooperation requires a costly effort, focus should be paid on the following fundamental issues:

- Solution to conflicts in the utilization and use of production forest areas (see Annex 2),
- Management of currently unproductive production forest (related to PT Inhutani’s position);
- Management of HPH and HTI (IUPHHK) deemed still prospective to reach sustainable production forest management (related to PT Inhutani’s position);
- Closure of forest industries, the recommendation of which has been presented by the Forestry Minister to IBRA.
- Government’s treatment of problematic forest industries

The coordination in this case should be focused on the aspects of planning and control and authority each government agency has.
<table>
<thead>
<tr>
<th>No</th>
<th>Current Policies</th>
<th>Obstacles/Issues</th>
<th>Reform to Policies</th>
<th>Follow-ups</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.</td>
<td>Marking of Forest Area Boundaries</td>
<td>Frequently claimed by adat-law/hak ulayat community and user of public land.</td>
<td>The forest areas to be marked must be free of adat community/hak ulayat land and land used by the public.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Criteria for the status of an area to be marked are among others: free of third parties’ rights.</td>
<td>Experience shows lack of involvement of public figures around boundary routes.</td>
<td>Confirmed to involve a minimum of 3-5 public figures around boundary routes.</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>The forest boundary marking committee is composed of representatives of kabupaten/city agencies, camat, village chiefs and public figures.</td>
<td>In real practice, frequently not participatory.</td>
<td>To ensure a really participatory process, the local community roles should be given a more dominant room in the process of establishing boundary routes, marking boundaries and drawing up official report on boundary marking.</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Approach to participatory process of establishing boundary routes, marking boundaries and drawing up official report on boundary marking.</td>
<td>For pursuing the target of boundary length, the target of forest area extent becomes difficult to achieve.</td>
<td>In this regional autonomy era, the target to complete the boundary marking per kabupaten/city in extent unit (Ha) becomes important rather than boundary length (Km). The recognition of community around forest is very vital and needs to be realized and set out in the Official Report on Community Recognition so that they may have a sense of ownership and become responsible for the forest area.</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Unclear arrangement for the target of boundary marking to reach the length of boundaries (Km) or the extent of Forest Areas (Ha).</td>
<td>In reality, the three targets are difficult to reach all at the same time.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 10. Consumption Share (of import) of the World’s Forestry Products

<table>
<thead>
<tr>
<th>Item</th>
<th>World (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log</td>
<td>7.3</td>
</tr>
<tr>
<td>Sawn wood</td>
<td>13.6</td>
</tr>
<tr>
<td>Wood based panels</td>
<td>14.3</td>
</tr>
<tr>
<td>Pulp</td>
<td>16.3</td>
</tr>
<tr>
<td>Paper and paperboard</td>
<td>18.1</td>
</tr>
</tbody>
</table>

Source: The Office of the United States Trade Representative and the White House Council on Environmental Quality (1999)

33. The composition of traded forestry products, in the form of consumption and production, has changed quite significantly in the last ten years. Although the world’s consumption of wood based panels and paper and paperboard has continued to increase, but the world’s sawn wood consumption has decreased by 20 percent between 1990 and 1996. Consequently, the world’s industrial roundwood production has decreased by almost 15% in that period (Table 12).

Table 11. The Estimate World’s Wood Share Harvested and Entered into International Market, 1996 (in %)*

<table>
<thead>
<tr>
<th>Industrial Roundwood</th>
<th>Log only</th>
<th>All product</th>
<th>All harvested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Country</td>
<td>8</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Advanced Country</td>
<td>8</td>
<td>35</td>
<td>27</td>
</tr>
<tr>
<td>World</td>
<td>8</td>
<td>30</td>
<td>16</td>
</tr>
</tbody>
</table>

*) Export in the form of share; **) including fuelwood

Source: The Office of United States Trade Representative and White House Council on Environmental Quality (1999)


<table>
<thead>
<tr>
<th>Item</th>
<th>Unit</th>
<th>Actual*</th>
<th>Projection **</th>
<th>Growth rate/yr (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuelwood</td>
<td>Million m3</td>
<td>1113</td>
<td>1366</td>
<td>1780</td>
</tr>
<tr>
<td>Industrial roundwood</td>
<td>Million m3</td>
<td>1277</td>
<td>1391</td>
<td>1713</td>
</tr>
<tr>
<td>Recovered paper</td>
<td>Million metric ton</td>
<td>30</td>
<td>51</td>
<td>82</td>
</tr>
<tr>
<td>Sawn wood</td>
<td>Million m3</td>
<td>413</td>
<td>423</td>
<td>550</td>
</tr>
<tr>
<td>Wood based panels</td>
<td>Million m3</td>
<td>69</td>
<td>88</td>
<td>126</td>
</tr>
<tr>
<td>Paper and paperboard</td>
<td>Million metric ton</td>
<td>128</td>
<td>156</td>
<td>240</td>
</tr>
</tbody>
</table>

*Forestry Department, Food and Agriculture Organization (FAO) report the data; the data is available at: http://apps.fao.org. **FAO (1997, 1999)
6.2. Efficient Management of Production Forest

49. Making an effort to implement a policy that may reduce the incurrence of high transactional expenses in the implementation of forest management. In this case, the formulation of a policy should reflect de-bureaucratization and give priority to the control of forest management using an outcome-based policy. To get the picture, there are 228 forest management-related issues (Annex 3), and de-bureaucratization recommendations (Annex 4 and Annex 5).

6.3. Policy Instruments

50. Formulating policy instruments to plan and control production forest management. The focus is that the instruments to be developed should be precisely suitable for the conditions in the field and based on the result of issue identification, under the scope of companies as well as the scope of national, provincial and district policies. In this connection, attention should be focused on:

- Establishment of an Independent Assessment Institution (LPI) and process of evaluating IUPHHK performance, in the native forest as well as the planted forest;
- Follow-ups of the IUPHHK performance evaluation results, i.e. establishing the agenda of transition for each company and the roles of Forestry Ministry (MoF) and Provincial and District governments;
- Obligating each timber industry to evaluate the origin of wood raw materials used by independent third parties.

51. The result of performance evaluation directed towards PT Inhutani needs to be followed up while at the same time establishing the scheme of IUPHHK funding for plantation forest as well as the scheme of share participation and joint venture between PT Inhutani and private sector obtaining the IUPHHK of natural forest. In connection with sustainable production forest management by PT Inhutani, the Directorate General BPK needs to formulate a policy paper for discussion with the State Minister for State-Owned Company Empowerment (Meneg. BUMN) and Minister of Finance (MenKeu).

52. Policy reform need to consider condition and trends of either domestic and international market.
Annex 3. Number of Activities

<table>
<thead>
<tr>
<th>No</th>
<th>Contact Agencies</th>
<th>Number of Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Center</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Minister of Forestry</td>
<td>23</td>
</tr>
<tr>
<td>2.</td>
<td>Directorate General of Forest Production Development</td>
<td>63</td>
</tr>
<tr>
<td>3.</td>
<td>Director for Fostering the Forestry Production Plan</td>
<td>7</td>
</tr>
<tr>
<td>4.</td>
<td>Secretary General of the Forestry Ministry</td>
<td>6</td>
</tr>
<tr>
<td>5.</td>
<td>Secretary of the Director General of Forest Production Development</td>
<td>2</td>
</tr>
<tr>
<td>6.</td>
<td>Head of Forest Planology Agency</td>
<td>11</td>
</tr>
<tr>
<td>7.</td>
<td>Director General of Forest Conservation and Nature Conservation</td>
<td>14</td>
</tr>
<tr>
<td>8.</td>
<td>Director of TPHH/BIKPHH</td>
<td>2</td>
</tr>
<tr>
<td>9.</td>
<td>Sub-directorate of Investment</td>
<td>2</td>
</tr>
<tr>
<td>10.</td>
<td>Directorate General of Land Rehabilitation and Social Forestry</td>
<td>4</td>
</tr>
<tr>
<td>11.</td>
<td>Sub-directorate of Standardization</td>
<td>1</td>
</tr>
<tr>
<td>12.</td>
<td>Director of BPHH</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td><strong>Total A</strong></td>
<td><strong>143</strong></td>
</tr>
<tr>
<td>B. Region</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Governor of Region Level I</td>
<td>6</td>
</tr>
<tr>
<td>2.</td>
<td>Bupati of Region Level II</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>Head of Provincial Forestry Dinas</td>
<td>56</td>
</tr>
<tr>
<td>4.</td>
<td>Financial Institutions/Banks</td>
<td>6</td>
</tr>
<tr>
<td>5.</td>
<td>BEHPHH/LEHPHH</td>
<td>9</td>
</tr>
<tr>
<td>6.</td>
<td>Regional Revenue Dinas</td>
<td>6</td>
</tr>
<tr>
<td>7.</td>
<td>Manpower Dinas</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td><strong>Total B</strong></td>
<td><strong>86</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Total A+B</strong></td>
<td><strong>229</strong></td>
</tr>
</tbody>
</table>

Source: Deppeirindag & Sucofindo (2001)

Annex 4. De-bureaucratization Recommendations

<table>
<thead>
<tr>
<th>No</th>
<th>Type</th>
<th>Implementation</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Boundary of Block RTK-PH</td>
<td>DK-Province</td>
<td>1. Implementation of activities must be transparent as regards all parties’ rights and obligations</td>
</tr>
<tr>
<td>2.</td>
<td>TPT</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Road Ki-Ka Planting Inspection</td>
<td>DK-Province</td>
<td>2. All expenses arising from inspection activities will not be imposed on HPH/HPHTI.</td>
</tr>
<tr>
<td>4.</td>
<td>PMDH</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>RKLRPL</td>
<td>DK-Province</td>
<td>3. In case of consequences of expenses, they must be official and accountable, and their uses and amounts must be clear.</td>
</tr>
<tr>
<td>6.</td>
<td>SPAS</td>
<td>BAPEDAL</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Inventory Check</td>
<td>DK-Province</td>
<td>4. All types of inspection are carried out by an integrated team or a cross-agency integration to avoid double inspection or one activity by different agencies.</td>
</tr>
<tr>
<td>8.</td>
<td>PUP</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>HPH Timber Administration</td>
<td>DK-Province</td>
<td>5. Elimination of inspection activities overlapping with similar ones such as PMDH, road Ki-Ka Planting; they are under the scope of TPTI inspection activities.</td>
</tr>
<tr>
<td>10.</td>
<td>IPKH Timber Administration</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Damkarhut</td>
<td>DK-Province</td>
<td>6. Inspection activities should be carried</td>
</tr>
<tr>
<td>12.</td>
<td>Register</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>TPK road permit</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>14.</td>
<td>Equipment permit</td>
<td>DK-Province</td>
<td></td>
</tr>
</tbody>
</table>
34. Development of efficient manufacturing technology and increased use of recovered paper in the production of paper and paperboard would weaken the demand for raw material for industrial products in the future (Table 13). A change in composition of demand together with a change in manufacturing technology would raise the potential use and economic value of small sized logs. This will affect the prices and sources of wood fiber used in industrial products. For example, the recovered paper (from paper and paperboard recycling) has reached 20% of the aggregate fiber used in the wood processing industries around the world. It is expected that the recovered-paper’s contribution would reached 35% or more in the coming two decades (Table 14 and Table 15).

35. Along with the increased international trade over the last 40 years, the forestry production for domestic consumption also increased, both in advanced and developing countries. It is estimated that 35% of industrial roundwood production in advanced country entered the world market, while developing countries contributed 20% of their production. If the fuelwood were also included, then it is believed that developing countries only contributed 5% of their roundwood production to world trade. Furthermore, the forestry product is traded intra-regionally. Almost 50% of the world’s forestry product trade takes place amongst European countries and 30% amongst countries in Northern America. Although the developing countries’ participation in the forestry product trading has increased significantly in the last two decades—both as importers and exporters—the production, consumption and trade amongst advanced countries yet still dominated the international forestry product trade.

Table 14. The World’s Industrial Roundwood and Waste Paper Production in 1990 and 1996 with a Projection for 2010

<table>
<thead>
<tr>
<th>Item</th>
<th>Unit</th>
<th>Annual Change</th>
<th>1990</th>
<th>1996</th>
<th>2010</th>
<th>1990-2010 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>Million m3</td>
<td></td>
<td>1713</td>
<td>1490</td>
<td>1872</td>
<td>0.45</td>
</tr>
<tr>
<td>roundwood</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste paper</td>
<td>Million metric ton</td>
<td></td>
<td>82</td>
<td>108</td>
<td>171</td>
<td>3.71</td>
</tr>
</tbody>
</table>

Source: FAO (1997, 1999)

Table 15. Estimation and Projection of Source of Raw Material for Fiber Wood (%)

<table>
<thead>
<tr>
<th>Source</th>
<th>1995</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Forest</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>Secondary and Plantation Forest</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>Recovered fiber</td>
<td>20</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Solberg et al. (1996); Brooks (1997)
53. So far performance of production forest management have not been influenced by the economic incentive and policies, either domestic or international. This is due to the absence of pre condition that can be used as a foundation to ensure the sustainability of production forest management. So that the problem of production forest management should be seen comprehensively, and should be taken as a foundation to formulate long term policies, at least for ten years.

54. To formulate National policies, Working Groups on the development of production forest resources should be established. Based on the study, the target of national policy on forest production management can be focused on 4 topics, namely:

1. To synchronize National, Provincial, Regency/Municipality Policies
   - Identification of priority area,
   - Identification of problems that should be resolve together,
   - Identification of Policies instrument that will be used to solve the problems,
   - Identification of related stake holders,
   - Communication process,
   - Implementation of the agreement.

2. Clarity of land area and right of the community for resources of production forest

   Clarity of land area can be achieved as long as the availability of law certainty and the confession of local stake holders on the area. To achieve the condition, dialog process between Central Government, Provincial government, Regency and village level should be conducted. The implementation program can be done based on the priority.

3. Forest potential, domestic and international forest product market
   - Development of Social forestry policy
   - Policy on development of wood products based on product specification, type, market location, price, either domestic and international level;
   - Barier on policy and development technique (decentralized, market networking, etc.)
   - Either positive or negative role of certification on small scale forestry business actors.
<table>
<thead>
<tr>
<th>No.</th>
<th>Type</th>
<th>Implementation</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>HPH Performance</td>
<td>DK-Province</td>
<td>Elimination of Floating Station inspection for inhibiting the process and having adverse effects.</td>
</tr>
<tr>
<td>16</td>
<td>Invoice Line</td>
<td>DK-Province</td>
<td>out simultaneously once a year.</td>
</tr>
<tr>
<td>17</td>
<td>Floating Station</td>
<td>DK-Province</td>
<td>Polres, Kodim, Kp3</td>
</tr>
</tbody>
</table>

Source: Komda APHI Kaltim, 2002

### Annex 5. De-bureaucratization Recommendations

<table>
<thead>
<tr>
<th>No.</th>
<th>Type</th>
<th>Implementation</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>RKPH</td>
<td>DK-Province</td>
<td>Implementation of activities must be transparent as regards all parties’ rights and obligations</td>
</tr>
<tr>
<td>2</td>
<td>RKPLH</td>
<td>DK-Province</td>
<td>2. The consequences of expenses must be official and accountable, and their uses and amounts must be clear</td>
</tr>
<tr>
<td>3</td>
<td>RKTPH</td>
<td>DK-Province</td>
<td>3. All types of handling activities should be carried out by an agency integrated with other related agencies (one-stop management)</td>
</tr>
<tr>
<td>4</td>
<td>PWH permit</td>
<td>DK-Province</td>
<td>4. Simplified procedures and faster services</td>
</tr>
<tr>
<td>5</td>
<td>Equipment Handling Permit</td>
<td>DK-Province</td>
<td>5. Handling activities should be carried out simultaneously once a year.</td>
</tr>
<tr>
<td>6</td>
<td>SKSSH</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>RPBI</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Register LHP</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Statement of Being Free from Arrears and Sanctions</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>HPH Settled SPT</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>IPKH Settled SPT</td>
<td>DK-Province</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Landsat Image</td>
<td>DK-Province</td>
<td></td>
</tr>
</tbody>
</table>

Source: Komda APHI Kaltim, 2002

In preparing this policy paper, the IPB Forestry Faculty Team cooperates with the group of donor institutions: JICA, NRM, GTZ, FLB/EU and MFP/DFID.

1. If a bank buys a bad debt, its capital adequacy ratio will be reduced and endanger the bank’s health. The bad debt will remain to be the forest company’s debt that must be paid to its buyer. The source of payment for that debt is certainly forest. Forest will be exploited at a maximum level to pay that debt. With the high business risk in the sector of forestry, there is an indication that the buyer of this bad debt would be connected with forest companies under the IBRA. Although the IBRA prohibits the capitalist connected with IBRA debtors to buy debts from the IBRA, it is difficult for the IBRA to prevent this. The maximum selling value of a bad debt is 20% only. As a result, the government will give an 80% subsidy to the forest debtor who successfully bought the debt through his accomplice with a value of only 20% of the total debt. If the debt is Rp 100,- the debtor will just pay Rp 20. The balance will be the loss to be borne by Indonesian people.
36. There have been two phenomena being the characteristics of the world’s wood production in the last 20 years. First, stagnated wood production and consumption, where the level of industrial roundwood production in 1997 (1.523 billion m³) was similar to the level of production in 1984 (1.527 billion m³). The level of world’s roundwood production peaked in 1990 (1.72 billion m³); second, the increased role of industrial planted forest in fulfilling the world’s demand for wood materials. These two tendencies may be permanent (Sedjo and Simpson, 1999). In long-term, the production and consumption growth of industrial roundwood would be affected by demand and supply aspect. Apparently, the roundwood consumption would decrease, partly because of the so called “dematerialization of the economy”, i.e., a reduced role of materials because the economy is moving towards the era of service and information. Although the long-term tendency towards dematerialization is more problematic, Sedjo and Lyon (1990) clearly stated that the growth of roundwood consumption in the world had decreased since several decades.

37. The change in composition of wood production and consumption as described above and the change of public perception of forest and forest benefit would contribute to a change in the harvesting of forestry product, from a primary forest to a secondary forest and planted forest. Sedjo (1999) stated that the investment in industrial planted forest had continued since 1970s. One of the causes was the increased pressure and success of “environmental movement” in restricting and preventing the harvesting of logs from native forests. This has resulted in increased harvest cost of log from the native forests that economically the development of planted forest has been increasingly attractive in economic terms.

38. The Office of the United States Trade Representative and the White House Council on Environmental Quality (1999) in its study “Accelerated Tariff Liberalization in the Forest Products Sector: A Study of the economic and Environment Effects” predicted that in 2040 almost half of the world’s log production would originate from plantation forests (Table 16), however the consequence of this trend to the environment is uncertain and very much depends on the kind of land being used for developing such plantation forest. The environmental impact of converting the natural forest into the plantation forest is the loss of biodiversities and habitat for native species, although in some cases of plantation forest development, the size of forest had increased or the vegetation in the damaged land could be restored. A plantation forest and intensive forest management would also reduce the pressure to harvest the natural forest.
4. Transformation of HPH, HTI and PT.INHUTANI I-IV

- Transition form of IUPHHK of natural and plantation forest which are not feasible to operate,
- Incentive and disincentive for forest and land rehabilitation,
- Problem of DR
- Public role of Forestry BUMN and position of Inhutani's
- National policy to accommodate many types of social forestry.
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</tr>
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<td>PT. Sari Bumi Kusuma</td>
</tr>
</tbody>
</table>
Table 16. Estimated HTL contribution to the World, 2000-2040 (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>2000</th>
<th>2020</th>
<th>2040</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>20</td>
<td>39</td>
<td>40</td>
</tr>
<tr>
<td>Asia</td>
<td>32</td>
<td>46</td>
<td>48</td>
</tr>
<tr>
<td>Europe and former USSR</td>
<td>46</td>
<td>53</td>
<td>55</td>
</tr>
<tr>
<td>Northern and Central America</td>
<td>22</td>
<td>29</td>
<td>31</td>
</tr>
<tr>
<td>Oceania</td>
<td>55</td>
<td>66</td>
<td>67</td>
</tr>
<tr>
<td>Southern America</td>
<td>63</td>
<td>65</td>
<td>66</td>
</tr>
<tr>
<td>WORLD</td>
<td>35</td>
<td>44</td>
<td>46</td>
</tr>
</tbody>
</table>

Source: The Office of the United States Trade Representative and the White House Council on Environmental Quality (1999)

3.3. Certification of Sustainable Forest Management (SFM)

39. There were quite many economic studies of certification from the demand aspect, in the form of willingness to pay, in order to obtain premium price for a certified product (Winterhalter and Cassens, 1993; Ozanne and Vlosky, 1997; Stevens et al., 1997; Vlosky and Ozanne, 1997). Most of the study showed that a willingness to give a premium price varied between 3 – 70% and the average premium price given has increased between 0 – 20%. An analysis of certification from the supply aspect, both descriptively (Baharuddin, 1995; Simula, 1996; Kiker and Putz, 1997) and theoretically (Murray and Casey, 1998; Swallow and Sedjo, 2000), has also been done. Murray and Abt (2001) in the study in the United States of America show that a motivation to obtain a premium price is not necessarily a reason to obtain eco-label certification, but it could be the eco-sensitive consumer. Schwarzbauer and Rametssteiner (2001) in their study in Western Europe indicate that a gradual change takes place in a market for forestry products as a result of SFM certification. A decrease in the harvesting rate has a greater effect than an increased cost due to certification.

40. Certification of the management of production natural forest in Indonesia began since 1994, implemented in 1998. So far, there has been no satisfactory results. Up to this time, there is only one HPH that has obtained PHL certification, two HPHs failed, and 12 HPHs are in the appraisal process. A result of APHI’s survey of the best 30 HPHs in 2001 shows that the percentage of preparedness of HPH to achieve SFM based on ITTO indicator is 40% being prepared and 60% unprepared. According to HPH players, several matters considered as a hindrance to the achievement of SFM— from the result of APHI’s survey of the best 30 HPHs in 2001— comprise:

**Internal Factors:**
1. Reduced forest resources as a result of illegal logging, land conversion to non-forestry interests, and cultivation by the community.
2. Function of organizational structure, which has not fully accommodated the interest of sustainable forest management.
3. Documentation and reporting system that has not been integrated into an integrated information system.
4. Planning that has not accommodated all related parties.
5. Fund limitation.
BIBLIOGRAPHY

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: Tree Brower  
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: FWI  

**About the project:**  
The project was funded by the Japan International Cooperation Agency (JICA) in collaboration with other development institutions.
6. Still oriented to production.
7. There is no commitment of top management to the achievement of SFM.
8. Lacking comprehension of the SFM substance.
9. SFM is still considered as a burden.
10. Human Resources.
11. Weak coordination between sectors.

**External Factors:**
1. Illegal logging, land conversion to non-forestry sector, and shifting cultivation.
2. There is no effective government incentive.
3. Overlapped areas/lands.
5. Burdensome tax and levy.
6. Uncertain forestry policy.
7. No community support.
8. Unfinished RTRWP.
9. Human Resources.

Considering the above-described factors, it is evident that the obstacle to achievement of PHLSFM is the element of public policy causing uncertainty in business as well as the weakness in realizing the incentive for companies to employ long-term steps. A low log price has also contributed to low incentives for companies to invest in forest utilization (Manurung, 2002).

**ISSUES**

4.1. Summarized Situation of Production Forest Management

4.1. Based on the above description, the situations of production forest management can be summarized as follows:

1. The role of natural forest in the national supply of logs (legal) is on the decline. The average productivity of natural forest managed by HPH (production/HPH area) is only 0.2 m³/Ha. The average log production in the last 6 years from four sources i.e. RKT, HTI, IPK, and ISL could only supply 37% of the needs for industrial raw materials in 2001. Thus, the current forest management system cannot represent the achievement of sustainable forest management.

2. Due to the closure of forest management business units for the last 5 years, the production forest managed in the form of a wood utilization permit was reduced to 36.4 million (22.3 million Ha managed privately and 14.1 million Ha managed by BUMN). There is unproductive production forest of 16.41 million Ha or 28% of all the production forest, currently under nobody's management.

3. In such conditions, the unproductive production forest is on the increase and PT Inhutani becomes the mainstay of the damaged natural forest.


ABSTRACT OF REFERENCE

ISSUE PAPER
DEVELOPMENT OF PRODUCTION
FOREST RESOURCES

SUGGESTION ON POLICIES
FOR
MINISTRY OF FORESTRY

By:
The Forestry Faculty Team of IPB Team
In Collaboration with National and International Experts

BOGOR, 2003
management—and also plantation forest development. In fact, it is well known that since prohibition against native forest conversion (IPK) and early implementation of regional autonomy the position of PT Inhutani from economic as well as political aspects has been quite critical.

4. The system of management unit performance evaluation applied so far by the government has not only failed to represent actual conditions in the field but cannot give feedback for improving business management and government policy.

5. From the results of evaluation by APHI it can be interpreted that the obstacles to the achievement of PHL are public policy element that leads to business uncertainty and weak forest policy that cannot create an incentive for companies to take long-term actions.

6. Because more PHL problems lie with the public policy in general and with the forest policy in particular, and not with the company policy, the sustainable forest certification cannot become an effective instrument to encourage companies to improve their performance.

7. The results of BPK Directorate General evaluation until May 2002 showed that in the development of HTI, underlying policy needs improvement to realize necessary preconditions as well as funding scheme. Easy money, in the form of PMP, interest-free loan and commercial interest loan, cannot become an incentive for the HTI development.

8. Official forest levies charged by the government (central, provincial, district) and the burden of company expenses for the activities of guidance, supervision and control by the government are relatively very high compared to the low log prices. This condition indicates that the institution of production forest management is not able any longer to control transactional expenses and encourages over-cutting.

9. The government through the IBRA so far has not been capable of restructuring the forest industry that should take the sustainable forest aspect into account.

10. The developing global forest product market share tends to continuously be occupied by developed countries and Indonesia cannot utilize it yet.

### 4.2. Underlying Causes

#### 4.2.1. General

42. In such a situation of production forest management, changes to business behavior in the management of production forest to reach the expected SFM do not happen in general. A wide range of incentives originating from national as well as international policies (trading and political) do not work in general. This is because various preconditions of production forest management (such as the status of production forest area) and institutions (government policy and its implementation) are not conducive yet.

#### 4.2.2. For Management Unit

43. For the management unit (IUPHHK of natural forest), the weak support of such preconditions and institutions may lead to:

1. Relatively low product (log) selling price compared to the cost incurred
Winterhalter, D.M., Cassens, D., 1993. Consumer perceptions of forest sustainability and willingness to pay: Results of a national survey. Purdue University, West Lafayette, IN.
BACKGROUND:
To assist development of tree plantation strategies (especially farmer tree planting), so as to facilitate forest industrial transformation, as requested by Gol-CGI commitment. Sengon was chosen because of two reasons: (a) It is a fast growing and multi-purposes tree (b) It is a typical intercropping tree species in Indonesia. The objectives are (a) to describe characteristic of sengon product market, (b) to describe institutional framework that accommodates sengon plantation, (c) to describe Government role in sengon plantation.

CONCLUSION:
Sengon can be developed as alternatives source of Wood Industries. Similar strategy of sengon plantation development in Java, may be implemented in Outside Java with some modification.

KEY FINDINGS:
1. World wood industries market has changed and looks for product which is higher in added value and environmentally friendly. Sengon could be processed into high value added product and environmentally sound product.
2. Sengon is promising since sengon wood product could fulfill both domestic use and international market. Sengon also is competitive product since sengon has shorter harvest rotation (6 years) compared with Chinese Poplar (12 years).
3. Some incentives have been introduced by the government to develop sengon plantation through KUHR (Kredit Usaha Hutan Rakyat) scheme, however, the scheme was unsuccessful. Some causes have been reported such as: (a) Company participants have not fully committed to the scheme, (b) The growers have limited knowledge on silviculture technique, (c) There was no monitoring activities from the Ministry of Forestry, (d) The main source of fund, DR, are currently not accessible. In the Contrary, KTI (Kutai Timber Indonesia) who committed to develop timber supply resources from farmer plantation, through bilateral contract have shown a significant success.
4. There are two choices to develop sengon plantation, whether in private land or State owned forest. Each of the choices needs a specific role of Government. In case of the first choice, the Government need to enhance knowledge of farmer, optimizing intercropping system, subsidizing the farmer, provide market information, and facilitating bilateral contract with the company. In case of the second choice, price stability due to over supply from plantation should be considered. The government act as market price stabilizer, therefore, intensive market research should be conducted.
• **Cause:** many illegal logs causing low priced wood, high forest levies and transactional expenses (Manurung 2002, Ministry of Trade and Industry (Depperindag) and Sucofindo, 2001, Kartodihardjo, 2001)

• **Implication:** to remain profitable, the management unit has to do over-cutting.

2. Lack of certainty in the status of areas and stands managed

• **Cause:** conflict in the utilization of production forest areas, no policy on linking the performance of management unit to the condition and number of standing stock (Kartodihardjo, 1998, UGM, 2000)

• **Implication:** no rational reason to protect the available standing stock—and let alone—to make investment to increase productivity.

44. For management unit (IUPHHK of native forest), the weak support of such preconditions and institution may lead to:

1. Lack of certainty in the status of areas and standing stocks managed

   • **Cause:** conflict in the utilization of production forest areas.

   • **Implication:** no rational reason to make investment to increase the productivity of forest it manages (a cause of ineffective subsidy from reforestation funds (Tim Fahutan IPB, 2000; UGM, 2000).

2. Option of gaining a profit without expecting products of plantation managed

   • **Cause:** easy-money subsidy without strict control over its use, wood product from the converted natural forest, uncertainty about demand for wood produced by planted forest built (Tim Fahutan IPB, 2000; UGM, 2000).

   • **Implication:** no rational reason to make investment to increase the productivity of forest it manages.

4.2.3. **For the Government**

45. The weak support of such preconditions and institution by the government is caused by:

1. No policy focus and priority to realize preconditions of production forest management such as certainty about areas, establishment of performance standards to rescue the standing stocks, restructuring of timber industry, etc.

2. Relatively weak roles of the government in addressing many issues. Lack of synchronized target of the policies on production forest management, in terms of national, provincial and district policies, has contributed to the government's weak roles, particularly in the implementation of national forest policy.
5. The public sector could do some activities to develop sengon market: (a) creation information network, (b) organize market research, (c) establish reputation of eco-friendly product, and (d) develop competitive industry.

6. KTI resources strategy to diverse the wood supply sources to reduce risk, could be used as national strategy for timber resources development.

COMMENT:
We fully agree, but the term of subsidy for the farmer should be elaborate more on what kind and how the subsidy will be proposed.
V. NATIONAL POLICY FORMULATION

PRINCIPLES

46. Formulation of National policy on the development of forest resources should consider some condition below:

1. Area characteristic and synergizing policy between National, Province and Regency level

Under the principle, characteristic of region and synergize policy between National, Province and Regency level should be considered during policy formulation of production forest resources. So that the area characteristic can be considered when forest production zonation will be delineated, which includes Zone I (Sumatera), Zone II (Kalimantan), Zone III (Java and Bali), Zone IV (Sulawesi and Nusatenggara), Zone V (Maluku and Papua).

The National policy related to the present direction and future precondition of production forest management, which includes: (1) synergizing policy between National, Province and Regency level, especially related to trends, authority, and services efficiency; (2) precondition of production forest management, especially related to area and business certainty (guarantee); (3) policy trade and incentive system for forestry business activities; (4) transformation of HPH, HTI, BUMN related to the empowerment of social forestry; (5) empowerment of local forestry institution. Policy of Provincial government orientation is forest product market, planning and control of forest production management. Policy of Regency/municipality orientation is the development of forest management business unit. Policy of Provincial government and Regency/municipality is product of dialog process between Central Government with Provincial, and Regency/municipality Government, after National Policy has been established.

2. International and domestic forest product market

Efficiency and sustainability of forest resource management can be achieved as long as some requirements listed below are fulfilled: (1) clear right on land and forest resources; (2) price of forest product can compensate the cost of production; (3) price of forest product reflect its rarity; (4) cost and risk of legal activities lower than illegal activities; (5) if there is a rule (enforcement) should be manageable and can be monitored. In order the requirements above can be fulfilled needs incentive/disincentive systems that ensure the actors not to do the opposite direction. In order to decide future direction of development of production forest, study on either domestic or international potential market of forest product are needed.
Annex 2. Strengthening of Forest Areas and Reform to Policies

<table>
<thead>
<tr>
<th>No</th>
<th>Current Policies</th>
<th>Obstacles/Issues</th>
<th>Reform to Policies</th>
<th>Follow-ups</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Legal Basis is Decree of the Forestry Minister No. 32/Kpts-11/2001 on Criteria and Standards for the Strengthening of Forest Areas (as follow-up of PP No. 25 Year 2000)</td>
<td>Many provinces/ kabupatens/ cities do not follow up this by preparing guidelines, implementation/ technical instructions.</td>
<td>Holding a public consultation and dialog with officials of the Central, provincial, kabupaten/city governments, DPR/DPRD and local community institutions/groups/ figures to accommodate their aspirations.</td>
<td>Related Agencies’ Roles</td>
</tr>
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<td></td>
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<td></td>
<td>Forestry ministry, Provincial/kabupaten/ City Government, Forestry Dinas, Forestry Ministry UPT, BPN/Land Office, etc. need to make coordination, integration, synchronization and synergy in implementing information on recommended policies</td>
</tr>
<tr>
<td>2.</td>
<td>Designation as a Forest Area Criteria for designating an area as a forest area are among others: not encumbered with land title and forested/ non-forested.</td>
<td>Frequently overlapping with adat community right/hak ulayat and use of public land</td>
<td>The areas to be designated for forest areas do not lie on adat community/hak ulayat land and land used by the public.</td>
<td>Estimated Expenses</td>
</tr>
</tbody>
</table>

* Source: Manurung (2002)
TITILE: Towards mutually-beneficial partnership in Out-grower scheme: Lesson learnt from Indonesia

AUTHOR: Ani Adiwinata Nawir, Levania Santoso, Irfan Mudofar

PUBLICATION: PLT program-plantation Forestry on degraded or low-potential sites, CIFOR, 21 May 2002

BACKGROUND:
In response to rapid changes of social-political situation in Indonesia, forestry plantation industries have practiced more social oriented management, as a way to secure company wood supplies. Generally company do not have a clear idea on the mechanism that could work best, and do not know to what degree participatory approach could be used to ensure a full commitment of tree growers/land owners without jeopardizing the companies’ cost efficiency principle. The objective of the study was to conduct a socioeconomic analysis of the existing out-growers schemes in Indonesia (Wira Karya Sakti, Xylo Indah Pratama and Finnantara Intiga), in what way that key elements for mutual beneficial partnership can be identified to improve the long-term viability of the schemes.

CONCLUSION:
Under long-term mutual beneficial arrangement, local communities are able to participate in plantation development.

KEY FINDINGS:
1. Out-growers scheme provide opportunity for the company to ensure sustainability of wood supply, while sharing the benefit (and risk) with local communities. To improve affectivity of the scheme for the long-term period, mutually beneficial arrangement for both parties is essential. The mutually beneficial arrangement will secure company investment and long-term commitment of the tree growers.

2. Out-growers scheme should be initiated and implemented in a way that commercially viable to both company and tree grower partners, in which it depend on some conditions, such as: (a) linked with processing industry/timber market, (b) fair accounts, (c) cost-effective, (d) reinvestment mechanism, (e) fair and profitable revenue from the first harvest, (f) provide income opportunity during the grace period, (g) local socio-cultural condition and needs should be accommodated based on proper community need assessment.

3. Out-grower scheme should take into account elements for mutually beneficial arrangement, agreement and management plan, such as: (a) participatory approach during program socialization, composing agreement and designing management plan, (b) transparent process during clarification of long term status and right of the land, (c) transparent information dissemination to all stakeholders, (d) simple arrangement, (e) availability of conflict and renegotiation mechanism among, which is defined by the stakeholders.
Tree planting in Indonesia: trends, impacts and directions

Lesley Potter and Justin Lee
CIFOR, December 1998

BACKGROUND:
The reason of companies and small holders involved in tree planting are diverse, moreover, they are different in term of environment, socio-economic and political background. This situation has made the real condition on the field varies and dynamic. The report tries to compile information of tree planting condition in West Kalimantan, Jambi and South East Sulawesi.

CONCLUSION:
Traditional agriculture system can be improved, as alternative sources of food, wood and cash money for the community.

KEY FINDING:
1. West Kalimantan: There are two basic types of tree planting schemes, those attempting to work with Dayak Agriculture system (improvement tree planting: rubber) and those that displacing Dayak agriculture (HTI and Oil Palm). Neither Government scheme nor NGO/other institution have succeeded in providing sustainable and attractive incentive.
2. Jambi: Several types of tree planting types in Jambi were explored. The types can be classified into tree planting scheme based on exiting smallholder agriculture and tree planting scheme, which displaced smallholder agriculture. The former type includes smallholder rubber and smallholder Cinnamon, while the second type includes industrial timber and pulp estate, and oil palm. The people still like to plant rubber and cinnamon in traditional way; however, it has been seen as marginal by the provincial/regency authorities. The development of oil palm plantation is very fast, which may disturb the traditional system in Jambi.
3. Southeast Sulawesi: HTI swakelola was investigated. The program was directed to reduce the dependence of farmer on forest exploitation/illegal cutting of teak. The program was seen unpopular, since there will be no benefit for farmer after two years and the program did not provide land for their livelihood. So that the people can not expand their agricultural activities. The sustainability of the program is in question. The underlying cause is that there was no communication between the government and the farmer, during the project establishment.
4. Possibility of improvement of cashew agriculture system, which may reduce the extension of agriculture expansion on forest area.

COMMENT:
Agree
- Certifying the compliance with specific forest management requirements linked to pressing forest and livelihood problems (such as in China and India).
- Certifying partnership arrangements, such as participatory forest management, to prove good stewardship and thus improving access to land, resources or planning processes - especially for more marginalized groups.
- Certifying compliance with regulations to meet government audit needs.
- Certifying the developmental and environmental outcomes of projects and programmes for governments and development assistance agencies.

The Alliance may thus wish to give further consideration to the wider range of purposes for certification in making the transition to SFM, to which a range of existing certification approaches may be matched in a step-wise manner.
BACKGROUND:
Many forest areas are damaged (not forested any ware) and are impossible to be rehabilitated due to lack of find. On the other hand, many people do not have any land, so that a discussion is needed concerning whether it is necessary to change the status of such forest land (rationalization). There are four considerations, which constitute a basis for such rationalization measures, namely:

- Increasing the land ownership by the people through legal means.
- Increasing the people's independence and ecological economic responsibility.
- Rationalization is a legal process, which is able to support and extend the people's livelihood.
- It constitutes rational attempts to solve the various problems related with desirable control of forest area by the state.

CONCLUSION:
Rationalization of forest area need to be conducted on damaged forest area (alang-alang field/scrub land) to be shifted to people's property, by providing selective and strict criteria so that this process will not smack of transaction of buying and selling of state forest land. This rationalization abstract namely from IMF or CGI.

KEY FINDINGS:
Rationalization is very risky nowadays. The urgent thing, which needs to be conducted, is seeking multi party institutions to manage forest sustainable. The large extend of damaged forest area reflects the inability of ministry of forestry to manage forest area, either in terms of financial aspect or human resource aspect. IMF and CGI do not approve the rationalization of forest area, considering that such process will accelerate the process of conversion of natural forest. Beside that, such rationalization is not feasible as long as there is still a growth of human population.

COMMENT:
Rationalization is disagreeable to be conducted at the present time, because it will create a serious social unrest.
TITLE: Evaluation of performance of 30 forest concessionaires (HPH) based on criteria and indicator of ITTO

AUTHOR: APHI

PUBLICATION: Draft report of APHI – ITTO, Jakarta

BACKGROUND:
Many factors constitute to the failure to achieve the sustainable production forest management (PHPL) by a unit of forest management. Such factors are among other things management policy, which is not conducive, pattern of reasoning on the part of forest entrepreneurs, which tend to be short term oriented, and social problems. These important things are then analyzed to obtain solution for future improvement. The analysis comprise the following: (1) Applicability of ITTO indicators, (2) Constraints (internal and external) faced by UM HPHN in order to archive PHPL, and (3) Evaluation of initial performance of UM HPH.

CONCLUSION:
Based on analysis of applicability, there are 43 indicator (out of 66 initial indicators of ITTO), which can be truly applied in accordance with general condition of UM HPH in Indonesia. In total there are four UM HPH which are under the score range of very good, eight UM HPH which are under score range of good, 15 UM HPH which are under the score range of sufficient, and three UM HPH which are under the score range of poor.

KEY FINDINGS:
Several things, which are regarded as constraints in the application of PHF performance criteria in HPH, are as follows:
1. Decline in forest resources.
2. Function of organization structure which has not accommodated sustainable forest management (SFM).
3. Documentation and reporting system, which has not been integrated under the control of integrated information system.
4. Planning which has not accommodated all concerned parties.
5. Limitation of fund.
6. Attitude, which is still oriented on production.
7. Top management, which is not committed achievement of SFM.
8. Lack of understanding on sustainable production forest management, and this phenomenon is still considered as a burden.
9. Human resources.
10. Coordination among sector which is still poor.
11. Illegal logging, and conversion of function to other non-forestry and shifting cultivation purpose.
12. Lack of effective government incentive.
14. Very heavy burden from tax and levies.
15. Unclear forestry policy.
16. Lack of community support.
TITTLE: Review on the policy and issue of land affairs in non-forest area.

AUTHOR: Juni Thamrin


BACKGROUND:
Government, which control forest area as large as 2/3 of Indonesian land area, is considered unable to manage that area sustainable. People around the forest, and the traditional community, which have been able for a long time to manage forest sustainable, begin to urge government to rationalization forest area, especially those outside the protection forest area.

KEYS FINDINGS:
Many problems arise because the traditional system was not accommodated in the positive system. Conflict is also caused by the phenomenon that agrarian basic law (UUPA) is not the only reference in land case. Many legislation and regulations, which are on the same level as UUPA, and other sector regulations, which have ever been issued, have become references for setting land dispute in the field.
17. Regional spatial plan, which has not been completed yet.

Indicators, which are considered not applicable, are due among other things to the following phenomena:

1. Policy exists at the national level.
2. Policy, which is not conducive, causes serious difficulty for measuring the indicators.
3. The existing constraints (internal/external) in UM HPH.

COMMENT:
Finally, this article is regarded as far from perfect due to the factors mentioned above; however, it can hopefully provide a fairly objective overview on forest management in Indonesia.
BACKGROUND:
The phenomenon that forest area is fully controlled and possessed by the government is considered by many circles to be inappropriate, this phenomenon can be seen from the damage on most of the area and the large number of conflict arising from the area. This book will discuss the forest and offer some alternatives to overcome the issue.

CONCLUSION:
It is necessary to reposition the PT. Inhutani in relation with the growing demand by the people for forest management in the region.

KEY FINDINGS:
Most area of PT. Inhutani has been damaged. Conflict of land resources arises on many types of area, which among other thing are: HPH (Forest Concession Area), HTI (Industrial Plantation Forest), Perhutani (State Owned Forest Company), National Park, and Plantation. Land conflict in Inhutani I through VI, number to 228 in total, Central Kalimantan, East Kalimantan and South Sumatra have the largest number of land conflict cases. In relation with decentralization, according to survey on respondent in Riau province, the people want a fundamental change on the status of PT. Inhutani. As many as 39% of respondents want the management of PT. Inhutani area be returned to the people, 31% want the dissolution of PT. Inhutani in Riau Province, 14,3% want PT. Inhutani become business unit owned by local government (BUMD), 9,5% want to change the area of PT. Inhutani into conservation area, whereas a minor position of the respondents want reposition of PT. Inhutani by referring to local forest management pattern.

COMMENT:
Reposition should be thoroughly considered to and large scale social unrest.
BACKGROUND:
Until now, forest industries and concessionaires use classical methods in their accounting systems. However, these methods exclude the accounting of forest resource stocks; so projected income and profits that reported do not reflect their sustainable income level, which then make their sustainable production level is difficult to monitor and evaluate. As an alternative to the current accounting systems, the UGM proposes Integrated Forest Resource Accounting in natural and plantations forests management.

KEY FINDING:
Integrated Forest Resource Accounting provides an accurate picture of performance of natural forest management i.e. PT Inhutani II Unit Pulau Laut, and plantation forest management i.e. Cepu Forestry District (KPH Cepu). Total asset of those companies have been showed to be decreased due to depletion of their forest standing stocks.

CONCLUSION:
It is not accurate for those companies to claim that they can generate a positive profit when, in fact, their forest standing stocks are decrease.
BACKGROUND:
Forest management and forest industry in Indonesia have undergone significant changes that will influence both present and future forestry of Indonesia. Some efforts have been made to achieve justice in forestry business; however, there is still a factor that made forest resources vulnerable and increased business uncertainty, such as illegal logging. The paper investigated fundamental problem of forest management in Indonesia.

KEY FINDINGS:
The state suffers huge economic losses from unreported annual log production, which is about 12.8 million m³ or US$ 1.3 billion per year. The state also forgone the opportunity to earn income from Resources Royalty Provision around US$ 239 million per year, and Reforestation Fund amounting to US$311 million per year.

COMMENT:
Agree
TITTLE : Political Economy of Debt in Forestry Sector.

AUTHOR : Bambang Setiono

PUBLICATION : Paper presented at Discussion Series on Governance and Development of Indonesian Forestry: Prospect and Challenge, Jakarta, 2 July 2002, Center of Capacity Building for Local Governance (CAPABLE)

BACKGROUND:
As per March 2001, the government, through IBRA, controls most of the capital of private forest industries except for sawmill industry, and plays a quite strategic role in forest concessionaires. About 128 wood industries including forest concessionaires have a debt of Rp. 26 trillion that cannot be repaid under the IBRA. This position would enable the government to restructure the forest industries more efficiently and effectively and could also implement the most appropriate industrial restructuring scenario both from social aspect (employment) and economic aspect (industry health and foreign exchange), as well as from political aspect. Moreover, the government can close down unhealthy companies and shift their manpower to companies that are healthy and still working under allowed capacities.

KEY FINDINGS:
(1) Forest industries have a very low capacity to repay their debt i.e. they can only afford to repay 20% of its debt. This makes investors consider that risks in the forest sector are not proportionate to the debt values offered. Hence, forest sector restructuring would be difficult; (2) Disharmony between the policies of IBRA, Ministry of Forestry and Ministry of Industry and Trade on dealing with companies under IBRA.

CONCLUSION:
IBRA and the Ministry of Industry and Trade must work together with the Ministry of Forestry for realizing the government’s strategic role in the forestry sector so forest industries restructuring based on sustainable forest management would be achieved.

COMMENT:
Agree
The Impact of SFM-Certification on Forest Product Markets in Western Europe – an Analysis Using a Forest Sector Simulation Model.

P. Schwarzbauer, E. Rametsteiner


BACKGROUND:
Certification of Sustainable Forest Management (SFM), which constitutes a market mechanism, has an objective of stimulating product’s supply and demand by giving more considerations on environmental impact. Such certification of SFM, on ecologically sustainable logging, was promulgated for the first time around the beginning of 1990’s. So far, only little attention was given toward the effect of market mechanism in the form of this certification, on forest product market. This paper tries to analyze the effect of SFM certification on forest product market in Europe region.

CONCLUSION:
In western Europe, there was a non-drastic change in forest product market due to SFM certification. The factor of harvesting level reduction was more influential as composed to increasing cost due to certification. The implementation cost of chain of custody (CoC) which constitute a position of ecologically sustainable logging to comply with certification, has a greater effect than cost of CoC on the market and it’s profitability. Saw milling industry is more affected by certification due is more selective consumption of logs, although the profit tends to decrease, while still being positive.

KEY FINDINGS:
In general, modest change in expected to occur in wood market due to certification. Reduction of harvesting level is more influential than the cost increase due to certification.
TITTLE : Rationalization of Levies in the Forestry Sector: Urgency to Carry Out.

AUTHOR : Nana Suparna


BACKGROUND:
There are 6 types of forest taxes in forest utilization according to Law No. 41 year 1999. They are: Licensing fee of forest utilization business (IIUPH), Reforestation Fund (DR), Provision of forest resources (PSDH), Performance bond (DJK), Forest conservation investment fund (DIPH), and Investment Fund for Forestry Research and Development, Education and Training, and Forest Extension.

KEY FINDINGS:
(1) There is no synchronization among government agencies in collecting those levies from forest concessionaires i.e. there is an overlap in forest tax levied by government agencies, so the opportunity cost to manage their natural forest concessions is then increase. 
(2) There are 2 types of charges levied on logs based on the Governor Decree, in East Kalimantan: (a) Compensation fund for the community paid by forest concessionaires to a community within and around a forest based on their log production, which is of Rp. 3,000/m3, (b) Development Fund for Fostering Human Resources, Science and Technology and Investment Fund for Forest Conservation paid by forest concessionaires to district government, which is of Rp. 15,000/m3 for logs with diameter of 30 cm and up.

CONCLUSION:
To avoid forest concessionaires paying taxes double, the author proposed to simplify forest taxes into 3 types: (a) Provision of forest resources (PSDH), (b) Performance bond (DJK), and (b) Forest Establishment Fund (DPK), which comprises of Forest conservation investment fund (DIPH), Investment Fund for Forestry Research and Development, Education and Training, and Forest Extension and can be paid directly to district government; and to revise how to determine a tax rate, which should be based on true taxable forest land.

COMMENT:
Agree
BACKGROUND:
There is an increasing concern from the whole international community on environmental protection by market incentive through certification. The practice of forest management, which is "Eco-Certified", will to a certain extent shift / alter the function of wood supply. This paper analyzes the empirical relation between variation of premium price offered by certification and maximization of production level in southeastern part of USA.

CONCLUSION:
Compensation from eco-certified forestry is relatively small, especially in area which applies less intensive management and whose area is smaller. In USA, it is shown that motivation to obtain the premium price does not always constitute the reason to abstain ecolable certification, but the after reason is that of the existence of ecosensitive consumer.

KEY FINDINGS:
Larger scale management units are generally more able to conduct certification process. Economic study on certification from the demand point of view, in the form of willingness to pay to obtain the premium price for certification product has been conducted frequently (Winterhalter and Cassens, 1993; Ozanne and Vlosky, 1997; Steven et al., 1997; Vlosky and Ozanne, 1997. Most of the study result show that the provided premium price increase by 0-20%. Analysis of certification from the demand supply, either descriptive (Baharuddin, 1995; Simula, 1996; Kiker and Puts, 1997) or theoretically (Murray and Casey, 1998; swallow and Sedjo, 2000) have also been conducted.
BACKGROUND:
De Jure, the government control most of the area (62%), however in the field there are, de facto, many problems. One of the problems is the inability of the government to save guard the area so that damage of forestland continues to increase at any time. This indicates that state control on forest land, has not been stable therefore, an idea arises to rationalize state forest area, this paper aims at presenting facts on resources condition related with policy reform.

CONCLUSION:
Ministerial decree No. 32/Kpsll/2001 need to be further elaborated, especially on those related with achievement target and the need to involve a certain number of traditional figures. In the implementation, there should be coordination with related institutions accompanied by appropriate detailed schedule and clear detailed funding.

KEY FINDINGS:
1. The legal basic of area gazettement is Ministerial decree 32/Kps II. However, many provinces/regencies/municipalities have not established guidance for it, so that some consultation needs to be conducted with government officials and local/national parliament.
2. Based on ministerial decree 32/Kps II/2001: the designated forest area should not be subjected to other rights. However, in many cases, in the area, traditional community has existed there, and this could create land conflicts.
3. According to Ministerial decree 32/Kps II/2001, committee for forest boundaries consist of representatives from institutions of district/municipality and sub district administration, village head and local community figures. However, in fact the local community figures are often not involved in the spatial organization of the area.
4. It is recommended that the process of spatial organization of the area, use a participative approach. However, this approach is frequently not adopted.
5. The target of area gazettement is not clear, either in terms of boundary length or area size.
6. The objectives of spatial organization of an area are physical certainty in the field, legal certainty, and local people’s acknowledgement. However, in fact the three objectives are often difficult to achieve.

COMMENT:
Agree
BACKGROUND:
Forest certification is an economic incentive, which has an indirect effect of improving forest management. This activity, which has occurred since the year 1990's showed many controversies, and its benefit for the owner and manager of the forest, is still questionable; the framework for advocacy coalition is used to analyze the development of certification in Canada, Swedish and Indonesia.

CONCLUSION:
Controversy, which occurs in Indonesia, is concerning the rate of forest exploitation and the question on who has obtained the benefit. This controversy arises between coalition of forestry (Ministry of Forestry and Business people) and coalition of environmental.

KEY FINDINGS:
Problem of certification are not only related with method and technique of performance evaluation, but also with that of credibility, and the global market evaluates the credibility.

COMMENT:
Agree
TITLE: Performance improvement in the utilization of production natural forest through policy of institutional reform.

AUTHOR: Hariadi Kartodihardjo

PUBLICATION: Graduate study Program (Unpublished) 1998.

BACKGROUND:
During the period of 1989 – 1995, policy instruments to carry out utilization of production natural forest were improved through addition of 132 new regulations, revocation of 50 regulations and revision of 20 regulations. However, in the end of 1995, 90% of forest concessionaires (524 units) had not done sufficient efforts of protection and safeguarding. Research was conducted to get information on which institutions manifested in the form of sets of regulation, which have not directed forest concession holders (HPH) to implement Sustainable Forest Management.

CONCLUSION:
Performance criteria which were adopted by Ministry of Forestry (based on Decree of Directorate General of Forest Utilization No 537/Kpts/IV – RPH/89) had not been able to serve as good indicators, if the quality of forest structure and long term business sustainability were used as indicator of forest sustainability.

KEY FINDINGS:
According to Decree of Directorate General of Forest Utilization No 537/ Kpts / IV – RPH 89) the variables measured were only administrative, such as employment of sarjana of forestry, existence of planning study, etc. Activities whose success were measured were those whose checking require high cost, such as TPT I implementation, forest protection, etc. Financial performance criteria, which were used, did not consider wood in the forest as fixed asset of the company, so that loss of wood did not constitute a loss for the company. If the wood is calculated and considered, profitability of production forest utilization was not attractive anymore, so that export market of round wood should be opened to increase the price of round wood.

COMMENT:
Agree.
BACKGROUND:
Certification is a tool to verify that forest management meets defined standards.
There has been an increasingly rapid development of certification, connected to
markets, which differentiate in favor of 'environmentally-sound' forest products.
There is now an almost exponential growth in certified area. The Forest Stewardship
Council (FSC) has certified nearly 20 million ha worldwide. The Pan-European Forest
Certification (PEFC) in about 25 countries - with several hundred thousand ha already
certified in Canada, Norway and Sweden. With such a rapid development and
proliferation of schemes, there is an urgent need to clarify what "certified forests",
what certification is actually achieving in relation to the goal of improved forest
management mean, and thus how the Alliance's target could be achieved.

CONCLUSION:
It is notable that 80% of the FSC certified area is in the temperate/boreal zone, 88%
in industrial/state forests, with an average size of nearly 100,000 ha. Thus the
'winners' so far tend to be larger companies with economies of scale and ready access
to markets. Smaller companies, without such advantages, have experienced problems
in certification - as it is costly or standards are too high to reach in one step. For any
producer, but especially community enterprises, there tend to be problems for
auditors in identifying relevant social impacts and conditions. The influence of
certification on the policy process has been significant. As a 'soft policy' instrument, it
has positively influenced the 'hard' policy/regulatory regime, especially where multi-
stakeholder national processes have defined certification standards. Certification may
not be the right choice unless it is more effective, efficient, equitable and credible.

KEY FINDINGS:
Experience also helps us to identify the preconditions needed to make market-based
certification work: (a) demand for certified products; (b) certification is locally driven;
(c) expected benefits exceed costs; (d) SFM is achievable in the short or medium
term, or progress can be recognized; (e) government is supportive of certification;
and (e) there has been or can be effective participation in setting certification criteria.
Even more fundamental are adequate policies and legislation as well as capacities to
implement SFM. Certification can "fast-track" in establishing these fundamental
elements.

In addition, experience has revealed a number of benefits or possible purposes that are
not directly related to the markets:
- Expanding the market-based incentive to diversify forestry production,
  commercialize environmental services, and mobilize sustainable finance
BACKGROUND:
An ITTO technical mission visited Indonesia between March and September 2001 to identify ways in which ITTO could support the formulation of plans to achieve sustainable forest management. The terms of reference of the mission placed particular emphasis on action to curb illegal logging and to address related issues, including the restructuring of the forest industries, improved forest plantations for resource creation, recalculation of timber values, and decentralization in the forestry sector.

CONCLUSION:
Indonesian forestry is now at a critical crossroad and has two clear choices: continue on a path of forest depletion leading to a precipitous decline in the sectors contributions to socio-economic and environmental contributions, or shift towards sustainable contributions over the longer term. There can be no doubt that the cost of the former option is greater than those of latter. Sustainable forestry development can be achieved and the rule of law enforced if guided by appropriate policies and supported by pragmatic strategies to rid the sector of the scourge of illegal and corrupt activities.

KEY FINDINGS:
1) Identification of problems related to illegal logging, forest industries, timber value, decentralizing the forestry sector, and forestry institution. 2) A series of recommendations on illegal logging, forest industries, timber value, decentralizing the forestry sector, and institutional strengthening.

COMMENT:
According to this article: The strict enforcement of law including deterrent punishment, in tandem with a program to address corruption within enforcement agencies, is essential and urgent if illegal logging is to be controlled. I agree with this statement. However, the execution would be very difficult in the field because The Government of Indonesia doesn't have capability and capacity to force the proposed recommendation. To increase the effectiveness of the recommendation is to change the forest management system, especially related to forest concession (HPH) system. Up till now, the natural forest is not an asset of HPH: consequently they are not interested to protect the forest from illegal logging. Changing this matter would force HPH to protect their forest from any other parties. Participatory forest management for non-HPH forest would be the most realistic method to control illegal logging. Collaboration activities with people around the forest is not a choice but a must in the future forest management system.
BACKGROUND:
The growth in capacity of wood processing industry continue to increase, and need raw material supply up to 63.48 million m³/year, while the average production of round wood in the period of 1996 - 2000 was only 23.36 million m³/year. This gap between demand and supply of raw materials creates various complicated problems, such as rampant theft of wood, circulation of illegal wood and irregularities conducted by forest concession holders.

CONCLUSION:
Supply of raw materials from natural forest is difficult to be relied upon in the future. Therefore, establishment of industrial plantation forest should be accelerated. Utilization of alternative wood species should be promoted, such as rubber, coconut and palm oil wood. Effort of downsizing and restructuring of wood processing industry should be done by the market player themselves.

KEY FINDINGS:
For the purpose of industrial restructuring, related with the lack of raw material supply, efforts which should be conducted are among other things re engineering, development of upstream industries which have high added value and competitive in global market, utilization of new traditional raw materials, relocation, and development of wood processing technology.

COMMENT:
The proposed idea is good enough and not difficult to be implemented by the government.
BACKGROUND:
In the fast ten years, themes of discussion for forestry development were aimed at problems related with natural forest destruction. This destruction of natural forest become the focus of attention of many parties, either of local, national or international community.

CONCLUSION:
Concept of economic theory and instruction shows that if the condition of forest management is still like what is being practiced at this time, there will be no anyway to save the natural forest from destruction. Sustainable forest management, which is ideologically and morally considered as appropriate, could not be implemented in the field due to short-term needs. Implementation of five-priority program by Forestry Ministry, depend very much on the reformation of management system of production natural forest, which is currently on going.

KEY FINDINGS:
Identification of conflicts of land and forest use, and other problems in the region, related with regional autonomy. The role of restructuring of forestry industry is difficult to be exercised, because such restructuring can only be conducted on industries which were legally established, while those of illegal industries tend to absorb and over cutting have alternatives to distribute their illegal wood to other places beside legal industries, either for export or domestic market. By considering the explanation as written above, it can be suggested that restructuring of forestry industry has a greater role to increase added value for wood utilization or to overcome the financial problems of the company.

COMMENT:
Facts presented in this paper, are difficult to be denied, due especially to the phenomenon that dualism is very obvious in the handling of problem for managing the production natural forest. There is very big discrepancy between the desired phenomenon (sustainable forest management) and the actual forest management in the field, which is contrary to the ideal and morally desired phenomena.
BACKGROUND:
The development of HTI establishment is stimulated by unproductive natural forest and attractive for investors. Establishment of HTI is very urgent because degraded natural forest is impossible to be left as it is without forest management to remedy it. Industrial Plantation Forest (HTI), which is a commercial undertaking, serve as supplier of raw materials, and involve the management of State Owned Business Agency which is accompanied by government capital and subsidy.

CONCLUSION:
The focus in revision of policy for HTI development is creating business certainty and feasibility in HTI establishment. Policy reforms, which should be conducted, comprise three main aspects, namely: policy on subsidy/funding, policy of partnership, and policy of land use conflict resolution. For improving the policy or implementation of operational steps to solve problem in HTI establishment, the role of local government should be defined soon.

KEY FINDING:
Identification of important aspects and interrelationship between situation, policy, condition, business reaction, and performance of HTI establishment. Beside that, there, is also identification of weakness in implementing HTI regulations.

COMMENT:
The proposed idea is good enough and not difficult to be implemented by the government.
Direction in the Policy of Plantation Forest Establishment

Director of Promotion of Plantation Forest Development


BACKGROUND:
Some portion of production forest has deteriorated, either in terms of quality or productivity. One important problem is high rate of deforestation, which causes deficit in raw material supply for national wood industry. To overcome this problem, one policy, which will be adopted, is development of plantation forest.

CONCLUSION:
Development of plantation forest has a good chance while also face a serious challenge in the effort to improve the condition and increase the potency of forest in Indonesia. Investment in plantation forest is a long term and a high-risk endeavor. However, establishment of plantation forest is the only logical effort to fulfill the raw material need of wood processing industry in Indonesia. By creating good investment climate and also clear and consistent incentive, development of plantation forest in bare land has a chance to attract, either domestically or from abroad.

KEY FINDINGS:
Fundamental change in the development of plantation forest in Indonesia comprise improvement of policy in plantation forest development, improvement of performance standard for plantation forest development, optimization of LOA utilization for plantation forest development, compilation of guidance for establishment of plantation forest which involve local people, compilation of guidance for empowering local people in plantation forest establishment, improvement of policy for utilization of Reforestation Fund (DR) for establishment of plantation forest, and construction of master plan for plantation forest establishment, and long term and short terms strategic steps for establishment of plantation forest.
BACKGROUND:
The accelerated tariff liberalization (ATL) initiative was designed as a balanced package, with items of interests to both developed and developing countries. For the forest sector, this initiative includes further reductions and acceleration in the timing of reductions of tariffs agreed to as part of the Uruguay Round of trade negotiations. Liberalization of this sector is expected to contribute to the broad-based social and economic benefits of increased trade. However, after the announcement of the proposed ATL initiative, many environmental organizations expressed concern that these tariff reductions would lead to increased timber harvest and, as a result, potential environmental degradation. In response, the Office of the United States Trade Representative and the White House Council on Environmental Quality committed to analyze the economic (trade, production and consumption) and an environmental effect of the initiative, which focuses on possible changes in timber harvest, in both the United States and worldwide, and rests.

CONCLUSION:
This study does not suggest the need for a separate U.S. domestic environmental policy response to the ATL.

KEY FINDINGS:
The ATL will have no distinguishable impacts on aggregate U.S. timber harvest compared to what would be the case in the absence of the ATL. At a global level, the maximum projected effects of the ATL by the year 2010 are to increase aggregate world trade in forest products by 2 percent, timber harvest by 0.5 percent, and aggregate world production and consumption of forest products by less than 1 percent. It should also lead to greater changes in the composition and patterns of trade than in the aggregate volume. The ATL is unlikely to alter the proportion of the world’s timber harvest that comes from developing countries (including tropical) as compared to developed countries. Developed countries are likely to account for at least two-thirds of increases in timber production resulting from the ATL. Developed countries also will account for the majority of expected decreases in production.
BACKGROUND:
The accelerated tariff liberalization (ATL) initiative that has been proposed to the World Trade Organization (WTO) by the Asia pacific Economic Community (APEC) was designed as a balanced package, with items of interests to both developed and developing countries. For the forest sector, this initiative includes further reductions and acceleration in the timing of reductions of tariffs agreed to as part of the Uruguay Round of trade negotiations. This paper examines the question of how international trade is likely to change in response to further tariff reduction and also the implications for timber harvest and forests generally of such trade liberalization in the various forest regions.

CONCLUSION:
This paper finds that the evidence suggests further reductions in tariffs on forest products are likely to generate only very modest increases in worldwide trade and production, and the increased harvest pressures on forests due to tariff reduction should be quite modest.

KEY FINDINGS:
The trade effects of the Uruguay Round were estimated: to increase total wood exports about 0.5 percent, to increase commonly traded forest products about 1.6 to 2.0 percent, and to increase global industrial wood harvests about 0.4 to 0.7 percent. The major countries likely to experience export and production increases are found largely in the northern hemisphere and are likely to be able to facilitate additional harvests with minimum effects on the forests due to the modest nature of the impact, new forest practices laws, new forest set-asides, and movement toward improved practices designed to achieve multifaceted sustainable forestry. There is little reason to expect that tariff reductions will significantly increase harvests from tropical forests. Earlier tariff reductions appear to have had minimum impacts on tropical harvests or exports. Tropical forests, however, will remain under deforestation pressure due to land conversion objectives, commonly to provide additional agricultural lands. In the longer run, tariff reductions, together with rising costs of wood from native forests, are likely to facilitate the trend to raw wood being provided by plantation forest.