

# The Effects Decentralisation on Forests and Forest Industries in Berau District, East Kalimantan

Krystof Obidzinski and Christopher Barr



ITTO

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# **The Effects of Decentralization on Forests and Forest Industries in Berau District, East Kalimantan**

**Krystof Obidzinski and Christopher Barr**  
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## Decentralisation and Forests in Indonesia: An Overview of the Study

Since early 2000, the Center for International Forestry Research (CIFOR) has conducted research on the decentralisation of forest administration and policies affecting forests in Indonesia. This project has sought to document the real and anticipated impacts of decentralisation on forest management, forest community livelihoods, and economic development at the provincial and district levels. During the initial phase of this research, CIFOR conducted case studies in nine *kabupaten* or districts, in four provinces: Riau, East Kalimantan, Central Kalimantan and West Kalimantan. These case studies were carried out in 2000, with follow-up visits to some districts conducted in early 2001. As such, the findings presented in this report and the companion case studies reflect the conditions and processes that existed in the study districts during the initial phase of Indonesia's decentralisation process.

Several reports have been produced by this project. The first of these represents a synthesis of the major findings from the nine case studies, accompanied by a historical analysis of forest administration and forestry sector development in Indonesia, and a discussion of the origins and legal-regulatory basis of the nation's ongoing decentralisation process. Each of the nine case studies is published as a separate report (with the exception of the study districts in Riau, which have been combined) in order to make the information contained therein more readily accessible to decision makers involved in the decentralisation process. It is hoped that readers of the case studies will refer to the synthesis report in order to situate the specific case study findings in a broader historical and policy context.

During 2002 and 2003, CIFOR and its partners completed additional case studies from research on decentralisation and forests in West Kalimantan, South Sulawesi and Irian Jaya. CIFOR together with regional partner agencies also plans to carry out follow-up research at several of the original case study districts, and will publish periodic findings from the sites.

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## **Editor's Preface**

### **Overview of Indonesia's Decentralisation Process**

Since late 1998, Indonesia has undergone a process of rapid and far-reaching decentralisation. With this process, considerable degrees of administrative and regulatory authority have been transferred from the national government in Jakarta to the country's provincial and district governments. This transfer of authority has occurred across broad segments of the nation's economy and has sharply redefined the roles and responsibilities of government agencies at each level of the nation's administrative structure. With the locus of decision making shifting decisively away from the national government, Indonesia's ongoing decentralisation process marks a dramatic break from the highly centralized system of governance that characterized Suharto's New Order regime during the period 1966–1998.

To a significant extent, the process of decentralisation now occurring in Indonesia has been driven by the demands of provincial and district governments whose jurisdictions are rich in timber, petroleum, and other natural resources. Officials from resource-rich regions have long complained that the vast majority of the benefits from these assets have flowed away from their regions to the national government and to private sector companies closely associated with decision makers in Jakarta. While the New Order government kept a tight lid on calls for greater regional autonomy and regional control over natural resource revenues, the post-Suharto government has not been able to ignore these demands. On the contrary, since 1998 the country's senior leadership has recognized that its ability to maintain Indonesia's integrity as a nation may ultimately depend on its capacity to strike a more equitable balance of power between the national government, on the one hand, and the provincial and district governments, on the other.

Over the last three years, the national government has issued several important pieces of legislation aimed at transferring authority to the provincial and district governments, and at allowing resource-rich regions to retain a larger share of the fiscal revenues generated within their jurisdictions. The most significant of these have been Law 22 on Regional Governance and Law 25 on Fiscal Balancing, both of which were issued in May 1999. Together, these laws provide the legal basis for regional autonomy, laying out a broad framework for the decentralisation of administrative and regulatory authority primarily to the district level. These laws have been supported by a variety of implementing regulations and sector-specific decentralisation laws, including Law 41/1999, a revised version of Indonesia's Basic Forestry Law, which outlines the division of administrative authority in the forestry sector under regional autonomy.

In many parts of Indonesia, provincial and district officials acting in the spirit of regional autonomy have instituted reforms that extend well beyond the authority granted to them under the national government's decentralisation laws and regulations. Indeed, the formal decentralisation process has been driven, to a significant degree, not by policy decisions made at the national level but, rather, by decisions made by provincial and district level actors.

This process has often been *ad hoc* in nature, with national policymakers frequently finding themselves in the position of having to react to fast moving changes that have occurred in the provinces and districts. Far from being a well-planned and carefully managed exercise in bureaucratic reorganization, the implementation of regional autonomy in Indonesia has been characterized by intense struggles among the different levels of government, each of which represents a competing set of political and economic interests. In this way, regional autonomy has stretched well beyond the formal decentralisation of administrative and regulatory authority; in practice, it also involves a significant, if largely informal and unplanned, devolution of power from the national government to its provincial and district-level counterparts.

The formal and informal processes of decentralisation have been accompanied by a wide-ranging set of governance and economic reforms, collectively known as *reformasi*, that are associated with Indonesia's transition away from Suharto's New Order regime. Broadly defined, *reformasi* refers to the transformation and dismantling of the policies, practices, and institutional structures through which the New Order leadership and a handful of well-connected conglomerates controlled the political and economic life of the country prior to Suharto's resignation in May 1998. While significant elements of the *reformasi* agenda coincide with the changes occurring under regional autonomy, these reform processes are also quite distinct. Whereas *reformasi* refers to a shift away from the constellation of interests and power structures that have supported a particular regime, decentralisation and regional autonomy refer to the transfer of authority from the national government to Indonesia's provincial and district governments.

### **Decentralisation of Forest Administration**

The formal and informal processes of decentralisation that are now occurring in Indonesia have far-reaching implications for forest management and for the livelihoods of communities living in and around forested areas. On the positive side, experience from other countries suggests that decentralised systems of forest management often lead to more sustainable and equitable use of these resources, as decision makers are physically located closer to where their policies will be implemented (Conyers 1981; Rondinelli, Nellis and Cheema 1983). This proximity often brings with it improved understanding of the specific biophysical, social, and institutional conditions influencing forest management at the field level; better capacity to monitor the activities of forest user groups; and greater access to local knowledge about the management and utilization of forest resources—which are sometimes highly specific to particular social groups and/or ecosystems (Carney 1995).

In addition, decentralised forest administration often allows for greater participation on the part of forest communities in policy decision-making processes, and more direct accountability of policymakers to peoples whose livelihoods depend on forests (Brandon and Wells 1992). Decentralisation also frequently implies a more equitable distribution of benefits from forest resources, as local communities and governments in forested regions are able to secure a greater portion of revenues from the extraction of timber and other forest products (Ascher 1995, Ostrom 1990).

In addition to providing opportunities for expanded equity and improved forest

management, however, decentralisation also carries significant risks. In many countries, national governments have decentralised without first creating the necessary institutional capacity at the provincial or district levels to administer forests effectively (Rivera 1996). Often, national governments assign tasks to provincial and district governments without giving them adequate resources for carrying out these tasks. Most provincial and district governments lack essential technical skills and must look to other entities for advice, training, and technical information. In cases where local elites have been strong and/or traditionally marginalized groups have been unable to organize themselves, decentralisation has often strengthened pre-existing power relations, rather than promoting democratic decision-making processes (Utting 1993). Finally, even when elite groups do not dominate provincial and district governments, it is often the case that these governments have little interest in sustainable forest management.

### **Indonesia's Forestry Sector**

The manner in which decentralisation affects forest management, community livelihoods and economic development is of particular significance in Indonesia due to the scale and importance of the country's forest resources. Indonesia has the world's third largest tract of tropical forests, surpassed in area only by those of Brazil and Congo. In 1997, the country's total forest cover was officially estimated to be 100 million ha (MOFEC, cited in World Bank 2001). It has been conservatively estimated that at least 20 million people depend on Indonesia's forests for the bulk of their livelihoods (Sunderlin *et al.* 2000). Over the last three decades, the national government has allocated over 60 million ha of forest to commercial logging companies, and Indonesia's forestry sector industries have long ranked second only to petroleum in terms of their contribution to GNP (Barr 2001). The forestry sector currently generates approximately US\$7 billion in annual revenues.

Well before the country's ongoing decentralisation process began in late 1998, Indonesia's forestry sector had entered a period of crisis. From the mid-1980s onward, deforestation is estimated to have occurred at a pace of 1.6 million ha per year (Toha 2000). A major factor driving this high level of deforestation and associated forest degradation has been overcapacity in the nation's wood processing industries. Through the mid-1990s, Indonesia's sawnwood, plywood, and pulp industries are collectively estimated to have consumed 60–80 million m<sup>3</sup> of wood per year (Barr 2001, Scotland *et al.* 1998). Log consumption on this scale has stood well above the Indonesian government's own widely-cited sustainable timber harvest threshold of 25 million m<sup>3</sup> per year. Moreover, with few effective regulatory structures in Indonesia's forestry sector, domestic demand for timber has resulted in large volumes of wood being harvested from illegal sources (ITFMP 1999). At the same time, a decline in the nation's HPH timber concession system, coupled with rapid expansion in oil palm and other forms of agroindustrial plantations, has meant that a growing portion of the nation's wood supply has been obtained through clearing of natural forest rather than selective harvesting at multiple-rotation timber concessions (Barr 2001).



## Scope and Methods of the Present Study

The present report examines the preliminary effects of decentralisation of forest administration in the Berau district of East Kalimantan Province. This report presents the findings from one of nine district level case studies carried out during 2000 and early 2001 by the Center for International Forestry Research (CIFOR) in four provinces: Riau, East Kalimantan, Central Kalimantan, and West Kalimantan. The findings presented in these studies reflect the conditions and processes that existed in the study districts during the initial phase of Indonesia's decentralisation process.

Each of the case studies used a rapid appraisal methodology for gathering data at the district and provincial levels. For each case study, preliminary visits were made to the district and provincial capitals to establish initial contacts and to identify key issues. Second visits for data gathering were then carried out for periods of 10–14 days in each district, with shorter amounts of time in the provincial capitals. The collection of primary data involved semi-structured interviews with key informants, including government officials, forest industry actors, members of communities living in and around forests, political party representatives, officers from the regional military command and police force, informal district leaders, representatives from nongovernmental organizations (NGOs), university researchers, and individuals involved with donor agencies and development projects. Data collection also involved the review of primary and secondary documents, including district and provincial laws and regulations, government statistics, regional news media articles, industry publications, research studies, and reports prepared by NGOs and donor agencies.

Each of these case studies is structured to focus on processes that have occurred at the district and, to a lesser extent, the provincial levels. To avoid repetition, more general information on the history of forest administration and forestry sector development in Indonesia, as well as significant national policy and legal-regulatory reforms associated with decentralisation, has been placed in an accompanying report which synthesizes the project's major findings. Readers are encouraged to review the case studies in conjunction with this synthesis in order to appreciate the broader historical and policy contexts within which the district and provincial decentralisation processes are now occurring.

*Christopher Barr and Ida Aju Pradnja Resosudarmo*

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# Glossary

Adt	Air-dried tonnes
APBD	<i>Anggaran Pendapatan dan Belanja Daerah</i> , District Budget
BBS	<i>Bahan Baku Serpih</i> , small diameter pulpwood
BHKP	Bleached Hardwood Kraft Pulp
Bupati	District Head
CDK	<i>Cabang Dinas Kehutanan</i> , Branch Office of the Provincial Forestry Service
Daerah Istimewa	Special Region
DAK	<i>Dana Alokasi Khusus</i> , Special Allocation Fund
DAU	<i>Dana Alokasi Umum</i> , General Allocation Fund
Dinas Kehutanan Kabupaten	District Forestry Office
Dinas Kehutanan Propinsi	Provincial Forestry Office
DR	<i>Dana Reboisasi</i> , Reforestation Fund
GRDP	Gross Regional Domestic Product
HPH	<i>Hak Pengusahaan Hutan</i> , Commercial Forestry Concessions
HTI	<i>Hutan Tanaman Industri</i> , Industrial Timber Plantation
INPRES	<i>Instruksi Presiden</i> , Presidential Instruction
IPK	<i>Izin Pemanfaatan Kayu</i> , Wood Utilization Permit
IPKTM	<i>Izin Pemanfaatan Kayu Tanah Milik</i> , Timber Utilization Permits from Private Land
IPPK	<i>Izin Pemungutan dan Pemanfaatan Kayu</i> , Timber Extraction and Utilization Permits
Kabupaten	District
Kanwil Kehutanan	Provincial Forestry Office
Kawasan Hutan	Forest Estate
Kecamatan	Subdistrict
KKN	<i>Korupsi, Kolusi dan Nepotisme</i> - Corruption, Collusion and Nepotism
KT	<i>Kelompok Tani</i> , Farmer Group
KUD	<i>Koperasi Unit Desa</i> , Village Cooperative
MTH	Mixed Tropical Hardwoods

PAD	<i>Pendapatan Asli Daerah</i> , Regionally Generated Revenues, often refers to revenues that district governments obtain from sources within their districts
Pelepasan	Release
Perda	<i>Peraturan Daerah</i> , Regional Government Regulation
PSDH	<i>Provisi Sumber Daya Hutan</i> , Forest Resource Rent Provision
Putra Daerah	Child of the region, or 'local son'
SDO	<i>Subsidi daerah otonom</i> , or subsidy for autonomous regions
TPTI	<i>Tebang Pilih Tanam Indonesia</i> , Indonesian Selective Cutting and Planting System
UPTD	<i>Unit Pelaksanaan Teknis Daerah</i> , Regional Technical Implementation Unit

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# Abstract

Berau district has been one of East Kalimantan's largest sources of timber since the mid-1980s. Until the fall of the Suharto regime in 1998, most of the district's formal timber production was conducted by large-scale HPH concession holders, and the vast majority of the fiscal revenues generated flowed to the national government. Over the last several years, considerable volumes of logs have also been harvested illegally both by timber concessionaires and by small-scale manual loggers. Following the onset of Indonesia's regional autonomy and decentralization processes in late 1998, district officials moved aggressively to establish greater administrative control over the forest resources within their jurisdiction. They did so by allocating large numbers of small-scale forest conversion licenses, known as IPPK permits. Many of these were assigned to 'foundations' established by local entrepreneurs to coordinate the creation of logging ventures with village cooperatives and other community groups in parts of Berau with valuable stands of timber. When the central government pressured district governments to stop issuing IPPK permits within the officially designated 'Forest Estate' in late 2000, Berau officials shifted tactics and began allocating a new type of logging permit, known as IPKTM, in forested areas where individuals or community groups held titles of ownership or other types of land certificates.

District officials have also pressured PT Inhutani I, the state forestry enterprise owned by the central government, and other HPH concession holders to enter into equity partnerships with the district government. This has given the district government a direct stake in protecting the operations of HPH concession holders, and Berau's *bupati* has publicly discouraged local stakeholders from making claims against the companies—a phenomenon that has been common in much of East Kalimantan. In cases where local communities have made such claims, the district government has generally encouraged the various parties to negotiate a peaceful solution to the dispute without outside mediation. In many cases, this process has led HPH holders to relinquish small portions of their concessions to community groups and to make modest compensatory payments. However, such agreements have frequently provided uncertain benefits for the communities' long-term livelihoods, as they are structured as short-term fixes rather than a fundamental restructuring of the company-community relationship that was established during the New Order period.

Extending northwards from East Kalimantan's Sangkulirang peninsula, Kabupaten Berau is situated approximately 200 km south of the province's border with the east Malaysian state of Sabah. The district is located between three surrounding *kabupaten*, or districts: Bulungan to the north; Malinau to the west; and East Kutai to the south. Berau has an extensive eastern coastline, and the district has long played a significant role in trade passing through the Straits of Makassar, which separate Borneo from Sulawesi. The total land area that falls within Berau's jurisdiction is just over 24,000 km<sup>2</sup>. In addition, Berau also claims administrative authority over some 14,562 km<sup>2</sup> of coastal waters in the Sulawesi Sea (Bappeda Berau 2001). As of 2002, the district was estimated to have a population of 131,059 (BPS Berau 2002).

Since the mid-1980s, Berau has been an important area for log production in East Kalimantan, Indonesia's largest timber-producing province. Until the collapse of Suharto's New Order regime in May 1998, formal timber extraction in the district was largely carried out by companies holding HPH (*Hak Pengusahaan Hutan*) timber concessions issued by the central government. As in many other parts of Indonesia, substantial volumes of logs have also been harvested informally in recent years by HPH concessionaires, land clearing license holders, and small-scale manual logging operations.

Following the onset of Indonesia's regional autonomy process in late 1998, Berau's district government assumed considerably greater administrative authority over the forest resources located in the district's boundaries. Berau officials,

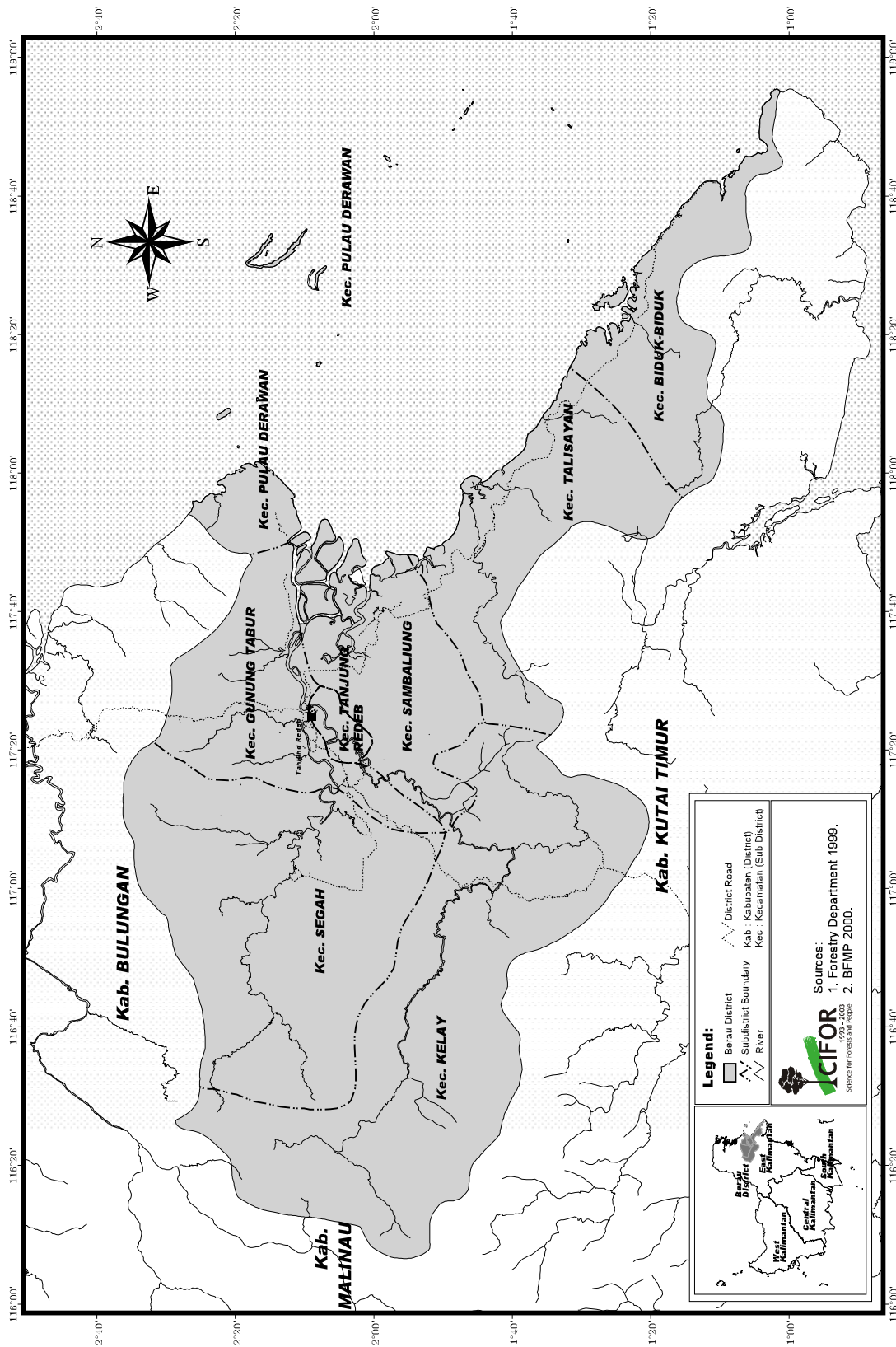
like their counterparts in other parts of East Kalimantan, used this authority to secure a greater portion of the revenues generated by timber extraction within their districts. They did so initially by issuing large numbers of small-scale logging and forest conversion permits to local entrepreneurs working with village cooperatives and other community groups. When the Ministry of Forestry pressured district governments to refrain from issuing such permits in areas that fell within the officially designated 'Forest Estate', Berau officials and local entrepreneurs worked together to redirect the allocation of these permits to forested lands for which individuals or communities held title of ownership or some other form of certificate. They have also taken steps to secure a direct equity stake for the district government in the operations of PT Inhutani I, the state forestry enterprise owned by the central government, and other HPH concession holders.

This study examines the early effects of decentralisation on forests and forest industries in Berau. It offers, in particular, a preliminary analysis of how the district's initial response to Indonesia's regional autonomy process evolved over time, particularly during the period 1999–2001.

## 1.1 Methods

This analysis is based on observations made in Berau district since late 1999. We conducted semi-structured interviews with government officials, timber companies, and local entrepreneurs for one week in April 2000 and for two weeks in October 2000. Information from forest community groups

Map 1. Berau District, East Kalimantan



**Table 1.** Area and Population of Kabupaten Berau's Subdistricts, 2002

<i>Kecamatan</i>	Total Area (km <sup>2</sup> )	Population
Kelay	6,134.60	4,198
Talisayan <sup>a</sup>	6,403.19	18,862
Biduk-Biduk	3,853.91	7,585
Pulau Derawan	7,978.10	8,439
Sambaliung	2,404.32	18,676
Tanjung Redeb	23.76	43,455
Gunung Tabur	1,987.02	11,203
Segah	5,166.40	5,529
Teluk Bayur	175.70	13,112
<b>Total</b>	<b>34,127.00</b>	<b>131,059</b>

**Source** : BPS Berau (2002).

**Note** : <sup>a</sup>In 2002, the number of subdistricts in Berau increased from nine to ten as the northern part of Kecamatan Talisayan become a separate subdistrict, Kecamatan Tubaan.

involved in formal and informal logging were obtained through observations and interviews conducted during numerous field visits between 1999 and 2001, which were carried out as part of Krystof Obidzinski's doctoral research. The analysis also draws on numerous published and unpublished secondary sources. It should be noted that much of the data for this study were collected while Indonesia's decentralisation and regional autonomy processes were still at an early stage. Wherever possible, we have tried to update the material presented to make it relevant to contemporary dialogues on the effects of decentralisation.

## 1.2 Overview of Kabupaten Berau

The area currently administered by Berau's district government was ruled by the sultans of the Kingdom of Berau from the fourteenth century until the early 1700s, when the Dutch established a commercial presence in Kalimantan (Pemkab Berau 1997). With the support of the VOC (the Dutch East Indies Company), Berau's monarchy was then divided into two smaller political units: the Sultanate of Sambaliung and the Sultanate of Gunung Tabur. The Dutch colonial administration governed the area that falls within the boundaries of present-day Berau by maintaining indirect administrative control over the two sultanates. Following Indonesia's independence, the post-colonial government in 1953 designated Berau as a Special Region (*Daerah Istimewa*), headed by the former Sultan of Sambaliung. Berau's status was changed to that of a *kabupaten* with the issuance of Law 27 in 1959, and Tanjung Redeb—the old administrative

centre for the Sultanate of Sambaliung—was named as the district's capital city.

Administratively, Berau was divided into nine *kecamatan*, or subdistricts, in 2001. As Table 1 shows, geographically, the largest of these are the interior subdistricts of Kelay and Segah, which together cover nearly one-half of the district's territory. These two *kecamatan* are sparsely inhabited, however, and their combined population of 9,727 accounted for only 7.5% of Berau's total inhabitants in 2002 (BPS Berau 2002). By contrast, over 35% of the district's populace lives in Tanjung Redeb, and much of the remainder inhabit the coastal seaboard areas of Talisayan and Sambaliung.

Berau's population has undergone very rapid growth since the late 1980s. During the decade 1988–1997, the number of inhabitants living in the district nearly doubled, climbing from 55,859 to 104,607 (Bappeda and Kantor Statistik Berau 1998; BPS Berau 2001). Much of this growth was generated by Indonesia's national transmigration program, which moved large numbers of households from densely populated areas in Java, Nusa Tenggara Timur and Nusa Tenggara Barat to more sparsely inhabited parts of the country's 'Outer Islands'. In 1997, over 22,000 transmigrants from these areas had been resettled in Berau (Bappeda and Kantor Statistik Berau 1998).

It is likely that the large increase in Berau's population during the mid-1990s—21% in 1995 alone—were also catalysed, in part, by the



district's economic growth in the years preceding Indonesia's 1997 financial crisis. During the five-year period between 1993 and 1997, Berau's gross regional domestic product rose from Rp 280 billion to Rp 675 billion, representing growth of 85% in real terms (Bappeda and Kantor Statistik Berau 1998). A substantial portion of this increase was associated with the construction of a 525,000-ton pulp mill by PT Kiani Kertas and the expansion of mining operations by PT Berau Coal. Other important sectors in Berau's economy include agriculture, logging, wood processing, and the collection of birds' nests and turtle eggs. In recent years, the district government has also sought to promote further investment in mining, estate crops, fisheries and tourism (Pemkab Berau 1997).

Berau's economic growth has been facilitated by the development of the trans-Kalimantan highway. Built with World Bank funds over the last 20 years, the highway has been extended from Balikpapan in the southern part of East Kalimantan to the province's northern districts that border Malaysia. The segments passing through Berau effectively link Tanjung Redeb with Tanjung Selor, the capital of Kabupaten Bulungan, 113 km to the north; and with Samarinda, the provincial capital, approximately 500 km to the south (Pemkab Berau 1997). While long stretches of the trans-Kalimantan highway—particularly north of Berau—have not yet been paved, the road functions as an important artery for commercial transportation and travel. Within Berau, paved roads link Tanjung Redeb with the district's other main towns of Teluk Bayur and Labanan. Gravel roads provide access to the western interior region and to the southeastern coastal town of Talisayan. Each of these is connected to an extensive network of roads built by timber, plantation, and mining companies. Altogether, Berau has 2,260 km of company-built roads, and these serve as the main channels for travel through much of the district.

Three major rivers run through Kabupaten Berau: the Berau (292 km in length); Kelay (254 km); and Segah (152 km). Each of these is navigable for over 100 km. Collectively they play a vital transportation role in the district's internal and external trade. Most of this trade passes through Tanjung Redeb, which is located at the convergence of the Kelay and Segah Rivers and has port facilities

for ships of up to 2,000 tonnes. There, logs, lumber, and coal are loaded on ships bound either for domestic markets in Tarakan, Samarinda, and Surabaya or for export markets in Malaysia and Japan. Consumer goods brought in from other parts of Indonesia are also unloaded in Tanjung Redeb or transferred to smaller vessels, which then carry them upriver into Berau's interior regions.

### 1.3 Berau's District Economy

Over the last decade, Berau's economy has been expanding rapidly. In 2000 and 2001, it recorded growth rates of 12.57% and 5.72%, respectively (Pemkab Berau 2001). Between 1993 and 2002, Berau's gross regional domestic product (GRDP) increased by more than 260% from Rp 278 billion to over Rp 738 billion (BPS Berau 2001; BPS Berau 2002). Indonesia's economic crisis, which began in 1997–98, has had only a limited effect on this growth, as Berau's economy is dominated by the export-oriented primary sectors of agriculture<sup>1</sup>, mining and processing industries, with few secondary or tertiary sectors (e.g. finance, real estate) to speak of. Among the nine major sectors shaping Berau's economy in 2002, agriculture, mining, manufacturing and processing industries generated nearly 75% of the district's GRDP (see Table 2).

Although for much of its recent history Berau has been a net importer of rice, agriculture and trade have traditionally been the mainstay of the district's economy. Over the last ten years, however, their combined contribution to district's GRDP declined markedly from 75% in 1993 to 36% in 2002. At the same time, the contribution from mining and industry increased dramatically. While in 1993 these sectors combined generated only about 6% of Berau's GRDP, their share rose to nearly 53% in 2002 (BPS Berau 2002).

The decline in the significance of agriculture and trade for the district economy has taken place as a result of the intensification of coal mining by PT Berau Coal, and the opening in 1997 of the PT Kiani Kertas pulp mill. PT Berau Coal began operating in Berau in 1983, continuing a coal mining tradition in the district that dates back to pre-colonial times<sup>2</sup>. The volume of coal deposits currently exploited in the district is estimated to

**Table 2.** Berau's Gross Regional Domestic Product by Sector in 2002

Sector	Contribution to the GRDP	
	Rp million	Percent (%)
Agriculture <sup>a</sup>	161,883.23	21.79
Mining	160,570.61	36.83
Industry	119,436.23	15.74
Electricity and water services	1,470.44	0.12
Construction	17,265.14	1.12
Trade <sup>b</sup>	143,436.56	14.02
Transportation and communication services	107,070.29	8.13
Financial services	8,186.80	0.68
Other services	19,534.19	1.58
<b>Total</b>	<b>738,803.49</b>	<b>100.00</b>

**Source** : BPS Berau 2002

**Note** : <sup>a</sup>Agriculture in Berau consists of food crops, plantation estates, fisheries, husbandry and forestry. <sup>b</sup>Trade includes hotel and restaurant businesses.

be approximately 427 million tonnes, whereas the overall coal potential in Berau is thought to be in the vicinity of 2 billion tonnes (Bapeda Berau 2001). In 2001, PT Berau Coal produced 6.25 million tonnes, an increase of 2 million tonnes from the year before. Slightly more than half of this output was exported, whereas the rest was sold domestically (BPS Berau 2001).

The PT Kiani Kertas pulp mill is located in Mangkajang, a village about 40 km east of Berau's capital Tanjung Redeb, and initiated operations in 1997. This US\$1.3 billion investment by the Kalimanis Group was designed to produce 525,000 air-dried tonnes (Adt) of bleached hardwood kraft pulp (BHKP) annually (Barr 2001). Since it began operating, however, Kiani Kertas has run at less than one-half of its full operating capacity. In 2000

and 2001, for instance, the mill produced 273,875 tonnes and 236,667 tonnes of pulp, respectively, all of which was exported.

Despite the growing importance of mining and industry as key sources of Berau's GRDP, their significance for direct employment in the district has been limited. In 2002, out of an active labour force of 58,727 people in Berau, only 6,522 (or 11%) worked in the district's mining and industry sectors (BPS 2001). It is likely that a substantial portion of the employment in electricity and water services, construction, transport, finance and public sector and government services (totalling 13,102 jobs—22.3%) is indirectly dependent on operations in mining and industry. However, the agricultural sector and trade continued to be the main sources of employment in the district in 2002,

**Table 3.** Employment in Berau by Sector in 2002

Sector	Number of people employed
Agriculture <sup>a</sup>	32,593
Mining	2,187
Industry	4,335
Electricity and water services	247
Construction	1,710
Trade <sup>b</sup>	6,510
Transportation and communication	2,182
Financial services	391
Other services	4,511
Government	4,061
<b>Total</b>	<b>58,727</b>

**Source** : BPS Berau 2002.

**Note** : <sup>a</sup>Agriculture in Berau consists of food crops, plantation estates, fisheries, husbandry and forestry. <sup>b</sup>Trade includes hotel and restaurant businesses.

providing jobs to 39,103 people or 67% of the district's total labour force (see Table 3).

#### 1.4 Forest Resources and Timber Production During the New Order Period

Over 2.2 million ha—approximately 90% of Berau's total land area—is classified as *Kawasan Hutan*, or Forest Estate (see Table 4).<sup>3</sup> Of this, 1.5 million ha has been designated as either Permanent or Limited Production Forest; 353,000 ha has been classified as Protection Forest; and 329,000 ha has been slated for conversion to other uses. Fifty-three percent of Berau's Production Forest is located in the interior subdistricts of Kelay and Segah, while over one-half of the *kabupaten*'s Conversion Forest is located in the coastal subdistrict of Talisayan.

##### 1.4.1 HPH Timber Production

Prior to the implementation of decentralisation, formal timber extraction in Berau was largely carried out by HPH (*Hak Pengusahaan Hutan*) timber concession holders. The Ministry of Forestry in Jakarta assumed authority over issuing HPH licenses for areas classified as Permanent or Limited Production Forest following the introduction of Indonesia's Basic Forestry Law in 1967 and Government Regulation 21 of 1970. HPH licenses, which are valid for a period of 20 years, may be assigned to private logging companies or to state-owned forestry enterprises. In managing the concession site, the HPH contract requires the concession holder to employ the Indonesian Selective Cutting and Planting (*Tebang Pilih dan*

*Tanam Indonesia*, or TPTI) system, which restricts harvesting to trees with a minimum diameter of 50 cm and which requires replanting on areas where logging has occurred.

The Ministry of Forestry (MoF) allocated the first HPH in Berau in 1969, during the start of East Kalimantan's commercial timber boom. Over the ensuing decade, MoF distributed 14 HPH concessions in the district, covering an aggregate area of 1.4 million ha (Kanwil Kaltim 1998). With forests that are rich in high-value *dipterocarps*, Berau has been one of the province's most productive sources of timber over the last three decades. During the 15-year period from 1985–1999, HPH holders operating in Berau reportedly harvested 10.5 million m<sup>3</sup> of logs, or over 13% of the 77 million m<sup>3</sup> of roundwood officially extracted by concessionaires in Indonesia's largest timber-producing province (Dinas Kehutanan 1999). It is likely, however, that the actual volumes of timber harvested have been substantially greater than these official figures suggest, as illegal logging—by HPH holders and by other parties—is known to have been common practice in Berau, and other parts of East Kalimantan (Kartodihardjo 1998).

By the late 1990s, nine HPH concession holders were active in Berau. As Table 5 shows, these companies controlled concession areas that range in size from 22,500 ha to 530,000 ha, totalling 1.3 million ha. According to official statistics, these firms formally produced 420,000 m<sup>3</sup> of logs during fiscal year 1998/1999 (Dinas Kehutanan 1999). By 2001, the number of HPH concessions in Berau had increased from nine to twelve (BPS Kaltim

**Table 4.** Forest Area by Forest Land Use Type by Subdistrict, as of 2001

<i>Kecamatan</i>	Permanent Production Forest (ha)	Limited Production Forest (ha)	Conversion Forest (ha)	Protection Forest (ha)	Total (ha)
Kelay	62,750	340,750	34,975	182,725	621,200
Segah	105,300	318,500	16,150	99,800	539,750
Talisayan	150,999	45,675	165,950	64,900	427,524
Gunung Tabur	289,475	28,475	20,025	0	337,975
Sambaliung	84,800	48,400	68,775	6,350	208,325
Biduk-Biduk	n.a.	n.a.	n.a.	n.a.	n.a.
Pulau Derawan	59,650	5,175	23,075	0	87,900
Tanjung Redeb	5,075	0	0	0	5,075
<b>Total</b>	<b>758,049</b>	<b>786,975</b>	<b>328,950</b>	<b>353,775</b>	<b>2,227,449</b>

Source: BPS Berau 2001.

**Table 5.** Name, Area, and Location of HPH Timber Concession holders in Kabupaten Berau, as of 1997

Company	Area (ha)	Location
PT Inhutani I	530,000	Labanan, Segah, Kelay
PT Alas Helau <sup>a</sup>	330,000	Mantaritip
PT Sumalindo Lestari Jaya I	100,000	Sei Segah (Long Ayan)
PT Hanurata	80,000	Sei Letta/Kelay
PT Rejo Sari Bumi	70,000	Birang
PT Daisy Timber	67,510	Tk Suleiman/Tk Sumbang
PT Puji Sempurna Raharja	57,000	Kasai (Lati)
PT Sumalindo Lestari Jaya IV	39,970	Lenggo/Batu Putih
PT Troyana <sup>b</sup>	22,500	Tumbit/Kelay
<b>Total</b>	<b>1,296,980</b>	

**Source** : Cabang Dinas Kehutanan Berau, cited in Pemkab Berau 1997.

**Note** : <sup>a</sup>Concession license cancelled in early 1999; <sup>b</sup>In 2000, the management of PT Troyana's concession was taken over by the state-owned enterprise PT Inhutani II.

2001). The main reason behind these changes is the cancellation in 1998 of the HPH license held by PT Alas Helau due to allegations of collusion, corruption and nepotism (KKN, *Korupsi, Kolusi dan Nepotisme*) and the subsequent division of this concession into five small/medium-sized HPH concessions (This process is discussed in more detail below). However, in terms of the overall area (hectares held by HPH concessionaires in Berau) the situation remained the same as in 1997.

The district's largest timber producer, by far, is the state-owned enterprise, PT Inhutani I. Based in Balikpapan, Inhutani I first became active in 1976, when it was given control of HPH concessions over an area totalling 2.4 million ha in various parts of East Kalimantan (Dinas Kehutanan 1999). Approximately 365,000 ha of the area initially assigned to Inhutani I is located in Berau. Since the early 1990s, Inhutani I has also assumed control over 165,000 ha of forest area in Berau that was previously managed by private concession holders whose HPH contracts have now ended. In the late 1990s, Inhutani I had operations at four HPH sites in Berau, from which it extracted 125,000 m<sup>3</sup>—or 30% of Berau's formal roundwood production—in 1998/1999 (Dinas Kehutanan 1999).<sup>4</sup>

Among private concession holders, the largest corporate actor in Berau prior to the post-1998 reforms was the Kalimantan Group. Controlled by Suharto's close associate Mohammed 'Bob' Hasan, Kalimantan entered Berau in 1973, when

PT Rejo Sari Bumi obtained a 70,000 ha concession. The group expanded its presence in 1978 by securing a 330,000 ha HPH for PT Alas Helau. By the mid-1990s, Bob Hasan had also become the director of the Astra Group, which controlled concession areas totalling 140,000 ha in Berau through two HPHs managed by PT Sumalindo Jaya.<sup>5</sup> As will be discussed below, the Kalimantan Group also secured the rights to develop tree plantations at two sites totalling just under 200,000 ha in Berau. These are being established to support the group's Kiani Kertas pulp mill, which Kalimantan built just southeast of Tanjung Redeb in 1997, although plantation development efforts have consistently fallen well short of plans.

#### 1.4.2 Timber Production by IPK License Holders

Since the mid-1990s, a growing portion of Berau's timber production has been carried out by companies holding Wood Utilization Permits (*Izin Pemanfaatan Kayu*, or IPK). In contrast to the selective harvesting techniques required under the HPH system, IPK permits allow logging companies to harvest all standing timber from a forested area that is being converted to another form of land use. The Ministry of Forestry holds full authority to issue IPK permits, and it has generally assigned these to companies converting forestland to timber or pulp plantations, agroindustrial estate crops, or mining operations. As Table 6 indicates, 13 companies received IPK permits in Berau in 1997, for a combined area of 43,000 ha. Official roundwood production from IPK sites in Berau

**Table 6.** Name, Area, and Type of Site for IPK Wood Utilization Permit Holders in Kabupaten Berau, as of 1997

Company	Area (ha)	Type of Site
PT Inhutani I/PT Tanjung Redeb Hutani	9,557	HTI Pulp
PT Rejo Sari Bumi	4,291	HTI Pulp
PT Tabalar Wood	3,230	HTI Pulp
PT Hanurata	854	HTI Pulp
PT Sumalindo Lestari Jaya I	2,637	HTI Trans
PT Alas Helau	1,331	HTI Trans
PT Tabalar Wood	1,100	HTI Trans
PT Baldiwasia Palmaindo	4,250	Estate Crop
PT Palma Kharisma Sekawan	4,000	Estate Crop
PT Jabonsara Ekakarsa	2,600	Estate Crop
PT Tanjung Buyu Perkasa	1,000	Estate Crop
PT Inhutani I/PT Sentosa Kalimantan Jaya	400	Estate Crop
PT Berau Coal	7,822	Coal Mining
<b>Total</b>	<b>43,072</b>	

Source: Cabang Dinas Kehutanan Berau, cited in Pemkab Berau 1997.

totalled 620,000 m<sup>3</sup> in 1998/1999 (Kanwil Kaltim 1998). This amounted to roughly 50% more than the 420,000 m<sup>3</sup> of logs formally harvested under HPH concession licenses during that year.

#### 1.4.3 Small-Scale Informal Timber Extraction

In addition to the formal timber operations of HPH concessionaires and IPK license holders, substantial volumes of logs are also harvested from Berau's forests by small-scale logging teams operating informally. Surveys carried out in May 2000 indicated there were at least 186 small-scale logging camps within the district (Casson and Obidzinski 2002). Prior to decentralisation, these groups engaged in timber felling without obtaining any sort of official permit, meaning that their activities were *a priori* illegal.

Typically, informal logging teams consist of six individuals with one motorized canoe (*ketinting*) and 1–2 chainsaws as the most necessary equipment. Daily timber production per informal logging camp is estimated to be roughly 3 m<sup>3</sup> per day (1.5 m<sup>3</sup> per chainsaw, with each camp having two chainsaws). Considering that there are effectively 25 workdays per month, timber production from informal logging groups in Berau can be estimated at approximately 14,000 m<sup>3</sup> per month, or in the vicinity of 168,000 m<sup>3</sup> per annum.<sup>6</sup>

The main concentration of these informal logging

activities is along the middle and lower sections of the Segah River and its tributaries (Malinau, Siagung, Siduung, Pura, Sambrata, Birang). In the Kelay River area, most small-scale logging activities are concentrated along upper sections of the river, particularly near the settlement of Long Gie and further upstream, in and around the former concession area of PT Alas Helau. Nearer the coast, Lati and Kasai on the Berau River are two important centres of informal timber extraction, while to the southeast, there are numerous small-scale logging groups operating along the road from Talisayan to Teluk Suleiman. The same is the case with overland routes connecting Berau with Bulungan, Berau-Samarinda, and Tanjung Redeb-Tepian Buah.<sup>7</sup>

Although highly unpredictable, income from illegal logging is comparatively high and therefore it is an appealing source of income for local people. Flexibility and ongoing availability are other important features of illegal timber harvesting. Local villagers are involved in this work mainly on seasonal basis, i.e. after planting rice and before harvesting (October–December) as well as following the harvest and before planting a new crop (March–May). The urban poor stay on the job for longer. However, work hardships, the dangers of living in the forest and unpredictable weather conditions ensure that it is rare for anyone to work for longer than 2–3 months at a time, rendering illegal felling of timber a cyclical rather a long-term employment option. Given such a rate of turnover in labour, it

can be estimated that between 4,000 and 6,000 people in Berau may be annually employed in small-scale informal timber extraction.<sup>8</sup>

## 1.5 Wood Processing Industries

Berau's timber sector is structured to provide raw materials to three distinct wood processing industries. First, the district's HPH concession holders ship most of their logs to plywood mills located near Samarinda or Surabaya. Second, Berau's own sawmill industry consumes the bulk of the logs harvested by the many informal, small-scale logging teams operating in the district, as well as a portion of the timber harvested by HPH concession holders. Third, the Kiani Kertas pulp mill, when it is operating, also consumes moderate volumes of small-diameter logs harvested from forest areas cleared for conversion to pulpwood plantations or agro-industrial estates.

This section describes Berau's sawmill industry and the Kiani Kertas pulp mill.

### 1.5.1 Sawnwood Production

The first mechanized sawmills began operating in Berau in the late 1970s. In 1974, Berau still had only a few manually operated sawmills producing low quality material for the local market (Direktorat Perencanaan 1974). In the late 1970s, when log exports from Berau reached their all-time high, local timber entrepreneurs had little incentive to invest in sawmills because of high demand and strong prices for logs from overseas markets (PT Becosurveys 1981).

In the early 1980s, however, things began to change. As the government phased in a national ban on log exports—which would take full effect in January 1985—sawmills in Berau began to multiply. In 1981, there were already 17 officially registered mechanized sawmills in the district (Pemkab Berau 1981). Two years later, in 1983, this total increased to 22 sawmills, most of which operated low-yield circular saw blades for production (BKPM 1988). In 1995, the number of officially registered sawmills in the district totalled 30 units, and the first high-yield band saw blades were installed.<sup>9</sup> As of May 2000, 40 sawmills were operating in Berau (Obidzinski *et al.* 2001, Casson and Obidzinski 2002).

Thirty-three of the operating sawmills are located within a 10 km radius of the district capital of Tanjung Redeb, as well as along the lower course of the Berau River. The remaining seven mills operate in the Talisayan seaboard area stretching from Tabalar to Teluk Suleiman. Of the district's active mills, 13 can be described as large mills (with two or more band saws); 6 as medium-sized mills (one band saw); and 21 as small facilities (circular blades).

The aggregate real production by Berau's sawmills is estimated to be in the vicinity of 90 000 m<sup>3</sup> per year.<sup>10</sup> This estimate is based on the assumption that the district's mills run at 60% of their annual operating capacities, which is believed to total 121,000 m<sup>3</sup> for the 13 large sawmills, 17,000 m<sup>3</sup> for the six medium-sized mills and 15,000 m<sup>3</sup> for the 21 small mills.<sup>11</sup> This figure is several times higher than the volumes officially reported by the Provincial Forestry Service, which put Berau's total sawnwood production at 7,500 m<sup>3</sup> for fiscal year 2000 (BPS Berau 2001).

A more conservative indication of the extent of the unreported production of sawn timber in Berau can be gained by analysing district export statistics. As Table 7 shows, the volume of sawn timber shipped out of Berau since the mid-1990s has been considerably and consistently higher than the reported production levels. This indicates that over the last several years, actual production levels have been substantially under-reported.

**Table 7.** Production and Shipment of Sawn Timber in Berau 1993–2002

Year	Sawn Timber Produced (m <sup>3</sup> )	Sawn Timber Shipped (m <sup>3</sup> )
1993	5,174	4,707
1994	4,738	4,019
1995	2,673	2,756
1996	3,729	8,542
1997	7,305	17,824
1998	14,230	31,100
1999	9,925	13,413
2000	7,518	28,688
2001	27,057	49,969
2002	29,574	52,507

Source: BPS Berau (1999; 2001; 2002)

Assuming that Berau's sawmills have an average log conversion ratio of 50%, then the production of 90,000 m<sup>3</sup> of sawn timber in 2000 would have required approximately 180,000 m<sup>3</sup> of roundwood. Mills in the district rely on three methods of procuring the necessary raw timber for processing: 1) some establish networks of logging crews which are paid to fell timber and deliver it to the mills; 2) some buy timber from logging crews working independently; and 3) some obtain logs harvested through the clearing of 'village forests' under the guise of establishing community plantations for village cooperatives KUD (*Kelompok Unit Desa*) or farmers' groups KT (*Kelompok Tani*).

Berau's sawnwood industry is still quite selective with regard to the type, size, and quality of timber processed. Approximately 50% of the logs consumed are red *meranti*, 20% *keruing*, 15% *kapur*, and 15% a variety of other types. In general, large and medium-sized sawmills will not accept red *meranti* logs that are less than 50 cm in diameter. For *keruing*, the minimum diameter is 40 cm. The reason for this selectivity is that after cutting and drying, smaller diameter timber tends to bend and have poorer texture, making it more difficult to sell. Small sawmills, by contrast, will often accept smaller diameter logs, which are used to produce lumber destined for local consumption.

Approximately 90% of the sawnwood produced in Berau is shipped to markets outside of the district. Most (approximately 60%) is sent to markets in Java, particularly Surabaya. Roughly 30% is exported to the East Malaysian state of Sabah, and 10% is shipped to Makassar and Pare-Pare in Sulawesi.<sup>12</sup>

### 1.5.2 Pulp Production – PT Kiani Kertas

In the mid-1990s, Bob Hasan's Kalimanis Group developed a large-scale pulp project in Mangkajang, located 40 km south of Tanjung Redeb. The Kiani Kertas pulp mill had an official production capacity of 525,000 tons per annum when it came online in mid-1997, and reportedly cost US\$1.3 billion to build (Kenny 1997). Drawing on its owner's close ties with President Suharto, the Kalimanis Group received heavy government subsidies for the construction of the Kiani mill (Barr 2000). These included at least

US\$300 million in loans from four state banks; an allocation of US\$100 million from the government's Reforestation Fund; and a 10-year holiday on corporate income tax. In addition, the Suharto government gave Kiani Kertas a permanent waiver on the payment of import and export duties for all capital goods.

It is widely reported within the industry that the real costs involved in the construction of the Kiani mill were substantially lower than those reported by the company—perhaps by as much as one-half (Barr 2000). According to individuals involved with the mill's operation, the diversion of finance during the construction of Kiani Kertas resulted in the creation of a highly inefficient processing unit.<sup>13</sup> Many of the components purchased for the mill were apparently rebuilt, rather than new; and the use of sub-par equipment in some parts of the mill has limited other parts from running at full capacity. In the years since production began at Kiani, the mill has experienced frequent shutdowns, which have incurred substantial costs.

Since the fall of the Suharto regime in May 1998, Kiani Kertas's operations have been further complicated by the Kalimanis Group's overall financial problems. In September of that year, Kalimanis pledged Kiani Kertas, together with 33 other companies, to the Indonesian Bank Restructuring Agency (IBRA) as collateral for the repayment of some Rp 12 trillion (or US\$1.8 billion at Rp 6,700 per US\$) in Bank Indonesia liquidity credits (Barr 2000). Kiani Kertas is also directly responsible for US\$628 million in outstanding debts in IBRA's portfolio. In October 2000, IBRA entered into a debt restructuring agreement with Kiani that allowed the company to continue operating under its pre-crisis management team and to pay its debts over an extended, 10-year period (IBRA 2000; Anonymous 2000). In August 2002, IBRA sold some US\$480 million of Kiani's debt to Bank Mandiri and a consortium of investors (Barr and Setiono 2003).<sup>14</sup>

Because of its technical and financial problems, Kiani Kertas has reportedly operated well below its installed capacity since it came online in 1997. In its first year of operation, Kiani Kertas produced and exported only about 22,000 tonnes of pulp. This number increased to 175,406 tonnes in 1998,

declined to 138,233 tonnes in 1999, increased again to 273,875 tonnes in 2000 and declined again to 236,667 tonnes in 2001 (BPS Berau 2001). In 2002, the mill produced 143,749 tonnes of pulp, which is only about 35% of its installed production capacity (BPS Berau 2002). In 2001 and 2002 the mill is estimated to have consumed approximately 1,065,000 m<sup>3</sup> and 646,870 m<sup>3</sup> of wood respectively, as approximately 4.5 m<sup>3</sup> of wood (under bark) are required to produce one tonne of pulp.

Industry sources familiar with the mill's operations estimate that roughly 10% of Kiani's raw materials since it began operating have been mixed tropical hardwoods (MTH) harvested from natural forests in Berau and other parts of East Kalimantan. The remaining 90% has been plantation pulpwood imported in the form of logs from Sabah (and to a much lesser extent, Vietnam) and in the form of wood chips from Tasmania (Botha 2002). In 2001, Kiani Kertas imported 444,221 tonnes of wood chips<sup>15</sup> and 311,003 m<sup>3</sup> of *Acacia* logs respectively (BPS Berau 2001). MTH harvested in Berau provided about 95,850 m<sup>3</sup>.

Ostensibly to supply fibre to the mill over the long term, PT Tanjung Redeb Hutani and PT Kiani Lestari have been working on establishing a 183,000 ha HTI (*Hutan Tanaman Industri*) industrial timber plantation in Berau. PT Tanjung Redeb Hutani was assigned the task of establishing the plantation, while PT Kiani Lestari was made responsible for clearing the original forest and for delivering the MTH to the mill until the plantation becomes the main source of raw material. Both companies are subsidiaries of the Kalimanis Group. While PT Kiani Lestari is wholly owned by Kalimanis, PT Tanjung Redeb Hutani is jointly owned by Kalimanis (65%) and the state forestry enterprise, PT Inhutani I (35%).

The HTI operations of PT Tanjung Redeb Hutani in Berau have been financed largely from Indonesia's national Reforestation Fund (*Dana Reboisasi*, or DR), of which the company is reported to have received Rp 83 billion (Ernst & Young 1999). However, despite the relatively high levels of financial investment and support it has received, planning and management problems have resulted in a poor operational record for the

company. Of the 183,000 ha available for the HTI plantation, only 91,000 ha are actually plantable. PT Tanjung Redeb Hutani claims that since 1993 approximately 67,400 ha have been planted, but only 40,000 ha are currently considered to be utilizable (Botha 2002). An area of about 7,000 ha of the planted area is subject to land claims by local communities, reducing the effective plantation area further still.

PT Kiani Lestari is a logging contractor clearing the forest in PT Tanjung Redeb Hutani's HTI concession area and charged with harvest operations once *Acacia* plantations come online. Although both companies need to coordinate their activities closely in order to fulfil their stated objective of creating a sufficient base of raw material for Kiani Kertas' pulp mill, their relationship over the last several years has suffered from conflicts over personal issues, plantation data and finances (Botha 2002). The crisis between PT Tanjung Redeb Hutani and PT Kiani Lestari reached new heights in early 2003 and the cash flow problems at Kiani Kertas all but immobilized both companies. By May 2003, PT Tanjung Redeb Hutani was operating with only a skeleton staff, whereas PT Kiani Lestari had suspended operations indefinitely. While the supplies of locally harvested timber (both MTH and *Acacia*) to Kiani Kertas' mill have never been great, it appears that the prospect of developing a stable raw material base in Berau for the mill is perhaps more distant than ever.



Indonesia's decentralisation process gained momentum in May 1999 with the passage of Law 22/1999 on Regional Governance and Law 25/1999 on Fiscal Balancing. These laws provided the legal basis for regional autonomy, laying out a broad framework for the decentralisation of administrative and regulatory authority primarily to the district level. Law 22, for instance, defined districts as 'autonomous regions' and gave them the authority 'to govern and administer the interests of the local people according to its own initiatives based on the peoples' aspirations in accordance with the prevailing laws and regulations.'

In Berau, as in many other parts of Indonesia, the initial response to these changes was euphoric. District government officials, local entrepreneurs and members of the general populace were particularly enthused to gain greater control over the district's natural resources, including its forests and coal deposits. They were keenly aware of the fact that Berau had been a major source of natural resource revenue for the central government through much of Suharto's New Order period. In their view, the revenues had been used to enrich the Jakarta-based conglomerates and government officials over the last 30 years, with or very little being returned to the district. The expectation was that local stakeholders in Berau would finally be able to retain the benefits from the resources extracted from within the district's boundaries. Those who were expected to benefit most in this context were local son (*putra daerah*).

## 2.1 District Regulations and Revenue Generation

With the transfer of administrative authority from the national government to the *kabupaten* level, Berau's government moved quickly to issue district regulations, or *perda* (*peraturan daerah*), covering a wide range of areas. Many of these were related to defining an autonomous administrative structure for the *kabupaten* government and to establishing more direct control over the district's natural resource base. During 1999 and 2001, for instance, Berau's district government issued *perda* on the following topics:

- Management of Sea Turtles and Turtle Eggs (*Keputusan Bupati Kepala Daerah Tingkat II Berau No 69 Tahun 1999 Tentang Pengelolaan Penyu dan Telurnya Dalam Kabupaten Daerah Tingkat II Berau*)
- Community Forest and Private Forest (*Perda No 46 Tahun 2000 Tentang Hutan Rakyat dan Hutan Milik*)
- Allocation of HPHH Logging Permits (*Keputusan Bupati Kabupaten Berau No 47 Tahun 2000 Tentang Tata Cara Pemberian Ijin Hak Pemungutan Hasil Hutan*)
- Allocation of IPPK Logging Permits in Community or Private Forest (*Keputusan Bupati Kabupaten Berau No 48 Tahun 2000 Tentang Tata Cara Pemberian Ijin Pemungutan dan Pemanfaatan Kayu Pada Hutan Rakyat dan Hutan Milik*)

- Allocation of Land-use and Land-clearing Permits (*Keputusan Bupati Berau No 102 Tahun 2000 Tentang Izin Pembukaan Lahan di Wilayah Kabupaten Berau*)
  - Changes in the Allocation of Land-use and Land-clearing Permits (*Keputusan Bupati Berau No 161 Tahun 2000 Tentang Perubahan Keputusan Bupati Berau No 102 Tahun 2000 Tentang Izin Pembukaan Lahan di Wilayah Kabupaten Berau*)
  - Changes in the Allocation of IPPK Logging Permits in Community and Private Forest (*Perubahan Keputusan Bupati Berau No. 48 Kabupaten Berau No. 162 Tahun 2000 Tentang Tata Cara Pemberian Izin Hak Pemungutan dan Pemanfaatan Kayu Pada Hutan Rakyat dan Hutan Milik*)
  - Third Party Contribution on Forest Products (*Keputusan Bupati Berau No 190 Tahun 2000 Tentang Pengesahan Kesepakatan Sumbangan Pihak Ketiga*)
  - Third Party Contribution on Logs and Sawm Timber (*Keputusan Bupati Berau No 233 Tahun 2000 Tentang Penunjukan Wajib Pungut Penerimaan Sumbangan Pihak Ketiga Dari Kayu Log dan Sawmill Pada Cabang Dinas Kehutanan Kabupaten Berau*)
  - Management of Edible Birds' Nests (*Perda Kabupaten Berau No Tahun 2000 Tentang Pengelolaan dan Pengusahaan Sarang Burung Walet*)
  - Berau Government's Administrative Authority (*Perda No Tahun 2000 Tentang Kewenangan Pemerintah Kabupaten Berau*)
- government in Jakarta. During that period, Berau's district government held the authority to collect only six relatively minor forms of local tax, in addition to a number of district fees and charges. Local taxes included the following:
- Group C mining tax (for sand, granite, and alluvial soil)
  - Surface and ground water tax
  - Advertisement tax
  - Hotel and restaurant tax
  - Street lighting tax
- Under Law 25/1999 on Fiscal Balancing, districts were given both the authority and the responsibility to obtain a larger portion of their revenue base from local sources. Berau's district government, like most of its counterparts in East Kalimantan, moved aggressively to impose a number of additional taxes on timber and non-timber forest products, as well as other types of natural resources being produced, processed and shipped from the district. By the end of 2000, the district collected the following taxes and fees in the timber sector:
- Third party contribution (*sumbangan pihak ketiga*)—a one-time payment of Rp 200,000 per hectare for holders of district timber permits;
  - Production fee (*retribusi produksi*) of Rp 2,300/m<sup>3</sup> for logs cut by HPH concessionaires;
  - Production fee (*retribusi produksi*) of Rp 10,000/m<sup>3</sup> for logs and Rp 5,000/m<sup>3</sup> for pulpwood harvested by holders of district-issued IPPK or IPKTM permits (discussed below);
  - Processing fee (*retribusi pengolahan*) of Rp 10,000/m<sup>3</sup> for processed timber products.

Collectively, these new fees from the forestry sector have become the single most important source of PAD for Berau's district government. Between May 2001 and March 2002, for instance, these fees generated some Rp 8 billion for the *kabupaten*. As will be discussed in the following section, Berau's government has also tried to raise revenues in the forestry sector through the creation of a district-owned enterprise (*perusahaan daerah*), which has been used to secure equity holdings in forestry concessions operating within the district.

In addition to expanding PAD levels from the forestry sector, Berau's district government has

### 2.1.1 Securing New Sources of PAD

Several of the *perda* issued by the Berau district government have been aimed at securing more substantial levels of district-generated revenues, or PAD (*Pendapatan Asli Daerah*). Indeed, prior to the initiation of Indonesia's decentralisation process, Berau's budget—which ranged between Rp 50 and 70 billion, or approximately US\$20–28 million<sup>16</sup> during the 1990s—was almost entirely dependent on fiscal dispensations from the central

also imposed a third party contribution for sea turtle egg license auctions. Until 1999, sea turtle egg license auctions were controlled by the central government in Jakarta. Since then, Berau has gained the right to carry out sea turtle egg annual auctions on its own. In 1999 and 2000, the district government raised Rp 922 million and Rp 1.05 billion, respectively, from sea turtle egg license auctions.

Berau's district government has also sought to regain control over birds' nest licensing, which was ceded to the central government in 1997. Through most of the New Order period, Berau held the right to issue birds' nest licenses, and the district managed this in a manner similar to their current control over trade in sea turtle eggs. In 1997, however, the central government authorities seized control of the birds' nest auctions. With the onset of decentralisation in 1998, the Berau government has sought to regain control of this important source of income—valued at Rp 3.5 billion per year. As an intermediate measure, it has imposed a district regulation stipulating a third party contribution of Rp 200,000/kg for birds' nest harvests above 100 kg.

Overall, Berau's PAD revenues rose by approximately 1000%, from Rp 1.8 billion to Rp 18.6 billion between 1998–1999 and 2002 (see Table 8). At an exchange rate of Rp 8,400 per US\$, the Rp 18.6 billion in PAD that Berau generated in 2002 is equivalent to approximately US\$2.3 million.

### 2.1.2 Fiscal Balancing and Forestry Revenues

In spite of the sharp increases in PAD, approximately 98% of Berau's annual budget is derived from the fiscal balancing agreement (*perimbangan keuangan*) negotiated with the central government under Law 25/1999. The most important elements of the fiscal balancing agreement include the sharing of tax revenues from natural resources, the General Allocation Fund (DAU, *Dana Alokasi Umum*) and the Special Allocation Fund (DAK, *Dana Alokasi Khusus*) (World Bank 2003).

Under the highly centralized fiscal system that Indonesia maintained prior to decentralisation,

Berau and other district governments derived most of their budgets through dispensations from the national government. These generally took the form of earmarked grants, the largest of which were the SDO (*subsidi daerah otonom*, or subsidy for autonomous regions), which covered civil servant salaries and recurrent expenditures for regional governments; and INPRES (*instruksi presiden*) grants that were intended to finance development spending (World Bank 2003).

Within the forestry sector, the vast majority of tax revenues collected from HPH timber concession holders during the New Order period were associated with two specific fees:

- Forest Resource Rent Provision (*Provisi Sumber Daya Hutan*, or PSDH): a volume-based royalty on each cubic metre of timber harvested (Rp 58,000 per m<sup>3</sup> of class A *meranti* in 2000);
- Reforestation Fund (*Dana Reboisasi*, or DR): a volume-based fee on each cubic metre of timber harvested, initially introduced as a bond to support reforestation activities (US\$16.00 per m<sup>3</sup> of class A *meranti* in 2000).

Prior to decentralisation, the central government exerted a high degree of control over both of these fees (Barr *et al.* 2001). In the case of DR—by far the most lucrative of the timber-related fees—the national government retained control over the full amount collected. However, in the case of the PSDH, the central government was required to distribute 45% of the total amount collected to the provincial governments for use on development expenditures. Of the PSDH funds allocated to the provinces, one-third (or 15% of total PSDH receipts) were earmarked for development expenditures at the *kabupaten* level.

With the implementation of Law 25/1999, district and provincial governments are now able to retain a significantly larger portion of the revenues associated with natural resources extracted within their jurisdictions. Under fiscal balancing, both the PSDH forest resource royalty and mining rents are divided as follows:

- Central government – 20 %
- Provincial government – 16 %

- Originating district government – 32 %
- Other district governments in same province – 32%

Since the onset of decentralisation, this new division of natural resource taxes has had a very direct and significant effect on Berau's district budget (see Table 8). Whereas Berau obtained only Rp 6 billion from natural resource taxes in FY 1998/1999, it received Rp 155 billion and Rp 150 billion from this revenue source in FY 2001 and FY 2002, respectively (or approximately US\$18 million per year, based on an exchange rate of Rp 8,500 per US\$). In each of the last two years, natural resource taxes have accounted for over 45% of Berau's total district revenues.

Under Law 25/1999, DR is treated as part of the Special Allocation Fund, or DAK. The law stipulates that 40 % of DR monies shall be made available to the region(s) in which these revenues were generated. The remaining 60% shall be allocated to the central government. This division was the subject of heated negotiations between

East Kalimantan and the national government during late 2000 and early 2001, as the provincial government sought an agreement whereby HPH holders would pay 80% of the DR fees directly to the province (Barr *et al.* 2001).

The struggle for control over DR revenues was not limited to the negotiations between the province and the national government. While those discussions were occurring, the *kabupaten* governments in Berau and other timber-rich districts were taking steps to ensure that they would receive an acceptable share of the forest rents derived from timber harvested within their boundaries (Barr *et al.* 2001). As noted by Barr *et al.* (2001), the provincial news media carried reports in October 2000 that *bupatis* in four districts and one municipality in East Kalimantan—Malinau, Bulungan, Nunukan, Berau, and Tarakan—threatened to break away from East Kalimantan if the provincial government did not receive fiscal allocations commensurate with the revenues flowing from them (*Suara Kaltim* 2000). The *bupatis* were particularly adamant that DR

**Table 8.** Kabupaten Berau's Annual Revenues for the Period FY1998/1999 – FY2002 (Rp billion)

Source of Revenue	1998/1999	1999/2000	2000	2001	2002
<b>1. Funds remaining from the previous year</b>	<b>8,054</b>	<b>13,838</b>	<b>8,385</b>	<b>13,646</b>	<b>115,837</b>
<b>2. District Generated Revenues (PAD)</b>	<b>1,882</b>	<b>2,692</b>	<b>3,414</b>	<b>6,069</b>	<b>18,621</b>
• District tax	0,436	0,515	0,544	0,704	1,380
• Retribution	0,426	0,600	0,665	2,438	4,316
• Income from district-owned enterprises	0,125	0,125	0,125	0,375	1,200
• Other income <sup>a</sup>	0,895	1,452	2,080	2,552	11,725
<b>3. Fiscal Balancing</b>	<b>44,432</b>	<b>39,634</b>	<b>48,345</b>	<b>324,667</b>	<b>292,194</b>
• Share of tax revenues	5,450	8,428	8,661	15,051	17,897
• Share of natural resource taxes	6,111	5,660	7,337	155,270	150,347
• General Allocation Fund (DAU)	0	0	0	123,950	123,950
• Special Allocation Fund (DAK)	0	0	0	30,396	0
• Donations	11,084	13,837	0	0	0
• Contributions	21,787	11,709	32,347	0	0
<b>4. Funds from Province</b>	<b>0</b>	<b>0</b>	<b>14,386</b>	<b>0</b>	<b>14,000</b>
<b>Total</b>	<b>54,368</b>	<b>56,164</b>	<b>74,530</b>	<b>344,820</b>	<b>440,652</b>

Source : Dinas Pendapatan Kabupaten Berau 2003.

Note : <sup>a</sup>The key items in this category are Third Party Contributions and Bank Transfer Charges.

payments made by HPH holders operating within their boundaries should be retained by the *kabupaten* government. Echoing arguments made by the provincial government in its negotiations with Jakarta, the *bupatis* argued that it was unfair for DR fees flowing from their districts to be used by East Kalimantan's provincial government to subsidize districts with lower timber production (Barr *et al.* 2001).

In 2002, Berau reportedly secured Rp 22 billion (or approximately US\$2.6 million)<sup>17</sup> in DR allocations. Representing approximately 5 % of the district's total revenues, this was a substantial increase over the Rp 5 billion that Berau obtained in 2000.

## 2.2 Emergence of a District Timber Regime

As in many other *kabupaten* in East Kalimantan, Berau's district government has used the authority granted to it under Indonesia's decentralisation laws to establish greater local control over the district's timber sector. District officials have done so in three ways. First, they have issued large numbers of district logging and forest conversion permits. Second, they have established greater administrative control over HPH concession holders. Third, they have restructured Berau's Branch Office of the Provincial Forestry Service (*Cabang Dinas Kehutanan*, or CDK) so that it now reports directly to the *bupati*, rather than to officials in Samarinda.

### 2.2.1 Allocation of District Logging Licenses and Forest Conversion Permits

In March 1999, Berau's district government began to issue small-scale logging licenses known as HPHH (*Hak Pengusahaan Hasil Hutan*, or Forest Product Concession) and forest conversion permits known as IPPK (*Izin Pemungutan dan Pemanfaatan Kayu*, or Timber Extraction and Utilization Permits). The district government derived legal authority to issue these permits from Government Regulation (*Peraturan Pemerintah*, or PP) 62/1998 regarding the delegation of partial authority in the forestry sector to the regions; and from PP 6/1999 regarding forestry enterprises and the extraction of forest products in areas designated as 'Production Forest'. PP 62/1998

stipulated that district governments would have authority to oversee activities related to the management of 'Privately Owned Forest' (*Hutan Milik*) and 'Community Forest' (*Hutan Rakyat*), including 'tree planting, maintenance, harvesting, utilization, marketing and development.'<sup>18</sup> PP 6/1999, issued in January 1999, gave authority to district governments to allocate HPHH licenses for the extraction of timber and/or non-timber forest products in areas of 100 ha located within the government-controlled Forestry Estate (*Kawasan Hutan*).

In Berau, as in the neighbouring *kabupaten* of Bulungan and Malinau, the district government issued only a relatively small number of HPHH licenses before introducing regulations for IPPK forest conversion permits (Barr *et al.* 2001, Suramenggala *et al.* 2001). The terms of the *perda* authorizing the allocation of IPPK permits in each of these *kabupaten* were almost identical: IPPK permits can be assigned to individual land owners, village and government cooperative, farmers' groups, community conservation groups, and companies or other agencies that are legally managing areas of Privately Owned Forest. Permit holders are allowed to clearfell forest in the areas defined in the IPPK contract 'as long as this does not have a negative effect.' Permit holders are not required to pay PSDH or other national and provincial-level royalties associated with the HPH concession system, though they are subject to fees imposed by the *kabupaten* government.<sup>19</sup> The IPPK permit may range in duration between 3 and 6 months, and if stands of commercial timber remain by the time the license expires, it may be renewed up to three times (c.f. Barr *et al.* 2001).

Between March 1999 and January 2000, Berau's district government issued 33 IPPK permits covering 11,396 ha with an aggregate log production target of 218,329 m<sup>3</sup> (Table 9). *Kabupaten* officials used these permits for a variety of purposes. As noted above, they were eager to expand Berau's district revenue base, and the issuance of IPPK permits provided an important source of PAD as well as informal revenue flows. Second, the allocation of these permits to village cooperatives and farmers groups allowed the *bupati* to appease local communities, who had not been allowed to share in the benefits

**Table 9.** IPPK Licenses Issued by Berau's District Government During March 1999–January 2000

License Holder	Permit Date	Location	Area (ha)	Production Target (m <sup>3</sup> )
KT Mufakat	03/03/1999	Desa Tasuk/Gn.Tabur	25	5,790
Addition of new area	06/08/1999	Desa Tasuk/Gn.Tabur	20	4,719
Addition of new area	06/08/1999	Desa Tasuk/Gn.Tabur	20	4,720
Addition of new area	06/08/1999	Desa Tasuk/Gn.Tabur	37	4,050
Addition of new area	06/08/1999	Desa Tasuk/Gn.Tabur	25	5,790
Addition of new area	06/08/1999	Desa Tasuk/Gn.Tabur	15	3,807
KUD Sumber Rejeki	01/07/1999	Labanan Makmur/Gn.Tabur	100	13,870
Addition of new area	26/11/1999	Labanan Makmur/Gn.Tabur	100	9,654
KUD Sumber Sari	01/07/1999	Labanan Makarti/Gn.Tabur	100	11,000
Addition of new area	15/08/1999	Labanan Makarti/Gn.Tabur	100	8,800
KT. Ulin Jaya	12/07/1999	Sumber Mulia/Talisayan	100	1,784
KUD Sumber Abadi	06/08/1999 <sup>a</sup>	Labanan Jaya/Gn.Tabur	50	863
KT. Mangkajang	02/09/1999	Pesayan/Sambaliung	12	2,480
Perusahaan Daerah Bakti Praja dan PT.Suaran Jaya	24/11/1999	Parapatan/Sambaliung	2,000	50,000
Perusahaan Daerah Bakti Praja	05/01/2000	Merancang Hulu/Gn.Tabur	1,200	n.a.
Perusahaan Daerah Bakti Praja	07/01/2000	Coal mine site of PT Berau Coal in Binungan/Sambaliung (3300 ha) and former concession area of PT Rantau Panjang Utama Bakti (1250 ha)	4,550	n.a.
KUD Melati Makmur	15/01/2000	Melati Jaya Merancang Hulu/Gn.Tabur	100	8,000
KT. Sumber Makmur, Contractor CV. Adin Mitra Pratama	30/01/2000	Bedungun/Tg.Redeb	50	8,000
KT. Nusantara	02/03/2000	Suka Murya/Talisayan	100	1,944
KUD Sambut Jaya	02/03/2000	Eka Sapta/Talisayan	100	1,750
PT.Inhutani I Adm.Berau	n.a.	Coal mine site of PT Berau Coal in Binungan/Sambaliung	1,422	n.a.
Hutan Rakyat a.n Amiruddin	n.a.	Singkuang/Tg.Redeb	7	1,520
KUD Wana Sari	13/12/1999 <sup>b</sup>	Bumi Jaya/Talisayan	100	1,820
KUD Setia Karya	13/12/1999 <sup>c</sup>	Purnasari Jaya/Talisayan	100	1,985
PT Tanjung Buyu Perkasa	n.a.	Dumaring/Talisayan	100	10,450
PT. Rantau Panjang Utama Bakti	03/01/2000	Teluk Bayur/Tg.Redeb	300	8,700
KT. Makmur Lestari	03/01/2000	Km 13–15 Bulungan Road (HPH PT Rejosari Bumi)/ Gn.Tabur	25	41,704
KT. Tanjung Perangat	03/01/2000	Tanjung Perangat/Sambaliung	100	618
KT. Sipatuo	03/01/2000	PT. Inhutani I area near Lati village/Gn.Tabur	-	557
KT. Labanan (ABRI Manunggal Pratama)	03/01/2000	PT.Inhutani I area Labanan/ Gn.Tabur	100	1,166
Addition of new area	03/01/2000	PT. Inhutani I Labanan/Gn.Tabur	100	1,174
KT. Sumber Harapan	03/01/2000	Km 15 HPH Road PT.Kiani Lestari/Gn.Tabur	36	440
KT. Hidup Baru	03/01/2000	Labanan/Gn.Tabur	100	1,174
<b>Total</b>			<b>11,396</b>	<b>218,329</b>

Source : Economics Department at the *Bupati's* Office, 2000.

Notes : <sup>a</sup>Permit renewal 28/02/2000; <sup>b</sup>Permit renewal 02/03/2000; <sup>c</sup>Permit renewal 02/03/2000.

from the formal timber sector for three decades. Third, the district government used the allocation of IPPK permits to exert pressure on HPH concession holders to ‘think of the district first’—a phrase which became synonymous with making larger formal and informal payments to the district government. District officials used this pressure by allocating numerous IPPK permits in areas that fall within the boundaries of active HPH timber concessions.

During late 1999 and early 2000, district governments throughout East Kalimantan and other timber-producing provinces came under growing pressure from the national government to halt the allocation of local logging licenses and forest conversion permits. In September 1999, the Director General of Production Forestry in Jakarta sent letters to governors throughout the country, requesting their assistance in suspending the issuance of further permits by district governments. The Director General explained that the implementing regulations for the central government’s transfer of forest administration responsibilities to the regions (*daerah*) had not yet been finalized, and therefore, it was imperative to ‘avoid the possibility of overlapping timber extraction permits that could confuse the populace (*‘memmingungkan masyarakat’*).’ In East Kalimantan, the *Bupati* of Berau joined with his colleagues in Bulungan, Kutai Kartanegara and Kutai Barat in rejecting the central government’s authority to restrict the allocation of HPHH and IPPK permits by district governments. They claimed that Law 22/1999 on regional autonomy had dissolved the subordinate status of district governments in relation to the provincial government.

In April 2000, the Ministry of Forestry and Estate Crops issued a directive revoking Ministerial Decision 310/1999, which had given *kabupaten* governments authority to allocate HPHHs (Barr *et al.* 2001). On May 22, Minister Nur Mahmudi Ismail also sent a letter to all of Indonesia’s governors and *bupatis* calling for a complete halt on conversion of areas within the Forest Estate (*Kawasan Hutan*).<sup>20</sup> Specifically, he called on the governors and *bupatis* to stop allocating forest conversion permits and to push companies that had obtained conversion permits for areas already released from the Forest Estate to replant those areas immediately.

The heavy pressure exerted by the national government led most *kabupaten* in East Kalimantan to suspend the allocation of HPHH and IPPK permits in late 2000. However, most district governments also looked for ways to circumvent the national government’s efforts to limit their authority in this area. In Berau, the district government did so by creating a new type of district logging permit, known as IPKTM (*Izin Pemungutan Kayu Tanah Milik*, or License to Extract Timber from Private Land). For practical purposes, IPKTM were similar in function to the IPPK permits. However, IPKTM permits authorized timber extraction from privately owned lands located explicitly outside the ‘Forest Estate’ (*Kawasan Hutan*).

The proliferation of IPKTM permits beginning in late 2000 greatly expanded the local political power of Berau’s Land Agency (*Badan Pertanahan*), as it became a key institutional actor in the allocation of district logging permits. Previously, timber brokers had to secure the approval of the district Branch Office of the Provincial Forestry Service in order to obtain an IPPK permit for a particular area they wanted to log. To obtain an IPKTM permit, however, they had to obtain support from the district Land Agency—specifically, they needed documentation declaring that the area to be logged was privately owned land that fell outside the Forest Estate. These new procedures led some entrepreneurial timber brokers to work closely with households that had participated in Indonesia’s transmigration program and other national land programs. In contrast to most indigenous communities who relied on *adat*, or customary rights, transmigrant households often held some form of legal title to their land which facilitated the process of obtaining an IPKTM permit. In addition, many IPKTM permits have been issued to groups that have been able to negotiate the release of forested areas from HPH concession holders, ostensibly for community use. In such cases, the IPKTM application is often supported not by legal title to privately owned land but, instead, by a letter of release (*surat pelepasan*) from the HPH holder.

Towards the end of 2002, the district government in Berau stopped issuing new IPKTM permits. In early 2003, it announced that extensions would

**Table 10.** IPKTM logging licenses in Berau in 2001

<i>Kecamatan</i> (Subdistrict)	Area (ha)	Production Target (m <sup>3</sup> )
Gunung Tabur	2,585	156,326
Talisayan	1,970	n.a.
Sambaliung	2,492	179,148
Tanjung Redeb	275	29,901
Segah	1,003	93,073
Kelay	700	64,946
Biduk-Biduk	600	n.a.
Derawan	895	n.a.
<b>Total</b>	<b>10,519</b>	<b>523,394</b>

Source: Bappeda Berau 2001

no longer be considered once the existing licenses expired. To a significant degree, it would appear that Berau district policymakers' interest in issuing small-scale logging permits has diminished as they have gained greater control over the activities of HPH concessionaires.

### 2.2.2 District Control Over HPH Concession holders

District authorities in Berau have used pressure tactics to establish greater district control over HPH concession holders. They have acted strategically by issuing IPPK/IPKTM permits inside existing HPH concession areas, while providing simultaneous public support for HPH concessionaires. For example, the *bupati* and other district officials have repeatedly made public statements emphasizing the positive contributions of HPH concessionaires to the district economy. At the same time, they have called on these companies to increase their payments to the district government, to work more closely with local communities, and to give the district government a direct shareholding stake in their operations.

With this strategy, the district government has succeeded in acquiring a majority of shares in an 83,250 ha block of the HPH concession held by the state-owned forestry enterprise PT Inhutani I. In 2002, Berau officials formed a new district forestry company (*Perusahaan Daerah*) named PT Hutan Sanggam Labanan Lestari, to manage this block. Following extended negotiations, the district government (through PT Hutan Sanggam Labanan Lestari) obtained 50% of the shares in the block; Inhutani I retained 30% of the shares; while the provincial government secured the

remaining 20%. While this partial takeover of the Inhutani I concession was underway, negotiations for a similar arrangement between the district government and other HPH companies in the district (e.g. PT Inhutani II) were also in process.

### 2.2.3 Establishing a District Forestry Service

In establishing greater control over logging activities within its jurisdiction, Berau's district government has also taken steps to establish a District Forestry Service (*Dinas Kehutanan Kabupaten*). Prior to 1998, the forestry office in Berau was one of several branch offices (*Cabang Dinas Kehutanan*, CDK) of the Samarinda-based Provincial Forestry Service (*Dinas Kehutanan Propinsi*). The CDK office largely functioned to implement decisions made by forestry officials at the provincial level. During late 1999 and early 2000, however, as the district government began to issue large numbers of IPPK permits, the district government asserted its new authority under Indonesia's decentralisation laws and placed the *Dinas Kehutanan* office in Berau under the supervision of the *bupati*. With this development, forestry officials based in Tanjung Redeb no longer report to provincial officials in Samarinda; rather, they are now responsible for implementing decisions made by policymakers at the district level.

The Provincial Forestry Service has countered this administrative shift by establishing in Berau and several other districts a new forestry administration agency called the UPTD (*Unit Pelaksanaan Teknis Daerah*, or Regional Technical Implementation Unit). Officially, the UPTD is



charged with overseeing technical forestry issues such as prevention of forest fires and with providing administrative assistance in potentially sensitive cases, such as where HPH concessions are located across more than one district. In practice, however, the UPTD has taken charge of strategic tasks such as monitoring log production and issuing timber export licenses. This has placed some limitations on the ability of Berau's forestry authorities to generate revenues from their forest resources. Not surprisingly, the presence of the UPTD in Berau has become a source of tension between district and provincial forestry authorities.

### 2.3 District Timber Politics

As the district government began to issue IPPK permits, a handful of local entrepreneurs quickly recognized the potential profits of operating small-scale timber concessions and started seeking community groups with which they could align themselves to obtain permits. One particularly enterprising individual—Mr. Imam Tohary—saw not only the economic returns that could be generated from IPPK operations, but also the political leverage that could be developed by establishing such partnerships with large numbers of forest communities. Working with a coterie of well-placed individuals within Berau's district government and with backing from one of East Kalimantan's leading informal logging networks, Mr. Tohary formed an organization known locally as FP3ML (*Forum Pemerhati Peduli Pembangunan Masyarakat dan Lingkungan*, or the Forum of Sincere Supporters of Community Development and the Environment) in early 1999.

#### 2.3.1 The Rise of FP3ML

Mr. Tohary is a trader and entrepreneur of Banjarese Melayu ethnic background. He became involved in the timber sector in the 1970s when he worked for PT Kayan River Timber, which held a sizeable HPH concession located in Bulungan. During this time, he worked closely with an individual named Angunawan, who has since emerged as the head of a large informal logging network based in Tanjung Selor, the capital of Bulungan District. In the late 1980s, Imam Tohary returned to Berau, where he was involved in brokering deals between HPH concessionaires

and Malaysian timber buyers. His activities also included contracting and buying up illegally harvested logs from villagers and freelance loggers, and coordinating log shipment across the border to Sabah. During this time, he also became one of the district's leading traders in birds' nests, *gaharu*, and a variety of other products. In this capacity, he developed close ties with a network of forest communities.

With the onset of regional autonomy following the collapse of the Suharto regime, Mr. Angunawan anticipated emerging opportunities in the cross-border timber trade based on joint ventures with local communities in northern East Kalimantan. He positioned his network to capitalize on these by establishing a number of small organizations—some in the form of incorporated companies (*Perseeroan Terbatas*, or PT), or less formal business enterprises (*Commanditaire Vennootschap*, or CV), and others as 'community-oriented' organizations known as 'foundations' (*yayasan*) or 'fora' (*forum*)—in key timber-producing regions throughout the province. The aim was to have these organizations establish alliances, and eventually work contracts, with villages possessing substantial forest areas suitable for logging.

With Angunawan's backing, which included strong support from the provincial office of the national police force, Imam Tohary established FP3ML in Berau at the beginning of 1999. The Forum's declared objective was to promote equitable and sustainable development for rural communities through small-scale logging ventures. Mr. Tohary's well-established network among forest communities and district functionaries, as well as his natural talent for public oration, meant that he was well-placed to develop the Forum into a dynamic organization that would function as an effective broker for community-based logging ventures.

Through 1999 and early 2000, FP3ML established joint ventures with numerous village cooperatives and farmer groups, which succeeded in obtaining IPPK permits from Berau's district government. In such ventures, the Forum generally covered the costs of securing the permits and coordinated the bureaucratic work involved in submitting the application to the district government. In return,

the Forum extracted from the community a fee of up to Rp 30,000 per m<sup>3</sup> for the timber harvested, and held the right to market the logs produced. While it generally presented its role in marketing the timber as a 'service' to the community, it would appear that its control over this part of the operation also gave FP3ML and its officers considerable leverage in determining how profits from the logging operations would be shared between the communities and the Forum. In many cases, the Forum also facilitated the harvesting of timber from the IPPK areas by Malaysian investors who would bring in heavy equipment to carry out the logging.

In addition to seeking economic profits, Mr. Tohary also envisioned FP3ML as an organization that could wield considerable political power within Berau. Indeed, he organized the Forum in a manner that gave the appearance of being a 'shadow government' of sorts, with a corporate structure that mirrored that of the district government bureaucracy (i.e. with separate departments of Economics, Planning, Forestry, Mining, Transmigration, Religion, Tourism, etc). On more than one occasion, he also mobilized the Forum's members to stage protests against district government policies that he deemed to be unfavourable to FP3ML's interests or to pressure HPH concession holder to release portions of their sites for logging by local communities.

In the run-up to the June 1999 election, Imam Tohary's political aspirations also led him to establish an alliance with political party PAN (*Partai Amanat Nasional*) in Berau. PAN offered financial and organizational support (particularly with 'speeding up' the process of allocating IPPK permits) in return for FP3ML's help in generating support for PAN in rural areas in the national election. Acting as an intermediary, FP3ML was to obtain IPPK concession licenses for villagers under the banner of PAN. In order to coordinate these efforts, Mr. Tohary frequented PAN party meetings in Surabaya and Jakarta where he met with the party's senior leaders, including chairman Amien Rais.<sup>21</sup> By the time of the election, however, the link to FP3ML proved to be of little benefit to PAN, as many communities had by then grown disenchanted with the Forum's repeated efforts to raise the fees they were expected to pay.

### 2.3.2 The Emergence of AJRI and ASBBS

In July 2000, a village cooperative named KUD Sipatuo broke away from FP3ML following a dispute over the financial arrangement between the two groups. KUD Sipatuo had been established in the village of Sambaliung on the outskirts of Tanjung Redeb in February of that year. Officially, the cooperative claimed to have some 200 farmers as members; however, fewer than 20 individuals were active in the group. Its leader was an individual named Mr. Bakhrie, a journalist based in Tanjung Redeb. Aligning itself with the Forum, KUD Sipatuo obtained an IPPK permit with the assistance of Imam Tohary. In fact, Mr. Bakhrie explained in an interview, the group actually began logging at the IPPK site before the permit had been issued by the district government. It was able to do so, in part, due to its association with FP3ML, which at that time still had close ties with the district government.

KUD Sipatuo had two logging groups in the Lati River area felling small diameter pulpwood (*bahan baku serpih*, or BBS) which it planned to sell to the nearby Kiani Kertas pulp mill. During the cooperative's first two months, its members had felled nearly 800 tonnes of pulpwood. From this, FP3ML recouped its initial investment of Rp 13 million<sup>22</sup>, and made a profit of more than Rp 40 million by charging a fee of Rp 30,000 for each cubic metre of timber harvested. The loggers, including Mr. Bakhrie, earned a wage of Rp 900,000, which is considerably higher than incomes from most conventional forms of employment in Berau.

The following month, the cooperative produced a similar volume of wood. However, FP3ML began pressing for an increase in its fee, claiming that the Forum was losing money on the venture. Imam Tohary reportedly called for understanding among the group's members, reminding them that he had helped them to obtain their IPPK permit and asking them to now 'help' him. KUD Sipatuo initially complied and the fee paid to the Forum was raised to nearly Rp 50,000. This eroded the wages earned by the loggers and generated considerable discontent among the cooperative's members.

Only three months into the partnership with

FP3ML, Mr. Bakhrie and other members of the cooperative decided to part ways with the Forum and to form their own organization through which they could continue logging independently. Together with two associates who worked as staff at the local bureau of the East Kalimantan daily *Kaltim Post*, he established the Association of Reform Journalists of Indonesia (*Asosiasi Jurnalis Reformasi Indonesia*, AJRI). Like Imam Tohary, Mr. Bakhrie and his colleagues used the banner of *reformasi* to legitimate the group's activities.

Initially, the ideological foundation of AJRI was 'total reform' (*reformasi total*) in matters related to the development of a people-based economy (*ekonomi rakyat*), particularly with regard to the control and exploitation of forest resources. They called for reform of the HPH concession system to provide greater benefits from forest resources to local communities; for recognition of *adat* rights; and for the development of community-based economic enterprises such as timber ventures and plantation establishment. Like the Forum before it, AJRI presented itself as a champion of disenfranchised communities, particularly those located in rural areas. AJRI sought to distinguish itself from the Forum, however, by not requiring community groups with which it partnered to pay any predetermined fees. Instead, AJRI claimed that it would settle for a voluntary contribution (*sumbangan*) from those groups. With this model, AJRI sought to attract many of the village cooperatives that had theretofore worked with FP3ML, and to become a significant actor in Berau's timber sector.

While such plans later proved to be untenable, the initial problem that needed to be addressed was how to secure funds to begin operating. Mr. Bakhrie resolved this issue by establishing a close working relationship with officers at PT Kiani Kertas who were in charge of wood procurement for the mill. In mid-2000, Kiani Kertas was exploring the feasibility of sourcing a larger portion of its wood supply locally within Berau.<sup>23</sup> In discussions with AJRI, Kiani officials reportedly agreed that the latter would be authorized to function as sole suppliers of community-harvested MTH—although this was contingent upon AJRI being able to assemble and oversee adequate numbers of cooperatives throughout Berau to

supply the volumes of wood the mill needed. To fulfil this function, Mr. Bakhrie and his colleagues formed a new organization called the Association of Pulpwood Suppliers (*Asosiasi Suplier Bahan Baku Serpih*, ASBBS). The initial funding for the venture was provided by Kiani.

As ASBBS took steps to become fully operational, Mr. Bakhrie sought to ensure that the association would be able to obtain IPPK permits for the village cooperatives with which it sought to partner, without unnecessary delays. To this end, he approached officials at GOLKAR, the political party previously associated with Suharto's New Order government. Those officials responded very positively to the prospect of working closely with ASBBS, apparently recognizing the political benefits to the party if GOLKAR were closely associated with the allocation of IPPK permits to rural communities. This led to a meeting in July 2000 at which participants included the *bupati*, Kiani officials, GOLKAR officers, and the leadership of ASBBS. At this meeting, the *bupati* reportedly sought to obtain a firm commitment from Kiani to increase its contributions to the district's fiscal revenue base, in addition to financial support in the upcoming elections. As a side issue, the logging of small-diameter pulpwood logs was raised, and the *bupati* agreed that the district government would provide IPPK permits to support the efforts of ASBBS to supply logs to Kiani.

With this mandate in hand, Mr. Bakhrie and his colleagues turned their focus to other logistical challenges facing the ASBBS. First, the association needed a barge (*ponton*) to transport large quantities of logs to the mill site. Kiani was reluctant to purchase logs that were rafted to the mill, as these were often nailed together and pieces of metal that inadvertently entered the wood pile were damaging to the chipper knives. In mid-2000, ASBBS did not have funds to purchase a barge, so it was left with the option of renting one. Rental of the barge, however, was complicated by the fact that it had to be shipped in from Samarinda or Tarakan. Another daunting problem was the difficulty of coordinating the work of numerous cooperative scattered throughout the district, in some cases in fairly remote areas. It was difficult for the ASBBS leadership to keep the work of

logging crews on schedule, and to collect the timber and deliver to the mill in a timely manner. Mr. Bakhrie compounded these problems by renegeing on his earlier pledge not to impose a predetermined fee on the timber harvested by the communities. In August 2000, the association's leadership introduced such a fee, and over the ensuing months, this fee was raised, just as those imposed by FP3ML had been raised several months earlier.

The ASBBS initiative came to a gradual standstill towards the end of 2000 when the relationship between PT Kiani Kertas and Berau's *bupati* turned sour. At that point, AJRI began to make a shift to harvesting logs for export to Malaysia. It aligned itself with one of the leading informal timber trade networks based in Tarakan and entered into negotiations with several prospective investors from Sabah. In spite of this shifting orientation, AJRI is reported to have retained its strong ties with GOLKAR (and through it, indirectly with the *bupati* and other arms of the district government).

#### **2.4 Tenure Conflicts and Uncertain Benefits for Local Communities**

As the spirit of *reformasi* and *otonomi daerah* took hold in Berau, many forest-dependent communities began to make claims against HPH concession holders, particularly companies which were operating in areas that fell within forest communities' traditional domain. In many cases, this process has led local communities to disrupt the operations of timber concessionaires until the latter have released portions of their HPH areas and/or provided compensatory payments of some sort. Such compensation, however, has generally been limited in scope, and many of the tenure conflicts that have occurred in Berau since the late 1990s have been resolved in ways that provide local communities with few long-term benefits.

One prominent example of such a conflict occurred in the former concession area of PT Alas Helau, located in the Kelay subdistrict in the south-central part of Berau. PT Alas Helau was a timber company owned by Bob Hasan which operated a 330,000 ha HPH concession until early 1999. At that time, the Minister of Forestry and Estate Crops, Dr. Muslimin Nasution, revoked the

company's concession license, citing strong evidence of 'corruption, collusion, and nepotism.' The minister then divided the concession area and reassigned portions to five timber companies based in Jakarta and Samarinda: PT Karya Lestari, PT Mardhika Insan Mulia, PT Aditya Kirana Mandiri, PT Wana Bhakti Persada Utama and PT Amindo Wana Persada.

The effective dissolution of the Alas Helau concession resulted in a corporate power vacuum in that area and created space for local communities to make claims on parts of the remaining forests within the HPH site. Sensing that this vacuum would soon be filled by the five companies that received portions of the ex-Alas Helau concession, *Persekutuan Dayak Kalimantan Timur* (PDKT, or the East Kalimantan Dayak Alliance), an umbrella organization for indigenous people in East Kalimantan, visited the Kelay area and held discussions with local Punan and Kenyah communities. Through these discussions, the communities learned about the positions that local groups in other districts had taken vis-à-vis external timber companies, and they assessed what options were available to make claims on the former concession site. In particular, they agreed that local communities throughout Berau had a traditional right to claim control over all forests that lay within 7 km to the left and right of rivers and waterways.

The position of the Kelay communities was galvanized in early 2000 when some of the new license holders began to arrive at the former Alas Helau concession site to initiate operations at their respective blocks. In March and April of that year, Berau district—hitherto relatively unfamiliar with displays of public discontent—was suddenly awakened by groups of villagers demonstrating in Tanjung Redeb against the arrival of the companies. Local government officials also expressed their dismay at the arrogance of the companies for arriving in Berau and trying to establish their logging camps without first notifying the district authorities. Several officials interviewed for this study noted that the companies took an approach that was reminiscent of the New Order period by completing arrangements for their licenses and workplans in Jakarta and Samarinda and simply assuming that the district government and local communities would support their

activities. Government officials and community leaders alike expressed concern that the companies showed little concern for local economic interests and made no effort to include local actors in their operations.

Aside from these initial criticisms of the companies involved, the district government publicly adopted a largely detached position vis-à-vis the dispute between the communities and the new license holders in the former Alas Helau concession area. District officials encouraged all parties to engage in negotiations to achieve an amicable resolution to the conflict. According to district officers interviewed for this study, the *bupati* also quietly sent signals to the companies that he would support them in their negotiations with the communities if they, in turn, supported the district government's efforts to increase district revenues. This position was apparently motivated, in part, by the district government's concern that local communities were being spurred by the 'euphoria' of regional autonomy to make claims that fell well beyond what was allowed under the autonomy laws.

The government's support for the companies crystallized when several villages in the Kelay area (Long Gie and Merasak) imposed a 'tax' on timber floated downstream by the companies operating in the area, particularly PT Karya Lestari. Both villages began charging a fee of Rp 100 million for each barge load of logs taken from their area. The company agreed to the tariff, eager to get its operations going at whatever costs. However, district officials expressed concerns about this seemingly successful effort by local villages in pressing for and obtaining substantial compensation from the company. Calling on the communities to refrain from imposing 'unlawful charges', they claimed that a dangerous and counterproductive precedent was being set by these communities. Several officials interviewed indicated that they thought it more appropriate for the money to be made available to the government for its needs and purposes rather than to the villages for immediate consumption.

With little active support from the district government and no outside mediation, the communities of the upper Kelay often found themselves at a distinct disadvantage in their

negotiations with the companies. Lacking skills and experience in such negotiations, the communities quickly found themselves in the position of accepting short-term fixes that did not lend themselves to any deeper quantitative and/or qualitative restructuring of the community-concessionaire relationship. In these negotiations, their position was further undermined by local elites who positioned themselves to serve as intermediaries between the companies and the communities.

The village head (*kepala desa*) of Long Gie settlement, next to the HPH area of PT Karya Lestari, for instance, presented himself as the coordinator for the negotiating process between that community and the company. As the head of the village, he was required by local residents to hold an anti-HPH stance, defending the land claim of 7 km to the left and right of the river that had been agreed upon by the villages of the upper Kelay. For several months during the first half of 2000, he met regularly with company representatives in the Berau Plaza hotel in Tanjung Redeb for discussions and negotiations. In mid-2000, Karya Lestari agreed to make a one-time payment of Rp 250 million to village cooperative in Long Gie. Soon thereafter, the village head unilaterally changed the community's stance on the border issue from 7 km to 3.5 km from the banks of the river. Some villagers interviewed for this study indicated that the village cooperative never received the full payment from the company, which had reportedly been entrusted to the village head.

The village head from Long Gie reportedly also helped to 'soften' other village heads in the area, aiding the companies to get their operations under way. In Long Boy (PT Aditya) and Long Pelai (PT Wana Bhakti), he was said to have been instrumental in getting local village heads to go along with the modified model of community forest boundaries (*hutan adat*). In interviews conducted for this study, it appeared that a significant portion of the community remained opposed to the abandonment of the commonly agreed concept of traditional lands. However, there seemed to be a widespread feeling of confusion and a general acquiescence among a population devoid of representative leadership. Under such conditions, all ex-Alas Helau companies managed

to get their operations under way by late 2000, other than PT Amindo.

Subsequent to developments in the ex-Alas Helau concession, disputes began surfacing in other parts of Berau. However, they were handled in a very similar fashion. In October 2000, Dayak Punan in the village of Long Laai demanded compensation in excess of Rp 1 billion from PT Sumalindo Lestari Jaya IV. This payment was meant to compensate the community for graves and fruit orchards allegedly flattened by the company. The agreement was reached and the company continued to operate, after the promises of infrastructure works in the village. In a similar fashion, PT Inhutani I handled the claims of the village of Long Lanuk. Land claims were received positively with promises that the community would be given the resource rights it deserved. In the end, over 1,000 ha was 'handed over' to the village as community forest with the following conditions: 1) the western part of the forest would be selectively logged by Inhutani I and 2) the remaining part was for the use of the community, but they were not allowed to seek logging agreements with external contractors. If they indeed decided to log the remaining area of the community forest, Inhutani I should be the sole implementing partner.

For the remaining timber companies, negotiations with rural communities turned out to be more demanding and expensive, but still without significant consequences or long-term prospects. The Inhutani II operation in the area of the former PT Troyana concession along the middle course of the Kelay River settled the dispute with the village of Merasak by releasing a few hundred hectares of forest for community logging. Similarly, in the concession areas of PT Rejosari Bumi and PT Puji Sempurna land release schemes (*pelepasan hutan*) have been the principal means of solving disputes with local communities. In the case of Rejosari Bumi, the company released approximately 600–700 ha to the village of Meluang for community logging done in association with a local organization coordinating community forestry activities—FP3ML. PT Puji Sempurna has also released forest area to the village of Kasai at the estuary of the Berau River amounting to nearly 800 ha. Both sides expect further releases in the future.

From the foregoing discussion, it would appear that both the district government as well as timber companies are bent on 'waiting out the storm' in order to get back to business as usual at the nearest opportune moment. The smooth operation of the timber industry are an essential component of the district government's revenue base, as well as officials' informal profits, to be ignored or disturbed. On the other hand, the political imperatives of decentralized governance (particularly building local power bases and future electorate) mean that heavy-handed practices of intervention are not applicable any more. The balancing act between the two has been a primary preoccupation of the Berau government since the regional autonomy process began.

This study has traced the preliminary effects of decentralisation on forests and forest industries in Berau during the initial phase of Indonesia's regional autonomy process. It has shown that following the introduction of Laws 22 and 25 of 1999, the district government moved aggressively to establish greater administrative control over the forest resources within the district's jurisdiction. As in many neighbouring *kabupaten*, Berau officials issued district regulations that allowed the government to allocate small-scale logging and forest conversion permits to local community groups. Through 1999–2000, it allocated large numbers of IPPK permits to local entrepreneurs working with village cooperatives and farmer groups.

Some of the district's more ambitious entrepreneurs established 'foundations' and other types of corporate entities to coordinate the creation of logging ventures with large numbers of community groups. The most prominent of these enterprises has been FP3ML, the Forum of Sincere Supporters of Community Development and the Environment. Under the leadership of a charismatic entrepreneur with long-standing ties to one of East Kalimantan's leading informal timber trade networks, and with the backing of the provincial and the national police force, FP3ML developed a network of community-based logging operations during 1999 and 2000. The group also sought to establish a strong political presence in Berau by aligning itself with PAN during the run-up to the 1999 presidential election.

By late 2000, however, FP3ML had lost much of

its support from the district government and was facing growing internal complaints from community groups voicing displeasure at the Forum's efforts to extract higher fees on each cubic metre of timber they harvested. Such a dispute led one farmer group to break away from FP3ML to form the Association of Reform Journalists of Indonesia, AJRI. This group initially sought to organize village cooperatives to supply pulpwood logs to PT Kiani Kertas, but later shifted to harvesting large-diameter timber for shipment to Malaysia.

Under pressure from the national government to halt the allocation of district logging permits in areas designated as 'Forest Estate', Berau officials ceased issuing IPPK permits in late 2000. In their place, they began allocating IPKTM permits in forested areas which fell outside of the 'Forest Estate'. Many of these areas were transmigration sites or lands for which either individuals or communities held some sort of legal title. In many cases, community groups (and the entrepreneurs with which they were working) obtained IPKTM for areas that HPH concession holders reportedly released from their cutting blocks.

As in many other parts of East Kalimantan, euphoria over Indonesia's regional autonomy process has catalysed numerous disputes between local communities and HPH concession holders. In such disputes, Berau's district government has generally sought to maintain a detached, uninvolved posture. In the dispute over the former Alas Helau concession area, for instance, the *bupati* publicly encouraged all parties to negotiate

a peaceful solution. In such negotiations, community groups have often found themselves at a distinct disadvantage. In some cases, they have succeeded in obtaining compensatory payments for the timber taken from areas that fall within their traditional domain; and, at times, they have secured a release of small areas from the concession sites and/or agreement that the concession holders will not log along the edges of rivers or other waterways. These agreements, however, have generally been structured to provide short-term fixes to the conflicts at hand, and not to provide local communities with long-term livelihood benefits.

Berau officials have recognized that timber production by large-scale HPH concession holders was central to both the formal and informal revenue base of the district government during the New Order period, and is likely to remain so under decentralisation. As such, they have taken steps to shield the companies from land claims and requests for compensation or fees by local communities that they deem to be 'unlawful'. At the same time, the district government has sought to secure a direct equity stake in some of the district's larger concession holders. By 2002, for instance, the district government had obtained a 50% equity share in an 83,250 ha concession block previously controlled by PT Inhutani I. At that time, negotiations for a similar arrangement between the district government and other HPH companies in the district (e.g. PT Inhutani II) were also in process.

Overall, these developments suggest that decentralisation has done little to relieve pressures on Berau's forests. On the contrary, it has probably intensified pressures in some areas by legitimising the clearance of forested areas outside the formal 'Forest Estate' through the allocation of district-issued IPKTM permits. In most parts of the *kabupaten*, it appears that the district government is encouraging HPH timber concession holders, including the Inhutani concessions previously controlled by the central government, to continue with their logging operations, albeit with the district government as an equity partner. The district government has facilitated the provision of limited benefits to local communities—notably through the allocation of IPPK and IPKTM permits, and

by allowing them to negotiate claims for compensation and fees from HPH concession holders. However, these benefits are uncertain at best, and unlikely to provide significant livelihood opportunities for forest communities that can be sustained for future generations.



<sup>1</sup> Agriculture in Berau consists of the following subsectors: food crops, plantation estates, fisheries, husbandry and forestry.

<sup>2</sup> The coal deposits in Berau were first exploited in the 1800s by the Sultans of Gunung Tabur and Sambaliung with the use of slave labor (Campo 2000). Between 1914 and 1956, the Dutch company *Steenkolen Maatschappij Parappatan* operated the mines. Following the withdrawal of the company from Indonesia in 1956, the district government and, subsequently, a national firm, N.V. Agusco Djakarta, tried to continue the coal mining operations, but without success (Obidzinski 2003).

<sup>3</sup> It should be noted that these figures do not include forested areas located within Berau's subdistrict of Biduk-Biduk, which were omitted from the data published by CDK Berau. Biduk-Biduk is Berau's third largest *kecamatan*, covering just over 3000 km<sup>2</sup>.

<sup>4</sup> Between 1989 and 1996, Inhutani I hosted a French-sponsored STREK project that conducted forest disturbance and recovery studies at its concession area in Labanan. The work initiated by STREK was continued by the EU-funded Berau Forest Management Project (BFMP)—a cooperative project with PT Inhutani I that operated in Berau between 1996 and 2001 with capitalization of nearly US\$15 million. The BFMP work is set to resume in 2004 with a new EU-funded 5-year Berau-Bulungan Participatory Forest Management Project.

<sup>5</sup> At present, PT Sumalindo Lestari Jaya no longer belongs to Astra but is a part of the Hasko Jaya Group.

<sup>6</sup> See footnote 10.

<sup>7</sup> It is likely that informal extraction and delivery of timber by land will increase in the near future because of new logging roads that are under construction (from Tepian Buah to the former Alas Helau concession) and plans to reopen old ones (the former PT Bina Segah Utama road from Tepian Buah to the upper Segah River area).

<sup>8</sup> Generally, logging is undertaken for about eleven months per year. Also, see footnote 10.

<sup>9</sup> Personal communication, Trade and Industry Office, Tanjung Redeb, Berau, 1999.

<sup>10</sup> Due to time constraints and methodological limitations of the survey, these figures should be viewed with caution.

<sup>11</sup> These estimates were based on the following assumptions: all mills are capable of operating 26 days per month for 12 months of the year; large mills have, on average, three band saws, each of which is capable of producing 10 m<sup>3</sup> per day of sawnwood; medium-sized mills have only one band saw, which is capable of producing 10 m<sup>3</sup> per day of sawnwood; and small mills have, on average, one circular blade, which is capable of producing 2.8 m<sup>3</sup> per day of sawnwood. These assumptions are based on interviews conducted with sawmill owners and employees during 1999 and 2000.

<sup>12</sup> See footnote 10.

<sup>13</sup> Confidential interview with a pulp mill engineer employed by PT Kiani Kertas, Tanjung Redeb, November 11, 2000. As this informant explained, 'For a mill to run efficiently, it needs high levels of coordination between raw material supply and processing; proper use of machinery and the right equipment in place; and spare parts on hand when equipment breaks. Kiani has none of these. Equipment is being pushed to the max. If the normal life of a part is 3–4 months, Kiani pushes it to 6–8 months. The problem is, you never know when you are going to have a catastrophic breakdown. Normally, when a part needs to be replaced, a mill will run down its stocks to 30% or less. In Kiani's case, the mill is run until a part breaks, then everything stops.'

<sup>14</sup> This consortium includes former president Suharto's son-in-law, Prawbowo Subianto; Luhut Pandjaitan, the former trade minister and ambassador to Singapore; and Hendropriyono, Indonesia's current Chief of Intelligence.

<sup>15</sup> One ton of wood chips from Australia corresponds to 1.64 m<sup>3</sup> of wood (Neilson and Flynn 2002:xvi).

<sup>16</sup> This calculation is based on an exchange rate of Rp 2,500 per US\$, as was prevalent through much of the 1990s prior to the collapse of the rupiah in 1997.

<sup>17</sup> This assumes an exchange rate of Rp 8,500 per US\$.

<sup>18</sup> Government Regulation of the Republic of Indonesia Number 62, Year 1998 concerning the Delegation of Part of the Government's Affairs in the Forestry Sector to the Region.

<sup>19</sup> Beginning 2000, Berau authority started to charge PSDH and DR taxes.

<sup>20</sup> Surat Menteri Kehutanan dan Perkebunan No. 603/Menhutbun-VIII/2000, Mengenai Penghentian/Penangguhan Pelepasan Kawasan Hutan, Tanggal 22 Mei, 2000.

<sup>21</sup> Interviews at FP3ML office in Tanjung Redeb, July-August 2000.

<sup>22</sup> During the process of obtaining the IPPK permit, FP3ML reportedly paid Rp 3 million to cover the cost of the required field survey by District Forestry Service officials and members of the local police. The Forum also reportedly paid Rp 10 million to obtain the necessary recommendation letter from the *Bupati*. FP3ML typically treated these costs as an advance which would later be recovered from the logging operations at the IPPK site.

<sup>23</sup> Since it began operating, Kiani Kertas has obtained roughly 70% of the 1.5 million tonnes of pulpwood that it consumes annually through the import of logs and wood chips, with the remaining 30% being obtained from a variety of sources in East Kalimantan (both in Berau and other districts). It is not entirely clear what motivated the company to begin exploring how it could obtain greater volumes of wood locally. It is possible that it was seeking ways to reduce its operating costs.

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