
[“Paper Dragons”: Timber Plantation Corporations and Creditors in Indonesia](#)

The emergence of “Paper Dragons”

In Indonesia's business terms, the word 'dragon' is a symbol of success and grandeur of a family's business kingdom or a business group. The term used to be highly popular during the late President Soeharto's regime, which helped some natural resource-related vertically-integrated business giants to emerge, among others the Sinar Mas Group, the Radja Garuda Mas Group, the Barito Pacific Group, the Kalimantan Group, the Astra Group, the Salim Group, the Lippo Group to name a few. Almost all of these groups run a land-based business, including timber plantations, commonly called Hutan Tanaman Industri (HTI) in Indonesian.

When HTI or Timber Plantation as a forest management model was introduced in the 1980s, it was said to represent a business model that would rehabilitate forests degraded by logging concessions (HPH). Facts, however, show that timber plantation permits were granted on ex-HPH areas that still contained enormous volumes of timber – which were available for logging under the new scheme. Over the years, the average planting realization has never exceeded 50% of that which should have taken place based on the planting permits issued.

Of all the “dragons”, only a few are engaged in the timber plantation business, namely the Sinar Mas Group, the Radja Garuda Mas Group, Kiani Kertas, Barito Pacific and the Kalimantan Group. Other groups are not as big. The Sinar Mas Group and the Radja Garuda Mas Group establish a special division to run the business. The Sinar Mas Group is known to have Sinar Mas Forestry (SMF) to run its estate business and Asia Pulp and Paper (APP) to manage the mills. The Radja Garuda Mas Group is famous for its APRIL and RAPP. The Barito Pacific Group is also well-known for its timber plantation concessions, PT IFA, and PT Tanjung Enim Lestari (PT TEL), which are a collaboration with Marubeni Corporation and Nippon Paper Company in the paper business in South Sumatra Province.

Besides getting support from Soeharto's regime, particularly through ease of licensing, a Reforestation Fund and allocation of concessions on ‘timber forests’, the dragons' business in the timber plantation sector was backed by tens of European funders such as Nordea (Denmark/Sweden), Bankgesellschaft Berlin, Bayerische Landesbank, IKB Deutsche Industriebank, Norddeutsche Landesbank (all from Germany), Credit Suisse (Switzerland), ING, Fortis, Rabobank, ABN Amro (all from the Netherlands) and Barclays (United Kingdom). Support was also provided by Export Credit Agencies (ECA) such as Hermes Germany. The World Bank, through one of its agencies MIGA (Multilateral Investment Guarantee Agency), in the early 2000s also showed interest in the pulp-paper business. They intended to provide business insurance support to United Fibre System (UFS), which planned to establish a giant pulp-paper mill in South Kalimantan Province. The project, however, has not been realized to date due to strong opposition from civil society organizations.

The apparent defeat of the “Paper Dragons”

The “dragons” might, with all the privileges they had, did not necessarily mean they always survived in the business. In 1997, when Indonesia was overwhelmed by the global economic crises, the “dragons” were also greatly suffering. The Radja Garuda Mas Group was going through hard times with its US\$1.4 billion debt as well as Asia Pulp & Paper (APP) with its US\$1.2 billion debt. But they were too big to fail in the plywood industry.

Most of the “dragons” had set up a bank under their control. The Sinar Mas Group set up Bank International Indonesia (BII), the Radja Garuda Mas Group controlled the Uni Bank and the Kalimantan Group owned Bank Umum Nasional (BUN). All of these banks went bankrupt and exacerbated the country's economic contraction. To address this, the government of Indonesia created a banking facility called Bank Indonesia Liquidity Support (BLBI) disbursing 144.54 trillions Indonesian Rupiah (IDR).

The facility, however, could do nothing to save the Dragons' banks, and it even led to huge non-performing loans as these giant corporations channeled the aid to their own companies. About IDR28 trillions of non-performing loans came from these forestry giants.

However, the situation did not last long. After about 3 years, the Dragons rose again, with greater economic power. The Jakarta Stock Exchange (BEJ) showed that prior to the economic crises these economic giants controlled about 38% of the national economic assets, but after the crises their hold was even greater, amounting to 52%. The economic crises, which occurred simultaneously with the political transition, turned out not to be strong enough to overturn these Paper Dragons' economic power. Not only was their economic asset increasing, the Forestry Ministry was also convinced that the timber plantation sector was the strong and prospective forestry business. . This, in turn, stimulated the government to issue policy support for the expansion of the timber plantation industry after the economic crises.

The Might of Old “Paper Dragons” and the Emergence of New “Dragons”

The 1997-1998 economic crises, which also impacted the forestry sector, built the confidence of the forestry bureaucrats that the timber plantation (HTI) sector was solid, strong and prospective. Since the early 2000s the Forestry Ministry has been determined to accelerate growth of the sector by promoting improved plant quality, extended concessions, and by inviting investments in upstream-to-downstream forestry industry and increasing the capacity of mills. Ex-logging concessions (HPH) have been turned into timber plantation concessions (HTI) through auctions or transfer of management. New mills are to be set up and the capacity of old mills is to be increased as the timber plantation sector grows.

The Sinar Mas Group (SMG), through its forestry division Sinar Mas Forestry (SMF), has expanded massively. In Jambi Province, SMF has expanded the concession of its local company PT Wira Karya Sakti (PT WKS) by 60,000 hectares. In addition, it affiliates with PT Rimba Hutani Mas (PT RHM) and PT Tebo Multi Agro (PT TMA), giving SMF control over the total 360,000-hectare concession in Jambi Province.

In addition to Jambi, SMF has also expanded its concessions in West and East Kalimantan provinces. In West Kalimantan they have taken over the timber plantation of PT Finnantara Intiga, and of PT Surya Hutani Jaya, PT ITCI and Balikpapan Forest Industry (PT BFI) in East Kalimantan. In South Sumatra Province, they have also been expanding massively, currently controlling a total of

5 concessions, namely PT Bumi Mekar Hijau (PT BMH), PT Sebangun Bumi Andalas (SBA Wood), PT Bumi Andalas Permai (PT BAP), PT Bumi Persada Permai PT BPP) and PT Rimba Hutani Mas (PT RHM). With such a movement, SMF has gradually become a timber plantation “dragon” controlling concessions covering more than 1 million hectares.

The Sinar Mas Group, through its pulp and paper division APP (Asia Pulp and Paper), caused a stir in mid-2012 when it proclaimed it would set up a pulp-paper mill in the district of OKI, South Sumatra Province. Under the name of PT OKI Pulp and Paper Mills, the mill is set to produce 2 million tonnes of pulp annually. The initial investment stands at US\$3 billion. According to Badan Koordinasi Penanaman Modal Indonesia, Indonesia's Investment Coordinating Board, all the company's capital comes from foreign sources, i.e. 99% from PT Muba Green Indonesia (Singapore) and 1% from Green Unity Holding Pte, Ltd (Singapore).

The Radja Garuda Mas Group (RGM Group) has never been idle; not only have they expanded their concessions, they have also developed a partnership with some local companies to secure supply of raw materials. PT Sumatera Sylva Lestari (PT SSL) is one of the local companies partnering with them.

In addition to these two giant “dragons” in the timber plantation sector, there are other “dragons” in the sector, both the resurrected ones and newcomers. A subsidiary of the Korindo Group, PT Korintiga Hutani, controls more than 95,000 hectares of timber plantation concessions in 2 districts in Central Kalimantan Province. In Jambi Province, the Barito Pacific Group has re-activated its timber plantation company under a new name, i.e. PT LAJ. The AMS group, which has no experience in the forestry business, has put some investment in the timber plantation sector under the name of PT AAS (Agronusa Alam Sejahtera). PT AAS does not produce pulp and paper, but raw materials for furniture for export purposes.

In the eastern part of Indonesia, timber plantations are massively expanded by the Medco Group, an energy-based company. Through the national program called Merauke Integrated Food and Energy Estate (MIFEE), it is cooperating with a South Korean corporation to develop an industry based on the alternative energy raw material called “pellets”, which is made of compressed timber shavings (from timber plantations). The pellets are used to replace fossil fuel (see WRM Bulletin 186 for the impacts of using biomass for energy production).

Up to this point, it can be seen that expansion of the timber plantation sector with all its downstream industry has been massive, supported by Indonesia's policies, the global market and international corporations. The timber plantation sector is integrated not only with the pulp and paper industry but with non fossil energy and carbon industry as well. The situation will open more room for companies to get engaged in the timber plantation sector to support the global consumption trend, at the expense of demolition of local villages.

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