
Indonesia: Timber empires collapsing

The timber empires of Bob Hasan and others are crumbling amid the economic crisis in Indonesia. A third of the country's timber companies are facing bankruptcy.

In mid-January Hasan's Kalimanis Group said it had been forced to lay off 2,520 workers to avoid further losses. For the January to September 1997 period the company reported a loss of around US\$ 3.4 million. The figures for the second half of the year are bound to be far worse. Employees have been encouraged to take voluntary redundancy with severance payments reaching up to forty times the monthly wage. The redundancy offer had to be closed early as so many workers were taking it up.

Log prices dropped from US\$ 92 in the first half of 1997 to \$70 a cubic metre in the second. Exports of wood products, including the big earner, plywood, are expected to fall as low as \$6.25 billion down 25% on last year. Plywood prices are around US\$200 per cubic metre, down by more than half from the "boom" year 1993 when they reached US\$500 per cubic metre.

Other timber magnates like Pangestu Prayogo of Barito Pacific are facing similar woes. Barito's shares have suffered as markets for Indonesian wood products shrink. The economic crises throughout the region has reduced demand in major importers like Japan and South Korea.

According to the South China Morning Post, a third of Indonesia's 111 timber companies are facing bankruptcy as Asia's economic crisis depresses the demand for plywood. (15/1/98). Other major importers outside Asia, such as the United States have not absorbed the extra supplies.

Forestry Minister Djamaludin said in January that most timber firms had stopped operations as operational costs were higher than earnings. "I have received a report that at least 5.9 million cubic metres of cut logs remain untouched in forests," he said. At least five timber firms in East Kalimantan had asked the government for permission to dismiss workers because of financial problems (Jakarta Post 15/1/98).

Pulp producer APRIL, controlled by Sukanto Tanoto of the Raja Garuda Mas Group, is also suffering as investor confidence crumples. A share swap deal with Finnish paper producers UPM- Kymmene, now looks questionable.

There was a further blow to Bob Hasan when it emerged that the repackaged IMF bail-out would be targeting his stranglehold on the Indonesian timber production and processing sector. Hasan chairs numerous producer and marketing cartels, which put him in control of the whole forestry sector. His close relations with Suharto mean that he, rather than the Forestry Minister, holds sway over the nation's forests.

The IMF rescue package also insisted that the Reforestation Fund, used recently to help fund Bob's Hasan's Kiani Keras pulp mill in East Kalimantan, must be accounted for in the state budget from now on. In the past it has been used to direct cash into projects totally unrelated to reforestation on

the whim of the President (Sources: Kompas 19/1/98, South China Morning Post 15/1/98, Financial Times 16/1/98).

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