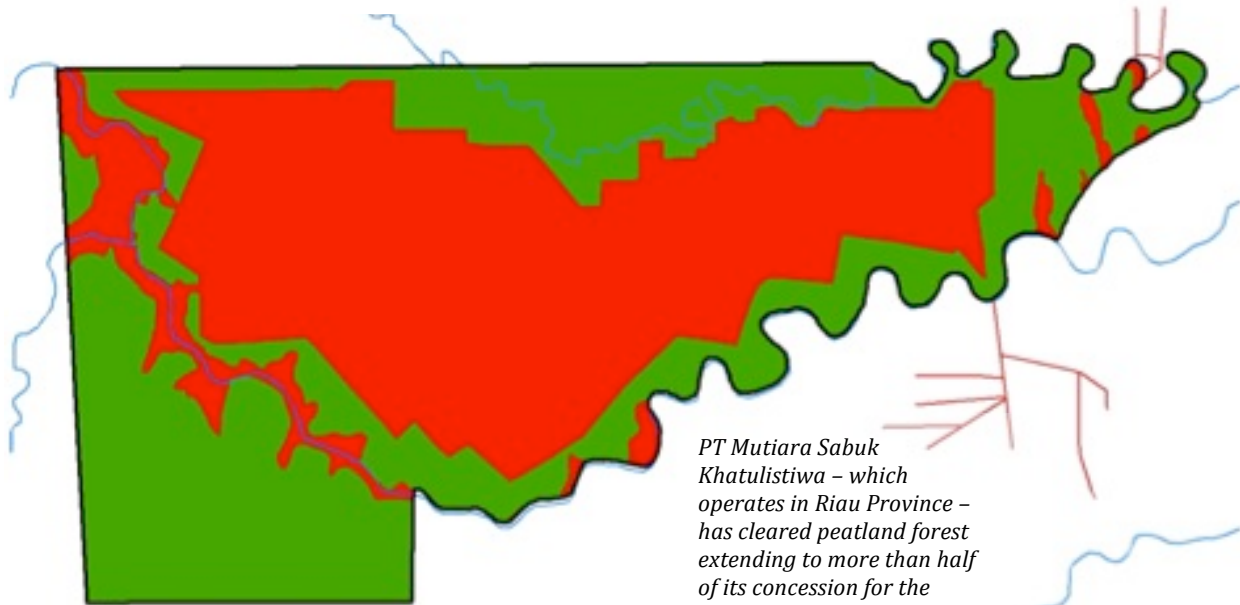


Stemming the Fallout from a Bad Precedent in Indonesian Forestry Management



5 December 2011

PT Mutiara Sabuk Khatulistiwa – which operates in Riau Province – has cleared peatland forest extending to more than half of its concession for the purpose of providing land for the planting of acacia. This sets a bad precedent for logging concession management in Indonesia. The timber resulting from the PT MSK's land clearing operations was supplied as raw materials to PT Indah Kiat Pulp and Paper (PT IKPP/Asia Pulp and Paper) for use in its pulp and paper plants.

Why PT Mutiara Sabuk Khatulistiwa?

This report discusses the management practices employed by **PT Mutiara Sabuk Khatulistiwa under its logging concession license (HPH or Natural Forest Timber Utilization License/IUPHHK-HA)** in its 44,595-hectare concession located in the S. Gaung forest group in Indragiri Hilir Regency, Riau Province, which was granted by virtue of Minister of Forestry Decree Number 109/Kpts-II/2000, dated 29 December 2000.

The principal consideration underlying the selection of PT MSK to serve as the subject of this case study is based on the zoning of the PT MSK concession area – which will obviously have been approved by the Ministry of Forestry and which sets a bad precedent for sustainable natural production forest management in Indonesia.

In the above mentioned decree of the Minister of Forestry, it is stated that PT MSK must properly implement three silviculture systems on its 44,595-hectare concession, namely, (a) the Indonesian Selective Logging System (**TPTI**) in areas of primary forest and logged-over areas/LOA); (b) Selective Lane Logging (**TPTJ**) in logged-over areas (LOA)) c) the Land Clearing System (**THBP**) in barelands or non-productive areas.

The said Minister of Forestry Decree also imposes a cap on the annual logging area of PT MSK amounting to a maximum of 1,006 hectares per year. Based on this cap, the company has been granted an annual production quota of 18,372 m³ and 16,645 trees per year.

However, on 18 August 2009, the Minister of Forestry, by virtue of his Decree No. SK.190/VI-BPHA/2009, approved the 2009-2018 HPH Operations Plan of PT MSK based on the use of only two silviculture systems, namely, TPTI and THPB.

In the said HPH Operations Plan, it is stated that based on Minister of Forestry Decree No. 10172/Kpts-II/2002, dated 18 November 2002, the TPTJ silviculture system is no longer applicable. Consequently, PT MSK is only applying the TPTI and THPB silviculture systems. In another part of the HPH Operations Plan, it is stated that the physical conditions on the ground mandate the application of the TPTI and THPB silviculture systems.

Based on this, the PT MSK HPH Operations Plan divides the concession into a) effective forest areas amounting to 11,450 hectares to be managed using the TPTI silviculture system; (b) effective forest areas to be managed using the THPB silviculture system (natural forest clearance) amounting to 20,760 hectares; (c) areas designated as having protective functions amounting to 7,820 hectares, (d) non-effective areas for productive units amounting to 3,844 hectares; and (e) planting areas in non-forested areas amounting to 1,987 hectares.

Overall, based on the PT MSK HPH Operations Plan, the use of the THPB silviculture system for the preparation of land for acacia planting is to be applied to 23,307 hectares, or the equivalent of 52.26% of the total HPH concession area of PT MSK.

Why is this a bad precedent?

Based on the PT MSK HPH Operations Plan, new planting is to extend to 5,050 hectares, consisting of 1,310 hectares in 2006, and 3,740 hectares in 2007. **The remaining 15,710 hectares will be completed (through the clearing of natural forest) over three years (2009-2011)**, with the precise figures being 4,980 hectares in 2009, 5,280 hectares in 2010, and 5,450 hectares in 2011.

Under Minister of Forestry Decree No. 190/VI-BPHA/2009, which approved the PT MSK HPH Operations Plan, it is provided that the TPTI silviculture system does not envisage felling, but is rather focused on forest development over an area of 11,450 hectares (based on the PT MSK HPH Operations Plan).

Meanwhile, the THPB silviculture system envisages land preparation on logged over areas of natural forest extending to 15,710 hectares and consisting of a timber volume of 736,641.90 m³, made up of 238,524.93 m³ of logs with diameters of less than 30 cm, and 498,116.97 m³ of logs with diameters of more than 30 cm.

It is clear that the silviculture systems permitted to PT MSK by the Ministry of Forestry (which allow natural forest clearance extending to more than half of the total area of the concession) will be very attractive to the HPH concessionaires.

“In fact, based on information from the Ministry of Forestry’s Director of Natural Forest Business Management, Awriya Ibrahim, there are approximately 30 HPH concessionaires in Indonesia that have submitted proposals for the application of the THPB silviculture system, as applied by PT MSK, namely THPB involving the clearance of natural forest.”

In the light of the aforesaid, Greenomics Indonesia has been devoting considerable attention to the situation so as to learn more about the threats posed by the application of the THPB silviculture system, as implemented by PT MSK, where almost all of the operations area (which is still covered by effective natural forest) is zoned for legal land clearing to supply raw materials for the pulp and paper industry, to be subsequently followed by the planting of acacia (*Acacia crasicarpa*) on the cleared land.

Should the Ministry of Forestry in the future decide to approve the 30 applications by HPH concessionaires for the adoption of the same silviculture system as that applied by PT MSK, which would mean the widespread conversion of natural forest in HPH concessions, this would threaten at least half of the 25 million hectares of forest that is currently subject to HPH concessions in Indonesia.

Based on this reality, this report sets out the real and present dangers for sustainable natural production forest management in Indonesia should the Ministry of Forestry in the end decide to approve the 30 applications that are pending for the application of PT MSK-style silviculture practices in HPH concessions. We also provide a number of pertinent recommendations in the concluding part of this report.

Fundamental questions

The fundamental questions that may reasonably be raised in connection with the PT MSK situation are as follows: How is it possible for a HPH concession to be managed in the same way as a pulpwood plantation concession (HTI), and, even more puzzling, for more than half of the concession to be cleared for the planting of acacia? And, why is a HPH license focused on the supply of raw materials for the pulp and paper industry, with such raw materials emanating from the wholesale destruction of natural forest?

Further, why is the TPTI silviculture system, which in reality should be the principal silviculture system applied under a HPH license, not being applied at all in the case of PT MSK? Was the data relied on by the Ministry of Forestry when issuing PT MSK's license inaccurate? In addition, bearing in mind that the PT MSK HPH concession consist of peatland, why does the PT MSK HPH Operations Plan have nothing to say about the depth of the peat in the areas that are to be cleared based on the application of the THPB silviculture system? It is these fundamental questions that provide the framework for our analysis.

Sustainable natural production forest management and the pulp and paper industry

Greenomics Indonesia asked the Ministry of Forestry's Director of Natural Forest Business Management, Awriya Ibrahim, how it was possible for a HPH license, such as that held by PT MSK, could be operated in the same way as a HTI license (*discussion on 2 November 2011*).

In response to this question, the Director made the following statement:

"Although the application of multiple silviculture systems for forest management in the PT MSK operations area has a basis in law, from the technical perspective it would be very difficult for its application to bring about sustainable natural production forest management. Thus, for the future, the objective is to apply the multi-THPB silviculture system to HPH concessions, while at the same time prohibiting the clearance of natural forest. Subsequently, it is expected that as part of the application of the multi-THPB silviculture system to HPH concessions, the species permitted will consist of only of highly productive local species, rather than invasive species, such as acacia. The objective here is to strengthen to achievement of sustainable natural production forest management in each HPH concession."

It should be explained here that the PT MSK Operations Plan states that the timber resulting from natural forest clearance is to be used to supply the operations of PT Indah Kiat Pulp and Paper Tbk (IKPP/Asia Pulp and Paper) based on a cooperation contract. It is not only the timber produced by the clearing of natural forest that will be supplied to IKPP, but also the timber subsequently produced by the acacia plantations (which are expected to become harvestable in 2012).

This means that between 2009 and 2011 some 740,000 m³ of timber resulting from land clearing in the PT MSK concession will be supplied as raw materials to IKPP. Under PT MSK's 2007 Annual Work Plan, a total of 8,426.25 hectares (gross) were designated for application of the THPB silviculture system, with 6,770 of these having the potential for forest clearance for infrastructure development and planting purposes based on a timber volume target of 217,544.58 m³. Based on IKPP's 2007 Raw Materials Procurement Plan (RPBBI), this timber would be supplied to IKPP as raw materials.

Why does the area designated for clearing dominate?

The PT MSK Operations Plan justifies the application of the TPTI and THPB silviculture systems based on “physical conditions on the ground,” rather than merely on the fact that the TPTJ was revoked in November 2002.

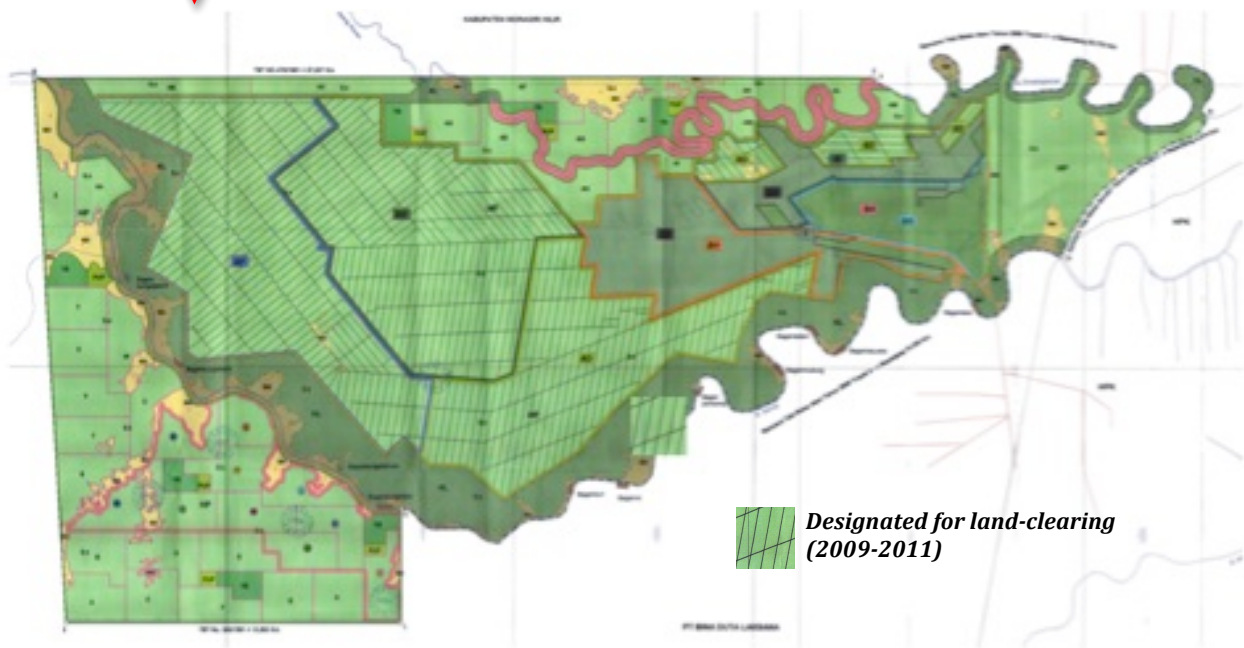
PT MSK’s reliance on physical conditions is based on the Multi Interpretive Map of 10 February 2007, which shows that the land cover in the PT MSK concession consists of 37,738 hectares of logged-over areas, amounting to almost 85 percent of the total concession.

It is also stated in the HPH Operations Plan that according to the results of a potential resources survey based on an intensity of 0.2 percent, it had been concluded that the bulk of the concession was no longer productive. As a consequence, it had been decided that the most appropriate silviculture systems were TPTI and THPB.

The PT MSK Operations Plan also states that based on an inventory of standing timber in the forested areas, it had been concluded that the timber potential of trees with a diameter of more than 40 cm amounted to 30.49 m³ per hectare, based on a density for 12 trees per hectare. In conclusion, the PT MSK HPH Operations Plan states that based on the criteria for productive natural forest, this timber resources potential would be categorized as unproductive.

On this basis, according to the PT MSK Operations Plan, the area of the PT MSK concession covered by the TPTI silviculture system in effective forest areas amounts to 11,450 hectares, which is stated to be off-limits to clearance as development efforts are required to increase timber productivity.

Meanwhile, a total of 15,710 hectares is designated for clearance. Previously in 2007, PT MSK also cleared almost 8,500 hectares, with almost 7,000 hectares of these consisting of natural forest.



Clearly a bad precedent!

According to PT MSK's take on physical conditions, the entire concession would be unproductive if it were to be managed using the TPTI silviculture system. As a result, more than half of the concession – the bulk consisting of logged over forest – is earmarked for clearing in order to make way for acacia plantation, with the timber from the land clearing operations being supplied to IKPP's pulp and paper plant.

It is therefore clear that PT MSK is operating in practice as a concealed pulpwood plantation operation, with the TPTI silviculture system being adopted solely in order to make it appear that it is still a HPH operation.

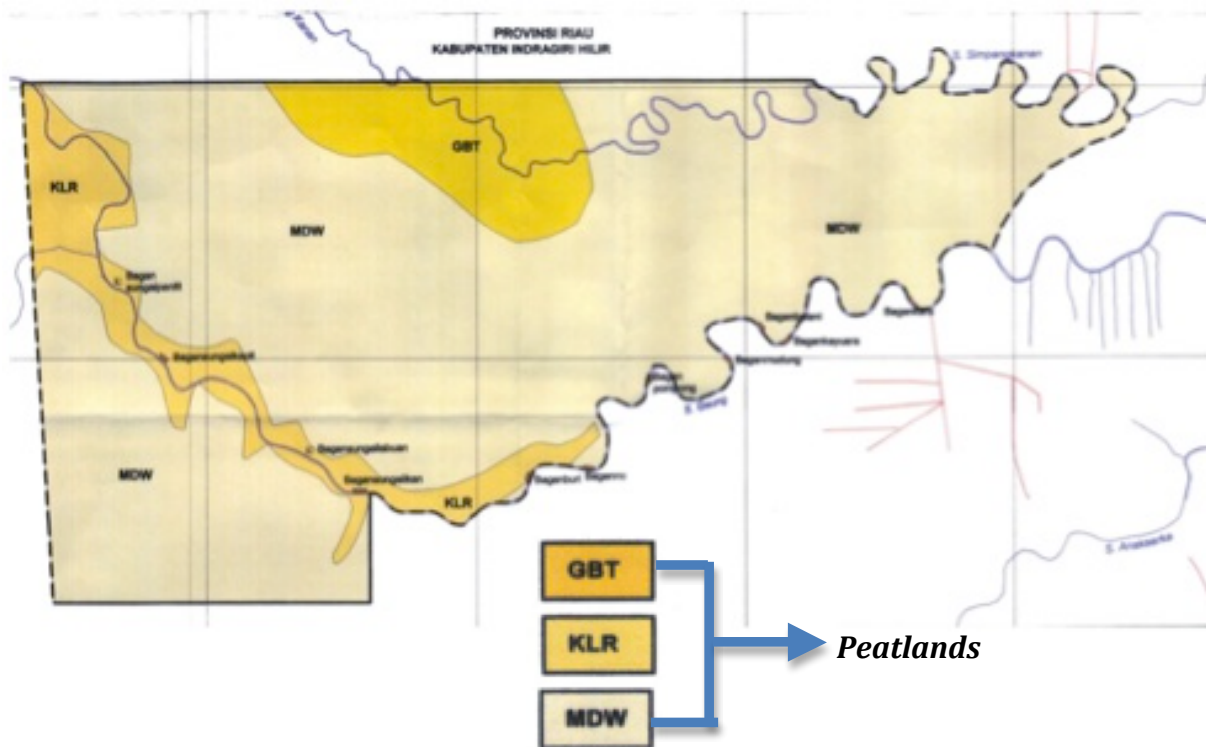
Land clearing in deep peat areas

It needs to be underlined that no attempt has been made by PT MSK to assess the depth of peat in the 20,000 hectares of land in one large block made up of peatland that is earmarked for clearance in order to provide land for the planting of acacia and natural forest species as sources of raw materials for IKPP.

The PT MSK Operations Plan only provides a geological map showing that the entire PT MSK concession consists of peatland. However, no information is provided on the distribution of peat by depth of cover.

In the case of a pulpwood plantation, before an area can be developed for planting through land clearance, a micro-delineation must first be carried out, which would include calculating the depth of peat, for the purpose of determining the area that can be cleared (although in a number of cases, manipulative calculations have been uncovered in micro-delineation documents for the purpose of allowing land clearing operations to proceed).

The land clearing practices conducted by PT MSK in the above mentioned large block of peatland forest are far removed from what is necessary in order to achieve sustainable natural production forest management based on the HPH licensing system.



“Advantages” of land clearing

In the PT MSK Operations Plan, a number of parameters are set out for use in determining the silviculture practices to be employed. What is confusing is that only minimal consideration is given to environmental consequences in these parameters in connection with the application of reduced impact logging norms.

The reason for our confusion is that while PT MSK does not apply TPTI (selective logging), nevertheless more than half of its concession, consisting of 23,307 hectares of logged over peatland forest, is to be cleared as part of the preparations for the planting of acacia.

This “legal” practice has clearly proved attractive to dozens of HPH companies, which are eager to apply the PT MSK model and silviculture system in their own concessions.

***As an expression of
commitment to the application
of multi-system THPB
silviculture, the Ministry of
Forestry’s Director of Natural
Forest Business Management,
Awriya Ibrahim, has approved
four HPH Operations Plans
applying the multi-silviculture
system without natural forest
clearance.***

(Discussion with Greenomics Indonesia on 1 December 2011)

The reason why the PT MSK system is so attractive to dozens of other HPH companies is because it offers them the prospect of being able to sell the timber resulting from land clearing to third parties. Or, in a case where the HPH company is affiliated to a business group in the pulp and paper industry, the timber can be used as raw materials for their pulp and paper operations.

Economic feasibility motive

With regard to the earlier discussion on the benefits to be derived by companies from the clearance of natural forest, it is highly relevant to consider the other parameter employed by PT MSK in its HPH Operations Plan for the purpose of determining its silviculture practices.

This other parameter is economic feasibility. The HPH Operations Plan explains that the economic feasibility parameter is characterized by the choice of silviculture system that is capable of providing increasing profit and benefit, which will be reinvested in forestry so that both capital and the forest provide increasing returns.

It is reasonable to believe that the economic feasibility parameter provides an important motivation for PT MSK in adopting the THPB silviculture system accompanied by land clearing in peatland forest covering more than half of the company's concession.

The earnings to be made from the sale of timber resulting from land clearance are highly significant. In the 2009-2011 period, the PT MSK Operations Plan estimates that the company will earn almost US\$72.2 million from such operations.

It should be remembered that the above figure does not include PT MSK's earnings from land clearance in the previous years, such as 2007, when the company felled 6,770 hectares of peatland forest based on a production target of almost 220,000 m³.

Another economic feasibility consideration on the part of PT MSK is that the value of its forestry capital should continuously increase. This means there is a positive correlation between the extent of the company's pulpwood plantations and the value of its assets, which in turn means that the greater the extent of the areas zoned for planting acacia, the greater the increase in the company's capital in the form of its forestry assets.

Thus, it is only to be expected that many HPH operators are seeking "equality" from the Ministry of Forestry in the form of the "same facilities" as those granted to PT MSK based on the economic feasibility parameter employed by that company. Such demands for "equality" need to be nipped in the bud.

It can easily be imagined what will happen if they were to be granted en masse by the Ministry of Forestry. The result would be that more than half of the HPH concessions in Indonesia that still consist of natural forest would be quickly cleared, and the effort to move in the direction of sustainable natural production forest management nationally would be derailed.

THPB without natural forest clearance

As part of the effort to prevent the large-scale conversion of natural forest in HPH concessions around the country, the Ministry of Forestry's Director of Natural Forest Business Management, Awriya Ibrahim, continues to only approve the THPB silviculture system without natural forest clearance for HPH operations.

This stance needs to be applauded, both in the context of preventing the adoption of the bad precedent set by the PT MSK model, and in the context of the effort to achieve sustainable natural production forest management in HPH concessions.

The Director's policy is also in line with a number of speeches by President Susilo Bambang Yudhoyono in connection with the campaign to reduce emissions from the forestry sector.

Recommendations

- 1) The Ministry of Forestry needs to strengthen the legal aspects of the THPB silviculture system without land clearing policy for natural forest areas within HPH concession so as to ensure the bad precedent set by the PT MSK model and the THPB silviculture system with the clearing of natural forest does not spread to other areas.
- 2) Stakeholders in the forestry sector need to support the THPB silviculture system without the clearing of natural forest in HPH concessions.

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