

The Economic Contribution of Indonesia's Forest-Based Industries

Annex: The Impact of Campaigns
Against Indonesia's Forest Sector

December 2011

Summary of Key Points

- Forestry and related products contribute approximately 3.5 per cent to Indonesia's GDP and contribute to the livelihoods of 15 million people;
- Pulp and paper manufacturing and forest plantations directly employ around 1.51 million people and contribute around 1.8 per cent of Indonesia's GDP;
- The forest industry and particularly the pulp and sector is under threat from an ongoing, long-term campaign by international environmental campaigners that have been attempting to shut the sector down since the end of the New Order period;
- Environmental NGOs, led primarily by the World Wide Fund for Nature (WWF) and Greenpeace have spent an estimated USD1-2million annually over the past decade in campaigns that aim to curb the Indonesian forestry sector;
- The campaigns are well-coordinated, lobbying Western Governments to pressure the Government of Indonesia into taking actions that would curtail the sector;
- The campaigns have also lobbied against major Indonesian exporters of forest products, particularly in the pulp and paper sector;
- They have coordinated campaign attacks against importers of and purchasers of Indonesian paper products in the EU, US, Australia and Japan;
- NGOs have also lobbied to have trade measures imposed against the Indonesian forest sector, including the introduction of anti-dumping measures in Australia, the EU and the US, as well as the introduction of the Lacey Act and 'Due Diligence' requirements in the EU and Australia;
- Many of the NGOs have made false allegations against some of Indonesia's largest exporters and employers as well as their subsidiaries;
- The campaigns have resulted in the loss of market share for a number of major Indonesian exporters; .
- The ongoing campaigns will likely have a negative impact on the sector; continued action against the sector would impact on more than 10 million jobs annually, impeding Indonesia's sustainable development goals;
- The campaigns could have further have additional impacts in overseas markets, including job losses in upstream (pulp producers) and downstream industries (printing, merchants, converters) and investment disincentives;
- Reduced activity in the forest sector and reduced government forestry revenue will also be detrimental to Indonesia's ability to manage its forests sustainably.

Indonesia's Forest Sector

Indonesia is home to some of the most extensive forest land in the world. Forests and forestry have played a large part in Indonesia's broader economic development over the past five decades.

The industry has expanded from craft enterprises and local lumber businesses to an internationally competitive sector. The forestry sector has for the larger part moved from localized selective felling to large-scale plantation development. The forest-based manufacturing industry has diversified from small manufactures to large-scale plywood production and most recently pulp and paper production.

The contribution these combined sectors – forestry, wood manufacturing and the pulp and paper industry – cannot be underestimated.¹

- Combined, the sectors contribute approximately USD 21 billion to Indonesia's GDP, or roughly 3.5 per cent of the national economy;
- Wood products and pulp and paper manufacturing represent around 8.3 per cent of manufacturing value-added;
- The sectors employ a combined total of 3.76 million people; around 4 per cent of the working population and roughly 1.5 per cent of the total population;
- If employment multipliers are taken into account, this figure is likely to be closer to or exceed 4 million people; and
- If dependents are taken into account, this equates to more than 15 million people dependent upon the sector.

Pulp and paper manufacturing and its associated industrial forest plantations combined directly employ around 1.51 million people and contribute around 1.8 per cent of GDP.

The pulp and paper industry is a significant contributor to the Indonesian economy, contributing around 1.2 per cent of GDP, and around 6 per cent of manufacturing value-added.

Wood products and pulp and paper represent 6 per cent of total exports in 2010 and around 9 per cent of non-mineral exports.

The benefits of forestry are likely to be greatest for rural populations where alternative income earning opportunities are scarce. Forestry operations are directly responsible for increased employment opportunities as well as infrastructure developments in rural communities.

Despite the large economic benefits generated by the industry, it has been subject to ongoing criticism by international NGOs, particularly from developed countries. Much of this criticism is misguided.

The Campaign Against Indonesian Forestry

The Indonesian pulp and paper industry expanded rapidly during the 1990s. Its capacity increased almost five-fold in the decade from 1991-2000, as did its output.² In this period, production and exports of plywood – previously Indonesia's largest forest export – declined significantly.³

The pulp and paper industry – as the highest-growth forest industry – therefore became a critical target for international NGOs campaigning against the forest industry in Indonesia.

International NGOs have at various points claimed that the Indonesian pulp and paper industry has been responsible for:

- Deforestation;
- Biodiversity loss;
- Climate change and carbon emissions;
- Human rights abuses; and
- Financial impropriety and mismanagement.

Many of the claims made against the industry have been exaggerated as part of NGO campaigns against the industry.

However, it is also evident that campaigners have used the pulp and paper industry as a proxy vehicle for attacks on Indonesian government policy.⁴

Very little attention was paid to forestry and forest policy in Indonesia by international NGOs until the late 1990s. Interest from NGOs was prompted by an increase in forest loss in Indonesia, which was prompted by two events. First, the Asian financial crisis of 1997, which had a disastrous impact on rural communities, prompting large-scale land-clearing for agricultural expansion by the rural poor.⁵

Second, the decentralization process that took place after the fall of the Suharto government, which handed forest management and other powers to provincial and district authorities without careful planning. The result was administrative chaos – conflicting and overlapping responsibilities, and in some cases an administrative vacuum. Provincial and district governments issued a large number of small-scale licenses, a number clashing with pre-existing national law, that had a large impact on Indonesia's forest resources⁶, in particular a significant upsurge of illegal forestry by smallholders.

The strategy of the NGO campaign has been to draw international media attention to what has been primarily a domestic Indonesian issue. This has created international pressure from both foreign governments, private sector importers of Indonesian pulp and paper products and to a lesser extent Western consumers.

The campaign activity has for the most part been driven by the World Wide Fund for Nature (WWF).⁷ WWF has generated broad financial support from government aid agencies, philanthropic funds and intergovernmental organisations to support resource conservation campaigns.

The campaigns have attempted to restrict access to forest resources within Indonesia through lobbying domestically at all levels of government; and reduce demand for Indonesian pulp and paper products internationally by:

- Lobbying international pulp and paper purchasers to stop buying Indonesian pulp and paper products;
- Lobbying international certification systems to exclude Indonesian forest products; and
- Lobbying international retail chains to stop stocking Indonesian pulp and paper products;
- Lobbying international retailers and government procurement programs to systematically exclude national Indonesian certification schemes.

A WWF internal assessment noted that the NGO had engaged “[Indonesian company] creditors in Germany such as Hermes (the German government export credit agency), and customers in the United States, such as Staples and Office Depot.”⁸

More recently the public ‘face’ of the campaign over the past three years has been Greenpeace, which has attempted to publicly embarrass the Indonesian government, Indonesian companies and purchasers of Indonesian forest products.

Because of the relative concentration of the pulp and paper sector into two conglomerates that are vertically integrated, campaigning against Indonesian pulp and paper products has been relatively straightforward for international NGOs.

The campaign has been well-coordinated and incredibly well-resourced. The budget of the campaign which is effectively against Indonesian economic interests has stretched into millions of dollars.⁹

A series of analyses commissioned by the sector indicate that most of the claims against Indonesia's forest products sector has shown that many of the claims are false.¹⁰

The Impact of the Campaign

The campaign against the Indonesian forest products industry has been reasonably successful. NGO pressure has worked against Indonesia's long-term economic interests and development goals.

Pressure from NGOs has prompted aid agencies to fund conservation projects that have attempted to restrict access to forest resources by the private sector in Indonesia. Aid programs such as the WWF-USAID Sustainable Forest Products Global Alliance¹¹ have attempted to promote the Forest Stewardship Council sustainable forest management system, which systematically excludes plantation products from Indonesia.

Pressure from NGOs has also prompted a number of high-profile international companies to cease buying forest products from Indonesian companies and their affiliated international companies and their wholesalers.

These companies have been subjected to 'name and shame' campaigns by international NGOs, primarily in Western markets.

Recently, campaign action against wholesalers and retailers of Indonesian paper products in the US, Australia and New Zealand has led to retailers cease buying Indonesian forest products.

Retailers and companies that have been campaigned against and subsequently halted buying these products include: Wal-Mart, Officeworks, Woolworths, Carrefour, Tesco, Hasbro and Mattel.¹²

As stated above, the Indonesian forest products sector and the pulp and paper sector are substantial contributors to the Indonesian economy.

It must be remembered that groups such as Greenpeace and WWF are campaign and conservation and campaign organizations. Their primary aim is conservation, and any claims of supporting sustainable development in the Indonesian forest must be considered marginal.

In this regard it could be considered that the long-term aim of an organization such as Greenpeace is to close down the Indonesian pulp and paper sector, or at the very least to prevent any further plantation development in Indonesia.

This would have a detrimental impact on the Indonesian economy. A recent analysis¹³ of the impact of proposed REDD programs on halting the Indonesian pulpwood industry noted that:

“a cessation on the conversion of 8 million hectares for pulp wood plantations would cost the Indonesian economy an industry with a potential NPV of over USD10.4 trillion, over 25 years for pulp wood alone.

This figure is likely to be much higher after taking into consideration returns for lumber, etc. Forest related industries also provide a key source of income and livelihoods for a large number of Indonesia's poor. Currently, over half a million people are formally employed in the industry. Assuming a total labour requirement for pulp of 1 person per 3 hectares (this figure is much higher at 3 persons per hectare for the establishment phase), restricting the conversion of forest to pulp plantations could cost the Indonesian economy 2.6 million jobs, annually. Given an average household size of 4 persons, restricting conversion to pulpwood plantations has the potential to impact over 10.4 million people in Indonesia each year.”

Further, any curbing of the plantation industry in Indonesia may have a negative environmental impact.

Forestry plantations provide a level of environmental stewardship that would not be provided in the absence of large-scale commercial forestry. Plantations play a significant role in forest conservation and sustainable forest management. Plantations acts as a form of intervention that prevents further illegal and unsustainable encroachment on natural forests and maintains forest landscape integrity. This is recognized by the Intergovernmental Forum on Forests (the precursor to the United Nations Forum on Forests).¹⁴

Sound land management practices are not economically feasible for a great number of smallholders. For example, the establishment of agriculture and estate crops on peat lands requires careful irrigation, drainage and water management systems with a high level of planning and technical expertise. This is often outside the expertise of smallholders, who produce low yields and have poor management practices.¹⁵ Similarly, a 'no-burn' land clearing by smallholders is not economically feasible,¹⁶ resulting in broad, uncontrolled slash-and-burn clearing by smallholders.

However, in large-scale plantations, detailed planning must be undertaken. This includes AMDAL (environmental impact assessments) as well as macro- and micro-delineation for the existing landscapes. AMDAL reports and planning documentation must be submitted to the Ministry of Forests for approval before any plantation activity can be undertaken.

Managing forest resources is expensive. Between 1999 and 2009 government revenue from forestry was between US\$190 million and US\$376 million annually.¹⁷ Contributions to this, such as the reforestation levy, increase Indonesia's ability to manage its forest resources sustainably and improve land-use management. Curbing the Indonesian forest industry will exacerbate rather than improve poor land-use practices.

There are additional potential impacts that could be felt internationally. These campaigns could result in a form of 'Green protectionism' that would exclude Indonesian forest products from some markets. An analysis¹⁸ of the impact of trade sanctions against Indonesian paper products has shown that these types of measures may on the one hand benefit importing country producers competing with the imports.

However, they will harm downstream producers who use the imported products as inputs, such as in the paper manufacturing and printing industries. This would flow on to the consumers. In addition, higher prices reduce demand; this could lead to lower production and employment within these industries.

Barriers against these imports would also provide a disincentive for vertically integrated producers to invest in developed markets if they are aware there would be a policy risk that would reduce their comparative advantage, i.e. their integrated supply chains.

Conclusion

The NGO campaign is working against Indonesia's long-term economic interests. However, it is also working against Indonesia's environmental interests.

NGOs claim that it is the large pulp and paper companies that inflicting the most environmental damage on Indonesia's forests. However, it is the large companies that have the resources to implement environmental management systems and sustainable forest management.

This contrasts markedly with smallholder growers of commodities such as palm oil, who undertake little environmental management.

Additionally, the revenues provided by the forest sector contribute financial resources to the ongoing management of Indonesia's forests through departments at the national and provincial level.

The Indonesian Government has occasionally defended the sector and its practices when faced with criticism. When it has done so, it has been particularly effective in supporting Indonesia's long-term development goals.

Endnotes

¹ See the main body of this report -- ITS Global (2011). *The Economic Contribution of Indonesia's Forest Industries*. ITS Global, Melbourne.

² APKI data

³ W. D. Sunderlin (1999). *The Effects Of Economic Crisis And Political Change On Indonesia's Forest Sector*. CIFOR, Bogor, Indonesia.

⁴ See for example Greenpeace (2010). *REDD Alert: Protection Money*. Greenpeace, Netherlands.

⁵ W. D. Sunderlin (1999). *The Effects Of Economic Crisis And Political Change On Indonesia's Forest Sector*. CIFOR, Bogor, Indonesia.

⁶ For a comprehensive account of the decentralisation process and its impact on the forest sector, see Barr, et. al. (2006). *Decentralization of forest administration in Indonesia: Implications for forest sustainability, economic development and community livelihoods*. Bogor, Indonesia: Center for International Forestry Research (CIFOR), 2006.

⁷ See A. Tomaseck (2005). *Speaking the Many Languages of Conservation*. World Wildlife Fund - US.

⁸ See A. Tomaseck (2005). *Speaking the Many Languages of Conservation*. World Wildlife Fund - US.

⁹ For example, a single WWF project in 2005 funded by the Critical Ecosystem Partnership Fund -- Conservation of Sumatran Tiger in the Tesso Nilo Bukit Tigapuluh Landscape -- had a budget of more than USD1.5 million.

¹⁰ See for example Greenspirit Strategies (2010). *Plantation Forestry in Indonesia: The Greenspirit Strategies Perspective: An Assessment of Asia Pulp & Paper (APP) and its Pulpwood Suppliers Forestry Operations*. Greenspirit Strategies Ltd.

¹¹ USAID (2005). *Support from Diverse Sectors Helps WWF Promote Responsible Forest Management and Trade*, retrieved from:

http://www.usaid.gov/our_work/environment/forestry/features_aug2005.html

¹² See for example -- The Sydney Morning Herald (25 August 2011). 'Officeworks cuts ties with papermaker'. Retrieved from: <http://www.smh.com.au/environment/conservation/officeworks-cuts-ties-with-papermaker-20110825-1jby6.html>; and Greenpeace USA (2011). *Toy giant Hasbro latest to introduce tough paper policy following Greenpeace investigation* [Media release]. Retrieved from: <http://www.greenpeace.org/usa/en/media-center/news-releases/Hasbro-latest-company-to-drop-rainforest-packaging1/>

¹³ World Growth (2011). *How REDD Will Impoverish the Developing World and Reduce Biodiversity: An Indonesian Case Study*. World Growth, Washington DC.

¹⁴ See Intergovernmental Forum on Forests (1999). 'The Role of Planted Forests in Sustainable Forest Management'. Report of the International Expert Consultation. April 6 to 10, 1999, Santiago, Chile.

¹⁵ Government of Indonesia (2007). *REDDI – Summary for Policymakers*. Retrieved from: www.dephut.go.id/INFORMASI/LITBANG/IFCA/Summary%204%20policy%20makers_final.pdf

¹⁶ V H.J. Sargeant (2001). *Vegetation fires in Sumatra, Indonesia. Oil palm agriculture in the wetlands of Sumatra: destruction or development?*. Government Of Indonesia, European Union and Natural Resources International Limited. Brussels.

¹⁷ Statistik Kehutanan (2004) as cited in Ministry of Forestry (2006) *Indonesia's Forestry Long-Term Development Plan 2006-2025*; and Forestry Department (2009) *Data Strategies* table VIII.6 Lanjutan and BPS (2010) *Socio economic indicators October 2009* table 10.2

¹⁸ World Growth (2011). *The Economic Impact of U.S. Trade Sanctions on Imports of Paper Products*. World Growth, Washington DC.