

A BACKWARDS STEP

How demand for merbau timber
is undermining Indonesia's anti-illegal
logging policies



environmental
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telapak

Introduction

Recent developments weakening the control of Indonesia's merbau exports and trade are driving illegal logging and timber smuggling and undermining coherent existing policies designed to secure sustainable forest management.

Merbau (*Intsia spp.*) is a luxurious hardwood prized for its dark red colour and durability. Found only in Indonesia, Papua New Guinea and Malaysia, merbau has been systematically looted from the forests of Papua, Indonesia, to feed international demand for flooring, decking, doors and furniture. These forests form part of the last remaining tracts of intact rainforests in the Asia Pacific region, provide essential livelihoods for local communities and support a wealth of unique biodiversity.

The merbau trade is emblematic of the problem of illegal logging in Indonesia and the limitations of government actions to tackle the problem. In 2005 the Environmental Investigation Agency (EIA) and Telapak released a landmark report detailing how around 300,000 cubic metres of merbau logs were being smuggled out of Papua, Indonesia, to China every month to be made into flooring. The sheer scale of the theft and the involvement of corrupt government officials prompted a swift response from the Indonesian government. An enforcement team was dispatched to Papua and the illegal logging of merbau virtually halted. By the end of the operation in May 2005 over 400,000 cubic metres of illegal merbau logs had been seized, and 186 suspects named by the police. The effects of the operation were quickly felt overseas; the price for merbau logs in China more than doubled to \$700 per cubic metre and traders in southern China were struggling to source raw merbau timber.

Yet despite such decisive action, overseas demand for merbau has remained high, and the logging and trade of merbau in Indonesia remains riddled with illegality. In this context a host of timber processors and traders have continued to find ways to smuggle illicit merbau out of Indonesia.

This briefing exposes some of the recent scams, and explains how government policies are making it easier for merbau smugglers to thrive.

Special Treatment for Merbau Smugglers

In 2004 the Indonesian government banned the export of sawn timber. The relevant decree was revised in 2006 to clarify the types of timber covered by the ban; in essence all exports of rough sawn timber are banned, as are shipments of planed timber (S4S) above a specified size.

In April 2008 the Indonesian Ministry of Trade granted a special "dispensation" to the sawn timber export ban to three companies based in Surabaya, a major timber processing centre and port in Java, allowing them to export "housing components" of merbau timber to China. The three firms – Surabaya Trading & Co., Grafiti Merindo, and Trias Hasil Alam Lestari – were granted the exception on the grounds that the "housing components" were destined for a construction project in Mongolia. Initial permission was granted for the three firms to ship 24,000 cubic metres of merbau, with a total of 70,000 cubic metres being requested before the end of 2008. The companies began shipping the timber in May 2008.

Superficial analysis of the exception shows it to be highly suspicious; both the use of merbau for house construction and the stated destination of Mongolia do not make economic or practical sense. Sources also state that the exception has been further justified on the grounds that the merbau timber is to be used for earthquake reconstruction in China. More detailed investigations by EIA/Telapak reveal that the exception is an outright fraud, designed purely to allow the three firms to ship prohibited merbau sawn timber to China.

The three companies are all controlled by one man – Ricky Gunawan. EIA/Telapak undercover investigators first encountered Gunawan and Surabaya Trading & Co. in late 2006 while investigating merbau smuggling. Gunawan admitted his company was shipping around 3,000 cubic metres of rough

Below left to right: Ricky Gunawan of Surabaya Trading; Merbau posts owned by Gunawan awaiting export to China, 2006



sawn square merbau “posts” in containers every month from Surabaya to China, in blatant contravention of the sawn timber export ban. He said he had been smuggling the timber out for a year-and-a-half, assisted by a contact in the customs department of Surabaya port.

EIA/Telapak provided a detailed briefing on the activities of Gunawan to the Ministry of Forestry in March 2007. Despite such comprehensive evidence of flagrant law-breaking by Surabaya Trading no action has been taken against the company or its owner Gunawan. Instead he appears to have found new way of supplying sawn merbau to Chinese buyers, with the help of a suspicious government dispensation.

Sources in Surabaya state that shipments of “housing components” sent by Gunawan are in fact rough sawn merbau posts. Information obtained by EIA/Telapak in China also shows that the shipments are not destined for a housing project in Mongolia, but are instead being sold on to flooring and furniture factories in China.

One of the main recipients of merbau shipments sent by Surabaya Trading is the company Fujian Pan-Chinese Trading, located in Fujian Province, southern China. During May 2008 Gunawan sent 40 containers of “merbau housing components” to Fujian Pan-Chinese Trading. In July EIA/Telapak posing as timber buyers called the Chinese company to ask about the availability of merbau. A company representative confirmed that Fujian Pan-Chinese receives around 200 containers of sawn merbau a month from a Surabaya sawmill. Each cubic meter of Indonesian merbau is worth \$1,100 on arrival in China, and is sold on to factories producing merbau flooring, doors and stairs. The company is even offering the sawn merbau for export out of China.

Given Gunawan’s past activities, the award of a “dispensation” to ignore the sawn timber export ban by the Indonesian government is extremely suspicious. In essence the permit is providing a cover for him to continue smuggling merbau to China. It is certainly a lucrative operation; based on market prices in China the quantity of merbau timber covered by the exemption is worth \$26 million.

Weaker Control of Merbau Exports

The Ministry of Trade is also pushing through a wider revision of the original sawn timber export ban that will mean more merbau will be exported to overseas manufacturers.

Under the revised decree, merbau is singled out as the only species that can be exported in S4S (Squared on 4 Sides) in larger profiles. While all other timber species must have a profile of 4000 mm² or less to be exported, the new decree (Ministry of Trade decree no. 20/M-DAG/



Above: Merbau flooring production, China

PER/5/2008) permits exports of merbau posts with profiles of up to 10,000 mm², more than double the current permissible size. Only merbau is exempted.

Such an exemption will undermine enforcement efforts in Indonesia by weakening export controls on a species which remains one of the main targets of illegal logging operations in the country.

Papua’s Merbau Controls Undermined

Within Indonesia merbau is only found in Papua, where it is the backbone of the logging industry. In September 2007, Papuan Governor Barnabas Suebu and West Papua Governor Abraham Atururi issued new regulations limiting log shipments from Papua to other parts of Indonesia, effective from the beginning of 2008.

A global audience heard Governor Suebu explain the Papuan log shipment ban at the climate conference held in Bali in December 2007 when he outlined a range of policies designed to protect Papua’s forests while creating incentives for inward investment to support development for local people.

Yet powerful interests outside of Papua are seeking to undermine the new controls. In mid March 2008, at a meeting of 40 forest sector investors and the provincial government in Jayapura, industry representatives requested Governor Suebu to weaken his policy by allowing logs to be shipped to manufacturers in Java and elsewhere in Indonesia. In responding, Governor Suebu told the investors and journalists gathered how both President Susilo Bambang Yudhoyono, and Vice President Jusuf Kalla had also requested a similar revocation of the policy, but that the policy would not be withdrawn.

Despite this, over the following days local media falsely reported that the policy had been revoked, significantly adding to the high level political and commercial pressure on the governor to succumb to outside interests. Governor Suebu subsequently

felt compelled to issue a press release explaining that the policy remained in place, and logs were not allowed to be shipped out of Papua to anywhere, regardless of media reports to the contrary.

With international demand for merbau remaining high, logging in Papua remains riddled with illegality. In May 2008 police seized 13,000 cubic metres of illegal merbau logs in Kaimana and Nabire, West Papua Province. Some of the seized logs were cut by the companies Kaltim Hutama and Centrico, which operate forest concessions in Papua.

Double Standards

While the government is offering suspicious dispensations to get round current sawn timber export laws, and designing new ones to intentionally weaken controls on merbau exports, it has failed to act decisively to implement a much-needed Timber Legality Assurance System (TLAS). The TLAS has been developed over several years of wide-ranging consultations and field tests. It represents the best way of clearing up confusion generated by Indonesia's multiple overlapping and contradictory forestry laws, and will also bring much needed transparency to the sector. The TLAS does not introduce new legislation, but merely clarifies existing laws and legal requirements in the forestry and timber trade sectors.

Yet despite its stated policy priority of tackling illegal logging, the Ministry of Forestry has still not adopted the TLAS, ensuring legal uncertainty continues to underpin the timber trade across Indonesia. Pushing for the weakening of merbau trade controls, while delaying the introduction of a widely-endorsed system to guarantee timber legality, raises concerns about the government's stated intentions to curb illegal logging and log smuggling and implement sustainable forest management.

Since 2005 the Indonesian government has taken decisive steps to curb illegal logging. Now is the time to push these efforts further, not to weaken timber trade controls and reward merbau smugglers with dispensations.

Recommendations

The Government of Indonesia should:

- Immediately cancel the "dispensations" for exports of merbau "housing components".
- Launch an inquiry into how the dispensation was allowed, and the activities of companies linked to Ricky Gunawan.
- Ensure that the sizes of Papuan merbau sawn timber permitted for export are not weakened by new Ministry of Trade Decree No.20/M-DAG/PER/5/2008.
- Formally communicate export regulations on sawn timber to known import destinations, especially China and Malaysia.
- Adopt and implement the Timber Legality Assurance System across the country.
- Support Papua's log shipment controls, and encourage relevant authorities to enforce them.

Consumers should:

- Not buy merbau products until the TLAS is implemented, and merbau is provided with independently audited proofs of legality under the TLAS or certification schemes.

Right: Merbau logs in Zhangjiagang Port, China, 2005

