

# PULP FICTION: NATIONAL INTEREST, REGIONAL POLITICS, AND THE AGGLOMERATION OF INDUSTRIAL TREE PLANTATIONS IN INDONESIA

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Industrial pulp and paper plantations have expanded substantially in Indonesia over the past three decades. This paper analyses how plantations were established and changed over time, focusing on the ways owners have asserted control over massive forestland areas. The study centres on two major companies which control 95% of plantations in Riau, a province with the largest industrial tree plantations in Indonesia. The current analytical framework combines national and subnational interests alongside theories of bureaucratic politics. We found that large-scale forestland controlled by a few private players was made possible through meeting national development targets and carried out by the national forest bureaucracy. Under this constellation, a few conglomerates closely tied to central power holders secured mandates to pursue forestry goals. Our findings explain emergent subnational patterns among local bureaucracies, whose growing interests coincide with large-scale plantations agglomerating land to supply shortfalls in mega-processing plants. The mechanisms of formal and informal interests at play among bureaucracies at both national and sub-national levels enrich our current understanding about forestland acquisitions, which is often simplistically interpreted as a centralised state obsessed with economic opportunities presented by a global commodity.

Keywords: Industrial plantations, pulp and paper, Indonesia, national and subnational interests, forestland acquisition, bureaucracy

## INTRODUCTION

Industrial tree plantations, namely large-scale farming to meet industry demands, have expanded markedly across the globe from 178 million hectares in 1990 to 290 million ha in 2015 (FAO 2015). This trend is expected to continue with projections of up to 345 million ha by 2030 (Carle & Homgren 2008). Emerging market opportunities initially drove expansion, especially due to increasing global demand for wood and fibre for industries, concerns over the decline of timber supply from natural forests (Jurgensen et al. 2014) and exacerbated by labour concerns and job creation dynamics (Bull et al. 2006). More recent drivers owe to assessments that suggest plantations could serve as carbon sinks and energy producers for the future (Gerber 2011).

The development of industrial tree plantations has long been a top policy priority of the government of Indonesia dating back to late 1980s. As of 2018, land allocated for industrial tree plantations has risen markedly to 10.7 million ha (MoEF 2018). This makes Indonesia one of the global leaders in tree plantation. However, this expansion has drawn much criticism and controversy; for instance, environmental observers point to plantations as responsible for considerable loss of natural forests (Gaveau et al. 2016). This is because most plantations are preceded by clear-cutting practices in natural forests (Maryudi 2015, Potter & Badcock 2001). More recently, land grabbing practices, i.e., large-scale land

deals, investments, and acquisitions through concessions or long-term leases, has intensified land enclosures (Fujiwara et al. 2015, McCarthy et al. 2012).

This paper analyses and scrutinises government policies driving ownership and consolidation of land in Indonesia. The control of large forestland areas by a few private players began in the 1970s and continued steadily over the next two decades, alongside the peak of logging in natural forests. The government has tried to curb land consolidation by regulating the maximum land area controlled by a concession to 50,000 ha, limiting it to a maximum of 100,000 ha within a province, and capping concessions at 400,000 ha for the entire country based on Government regulation No 6/1999 and Forest Minister Decree No. 8/2014. Nevertheless, ownership concentration and consolidation continue in Indonesia unabated, in both logging of natural forests and industrial tree plantation expansion. The overall aim of this paper is to show how these dynamics have unfolded.

Several studies have attempted to establish the link between large-scale land deals and state policies in Indonesia. Most of them point to clientelist reciprocal politics and the central state–industry alliance between large private players and a strong single patron in the central government (Dauvergne 1997, Gellert 2003, Barr 1998). However, findings on the key role of a unitary central government might be less relevant in the changing political landscapes that favours decentralised forest policy in the 2000s, during which industrial tree plantations expanded significantly (Gaveau et al. 2016). Studies on decentralisation policy in Indonesia have suggested that power is no longer centralised, rather it is distributed among local governments (Resosudarmo 2004, Setiawan et al. 2016, Wollenberg et al. 2006, Prabowo et al. 2017, Barr et al. 2006, Fatem et al. 2018). District governments have gained substantial discretionary power over the issuance of permits (McCarthy et al. 2012). Nevertheless, studies on how multiple government agencies at different political levels operate to support land concentration is scarce.

The paper argues that large land deals are secured and motivated self-interests of multiple government bureaucracies at both the national and subnational levels. This situation in fact has

been triggered by the formalised national policy target of industrial plantation development. The current paper focuses on two largest plantation concessions in Indonesia, i.e., Riau Andalan Pulp and Paper (RAPP) and Asia Pulp and Paper (APP), who control 95% of the entire plantation area in Riau Province for both own concessions and operational partnerships. This study, therefore, is relevant in the context of increasing concentration of land ownership and control over it. Riau is particularly interesting because it is one of the few provinces in Indonesia that has yet to complete their spatial planning document, which is a function of continuing conflict between the central forestry authority and the provincial government on forest land allocation (Setiawan et al. 2016). Thus, the focus of the current analysis is on how different interests among government bureaucracies are motivating their actions.

### **Rubric of ‘national interest’ through the lens of bureaucracy politics**

The current study builds its theoretical framework based on the nature of forestry politics, where diverse interests cannot be met simultaneously under conditions of resource scarcity (Krott 2005, Hubo & Krott 2010). In this regard, policies reflect competition between political actors to have their interests prioritised and supported. Amid these competing interests, actors often disguise their true (informal) interests with normative and formally pronounced (formal) interests, despite their denials (Krott 1990, Maryudi & Fisher 2020).

Environmental conservation for example, does not necessarily constitute mere conservation activities; it could also be a means to achieving certain political outcomes (Escobar 1998). Examples of masking of a hidden agenda with normative narratives are abundant in Indonesia. Fatem et al. (2018) for example suggested the use of conservation narratives by a local government to camouflage economic development agendas. The central government also manipulates decentralisation policy to block the progress of community-based claims to forest land (Sahide et al. 2016). This is not to say that formal and informal interests cannot be achieved simultaneously, but it is unlikely to occur in conditions where the actors tend to prioritise their informal interests (Krott 2005).

In a contested political landscape, hegemonic-generic conceptions/narratives—such as “national interests”—are used by dominant groups as a strategy for gaining public legitimacy (Lynch & Harwell 2002). Legitimacy is important in political realms (Biermann & Gupta 2011) for the success and efficiency of certain policies, preventing potential conflicts between the objectives of private and public parties (Schouten & Glasbergen 2011); for instance, in shaping land administration in Indonesia, the central government used generic conceptions of national interests to assume control and ownership of entire forests in its territory, negating the historical existence of customary rights and practices (Contreras-Hermosilla & Fay 2005, Webb 2008).

Analysing narratives of national interests from the perspective of bureaucratic politics provides for more nuanced explanation. In the politics of bureaucracy, the government is not a unitary actor, but it is instead fragmented and composed of various bureaucracies, both at the national and subnational levels, with potentially different goals and interests in terms of resources, authority, and autonomy (Peters 2010, Krott 2005, Krasner 1972). In this regard, bureaucracy politics is not aligned with the generic hegemonic narrative of “national interest,” which is imposed to achieve unity, coherence, and consensus in state goals (Jessop et al. 1988).

However, bureaucratic agents may nonetheless use the concept of national interest to pursue their self-interests (Niskanen 1971). Indeed, the goals of bureaucracy evolve as national interests change. Links between bureaucracy and national interest can emerge from two main models. In the first model, they are influenced initially by a powerful high official/politician (e.g., Presidential unit) and adhered to by sectoral bureaucracies. In this scenario, a powerful administrator designs, organises, and controls the bureaucracies, ensuring that they pursue so-called national interests, constraining them to pursue self-serving goals (Moe 2012). The goals of logging and industrialisation in Indonesia promoted between the 1970s–1990s for example, were based on strong control of forestland by the forestry authorities. This was adhered to, albeit reluctantly, by other bureaucracies seeking authority over forestland (McCarthy 2000). By the 2010s there were increasing calls at the

highest levels for land reform and customary forest rights, especially through social forestry policy. However, following through with such initiatives has yet to become a top agenda of the Indonesian forestry ministry (Myers et al. 2017). The second linkage model explains that national interest comes from a sectoral bureaucracy later adhered to and supported/complemented by others due to their eventual overlap and mutual goals (Apter 2013). Hoegl (2002) argues that negotiations and reconciliation of different sectors are facilitated by so-called “superior objectives,” namely improved welfare benefits. The release of forestland in Indonesia for more profitable operations is a case in point; for example, land for oil palm plantations were eventually granted by the central forest bureaucracy after multiple high political lobbies convinced them of the strategic position of plantations in the national economy (Setiawan et al. 2016).

The way in which bureaucratic agents can safeguard their (informal) interests despite altering their goals for the success of the national interest is of particular interest. They may formulate specific policies that are “biased toward business” to achieve their organisational goals (Yackee & Yackee 2006). Certain private groups often possess the ability to place their political and economic interests on the government's agenda (Bieler et al. 2004), skewing policy outcomes in their direction as a result (Maryudi & Myers 2018). The entry of private actors into bureaucratic politics also has political implications. These private actors will need to serve government bureaucrats who have articulated their interests in state policy. In this scenario, the interests of governments and private actors are mutually reinforced at different political levels.

Since 2008, many studies have been published on this large-scale land acquisition, commonly and popularly described as land grabbing. The rush to acquire land through global networks - led by transnational state interests and networks of corporations - was triggered by the financial crisis. Its wake promoted various narratives over land associated with lack of fuel, food security, and environment, to seek out so called ‘under-utilised’ or ‘empty’ lands (Borras et al. 2011). In the past decade, research to explain land grabbing has looked at different governing

scales, disentangling the global transnational networks (Zoomers et al. 2016), contrasted with dynamics from below highlighting the acts of “resistance, acquiescence, or incorporation” of local actors at the sites of grabbing (Li 2018). Research has also sought to position the State in these processes (Abubakari et al. 2019) by more critically challenging simplified narratives of corruption and good governance to offer a more nuanced analysis (Wolford et al. 2013). This research nestles in between the transnational drivers of a global commodity boom and the local site-level dimensions of land politics by using the case of the pulp-and-paper industry in Indonesia to highlight how subnational bureaucratic actors play a critical bridging role in reshaping the conditions for, and conflicts around, land concentration and control in large plantation zones.

## METHODS

This paper employed theory-driven qualitative methods (Bryman 2015) with emphasis on the positivistic analytical–empirical approach (Krott 2000). This approach departs from the assumption that specific social-political events follow certain patterns that can be interpreted with specific political theories (Krott 2000). It is centred on testing (and possibly refining) of theory-delineated research hypothesis (Krott 2000), based on causal relations between dependent and independent variables (Kleinschmit et al. 2016). The hypothesis is validated through “observations from all the senses” (Connell 1997: 122) of the “empirical reality” (de Jong et al. 2012). More specifically, this research established links between concentration of production and land ownership, which reflects the interests of powerful private sector actors alongside the formal and informal goals of multiple government bureaucracies at both national and subnational levels. This was framed through theories of bureaucracy politics and validated with empirical facts using multiple methods for triangulation (Denzin 1970).

The study has employed established methods commonly used for examining the politics of forest/land use policy and governance (Laraswati et al. 2020). A total of 38 interviews were conducted between August and December 2017 with various types of respondents: office

staff, middle and high-rank officials of different government bureaucracies (Ministry of Environment and Forestry/MoEF, provincial and district governments), private actors/companies (RAPP and APP, both parent and subsidiary), land brokers, non-governmental organisations, academics from universities, and local communities with the closest proximity to companies (Annexes 1, 2). The first author - affiliated with the central forest bureaucracy unit tasked with forest planning and land allocation - began by listing potential interviewees based on his understanding and knowledge of the focal topic. The list was revised based on successive referencing and contacting along the interview chain (snowball effects). We began with sources from the Forest Area Designation Bureau (*Balai Pemantapan Kawasan Hutan*) Region XIX Pekanbaru, which is the arm of the central forest bureaucracy tasked with regional forest planning, designation, and allocation of forestland in Riau Province. The respondents were asked about potentially relevant actors/institutions relating to the focal topic. Due to the highly political nature of the topic, the authors removed all personal and traceable information and only listed the types of respondents (e.g. government, private actors, or NGOs), which are provided in supplementary documents.

A semi-structured interview guided by a list of general stimulating questions revolving around key features was used. The following questions were posed: bureaucratic tasks and functions (for governmental agencies); forest land allocation, planning and uses; knowledge and views on plantation policies; licensing procedures; types of plantation operations and concessions; and impacts of plantation policies. These topical questions were applied to facilitate ease of communication because of the highly political nature of the research. The aim of the strategy was to encourage interviewees to provide more details in comfortable settings (Maryudi & Fisher 2020).

The responses were cross-checked as well as complemented with analysis of both scientific and grey literature, including from repositories (Rahayu et al. 2019), official policy documents issued by the government (e.g., laws, government/presidential regulations and decrees, ministerial regulations, district, and provincial decrees) regarding land use/forest allocation, and land/forest licensing/permits.

Additionally, stakeholders’/actors’ opinions published in mass media and magazines on issues related to forest areas, and relevant speeches were used to consolidate the findings.

## RESULTS

### Framing national interests in plantation policy

Approximately 120 million ha or 63 percent of Indonesia’s territory has been designated as state forests and categorised into three main biophysical characteristics and functions, including production forest (68 million ha), conservation forest (22 million ha), and protection forest (30 million ha) (MoEF 2018). Before the 1960s, forests in many regions were intact natural ecosystems, dominated by high valued dipterocarp groups.

Like other countries which have huge swathes of tropical forests, Indonesia has boldly asserted its intent to exploit these natural resources as part of its national policy priority to stimulate economic development, and a key driver for revenue generation and job creation, specifically in the timber processing industries. At the end of 1960s, the government introduced a concession system that provided a 20-year non-transferable logging permit to both state-owned and private investors. Many works have been published on the effects of large-scale logging of rich natural forests (Barr et al. 2006, Dauvergne 1997, Maryudi 2015). They have mainly focused on the way extractive policies are characterised by strong patronage politics between business groups and certain political figures (particularly under the Soeharto-led New Order Regime). This is based on reinforcing interests in political and economic bidding through commercial and export-oriented use of forests (Barr 2006, Barber & Talbott 2003, Fukuoka 2012, Poffenberger 1997). Political-economic networks and connections exercised their power and control over natural resources, consolidating their interests through the central forest bureaucracy (Dauvergne 1997, Barr 1998). By mid-1980s, 15 business groups closely connected to the centre of political power controlled the nearly 20 million ha of Indonesia’s resource rich forests (Barr 1998).

Excessive logging has led to massive deforestation and forest degradation resulting

in a significant gap between timber supply from natural forests and operating industries’ capacities (Singer 2009, Brockhaus et al. 2012). The central government has started to advocate the political discourse on “*deepening crisis in the forest sector*” (Obidzinski & Chaudhury 2009, Susanti & Maryudi 2016). A report commissioned by a central forestry authority (Poffenberger 1997) documented the over-extraction of natural forests, doubting that practice would lead to sustainable harvests. In a meeting with several ministers (including Minister of Forestry) on 13 March 1989, Soeharto emphasised that successful industrial plantations would help to ensure the supply of raw materials for timber industries. Hasjrul Harahap, then Minister of Forestry was quoted by Tempo Magazine on 21 April 1990 (translated), claiming that “*there are currently 20 million degraded forest lands*”. This was further highlighted by President Soeharto during his speech at the first planting ceremony that took place on 21 May 1991, in which he remarked “*we have to replace trees that have been logged. To do this we will develop industrial plantations...with plantations, we will improve the productivity of unproductive forestlands*” (translated).

The potentially significant economic and social impacts of the growing emphasis of this policy direction, in terms of production and employment, was widely and openly discussed at that time (Obidzinski & Chaudhury 2009). In his speech, Soeharto stated that “*industrial plantations will foster regional development, create jobs, and promote equalities in development*” (translation). The policy narrative mirrors the natural forest logging policy, that to a large degree, it failed to achieve. Probosutedjo, a Soeharto family member who had stakes in the industrial plantations, similarly reflected that (translated): “*plantations encourage investments and create employment*” (Saragih 2018). Against this broader policy context, the government finally launched development regulations in 1990 with the formal objectives outlined in Government Regulation/GR No. 7/1990 as supporting national timber industries and generating national income, restoring forestland conditions, improving forest productivity, and creating rural employment. Industrial tree plantations were thereafter to be established in “unproductive production forests”. Concession holders were henceforth, obliged to manage plantations for 35 years with an addition

of one cutting rotation. By the end of 2018, the government had issued nearly 300 concessions covering a total area of around 10.7 million ha or nearly 15% of the country's forests (MoEF 2018).

### Aligning private interests with government policy

#### *The politics of concession sizes and plantation types*

In the 1990s, the central forestry bureau, which was under strict orders from the powerful decision makers at the centre, eagerly courted the private sector for plantation development. Industrial plantations were to be developed to produce raw material for pulp and paper, plywood, and sawn timber. The maximum size of a single concession to support pulp and paper industries was set at 300,000 ha. This figure is much higher than that allocated for woodworking industry or other forest-based industries, set at a maximum of 60,000 ha.

This distinction or difference brings up two key points: 1) the continued favouring of large-scale operations, and 2) the new preference for pulp and paper over other types of industries. Large-scale industries were said to ensure the swift realisation of so-called national forestry goals and to maintain the country's status as a global forestry leader (Maryudi 2015). However, an interviewee attached to the regional forest planning bureau suggested a hidden agenda of prolonging patronage politics, serving the interests of large business groups closely tied to then President Soeharto. The RAPP and Arara Abadi/AA (Asia Pulp & Paper/APP) were among the few companies granted concessions during

the early era of plantation policy. The RAPP, a subsidiary of King Garuda Mas/Asia Pacific Resources International Ltd. (APRIL), is owned by Sukanto Tanoto, who also controls a large natural forest logging concession. Arara Abadi or APP on the other hand is affiliated with Indah Kiat Pulp and Paper (IKPP), a subsidiary of the Sinar Mas Group owned by Eka Tjipta Widjaja, who was also a close ally of Soeharto and his military regime.

In Riau, RAPP and AA were granted plantation concessions totalling 338,536 ha (beyond the maximum limit) and 296,262 ha respectively. In fact, RAPP and AA are not only the two largest plantation concessions in Riau, but also the leading plantation concessionaires across Indonesia (Table 1). During the decentralisation era, which began post-1998 and coincided with the ouster of Suharto's centralised New Order regime, the government began limiting the size of concession for a single company to a maximum of 100,000 ha in one province (Government Regulation No.6 /1999). Nonetheless, this regulation did not apply to either RAPP or AA. One interviewee (No. 1) suggested that those two groups had special treatment from top bureaucrats in return for services the companies provided. Although the researchers were unable to verify this claim directly to either government officials or the companies, Pribadi (2004) had earlier hinted that several large companies circumvented plantation area limits by splintering the big concessions under different names, dividing them up among family members. This is likely the strategy employed by both RAPP and APP to circumvent the formal policy limits.

**Table 1** Largest plantation concessions in Indonesia (area more than 200,000 ha)

No	Company	Issuance	Area (ha)	Location
1	PT. Riau Andalan Pulp and Paper	1993 Amendment 2013	338,536	Riau
2	PT. Arara Abadi	1996 Amendment 2013	296,262	Riau
3	PT. Finnantara Intiga	1996	299,700	West Kalimantan
4	PT. Musi Hutan Persada	1996	296,400	South Sumatera
5	PT. Wirakarya Sakti	2004	293,812	Jambi
6	PT. Hutan Rindang Banua	2006	265,095	South Kalimantan
7	PT. Bumi Mekar Hijau	2004	250,370	South Sumatera
8	PT. Merauke Rayon Jaya	2008	206,800	Papua
9	PT. Adindo Hutan Lestari	2003	201,821	North Kalimantan

The global focus on the new pulp and paper industries is also interesting because the plantation policy was aimed at supporting the country's established (woodworking) industries, which were said to have suffered from lack of supply of raw materials. Brockhaus et al. (2012) reported on the expansive capacity of the woodworking industry during the 1980s and 1990s while Obidzinski & Chaudhury (2009) pointed out the government's interest in taking advantage of the ongoing relocation of the global pulp and paper industry to the South and the rising global demand for pulp and paper.

However, the new policy preference provided windfall profits for the business sector. One interviewee (No. 1) explained that RAPP and AA were interested in obtaining as much land as possible to benefit from both forest-clearing, and more importantly, the highly subsidised plantations of pulp and paper. This is in line with Sumargo's (2005) findings that land clearing opportunities were the main motive behind area expansion despite the companies not performing well in actual planting. A wealth of literature also suggests that plantation companies were interested in the profits from clear cuts of natural forests before the establishing timber plantations (Gellert 2005, Barr & Sayer 2012). According to GR No. 7/1990, plantations were to be developed in unproductive natural forests defined as natural forests with timber stocks less than 20 m<sup>3</sup> (Casson et al. 2014). In practice, many forest areas allocated for plantations did not meet these conditions, and they were still highly stocked with timber (Kartodiharjo & Supriono 2000, Potter & Lee 1998).

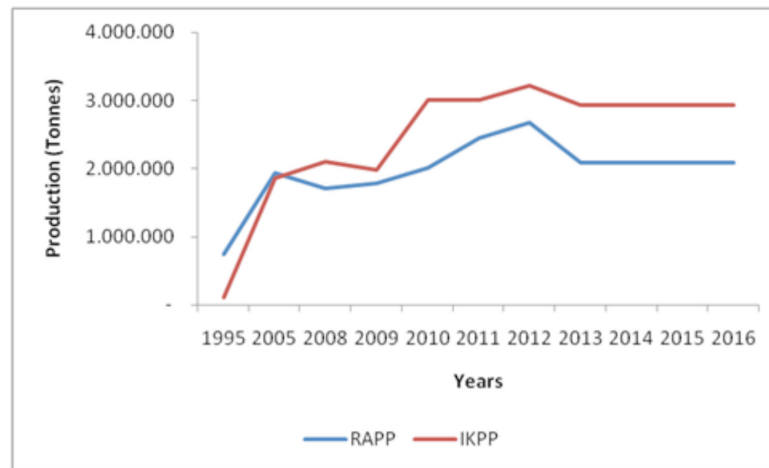
Earlier studies have also pointed to concessionaire interests in securing interest-free and low-interest loans from the reforestation fund (*Dana Reboisasi/DR*) and low-concession land taxes (Resosudarmo et al. 2012, Gellert 2005, Barr & Sayer 2012). According to Forest Ministerial Decree No. 752/Kpts-II/1990, 32.5% of the plantation establishment costs were to be financed from loan interest, 32.5% from interest-free DR loans, and an additional 32.5% by commercial DR loans (Maryudi 2015). The central forest bureaucracy invested USD 417 million between 1997 and 1998 to finance plantations in the form of cash grants and discounted loans (Barr 2007). The arguments were concessions supported government policy to pursue its national goals in plantation development (Interview No. 5, 8, 9).

Hasjrul Harahap, the then Minister of Forestry in 1991, once argued (translated) that "*reforestation is a government task, those who help (the government) must be rewarded with incentives*" (Tempo Magazine 1991). That many plantation concessions instead invested the loans for other purposes (Dauvergne 1997; Barr et al. 2010) further indicated that plantation development was not their only interest.

#### *The politics of installed processing capacities of pulp and paper industry*

The pulp and paper industry in Indonesia is characterised by gigantic processing capacities. From the outset, RAPP and AA established large-capacity processing (pulp and paper) industries with a view to becoming one of the world's largest pulp and paper industries given the aforementioned state's preference for these industries (Interviewee 15). Following the granting of the concessions, RAPP and APP swiftly established their pulp and paper industries, namely PT. RAPP and PT. IKPP respectively; the former's mills began operations in 1995 in Pangkalan Kerinci (APRIL 2006). In addition to its processing facility in Perawang (Riau), the IKPP established two others in Tangerang and Serang-Banten, Java (IKPP 2015).

In pursuing their goals to become world leaders in pulp and paper production, both giants began improving the processing capacity of their respective plants despite supply challenges (APP 2005, APRIL 2006, IKPP 2015). One interview (No. 15) suggested that the high production capacities were set up according to economic prospects of increasing demands in the global markets, rather than the ability of their own plantations to supply raw materials. The initial annual production capacity of RAPP in 1995 was only 700,000 tonnes (FWI 2009), later rising to 2 million (Riau Province Forest Service 2016). The IKPP also recorded a significant increase in its annual production capacity, from just over 100 000 tonnes during its early operation (FWI 2009) to nearly 3 million tons in 2015 (Riau Province Forest Service 2016). The data obtained from the MoEF in *Rencana Pemenuhan Bahan Baku Industri/RPBBI* (Compliance Plan of Industrial Raw Materials) unpublished even showed a slightly higher capacity of IKPP (Figure 1). The RAPP and IKPP together accounted for more than 60% of total national production capacity (Casson et al. 2014).



**Figure 1** Mill production capacities of RAPP and IKPP

During the early stage of operations, both companies used 80% mixed tropical hardwood obtained from their own concessions and non-concessions to supply the industries (Interview 14). Both RAPP and IKPP between 2004 and 2008 used 8.8 million m<sup>3</sup> of timber from natural forests, accounting for roughly 50% of its total raw materials (IWGFF 2010). Greenomics (2011) added that 70% of the timber supplied to industries of the APRIL group were sourced from natural forests. Although this claim is strongly denied by both companies (Mongabay 2014), the internal data from the central forestry bureaucracy (RPBBI 2015 unpublished) suggested that AA and RAPP were only able to supply 36% and 70%, respectively of the actual demand. These figures are consistent with data provided by Obidzinski and Chaudhury (2009) who showed that nearly half of all raw materials supplied to pulp industries in Riau came from its natural forest conversion. Both companies also sourced for timber supplies from other plantation concessions (both planted and cleared from natural forests) and community forests, not only from Riau but also from other provinces across the country (e.g., West Sumatra, South Sumatra, Jambi, West Kalimantan, East Kalimantan, North Kalimantan).

#### *The politics of operational partnerships and taking over concessions*

The mechanisms of the decentralisation policy were implemented in 1999 providing the local governments, principally the districts, more authority in the forestry sector. The Ministry of Forestry issued Decree No. 10.1/Kpts-II/2000

(revised in ministerial decree No. 21/2001) that allowed local governments (provincial governors and district mayors) to issue small and medium concessions. The policy was formally aimed to strengthen plantation businesses and it is consistent with Indonesia's goal of becoming a global leader in forestry. It nonetheless opened up opportunities for local governments to pursue their financial self-interests, as in the case of small-scale licensing of natural forest logging increased markedly. In Riau, the central and local (both provincial and district) governments issued 55 concessions totalling 1.6 million ha.

More specifically, 37 small- and medium-scaled concessions in Riau were granted by District Mayors of Pelalawan, Siak and Indragiri Hulu to those with close relations with local officials (Sudarmalik 2014). Interviewees 4, 11, 15 suggested that the issuance of concessions involved bribes and informal financial requirements from local government officials (Table 2). This in turn established a relationship whereby local government bureaucrats began serving the interests of private actors (Interviewees 2 & 7). There have since been legal cases related to the improper issuance of concessions and forestry operations in Riau brought to the courts (Caesar et al. 2016).

The strong interest of private actors in obtaining plantation concessions, particularly small concessions issued by district mayors, does not necessarily reflect their commitment to developing plantations. Their interests were rather driven by profit windfalls from natural forest clearing and reforestation loans, as in the case of the large concessions (Interviewees



**Table 2.** Estimates of transaction costs

Activities	Cost estimation (in Million IDR)
Technical considerations	4.000
Recommendation processing	2.000
Endorsement	8.000
Environmental impact assessment	100
Boundary arrangement	300
Micro delineation	80
Business work plan	240
Forest inventory	102
Annual work plan	150

Source: Processed from Sudarmalik (2014)

No. 2 and 4). In order to obtain more windfall loans, recipients either overestimated their establishment costs or overstated the areas planted (Barr 2007). In fact, many small concessions in Riau were not used to forestry operations; they were instead more interested in a “licensing business,” selling their concessions to other companies (Interviewees No. 2, 1, 4, 15). Their motivation in plantation establishment was not supported by government policy to stop DR loans, which was issued through a circular letter from the Secretary General of the Forest Ministry No. 549/II-Keu/2000 on April 20, 2000. It is unsurprising that many small- and medium-scaled concessions in Riau were experiencing financial hardship, particularly in financing their operations, such as planting, tending, fire control, forest patrols, and payments to the government. In addition, small concessionaires without access to pulp and paper industries became more vulnerable to the prices of plantation logs and were not competitive enough to offset their operational costs.

This has worked to the advantage of large-scale businesses, such as RAPP and IKPP, which began taking over the non-committal companies; for instance, RAPP used its subsidiary PT. Persada Karya Sejati to take over seven small concessions (Kompas 2008). One of our interviewees (No. 13) suggested that small concessionaires were forced to undertake JV with large companies, i.e., RAPP and IKPP, to mitigate the risks. Some even paid additional amount of money to be considered as a partner of RAPP or IKPP (Interview 14). Since the early 2000s, both companies also established

JV with plantation concessions in Riau and other provinces, although no government decrees were set in place to regulate this practice.

The JVs were later made legal by Forest Ministerial Decree No. 20/Menhut-II/2005. The regulation emphasised government interests in prioritising value added from processing industries and it is aware about the severe financial hardships faced by plantation concessionaires. Article 4 specifies that plantation concessions can establish joint ventures (JV) involving partial or entire plantation activities to assist financially weak companies. Interviewee 9 opined that those arrangements were made to cover the operational costs of small concessions. A source from the central forest bureaucracy also cited the “joint venture” policy was used to ensure the achievement of national goals for plantation development. Informally, this regulation legalised “under-the-table cooperation” that was common despite no government regulation set in place (Interview 14). Since RAPP and IKPP were not able to supply the industries from their own plantations, the JV arrangements play an extremely important role in the larger concessionaires meeting the demand of their mega-capacity processing industries. Sudarmalik (2014) indicated that this policy was a result of strong pressure from the large companies. As a result, the regulation allows RAPP and IKPP to control more forestland from JV totalling 530,221 ha and 699,974 ha respectively.

In 2012, Decree No. 20/Menhut-II/2005 was replaced with Decree No. 29, allowing more control by large companies of their partners’

**Table 3** Forestland control by RAPP and IKPP

Arrangement	RAPP		IKPP	
	Name	Area (ha)	Name	Area (ha)
Own concession	PT. RAPP	338,536	PT. Arara Abadi	296,262
Takeovers	11 concessions*	220,292	-	-
Joint ventures	24 concessions**	309,929	17 concessions***	699,974
Total		868,757		996,236

\* Selaras Abadi Utama, Nusa Prima Manunggal, Wana Nugraha Bina Lestari, Putri Lindung Bulan, Alam Lestari, Bakti Praja Mulia, Harapan Jaya, Madukoro, Sumatera Silva Lestari, Sinar Belantara Indah, Sumatera Riang Lestari

\*\* Rimba Lazuardi, Rimba Peranap Indah, Rimba Mutiara Permai, Rimba Rokan Lestari, Mitra Taninusa Sejati, Bina Daya Bintara, Ekawana Lestari Dharma, Seraya Sumber Lestari, Uniseraya, Triomas FDI, Citra Sumber Sejahtera, Mitra Kembang Selaras, Bukit Raya Pelalawan, Bukit Betabuh Sei Indah, Nusantara Sentosa Raya, Nusa Wana Raya, NTFP, Perkasa Baru, Mutiara Lestari, Bina Jaya Langgam, Tuah Negeri, Sari Hijau Mutiara, Merbau Pelalawan Lestari, Sumber Maswana Lestari

\*\*\* Balai Kayang Mandiri, Riau Indo Agropalma, MSK, Suntara Gajapati, Bina Daya Bentala, Bina Duta Laksana, Ruas Utama Jaya, Rimba Mandau Lestari, Bukit Batu Hutani Alam, Sekato Pratama Makmur, Perawang Sukses, Mitra Hutani Jaya, Rimba Seraya Utama, Artelindo Wiratama, Putra Riau Perkasa, Satria Perkasa Agung, Riau Abadi Lestari

IWGFF (2010), Sudarmalik (2014), BPKH Region XIX Pekanbaru (2017)

operations. The new regulation allowed the large companies to make investments (providing loans) in seedling preparation, planting and maintenance which were to be offset during final harvests. This new arrangement places the partners in a more disadvantaged position during the negotiation of timber prices (Interview No. 14). Furthermore, large companies can also employ professionals, including at the director level. Our interviewees (No. 13, 14) indicated that some of the managers of planting and harvesting operations in the smaller companies were in fact family members of RAPP and IKPP executives.

## DISCUSSION

In almost every case presented in this paper, the state's policies are framed within the rubric of national interest, referring to public policy goals and targets. The concept of national interest is articulated as normative to capture the nation's policy goals (Oppenheim 1987), which is often used to camouflage informal organisational goals (Krott 2005). Over the years, the government of Indonesia often applies this notion of national interest by emphasising the imperatives of using forest resources to foster economic development (Fukuoka 2012, Dauvergne 1997, Susanti & Maryudi 2016, Barr et al. 2006). Industrial plantation policy is no exception. The

narrative of national interests revolves around safeguarding national timber industries, helping them to become a global leader in the pulp and paper industry, thus creating more employment, and supporting local and regional development.

This paper has analysed the narrative of national interest and examined the ways in which it continues to be used by the government as an avenue to achieve specific interests. The state is not considered unitary here, but one which is composed of various bureaucracies with competing goals and priorities (Krott 2005, Peters 2010). The present study shows that plantation goals were initially pursued by a strong power holder, namely the Presidential Office, and implemented by the sectoral bureaucracy of the forest ministry. Informally, the policy enhanced the political-economic connection between the centre and its inner circle which is composed of a small group of businesses which managed to consolidate its interests in exploitation of the forests. The declining timber potential of the natural forests legitimated the central power holder to grant a new avenue for its allies to continue to capture profit from its forestry operations. The central bureaucracy in charge of forestry mandated a few conglomerates to ensure the realisation of national forestry goals, allowing timber clear-cuts, and providing significant planting subsidies. It even bent its own rules on maximum concession sizes, establishing the beginning of a high

concentration of land ownership and production by just a few concessionaires.

Although much of this story is already well-documented in many previous studies on policies governing natural forests (Dauvergne 1997, Gellert 2003, Barr 1998, Fukuoka 2012), the current study provides additional empirical findings. Furthermore, most earlier studies had pointed to the central government as the focal point of the country's political economic dimensions. The current analysis however, complicates this common view by showing clear evidence that later plantation policies served the interests of local bureaucratic agencies by granting small-scale concessions to their affiliates. The case of Riau Province is particularly revealing as we show that rent-seeking behaviour of the local bureaucracies has had far-reaching consequences pertaining to the control over forest land and timber supplies in favour of large companies, i.e., RAPP and APP. Their outsized and ever-hungry processing industries, whose production capacities continue to increase and seek out additional supply, cannot be fulfilled by existing supplies from their own plantation concessions. This has encouraged both RAPP and APP to agglomerate many financially stricken small concessions by either taking over their operations or coercing them to create JVs. With support from the central forest bureaucracy, particularly through legalisation of their practices, RAPP and APP gained *de facto* control over all the plantations in the province.

## CONCLUSION

The province of Riau is a perfect example of how land is being concentrated and consolidated among key actors. This issue has become even more pressing due to the growing global interest in industrial tree plantations. These policy contestations and applications suggest the following: first, forestry policy in Indonesia continues to favour, and is biased towards, large-scale operations. This has been conveniently framed by the state within the narrative of achieving national goals. Regulations are systematically suited to prolonging decades-long patronage politics between the state and a few business groups. Second, the current study also shows how formal policy goals and national interests of maintaining the contribution of

the forestry sector to the national economy go hand in hand with ensuring informal interests of different bureaucracy agents, at both national and subnational levels, and of obtaining political support and economic benefits provided by the large private actors. Third, and more broadly, the bureaucratic change due to specific political circumstances and reform initiatives; for example, although changes occur at the nexus between decentralisation and centralisation policy, the entrenched economic oligarchy remains unchallenged. In order to maintain control over the country's forests and related industries, large businesses in Indonesia have formed alliances with powerful state actors at all levels.

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**Annex 1** Types and number of interviews

No	Type	Position	
		Middle-high rank	Staff
1	Central government		
	- Headquarter	3	
	- Local arms	4	3
2	Local government	6	1
3	Private actors (parent & subsidiary companies)	3	2
4	Non-government organisations		5
5	Land brokers		1
6	Academia		3
7	Local communities		7
<b>Total</b>			<b>38</b>

**Annex 2** Descriptors of interviewees

Reference	Type	Note	Reference	Type	Note
Interview 1	Central government	LA high rank	Interview 20	Academia	-
Interview 2	Local government	Mid rank	Interview 21	Academia	-
Interview 3	Central government	LA high rank	Interview 22	Private actor	Staff
Interview 4	Private actor	Mid rank	Interview 23	Local communities	Leader
Interview 5	Local government	High rank	Interview 24	Local communities	Leader
Interview 6	Local government	Mid rank	Interview 25	Local communities	Leader
Interview 7	Private actor	Staff	Interview 26	NGO	-
Interview 8	NGO	-	Interview 27	NGO	-
Interview 9	Central government	HQ high rank	Interview 28	NGO	-
Interview 10	Local government	High rank	Interview 29	Local government	Mid rank
Interview 11	Land broker	-	Interview 30	Local government	Mid rank
Interview 12	Academia	-	Interview 31	Local government	Staff
Interview 13	Private actor	Mid rank	Interview 32	Central government	HQ mid rank
Interview 14	Private actor	High Rank	Interview 33	Central government	LA mid rank
Interview 15	NGO	-	Interview 34	Central government	HQ mid rank
Interview 16	Central government	LA Staff	Interview 35	Local communities	-
Interview 17	Central government	LA Staff	Interview 36	Local communities	-
Interview 18	Central government	LA Staff	Interview 37	Local communities	-
Interview 19	Central government	HQ Mid rank	Interview 38	Local communities	-

HQ = headquarter, LA = local arm of central government