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A Contributive Thought :

THE POSSIBILITY OF APPLYING AUCTION SYSTEM IN FOREST RESOURCE UTILIZATION IN INDONESIA

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PREFACE

In the end of 1993 and the beginning of 1994, there has been a growing opinion about the weaknesses of the existing concession system (HPH system) in forest utilization in Indonesia, and the need to find another alternative system to replace or to be combined with the existing HPH system. Since I expressed my opinion in the national newspaper "Bisnis Indonesia" on July, 12 1993, the idea of auction system has been rolling. As a matter of fact, the only system applied in Indonesia is HPH system, where the right to extract the forest is continuously for 20 years.

Since the beginning of Indonesian era of development, started in 1969, it has been a success story of forestry in term of foreign earnings. Two decades is not too short to be evaluated. What have happened in other side of forestry story in Indonesia ? As a matter of fact, the success story in foreign earnings has been at the cost of depleting forest resources, after 20 years of the HPH operation, many HPH has left virgin forest far less than it should be, government income from the forest has been very low, most of the HPH have less efficient production process, less competitive business, unbalance structure of forest investment, unbalanced distribution of regional development, etc.

We do not want to blame our past, since it just have had to be. But rather to find, as soon as possible, one or more alternative systems other than such a permanent resource occupation HPH. It seems to me that one of the answer is the auction system. Many people talk about the auction system for issuing the right of HPH, but I do not want to be trapped again by a similar system, rather to talk the auction system of selling the precisely defined standing stock in the forest to be exploited, or for further product of log in the log yard. Both potentially can overcome the past bad story of forestry in Indonesia. For further discussion, auction system for both "forest products" will be called simply auction system.

A CONTRIBUTIVE THOUGHT

My contribution to this early step of applying auction system in Indonesian forestry are as follows.

1. The auction system applied for selling standing stock in the forest and logs in logyard is expected to have some strength and chances, such as follows.
   a. Could give maximum income to the owner of the forest resource, since the auction system has highest possibility to capture economic rent, and higher price of stumpage bid by the buyer. The market condition will be more healthy and competitive, and it will be more independent business transactions, responding the dynamic changes in market situations.
   b. Could give more guarantee for the sustainability of the forest resource and ecosystem, since most of the interactions between the owner and the buyer are in the certain location of the forest resource, and at the certain time.
   c. The controlling activities are better defined, transparent and operational, so that it can be delegated to the lower level of administrative authority. This will mean more manpower can contribute in the controlling process. Besides, control by the owner tend to be much simpler and intensive, since the owner tend to be in the field all the time.
   d. Dynamically, the system can select the business practice and entity that ignoring the forestry professions and less efficient ones.
   e. Allowing other kind of uses/products, and other parties to be involved in the utilization of forest resource.
   f. The obligation of maintaining the sustainability of forest resource and improving its productivity is in the hand of the owner, which is certainly more committed than any other parties.

2. At the mean time, the auction system is expected to have some weaknesses or challenges, such as follows.
   a. Needs more intensive planning and controlling efforts, which has to be supported by more manpower and better planning and controlling system. This could be a challenge rather than a weakness.
   b. Facing hard and fierce fight with the existing unefficient HPH concessioners, which is of the most. The concessioners do understand about the danger of forest resource depletion to the world, the national development, as well as to themselves, about the importance of government income to finance public utilities and expenditures, about the importance of multiplier effects to the local and national economy, and so on, but their main concern is that they do not want to loose their existing heavenly forestry business, and they do not hesitate to do whatever they can to retain their current unefficient business.

c. It should not be forgotten, that the auction system in the tropical rain forest utilization will be a new case. It is very often in the country, where the situation is not much known or unexperienced, the opportunist will take chances to be free riders or to be a kind of gamblers. It is not easy to be handled, except with a comprehensive and well prepared plans and rules which could anticipate whatever deviation or problems in its implementation.

3. The account of strengths and weaknesses or chances and challenges above, even tend to be supportive to the auction system, do not mean in all the cases the HPH system showed bad performance. It is a fact that some HPH showed such a good performance in term of its efficiencies and contributions to the local and national development, particularly in maintaining the sustainability of its forest resource. Therefore, the auction system has to be accepted or interpreted as a better alternative to the existing uncapable (not for capable ones) HPHs in managing their forest resource.

4. In the above frame of thought *(3)*, we have to put our efforts on searching, formulating and exercising the auction system to find the most feasible one to be applied.

5. In short, I think the best general strategy to face the present and future situation is as follows.

Long term strategy :

To tighten the enforcement of law and regulation to the HPH business and industries, to increase the rent captures that is belong to the owner of the forest resource, to set up the institutional arrangement that prohibit or reduce business tricks. So that the forestry business situation is more or less the same attractive/interesting with other businesses for the investors in the country.

At the same time, it is expected to be a neutral and objective selection process of the unefficient and unprofessional forestry business.

After such a normal situation has been achieved, along with improved human resources, then the new alternatives system are introduced and applied, such as the auction system we are now discussing.

Short term strategy :

So far, there are some state owned forestry companies who have been actively managing the establishment and utilization of forest resource. It is appropriate if those state owned companies try to exercise the auction system in their business operations, in order to get the most feasible formulation of the system.