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COMMENTS ON SOME FORESTRY ECONOMIC ISSUES RAISED IN THE WORLD BANK'S PAPER : THE ECONOMICS OF LONGTERM MANAGEMENT OF INDONESIA'S NATURAL FOREST

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a. *Current amounts and shares of royalties.*

Royalties collected from forestry business shall be considered as resources rent to be collected by the owner of the resource. Based on that principle, current amount of the royalties from forestry business is considered to low. In 1992, at the National Seminar on The Economics Aspect of Forestry Business in Indonesia, conducted by the Ministry of Forestry and the APHI in Jakarta, I concluded such statement in my paper that the amounts of the royalties was too low, and generally shall be increased.

In the last part of the paper I stated further, as follows :

"It is clear, based on previous discussion, that the most strategic policy for Indonesian forestry is to adjust, either increase or decrease royalty to the level that can promote sustainability of forest resource and national development, and the efficiency of forestry business as well. To implement such adjustment policy in Indonesia, it needs carefull considerations, some are as follows :

1. The adjustment shall be gradually but firmly, followed by or along with the effort to reduce irrelevant costs from the production process, and also along with the improvement of managerial and technical capabilities of the concessioners.

2. The adjustment must accommodate the variation among forest resources, an among regions. Although in general the aim is to increase, but the increase doesn't have to be the same, and in certain cases may be decreases of royalty.

3. The Royalty must be calculated in the forest stand, which is based on the amount of wood felled in the forest, wether it is hauled out of the forest or not. Otherwise, the royalty as an economic instrument in regulating wood estraction could not be effective.

4 The adjustment shall not be drastic, to avoid a kind of collusion between the consessioners and the authorities. It may happen that an increase in royalty cause no increase in the total rent captures. Besides that, it has also to consider the wood supply elasticity.

5. The adjustment shall considered the possibility of wood smugling and theft, which may be done to avoid the high payment of royalty. Anyway, this means that law enforcement and policing power of the authorities must be more effective and efficient.

6. It should be mentioned that the pressure to the sustainability of forest resources in Indonesia is also much related with the wood industry policy, which is set by the Ministry of Industry, instead of Ministry of Forestry. The fact shows that the total capacity of wood industries which have been permited by the Ministry of Industry (about 60 million cum per years) is much higher than the productive capacity of Indonesian forest (about 30 million cum per years). Since the forest productive capacity is much constrained by its natural growth, it is logical if the policy on primary wood industry is to be set by the Ministry of Forestry.

It is good to be remembered the importance of a mutual understanding and cooperation spirits among the authorities, the concessioners, and the rest of the people, as parts of the nation who dreams a better life quality and welfare in the future. By such mutual understanding and cooperation spirits, it will not be any violation or breaking the rules, which could hurt the whole national development and the concessioners themselves.

b. Potential for royalty increase

The figure about how far the fee and royalty from the royalty from the forest concessions can be increased is so very among researchers. In my paper mentioned above, the table (next page) shows the wide variations of rent capture figures.

The results show a quite extreem variation of figures, from the lowest rent captured by the government studied by WALHI, to the highest ones studied by the Consultant of APHI.

Observing the researches' background, those extreem variation is caused by different norm and approach that each of the researcher used. It seems to me that researchers can be classified into : resource economist, such as researcher no. 1, 2, 3 and 4; and accountant, such as researcher no. 5 and 6. The difference in norms and approaches can be explained as follows.

1. Resource economists tend to include only costs relevant to production process, while the accountants include both relevant and irrelevant costs, as long as the costs are spent by the concessioner. ***(see table 1 in next page)***

2. Resource economists tend to use shadow price of inputs and outputs, for example international market price of wood, while the accountants use real (local) market price,wether the market is perfectly competitive or not, even the real price may be set in a kind of internal trade.

3. Resource economists use a production unit as a base of calculation, while the accountant use a business unit, which in many cases the business unit include many different kind of production units.

Assumed that the university is the most neutral party, we can take the figure that rent captures has been only about 35 %. So, it has to be almost tripled. It seems to me the US $ 20 figure of royalty increase proposed in the WB's report is quite moderate. But, again the increase can not be generalized for all kinds of forest, regions and wood species. The latest increase of royalty in 1994 was good enough, since it was vary with wood species and regions, although it was not maximum increase as it should be. Indeed, it was supposed to be a gradual increase.

Table 19. *The Distribution of Economic Rent, Among Government and Concessioners*

No	Researcher	Province, Year	Government (%)	Concessioner (%)
(1)	(2)	(3)	(4)	(5)
1.	**Darusman**	Lampung, 1976	25	75
2.	**Transtoto**	-, 1990	43	57
3.	**WALHI**	-, 1991	17	83
4.	**Sutopo & Darusman**	Riau, 1992		
	By type of forest :			
	Hill forest		39	61
	Swamp forest		57	43
	By wood species :			
	Meranti		34	66
	Ramin		36	64
	Mixed		26	74
	Fancy Wood		27	73
5.	**Team of the Ministry**	1992		
	Riau			
	(1)		64	36
	(2)		57	43
	Kal-Bar			
	(1)		39	61
	(2)		51	49
	Kal-Tim			
	(1)		47	53
	(2)		45	55
	Sul-Teng			
	(1)		54	46
	(2)		50	50
	Irja			
	(1)		52	48
	(2)		50	50

(1)	(2)	(3)	(4)	(5)
6.	**Consultant of APHI**	1992		
	Hill forest :			
	Jambi		94	6
	Kal-Tim		71	29
	Kal-Teng		160	-60
	Maluku		87	13
	Ir-Ja		71	29
	Swamp forest :			
	Jambi		94	6
	Kal-Teng		108	-8
	Ir-Ja		68	31

c. *Log pricing vs, export taxing*

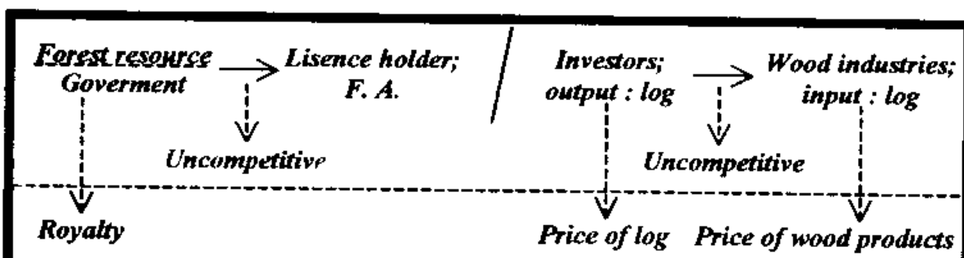
In my paper presented in the Panel Discussion on the Improvement of UUPK No. 5 1967, conducted by the Ministry of Forestry on March 1995 in Jakarta, I stated as follows :

"Some serious problems in Indonesian forestry, such as : high rate of forest degradation and deforestation, unbalanced extraction of forest resources, unbalanced forestry development among regions and among activities, big company domination in forestry, and so on, are rooted from what I call a chronic and untransparant forestry institutional setting".

Such problems could be solved more easily if there are transparances in all stage of forest resources and forest product utilizations. Since utilization means business, then it means business transparances, and business transparances can be created by business competitiveness.

From the scheme in the following page, we can see that the uncompetitive atmosphere has been started in issuing concession lisences. The lisences were issued mostly for persons or companies who have given significant contributions to the national development, especially in political manner. So it is natural that the issuance of lisences or forest resources allocation was not based on transparant competition.

Uncompetitive atmosphere is much more cohessive in the log market. Log market in Indonesia becomes more untransparant, and highly possible that a kind of internal trade is happening in the market. If there is log market, it must be an oligopoly/oligopsony one.



Such uncompetitive forest resources and log market can inhibit price signals transmitted from wood products market to the owner of forest resource. The owner of forest resource can not set such fair price to the concessioners. This means that to have such a good log pricing we have to have a certain level of competitive markets in all stages of forest resources and forest products utilization.

The uncompetitive markets, so far have been caused by unproper regulations and business practices, some are as follows :

1. Log and sawn timber export ban, which later was changed into high export tax regultion.
2. Obligation of each concessioner to have certain wood industry and/or partner(s) in wood industry, and vice versa.
3. HPH is the only system in Indonesian forest resources utilization.
4. Vertical and horizontal integration of forestry business, to create a small number of very big companies.

So, such regulations and practices, including excessive export taxing, shall be revised in order to have competitive markets in forestry business, in which good and fair log and forest resource pricing can take place. Such good and fair pricing mechanism can promote efficiencies in the forestry business, and better government income as well.

Any how, it is good to keep in mind that current uncompetitive marketing system has been maintained, and successfully supporting : (1) competitiveness of some Indonesian forest products in international market, and (2) centralization in governmental system.

d. *Introduction of performances bonds*

It seems to me that introduction of performances bonds to ensure the sustainability of forest is good, as long as the repayment procedure is fair, clear, transparant, and simple enough. Past experience in "Dana Jaminan Reboisasi" showed that such performance bond did not work because of unproper procedure of repayment, since the concessioners had not believed the system from the beginning.

Methods of sales : stand vs. area.

In the end of 1993, there had been a growing opinion about weakness of the existing concession system, in which the right to extract the forest is continuously for 20 years. After 20 years of HPH operation, many HPH had left virgin forest far less than it should be, government income from the forest had been very low, most HPH had less efficient production process, unbalanced distribution of regional development, etc.

In my paper presented in the panel discussion on "the Auction/bidding System in Forest Utilization" conducted by the Ministry of Forestry on February 3rd 1994 in Jakarta, I stated as follows :

"We do not have to blame our past, since historically it just have had to be. But rather to find, as soon as possible, another alternative system(s) other than such permanent resources occupation HPH system. It seems to me that one alternative is auction or bidding system in selling precisely defined mature standing stock in the forest, or logs and further products of log in the logyard".

Furthermore, in the paper I stated that : "the auction/bidding system applied for selling standing stock in the forest and the logs in the logyard is expected to have some strength and chances, such as follows :

1. It could give maximum income to the owner of forest resource, since it has highest possibility to capture economic rent, and higher price of stumpage bidden by the buyer. The market will more healthy and competitive, and it will be more independent transactions, responding dynamic changes in the markets situations.
2. It could give more guarantee for sustainability of forest resources and ecosystem, since most of interactions between the owner and the buyer are in a certain location of forest land, and at a certain time.
3. The controlling activities are better defined, transparent and operational, so that it can be delegated to the lower level of controlling authority. This will mean more man power can contribute to the controlling system. Besides, control by the owner tend to be much simpler and intense, since the owner tend to be in the field all the time.
4. Dynamically, the system can select the business practices and entities that are less efficient and ignoring the forestry professions.
5. Could allow other kind of forest resource utilization, by other parties.

At the meantime, the auction/bidding system is expected to have some weaknesses or challenges, such as follows :

1. It 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.
2. It will face hard and fierce fight with the existing unefficient concessioners. The concessioners do understand about the danger of forest resource depletion to the world, the national development, as well as themselves, about the importance of government income to finance public utilities and expenditures, about the importance of multiplier affects 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 nor hesitate to do whatever they can to retain their current unefficient business.

It should be kept in mind that the account of strengths and weakness or chances and challenges describe above, which tends to support the auction system, does not mean in all cases the HPH showed such good performance in term of there efficiencies and contribution to local and national development, particularly in maintaining the sustainability of their forest resources. Therefore the auction system has to be accepted or interpreted as better alternative for the existing uncapable HPHs in managing their forest resources.

In the above frame of thought, we have to put our efforts firstly on searching, formulating and excercising the auction/bidding system to find the most feasible one to be widely applied. BUMNs shall be the best to do such excercises.