
BOB HASAN, THE RISE OF APKINDO, AND THE SHIFTING DYNAMICS OF CONTROL IN INDONESIA'S TIMBER SECTOR¹

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"Monopolies are okay. As long as the monopoly serves the interests of many people, it's okay." Mohamad "Bob" Hasan, in his first press conference as Minister of Industry and Trade, March 16, 1998

In his struggle with the International Monetary Fund over the past several months, President Soeharto has offered few assurances that he is prepared to change the basic political-economic structures through which he has channeled enormous profits to members of his own family and a small circle of cronies over the last three decades. One of the clearest signals that he means for business to continue as usual in Indonesia came with the appointment in March of his long-time business partner Mohamad "Bob" Hasan to serve as Minister of Industry and Trade. For observers of the nation's timber sector, Bob Hasan's appointment as Trade Minister represents little more than the formalization of a role that he has played in Indonesia's plywood industry for the past fifteen years. When the New Order state banned the export of raw logs in the early 1980s to generate investment in wood processing, Hasan was given wide-ranging authority to transform the Indonesian Wood Panel Producers Association (Asosiasi Produsen Panel Kayu Indonesia, or Apkindo) into a powerful collective marketing

¹ Much of the information presented in this article has been extracted from Christopher M. Barr, "Discipline and Accumulate: State Practice and Elite Consolidation in Indonesia's Timber Sector, 1967-1998," MSc thesis, Cornell University (forthcoming, 1998).

body. With Soeharto's backing, he turned Apkindo into a well-disciplined cartel which exercises strict control over the trade practices of Indonesia's 111 plywood producers.

Under Hasan's direction, Apkindo's price stabilization teams have carefully managed the overall volume and prices of Indonesian panels shipped to specific markets, while the association's marketing boards have assigned firm-level export quotas to each of Apkindo's members. By minimizing direct competition among Indonesian producers, Apkindo has been able to mount strategic assaults on international markets with a great deal of effectiveness and has captured over 70 percent of world hardwood plywood exports for the past decade. As Chair of Apkindo's Board of Directors—a position he has held continuously since 1983—Bob Hasan has also secured very substantial profits for himself, the Soeharto family, and military interests with whom he is aligned. He has used his political leverage to exert discretionary control over several hundred million dollars in institutional fees collected from Apkindo's members and to allocate lucrative contracts to his own firms. The most profitable of these have been a series of monopoly distributorships that the producers' association has assigned to Hasan-run trading companies since the late 1980s to handle Indonesian plywood exports to several of the world's major markets.

In this article, I trace the development of Bob Hasan's timber empire through the New Order period. I first examine how he used his connections to Soeharto during the 1970s to establish joint ventures with one of the timber sector's largest foreign investors and with Inhutani, the state-owned forestry corporation. These logging operations functioned as the nucleus of Hasan's Kalimantan Group, which invested heavily in wood processing during the 1980s to become one of Indonesia's leading plywood producers. I argue, however, that Hasan's real power within the industry has come through his control over Apkindo. By requiring Apkindo's members to sell their panels through his own trading companies, Hasan has effectively positioned himself between Indonesian plywood producers and foreign panel buyers. In this capacity, Bob Hasan has been able to determine which producers will have access to specific export markets and to extract a handling fee on a very substantial portion of the nine million m³ (cubic meters) of plywood that Apkindo's members ship overseas each year.

Origins of the Bob Hasan–Soeharto Partnership

The son of a tobacco trader whose ancestors had emigrated from China's Fujian Province, Bob Hasan was born in Semarang in 1931.² His given name as a *peranakan* Chinese was The Kian Seng (a.k.a. Zheng Jiansheng), although he would later change this when he embraced Islam. In his early twenties, he studied briefly in the Netherlands, where he is said to have become acquainted with a number of Indonesian businessmen visiting Amsterdam.³ Hasan returned to Indonesia in the mid-1950s, and after holding several menial jobs, he established connections with officers from Central Java's Diponegoro Division. Under circumstances that are not entirely clear, Hasan

² Raphael Pura, "As Suharto Crony and Head of Timber Cartel, Indonesia's Hasan Has and Likes to Wield Power," *Asian Wall Street Journal*, January 23, 1995, pp. 3, 18.

³ R. Pura, "As Suharto Crony," p. 3.

was “adopted” as a foster son by the Division’s commanding officer, General Gatot Soebroto, who would later serve as deputy to Army Commander A. H. Nasution.⁴ Hasan’s friendship and business relationship with Soeharto began during that decade, when the future-President—then a Colonel—rose through the ranks to replace Gatot as Commander of the Diponegoro Division.⁵

Through the 1950s, Diponegoro officers were involved in a variety of “fund raising” activities to keep their poorly-financed units functioning. Initially, much of the cash they raised came from smuggling and the collection of “administrative fees” on goods passing through Central Java’s commercial center at Semarang, which had the only deep-water port on the province’s north coast. The officers’ profit-generating activities expanded significantly in 1957 when the military’s confiscation of Dutch enterprises left the Division with control over a substantial portion of the province’s productive apparatus, including factories, plantations, and holding companies. The declaration of martial law in the same year gave the business-minded officers even more room to operate, and many established partnerships with ethnic-Chinese entrepreneurs. As regional commander, Soeharto oversaw the establishment of several enterprises sponsored by the Diponegoro Division, including at least two “foundations” (*yayasan*) which controlled the marketing and distribution of key commodities in Central Java. Hasan played a key role in getting several of these businesses started. Beginning in 1959, he orchestrated the formation of a series of joint ventures between the Diponegoro Division and Chinese entrepreneurs based in Palembang to establish a shipping lines, a warehousing firm, and several trading and holding companies.⁶

His entrepreneurial talents notwithstanding, Bob Hasan’s close ties to Gatot Soebroto played a critical role in his ability to forge an enduring business partnership with Soeharto. His capacity to draw on Gatot’s patronage brought with it the promise of political protection for Soeharto’s illicit business dealings and even career advancement within the Army.⁷ In fact, Gatot appears to have saved Soeharto’s military career in October 1959, when Nasution wanted to dismiss him for running a smuggling operation between Semarang and Singapore. Instead of being subjected to dismissal or court martial, Soeharto was transferred to the Army’s Staff and Command School (Seskoad) in Bandung, where he was promoted to the rank of Brigadier-General and soon put in charge of Army Intelligence. In 1961, the Army’s Strategic Reserve Force (Kostrad) was placed under his command, and by 1965 he was given control over Army operations in Sumatra and Kalimantan, where he again became actively involved in smuggling.

⁴ This account of Soeharto’s business interests and career advancement during the 1950s and 1960s is largely drawn from Hamish McDonald, *Suharto’s Indonesia* (Blackburn, Australia: Fontana/Collins, 1980), pp. 29-39.

⁵ For more information on Soeharto’s military career, see Benedict R. O’G. Anderson, “Old State, New Society: Indonesia’s New Order in Comparative Historical Perspective,” *Journal of Asian Studies* 42,3 (1983): 477-496.

⁶ Richard Robison, “Capitalism and the Bureaucratic State in Indonesia: 1965-1975,” PhD dissertation, University of Sydney, 1977, pp. 269-276.

Hamish McDonald suggests that Soeharto's resurrection and rapid ascent through the military's chain of command was tied in no small part to his business partnership with Bob Hasan: "General Gatot Soebroto who had chaired the Army's council on officer promotions since 1956 was most likely exerting his influence to reverse the setback [of being removed as commander of the Diponegoro Division], if for no other reason than the involvement of his own protégé, Bob Hasan, in Soeharto's projects."⁸ In any event, the friendship and business relationship that developed between the two men during the years of Soekarno's Guided Democracy regime laid the foundation for a lasting—and far more profitable—partnership following the tumultuous events of 1965-66.

Hasan's Role in the Timber Sector During the 1970s

With the transfer of political authority from Soekarno to Soeharto in March 1966, New Order policymakers moved quickly to initiate commercial logging in the rich *dipterocarp* forests of Indonesia's Outer Islands.⁹ They were eager to open Outer Island forests to private investment both to provide an immediate boost to the nation's GNP and to expand the flow of material resources through the state apparatus. Although the military already controlled a substantial portion of the nation's productive assets, the chaotic economic circumstances of the mid-1960s had made it difficult for the state to pay officials' salaries and to fund the routine operations of government, and this had led to widespread corruption and absenteeism in both the armed forces and the civil bureaucracy.¹⁰

In quite another sense, Soeharto and the regime's senior leadership sought to initiate large-scale timber extraction in order to consolidate their own power within the state apparatus. At the point that he obtained *de facto* presidential authority, Soeharto's political power base—even within the Indonesia's armed forces—was still quite tenuous. His support was largely limited to the Diponegoro Division and Army Intelligence, which he had headed in 1960-61. Moreover, deep internal divisions existed within the nation's military, and in many provinces the central government held only limited control over regional leaders and the forces under their command. To cultivate and solidify the personal loyalty of the regime's military and bureaucratic powerholders, Soeharto took steps to channel funds and lucrative capital-generating resources to individual officers and the institutions with which they were affiliated. He recognized that a system of privately-operated logging concessions was well-suited to support these political objectives in that it would allow for the transfer of substantial

⁷ For a discussion of Gatot Soebroto's role in military promotions in the late-1950s and early-1960s, see Ruth McVey, "The Post-Revolutionary Transformation of the Indonesian Army, Part II," *Indonesia* 13 (April 1972): 147-181.

⁸ McDonald, *Suharto's Indonesia*, p. 34.

⁹ The term "Outer Islands" is used to refer to all islands in the Indonesian archipelago other than the densely populated islands of Java, Bali, and Madura. Although state-managed timber extraction has been carried out in the teak forests of Java since at least the early nineteenth century, the rich hardwood forests of Indonesia's Outer Islands remained relatively untouched by commercial logging until 1967.

¹⁰ Anderson, "Old State, New Society," p. 489.

economic rents—that is, profits above and beyond normal rates of return—to favored clients at all levels of the state apparatus.¹¹

The New Order leadership introduced the Basic Forestry Law (*Undang-Undang Dasar Kehutanan*, or BFL) in May 1967 to establish state control over Outer Island forests and to define the terms under which timber exploitation would be administered. The BFL designated 143 million hectares—no less than 74 percent of the nation's land area—as *Kawasan Hutan*, or Forest Area, and put forth a comprehensive legal and administrative framework for managing the land and resources that this area encompassed.¹² To facilitate the commercial exploitation of such an extensive area, the BFL gave the state forestry bureaucracy authority to grant a Right of Forest Exploitation (*Hak Pengusahaan Hutan*, hereafter HPH) to state-owned corporations and to private timber companies. The HPH contract provided the concession-holder with non-transferable exploitation rights to a discrete area of Production Forest for a period of up to twenty years.¹³

To insure that timber concessions would be allocated in ways that consolidated the institutional and personal interests of the regime's central leadership, Soeharto was careful to place the forestry bureaucracy under the direction of loyal allies. In the Ampera Cabinet, formed in July 1966, Major General Sutjipto was appointed Minister of Agriculture and Soedjarwo, a civilian functionary with family ties to Mrs. Soeharto, was named Director General of Forestry.¹⁴ With the HPH system in place, the Forestry Department distributed logging rights to vast areas of Outer Island forests at a very

¹¹ For a more detailed discussion of how rent transfer has been organized in the timber sector through the New Order period, see Michael Lewin Ross, "The Political Economy of Boom and Bust Logging in Indonesia, the Philippines, and East Malaysia, 1950-1994," PhD dissertation, Princeton University, 1996. See also C. Barr, "Discipline and Accumulate," Chapter Three.

¹² Charles V. Barber, "The Legal and Regulatory Framework of Forest Production in Indonesia," Appendix to Charles Zerner, "Community Land Rights, Customary Law, and the Law of Timber Concessions in Indonesia's Forests: Legal Options and Alternatives in Designing the Commons," Forestry Studies Report UTF/INS/065 (Jakarta: Ministry of Forestry/FAO, 1990).

¹³ The terms of the HPH contract and the regulations governing concession management were detailed in Government Regulation 21 of 1970. See Barber, "The Legal and Regulatory Framework," for an analysis of the HPH contract and Indonesia's timber exploitation laws.

¹⁴ A trained forester, Soedjarwo had served as Minister of Forestry during 1964-66 and was the highest-ranking official from the Guided Democracy regime to retain his post under the New Order (although the Forestry Department was down-graded to a Directorate under the Ministry of Agriculture in 1966). As Burhan Magenda notes, Soedjarwo's ability to survive the change of regimes was due in part to the association of his wife with the Mangkunegaran family, to which Mrs. Tien Soeharto also belonged. Under the New Order regime, he remained in office until 1988, being promoted to the position of Minister in 1983 when the Forestry Department's ministerial status was restored. In addition to overseeing the distribution of HPHs through the first two decades of the New Order period, Soedjarwo was also prominently involved in several of the foundations through which the regime's leadership conducted much of its unofficial "fund raising" activity. As of 1983, he had served as Chair of the Sarana Wana Jaya Foundation (1973); First Treasurer of the Supersemar Foundation (1974); and Second Treasurer of the Mangadeg Foundation (1969). He was also the long-time head of Paguyuban Ngesti Tunggal (Pangestu), an organization devoted to Javanese mysticism with a membership that included many senior priyayi officials. For further biographical information, see *Tempo*, *Apa & Siapa Sejumlah Orang Indonesia 1983-1984* (Jakarta: Grafiti Pers, 1983); "The Fourth Development Cabinet Announced March 17, 1983," *Indonesia* 35 (April 1983); and Burhan Magenda, *East Kalimantan: The Decline of a Commercial Aristocracy* (Ithaca, New York: Cornell Modern Indonesia Project, 1991), p. 80, fn. 186.

rapid pace. Between 1967 and 1980, Soedjarwo authorized the allocation of 519 timber concessions to private investors, covering over fifty-three million hectares in total.¹⁵ He also assigned logging rights to over four million hectares in East Kalimantan and other parts of the Outer Islands to three state-owned forestry enterprises: Inhutani, Inhutani II, and Inhutani III.

The opening of the forestry sector to commercial logging in May 1967 set off a rush among both foreign and domestic investors to obtain HPHs. By the end of 1970, the Forestry Department had allocated eighty-one logging concessions to private investors, mostly on the timber-rich islands of Kalimantan and Sumatra. Forty-six of these, covering seven million hectares, were assigned to foreign companies either engaging in joint ventures with Indonesian interests or investing directly on their own. During this first phase of investment, ventures involving foreign companies committed US\$424 million, or more than 80 percent of the investment coming into the sector.¹⁶

This rapid influx of foreign capital presented domestic entrepreneurs and state elites with new and, given the scale of the HPHs being distributed, largely unprecedented opportunities for accumulation. With concessions being allocated according to discretionary, non-bidding procedures, there was fierce competition within these circles both to obtain HPHs and to arrange business partnerships with foreign firms seeking to enter Indonesia's timber sector. Partnerships with the largest investors were almost always forged by military interests, politico-bureaucratic powerholders, or private entrepreneurs with close ties to elite officials. In particular, military-owned holding companies, cooperative enterprises, foundations, and pension funds, representing the particular interests of both individual officers and whole commands, frequently acted as "silent partners" for foreign logging companies.¹⁷

¹⁵ Pusat Business Data Indonesia (PBDI), *Forestry Indonesia: A Profile of Indonesian Forestry Business Featuring Timber and Wood-Based Industry*, vol. 1 (Jakarta: Pusat Business Data Indonesia, 1988), pp. 151-160.

¹⁶ Chris Manning, "The Timber Boom, With Special Reference to East Kalimantan," *Bulletin of Indonesian Economic Studies* 8,3 (1971): 30-60.

¹⁷ The most prominent of these military-owned enterprises was PT Tri Usaha Bhakti (Truba), a holding company connected to the Ministry of Defense (Hankam). Truba was founded in 1968 through a merger of forty enterprises established by Army officers in the mid-1960s and all of its shareholders were senior Hankam officers. By the late 1970s, Truba reportedly held interests in fourteen logging ventures, many of which were set up by military officers who had served in timber-rich provinces. The most lucrative of these was Truba's partnership with Weyerhaeuser to establish the International Timber Corporation of Indonesia (ITCI), which obtained a 601,000 hectare concession in East Kalimantan in 1971. Truba contributed only US\$ 150,000—or approximately one-half of one percent—of ITCI's initial capital investment of US\$ 32 million. However, Truba held a 35 percent equity interest in the venture, while Weyerhaeuser controlled the remaining 65 percent of ITCI's shares. Such low levels of capitalization in joint ventures were the norm for Truba-owned companies, most of which issued share capital of less than US\$ 15,000. Like most military enterprises entering such partnerships, Truba's contribution to the venture was essentially the concession itself, which Weyerhaeuser would not have been able to obtain on its own. In fact, Weyerhaeuser had initially invested through a wholly owned subsidiary, PT Weyerhaeuser Indonesia, and was forced to settle for a far less valuable and considerably smaller neighboring concession located between Samarinda and Balikpapan. See Rachael Grossman and Lenny Siegel, "Weyerhaeuser in Indonesia," *Pacific Research* 9,1 (1977): 1-12; Guy Sacerdoti, "A Shift to Local Leadership," *Far Eastern Economic Review*, December 7, 1979, p. 86; and Robison, "Capitalism and the Bureaucratic State," pp. 261, 295.

In this context, no one was better situated than Bob Hasan to secure a lucrative partnership with one of the largest multinational logging companies seeking to invest in Indonesia. In 1970, the American timber giant Georgia Pacific asked the regime's military leaders to recommend a local partner, and it was steered toward Hasan. Together, Georgia Pacific and Hasan formed PT Georgia Pacific Indonesia, which secured a 350,000 hectare concession along the Telen River in East Kalimantan.¹⁸ Under the initial terms of the partnership, 90 percent of the enterprise was owned by Georgia Pacific while Hasan held a 10 percent equity share. As he would later explain, the US-based firm "gave me a 10 percent share in its (operations). I didn't have money to pay for it, so I paid out of future dividends."¹⁹ Georgia Pacific Indonesia began logging in 1971 and, through the timber boom that followed, it ranked among the country's largest and most profitable producers. Forestry Department statistics indicate that GPI exported at least 2.2 million m³ of raw logs during its first decade of operations (see Table 1).²⁰ From these exports, the partnership generated over US\$156 million in real (1980) gross earnings. The South Seas timber boom of the late 1970s was especially profitable for GPI, which brought in over US\$ 27 million in 1979 alone, based on log exports of 268,696 m³.

Table 1: PT Georgia Pacific Indonesia's Reported Timber Exports (1971-1980)

Year	Export Volume (m ³)	Nominal Export Earnings (US\$)	Real (1980) Export Earnings (US\$)
1971	43,889	733,949	1,444,782
1972	129,262	2,527,832	4,689,128
1973	240,204	7,288,116	12,185,730
1974	314,925	13,114,724	21,927,818
1975	268,079	9,754,307	14,933,844
1976	356,313	15,840,374	21,558,749
1977	118,075	6,428,917	8,119,722
1978	263,411	13,116,835	16,566,563
1979	268,696	27,246,473	30,929,947
1980	169,259	24,532,093	24,532,093
Total	2,244,011		156,883,176

Source: Direktorat Djendral Kehutanan, 1972-1981

In addition to the highly profitable partnership he established with Georgia Pacific, Bob Hasan also engineered a number of lucrative joint ventures between his timber firm PT Kalhold and the state forestry enterprises, Inhutani and Inhutani II. By 1980,

¹⁸ Robert Coats, "Indonesian Timber," *Pacific Research and World Empire Telegram*, May 1971, pp. 9-16.

¹⁹ R. Pura, "As Suharto Crony," pp. 3, 18.

²⁰ Direktorat Djendral Kehutanan, *Statistik Kehutanan Indonesia* (Jakarta: Departemen Pertanian), various issues 1972-1981.

the Kalhold-Inhutani/Inhutani II partnerships operated five logging concessions in East Kalimantan.²¹ Although it is not known how the two parties split the investment costs or the profits from these ventures, it is clear that the gross earnings generated by the partnership were quite substantial. In 1979, for instance, the three joint ventures produced nearly 170,000 m³ of timber valued at nearly US\$ 48 million. Kalhold also operated two additional concessions in East Kalimantan, one on its own and the other through a joint venture with PT Redjo Sari Bumi, the shareholders of which included Bob Hasan and several members of the Soeharto family. These two ventures produced nearly 15,000 m³ of logs in 1979, bringing in just under US\$ 2 million in gross earnings.

By June 1974, Bob Hasan's influence in the timber sector had begun to extend beyond the logging ventures in which he had a direct interest. As the founding Chair of the Indonesian Timber Society (Masyarakat Perkayuan Indonesia, or MPI), he assumed a degree of institutional authority which enabled him to cast himself as the primary advocate and spokesperson for the nation's timber industry. Although the MPI was essentially a consultative body which had no formal regulatory powers over its members, Hasan's position as Chair did allow him to engage in discussions with the state's leadership about policy decisions and other issues affecting the industry as a whole. While he may well have participated in such discussions on an informal basis before the mid-1970s, the formation of the MPI certainly gave a sense of legitimacy to Hasan's involvement in the sector's policy-making process.

In this role, Bob Hasan was a chief strategist in the formation of the Southeast Asian Lumber Producers' Association (SEALPA) following a sharp drop in international log prices during 1974-75. SEALPA brought together logging companies from Indonesia, Malaysia, the Philippines, and Papua New Guinea with the aim of forming a regional cartel capable of controlling the world's tropical timber supply. At that point, producers in these countries collectively supplied 85 percent of the world's tropical log exports. By restricting regional export levels, SEALPA sought to stabilize South Seas log prices and, over time, to raise the levels of profit flowing to Southeast Asian producers. Many observers also saw the formation of SEALPA as being a first step toward the creation of a cartel to control the international trade in processed hardwood products, including tropical plywood.²²

Having played a key role in bringing the region's timber producers together, Bob Hasan became SEALPA's first President in 1975 and served in this capacity through the early 1980s. In the wake of the OPEC price shocks, Hasan may well have anticipated that this position would provide him with an extraordinary degree of personal leverage over the international timber trade, the material benefits of which could easily exceed the profits from his own logging operations. The efforts of Southeast Asian policymakers and industry leaders to coordinate log exports on a regional basis proved to be short-lived, however. As log prices skyrocketed during the timber boom of 1978-80, SEALPA's leadership found it virtually impossible to maintain discipline among the association's members. Seeking to maximize windfall profits, logging companies resisted any effort on the part of either SEALPA or national governments to manage the market upswing by limiting the volume of logs they

²¹ Direktorat Djendral Kehutanan, *Statistik Kehutanan*, 1980.

²² Paul Gigot, "An International Plan for Control," *Far Eastern Economic Review*, November 30, 1979, p. 53.

exported. As significantly, Indonesian policymakers shifted their priorities in the timber sector and began taking steps to phase out log exports altogether.

Indonesia's Log Export Ban and the Growth of Hasan's Kalimantan Group

During the late 1970s, New Order policymakers began to prioritize the development of an internationally competitive plywood industry in Indonesia and imposed a series of increasingly stringent restrictions on log exports to push concession-holders to invest downstream. Initially, these restrictions took the form of increases in the state's export taxes on unprocessed timber and limits on the volumes of logs that could be exported for particular species. When these measures proved to be only moderately effective, the state adopted a decidedly more aggressive tactic and imposed a national ban on log exports.²³ The ban was announced on April 22, 1981 in a joint decision from the Directors General of Forestry, Multifarious Industries, Domestic Trade, and Overseas Trade, mandating that Indonesian log exports be phased out completely by January 1, 1985.²⁴

The log export ban and the restrictive regulations leading up to it triggered a massive influx of investment into Indonesia's wood processing industry, and scores of private timber companies brought plywood operations online through the early 1980s. Between 1978 and 1985, the number of plywood producers operating in Indonesia rose from nineteen to 101, while the industry's aggregate production capacity shot up from less than 800,000 m³ to 6.5 million m³ per year.²⁵ By decade's end, the number of producers had climbed even higher to 132 and annual production capacity had reached 12.6 million m³.

Beyond simply pushing private concession-holders to invest downstream, the log export ban set in motion an industry-wide shake-up, which resulted in large numbers of Outer Island forestry concessions changing hands through the mid-1980s.²⁶ Most foreign HPH-holders were reluctant to invest downstream in Indonesia's timber sector, and many sold their logging rights to their domestic partners or to other investors who

²³ Little is known about the degree to which Bob Hasan was involved in the New Order state's decision to ban log exports. It is likely, however, that he played an active role in the policymaking process leading up to the ban, and he may well have been the ban's strongest proponent, if not its chief architect. By the late 1970s, Hasan had established himself as a vocal advocate for collective marketing strategies and had already spent several years trying to organize Southeast Asian log producers into a regional timber cartel. He undoubtedly appreciated the prospects for organizing an Indonesian plywood cartel capable of dominating world markets if only the nation's concession holders could be pushed to invest downstream. With military and bureaucratic elites so heavily represented in the timber sector, it is inconceivable that the New Order bureaucracy would have imposed a full ban on log exports without Soeharto's active approval. By the same token, it is highly unlikely that the President would have made a decision of this magnitude without consulting at length with his primary advisor in the timber sector, Bob Hasan.

²⁴ For English translations of the Four Directors General Decision and related Decisions, see *Business News* (Jakarta) 3603/3604 (May 20, 1981): 1A-10A; 3605 (May 22, 1981): 9A-10A; 3606/3607 (May 27, 1981): 1A-2A.

²⁵ Bank Bumi Daya, "Indonesia Plywood 1980 - 1987," *Economic Review* 12,3 (1988).

²⁶ For a detailed discussion of the process through which timber sector capital became increasingly concentrated following the imposition of the log export ban, see C. Barr, "Discipline and Accumulate," Chapter Four.

were moving into the plywood industry. In a similar manner, dozens of Indonesian concession-holders—including many controlled by military or bureaucratic interests—chose either to sell their holdings outright or to align themselves with larger timber operators which had brought processing operations online. By 1989, the fifteen largest concessionaires held 171 of the 542 HPHs in operation at that point, covering over twenty-one million hectares, or 37.5 percent of the total area that had been distributed.²⁷ At least nine of these groups owned over one million hectares; three groups owned over two million hectares. Through long-term supply contracts, some of the largest groups also controlled substantial concession areas in addition to those HPHs they actually owned.

With state banks financing much of the Rp.2 trillion that had been invested in wood processing by 1985, senior New Order officials were in a position to influence the structure of the emerging plywood industry and to shape the specific constellation of interests around which the industry was organized.²⁸ Through this period, the state banking system regularly set interest rates on a borrower-by-borrower basis, which allowed the Soeharto regime to channel large sums of low- or no-cost loans to state elites and their clients in a highly discretionary manner.²⁹ For investors in the plywood industry, access to state financing was especially critical during the world recession of the mid-1980s, when Indonesian producers struggled with over-capacity and low levels of demand for wood panels in major export markets. Because producers had borrowed so heavily to establish processing operations, many were forced to sell their panels at a loss in order to maintain whatever cash flow they could, and by late 1984 at least fifteen had gone bankrupt.³⁰ Although the Central Bank officially suspended further credit allocations to investors in the plywood industry in August 1984, the state's leadership reportedly blocked it from taking more aggressive steps to call in outstanding loans.³¹ In large part, this stemmed from the fact that many of the timber groups with the largest debts had strong ties to senior officials.³²

²⁷ Extracted from PT Capricorn Indonesia Consult, "Study on Forest Concession (HPH) in Indonesia [sic]," (Jakarta: PT Capricorn Indonesia Consult, Inc., 1989).

²⁸ "Indikator," *Tempo*, August 3, 1985, p. 74. This figure corresponds to between US\$1.8 and US\$2.5 billion in investment, depending upon whether 1979 or 1985 exchange rates were used. Published sources do not break down the Rp. 2 trillion invested on a year-by-year basis.

²⁹ Jeffrey Winters, "The Political Economy of Banking Reform in Indonesia," Unpublished paper prepared for the annual conference of the Association of Asian Studies, Washington, DC, April 2-5, 1992.

³⁰ Paul Handley, "Indonesian Plywood Industry Continues to Face Hard Times," *Asian Business*, March 1985, pp. 52-53.

³¹ Vaudine England, "Two Steps Forward . . .," *Far Eastern Economic Review*, December 4, 1986, pp. 58-59

³² The state banks not only carried many of these groups through the recession; in some cases, they also orchestrated buy-outs and takeovers of ailing firms by investors connected to state elites. See "Sumber Mas Tanpa Jos," *Tempo*, October 27, 1984, p. 75. The burden of non-performing loans, however, often forced state banks to seek the assistance of healthier firms in the industry—regardless of their political connections—to bail out those approaching bankruptcy. Through the mid-1980s, the banks frequently requested the assistance of Prajogo Pangestu, who then had few connections to state elites but strong ties to Japanese capital and considerable experience in managing takeovers. Between 1984 and 1990, Prajogo's Barito Pacific Group emerged as Indonesia's largest plywood producer by taking over eight faltering firms with a combined production capacity of 650,000 m³ per year. See Adam Schwarz and Jonathan Friedland, "Green Fingers: Indonesia's Prajogo Proves That Money Grows on Trees," *Far Eastern Economic Review*, March 12, 1992, pp. 42-44.

By the late 1980s, as the recession subsided, capital ownership in Indonesia's plywood industry had become concentrated in the hands of a relatively small number of powerful timber groups. As Table 2 shows, the fifteen largest groups in 1990 owned sixty-five of the nation's 132 plywood firms. Collectively, these groups' processing facilities were capable of generating 6.8 million m³ of panels per year, which then accounted for 54 percent of the industry's overall production capacity. To supply logs for their processing operations, the top fifteen plywood producers altogether controlled 151 HPHs spanning an area of eighteen million hectares. (See Table 2 next page)

Bob Hasan's Kalimantan Group—Indonesia's eleventh largest plywood producer in 1990—grew out of the partnership that Hasan formed with Georgia Pacific in 1970. In 1973, Georgia Pacific Indonesia (GPI) established PT Kalimantan Plywood Industries in East Kalimantan to become the first HPH-holder to make a major investment in wood processing. Kalimantan Plywood's initial production capacity was 36,000 m³ per year, and it obtained logs from GPI's neighboring 350,000 hectare timber concession.³³ It appears that Georgia Pacific provided the bulk of the financing for the downstream investment, as Hasan's initial equity share in Kalimantan was only 10 percent.³⁴ In 1980, the Bob Hasan-Georgia Pacific partnership expanded its involvement in plywood production with the establishment of PT Santi Murni Plywood. Also located in East Kalimantan, Santi Murni had a production capacity of 105,000 m³ of commercial-grade plywood panels.³⁵

By the time Santi Murni was established, Bob Hasan's relative status in the partnership had changed considerably from what it had been in the early 1970s. Since 1975, the New Order state had begun to pressure foreign investors to transfer a majority share in joint ventures to the domestic partner, and Hasan's holdings in GPI and Kalimantan had risen to 50 percent.³⁶ Likewise, he controlled 60 percent of Santi Murni's shares from the outset of the venture. Moreover, by 1980 Bob Hasan's own financial base had expanded to a degree that he was able to invest in logging and processing operations independently of the US-based multinational. Through the 1970s, he had built a rapidly expanding business empire with interests in shipping, steel fabrication, tin manufacturing, petroleum service and supply, agroindustrial plantations, and a variety of other industries.³⁷

³³ Aruman, "Suaranya Selalu Didengar," *Prospek*, June 13, 1992, pp. 79-81.

³⁴ "Development of the Plywood Industry in Indonesia," *Indonesian Commercial Newsletter* 125, May 14, 1979, pp. 3-17.

³⁵ Apkindo, *Directory of the Plywood Industry in Indonesia* (Jakarta: Apkindo, 1985), p. 98.

³⁶ "Georgia-Pacific Planning Pullout From Indonesia," *Wall Street Journal*, August 19, 1983, p. 22.

³⁷ For a detailed list of Bob Hasan's business interests in the late-1980s, see PT Data Consult, Inc., *Anatomy of Indonesian Conglomerates Exposing 200 Outstanding Major Groups of Companies* (Jakarta: PT Data Consult, Inc., 1991); and PT Cisi Raya Utama, *A Study on 300 Prominent Indonesian Businessmen, 1990*, vol. I (Jakarta: PT Capricorn Indonesia Consult, Inc., 1991).

Table 2: Total Concession Area and Plywood Production Capacity of Indonesia's 15 Largest Timber Groups, 1990

Group	Number of HPHs	Total Concession Area	Number of Plywood Firms	Total Production Capacity (m ³ /year)
Barito Pacific	22	2,215,500	13	1,236,900
Korindo	7	828,000	6	624,000
Djajanti	24	2,726,500	6	618,000
Bumi Raya Utama	9	1,060,000	7	519,000
Indo Plywood	2	350,000	3	508,850
Alas Kusuma	17	2,248,000	5	409,340
Surya Dumai	7	904,000	3	405,400
Satya Djaya Raya	12	1,597,000	3	369,000
Kayu Lapis Indonesia	14	1,789,000	2	349,300
Raja Garuda Mas	2	259,000	2	340,000
Kalimanis	3	855,000	4	390,000
Sumber Mas	7	710,000	3	328,200
Tanjung Raya	7	669,000	3	270,500
Hutrindo	17	1,587,000	3	252,000
Tjipta Rimba Djaja	1	85,000	2	194,800
Subtotal, Top 15 Groups	151	17,883,000	65	6,815,290
Others	391	37,603,000	67	5,780,000
Industry Total	542	55,486,000	132	12,595,290

Sources: PT Capricorn Indonesia Consult (1989) for HPH data; Apkindo (1990) for plywood production capacity figures.

In 1980, Hasan invested independently to establish PT Kalhold Utama, a secondary process plywood mill in East Kalimantan capable of producing 90,000 m³ of panels per year.³⁸ He also obtained two new logging concessions during 1979-80 in the same province. PT Alas Helau was awarded a 330,000 hectare concession to supply logs to Santi Murni's plywood mill, and a 175,000 hectare concession was allocated to PT Timber Dana to supply logs to Kalhold.³⁹

In 1983, Georgia Pacific International and Bob Hasan entered the initial stages of a US\$410 million joint venture with the Government of Indonesia to establish a pulp and paper mill in the province of Aceh in northern Sumatra.⁴⁰ In July of that year, however, Georgia Pacific abruptly withdrew from the venture, citing a reorientation of its corporate strategy away from new foreign ventures following heavy losses the previous year. Two weeks later, the multinational announced that it would withdraw from all of its Indonesian operations.⁴¹

While Georgia Pacific's withdrawal occurred at a time when large numbers of foreign investors were pulling out of Indonesia, the international business press attributed the divestment to a broader reorientation of the multinational's corporate strategy rather than to dissatisfaction with Indonesian government policies or with its domestic partner. Indeed, the amicable terms on which Georgia Pacific and Bob Hasan apparently split contrast sharply with the mutual bitterness that characterized Weyerhaeuser's withdrawal from its partnership with the military-owned Tri Usaha Bhakti in November 1981.⁴² Both Hasan and Georgia Pacific's CEO emphasized that although the latter would no longer hold equity shares in any of the enterprises formed by the partnership, the two parties would continue to work together in mutually beneficial ways. T. Marshall Hahn, Jr., Georgia Pacific's President and CEO, stated at the time that the company

intended[ed] to maintain its ties with Indonesia by marketing a portion of the production from the two plywood plants and managing the related resin facilities . . . Our company and Mr. Hasan helped pioneer the Indonesian wood-products industry. We anticipate further progress with full Indonesian ownership and Georgia Pacific's management and marketing support.⁴³

Bob Hasan expressed similar sentiments, though rather more smugly, in saying, "I hope Georgia Pacific International, with about 170 marketing offices around the world, will continue to assist the marketing of my plywood."⁴⁴

Following Georgia Pacific's announcement, Bob Hasan quickly secured an agreement to purchase all of the departing firm's timber and plywood holdings, which

³⁸ Aruman, "Suaranya Selalu Didengar," p. 80.

³⁹ PT Capricorn, "Study on Forest Concession."

⁴⁰ "Bercerai Dulu, Bob," *Tempo*, August 6, 1983, p. 69; and Joseph Manguno, "Georgia-Pacific Cancels Venture in Indonesia," *Wall Street Journal*, July 22, 1983, p. 20.

⁴¹ "Georgia Mundur, Bob Terus," *Tempo*, August 20, 1983, pp. 70-71.

⁴² "Kalau Weyerhaeuser Angkat Kaki," *Tempo*, October 10, 1981, pp. 67-68.

⁴³ "Georgia-Pacific Planning Pullout From Indonesia," *Wall Street Journal*, August 19, 1983, p. 22.

⁴⁴ Manguno, "Georgia-Pacific Cancels," p.20.

were then valued at US\$40 million.⁴⁵ Paying for Georgia Pacific's shares with shipments of plywood, Hasan obtained full ownership of Kalimanis Plywood and Georgia Pacific Indonesia, which he renamed PT Kiani Lestari in 1984. In the case of Santi Murni Plywood, Hasan purchased a 17 percent interest from Georgia Pacific's 40 percent share through PT Kalhold Utama.⁴⁶ Hasan saw that the remaining 23 percent interest was divided among firms controlled by Soeharto and members of the first family. A 10 percent share went to PT Hanurata, a logging company owned by two foundations chaired by Soeharto and his wife, Yayasan Trikora (50 percent) and Yayasan Harapan Kita (50 percent). A 7 percent share in Santi Murni was assigned to PT Redjo Sari Bumi, a logging company owned by Soeharto's daughter Siti Hardijanti Rukmana (47.5 percent), Soeharto's son Sigit Harjojudanto (47.5 percent), Soeharto's brother Probosutedjo (2.5 percent), and Mrs. Soeharto's father Soemoharmanto (2.5 percent). The remaining 6 percent interest in Santi Murni went to PT Sumber Mari Timber, which Bob Hasan (30 percent) jointly owned with Soeharto sons Bambang Trihatmodjo (40 percent) and Sigit Harjojudanto (10 percent).

The distribution of Santi Murni's shares among members of the President's family was part of a broader strategy on Hasan's part in the early 1980s to consolidate his and Soeharto's joint-holdings in the timber sector. At the beginning of 1981, he orchestrated the formation of the Nusamba business group, the major shareholders in which were three foundations headed by Soeharto: Yayasan DAKAB, Yayasan Dharmais, and Yayasan Supersemar.⁴⁷ (The last of these, incidentally, had Soedjarwo, Director General—and later Minister—of Forestry, as First Treasurer). Initially, the Nusamba Group's main business interests were in banking, insurance, and other financial services. Bob Hasan and Soeharto's son Sigit each held a 10 percent interest in the group's parent company PT Nusantara Ampera Bhakti (Nusamba), and Soeharto's three foundations together controlled the remaining 80 percent.⁴⁸

Among the Nusamba Group's first ventures was a partial buy-out of Weyerhaeuser's former holdings in the International Timber Corporation of Indonesia. This move was made possible by the fact that Bapindo, the Indonesian Development Bank, had purchased Weyerhaeuser's 49 percent interest when the U.S.-based multinational pulled out of Indonesia. Acting as a broker for Soeharto's personal business interests, Bob Hasan apparently had little difficulty arranging for Nusamba to obtain a 15 percent share in ITCI's valuable 601,000 hectare concession. Soeharto's eldest son, Bambang Trihatmodjo, took over the remaining 34 percent held by Bapindo through his Bimantara Group.⁴⁹ Although Hasan's equity interest in the venture was relatively small, he secured the position of President Commissioner to assume much of

⁴⁵ "Georgia Mundur," p. 70.

⁴⁶ All ownership figures in this paragraph come from Pusat Business Data Indonesia, *Forestry Indonesia* 1988.

⁴⁷ PT Cisi Raya Utama, *A Study on 300 Prominent Indonesian Businessmen*.

⁴⁸ Hasan and Soeharto continue to use Nusamba aggressively as a vehicle for advancing their joint business interests. In the highly politicized struggle over the Busang gold mine in early 1997, Nusamba secured a 30 percent share of the mine's reserves before the century's largest gold discovery was revealed to be a hoax. Likewise, in October 1996, Hasan used Nusamba to obtain a controlling interest in PT Astra International, Indonesia's leading auto assembler and distributor.

⁴⁹ Pusat Business Data Indonesia, p. 329.

the managerial control over ITCI's operations that was previously exercised by Weyerhaeuser. In doing so, Bob Hasan further strengthened his political backing within the New Order state by consolidating his position as a manager of key military and first family business interests in the timber sector.

By 1989, the Kalimanis Group was reported to be Indonesia's twelfth-largest concession-holder in terms of HPH ownership.⁵⁰ At that point, the group officially owned three HPHs with a combined area of 875,000 hectares; however, the total area of logging concessions under Bob Hasan's control was much larger. Not only did he have direct managerial control over ITCI's enormous concession, but Kalhold was also involved in at least five joint ventures with Inhutani and one with Redjo Sari Bumi. In terms of processing capacity, the Kalimanis Group owned four plywood firms in 1990 (see Table 3). In addition to the three that Bob Hasan had established—either in partnership with Georgia Pacific or on his own—Kalimanis had also taken over PT Bukuan Sawmill in 1987, which had an annual production capacity of 90,000 m³. (Bukuan's name was then changed to PT Kiani Sakti). Following the takeover, Kalimanis had an overall production capacity of 390,000 m³ per year, and the group ranked eleventh among Indonesia's panel producers. Again, the total plywood production capacity under Hasan's managerial control was considerably higher than this following the establishment of ITCI's plywood mills, which had an annual production capacity of 110,000 m³ in 1990.⁵¹

Table 3: The Kalimanis Group's Plywood Production Facilities⁵²

Company Name	Production Capacity (m ³ /year)	Product Type	Location
PT Kalhold Utama	90,000	Ordinary plywood	East Kalimantan
	60,000	Secondary process	
PT Kalimanis Plywood Ind.	90,000	Ordinary plywood	East Kalimantan
PT Kiani Sakti	60,000	Particle board	East Kalimantan
PT Santi Murni Plywood	90,000	Ordinary plywood	
Total (4 firms)	390,000		

⁵⁰ PT Capricorn, "Study on Forest Concession."

⁵¹ Since the early 1990s, the Kalimanis Group has also invested heavily in industrial forest plantations (*hutan tanaman industri*, or HTI) and pulp and paper production. The group's HTI's include: PT Tanjung Redeb Hutani (290,000 ha; East Kalimantan); PT Surya Hutani Jaya (198,000 ha; East Kalimantan); and PT Alas Helau (175,000 ha; Aceh). In 1997, Kalimanis was also reported to be investing US\$ 1.11 billion in PT Kiani Kertas, a massive pulp production facility in the Berau region of East Kalimantan. For details on the creative strategies that Hasan has used to finance Kiani Kertas, see *Bisnis Indonesia*, February 8, 1997; March 29, 1997; and August 6, 1997. For a discussion of the social and environmental damage that the Kalimanis Group's operations have caused in East Kalimantan, and the efforts of Bentian Dayak communities to protect their land and resources from further encroachment, see Stephanie Fried's doctoral dissertation, "Writing for Their Lives: Bentian Dayak Authors and Indonesian Development Discourse," PhD dissertation, Cornell University, 1995.

⁵² Source: Apkindo, 1990.

The Formation of Apkindo and the Organization of Strategic Marketing

Although the New Order state's ban on log exports effectively catalyzed the development of a large-scale plywood industry, it did nothing to insure that Indonesian-made panels would be competitive in international markets. In fact, for Indonesian timber operators trying to establish a foothold in the international plywood trade, the timing of the ban could hardly have been worse. The world-wide recession of the early 1980s kept demand for hardwood panels low in most major consumer countries, and plywood prices were weakened further by the sharp increases in the volume of Indonesian panels entering international markets. This pushed Indonesian plywood producers into fierce competition with one another simply to find buyers for the panels they were generating. For long stretches, many producers were forced to sell their plywood at or below the cost of production in order to maintain whatever cash flow they could manage.⁵³

To eliminate the cut-throat competition that developed among Indonesian producers and to expand the power of the nation's plywood industry in international markets, the New Order state began working closely with the Indonesian Wood Panel Association (Asosiasi Panel Kayu Indonesia, or Apkindo) in the years following the announcement of the log export ban. Apkindo had been formed as the Indonesian Plywood Producers' Association (Asosiasi Produsen Kayu Lapis Indonesia) in February 1976 by the nation's first thirteen plywood firms.⁵⁴ For the first several years of its existence, the producers' association functioned primarily as a forum in which members exchanged information on the manufacturing and marketing of plywood and as an advocacy group that lobbied policymakers on matters related to the wood panel industry. It held no regulatory power and apparently exercised little direct influence over the production and marketing practices of its members.

As Indonesian plywood producers struggled to find buyers during the early 1980s, the state gave Bob Hasan a broad mandate to transform Apkindo into a collective marketing apparatus with cartel-like control over the nation's plywood exports. Hasan put in place organizational structures that would enable the producers' association to coordinate the sales of its rapidly growing membership in order to manage price fluctuations in international plywood markets. By 1984, the most significant of these included an Apkindo-wide Marketing Commission; six market-specific Price Stabilization Teams; and seven Joint Marketing Boards.⁵⁵ The activities of each of these were to be overseen by Apkindo's Executive Director, who in turn would report to the association's Board.

⁵³"Yang Berlomba Dengan Bunga," *Tempo*, April 21, 1984, pp. 76-77. In fact, the actual discrepancy between Indonesian plywood firms' production costs and export prices has been obscured by the heavy subsidies that the New Order state has provided to the nation's wood processing industry. Because the state has failed to capture a substantial portion of the rents that timber operators have generated from their logging operations, the real price of raw logs for Indonesian panel producers has been considerably lower than it would have been had they purchased their logs in international markets at competitive prices. Prathama and Vincent point out that "when log inputs were valued at world prices, total average costs in the plywood industry between 1981 and 1984 exceeded average export price (US\$223.68 per m³) by US\$133.83 per m³." See Ida-Bagus Prathama and Jeffrey Vincent, "United States Demand for Indonesian Plywood," *Bulletin of Indonesian Economic Studies*, 28,1 (1992): 101-112.

⁵⁴ Apkindo, *Directory of the Plywood Industry in Indonesia* (Jakarta: Apkindo, 1986).

Apkindo's Price Stabilization Teams were charged with compiling information and monitoring trends for specific national and regional markets.⁵⁶ The respective geographic foci of the six teams were: 1) Indonesia's domestic market; 2) the United States and Canada; 3) the United Kingdom and the European Economic Community; 4) Hong Kong and the People's Republic of China; 5) Singapore and the Middle East; and 6) new markets. The Price Stabilization Teams' main function was to formulate market-specific policy recommendations, which they would submit to the Marketing Commission on a quarterly and annual basis. The Marketing Commission then used these recommendations to formulate industry-wide policies for both the domestic sale and export of Indonesian panels. Initially, the Commission set check prices every three months for plywood sales to each destination market. Beginning in 1986, the Commission also established quotas for the volume of panels to be shipped to specific markets and would divide shares of these quotas among the association's seven Joint Marketing Boards (JMBs). The Commission was made up of the Presidents and Vice Presidents of the JMBs and was headed by a Chair and two Vice Chairs. The Vice Chair positions were occupied by JMB Presidents and rotated on a quarterly basis.

Apkindo's 108 members were organized into Joint Marketing Boards, ranging in size from six to twenty-two firms, in September 1984.⁵⁷ In forming these bodies, Apkindo's Board reportedly instructed Indonesian plywood producers to affiliate themselves with producers with whom they shared a common outlook on the market and with whom they could work cooperatively. The JMBs were not organized according to factory location or the destination markets of their members, nor were the members of a JMB required to merge their operations or to enter into joint ventures of any sort. The specific make-up of the seven Joint Marketing Boards was formalized in October 1984 by a Letter of Decision from the Minister of Trade.⁵⁸ The Minister's Decision not only recognized the JMBs by name but also listed the specific firms that made up each one.

In making it clear that plywood export licenses would only be issued to members of a recognized JMB, the Trade Minister's Decision gave Apkindo significant regulatory powers over its members' export practices.⁵⁹ Under the joint marketing system, Indonesian plywood producers were permitted to negotiate non-binding sales arrangements with prospective buyers. Binding sales contracts, however, could only be made by the JMB on behalf of the member concerned. The JMB would review proposed sales agreements to determine that the volume of panels, price, and terms of payment were in accordance with the policies put forth by the Marketing Commission. Letters of Credit, moreover, could only be issued to the JMB on behalf of a member firm. They would then be transferred to the contracting firm's account. All matters related to shipping and claims would be the responsibility of the individual exporter,

⁵⁵ Apkindo, *Directory*, 1986.

⁵⁶ Apkindo, *Directory*, 1986.

⁵⁷ "Delapan Kelompok Mencari Pembeli," *Tempo*, September 22, 1984, p. 70

⁵⁸ "Indikator," *Tempo*, October 27, 1984, p. 74. For the full text of the Decision, see "Keputusan Menteri Perdagangan No. 1198/P/X/84 tanggal 15 Oktober 1984 tentang Pengukuhan Pembentukan Kelompok Badan Pemasaran Bersama dan Tata Niaga Ekspor Kayu Lapis," *Business Indonesia* 4120, October 17, 1984, pp. 9B - 13B.

⁵⁹ "Pengukuhan Pembentukan," *Business News*, October 17, 1984.

although a description of each was required to be included in a report submitted to the JMB following each sale.

On April 21, 1986, the Minister of Trade issued a second Letter of Decision, which increased Apkindo's control over plywood exports even further.⁶⁰ With this new decision, the state gave Apkindo the power to assign marketing quotas to individual producers. Under the joint marketing system that had been in place since the Minister's first decision in October 1984, Apkindo's Marketing Commission held the authority to set prices and overall volume limits on Indonesian panel sales to particular markets, which were then enforced by the JMBs. Individual producers, however, were free to decide for themselves where they would sell their panels and in what quantities, as long as they did not violate the industry-wide parameters set by the Commission. The Trade Minister's 1986 decision gave the Marketing Commission the authority to assign each JMB a quota for the volume of panels that its members could sell to "traditional" markets.⁶¹ Firms that either exceeded or failed to meet the volume of panels assigned to them faced fines of US\$100 for every cubic meter that they over- or under-sold their quota. In this way, Apkindo assumed the authority not simply to set prices that Indonesian producers could charge for their panels but also to control the volumes of panels that each producer could export.

Initially, Apkindo's Marketing Commission focused its efforts on capturing a substantial share of the world's "traditional" plywood export markets. It did so by flooding markets in the United States, Canada, several European countries, China, Saudi Arabia, and other countries in the Middle East with large volumes of cheap, commodity-grade panels. By controlling the prices of Indonesian panel shipments, Apkindo marketing strategists were able to insure that the association's members consistently undercut competitors from other plywood-exporting countries. In the US market, for instance, Apkindo used a predatory pricing strategy to displace South Korean and Taiwanese producers, which had supplied approximately 60 percent of US hardwood imports in 1983.⁶² During the years immediately following the formation of the Marketing Commission, Apkindo kept the relative price of Indonesian panel exports to the United States at between 50 and 80 percent of the average price of panels from South Korea and Taiwan.⁶³ By 1987, Apkindo had captured 74 percent of the US hardwood plywood import market, while Taiwan's share dropped to 18 percent and South Korea's fell to 1 percent. Indonesia's total plywood exports that year were just under 6 million m³, and Apkindo accounted for 67 percent of world tropical plywood exports—up sharply from the 29 percent that had it supplied just five years earlier (see Table 4).⁶⁴

⁶⁰ Mohamad Cholid, "Primadona Yang Sumbang," *Tempo*, August 2, 1986, p. 69.

⁶¹ Apkindo used the term "traditional markets" to refer to countries that already imported large volumes of plywood by the time Indonesia's plywood industry underwent its rapid expansion in the early-1980s. As defined by Apkindo, these included: the US and Canada; the United Kingdom and Europe; Hong Kong and China; Singapore; and the Middle East. All other markets were referred to as "new markets."

⁶² I. B. Prathama and J. Vincent, "United States Demand," p. 107.

⁶³ Alice H. Ulrich, *US Timber Production, Trade, Consumption, and Price Statistics, 1960—88* (Washington, DC: USDA Forestry Service, December 1990), Miscellaneous publication 1486.

⁶⁴ Food and Agriculture Organization (FAO), *Yearbook of Forestry Statistics*, 1987.

Table 4: Indonesia's Share of World Tropical Plywood Exports, 1980-1991

Year	Indonesian Exports (‘000 m3)	World Exports (‘000 m3)	Indonesia's Share of World Exports (%)
1980	283	3,852	7.3
1981	764	4,542	16.8
1982	1,250	4,234	29.5
1983	2,023	5,119	39.5
1984	3,021	5,455	55.4
1985	3,241	6,284	51.6
1986	3,873	6,969	55.6
1987	5,951	8,807	67.6
1988	6,901	9,667	71.4
1989	8,047	11,059	72.8
1990	8,513	11,522	73.9
1991	8,959	11,399	78.6
Total	52,876	88,909	59.5

Sources: Apkindo (cited in Michael Lyons, "Export Marketing of Plywood From Indonesia," Rome: Food and Agriculture Organization, 1995); FAO, *Yearbook of Forestry Statistics*..

In carrying out its predatory pricing strategies, Apkindo's leadership found that a high level of discipline among Indonesian plywood exporters was needed in order to minimize the negative effects of "free riders." Indeed, during the early months after Apkindo's price controls were put into effect, many producers obtained windfall profits by selling their panels below JMB-approved prices.⁶⁵ To put a stop to such practices, Apkindo called on the state in April 1985 to impose sanctions against eight producers which had supposedly been caught undercutting the association's check prices on shipments to the US market.⁶⁶ At least three of the eight ranked among the industry's largest and most politically well-connected firms. These included PT Kayu Lapis Asli Murni, which was jointly owned by members of the Soeharto family and long-time Soeharto crony Liem Sioe Liong; PT International Timber Corporation of Indonesia, the shareholders of which included the Defense Ministry, Soeharto-controlled foundations, and Soeharto's son Bambang Trihatmodjo; and PT Barito Pacific Lestari, whose majority shareholder, Karsudjono Sinuredjo, was then the Executive Director of Apkindo.⁶⁷

⁶⁵ Adam Schwarz, "Timber Troubles," *Far Eastern Economic Review*, April 6, 1989, pp. 86-88.

⁶⁶ "Hukuman Main Kayu," *Tempo*, May 11, 1985, p. 69.

⁶⁷ "Plywood Exports Reinstated," *Indonesian Commercial Newsletter*, July 29, 1985, p. 47.

The state responded to Apkindo's "request" by suspending all eight firms' export licenses for three to six months. Given the powerful interests involved, the suspensions were clearly the result of a strategic decision made by Soeharto himself—undoubtedly with Bob Hasan's encouragement—to send a message that the state was prepared to enforce Apkindo's regulations. The fact that the penalties were as stiff as they were and that the sanctioned firms included two with direct ties to the President must have made it very clear to even the most powerful players in the industry that violations of Apkindo's marketing policies would not be tolerated.⁶⁸

Apkindo and the Consolidation of Bob Hasan's Interests

In addition to facilitating the use of collective marketing strategies to expand Indonesian plywood producers' share of world export markets, Apkindo's institutional structure further consolidated the accumulatory power of elite interests within the nation's plywood industry. Following the association's transformation into a cartel in 1983, Apkindo's Board of Directors was dominated by a handful of the industry's largest producers, each of which has ties to senior-level state elites. As Table 5 shows (see next page), the eight individuals holding seats on Apkindo's Board in 1985 represented timber groups that collectively owned twenty-eight plywood firms capable of generating 1.8 million m³ per year—or 31 percent of the industry's production capacity at that point.

Through their position on the Board, these individuals were able to insure that their own timber groups' interests were taken into account by Apkindo's Marketing Commission and Price Stabilization Teams. Membership in these bodies gave the industry's most powerful producers far-reaching influence over the shape and direction of Apkindo's marketing policies. It is likely that these groups used whatever leverage they had in setting volumes and prices of Indonesian panels to be sold in particular markets so as to maximize the profit-making opportunities directed towards their own JMBs. Indeed, the distribution of export quotas among JMBs was almost certainly an intensely contested process, as market access and market share were largely determined within Apkindo, not in the marketplace.⁶⁹ Beyond simply trying to

⁶⁸ While it is not clear how rigorously these suspensions were enforced, the severity of the sentence cannot be overstated. In letter, if not in practice, the producers involved were prohibited from selling their panels in any export markets during the suspension period, not just in the US market where they were accused of underpricing. In addition to cutting deeply into each firm's profits for 1985, this threatened to disrupt their contacts with panel buyers, who would be forced to seek out alternate sources of Indonesian plywood. For producers with heavy short-term debts, a suspension of this duration could prove to be catastrophic. This may well have been the case for the Harapan Kita Utama Group, whose firm PT Harapan Papa Plywood was among those suspended. By February 1986, the group was reported to be near bankruptcy with capital debts of Rp. 50 billion, or approximately US\$ 4 million. At that time, the firm's operations were being controlled by Bank Negara Indonesia 1946 while the state-owned bank searched for a third party interested in conducting a buy-out. See "Menunda Utang, Menunda PHK," *Tempo*, February 15, 1986.

⁶⁹ In language that is typical of New Order discourse, a historical sketch of Apkindo published by the Forestry Department describes the decision-making process within the producers association as follows: "In formulating each operational policy that is adopted, discussions are held to reach a consensus in the Commission or Teams involved. In these discussions, every member speaks openly, which is something that was previously very difficult to do because competitive feelings ran high among members. In this way, a process of mutual learning has developed among members. Large producers help the small

maximize the volume of plywood that their own JMBs would be permitted to export, members of the Marketing Commission most likely struggled to secure quotas for the particular markets and panel types that would generate the highest rates of return.

Table 5: Apkindo's 1985 Board of Directors

Name	Group Affiliation	Number of Firms	Production Capacity (m3/year)
Bob Hasan	Kalimanis	2	210,000
Sukanto Tanoto	Raja Garuda Mas	1	90,000
H.A. Tabasulla	Satya Djaya Raya	3	240,000
Burhan Uray	Djajanti	6	342,000
Karsudjono Sinuredjo	Barito Pacific	4	374,600
Haris Sutedja	Bumi Raya	5	157,400
Akie Setiawan	Hutrindo	5	380,000
Hartono	Perhutani	2	n.a
Board Totals		28	1,793,600
1985 Industry Totals		108	5,830,000

Source: Apkindo (1985)

While Apkindo's institutional structures consolidated the marketing power held by a handful of the industry's major timber groups, none of these groups' institutional authority has matched the power held by Bob Hasan.⁷⁰ Drawing on his close ties to Soeharto, Hasan secured the Chair of Apkindo's Board of Directors during the association's 1983 restructuring and has fiercely guarded this position ever since. He has used his executive powers aggressively to control the appointments of Apkindo's senior officers and to guide the association's major marketing initiatives. Through his tenure as Chair, Hasan has developed a reputation for tolerating little dissent among

producers, the advanced help the weak and those that are still backwards. At times, conflicts of interest among companies also arise within these discussions. In such instances, Apkindo's leadership steps in and takes whatever measures are needed to promote the common interest and the national interest."

Departemen Kehutanan and PT Herzal Agrokarya Pratama, *Industri Kehutanan di Indonesia* (Jakarta: PT Herzal Agrokarya Pratama, 1991), p. 214.

⁷⁰ Bob Hasan also holds the top position in several other industry associations in the timber sector. These include: the Indonesian Timber Society (Masyarakat Perkayuan Indonesia, MPI); the Indonesian Sawmillers' Association (ISA); the Indonesian Association of Timber Companies (Asosiasi Pengusaha Hutan Indonesia, APHI); the Indonesian Wood Products Producers' Association (Asosiasi Produsen Hasil Kayu Indonesia, APHKI); and the Indonesian Association of Furniture and Handicrafts (Asosiasi Permebelan dan Kerajinan Indonesia, Asmindo).

Apkindo's members; and because his signature is required on all export permits, few Indonesian plywood producers have challenged him openly.⁷¹

Not surprisingly, Bob Hasan has used his power within Apkindo to generate immense profits for himself and the elite interests that he represents. Among the most lucrative perquisites that he has enjoyed has been control over the institutional funds passing through Apkindo. Since 1983, Indonesian plywood producers have been required to pay a variety of institutional fees to Apkindo in addition to whatever fees, levies, and taxes they pay to the state. These have included Apkindo membership dues; overhead fees; a forest inventory fee; and a fee for export promotion and market development.⁷² The most substantial of these has been the export promotion/market development fee, which was supposedly put in place to finance Apkindo's efforts to expand international markets for Indonesian plywood producers. The promotional fee was set at US\$7 per m³ of panel exports when it was introduced in 1983, and was raised to US\$10 per m³ in 1985. In 1987, the fee for some types of panel exports was raised to US\$25 per m³, and in the early 1990s the ceiling on some types of specialty plywood was upped to US\$60 per m³.⁷³

Estimates published in 1995 suggest that Indonesian plywood producers paid over US\$700 million in promotional and market development fees during the decade 1983-93.⁷⁴ Many producers acknowledge that the promotional fee was necessary during Apkindo's early years when the producers' association played an important role in establishing contacts with foreign buyers and opening new markets for Indonesian wood panels. Since the late 1980s, however, Apkindo members have complained that the promotional fee is redundant because Indonesian plywood producers have already gained access to the world's major export markets. In fact, there is widespread resentment within the producers' association over the fact that Apkindo leadership has provided no detailed accounting to show how the funds generated by the promotional fee have been used.⁷⁵ It is generally believed that Bob Hasan has held discretionary

⁷¹ Raphael Pura, "As Suharto Crony," pp. 3,18.

⁷² In 1989, Indonesian plywood producers were required to pay Apkindo US\$ 0.11 per m³ to cover Apkindo overhead; US\$ 2 per m³ to support a forest inventory project; and US\$ 7 per m³ for market development. These fees were in addition to the US\$ 6 per m³ concession fee and US\$ 4 per m³ reforestation fee that they had to pay to the state. See Adam Schwarz, "Timber Troubles," *Far Eastern Economic Review*, April 6, 1989, pp. 86-89.

⁷³ See Bachrul Alam et al., "Munas Versus Dana Promosi," *Prospek*, June 15, 1991, pp. 17-18; and Gilang Pamungkas, "Menggugat Peran Apkindo," *Prospek*, October 1, 1994, pp. 24-25.

⁷⁴ Amin et al., "Menyoalkan Peran Kuat Apkindo-Bob Hasan," *Sinar*, February 18, 1995, pp. 10-12. This figure is based on an assumption that a fee of US\$10 was collected for 71 million m³ of panel exports during this period. If interest is calculated, it is estimated that the amount collected by Apkindo may be closer to US\$1 billion.

⁷⁵ When confronted with member firms' complaints about the promotional fee in 1995, Apkindo's Executive President Tjipto Asmaning Wignoprajitno adamantly denied that such a slush fund exists. He claimed that Apkindo's institutional funds are regularly audited by a public accountant and that any unused funds have been returned to the producers. He failed to specify, however, which Apkindo members were fortunate enough to receive rebates. Pressed on the issue, Tjipto adopted a tone of thinly veiled intimidation that has long characterized the discourse used by Apkindo's leadership: "Who's been complaining? Which companies? And what are they complaining about? They should just come in here, then I'll show them the public accountant's figures. Anyone can take a look, as long as they are a member [of Apkindo]." See "Kalau Ada, Kami Bagi-Bagi," *Sinar*, February 18, 1995, p. 20.

control over these and other funds collected by Apkindo and has used them to finance his own investments both in wood processing and in other sectors.⁷⁶

Bob Hasan has also used his influence in the producers' association to set up sweetheart deals for his own companies. Among the first of these was a monopoly contract requiring all Indonesian plywood exports to be covered by the Hasan-owned insurance firm PT Tugu Pratama.⁷⁷ A similar contract was awarded to Hasan's Kencana Freight Lines, giving it exclusive rights to ship Indonesian wood panels to foreign markets.⁷⁸ Apkindo has released little information about either contract, so it is difficult to know exactly how Hasan put such arrangements in place or how profitable they have been for him. The strategy employed by Hasan, however, is quite clear. Rather than attempting to maximize his Kalimanis Group's plywood production capacity, Hasan has sought to position himself between Indonesian producers and foreign markets. By controlling shipping and insurance for Apkindo's international sales, Hasan has insured that he profits from all Indonesian wood panel exports while avoiding the bulk of the risks and production costs involved.

Bob Hasan and Apkindo's Assault on the Japanese Market

During the second half of the 1980s, as the world's tropical plywood trade rebounded from the recession, Apkindo reoriented its export strategy to focus on "new" markets. By then, Apkindo had captured a commanding share of the world's "traditional" plywood export markets, and the cartel's leadership decided to challenge the well-established wood processing industries of Northeast Asia on their own turf. Most significantly, Apkindo began shipping increasingly large volumes of Indonesian panels to Japan, whose own plywood industry was then generating over seven million m³ annually for domestic consumption.⁷⁹ Although exports to that country technically were overseen by Apkindo's Price Stabilization Team for "new markets," Bob Hasan personally guided Apkindo's strategy to raise Indonesian panel sales to Japan. In this position, Hasan acted not simply to increase Indonesian producers' collective access to the world's largest market for tropical plywood; he also reorganized Apkindo's

⁷⁶While no public information exists on how Apkindo's institutional fees have actually been used, Bob Hasan is known to have "borrowed" large amounts of investment capital from the Reforestation Guarantee Deposit Fund (*Dana Jaminan Reboisasi*), which the state has collected from private concession-holders. In February 1997, it was reported that Hasan had obtained Rp. 250 billion—or US\$ 109 million—from the DJR to finance his group's pulp and paper investments through PT Kiani Kertas. At the time, Forestry Minister Djamaloedin Soeryohadikoesoemo was quoted as saying that this allocation would enable PT Kiani Kertas to complete its investment and to repay previous "loans" from the DJR more quickly. See *Warta Ekonomi*, "Dana Reboisasi: Dari Pinjaman eh . . . ke Penyertaan!" February 17, 1997. Bob Hasan is also known to have drawn on funds from the timber industry's workers' cooperative (*koperasi karyawan*) in mid-1995 to assist in bailing out Bukopin, a heavily-leveraged bank that had been run by the Cooperative Movement (*Gerakan Koperasi*) and the Bulog Foundation. This was one of several bailouts that Hasan orchestrated in 1994-95 to help stabilize banks with ties to Soeharto's foundations. For details, see Uni Z. Lubis et al., "Bisnis Uang Si Raja Kayu," *Warta Ekonomi*, July 10, 1995, pp. 72-76.

⁷⁷ For further information on PT Tugu Pratama, see Uni Z. Lubis, "Bisnis Uang Si Raja Kayu."

⁷⁸ G. Pamungkas, "Menggugat Peran Apkindo," p. 25.

⁷⁹ FAO, *Yearbook of Forestry Statistics*.

marketing structures to expand his own accumulatory power and to strengthen his institutional muscle within the producers' association.

When Hasan first proposed large-scale plywood exports to Japan in the mid-1980s, most industry observers perceived the Japanese market to be virtually impenetrable to Indonesian producers. On the one hand, Japan had a large, efficient plywood industry which was capable of supplying 98 percent of that country's total domestic demand.⁸⁰ It had imported only 51,000 m³ of hardwood panels in 1983, the bulk of this coming from South Korea and Taiwan. On the other hand, Japan's plywood industry was well-protected against foreign competitors by heavy tariff and nontariff trade barriers. Following tariff reductions in 1982, Japan's Ministry of Trade applied tariffs of 20 percent for hardwood panels with a thickness less than six millimeters and 19.3 percent for panels with a thickness greater than six millimeters. In addition, the Japanese government required that imported plywood panels meet stringent Japanese Agricultural Standards (JAS) before they could be used for public works projects. Often, aesthetic considerations would be used to deny JAS certification to imported panels, thereby reducing their value by 6 to 7 percent relative to domestically-produced plywood with the JAS stamp.⁸¹

Under Hasan's guidance, Apkindo attempted to circumvent these trade barriers by flooding the Japanese market with cheap panels. Through the late 1980s, Indonesian producers were required to sell a volume of plywood equal to 10 percent of their previous year's production to Japanese buyers, or face fines of US\$ 50-60 per m³ and risk having their quotas cut for other markets.⁸² Apkindo priced these panels well below market value in order to undercut Japanese producers by up to 10 percent even after the tariff had been added. With this strategy, Indonesian panel shipments to Japan rose from 139,000 m³ in 1984 to 3.2 million m³ in 1989. By then, Apkindo accounted for 97 percent of Japan's plywood imports and supplied 31 percent of the plywood consumed by the Japanese economy.⁸³

These significant gains in market share, however, meant little in terms of profits for Indonesian exporters through the late 1980s. On the contrary, the sharply increasing volume of Indonesian plywood shipped to Japan brought only marginal returns and, in many cases, growing losses for Apkindo members. The producers' association set prices for panels sold to the Japanese market that were well below world market rates

⁸⁰ Although Indonesian plywood producers had a distinct comparative advantage over their Japanese competitors in terms of access to raw materials, the relative efficiency of Japanese producers compensated for at least part of this. As Nectoux and Kuroda point out, most Japanese panel producers had log recovery rates exceeding 65 percent and some had recovery rates as high as 82 percent. Most Indonesian producers at the time were operating with log recovery rates in the range of 40-50 percent, indicating that over half of their raw materials was generally lost as waste in the panel production process. See Francois Nectoux and Yuichi Kuroda, *Timber from the South Seas: An Analysis of Japan's Tropical Timber Trade and its Environmental Impact* (Gland, Switzerland: WWF International, 1989), p. 46.

⁸¹ International Trade Administration, *The Japanese Solid Wood Products Market: Profile and Outlook* (Washington, DC: US Department of Commerce, 1989), pp. 136-137.

⁸² Max Wangkar, "Denda dan Peta di Balik Sukses Kayu Lapis," *Tempo*, September 17, 1988, p. 82.

⁸³ FAO, *Yearbook of Forestry Statistics*.

and that frequently dropped below the cost of production and shipping.⁸⁴ In 1988, for instance, the average C&F price of Indonesian plywood exported to Japan was US\$286 per m³, while the average price for all Apkindo exports that year was US\$335 per m³.⁸⁵ In press interviews, Bob Hasan repeatedly emphasized that Indonesian producers would need to absorb such losses for the short-term in order to weaken Japan's wood processing industry to the point that Apkindo would be able to control prices in that country's domestic market.

Through the late 1980s, however, Apkindo's predatory pricing strategy did not have the devastating effect on Japan's plywood industry that Hasan frequently predicted. To be sure, the flood of cheap Indonesian plywood either caused or accelerated the closing of a substantial number of Japanese plywood factories.⁸⁶ But Japan's remaining panel producers received heavy subsidies from the Japanese government and state banks to maintain production levels above 6.7 million m³, or roughly the same levels as those recorded in 1981-82.⁸⁷ Many Japanese firms also adopted strategies that enabled them to profit from the ready availability of cheap Indonesian plywood. Some specialty plywood producers reduced their input costs by applying finishes to Indonesian-made panels rather than manufacturing their own. Similarly, Japanese trading companies (*sogo shosha*) quietly purchased large volumes of Indonesian plywood and marketed it as "made-in-Japan," often turning a significant profit on the price differential between domestically-produced panels and Indonesian imports.

In this context, Bob Hasan moved strategically to restructure Apkindo's marketing mechanism in a manner that would vastly expand his own control while Indonesian plywood producers continued to absorb heavy losses in the Japanese market. In October 1988, he surprised Japanese panel buyers and Indonesian producers, alike, by announcing that Apkindo would form a joint venture with a Japanese trading company to function as that country's sole importer of Indonesian plywood.⁸⁸ According to this arrangement, 95 percent of Nippindo, as the venture was called, would be owned by Apkindo and 5 percent would be held by Kanmatsu Shoji Trading Co.. Kanmatsu had been the first Japanese plywood importer to purchase Indonesian panels when it obtained a shipment of 6,000 m³ in 1979. At the time Nippindo was

⁸⁴ "Tarif Jepang Tetap Alot", *Tempo*, December 22, 1984, pp. 71-72; Harwanto et al., "Mukjizat Kudu Jepang," *Tempo*, February 8, 1986, pp. 64-65.

⁸⁵ Adam Schwarz, "Ruffled Feathers," *Far Eastern Economic Review*, April 6, 1989, p. 88.

⁸⁶ Sixty plywood mills are reported to have closed between 1980 and 1989, although it is unclear how many of these were due to bankruptcy and how many were involved in a government-supported restructuring program which encouraged them to move either downstream or into other industries. Seichi Okawa, "Kayu Lapis, 'Yendaka' & Problema Tarik Ulur Tentang Bea Masuk Antara Indonesia dan Jepang," *Bisnis Indonesia*, May 17, 1993, p. 8.

⁸⁷ In early 1986, for instance, the Government of Japan and private financial institutions extended 150 billion yen of subsidized credit to members of the Japanese Plywood Manufacturers' Association. See *Tempo*, February 8, 1986.

⁸⁸ Budi Kusumah et al., "Menjaring Pasar Matahari Terbit," *Tempo*, November 19, 1988, pp. 90-91.

formed, Kanmatsu reportedly purchased over 100,000 m³ annually from Indonesian producers.⁸⁹

According to Bob Hasan, the primary reason for establishing an Apkindo-owned trading house to serve as the sole importer of Indonesian plywood in Japan was to circumvent the trading companies that had functioned as intermediaries between Indonesian producers and the Japanese market. This would not only enable Indonesian exporters to capture the profits being gained by the *sogo shosha*, but would also give Apkindo direct access to distributors in each of the major subnational markets within Japan. To get the venture off the ground, Apkindo required each of its members to contribute US\$50,000 to assist Nippindo in opening its initial letter of credit.⁹⁰ Three months later, however, Bob Hasan abruptly refunded each member's money and claimed personal ownership over all of Apkindo's shares.

With Hasan holding a 95 percent interest in the new trading house, Nippindo took control over the different types of Indonesian plywood exported to Japan in stages. In 1988, when the monopoly trading company was founded, Nippindo handled only the export of concrete-molding panels (*kon pane*), which then made up approximately 28 percent of Indonesian plywood sales to that market.⁹¹ Hasan grabbed a larger share in late 1991 by also making Nippindo the sole outlet for thin (2.4 mm) panels and floorboards (945 mm X 1,840 mm, 12 mm thickness), which made up an additional 8 percent and 28 percent of the market, respectively.⁹² In late 1993, Nippindo established full control over Indonesian shipments to Japan, which then totaled approximately 3.4 million m³ per year—or 38 percent of Apkindo's overall exports.⁹³

Controlling the distribution of such large volumes of plywood has been an extremely profitable undertaking for Bob Hasan without requiring him to assume much, if any, direct personal risk. By setting the price for the panels that Indonesian producers sell to Nippindo, Hasan is able to insure that he obtains a significant profit from the mark-up when the panels are resold to Japanese distributors. Indeed, this arrangement allows Hasan to take a cut on every panel of Indonesian plywood shipped to Japan, regardless of whether its sale price is at all profitable to the producer. By April 1992, for instance, Indonesian producers had reportedly been forced to absorb losses of US\$120 for every cubic meter of concrete-forming panels shipped to the Japanese market since the start of 1990.⁹⁴ Although the production cost of the panels stood at US\$320, the C&F price that Nippindo paid to producers was set at US\$200. Nippindo, in turn, sold these panels to Japanese buyers for US\$220-225 per m³. Kusumah et al. estimate that with approximately 2.1 million m³ of concrete-forming panels sold to Japan during 1990-91, Indonesian producers were stuck with losses

⁸⁹ See S. Okawa "Kayu Lapis, 'Yendaka' & Problema," for an informative interview with Kanmatsu's President Director Kiyoshi Mazaki.

⁹⁰ Budi Kusumah et al., "Menjaring Pasar Matahari Terbit," p. 91.

⁹¹ Japan Tropical Forestry Action Network (JATAN), "Japan's Role in the Commercial Exploitation of Indonesian Forests for Timber," Unpublished paper prepared for the Eighth International NGO Conference on Indonesia (INGI), Yokohama, Japan, March 20-22, p. 20.

⁹² JATAN, "Japan's Role," p. 21.

⁹³ S. Okawa "Kayu Lapis, 'Yendaka' & Problema," and FAO, *Yearbook of Forestry Statistics*.

⁹⁴ Budi Kusumah, Ivan Haris, and Seichi Okawa, "Jual Rugi," *Tempo*, April 4, 1992, pp. 89-90.

totaling US\$210 million during this two-year period. At the same time, Nippindo obtained between US\$42 million and US\$57 million in handling fees and mark-up costs.⁹⁵

Not surprisingly, the formation of Nippindo has generated a great deal of resentment among Indonesian panel producers, although very few have challenged Hasan openly. Most of Apkindo's members appear to have resigned themselves to accepting losses in the Japanese market in order to avoid heavy fines or cuts in their quotas for other markets.⁹⁶ Initially, some producers also sought to maintain at least partial autonomy from Nippindo by shifting their production from ordinary plywood to higher-value decorative panels.⁹⁷ Apparently, Apkindo allowed them to count decorative panels as part of their quota for the Japanese market but to export them independently. By late 1993, however, this exemption was no longer permitted.

The Expansion of Bob Hasan's Marketing Monopolies

Through the early 1990s, Hasan and Apkindo's leadership established several additional marketing monopolies to oversee Indonesian plywood exports to specific national and regional markets. These included: Indo Kor Panels Ltd. in Hong Kong to handle sales to the South Korean market; Celandine Co. Ltd. in Hong Kong to coordinate panel shipments to China and Taiwan; PT Fendi Indah in Jakarta to manage exports in the Middle East; and Fendi Wood in Singapore to oversee sales to Singapore and Europe.⁹⁸ As with Nippindo, each of these marketing firms entered into a joint venture with a domestic interest in the importing country shortly after its inception. In each case, the joint venture has functioned as the sole importer of Indonesian plywood into that country, and in this way, Apkindo has developed some measure of control over the distribution of its members panels *within* many of the world's major export markets.

⁹⁵ In fact, this estimate may be conservative, as Nippindo has been accused of stockpiling Indonesian plywood when market prices are low and selling the panels for a higher profit when prices go up. See "Nippindo Miliki 'Running Stock' 300,000 m³/bulan," *Bisnis Indonesia*, August 15, 1994, p. 1.

⁹⁶ See, for instance, Bachrul Alam et al., "Munas Versus Dana Promosi," *Prospek*, June 15, 1991, pp. 17-18. The only timber group known to have challenged Hasan's control over the sale of Indonesian plywood to Japan was the industry's largest producer, Barito Pacific. Through the early 1990s, Barito sold at least a portion of the panels that it shipped to Japan to Mitsubishi, Mitsui, Marubeni and other trading companies with which Barito-owner Prajogo Pangestu had long-standing contacts. Specific data on Barito's panel sales to Japan are not publicly available, so it is difficult to determine what portion of its exports circumvented Nippindo. According to an American panel buyer who purchased Indonesian plywood for a Mitsui-subsiary in the early 1990s, Barito's panels would regularly appear in that firm's warehouses although the quantities would vary from month to month. (Interview with David Aldwinckle, August 12, 1994.) Indeed, he described the sale of Barito-made panels to Mitsui as being fairly sporadic, "seeming to depend on Prajogo's moods more than anything else." It is possible that these fluctuations more accurately reflected Prajogo's shifting position vis-à-vis Bob Hasan within Apkindo, rising whenever Prajogo felt it necessary to assert Barito's independence from Hasan's control.

⁹⁷ A 1993 World Bank report on Indonesia's timber sector suggests that this may be the underlying reason that production of decorative plywood rose from 25,000 m³ in 1989/90 to 500,000 m³ a year later. See World Bank, "Indonesia —Production Forestry: Achieving Sustainability and Competitiveness," Draft report no. 11758-IND, 1993, p. 62.

⁹⁸ Vincent Lingga, "Apkindo's Export Monopoly is Outdated," *Jakarta Post*, October 27, 1994, p. 4.

In terms of the marketing strategy involved, it was difficult for Apkindo's leadership to argue that the new monopolies, like Nippindo, were needed to protect Indonesian producers from powerful foreign trading companies. In fact, by the early 1990s, Apkindo had already put in place marketing restrictions which allowed the producers' association to exert a great deal of control over the volume and price of Indonesian panels shipped to some importing countries. Beginning in June 1990, for instance, Apkindo permitted only twenty-two of the 142 plywood buyers in the South Korean market—which then accounted for approximately 10 percent of Apkindo's sales—to import Indonesian panels.⁹⁹ The twenty-two firms on Apkindo's list of "recommended buyers" were required to purchase an assigned volume of Indonesian plywood each quarter at Apkindo-set check prices. Those that did not purchase their assigned quota in a given quarter or that were suspected of manipulating prices risked having their quotas cut or being removed from Apkindo's list of designated importers altogether.¹⁰⁰

Although Apkindo's system of recommended buyers clearly gave the Indonesian producers' association significant leverage over South Korean panel importers, there was also some degree of cooperation between the two sides. Vincent Lingga reports that members of the Korean Imported Plywood Association (KIPA) would meet regularly with Apkindo's marketing strategists to discuss price trends and the volume of hardwood panels that the country's market could absorb. Apkindo strategists would then use this information to set prices and quotas for Indonesian panel shipments at levels that would advance Apkindo's interests under the prevailing market conditions. Under most circumstances, the designated importers apparently passed on to consumers much of the added costs associated with purchasing panels from Apkindo rather than from producers in other countries. At times, however, Apkindo maintained artificially high prices during periods of market contraction, thereby sticking the recommended buyers with significant losses.¹⁰¹

Between late 1993 and late 1994, Apkindo's leadership imposed a series of changes in its export strategy for South Korea which consolidated the association's control over that country's import market quite considerably. According to Lingga, Apkindo cut the number of recommended buyers permitted to purchase Indonesian panels from nineteen to four in October 1993. The four firms to retain their designated importer status were: Sesil Trading Co. Ltd.; Korin Trading Co. Ltd.; the Korean Development

⁹⁹ The details of Apkindo's shifting marketing strategy vis-à-vis South Korean panel buyers, as described in the following paragraphs, are drawn extensively from Vincent Lingga's excellent article, "Plywood Exports Fall in Wake of Apkindo Tug of War With Korea," *Jakarta Post*, October 27, 1994, p. 5.

¹⁰⁰ In August 1992, three importers were removed from Apkindo's list, reducing the number of recommended buyers to nineteen. V. Lingga, "Plywood Exports Fall."

¹⁰¹ Between March 1993 and January 1994, for instance, Apkindo raised its prices for plywood shipments to South Korea from US\$425 per m³ to US\$650 per m³. In large part, this sharp price rise was made possible by Sabah's halting log exports and reductions in the levels of log extraction in Sarawak and Papua-New Guinea. Apkindo's price hike, however, quickly exceeded the effective demand in the South Korean market. Indeed, oversupply and weakening demand led prices within that country's market to drop to US\$450 per m³ by October 1993. Apkindo let South Korean panel importers carry heavy losses for several months before it even began to lower its check prices. Apkindo's price reductions began in February 1994, but it was not until July of that year that they declined to US\$460. V. Lingga, "Plywood Exports Fall."

Corporation (Kodeco); and Sunkyung Co. Ltd. In February of the following year, Apkindo took its restrictive policies a step further and established a Hong Kong-based trading company named Indo Kor Panels Co. Ltd. to oversee Indonesian plywood sales to the South Korean market. Apkindo's four recommended buyers in Seoul were then prohibited from communicating directly with Indonesian producers and were required, instead, to place all plywood orders through Indo Kor.

In August 1994, Apkindo abruptly dismissed the four recommended buyers and assigned sole authority to import Indonesian panels to a trading company named Sesil Industries Co.. Apkindo's appointment of Sesil Industries to function as a monopoly importer of Indonesian plywood was particularly striking in that Sesil Industries had no prior experience trading in wood products. Almost immediately after the monopoly import arrangement was announced, however, Sesil Industries transferred power of attorney to Sesil Trading Co.—a seasoned importer which reportedly has no relation to Sesil Industries other than its name—to buy and sell the plywood on its behalf. Sesil Trading, in turn, named five large firms to function as distributors of Indonesian panels: Sunkyung; Hyosung; Samsung; Eagon; and Hyundai Wood.

In Indonesian press reports, Apkindo's Executive Director, Tjipto Asmaning Wignoprajitno, claimed that the dismissal of the four recommended buyers was brought on by their failure to provide Apkindo with accurate market information when the producers' association sought to set export quotas.¹⁰² On a more fundamental level, however, Apkindo's increasingly restrictive marketing policies were clearly designed to advance the consolidation strategies of Bob Hasan and his business partners in Seoul. Although the Hong Kong-based trading company's ownership structure has never fully been made public, Hasan is generally recognized to hold a controlling interest in Indo Kor. Moreover, Sesil Trading—which now handles the import and distribution of Indonesian plywood in South Korea—has had long-standing ties to Hasan, having served for many years as an exclusive supplier of imported machinery, parts, and industrial materials to the Kalimantan Group. On a more personal level, the owner of Sesil Trading, a South Korean magnate named Lee Won-Kyu, is known to be the brother-in-law of the Kalimantan Group's marketing director, Gerald White.¹⁰³ According to Lingga, White traveled to Seoul in August 1994 as Apkindo's representative to negotiate the monopoly importer arrangement that was forged between Indo Kor, Sesil Industries, and Sesil Trading.

Like Indo Kor—and Nippindo before it—each of Apkindo's new monopoly trading companies is controlled, and most likely owned, by Bob Hasan.¹⁰⁴ In creating the four

¹⁰² According to Lingga, many South Korean importers claimed that the dismissal of the recommended buyers was caused by their collusion with Indonesian producers to purchase plywood below the check prices set by Apkindo. Apparently, the invoices for their transactions would report the check price, but the producers would later quietly return a portion of the money to the importer. See V. Lingga, "Plywood Exports Fall."

¹⁰³ V. Lingga, "Plywood Exports Fall." Jerry White is a Canadian who has worked closely with Bob Hasan for the last twenty-five years. During the 1970s, he was the President of Georgia Pacific Indonesia, the joint venture through which Hasan first became involved in the timber business. When Georgia Pacific International pulled out of Indonesia in the early 1980s, Hasan apparently persuaded White to stay on with Kalimantan to serve as his chief marketing strategist.

¹⁰⁴ V. Lingga, "Apkindo's Export Monopoly."

additional marketing monopolies, Hasan expanded the portion of Indonesian plywood exports under his direct control quite substantially from the 34 percent that producers sold through Nippindo in 1994. The destination markets covered by the four firms—South Korea, China, Taiwan, the Middle East, Singapore, and Europe—collectively accounted for 53 percent of Apkindo's panel exports during that year.¹⁰⁵ In this way, Hasan has controlled the marketing of roughly seven million m³ of panels per year since 1994—or approximately 57 percent of *world* tropical plywood exports. By charging a handling fee of between US\$ 5 and US\$ 6 for every cubic meter of panels that they sell, Nippindo and Hasan's new marketing monopolies have collectively generated between US\$ 35 million and US\$ 42 million annually in fees alone.¹⁰⁶ It is likely that their profits are significantly higher if reports are true that the monopoly trading companies regularly mark up the plywood they sell from the price they pay Indonesian producers and/or stockpile cheap panels when demand in destination markets is down in order to obtain higher resale profits when prices rise.

Beyond producing enormous financial profits for Bob Hasan, the installation of the new marketing monopolies has vastly expanded Hasan's capacity to control the distribution of profits within Indonesia's plywood industry.¹⁰⁷ They have done so, on the one hand, by shifting the locus of power within the producers' association away from Apkindo's Marketing Commission and Joint Marketing Boards. Under Apkindo's previous system, these institutional structures had provided arenas for several of the industry's most powerful timber groups to negotiate Apkindo-wide policies for the price and volume of Indonesian plywood exports and the distribution of export quotas among producers. Since the installation of the marketing monopolies, however, Hasan-owned firms have determined Apkindo policies for most export markets and have allocated sales orders to individual panel producers. By cutting off all contact between Indonesian producers and foreign plywood buyers, Hasan's monopolies have, in fact, put an end to producers' playing an active role in marketing the panels they generate. Their role, rather, has become that of suppliers for Hasan's marketing firms, as they now receive orders for panel shipments from the various marketing monopolies, which they are required to supply at pre-set prices.¹⁰⁸ The producer only finds out the

¹⁰⁵ The only major export market not known to be covered by a Hasan-controlled monopoly by the mid-1990s was North America. In 1988, however, Hasan purchased Chesapeake Hardwoods, based in Norfolk, Virginia. For several years, there has been speculation among US-based environmental groups that North American importers seeking to purchase panels from Apkindo members must first have their orders cleared with Chesapeake. The opaque nature of the US tropical plywood import market makes it difficult to confirm or to deny these rumors. Hasan is also known to import Indonesian plywood into the US market through Kiani USA, based in Los Angeles.

¹⁰⁶ Lingga notes that this is in addition to the US \$10 per m³ that exporters are required to pay for financing Apkindo's operations.

¹⁰⁷ Some observers have suggested that Bob Hasan is, at this point in his career, more interested in controlling the industry than in maximizing his own profits. Raphael Pura, for instance, points out that "unlike other tycoons, Mr. Hasan doesn't appear enthralled by building his own fortune or establishing a family dynasty. He eschews the ostentatious lifestyle favored by some of his wealthy compatriots . . . That leads some acquaintances to conclude that power, or more precisely control, is Mr. Hasan's true love. Several . . . contend that pushing rivals into submission motivates Mr. Hasan and accounts for his hard-nosed tactics. 'Bob is not just content to win,' says an Indonesian timber executive. 'He'll squeeze you and then smile and ask, 'Does that feel nice?'' See R. Pura, "As Suharto Crony," p. 18.

¹⁰⁸ V. Lingga, "Apkindo's Export Monopoly."

identity of the buyer in the importing country when the bill of sale eventually comes through.¹⁰⁹

If the imposition of the marketing monopolies in 1994 significantly strengthened Hasan's ability to control the distribution of profits within Indonesia's plywood industry, they initially weakened Apkindo's leverage in world markets. Through much of 1994 and 1995, demand for Indonesian plywood fell precipitously, as Northeast Asian panel buyers responded to Apkindo's restrictive trade practices by seeking out alternate sources of tropical plywood and Malaysian producers flooded export markets with underpriced panels. After reaching US\$ 600 per m³ in 1993, the value of Indonesian plywood exports declined by 11.8 percent between 1993 and 1994; and through the first four months of 1995, it plunged 25 percent further.¹¹⁰ Perhaps not surprisingly, Hasan's own firms reportedly enjoyed uninterrupted business through this market slump, while smaller and less politically powerful producers had to endure long waits to receive export quotas.¹¹¹ At PT Gunung Meranti, a large plywood producer in South Kalimantan, for instance, tons of panels piled up in the company's warehouses for lack of an export permit. Gunung Meranti's management eventually laid off a portion of the company's labor force and shifted the firm's production from commodity-grade plywood to decorative molding, which it could export outside Apkindo marketing channels.¹¹² Less capitalized firms, such as PT Rimba Ramin and PT Batasan, responded to their inability to obtain export permits from Hasan's marketing firms by suspending operations altogether. Others, such as PT Austral Byna and PT Kawi, reportedly went bankrupt.

In quite another sense, it is significant that Bob Hasan established his marketing monopolies at a time when the Ministry of Forestry was intensifying its regulation of the nation's timber industry. Beginning in 1993, Minister Djamiloedin Soeryohadikoesoemo carried out a series of high-profile actions against logging companies deemed to be violating the HPH-contract.¹¹³ In several cases, the Minister levied heavy fines against concession-holders who were delinquent in paying the state's Forest Product Royalty (*Iuran Hasil Hutan*) or the Reforestation Guarantee Deposit (*Dana Jaminan Reboisasi*) that the state required. By controlling access to plywood export permits for most of Apkindo's destination markets, Hasan was often in a position to determine whether targeted firms were able to pay their fines and, in at least one case, used his leverage to expand his own concession-holdings. In early 1995,

¹⁰⁹ M. Nuryadi et al., "Lingkaran Setan di Plywood," *Sinar*, February 18, 1995, pp. 16, 18.

¹¹⁰ "Calls to Reconsider Apkindo's Raison D'etre," *Asian Timber*, (n.d.), 1995.

¹¹¹ Agung Mattauch and Nurhanafiansyah, "Rindunya Eksportku," *Sinar*, February 18, 1995, p. 19.

¹¹² PT Gunung Meranti's Director, Hendrawantiono (a.k.a. Han Chong), is one of the few plywood executives to speak out publicly against Apkindo's restrictive marketing practices. In an interview in February 1995, he complained that Apkindo "has turned into a monopoly, which is killing us. In the past, buyers could come to the factory and negotiate directly with us. Now, that doesn't happen any more. The harmonious relationship between us and the buyers no longer exists . . . Now Apkindo decides everything . . . Once a price has been set by Apkindo, well, we just have to go along with it. In fact, we know how much the price should be. So, even if we lose money, well, we just have to accept our losses. Because it has already been determined by Apkindo." See "Semua Dimonopoli Apkindo," *Sinar*, February 18, 1995, p. 19.

¹¹³ See, for instance, "Indonesia Revokes 75 Forest Concessions," *Reuters News Service*, December 16, 1994; and Richard Borsuk, "Prajogo Gives State Firms Share of Forest Concession," *Asian Wall Street Journal*, September 12, 1994, p. 3.

it was reported that PT Jati Maluku, a subsidiary of the Sinar Mas Group with a 207,000 hectare concession in Maluku, had been taken over by Hasan's Kalimantan Group.¹¹⁴ At the time of the take-over Jati Maluku had been ordered to pay a fine of Rp. 25 billion (approximately US\$11 million) to cover delinquent payments of the DJR and IHH fees. Jati Maluku found itself in a double bind, as its cash assets were insufficient to cover this fine and its affiliated plywood operation was not able to obtain export quotas to generate the liquidity the firm needed.¹¹⁵ Hasan stepped in and bought the ailing firm's logging concession at an undisclosed price. According to unnamed industry sources, the Forestry Department dropped Jati Maluku's fine to Rp.3 billion (US\$1.3 million) once the firm was in Hasan's hands.

Indonesia's Current Financial Crisis and the De(Re)regulation of Apkindo

By requiring Apkindo's member firms to export the bulk of their panels through trading companies under his direct control, Bob Hasan has put himself in a position to micromanage the distribution of profits within Indonesia's plywood industry. Hasan has used his extraordinary powers within the cartel to insure that his own Kalimantan Group maintains continuous access to preferred markets and to determine which of the industry's other producers are able to survive market slumps and government crackdowns. As significantly, Hasan has been able to collect a handling fee and to capture substantial mark-up costs on approximately 87 percent of Indonesian panel exports, thereby extracting enormous profits from Indonesian wood processors regardless of whether world prices for tropical plywood are high or low. With Indonesia supplying over 70 percent of world hardwood plywood exports, Bob Hasan's personal influence over the international panel trade is altogether unparalleled.¹¹⁶

¹¹⁴ Sulaeman Sakib, Asep Samboja, Victoria Sijabat, "Tangan-Tangan 'Si Raja Hutan,'" *Sinar*, February 18, 1995, pp. 13-14.

¹¹⁵ A similar process led to the bankruptcy in May 1995 of the Dayak Besar Group, a large wood-processing conglomerate owned by Chinese entrepreneur Yusuf Hamka and retired Army Generals Solihin, Gatot Soewagio, and Syamsuddin. Djamiloeidin revoked the group's timber permits when it failed to pay Rp. 1.5 billion in delinquent DJR and IHH fees. Yusuf Hamka complained that, in large part, the group's failure to pay these fees had been caused by limited cash flow due to restrictions placed on its plywood exports. Initially, it was announced that Bob Hasan and PT Sumalindo Lestari Jaya would take over Dayak Besar, but they both stepped back so that the group could be bought out by Probosutedjo, Soeharto's half-brother. After several months, however, Probosutedjo decided not to go through with the buy-out, claiming that the group's HPHs had only limited remaining timber stocks. See Syahrizal Budi Putranto et al., "Dayak Besar Tenaga Kurang," *Warta Ekonomi*, May 8, 1995, pp. 16-19.

¹¹⁶ As part of his efforts to expand his global reach, Hasan has mounted aggressive public relations campaigns in the United States, Europe, and other destination markets where efforts have been made to restrict imports of tropical wood products. Since the beginning of last year Hasan has received at least three environmental awards from US-based organizations. In April 1997, his Kalimantan Group was honored at a White House ceremony for its efforts to reduce green-house gas emissions. Although Hasan's firms have ravaged the forests of East Kalimantan for over twenty-five years, Kalimantan has received recognition from the Clinton Administration for practicing "reduced-impact logging" on 1,480 acres in conjunction with the United States Initiative on Joint Implementation (USIJI). In August, North Carolina State University—to which Hasan had made a gift of between \$100,000 and \$150,000—bestowed on him an honorary professorship as part of the ceremonies marking the opening of his massive Kiani Kertas pulp mill in East Kalimantan. This, in turn, was followed by Hasan being named to receive the Harry A. Merlo

Indonesia's current financial crisis, however, poses a fundamental challenge to Apkindo's highly-restrictive marketing arrangements. In one sense, the devaluation of the *rupiah*, combined with the sharp drop in demand for tropical panels, have threatened to push large numbers of plywood producers out of business. More directly, the International Monetary Fund (IMF) has made the dismantling of the plywood cartel—along with several other monopolies controlled by Soeharto cronies and family members—an important precondition for the disbursement of the Fund's US\$43 billion bailout loan. When President Soeharto signed the Government of Indonesia's second Letter of Intent with the IMF on January 15 of this year, he agreed that the New Order state would permit Indonesian plywood producers to sell their panels free of Apkindo's export restrictions by February 1.

Apkindo's senior officials immediately responded to the IMF agreement by mounting an aggressive public relations campaign in which they adamantly denied that the producers' association has used restrictive marketing practices to control Indonesian plywood exports. Putting his usual spin on things, Bob Hasan claimed that the association's purpose and organizational practices have been grossly misunderstood:

Many people consider Apkindo to be a cartel. In fact, that is not its function. Rather, it guides wood panel producers in raising the quality of their product, and in maintaining [this quality], so that it does not undermine the reputation of all Indonesian products. Apkindo also helps members to obtain quality certification like the Japan Agricultural Standard (JAS) so that it can capture international markets and get a good price.¹¹⁷

Likewise, Apkindo's Chief of Daily Operations, Tjipto Asmaning Wignoprajitno, asserted that the producers' association was being called to task for practices that it never employed. The IMF's criticisms, he suggested:

Raise the question of which of Apkindo's practices are considered to be those of a cartel. Because Apkindo has never set prices. We only give market information to our members. If that is what makes us a cartel, then we just won't give them that kind of information any longer. As for the plywood export quotas [which the IMF has challenged], these were not set by Apkindo but by the Government.¹¹⁸

At the same time, Tjipto stated that the association's leadership was prepared to dismantle Apkindo if the Government instructed it to do so.

In fact, Apkindo has worked closely with state policymakers to dismantle select elements of the cartel's institutional structure during the weeks following the January agreement with the IMF. By January 28, Minister of Industry and Trade Tungky Aribowo had issued four Letters of Decision which apparently disbanded Apkindo's Joint Marketing Boards and rescinded the association's authority to assign export

Award for "environmental achievement," which is given annually by the World Forestry Center—an Oregon-based industry PR group on whose Board Hasan sits. For further information, see Leslie Weiss, "Why is One of Asia's Most Unscrupulous Foresters Winning Environmental Awards?" *Mother Jones*, November 18, 1997.

¹¹⁷ "Ekspor Kayu Lapis Diharap Sama Dengan 1997," *Kompas Online*, January 17, 1998.

¹¹⁸ "Apkindo Tidak Keberatan Untuk Dibubarkan," *Bisnis Indonesia*, January 22, 1998.

quotas to its members.¹¹⁹ For its part, Apkindo's leadership arranged a meeting in Tokyo between seventy Indonesian plywood producers and over one thousand Japanese panel buyers.¹²⁰ While these actions have certainly made good press, it is difficult to know how far Apkindo's controls over its members marketing practices have actually been lifted. In fact, Apkindo officials have simultaneously attempted to introduce at least two new mechanisms of control, which would seem to leave the door open for Bob Hasan to reassert his leverage over the marketing practices of Indonesian plywood producers if and when the political-economic climate changes.

Beginning February 1, Apkindo's leadership sought to require panel producers to pay an "export guarantee deposit" (*dana jaminan ekspor*) of Rp. 50,000 for every cubic meter of plywood they sell.¹²¹ This fee was reportedly to be used to support the operation of an Apkindo Statistics Center (*Pusat Statistik Apkindo*) that would compile data on each firm's panel shipments. According to Tjipto Wignoprajitno, "The export deposit is actually intended to discipline member firms so that they will submit export data reports that are needed by Apkindo's Statistics Center." He maintained that Apkindo would refund the fees submitted by each producer within one month's time as long as they provided two copies of their export reports to the Statistics Center within a designated time frame. Given Apkindo's track record in managing funds collected from its members, however, it is difficult not to interpret the introduction of the export deposit as an effort on the part of the association's leadership to recoup at least a small portion of the fees which they are no longer able to collect.¹²² With Indonesian producers exporting approximately 652,000 m³ of plywood per month, it is estimated that the export deposit would channel Rp. 32.6 billion—or approximately US\$ 3.6 million at current exchange rates—into Apkindo coffers on a monthly basis. Under pressure both from the IMF negotiating team and from its own members, Apkindo was forced to abandon its plans to collect the export deposit by early March.¹²³

By the middle of March, there were also indications that Apkindo was taking steps to protect its control over the shipping of Indonesian plywood exports.¹²⁴ Under the previous system, plywood producers were required to surrender their panels to the association's Central Cargo Booking and Shipping Coordinator (CCBSC), which handled all aspects of the shipment of Indonesian panels to most foreign markets. It was through this body that Bob Hasan was able to manage the monopoly shipping contract that Apkindo had assigned to his Kencana Freight Lines in the late 1980s. In response to the IMF-mandated reform measures, Apkindo's leadership replaced the CCBSC with a Shipping Service Center, which it claimed would function simply to

¹¹⁹ "Apkindo Tak Akan Dibubarkan," *Bisnis Indonesia*, January 28, 1998. The Minister's four Letters of Decision are numbered SK No. 26-29/MPP/Kep/1/1998.

¹²⁰ "70 Pengusaha Kayu Lapis Bertemu Pembeli Jepang," *Kompas Online*, February 7, 1998.

¹²¹ "Apkindo Minta Jaminan Rp. 50,000/m³," *Bisnis Indonesia*, February 10, 1998.

¹²² Tjipto essentially admitted as much, pointing out that the deposit set by the Statistics Center was smaller than the US\$10 per m³ marketing fee that Apkindo had collected: "The decision [to lower the fee] was made bearing in mind that current economic conditions are not profitable." See "Apkindo Minta Jaminan Rp. 50,000/m³," *Bisnis Indonesia*.

¹²³ "Apkindo Hapus Dana Jaminan Ekspor Kayu," *Bisnis Indonesia*, March 3, 1998.

¹²⁴ "Apkindo Membentuk P3A," *Bisnis Indonesia*, March 16, 1998.

compile statistical data on Indonesian panel shipments and make recommendations to Indonesian exporters. Captain Soewarto, the Center's director, emphatically denied that the new body would collect any fees from Apkindo's member firms or be involved, in any way, in negotiations between plywood companies and shippers. His denials, however, have been received with muffled skepticism by Indonesian panel producers.

Bob Hasan's appointment as Minister of Industry and Trade on March 15 has given the man who has dominated Indonesia's plywood industry over the last fifteen years one of the most powerful portfolios within the state's Seventh Development Cabinet. Hasan's appointment is widely believed to have been motivated by Soeharto's desire to protect his family's vast business empire as the New Order regime confronts the enormous economic and political challenges that it faces in the months and years ahead. In effect, Soeharto has placed the nation's trade and industrial policy in the hands of one of his closest associates, who has managed many of his own business interests over the last forty years. As the regime's new point person in negotiations with multilateral lenders and bilateral trade partners, Hasan's brash statements have led to growing international concerns about the Government's commitment to carrying out the far-reaching reforms outlined in the two loan agreements that President Soeharto signed with the IMF.

In the timber sector, Hasan has already introduced policies that appear to counteract some of the deregulation measures put in place by his predecessor, Tungky Aribowo, this past January. On April 20, the new Minister of Industry and Trade issued a Letter of Decision placing plywood and a variety of other wood products on the government's list of "restricted export" commodities.¹²⁵ This effectively places Bob Hasan, in his official capacity as Minister, in the familiar position of being able to regulate which plywood producers will be permitted to export their panels and in what quantities. On May 7, Hasan announced that after consulting with Apkindo's leadership, he had decided to set Indonesia's plywood export quota for the coming year at 6.9 million m³—a 20 percent drop from the total volume of panels that Indonesian producers exported last year.¹²⁶

By way of explanation, Bob Hasan has argued that such restrictions are necessary to guarantee adequate timber supplies since the IMF agreements have forced the New Order state to lift the log export ban.¹²⁷ Although the continued use of plywood export quotas would appear to be a blatant violation of these agreements, Fund officials, to date, have registered no public protest. In fact, Apkindo's Tjipto Wignoprajitno has claimed that the IMF has already approved the continuation of the cartel's restrictive

¹²⁵ "Apkindo: SK Baru Hanya Untuk Jamin Bahan Baku," *Bisnis Indonesia*, April 25, 1998. This Letter of Decision is SK Menperindag No. 182/MPP/Kep/4/1998.

¹²⁶ "Kuota Panel Ekspor Kayu Ditetapkan 6,9 Juta m³," *Bisnis Indonesia*, May 7, 1998.

¹²⁷ In fact, Apkindo has announced that its members have "voluntarily" agreed to maintain a moratorium on log exports in order to ensure that there are adequate supplies of timber for the nation's wood processors. At the same time, the state has introduced a "Resource Rent Tax" (RRT) to compensate for at least a portion of the cuts that it has made over the last several weeks in its steep Export Tax on logs. See "Anggota Apkindo Sepakat Tidak Ekspor Kayu Gelondongan," *Angkatan Bersenjata*, March 31, 1998; and "Penetapan RRT 20% Untuk Ekspor Kayu Log Masih Layak," *Bisnis Indonesia*, April 13, 1998.

export practices through the year 2000.¹²⁸ He explained that Fund officials have agreed to permit the New Order state to apply export restrictions to any commodity for which quotas had been applied prior to the signing of the January Letter of Intent between the IMF and the Government of Indonesia. Moreover, Tjipto explained, Apkindo will continue to assign firm-level export quotas to each of its members—as it has since 1986—in order to “protect against the emergence of a monopoly on the part of any one firm.”¹²⁹ In short, there is every indication that Apkindo will continue to control the marketing of Indonesian plywood for as long as the Soeharto regime is able to remain in power. Indeed, as Bob Hasan summed up the situation in mid-April, “This is the Republic of Indonesia, not the IMF Republic!”¹³⁰

¹²⁸ “Kuota Panel Ekspor Kayu,” *Bisnis Indonesia*.

¹²⁹ “Kuota Panel Ekspor Kayu,” *Bisnis Indonesia*.

¹³⁰ Gwen Robinson and John Authers, “Jakarta: Tough Talks in Prospect Over Debt,” *Financial Times*, April 16, 1998.