ROGUE TRADERS:

The Murky Business of Merbau Timber Smuggling in Indonesia









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TERMINOLOGY

In this report the term Papua applies to the Indonesian part of the island of New Guinea. Papua Province and West Papua Province refer to the two provinces which make up Papua.





INTRODUCTION

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ABOVE:
Merbau logs being shipped from Raja Ampat, West Papua province, April 2003.

Five years ago EIA/Telapak released The Last Frontier report, exposing massive smuggling of merbau logs from Papua in Indonesia to China. The scale was breathtaking, with cargo ships carrying about 300,000 cubic metres of merbau logs a month to feed China's wood processing industry. In response the Indonesian government of President Susilo Bambang Yudhoyono launched an unprecedented crackdown on illegal logging.

This decisive action marked a turning point in Indonesia's struggle against illegal logging. Since then the country's appalling illegal logging rate has fallen and the flow of illegal timber smuggled out of the country has declined. As well as improving enforcement, the Indonesian government has also been active at the policy level; it has mandated a new timber legality verification system and has been negotiating a legal timber trade agreement with the European Union. The international community has also moved to curb trade in stolen timber, estimated to cost developing countries $15 billion a year. In 2008 the US amended its Lacey Act, making it an offence to import or trade illegally-logged timber, while in June 2010 the EU agreed a new timber regulation prohibiting imports of stolen wood.

Despite this substantial progress illegal logging continues to threaten Indonesia's precious forests. In April 2010 President Yudhoyono expressed frustration with the lack of progress in prosecuting illegal logging cases and instructed the government's task force on eradication of judicial corruption to investigate.

The President is right to call for renewed action against illegal logging. EIA/Telapak investigations into merbau smuggling contained in this report show the involvement of a well-connected cabal of criminals able to evade detection with the support of corrupt officials.

During 2009 and 2010 EIA/Telapak carried out undercover investigations into the illicit merbau trade in China and Singapore, as well as Surabaya, Makassar and Papua in Indonesia. These investigations reveal how significant amounts of illegal merbau, in the form of square logs and rough sawn timber, continue to be smuggled out of Indonesia, with the bulk bound for China. They also uncover the illegal activities of two rogue timber traders; Hengky Gosal, the man behind a foiled attempt to ship 23 containers of merbau logs, and Ricky Gunawan, a serial smuggler based in Surabaya.

EIA/Telapak recognises the progress made in Indonesia against illegal logging, yet believes stronger action is needed to tackle the timber criminals. Until 2005 the Indonesian government estimates that illegal logging cost the country two billion dollars a year – a huge environmental crime. Yet the prosecution of illegal logging cases has been woefully inadequate.

EIA/Telapak call on the Indonesian government to investigate the cases detailed in this report, and to staunch the illicit trade in merbau by placing it under the UN Convention on International Trade in Endangered Species. It also needs to ensure that the new timber legality system is robust enough to guarantee surveillance is effective. It is time to step up the campaign against illegal logging.

EIA/Telapak, August 2010



INDONESIA'S STRUGGLE AGAINST ILLEGAL LOGGING

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ABOVE:
Logs seized near Jayapura in 2005, guarded by troops prior to shipment to Surabaya, June 2007.

In mid-October 2009 customs officers at the sprawling port of Tanjung Priok, north of the Indonesian capital Jakarta, made a startling discovery. While carrying out a routine inspection of a consignment of containers described as "truck flooring", one officer's suspicions were aroused by the sheer weight of one of the containers. Closer inspection revealed its contents to be raw logs of merbau, a valuable hardwood. The discovery prompted an x-ray scan of all 23 containers which had arrived in a single batch from the Indonesian port of Makassar, South Sulawesi, bound for export to China, India and South Korea. Inside a total of 120 merbau logs, weighing 400 tonnes, were found.

This audacious attempt to evade Indonesia's log export ban indicates that the fight against illegal logging and timber smuggling in the country has still to be won. It also shows that serious flaws in the implementation of forestry regulations and timber licensing rules persist, with corruption a key factor.

The merbau timber was logged in Papua in eastern Indonesia and shipped to Makassar; permits for transportation are supposed to allow all timber to be tracked from forest to factory. Once loaded into containers the "truck flooring" should have been physically checked by an independent surveyor appointed by the government, after which a wood export permit is issued. The 23 containers of illegal merbau logs received the necessary timber export paperwork in Makassar and if not for a sharp-eyed customs officer in Jakarta would have been shipped out of the country. Clearly a serious failure in the system for countering wood smuggling occurred.

Investigations by EIA/Telapak into the Makassar case and other seizures of merbau timber during the past few years highlight the activities of a resourceful group of serial timber smugglers deploying a range of methods to avoid detection, often aided by corrupt officials.

It has been five years since revelations of massive illegal logging and smuggling of merbau in Papua prompted Indonesian President Susilo Bambang Yudhoyono to launch an unprecedented operation against illegal logging. In February 2005 EIA/Telapak released The Last Frontier report, showing how approximately 300,000 cubic metres of merbau logs were being smuggled out of Papua every month, bound for China[1]. A month later a task force of more than 1,500 enforcement personnel was dispatched to Papua under Operation Hutan Lestari II (OHL II), and the flow of illicit merbau was stemmed.

By the end of the operation in May 2005 over 400,000 cubic metres of timber had been seized, and ships, barges and logging vehicles impounded. The effects were soon felt in the global timber trade, with prices for merbau logs doubling in the Shanghai market. In total 186 suspects were identified by the police.[2]

The operation marked a decisive turning point in Indonesia's struggle against illegal logging. In the first half of the previous decade the country's forests had been ransacked by illegal loggers, with Indonesia experiencing an illegal logging rate of 80 per cent, one of the worst in the world. At this time illegal logging was costing the country $2 billion a year in lost resources and making a fortune for the powerful timber bosses

controlling the criminal syndicates behind the logging.[3]

By 2009 the rate of illegal logging in Indonesia was estimated to have halved to 40 per cent.[4] EIA/Telapak field investigations found a significant decline in the volumes of illicit Indonesian timber reaching China and Malaysia, with traders in those counties bemoaning the improved enforcement in Indonesia. The firm action by the government also prompted some illegal logging bosses to move into other less risky enterprises. Abdul Rasyid, behind the illegal logging of Tanjung Puting National Park in Central Kalimantan shifted into the oil palm business, while Heng Ijat Hong, involved in merbau smuggling in Papua, switched to coal mining in Kalimantan.

Indonesia has also been actively building support at the international level for actions against illegal logging. It is in the final stages of negotiations with the European Union over a Voluntary Partnership Agreement (VPA), under which only Indonesian wood verified as legal will be allowed to enter the EU marketplace. A key element of a VPA is a timber legality assurance system, and in 2009 the Ministry of Forestry issued a regulation establishing such a mechanism called Sistem Verifikasi Legalitas Kayu (SVLK). The regulation has yet to be fully implemented. In 2007 the Indonesian government was behind a resolution at the United Nations Commission on Crime Prevention and Criminal Justice promoting international cooperation to tackle trafficking of forest products. In 2010 Indonesia and Norway signed a one billion dollar cooperation agreement on reducing greenhouse gas emissions from deforestation and forest degradation. Under the agreement Indonesia will set up a special unit to tackle illegal logging.[5]

Yet illegal logging is far from eradicated in the country, with more effective field enforcement failing to translate into effective action against the main lawbreakers, particularly the bosses, financiers and corrupt officials. Of the 186 suspects identified by OHL II, only eight cases resulted in a conviction. Analysis of 205 illegal logging cases between 2005-8 shows that 137 suspects were released by the court, with only ten cases resulting in a jail sentence of two years or more. The figures also illustrate the failure of the Indonesian authorities to apprehend the high-level perpetrators. Of the 205 cases just 49 were bosses, financiers or corrupt officials, with the rest targeting people lower down the logging chain, such as chainsaw operators and truck drivers.[6]

Failure to break up the powerful illegal logging syndicates has drawn criticism from President Yudhoyono. In April 2010 he called for greater efforts against illegal logging, stating: “I wish to remind everybody that the fight against illegal logging must not ease. The police, military, law enforcers, governors, district heads and mayors must all immediately go back into the field and seriously continue the fight against illegal logging.” [7]

He also drew attention to the poor performance of the judicial system in dealing with illegal logging cases and ordered the government’s Taskforce for the Eradication of Judicial Mafia, set up in early 2010, to examine suspicious verdicts in illegal logging cases. He announced: “I believe a mafia is behind the illegal logging activities. I call on the judicial mafia eradication task force to tackle this problem, reduce and put an end to these activities.” [8]

BELOW:
Illegal loggers collect fresh merbau flitches for delivery to a sawmill, near Jayapura, Papua province, September 2009.



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ABOVE:
Illegal forest conversion, West Papua, April 2009. 25 per cent of Papua's forests have been lost since the late 1990's.

It remains to be seen how effective the scrutiny of the judicial system will be. There remains systemic corruption in the police, the attorney general's office and the courts. Effective action against illegal logging is also hindered by a lack of cooperation between different enforcement agencies, despite a Presidential Instruction issued in 2005 compelling 18 separate government agencies to work together to combat forest crimes.[9]

PRESSURE ON PAPUA'S FORESTS

The challenge of combating illegal logging in Indonesia is epitomised by the situation in West Papua and Papua, the country's two easternmost provinces. Papua's unique forests form part of the last substantial tracts of intact tropical forest in the whole of the Asia-Pacific region, and constitute the third largest remaining tropical forest wilderness in the world, after the Amazon and Congo Basin. As such Papua's forests are of global significance.

Papua's forests harbour an incredible array of unique biodiversity, approximately 60 per cent of that found anywhere in Indonesia; in recent years they have been described as a "garden of Eden" after international teams of explorers discovered a host of species new to science and the world.[10]

These forests are also home to more than 250 distinct tribal groups, some of the most culturally and linguistically diverse peoples in the world. These communities have managed the forests for generations, precisely because their daily livelihoods are inextricably linked to the forest resources. Papua's forests also contain literally hundreds of millions of tonnes of carbon.

The fact that Papua contains virtually all of Indonesia's merbau trees makes it a main target for illegal logging operations. Forestry Minister Zulkilfi Hasan recently confirmed that large-scale illegal logging in Indonesia is now concentrated on Papua.[11] A senior official at the Ministry of Forestry has admitted the severe damage already done to Papua's forests by illegal logging and forest exploitation for plantations, stating that a quarter of Papua's forests have been lost since the late 1990s, with the forest area falling from 32 million hectares to 23 million hectares.[12]

Management of Papua's forests is chaotic and non-transparent. In the aftermath of OHL II many of the forest concessions were reported to be inactive. Yet within a few years there were indications that logging was again on the rise, with a process of consolidation by some of the biggest concession-holders and new investors arriving.

For instance in August 2008 CCT Resources Holdings Limited (CCT), a company registered in the Cayman Islands but operating out of Hong Kong, purchased a 313,500 hectare forest concession in the remote Mimika regency on the southern coast of Papua province. The sum paid was equivalent to just $320 per hectare, with timber stocks on the land worth approximately $148 million.[13]

Another investor is Robert Joppy Kardinal, a member of the Indonesian parliament. He reportedly owns a stake

in the forest concession company Wana Irian Perkasa in West Papua province. In 2005 Kardinal was named in the press as being linked to illegal logging, but was never investigated.[14] A recent field investigation found that local communities were accusing Wana Irian Perkasa of ignoring their land rights and operating without the required authorisation.[15]

The biggest single forest concession in Papua, covering 670,000 hectares is operated by Mamberamo Alasmandiri and its operations are certified as "verified legal" by Swiss auditors SGS. In November 2009 Yorris Raweyai, a member of Indonesia's parliament, called for an investigation into accusations of illegal logging and log smuggling involving the Mamberamo Alasmandiri concession.[16] Local communities have also alleged that widespread illegal logging by the company Sinar Wijaya Plywood Industry (SWPI) had been occurring, including harvesting beyond the concession boundary.[17] SWPI, a plywood manufacturer, owns 10 per cent of Mamberamo Alasmandiri and obtains its raw timber from the concession. In June 2010 police in Papua seized 4,500 cubic metres of logs at a site owned by SWPI. Police officials said the logs did not have the required permits, adding that SWPI had been carrying out illegal logging in the Mamberamo region for a long time.[18]

Further evidence of widespread illegalities in Papua's logging sector is provided by a series of recent log seizures. In May 2010 police in Sorong, West Papua seized 4,200 cubic metres of merbau logs from the concession company Hasrat Wira Mandiri. In June 2010 more than 5,000 cubic metres of logs were seized by police in the Bintuni area of West Papua, including 2,000 cubic metres of merbau logs. In both cases the logs did not have the required permits.[19]

Forest management and enforcement against illegal logging in Papua is complicated by an uncertain legal framework. In September 2007 the governors of West Papua and Papua provinces issued instructions controlling log shipments from the region to other areas of Indonesia in a bid to curb illegal logging and bring investment into the wood processing sector. The instruction stated that from the start of 2008 no transportation of logs from Papua Province would be allowed, while a phased control would be put in place in West Papua Province, with 50 per cent of logs allowed for shipment in 2009 and a total ban by 2012.[20]

Yet research by EIA/Telapak indicates these controls are being routinely flouted, with significant movement of logs from Papua into neighbouring West Papua province and then onto processing hubs in Java and Sulawesi. Official documents show that between June 2009 and June 2010 permits were issued by forestry officers for the transport of 164,500 cubic metres of logs from Papua to West Papua, of which 101,000 cubic metres comprised merbau logs.[21]

It comes as no surprise that the log shipment controls are not being implemented, since the wood industry in other parts of Indonesia relies heavily on Papua's forests for raw materials, especially merbau. This is demonstrated by analysis of RPPBI (Rencana Pemenuhan Bahan Baku Industri) documents, which all sawmills with a capacity in excess of 6,000 cubic metres a year must provide to the Ministry of Forestry showing where raw materials will be sourced. In 2008 sawmills outside Papua planned to obtain 311,000 cubic metres of logs from West Papua and Papua provinces, despite the log shipment controls coming into force.

BELOW:
Illegal merbau logs in Seremuk, South Sorong, West Papua, 2003.



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MERBAU

Merbau is a valuable dark hardwood used to make flooring, decking, outdoor furniture, doors and window frames. Merbau logs in Papua are sold for between $250 and $300 per cubic metre. Merbau is heavily targeted by illegal loggers and timber smugglers due to heavy demand for raw timber in China and India, and for merbau products in Australia, the European Union and the US.

This demand is also driving over-exploitation of merbau in Papua. Analysis of official export data shows that in 2008 merbau accounted for 192,000 cubic metres out of a total export of 725,000 cubic metre of wood products. Overall merbau comprised more than 30 per cent of Indonesia's exports (excluding panel, veneers, pulp and paper). Between 2003-07 recorded merbau export volumes trebled.[22]

In 2005 the Indonesian Ministry of Forestry began preparations to list merbau on Appendix III of the Convention on International Trade in Endangered Species (CITES). Such a move would have compelled other countries to seize shipments of illegal Indonesian merbau, yet the ministry failed to carry out the listing.

Outside of Papua the main processing hubs for merbau are Surabaya, East Java and Makassar, South Sulawesi



THE MAKASSAR CASE

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ABOVE:
Merbau logs at Rajawali Makmur Sejahtera, Makassar, Sulawesi, May 2010.

The port city of Makassar is a major centre for trade and processing of merbau. Historically much of the house construction in Makassar used merbau, which was to be found in Sulawesi's forests. Nowadays there is hardly any merbau left in Sulawesi, but a significant export-oriented merbau processing industry has grown, reliant on supplies from Papua.

Makassar's role in the illicit trade of merbau came to light with the seizure of 23 containers of merbau logs in Tanjung Priok port, Jakarta in October 2009. The consignment was seized by customs officers for contravening Indonesia's log export ban. The illegal shipment comprised 10 containers of 40 foot in length and 13 of 20 foot in length. Inside were found 120 merbau logs totalling 350 cubic metres. The value of the contraband was $100,000 based on merbau prices in Papua, but more than double that on the international market.

Shipping documents show the containers were sent from Makassar on September 29, destined for three companies in three different countries; Jiangsu Skyrun International Group in China, Sri Balaji Logs Products in India and Vary Timber in South Korea. The shipment was routed via Jakarta in order to connect with international shipping routes. The contents of the containers were described as "truck flooring tongue and groove". Under Indonesia's sawn timber export ban such part-processed wood products can be exported, but must undergo physical inspection by an independent surveyor appointed by the Ministry of Trade[23]. The company Sucofindo, which is 95 per cent owned by the Indonesian government, has the exclusive contract to carry out this work.

Furthermore the exporting company must be registered by the Ministry of Trade under the ETPIK scheme (Eksportir Terdaftar Produk Industri Kehutanan) and have an endorsement letter for each consignment issued by the wood industry organisation Badan Revitalisasi Industri Kayu (BRIK). In this case the exporter, Makassar-based Menara Mas had been given the necessary permits.[24]

After receiving all the necessary papers the containers left Makassar bound for Jakarta, with the smugglers confident the transit to the final destinations would be straightforward since the Sucofindo and BRIK endorsements had already been obtained. Yet the intervention of alert customs officers in Jakarta foiled the plot and triggered a six-month investigation into the attempted fraud.

The initial investigation focused solely on infringement of the customs laws, and was conducted by customs officers from both Jakarta and Makassar. It revealed the merbau logs had been bought by exporter Menara Mas from the company Rajawali Makmur Sejahtera, a large merbau processor based in Makassar. Staff from Menara Mas bribed a Sucofindo employee to falsify the surveyor's report and to give them the seals for the 23 containers, instead of carrying out an inspection himself. BRIK issued the export document for truck flooring.

The investigation discovered that Menara Mas had customers in China, India, South Korea, Australia and Singapore, with the latter company named as Soh Timber Binders. Three suspects were identified; Abdul Hakim,

a surveyor at Sucofindo in Makassar, and Halim Perdana Kusuma and M. Arsyad, both staff in the export department of Menara Mas. The director of Menara Mas, Hengky Gosal, claimed to have had no knowledge of the shipment because he was in Singapore at the time.

In February local press reported that the trial of the three defendants had begun at the Makassar District Court. During the hearing it was alleged that Arsyad paid Hakim a bribe of just $20 to falsify the inspection, with the promise of more payments later.[25] It was reported in June that Kusuma had been sentenced to two years in jail.[26]

Yet investigations in Makassar by EIA/Telapak show a much wider conspiracy, with the leading role played by Hengky Gosal.

In May 2010 EIA/Telapak investigators, posing as timber traders, visited the factory of Rajawali Makmur Sejahtera (RMS) and met with Alex Tungadi, the company's General Manager. The large integrated sawmill and wood processing facility lies in an industrial area on the outskirts of Makassar and deals mostly in merbau. During the course of an hour-long meeting Tungadi told investigators that his company obtains most of its logs from the Mamberamo Alasmandiri concession in Papua, described by him as the only certified concession in Papua. He pays Rp3 million ($300) per cubic metre for the logs. He also said RMS was in the process of obtaining chain of custody certification.

Tungadi further explained how he sometimes buys seized merbau logs from auctions in Papua. In 2007 he won an auction in Manokwari, West Papua, and paid local armed police Rp 3 million ($300) a day to guard the logs from a rival Surabaya-based timber dealer during transport. As well as logs Tungadi buys rough sawn merbau from "local sources" in Papua and processes this timber into flooring blanks for the China market. In addition to exporting to China, RMS also supplies merbau decking to Australia and Europe.

During the conversation Tungadi revealed that he used to send illegal square logs of merbau to China but had stopped last year due to his plan to obtain certification for RMS. During a tour of the company's log yard EIA/Telapak witnessed around 3,000 cubic metres of merbau logs. Tungadi explained these logs were the remainder of a shipment of 8,000 cubic metres obtained from Mamberamo Alasmandiri in August 2009. Tungadi said it was standard practice in Makassar to pay "lubrication money" of approximately $15,000 to local officials from the police, forestry department and customs for each barge load of logs brought from Papua, even if the shipment has all the correct paperwork. Tungadi's claims about the origin of logs used by RMS are contradicted by the company's RPPBI document, which states that in 2009 logs were to be supplied by the concession Wanakayu Hasilindo in Kaimana, West Papua.

Following the visit to RMS EIA/Telapak investigators attempted to meet with Hengky Gosal, director of Menara Mas. After a series of phone calls a secretary said Menara Mas had changed its name to Nessa Golden Wood, adding that Gosal often changed his mobile phone and was difficult to contact. A meeting was finally arranged at a city centre hotel.

At the hotel Gosal presented a business card in the name of Nessa Golden Wood and told investigators that his factory was being refurbished, adding that he was currently storing his supply of merbau logs at the RMS factory. He also revealed that Tungadi was his younger brother. Gosal contradicted his younger brother, claiming that the logs EIA/Telapak investigators had seen at RMS were actually his and had been brought from a supplier in the Biak region of Papua two months before. He said he also obtains merbau logs from a number of concessions in Sorong, as well as Mamberamo Alasmandiri, and travels to Papua every three months to buy merbau logs, paying local military personnel to act as bodyguards during his trips. Gosal told how he used to work as a log trader in Papua.

Gosal said his main business is shipping merbau flooring blanks to China, about 25 containers a month, at a price of $1,250 per cubic metre (including shipping). He also revealed how he used to ship large quantities of illegal merbau

BELOW:
Hengky Gosal, Director of UD Menara Mas, admitted shipping 40 - 50 containers of merbau flitches to China per month.

BOTTOM:
Sucofindo's office in Makassar, Sulawesi. A Sucofindo auditor did not inspect containers containing illegal timber following a bribe from employees of Hengky Gosal.



© EIA/Telapak, May 2010



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flitches to China. About 50 containers were sent to Shanghai every month at a price of $850 per cubic metre. Gosal said he had stopped the flitches business six months ago (around the time the 23 containers were seized in Jakarta) because a new head of customs had been appointed in Makassar and it was no longer possible to smuggle the illegal merbau to China. He added the customs chief would change in another six months, and he hoped to resume the business then. According to Gosal trade contacts had told him it was still possible to ship merbau flitches out of Surabaya.

Gosal said: "Big size merbau to China, have before, like six months ago. But now, everything stopped. Because red line from the customs. Cannot get out. Before we can give some money, you can. When the leader of Customs change, then come the new person coming, then new regulation coming again. Before have sent so many to China, 40-50 containers a month."

EIA/Telapak also visited an industrial area to check out the official addresses for both Menara Mas and Nessa Golden Wood, but could find no trace of either company.

EIA/Telapak investigations in Makassar reveal how Hengky Gosal is implicated in large scale smuggling of illegal merbau flitches to China, and was certainly behind the attempt to export the 23 containers of merbau logs. It also uncovers connections between Gosal and RMS, run by his brother Tungadi. This relationship is demonstrated in the RPBBI document for RMS; sale of logs by the company to another wood processor involved payment being made to the account of Nessa Golden Wood. A third brother, Fendy Gosal, is listed as the contact at Menara Mas in the firm's ETPIK licence.

The 23 containers case demonstrates a number of enforcement weaknesses. A bribe ensured that the physical checks by the surveyor Sucofindo and the BRIK requirements for an ETPIK licence could be easily circumvented. Lack of cooperation between different agencies persists. In November 2009 the Ministry of Forestry wrote to customs in Jakarta asking to join the investigation into the 23 containers case. A reply was not received until May 2010, meaning that the customs law aspects of the case and the forestry law infringements have not been combined. Finally, the true culprit, Hengky Gosal, has not been charged while more junior staff at Menara Mas and Sucofindo serve as convenient scapegoats.

BELOW:
Tanjung Priok port Customs Officers display merbau logs to the media following seizure of 23 containers belonging to Hengky Gosal's UD Menara Mas, 19th October 2009.



Anonymous



SURABAYA SYNDICATE

Anonymous

The city of Surabaya in East Java is a major centre for timber processing in Indonesia, including merbau. It is also the location of the country's busiest port, Tanjung Perak. Due to these factors Surabaya has emerged as a major hub for merbau trade and smuggling.

Most of the wood processing factories in Surabaya are located in the Gresik industrial area of the city. Here merbau round logs from Papua are processed into a range of finished and semi-processed products for export, principally flooring and decking. While most of these operations are legitimate and conform to Indonesia's log and sawn timber export controls, there is also an active trade involved in diverting illegal merbau onto international markets, especially China.

In June 2010 alone authorities at Tanjung Perak intercepted two illicit consignments of timber, including merbau, bound for export. In the first case eight containers of merbau, ebony and meranti wood were seized en route to Singapore, Taiwan and China.[27] The second case involved the detention of seven containers of merbau and other timber species.[28]

EIA/Telapak investigations have uncovered the on-going criminal activities of Surabaya-based businessman Ricky Gunawan, one of the most active merbau smugglers in the city. Evidence gathered in Surabaya, Singapore, and Guangzhou and Xiamen in China since 2006 points to Gunawan's prominent role in the illicit trade in merbau. EIA/Telapak have submitted several reports on Gunawan to the Indonesian authorities, but he has yet to be investigated. As recently as December 2009 he was still shipping illegal merbau flitches to southern China.

EIA/Telapak investigators first encountered Gunawan in November 2006. Posing as timber buyers, the team met with Riki Sumandi, director of the company Lido in Surabaya, who had been advertising merbau flitches for sale to overseas markets.

Sumandi took the investigators to Gresik, where they were introduced to Ricky Gunawan, director of Surabaya Trading and Sumandi's business partner.

Gunawan soon boasted of his ability to break the law and to supply illegal merbau at low risk due to his connections. He claimed to ship up to 3,000 cubic metres of air-dried rough sawn merbau to China every month. After sawing the logs in Gresik, he explained how the wood was loaded into containers at five different warehouses in the area and shipped to the Chinese ports of Shanghai, Huangpu, Shenzhen, Guangzhou and Shantou. About 50 containers a month were being delivered, with Gunawan dealing with two main buyers – one Singaporean and one from Hong Kong.

During the meeting Gunawan said: "This export is non-legal. Today, no problem. Next week, I don't know. When the cargo arrives in China, don't just open it at the port", adding that occasionally he had to stop the shipments when customs contacts in Tanjung Perak tipped him off about impending clampdowns.

Details of the investigation were provided to the Ministry of Forestry but no action was taken.



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TOP:
Surabaya customs officer inspecting merbau in nine containers owned by Surabaya Trading following its seizure in April 2009.

ABOVE:
Ricky Gunawan, a major Surabaya-based merbau smuggler, in 2006.

BELOW:
Flitches at Soh Timber Binders' warehouse, Singapore, May 2010.

BOTTOM:
Ng Yit Fooi, of Singapore-based Soh Timber Binders, May 2010. Mr Ng imports illegal merbau flitches from Ricky Gunawan.



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Gunawan's name cropped up again in 2008. In April of that year the Indonesian Ministry of Trade granted a special "dispensation" to the sawn timber export ban to three companies based in Surabaya, allowing them to export "housing components" of merbau timber to China. The three firms – Surabaya Trading, Grafity Merindo and Trias Hasil Alam Lestari – are all connected to Gunawan and were granted permission to export 70,000 cubic metres of merbau timber on the grounds that the "housing components" were destined for a construction project in Mongolia. It was also claimed that the components were part of a reconstruction efforts after the Sichuan earthquake.

Sources in Surabaya state that the shipments of "housing components" sent by Gunawan were in reality rough sawn merbau posts, similar to the ones he was smuggling in 2006. Information obtained by EIA/Telapak in China shows the shipments were not destined for a housing project in Mongolia, but instead were sold on to flooring and furniture factories in China.[29]

One of the main recipients of merbau shipments sent by Surabaya Trading in 2008 is the company Fujian Pan-Chinese Trading, located in Fujian Province, southern China. During May 2008 Gunawan sent 40 containers of "merbau housing components" to Fujian Pan-Chinese Trading. In July 2008 EIA/Telapak investigators posing as timber buyers called the company and were told it receives about 200 containers of sawn merbau a month from Surabaya, at a cost of $1,100 per cubic metre, with the wood sold on to Chinese factories producing merbau flooring, doors and stairs.

Gunawan surfaced again in April 2009, when customs officers in Tanjung Perak port detained nine containers of merbau timber destined for export to China. The owner of the consignment was Gunawan's Surabaya Trading and the shipment had been cleared for export by the third-party inspection firm Sucofindo on the grounds that as the timber was destined to be used for bridge construction, it was exempt from the sawn timber export ban. Yet during inspection customs agents discovered discrepancies between the shipping documents and the timber inside the container, indicating that the wood did not conform to the description of bridge components.

EIA/Telapak investigations reveal the merbau timber was never intended for use in bridge construction. In May 2009 EIA/Telapak undercover investigators met with Zheng Jianyang, the manager of a company called Xiamen Sanstar Trading, at his office in Xiamen city, Fujian, China. Shipping documents show that Xiamen Sanstar Trading was the intended recipient of the nine containers seized in Tanjung Perak.

During the course of an hour-long meeting, Zheng claimed to be one of the biggest importers of Indonesian merbau wood in China, including flitches banned for export under Indonesian law. Zheng stated that he sources his supplies from Surabaya and Sulawesi, selling the merbau onto factories across China manufacturing doors, stairs, windows and flooring. At no time did he mention any involvement in bridge projects, although he did tell how false blueprints for construction projects are used to get export clearance.

After interventions from several government officials and some members of the local parliament on Gunawan's behalf the customs department had to release the seized containers for onward shipment. Once again Gunawan escaped official investigation.[30]

The scale of Gunawan's activities are well-known to fellow smugglers. One such smuggler is Singapore-based Ng Yit Fooi, boss of Soh Timber Binders. EIA/Telapak first encountered Ng in 2003 while investigating the lucrative trade in ramin timber. During a meeting with EIA/Telapak investigators Ng told how he was shipping protected ramin timber from Sumatra to China using fake paperwork. He also claimed his main business was trading merbau from Papua to China.

EIA/Telapak came across Ng's name again while looking into merbau trading in Makassar in 2010, where it was revealed Soh Timber Binders was a customer of Menara Mas. In May 2010 EIA/Telapak investigators met with Ng again at his factory in Singapore. Ng described how his main business was now ironwood (belian) from Malaysia, but that he still traded merbau from Makassar and Surabaya via a network of agents. He showed EIA/Telapak investigators an invoice for a consignment of illegal merbau flitches he had bought from Surabaya Trading in December 2009 at a price of $1,150 per cubic metre for shipment to Guangzhou in China. When asked about Surabaya Trading, Ng immediately mentioned Gunawan, a "friend" whom he described as "a smuggler". He said the reason he buys from Gunawan is because "he has that channel to get through customs". At Ng's warehouse EIA/Telapak observed some of the flitches sent by Gunawan.

For five years Gunawan has been successfully smuggling merbau flitches out of Surabaya to China, using a variety of deceptions. Even when one of his shipments is seized it ends up being released, testament to his influential allies and explaining why he has yet to be prosecuted.



MERBAU MARKETS

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The international market for merbau has changed in recent years due to factors such as the economic recession, consumer trends, China taxation laws, Indonesian wood export regulations and the availability of timber supplies. Despite these changes, EIA/Telapak investigations in 2009 and 2010 reveal that in key markets such as China, India, the US and Europe, the trade still flourishes. Both the US and EU have policies prohibiting imports of illegally logged timber; the amended US Lacey Act came into force in 2008, while the EU timber regulation will be effective from 2012. China continues to import large amounts of stolen timber.

CHINA

In May and June 2009, EIA/Telapak investigators visited Furen timber market in Shanghai, China's main timber trading centre. Even though there was a decline in the overall availability of Indonesian timber (due to rising raw material prices, diminishing supplies and improved enforcement in Indonesia), merbau remained the key Indonesian species traded at the market.

EIA/Telapak observed a stream of containers of Indonesian merbau being unloaded at the warehouses. The majority seen was part-processed flooring materials, which can be legally exported under Indonesian law, but there were also substantial amounts of merbau sawn timber and flitches, smuggled out of Indonesia. One trader estimated more than 80 per cent of Indonesian merbau arriving at Furen is in the form of sawn timber and flitches, and less than 20 per cent is flooring blanks. Most of these materials are supplied to factories around Shanghai and Nanxun, the main centre for flooring manufacture located in neighbouring Zhejiang province.

Previously in 2005 the bulk of merbau flooring made in China was exported to Europe and the US. By 2009 merbau flooring was sold mainly to the domestic market, due to the growing affluence of Chinese consumers and the economic recession in Europe and US. It is also a consequence of the 10 per cent export tax on solid wood flooring exports introduced in 2006.

Although flooring materials observed at factories EIA/Telapak visited in 2009 generally adhered to Indonesian export requirements, there were companies which clearly sourced illegal materials. One such company was Cheerson Flooring in Nanxun. The firm's export manager stated that it regularly imports rough sawn air-dried merbau and kempas directly from Indonesia. At its warehouse, EIA was shown stacks of rough sawn timber waiting to be processed. Such exports are illegal under Indonesian law.

During a visit to Haoweifu Wood, a factory producing mainly merbau and kempas flooring, the owner revealed to EIA/Telapak investigators that he sources merbau through a Chinese agent in Papua, who in turns buys it from "illegitimate" sources. He said: "They chop it down and sell it to Chinese people. Then they'll find a way to get it to China. Once it reaches China, then it becomes legal. Everything before that is all illegal". He also revealed that the timber legality documents he obtains "are bought with money from corrupt Indonesian government officials". He stressed that having the right contacts is crucial to securing the timber and documents.

As well as flooring, a big market exists in China for merbau sawn timber and flitches. It is used mainly for doors, jambs, window frames, stairs and



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TOP:
Indonesian merbau flitches such as these in Furen Timber Market, Shanghai, in May 2009, are a common sight, and evidence of continued smuggling from Indonesia.

ABOVE:
Furen Market, near Shanghai, China's biggest timber market.

furniture components. The majority of the products are sold domestically. Most of the Indonesian sawn timber and flitches observed at Furen market were in violation of Indonesian export laws.

When EIA/Telapak investigators visited Senao Timber, large merbau flitches were openly on display. The owner said he buys from a Singapore-based trader but acknowledged that the timber is sawn and containerised in Surabaya, Indonesia, before being exported to China. Shanghai Fenghua Wood is another company importing Indonesian sawn timber and flitches, including merbau and kempas. The manager said he sources merbau from a supplier in East Malaysia. He said that the timber "is of Indonesia origin… but because Indonesia can't export flitches, it goes from Indonesia to Malaysia… the logs are sawn in Malaysia, after which they are exported to China".

Privately owned wood processing and trading companies are not the only ones importing illegal merbau from Indonesia – one of the intended recipients of the merbau logs seized in Jakarta in October 2009 was the Chinese state-owned conglomerate Jiangsu Skyrun International Group.

INDIA

Another growing market for Indonesian merbau is India. In 2006, EIA met with Prince Elavarasan of Singapore-based SPB Cons Marine Import-Export who exports large volumes of Indonesian merbau and bengkirai flitches and logs to India. He revealed that merbau logs are systematically smuggled on barges from Papua to Kuantan in Malaysia via Kalimantan. In India, merbau is used mainly to produce door and window frames, whilst bangkirai is used for truck flooring.

Part of the consignment of 23 containers of merbau logs seized in 2009 was intended for Kolkata-based Sri Balaji Logs Products. Anecdotal information from other traders suggests that India only sources raw materials in the form of logs and flitches, but not semi-finished or finished products.

EUROPE AND THE US

The EU and US have traditionally been major buyers of merbau products, particularly for flooring and decking, produced in Indonesia and China. Since the economic recession hit in 2007 factories have seen sharp declines in exports to these markets.

In 2009, EIA/Telapak met with a major Singapore-based merbau supplier who has a factory in Surabaya producing merbau and bengkirai decking products. The trader said that exports to European countries such as Belgium, Netherlands and Germany have fallen by about 70 per cent due to the recession.

Similar situation have been observed in China where factories have seen reduced orders from Europe and the US. Many companies have consequently either diverted their attention to domestic sales or abandoned merbau as a raw material altogether.

Yet despite the economic downturn some Chinese manufacturers continue to export merbau flooring made from Indonesian timber to retailers and distributors in Europe and the US. Such firms include Shanghai Lingge Flooring, shipping to the US, and Haoweifu Wood, which produces about 10,000 square metres of merbau flooring per month and exports primarily to the US and France.

BELOW LEFT:
Workers at Cheerson Flooring, Nanxun, May 2010.

BELOW RIGHT:
Most illegal Indonesian flitches on sale in Furen are used to make stairs and doors.



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RECOMMENDATIONS

The Indonesian government has made significant progress in tackling illegal logging since 2005. But while the huge quantities of illegal timber flowing out of the country during the first half of the decade has declined, effective law enforcement against those responsible – the financiers, company bosses and corrupt officials – has been woefully inadequate. It is no wonder the Indonesian President has ordered the country's judicial mafia eradication taskforce to scrutinise illegal logging cases. The taskforce should certainly focus its attention on two merbau smugglers named in this report – Ricky Gunawan and Hengky Gosal.

The illegal logging and trade of merbau in Indonesia is symptomatic of wider governance and enforcement failures in the forest sector as a whole. From the chaotic way in which Papua's precious forests are managed to the failure of agencies such as government-owned inspection agency Sucofindo and official timber agency BRIK to prevent violations of the log and sawn timber ban, the need for more effective control systems is clear if the battle against illegal logging is to progress. Fortunately an opportunity to make the system fit for purpose is available in the form of the new Sistem Verifikasi Legalitas Kayu (SVLK). This Ministry of Forestry regulation has the potential – if fully implemented – to bring proper transparency and regulation to the country's notoriously opaque and corrupt forestry sector.

THE GOVERNMENT OF INDONESIA SHOULD:

- List merbau on Appendix III of the Convention on International Trade in Endangered Species (CITES) with a sustainable quota for trade
- Launch formal investigations into the illegal activities of Ricky Gunawan and Hengky Gosal
- Clarify the legal status and implementation of Papua's log transport controls
- Ensure that the SVLK is fully implemented, including penalties for verification bodies which fail to perform effectively
- Ensure that the SVLK system requires full timber traceability back to a legal forest source
- Review Sucofindo's position as the only official wood export inspection agency
- Review the effectiveness of Presidential Instruction 4 of 2005 in light of evidence that enforcement agencies are still failing to collaborate effectively against illegal logging
- Empower a task force (satgas) reporting directly to the President on actions against illegal logging

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