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# Kutai Timber: a company-community partnership in East Java



*Tree nursery by Probolinggo*

When the log supply from natural forests in East Kalimantan started to dwindle, PT Kutai Timber (KTI) – an Indonesia-based integrated forest company owned by the Japanese company Sumitomo Forestry – launched an ambitious reforestation research programme as part of a move towards a wood supply based on planted forests.

KTI is headquartered in Jakarta, but its sole factory is in the provincial city of Probolinggo. The company established a woodworking mill in Probolinggo in 1992 and expanded it to include engineered wood products in 1994 and a particleboard plant in 2008. Today, the fully integrated mill strives to achieve zero waste.

## Wood sourcing

KTI still buys logs – mainly white and red meranti – from legal forest concessions in East Kalimantan, as well as planted teak from East Java, for veneer and sawnwood production. The company supplements these sources with smaller volumes of lesser-used species and replaced fruit trees. KTI has a certificate for tropical log procurement under the Indonesian SVLK legality scheme, and it has held a Forest Stewardship Council (FSC) chain-of-custody certificate since 2005.

KTI launched its reforestation research programme in 1998 and now has five nurseries, which each year produce 3.5 million seedlings of fast-growing species such as falcata, balsa, agathis, teak and fruit trees. KTI works with farmer cooperatives to support planting; the first cooperative of small-scale farmers (KSU Alas Mandiri – KAM) was set up in 2007, and a second (Koperasi Bromo Mandiri – KBM) was established in 2017 (see table).

Farmers organized in cooperatives sell more than 12 000 m<sup>3</sup> of fast-growing species to KTI annually, mainly falcata (73 percent) as well as balsa, gmelina, jabon, waru, hibiscus, melia and mahogany. The tree plantations are commonly interplanted with annual crops such as tomato, pepper, ginger and saffron and perennial crops such as coffee, cloves and fruit trees. Shade trees in cacao and coffee plantations are increasingly important in light of changing climatic conditions.

### KTI forest cooperation areas

KAM-KTI	KBM-KTI
Area : 1 004.55 ha	Area : 206.67 ha
Members : 1 296 households	Members: 413 households
Plantings: 1 811 sites on smallholder farms	Plantings: 555 sites on smallholder farms



*Three-year old falcata trees planted with coffee (KAM-KTI)*

An area of more than 1 000 hectares of planted smallholder forests in the KAM–KTI cooperative arrangement has been part of an FSC group forest management certificate since 2008. The KBM area has also been audited for FSC certification.

The volume of wood harvested in KAM’s FSC-certified planted forests was in the range of 5 000–9 000 m<sup>3</sup> per year in 2011–2016. This is still significantly less than the volume of purchased tropical wood: in 2016, KTI’s largest shipments of FSC-certified logs were from Utama Dami Indah (31 000 m<sup>3</sup>), Gunung Gajah Abadi (23 000 m<sup>3</sup>) and Belayan River Timber (4 000 m<sup>3</sup>).

### Value chain structure and development

In total, KTI purchased 186 000 m<sup>3</sup> of logs for sawmilling and 240 000 m<sup>3</sup> of logs for rotary veneer peeling in 2016. In addition, it procured about 120 000 tonnes of wood waste and old fruit trees from farmers.

The company’s mill produced 122 400 m<sup>3</sup> of kiln-dried sawnwood, 180 000 m<sup>3</sup> of veneer sheets, 120 000 m<sup>3</sup> of plywood, 30 000 m<sup>3</sup> of blockboard, 120 000 m<sup>3</sup> of particleboard, and 5 500 m<sup>3</sup> of various value-added products, such as musical instruments, flooring and furniture components.

The company supplies high-quality export markets, including top Japanese brands, and about 60 local furniture manufacturers.

## Human resources

KTI's mill management team includes 12 Japanese people but, notably, the head of the KTI production site is Indonesian. The local workforce is from Probolinggo, including some workers with ethnic Maduran backgrounds.

KTI sees the absence of technical and vocational training as a major limiting factor. To address this, the company provides mill workers with training in basic skills, mill operations and occupational safety and health. Workers are rotated between production units, sections and tasks to help broaden their skills, increase understanding of company operations, and add flexibility to the workforce. The KTI Educational Foundation was established in 2001 to make scholarships available to elementary- and middle-school students. The company also provides farmers with field training to assist them in growing trees.

KTI employs 600 people in its forest operations, of whom 100 work full-time. It pays workers an average of IDR 3 million per year, which is significantly more than the legal

minimum annual salary in Probolinggo of IDR 1.8 million.

In total, KTI has about 4 000 people on its payroll, including at headquarters and in sales, meaning that about 25 000 people in East Java are directly or indirectly economically dependent on the company's operations. KTI also donates about USD 30 000 per year to low-income families for school materials and education.

## Success factors

KTI's owner, Sumitomo Forestry, has many branches worldwide, which means that KTI can access global information on markets, raw materials and new technologies. This has enabled KTI to increase the added value of its products and to use some of this value to improve wood sourcing and forest management.

KTI sees value in contributing to the local community, such as through the KTI Educational Foundation, thereby promoting sustainable development.



*Instructions to farmers on tree planting*

©PT Kutai Timber (KTI)



*Wall panels*

## Challenges

KTI has reduced its dependence on natural forests and transportation distances by increasing its sourcing from planted forests grown in cooperation with local farmers. The company has introduced chain-of-custody

certification for wood sourced from natural forests. Nevertheless, much remains to be done to manage these natural forests in a way that allows both sustainable use and biodiversity conservation.

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