



## Indonesia and the European Union

# Annual Report

**May 2014 – April 2015**

Implementing the Indonesia – EU  
FLEGT Voluntary Partnership Agreement



Common efforts to ensure and  
promote legal timber trade and  
good stewardship of the  
forest sector



China

Taiwan

Laos

Thailand

Philippines

Vietnam

Cambodia

Malaysia

Singapore

Papua New  
Guinea

**Indonesia**

Australia

# Table of Contents

Abbreviations . . . . .	4	Government agencies . . . . .	22
Executive summary . . . . .	5	Private sector. . . . .	22
<b>1 Introduction . . . . .</b>	<b>7</b>	SVLK auditors . . . . .	22
Indonesia's forest sector. . . . .	7	<b>6 Stakeholder engagement. . . . .</b>	<b>23</b>
Indonesia's response to illegal logging . . . . .	8	<b>7 Communication and transparency . . . . .</b>	<b>25</b>
The Indonesia–EU Voluntary Partnership Agreement . . . . .	12	Data made available . . . . .	25
<b>2 SVLK: Indonesia's timber legality assurance system . . . . .</b>	<b>13</b>	Publication of documents related to VPA meetings . . . . .	25
Legality definition. . . . .	13	Stakeholder outreach . . . . .	25
Supply chain control . . . . .	14	<b>8 VPA monitoring . . . . .</b>	<b>27</b>
Verification . . . . .	14	Independent monitoring . . . . .	27
FLEGT licensing . . . . .	14	Impact monitoring . . . . .	27
Periodic evaluation . . . . .	14	Independent market monitoring . . . . .	27
Independent monitoring . . . . .	16	Periodic evaluation . . . . .	27
Continuous improvement . . . . .	16	<b>Appendices</b>	
<b>3 Towards FLEGT licences . . . . .</b>	<b>17</b>	Appendix 1: Indonesia's five legality standards . . . . .	28
Joint assessment of the timber legality assurance system . . . . .	17	Appendix 2: Supply chain control documents and databases . . . . .	29
EU readiness to receive FLEGT-licensed timber . . . . .	17	Appendix 3. Second Indonesian–EU Action Plan on Advancement of VPA Implementation . . . . .	30
Implementation of the EU Timber Regulation . . . . .	18	Appendix 4: Progress of SVLK certification as of April 2015 . . . . .	31
Independent market monitoring . . . . .	18	Appendix 5: International activities to promote SVLK and V-legal. . . . .	32
Market awareness. . . . .	18		
<b>4 Achievements in SVLK implementation . . . . .</b>	<b>19</b>		
<b>5 Institutional strengthening and capacity building . . . . .</b>	<b>21</b>		
Joint Implementation Committee . . . . .	21		
Civil society. . . . .	21		

## Abbreviations

<b>CSO</b>	Civil society organisation
<b>EU</b>	European Union
<b>EUTR</b>	European Union Timber Regulation
<b>FLEGT</b>	Forest Law Enforcement, Governance and Trade
<b>JIC</b>	Joint Implementation Committee
<b>JPIK</b>	<i>Jaringan Pemantau Independen Kehutanan</i> (Independent Forest Monitoring Network)
<b>KAN</b>	National Accreditation Committee
<b>LEI</b>	<i>Lembaga Ekolabel Indonesia</i> (Indonesian Eco-labelling Institute)
<b>MFP3</b>	Multistakeholder Forestry Programme Phase 3
<b>SDoC</b>	Supplier's Declaration of Conformity
<b>SILK</b>	<i>Sistem Informasi Legalitas Kayu</i> (Indonesia's timber legality information system)
<b>SME</b>	Small or medium enterprise
<b>SVLK</b>	<i>Sistem Verifikasi Legalitas Kayu</i> (Indonesia's timber legality assurance system)
<b>VPA</b>	Voluntary Partnership Agreement
<b>V-Legal</b>	The name of export licences for verified legal timber certified under the SVLK

# Executive summary

This annual report describes the progress in implementing the Indonesia–EU Voluntary Partnership Agreement (VPA), which aims to address illegal logging in Indonesia by promoting trade in verified legal ‘FLEGT-licensed’ timber products.

The VPA entered into force on 1 May 2014. The VPA builds upon and complements Indonesia’s existing efforts to tackle illegal logging through enhanced law enforcement, improved forest governance and incentives for legality in the forest sector.

Central to the VPA is a description of a timber legality assurance system, which comprises a legality definition, supply chain control, verification of compliance, FLEGT licensing, periodic evaluation by independent auditors and independent monitoring by civil society.

The timber legality assurance system described in the VPA is based on Indonesia’s SVLK (*Sistem Verifikasi Legalitas Kayu*), which was developed and has since been revised through a comprehensive multistakeholder process. Revisions in the reporting period have improved the system’s efficiency and made it more accessible to small and medium enterprises (SMEs).

Indonesia and the EU have established a Joint Implementation Committee (JIC) to oversee implementation of the VPA, as well as additional joint structures to support the JIC. The JIC held its first meeting in September 2014 and its second meeting in February 2015.

In September–October 2014, the joint assessment of the timber legality assurance system identified issues to resolve before FLEGT licensing can begin. Indonesia and the EU have agreed a joint action plan to address these issues and have appointed a joint working group to monitor progress. A process to select a periodic evaluator of the timber legality assurance system began in April 2015.

Indonesia has rolled out the SVLK across the country. By April 2015, the SVLK had certified more than 1400 timber industries. More than 80% of timber harvested in natural forest concessions was SVLK certified, as well as all timber coming from plantation forest concessions. This tremendous effort intensified in the reporting period in order to ensure that all operators in the timber sector, and especially SMEs, become formalised and verified.

Stakeholders in government, the private sector and civil society support the goals of the VPA and have played active roles in VPA implementation in the reporting period, including by participating in the JIC and stakeholder platforms.

In addition to refining the timber legality assurance system, VPA implementation activities have included capacity building for stakeholders and action to implement VPA commitments to increase transparency.

Different forms of VPA monitoring are in development. In November 2014, independent monitors from civil society published their first report on the timber legality assurance system. A service provider has been recruited to monitor the impacts of the VPA on the timber industry and local communities from May 2015. The European Commission, with EU funding, has awarded a five-year contract to the International Tropical Timber Organization to conduct independent market monitoring.





Natural forest in Papua



## Indonesia's forest sector

Indonesia has the world's third largest area of tropical rainforest, covering 60% of the country. For the past five decades, forests and forestry have played a large part in Indonesia's economic development. Forest harvesting can only be done in forests categorized as production forests. The forest sector in Indonesia includes large-scale production as well as significant numbers of small and medium enterprises (SMEs), most of which have from one to four workers.

Timber harvesting and silviculture contribute around USD 5.1 billion to Indonesia's gross

domestic product (approximately 1%). Timber harvesting contributes approximately 1.3% of government taxation revenues.<sup>1</sup> In 2014, the value of timber products exported to the European Union was USD 645 million, up from USD 593 million in 2013 (Figure 1).<sup>2</sup>

Rampant illegal logging has, however, significantly reduced Indonesia's forest area. Illegal logging cost the country an estimated USD 2 billion in 2011 from uncollected fees and underestimated royalties.<sup>3</sup>

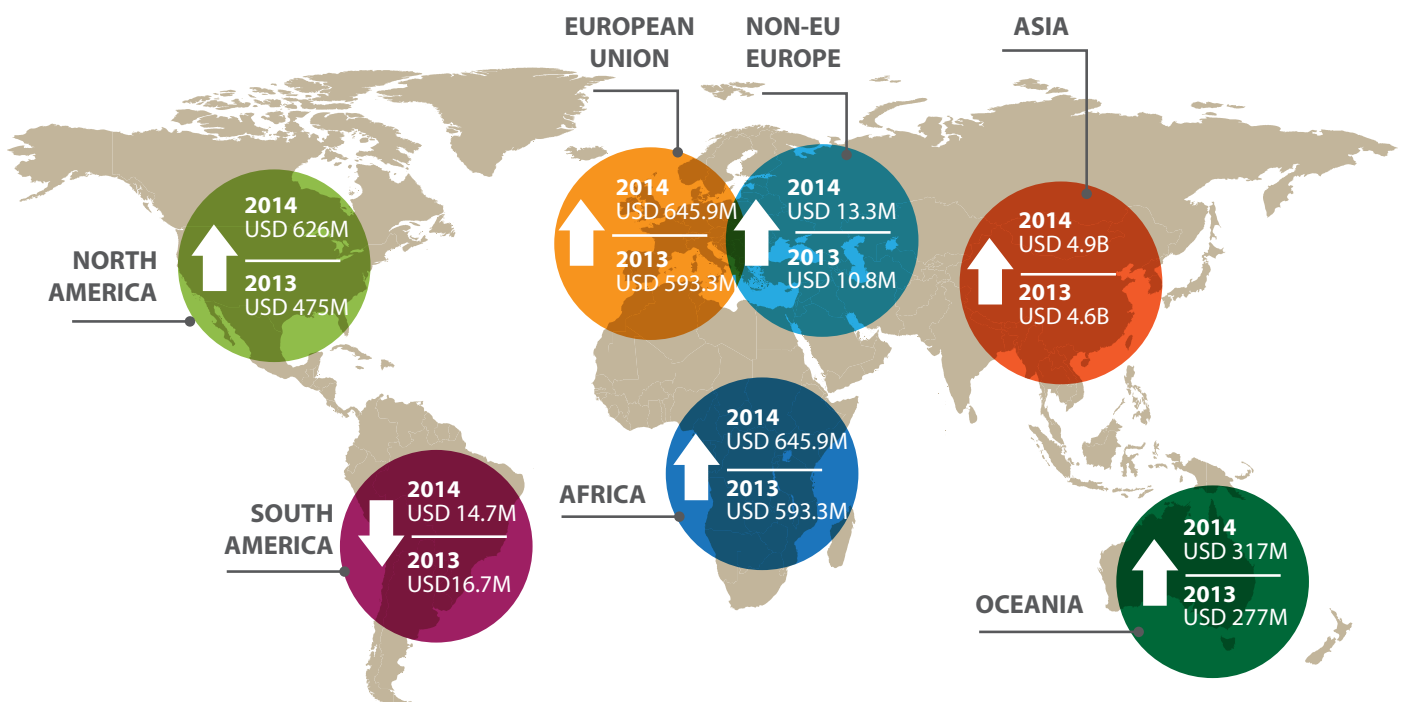


Figure 1. Value of Indonesia's timber product exports by destination region<sup>4</sup>

<sup>1</sup> ITS Global, 2001. The Economic Contribution of Indonesia's Forest Industries.

<sup>2</sup> Directorate Forest Product Processing and Marketing, MOEF, 2015.

<sup>3</sup> Human Rights Watch, 2009. Wild Money: the Human Rights Consequences of Illegal Logging and Corruption in Indonesia's Forestry Sector

<sup>4</sup> The European Union is a politico-economic union and consists of 28 European countries. Europe is a continent consisting of different countries, including those 28 forming the EU and many others.

## Indonesia's response to illegal logging

Indonesia has committed to reducing deforestation and forest degradation by strengthening law enforcement against illegal logging and improving forest governance.

Timber harvesting from state forests is only permitted in production forests under business licences issued to individuals, cooperatives, private enterprises and state-owned or regional enterprises. Indonesia strictly prohibits the use of timber from conservation and protected forests. Illegal logging has been in continuous decline since its peak in 2000. The illegal log harvest in Indonesia has decreased by 75% since then.<sup>5</sup>

To complement the law enforcement efforts, Indonesia has developed a national timber legality assurance system called SVLK (Sistem Verifikasi Legalitas Kayu). The SVLK provides incentives for legality by promoting market access for verified legal products and blocking market access for illegal products. The SVLK also

promotes broader governance reforms, such as improved information, transparency, capacity, and community rights.<sup>6</sup>

Indonesia developed and has since revised the SVLK through a consultative process involving stakeholders in government, the private sector and civil society (see Figure 2 overleaf). Section 2 of this report describes the timber legality assurance system in more detail.

In addition to its domestic efforts, Indonesia has entered bilateral negotiations to promote trade in legal timber products. As part of these efforts, Indonesia became the first country in Asia to negotiate and ratify a FLEGT VPA with the EU.

---

<sup>5</sup> Lawson, S. 2010. *Illegal Logging and Related Trade: Indicators of the Global Response*. Chatham House, London; Hoare, A. and Wellesley, L. 2014. *Illegal Logging and Related Trade: The Response in Indonesia*. Chatham House, London

<sup>6</sup> For example through the Ministry of Environment and Forestry regulation P.95/Menhut-II/2014 and the Directorate General Guidelines for Implementation (Perdirjen) no. 14/2014 and no. 1/2015





Female workers in Jepara, Central Java, apply final touches to the furniture

**1980**

Intense international movement to save tropical forests, including the idea to boycott wood products from tropical forests.

**1993**

Working group on Indonesia Ekolabel initiated the development of Indonesia's first sustainable timber certification, led by Professor Emil Salim, the former Minister of Environment.



The Lembaga Ekolabel Indonesia (LEI), or the Indonesia Ecolabel Institute, was established in 1998.

**2011-2009**

Intensive dialogue to follow up the regulations, including seven joint expert meeting (JEM) meetings.

**2009**

Ministry of Forestry issued Regulation No. P38/2009 on the Guidelines for Performance Assessment of Sustainable Production Forest Management and Timber Legality Verifications to Permit Holders or Private Forests.

VPA negotiations were intensified, providing opportunities to improve the SVLK.

**2009-2007**

The finalization process for timber legality verification system had taken place that led the process for the system to be adopted as a mandatory regulation.

**2007**

The VPA process includes high level of stakeholders' participation. In 2008, a multistakeholder group, under the auspices of the National Forestry Council, presented the government with a proposed legality standard and SVLK.

At all times in the design and negotiation process representatives of civil society, forest and timber industry associations and other related ministries have been able to engage directly with the Ministry of Forestry as well as contribute to the negotiations with the EU through various channels including senior official meeting, technical working group, joint expert meeting, and video conference.

**2011**

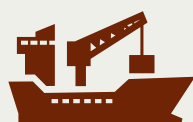
Declaration of support towards the trade of legal timber of various furniture associations, exporters, and forestry industries.



The launch of V-legal logo for legal wood and wood products by the Ministry of Forestry.

**2012**

Ministry of Trade issued Regulation No. P.64/2012 to regulate the export of legal timber. This regulation was revised by Regulation No. P.81/2013 and revised again with the Regulation P.97/2014.



Indonesia carried out the test run of legal timber export to the European Union.

**2013**

Timber Legality Assurance System (TLAS) started running in January 2013. The site can be accessed at the address:

<http://silk.dephut.go.id>

Indonesia and the EU signed a Voluntary Partnership Agreement (VPA) in Brussels.

Figure 2. The road to Indonesia's timber legality assurance system

1998



The G8 countries launched the 'G8 Action programme on Forests' to work together to address illegal logging. This programme was an initial cooperation between the World Bank, Department for International Development (DfID), and the US Department of State on Forest Law Enforcement for East Asia, which then held a conference on Forest Law Enforcement and Governance (FLEG).

1999



Telapak and Environmental Investigation Agency (EIA) launched 'The Final Cut', a publication on the rampant illegal logging and timber smuggling from Indonesia.

A new Forestry Law was issued (Law No 41/1999).

2000



EU financially supported the Telapak and EIA project on illegal logging campaign.



The World Bank and WWF conducted a regional meeting in Jakarta to discuss illegal logging issues.

2007-2002



Commencement of multi-stakeholder dialogue to develop a timber legality standard

The initial stage of this process was facilitated by a number of civil society organizations, including EIA, LEI, and the Nature Conservancy (TNC).

A series of seminars and public consultation were conducted before the submission of a timber legality standard to the Ministry of Forestry in 2007.

2006 - Government and industry stakeholders at national and provincial levels joined the process to develop the legality definition.

2005-2002

Many agreements were signed, including an MoU between Indonesia and UK to improve forest management and enforcement of forest law, combating illegal logging and international trade of illegal timber products.

2005

Advanced development and formulation of standards, guidelines and criteria for the legality of timber based on various legal standards.

Illegal logging activities went down by 70% (Obidzinski et.al., 2006).

2003

In 2003, European Union adopted this agreement but added one aspect on Trade to become the EU FLEGT Action Plan.

Non-governmental organisations started work on the SVLK and the legality definition at its core.

2001



The first regional Ministerial Conference on FLEG for East Asia and Pacific region was held in September 2001 in Bali, Indonesia. The conference adopted the Bali Declaration, whereby participating countries committed to address forest crime and violations of forest law.

2014



The regulation on SVLK P.38/2009 was strengthened several times, with the P.95/2014 as the latest version to accommodate the needs of SMEs. Some highlights of the change includes:

- Private forest owners can publish SDoC;
- Small business owner can publish SDoC as long as the raw material comes from community forest;
- Government provides assistance for SME on group-based mentoring, certification, and first surveillance.

The VPA entered into force and the parties established a Joint Implementation Committee to oversee action to carry out the agreement.

The second stage of the joint assessment of the SVLK took place.

April 2015



**The Timber Legality Information Systems (SILK)** has supported the publication of more than **234 592 V-legal documents** for **193 destination countries** through **86 loading ports** and **2 084 unloading ports**.





## The Indonesia–EU Voluntary Partnership Agreement

Participants of the second Joint Implementation Committee Meeting, Jakarta

Voluntary Partnership Agreements (VPAs) are a key component of the EU Forest Law Enforcement, Governance, and Trade (FLEGT) Action Plan of 2003 to address illegal logging. A VPA is a bilateral trade agreement that seeks to ensure that only verified legal timber products from a partner country reach the EU market. In addition to promoting legal trade, a VPA addresses the causes of illegality by improving forest governance and law enforcement.

VPAs complement another of the FLEGT Action Plan's measures – the EU Timber Regulation of 2013. This regulation prohibits the placing of illegal timber on the EU market. It applies to both domestic and imported timber. When a VPA timber legality assurance system is fully operational it will issue FLEGT licences to accompany exports of verified legal timber products. FLEGT-licensed products automatically meet the due diligence requirements of the EU Timber Regulation.

The Indonesia-EU VPA builds on Indonesia's existing efforts to address illegal logging including its timber legality assurance system, SVLK, which Section 2 of this report describes. The Indonesia-EU VPA process has contributed to revisions to the SVLK.

The core goal of the Indonesia-EU VPA process is to provide a legal framework to ensure that all

timber products, as covered by the Agreement, imported into the EU from Indonesia have been legally produced. The VPA annexes outline the set of Indonesian laws and regulations that apply to the forest sector ('the legality definition'), and the control systems and verification procedures that ensure that all timber and timber products exported from Indonesia to the EU comply with those laws. The VPA stipulates that once FLEGT licensing has begun, the EU will deny entry to any Indonesian timber products covered by the VPA that arrive in the EU without a valid FLEGT license.

The VPA does not, however, apply only to exports to the EU. This is because Indonesia decided to include in the scope of the VPA timber and timber products traded in Indonesia and/or exported to any markets.

The parties negotiated the VPA between 2007 and 2011, and ratified the agreement in 2014. The VPA entered into force on 1 May 2014. The VPA is now being implemented. A Joint Implementation Committee oversees this work, which includes legal and governance reforms and improvements to the SVLK ahead of FLEGT licensing. This report describes the progress made between May 2014 and April 2015.



## 2 SVLK: Indonesia's timber legality assurance system

The Indonesia–EU VPA describes a timber legality assurance system capable of verifying that timber and timber products produced and processed in Indonesia come from legal sources and are in full compliance with relevant Indonesian laws and

regulations, as verified by independent auditing and monitored by civil society. The timber legality assurance system described in the VPA is based on Indonesia's SVLK, which became law in 2009 (see Figure 3).

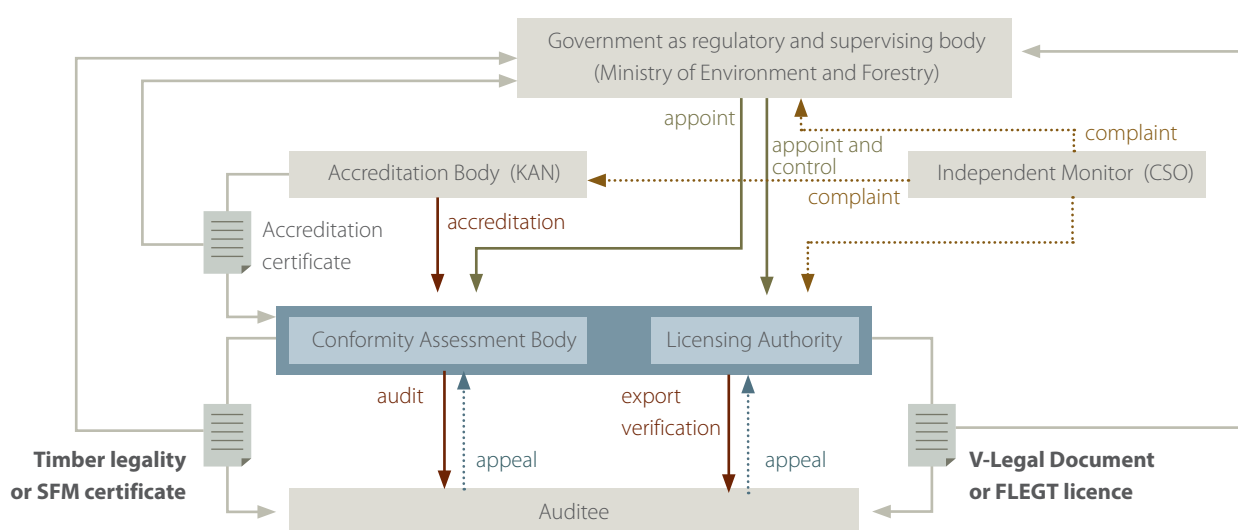


Figure 3. Institutional set-up of SVLK

### Legality definition

Under the VPA, Indonesian timber is deemed legal when its origin, production, processing, transport and trade are verified as meeting all applicable Indonesian laws and regulations included in the VPA legality definition.

Indonesia had already begun a process to define legality before VPA negotiations started. This was an important step in developing the SVLK as around 900 Indonesian laws and regulations apply to the forest sector in some way.<sup>7</sup> A multistakeholder process identified a subset of these laws and regulations and created a set of five clear legality standards for different forest types (see Appendix 1).

The intent of a VPA legality definition is not to repeat all of a country's legislation, but to target and emphasise the subset of legal requirements that national stakeholders decide are most important. Under the VPA, a future review of the legality definition based on stakeholder input is possible.

The Indonesian legal framework sets sustainable forest management standards with which permit holders operating in production forests on state-owned lands must comply.<sup>8</sup> Such permit holders can opt to comply with the legality standard first, but must comply with both standards no later than the date when their initial legality certification expires.

<sup>7</sup> Lawson, S. 2010. *Illegal Logging and Related Trade: Indicators of the Global Response*. Chatham House, London; Hoare, A. and Wellesley, L. 2014. *Illegal Logging and Related Trade: The Response in Indonesia*. Chatham House, London

<sup>8</sup> For example through the Ministry of Environment and Forestry regulation P.95/Menhut-II/2014 and the Directorate General Guidelines for Implementation (Perdirjen) no. 14/2014 and no. 1/2015

## Supply chain control

Permit holders (in the case of concessions), landowners (in the case of private land), or companies (in the case of traders, processors and exporters) must demonstrate that every node of their supply chain is controlled and documented as set out in Annex V of the VPA and the Minister for Forestry Regulations.<sup>9</sup> These regulations require provincial and district forestry officials to undertake field verifications and validate the data and documents routinely submitted by permit holders, landowners or processors at each node of the supply chain (see Appendix 2).

Relevant transport documents must accompany all consignments in a supply chain. Under forthcoming regulatory changes, these documents must indicate whether the material is covered by a valid SVLK certificate, declared legal under a Supplier's Declaration of Conformity (see box) or impounded. The Ministry of Environment and Forestry uses SI-PUHH and other online databases to track supply chains of forest and timber products (see Section 7 and Appendix 2).

## Verification

The National Accreditation Committee accredits independent private companies, called conformity assessment bodies (CABs), to audit forest businesses and wood-based industries. CABs verify compliance with the legality definition and/or assess the performance of permit holders operating in production forests on state-owned land against sustainable forest management standards (see Appendix 4). CABs also check the consistency of data declared by auditees during initial and surveillance audits and may carry out field inspections when needed.

## FLEGT licensing

The SVLK licensing authorities currently issue 'V-legal' licences to accompany exports of verified legal wood. Indonesia has used the SVLK to audit more than 12 million hectares of natural forests and more than 1 400 timber industries. It has issued more than 230 000 'V-legal' certificates, accounting for exports worth USD16.40 billion (see Section 4). When the timber legality assurance system is operating as described

in the VPA, the licensing authorities will issue FLEGT licences to accompany exports of verified legal timber destined for the EU (see Section 3). Indonesia will continue to issue V-legal documents for other export destinations.

## Periodic evaluation

Periodic evaluation is the VPA term for a regular audit of the timber legality assurance system by an independent third party. The objective of periodic evaluation is to provide assurance that the system functions as described in the VPA, thereby adding to the credibility of FLEGT licences. The periodic evaluator reports to the Joint Implementation Committee, which may decide on supporting or corrective measures to be taken. Article 5 of the VPA states that Indonesia, in consultation with the EU, shall engage a periodic evaluator to implement tasks listed in Annex VI of the VPA (see Section 8).

---

<sup>9</sup> P.30/Menhut-II/2012, P.41/Menhut-II/2014 and P.42/Menhut-II/2014

## Supplier's Declaration of Conformity

In 2014, Indonesia revised the SVLK to include a new procedure called a Supplier's Declaration of Conformity (SDoC)<sup>10</sup>. The SDoC enables the following types of supplier to self-assess their fulfilment of specific requirements instead of seeking SVLK certification:

- Owners of private forest
- Registered timber depots that exclusively receive timber from privately owned forests/lands or receive SVLK-certified timber from state plantations called Perum Perhutani
- Household industries/craftsmen/artisans
- Primary and secondary industries that exclusively process timber from privately owned forests/lands and hold no export permit

the burden of complying with the SVLK on smallholders and SMEs, which were struggling to become certified.

To inform stakeholders about the SDoC, the Ministry of Environment and Forestry organised awareness campaigns throughout the country and distributed posters such as the one illustrated below to SMEs, private forest owners, and timber depots.

The SDoC revision followed a recommendation from the Joint Assessment team to reduce

### DKP HUTAN HAK

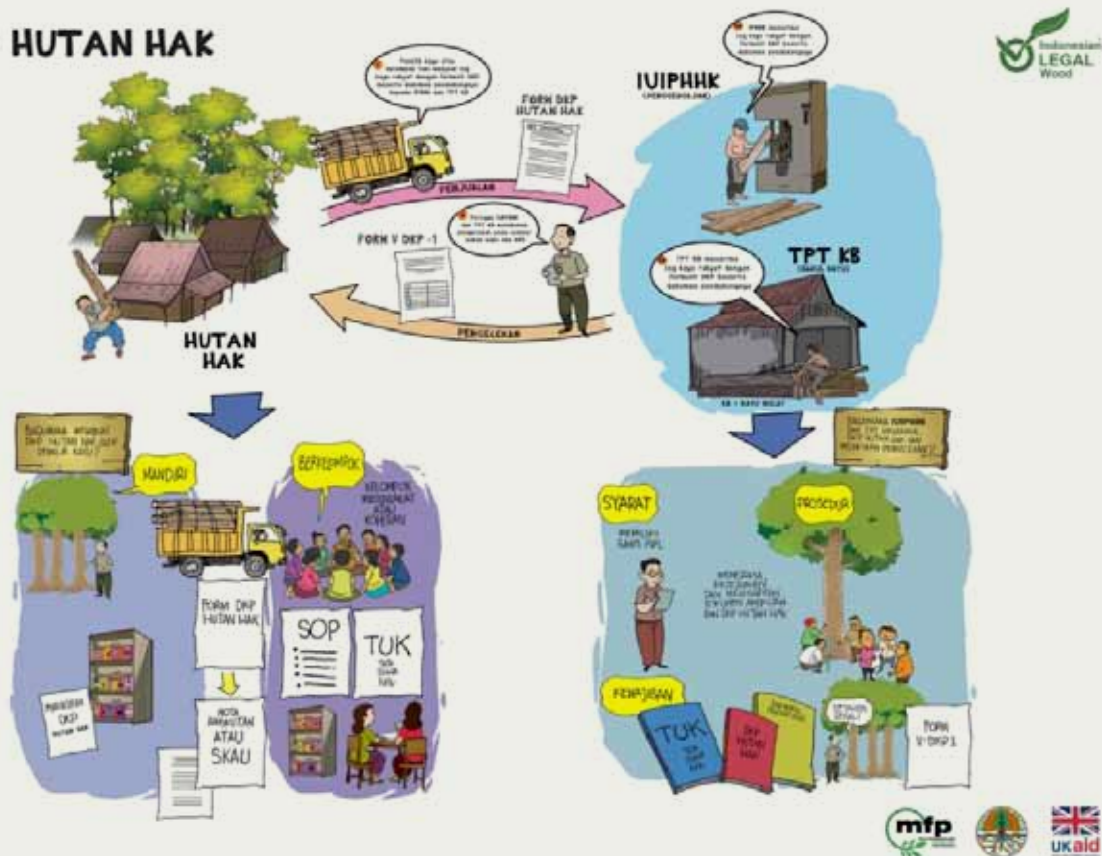


Figure 4. Poster to raise awareness of the SDoC for privately owned forests

<sup>10</sup> Based on SNI/ISO 17050, the Supplier's Declaration of Conformity is a 'self-declaration' as defined in ISO/IEC 17000, i.e. a first-party attestation following a review that fulfilment of specific requirements has been demonstrated



Registered timber yarn in certification process, Jepara, Central Java

## Independent monitoring

Annex V of the VPA outlines the rights of Indonesian civil society groups, individuals and communities to monitor the implementation of the timber legality assurance system. This includes rights to:

- Monitor compliance of operations with the requirements of the legality definition
- Monitor conformity of the accreditation, verification, periodic evaluation and licensing processes with the requirements of the timber legality assurance system
- File complaints to conformity assessment bodies, licensing authorities, the National Accreditation Committee, and the Ministry of Environment and Forestry

## Continuous improvement

Since 2009, Indonesia has strengthened the SVLK regulations several times to improve its efficiency, inclusiveness and accessibility to SMEs. The latest revisions were in 2014.<sup>11</sup> The SVLK revisions indicate a process of continuous improvement in response to input from stakeholders, including through the VPA process. The Joint Implementation Committee reviews and endorses proposed updates to VPA annexes to reflect changes in the SVLK. In one revision of the VPA annexes, Indonesia committed to continue its engagement with all stakeholders during the implementation of the timber legality assurance system.

<sup>11</sup> The Ministerial regulations P.43/2014 and P.95/2014



### 3 Towards FLEGT licenses

#### Joint assessment of the timber legality assurance system

Before FLEGT licensing can begin, a joint assessment must confirm that Indonesia's timber legality assurance system functions as described in the VPA.

The first stage of the joint assessment concluded in 2013. The second stage took place from 23 September to 31 October 2014. The assessment team found many improvements in the SVLK since the first stage of the assessment. The team reported no major systemic issues. Challenges for Indonesia to address before FLEGT licensing begins relate mainly to implementation.<sup>12</sup>

To address these challenges, in November 2014, Indonesia and the EU agreed on the Second Indonesian–EU Action Plan on Advancement of VPA Implementation.<sup>13</sup> Appendix 3 lists the agreed action points, which included:

- A nationwide rollout of Indonesia's timber legality assurance system (see Section 4)
- New regulations relating to control of imported timber and control of FLEGT licensing
- Implementing independent monitoring, periodic evaluation and VPA impact monitoring

- Final revisions to VPA annexes to reflect the recent changes Indonesia has made to the SVLK in response to stakeholder input and the first stage of the joint assessment.

At the second Joint Implementation Committee meeting, in February 2015, the committee:

- Adopted updates to VPA Annex I on product scope, Annex II on the legality definition and Annex V on the timber legality assurance system
- Reviewed progress on the four monitoring mechanisms described in the VPA (see Section 8)
- Agreed to establish a joint working group to review progress under the action plan

In March 2015, Indonesia and the EU agreed on measures to track the achievement of each action in the action plan and on data to monitor progress. The parties also agreed to set up a field team to visit several provinces to assess VPA implementation.

#### EU readiness to receive FLEGT-licensed timber

To prepare for the arrival of FLEGT licences in the EU, exchanges have taken place to improve coordination among different services of the European Commission and between the European Commission and countries in the EU. These exchanges have drawn lessons from the outcomes and recommendations of the shipment test co-organised with Indonesia in 2012.

The European Commission is also developing an EU-wide electronic system to process FLEGT licences, in collaboration with VPA partner countries. The electronic system would avoid

the need for VPA partner countries to establish bilateral communications with information technology systems of individual EU member states. In 2014, EU officials and consultants discussed the planned EU-wide system with Indonesian representatives involved in the VPA, who expressed interest in cooperating with the EU in the development of the system.

<sup>12</sup> Indonesia-EU VPA Joint Implementation Committee. 2014. Public Summary of Results of Joint Assessment of the Indonesian Timber Legality Assurance System Stage Two, 23 September to 31 October 2014

<sup>13</sup> The plan was agreed at the Indonesia–EU Joint Expert Meeting in Solo on 17–18 November 2014

## Implementation of the EU Timber Regulation

Countries in the EU are making progress in implementing the EU Timber Regulation (EUTR), which requires them to designate a competent authority, adopt penalties and check on the performance of companies. Enforcement of the EUTR has increased in the reporting period. Competent authorities in EU member states have established an informal enforcement group to share information and best practices.

In the reporting period, the European Commission published and updated a scoreboard that shows the progress of the 28 EU member states in implementing the EUTR.<sup>14</sup> Twenty EU member states have introduced legislation on penalties for breaching the EU Timber Regulation. The European Commission is engaging with member states that have not yet fully implemented the EUTR. In the reporting period, the European Commission has also recognised several monitoring organisations, which provide due diligence systems that operators can apply to their supply chains.

## Independent market monitoring

In 2014, the International Timber Trade Organization began work on a five-year contract from the European Commission 'to better understand the market incentives of entering into and implementing a VPA, and to monitor how the EU and wider international market for FLEGT-licensed timber develops during the life of the VPA' (see Section 8). This independent market monitoring will enable the European Commission to assess demand for FLEGT-licensed timber and adapt its communication and other supporting measures to prepare the market to the arrival of FLEGT licences.

## Market awareness

In March 2015, the European Commission held its annual FLEGT Week conference in Belgium.<sup>15</sup> Indonesia reported on its progress toward FLEGT licensing to an international audience that included all relevant EU stakeholders including private sector representatives. This conference signalled to the market the commitment of the European Commission and Indonesia to see FLEGT-licensed timber on the EU market as soon as possible.

---

<sup>14</sup> [http://ec.europa.eu/environment/forests/timber\\_regulation.htm](http://ec.europa.eu/environment/forests/timber_regulation.htm)

<sup>15</sup> <http://www.flegtweek.org/>

## 4

## Achievements in SVLK implementation

Since the signing of the VPA in 2013, Indonesia has made significant progress in implementing the SVLK. The implementation of SVLK has had a positive impact on trade (see Figure 5) and indicates the scale at which Indonesia will be able to deliver FLEGT licensing.

In February 2015, the Ministry of Environment and Forestry initiated the SVLK Acceleration Programme to fast track the certification of private forests, SMEs that export furniture and primary industries with capacities of up to 6 000 m<sup>3</sup>/year. Programme activities included mapping, training, gap assessment, and certification (see Appendix 4).

With financial support from the Multistakeholder Forestry Programme Phase 3 (MFP3) and the Ministry's state budget, the programme will fund certification costs and pre-audit facilitations.

Data mapping became crucial to the acceleration programme. Independent facilitators, or focal points, worked in 21 Indonesian provinces to map primary industries with capacities of up to 6 000 m<sup>3</sup>/year and SMEs with modalities of less than IDR 500 million. Previously, these data were not centralised and available to provincial forestry, industry and trade

offices. The focal points also assessed the gaps among primary industries and SMEs in meeting SVLK requirements and assisted such units to proceed with group certification.

By the end of 2014, more than 80% of the timber harvested in natural forest concessions, as well as 100% of timber coming from plantation forest concessions was SVLK certified. By April 2015, the Conformity Assessment Bodies of Indonesia certified more than 1 400 timber industries as compliant with the SVLK. 88% of all registered exporters were certified, which traded with 193 countries. By April 2015, the Ministry of Environment and Forestry trained 980 SVLK auditors. 19 Conformity Assessment Bodies issuing SVLK legality certificates and 14 Conformity Assessment Bodies issuing SVLK sustainability certificates were accredited by the National Accreditation Committee (KAN). The Ministry of Environment and Forestry also registered 4 634 technical officers overseeing the timber and timber product transport by April 2015.

Appendix 5 describes activities by Indonesia to promote the SVLK to markets other than the EU in the reporting period.



Figure 5. SVLK impacts as of April 2015





Training for Forest Supervisors (Ganis),  
Semarang, Central Java



## 5 Institutional strengthening and capacity building

To implement the VPA it has been necessary to create new institutional structures and strengthen capacity among stakeholders. The following took place in the reporting period.

### Joint Implementation Committee

Indonesia and the EU set up a Joint Implementation Committee (JIC) to oversee implementation of the VPA.<sup>16</sup> Senior officials from the EU and Indonesia co-chair the JIC and each party selects member delegates. Indonesia's delegates include representatives of the government, private sector and civil society. The committee has met twice – on 24 September 2014 and 12 February 2015.

Indonesia and the EU have set up the following structures to support the JIC:

- **JIC secretariat:** This provides administrative support to the JIC and its supporting bodies. The secretariat's members include representatives of Indonesia's government, civil society and private sector associations, as well as one representative of the EU delegation in Jakarta.
- **Technical working groups:** These multistakeholder groups provide technical support to the JIC in areas such as VPA impact monitoring.
- **Joint expert meetings:** This multistakeholder forum brings together representatives of the EU and Indonesia to explore technical issues. In the reporting period, four joint expert meetings took place to discuss progress towards FLEGT licensing. These meetings prepare and inform the JIC meetings.
- **Joint working group:** This multistakeholder group monitors and assesses progress under the Second Indonesia–EU Action Plan on Advancement of VPA Implementation (see Section 3). The group includes representatives of the EU and the following

Indonesian stakeholder groups: Ministry of Environment and Forestry, Ministry of Trade, Ministry of Industry, Ministry of State Secretariat, Ministry of Foreign Affairs, Ministry of Finance, private sector associations, licensing authorities and non-governmental organisations. The joint working group meetings prepare and inform the joint expert meetings.

### Civil society

The UK Department for International Development, through the Multistakeholder Forestry Programme and the Environmental Investigation Agency, has provided support to strengthen the capacity of civil society organisations (CSOs) and networks to perform the independent monitoring function described in the VPA.

Capacity building workshops in August and September 2014 focused on the role of CSOs in the VPA Joint Implementation Committee and CSO experiences of the VPA and SVLK. Thirty CSO representatives from Sumatra, Kalimantan, Sulawesi, Maluku and Java attended. They formulated a VPA position paper and communication protocol, and chose seven CSO representatives for the Joint Implementation Committee's supporting structures (see Section 5).

To promote broader civil society participation in independent monitoring, MFP3 provided training for 30 journalists from Central Java, Yogyakarta and East Java in April 2015. The training covered CSO experiences of independent monitoring, a code of conduct for monitoring and advice on monitoring compliance with relevant regulations. Other capacity building activities helped community-based forest enterprises prepare to implement the SVLK and familiarised stakeholders, such as smallholder forest owners, timber yards and sawmills, with the Supplier's Declaration of Conformity.

<sup>16</sup> As agreed in article 14 of the VPA

## Government agencies

MFP3 in collaboration with the Ministry of Environment and Forestry provided support to national and local government agencies including activities to strengthen the capacity of the Forestry Education and Training Centre (Pusdiklat Kehutanan), Regional Forestry Training Centre and Perum Perhutani of the Ministry of Environment and Forestry.

From 2009 to 2015, 4 634 supervisors (wasganis) received training. These officials play key roles in implementing the SVLK, including assessing management units, providing technical support and performing internal audits before the certification process. In the reporting period, the SVLK Acceleration Programme made training these officials a priority (see Section 4).

In September 2014, MFP3 conducted training in communicating the SVLK was provided to administrators and operators of the SIMPATIK information clearing house. Participants included representatives from the Forestry Education and Training Centre, the Regional Forestry Training Centre and Forestry Senior High School. The training module was updated in October 2014 to reflect recent revisions to SVLK implementation, particularly the concept of Supplier's Declaration of Conformity.

- An event that brought together international timber product buyers and SVLK-certified companies from Indonesia, to raise awareness of progress with certified wood products (November 2014)<sup>17</sup>
- Events in Central Kalimantan, West Kalimantan, North Kalimantan, South Kalimantan, Maluku and Central Java that sought to raise the capacity of concession holders and local governments to implement the SVLK (November-December 2014).

## SVLK auditors

Between 2009 and 2014, the Forestry Education and Training Centre (Pusdiklat Kehutanan) trained more than 980 SVLK auditors to assess performance against legality standards and sustainable production forest management standards. Organisations providing support for these activities included MFP3, the Indonesian Eco-labelling Institute (LEI), Kemitraan, the International Timber Trade Organization, Indonesian Association for Forest Concession Holders (APHI), the Indonesian Wood Panel Producers Association (APKINDO) and conformity assessment bodies (Sucofindo, BRIK and Ayamaru).

## Private sector

Indonesian private sector associations, such as the Indonesian Association for Forest Concession Holders (APHI), have played an active role in supporting VPA implementation, strengthening the sector's capacity to implement the SVLK and raising awareness of the SVLK among other stakeholder groups. The following are some of the key activities during this reporting period:

- A media trip and briefing informed 30 journalists from West Kalimantan, Central Kalimantan, and East Kalimantan about best practices in implementing the SVLK (April 2014).

---

<sup>17</sup> The event was called 'Boosting International Trade in Certified Wood Products from Indonesia'. See [www.theborneoinitiative.org/client/borneo/uploads/conference\\_report/final\\_seminar\\_report\\_2014.pdf](http://www.theborneoinitiative.org/client/borneo/uploads/conference_report/final_seminar_report_2014.pdf)

## 6 Stakeholder engagement

Multistakeholder participation is critical to the success and credibility of the Indonesia–EU VPA. The high level of stakeholder engagement during the development of the SVLK and the VPA negotiations has continued in the implementation phase of the VPA. There is strong support for VPA implementation and continuous improvement of the SVLK among civil society, government institutions and the private sector.

Stakeholders from these groups engage directly with the Ministry of Environment and Forestry and contribute to interactions with the EU by participating in the Joint Implementation

Committee (JIC) and its supporting structures (see Section 5). The JIC has the authority to determine whether Indonesia's timber legality assurance system meets the terms of the VPA. Multistakeholder participation in the JIC highlights the degree of stakeholder engagement in forest management in Indonesia.

Representatives of Indonesian stakeholders also visited the EU several times in the reporting periods to engage with EU stakeholders and attend meetings such as the Chatham House illegal logging updates.

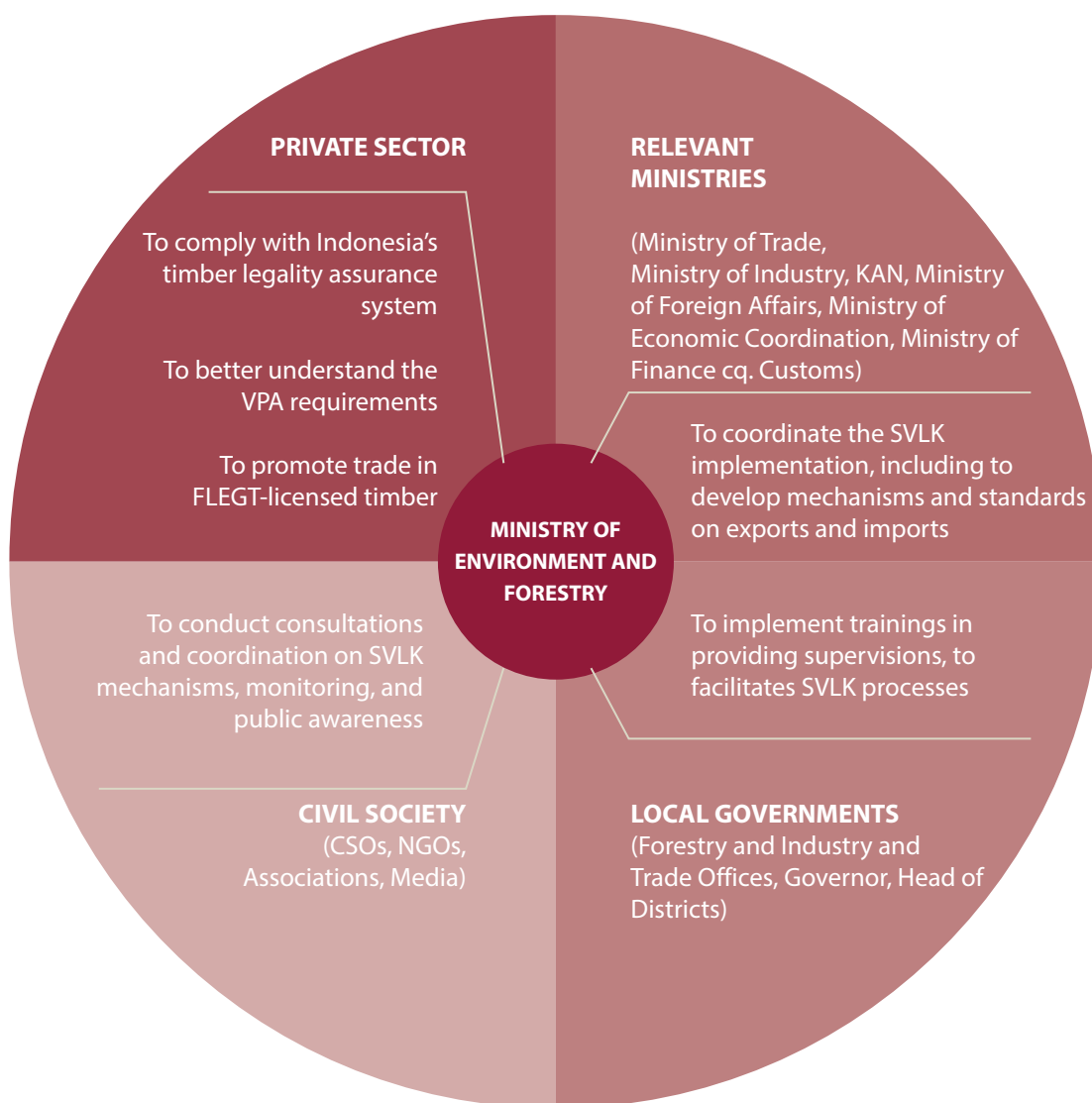


Figure 6. The roles different Indonesian stakeholders play in VPA implementation



08

64/12/13

Trees in a community forest in Alor, East Nusa Tenggara, are given a unique number for identification purposes

## 7 Communication and transparency

Communication and access to information promote objectivity, transparency and accountability in timber legality verification and licensing. Article 17 and Annex IX of the VPA specify which data and information Indonesia will make available to the public, as well as the bodies responsible for making information available and the mechanisms by which information can be accessed.

Annex IX of the VPA was developed through a multistakeholder dialogue in which civil society organisations called for access to information that would enable meaningful independent monitoring of the timber legality assurance system. The annex is in line with the Indonesian Law on Freedom of Information,<sup>18</sup> which makes it mandatory for public institutions to develop regulations on public access to information.

### Data made available

Indonesia had made the following information available through a dedicated online database called SILK, which serves as a registry of V-legal documents:

- Updated list of V-legal documents issued
- Information on SVLK (articles, regulations and publications) and updates on the VPA process
- Names and addresses of accredited conformity assessment bodies (CABs) that verify performance against legality (19 CABs) or sustainable production forest management (14 CABs) standards<sup>19</sup>
- Names and addresses of companies that hold timber legality certificates (S-LK certificates), along with the name of the CAB that certified the company and the certificate's period of validity
- Results of legality performance assessments and sustainable production forest management performance assessments, along with the name of the CAB issuing the certificate, date of assessment, audit plan, audit results and status

SILK links automatically with information systems in the Indonesian Ministry of Trade and the Ministry of Finance Directorate of Customs.<sup>20</sup> Competent authorities in target export markets can query SILK for information on V-legal documents and seek clarification if necessary.

### Publication of documents related to VPA meetings

During the reporting period, the parties to the VPA have published documents that include:<sup>21</sup>

- Record of discussion from the 1st JIC meeting (September 2014)
- Public summary of the second stage of the joint assessment of the timber legality assurance system
- Record of discussion from the joint expert meeting (November 2014)
- Public summary of the Second Indonesian–EU Action Plan on Advancement of VPA Implementation (November 2014)
- Record of discussion from the joint expert meeting (January 2015)
- Record of discussion from the 1st joint working group meeting (February 2015)
- Record of discussion from the 1st JIC meeting (February 2015)

### Stakeholder outreach

The parties to the VPA have opened a direct channel of communication with stakeholders in the form of regular email updates on VPA implementation through the JIC Secretariat. The first email describing progress towards FLEGT licensing and VPA monitoring was sent in April 2015 to more than 170 participants. Recipients provided positive feedback and expressed interest in future email updates.

<sup>18</sup> No. 14/2008.

<sup>19</sup> CABs that verify legality are termed LVLK. CABs that verify performance against the sustainable forestry management standard are termed LP-PHPL.

<sup>20</sup> INATRADE (Indonesian Trading) – an online system in the Ministry of Trade and INSW (Indonesia National Single Window) in the Directorate of Customs in the Ministry of Finance

<sup>21</sup> On the Ministry of Environment and Forestry's SILK website (<http://silk.dephut.go.id/>) and the website of the EU delegation in Indonesia ([http://eeas.europa.eu/delegations/indonesia/eu\\_indonesia/trade\\_relation/trade\\_policy\\_issues/flegt\\_vpa/index\\_en.htm](http://eeas.europa.eu/delegations/indonesia/eu_indonesia/trade_relation/trade_policy_issues/flegt_vpa/index_en.htm))





Home industry in Jepara, Central Java



## 8 VPA monitoring

### Independent monitoring

Civil society plays a key role in the independent monitoring of the VPA timber legality assurance system, as described in Section 2. Networks involved in independent monitoring include Forest Watch Indonesia, APIKS and JPIK, a network of more than 60 organisations and 300 individuals.<sup>22</sup>

In November 2014, JPIK launched SVLK in the Eyes of the Monitor, a report on the results of JPIK's independent monitoring of 34 permit holders between 2011 and 2013. The report identified issues with SVLK implementation and proposed solutions. Some of the recommendations were taken up in the 2014 revision of the SVLK and/or are reflected in the Second Indonesia–EU Action Plan on Advancement of VPA Implementation, which the parties agreed in January 2015.

To ensure effective monitoring of the timber legality assurance system, the independent monitor was expanded to include communities and groups such as journalists (see Section 5). Ongoing training is planned for stakeholders from industry, auditors, government agencies and the public to ensure all stakeholders accept standard monitoring methodology and the findings of the independent monitors.

### Impact monitoring

In Article 12 of the VPA, Indonesia and the EU agreed to monitor the impacts of the VPA on the timber industry and local communities. To supervise this monitoring, the Ministry of Environment and Forestry set up a working group with members from the Ministry, CSOs and private sector associations.

The working group oversaw development of the terms of reference for the impact monitoring service provider and Assessment criteria included overall proposal, methodology, team composition, and institutional capacity. Assessment criteria included 1) overall proposal, 2) methodology, 3) team composition and 4) institutional capacity.

In March 2015, the panel selected PT Hatfield Indonesia in a consortium with PT IDEAS as the preferred bidder to support the technical working group in developing the impact monitoring methodology, beginning May 2015. The working group will work with the service provider to provide support for quality assurance and to communicate the process and key outcomes to stakeholders.

### Independent market monitoring

The role of the independent market monitor is to allow VPA partner countries and EU stakeholders to understand the market incentives for entering into and implementing a VPA, and to monitor how the EU and wider international market for FLEGT-licensed timber develop during the life of the VPA. The European Commission has awarded a five-year contract, 2014-2019, to the International Tropical Timber Organization to conduct independent market monitoring. In the reporting period, the chief ITTO consultant visited Indonesia to discuss the market monitoring methodology and the data on Indonesia that will be regularly compiled.

### Periodic evaluation

In September 2014, the Joint Implementation Committee tasked MFP3 with recruiting a periodic evaluator to regularly assess the performance of the timber legality assurance system.

In November 2014, MFP3, the Indonesian Ministry of Forestry and the EU discussed the role and responsibilities of the periodic evaluator, including the scope of work, qualifications, evaluation methodology and reporting. The periodic evaluator will be expected to produce regular reports of findings together with recommendations for measures to address any gaps and weaknesses they identify.

The selection process began in April 2015 and is due to conclude by July 2015. Also in July, the Joint Implementation Committee will decide when the first periodic evaluation will take place. The second periodic evaluation will be conducted no later than 12 months after the first.

<sup>22</sup> APIKS stands for Aliansi Pemantau Independen Kehutanan Sumatera (Independent Forest Monitoring Alliance of Sumatra). JPIK stands for Jaringan Pemantau Independen Kehutanan (Independent Forest Monitoring Network).

# Appendices

## Appendix 1: Indonesia's five legality standards

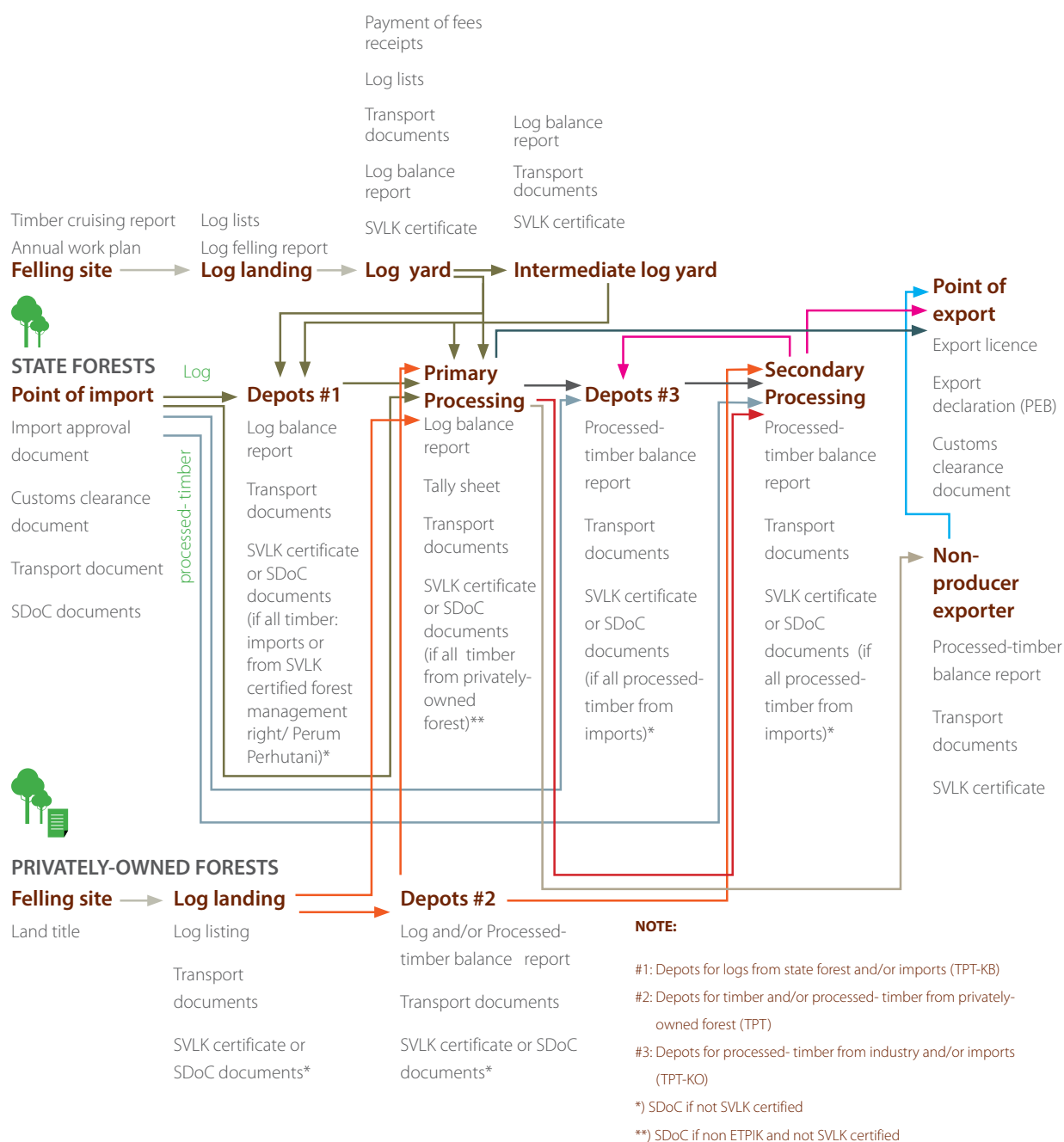
Indonesia's legality definition includes five legality standards articulated in a set of principles, criteria, indicators and verifiers, all based on Indonesian laws, regulations and procedures:

- **Legality Standard 1.** For concessions within production forest zones on state owned/company managed lands: natural production forests, (industrial) plantation forests, forest ecosystem restoration, forest management rights
- **Legality Standard 2.** For community plantation forests and community forests within production forest zones on state-owned lands
- **Legality Standard 3.** For privately-owned/used forests/land
- **Legality Standard 4.** For timber use rights within non-forest zones on state owned lands or from converted production forest
- **Legality Standard 5.** For primary and downstream forest-based industries and traders

# Appendices

## Appendix 2: Supply chain control documents and databases

The figure below illustrates the documents forestry officials check in order to reconcile data at each node of the supply chain.



The Ministry of Environment and Forestry uses the following databases to track the supply chain:

- **SIPUHH:** A database tracking timber documentation from forest operation to industry
- **RPBBI:** A database of timber industries with capacities above 6 000 m3 per year that records the origin of raw timber as input materials for the industry
- **SIPHAO:** An online information system on natural forest production
- **SILK:** A database of information on timber exports with V-legal certificates (see Section 7).



# Appendices

## Appendix 3: Second Indonesian–EU Action Plan on Advancement of VPA Implementation

At the Indonesia–EU joint expert meeting in Solo on 17–18 November 2014 the parties to the VPA agreed on the Second Indonesian–EU Action Plan on Advancement of VPA Implementation. It has the following action points:

1. **Implementation of SVLK nation-wide:** Ensure that by 1 January 2015 only SVLK timber enters SVLK supply chains (see Section 4)
2. **Control of imported timber:** Develop and implement regulations pertaining to due diligence requirements for imported timber and adjust Conformity Assessment Body (CAB) procedures
3. **Control of FLEGT licensing:** Develop regulations on oversight and control of the licensing authorities that issue FLEGT licences
4. **Information sharing among SVLK verification actors:** Ensure CAB audits consult relevant external actors and report cases of non-compliance to the Ministry of Environment and Forestry
5. **Independent monitoring:** Improve independent monitoring, including capacity building, sustainable funding and an increase in monitoring activities
6. **Supply chain control:** Add information on the status of the timber in transport documents, in industries, and registered timber depot reports
7. **Public disclosure:** Make available the information required for independent monitoring as described in the VPA and relevant ministerial regulations, such as P.7/Menhut-II/2011
8. **VPA monitoring:** Finalise the terms of reference for Periodic Evaluation, and develop and test the impact monitoring methodology, including establishing the baseline
9. **VPA annex review:** Finalise revisions of VPA annexes I, II and V for the JIC's endorsement
10. **Joint Implementation Committee (JIC) functioning:** Finalise the JIC rules of procedures and arbitration for endorsement by JIC, and set up the JIC Secretariat (see Section 5)

# Appendices

## Appendix 4: Progress of SVLK certification as of April 2015

In February 2015, Ministry of Environment and Forestry, led by the Directorate General for Forest Production, initiated an SVLK Acceleration Programme to speed up the certification of furniture exporting SMEs, primary industries with capacities of up to 6,000 m3/year, and private forests.

The programme has seven stages:

1. Establish and coordinate the SVLK certification acceleration team
2. Coordinate a meeting among representatives of the Ministry of Environment and Forestry, Ministry of Ministry of Trade, and Ministry of Industry
3. Develop an online database for gap assessment
4. Facilitate coordination meetings between the Directorate General of Forest Utilization and the Provincial Governors and issue a joint declaration to accelerate SVLK certification
5. Facilitate the coordination meetings between the SVLK Acceleration Programme steering committee and business players
6. Undertake gap assessment
7. Certification

# Appendices

## Appendix 5: International activities to promote SVLK and V-legal

In order to expand access to markets for timber and wood products, the Government of Indonesia continuously promotes and negotiates the SVLK as a mechanism to ensure legal timber trading. The goal is for timber products from Indonesia to be accepted at export destinations without the need for importers to undertake due diligence. In the reporting period, Indonesia promoted the SVLK and V-legal certification to international markets other than the EU through activities that included:

- Developing and signing a Country Specific Guideline to facilitate the entry of SVLK-certified timber into Australia, in line with the Australia Illegal Logging Prohibition Amendment Regulation of 2013. The signing was conducted in October 2014. This event was followed up with an Interactive Market Dialogue in Sydney, attended by 15 participants from Australian agencies, traders and associations of importers, and Indonesian embassy staff
- Conducting bilateral timber trade negotiations with Canada, China, Japan and South Korea
- Participating in international exhibitions in March 2015: IFFINA (International Furniture and Craft Fair Indonesia) and IFEX (Indonesia International Furniture Expo)
- Participating in the Asia-Pacific Economic Cooperation Expert Group on Illegal Logging and Associated Trade meeting in January 2015 in the Philippines to present the strategy for accelerating SVLK certification for small and medium enterprises
- Participating in the ASEAN Senior Officials on Forestry meeting in March 2015 in Cambodia to promote timber trade as part of the strategic plan for the forestry sector 2016–2025 in the ASEAN cooperation on food, agriculture, and forestry programme





Home industry in Jepara, Central Java





Community Forest in Trenggalek, East Java

All photos in this report were provided by  
Multistakeholder Forestry Programme





This report was prepared by Indonesia and the EU and validated by the VPA Joint Implementation Committee

Common efforts to ensure and promote legal timber trade and good stewardship of the forest sector

Indonesia-EU

