



## **PUBLIC SUMMARY**

### **Joint Working Group Closure Report on Advancement of VPA Implementation**

January 2016

#### **Background**

In 2007, the Government of the Republic Indonesia embarked with the European Union (EU) on the negotiation of a Voluntary Partnership Agreement (VPA) under the Forest Law Enforcement, Governance and Trade Action Plan (FLEGT). Central to the VPA is a Timber Legality Assurance System (TLAS), known in Indonesia as *Sistem Verifikasi Legalitas Kayu* (SVLK) which is laid down in Forestry Minister's Regulation P.38/Menhut-II/2009 and its latest revisions, P.43/Menhut-II/2014, P.95/Menhut-II/2014, P.14/VI-BPPHH/2014 and P.1/VI-BPPHH/2015. The parties concluded VPA negotiations in May 2011 and signed the Agreement on 30 September 2013. The Agreement was ratified in March and April 2014 by the Government of the Republic of Indonesia and the Council of the EU and entered into force on 1 May 2014.

The Agreement recognises the efforts by Indonesia to promote good forestry governance, law enforcement and the trade in legal timber. Once the FLEGT licensing scheme has gone alive, any timber products covered by the Agreement arriving in the EU without a valid FLEGT licence will be denied entry. Before FLEGT licensing can commence, the VPA requires that a joint independent assessment of the TLAS is carried out. The first stage of this assessment was concluded in September 2013, and the second stage of the assessment took place from September to October 2014. The assessment was conducted jointly by experts from Indonesia and the EU as agreed by the Joint Implementation Committee (JIC) overseeing the implementation of the VPA. The main objective was to inform both parties on technical preparedness and performance of the TLAS, both system and implementation wise, to ensure the issuance of credible FLEGT licenses. For a summary of the experts' report, see the [Public Summary Stage II Joint Assessment](#).

Since its first regulation in 2009, Indonesia has gained experience in implementing the SVLK and has revised the system several times to strengthen and adapt it to the evolving context of the forest sector. As a consequence, the relevant Annexes of the VPA were also jointly amended in 2015.

#### **Indonesia-EU Action Plan on the Advancement of VPA Implementation**

The two stages of the joint TLAS assessment reported significant improvements of the SVLK since the VPA negotiation ended in 2011. By the end of 2014, the joint expert team concluded that the SVLK was a robust system and that only a few system issues like the handling of imports still needed to be developed. Both parties agreed to develop a joint action plan to address the remaining issues raised by the expert team with the ultimate aim of achieving FLEGT-licensing as soon as possible.

During the Indonesia-EU Joint Expert Meeting held in Solo on 17-18 November 2014, the parties drafted detailed action points and related timeframes of implementation. In this context, Indonesia and the EU agreed to establish a multi-stakeholder Joint Working Group (JWG) to monitor progress against this action plan.

In late March 2015, Indonesia and the EU agreed on the way to measure achievements in the joint action plan and to set-up a JWG field team to assess implementation progress on the ground. In May the team, which included resource persons from Indonesia and the EU, visited SVLK certified industries, forests and local stakeholders in Central and East Java, Central Kalimantan, and West Papua. Globally, the JWG field team recognized significant progress in the roll out of the SVLK nationwide but raised the need for better data and further efforts to get all the segments of private sector covered.

Building on the JWG field team findings and recommendations, Indonesia and the EU endorsed an [updated version of the joint action plan](#) at the 3<sup>rd</sup> JIC meeting on 8 July 2015. From 10 to 25 November 2015, the JWG supported by resource persons from both parties, assessed progress against this latest version of the plan. The evaluation aimed at determining whether the issues reported pending at that time are at present adequately addressed, and thus enables the JWG to report to the Joint Expert Meeting (JEM) and Joint Implementation Committee (JIC) on technical impediments related to the start of FLEGT licensing.

Here is below a summary of the results of this latest joint working group evaluation.

### **Key Findings**

**SVLK roll-out & Control of supply chain:** Thanks to the efforts by the Ministry of Environment and Forestry (MoEF), the Ministry of Industry, provincial level forest authorities and the UK-Indonesia Multistakeholder Forest Programme (MFP3), the SVLK roll-out has significantly progressed. The percentage of SVLK certified units compared to total units was by August 2015:

- Concessions on state forests (permanent forests)	100%
- Timber Utilization Permits (conversion areas)	87% <sup>1</sup>
- Registered timber depots (for logs)	62% <sup>1</sup>
- Registered timber depots (for processed products)	17% <sup>1</sup>
- Primary timber processors (large industries)	100%
- Primary timber processors (medium sized industries)	52%
- Primary timber processors (small industries)	n/a <sup>2</sup>
- Secondary timber processors	n/a <sup>2</sup>
- Timber traders (producers)	97%
- Timber traders (non-producers)	100%

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<sup>1</sup>further research needed

<sup>2</sup>not available

According to the data collected, the key forest concessions (HPH and HTI) and timber plantations managed by the state forest company Perum Perhutani are all now SVLK certified. Commercial timber from conversion areas is also largely SVLK certified. Timber harvested using Timber Utilization Permits (IPK) is decreasing and currently represents only a very low share of the commercial timber on the market.

Private smallholder plantations, on the other hand, appear to have become the most significant source of legal timber in Indonesia. It is estimated that the private forests account for over 60% of the total supply of SVLK timber.

Certification of timber traders i.e. registered timber depots has escalated during the past months. However, registration of all active timber depots and their certification still require nationwide efforts.

The primary processing industry is actively seeking SVLK certification and the large companies are already fully SVLK certified. Smaller companies are still in process.

The secondary timber processing is under the jurisdiction of the Ministry of Industry that does not have a comprehensive nationwide database on the registered companies. The number of SVLK certified secondary industries is 904. Due to the lack of information on their total number, the share between certified and non-certified companies cannot be calculated.

Pursuant to the regulation PermenLHK P45/2015, the MoEF will improve the SIPUHH-on line system and develop a new integrated online information management system for the control of all timber supply chains from the state forests to the point of exports or sales on the domestic market. The new systems that are set to be in full use in 2017 will strengthen the supply chain controls e.g. by enabling effective reconciliation of timber data between the different stages of the supply chain.

**Control of imported timber:** The control of imported timber is regulated in the Minister of Trade Regulation Number 97/M-DAG/11/2015. The Indonesian importers are required to exercise Due Diligence on their supplies using a format provided by the government. The system has been tested by a few companies and is in full use since the beginning of 2016. A 3-months grace period exists.

**FLEGT licensing:** The License Information Unit (LIU) in MoEF is mandated by the MoEF to control that the Licensing Authorities (LAs) operate in accordance with the relevant requirements of the SVLK. The LIU has developed internal guidelines for the control of LA activities and has evaluated 20 LAs through document reviews and visits to their premises. The first round of evaluations was passed by 19 LAs. The evaluation reports are available at the LIU.

The LAs met by the JWG have demonstrated good understanding of the licensing requirements and had IT tools in place for managing data on timber supplies and production of the exporters. Information on the licensing process is available on the websites of the LAs.

**Information sharing between SVLK verification actors:** Dinas Kehutanan at both provincial and district levels are systematically informed about planned audits of forest concessions and primary industries. The Conformity Assessment Bodies (CABs) send copies of all audit reports to the MoEF. In the event the auditee did not pass, the MoEF receives also information on the reasons for failure i.e. non-compliances. The MoEF has procedures to initiate law enforcement actions based on the findings of the audit reports. The upcoming SVLK regulation will formalize how the MoEF reacts to companies that have not passed the SVLK audit. The process includes information sharing with all

relevant authorities at central and local levels and follow-up work concerning the verifiers “not passed”. The results of the follow-up work will be submitted to the MoEF.

**Independent Monitoring:** The total number of independent monitors amounts to 629 persons and the number of CSO involved in IM activities totals 95 organizations. IM organizations have carried out gap analysis related to their capacity building needs, provided their members with training and integrated local communities in their capacity building activities. IM activities have been carried out throughout Indonesia: from Aceh to Papua covering over 60 companies.

The security of monitors has been a discussion topic between the IM organizations and the MoEF for years. The security of monitors is addressed in the upcoming SVLK regulations but implementing protocols are still needed. IM organizations are currently developing monitoring guidelines and internal safety protocols to be discussed with the government in due course.

Funding of IM activities will be addressed in the new SVLK regulation but the detailed mechanism remains to be developed.

**Public disclosure:** The VPA Annex IX sets out the information that must be publically available for the interested parties. The IM organizations have faced problems and delays in disclosure of information that is considered necessary for performing effectively their task in SVLK implementation. The availability of data (including direct data access through online data system) has improved recently but is not yet considered adequate.

**VPA monitoring:** The Periodic Evaluator (PE) contract has been awarded to a service provider. The contract has been made for one year (which can be renewed). The PE procedures or evaluation methodology are not yet developed. They will be evaluated by the JWG.

The impact monitoring methodology has been drafted, pending for technical evaluation and endorsement by the JIC.

## **Conclusions**

**Progress achieved:** Indonesia has made notable progress in the SVLK roll-out and VPA implementation since May 2015. In addition, a great majority (over 98%) of timber exports covered by the VPA are equipped with a V-Legal Document. The government of Indonesia has been working on regulatory reforms necessary for making the SVLK fully operational.

**Work in process:** Most of the pending implementation issues are related to regulatory reforms that are expected to be completed by the end of Q1 2016. Apart from non-finalized regulations, there are still few other areas that are inadequately implemented. The most significant concern is related to the effectiveness of the IM function. It is utmost important that the IM organization can efficiently access the needed information, and their safety and funding are secured.

**Aims not yet achieved:** The recent export regulation (N°89/M-DAG/PER/10/2015) issued by the MoT exempts timber products (mainly furniture) defined in 11 HS code groups from the mandatory use of V-Legal Documents for exports. The export regulation is considered to undermine provisions of the VPA, and to slow down application of the SVLK. This is a serious hindrance for the start of FLEGT licensing.

**Annex VIII of VPA:** As required by the VPA, the SVLK has been subject to an independent technical assessment (joint assessment) that was carried out in two stages in 2013 and 2014 against assessment criteria provided by Annex VIII of the VPA. Building on the findings of the joint assessment, Indonesia and the EU have developed two joint action plans to monitor progress in the development and implementation of the SVLK. Based on this latest review of the joint action plan by the JWG, it can be concluded that once the national legislation is made aligned with the provisions of the VPA, the design of the SVLK can be considered consistent with the main assessment criteria listed in Annex VIII of the VPA.

**Revision of timber administration:** Timber administration is facing a major revision intended to broaden and strengthen it, starting from 1 January 2016 onwards. Changes will take place in management of forest resources, information systems, responsibilities of license holders and control of license holders.

**VPA implications:** The recent amendments in the export regulation of the MoT contradict provisions detailed in Annex I and V of the VPA. The new export regulation also abolishes the use of ETPIK, which is defined in VPA Annex IV as information that the exporter must include in the FLEGT license. In addition, the upcoming SVLK regulations include new provisions (e.g. the VLBB and revised audit frequency) that may need to be reflected in a future revision of Annex V.

Annex V of the VPA describing the Indonesian TLAS is written based on the current timber administration system. The upcoming timber administration system is yet not referred to in the VPA and its Annex V describing the control of timber supply chains. It is likely to prompt a new description of the supply chain controls in Annex V.

**Longer term action plan:** The second Joint Action Plan includes provisions to developing a new plan for longer term activities based on the findings of this assessment.

It is suggested that the JWG will be tasked to develop and implement the longer term action plan. In accordance with clause A11.4 of the current action plan, the activities embedded in the longer term action plan must to be endorsed by both parties of the VPA.

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