Indonesia and the European Union

Annual report

May 2015 - Dec 2016

Implementation of the Indonesia-EU FLEGT Voluntary Partnership Agreement

Common efforts to ensure and promote legal timber trade and good stewardship of the forest sector
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Voluntary Partnership Agreements (VPAs) between the EU and timber-exporting countries are key components of the EU Forest Governance, Law Enforcement and Trade (FLEGT) Action Plan of 2003 to address illegal logging.

In November 2016, Indonesia made history by becoming the world’s first VPA partner country to obtain the right to issue FLEGT licences to accompany exports of verified legal timber and timber products to the EU.

This key milestone in the implementation of Indonesia’s VPA with the EU reflects growing global recognition of Indonesia’s timber legality assurance system: the Sistem Verifikasi Legalitas Kayu, or SVLK.

This achievement was a result of long and demanding work in international negotiations between Indonesia and the EU, and in Indonesia’s reform of domestic policies on sustainable forest management and trade in legal timber.

Indonesia’s success was made possible by strong coordination across government ministries, notably the Ministries of Environment and Forestry, Trade, Industry and Foreign Affairs, and was led by President Joko Widodo who provides firm political support for the SVLK and the VPA.

Since the Annual Report on VPA implementation in May 2014-April 2015 and its update for April 2015 to May 2016, Indonesia has made significant progress in further implementing the VPA, has rolled out the SVLK to more industry players and has increased its exports of verified legal timber and timber products.

By December 2016, a total of 13.6 million hectares of natural forest and 3,498 forest-based enterprises and industries have been SVLK-certified. Between 15 November 2016 when Indonesia began issuing FLEGT licences, and 31 December 2016, Indonesia issued 4,804 FLEGT licences for timber product exports to the EU, which is more than 800 licences per week.

This report covers the period from May 2015 to December 2016. It focuses on progress made in the roll-out of the SVLK, trade in FLEGT-licensed timber, institutional strengthening and VPA monitoring.
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 (Sistem Verifikasi Legalitas Kayu), which was adopted through a Minister of Forestry Regulation in 2009 and which has been strengthened over time and continues to evolve.

Indonesia developed the SVLK through multistakeholder consultations, which began in 2001 and involved civil society, the private sector and the government. The objective was to combat illegal logging and ensure the sustainability of Indonesia’s forests by promoting legal trade of timber.

The SVLK provides incentives for legality and sustainability by promoting market access for verified legal products and blocking market access for illegal products. 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’s legality definition.

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1 The Ministry of Forestry is now the Ministry of Environment and Forestry
Legality and sustainability standards

The SVLK includes both legality and sustainability requirements for different types of forest management units and downstream industries.

- Legality certification is mandatory for all management units dealing with timber from state forests. In addition, for forest concessions on state-owned land (plantations or natural forests), sustainable forest management certification is mandatory, and must be obtained before the initial legality certification expires.

- Management units that deal only with low-risk timber from privately-owned land or forest (smallholder production) can use the Supplier’s Declaration of Conformity mechanism to enter SVLK supply chains.

- For downstream industries, the requirements include permits for businesses or cooperatives based on Indonesian laws and regulations, including environmental regulations and taxations.

- All management units are required to comply with labour laws and regulations including minimum wages, health and safety, and capacity development.

Supply chain controls

Permit holders (in the case of forest concessions), landowners (in the case of private land), and companies (in the case of traders, processors and exporters) must show that every node of the supply chain is controlled and documented, as set out in Annex V of the VPA and in the Minister of Environment and Forestry Regulation No. 30/2016.

Relevant transport documents must accompany all consignments in the supply chain. Under the new Minister of Environment and Forestry Regulation No.30/2016 and the accompanying Director-General of Sustainable Production Forest Management Regulation No.14/2016, these documents must show whether the material is covered by a valid SVLK certificate, is declared legal under the Suppliers’ Declaration of Conformity, or is impounded.

The Ministry of Environment and Forestry has developed a new online database called SI-PHPL that tracks the entire chain of custody including exports (see below, under Continuous improvement).

Verification

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

By December 2016, Indonesia had used the SVLK to audit more than 23.3 million hectares of production forests, and 3 197 timber industries.
FLEGT licensing

The SVLK licensing authorities issue V-Legal documents to accompany exports of verified legal timber and timber products. Since 15 November 2016, the licensing authorities have issued FLEGT licences in place of V-Legal documents for exports to the EU. By 31 December 2016, Indonesia had issued 4,804 FLEGT licences for timber product exports to the EU.

Periodic evaluation

Periodic evaluation is the Indonesian VPA’s term for a regular systematic 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 Indonesia-EU Joint Implementation Committee (JIC), which may decide on supporting or corrective measures to be taken. The JIC endorsed the design of the periodic evaluation in 2016. 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 9, on Monitoring). Indonesia appointed PT Sucofindo Layanan Publik Sumberdaya Alam dan Investasi (LSI) to conduct the periodic evaluation, which started in March 2017 and is due to conclude in September 2017.

The Terms of Reference for the Periodic Evaluation and scope is attached on Annex 1. See also Section 9 of this report, on VPA Monitoring.

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 VPA 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

The latest revision of the SVLK regulation, in 2016, strengthened recognition of the rights and responsibilities of independent monitors. For information on monitoring results, see Section 9, on VPA Monitoring.

Continuous improvement

Regulations

Since 2009, Indonesia has strengthened regulations several times to improve the SVLK’s efficiency, inclusiveness and accessibility to small and medium enterprises. The latest revisions were in 2016, with the adoption of Minister of Environment and Forestry Regulation No.30/2016 and its accompanying guidance under Director-General of Sustainable Production Forest Management Regulation No.14/2016.

Highlights of revisions under the Minister of Environment and Forestry Regulation No.30/2016 include:

1. Articles on independent monitoring that:
   - Define independent monitors to include communities living near auditees
   - Recognise the rights of independent monitors to access data and sites relevant to monitoring
   - Guarantee the protection of independent monitors against threats before, during and after their monitoring work, in accordance with law and regulation
   - Recognise the rights of independent monitors to obtain sustainable funding through state or non-state sources
   - Requires independent monitors to be affiliated with or accredited by legally-established independent monitoring organisations, and to maintain confidentiality of findings

2. Changes in the duration of SVLK certification for different categories of management units. This is to reduce the burden of SVLK certification on small enterprises and communities, as well as private forests, by extending the duration of certification and timing of surveillance.
Integrated Timber Data Management Information System (SIPHPL)

Indonesia’s Ministry of Environment and Forestry is developing an Integrated Timber Data Management Information System that documents information on the entire timber chain of custody (Figure 1). This system integrates several databases that previously documented different aspects of production and trade of timber or timber products, including the Ministry of Finance’s Information System for Non-Tax Revenue. It also includes previously undocumented data on timber imports and production from private forests. The public can access the system and obtain relevant information regarding timber supply chains.

The system’s objectives are:

1. To tighten control of the timber supply chain
2. To reconcile data on timber forest products, imports, marketing and processing at management units, at district, provincial and national levels
3. To provide comprehensive national forestry industry data
4. To enable more accurate calculation of non-tax revenue from the timber industry

Figure 1. Overview of the Integrated Timber Data Management Information System
In early 2016, Indonesia made significant progress toward meeting the final VPA requirements needed before FLEGT licensing could begin. The adoption of the Minister of Environment and Forestry Regulation No.30/2016 and the Minister of Trade Regulation No.25/2016, which mandates the use of V-Legal documents for the export of timber products covered by the VPA, affirmed Indonesia’s readiness to begin FLEGT licensing.

In April 2016, when the President of Indonesia, Joko Widodo, and the President of the European Commission, Jean-Claude Juncker, met in Brussels they affirmed both sides’ commitment to FLEGT licensing starting by the end of 2016.

Following the EU’s adoption of a Delegated Regulation to recognise Indonesian FLEGT licensing, the VPA Joint Implementation Committee (JIC) met on 15 September 2016 in Yogyakarta and confirmed that Indonesia could begin issuing FLEGT licences on 15 November 2016. The JIC decision is attached in Annex 2.
Trend in trade of FLEGT-licensed timber

By December 2016, Indonesia had issued 4,804 FLEGT licences for timber products exported to the EU, with a total weight of 1.7 million tonnes and a total value of USD 125.8 million. In general, timber product exports have been increasing since Indonesia began issuing FLEGT licences.

Figure 2. SVLK coverage and FLEGT licensing. Since 15 November 2016 Indonesia had issued 4,804 FLEGT licences for timber products exported to the EU

Among the 27 EU Member States, the United Kingdom, Netherlands, Germany and Belgium were the main destinations of FLEGT-licensed timber shipments (see Figure 3).

Figure 3. The weight of different FLEGT-licensed timber product types (HS codes) imported by EU Member States by 31 December 2016

Source: UNEP-WCMC
EU readiness to receive FLEGT-licensed timber

On 15 September 2016, the Indonesia–EU Joint Implementation Committee set the date of 15 November 2016 for Indonesia to start FLEGT licensing. On the same day, EU-based private sector organisations, the European Commission and EU member states, supported by the EU FLEGT Facility, launched a communication initiative to prepare the EU market for FLEGT-licensed timber.

This included a special edition newsletter of the European Timber Trade Federation (ETTF) on FLEGT-licensed timber, a toolkit on how to communicate about FLEGT-licensed timber, and the launch of an online information platform on FLEGT-licensed timber: www.flegtlicence.org. Private sector organisations including timber trade, sawmillers, woodworking industries, timber research and furniture associations shared targeted information about FLEGT-licensed timber with their members. In addition to direct business-to-business communication, European industry media published news and background articles about the first FLEGT-licensed timber. These initiatives alone reached over 49 000 organisations in the timber and associated industries in the EU.

From 15 November onwards, private sector representatives, together with the EU, Indonesia and EU member states organised their own and joint activities to welcome the first arrivals of FLEGT-licensed timber. This included a high-level EC-led event in November in Brussels, attended by Indonesian Foreign Minister Retno Marsudi, EU High Representative for Foreign Affairs and Security Policy Federica Mogherini, and European Commissioner for Environment, Maritime Affairs and Fisheries Karmenu Vella. Several events were organised in various EU member states with a focus on major importers of timber from Indonesia.

In addition to the direct outreach to the market, Indonesian, EU and other partners also undertook activities aimed at generating positive media coverage around the start of FLEGT licensing. They pitched the story to Indonesian and international journalists and wrote several op-eds. This resulted in 587 media stories in 50 countries and 11 languages. They include reports by the BBC, New York Times, Wall Street Journal, The Guardian, Daily Mail, Bangkok Post, China’s Global Times, Mongabay.com, Ecosystem Marketplace, Thomson Reuters, Germany’s IHB and EUWID-Holz, Belgium’s Fordaq and the UK’s Timber Trades Journal.

In parallel, the EU has been actively promoting the recognition of FLEGT licences by other major consumer markets as part of its bilateral dialogues, such as the EU-China Bilateral Coordination Mechanism on Forest Law Enforcement and Governance.

In the run up to the start of FLEGT licensing, the European Commission and the EU member states invested in the development of electronic systems for handling FLEGT licences, in training and awareness-raising activities for FLEGT competent authorities and customs officials, and in the development of guidance documents on the implementation of the FLEGT licensing scheme.

The EU and Indonesia see a need to continue informing the market about FLEGT licensed timber, and provide more insights in the Indonesian Timber Legality Assurance System.

The EU FLEGT Action Plan encourages EU member states to adopt public procurement policies to promote legal timber. As part of its efforts to promote the adoption of such policies, the European Commission has developed voluntary common EU green procurement policy criteria, including for timber-based products such as paper, construction timber, wall panels and furniture. Legal origin of the timber is a core criterion and the guidelines explicitly mention the FLEGT licence as one way to comply with this criterion.

In 2016, an independent evaluation of the EU FLEGT Action Plan reported that 22 EU member states have developed timber public procurement policies. These policies vary in scope and approaches. However, FLEGT licences are generally considered as proof of legality. Some member states (Denmark, Luxemburg and the United Kingdom) also consider FLEGT licences as documenting ‘sustainable’ timber sources.
Independent Market Monitoring

Independent Market Monitoring (IMM) is a multi-year project implemented by the International Tropical Timber Organisation (ITTO) and financed by the EU to support implementation of Voluntary Partnership Agreements between the EU and timber-supplying countries. It aims to monitor how the market for FLEGT-licensed timber develops, and to build on the opportunity presented by the development of legality assurance systems to improve the quality of timber trade statistics and the effectiveness of market development programmes for FLEGT-licensed timber.

In November 2015, the ITTO published an IMM report covering VPA partner trade flow trends in the decade 2004 to 2013. This established the baseline for long-term monitoring of the market impacts of FLEGT licensing. The IMM also carried out pilot surveys of market conditions and readiness for acceptance of FLEGT-licensed timber in Germany, Spain and the United Kingdom from 1 September 2015 to 31 December 2015. At the same time, the IMM correspondent for Ghana undertook a scoping study to assess the current market situation for Ghanaian timber products and provide a baseline against which to assess future impacts of FLEGT licensing.

The IMM presented results of the pilot surveys and scoping study at its side event during the International Tropical Timber Council meeting in 2015 in Kuala Lumpur. The IMM project will publish the results as annexes to its 2015-2016 annual report, which also has an annex dedicated to Indonesia’s market position and prospects.

The report’s publication was postponed to the second half of 2017 as IMM activities were suspended between April 2016 and April 2017, due to financial challenges faced by the ITTO. In April 2017, the ITTO resumed implementation of IMM and contracted a lead consultant and a market analyst. A visit of the IMM lead consultant to Indonesia and the employment of a country representative are planned.

Example of IMM data on Indonesia

The forthcoming IMM annual report for 2015-2016 provides insight into imports of Indonesian forest products by EU member states. Figure 4 below shows how EU imports of Indonesian forest products have varied in different EU member states over the past seven years.

Figure 4. Trends in imports of Indonesian forest products by EU member states

Tonnage of EU28 imports of timber and timber products from Indonesia by main destination 12 month rolling average – Jan 10 to Feb 17.

Source: ITTO IMM analysis of Eurostat COMEXT

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Achievements in SVLK implementation and roll-out

Ongoing improvements in SVLK regulation, and effective outreach led by the Ministry of Environment and Forestry and facilitated by the Multistakeholder Forestry Programme, have contributed to an increase in SVLK roll-out in the reporting period.

By December 2016, Indonesia had certified 3,498 forest-based enterprises and industries (see Figure 5). A total of forest production 23.3 million hectares consisted of 13.6 million hectares of natural forests and 9.7 million hectares of plantation forests have been certified.

Auditors

There are 396 SVLK auditors working for 24 Conformity Assessment Bodies. To expand the training of new auditors, the Multistakeholder Forestry Programme has facilitated the development of SVLK-related courses at Nusa Bangsa University, the University of North Sumatra, Samarinda Agricultural Polytechnic and Mulawarman University.

Figure 5. The total number of SVLK certified forest-based enterprises and industries over time
Domestic market measures

Regulation on economic incentives

The Ministry of Environment and Forestry has drafted a government regulation on Economic Instruments for Environmental Protection and Management. This aims to encourage the national and sub-national governments, and every citizen, to adopt environmentally-friendly practices. The regulation stipulates economic policy that provide market players, including government agencies, with incentives and disincentives that encourage them to procure environmentally-friendly products and avoid harmful ones. The SVLK is included in the regulation as an example of an economic instrument that apply incentives and disincentives to market players with respect to the trade and procurement of timber products. The draft regulation is awaiting adoption by the Ministry of State Secretariat.

Public procurement

Some local governments have adopted by-laws that mandate the use of SVLK-certified timber and timber products in public procurement, as in Klaten Regency and Jombang Regency in 2014.

Legal timber online market

The Multistakeholder Forestry Programme is developing an online market for the domestic trade of SVLK-certified timber products. This online market aims to help consumers or buyers who want to procure legal timber products, and suppliers who want to market SVLK-certified products. The legal timber online market will be launched by the end of 2017.

Photo: MFP3

3 In Indonesia, a government regulation is an implementing regulation of a law.
Joint Implementation Committee (JIC) Secretariat

The Joint Implementation Committee (JIC) Secretariat has been operating since 2014 and is instrumental in facilitating activities in support of the VPA’s implementation. The Multistakeholder Forestry Programme (MFP) supports the JIC Secretariat and will transfer it to the Ministry of Environment and Forestry when the MFP ends in 2018. The MFP is also training a new generation of ministry officials in international negotiations, including through observation of negotiation sessions of the JIC and its subsidiary meetings.

Link with EU competent authorities

The Ministry of Environment and Forestry’s timber legality information system (Sistem Informasi Legalitas Kayu, or SILK) is an online database that serves as a registry of SVLK certification, V-Legal documents and FLEGT licences. SILK links automatically with information systems in the Indonesian Ministry of Trade and the Customs Office of the Ministry of Finance. Competent authorities in target export markets can access SILK to compare paper-based V-Legal documents or FLEGT licences with information included in the database and seek clarification if necessary.

By December 2016, competent authorities from the following 17 EU member states had signed memorandums of understanding with the Ministry of Environment and Forestry to obtain access to SILK: Austria; Belgium; Bulgaria; Czech Republic; Denmark; France; Germany; Greece; Ireland; Italy; Malta; Netherlands; Poland; Spain; Sweden; Sweden; and the United Kingdom.
Stakeholder engagement and communication

Inter-ministerial coordination

Effective implementation of SVLK requires strong inter-ministerial coordination, especially among the four ministries with interlinking mandates: Ministry of Environment and Forestry; Ministry of Trade; Ministry of Industry; and Ministry of Finance (Customs Office). Since 2015, regular informal and formal meetings have been held to avoid miscommunication of the kind that had contributed to a setback in SVLK implementation that year.

The Directorate-Generals of the four ministries regularly meet, often with the participation of the Ministry of Foreign Affairs and the Ministry of National Development Planning, to discuss high-level or strategic issues. More frequent meetings were held at the Director level to fine-tune interlinkages across regulations.

The Ministry of Environment and Forestry also invites representatives of other ministries to take part in public events and in joint press conferences about the SVLK and the VPA.

Public awareness events

A series of public awareness events informed stakeholders about progress on FLEGT licensing. This was important to ensure industry stakeholders remain committed to SVLK – especially the small and medium enterprises, which are the weakest links in the timber supply chain.
Chatham House Illegal Logging Update meeting

The Director-General for Sustainable Production Forest Management, Dr Putera Parthama, spoke on two panels at the Chatham House Illegal Logging Update meeting on 16-17 June 2016. The first was on outcomes of the independent evaluation of the EU FLEGT Action Plan. The second was an update on Indonesia’s VPA progress. It focused on what Indonesia had done to meet the VPA requirements needed to begin FLEGT licensing. Dr Parthama responded to questions on SVLK standards related to fulfilment of the principle of free, prior informed consent, the role of civil society as independent monitors, and lessons learnt from licensing.

Public awareness events in Java, Bali, Sumatera and Kalimantan

In August 2016, with the European Parliament having offered no objection to the European Commission’s proposal that Indonesia could begin FLEGT licensing, officials from the Ministry of Environment and Forestry and the Ministry of Trade visited timber industry centres in Semarang (Central Java), Yogyakarta and Surabaya (East Java), Denpasar (Bali), Medan (Sumatera) dan Samarinda (Kalimantan) to update stakeholders on the news. In general, the events were met with high enthusiasm from stakeholders who had been anxious about the EU decision. Independent monitors also attended these events to urge industry players to abide by the regulations and to report any irregularities to the monitors.

First shipment of Indonesian FLEGT-licensed timber products

On 15 September 2016, the Joint Implementation Committee confirmed that FLEGT licensing would begin on 15 November 2016. The private sector held two events to mark the historic occasion: In Tanjung Priok, Jakarta, sponsored by the Indonesia Wood Panel Association, and in Central Java, sponsored by the Indonesia Sawmill Association.
COP22 — the UN climate change conference

The 22nd conference of parties to the UN Framework Convention on Climate Change (COP22), took place in Marrakech, Morocco, in November 2016. On the same day that Indonesia issued its first FLEGT licence, the Director-General for Sustainable Production Forest Management, Dr Putera Parthama, gave a presentation at the Indonesia Pavilion at COP22 on the Indonesian FLEGT licence and the SVLK’s contribution to the achievement of the Sustainable Development Goals. His co-panelists were: Giuliana Torta, Senior Policy Officer at the European Commission’s Directorate-General for Climate Action, and Budi Hermawan, General Manager of PT Kayu Lapis Indonesia (an Indonesian manufacturer of plywood, wood flooring and garden furniture).

Dr Parthama said that as deforestation causes a large part of Indonesia’s greenhouse gas emissions, good forest governance is key to combatting climate change, and that the SVLK therefore contributes to this effort. Dr Parthama also argued that the SVLK also contributes to the achievement of at least three of the Sustainable Development Goals: Goal 12 on sustainable consumption and production; Goal 13 on combatting climate change; and Goal 15 on sustainable management of forests.

Official launch of the Indonesian FLEGT licence

The official launch of Indonesia’s FLEGT licence was on 24 November 2016 at the Ministry of Environment and Forestry. The Coordinating Minister for Economic Affairs, Dr Darmin Nasution, led the event, which was attended by officials from the Ministry of Trade, Ministry of Industry, Ministry of Foreign Affairs and Ministry of Finance, and diplomats from EU and ASEAN member states. Dr Nasution said Indonesia’s achievement in starting FLEGT licensing was an important boost to the country’s efforts to gain a global market for timber products. He also said the SVLK would become a model for certification of sustainable palm oil.

On the EU side, a high-level EC-led event took place on 28 November 2016 in Brussels. The event was attended by Indonesian Foreign Minister Retno Marsudi, EU High Representative for Foreign Affairs and Security Policy Federica Mogherini, and European Commissioner for Environment, Maritime Affairs and Fisheries Karmenu Vella. The High Representative presented Minister Marsudi with a symbolic licence under the FLEGT Voluntary Partnership Agreement with Indonesia to mark the official start of FLEGT licensing.
Online resources

The EU launched a FLEGT licence information point that explains what FLEGT licences are and how they can benefit businesses in the EU as well as timber producers in countries outside the EU. It includes answers to dozens of frequently asked questions on everything from the basics to complex trade scenarios and how to report any problems. It includes details of FLEGT competent authorities in each EU member state, and provides information for importers and other traders of FLEGT-licensed products in the EU. A section devoted to Indonesia describes the country’s timber legality assurance system, FLEGT licensing procedures and FLEGT-licensed products. The website also provides definitions, terms of use, and advice for branding and communicating accurate, coherent information about FLEGT licences.

The EU FLEGT Facility also maintains a media room with a detailed backgrounder of Indonesia’s process, frequently asked questions and official documents.

Civil society

Seven independent forest monitoring organisations held a seminar on 30-31 August 2016 to inform the public of the role of independent forest monitoring in ensuring the credibility of SVLK. Speakers described how independent forest monitoring, including by communities, contributes to improved forest governance. The Independent Forest Monitoring Network (JPIK) presented a structured approach for independent monitoring of the SVLK and Auriga presented a study on security policy for monitors.

The seminar’s attendees included officials of the Ministry of Environment and Forestry, civil society organisations, private sector representatives including SVLK auditors, students and academics. An important issue discussed in the seminar was the sustainability of monitoring resources. Greenpeace and WWF Indonesia presented their experiences of raising funds to finance their activities. Currently, international development agencies are still the main source of funding for independent monitoring. However, the Minister of Environment and Forestry Regulation No.30/2016 has confirmed that independent forest monitors can receive public funding from the state budget.

Importers and competent authorities

To introduce the SVLK and promote it to EU importers and competent authorities as a credible timber legality assurance system, Indonesia organised a roadshow in major European cities in cooperation with Indonesian embassies there. The roadshow took place from 9-19 May 2016 and visited London, Paris, Hamburg, The Hague and Brussels. Its participants included officials from the Ministry of Environment and Forestry, Ministry of Industry, Ministry of Trade and Ministry of Foreign Affairs, and representatives from the Association of Indonesian Forest Concessionaires, Pulp and Paper Association and the Indonesia Wood Panel Association.
Campaign materials

During the reporting period, Indonesia produced campaign materials to promote the SVLK and Indonesian FLEGT licences (see Figure 6).

Figure 6. Examples of campaign materials produced to promote the SVLK and FLEGT licences
Transparency

Data made available through SILK

In the reporting period, the SILK database presented and continuously updated data on issued FLEGT licences, which SILK presents integrated under the V-Legal documents. SILK also features a list of EU Competent Authorities.

Draft regulation on public access to information

To increase public access to data, the Ministry of Environment and Forestry, Forest Watch Indonesia and the Indonesian Center for Environmental Law are working on a draft Minister of Environment and Forestry Regulation on Public Access to Information in the Ministry of Environment and Forestry. Under the new regulation, the Ministry assigns the Information and Documentation Management Official to document, store, supply and serve the public in providing information. This office classifies public information within the Ministry into three categories: (a) regularly updated information; (b) information requiring immediate publication; (c) information that must be available at all times.

Information published by independent monitors

Independent monitoring organisations published findings on their websites.7

Summaries and records of VPA-related meetings

The Indonesia-EU Joint Implementation Committee (JIC) shares its decisions through ‘friendly emails’ to a list of recipients agreed by both parties, and through press releases and press conferences. Records of discussions of JIC meetings and Joint Expert Meetings are also made available on SILK and are emailed to relevant stakeholders.

Publication of documents on the SVLK and on FLEGT licences

Indonesia uploads new regulations on, and documents related to, the SVLK and FLEGT licences to SILK.

7 See: http://jpik.or.id; http://jpik-jatim.or.id/resume-hasil-pemantauan; http://www.eyesontheforest.or.id/index.php
Independent monitoring

The Minister of Environment and Forestry Regulation No.30/2016 recognises the importance of independent monitoring as an integral part of SVLK that contributes to the system’s credibility. This new SVLK regulation dedicates seven articles to independent monitoring, strengthening recognition of the rights of independent monitors to access information and monitoring site, and to obtain protection of their security and integrity (see Table 1).
Independent monitors are civil society individuals or organisations, with a legal status in Indonesia, that serve as observers of the forestry sector, covering the process of issuing sustainable forest management, Supplier’s Declaration of Conformity and SVLK certificates.

Definition of independent monitors

Independent monitors are communities living within or near concessions, private forests or industries; or citizens with a strong interest in the forestry sector; or nongovernmental organisations active in the forestry sector with legal status in Indonesia.

Rights of independent monitors

Implementation of SVLK is monitored by independent monitors

a. To obtain data and information on the whole process of SVLK certification from relevant stakeholders who are directly involved in it
b. To obtain assurances of their security during monitoring work
c. To obtain access to monitoring sites

Responsibilities of independent monitors

a. To show proof of identification or of affiliation with an independent monitoring organisation when entering a specific location for monitoring
b. To maintain and protect the confidentiality of documents and information obtained during monitoring
c. To adhere to state budget rules and regulations if receiving state funding

Security

In performing monitoring work, independent monitors receive assurances that their security will be protected

a. The Ministry of Environment and Forestry will determine the mechanism of protection of independent monitors from physical or verbal threats before, during and after monitoring work
b. Independent monitors who are performing monitoring work in accordance with rules and regulation will not be subject to criminal or civil lawsuits
c. A mechanism of protection for independent monitors will be delineated in the Director-General of Sustainable Production Forest Management No 15/2016

Funding

a. SVLK monitoring will be funded independently by independent monitors
b. The government may facilitate fundraising efforts or efforts on independent financing of monitoring work according to rules and regulations

a. Funding of independent monitoring work may be resourced from national or local state budgets or other legal funding sources
b. The government may facilitate efforts to obtain funding for monitoring of SVLK implementation

Table 1. Comparison of independent monitoring in the 2014 and 2016 SVLK regulations

<table>
<thead>
<tr>
<th>Definition of independent monitors</th>
<th>2014 regulation (P93/2014)</th>
<th>2016 regulation (P30/2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent monitors are civil society individuals or organisations, with a legal status in Indonesia, that serve as observers of the forestry sector, covering the process of issuing sustainable forest management, Supplier’s Declaration of Conformity and SVLK certificates.</td>
<td>Independent monitors are communities living within or near concessions, private forests or industries; or citizens with a strong interest in the forestry sector; or nongovernmental organisations active in the forestry sector with legal status in Indonesia.</td>
<td></td>
</tr>
<tr>
<td>Rights of independent monitors</td>
<td>Implementation of SVLK is monitored by independent monitors</td>
<td>a. To obtain data and information on the whole process of SVLK certification from relevant stakeholders who are directly involved in it</td>
</tr>
<tr>
<td>Responsibilities of independent monitors</td>
<td>a. To show proof of identification or of affiliation with an independent monitoring organisation when entering a specific location for monitoring</td>
<td>b. To maintain and protect the confidentiality of documents and information obtained during monitoring</td>
</tr>
<tr>
<td>Security</td>
<td>In performing monitoring work, independent monitors receive assurances that their security will be protected</td>
<td>a. The Ministry of Environment and Forestry will determine the mechanism of protection of independent monitors from physical or verbal threats before, during and after monitoring work</td>
</tr>
<tr>
<td>Funding</td>
<td>a. SVLK monitoring will be funded independently by independent monitors</td>
<td>b. The government may facilitate fundraising efforts or efforts on independent financing of monitoring work according to rules and regulations</td>
</tr>
</tbody>
</table>
An important aspect of the new regulation is its acknowledgement of the longstanding challenge that independent monitoring organisations face in securing sustainable funding to finance their work. Such organisations have been dependent on international donors for their funding. Given the uncertainty of international donor funding, there is an urgent need to establish a sustainable funding mechanism for independent monitoring of the SVLK.

The new regulation acknowledges that as an integrated part of the system, independent monitoring work may obtain state funding. The previous regulation did not stipulate this, and stakeholders also assumed that state funding would reduce the independence of the monitors. However, with the new regulation protecting the rights of independent monitors, stakeholders agree that state funding may be used to fund independent monitoring work.

The EU and Indonesia endorsed the initiative to set up a trust fund for independent monitoring of the SVLK when the Joint Implementation Committee met on 15 September 2016 in Yogyakarta. The trust fund will be established by early 2017 and is expected to be operational by mid-2017. Its main task will be to raise funds and manage grants for independent monitoring work. Representatives of civil society, the private sector and the government will oversee it.

**Independent monitoring organisations**

There are now seven independent monitoring network organisations, with a total of 111 member organisations and 1,941 individual members spread across Indonesia (Table 2).

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Profile</th>
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</thead>
<tbody>
<tr>
<td>Independent Forest Monitoring Network (JPIK)</td>
<td>JPIK was one of the first independent monitoring networks. It formed in 2010 to promote good forest governance by ensuring the credibility and accountability of Performance Assessment on Sustainable Production Forest Management (PK-PHPL) and Timber Legality Verification (VLK). It has 64 member organisations and 314 individual members.</td>
</tr>
<tr>
<td>Eyes on the Forest (EoF)</td>
<td>EoF is a coalition of WWF-Indonesia’s Tesso Nilo programme, Jikalahari (the 'Forest Rescue Network of Riau') and Walhi Riau. They monitor forest concessions in Riau and West Kalimantan.</td>
</tr>
<tr>
<td>Alliance of Independent Forest Monitors in Sumatra (APIKS)</td>
<td>APIKS comprises 22 nongovernmental organisations and one community organisation. It monitors forest concessions and industries in Lampung, Bengkulu, Jambi, Riau, North Sumatra and West Sumatra.</td>
</tr>
<tr>
<td>Centre of Environmental and Forestry Education (PPLH) of Mangkubumi</td>
<td>PPLH Mangkubumi is a forum of non-governmental organisations, nature organisations, and community self-help groups or kelompok swadaya masyarakat (KSM). This forum was created in 2006 in response to environmental degradation in East Java, and it focuses its monitoring work on timber industries there.</td>
</tr>
<tr>
<td>Green Horizon Foundation Indonesia (YCHI)</td>
<td>YCHI was established in 2007 in Banjarbaru as an environmental study group and developed into an environmental advocacy organisation. It monitors the forestry industry to encourage SVLK enforcement in Kalimantan, and performs advocacy to promote SVLK there.</td>
</tr>
<tr>
<td>Study Circle of Rural Development (LSPP)</td>
<td>LSPP is a Central-Java based JPIK member that was established in 2015 to improve the welfare and quality of life of rural communities. It focuses its monitoring work on state-owned timber plantations in Central Java.</td>
</tr>
<tr>
<td>Auriga Nusantara</td>
<td>Auriga Nusantara is a nongovernmental organisation established in 2014 that does investigative work on illegal logging and forest fires.</td>
</tr>
</tbody>
</table>
Management units monitored

From January 2015 to December 2016, the independent monitoring network organisations performed monitoring work on a total of 61 management units (29 forest concessions and 32 industries) that are located in 13 provinces (four in Sumatra, three each in Java and Kalimantan, one in Sulawesi, and the two provinces of Papua and West Papua).8

Complaints submitted

Between 4 November 2015 and 23 December 2016, JPIK submitted 56 complaints to the Ministry of Environment and Forestry and the national accreditation body, KAN. The complaints were not limited to issues related to management units’ compliance with SVLK regulations, but also to other factors contributing to the effectiveness of SVLK implementation, such as quality of publications on SILK. So far, 40 complaints have been resolved.

Impact monitoring

Indonesia designed the SVLK impact monitoring framework (Figure 7) and initiated the first step of its implementation: establishing baseline data against which the SVLK’s social, economic and environmental impacts can be assessed.

The baseline data will consists of secondary data from various public and private agencies such as relevant line ministries, the Indonesia Statistics Office, universities, and local government offices.

With the issuance of Director General of Sustainable Production Forest Management Decree No.20/PHPL/SET/7/201, Indonesia has established a Monitoring Assessment Team. The team will develop the baseline data for impact monitoring and will recommend the institutional set-up for the monitoring, and its legal foundation.

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8 Monitoring reports can be accessed from the following websites: www.foresttrack.org/db/dashboard1.php2; www.jpik.or.id; www.ychi.or.id; www.jpik-jatim.or.id
Periodic evaluation

The 5th meeting of the Joint Implementation Committee endorsed the design for the periodic evaluation (Figure 8) and the schedule for its first implementation. The appointed service provider for periodic evaluation, PT Sucofindo Layanan Public Sumberdaya Alam dan Investasi, has set up a proposed work plan to commence in the first quarter of 2017 and end in September 2017 in time for the 6th JIC meeting.

Figure 8. Design of periodic evaluation
Annex 1: Terms of reference for periodic evaluation of the timber legality assurance system

**Background**

1. Based on Point (a) under Article 5 Indonesia – EU FLEGT VPA, Indonesia in consultation with the European Union, shall engage the services of a Periodic Evaluator to implement the tasks as mentioned in Annex VI of the Agreement.

2. On 24 September 2014, it was conducted the first JIC Meeting in Jakarta which was co-chaired by both sides, represented by the DG of Forestry Business Management and the Ambassador of European Union for Indonesia. During this meeting both parties agreed to mandate MFP3 to organise the recruitment of the Periodic Evaluator.

3. On 13 November 2014, the role and responsibilities of the Periodic Evaluator were discussed with Ministry of Forestry including the scope of work, the qualification, the evaluation methodology, and the reporting.

**Objective**

Periodic Evaluation (PE) is an independent evaluation done by an independent third party, referred to as Evaluator. The objective of PE is to provide assurance that the TLAS is functioning as described, thereby enhancing the credibility of the FLEGT licences issued under this Agreement.

**Scope of work**

The periodic evaluator’s work shall cover:

1. The functioning of control measures from the point of production in the forest to the point of export of timber products.

2. The data management and timber traceability systems supporting the TLAS, the issuance of FLEGT licenses as well as the production, licensing and trade statistics relevant to this Agreement.
Main Activities

The Tasks of Evaluator are outlined in Annex VI of the VPA and cover the following main activities:

1. Audits of compliance by all bodies undertaking control functions within the provisions of the TLAS;

2. Evaluation of the effectiveness of supply chain controls from the point of production in the forest to the point of export from Indonesia;

3. Assessment of the adequacy of data management and timber traceability systems supporting the TLAS as well as the issuance of FLEGT licences;

4. Identification and recording of cases of non-compliance and system failures, and prescribing necessary corrective actions;

5. Assessment of the effective implementation of corrective actions previously identified and recommended; and

6. Reporting findings to the Joint Implementation Committee

Output

The output of PE comprises regular reports presenting evaluation findings and recommendations on measures to be undertaken to address gaps and system weaknesses identified by the evaluation.

Qualification

The Evaluator shall be a competent, independent and impartial third party that complies with the following requirements:

1. The Evaluator shall demonstrate the qualifications and capability to meet the requirements of ISO/IEC Guide 65 and ISO/IEC 17021, or equivalent, including the qualification to offer assessment services covering the forest sector and forest products supply chains;

2. The Evaluator shall not be directly involved in forest management, timber processing, trade in timber or control of the forest sector in Indonesia or in the Union;

3. The Evaluator shall be independent from all other components of the TLAS and Indonesia’s forest regulatory authorities and shall have systems to avoid any conflict of interest. The Evaluator shall declare any potential conflict of interest that may arise and take effective action to mitigate it;

4. The Evaluator and its employees undertaking the evaluation tasks shall have proven experience of auditing tropical forest management, timber processing industries and related supply chain controls;

5. The Evaluator shall have a mechanism in place for receiving and dealing with complaints that arise from its activities and findings.

The Evaluator preferably is an Indonesian based organization

Evaluation Methodology

1. The Evaluator shall use a documented and evidence-based methodology, which meets the requirements of ISO/IEC 19011, or equivalent. This shall include adequate checks of relevant documentation, operating procedures and records of the operations of the organization responsible for implementing the TLAS, identification of any cases of non-compliance and system failures, and issuance of requests for corresponding corrective action.

2. The Evaluator shall, inter alia:

   (a) Review the process for accreditation of Independent Assessment and Verification Bodies (LP and LV);

   (b) Review documented procedures of each body involved in TLAS implementation controls for completeness and coherence;

   (c) Examine implementation of documented procedures and records, including work practices, during visits to offices, forest harvesting areas, log yards/log ponds, forest checking stations, mill sites and export and import points;

   (d) Examine information collected by the regulatory and enforcement authorities, LPs and LVs and other bodies identified in the TLAS to verify compliance;

   (e) Examine data collection by private sector organizations involved in TLAS implementation;
(f) Assess the availability of public information set out in Annex IX including the effectiveness of information disclosure mechanisms;

(g) Make use of the findings and recommendations of Independent Monitoring and Comprehensive Evaluation reports, as well as reports of the Independent Market Monitor;

(h) Seek the views of stakeholders and use information received from stakeholders who are either directly or indirectly involved in the implementation of the TLAS; and

(i) Use appropriate sampling and spot check methods to evaluate the work of the forest regulatory agencies, LPs and LVs, industries, and other relevant actors at all levels of forest activities, supply chain control, timber processing and export licensing, including cross checks with information on timber imports from Indonesia provided by the Union.

Confidentiality

The Evaluator shall maintain the confidentiality of data it receives while carrying out its activities.

Procurement

Procurement shall be conducted using an open tender procedure in which the requirements are clearly defined. The winner shall be the applicant with the highest combined scoring of the technical and financial proposals.

The Government of Indonesia shall issue a Procurement Notice to the public in April 2015 and open the period for proposal acceptance from April to early May 2015. The applicants are asked to provide an outline of their procedures and methodology for conducting the work, including a description of the personal involved for the entire contract period. The contract will allow for one evaluation round and subject to be extended for a second round.

The process of proposal assessment until the notification of the winner shall be conducted in May 2015. As outlined in the VPA, the evaluator shall be appointed by Indonesia after consultation with the EU.

The winner shall develop the periodic evaluation procedures and methodology, as outlined in Annex VI of the VPA, until the end of June 2015. These will be assessed by the Joint Working Group on Indonesia-EU Action Plan on Advancement of VPA implementation in early July 2015. Implementation of the first Periodic Evaluation will be decided by the JIC.

The JIC may assess the performance of the periodic evaluator when the results of the first evaluation are available. At this time the JIC could initiate the termination of the contract if deemed necessary and appropriate by both Parties to the VPA.

Budget

The costs of periodic evaluation shall be borne by the Government of Indonesia in consultation with the European Union. MFP3 will cover the cost related to the first contract.
Annex 2: Joint Implementation Committee decision on the start of FLEGT licensing

Decision No 1/2016 of the Joint Implementation Committee set up by the Voluntary Partnership Agreement between the European Union, of the one part, and the Republic of Indonesia, of the other part

of 15 September 2016

concerning the start date of the Forest Law Enforcement, Governance and Trade (FLEGT) licensing scheme

THE JOINT IMPLEMENTATION COMMITTEE,

Having regard to the Voluntary Partnership Agreement between the European Union and the Republic of Indonesia (hereinafter referred to as the ‘Agreement’), which following ratification by the Parties entered into force on 1 May 2014,

Whereas:
a) The Agreement provides in Article 14, paragraph 5(c) that the Joint Implementation Committee shall agree on the date from which the FLEGT licensing scheme will start operating after an evaluation of the functioning of the Indonesian Timber Legality Assurance System (TLAS) on the basis of the criteria set out in Annex VIII.
b) A joint independent assessment of the Indonesian TLAS has concluded that the Indonesian TLAS is a robust system and that the system meets the criteria to assess its operability established in Annex VIII of the Agreement.
c) The two Parties have completed their respective internal procedures and have notified each other through the JIC of their readiness to start the FLEGT Licensing system.
d) The JIC will continue to monitor the implementation of the Agreement and the Parties have identified joint actions to be prioritized in the course of 2017 in order to ensure an effective implementation of the Agreement.

HAS DECIDED AS FOLLOWS:

Article 1
The FLEGT licensing scheme shall start on 15 November 2016.

Article 2
This Decision shall be drawn up in duplicate in the Bulgarian, Czech, Danish, Dutch, English, Estonian, Finnish, French, German, Greek, Hungarian, Italian, Latvian, Lithuanian, Maltese, Polish, Portuguese, Romanian, Slovak, Slovenian, Spanish, Swedish and Indonesian languages, each of these texts being authentic. In case of divergence of interpretation the English text shall prevail.

Article 3
This Decision shall enter into force on 15 November 2016.

Done in Yogyakarta, Indonesia on 15 September 2016

For the Republic of Indonesia

IE Putera Partabana, Ph.D.
Director General of Sustainable Forest Management, Ministry of Environment and Forestry, Indonesia

For the European Union

Charles-Michel Geerts
Deputy Head of Mission
EU Delegation to Indonesia and Brunei

Annual Report: Indonesia – European Union 2015-16
This report was prepared by Indonesia and the EU and validated by the VPA Joint Implementation Committee.

Photos: MFP3

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