Indonesia and the European Union

Annual report 2017

Implementation of the Indonesia-EU Voluntary Partnership Agreement on Forest Law Enforcement, Governance and Trade

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, which the EU adopted in 2003 to address illegal logging and associated trade.

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.

Since the Annual Report on VPA implementation in May 2015 – December 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 (see Figure 1). In 2017, Indonesia issued 36 389 FLEGT licences for shipments of timber products exported to the EU. By the end of the year, a total of 4 322 forest-based enterprises and industries were SVLK-certified.

This report covers the period from January to December 2017. It focuses on progress made in the roll-out of the SVLK, trade in FLEGT-licensed timber, institutional strengthening and VPA monitoring.

Figure 1. Overview of SVLK coverage and FLEGT licensing by December 2017

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 322</td>
<td>forest-based enterprises and industries are SVLK certified</td>
</tr>
<tr>
<td>23 million</td>
<td>hectares of production forest are SVLK certified</td>
</tr>
<tr>
<td>100%</td>
<td>of timber harvested in natural forest concessions or from plantation forest concessions was SVLK certified</td>
</tr>
<tr>
<td>In 2017, Indonesia issued 36 389 FLEGT licences for timber products exported to the EU</td>
<td></td>
</tr>
<tr>
<td>Indonesia exported SVLK-licensed timber products to 193 countries including 28 countries in the EU</td>
<td></td>
</tr>
<tr>
<td>In 2017, FLEGT-licensed timber products had a combined weight of 705 683 tonnes and were worth EUR 873 million</td>
<td></td>
</tr>
<tr>
<td>Licensed timber products traveled from 44 ports in Indonesia to 179 ports in the EU</td>
<td></td>
</tr>
</tbody>
</table>
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. Under the VPA, Indonesian timber is deemed to be legal when its origin, production, processing, transport and trade are verified to have met all applicable Indonesian laws and regulations included in the VPA’s legality definition.

**Legality and sustainability standards**

The SVLK includes both legality and sustainability requirements for different types of forest management units and industries (see Table 1). The core strength of the SVLK is that it is mandatory across Indonesia for all timber production from state forests and private forests. This means that all exports of timber products must be SVLK-certified. The SVLK has helped to strengthen the traceability of timber, supervision and sustainability – which is underpinned by sustainable forest management, and community and private forest initiatives.
Table 1. Progress with sustainable forest management (PHPL/Pengelolaan Hutan Produksi Lestari) and timber legality (SLK/Sertifikat Legalitas Kayu) certification. Source: Ministry of Environment and Forestry. Note: In 2015, official data for logging and industrial timber plantations did not yet distinguish between PHPL and SLK certification.

<table>
<thead>
<tr>
<th>Permit type</th>
<th>Certification</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Units</td>
<td>Area (million ha)</td>
<td>Units</td>
</tr>
<tr>
<td>Commercial logging concession</td>
<td>PHPL</td>
<td>185</td>
<td>13.6</td>
<td>118</td>
</tr>
<tr>
<td></td>
<td>SLK</td>
<td></td>
<td>58</td>
<td>2.9</td>
</tr>
<tr>
<td>Industrial timber plantation</td>
<td>PHPL</td>
<td>106</td>
<td>6.45</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td>SLK</td>
<td></td>
<td>36</td>
<td>1</td>
</tr>
<tr>
<td>Perum*</td>
<td>PHPL</td>
<td>3</td>
<td>2.57</td>
<td>3</td>
</tr>
<tr>
<td>IPK**</td>
<td>SLK</td>
<td>62</td>
<td>0.18</td>
<td>NA</td>
</tr>
</tbody>
</table>

All stages of the supply chain — from the production forest to primary and secondary industries — must be certified by Conformity Assessment Bodies (CABs) in accordance with mandatory standards such as ISO 17065 for sustainable forest management.¹ Timber from private plantation forests is subject to the Supplier’s Declaration of Conformity (SDoC)² and ISO 17050-2000 standards. Timber from state production forest is barcoded and fully traceable through an online tracking system called SIPUHH.

**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 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 timber legality certificate, is declared legal under the Supplier’s Declaration of Conformity, or is impounded timber.

The Ministry of Environment and Forestry (MoEF) has developed a new online database called SI-PHPL that tracks the entire chain of custody, including timber from community and small scale private enterprises, imports and exports (see below, under Continuous improvement). However, SI-PHPL was not yet operational in 2017 as the integration of all key databases at MoEF was still underway.

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¹ Perum stands for PT Perum Perhutani, a state forest company operating in Java.
² ** IPK stands for Izin Pemanfaatan Kayu, which is a permit or licence for timber utilization, including from forest conversion.
³ Known in Indonesia as PHPL – Pengelolaan Hutan Produksi Lestari.
4 Known in Indonesia as DKP – Deklarasi Kesesuaian Pemasok.
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 VPA 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.

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. In 2017, Indonesia issued 36,389 FLEGT licences for timber product exports to the EU. All 28 EU member states imported FLEGT-licensed timber from Indonesia in this period.

The MoEF has established the Timber Legality Information System (known by its Indonesian acronym, SILK), which is an online platform for the issuance of V-Legal documents and FLEGT Licences as well as a database containing information on those V-Legal documents and FLEGT licences. Competent authorities in each EU member state can use data on SILK when checking the validity of FLEGT licences received from importers. Competent authorities can communicate with MoEF to request clarification on matters related to the authenticity and validity of FLEGT licences (see Links with EU competent authorities, in Section 6).
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 any supporting or corrective measures to be taken.

Annex VI of the VPA states that Indonesia, in consultation with the EU, shall engage a periodic evaluator to implement tasks listed in the VPA (See Section 9, on VPA monitoring). The first periodic evaluation was carried out between April and September 2017 by PT Sucofindo SBU LSI Independent Team, based on a methodology designed in October 2015 and endorsed by the Joint Implementation Committee (JIC) in September 2016.

The periodic evaluation found that:

1. The timber legality assurance system has been running well and all elements have been implemented
2. Most businesses have realised the importance of certification, but small and medium enterprises still have limited technical capabilities and face financial constraints
3. Conformity Assessment Bodies have adequate procedures and resources to carry out audits, certification and surveillance
4. Certification bodies have a licensing system for exports
5. Independent monitoring has effectively functioned
6. The management of licence and certification data has been well developed, but the MoEF should continue to improve the effectiveness of timber supply chain controls

The periodic evaluation recommended that:

1. The MoEF should conduct a review of the adequacy of legislation to prevent wood from non-certified suppliers from entering the supply chain
2. The MoEF should prepare guidelines for ‘spot checks’ on the use of SDoC and train the provincial forestry service to be able to run the ‘spot checks’
3. The provincial forestry service should review the guidelines for the establishment and closing of intermediate timber depots, such as TPT-KO (processed timber) and TPT-KB (logs) and, if necessary, prepare complete guidelines
4. The MoEF should review the effectiveness of import controls based on due diligence
5. The MoEF should record SVLK certificate issuance based on the type of operator at the provincial level
6. The MoEF should coordinate with relevant ministries to integrate systems that manage information on wood supply chains and wood products, from raw materials to markets
7. Conformity Assessment Bodies, the National Accreditation Committee and the MoEF should devise practical solutions to respond to complaints from independent monitors (see below)
8. The National Accreditation Committee should examine the effectiveness of procedures and implementation of field audits by Conformity Assessment Bodies to respond to inputs from independent monitors – and, if necessary, should train auditors on audit procedures
9. All active independent monitoring organisations should register with the MoEF to obtain information that is not publicly available

The periodic evaluation was comprehensive in terms of examining the structure of the timber legality assurance system. To better reflect the functionality of the system’s constituent parts, the parties agreed that the EU FLEGT Facility would assist with revisions and improvement of the periodic evaluation report and its executive summary. At the Joint Expert Meeting on 5 December 2017, a revised summary and the report were presented, discussed, and approved by all parties.
Independent monitoring

Civil society groups and individuals play an important role in the implementation of the SVLK by acting as independent monitors (see Section 9: VPA monitoring). For example, the Independent Forest Monitoring Network (JPIK), consists of local and national NGOs that are trained to undertake surveillance using the SVLK standard. Independent monitors can file complaints with Conformity Assessment Bodies (CABs) if they detect illegal activities, and can request CABs to conduct ad hoc surveillance. They can also review and raise objections to CAB audit results on the basis of evidence supplied, and can file complaints against CABs with the National Accreditation Committee.

Continuous improvement

Since 2009, Indonesia has strengthened regulations several times to improve the SVLK’s efficiency, inclusiveness and accessibility to small and medium enterprises. In 2016, for example, the MoEF adopted Regulation No.30/2016 and its accompanying guidance under Director-General of Sustainable Production Forest Management Regulation No.14/2016. Further improvements in the reporting period include:

- Ministry of Trade Regulation No.12/ 2017 on Provisions for Forestry Product Export
- Regulation of the Minister of Trade No. 91/2017 on First Change of Regulation of the Minister of Trade No. 97/2015 on Provisions for Forestry Product Import
- Circular Letter SE No 9/PPHH/NEIP/PHPL. 3/2017 on weight and volume tolerance
Complaints submitted and handling of submitted cases

Based on reports from independent monitors, communities and the MoEF, there were 29 cases of suspected illegality in 2017, of which 13 cases were closed and 16 were still pending at the end of the year. The 16 pending cases were:

**Two cases from scheduled field checks, and relating to:**
1. Non-compliance on harvesting; time frame for addressing complaint
2. Implementation of worker health and safety procedure

**Five cases from special audits carried out by CABs, and relating to:**
1. Mis-administration in timber transportation. Follow-up action: MoEF sought clarification from CAB; SVLK was suspended and then revoked
2. Auditee received questionable amount of raw material (related to above-mentioned case). Follow-up action: CAB seeking clarification from auditee’s supplier
3. Conflict of concession boundaries with local community; illegal gold mining and sawmill in concession area. Follow-up action: Special audit by CAB is in process
4. Absence of High Conservation Value forest delineation. Follow-up action: Surveillance by CAB
5. Harvesting in protected area (riparian buffer area). Follow-up action: CAB conducted special audit

**Two cases from law enforcement, and relating to:**
1. Transportation document not matching the timber volume. Follow-up action: SVLK was suspended and on the process of special audit, investigation by technical unit and law enforcement agency and legal process is underway
2. Mining permit being issued prior to environment permit; timber utilisation in peatland

**Seven cases of suspected non-compliance in Papua:**
1. Two processing industries had their SVLK certification suspended
2. Special audits were being conducted on two other processing industries
3. The remaining three cases were discontinued as non-compliance reports misdiagnosed the operational problems
Trade in FLEGT-licensed timber

Regulation regarding FLEGT licensing

The adoption of MoEF Regulation No.30/2016 and MoT Regulation No.25/2016 affirmed Indonesia’s readiness for FLEGT licensing, which began on 15 November 2016.

Since 1 March 2017, the export of timber products under FLEGT licensing must be in accordance with the Harmonised System (HS) codes specified in the 2017 Indonesia Goods Classification System.

FLEGT-licensed timber

According to MoEF’s Licensing Information Unit (LIU), in 2017, Indonesia exported around 15.2 million tonnes of timber products with a total value of USD 10.9 billion. It issued 36,389 FLEGT licences for timber products exported to the EU, with a total weight of 705 million tonnes and a total value of USD 0.99 billion (0.87 billion euros). In general, timber product exports have been increasing since Indonesia began issuing FLEGT licences.
Table 2. Quantifies Indonesia’s exports of FLEGT-licensed timber products to the 28 EU member states in 2017. The top four importing member states by both weight and value were the United Kingdom, Netherlands, Germany, and Belgium. Source: silk.menlhk.go.id, (downloaded: 31 August 2018)

<table>
<thead>
<tr>
<th>No</th>
<th>Destination</th>
<th>Weight (kg)</th>
<th>Value (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UNITED KINGDOM</td>
<td>188 258 385</td>
<td>236 751 440</td>
</tr>
<tr>
<td>2</td>
<td>NETHERLANDS</td>
<td>99 907 285</td>
<td>197 783 074</td>
</tr>
<tr>
<td>3</td>
<td>GERMANY</td>
<td>94 173 228</td>
<td>161 692 978</td>
</tr>
<tr>
<td>4</td>
<td>BELGIUM</td>
<td>86 086 406</td>
<td>104 636 145</td>
</tr>
<tr>
<td>5</td>
<td>ITALY</td>
<td>51 060 659</td>
<td>62 162 199</td>
</tr>
<tr>
<td>6</td>
<td>FRANCE</td>
<td>31 343 292</td>
<td>60 868 549</td>
</tr>
<tr>
<td>7</td>
<td>SPAIN</td>
<td>23 334 973</td>
<td>36 572 619</td>
</tr>
<tr>
<td>8</td>
<td>GREECE</td>
<td>29 706 785</td>
<td>20 889 522</td>
</tr>
<tr>
<td>9</td>
<td>CROATIA</td>
<td>20 753 094</td>
<td>16 911 985</td>
</tr>
<tr>
<td>10</td>
<td>POLAND</td>
<td>12 241 981</td>
<td>15 445 163</td>
</tr>
<tr>
<td>11</td>
<td>ROMANIA</td>
<td>17 436 963</td>
<td>13 474 160</td>
</tr>
<tr>
<td>12</td>
<td>DENMARK</td>
<td>4 731 051</td>
<td>13 227 914</td>
</tr>
<tr>
<td>13</td>
<td>SLOVENIA</td>
<td>13 976 096</td>
<td>10 276 583</td>
</tr>
<tr>
<td>14</td>
<td>SWEDEN</td>
<td>2 186 645</td>
<td>9 328 296</td>
</tr>
<tr>
<td>15</td>
<td>IRELAND</td>
<td>4 785 399</td>
<td>7 023 826</td>
</tr>
<tr>
<td>16</td>
<td>BULGARIA</td>
<td>6 389 202</td>
<td>4 599 908</td>
</tr>
<tr>
<td>17</td>
<td>CYPRUS</td>
<td>5 185 549</td>
<td>4 301 083</td>
</tr>
<tr>
<td>18</td>
<td>HUNGARY</td>
<td>5 250 103</td>
<td>4 647 578</td>
</tr>
<tr>
<td>19</td>
<td>PORTUGAL</td>
<td>703 213</td>
<td>2 321 720</td>
</tr>
<tr>
<td>20</td>
<td>LITHUANIA</td>
<td>1 820 307</td>
<td>1 755 364</td>
</tr>
<tr>
<td>21</td>
<td>MALTA</td>
<td>2 552 842</td>
<td>2 217 309</td>
</tr>
<tr>
<td>22</td>
<td>FINLAND</td>
<td>1 680 627</td>
<td>1 693 239</td>
</tr>
<tr>
<td>23</td>
<td>AUSTRIA</td>
<td>301 532</td>
<td>2 444 411</td>
</tr>
<tr>
<td>24</td>
<td>CZECH REPUBLIC</td>
<td>1 123 996</td>
<td>1 495 228</td>
</tr>
<tr>
<td>25</td>
<td>ESTONIA</td>
<td>544 985</td>
<td>1 586 827</td>
</tr>
<tr>
<td>26</td>
<td>LATVIA</td>
<td>136 201</td>
<td>529 541</td>
</tr>
<tr>
<td>27</td>
<td>SLOVAKIA</td>
<td>12 311</td>
<td>71 003</td>
</tr>
<tr>
<td>28</td>
<td>LUXEMBOURG</td>
<td>109</td>
<td>165</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>705 683 219</td>
<td>994 707 829</td>
</tr>
</tbody>
</table>

Table 3. Main (by value) product types exported to the EU in 2017. Source: silk.menlhk.go.id (downloaded: 31 August 2018)

<table>
<thead>
<tr>
<th>No</th>
<th>Product Name</th>
<th>Weight (kg)</th>
<th>Value (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wooden furniture</td>
<td>180 486 758</td>
<td>312 090 710</td>
</tr>
<tr>
<td>2</td>
<td>Panels</td>
<td>116 389 844</td>
<td>287 454 822</td>
</tr>
<tr>
<td>3</td>
<td>Paper</td>
<td>309 489 701</td>
<td>239 713 109</td>
</tr>
<tr>
<td>4</td>
<td>Woodworking</td>
<td>82 293 609</td>
<td>117 800 254</td>
</tr>
<tr>
<td>5</td>
<td>Craft</td>
<td>3 105 248</td>
<td>20 313 230</td>
</tr>
<tr>
<td>6</td>
<td>Veneer</td>
<td>6 470 463</td>
<td>13 222 417</td>
</tr>
<tr>
<td>7</td>
<td>Pulp</td>
<td>7 156 605</td>
<td>3 345 085</td>
</tr>
<tr>
<td>8</td>
<td>Building fabrication</td>
<td>245 490</td>
<td>547 656</td>
</tr>
<tr>
<td>9</td>
<td>Chipwood (Shale Wood)</td>
<td>7 104</td>
<td>23 961</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>705 644 822</td>
<td>994 511 244</td>
</tr>
</tbody>
</table>
**FLEGT licence / V-Legal document issuance**

Indonesia issues FLEGT licences for verified legal products that are exported to the EU and are of product types covered by the Indonesia-EU Voluntary Partnership Agreement.

Table 4. Total numbers of FLEGT licences and V-Legal documents issued in 2017.
Source: silk.menlhk.go.id (downloaded: 31 August 2018)

<table>
<thead>
<tr>
<th>Destination</th>
<th>Document Type</th>
<th>FLEGT</th>
<th>V-Legal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>NON-EUROPEAN UNION</td>
<td>not applicable</td>
<td>174 388</td>
<td></td>
<td>174 388</td>
</tr>
<tr>
<td>EUROPEAN UNION</td>
<td></td>
<td>36 389</td>
<td></td>
<td>2 572</td>
</tr>
<tr>
<td>1. NETHERLANDS</td>
<td></td>
<td>8 252</td>
<td></td>
<td>446</td>
</tr>
<tr>
<td>2. UNITED KINGDOM</td>
<td></td>
<td>6 847</td>
<td></td>
<td>319</td>
</tr>
<tr>
<td>3. GERMANY</td>
<td></td>
<td>6 053</td>
<td></td>
<td>414</td>
</tr>
<tr>
<td>4. BELGIUM</td>
<td></td>
<td>3 499</td>
<td></td>
<td>131</td>
</tr>
<tr>
<td>5. FRANCE</td>
<td></td>
<td>3 145</td>
<td></td>
<td>325</td>
</tr>
<tr>
<td>6. SPAIN</td>
<td></td>
<td>1 996</td>
<td></td>
<td>371</td>
</tr>
<tr>
<td>7. ITALY</td>
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<tr>
<td>8. GREECE</td>
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<tr>
<td>9. DENMARK</td>
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<tr>
<td>10. SWEDEN</td>
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<td>551</td>
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</tr>
<tr>
<td>11. POLAND</td>
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<td>515</td>
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<td>12. CROATIA</td>
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<td>13. IRELAND</td>
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<td>14. SLOVENIA</td>
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<td>4</td>
</tr>
<tr>
<td>15. BULGARIA</td>
<td></td>
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<td></td>
<td>5</td>
</tr>
<tr>
<td>16. ROMANIA</td>
<td></td>
<td>183</td>
<td></td>
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<tr>
<td>17. AUSTRIA</td>
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<td>18. PORTUGAL</td>
<td></td>
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<td></td>
<td>15</td>
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<tr>
<td>19. CYPRUS</td>
<td></td>
<td>133</td>
<td></td>
<td>13</td>
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<tr>
<td>20. CZECH REPUBLIC</td>
<td></td>
<td>92</td>
<td></td>
<td>8</td>
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<tr>
<td>21. MALTA</td>
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<td></td>
<td>5</td>
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<tr>
<td>22. FINLAND</td>
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<tr>
<td>23. HUNGARY</td>
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<td></td>
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<td>24. ESTONIA</td>
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<tr>
<td>25. LITHUANIA</td>
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<td>61</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>26. LATVIA</td>
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<td>28</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>27. SLOVAKIA</td>
<td></td>
<td>8</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>28. LUXEMBOURG</td>
<td></td>
<td>2</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>TOTAL (EU and non-EU)</td>
<td></td>
<td>36 389</td>
<td>176 960</td>
<td>213 349</td>
</tr>
</tbody>
</table>

³ V-Legal documents continue to be issued for the export to the EU of 15 HS code products that have not been included in Annex 1A of the VPA, as per Circular Letter No 4/ 2016.
EU readiness to receive FLEGT-licensed timber

EU member states are fully prepared to receive FLEGT-licensed timber. All EU member states have competent authorities⁴ responsible for handling FLEGT licences. While there is a high degree of awareness about FLEGT-licensed timber across the EU member states, there are indications that competent authorities in Western Europe are significantly better informed than those in Eastern and Southern parts of the EU.⁵

By December 2017, competent authorities from the following 19 EU member states had accessed the MoEF’s SILK database, which has information on each FLEGT licence issued: United Kingdom, Netherlands, Sweden, Hungary, Greece, France, Czech Republic, Malta, Spain, Slovakia, Belgium, Ireland, Denmark, Germany, Austria, Finland, Italy, Bulgaria and Latvia. Nine EU member states had not yet requested access to SILK: Estonia, Portugal, Romania, Croatia, Poland, Slovenia, Cyprus, Lithuania and Luxembourg.

⁴ For the full list and contact details of FLEGT Competent Authorities see: http://ec.europa.eu/environment/forests/pdf/list_competentAuthorities_flegt.pdf
Challenges with FLEGT licensing

The MoEF officially recorded 209 problematic licensing cases from November 2016 to January 2018. In September 2017, the MoEF and the EU FLEGT Facility developed a ‘mini action plan’ to address licensing issues systematically. The most commonly-reported issue, accounting for 80% of all cases, related to Harmonised System (HS) code mismatches between the product and the licence.

The following occurrences explain HS code mismatches:

1. The exporters send draft shipping documents to importers on time, but fail to include HS codes. The importers then file the Entry Summary Declaration (ENS) applying their own interpretation of appropriate HS codes — therefore a mismatch.
2. The exporters sent draft copies of FLEGT and other shipping documents to importers with HS codes, who then used these documents to file ENS. However, the final FLEGT licenses have different HS specifications. While it is possible to revise ENS up to two weeks before the consignment arrives into EU, such revisions are rarely done — therefore a mismatch.
3. Differences in the interpretation between CAs and Indonesia of the essential character of goods that stem from varying level of emphasis on the production process, dimensions, and utility.

Independent market monitoring (IMM)

The EC has appointed an independent market monitor to analyse how FLEGT licensing affects trade flows, market developments and timber prices. The IMM function is included in the VPA with Indonesia.

The IMM analysis of timber trade from Indonesia to the EU after 15 November 2016 — when Indonesia began issuing FLEGT licences — indicates stable or slightly increasing volumes (Figures 2 and 3, below). The trade dynamics following the start of FLEGT licensing indicate stability in the time of transition. In 2017, Indonesia sent 36,389 FLEGT-licensed shipments to the EU. FLEGT licensing and trade on this scale is a major achievement for Indonesia and the EU.

The market sentiment about FLEGT-licensed timber is generally positive. A majority (56%) of importers surveyed by IMM in major importing countries such as the UK, Netherlands, Germany and France were aware of FLEGT-licensed timber. Some 78% of the surveyed importers expressed their preference for FLEGT-licensed timber and indicated that quality and pricing are an advantage. More analysis is needed to better understand the meaning and implications of perception-based preferences.

Figure 2 shows the trend of EU imports from Indonesia of major timber product groups as defined in the Harmonised System (HS) of product codes. The chart shows 12-month rolling average data to remove short-term variability and highlight long-term trends.

Figure 3 shows the trend in imports of timber and timber products (that is, all products in HS 44 (wood), 47 (pulp), 48 (paper), and 94 (furniture) from Indonesia by individual EU member states. Imports to Germany, the Netherlands and several smaller EU markets declined in the first half of 2017 but recovered in the second half of the year.
Figure 2. Trends in EU imports of Indonesian timber products by product group and weight. Source: IMM analysis of Eurostat

Figure 3. Trends in EU imports of timber and timber products (HS codes 44, 47, 48, and 94) from Indonesia by destination and weight. Source: IMM analysis of Eurostat
Achievements in SVLK implementation and roll-out

Ongoing improvements in SVLK regulation, and effective outreach led by the MoEF and facilitated by the UK supported Multistakeholder Forestry Programme, have contributed to an increase in SVLK roll-out in the reporting period. By December 2017, Indonesia had certified 4,322 forest-based enterprises and industries (see Figure 4).

A total of 23.3 million hectares of production forest — comprising 13.6 million hectares of natural forests and 9.7 million hectares of plantation forests — have been certified.

Figure 4. The total number of SVLK certified forest-based enterprises and industries over time.
Regulation on economic instruments

The Government has adopted Regulation Number 46/2017 on Environmental Economic Instruments. This regulation could be used to strengthen accountability and legal compliance, promote responsible planning and use of natural resources, and promote the utilisation of public and international sources of finance to support environmentally responsible economic development.

Public procurement

In 2017, the South Sumatera Regional Government adopted a procurement regulation, which mandated the use of SVLK-certified timber. The procurement policies of several other agencies, for instance in Jakarta, also favour the use of SVLK timber.

Legal timber online market

Indonesia launched a legal timber online market (www.legalwoodmarket.com) on 30 November 2017.

By end of the year, it had recorded 620 visitors, at least 20 of which were various forestry-based businesses, including community forest groups, primary timber industry actors and timber processors such as wood panel and furniture producers. The aims of the online market are to promote the ‘Indonesian Legal Wood’ brand to a broader audience, to provide information on Indonesian timber-based products, and to help those looking for such products. This system is managed by a team under the Sub Directorate of Certification and Marketing of the MoEF’s Directorate-General of Sustainable Production Forest Management.
Institutional strengthening and capacity building

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 VPA implementation. The Multistakeholder Forestry Programme (MFP) supports the JIC Secretariat.

In 2017, the JIC Secretariat facilitated two meetings of the Indonesia-EU Technical Working Group — on 28 February and 9 August — to discuss implementation of the SVLK and FLEGT licensing.

The JIC Secretariat also helped to organise three Joint Expert Meetings with 30-40 participants from the MoEF, Ministry of Trade, Ministry of Industry, other relevant ministries, the EU FLEGT Facility, MFP, the EU delegation, independent monitors and other stakeholders. The meetings were on 2 March, 13 October and 5 December. They focused on taking stock of progress with FLEGT licensing, monitoring licensing issues, taking stock of the findings from the first periodic evaluation, as well as the observations from the baseline report for impact monitoring.

To address licensing issues mentioned earlier, the MoEF consulted with Customs and licensing authorities to better understand the problems and to clarify HS code changes that have been introduced. The MoEF also engaged Customs to run a training course for licensing authorities on HS code determination. The MoEF visited major timber-producing hubs in Central and East Java to provide detailed feedback to producers and exporters, and to reinforce the need for compliance.

Link with EU competent authorities

The MoEF’s SILK platform links automatically with information systems in the Ministry of Trade and the Customs Office of the Ministry of Finance. Competent authorities in export markets can access SILK to compare paper-based V-Legal documents or FLEGT licences with information in the database, and seek clarification if necessary. The MoEF has been pro-active in hosting delegations from EU member states seeking to gain first-hand understanding of licensing issues. Delegations from United Kingdom, Austria, and the Netherlands visited and came away with a comprehensive understanding of issues and remedial actions Indonesia had taken.
Stakeholder engagement and communication

Inter-ministerial coordination

Effective implementation of the VPA requires strong inter-ministerial coordination, especially among the four ministries with interlinking mandates: The MoEF; Ministry of Trade; Ministry of Industry; and Ministry of Finance (Customs Office). Since 2015, regular informal and formal meetings have been held to avoid miscommunications that could lead to any setback in SVLK implementation. 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 MoEF 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 and dissemination of FLEGT licenses

The MoEF held a series of public awareness events to inform stakeholders about progress on FLEGT licensing. This was important to ensure industry stakeholders — and especially small and medium enterprises — remain committed to the SVLK.

To improve stakeholder understanding of FLEGT licensing processes, the MoEF held events in seven cities — Jakarta, Yogyakarta, Semarang, Surabaya, Medan, Samarinda and Denpasar. Each event was attended by around 100 participants including importers, exporters, independent monitors and representatives of licensing agencies and the government.
Consultation between Conformity Assessment Bodies and independent monitors

The MoEF facilitated a consultation between Conformity Assessment Bodies and independent monitors to promote good communication and close coordination so as to improve SVLK implementation, and to strengthen monitoring of the system’s credibility following the implementation of FLEGT licensing.

Communication with EU stakeholders

The MoEF also communicated updates at Joint Expert Meetings, a Joint Implementation Committee meeting, video conferences with the European Commission, and through a mission to Brussels and meetings with timber importers in Belgium and the Netherlands.

It was also crucial for Indonesia to effectively communicate to various audiences the steps it was taking to improve FLEGT licensing. The MoEF, with support from the EU FLEGT Facility, therefore developed a ‘standard response form’ to streamline communication with competent authorities in EU member states on specific cases or issues. While the form was not directly used for communication exchanges, it helped MoEF to improve the quality and clarity of its responses.

COP23 – the UN climate change conference in Bonn

The 23rd conference of parties to the UN Framework Convention on Climate Change (COP23), took place in Bonn, Germany, on 6–17 November 2017. At a side event, the MoEF – through the Multistakeholder Forestry Programme (MFP) – presented research on the potential contribution of SVLK-certified forest industries to reduced greenhouse gas emissions from permanent production forest. The research provided strong indications that the SVLK contributes to a decline in illegal logging, deforestation and degradation rates.⁶

First Anniversary of FLEGT Licensing

The MoEF held an event in Jakarta on 29 November 2017 to enable Indonesia and the EU to share information on achievements, opportunities, and challenges in the first year of FLEGT licensing. About 100 people participated. This event also helped to:

1. Promote Indonesia’s commitment to improving forest governance through trade of legal and certified timber in domestic and international markets
2. Increase domestic market awareness of the importance of buying certified legal wood products to promote sustainable forest management in Indonesia
3. Provide opportunities for national and international stakeholders to give feedback that could contribute to the credibility of the SVLK and FLEGT-licensed timber
4. Identify solutions to problems related to FLEGT licensing

Online resources — and summaries of VPA-related meetings

Public communication is fundamental to achieving the goals of the VPA. It is essential to stakeholder engagement; envisioning and supporting changes in laws, institutions and systems; and earning and maintaining market confidence in FLEGT-licensed timber. Documents related to the VPA — including summaries and records of VPA-related meetings — are publicly available through the following websites:

- MoEF Timber Legality Information System (SILK): http://silk.menlhk.go.id
- Multistakeholder Forestry Programme: www.mfp.or.id
- EU Delegation to Indonesia: https://eeas.europa.eu/delegations/indonesia_en
- EU FLEGT Facility: www.euflegt.efi.int

⁶ Boer, R. et al. 2017. Assessment of the potential contribution of SVLK-certified forest industries on GHG emission reduction from permanent production forest in selected sites. Multistakeholder Forestry Programme.
Information published by independent monitors

Independent monitoring organisations published findings on their websites. JPIK also published reports and issues of The Monitor aiming at ensuring the credibility of SVLK.

Campaign materials

In order to provide information to relevant parties, the MoEF with the support from MFP3 conducted various SVLK-related awareness-raising activities at home and abroad. Examples of communication products used to promote the SVLK and FLEGT licences are illustrated below:
Data made available through SILK

Annex V of the VPA states that competent authorities in the EU will be able to contact Indonesia’s Licensing Information Unit to seek clarification about the authenticity, completeness, and validity of a V-Legal document or FLEGT licence. Indonesia’s MoEF uses its online SILK database to store information on V-Legal documents and FLEGT licences issued by the countries licensing authorities. Competent authorities in the EU can, through a memorandum of understanding with the Licensing Information Unit, access SILK to check FLEGT licences they have received. If there are things that need to be clarified, the competent authorities will contact the Licensing Information Unit for more information.

In addition to the tasks and functions above, the SILK website http://silk.menlhk.go.id contains information including:

- Articles and publications on VPA cooperation between Indonesia and Europe
- SVLK-related regulations
- Information table on V-Legal calculation
- Information on sustainability (LP-PHPL) and legality (LVLK) certificates
- List of V-legal / FLEGT licensing authorities
- List of certified and registered exporters
- List of importers
- List of EU competent authorities
- List of independent monitors
Public access to information

The first periodic evaluation of the SVLK found that public access to information is in line with the spirit of the relevant annex of the VPA (Annex IX). The periodic evaluation confirmed that access to information helps to reinforce (i) larger VPA objectives (except for disaggregated statistics on timber production) and (ii) verification, monitoring and the functioning of the SVLK. For example, all information on legality/sustainable forest management audits, general forestry and statistical data, log production, processing, and export are accessible.

In the case of data that is to be made available upon request (and on a case-by-case basis), independent monitoring organisations reported that accessibility has improved but there are still some challenges. However, the MoEF is willing to release data — such as concession permits, annual/10-yr work plans, maps — to registered independent monitoring organisations or other public actors as long as they provide clear justification. In addition, the MoEF makes it clear that requests for such data must be reasonable in terms of scope and quantity. In cases when the MoEF does not possess the required data, it facilitates communication between independent monitors and provincial administrations where the data in question are located.

As reported by independent monitoring organisations, the remaining challenges with access to such information have more to do with the lengthy processes to access this information and slow response in some particular cases. Examples include requests by independent monitoring organisations for access to disaggregated data — from the SIUHH online tracking system — on supply chains of individual companies.

The public access to information relevant to the timber legality assurance system at MoEF has improved and it is becoming easier for independent monitoring organisations and other civil society actors. The MoEF will clarify the level of disaggregated data that can be accessed online, taking into consideration increasing requests for data from the public.

Photo: Ikhlasul Amal
Together, Indonesia and the EU should carry out various routine evaluations and monitoring exercises to advance the implementation of the agreement, ensure credible operation of the SVLK, and put in place actions to improve market awareness and acceptance of FLEGT timber. There are four major types of assessment that are regularly undertaken in order to measure the progress and facilitate continuous improvement: periodic evaluation; independent monitoring; independent market monitoring; and impact monitoring.

**Periodic evaluation**

Periodic evaluation is carried out in accordance with Article 15 of the VPA to ensure that SVLK is implemented consistently and maintains its credibility. In 2017, PT Sucofindo SBU LSI won the periodic evaluation tender and carried out the assessment between April and September 2017. The expert group presented the report at a public consultation in early September and at the Joint Expert Meeting in October 2017 (see Section 2 for details of the evaluation’s findings and follow up).
Independent monitoring

Independent monitoring of the forestry sector is recognised under the VPA, and in Indonesia it is carried out by five main networks: Jaringan Pemantau Independen Kehutanan (JPIK; the Independent Forest Monitoring Network), Aliansi Pemantau Independen Kehutanan Sumatera (APIKS), Aliansi Anti Mafia Hutan (Alliance Against Forest Mafia), and Eyes on the Forest (EoF). Other organisations such as ICEL, Auriga, YCHI and Borneo Initiative also carry out monitoring activities.

JPIK is the largest monitoring network, with seven branches covering 26 provinces in Java, Sumatera, Kalimantan, and Sulawesi. The network includes 1011 local organisations and over 1,900 individuals. In 2017, JPIK conducted just over 100 monitoring missions.

A new addition to the IM community is the Independent Forest Monitoring Fund (IFM Fund), which in 2017 secured funding in principle from the FAO-EU FLEGT programme. The IFM Fund will provide small grants to local organisations for monitoring activities. These grants will become operational from January 2019.

Impact monitoring

Monitoring and understanding the impacts of the VPA is of high importance so that both parties are fully aware of benefits and shortcomings, or unintended consequences that need to be addressed. The Indonesia-EU Joint Implementation Committee agreed to undertake the first impact monitoring exercise when it met in September 2016 and formally approved the methodology (developed by PT Hatfield Indonesia) and the study design.

Over the following year, the consultant team led by a Jogjakarta-based expert (Mr. Rahmanta) focused on compiling baseline data on five selected impact areas. In December 2017, the consultants presented a baseline report with data on three out the five impact areas. The public consultation process and feedback from the Joint Expert Meeting produced questions on non-availability of data and emphasised the need to improve the criteria and indicators for assessing impact in future iterations of this exercise.

Independent market monitoring (IMM)

In 2017, the EU-funded and ITTO-operated IMM became again fully operational. Its objective is to monitor the market response to FLEGT-licensed timber and help fine-tune the marketing of FLEGT timber products. Among other things, the IMM produces annual reports and quarterly briefs on market developments in all 28 EU member states. The first brief in 2018 will have a special section on Indonesia. Indonesia and EU agreed that IMM work is very important.