

Indonesia and the European Union

Annual report 2018

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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1. Introduction

Voluntary Partnership Agreements (VPAs) between the European Union (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.

This report covers the period from January to December 2018. 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 2018

4 477 forest-based enterprises and industries are SVLK certified	In 2018, Indonesia issued 38 991 licences (36 491 FLEGT licences and 2 500 V-Legal documents) for timber products exported to the EU	Indonesia exported SVLK-licensed timber products to 193 countries , including EU Member States
22.8 million hectares of production forest are SVLK certified		
100% of timber harvested in natural forest concessions or from plantation forest concessions was SVLK-certified	In 2018, FLEGT-licensed timber products exported to the EU had a combined weight of 674 642 tonnes and were worth EUR 983 million	Licensed timber products travelled from 44 ports in Indonesia to 179 ports in the EU

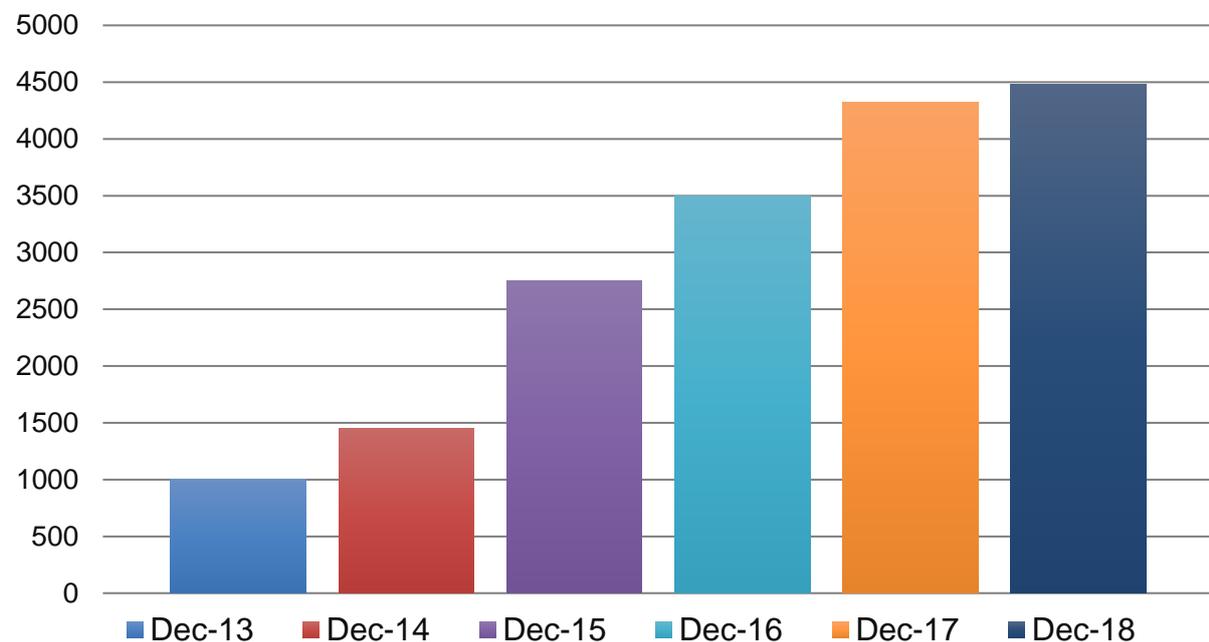
2. VPA achievements and implementation

2.1 Progress with the adoption of SVLK

Indonesia developed the SVLK through multi-stakeholder 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 and sustainable timber trade. 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.

Effective outreach led by the Ministry of Environment and Forestry (MoEF) and facilitated by the Multi-stakeholder Forestry Programme have led to an increase in SVLK roll-out in the reporting period. By December 2018, Indonesia had certified 4 477 forest-based enterprises and industries (see Figure 2). A total of 22.8 million hectares of production forest — comprising 13 million hectares of natural forests and 9.8 million hectares of plantation forests — have been certified.

Figure 2. Number of SVLK certified forest-based enterprises and industries from 2013 to 2018



Source: silk.dephut.go.id (downloaded: 31 August 2019)

2.2 SVLK compliance

By December 2018, a total of 4 477 forest-based enterprises and industries were SVLK certified, a trend showing a continuing increase. In 2018, 155 new enterprises and industries were SVLK certified. In the same period, a total of 131 companies failed the audit for SVLK certification. The breakdown of these companies according to the SVLK criteria is as follows: 26 did not meet the legal status criteria; 62 did not meet the supply chain control criteria; 21 did not meet the legality of the trade or the change of ownership of timber criteria; and 22 did not meet the labour and environmental criteria.

The SVLK Conformity Assessment Bodies (CABs) also published non-compliance reports in successful audits. The reasons for the suspension usually were non-compliances with supply chain control criteria and delays in surveillance and recertification audits.

2.3 Legality and sustainability standards

The SVLK places emphasis on legality 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 and private forests. This means that all exports of timber products must be SVLK-certified, regardless of their destination. The SVLK has helped strengthen the traceability of timber and improve supply chain controls. The SVLK also includes PHPL, which stands for sustainable forestry management system. PHPL was made mandatory for commercial logging concessions, industrial timber plantations, state-owned community forests and private community forest in 2003. It 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

Permit type	Certification	2015		2016		2017		2018	
		Units	Area**	Units	Area**	Units	Area**	Units	Area**
Commercial logging concession in natural forests	PHPL	185	13.6	118	10.7	123	10.9	122	10.7
	SLK			58	2.9	50	2.63	47	2.37
Industrial timber plantation	PHPL	106	6.45	83	5.6	87	5.7	91	5.8
	SLK			36	1	43	1.17	37	1.27
Perum*	PHPL	3	2.57	3	2.57	3	2.49	3	2.49
IPK (timber utilisation permit)	SLK	62	0.18	NA	NA	70	0.2	70	0.2

Source: MoEF. In 2015, official data for logging and industrial timber plantations did not yet distinguish between PHPL and SLK certification

* Perum stands for PT Perum Perhutani, a state forest company operating in Java

** Area is in million hectares

All stages of the supply chain — from the production forest to primary and secondary industries — must be certified by CABs that operate in accordance with ISO 17065 requirements, which apply to bodies certifying products, processes and services. Assessments in production forests follow either the standards for legality (SLK) or the standard for sustainable forest management (PHPL).¹ Timber from private plantation forests is subject to the Supplier's Declaration of Conformity (SDoC).² Timber from state production forests is barcoded and fully traceable through an online tracking system called SIPUHH.

2.4 Actions to support VPA implementation

Independent Monitoring by civil society

At the Joint Expert Meeting held in November 2018, on behalf of Independent Monitors (IMs), JPIK (*Jaringan Pemantau Independen Kehutanan*) presented ongoing monitoring activities conducted by civil society in Central Kalimantan and Papua. JPIK also provided information on further non-compliance cases that may be expected. In total, IMs filed 15 reports on suspected non-compliance cases. These were shared with CABs, which responded within the required 21 days. Five of the cases resulted in the suspension of the certification of these industries.

JPIK also inquired on the status of the cases reported earlier. MoEF responded that it is currently uploading this information onto the new non-compliance portal in the timber legality information system *Sistem Informasi Legalitas Kayu* (SILK). JPIK reported concerns over the financial sustainability of their operations. Funding from the Food and Agriculture Organization of the United Nations (FAO) for Independent Forest Monitoring for 15 months is finally available, with a budget of USD 200 000. MoEF encouraged IMs to also coordinate their field activities under the different funding mechanisms (FAO, MFP4, EU NGOs) and to minimise overlap and duplication. Concerning access to information, MoEF held technical meetings with IMs to discuss the standard operation procedure for accessing the Online Platform for Timber Supply Chain Control (SIPUHH). IMs indicated that a study on concession performance under the Indonesian sustainability standard PHPL will be finalised in March 2019. This study captures the environmental credentials, performance, and additionality of Indonesia's Sustainable Forest management (SFM) standard, or *Pengelolaan Hutan Produksi Lestari* (PHPL) and its contribution to SVLK/VPA.

Promotion of FLEGT-licensed timber

Indonesia is the only VPA country that is issuing FLEGT licences. FLEGT licensing started in November 2016. The EU established the FLEGT Independent Market Monitor (IMM) to independently assess market impacts of FLEGT VPAs in the EU and partner countries, including Indonesia, by using trade flow analysis and market research.

According to the 2018 annual report of the International Tropical Timber Organization (ITTO)/FLEGT IMM,³ analysis of trade statistics shows that performance of Indonesian wood products on the EU market has remained mixed in 2018. Broadly consistent with the Indonesian export data, the EU import value of Indonesian timber and timber products increased by 6% to USD 1.25 billion in 2018 compared to 2017. However, in quantitative terms, EU imports from Indonesia decreased by 5% to 678 000 tonnes in 2018. The IMM

also suggested that Indonesia has benefitted from increasingly strict enforcement of the EU Timber Regulation (EUTR), with which FLEGT-licensed products automatically comply.

Based on the IMM presentation to the Joint Implementation Committee (JIC) in March 2018, the market sentiment about FLEGT-licensed timber is generally positive. Among importers surveyed in major importing countries, namely France, Germany, the Netherlands and the UK, the majority (56%) are well aware of FLEGT-licensed timber. Of these importers, 78% expressed their preference for FLEGT-licensed timber, and highlighted the relative advantageous quality and pricing of the products.

Throughout the year, it became apparent that European operators are particularly interested in the sustainability credentials of FLEGT-licensed timber. To provide information on what stands behind the FLEGT licence, the EU FLEGT Facility developed a suite of printed and online materials for dissemination and testing. Feedback from timber traders showed that they appreciated the materials, but requested information developed in a language and format they could deliver to their clients. To meet this demand, the Facility developed a new webpage (<https://timberbuyers.flegtlicence.org/>) to target EU-based private sector audiences and timber buyers as a complement to the FLEGT licence information point. The webpage presents accessible and attractive content about the benefits of FLEGT-licensed timber beyond legality.

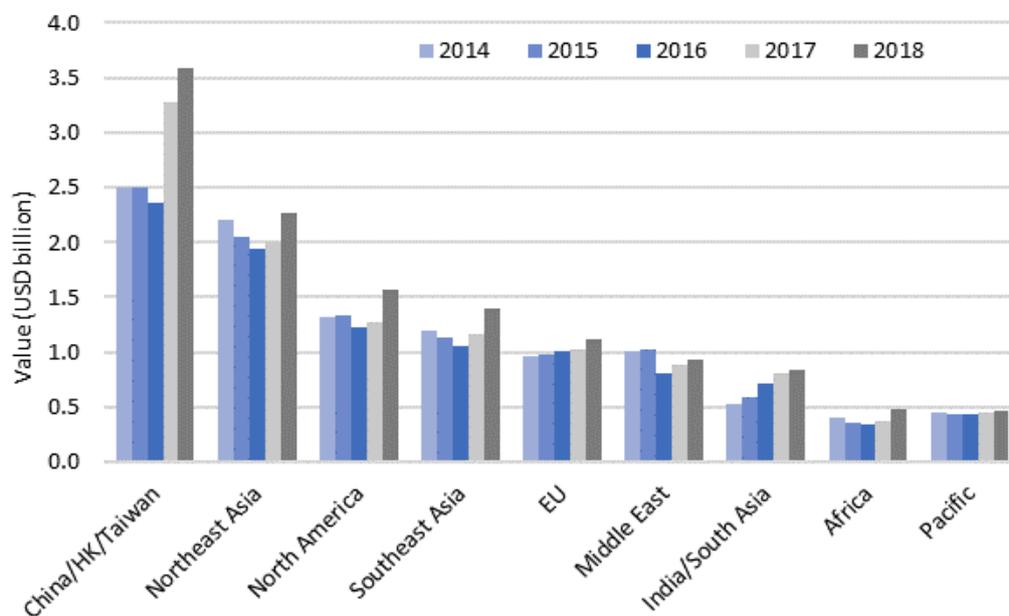
Within Indonesia, regulatory changes have also taken place to support sourcing of legal timber. In November 2017, the Government of Indonesia introduced the Government Regulation/PP No. 46/2017 on Environmental Economic Instruments. The Regulation is a broad instrument that aims to encourage responsible sourcing and consumption of natural resources. Article 33 of this Regulation states that in relation to the forestry sector, operations are environmentally friendly when full implementation of SVLK is ensured. Implementation of the Regulation effectively began in early 2018 but several implementing legal instruments are still needed to realise its potential. Based on the Regulation, the larger metro Jakarta area and the South Sumatra province introduced provincial regulations requiring all timber used in these jurisdictions to be legally-verified.

3. Trade in FLEGT-licensed timber

3.1 Value and quantity of Indonesia’s timber and timber product exports

The value of Indonesia’s timber and timber product exports increased to all regions in 2018 (see Figure 3). This increase was most pronounced in its exports to China, the primary destination for Indonesia’s pulp and paper products. In 2018, China accounted for 28% of Indonesia’s total export value and 36% of export quantity.

Figure 3. Indonesia’s export value of timber and timber products by destination from 2014 to 2018



Source: IMM, 2019

According to the Licensing Information Unit (LIU), in 2018, the value of FLEGT-licensed timber exports from Indonesia to the EU increased from EUR 873 million (USD 960 million) in 2017 to EUR 983 million (USD 1 079 million). The EU accounted for 9% of Indonesia’s total export value and 5% of export quantity in 2018.

Table 2 shows Indonesia’s exports of FLEGT-licensed timber products to EU Member States in 2018. Similar to 2017, the top four importing Member States by both weight and value were the United Kingdom, the Netherlands, Germany and Belgium. Table 3 shows the main (by value) product types that Indonesia exported to the EU in 2018.

Table 2. Indonesia's timber exports to the EU in 2018

No	Destination	Weight (kg)	Value (USD)
1	United Kingdom	194 947 845	275 072 371
2	the Netherlands	101 644 220	218 676 256
3	Germany	89 640 563	173 245 255
4	Belgium	60 702 707	93 765 994
5	Italy	45 571 981	63 004 915
6	France	27 498 051	59 907 996
7	Spain	22 851 122	38 674 996
8	Greece	34 841 297	37 830 215
9	Slovenia	21 716 938	16 878 271
10	Romania	18 031 522	15 847 777
11	Croatia	14 190 058	14 057 061
12	Denmark	4 276 372	13 233 888
13	Poland	8 797 454	13 118 403
14	Sweden	2 463 290	11 406 794
15	Ireland	9 397 516	8 900 549
16	Bulgaria	5 259 453	5 816 239
17	Cyprus	5 756 910	5 552 616
18	Austria	688 205	2 587 666
19	Czech Republic	826 157	2 371 444
20	Portugal	1 091 072	2 326 993
21	Lithuania	1 749 996	2 027 377
22	Malta	1 554 282	1 606 481
23	Finland	289 495.33	1 553 383
24	Estonia	741 928.92	1 239 395
25	Latvia	77 113.59	396 331
26	Hungary	24 793.18	135 815
27	Slovakia	8 070.34	13 708
28	Luxembourg	4 157.00	6 105
TOTAL		674 642 580	USD 1 079 254 309
			EUR 983 million

Source: silk.dephut.go.id (downloaded: 31 August 2019)

Table 3. Main (by value) product types exported to the EU in 2018

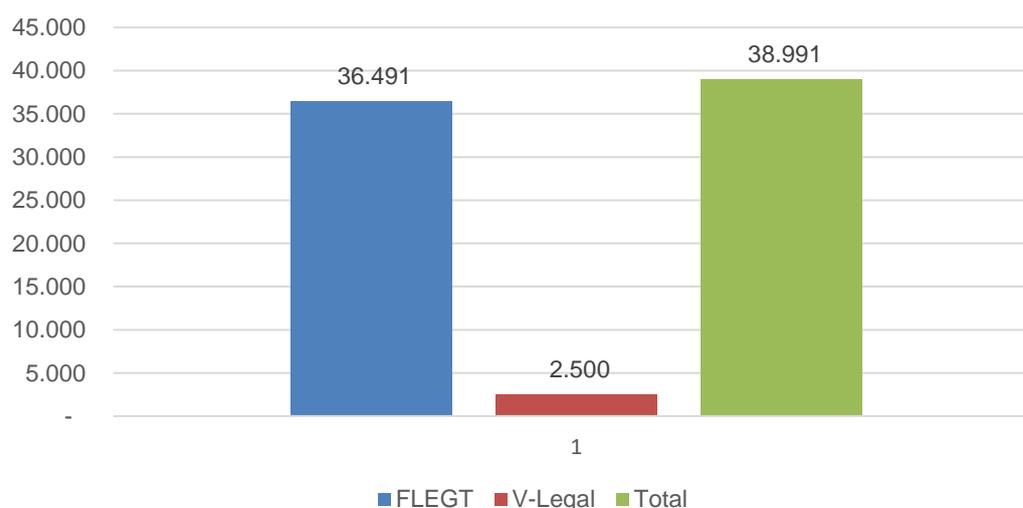
No	Product Name	Weight (kg)	Value (USD)
1	Panel	201 224 168	339 928 805
2	Furniture	108 761 901	315 611 676
3	Paper	283 630 309	265 639 408
4	Woodworking	70 855 886	124 849 283
5	Handicraft	6 186 559	20 717 933
6	Veneer	2 686 478	11 473 018
7	Pulp	1 113 371	643 523
8	Prefabricated houses	183 734	390 373
9	Chip wood	170.10	286.04
	TOTAL	674 642 580	1 079 254 309

Source: silk.dephut.go.id (downloaded: 31 August 2019)

3.2 Number of FLEGT licences issued by Indonesia

In 2018, Indonesia issued 38 991 licences (36 491 FLEGT and 2 500 V-Legal) for timber products exported to the EU, with a total value of about USD 1 079 million or EUR 983 million. In general, timber product exports have been increasing since Indonesia began issuing FLEGT licences in 2016. Figure 4 illustrates the number of licences issued by Indonesia in 2018.

Figure 4. Total licences issued by Indonesia in 2018



Source: silk.dephut.go.id (downloaded: 31 August 2019)

3.3 Number of FLEGT licences destined to EU Member States

Indonesia issues FLEGT licences for verified legal products that are exported to the EU and are of product types covered by the Indonesia-EU VPA. For exports to other markets, and for EU-bound exports of some products not covered by the VPA, Indonesia issues V-Legal documents.⁴ Table 4 presents the total number of V-Legal documents/FLEGT licences issued in 2018. The top five importing Member States by number of licences were the Netherlands, the United Kingdom, Germany, France and Belgium. It should be noted that customs clearance in the 28 destinations can differ.

Table 4. Total numbers of FLEGT licences and V-Legal documents issued in 2018⁵

DESTINATIONS	Document Type		TOTAL
	FLEGT	V-LEGAL	
the Netherlands	8 628	334	8 962
United Kingdom	7 037	331	7 368
Germany	5 609	417	6 026
France	3 252	362	3 614
Belgium	3 308	198	3 506
Spain	1 966	328	2 294
Italy	1 945	180	2 125
Greece	855	86	941
Denmark	702	51	753
Sweden	631	42	673
Poland	451	39	490
Ireland	271	23	294
Slovenia	271	7	278
Romania	235	6	241
Bulgaria	216	6	222
Croatia	199	4	203
Portugal	150	29	179
Austria	165	14	179
Cyprus	155	12	167
Czech Republic	127	15	142
Finland	90	1	91
Malta	80	2	82
Estonia	45	4	49
Lithuania	46	2	48
Latvia	32	2	34
Hungary	15	4	19
Slovakia	6	1	7
Luxembourg	4	-	4
TOTAL	36 491	2 500	38 991

Source: silk.menlhk.go.id (downloaded: 31 August 2019)

3.4 FLEGT licencing issues

Table 5 summarises the number of licensing cases with issues that were discussed and clarified by the Indonesian LIU and EU Competent Authorities in 2018. From January to December 2018, there were 409 cases, 65% of which were caused by a different HS Code interpretation, 23% due to mismatches of information reported in different documents (licences, invoices, and so forth), and the remaining 12% were due to a combination of factors, such as expired licences, licences not found in SILK, or the loss of the original licences.

Table 5. FLEGT licences with information mismatches in 2018

No	Country/CA	Number of cases	Most dominant case types
1	Germany	37	Document discrepancy ⁶
2	Spain	15	Document discrepancy
3	France	11	Document discrepancy
4	United Kingdom	10	Document discrepancy
5	Bulgaria	7	Document discrepancy
6	Malta	5	Document discrepancy
7	Sweden	5	Document discrepancy
8	Ireland	3	Document discrepancy
9	Latvia	1	Document discrepancy
10	the Netherlands	258	HS codes interpretation
11	Czech Republic	4	HS codes interpretation
12	Italy	1	HS codes interpretation
13	Denmark	11	Licence not in the SILK; Licensing Authority did not update data in the 'list of exporters' in SILK
14	Belgium	7	Document discrepancy, licence not in the SILK
15	Finland	4	HS codes interpretation, licence not in the SILK
16	Greece	3	Licence not in the SILK
17	Slovakia	5	Original FLEGT document for the importer lost, replacement licence requested
18	Slovenia	1	Original FLEGT document for the importer lost, replacement licence requested
19	Austria	16	FLEGT licence issued after shipment departed Indonesia; document discrepancies
20	Poland	3	FLEGT licence issued after shipment departed Indonesia; document discrepancies; document format issues
21	Estonia	1	FLEGT licence expired
22	Portugal	1	FLEGT licence expired
Total		409 Cases	

Source: silk.menlhk.go.id (downloaded: 31 August 2019)

4. Actions to support FLEGT licensing

4.1 Actions taken to address cases of non-compliance in TLAS/SVLK implementation

Indonesia presented updated information on non-compliance cases at the EU-Indonesia Joint Expert Meeting held in May 2018. The information on reported cases of non-compliance and their status has been uploaded onto the SILK <http://silk.dephut.go.id/index.php/article/vnews/174>.

At the subsequent Joint Expert Meeting held in November 2018, Indonesia reported that a portal in SILK (<https://silk.dephut.go.id/index.php/info/NonCompliances>) had been established to upload and monitor non-compliance cases. The portal is being populated with individual case data. Its features allow for searches by type, location, status and others, and will be further refined. A standard operation procedure for sending non-compliance case data to the focal point at the Directorate General PHPL in the MoEF for upload to the portal is still to be fully developed and agreed. Upload mechanism will have to be in line with the regulation P.30/ MenLHK/ SEtjen/ PHPL/3/2016.

4.2 Actions taken to address cases of licences with information mismatches

As reported at the 6th meeting of the JIC in 2018, EU Competent Authorities only reported a small portion (less than 1%) of the licences containing information mismatches. A majority of these reported issues were HS code-related. After the JIC, the following measures were implemented to better understand and reduce cases of discrepancies and mismatches:

- MoEF conducted an internal analysis of HS code mismatches reported by the Dutch Competent Authority. The analysis identified that 17 HS codes were involved on mismatches, but the key ones were 4407, 4409, 4412 and 4418.
- MoEF called the Customs and Licensing Authorities for consultations to better understand how the discrepancies occur.
- Customs trained Licensing Authorities during a two-day workshop (14-15 May 2018) on HS code determination and classification.
- MoEF developed a new Circular Letter (Surat Edaran SE/PPHH/NEIP/HPL.3/4 /2018) that covers all five problem areas as identified in the 'Report to the JIC'.
- MoEF and the EU FLEGT Facility carried out a field analysis of FLEGT licensing issues involving 27 exporting companies in Central and East Java.

Additional to the HS code mismatches, technical problems often involved exporters that are small and medium-sized enterprises (SMEs). To address this issue, the EU FLEGT Facility and MoEF suggested several operational improvements to ease the burden for SMEs. These improvements include, for example: regulatory revisions to ensure that pre-shipment inspection takes place before FLEGT licences are issued; and continued support to improve SMEs' understanding of import declaration in the EU.

4.3 Electronic licensing

To address some of the issues inherent to the paper-based FLEGT licensing system, Indonesia and the EU started to explore the feasibility of implementing an electronic FLEGT licensing system (e-licensing). The Netherlands Food and Consumer Product Safety Authority (NVWA) took the lead in exploring the potential for e-licensing during a mission to Indonesia in May 2018. The mission carried out a feasibility study for a linkup between SILK and the FLEGT system in the EU. The study concluded that linking SILK and FLEGT is feasible and would enable real-time data updates on FLEGT licences. Further work on testing and implementation awaits the formal agreement between MoEF and the EU to fully explore and pursue the implementation of e-licensing for FLEGT timber.

4.4 Communication

Public communication is fundamental to achieving the goals of the VPA. It is essential to engage stakeholders; envision and support changes in laws, institutions and systems; and earn and maintain market confidence in FLEGT-licensed timber. VPA-related documents—including summaries and records of VPA-related meetings and reports on the implementation of the FLEGT licensing scheme — are publicly available through the following websites:

- European Commission-FLEGT Regulation-FLEGT VPAs: <https://ec.europa.eu/environment/forests/flegt.htm>
- 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

Communication outputs from 2018 included the following:

1. Articles in EU trade media focusing on what stands behind FLEGT-licensed timber aimed at timber trade audiences across the EU.
2. Private sector partnerships guided by FLEGT market intelligence from IMM.
3. Promoting sustainability of FLEGT-licensed timber by unpacking its social, environmental and economical benefits, and communicating them to timber purchasers, architects, and sustainability and procurement officers.
4. Short (social media) messages based on new statistics, results, events or other opportunities, for use by partners with private sector audiences in the EU and Indonesia.
5. Story on the impact of SVLK and FLEGT-licensing on businesses and individuals in Indonesia, to be used in trade media and EU communication channels.
6. Blog posts and opinion pieces focusing on new developments related to FLEGT licensing.

4.5 Periodic evaluation

The first Period Evaluation of the functionality of the Timber Legality Assurance System (TLAS) under the VPA was conducted by the independent consultant PT Sucofindo SBI. The assessment was comprehensive in terms of examining the structure and implementation of TLAS/SVLK. The [Executive Summary of the first Periodic Evaluation](#) was published and is available to all stakeholders. The detailed report, published in March 2018, is available upon request via email to the EU FLEGT Facility.

Key overall conclusions of the first periodic evaluation include:

- MOEF exercises control over the supply chain of timber from the forest to wood-processing industries and export points.
- The Indonesian TLAS or SVLK is operational and applied by all relevant actors. It captures operations of most private sector companies involved in harvesting, processing and trading of timber.
- Major progress has been achieved in terms of the growth of SVLK certification for larger companies upstream and downstream of the supply chain.
- The monitoring of compliance carried out by the provincial forestry services (*Dinas*) is well established although non-compliance cases need to be addressed in a timely manner.
- CABs have established procedures and resources in place to implement audit, certification and surveillance. Improvements are needed in the quality of field audits.
- Licensing Authorities have well-established systems for issuing FLEGT licences. But it is important that they ensure consistency among different export documents.
- MoEF has an operational online system in place for monitoring the import of timber products to Indonesia. It is important to further improve the exercise of due diligence by importers.
- Independent Monitoring function is operating well. There are at least four extensive civil society organisation networks engaged in Independent Monitoring activities. Independent Monitoring networks need to take steps to coordinate the reporting of findings, as well as further strengthen their organisational and operational capacity.
- Data management on licensing and certification-related activities is well developed. Improvement is needed for data management of supply chain control.
- Public access to information relevant to the SVLK at the MoEF has improved and is becoming easier for Independent Monitoring organisations and other civil society actors.

5. EUTR and FLEGT Regulation implementation

5.1 Operator checks

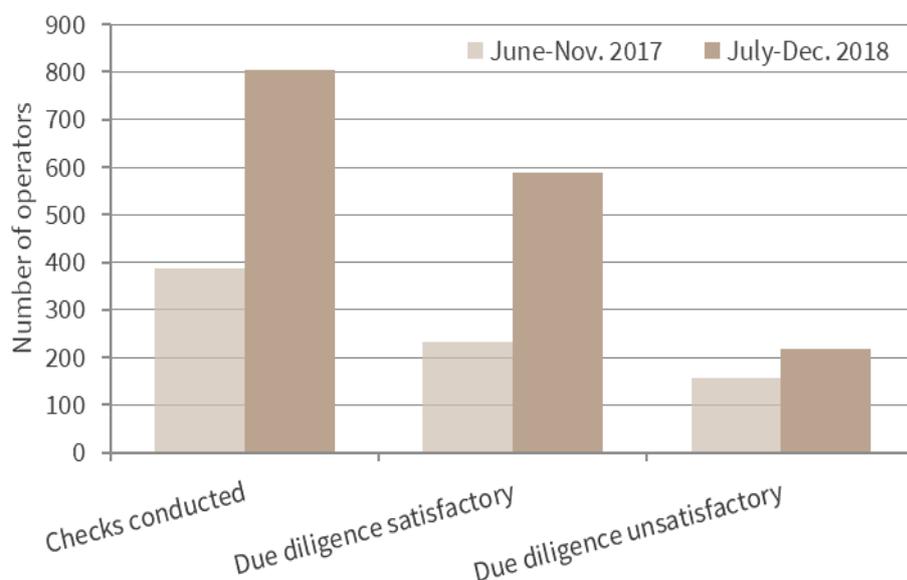
The EUTR has established three key obligations:

1. It prohibits the placing on the EU market of illegally-harvested timber or timber products derived from such timber.
2. It requires operators placing timber and timber products on the EU market for the first time to exercise due diligence.
3. It requires traders of timber and timber products already placed on the EU market to keep records of their suppliers and customers.

All EU Member States are implementing the EUTR and all EUTR Competent Authorities are performing checks and taking actions when faced with EUTR breaches. According to reports from the UN Environment Programme World Conservation Monitoring Centre (UNEP/WCMC),⁷ Competent Authorities in EU Member States conducted a total of 7 172 checks on operators between December 2017 and December 2018. The bulk of checks (5 750) targeted domestic operators, reflecting the importance of domestically-produced timber for EU markets.

The number of checks targeting operators importing timber from outside the EU more than doubled in 2018 (total: 805 checks) compared to 2017, as presented in Figure 5. The number of countries reporting undertaking such checks also increased from 21 to 26. These checks identified operators with unsatisfactory due diligence systems. The total number of cases of unsatisfactory due diligence systems amounted to 217, which is 26% of all companies checked.

Figure 5. Operators with satisfactory/unsatisfactory due diligence systems



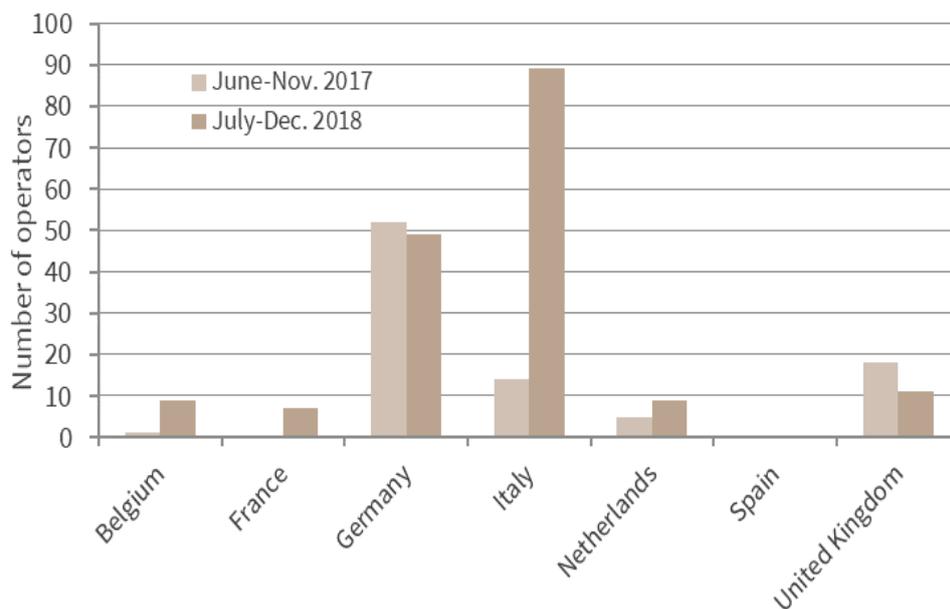
Source: UNEP/WCMC 2018 and 2019

5.2 EUTR enforcement

All EU Member States had established penalties for potential infringements of the EUTR by March 2017. These range from notices of remedial action and seizure of timber, to fines and imprisonment. According to the UNEP/WCMC, the number of cases of enforcement action almost doubled between 2017 and 2018, from 128 to 242 cases.

Italy and Germany were particularly active when it comes to imposing sanctions (see Figure 6). Italy started to step up action more recently, with a much higher level of activity in 2018 than in 2017. Unlike most other countries, according to the Overview Reports, Italy is not issuing notices of remedial action, but tends to directly impose financial penalties.

Figure 6. Enforcement action in key countries



Source: UNEP/WCMC 2018 and 2019

6. Timber imports into Indonesia and related controls

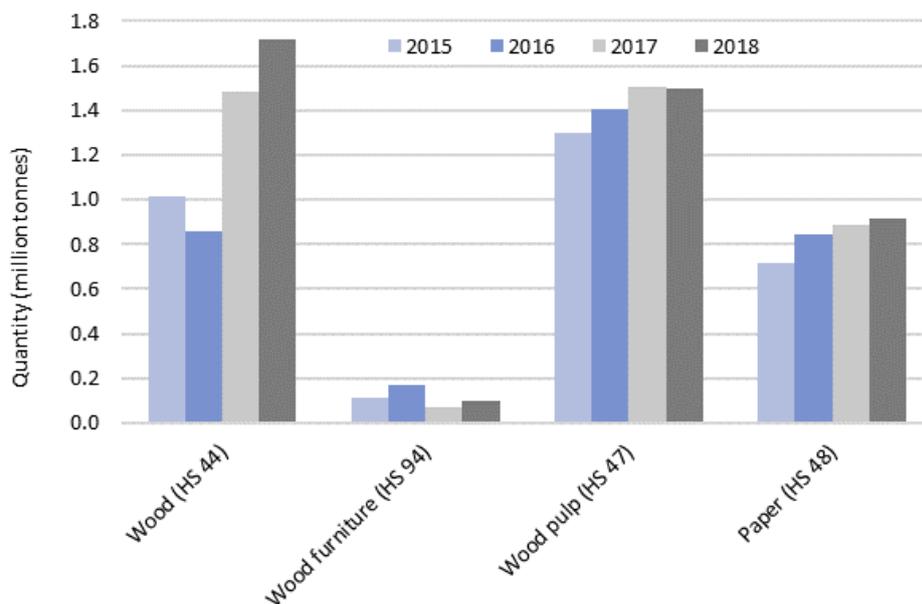
6.1 Indonesia imports of timber products

Indonesia's imports of timber products, despite continued increase, are still significantly small compared to domestic production and exports. Total Indonesian imports of timber and timber products increased by 35% to 4.23 million tonnes between 2015 and 2018 according to IMM data.⁸ In terms of value, imports increased by 16% to USD 1.52 billion. Much of the growth in import quantity has been concentrated in wood (HS 44) products. Figure 7 shows the quantity of Indonesia's imports of timber by product groups from 2015 to 2018.

In terms of value, the increase in Indonesia's imports between 2015 and 2018 was led by wood pulp and paper (see Figure 8). Canada and the United States together supplied nearly one million tonnes of pulp to Indonesia in 2018, while Indonesia's imports of wood pulp from the EU have fallen sharply in recent years and did not exceed 155 000 tonnes in 2018.

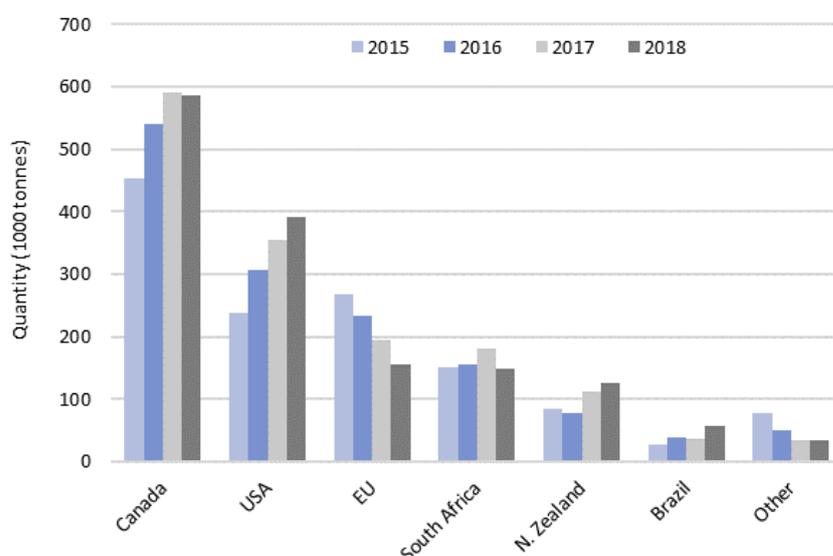
Concerning legality evidence, 70% of these imports came from companies holding third-party certification (mostly chain of custody certificates of FSC, PEFC and SFI) and 11% with letters from authority. As chain of custody certificates do not guarantee legality of timber products traded by the certificate holder, Indonesia is taking steps to understand how to address the weaknesses in the system. In collaboration with the EU FLEGT Facility, MoEF carried out an assessment of imports, including a review of documents used for timber import and imports from high-risk countries. This work provided the basis for plans to revise timber import due diligence regulations.

Figure 7. Indonesia's timber import quantity, by product group from 2015 to 2018



Source: IMM 2019

Figure 8. Indonesia's wood pulp import quantity, by supply country from 2015 to 2018



Source: IMM 2019

6.2 Changing context of import controls in Indonesia

In late 2017, Indonesia took steps to de-regulate import controls in order to facilitate greater capital inflows and stimulate economic growth. In December 2017, without prior consultation with other line ministries or the EU, and without agreement by the JIC, the Ministry of Trade simplified import procedures for timber. The Ministry issued Regulation or *Permendag* No 91/2017, which removed the requirement for prospective importers of timber products to obtain an import recommendation from MoEF. In response, on 25 January 2018, MoEF issued a Directorate General for Sustainable Forest Management/PHPL Regulation or *Perdirjen* PHPL No 3/2018 that confirmed the elimination of the recommendation system. At the same time, MoEF took steps to develop a post-border supply chain control system for timber imported into Indonesia. The import documentation that previously was assessed through the SILK system at MoEF before importation is now assessed by CABs after imports have taken place,⁹ during their regular surveillance visits of the industry.

6.3 Due diligence for timber imports in Indonesia

On 18 May 2018, Indonesia issued Circular Letter (*Surat Edaran*) No 2/2018 on guidelines for the verification of the implementation of due diligence and preparation of import declaration. This circular letter was intended to assist CABs in their verification of due diligence in the post-border context, i.e. due diligence is assessed after products are already imported in the country.

At the Joint Expert Meeting in November 2018, MoEF presented the post-border import control system and acknowledged the challenges concerning effective design and implementation of due diligence for timber imports into Indonesia. In consultation with the EU FLEGT Facility, Indonesia outlined the following measures to strengthen due diligence:

- Develop more comprehensive due diligence guidelines for importers (*pedoman*)
- Develop clear criteria and indicators for risk assessment and mitigation measures
- Revise Circular Letter (*Surat Edaran*) No 2/2018 on 'Guidelines for inspecting Due Diligence and making forestry product import declarations' for CABs
- Revise *Perdirjen* PHPL No 3/2018 to strengthen the LIU's control over the due diligence process and guide CABs
- Amend requirements for the use of third-party certification and Letters of Authority as proof of legality
- Conduct a comprehensive analysis of due diligence documents used for planned and realised timber imports
- Hold roundtable discussions with key stakeholders to discuss improvements to due diligence for timber import controls
- Strengthen the LIU as a crucial MoEF unit

Endnotes

¹ Known in Indonesia as PHPL — *Pengelolaan Hutan Produksi Lestari*

² Known in Indonesia as DKP — *Deklarasi Kesesuaian Pemasok*

³ International Tropical Timber Organization/FLEGT Independent Market Monitor. 2019. FLEGT VPA Partners in EU Timber Trade 2018. Main Report. Draft version for Review by IMM Project Steering Committee.

⁴ 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.

⁵ It should be noted that the number of licences reported in this Table comes from the LIU, which might differ from the number received by EU Member States, for reasons such as the shipment was finally imported in another Member State (hence the FLEGT licence was submitted there) or even outside the EU.

⁶ Note that Document Discrepancy refers to situations where there are some mismatches in terms of information stated in the FLEGT licence and other documents such as invoices.

⁷ Overview of Competent Authority EUTR Checks for the period December 2017-June 2018 (UNEP/WCMC 2018_2) and Overview of Competent Authority EUTR Checks July 2018-December 2018 (UNEP/WCMC 2019).

⁸ International Tropical Timber Organization/FLEGT Independent Market Monitor. 2019. FLEGT VPA Partners in EU Timber Trade 2018. Main Report. Draft version for Review by IMM Project Steering Committee.

⁹ Checking procedure started in November 2018 after the guideline on due diligence was put in place. Thus, the results and outcomes will be reported in the Annual Report for 2019.

This report was prepared by Indonesia and the EU and validated by the VPA Joint Implementation Committee. Common efforts to ensure and promote legal timber trade and good stewardship of the forest sector.

