

FLEGT - Indonesia Visit

FFEB Meeting – March 2017

Having recently taken part in a visit to Indonesia alongside a delegation from my company, I took the opportunity to gather information on the processes behind SVLK and FLEGT licencing in the country.

I visited a total of 3 mills; 2 purchasing raw logs for their production with their own forestry operations and 1 mill acting as a secondary processor of plywood sheets. All 3 of the mills remarked positively on the SVLK system and explained how it has been a massive benefit to the market. Each mill informed me that previously they faced difficulty competing with mills who were not being entirely legitimate and were purchasing logs with doubts over their legality. This gave these competitors an edge in the marketplace, and companies who were trading legally and taking necessary measures to prove the legality of their supply chains were being punished in the market as a result.

The director of one company informed me that market prices have stabilised since the implementation of SVLK and a lot of dubious mills have shut down as a result of the new regulatory requirements. The general impression I got from these stakeholders is that Indonesia's introduction of a Timber Legality Assurance System has had a positive impact on the industry for reasons beyond supply chain traceability and verification of legality.

SIPUH Online

SIPUH Online appears to be the main administrative tool for SVLK certified companies. This is the portal where companies will apply for a FLEGT Licence before export.

One of the mills I visited used an Android Application for SIPUH Online in order to scan the barcodes on incoming logs. I was informed that all logs are barcoded by the Ministry of Environment and Forestry when they leave the forest concessions. Once barcoded, these logs become available on the SIPUH Online database. It is only when the barcode is scanned by the mobile application that these logs are removed from the database and are effectively removed from the marketplace. In this sense, the primary processor takes ownership of each individual log and this is fully traceable on SIPUH Online. (Note that barcoding appears to be mainly applicable to logs from Natural Forests; there are different regulations for Plantation Forests).

Fig 1. Meranti logs in log pond with yellow barcodes affixed and example of barcode.



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Another aspect of scanning the log barcodes is that it gives information on regulatory compliance prior to receipt of the logs such as whether taxes and royalties have been paid. It is my understanding that the logs cannot be successfully scanned and processed unless the logs comply with all applicable regulations.

Each mill adopted different techniques in order to monitor the flow of timber once logs arrived at their production lines. The most impressive of which was a mill based in Semarang who had their own internal barcoding system for each part of the plywood production process. By the time the goods were packaged up, the mill could use the barcode on the pack to trace the timber all the way back to the forest concession.

While this traceability is ideal for supply chain transparency, that was just one of the benefits that SIPUH Online offers companies. Log barcodes hold information on log size, diameter and weight so using this information the mill could measure and monitor the production output versus the size and quality of the logs being bought. They could then identify any issues on production e.g. need to replace blade on lathe to maximise output etc.

These barcodes are also available on Transport Documents for the logs:

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KEMENTERIAN LINGKUNGAN HIDUP DAN KEHUTANAN
SURAT KETERANGAN SAH HASIL HUTAN KAYU



KB.B.1310340
KAYU BULAT



LPPHPL-008/MUTU/FM-019
LPPHPL-008-IDN

<p>1. Pengirim Nama : PT. GUNUNG GAJAH ABADI Alamat : Jl. Arief Rahman Hakim No. 66 RT.03, Samarinda. Telp. (0541) 742393, 733591 Lokasi Muat : Logpond Antara Merandai, Perairan S. Mahakam, Desa Merandai, Kec. Loa Janan</p>	<p>2. Penerima Nama : PT. KUTAI TIMBER INDONESIA Alamat : Jl. Tanjung Tembaga Baru Pelabuhan, Desa Mayangan, Probolinggo. Telp. (0335) 422412 Lokasi Bongkar : TPK/Logyard/Logpond IUIPHHK PT. Kutai Timber Indonesia, TUKS, PT. Kutai Timber Indonesia, Jl. Tanjung Tembaga baru, Kota Probolinggo, Prov. Jawa Timur</p>																		
<p>3. Kayu Yang Diangkut</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">1. Kelompok Meranti</td> <td style="width: 20%;">: 492 Batang</td> <td style="width: 20%;">= 2854.8 m3</td> </tr> <tr> <td>2. Kelompok Rimba Campuran</td> <td>: 0 Batang</td> <td>= 0 m3</td> </tr> <tr> <td>3. Kelompok Indah</td> <td>: 0 Batang</td> <td>= 0 m3</td> </tr> <tr> <td>4. Kelompok Ebon</td> <td>: 0 Batang</td> <td>= 0 m3</td> </tr> <tr> <td>5. Kelompok Lainnya</td> <td>: 0 Batang</td> <td>= 0 m3</td> </tr> <tr> <td colspan="2">Jumlah : 492 Batang</td> <td>= 2854.8 m3</td> </tr> </table> <p>Empat Ratus Sembilan Puluh Dua batang = Dua Ribu Delapan Ratus Lima Puluh Empat koma Delapan Puluh meter kubik</p>		1. Kelompok Meranti	: 492 Batang	= 2854.8 m3	2. Kelompok Rimba Campuran	: 0 Batang	= 0 m3	3. Kelompok Indah	: 0 Batang	= 0 m3	4. Kelompok Ebon	: 0 Batang	= 0 m3	5. Kelompok Lainnya	: 0 Batang	= 0 m3	Jumlah : 492 Batang		= 2854.8 m3
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Jumlah : 492 Batang		= 2854.8 m3																	
<p>4. Alat Angkut Jenis : Kapal Identitas : Kapal mv kutai raya dua</p>	<p>5. Penerbitan Tanggal : 30 Desember 2016 Nama Penerbit : Ir. Ardiansyah No Register : 1055/19/1901/FAKB/ARD/KB/KBK Tanda Tangan : </p>																		
<p>6. Masa Berlaku 15 (lima belas) hari 30-12-2016 s/d 13-01-2017</p>																			
<p>7. Daftar Kayu Detail Barcode Terlampir</p>																			





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LPPHPL-008-IDN



http://117.54.13.182/report/skskb_antara.php?p_nik=UM-GNGAJAH&p_magic=660D8... 12/30/2016

Fig 2. Transport Document from Natural Forest

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Regulation

Original issues with SVLK were related to small-scale manufacturers and furniture makers. This appears to have been resolved by separating manufacturers based on capacity. It appears that regulations are more stringent and fees are steeper when the manufacturer has a capacity higher than 6,000 m³. I was informed by a mill based in Probolinggo that there is a long list of evidence that must be provided with regards to regulatory compliance before a FLEGT Licence can be granted to a shipment for manufacturers/ exporters with a capacity higher than 6,000 m³.

These manufacturers must adhere to the 4 principles of SVLK:

1. Completion of Industry Permits
2. Traceability of Source Material
3. Legality of Trade
4. Labour Regulation Compliance.

In relation to these principles, there are various compulsory documents that need to be verified in accordance with applicable regulation in order for a FLEGT Licence to be granted:

1. Completion of Industry Permits
 - a. Certificate of Incorporation
 - b. Trade Business Licence (SIUP)
 - c. Hazard Licence
 - d. Company Registration Number
 - e. Taxpayer Identification Number (NPWP)
 - f. Environmental Certificate
 - g. Industry Permit (IUI)
 - h. Industrial Raw Materials Fulfilment Plan
 - i. Registered Exporter of Forestry Industry Products
 - j. Importer Identification Document
 - k. Verification of Due Diligence System Procedure for Importer
2. Traceability of Source Material
 - a. Document of sale/ note of material supply contract with attached proof of purchase
 - b. Checklist of Logs (DPKB)
 - c. Evidence of logs received from state forest with legal transport document
 - d. Legal Products Transport Document
 - e. Note and Document that explains origin of goods
 - f. Transport Document in the form of note for industrial waste wood
 - g. S-LK/S-PHPL Certificate of Supplier and or Supplier's Declaration of Conformity
 - h. Information related to VLBB (Legality Verification of Raw Materials for Suppliers who don't have S-LK or S-PHPL
 - i. Supporting documentation for industrial raw materials Fulfilment Plan (RPBBI).
 - j. Imported Product Notice (PIB)
 - k. Bill of Lading
 - l. Packing List
 - m. Invoice
 - n. Declaration of goods
 - o. Proof of Duty Payment
 - p. Other relevant documents relating to the species of wood
 - q. Proof of the use of the wood and its derivative products
 - r. Tally sheet of the use of material and product
 - s. Production report of processed products

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- t. Proof that production capacity has not been exceeded by industry products
 - u. Proof that products are not comprised of timber from timber auctions
 - v. Report/ Document on timber movement
 - w. S-LV Document or Supplier Declaration of Conformity
 - x. Product management services contract between auditee and service provider (e.g. MUTU Certification)
 - y. Note of serviced timber handover
 - z. Separation of serviced products and serviced provider
 - aa. Documenting any material, process and export if the export is made by service provider party.
3. Legality of Trade
- a. Legal Products Transport Document
 - b. Production of Processed Timber for Export
 - c. Exported Product Notice (PEB)
 - d. Packing List
 - e. Invoice
 - f. Bill of Lading
 - g. V-Legal Documents for Products Required with V-Legal Documents
 - h. Technical Verification Results for Products
 - i. Proof of Duty Payment
 - j. Other documents related to species of timber with regards to this transaction
 - k. V-Legal sign affixed in accordance with the provisions in the standard.
4. Labour Regulation Compliance
- a. Guidelines or procedures of workplace safety and health
 - b. Workplace safety and health implementation
 - c. Notes of work accidents
 - d. Trade Union or company policy that allows employees to establish or be involved in Trade Unions
 - e. Availability of joint working agreement documents or regulations governing the company's worker rights
 - f. Assurance that no underage workers are present in the work force.

SIPUH Online monitors that all necessary evidence has been provided and is valid; failure to provide this evidence means that the product cannot be exported so must be sold to the domestic market.

Social Forestation

Social Forestation is common method of cultivating faster growing plantation species in Indonesia. While in Indonesia, I witnessed this cycle with the Falcata/ Sengon species (*Paraserianthes Falcataria*).

Mills will own their own nurseries where they will nurture and look after Falcata saplings until they are between 3 and 6 months old. They will then distribute these saplings to local farmers. The farmers then tend for the trees for 5 to 6 years, growing coffee, ginger and a variety of crops underneath the shelter of the trees. On harvesting, the land is immediately used for growing corn until further saplings arrive. The land is persistently used in order to provide a living to these farmers. Harvested logs are bought back by the mill and delivered to nearby saw mills with a delivery note as per regulation.

The particular mill who demonstrated this system were unique in that they distributed the saplings free of charge with no guarantee that the farmers will sell the logs back to them. Only 30% of saplings the mill give out are actually sold back to them, with the other 70% going to competing mills; so, there is a cost to providing this social service. The

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mill in question also had all these Falcata concessions certified under a group FSC scheme, so all of these logs were FSC certified and from a sustainable source.

Under SVLK and FLEGT, this social forestation system has proven to be a more structured source of raw material. Providing evidence of traceability is much easier as they are monitoring the supply chain from the seed all the way through.

There were further aspects of SVLK implementation and FLEGT licencing that I wanted to delve into but unfortunately, the nature of my visit was not purely motivated by my responsibilities under EUTR (I had to have my quality and marketing hats on as well). There was also a language barrier that was difficult to overcome at times.

The general impression I got is that Indonesian producers have a genuine desire in providing a sustainable timber industry. Their commitment to environmental matters stretched beyond that of sustainable harvesting and supply chain traceability, to the sustainability of the product itself. Their commitment to quality of product and aspects such as formaldehyde emissions was exemplary and beyond my expectations.

Mills showed a keen interest in how SVLK was being received in the UK and had questions on how we are verifying FLEGT licences. All of the mills I visited shared a concern about the demand of FSC in the wake of FLEGT. For a company in Indonesia, investing in FSC is a costly exercise as they are adapting their practises to a mostly European forestry standard. The mills do not want to see a decrease in the demand for FSC products following this, especially as the majority of these mills are expanding their FSC forest concessions. This concern alone told me that these mills are fully committed to preserving the industry for future generations.

Joe Walshe

Hanson Plywood Ltd.