

**The timber legality verification system and the voluntary partnership agreement in Indonesia:
Challenges for the small-scale forestry sector**

Author names and affiliations:

Krystof Obidzinski, Center for International Forestry Research (CIFOR), k.obidzinski@cgiar.org
Jalan CIFOR
Situ Gede, Sindang Barang
Bogor 16115
Indonesia
Telephone: 62-251-8622-622
Fax: 62-251-8622-100
<http://www.cifor.org>

Ahmad Dermawan, CIFOR, a.dermawan@cgiar.org
Agus Andrianto, CIFOR, a.andrianto@cgiar.org
Heru Komarudin, CIFOR, h.komarudin@cgiar.org
Dody Hernawan, Yayasan Biosfer Manusia (BIOMA), dodyhernawan@yahoo.com
BIOMA, Jl. Wahab Syahrani Komp. Perumahan Ratindo Griya Permai
Blok F 7-8, Samarinda, Kalimantan Timur, 75124, Indonesia
Ph: 0541-739864 Fax: 0541-739864
E-mail: bioma@cbn.net.id

Corresponding author: Krystof Obidzinski, k.obidzinski@cgiar.org

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Abstract:

Indonesia is at the forefront of countries implementing voluntary partnership agreements (VPA) with the EU in order to meet legal requirements under the EU Timber Regulation. As part of this process, since 2009 the forestry authorities have been working to establish a timber legality verification system called SVLK. This system will become mandatory for large-scale forestry enterprises on 1 January 2013, while small-scale operators have until 1 January 2014 to comply. This paper gauges the progress made in implementing SVLK, identifies the obstacles and discusses prospects for achieving SVLK compliance – particularly in the small-scale forestry sector. Progress with SVLK certification among large-scale timber enterprises has been slow as companies far outnumber the capacity of verifying bodies. Timber legality verification in the small-scale sector is at a very early stage. There continues to be a significant degree of illegality in forestry operations and stakeholders' understanding of SVLK and the VPA is limited. Many small-scale timber businesses are reluctant to pursue certification and formalise their operations because of concerns about additional costs and uncertainty about the benefits.

Achieving timber legality compliance in the Indonesian forestry sector will not be easy. However, by applying a phased approach, providing more information to stakeholders, expanding verification bodies' capacity, simplifying the SVLK process and making it more financially attractive, and by strengthening anti-corruption measures it is possible to make significant progress.

Key words: Timber, legality, verification, forestry, trade, Indonesia

1. Introduction

Indonesia is at the forefront of tropical timber producing countries seeking to increase confidence among timber buyers about the legality of its wood products. To this end, the Indonesian government is on the verge of implementing a voluntary partnership agreement (VPA) with the European Union (EU) (European Union and Republic of Indonesia, 2011). On 1 January 2013, the Indonesian timber legality verification system, SVLK, will come into effect for wood-working, wood panels, and pulp and paper, to meet the requirements of the VPA (Forest Industry Revitalization Body [BRIK], 2012, personal communication; Ministry of Trade, 2012). VPAs are vehicles intended to enable exporters of timber to Europe to continue their operations uninterrupted once the European Timber Regulation (EUTR) comes into effect in March 2013 (Buckrell and Hoare, 2011). EUTR will require all timber imports to be accompanied by clear chain of custody documentation. Timber from countries with VPAs, such as Indonesia, will be accepted as EUTR compliant (European Union and Republic of Indonesia, 2011).

In addition to ensuring that timber trade is not disrupted, reducing illegal logging is one of the main driving forces behind VPA. Illegal timber extraction and trade have been associated with a range of negative impacts on Indonesia's environment, economy and society (Hoisington, 2010; Goncalves et al., 2012). Both are major contributors to deforestation and forest degradation (World Bank, 2006; CIE, 2010; Lawson and MacFaul, 2010). In the early 2000's, it was estimated

that up to 75% of Indonesia's timber supplies came from illegal sources, leading to the loss of up to 3 million hectares of forest per year (Kishor and Damania, 2007). Over the last decade, declining timber stocks and rising costs have led to a downturn in Indonesia's production and export of tropical plywood and sawn timber (Obidzinski and Dermawan, 2010; Jakarta Globe 2012). Illegal logging also resulted in significant tax revenue losses for the Government of Indonesia, estimated at US\$2 billion per year (Human Rights Watch, 2009). The illicit wealth generated from illegal timber is also a source of social conflict as well as widespread corruption (Obidzinski et al., 2006).

Illegal logging was placed on Indonesia's political agenda as a major economic and environmental concern following the political changes of 1998 and the transition to democracy. The Indonesian government engaged in a number of initiatives to reduce forest crimes. It became an integral part of the Forest Law Enforcement and Governance (FLEG) process supported by the World Bank (FAO, 2005) and has concluded several bilateral agreements for collaboration to reduce illegal timber trade (Luttrell et al., 2011). It has also stepped up its own forest law enforcement efforts in the regions where illegal logging was rife (Luttrell et al., 2011; Nellemann, 2012).

VPA and SVLK are the latest instruments in the fight against illegal logging. Their effectiveness is predicated on the assumption that forestry operations in the tropics can be effectively and routinely certified as legal. In this paper, we examine this assumption in the context of Indonesia's small-scale forestry sector – which comprises the greatest number of enterprises, employs the largest number of people, and ranks third after the pulp and paper and plywood industries in terms of export revenue (BPS, 2011a; Alaydrus and Herdiyan, 2012; Ministry of Forestry, 2012a) We seek to understand under what conditions timber legality verification can be fully implemented in a manner that is both credible and beneficial to businesses and livelihoods in rural Indonesia. We begin with a brief overview of Indonesian forestry, paying particular attention to the small-scale sector. We then outline Indonesia's SVLK timber legality verification system and discuss its objectives, implementation and progress to date. We also assess the challenges to SVLK, examining the structural obstacles at the national level, and illustrating these problems with examples from Central Java, East Kalimantan and Papua. In the final section, we summarise our findings and provide recommendations on how to make the SVLK system work to ensure the integrity of VPA in Indonesia and to secure the continuity of rural livelihoods dependent on small-scale forestry.

2. The Indonesian forestry sector and small-scale enterprises

Indonesia is one of the major sources of tropical timber products for the global market (ITTO, 2011). While the production of plywood, sawn timber and veneer declined sharply during 1994–2010, pulp and paper production increased significantly (Table 1). Furniture production, while small in terms of volume, is increasingly important in terms of export value. The export value of forest products increased from US\$5.86 billion in 1994 to US\$7.11 billion in 2010, but its share of total export values declined from 14.6% in 1994 to 4.5% in 2010 (Simangunsong,

2012). In 2010, the forestry sector was estimated to directly employ 3.76 million workers (ITC, 2011).

Table 1. Timber industry production in Indonesia 1994–2010 (in million m³)

Year	Sawlogs/veneer logs consumption				Small diameter logs (including pulpwood) consumption					Total industrial roundwood consumption
	Sawnwood industry	Plywood industry	Veneer sheets industry	Total	Pulp industry	Woodchip industry	Particleboard industry	Fibreboard industry	Total	
1994	3.46	16.91	2.92	23.29	5.91	0.41	0.34	0.11	6.77	29.21
1995	4.03	18.55	2.86	25.43	9.10	0.21	0.36	0.12	9.80	34.53
1996	7.13	20.90	2.64	30.67	11.52	0.03	0.45	0.12	12.13	42.20
1997	5.23	13.76	2.26	21.25	13.76	0.19	0.55	0.12	14.63	35.01
1998	5.41	14.69	2.63	22.73	15.44	0.55	0.35	0.14	16.48	38.16
1999	4.12	9.47	2.07	15.66	16.63	0.22	0.24	0.73	17.81	32.28
2000	5.58	9.07	1.34	15.99	18.40	0.02	0.25	0.73	19.40	34.39
2001	1.35	4.42	0.19	5.96	21.00	0.42	0.37	0.73	22.52	26.96
2002	1.25	3.46	8.72	13.43	22.36	0.02	0.01	0.73	23.12	35.79
2003	1.53	12.47	0.58	14.57	23.37	0.14	0.12	0.73	24.36	37.95
2004	0.87	9.19	0.31	10.36	23.44	0.35	0.31	0.73	24.82	33.80
2005	2.94	9.30	2.02	14.26	24.60	0.39	0.16	0.73	25.87	38.87
2006	1.36	7.69	0.51	9.56	25.52	0.44	0.05	0.73	26.74	35.09
2007	1.17	6.93	0.60	8.71	26.23	0.21	0.00	0.73	27.17	34.94
2008	1.06	6.71	0.85	8.62	26.94	0.22	0.00	0.73	27.89	35.56
2009	1.42	6.02	1.38	8.81	27.64	1.11	0.00	0.73	29.48	36.46
2010	1.77	6.72	1.47	9.96	28.35	1.40	0.00	0.73	30.47	38.31
Total	49.68	176.25	33.35	259.28	340.22	6.35	3.55	9.33	359.46	599.50

Sources: Ministry of Forestry; Ministry of Industry; Indonesian Pulp and Paper Association statistics, various years. Note: the timber consumption presented here as Round Wood Equivalent (RWE).

The real size of the Indonesian forestry sector is uncertain, as is the actual timber demand, due to incomplete data about the number of small-scale forestry enterprises. According to the Ministry of Forestry (MoF) and BRIK, about 4000 small-scale timber businesses are registered as timber exporters in Indonesia. However, it is common knowledge that thousands more are unregistered and export their products by passing them on to registered exporters for a fee (BRIK, personal communication). A 2012 survey by the Ministry of Forestry Research and Development Agency (FORDA) showed that in the Special Province of Yogyakarta 71 out of 96 small-scale sawmills had not been registered with the Ministry of Industry and were therefore illegal (Astana et al., 2012). Adams and Asycarya, (2012) estimate that there may be 10 000 small-scale sawmills and furniture businesses in Indonesia and these may be consuming up to 10 million m³ of timber a year (Klassen, 2010).

If the full range of downstream processing (i.e. family-based, small-scale furniture and handicraft production) is taken into account, the picture of the small-scale processing sector becomes more complex. A study by the Center for International Forestry Research (CIFOR) shows that in Jepara District alone (Central Java Province) there are about 15 000 small-scale timber businesses, which employ over 175 000 workers (Roda et al., 2007; Irawati et al., 2009; Melati et al., 2010). MoF and BRIK data indicate that in Java alone there are 121 438 handicraft and small-scale furniture businesses that use timber (Sudharto, 2012). At least another 30 000 such businesses are found in Bali. It is estimated that these small-scale businesses employ 750 000 people. The numbers are significantly higher if the National Statistics Agency (BPS) data on small-scale wood and handicraft enterprises are considered. According to the BPS, there could be up to 686 000 businesses of this kind, employing up to 2.7 million people (BPS, 2011b). Regardless of which figure is right, it is clear that the number of small-scale businesses which will have to meet timber legality and VPA requirements is very large.

3. Timber legality verification: objectives and process

SVLK is the Indonesian timber legality verification system, which forms the basis of the VPA between the European Union and Indonesia. The system was launched in 2009 and its formulation is the product of several years of stakeholder consultations (MFP, 2011). This system is rooted in earlier monitoring and verification frameworks, including the Timber Administration System (Tata Usaha Kayu, TUK) used in Indonesia since the 1980s. TUK was updated in 2006 and renamed the Forest Product Administration System (Penatausahaan Hasil Hutan, PUHH).

In order to facilitate the implementation of the SVLK, in October 2012 the Ministry of Trade issued Regulation No. 64, which divided Indonesian timber industries into two groups: A and B. Group A comprises wood panel, wood-working and pulp and paper industries, which are to be SVLK compliant by 1 January 2013. In 2012, 670 Group A enterprises were estimated to export regularly, out of 2100 timber processing companies registered as timber exporters (BRIK, personal communication). The rest are thought to do so sporadically. Group B comprises over 4000 registered sawmill, furniture and handicraft businesses. Group B enterprises have been

granted an extension until the 1 January 2014 to meet the legality requirements under SVLK. As a stop gap measure, between 3 March 2013 (when EUTR comes into effect) and 1 January 2014, the Indonesia government aims to rely on inspections as the legal basis for continued export to Europe. This is yet to be agreed with the EU.

SVLK applies to all aspects of upstream and downstream forestry operations (Adams and Asycarya, 2012). For upstream forestry operations (which include various forms of logging), the companies must have:

- Concession or land ownership documents in legal order;
- Forest management plans (annual and 5-year concession work chart, logging block markers, timber stock chart, etc.) in legal order;
- Taxation, environmental impact assessment and other administrative documents in legal order.

If the upstream operations have procured or are in the process of obtaining the sustainable forest management certification (PHPL) from the Ministry of Forestry they are automatically SVLK compliant.

Downstream operations, or wood processing companies, must have:

- A legal permit to operate, company tax registration, environmental impact assessment, timber supply plan and timber export license (ETPIK), etc.;
- A system and documents in place to trace and document the supply of timber (Log Legality Certificate, Log Transport Invoice, Certificate of Origin for timber, etc.);
- A system and documents in place to trace and document the shipping of timber from the mills.

SVLK places particular emphasis on document legality adherence and the certification process is envisaged to take no longer than 10 weeks (Adams and Asycarya, 2012). The cost of the assessment process is estimated at IDR30–114 million (US\$3000–11 000) per certification, depending on the type and size of business and region (Ministry of Forestry, 2010). Following the certification, annual surveillance is required. SVLK certification has to be renewed every 3 years. For small-scale enterprises under Group B, SVLK certification is expected to be valid for 6 years with bi-annual surveillance (BRIK, personal communication). This has yet to be agreed with the EU.

4. Challenges to timber legality verification: progress so far and lessons from Java, Kalimantan and Papua

Progress with SVLK certification in Indonesia varies across different forestry subsectors. While progress in industrial timber plantations (PHPL-HT and VLK-HT in Table 2) is considerable,

assessment of commercial logging concessions (PHPL-HA and VLK-HA) has been carried out on less than 30% of the cumulative concession area. As of November 2012, the total number of SVLK certified companies reached 279, while another 79 were undergoing assessment, making it likely that by end of 2012 up to 358 sawmills could be certified (Table 2).

Table 2. Progress with SVLK and PHPL certification as of November 2012

Type of certification	Certified		Certification denied		In process		Total	
	No. of Units	Hectares	No. of Units	Hectares	No. of Units	Hectares	No. of Units	Hectares
PHPL-HA	27	3 794 865	6	369 885	7	636 512	40	4 801 262
PHPL-HT	21	2 708 595	1	13 600	16	753 736	38	3 475 931
SVLK-HA	11	1 612 078	3	460 870	2	560 040	16	2 632 988
SVLK-HT	4	395 640	0	0	6	407 542	10	803 182
SVLK-Private Forest	12	7 445	0	0	0	0	12	7 445
SVLK Industry	279		14		79		372	

Source: BRIK statistics 2012. Note: PHPL-HA is sustainability certificate for natural forest concession; PHPL HT is sustainability certificate for industrial timber plantation; SVLK HA is timber legality verification in natural forest concession; SVLK HT is timber legality verification in industrial timber plantation; while SVLK-Private Forest and SVLK Industry are timber legality verification in Private Forest and Industry respectively.

There are 10 accredited SVLK verifying bodies carrying out timber legality assessments, while 3 more are in the process of accreditation. In March 2012, their total staff was estimated at around 300 assessors (Adams and Asycarya, 2012). There are 14 accredited PHPL verifying bodies carrying out certification in logging and plantation concessions.

Major concerns exist about the readiness of the Indonesian forestry sector to fully implement the VPA. Assuming that the 372 timber companies listed in Group A are certified by the end of 2012, it will have taken 2.5 years to assess and certify this comparatively small number of large-scale operators. There are another 298 of what is described as 'active timber exporters' and potentially 1430 more companies which export irregularly. Why has progress been so slow? Even though there are 10 accredited verification bodies for the timber industry, up to 80% of requests for certification are directed to the three largest companies (BRIK, personal communication). The newly formed verification bodies do not seem to inspire confidence. More importantly, the level of knowledge about the VPA and awareness of the need to secure SVLK is still low among large-scale operators (Adams and Asycarya, 2012).

SVLK certification is yet to be carried out in the small-scale sector. So far, 15 small-scale companies have received capacity building towards certification from the Multistakeholder Forestry Programme (MFP-II), but it is not known whether any of them have received SVLK certificates (BRIK, personal communication). The level of knowledge about VPA and SVLK in this segment of the forestry sector is very low (MFP, 2011).

The sheer number of small-scale wood processing and handicraft businesses has led the government to seek alternatives. One such alternative is the Directorate General of Forest Production Development Regulation No. 577 issued in July 2012, which enables group certification for small-scale timber producers. It requires the small-scale operators to create cooperatives of at least 25 businesses. However, so far only two group certifications been issued (BRİK, personal communication).

There is also the issue of covering the cost of certification. The 4000 registered small-scale timber processors in Indonesia would require about US\$10 million for every round of certification. So far the government has offered less than 5% of the total costs (Jakarta Post, 2012). While the EU or other donors can easily cover this expense, it remains to be seen what the best long-term solution may be which does not involve dependence on external aid. Much larger funds would be required to support certification among the 150 000 small-scale enterprises reported in Java and Bali.

Finally, there are significant levels of illegality in the small-scale sector. It is possible that the 4000 small-scale processors officially registered with MoF are only a small part of the total number which operate unregistered (Roda et al., 2007; Irawati et al., 2009; Melati et al., 2010; Adams and Asycarya, 2012). We illustrate and further elaborate the problems identified at the national level with field observations from Central Java, East Kalimantan and Papua.

4.1 Lessons from Central Java

Central Java Province is the focal region of small-scale timber processors in Indonesia. The province has 635 000 hectares of forest, which is the main source of timber from the state forest enterprise Perhutani. Smallholders contribute the largest portion of timber produced in the province, much of which is supplied to the furniture industry in Jepara District. In 2011, smallholders produced nearly 1.4 million m³ of timber, while Perhutani produced slightly over 300 000 m³ (Table 3).

Table 3. Log production by smallholders and Perhutani, 2008–2010 (m³)

	2008	2009	2010	2011
Smallholders	1 248 140	1 244 641	824 897	1 355 599
Perhutani	228 059	211 738	289 462	301 215
Total	1 476 199	1 456 379	1 114 359	1 656 814

Source: Dinas Kehutanan Provinsi Jawa Tengah (2012), BPS Provinsi Jawa Tengah (2012)

In 2011, there were 553 registered wood processing enterprises in the province (Dinas Kehutanan Provinsi Jawa Tengah, 2012). Of these, over 90% (511) were small enterprises, while the remaining companies were large-scale. About 90% of the reported enterprises are sawn timber companies. These operators employ about 45 000 employees. In addition, there are

about 34 728 secondary and tertiary timber processing businesses (Dinas Kehutanan Provinsi Jawa Tengah, 2012).

In 2010, the raw material demand by timber processors in Central Java was estimated at 4.7 million m³ (Dinas Kehutanan Provinsi Jawa Tengah, 2012). This figure far exceeds the timber produced by smallholders and Perhutani in the province in the same year, which was 1.1 million m³ (Table 3). As a result, timber supplies are transported to Central Java from other provinces, notably East Java and Yogyakarta.

As of November 2012, about 41 companies in Central Java have received SVLK certification. Nearly all of these are large-scale operators. Four small-scale furniture companies are currently receiving assistance from MFP II towards SVLK certification. As of November 2012, only two smallholder timber groups in Central Java had been awarded SVLK certification.

The level of information about SVLK is improving, and has been disseminated both by the Ministry of Forestry and the Provincial Forestry Office, as well as local nongovernment organisations. This has helped smallholders to become more organised. Smallholders expect, however, that improved organisation and forest management practices will lead to better timber prices. So far, this has been difficult to realise.

Local government agencies and private sector actors report that a major problem relating to the implementation of SVLK is the overlap and contradictions with previous timber tracking tools (e.g. TUK), which SVLK is meant to replace but which are still in effect. Under the TUK framework, timber must have timber transport letters to be deemed legal. SVLK also regulates the transport of timber. This leads to confusion among district forestry staff as to which system to implement or prioritise.

SVLK will have serious implications for land ownership in Central Java and smallholders are ill-prepared to face these changes. For the most part, smallholders plant timber as a form of saving for their families. A survey carried out by the Bogor Agricultural Institute (IPB) shows that only 17–23 % of smallholder family income is derived from timber (Dharmawan et al., 2012). Even though timber in rural Java is of relatively minor importance as a source of livelihood, SVLK will treat it as a commercial commodity of major importance. Any sale of timber – subsistence or commercial – will require SVLK certification. The certification process, in turn, will require formal land ownership documents. Most smallholder tree planters in Central Java do not hold certificates for their land and they will have to obtain them in order to be able to trade timber after 1 January 2014.

Smallholders also have concerns over the cost of SVLK certification and annual surveillance. The land owned by an individual smallholder is under 0.7 ha (Dharmawan et al., 2012) and the cost of certification is viewed as high. It has been suggested that smallholders obtain certification in groups. The cost of SVLK certification obtained by two farmer groups in October 2011 was subsidised by donors. Currently, the first annual surveillance is due and the farmers still do not have sufficient financial resources to cover the cost. They are seeking assistance from the

district government and also considering loans from the Ministry of Forestry support unit, the Center for Forestry Financing. Concerns about additional costs and lack of clarity about value added makes timber growers reluctant to pursue SVLK wholeheartedly.

4.2 Lessons from East Kalimantan

In 2012, the forest area of East Kalimantan covered 14.7 million ha, or approximately 70% of the land area of the province. Historically, the province has been the centre of tropical hardwood production since the early 1970s. Currently, the province’s forests are managed by 84 logging companies, 34 timber plantations, 2 ecosystem restoration concessions, and a growing number of smallholder timber plantations (Dinas Kehutanan Kalimantan Timur, 2012). The roundwood production from commercial logging and timber plantation concessions is the main source of timber for wood processing enterprises (Table 4).

Table 4. Log production in East Kalimantan (m³)

	Total	Active	2010	2011	2012
Logging concessions	76	44	1 173 967	1 312 057	615 662
Timber plantations	24	17	1 851 969	3 126 187	1 167 857
Land clearing permits	79	44	137 229	513 786	319 109
Total			3 163 166	4 952 032	2 102 629

Source: BPPHP XIII (2012). Note: for 2012, the volumes are as of August.

The operations of the timber industry are dominated by plywood and woodchip mills which contribute 95% of the total production in East Kalimantan (Table 5). Other wood products include sawn timber, veneer and pulp. In addition to oil and gas, timber industries have always been a major driver of economic development in the province. Since 2000, this situation has changed, as commodity plantations (oil palm, pulpwood) and coal mining have relegated the timber sector to a somewhat lesser prominence. However, the forestry sector features prominently in the 2011–2025 Accelerated Economic Development Corridor in East Kalimantan or MP3EI. Under this programme, pulpwood plantations, pulp and paper producers and furniture enterprises will be prioritised. In 2012, the installed capacity of all wood processing industries in East Kalimantan required about 17 million m³ of roundwood supplies. However, the utilisation level is very low as many companies are not active. As a result, in 2012 only about 3 million m³ of logs were needed to sustain both large- and small-scale timber enterprises.

Table 5. Timber production, by industry (m³)

	2009	2010	2011	2012
Plywood/laminated veneer	604 913	610 006	468 165	346 705

Veneer	1 225	7 756	1 993	5 234
Sawn wood	91 768	102 270	74 956	66 682
Woodchip	634 486	868 496	1 257 930	1 035 003
Pulp	0	10 516	15 185	35 333
Other	7 521	26 879	5 243	10 491
Total	1 339 913	1 625 922	1 823 471	1 453 624

Source: Dinas Kehutanan Kalimantan Timur (2012). Note: The 'other' category includes blockboard, medium density fiberboard, flooring, etc.

The timber supply for local businesses in the province continues to face legality issues, as indicated by press reports from Berau, East Kutai and West Kutai districts (Antara, 2010; Antara Kalimantan Timur, 2010; Basayut, 2012a; Basayut, 2012b; Husnul, 2012; Mattakilang, 2012). In addition to illegalities in large-scale operations, logs or roughly sawn timber are also supplied by a large number of small-scale loggers (Casson and Obidzinski, 2002). The profession of small-scale logger has been in existence in East Kalimantan since the colonial era (Obidzinski, 2003). Their numbers peaked in the aftermath of decentralisation in 1999, but in recent years small-scale logging operations have visibly declined (Smajgl and Bohensky, 2012). However, the continued operation of small-scale loggers is illustrated in the district case study below.

Since its launch in 2009, SVLK verification has been carried out only among large-scale companies in the province (Table 6). No SVLK certificates have been issued in the small-scale sector, although small-scale operators are most numerous.

Table 6. SVLK status in East Kalimantan

	Number	SVLK certified
Logging concessions	75	22
Timber plantations	24	4
Large-scale timber enterprises	31	3
Small-scale timber enterprises	73	0

Source: Ministry of Forestry (2012b); Dinas Kehutanan Kalimantan Timur (2012); Dinas Kehutanan Berau (2011). Note: Large-scale timber enterprises have a combined production capacity larger than 6000 m³ annually per unit; small-scale timber enterprises have a combined annual capacity of up to 6000 m³ per unit.

4.2.1 The small-scale timber sector in Berau District

About 78 small-scale timber companies are listed in the District Industry Office database. This differs significantly from the CIFOR survey data (Table 7). For example, the official data report 14 registered sawmills; however, we have found that only 4 companies are operational. The District Industry Office reports 23 timber mouldings producers, but we found 56 in operation. The same agency records 24 furniture production businesses in the district. We found 45. There

are reportedly 17 registered timber depots from which industries can source their timber supplies legally. However, we have counted at least 24, some of them unregistered. In total, the number of companies listed in the official data is about 60% of what we found on the ground. At least 40% is unreported.

Table 7. Small-scale timber enterprises in Berau

	Number of companies			
	Registered	Capacity (m ³)	Operating	Capacity (m ³)
Sawmill	14	53 700	4	20 203
Mouldings	23	15 456	56	37 632
Furniture	24	16 128	45	30 240
Timber depot	17	8 160	24	11 520
Total	78		129	

Source: Dinas Perindustrian, Perdagangan dan Koperasi Berau (2012); 2012 CIFOR survey data

In 2012, commercial logging concessions and timber plantations in Berau produced 129 000 m³ of roundwood. Very little of this is supplied to small-scale timber industries in the district. Most of the plantation timber is consumed by the local chip and pulp mill, while the commercial hardwood is shipped to Samarinda and Java for processing. As a result, small-scale logging operations fill the gap and they are found throughout the district. In 2012, we counted 275 such operations, which supply approximately 60 500 m³ of timber annually.

The small-scale timber industry is an important source of livelihood in the district. In some villages, up to 75% of households depend on timber for their income. In order to avoid being caught by law enforcement agencies, the village loggers operate intermittently. If they learn that a security operation is to be launched and police officers are about to arrive, they stop their activities temporarily. In addition, small-scale loggers and processors make regular payments to police officers, military personnel and forestry officials to secure protection and minimise the risk. These informal payments have become institutionalised and are regarded as the norm.

Small-scale timber enterprises in Berau know little about the legal requirements for timber harvesting and transport. They have yet to learn about SVLK, as they have not been part of any public consultations.

4.3 Lessons from Papua

Papua is the most forested province in Indonesia, with forest covering 31 million hectares of land (Ministry of Forestry, 2012a, BPKH X, 2010). About 6 million ha of this forest are managed by 29 officially registered commercial logging operations and 2 timber plantation estates companies. In 2011, Papua produced 531 000 m³ of logs, well below its annual target of 1 250 000 m³. The drop in the production of logs was due to a ban introduced in 2009 on the

shipment of roundwood from Papua (Sukadri et al., 2009; Andrianto et al., 2010; EIA and Telapak, 2010).

There are six timber processing companies with an annual capacity of more than 6000 m³, and 70 companies with an annual capacity of 2000–6000 m³ (Dinas Kehutanan Propinsi Papua, 2011). At full capacity, these companies can produce up to 2.8 million m³ of timber products per year, which requires about 4.3 million m³ of roundwood (Table 8).

Table 8. Log requirement for timber industries in Papua (m³)

Products	Installed capacity	Potential maximum demand
Sawn timber	347 600	534 769
Plywood	390 000	600 000
Wood working	74 400	114 462
Wood chips	2 000 000	3 076 923
Total		4 326 154

Source: Ministry of Forestry (2012a). Note: The conversion factor is based on Regulation of the Director General of Forest Product Development No. P.13/VI-BPPH/2009 issued on 9 November 2009.

No official data is available on the number of wood processing industries in Papua with a capacity smaller than 2000 m³ per year. Provincial and district government sources estimate that such mills may number up to 500 (Provincial Forestry Bureau and APHI Papua, 2012, personal communication). The three districts for which data is available have a total of 139 sawmills (Merauke, 18; Mimika, 44; and Nabire, 77) . Since the total number of districts in Papua is 29, the number of small sawmills operating throughout the province is likely to be large (Andrianto et al., 2010).

As of November 2012, four large-scale companies had been SVLK certified in this province. However, little progress has been made in certifying small-scale operations (Table 9).

Table 9. SVLK certification in Papua, as of November 2012

Forestry operations	Number of companies	Companies with SVLK certification
Large scale:		
Commercial Logging	31	5
Industrial timber plantations	2	1
Forest clear-cut permits	n/a	n/a
Industry, above 6000 m ³ /year	6	4
Small scale:		
Small-scale logging	Up to 1000	None
Community timber plantations	4	None
Private forests	2	None

Industry, 2000–6000 m ³ /year	30	None
Industry, less than 2000 m ³ /year	Up to 500	None

Source: Dinas Kehutanan Propinsi Papua (2011) and 2012 CIFOR survey data. Note: n/a = not available.

Small-scale logging was formally recognised in Papua in 2002, when the governor issued regulation No. 522.2/3386/SET allowing customary communities to operate small-scale logging permits, called IPKMA, for up to 1000 ha for the duration of one year. By 2005, 247 permits had been issued covering a total area of 232 780 ha (Dinas Kehutanan Provinsi Papua, 2008). However, due to allegations of widespread illegalities, in 2005 IPKMA permits were revoked by the central government (EIA and Telapak, 2009). In 2009, the governor of Papua issued a special regulation which revived small-scale logging permits but on a much reduced scale. These permits, locally known as IPHHK, authorise the permit holders to harvest up to 20 m³ of timber per year. There is no unified register of how many small-scale logging permits have been issued since 2009. However, the Provincial Forestry Bureau estimates that up to 1000 IPHHK permits may be issued annually (Dinas Kehutanan Provinsi Papua, personal communication). This is plausible, as the CIFOR survey shows that in 2011, 160 permits were issued in Mimika and 115 in Nabire alone.

4.3.1 Small-scale timber sector in Nabire District

Nabire district is one of the main producers of valuable Merbau (*Intsia spp*) hardwood. In the 1990s and early 2000s, large-scale logging concessions supplied timber to plywood industries in neighbouring provinces as well as to Java (BPPHP XVII, 2011; BPPHP XVII, 2012). Only one commercial logging concession remains and operates at only 20% capacity. Thus most timber supplies for the local industry come from small-scale logging (Table 10).

Table 10. Timber supply and demand in the small-scale forest sector in Nabire

Small-scale forest sector			Production–consumption (m ³)			
Type		Number	2009	2010	2011	2012
Supply	IPHHK small-scale logging permits	115	27 154	35 714	49 286	41 571
	Private forest	2	n/a	n/a	1 843	n/a
	Total supply		27 154	35 714	51 129	41 571
Demand	Sawmills	8	n/a	45 177	42 617	36 737
	Timber kiosks	53	20 000	28 857	28 000	32 000
	Total demand	61	20 000	74 034	70 617	68 737

Source: Dinas Kehutanan Propinsi Papua (2011) and 2010–2011 CIFOR survey data. Notes: both the supply and demand volumes are in Round Wood Equivalent (RWE); n/a = not available.

Small-scale logging comes in two forms: legal and illegal. Legal small-scale logging is carried out using IPHHK permits, which allow the harvest of 20 m³ of timber per year. The CIFOR survey for 2010 and 2011 indicates that these permits produce 20 times the quota granted, resulting in extensive illegal extraction of timber. Illegal small-scale logging is carried out without any documentation. In 2011, the CIFOR survey identified 150 locations where such logging was carried out, involving about 400 workers and producing 10 000 m³ of roughly sawn timber and square logs.

Sawmills in Nabire district transport processed timber to Java or export it to China and other countries. The regulations stipulate that sawmills can source timber only from logging concessions, clear-cut permits and private forests. However, due to limited production from these sources, sawmills buy timber from IPHHK permit holders and timber kiosks. The timber kiosks are allowed to store up to 1500 m³ of timber per year and their sales should be for district needs only. However, in practice, the kiosks operate more like sawmills. They provide timber for both the local market as well as for larger, export-oriented, industry.

The small-scale forestry sector makes important contributions to the district's economy and society. In 2011, small-scale timber extraction and processing (both legal and illegal) employed 1675 workers, or 95% of the total direct employment in the forestry sector in the district. Small-scale logging accounted for 30% of the total log production and small-scale companies generated 77% of the total sawn timber production. Because of the illegalities involved, it is estimated that about US\$1.24 million has not been lost in government timber revenues and reforestation funds.

5. Making timber legality verification work for the VPA and small-scale forestry sector

Indonesia is on the verge of signing a VPA with the EU and is moving ahead with the implementation of the SVLK timber legality verification system. The main objective of Indonesia's participation in VPA and timber legality verification is to ensure that timber trade from Indonesia to Europe continues uninterrupted and that losses from illegal logging and associated trade are reduced.

However, the drive to meet EUTR requirements may mean suspended or uncertain export for many large and small-scale companies. National data and findings in Central Java, East Kalimantan and Papua show that progress with SVLK certification has been slow. Central Java has the largest number of certified timber companies but these represent only a small portion of the total number of timber enterprises in the province. Very few community forests have been certified. In East Kalimantan, most progress has been made with certifying logging concessions; however, these represent only 18% of active concession permits. Little has been done to advance certification in the processing sector. In Papua, most progress has been achieved with large-scale operators (4 out of 6), but virtually no developments have been made in other segments of forestry.

The levels of illegality in Kalimantan and Papua are high. The number of small-scale processing operations in Berau District, East Kalimantan is nearly double that officially registered. The district also has up to 275 illegal small-scale logging operations. In Papua, no official data exists on small-scale processors and loggers, but it is estimated that a large number of both operate illegally. In Central Java, by contrast, the prospect of SVLK is bringing improvement in the organisation and administration of smallholder groups.

The level of understanding of SVLK in Kalimantan and Papua is low. In Central Java understanding of the reasons for timber legality verification and the steps involved is increasing, but there is confusion about overlap with other government regulations.

Organising small-scale timber operations into cooperatives for group certification is a major challenge in all three regions. In Central Java this is partly because timber is a secondary source of family income, which makes smallholders reluctant to invest time and resources in certification. As tree farmers are exposed to more information about SVLK, they begin to explore options to finance the assessment process towards certification. In East Kalimantan and Papua, no progress has been made in this area.

The Indonesia government has decided that SVLK will be mandatory for large companies by the end of 2012, while small enterprises are expected to be compliant by the beginning of 2014. In light of this, several important considerations need to be thought through to make full compliance with SVLK in the Indonesian forestry sector a reality.

- It is highly likely that a large portion of forestry operations, especially small-scale enterprises, will not meet the deadlines. Therefore, Indonesian forestry industry associations must follow up on their commitment to assist the small and medium enterprises in obtaining timber legality verification.
- The Government of Indonesia should also engage EU officials to explore options for an extended timeline for the completion of SVLK certification.
- The number of verification bodies and their expert staff urgently needs to be expanded to increase the pace and amount of certifications that can be completed. This requires increased donor funding to train and hire assessors.
- The Government of Indonesia should consider providing specific financial incentives (e.g. income tax deduction) for small-scale forestry enterprises to encourage them to pursue SVLK certification. Offering concrete financial benefits from SVLK would go a long way to making it attractive to small-scale forestry businesses, which so far have only been exposed to additional costs associated with legality verification.
- The cost of certification in the small-scale sector needs to be reduced. One way to do this could be to request verification bodies (perhaps as part of new funding support) to establish branch offices in key forestry regions in Indonesia to reduce the expenses associated with travel and staff time. An additional measure could be to simplify the requirements for legality verification in the small-scale sector by eliminating the need

for land ownership certificates, which very few people in rural Indonesia possess and which constitute a significant additional cost.

- SVLK could be made more practical and manageable for small-scale operators by adjusting the cycle of verification and surveillance. While the proposed cycle of 3 years for SVLK verification and 1 year for surveillance may be manageable for large-scale enterprises, we suggest that in the small-scale sector legality verification be carried out every 6 years and surveillance every 3 years (at most).

Some of the measures to advance the pace of SVLK certification will also act as a means to reduce the level of illegality in the small-scale forestry sector, which is still significant. Income tax deduction or other fiscal incentives, and simpler and less costly legality verification procedures could be a strong inducement towards formalisation. However, for formalisation to work it must shield small-scale enterprises from illegal payments, which they are often forced to make to various actors. There is no easy or quick way to reduce corruption but in the long term it is important that increased donor funding is available for anti-corruption initiatives in Indonesia.

Government agencies and donors must also consider additional measures to increase the level of awareness about the VPA and SVLK at the subnational level, as this is clearly lacking. More intensive outreach in mass media and social networks is needed. It is also important to expand the audience of socialisation events beyond key personnel from province and district forestry agencies, as these individuals frequently rotate posts and rarely have time to instil the information at the grassroots. Additional donor support should also be considered to increase the number and geographical scope of VPA/SVLK road shows, organised by the Ministry of Forestry.

Achieving SVLK compliance in the Indonesian forestry sector as a whole will not be easy. However, it is possible to make significant progress by providing more time and information to stakeholders, expanding the capacity of verification bodies, making SVLK simpler and more financially attractive, and strengthening anti-corruption measures.

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