

# Toolbox for legal verification and timber tracking



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Netherlands Timber Trade Association (NTTA/ VVNH)

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***Authors:***

Jan Joost Kessler  
Martine Kriesch  
Wolfgang Richert  
Eric Wakker

AIDEnvironment  
Donker Curtiusstraat 7-523  
1051 JL Amsterdam  
The Netherlands  
Tel: +31-20-68686111  
Fax: +31-20-6866251  
[www.aidenvironment.org](http://www.aidenvironment.org)

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# Foreword

**The Netherlands Timber Trade Association (NTTA) has a corporate social responsibility policy, which includes aspects of legal origin of timber. As part of this policy all members have signed a code of conduct in which they have committed themselves to purchase legal timber only (NTTA/VVNH 2003). Therefore, timber importers within the association want to know to what extent companies in the forestry sector comply with legal standards, and to what extent timber supplies have legal origin. This is particularly relevant for a number of key countries with legality concerns.**

This toolbox is a concrete response to the expressed desire by NTTA members to improve legality of timber supplies, to verify and to prove legal origin. NTTA has requested AIDEnvironment, a non-for-profit foundation providing advice on environment and development policies, to develop this toolbox. The focus of this toolbox is at Indonesia, being a particularly sensitive timber producer country for the Dutch market, because of the volumes of timber imported and the associated legality concerns.

This toolbox can be considered as reflecting the available information by end of 2004. The toolbox will certainly need to be updated at some point in time as there are rapid developments in the forestry sector, with new auditing companies and tools for legal verification emerging and others disappearing. Companies using this toolbox are invited to communicate and make available to NTTA any comments, incorrect or outdated information as presented in this Toolbox, thus allowing regular updates to be made.

André de Boer  
*Managing Director Netherlands  
Timber Trade Association*

22 December 2004



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# Glossary of Terms and Abbreviations

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<b>Accreditation</b>	Procedure by which an authoritative body gives formal recognition that a body or person is competent to carry out certain tasks.
<b>BRIK</b>	Badan Revitalisasi Industri Kehutanan / Forestry Industry Revitalisation Agency
<b>Certification</b>	The process of establishing whether or not a standard has been met
<b>CITES</b>	Convention on International Trade in Endangered Wild fauna and Flora
<b>CoC</b>	Chain of Custody: Set of technologies, procedures and documents that are used to manage the wood supply chain
<b>CSTP</b>	Certified Source Timber Programme
<b>DFID</b>	UK Department for International Development
<b>EIA</b>	Environmental Impact Assessment
<b>ETPIK</b>	Eksportir Terdaftar Produk Industri Kehutanan
<b>FLEGT</b>	Forest Law, Enforcement, Governance and Trade
<b>FMU</b>	Forest Management Unit (similar to forest concession)
<b>FSC</b>	Forest Stewardship Council
<b>GFS</b>	Global Forestry Services
<b>GFTN</b>	Global Forest and Trade Network (WWF)
<b>GPS</b>	Global Positioning System
<b>ISO</b>	International Organisation for Standardisation
<b>LPI</b>	Lembaga Pinilai Independen - Independent Verification Institute
<b>MTCC</b>	Malaysia Timber Certification Council
<b>NGO</b>	Non governmental organisation
<b>SGS</b>	Société Générale de Surveillance
<b>SKSHH</b>	Surat Keterangan Sahnya Hasil Hutan - Legal Forest Product Transportation Permit
<b>TFF</b>	Tropical Forest Foundation
<b>TFT</b>	Tropical Forest Trust
<b>TNC</b>	The Nature Conservancy
<b>TTF</b>	Timber Trade Federation (UK)
<b>URS</b>	URS Corporation (URS Forestry)
<b>VVNH/NTTA</b>	Vereniging van Nederlandse Houtondernemingen/Netherlands Timber Trade Association

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# 1 Introduction to this Toolbox

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This toolbox offers NTTA members and timber importers in other countries the presently (2004) available tools that can help them to assure legal compliance and chain of custody integrity of timber supplies, with an emphasis on Indonesia. The tools are associated with auditor companies who developed systems for legal compliance and timber tracking for Chain of Custody (CoC) integrity. These systems and associated tools differ in many respects, such as reliability, cost-effectiveness and transparency. Also the amount of actual field experiences varies considerably. The objective of this toolbox is to support decision-making by timber importers when considering to import timber, particularly from Indonesia, and have doubts about the legality, or when they specifically look for legal timber supplies. Use of the toolbox aims to help decide which tools are most suitable for legal verification needs, to contact the associated auditor companies, and to express specific requests on issues like reliability and transparency.

To achieve this goal the presented tools focus on two different, but related, aspects. The first aspect is the legal verification component, particularly at the source of the timber in the forest. Is the timber legally logged? Are all possible legal issues well covered? What does the auditor do to check this aspect? The second aspect is the chain of custody integrity, from the forest to the export port. Can you ensure that the legally sourced timber reaches the end user without being mixed with uncontrolled timber? These two aspects are related and show overlap, as will be explained in chapter 2 below.

There is a third aspect related to responsible timber trade, which is that of environmental and social sustainability issues, as associated with sustainable forest management. This subject is not dealt with in this document, because legality is a prerequisite for sustainable forest management and should therefore be dealt with first of all. Most stakeholders expect that sustainability issues will be dealt with a next step.

For the compilation of this document existing documentation from selected auditor companies has been used. Auditor companies were asked to respond to a questionnaire and complete a test quotation (see Appendix 1). The test quotation aimed to get information on the tools, the means and the associated costs to assure legality of a well-defined amount of timber from a well-defined region in Indonesia. This also includes a quotation to assess where and how timber can be obtained with a legal compliance certificate. Both sources of information were from mid 2004.

The structure of this toolbox is as follows. Chapter 2 gives background information to the aspects dealt with in this toolbox: the legal compliance and the chain of custody integrity. Chapter 3 gives an overview of available tools and auditor companies. In chapter 4 the reader can find the test quotation and the reactions from all auditors. The final chapter 5 gives a matrix overview and summary of the available tools with a qualitative rating.

Being a toolbox for practical use, this document does not give conclusions or recommendations on what tools to use, or what tools need improvement, but gives an overview of the difference between tools that should help potential users decide which one to select. Stakeholders expect market players and auditors to develop and use high-quality and trust-worthy verification tools.

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# 2 Background information to the subject

## 2.1 AUDITING AND ADVISORY SERVICES

As will be explained below, there are two clearly distinct elements and steps that will be dealt with in this toolbox: legal compliance and chain of custody (CoC) integrity. Tools to be able to assess legal compliance and/or CoC integrity can be roughly classified as those that undertake a verification or audit (controlling whether the existing system is OK), and those that can be considered as an advice to install and put in practice a new system (helping establish a good system). The distinction is not always crystal clear. An audit aims to determine the quality of the current system and then suggest improvements. An advice aims to set in place measures and systems to be able to meet well-defined standards.

This toolbox focuses at auditing tools. It may be clear that an auditor may be well suited to provide advice on necessary improvements while undertaking an audit, and suggest better systems and means.

It is important to realise that while accreditation exists for CoC certification, accreditation does not exist for the certification of legal verification. This is a weakness of the current situation.

## 2.2 LEGAL COMPLIANCE AND VERIFICATION

Legal compliance basically means that timber is harvested, transported and sold with respect of national laws. The following are relevant issues of legal compliance:

1. Land tenure and land use rights and responsibilities;
2. The specific permit for logging including timber harvesting laws and regulations;
3. Environmental and social impact assessment, including national and international laws and conventions (e.g. CITES);
4. Community relations and workers rights;



5. Forest taxes;
6. Log identification, transfer and delivery;
7. Timber processing, sales and shipping.

Most of these issues deal with legal compliance at the source - the forest (issues 1-5), while issues 6 and 7 deal with processing and the market. Most legal compliance measures focus at the forest source. Effective CoC is helpful to assess legal compliance particularly of issues involved in harvesting and trading, but does not look at issues like land tenure and labour rights. Also, additional checks are required to ensure that a product's history is free from legal violations.

Since it is costly to verify legal compliance for all above legality issues, systems to verify legal compliance generally aim to balance scope (in covering the range of issues) and cost-effectiveness. The ideal tool for legal verification is relatively cheap but provides exactly the information one wants to have. To do so, auditing companies usually use the following guidelines to select the appropriate tool:

- Does the tool focus at key issues that give most doubts on legal compliance?
- Does the tool provide routine inquiries on what can be easily verified, as well as selective in-depth inquiries particularly when and where suspicion of malpractice arises?
- Does the tool stimulate participation by local stakeholders to generate information on legality?

Clearly, it is crucial which legality definition and scope the tool considers as the reference to check legality. This subject is dealt with in the next section 2.3. Working with an auditor who uses a limited legality definition has a major risk of the outcome not being accepted by stakeholders such as NGOs or buyers.

The tools on legal compliance are presented in chapter 3. To describe the variation between these tools and help users decide which one is best for them, tools on legal compliance have been classified and characterised using the following points of attention:





1. **Legality definition** applied in terms of covering possible legality issues.
2. **Effectiveness and rigour:** How strong is the control system? Is it computerised and comprehensive? Or is it based on documents mainly?
3. **Procedural credibility** of the system. The system is more credible if it based on accredited 3rd party verification, if it is independent and if NGOs and other stakeholders support it.
4. **Transparency:** in terms of access to audits and reports.
5. **Costs.**
6. **Experience** of using the tool in the specific field where the verification takes place.

## 2.3 LEGALITY REFERENCE FRAMEWORKS

For issues of legal compliance, normally one would take as reference national laws. However, there may be conflicting laws or policies, or there may be gaps or inadequacies. Laws should also include norms to be able to say when violation of the law constitutes an illegal act, describe sanctions in case of violation, etc. There are many existing definitions on legality and their number is growing rapidly. Most of them are generic and need to be 'translated' to the specific situation in a nation/region/FMU. Even the FSC definition of illegal wood is considered generic, and would not be sufficient to enable determination of legal timber.

The Indonesian government has taken some initiatives to help combat illegal timber, these are the BRIK and LPI initiatives. These initiatives are described in Boxes 1 and 2.

### Box 1: About BRIK

*BRIK (Badan Revitalisasi Industri Kehutanan - Forestry Industry Revitalisation Agency) was set up jointly by the Indonesian ministers of trade & industry and forestry in December 2002 to ensure the survival of the country's wood processing industry and to satisfy international demands for action on illegal logging. BRIK is described as a non-profit organisation and is run by business representatives.*

*BRIK has required all forestry-related products to first undergo "administrative inspection" before being exported. These means companies are not allowed to export their products unless they receive a license from the agency: the ETPIK (Eksportir Terdaftar Produk Industri Kehutanan). The documentation, which is based on a computerised system, aims to prevent possession and transport of illegal timber products and detects anomalies such as fraudulent conversion ratios. In other words, this system enables BRIK to check that no company is producing more processed timber than its legal intake of raw material allows. Thus all shipments with BRIK endorsement are automatically claimed to be legal.*

*BRIK was strongly criticised from a number of sources, NGOs as well as local politicians, for its domination of business representatives and its bureaucratic approach. Nevertheless, the Indonesian timber industry now considers BRIK more than enough to satisfy international demands that exporters prove the legality of their timber products. However, international timber importers - such as the UK Timber Trade Federation - are far from convinced and want to set up independent checks to track timber from stump to mill to exported products.*

There are doubts about the effectiveness of these government initiatives. Therefore the donor community has also taken some initiatives, of which the best known is the so-called 'DFID definition'. It is based on "hukum positif" (official law) and contains elements of "hukum negatif" (customary law). The most recent draft from May 2004 is presented in Appendix 2.

This legality standard for timber products from Indonesia was developed under the auspices of the Indonesian Ministry of Forestry in close partnership with The Nature Conservancy (TNC) under the Indonesia-UK

## Box 2: About LPI

*In October 2002, the Indonesian Ministry of Forestry established LPI (Lembaga Pinilai Independen - Independent Verification Institute) to help determine whether logging concessionaires were applying sustainable approaches to their operations. LPI was allocated \$16 million to review the country's 413 forest concession estates. Of these concessions, 296 were scheduled for audits by December 2003.*

*In January 2004, LPI reported that 14 of 27 forest concessions that were audited failed to meet the requirements of sustainable operations, prompting the national government to temporarily suspend these licenses. The move to revoke the licenses of bad forest concessionaires is part of an overall effort by the Ministry to restructure the country's policy towards natural forests, which have been threatened by illegal logging and overexploitation. However, the suspended companies started a court case against the Ministry of Forestry and won. In 2004 some 45 forest concessions are to be assessed.*

Memorandum of Understanding on Illegal Logging, with contractors SGS and URS Forestry. The UK Department for International Development (DFID), the US Agency for International Development (USAID) and The Home Depot provided financial support. The current draft version is the outcome of stakeholder consultations carried out in two Indonesian districts in 2003. In addition, provincial two workshops were held, and a national workshop was hosted in Jakarta. Several individuals and organisations have contributed further to the Standard and guidance that accompanies it in preparation for field-testing of the system in Berau, starting mid 2004.

This legality standard specifies legal requirements relating to timber origin, production, transportation, processing and trade. This relates to a subset of approximately 900 Indonesian laws, regulations and decrees covering these areas. The standard's main purpose is to make it easier for buyers to differentiate between legally and illegally produced Indonesian timber products, thereby meeting international market demands for products that conform to the laws of the Republic of Indonesia. The standard comprises seven broad principles of legality, each supported by several criteria and indicators linking the principle to existing legislation. Guidance notes to assist auditors in verifying compliance with each indicator are also available.

The general framework of the 'DFID definition' is applicable all over the world and is probably the most complete and best available at this moment. However on the other hand, application of this standard may be impractical and expensive. The field-testing will give further information on that issue.

## 2.4 CHAIN OF CUSTODY

Chain of Custody (CoC) is the process of tracking a certain material through the various stages of the supply chain. In this case it is wood from a forest area along the market chain to the final customer for the wood product. While initially CoC tracking systems were set up to track timber origin, it also helps determine legal compliance. A CoC ensures that the legally sourced timber identified at the source reaches the end user without being mixed with uncontrolled timber.

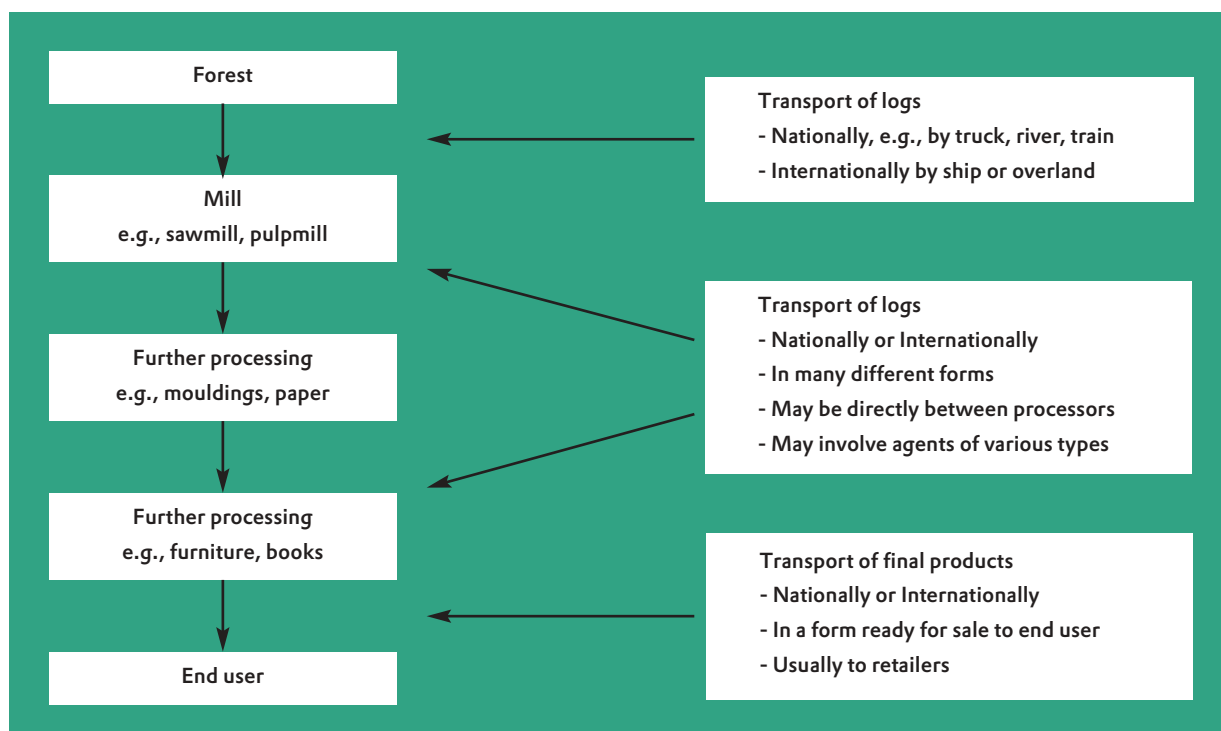
While for the purpose of this toolbox its contribution to legality verification is most important, there are other benefits for timber producers and importers to have a good CoC:

- To prevent theft along the product chain;
- To track effective and timely supply to meet contractual obligations;
- To improve cost-effective management, by minimising disruptions and reducing costs;
- To undertake quality control of the product along the chain;

- For governments to acquire information on timber supply and exports, for forest statistics and tax revenues;
- As part of certified, sustainably produced timber.

Chain of Custody for timber involves various stages in a process from the forest to the export port and beyond (see Figure 1). CoC concerns both what happens within each processing stage and between the processing stages.

FIGURE 1. Schematic representation of a typical wood supply chain showing the various stages. Left boxes represent processing operations. Right boxes describe movement of material between stages. Source: Dykstra et al, 2003.



There are three basic elements of all Chains of Custody:

1. Information on quantities
2. Management of critical control points
3. The control and management of people.

Therefore, the following are the main features of an effective CoC tracking system (Source: ERM, 2003):

- Product identification (separate product group, special log coding system, product labels, unique marks, signs and stamps, separate forms for verified material, specification for verified status of product, description etc, finished product, etc.);
- Product segregation (separate storage area, temporal separation of verified and unverified products in production, advanced determination of production lines and timetables for processing verified material, etc.);
- Documentation (CoC Handbook, regular material balances (input/output), standard conversion factors, transport and shipping documents, separate marked documents for processing verified products, etc).

Within each stage of the CoC and between the different stages there are specific label types and approaches that are suitable for timber tracking. The labels basically identify, document and record the amounts of timber passing from one point to another, particularly at critical control points such as the sawmill. Some of the most





frequently used label types are listed in Box 3. Apart from that, to effectively use the tools there is need for training, capacity building and support for the personnel who must implement the tools, as well as a system of monitoring, incentives and penalties to encourage proper application.

The CoC tracking tools are presented in chapter 3 of this toolbox. To describe the variation between these tools and help users decide which one is best for them, tools on CoC tracking have been classified and characterised using the following points of attention:

1. **Effectiveness/rigour:** product information, segregation, documentation, sustainability, entire CoC.
2. **Credibility of the system (procedural):** frequency of audits, 3rd party verification, accreditation, NGO/ stakeholder support.
3. **Specific attention for third party suppliers.** In the case of a saw mill, in which way does the company give attention to the different product flows from different sources, except the certified 'legal' product?
4. **Transparency** in terms of public access to audits and reports.
5. **Costs.**
6. **Experience** in the specific field where the tracking takes place.

### Box 3: Label types

*The choice for a certain label type is one of the elements in each tracking system. The most frequently used label types are listed below. (Source: Dykstra et al., 2003.)*

1. Conventional paint and chisel labels
2. Branding hammers
3. Conventional labels
4. Nail-based labels
5. Magnetic stripe cards
6. Smart cards
7. RFID labels
8. Microtaggant tracer
9. Chemical tracer paint
10. Chemical and genetic fingerprinting

# 3 Selected tools and companies

## TOOLS 1: SGS MALAYSIA TIMBER TRACKING PROGRAMME - LEGAL VERIFICATION AND CoC

SGS Malaysia has developed a Timber Tracking Programme for evaluation of legal compliance. The Timber Tracking Programme is designed to evaluate the ability of an individual FMU to comply with national regulations pertaining to forestry, environmental and social issues. The Timber Tracking Programme has both a legal compliance and a CoC system-based component, which are normally applied in conjunction.

SGS Malaysia has conducted FSC certification and Support Programmes in South-East Asia and world-wide. Timber Tracking Audits were conducted in 2002 and 2003 to evaluate and monitor legal supply of timber from various small holders in the region and of the pulp mill in Riau Province of Sumatra, Indonesia.

### ***Tool 1a: Legal verification component***

To verify legal origin SGS will evaluate the traceability of forest products from forest managers organisations that can demonstrate legal harvesting licenses (whether of short or long term duration) for their forest area. The system of traceability can include manufacturing and trading based on inspection of a specific volume of material. Or it can be a complete Chain of Custody (Tool 1b).

Legal compliance implies verification of the forestry operations to meet national regulations and non-accredited national standards. SGS Malaysia auditing in forest management is based on the Malaysia Timber Certification Council (MTCC) system as the standard to verify legal compliance. In terms of legality it refers to national regulations, which includes forestry, environmental and social regulations that are relevant to the forestry organisation's operations. To verify that forest- and plantation areas are complying to local and national regulations the Forest Sector Monitoring auditing programme provides for independent evaluation by specific management units.

The requirements for auditing compliance to local and national regulations include four main elements:

- Forest Concession & Use Rights;
- Legal Requirements of Operation;
- Harvest Planning;
- Traceability & Identification of Material.

For SGS legal compliance usually includes the requirement for an Environmental Impact Assessment but this is dependent on national regulations. There is no accreditation associated with the legal verification component of the Timber Tracking Programme. SGS Malaysia provides credible independent 3rd party assessments that can be used for business transaction to verify legality until the retail market.

The results of meeting the requirements for the Timber Tracking Programme is an Audit Statement for Legal Compliance. A short summary of the audit report is available to the public to provide for transparency of the programme.

SGS Malaysia refers to the ongoing TNC/SGS initiative for undertaking legal compliance audits in Indonesia, in which SGS is involved (see Tool 7).

### ***Tool 1b: CoC component***

This component concerns a CoC system to trace material from the participating forests through the manufacturing and trading chain. The scope of the Timber Tracking Programme is based on individual FMUs and as well as wood processing and trading companies.

The CoC is a 'systems based' approach to verify the establishment and implementation of a formal system of traceability through the chain to the sales of final products. SGS requires that an approved standard product identification form be used for each shipment to allow traceability of all material and products traded. The product identification form is critical to verify if the import volume matches the export volume and limits the possibilities for cheating the system with double sets of records.

Methods of timber tracking include verification of logs to a legal logging of trees within a licensed area through site inspection of forest areas and transport systems inclusive of physical identification and associated documentation. Following verification of legality of material harvested within the forest/plantation the raw material is then traced through wood processing using a CoC type system or 3rd party audits to physically witness entire batch processing in the factory. A formal Timber Tracking system that meets specific requirements for all critical control points (from purchasing through shipment and sales of products) can be eligible for a Timber Tracking Certificate valid for a specific term that must be verified through periodic surveillance to ensure continual compliance.

The Timber Tracking Programme has application forms for forest and wood processing companies to provide information on their operations. For forest companies it is necessary to know the forest area(s) to be evaluated as well as the means to verify legal use rights or ownership. For wood processing companies it is necessary to know where the raw material originates as well as how the material is purchased and if there are subcontractors or multi-site production facilities.

The results of meeting the requirements for the Timber Tracking Programme is an Audit Statement for Legal Compliance. A short summary of the audit report is available to the public to provide for transparency of the programme.

There is no accreditation associated with the Timber Tracking Programme. SGS Malaysia has formal procedures to operate in compliance to ISO guides 62 and 66.





### ***Additional information on the company***

Address: SGS Malaysia Sdn Bhd, Forestry Services Division  
3rd Floor Wisma Beringin, Jalan Semantan, 50490 Kuala Lumpur Malaysia  
Tel: (603) 2095 9200  
Fax: (603) 2095 9611  
H/P: 019 3806778  
E-Mail: [sgs\\_malaysia@sgsgroup.com](mailto:sgs_malaysia@sgsgroup.com)

Contact person: Kevin Grace  
Email: [kevin\\_grace@sgsgroup.com](mailto:kevin_grace@sgsgroup.com),  
Branch Offices in Penang, Port Klang,  
Pasir Gudang, Sandakan, Labuan  
Website: [http://asi.sgsgroup.com/WWW%5CMY%5CMYFore.nsf/pages/Forest\\_FSM.html#TTS](http://asi.sgsgroup.com/WWW%5CMY%5CMYFore.nsf/pages/Forest_FSM.html#TTS)



## **TOOLS 2: GFS LEGAL VERIFICATION AND WOOD TRACKING PROGRAMME - LEGAL VERIFICATION AND CoC**

### ***Tool 2a: Legal verification component***

The Legal Verification Programme is a formal programme to evaluate both legal origin and legal compliance of timber and wood based products. There is a differentiation between these two elements. Legal origin means verification of the licences and the rights of contractors to harvest in a given area. Legal compliance is the verification of compliance to the rules and regulations during harvesting. The legal compliance is more thorough and involves more ground based surveillance.

There is a checklist to define legal origin and legal compliance that can be downloaded from the GFS website. 9 requirements are used for legal origin concerning (a) forest concession and legal harvesting rights issued from a valid government authority with clear boundaries, and (b) and existence of a clear system to trace the material to the licensed logging area.

There are 8 requirements for legal compliance concerning (a) legal requirements of operations to meet national regulations and non-accredited national standards, and (b) harvest planning. Reference is made to the Malaysia Timber Certification Council (MTCC) system. Legality is based on national regulations, which includes forestry, environmental and social regulations that are relevant to the forestry organisation's operations. Site visits are required to verify legality of forestry operations for both legal origin and legal compliance.

Meeting the requirements for the Legal Verification Programme gives an audit statement for legal origin or legal compliance. This statement can provide the basis for business to business agreements but does not have the status of an accreditation programme. A public summary of legal verification reports is provided for transparency. There is a client database that will report on the status of each participating company. Companies that do not comply with the requirements will be subject to suspension and possible withdrawal from the programme. There are formal conditions of participation for each programme available to the public upon request. Monitoring schedules are based on six-month inspections, to allow for discrepancies to be identified at early stages.



Legal compliance usually includes the requirement for an Environmental Impact Assessment but is dependent on national regulations. There is no accreditation associated with legality verification. GFS has formal procedures to operate in compliance to ISO guides 62 and 66.

### ***Tool 2b: Wood Tracking Programme - CoC component***

The Wood Tracking Programme is to verify traceability of material from forests through a CoC style system or based on Batch Inspection of a specific volume of material or products.

Related to the Wood Tracking Programme is the GFS CoC component for retail markets and trading companies, which assists in the development of management strategies for management of its supply chain for traceability of material and wood products for a defined product group. GFS provides training on CoC systems to clients and provides assistance to trace products back through the supply system to the forest areas.

There is an application form for companies to provide information of their operations for the Wood Tracking Programme, with specific questions concerning suppliers and description of the current system. It is necessary to know where the raw material originates as well as how the material is purchased and if there are subcontractors or multi-site production facilities. The programme requires details to be provided on batch numbers and work orders to cross-reference the volumes coming out of a factory. Where a client allows GFS control over the design of their systems this can mean linking purchase orders and batch numbers throughout the production system.

The approach is twofold: (1) batch inspections of a specific volume of raw material through production, and CoC. The CoC is a systems-based approach where GFS will verify the establishment and implementation of a formal system of traceability from purchasing through production to the sales of final products. It includes an approved standard product identification form to be used for each shipment to allow traceability of all material

and products traded under the Wood Tracking Programme. The product identification form is critical to verify if import volume matches the export volume and limits the possibilities for cheating the system with double sets of records.

Compliance to the CoC requirements gives a Wood Tracking Verification Statement. Result of a Batch Inspection is a GFS Wood Tracking Inspection Report. That statement can provide the basis for business agreements but does not have the status of an accreditation programme. A public summary of Wood Tracking reports is provided for transparency. There is a client database that will report on the status of each participating company. Companies that do not comply with the requirements will be subject to suspension and possible withdrawal from the programme. There are formal conditions of participation for each programme available to the public upon request. Monitoring schedules are based on six month inspections, to allow for discrepancies to be identified at early stages.

There is no accreditation associated with timber tracking. GFS has formal procedures to operate in compliance to ISO guides 62 and 66.

### ***Additional information on the company***

GFS recently became an independent organisation with staff originating from SGS Malaysia. Thus, in terms of experience in the region GFS makes a reference to Tool 1.

#### *Address:*

Global Forestry Services Inc., 9B Jalan Setiapuspa, Medan Damansara

Tel: 6012 3106007

Email: [gfs@gfsinc.biz](mailto:gfs@gfsinc.biz)

#### *Contact persons:*

Bill Maynard

Email: [wbmaynard@aol.com](mailto:wbmaynard@aol.com)/[wbmaynard@gfsinc.biz](mailto:wbmaynard@gfsinc.biz)

Tel: 603 22820608

Kevin Grace

Email: [gfs@gfsinc.biz](mailto:gfs@gfsinc.biz)

Cellphone: 6012 3106007

Website: [www.gfsinc.biz](http://www.gfsinc.biz)



## **TOOL 3: CERTIFIED SOURCE TIMBER PROGRAMME BY SCHUTTER MALAYSIA - LEGAL VERIFICATION AND CoC**

The Certified Source Timber Programme (CSTP) is an industry driven scheme that has been initiated with the primary objective to promote the use of legal timber that has been sourced from responsible organisations and distributed to consumers with a minimum premium paid on top of the price of purchasing open market timber. Schutter Malaysia (a subsidiary of Schutter Group BV) offers auditing services for CSTP in Malaysia and Indonesia. The Certi-Source verification system by CSTP differs from other initiatives in that it does not track every log that enters the marketplace, but rather verifies that resulting timber products arise from legitimate logs. It is an exclusive rather than inclusive verification process. The emphasis is on tracking legal parcels of logs rather than attempting to weed out the illegal element.

The Certi-Source appointed auditor verifies legality and provides a certificate to confirm the legality of specified parcels of timber. Legal timber is defined as timber that has been extracted from legal or licensed



timber concession (licensed by approved local authority) and of which royalty has been paid to the local authority. No further specifications are given apart from the fact that it depends much on the country.

The tracking of timber involves a series of physical inspections which commence at the forest concession to the log yard, sawmill, stockyard, transport and finally to the port for shipment. A flow chart specifies which documents will be verified at which point along the chain. This includes legal documents such as concession license, prove of payment of royalty to the local authority, approval to remove logs or removal pass issued by local authority, log lists, sawmill production records, etc which all is available for verification. Of these documents authenticity will be confirmed with local authorities, and logs will be inspected at designed locations. There will be random spot-checks at the request of a customer.

Upon success and completion of the audit, an inspection report is issued to confirm that the particular batches of timber originate from legal origin and that a CoC has been satisfactorily established. This report addresses criteria required to fulfil customers requirements. The legal verification and tracking services are not accredited to any accreditation bodies.

### ***Additional information on the company***

There are a few experiences: legal verification for timber supplied to Singapore Zoo (by M/s Venturer Pte Ltd.), and for a wood furniture factory in Sabah (M/s Ispiration Furniture Sdn Bhd.). There are no experiences in Indonesia.

#### *Address:*

Schutter Malaysia Sdn Bhd, MPT 2901, 1st Floor, SUDC Light Industrial Shophouse, Km. 5 Jalan Apas, 91010 Tawau, Sabah  
Tel. +60-85-443516 (Malaysia);  
+31-10-2582700 (Netherlands)  
E-mail: bzschutter@pd.jaring.my

#### *Contact persons:*

Jason Lim  
Email: jason@schutter.com.my

Capt. J.B. Chiang  
Email: jbachiang@schutter.com.my  
Website: www.schuttergroep.nl

Certified Source Timber (CST)  
CST UK, 15 All Saints Mews, Uxbridge Road,  
Harrow Weald, London, HA3 6DY

#### *South East Asia contact:*

Kevin Hill kevin@certifiedsourcetimber.co.uk

#### *USA contact:*

timothy@certifiedsourcetimber.co.uk

#### *UK contact:*

julian@certifiedsourcetimber.co.uk  
Website: www.cstp.org





## **TOOL 4: LEGAL VERIFICATION BY SOIL ASSOCIATION - LEGAL VERIFICATION COMPONENT**

Soil Association operates a CoC certification programme that includes assessment of compliance with national and international laws and regulations, and development of Modular Verification assessment methodologies - including legal compliance.

The definition of legal timber is derived from the FSC definition of illegally harvested wood. Verification of legality will require objective evidence to demonstrate that national regulations are met, harvesting rights rightfully gained, legal harvesting methods used, and payment of fees/royalties made.

For an assessment of legal compliance are required various documents including annual volume of input timber, production processes, products produced, annual volume of products produced, information on existing internal management systems, information on suppliers, customers and any sub-contracted arrangements, source of origin. Access to production, stock and financial records is needed at an assessment.

The assessment deals with the forest level and each stage in the chain of custody. The degree of assessment is based on an assessment of risk according to the FSC Low Risk and High Risk Sources definitions, and is backed up by ongoing risk assessment derived from internal consistency checks generated by the Track Record system (see Tool 5). The verification tool will be consistent with FSC requirements and/or assist movement towards FSC requirements in a modular or stepwise process.

Reliability is based upon rigour of assessment backed by a track record of operating a worldwide CoC programme. As a minimum for transparency, companies assessed will be listed publicly and procedures are publicly available. This allows monitoring of the system by stakeholders who may then communicate non compliances to the Soil Association. Companies can make available details of their shipments on the web via the Track Record data management systems, thus allowing any party to verify timber movements. Companies showing this level of transparency are subject to less detailed assessment by Soil Association.



A report will be produced for the supplier, and a certificate is issued confirming that supplier has systems to verify legal origin. Soil Association has a high commitment to local capacity building and development of local partnerships and a long track record of delivering FSC certification with systems to assist managers gradually work towards certification. FSC accreditation for forest and CoC is not yet available for controlled wood sources. There is no accreditation associated with the legal verification tool by Soil Association.

### ***Additional information on the company***

#### *Address:*

Soil Association, Woodmark, Bristol House, 40-56 Victoria Street, Bristol BS16BY, UK  
Tel: +44-(0)117 9142435

#### *Contact person:*

Kevin Jones  
Email: [kjones@soilassociation.org](mailto:kjones@soilassociation.org)

Woodmark Soil Association also delivers FSC certification since 1996 and is working with Track Record to develop new and innovative solutions for legal verification and timber tracking by looking at new ways of auditing chain-of-custody as part of Track Record's log tracking offering (see Tool 5). These new approaches aim to be more data driven, based on real-time data with various escalation procedures built in. It is yet to be seen whether this will lead to cheaper and more effective chain-of-custody systems.

Soil Association has no on-the-ground experience in Indonesia as yet.



## TOOL 5: TRACK RECORD/TROPICAL FOREST TRUST - CoC COMPONENT

Track Record and Tropical Forest Trust (TFT) work closely together on designing and implementing a log tracking/chain of custody system, that is it-supported. This tool provides integrated tracking services for clients whom:

- Rely on physically remote and complex supply chains;
- Need to track their products and their condition in real-time;
- Need to be able to prove this to others through independent verification;
- Need to optimise supply-chain management.

The starting point for the verification of legality is identification of the source forest. Track Record will issue pre-registered bar code labels to attach to trees selected for harvesting. The mill that processes the timber must provide information including (in the case of Indonesia):

- Whether the mill has a Central Government Quota;
- Ensure that they are operating within them;
- Assess the legality of the source forests licence;
- Calculate the degree to which the mill has a functioning Chain-of-Custody;
- Whether the mill is operating within conversion efficiency limit set by BRIK.

It is likely that any importer dealing directly with a secondary processor will find it difficult to find where the timber is originated. This will only come through the implementation of a system like Track Record, which provides technical advice on the setting up of a log tracking system based on bar coded labels, hand held PC's and information communicated over the Internet to a database with reports being delivered over the internet.





To demonstrate reliability and transparency, Track Record will work with Soil Association to validate Track Records documented procedures and systems, and secondly will seek ISO 9000 series certification. Transparency will be further organised through a range of Track Record configured web site 'views'. The Forest Manager can access a pre-configured view of their own supply chain data that delivers easy-to-understand information germane to his/her responsibilities. Track Record delivers an 'always on' real-time traceability system for complex and remote supply chains. Its ability to store and analyse large data sets and to alert users to any discrepancy - throughout the supply chain, and in real time - will mean that an offending factory or producer can be detected and challenged immediately (rather than months after the event if the discrepancy comes to light in a manual audit, conducted long after the wood has been bought and sold). Legal compliance can then focus its attention on those companies where there are significant non-compliances. A producer can communicate its own or a supplier's results to stakeholders through their audit supply chain on the Track Record website.

Track Record aims to provide clarity of information on products and assets in terms of location, quantity and quality, better security, independent verification and will deliver:

- Real-time reporting for the component businesses and the auditors;
- Automated Attention Reports as supply chains break down;
- Automated Attention Reports when product performance differs from the anticipated.

Under development are also (a) management reports (tailored reports for end-users to help organisations concerned do their job more effectively), and (b) attention reports (reports on inconsistencies communicated over the Internet and captured on the Track Record database). Track Record's tracking service is currently not subject to any accreditation.

### ***Additional information on the company***

The Tropical Forest Trust and Track Record are working together on designing and implementing log tracking and chain of custody supported technology. TFT is operating a field-test at present in Malaysia. The system utilises bar-coding and internet based access to data to track timber flows through the supply chain 'back-to-stump', and will be an integral part of the TFT's Wood Control Systems monitoring capacity. Track Record in this case is only implementing part of the trial. The system installed in Malaysia is based on previous experience gained in Cameroon and the Congo by a log tracking company called Forest Log, which was renamed Track Record in early 2004. Track Record has as yet no experience in Indonesia.

As a further example of the partnership, Track Record has started work with TFT on some reporting tools that take the raw forestry data captured in the forests in Malaysia and convert it into management reports that the forest managers can access via password protected web sites.

#### *Address:*

Track Record  
Frank Miller  
Tel: +44 (0) 1993 868 064;  
Cellphone: +44 (0) 7974 116 869  
Email: frmillier@trackrecordglobal.com

Bill Miller  
Tel: +44 (0) 1993 868 024;  
Cellphone: +44 (0) 7973 169 858  
Email: wmmiller@trackrecordglobal.com

The TFT was established as a UK non profit company in 1999. The TFT links the supply chain from producing members through supplying members - who manufacture and/or trade in wood products that are sold to buying members. Its working methods help raise awareness of what forest certification implies and strengthens practical engagement in partnership with forest managers to help them progress step by step to FSC certification.

TFT recently completed assessment of 16 ply mills' capacity to exclude illegal timber. See at:  
<http://www.tropicalforesttrust.com/news/ply.asp>.

Tropical Forest Trust  
Rue Mauverney 28, 1196 Gland, Switzerland  
Tel: +41-(0)22 9990000  
Fax: +41 (0) 22 999 00 02  
Email: info@tropicalforesttrust.com

#### *Contact person (Asia-Pacific):*

Hugh Blackett  
Email: h.blackett@tropicalforesttrust.com  
Website: [www.tropicalforesttrust.com](http://www.tropicalforesttrust.com)





## TOOL 6: SMARTSTEP BY SMARTWOOD - LEGAL VERIFICATION AND CoC

SmartStep is a new program of verification services provided by SmartWood, including legality verification as one service. The fundamental focus of legality verification is to ensure that the forest management operation has the legal right to harvest, as conferred by the national government, and then tracking timber from a concession with a legal right through stages of handling, processing and distribution, through verification of functional CoC systems, i.e. verify that a particular end product comes from a particular forest management unit. The SmartStep program to verification is a process where continual improvement is essential and different starting levels must be recognised.

The legality definition will be clarified within the nation or state in which they operate. The following three key elements were initially used for verification work in Indonesia:

- The FMU holds a valid concession license;
- The FMU holds a current and valid cutting permit;
- The FMU has a CoC system in place from the cutting block to the mill.

SmartStep will utilise other definitions of legality in other countries, as developed by stakeholders and organisations committed to achieving such definitions, such as the ongoing initiative by TNC in Indonesia (see Tool 7). For Indonesia, a list of 12 indicators for legal verification is currently available, with required verification documents listed.

SmartStep does not advocate a specific type of technology, i.e. paint markers versus bar-coding versus hammer stamping, etc. The process requires the key elements of CoC - documentation, identification, segregation, and recording. Audits involve on-site inspections, with document and physical evaluation of CoC systems, according to auditing techniques and company implementation of these elements of CoC requirements, and the number of links within the chain that need to be verified.





Information requirements include a list of all suppliers in supply chain. Screening and pre-assessment may indicate additional links in supply chain. A pre-assessment is done to identify gaps in documentation, marking, segregation, and reporting of input/output of legal timber, conformity to legal requirements, and identification of controversial, unknown, or readily classed 'illegal' timber. A full audit and regular subsequent auditing will be carried out at intervals of 30, 90, 120, 180 days.

The SmartStep CoC verification has not been subject to external or stakeholder review, and the findings have not been made public. Upon completion, the client is provided with a verification report and a verification contract. Within the contract are defined acceptable protocols for making public statements regarding the verification. These may be the equivalent of a certificate or a business to business letter of support for the verification claim. The summary of the scope of the verification and the resulting statement is publicly available. All CoC verification audits lead to a report that is distributed to the client and to internal review within SmartWood. At least one other auditor will crosscheck the verification audit.

Verification Services are linked within the SmartWood systems and procedures for quality systems administration and have not been subject to accreditation.

### ***Additional information on the company***

The regional office in Jakarta has been responsible for carrying out verification services in South East Asia, including several cases of verification of the CoC system in Indonesia.

#### *Address:*

SmartWood Program, Rainforest Alliance, Wisma Anugraha Lt. 1,  
Jl. Taman Kemang 32B, Jakarta Selatan 12730, Indonesia  
Tel: +62-21-71790038  
Email: [rzd@smartwood.org](mailto:rzd@smartwood.org)

#### *Contactperson:*

Jeff Hayward  
Email: [jhayward@smartwood.org](mailto:jhayward@smartwood.org)  
Website: [www.smartwood.org](http://www.smartwood.org)

The Tropical Forest Foundation (TFF) launched a program in Indonesia that fosters sustainable forest management and implements a tracking system to ensure legally harvested timber. SmartWood is involved as an auditor of the CoC system. A first audit has been undertaken in West Kalimantan in 2003.

Tropical Forest Foundation - Indonesia  
Manggala Wanabakti, Blk. IV 9th Floor Wing B,  
Jl. Gatot Subroto 10270, Jakarta  
Tel: +62 (021) 5735589  
Fax: +62 (021) 57902925  
Email: [tff@cbn.net.id](mailto:tff@cbn.net.id)

#### *Contact person (Asia):*

Art Klassen  
Website: [www.tropicalforestfoundation.org](http://www.tropicalforestfoundation.org)





## **TOOL 7: WOOD LEGALITY VERIFICATION AND TRACKING PROGRAM BY TNC - LEGAL VERIFICATION AND CoC**

A tool is being developed whereby forest concessionaires and mill operators will be able to join by submitting themselves to an independent legality verification system which includes:

- An audit of their operations on legal compliance using a legal standard (at least twice annually);
- Installing and operating a computerised CoC monitoring system as provided by the project, providing full stock reports at all stages of inventory and production; such report also be subject to regular audits.

The new legal standard being used by TNC is that developed in Indonesia with input from a wide range of stakeholders including government, forest industry, NGOs and forest certification bodies. This will reduce the controversy inherent in nominating any definition of legality in the Indonesian forest sector. It consists of 7 principles with defined criteria and indicators for each, including laws and regulations relating to land tenure and use rights and responsibilities, physical and social and environmental impact, community relations and workers rights, timber harvesting laws and regulations, forest taxes, log identification and transport, timber processing, sales and shipping. A requirement to assess the legal source of logs in the past year/s is not included in the standard. The audit is conducted like an ISO audit with non-conformances being issued and included in the overall report. The possibility of a phased implementation of legality requirements is possible.

Legal verification starts in the forest and then continues up the supply chain, ensuring at each step that there is no contamination from illegal sources. The CoC monitoring system involves bar-coded tags for logs and product packs that are monitored by portable recorders with scanners to enable users and auditors to track their wood from the forest to processing mills and markets, and provide statutory reports required by government agencies. A software package will be provided to companies to produce all the reports required for tracking,

and required by Indonesian authorities, and will thus reduce workload by companies. A central database is maintained by an independent third party and operated to hold all records of the CoC production chain. The chain will be audited at regular points on a regular basis. The database will be accessible to everyone. The data base can be queried at any stage by stakeholders providing the relevant tags numbers to check on the authenticity (legal origin) of the timber consignment. This is a robust system, different from sporadic audits of legal documents.

While in the field, auditors will carry out independent checks and consult a range of stakeholders including local communities and workers. Following a successful audit, a forest concession will receive a numbered statement of 'Legal Verified Wood' for a specific product and period of validity. The audit summary report will be publicly available on a website.

There is no accreditation system available for 'legal verification'. The system being applied will be more rigorous than the FSC CoC certification system, and will be designed for a climate where cheating is rampant and condoned.

The whole system is being field tested in a pilot project in two major forest concessions in Kalimantan (PT Sumalindo and PT Daisy Timber). Results are expected by end 2004 and will be widely disseminated.

### ***Additional information on the company***

#### *Address:*

The Nature Conservancy (TNC)

#### *Contact person Indonesia:*

Morey McLeash

Email: [mmcleish@cbn.net.id](mailto:mmcleish@cbn.net.id)

Tel: +61 21 720 6484

The TNC tool is being developed by SGS Natural Resource Monitoring Services and URS Forestry.

The project is now in the phase of being field-tested.

#### *SGS NRMS (Switzerland)*

Natural Resource Monitoring Services, Sustainable Forestry Programme

1, place des Alpes, P.O. Box 2152, CH-1211 Geneva 1

Tel: +41 (0)22 739 9111/9502 (direct line)/

+41 (0)79 502 8632 (mobile)

Fax: +41 (0)22 739 9839

Email: [Adelarochefordiere@sgs.com](mailto:Adelarochefordiere@sgs.com)

#### *Contact persons:*

Antoine de La Rochefordière, Bruce Telfer

Email: [bruce.telfer@sgs.com](mailto:bruce.telfer@sgs.com)

Tel: +675 323 1433

Grahame Applegate, URS Forestry

Email: [grahame\\_applegate@urscorp.com](mailto:grahame_applegate@urscorp.com)

Tel: +62 21 392 6870

Website: [www.sgs.com/sustainable\\_forestry\\_monitoring](http://www.sgs.com/sustainable_forestry_monitoring)





# 4 Test quotations

In this section an overview of the results of the test quotations is given. Per specified test case the responses of the approached auditors are compiled so that a comparison can be made.

Starting point for the test quotation is a timber trader who imports a certain volume of timber products from Indonesia to the Netherlands or United Kingdom. The importer wants this timber flow to be verified as coming from legal sources. There are two different scenarios to address this demand resulting in five different cases for which a test-quotation was requested. The auditors have been asked to provide the following information for each of the cases:

- Mention the tools and steps involved to undertake legal verification and tracking activities;
- Specify the required assumptions to be able to make a cost estimate;
- Indicate per tool a cost estimate, possible with its range of variation, preferably in Euro/m<sup>3</sup>. If possible, specify costs per tool and/or step;
- Indicate the estimated timeframe required undertaking the audit.

Some general comments and remarks on the test quotations:

1. **Timber Tracking Programme by SGS Malaysia:** takes into account the need for 3rd party verification, but not additional costs for remote forest areas, cost estimates are rather standard.
2. **Legal Verification and Wood Tracking Programme GFS:** the test quotations are similar to those for Tool 1, but slightly more specific and less costly. This can be understood by the fact that they have been filled in by the same person, who recently started his own GFS business.
3. **Certified Source Timber Programme by Schutter Malaysia Sdn Bhd:** No overall cost estimates have been given. No specifications are given concerning 3rd party suppliers.
6. **SmartStep by SmartWood:** no costs are given, nor rates for fees.





## **SCENARIO 1: The importer seeks new suppliers whose sources have been verified as being legal. The buyer requires a tracking system from the supplier to the market.**

### **Case 1-1.**

**Please describe the available tool/s to do so, and provide an indication of the costs involved, for example referring to field projects with forest companies and processing industries that your company is presently involved in.**

#### **1. Timber Tracking Programme by SGS Malaysia**

If an importer seeks new suppliers with legal timber sources, the importer would be requested to identify key product suppliers. SGS would then conduct a site audit to verify the current gaps in the system in each factory to verify traceability of raw material to an individual forest or plantation area. SGS would recommend the most feasible factories and sources of raw material to be considered for participation in the Timber Tracking Programme.

Costs would vary based on time and manpower needed to audit the factories, hold discussions with the forest managers and evaluate forest concessions to legal compliance. Average time required would be 8 man-days per forest area, and 3 man-days per factory. Fees are US\$ 750 per man-day. Total costs would be about US\$ 2,700 per factory and US\$ 6,800 per forest area. Factories and forests would need to be audited at least every 6 months to verify continual compliance.

#### **2. Legal Verification and Wood Tracking Programme by GFS**

Similar to test quotation for Tool 1, with the following differences:

- Fees are US\$ 600 and time estimates are also lower so that overall costs are about 30% lower;
- There is the possibility of conducting separately a legal origin audit (2 days), legal compliance and CoC (6 days), or a simple batch inspection (half a day per factory).

#### **3. Certified Source Timber Programme by Schutter Malaysia**

The process is one of verifying legality as described above: verification of documents, physical inspections of the logs in log yard, sawmill and of shipment location. The total assessment takes an estimated 4 to 9 man-days. Fees are US\$ 500 excluding expenses.

#### **4. Soil Association**

Considering following assumptions, legal verification takes 5 days with total cost of US\$ 2500:

- Supply from forest verified as legal includes documentary evidence/certificate verifying legality/controlled wood status;
- No visit to forest required by Soil Association;
- Issue chain of custody certificate of legal verification/controlled wood to new supplier based on own controlled wood systems;
- New system and concept for supplier therefore pre-assessment visit and report needed;
- Main assessment when new supplier systems in place visit, report, certificate.

#### **5. Track Record.**

The activities to be undertaken will include the establishment of a tracking system with bar codes and satellite-based tracking system. Material (hardware and software) costs excluding installation and training are estimated at US\$ 6720, under the following assumptions:

- Supplier will want Application Service Provider option. Stand alone options are available but loose 'transparency' and are more costly;
- Impossible to calculate a total cost because some costs are volume dependent (i.e., labels);
- Assumes need for satellite communications (i.e., not possible to connect with link directly to an ISP);
- It is assumed that over time chain-of-custody costs will drop as auditing becomes more automated.

## 6. SmartStep by SmartWood

Verification could involve a range of suppliers from 1 to 100. This would be an in-depth project, with too many variables, to provide a substantive 'proposal' at this point in time. Ultimately, through working closely with the importer we would identify what the volume, species, product needs are; compare current supply situation to desired situation; then propose a pilot project to focus on a segment of the total supply. It would require an assessment of the supply chain, working with a provider of technical assistance to the suppliers to ensure understanding and implementation of CoC systems was adequate, and then scoping and assessment of pilot participants.

## 7. Wood Legality Verification and Tracking Program by TNC

Initially timber must be tracked back to the forest, then tracking can become an ongoing monitoring process. First the company will need to undergo a legal verification audit against new Legality Standard, including forest concession/s and sawmill/s. Probably 2 audits are required to close out non-compliances. First audit will take 10 mandays, second 6 mandays, with a total average cost of US\$ 16,000 (variation according to size of concession and compliance to standard). Surveillance and auditing will add another US\$ 10,000 per year.

Secondly, a tracking system will need to be installed. This includes installation and training, followed by regular audits. Installation of the system from forest concession/s to sawmill/s will cost at average US\$ 15,000 (including consultancy costs, software and hardware). Subsequently, independent auditors will sample check the data provided by the system, which would cost at average US\$ 12,000.

### Case 1-2.

**If the timber flow were to run via trading or wood processing companies in Malaysia or Singapore, prior to export to Europe, what would be additional steps to be undertaken and additional costs involved?**

### 1. Timber Tracking Programme by SGS Malaysia

Would require additional 2 man-days for each involved facility in Malaysia or Singapore, unless major non-compliances are found which would require more man-days for closing-out.





## 2. Legal Verification and Wood Tracking Programme by GFS

Similar to test quotation for Tool 1, with slightly lower costs due to lower fees (US\$ 600).

## 3. Certified Source Timber Programme by Schutter Malaysia

If the timber flow runs through Malaysia or Singapore, an additional 2-4 days is required for inspection of the companies concerned.

## 4. Soil Association

Considering following assumptions, legal verification will take 10 days with total cost of US\$ 5,000:

- Bullet points above, and
- Issue chain of custody certificate of legal verification to processor based on own controlled wood systems.

## 5. Track Record

Similar as case 1.1, material costs estimated at US\$ 8,860.

## 6. SmartStep by SmartWood

The wood traders in Malaysia and Singapore would require CoC systems to be in place and verification auditing to take place. As above, there are too many variables inherent in the case to propose a work plan.

## 7. Wood Legality Verification and Tracking Program by TNC

Both traders and processing companies will need to have tracking systems for ensuring CoC integrity. In the case of the traders this would be simple if traders do not break open the original product packs. Wood processing companies and traders who break product packs would need to install a CoC tracking system to keep verified products distinguished from unverified ones. Cost estimates are given above (case 1-1). Additional CoC audits would be at average US\$ 4,000 annually.



**SCENARIO 2:** The importer requests suppliers to undergo legal verification and tracking. In such cases, there might be information missing about the ultimate source of the timber product. Please can you describe the available tools and steps to be applied and provide an indication of the costs involved, referring to the following three typical cases. You do not need to contact any of the mentioned companies at this time. We mention the supplier names to enable you to enhance your quotation. The company names will not be mentioned in any public documentation.

**Case 2-1.**

**Buyer:** several major timber trading groups in the UK and Netherlands

**Supplier:** Indonesian plywood company X

- Plywood;
- 35,000 m<sup>3</sup> per year;
- plywood mills in Riau, and South Kalimantan;
- supplier has own concessions in Kalimantan and Papua and also buys from third parties;
- purchases via timber agent in a third European country;
- several major UK and Dutch importers buy from the supplier, independently but via the agent.

**1. Timber Tracking Programme by SGS Malaysia**

The simple method would be to limit the supply chain to the company's mills and own concession areas, with 3 man-days and additional costs per factory and additional time needed for closing out major non-compliances. Verification of legal compliance for forestry concessions owned by the company would be 7-9 man-days per forest area. The inclusion of 3rd party suppliers would require that in addition forest areas of the 3rd party supplier would need to be independently audited for legal compliance. Assuming 2 plywood mills and 2 forest areas would amount to about US\$ 21,000.





## 2. Legal Verification and Wood Tracking Programme by GFS

Similar to test quotation for Tool 1, with slightly lower costs due to lower fees (US\$ 600).

## 3. Certified Source Timber Programme by Schutter Malaysia

Method and scope of inspection are similar to those mentioned for case 1-1. Man-day requirements and costs depend upon location and accessibility to site inspections.

## 4. Soil Association

Considering following assumptions, legal verification will take 24 days with total cost of US\$ 12,000:

- Issue Company X a legal verification/controlled wood chain of custody certificate, requiring pre-assessment and assessment;
- Company X system based on tracking methodologies from own concessions therefore no need to visit forest concessions provided documentation and means of verification of tenure available at mills. Check systems and use of Track Record bar code allocation;
- Need to assess Company X systems for controlling suppliers outside of concessions - option 1 - Assess legality at forest concession level and issue verification of legal origin certificate - option 2 - rely on Company X systems based on Track Record bar code allocation scheme;
- Verify supplies at input to ply mills using Track Record bar codes;
- Issue legal verification/controlled wood certificate to each Company X ply mill;
- Assess legal verification at agent and issue certificate of legal verification. Track Record bar codes verify agent documentation and delivery to final customer. Check sample Track Record bar codes at final customer to verify whole chain of supply.

## 5. Track Record

Similar as earlier cases, with material costs estimated at US\$ 6,895, and additional assumption:

- Assumes to satellite communications on concessions;
- Assumes no satellite system for 3rd parties;
- Based on volume in/volume out approach for mill - if this proved insufficient would need tracking system for the mill, which would be an additional cost.

## 6. SmartStep by SmartWood

Verification would involve 1 timber agent; 2+ plywood mills; 2+ concessions, and would, at minimum, require participation of 1 timber agent, 1 plywood mill, and 1 concession. Timber trader requires desk verification of documentation supporting CoC system. Mills and concessions require field inspections and verification of CoC system on-site. Minimum Legal Requirements to verify at concession(s) level to the plywood mill(s) would be based on a set of 12 indicators. Verification would be conducted by Indonesian based SmartWood personnel and auditors. The number of days required would vary from 15 to 30.

## 7. Wood Legality Verification and Tracking Program by TNC

Verification would need to start with the own concessions and sawmills to undergo legal compliance audits and install tracking system (see case 1-1). Thus products from the verified concessions can be sold as 'legal' as it would exclude any wood from third parties. Effectively the company would need to operate two production chains and keep records segregated. Over time and using experience gained, the company could investigate the forest origins of logs from third parties and support them to join the verification system.

### Case 2-2.

**Buyer: medium sized timber importer in the UK or Netherlands**

**Supplier: Indonesian supplier company XX**

- Sawn and profiled timber;
- Bangkirai
- 10,000 m<sup>3</sup> per year;



- **Sawmill in Medan;**
- **Supplier does not own concessions, and buys from third parties;**
- **Several major UK and Dutch importers buy from the supplier.**

#### 1. Timber Tracking Programme by SGS Malaysia

SGS would need to conduct an assessment of company XX and its sawmill, and also assess key 3rd party suppliers to meet the 10.000 m<sup>3</sup> demand. Total costs including anticipated close out non-compliance visits for three sawmills would be about US\$ 8,100. To meet 10,000 m<sup>3</sup> of sawn timber estimated costs for the 3 forest areas are about US\$ 21,000, thus totalling US\$ 29,100.

#### 2. Legal Verification and Wood Tracking Programme by GFS

Similar to test quotation for Tool 1, with slightly lower costs due to lower fees (US\$ 600).

#### 3. Certified Source Timber Programme by Schutter Malaysia

Method and scope of inspection are similar to those mentioned for case 1-1. Man-day requirements and costs depend upon location and accessibility to site inspections.

#### 4. Soil Association

Considering following assumptions, legal verification will take 9 days with total cost of US\$ 4,500:

- Aim to put systems in place at company XX to verify and certify legal/controlled wood sources with bar code allocation to verified suppliers;
- Risk based sampling approach backed by Track Record data;
- Sample a selection of suppliers to test system - check allocation of bar codes;
- Sample a selection of final products in UK/Netherlands - check bar codes.

#### 5. Track Record

As case 2-1, costs are US\$ 4,820.

## 6. SmartStep by SmartWood

Verification would involve 2+ timber importers; 1 sawmill; 2+ brokers; 1+ concession, and would, at minimum, require participation of timber importers; 1 sawmill, 2+ brokers and 1 concession. Timber traders require desk verification of documentation supporting CoC system. Mill, brokers, and concession(s) require field inspections and verification of CoC system on-site. Emphasis would be first on identifying which concessionaires supply the brokers and targeting 1 to 2 key concessionaires that could meet minimum legal compliance and then exclude other prior sources. Minimum Legal Requirements to verify at concession(s) level to the plywood mill(s) would be based on a set of 12 indicators. Verification would be conducted by Indonesian based SmartWood personnel and auditors. The number of days required would vary from 20 to 40.

## 7. Wood Legality Verification and Tracking Program by TNC

This is a difficult situation. The only option for the supplier would be to buy from concessions that have been verified as legal and running the tracking system for logs. Since the volume is rather small, it could be a solution to buy from 1 concession and this make it economic for this concession to join the scheme.

### Case 2-3.

**Buyer: a major timber trading group in the UK or Netherlands**

**Supplier: Indonesian supplier company XXX**

- Laminated timber products;
- Meranti;
- 5,000 m<sup>3</sup> per year;
- Processing plant in Surabaya;
- Supplier owns a concession in East Kalimantan, and buys from third parties.

### 1. Timber Tracking Programme by SGS Malaysia

SGS would need to conduct an assessment of company XXX which would take 2 days per factory plus expenses. To meet 5,000 m<sup>3</sup> of laminated products it is assumed that one concession in East Kalimantan would be enough. Total costs would be about US\$10,000.

### 2. Legal Verification and Wood Tracking Programme by GFS

Similar to test quotation for Tool 1, with slightly lower costs due to lower fees (US\$ 600).

### 3. Certified Source Timber Programme by Schutter Malaysia

Method and scope of inspection are similar to those mentioned for case 1-1. Man-day requirements and costs depend upon location and accessibility to site inspections.

### 4. Soil Association

Considering following assumptions, legal verification will take 9 days with total cost of US\$ 4,500:

- Aim to put systems in place at company XXX to verify and certify legal/controlled wood sources with bar code allocation to verified suppliers;
- Aim to assess and certify company XXX system based on tracking methodologies from own concessions therefore no requirement to visit forest concessions on Kalimantan and Papua provided documentation and means of verification of tenure available at mills. Check systems and use of Track Record bar code allocation;
- Risk based sampling approach for other suppliers backed by Track Record data;
- Sample a selection of suppliers to test system - check allocation of bar codes;



- Sample a selection of final products in major buyers distribution centre UK/Netherlands - check bar codes.

#### 5. Track Record

As case 2-1, costs are US\$ 5,820.

#### 6. SmartStep by SmartWood

Verification would involve 1+ timber importers; 1 processing facility; 1+ brokers; 1+ concession, and would, at minimum, require participation of timber importers; 1 processing facility, 1+ brokers and 1 concession. Timber traders require desk verification of documentation supporting CoC system. Processing facility, brokers, and concession require field inspections and verification of CoC system on-site. Emphasis would be on restricting verified wood supply to re-manufacturer to only that coming from the company managed concession. Minimum Legal Requirements to verify at concession(s) level to the plywood mill(s) would be based on a set of 12 indicators. Verification would be conducted by Indonesian based SmartWood personnel and auditors. The number of days required would vary from 10 to 20.

#### 7. Wood Legality Verification and Tracking Program by TNC

This case is similar to case 2-1, with the difference of small volume. Cost for such a small volume would likely be high on a unit basis. Small producers could supply legal products if there were a number of larger concessions participating in the scheme who are prepared to sell to a range of processing plants. There needs to be an economy of scale factor taken into account.



# 5 Comparison of available tools

In this chapter a comparison is made and presented of the different tools that are available.

Regarding legality compliance, tools have been classified and characterised using the points of attention and criteria listed in section 2.2. Concerning CoC tracking, tools have been classified and characterised using the points of attention listed in section 2.4.

Judgements of the tools using these criteria are made by the authors of this toolbox, as a best professional judgement based on the available information including the quotations. In a general sense, an indication has also been included on the quality and credibility of the information sources.

Scores range from ++, + and 0 as indicated in the following explanation.

## LEGAL COMPLIANCE CRITERIA AND SCORES

1. Legality definition applied: (in terms of covering possible legality issues)
  - broad ++
  - average +
  - narrow 0
2. Effectiveness/rigour:
  - strong (computerised, comprehensive) ++
  - average (based on documents mainly) +
  - weak or unclear 0
3. Credibility of the system (procedural):
  - strong (3rd party independent verification, NGO support/credibility) etc. ++
  - average (mixed) +
  - weak (government verification) 0
4. Transparency: (audits and reports easily accessible to the public)
  - high ++
  - average +
  - low 0
5. Costs: (low costs, limited human resources, simple procedures)
  - Low ++
  - Average +
  - High 0
6. Experiences:
  - In Indonesia ++
  - Elsewhere in SE Asia +
  - None or unclear 0

## CoC INTEGRITY CRITERIA AND SCORES

1. Effectiveness/rigour: (product identification, segregation, documentation, sustainability, entire CoC)
  - high ++
  - average +
  - low 0

2. Credibility of the system (procedural): (frequency of audits, 3rd party verification, NGO/ stakeholder support)
  - strong ++
  - average +
  - weak 0
  
3. Specific attention for third party suppliers:
  - well-defined ++
  - mentioned +
  - not mentioned 0
  
4. Transparency: (audits and reports easily accessible to the public)
  - high ++
  - average +
  - low 0
  
5. Costs: (cheap technology, low costs, limited human resources, simple procedures)
  - Low ++
  - Average +
  - high 0
  
6. Experiences:
  - In Indonesia ++
  - Elsewhere in SE Asia +
  - None or unclear 0

## Overview matrix

	Tools in Toolbox						
Legal verification	1a/b	2a/b	3	4	5	6	7
1. Legality definition	+	+	0	+		++	++
2. Effectiveness/rigour	+	+	+	+		+	++
3. Credibility procedural	+	+	+	?		?	++
4. Transparency	+	+	+	++		+	++
5. Costs	+	++	++	+		+	0
6. Experiences	++	+	+	0		++	+
<b>CoC integrity</b>							
1. Effectiveness/rigour	+	+	+		++	+	++
2. Credibility procedural	+	+	+		?	++	++
3. Attention third party suppliers	+	+	0		+	++	++
4. Transparency	+	+	+		++	+	++
5. Costs	+	++	++		+	+	0
6. Experiences	++	+	+		+	++	+
<b>Quality of information sources and quotations</b>	+	+	0	++	++	+	++



## REFERENCES

Dykstra et al., 2003. *Technologies for Wood Tracking. Verifying and Monitoring the Chain of Custody and Legal Compliance in the Timber Industry*. EASES Discussion Paper. January 2003.

ERM, May 2003. *Feasibility of and Best Options for Systems for the Identification, Verification, Licensing/ Certification and Tracking of Legality of Timber and Related Products for Import into the EU*.

NTTA/VVNH 2003. *Een gezonde toekomst voor hout; Beleidsplan VVNH 2003-2005*. Policy Plan VVNH, Almere Netherlands.



## Questionnaire and test quotation for legality verification and timber tracking

On the next pages a copy is given of the questionnaire (I) and the request for a test quotation (II) to identify tools and costs for legality verification and timber tracking that were sent to the seven auditor companies. Five cases are described for which the researchers wanted to provide an indicative quotation. It was asked that the tools are useful to verify the legality of imported timber from Indonesia for the Chain of Custody 'from forest to port'.

### I QUESTIONNAIRE

#### ***Questions about your organisation and relevant tools***

1. What legal verification and tracking tools does your company offer?
  2. What are the information requirements to be provided by the timber importer to enter your verification and tracking tool(s)?
  3. What definition(s) of "legal timber" does your organisation apply? Which types of laws, acts and regulations are covered? How is legality verified according to this definition?
  4. What technology is applied to track timber? What elements of the chain of custody are included? (forest/mill/transport/port)?
  5. How do you guarantee the reliability and transparency of the mentioned tool(s)? For instance, what information sources are used? Are relevant stakeholders involved, are results verified by stakeholders? Are results publicly available?
  6. What is the final result of the audit? A certificate, an audit report, a statement? How can the producer or importer communicate the results? Does the output have a formal status?
  7. Are your services in the area of legal verification and tracking subject to any accreditation, and if so, which?
  8. Are your tools linked to formal procedures such as Environmental Impact Assessment or SFM Certification?
  9. Please list the key advantages or Unique Selling Points you think your tool has over other comparable legal verification and tracking tools.
  10. What are available field level/company experiences with the tools? Please specify experiences in Southeast Asia.
  11. Who should potential clients contact for information (email/telephone/etc.)?
-

## II TEST-QUOTATION

Starting point is a timber trader who imports a certain volume of timber products from Indonesia to the Netherlands or United Kingdom. The importer wants this timber flow to be verified as coming from legal sources. There are two different scenarios to address this demand resulting in five different cases for which we request a test-quotation.

Please provide the following information for each of these cases:

- Mention the tools and steps involved to undertake legal verification and tracking activities;
- Specify the required assumptions to be able to make a cost estimate;
- Indicate per tool a cost estimate, possible with its range of variation, preferably in EUR/m<sup>3</sup>.  
If possible, specify costs per tool and/or step;
- Indicate the estimated timeframe required undertaking the audit.

**SCENARIO 1: The importer seeks new suppliers whose sources have been verified as being legal. The buyer requires a tracking system from the supplier to the market.**

### Case 1-1.

Please describe the available tool/s to do so, and provide an indication of the costs involved, for example referring to field projects with forest companies and processing industries that your company is presently involved in.

### Case 1-2.

If the timber flow were to run via trading or wood processing companies in Malaysia or Singapore, prior to export to Europe, what would be additional steps to be undertaken and additional costs involved?

**SCENARIO 2: The importer requests suppliers to undergo legal verification and tracking. In such cases, there might be information missing about the ultimate source of the timber product. Please can you describe the available tools and steps to be applied and provide an indication of the costs involved, referring to the following three typical cases. You do not need to contact any of the mentioned companies at this time. We mention the supplier names to enable you to enhance your quotation. The company names will not be mentioned in any public documentation.**

### Case 2-1.

Buyer: several major timber trading groups in the UK and Netherlands

Supplier: Indonesian plywood company X

- plywood
- 35,000 m<sup>3</sup> per year
- plywood mills in Riau, and South Kalimantan
- supplier has own concessions in Kalimantan and Papua and also buys from third parties
- purchases via timber agent in a third European country
- several major UK and Dutch importers buy from the supplier, independently but via the agent

### Case 2-2.

Buyer: medium sized timber importer in the UK or Netherlands

Supplier: Indonesian supplier company XX

- sawn and profiled timber
- bangkirai
- 10,000 m<sup>3</sup> per year



- sawmill in Medan
- supplier does not own concessions, and buys from third parties
- several major UK and Dutch importers buy from the supplier

**Case 2-3.**

Buyer: a major timber trading group in the UK or Netherlands

Supplier: Indonesian supplier company XXX

- laminated timber products
  - meranti
  - 5,000 m<sup>3</sup> per year
  - processing plant in Surabaya
  - supplier owns a concession in East Kalimantan, and buys from third parties
-

## The DFID definition for legality - Principles, Criteria and Indicators of Legality for Forestry Operations and Timber Processing in Indonesia; Draft Number 1.0: 26 May 2004

*"Timber is legal when the validity of its origin, logging permit, logging system and procedures, administration and transport documentation, processing, and trade or transfer are verified as meeting all applicable legal requirements."*

- Principle 1. Land Tenure and Use Rights
- Principle 2. Physical and Social Environmental Impact
- Principle 3. Community Relations and Workers Rights
- Principle 4. Timber Harvesting Laws and Regulations
- Principle 5. Forest Taxes
- Principle 6. Log Identification, Transfer and Delivery
- Principle 7. Timber Processing and Shipping

### PRINCIPLE 1. LAND TENURE AND USE RIGHTS

The legal status of, and tenure rights to the Forest Management Unit are clearly defined and its boundaries have been properly gazetted. The Company has documented, legally established rights to harvest timber within those boundaries, and harvests timber only within those boundaries.

**Criterion 1.1:** Areas covered by HPH, IUPHHK or HPHTI or land managed by Perum Perhutani must be located in the permanent state forest zone. Land clearing associated with non-forestry activities that are nationally approved or authorised by district governments may only be located outside the permanent state forest zone.

- 1.1.1 If the Forest Management Unit is covered by a natural forest selective felling permit [HPH (IUPHHK pada HA)], an industrial timber plantation permit [HPHTI (IUPHHK pada HT)], or is licensed to the state-owned enterprise Perum Perhutani, it must be located within the permanent state forest zone.
- 1.1.2 Land clearing associated with nationally approved non-forestry activities or authorized by district governments may only be located outside the permanent state forest zone. Any declassification of land from forest to non-forest (such as agricultural plantations) must have taken place with the free and prior informed consent of local and adat communities, and be gazetted in a manner consistent with applicable regulations.

**Criterion 1.2:** The Company holds a license to harvest timber on the Forest Management Unit that has been formally approved by the appropriate government authority.

- 1.2.1 In the case of land in the permanent forest zone, the Company holds a valid HPH, HPHTI or IUPHHK that has been approved by the Ministry of Forestry and that has been issued only with the free and prior informed consent of all affected communities.
- 1.2.2 In the case of land that is not in the permanent forest zone and is subject to clearing for a non-forest use, or land in the permanent forest zone that is subject to clearing for HTI, the Company holds a (ILS) IPK for the area that has been approved by national and provincial, or provincial and district, forestry authorities, as required by national forestry law, and that has been issued only with the free and prior informed consent of the affected communities.

- 1.2.3 In no cases do the gazetted boundaries of a license area conflict with any land use classification in which the activities allowed under that license are prohibited.

**Criterion 1.3:** There are plans for the Forest Management Unit that meet all applicable government regulations.

- 1.3.1 Areas covered by HPH, HPHTI or IUPHHK have long term (20-year), medium term (5-year) and annual management plans approved by the appropriate government authority.
- 1.3.2 (ILS) IPK licensed areas have approved work plans (Bagan Kerja) to harvest trees from Conversion Forest for non-forestry purposes, or from Production Forest for industrial tree plantations.

## PRINCIPLE 2. PHYSICAL AND SOCIAL ENVIRONMENTAL IMPACT

The Company has an Environmental Impact Assessment (AMDAL) covering the Forest Management Unit that was prepared in the prescribed manner, and can demonstrate that it complies with all legal, physical, social and environmental requirements stated in the AMDAL, as well as all legal requirements for monitoring and associated reporting on implementation of the AMDAL.

**Criterion 2.1:** The Company has conducted a physical, social and environmental assessment of the forest operations and/or processing facility using the AMDAL Process as specified by Governmental Regulation No.27 of 1999.

- 2.1.1 The Company has a current government-approved AMDAL that was prepared in accordance with applicable regulations and covers the entire area of the licensed operations and includes an Impact Identification and Evaluation Report (ANDAL), an Environmental Management Planning Report (RKL) and an Environmental Monitoring Plan (RPL).
- 2.1.2 The Company has prepared all required Monitoring Reports based on the RPL of the AMDAL that demonstrate actions it is taking to mitigate environmental impacts and to provide social benefits.

**Criterion 2.2:** The Company provides for protection of endangered species, as listed in Indonesian Government Regulations 7 and 8/1999[5] whose range or habitat form part of the Forest Management Unit

- 2.2.1 The Company implements procedures to identify endangered species whose range or habitat occur in the Forest Management Unit and to protect those species and their habitats.
- 2.2.2 The Company implements procedures that demonstrate its compliance with Government Regulation 7 and 8 /1999.

## PRINCIPLE 3. COMMUNITY RELATIONS AND WORKERS RIGHTS

The Company complies with all its legal responsibilities in ensuring the well-being of communities affected by its activities in the Forest Management Unit, its provision of services to local communities, and the well-being and safety of its workers and contractors employed in the Forest Management Unit.

**Criterion 3.1:** The Company has identified all communities affected by its activities in the Forest Management Unit and has obtained their free and prior informed consent to carry out those activities.

- 3.1.1 The Company has identified all communities affected by its activities in the Forest Management Unit and taken reasonable steps, including announcements in local media, to inform them about its planned activities.
- 3.1.2 The Company has held and documented the proceedings of public consultations with each community affected by its planned activities in the Forest Management Unit.
- 3.1.3 The Company has made good faith efforts to reach a consensus concerning implementation of its planned activities in the Forest Management Unit with each community affected by those activities.



**Criterion 3.2:** The Company has identified and documented the traditional rights of communities affected by its activities in the Forest Management Unit and can demonstrate that it respects those rights.

- 3.2.1 The Company has documented the traditional rights claimed by each community affected by its activities in the Forest Management Unit.
- 3.2.2 The Company has developed plans in association with affected communities that describe how areas and/or resources covered by traditional rights within the Forest Management Unit are to be managed, detailing use, access and any compensation arrangements.

**Criterion 3.3:** The Company has entered into and honors agreements with local communities (as distinct from affected communities) that clearly specify social benefits (such as health and community development) it will provide to them.

- 3.3.1 The Company has documented agreements with local communities that clearly describe social welfare and community development projects it will undertake for them.
- 3.3.2 The Company can demonstrate that it is implementing those agreements.

**Criterion 3.4:** The Company respects its employees' rights to organize and voluntarily negotiate their employment conditions in accordance with International Labor Organization (ILO) conventions 87 and 98, enacted through Law no 13/ 2003 on Employment.

- 3.4.1 The Company permits its employees to join recognized labor unions and can demonstrate that it does not discriminate against labor union members when making employment decisions.
- 3.4.2 When requested by a recognized labor union that represents its employees, the Company willingly enters into negotiations with that union and honors all agreements reached as a result of those negotiations.

**Criterion 3.5:** The Company complies with manpower regulations regarding worker safety and health, benefits in kind, minimum salary, termination and contractors' conditions, as specified in the TPTI or TPTJ, as applicable.

- 3.5.1 The Company pays its employees' salaries and provides them with benefits in kind in a manner that meets the minimum legal requirements as prescribed in Law 13/2003 (commencing with Article 88)
- 3.5.2 The Company implements clearly defined safety procedures as prescribed in Act 1/1970.
- 3.5.3 The Company ensures that all required safety equipment (APD) and emergency first aid equipment (P3K) are available and readily accessible for use at each work site within the Forest Management Unit and that they are used in an appropriate manner.
- 3.5.4 The Company ensures that all its employees are 15 years old or above, as prescribed in Law 13/2003, Article 68.
- 3.5.5. The Company does not require any of its employees to work more than 40 hours plus 14 hours overtime per week, and allows each employee to take 12 paid days off per year in addition to statutory holidays (Law 13/2003, Articles 78 and 79).

## PRINCIPLE 4. TIMBER HARVESTING LAWS AND REGULATIONS

The Company conducts all forest planning, harvesting and other activities within the Forest Management Unit in compliance with relevant government regulations.

**Criterion 4.1:** Harvest plans for the Forest Management Unit have been approved by the appropriate government authority and have clearly defined boundaries that show areas where harvesting is allowed and areas that must be protected.

- 4.1.1 Harvest plans (RKT and IPK - Bagan Kerja) have been formally approved by the appropriate government authority.

- 4.1.2 Harvest plans have clearly delineated boundaries that show areas excluded from harvesting such as buffer zones, steep slopes, critical habitats and areas of cultural significance such as adat areas and religious areas, or those of cultural significance identified in the planning phase.

**Criterion 4.2:** The Company implements harvest operations in accordance with the legally prescribed silvicultural system or the conditions for harvesting for land clearing as applicable.

- 4.2.1 Harvesting operations comply with the requirements listed in TPTI, TPTJ, PUHH (2003) documents for RKT licensed areas, or the applicable land clearing regulations for (ILS) IPK licensed areas.
- 4.2.2 All boundaries of licensed harvesting areas are clearly demarcated on maps of an appropriate scale and on the ground.
- 4.2.3 All equipment used in forestry operations complies with BPK requirements as specified in Ministry of Forestry Decree No. 428/KPTS-II/2003.
- 4.2.4 Data for all trees harvested as listed in the cruising report (LHC) are recorded in the Daily Log Measurement Report (BU) as per PUHH (2003) requirements.
- 4.2.5 No harvesting operations have been carried out in any Exclusion Areas as shown in the approved Harvest Plan.

## PRINCIPLE 5. FOREST TAXES

The Company pays all relevant legally prescribed fees, royalties, taxes and other legal charges related to its use of the Forest Management Unit and the timber extracted from it.

**Criterion 5.1:** The Company demonstrates that it has paid all applicable concession fees and taxes for its license covering the Forest Management Unit and the timber extracted from it. These include:

- IIUPH - Iuran Izin Usaha Pemanfaatan Hutan (Forest Utilization Business Permit Fees)
  - DR - Dana Reboisasi (Reforestation Fund)
  - PSDH - Provisi Sumber Daya Hutan (Forest Resource Royalty)
  - PBB - Pajak Bumi dan Bangunan (Land and Building Tax)
  - PPH 21 - Monthly Employee Withholding Tax
  - PPH 22, 25
  - Fees agreed upon with local communities
- 5.1.1 The Company demonstrates that payments for concession fees (HPH, HTI, IUPHHK), reforestation fees (DR), and resource taxes (PSDH) are current.
- 5.1.2 The Company demonstrates that payments for community taxes based on extracted volume of timber harvested and annual building tax (PBB) and other legal charges are current.

## PRINCIPLE 6. LOG IDENTIFICATION, TRANSFER AND DELIVERY

The Company ensures that all logs transported from the Forest Management Unit are properly identified, have correct associated documentation and are transported in accordance with government regulations.

**Criterion 6.1:** The Company ensures that all logs transported from the Forest Management Unit have the required physical identification.

- 6.1.1 All logs transported from HPH, IPK (ILS), IUPHHK areas are marked using the prescribed tags and paint and chisel marks that contain sufficient information to trace each log back to the compartment (petak) and to the RKT harvest tree.
- 6.1.2 All logs transported from HPH areas have a valid MoF hammer mark to verify government clearance at the log pond.

**Criterion 6.2:** The Company ensures that all logs transported from the Forest Management Unit are properly documented.

- 6.2.1 The Company records the transport of logs from log landings (TPn) to the primary log pond (TPk) using document DP.
- 6.2.2 The Company records the transport of logs through all further log ponds en route to the processing facility using SKSHH with attached log list (DHH) that is issued before those logs leave the Forest Management Unit.
- 6.2.3 All exemptions from use of documents listed in 6.1.1 and 6.1.2 must be documented with a valid government approval form.
- 6.2.4 Where the Company is an (ILS) IPK license holder it records the transport of logs from the Forest Management Unit to the processing facility using the Faktur, or SKSHH with attached log list (DHH) as appropriate.

**Criterion 6.3:** All organizations transporting timber products have valid licenses.

- 6.3.1 Organizations operating vessels or trucks for transporting forest products outside the Forest Management Unit have licenses issued by Ministry of Transportation for the Company and for each vessel or truck it operates.
- 6.3.2 Organizations operating trucks and loaders within the Forest Management Unit have licenses issued by the Ministry of Forestry for that equipment.
- 6.3.3 Organizations transporting wood products out of a province have a PKAPT (Registered Inter-island Wood Trader Registration Number) issued by the Ministry of Industry and Trade.

## PRINCIPLE 7. TIMBER PROCESSING AND SHIPPING

Timber processing facilities and shipping companies have valid licenses and operate in accordance with relevant government regulations.

**Criterion 7.1:** Timber processing facilities, and companies engaged in trading or export of forest products comply with all legal requirements for their activities.

- 7.1.1 The timber processing facility has a legal license to operate based on its current capacity and legal BKPM that approves the investment.
- 7.1.2 The timber processing facility has an approved Industrial Raw Material Requirement Plan (RPBBI).
- 7.1.3 All organizations engaged in trading of forest products are registered with the Ministry of Industry and Trade and, if exporting processed wood products, have a registration number issued by the Ministry confirming its status as a Registered Exporter for Forest Products (ETPIK).
- 7.1.4 All raw material received by the wood processing facility must originate from one of the following sources: natural forest selective felling permit [HPH (IUPHHK pada HA)]; industrial timber plantation [HTI (IUPHHK pada HT)]; Perum Perhutani licensed area; land clearing associated with nationally approved non-forestry activities or authorized by district governments located outside the permanent state forest zone.
- 7.1.5 All logs in the log yard or log pond are accompanied by valid log transportation documents, and the information within these documents corresponds to the physical characteristics of each log.

**Criterion 7.2:** Organizations engaged in shipping of forest products for export can demonstrate their compliance with government regulations.

- 7.2.1 Each shipping company and its vessels are registered with the Ministry of Transportation (MoT).



## GLOSSARY OF TERMS AND ABBREVIATIONS

AMDAL	<i>Analisa Mengenai Dampak Lingkungan</i> /Environmental Impact Document
Adat	Customary or Traditional law
ANDAL	<i>Analisa Dampak Lingkungan</i> /Environmental Impact Assessment
APD	Safety Equipment
BKPM	<i>Badan Koordinasi Penanaman Modal</i> /Department of Coordination of Investment
BPK	Dit Jen Bina Produksi Kehutanan/Directorate General of Forestry Production Management
BU	<i>Buku Ukur</i> /Daily Log measurement Report
DHH	Product list that accompanies SKSHH
DP	Log transportation document from log landing to log pond
DR	<i>Dana Reboisasi</i> /Reforestation Fund
ETPIK	Registered Exporter for Forest Products
HPH	<i>Hak Pengusahaan Hutan</i> /Forest Timber Concession Permit
HPHTI	<i>Hak Pengusahaan Hutan Tanaman Industri</i> /Industrial Forest Plantation Permit
HTI	<i>Hutan Tanaman Industri</i> /Industrial Plantation Forest
IIUPH	<i>Iuran Izin Usaha Pemanfaatan Hutan</i> /Forest Concession Fee
ILO	International Labor Organisation
ILS	<i>Izin Lainnya Yang Sah</i> /Permits permitted under PP No 34 , 2000
IPHH	<i>Izin Pemungutan Hasil Hutan</i> /Forest Product Collection Permit
IPK	<i>Izin Pemanfaatan Kayu</i> /Land Conversion Permit
IUPHHK	<i>Izin Usaha Pemanfaatan Hasil Hutan Kayu</i> /Forest Timber Product Exploitation Permit
LHC	<i>Laporan Hasil Cruising</i> /Cruising Report
P3K	Emergency First Aid
PBB	Pajak Bumi dan Bangunan/Land and Building Tax
Petak	Compartment block (usually 100 ha) used for inventory, planning, and operational control
PKAPT	<i>Pedagang Kayu Antarpulau Terdaftar</i> /Registered Inter-Island Wood Trader
PPH	Personal Withholding Tax
PSDH	<i>Provisi Sumber Daya Hutan</i> /Forest Resource Royalties
PUHH	<i>Penatausahaan Hasil Hutan</i> /Forest Use Plan
RKL	<i>Rencana Pengalolahan Lingkungan</i> /Environmental Management Plan
RKT	<i>Rencana Kerja Tahunan</i> /Annual Work Plan
RPBBI	<i>Rencanan Pemenuhan Bahan Baku Industri</i> /Industrial Raw Material Requirement Plan
RPL	<i>Rencana Pemantauan Lingkungan</i> /Environmental Monitoring Plan
SKSHH	<i>Surat Keterangan Sahnya Hasil Hutan</i> /Legal Forest Product Transportation Permit
TPk	Log Pond
TPn	Log landing in forest
TPTI	<i>Tebang Pilih Tanam Indonesia</i> /Indonesian Silvicultural Tree Planting Scheme (selective cutting and planting system)
TPTJ	<i>Tebang Pilih Tanam</i> /Silvicultural and Tree Planting Scheme (Selective cutting and line planting system)