

FOREST PRODUCT INDUSTRIES IN INDONESIA: SECURING TIMBER FROM LEGAL SOURCES

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GOI recently reforms some regulations linked to promoting legal timber as part of combating illegal logging, enhancing Sustainable Forest Management, and increasing competitiveness of wood products.

Indonesia's Forests

Indonesia's forests are among the most extensive, diverse and valuable in the world. These forests do not only provide habitats for a wide range of flora, but also play a pivotal role in supporting economic development, the livelihoods of the rural people and the provision of environmental services. Indonesia's forests cover 120.35 million ha. or approximately 70% of Indonesia's total land areas, and are divided into three categories: production forests, conservation forests, and protection forests. Production forests are designated for commercial purpose, while conservation forests are assigned for conservation forest biodiversity and protection forest for hydrological services

Indonesia's forests have long been managed in sustainable based forest management system. For example, forests in Java, managed by state-owned enterprise (Perum Perhutani), are predominantly teak plantation have been managed in a sustainable way according to forest planning system. While in the outer island of Java due to different types of forests and the variety of species composition and richness, the forests have been managed based on the cutting block system with cutting cycle of 35 years. The forests are also managed in a certain cutting quota with limit diameter cutting is the same or above 50 cm dbh, named as Indonesian Selective Cutting and Replanting System. This system has mandated not only selective cutting to be implemented but also required to replant forest area as soon the harvesting completed. Ideally with all these systems the forests could be managed in a sustainable way.

Illegal Logging and Its Associated Trade

Illegal logging and its associated trade (mainly logs smuggling) have threatened Indonesia's forests because they undermine good forest governance and the rule of law; and result in deforestation, forest degradation, lost government revenues and conflicts. The government of Indonesia has shown seriousness in combating illegal logging and its associated trade by issuing a Presidential Instruction No. 4 in March 2005 to speed up efforts to curb illegal logging.

Other efforts related to combating illegal logging and its associated trade are bilateral agreements between Indonesia and other countries such as United Kingdom, Norway, China, Japan, South Korea, Philippines and USA. In addition the GOI established BRIK (Forest Industry Revitalization Body) on 13 December 2002 to monitor and control the legality of wood products export through endorsement system, MOU between Ministry of Forestry and PPATK (The Center for Analysis and Reporting Financial Transaction), and posting special forest police (SPORC) in 10 provinces. In general the activities combating illegal logging consist of pre-emptive

(eg. PR and capacity building to local people), preventive (forest control and surveillance), and repressive (field operation conducted by national police) measures.

Recent Development

On January 8th, 2007 in Brussels the Government of Indonesia (Minister of Forestry) and EU (Commissioner for Development and Commissioner for Environment) took a step further by releasing a joint statement to curb illegal logging and its associated trade through a FLEGT partnership. They agreed to initiate formal negotiations towards conclusion of a voluntary partnership agreement (VPA) on Forest Law Enforcement, Governance and Trade (FLEGT), which will provide assurance that Indonesian forest products imported to EU are verified to be legal. The agreement will also provide for cooperation, including capacity building, market and technical studies and knowledge-sharing.

On April 4th, 2006 the Ministry of Forestry stipulated decree No. 70/Menhut-II/2006 to set up national steering committee and multi-stakeholder working groups decree No. 63/Kum-II/2006 concerning Wood Legality Standard Harmonization. Development and harmonization of legality standard have been facilitated by Indonesian Ecolabelling Institute (LEI) through extensive multi-stakeholder consultations (the Ministry of Forestry, Business Association, Academicians, Certification Body, and NGOs). LEI finalized the harmonization process and formally submitted the draft of harmonized standard to the Ministry of Forestry in mid January 2007.

The draft derived from the result of MoU Indonesia-UK and TFF's draft on legality standard, which was a result of comparative study from:

- 1) Keurhout Protocol for the Validation of Claims of Legal Timber in Particular with a View On Legal Origin (TFF);
- 2) The Requirements for "Verified Legal" in WWF's Nusa Hijau Conditions of Participation (NTTA);
- 3) The "OLB (Origine et Legalite des Bois) Certification and Control System: Origin and Legality of Timber" (Eurocertifor).

The Latest Regulation in Forestry Sector

In January 2007 and the second semester 2006 the Government of Indonesia issued the following regulation:

- 1) Government Regulation No. 6/2007 regarding Forest Management and Preparation of Forest Management Plan and Forest Utilization replaced Government Regulation No. 34/2002. These regulation has been mandated by Law No. 41/1999 regarding Forestry;
- 2) Minister of Forestry decree No. P.51/Menhut-II/2006 regarding the Use of the Certificate of Origins (SKAU) for Transporting Timber Forestry

Products from Community Forests in conjunction No. P.62/Menhut-II/2006 regarding the Amendment to the Decree of the Minister of Forestry No. P.51/Menhut-II/2006;

- 3) Minister of Forestry decree No. P.55/Menhut-II/2006 regarding the Administration of the Forestry Products from the State Forests in conjunction with No. P.63/Menhut-II/2006 regarding the Amendment to the Decree of the Minister of Forestry No. P.55/Menhut-II/2006. The decrees replaced the Minister of Forestry decree No. 126/Menhut-II/2003.

The above regulation guarantee the legality of logs harvested and also play as a technical guideline of chain of custody, since they include the document as follows:

- 1) skshh (forest products legality letter is used as a general term) which will be discussed by BRIK; LHC (cruising report); RKT (annual working plan); LHP (Cutting Report); SKSKB (round log legality letter); FA (transportation invoice);
- 2) Chain of custody is mandatory.

BRIK in Brief

BRIK was established based on a joint decree of the Minister of Industry and Trade and the Minister of Forestry No. 803/MPP/Kep/12/2002; 10267/Kpts-II/2002 in conjunction No. 495.1/MPP/Kep/9/2004; SK 355.1/Menhut-I/2004. As stated in the decrees, the establishment of BRIK is a mutual understanding and joint actions between private forestry industry and the related government institutions in order to implement sustainable forest, sustainable raw material supply, creating job as well as business opportunities.

On January 16th, 2003 the Minister of Forestry and the Minister of Industry and Trade approved BRIK Action Program and Establishment Deed. The Action Program includes among other things:

- Ensuring timber supply from legal sources;
 - Development of timber industrial data base;
 - Providing inputs to the government in preparing regulations;
 - Implementation of ETPIK (registered forestry industrial product exporter) to all forestry industries;
- 1) Establishment of serving mechanism, monitoring, and evaluation of ETPIK;
 - 2) Others: efficiency and product diversification, evaluation of regulations that burden competitiveness.

Export Procedures

To be acknowledged as exporter of wood products, forest industry must have legal permits based on Indonesian law and regulation. After completing requirements stipulated in the Minister of Trade decree No. 02/M-Dag/Per/2/2006, the industry will then be eligible to have an ETPIK license issued by the Director General of Foreign Trade, the Ministry of Trade. The decree also mentioned that export of forest industry products within HS. 4407, 4408, 4409, 4410, 4411, 4412, 4413, 4415, 4418, 4421.90.50.00, and 9406.00.92.00 must be endorsed by BRIK. The endorsement document is attached to commodity export declaration (PEB).

Export of certain products under Ex. HS. 4407 (S4S,

end jointed), HS. 4409, Ex.HS. 4415 (pallet), Ex.HS. 4418 (door and window frame), and HS. 9406 are verified by independent surveyor assigned by the Minister of Trade with the objective to ensure wood product export fulfills all the government regulations and provides more value-added.

Of the total existing ETPIK 4,500, BRIK has been given authority by the government to endorse two groups of products: Wood Panel and Woodworking. Other products such as pulp and paper, furniture, and handicraft can still export without BRIK endorsement. The two endorsed products represented less than 40% of total forestry industrial export.

Indonesian Law and Regulation Related to Verification and Endorsement

BRIK verification and endorsement, based upon those government mandatory process, is attached to this paper. The following law and regulations are related to the verification and endorsement:

- ◆ Law No. 41/1999 regarding Forestry;
- ◆ Government Regulation No. 34/2002 replaced by Government Regulation No. 6/2007;
- ◆ The Minister of Forestry regulation No. 126/Kpts-II/2003 replaced by P.55/Menhut-II/2006 in conjunction with No. P.63/Menhut-II/2006.
- ◆ The Minister of Forestry regulation No. P.51/Menhut-II/2006 in conjunction with No. P.62/Menhut-II/2006;
- ◆ The Minister of Industry and Trade decree No. 32/MPP/Kep/1/2003 regarding Requirements for Forestry Industrial Products Export, replaced by decree No. 647/MPP/Kep/10/2003 replaced by the Minister of Trade regulation No. 02/M-Dag/Per/2/2006;
- ◆ The Director General of Foreign Trade regulation No. 01/Daglu/Per/3/2006 regarding the Procedures for the Endorsement from the Forestry Industry Revitalization Body (BRIK);
- ◆ Letter No. 452/VI-Edar/2003, 948/VI-BPPHH/2004, and S.675/VI-BPPHH/2006 from the Director General of Forest Production Development concerning Recovery Factors of Wood Products.

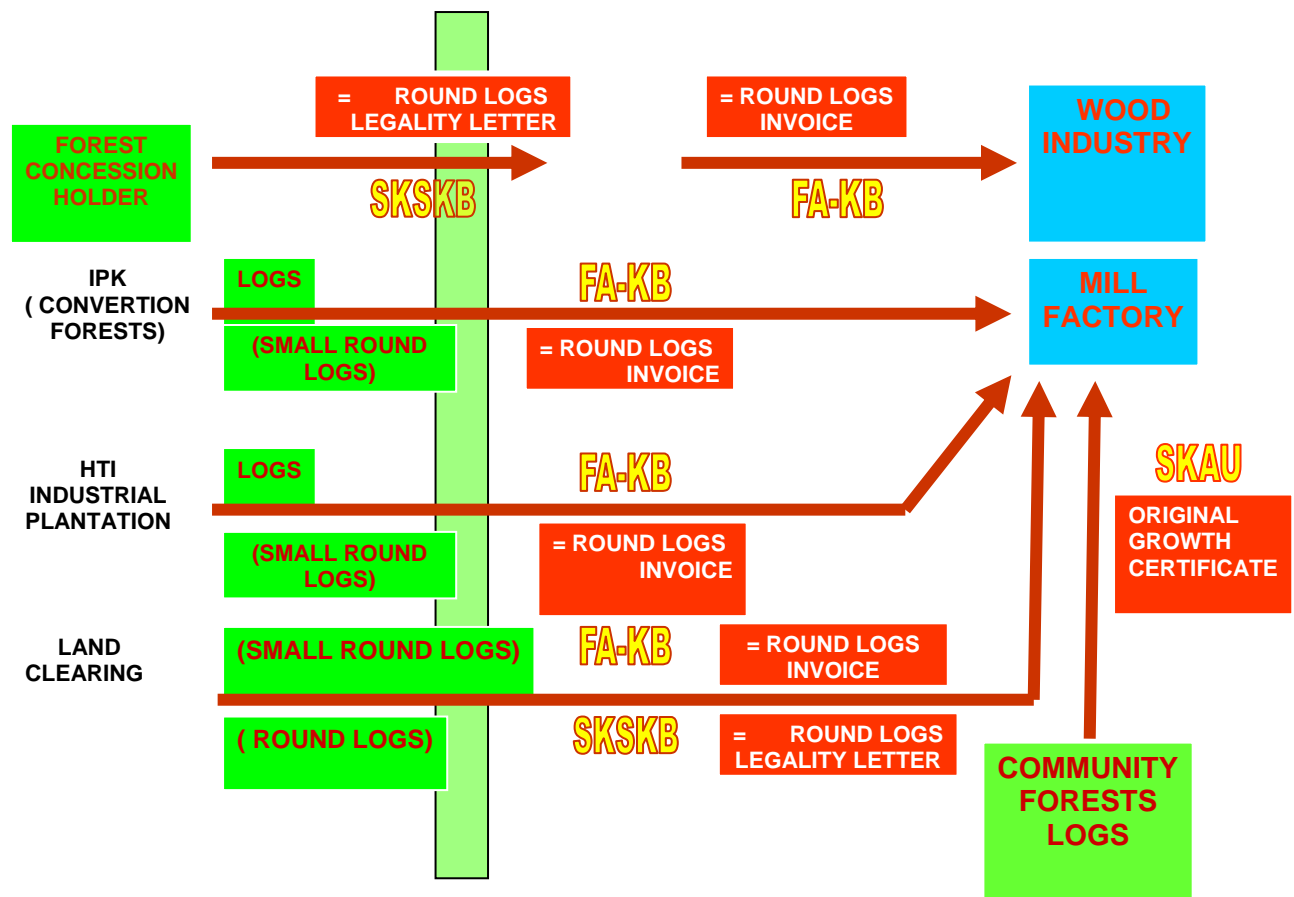
Endorsement system is electronically processed and free of charge. Of 2,124 ETPIK (panel and woodworking) endorsed by BRIK around 41% still actively export their products, while the rest have ceased permanently or temporarily to operate.

BRIK Endorsement and Green Konyuho

As can be in the Verification and Endorsement Chart attached, there is similarity between BRIK Endorsement and Green Konyuho. BRIK Endorsement is based on Indonesian forest laws and other regulations in industry and trade sector. BRIK verifies legalized copied documents (LMK, SKSKB, FA-KB, FA-KO, SAL, and SKAU) to make sure that the legality of timber. Verification steps are mentioned in BRIK Circular Letter No. 713/BRIK/XII/2006 and summarized in Appendix A (Summary of the verification scheme).

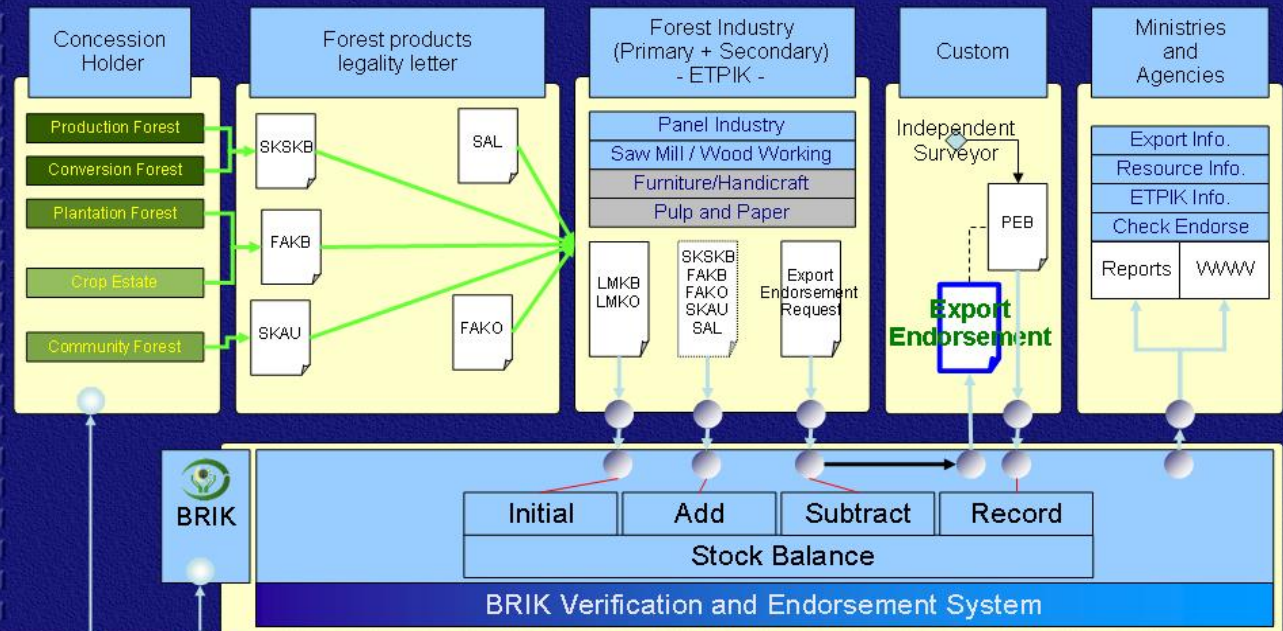
References

All references are from Government Regulations, Ministerial Regulations.





BRIK VERIFICATION AND ENDORSEMENT METHOD



P.51
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SK 355.1/Menhut-1/2004
495.1/MPP/Kep/8/2004

Based on Government Mandatory