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REPORT ON SCARCITY OF VERIFICATION OF LEGAL ORIGIN (VLO) CONSULTING FIRMS AND CERTIFIER SERVICES

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TABLE OF CONTENTS

- TABLE OF CONTENTS I**
- 1. OBJECTIVE 1**
- 2. ISSUES/CONSTRAINTS..... 2**
- 3. ANALYSIS 3**
 - 3.1. Certification Body 3
 - 3.1.1. Rainforest Alliance’s SmartWood Program 3
 - 3.1.2. SGS (certifying body) 3
 - 3.1.3. TUV 4
 - 3.2. Consulting Services 4
 - 3.2.1. Indonesian (Natural) Resources Institute (INDRI)..... 4
 - 3.2.2. Global Forest Services 5
 - 3.2.3. C8-Global..... 5
 - 3.3. Other Services 6
 - 3.3.1. Tropical Forest Trust 6
 - 3.3.2. Tropical Forest Foundation 6
 - 3.3.3. WWF – Global Forest & Trade Network (GFTN) 7
 - 3.3.4. PENSA (Donor)..... 7
- 4. RECOMMENDATION 9**

1. OBJECTIVE

Institutionalization of sustainable wood program by facilitating demand and productive participation of other legal wood consulting and certification bodies in the sustainable furniture certification value chain to improve Indonesia's furniture exports into the growing green market.

2. ISSUES/CONSTRAINTS

In May 2007, SENADA started to launch its Legal Wood Program to work with wooden furniture manufacturers to implement chain of custody system to get their product verified under VLO (Verification of Legal Origin) scheme or FSC certification. VLO is an initial step within the stepwise approach which advances through a series of manageable actions. This is introduced as a basic requirement before the companies are able to move forward to full FSC certification which is when there is a sufficient supply of FSC certified wood in Indonesia's wood market.

As the first phase of the program, in June-October 2007, SENADA collaborated with Rainforest Alliance and TUV to assist 20 furniture manufacturers in East Java, Central Java and Jogjakarta in obtaining verification of legal origin (VLO) and FSC certification. In the second phase, from November 07 to September 08, SENADA assists another 20 furniture manufacturers under the same program. Up to date 7 companies have been audited for VLO and 2 companies have been audited for FSC recycle. Up to May 2008, 4 more companies have confirmed to proceed with the certification audit.

Looking at the growing interest among the wooden furniture industry to respond to the VLO program, we find that there are only a few consulting firms as well as certification bodies able to provide services for VLO verification. Our first wooden furniture companies who were ready to get their COC and wood legality verified had to wait for more than 2 months before the certification bodies were actually able to put them on their tight schedule. While more and more companies are now ready to get audited, it requires a massive work just to put these companies under a reasonable audit schedule from the available Legal of Origin verification bodies. More to that, the limitation of SENADA's services has currently led many wooden furniture producers to seek for consulting firms who can help them to implement the FSC-COC and VLO system in their factories. Again, unfortunately there are only very few consulting firms provide these services.

This is a contra-productive situation to the industry. While the demand side has been high, the supply side apparently has some limitation to make their services available to the growing market.

3. ANALYSIS

SENADA has conducted an initial assessment on strength and weaknesses of the few certification bodies and consulting firms who are available in the market today. Not only there are few but also they are limited in providing resources (auditors) and mostly are same persons going around under different institutions. Hence, only very few certification bodies have VLO standard/system (Chain of Custody) developed that has made even more difficult for Senada to speed up the certification audit.

3.1. CERTIFICATION BODY

3.1.1. RAINFOREST ALLIANCE'S SMARTWOOD PROGRAM

The Rainforest Alliance's certification program, SmartWood, was founded in 1989 to certify responsible forestry practices and now focuses on providing a variety of certification tools. To improve certification's effectiveness as a tool for biodiversity conservation and economic support for local communities, the Rainforest Alliance also established the Training, Research, Extension, Education and Systems program. SmartWood works to strengthen supply chains and build market linkages for certified wood and forest products, by helping companies incorporate sustainability into their sourcing strategies.

SENADA could work with SmartWood to provide reputable third party legal verification of SENADA clients.

| Strengths | Weaknesses |
|--|---|
| <ol style="list-style-type: none">1. Internationally recognized2. Reputable standards and accredited by FSC3. Have established their own Legal Verification program that is accepted by the market.4. They have good experience in Indonesia in certification5. Forest certification is their only focus | <ol style="list-style-type: none">1. Not able to supply market links2. They can not offer consultation to individual SENADA clients.3. They have the reputation of being slow with feedback and report writing.4. Currently having problem with resource availability. |

3.1.2. SGS (CERTIFYING BODY)

SGS QUALIFOR is one of the leading forest certification programs with more than 2000 chain of custody and more than 200 forest management certificates covering over 20 million hectares of forest world-wide.

SENADA could work with SGS to provide reputable third party legal verification of SENADA clients.

| Strengths | Weaknesses |
|---|--|
| <ol style="list-style-type: none"> 1. Internationally recognized 2. Reputable standards and accredited by FSC 3. Have established their own Legal Verification program that is accepted by the market. 4. They have good experience in Indonesia in certification 5. They have a representative office in Indonesia. | <p>Not able to supply market links</p> <p>The forest certification program is not their only focus.</p> <p>They can not offer consultation to individual SENADA clients.</p> <p>Limited resource availability.</p> |

3.1.3. TUV

TÜV Rheinland Indonesia is member of TÜV Rheinland Group, a global leader in independent testing and assessment services. In Indonesia TUV offers:

- Forest Certification (Natural Production Forest, Timber Plantation, Community Based Forest Management) against LEI standards 5000-1, 5000-2 and 5000-3
- Chain of Custody
- Timber Legality Verification and Timber Tracking (Verification of Legal Origin)

SENADA can work with TUV to provide certification support and third party certification for SENADA clients.

| Strengths | Weaknesses |
|--|---|
| <ol style="list-style-type: none"> 1. Internationally recognized 2. They have good experience in Indonesia in certification 3. They have good in country personnel capacity 4. They can offer training | <ol style="list-style-type: none"> 1. They will only verify against other organizations VLO standards. 2. It is unsure at this time how much market recognition TUV VLO will have in the market place. 3. They can not offer market links. |

3.2. CONSULTING SERVICES

3.2.1. INDONESIAN (NATURAL) RESOURCES INSTITUTE (INDRI)

Indonesian (Natural) Resources Institute is an organization that has been created by individuals that work in the field of certification and forest management. The organization is a loose affiliation of part time individuals that have created INDRI as a vehicle to offer support to the market.

SENADA can work with INDRI to offer training and consultancy support to SENADA’s clients.

| Strengths | Weaknesses |
|---|---|
| <ol style="list-style-type: none"> 1. They are an Indonesian organization 2. They have good experience in Indonesia in certification 3. They can offer training. | <ol style="list-style-type: none"> 1. There are no full time employees 2. They are not internationally recognized thus will assess against the standard of a certify body. 3. They can not offer market linkage support. |

3.2.2. GLOBAL FOREST SERVICES

GFS is a consulting company that was established to provide market oriented solutions to improving forest management and the sustainability of forest-based industries. GFS aims to provide solutions to assist in the demonstration that products are responsibly sourced and traceable back to origin by giving clients clear guidance on how to address the needs of the supply chain from the forest stump to the shop floor.

| Strengths | Weaknesses |
|--|---|
| <ol style="list-style-type: none"> 1. They have good experience in Indonesia in certification 2. They are able to help in the creation of limited market links 3. They have good personnel capacity 4. They can offer training | <ol style="list-style-type: none"> 1. They are not internationally recognized thus will assess against the standard of a certify body. 2. They are not based nor having a representative office in Indonesia. |

3.2.3. C8-GLOBAL

C8-global is similar to GFS it is a consulting company that was established to provide market oriented solutions to improving forest management and the sustainability of forest-based industries. C8-global aims to provide solutions to assist in the demonstration that products are responsibly sourced and traceable back to origin by giving clients clear guidance on how to address the needs of the supply chain from the forest stump to the shop floor.

| Strengths | Weaknesses |
|---|--|
| <ol style="list-style-type: none"> 1. They have good experience in Indonesia in certification 2. They have good in country personnel capacity 3. They can offer training | <ol style="list-style-type: none"> 1. They are not internationally recognized thus will assess against the standard of a certify body 2. They can not issue any certificates of legal origin. 3. They have no ability to offer help with market linkages. |

3.3. OTHER SERVICES

3.3.1. TROPICAL FOREST TRUST

Established in 1999, the TFT aims to conserve threatened tropical forests through sustainable management. TFT aims to ensure that tropical forests are managed for their long-term future and to maximize their value to people, wildlife and the environment. TFT supports forest projects with advice, and by linking them to responsible buyers committed to sourcing sustainable timber.

TFT member companies are committed to sourcing wood from TFT forest projects and Forest Stewardship Council (FSC) certified forests. The organization is funded mainly through member contributions, but also through grants and donations.

There is a possibility for cooperation only if SENADA members are TFT's nominated supplier.

| Strengths | Weaknesses |
|--|--|
| <ol style="list-style-type: none"> 1. Internationally recognized 2. Have established their own Legal Verification program that is accepted by the market. 3. They have good experience in Indonesia in certification 4. They have good in country personnel capacity 5. They can offer training | <ol style="list-style-type: none"> 1. Not accredited by the FSC 2. The market linkages they can offer or locked in and determined by TFT clients in Europe 3. The suppliers in Indonesia would not have freedom to trade outside the TFT framework. 4. Their service is limited only for the nominated furniture producers by TFT clients/members. |

3.3.2. TROPICAL FOREST FOUNDATION

The Tropical Forest Foundation is a non-profit, educational institution dedicated to the conservation of tropical forests through sustainable forestry. TFF has become widely recognized for establishing demonstration models and training schools to show the advantages and teach the principles of sustainable forest management/Reduced-impact Logging.

In Indonesia now they are seeing an increase in interest in the sourcing of sustainable timber from Europe. And as such they have no begun a program to help support responsible purchasing.

SENADA can work with TFF to provide certification support, third party certification and market linkages for SENADA clients.

| Strengths | Weaknesses |
|--|--|
| <ol style="list-style-type: none"> 1. Internationally recognized 2. Have established their own Legal Verification program that is accepted by the market. 3. They have good experience in Indonesia in certification 4. They are able to help in the creation of limited market links 5. They have good in country personnel capacity 6. They can offer training | <ol style="list-style-type: none"> 1. The forest certification program is not their only focus 2. Their standard although recognized international it is not as well received as the Certification Bodies' standard. |

3.3.3. WWF – GLOBAL FOREST & TRADE NETWORK (GFTN)

The Global Forest & Trade Network (GFTN) is WWF's initiative to eliminate illegal logging and improve the management of valuable and threatened forests.

By facilitating trade links between companies committed to achieving and supporting responsible forestry, the GFTN creates market conditions that help conserve the world's forests while providing economic and social benefits for the businesses and people that depend on them.

SENADA can work with GFTN to provide certification support (FSC only) and market linkages for SENADA clients.

| Strengths | Weaknesses |
|--|--|
| <ol style="list-style-type: none"> 1. WWF is obviously recognized and accepted throughout the world. 2. The GFTN program offers opportunity for market links | <ol style="list-style-type: none"> 1. There is little follow up in regard to individual client support. 2. The actual global capacity to create market links is questionable 3. The focus of the program is FSC certification and not legality. |

3.3.4. PENSA (DONOR)

The Program for Eastern Indonesia Small and Medium Enterprise Assistance – PENSA – was created in September 2003 with the task of improving lives and livelihoods by expanding the range of opportunities and capabilities for small and medium businesses.

The program concentrates on six key areas where local comparative advantage can be converted into international competitive advantage:

- Handicraft export promotion
- Sustainable supply chain linkages
- Agribusiness linkages
- Small and medium enterprise linkages to oil, gas and mining companies

- Access to finance for small and medium enterprises
- Business enabling environment

The most relevant to SENADA’s support of wooden furniture is the supply chain linkages program. The program creates business opportunities in three sectors – forestry/furniture, tourism and fisheries – by improving environmental management and encouraging sustainability. In particular, the program aims to develop the supply of, and market for, responsibly sourced forest products and improve market access for furniture made with "good wood".

SENADA can work with PENSA to form a partnership for the promotion of the programs and goals.

| Strengths | Weaknesses |
|---|---|
| <ol style="list-style-type: none"> 1. They have good experience in Indonesia in certification 2. They are able to help in the creation of limited market links 3. They have good in country personnel capacity 4. They can offer training | <ol style="list-style-type: none"> 1. They are focusing on forest certification and the promotion of FSC and not legality. 2. The programs focus is on Acacia from Kalimantan not teak from Java. |

4. RECOMMENDATION

SENADA's recommendation to address the current situation is to foster the growing market demand of Legal of Origin verification by:

- Facilitating more certification bodies to provide services in Verification of Legal Origin (VLO) verification scheme.
- Facilitating more consulting firms to provide legal wood consulting services to assist manufacturers to implement the VLO system in their companies.

Currently SENADA is working with potential partners (Consulting Firms and Certification Bodies) interested to develop Verification of Legal Origin services within their organization.

Those Certification Bodies are BVQI, BMTrada, Woodmark/Soil Association, Control Union Indonesia, AFAQ-AFNAR certification, while Consulting firms are Premyses Consulting and CEFED.

This process is still in a very early stage and it is expected that more certification bodies and consulting firms will be interested to develop services in the Verification of Legal Origin scheme in the coming future.

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