



# Independent Verification of Legal Timber

## Concept Presentation

**SGS Natural Resource Monitoring Services (NRMS)**

Forestry Monitoring Programme

[http://www.sgs.com/forestry\\_monitoring](http://www.sgs.com/forestry_monitoring)

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## Acronyms

|       |                                                                                 |
|-------|---------------------------------------------------------------------------------|
| BOT   | Build, Operate and Transfer                                                     |
| CC    | Concession Contract                                                             |
| CITES | Convention on International Trade in Endangered Species of Wild Fauna and Flora |
| CSP   | Certification Support Programme                                                 |
| CoC   | Chain of Custody                                                                |
| FSC   | Forest Stewardship Council                                                      |
| GIS   | Geographic Information System                                                   |
| HP    | Harvesting Plan                                                                 |
| IVLT  | Independent Verification of Legal Timber                                        |
| MoU   | Memorandum of Understanding                                                     |
| MP    | Management Plan                                                                 |
| NGO   | Non Governmental Organisation                                                   |
| P&C   | Principles and Criteria                                                         |
| PID   | Programmable Identification Device                                              |
| SFM   | Sustainable Forest Management                                                   |
| SGS   | Société Générale de Surveillance                                                |
| SLC   | Statement of Legal Compliance                                                   |
| SLO   | Statement of Legal Origin                                                       |
| TFT   | Tropical Forest Trust                                                           |
| VLC   | Verification of Legal Compliance                                                |
| VLO   | Verification of Legal Origin                                                    |



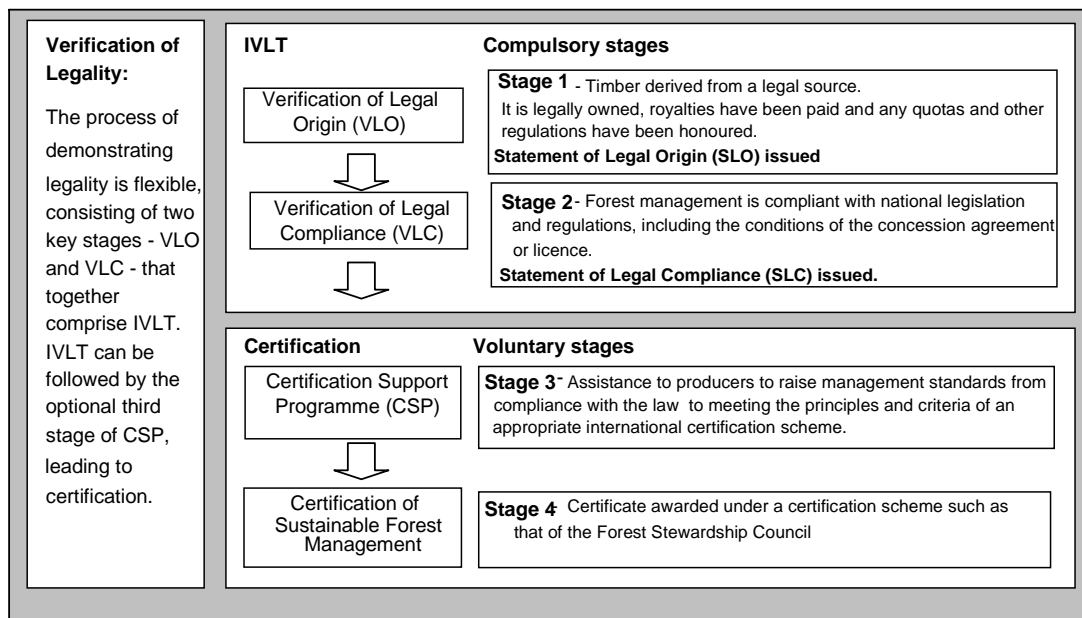
IVLT is designed to be **mandatory** and to operate at a **national** (or in some cases provincial) **level**. Only a comprehensive programme, imposed on all producers at national or provincial scale, provides a cost-effective management tool for use by national governments.

## 2 OVERVIEW

### 2.1 INDEPENDENT VERIFICATION OF LEGAL TIMBER: VLO + VLC = IVLT

IVLT is implemented in two major stages: VLO, then VLC. Once IVLT has been achieved there is the option of pursuing forest management certification. Certification itself may be preceded by a period where producers are supported in their aim to reach a certifiable standard, i.e. a Certification Support Programme. The four stages in the process of achieving IVLT and certification are outlined below (Figure 2).

Figure 2 Independent Verification of Legal Timber (IVLT) and Certification



#### Stage 1: VLO - Verification of the Legal Origin of timber products

Stage 1 is an essential process to deter and detect illegal logging, and to protect both forest resources and government revenue capture. It is achieved through a comprehensive timber flow control programme (usually known as "log tracking" or "timber tracking") which tracks all domestic and imported forest products from the timber source, along the chain of custody, through processing to the point of delivery, e.g. export. Such a programme can provide guaranteed chain of custody verification also for the forest certification process.

VLO encompasses gathering documentary evidence of the following:

- legal ownership of the forest (i.e. valid access and harvesting rights);
- legal ownership of forest products (i.e. all changes of ownership along the chain of custody are documented and validated by both buyer and seller);
- all royalties and other duties paid;
- all harvesting operations restricted to the boundaries of the concession;



- quota restrictions complied with; and
- logs and timber products conform with national and international regulations (including CITES rules, minimum diameters etc).

Should all of the above be complied with, a Statement of Legal Origin (SLO) can be issued for each batch of wood or wood products in the system that has been verified.

## **Stage 2: VLC - Verification of Legal Compliance by the timber producer**

This involves documented verification that forest management complies with all aspects of forest law, encompassing:

- compliance with all the terms and conditions of the concession contract or harvesting permit;
- compliance with other applicable national regulations;
- surveillance of land use and forest management, using remote sensing and ground inspections to detect and monitor changes; and
- auditing and monitoring of forest management in legitimate logging areas through reviews of documentation and field checks of forest inventories, management plans, harvesting operations, production records etc.

Compliance with additional legislation can also be verified. For example, if logs are processed in a sawmill, the SLC could include in the schedule the relevant legislation relating to the environment, health and safety and employment.

Should all of the above be complied with, a Statement of Legal Compliance (SLC) can be issued for each batch of wood or wood products passing through the system.

Timber produced under both an SLO and an SLC can be described as Independently Validated Legal Timber (IVLT).

## **Stage 3: Certification Support Programme**

A national initiative is recommended to provide incentives and support for producers to obtain forest management certification at concession level. This can be achieved through a Certification Support Programme<sup>1</sup> (CSP) that producers can join voluntarily. The CSP is based on regular audits of continuous improvement towards high standards of forest management. The programme does not certify timber; however a CSP certificate can be issued to companies that participate and fulfil the commitments made in the schedule<sup>2</sup>.

## **Stage 4: Forest Management Certification under the FSC or a similar scheme**

Forest management certification such as to the FSC principles can only be achieved after third-party verification by an accredited organisation of the producer's management procedures and practices, against the standards laid down by the certification body.

## **2.2 PREPARING FOR IVLT**

IVLT is only as effective as the legislation that it seeks to uphold. Clearly, if legislation is weak, or counter-productive to the interests of good forest management, for example where widespread legal conversion of forested land occurs, IVLT will not be effective in protecting forests. However in most countries legislation now exists that is broadly supportive of good forest management. This provides a solid foundation for the development of IVLT.

The implementation of an IVLT programme in a country should be preceded by a review of forest institutions, legislation and forest policy, since institutional and legislative changes may be required in order to realise the full benefits of IVLT. The following should ideally be implemented prior to developing IVLT:

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<sup>1</sup> More information on SGS's CSP can be found at [http://www.sgs.com/forest\\_services](http://www.sgs.com/forest_services)

<sup>2</sup> More information on the FSC-accredited SGS's Qualifor certification programme can be found at [http://www.sgs.com/home\\_qualifor](http://www.sgs.com/home_qualifor)

- ◆ repeal of any legislation significantly detrimental to the protection of forests;
- ◆ a transparent and fair method of providing access rights to the forest resource;
- ◆ creation of an incentive programme for producers, including tax rebates for compliant companies<sup>3</sup>; and
- ◆ authorities responsible for enforcing forest sector legislation should be effective and accountable.

If these elements are not in place, work should commence to ensure that they are introduced. This can occur concurrently with the development of IVLT.

## 2.3 DEFINING LEGALITY

Defining the laws to be complied with for the purposes of verifying timber as legal is not a straightforward task. The agreed set of "relevant laws and regulations" to be retained for implementation of an IVLT programme is likely to include environmental, forest, tax and customs legislation. It might exclude some parts of national law that are recognised as not relevant to the IVLT programme, or those which are in conflict with internationally-accepted best practice. It is of key importance that stakeholders (government, industry and NGOs) have an opportunity to work collaboratively to develop the national standards of legality for Legal Origin and Legal Compliance.

However, it is recognised that the process of agreeing the relevant laws and regulations to be complied with is likely to take some time. For this reason, minimum standards have been developed by SGS for defining 'Legal Origin' (Table 1). Using these basic standards, a system for verifying legal origin can be implemented while discussions continue regarding the precise definition of legality for both Legal Origin and Legal Compliance.

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<sup>3</sup> For example, through deduction of IVLT service fees from overall forest taxes

**Table 1. Minimum Standards for Legal Origin**

| Principle |                                                                                                                                                                                                                          | Criterion |                                                                                                                                                                                                                                                                    |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1         | <i>There must be a verifiable chain of custody in place</i>                                                                                                                                                              | 1.1       | Continuous CoC data monitoring will be carried out and regular documentary checks and field visits will be made to verify the data. Under a national IVLT programme, CoC monitoring is normally achieved through the log/timber tracking element of the programme. |
| 2         | <i>Timber or timber products must originate from a legal, valid and locally approved source</i>                                                                                                                          | 2.1       | Checks will be made with the Forest Authority to ensure that valid concession documents (or timber licences, title deeds or written consents) have been granted.                                                                                                   |
|           |                                                                                                                                                                                                                          | 2.2       | Checks will be made to ensure that access to the forest resources was allocated in accordance with the legislation.                                                                                                                                                |
|           |                                                                                                                                                                                                                          | 2.3       | Checks will be made to ensure that ownership of the forest resource is not disputed under central or local regulation or customary rights and that there are no reasonable outstanding claims.                                                                     |
| 3         | <i>All trees must have been felled with the permission of relevant local authorities</i>                                                                                                                                 | 3.1       | Checks will be made that the necessary felling permissions (e.g. felling permits, permission to enter the coupe, etc) have been obtained from the Forest Authority.                                                                                                |
|           |                                                                                                                                                                                                                          | 3.2       | Checks will be made in the field to ensure that trees have been felled in the correct locations and according to the permissions granted from the Forest Authority.                                                                                                |
|           |                                                                                                                                                                                                                          | 3.3       | It will be verified that all the necessary returns have been or are submitted to the Forest Authority.                                                                                                                                                             |
| 4         | <i>The timber products derived from the forest must have been purchased according to a contract of sale and all relevant forest charges (such as area fees, royalties, fees, export duties etc.) must have been paid</i> | 4.1       | It will be verified that all changes of ownership of forest products have been made under an agreed contract of sale and that the terms and conditions thereof have been complied with by the buyer (new ownership is not disputed by the seller).                 |
|           |                                                                                                                                                                                                                          | 4.2       | Checks will be made to ensure that all government forest charges have been paid (or will be paid – i.e. there are no outstanding payments and previous payments have been made on time), and that all appropriate export taxes and duties have been paid.          |
| 5         | <i>All products must comply with regulations regarding minimum diameters, species bans and quotas</i>                                                                                                                    | 4.1       | Checks will be made to ensure that the products comply with the relevant regulations and volumes do not exceed the annual allowable cut or other quotas.                                                                                                           |

Minimum standards for Legal Compliance have not been developed because of the range of variation in forest management standards between producer countries. Legal Compliance standards only make sense when developed specifically for each country and, where possible, in accordance with international best practice.

In order to make clear which laws are being complied with, all Statements of Legal Origin and Legal Compliance issued will include a schedule listing all the criteria and related laws included.

## **3 KEY CHARACTERISTICS OF IVLT**

### **3.1 INDEPENDENT THIRD PARTY VERIFICATION**

International credibility is critical to the success of IVLT. The independence of the verifier throughout the process of gathering and verifying information and issuing statements of legality is therefore of key importance. IVLT is generally implemented by outsourcing or contracting out specific functions of the independent third party role to an internationally recognised organisation with expertise in the provision of verification services. In time, an independent local agency or government office could take over responsibility for implementing IVLT, although in most tropical producer countries this is likely to require capacity-building assistance over a number of years. This can be achieved through a Build-Operate-Transfer (BOT) approach (see Section 3.4 below).

### **3.2 TRANSPARENCY**

The verifier must be mandated to publish its results both locally and internationally – this could include information on the progress towards verification that has been made by each producer or timber trader and what actions and timeframe are needed to achieve the next step. Data could be published regularly on the Internet to ensure that it is available to all interested parties.

Existing log tracking technologies and systems can be tailored to provide detailed information. To avoid compromising commercial confidentiality, however, specific details may not be made publicly available.

### **3.3 “FOURTH PARTY” VERIFICATION**

The IVLT programme and the independent verifier may be placed under the scrutiny of an advisory committee including representatives from civil society such as trade associations, NGOs and other stakeholders. This body would be responsible for "monitoring the monitor" and ensuring continuous improvement of the IVLT process. It could also act as an appeal mechanism. NGOs and others could also have a role in tracking cases of non-compliance.

### **3.4 BUILD, OPERATE AND TRANSFER**

In the short to medium term IVLT can be implemented by out-sourcing the management of the programme to an international verification company as described above. Alternatively, a joint venture between such a company and a national organisation could be set up. In the longer term, governments are likely to expect a national organisation to run the IVLT programme. If so, institutional capacity building could be undertaken through a Build-Operate-Transfer (BOT) approach.

A typical BOT process includes the following stages:

- ♦ A local institution is established to host the programme. This would need to be an autonomous government body independent from the department which grants timber rights and enforces forest law. Alternative institutional arrangements might include the establishment of a foundation or a not-for-profit company.
- ♦ An independent verifier (or joint venture) is contracted to build and operate the system. This verifier runs the programme initially and trains its staff.
- ♦ When appropriate levels of expertise have been achieved locally, the programme and staff are transferred to the local institution over an agreed period of time.

- ♦ The independent verifier continues to audit and monitor the local institution for an agreed period.

### 3.5 TECHNOLOGY

Verification of Legal Origin relies upon the maintenance of a reliable system to track products from the forest to the marketplace. The key to making any timber tracking system robust and cost-effective is to use appropriate technology that has been tried and tested. There are several sophisticated products now available which have only recently been developed: these include Programmable Identification Devices (PIDs) which allow information on the product to be held in an attached storage device (i.e. like a smart card with a bar code that has data stored on it). At their most developed, PIDs can make use of automatic identification and data capture technology that identifies and/or collects data without manual entry. This advanced technology may be appropriate in some cases.

SGS has a successful history of managing log-tracking systems using bar-coded plastic tags which are uniquely numbered to prevent reuse. When combined with the use of hand-held computers in the field for data entry, and bar-code readers for downstream monitoring, these systems have proven to be flexible, inexpensive and reliable. Underpinning this system is the electronic database to which the relevant information about each tag is transferred. The central database may be queried to report individual log or processed wood parcel data, information about batches of products, or summarised statistics.

Once the log has reached the mill, log tags are recorded and then discarded. It is necessary to use further labelling for the processed products or batches of products that come off the production line. Again, application of bar-coded tags or labels has proved effective for this purpose. Each logging company and mill is equipped with elements (hardware, software) of the log/timber tracking system, so as to generate and report production data records to the central system.

## 4 STAKEHOLDER PARTICIPATION IN IVLT - ROLES AND BENEFITS

The overall benefit of IVLT is to give control of the forest sector to the government departments involved in its management, enabling them to reduce illegal logging and illegal conversion of forest to other land uses. There are specific benefits for each stakeholder group, whose roles and benefits are outlined below.

**Table 2. Roles and Benefits of Major Stakeholders**

| <b>Stakeholder<br/>s</b>                     | <b>Roles</b>                                                                                                                                                                                                                                                                                                                                                                                                             | <b>Benefits</b>                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Importing<br/>country<br/>governments</i> | <ul style="list-style-type: none"> <li>• promote bilateral agreements with producer countries, or a legally binding international agreement for trade in verified legal and sustainable timber, and so provide a framework for IVLT;</li> <li>• provide funds to cover a proportion of the cost of establishing IVLT.</li> </ul>                                                                                         | <ul style="list-style-type: none"> <li>• Secured supply of legal timber, thereby meeting public demands</li> </ul>                                                                                                                                                                                                  |
| <i>Producer<br/>country<br/>governments</i>  | <ul style="list-style-type: none"> <li>• prepare a national strategy to combat illegal operations by increasing the likelihood of detection and prosecution;</li> <li>• separate institutionally the function of monitoring timber operations from those of granting timber rights and enforcing forest laws;</li> <li>• strengthen enforcement mechanisms and actively prosecute offences under the relevant</li> </ul> | <ul style="list-style-type: none"> <li>• More reliable data on the timber sector;</li> <li>• Greatly increased revenue collection;</li> <li>• More effective law enforcement;</li> <li>• Increased efficiency and modernisation of the sector's control;</li> <li>• Improved inward investment in forest</li> </ul> |

|                                                          |                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                            |
|----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                          | <p>legislation;</p> <ul style="list-style-type: none"> <li>introduce IVLT as a key instrument of the national strategy.</li> </ul>                                                                                                                                                                              | industries.                                                                                                                                                                                                                                                                                                                                                                                                |
| <i>Industry</i>                                          | <ul style="list-style-type: none"> <li>influence government decision-making to strengthen supervision, control and enforcement of legal requirements;</li> <li>alternatively, embark on voluntary independent verification of legal compliance as a step towards certification of forest management.</li> </ul> | <ul style="list-style-type: none"> <li>Secure market share;</li> <li>Boycotts and campaigns avoided and public confidence restored;</li> <li>Level playing field, legitimate companies no longer undercut by illegal competitors;</li> <li>A marketing tool helping companies to improve their environmental image;</li> <li>Increased feasibility of forest management certification.</li> </ul>          |
| <i>Donors &amp; International Financial Institutions</i> | <ul style="list-style-type: none"> <li>provide loans and grants to cover a proportion of IVLT establishment costs;</li> <li>help to strengthen law enforcement by provision of technical assistance.</li> </ul>                                                                                                 | <ul style="list-style-type: none"> <li>Increased government revenue capture should allow timely repayment of loans;</li> <li>Reduced illegal logging and associated illegal trade;</li> <li>Producer countries helped to fulfil their international obligations, e.g. ITTA, the Tarapoto Proposal, Montreal Process etc;</li> <li>Adoption of "good governance" measures in producer countries.</li> </ul> |
| <i>Non Government Organisations</i>                      | <ul style="list-style-type: none"> <li>act as "fourth party" monitors of IVLT, ensuring that detection of illegal activity is followed up by effective action;</li> <li>participate in discussions to define 'legality'.</li> </ul>                                                                             | <ul style="list-style-type: none"> <li>improved forest management standards and environmental and social performance;</li> <li>forest certification becomes more feasible in a context where laws are enforced.</li> </ul>                                                                                                                                                                                 |

## 5 IMPLEMENTATION MECHANISMS

### 5.1 VLO

Through its experience gained in implementing log tracking systems, SGS has developed a generic definition of legal origin (see Table 1 above). For each situation, however, the system will need to be tailored to suit the legislation and practices of the country concerned.

Data is collected, analysed and verified as follows:

- Producers and traders along the chain of custody are responsible for supplying the IVLT Programme with the necessary data in an appropriate format through their regulatory declarations (see Table 3 below)
- The independent verifier collates and analyses the data submitted by producers and traders in its database. Data from different sources is routinely cross-checked to verify accuracy. Commercially sensitive data is held in a secure database.
- The verifier checks the integrity of the chain of custody by undertaking regular unannounced field visits. This data is checked against producer and trader data submissions in the database.

**Table 3. Implementation of Legal Origin Verification System - Activities and Responsibilities**

| <b>Activity</b>                            | <b>Responsibility</b>                       | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Data collection and supply</i>          | Producers                                   | Measure and tag logs, record volume, fill in and submit felling register.                                                                                                                                                                                                                                                                                                 |
|                                            | Merchants /producers                        | Completion of transport documents. The log details, tag numbers, date, origin and destination are recorded.                                                                                                                                                                                                                                                               |
|                                            | Sawmills                                    | Record tag numbers, species and volumes of logs entering mill. Record volumes of timber exiting mill. Bar code each batch of timber products leaving the mill.                                                                                                                                                                                                            |
|                                            | Exporters                                   | Record tag numbers, species and volumes exported.                                                                                                                                                                                                                                                                                                                         |
| <i>Data entry</i>                          | Government Authority / Independent verifier | Record into database details of <ul style="list-style-type: none"> <li>• forest owner, concession, location, coupe area, logging company;</li> <li>• tree and log details,</li> <li>• tags allocated, dates issued and to whom,</li> <li>• processed wood details,</li> <li>• log and processed wood transport details; and</li> <li>• product export details.</li> </ul> |
| <i>Monitoring of system implementation</i> | Independent verifier                        | Query database to check for reuse of tags and verify that certified volumes are correct. Generate report on data inconsistencies.                                                                                                                                                                                                                                         |
| <i>Auditing and verification</i>           | Independent verifier / "Fourth party"       | Unannounced visits to check tags, labelling, measurements, specification and documentation at each stage of the chain. Review database reports on data inconsistencies and follow-up by the system manager.                                                                                                                                                               |

## 5.2 VLC

The procedures used in Verification of Legal Compliance must be based on the specific legislation of the country in question. In many tropical producer countries commercial forest management is regulated by the terms and conditions of a concession contract. Verification of forest management is therefore partly based on verifying compliance with the contract.

As it is not possible to establish generic standards for verifying legal compliance, a hypothetical example of the Principles, Criteria and means of verifying Legal Compliance is provided in Table 3 below.

A key element of verifying compliance is unannounced forest management auditing to check that forest management practices are compliant with the law. Field-based auditing will check stumps at harvest sites and logs at landings to ensure that prescriptions such as boundaries, species quotas and diameter restrictions are being respected. Where the law places further restrictions on harvesting and management practices, e.g. a ban on felling in the vicinity of water bodies or other environmentally sensitive areas, this will also be checked.

GIS systems will be used to collect and interpret data from satellite imagery to allow monitoring of land use change. The use of such data can help to identify signs of encroachment on forest concessions and to identify possible illegal activities taking place within the concession area. GIS systems and remote sensing will be used to complement forest audits and to identify forest areas requiring further scrutiny from auditors.

The responsibility of conducting the VLC audits can be either assigned to the IVLT Programme itself or to third-parties accredited to provide certification services.

**Table 4. Principles, Criteria and Means of Verifying Legal Compliance**

| Principle |                                                                                               | Criteria |                                                                  | Means of Verification                                                                                                                                                                                                          |
|-----------|-----------------------------------------------------------------------------------------------|----------|------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1         | Forest Management complies with the terms and conditions of the concession contract or permit | 1.1      | Preparation of Inventory (if required under concession contract) | Check statistical accuracy and verify that sample size and methods used to calculate timber volumes are acceptable                                                                                                             |
|           |                                                                                               | 1.2      | Preparation of Management Plan                                   | Check that the Management Plan complies with the terms and conditions of the concession contract. This may include adequacy of measures to protect tree regeneration, and protection of water bodies and other sensitive areas |
|           |                                                                                               | 1.3      | Implementation of Management Plan                                | Frequent and unannounced field visits to check that all elements of the Management Plan are being implemented, in particular that measures to protect local communities and forest sustainability are effectively implemented  |
|           |                                                                                               | 1.4      | Preparation of Harvesting Plan                                   | Check that the Harvesting Plan complies with terms and conditions of the concession contract. This will include compliance with allowable annual cut, minimum diameters and any species quotas                                 |
|           |                                                                                               | 1.5      | Implementation of Harvesting Plan                                | Frequent and unannounced field visits to check harvesting sites for signs of excessive damage to forest. Checks on placement and use of extraction routes                                                                      |
|           |                                                                                               | 1.6      | Consultation (if required under concession contract)             | Checks that consultation mechanisms are in place and being effectively used.                                                                                                                                                   |
| 2         | Forest Management complies with all other relevant national legislation                       | 2.1      | Worker Health and Safety Plan complies with national legislation | Field visits and interviews with employees                                                                                                                                                                                     |

### 5.3 NON-COMPLIANCE

Auditors will generally use checklists to assess operators' performance against the agreed principles & Criteria criteria of legality. Where non-compliance is detected it will be classified as a Major or Minor non-conformance, or as an Observation. When a Major non-compliance is found, it will be reported to the government enforcement agency. Minor non-compliances will require appropriate Corrective Actions to be put in place to rectify the problem. Observations will identify other areas that need management attention.

### 5.4 SCALING UP

SGS recognises that in most tropical producer countries it is not feasible to implement IVLT in one stage. This is why a two-step approach is proposed (VLO first and then VLC). For similar reasons it may not be realistic to expect the largest countries to implement IVLT on a national level without local testing, perhaps in selected regions representative of the country as a whole. Once IVLT has proved successful on a regional level it can be gradually 'rolled out' across the whole country.

Another option for the gradual introduction of IVLT is to focus on the national level but to require initial participation from the largest operators only. Once the system is established with the larger companies, smaller companies can be required to join. This approach recognises that in many producer countries rural communities obtain valuable revenue from the informal (i.e. illegal) forest economy. Rapid implementation of IVLT might therefore create resentment and resistance amongst sections of the rural population. A phased approach to introducing IVLT would involve the provision of assistance and technical support to help small-scale producers to join in.

SGS is currently involved in piloting an IVLT system in Indonesia with 2 concessionaires. After the initial testing phase it is expected that the system will be scaled up to a regional and eventually national level. Indonesia, with its challenging social and political circumstances, is an ideal testing ground for IVLT, and the approach should be effective in supporting the government in greatly improving forest management standards.

The IVLT system employs a modular structure that enables flexibility in implementation. Where implemented, each stage of the IVLT programme consists of a series of modules in which the scope, intensity and responsibility of control can be designed to vary as the project progresses.

## 5.5 BILATERAL AGREEMENTS

Bilateral agreements between producing and importing countries will provide the incentive for producer countries to ensure that all their exported timber is verified as legal. Under such agreements the importing country can only import timber products that have been validated as legal.

An essential element of the IVLT programme is an Export Permit System, defining which modules must have been adhered to, at any stage of the implementation of IVLT, in order to authorise the export of a consignment of timber. As the implementation of IVLT progresses, requirements for producers to meet the various VLO and VLC modules already in force can be tightened.

A reliable export permit meeting the requirements of a bilateral agreement would be recognised by the Customs authorities of both the exporting and the importing countries, providing the basis for market access to the producer country.

Implementation of IVLT modules towards a comprehensive national programme is gaining momentum in a number of countries, including:

- Cameroon;
- Central African Republic;
- Congo (Brazzaville);
- Ecuador; and
- Papua New Guinea.

The UK Government is currently implementing a Memorandum of Understanding with Indonesia, under which the UK is seeking to ensure that all timber sourced from Indonesia is independently verified as legal. This bilateral agreement is likely to provide a template for other initiatives. Indeed other governments, including China, Japan and Norway, have already followed the UK's lead and signed similar agreements with Indonesia.

## 6 IVLT AND CERTIFICATION

The Certification Support Programme (Stage 3 in Figure 2) is a key element in linking an IVLT programme to the final stage of forest management certification.

### 6.1.1 Certification Support Programme (CSP)

A CSP is most effective if implemented as the extension of a compulsory IVLT programme, and as part of a nationally co-ordinated effort to promote forest management certification. Once a country has initiated both phases of IVLT (VLO and VLC), national implementation of a CSP will assist producers to go on to the next stage – forest management certification.

A national CSP agency can be established to:

- promote certification through awareness raising, training and technical assistance;
- promote certified, compliant or sustainably-produced exports;
- provide contacts and networks inside and outside the country;
- develop procedures to encourage commitment from all operators (including the creation of producer groups to facilitate group certification); and
- work with the trade, government and donors to encourage trade initiatives such as the Tropical Forest Trust (TFT), and to promote technical, institutional and financial support.

The cost of certification and the accompanying dissemination of expertise can be minimised through a national or group approach. Although producers will not all use the same management procedures, economies of scale are possible: for example a group of companies can jointly employ the same manager or consultants to put in place the required procedures; accredited certifying companies can establish local auditing operations for certification, avoiding the high cost of mobilising experts for 'one-off' audits. And a co-ordinated approach would encourage producers by removing the fear that they are increasing their costs in isolation, making them locally uncompetitive.

The cost of certification will also be reduced if a timber flow control programme, established as part of VLO, has already been implemented, as this will provide a secure chain of custody verification system.

### **6.1.2 Forest Management Certification**

The benefits of promoting and undertaking forest management certification at a national level, as the last step of a phased approach, can be significant. A phased approach will encourage greater numbers of individual producers to undertake certification: once producers have been obliged to raise standards to meet the needs of an IVLT programme, a national CSP will enable them to make the final step to certification.

## **7 CONCLUSIONS**

The programme described in this document is based on tried and tested methods of verifying the legality of timber products. IVLT does not rely solely on paper-based verification of legal compliance: instead, data is collated from a variety of sources and cross-checked for accuracy and consistency. The data collected is further checked against detailed field audits of forest management and the chain of custody.

Countries implementing an IVLT programme will be demonstrating to the international community a clear commitment to environmental and social responsibility. This will improve the international standing of a country's forest industry, providing a secure environment for inward investment and ensuring a permanent share in an increasingly competitive marketplace where environmental issues are a growing concern.