



Press Release

Shadowy Brokers Exploit Loopholes in Minister of Trade Decree, Threatening Indonesia's Timber Laws and an EU Trade Deal

Jakarta, 10 March 2016. *Legal loopholes in a controversial 2015 Minister of Trade Decree are being illegally and cynically exploited by a coterie of timber traders masquerading as small and medium enterprises, significantly weakening Indonesia's flagship timber legality scheme, a new investigative report – Loopholes in Legality - has found.*

The offending Minister of Trade Decree (No.89/2015) exempts 15 product types from requirements to certify timber sources and factory practices under Indonesia's mandatory Timber Legality Verification System, the SVLK (Sistem Verifikasi Legalitas Kayu). The Decree also removes company requirements to register with Indonesia's Forestry Industry Products Exporter Registry (Eksportir Terdaftar Produk Industri Kehutanan or ETPIK).

Importantly, it allows companies exporting exempted products freely by removing the provision to use a self-report on legal compliance using Export Declarations (ED) –which was introduced in 2014 as a transitional mechanism. This has significantly weakened the SVLK's role in ensuring legality of traded timber products. Previous relevant Trade Minister Decrees had limited such self-reporting to small and medium enterprises (SMEs) and prohibited the practice after 31 December 2015, thereby ensuring all wood products exports were certified legal thereafter.

Investigations detailed in the new report – Loopholes in Legality – were conducted in 2015 and 2016 by Forest Watch Indonesia (FWI), the Independent Forestry Monitoring Network (*Jaringan Pemantau Independen Kehutanan* or JPIK), and the UK-based Environmental Investigation Agency (EIA). Investigators examined those companies exporting most frequently using Export Declarations - all of which claimed to be members of the Indonesian Furniture and Craft Association (*Asosiasi Mebel dan Kerajinan Indonesia* or AMKRI). Serious irregularities were identified, including:

- Opaque companies exporting thousands of shipments worth millions of dollars using Export Declarations technically reserved for SMEs;
- Companies not actually operating forestry industries (mills or factories) themselves, but merely acting as brokers for products made elsewhere – despite being registered as forestry industries
- Companies selling Export Declarations to other companies that do not qualify for them, are not SVLK certified, and would not otherwise be allowed to export at all;
- Companies not properly registering with relevant government agencies.

Companies performing these illegitimate practices include CV V&V Logistic and CV Greenwood International, both based in Semarang, Central Java, and CV Rejeki Tirta Waskhita and CV Devi Fortuna based in Jepara, also in Central Java. These companies have exported to the United States using thousands of Export Declarations throughout 2015, despite no timber industry production or processing activities taking place at their addresses.

Muhamad Kosar, JPIK's National Coordinator, said "Since their introduction in 2015, the use of Export Declarations has been dominated by a small coterie of AMKRI companies that do not appear to be SMEs or run legitimate timber industries. These are opaque traders and brokers clearly exploiting loopholes provided by the Ministry of Trade to circumvent mandatory timber legality certification under the SVLK."

“Our investigations highlight how the removal of independent checks on the legal compliance of exporting timber industries – by allowing exports without SVLK compliance- is fundamentally weakening Indonesia’s timber legality verification system. Minister of Trade Decree No. 89/2015 must be revised immediately”, Kosar explained.

Christian Purba, FWI’s Executive Director added, “Trade Minister Decree 89/2015 is substantially weaker than the previous provisions, and introduces structural inconsistencies in Indonesia’s hard-fought battle to improve forestry governance through SVLK implementation.”

Faith Doherty, EIA’s Forest Campaign Leader stated, “ This Minister of Trade Decree structurally and technically violates the objectives and mechanisms of both the SVLK, and the EU-Indonesia Voluntary Partnership Agreement (VPA) – both of which Indonesia has developed over a decade. It must be amended immediately, or it will disrupt the scope and timeframe for Indonesia-EU Voluntary Partnership Agreement (VPA) implementation, likely resulting in the need to renegotiate the VPA”.

Editor’s Notes:

- The details of individual company case studies are included in the report “Loopholes in Legality: How a Ministry of Trade Decree Benefits Shadowy Timber Exporters & Undermines Legal Reforms”. The report is published by FWI, JPIK and EIA, and available in both Bahasa Indonesia and English at www.jpik.or.id
- Forest Watch Indonesia (FWI) is an independent forest monitoring network consisting of individuals who share commitment to create an open forestry data and information management in Indonesia, in order to guarantee a fair and sustainable forest resources management. Currently, FWI is commissioned as the Secretariat of Governance Forestry Initiatives (GFI) – Indonesia, and also as National Secretariat of Independent Forest Monitoring Network (JPIK)
- *Jaringan Pemantau Independen Kehutanan* or JPIK, is an independent Forest Monitoring Network established on 23 September 2010, with 64 NGOs members stretching from Aceh to Papua. JPIK’s core mandate is to monitor and strengthen the SVLK and its implementation, as a key tool in bringing about better forestry and trade governance.
- The Environmental Investigation Agency (EIA) is a UK based environmental charity focused on environmental crime. EIA has investigated illegal logging in Indonesia since 1999, and has been centrally involved in the development of Voluntary Partnership Agreements, including that in Indonesia
- Voluntary Partnership Agreements (VPAs) are bilateral agreements between timber producing countries and the European Union (EU), seeking to eliminate trade in illegal timber and wood products. VPAs involve the negotiation of Timber Legality Assurance Systems, which underpin VPA Licenses issued against verified legal timber consignments. VPA Licensed timber shipments are offered a “Green Lane” into the EU market, and are exempt from the EU Timber Regulation – which itself prohibits illegal timber trade in the EU.
- The SVLK is the legal-base underpinning the VPA in Indonesia. The SVLK is a mandatory requirement for all timber producers, processors and exporters to be independently audited for compliance with a Legality Verification standard that includes criteria, indicators, verifiers, verification methods, and assessment norms developed through a multi-stakeholder negotiation process.

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