

# The Proposed Deregulation of Indonesian Timber Trade P15/2020.

Indonesia showed laudable environmental leadership when it created laws to keep illegally sourced timber out of international trade, a pioneering move which gave the country's timber industry easy access to lucrative international markets such as the European Union. It transformed a nation with a shocking record on forest crime into one that responded with a transparent, multi-stakeholder process that other countries are now also following.

For 20 years, EIA and its Indonesian partner Kaoem Telapak have been working in Indonesia to combat illegal logging and the corruption that enables the associated illicit trade in timber and wood products.

We lobbied, we investigated, we exposed and we showed the world what was going on. And when this resulted in a ground-breaking partnership between Indonesia's Forestry Ministry, civil society and the private sector to create the world's first green supply chain for timber, we celebrated. Through the European Union's Forest Law Enforcement, Governance and Trade (FLEGT) initiative, a Voluntary Partnership Agreement (VPA) was established between Indonesia and the EU which verified legal timber through a reformed system called the Sistem Verifikasi Legalitas Kayu (SVLK).<sup>1</sup>

VPA negotiations between Indonesia and the EU began in 2007 and concluded with the signing of the agreement in 2013; the following year, Indonesia became the first Asian country to ratify a VPA.

But now, while the world's attention is on the global coronavirus (aka COVID-19) pandemic, all that is about to be overturned, undermining 20 years of progress.

The Indonesian Government has issued a regulation that will damage the credibility of its legal timber supplies to international markets. Trade Minister Regulation 15/2020 (hereafter 'Regulation 15/2020') was pushed by the Ministry of Trade and will violate Indonesia's VPA commitments to keep timber legality standards in place which are effectively locking stolen wood out of the country's supply chains.

Under the new, flawed system set for implementation on 27 May 2020, companies will no longer need to obtain special licences attesting legality – called V-Legal Documents – from the point of processing to export.

Indonesia's Trade Minister, Agus Suparmanto, claims that weakening the rules is necessary to boost timber exports amid the economic slowdown caused by the global pandemic. as part of a COVID-19 trade stimulus strategy which will undermine

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<sup>1</sup> <http://www.euflegt.efi.int/es/background-indonesia>

environmental and social regulations in pursuit of an increase in economic competitiveness.

But this flawed strategy fails to recognise the significant economic, as well as environmental and social benefits, of these regulations and will cause a decline in confidence in Indonesia's forest products.

Apart from the issues attached to the deregulation of trade, Regulation 15/2020 also tarnishes Indonesia's previous commitment to good forest governance.

## **Additional background**

The landmark Indonesian timber legality verification system (SVLK)<sup>2</sup> has been under increased pressure from commercial interests since 2019. Indonesia's Coordinating Minister for Economic Affairs at the time, Darmin Nasution, argued that the Government's plan to relax timber regulations would give the country a competitive advantage and thereby increase exports of wood products, stating that the SVLK should only be applicable to furniture products destined for Australia, Canada, the EU and UK.

The SVLK currently requires a V-Legal Document for the export of all timber products to any international market; Regulation 15/2020 will ensure this is no longer required for the full range SVLK-relevant customs codes (HS codes).

The Indonesian Furniture and Craft Association (HIMKI) has been instrumental in this push to drop the legality assurance requirements, despite trade data showing there has been a substantial increase in market response to V-Legal documentation and the SVLK system. HIMKI Secretary General, Abdul Sobur, stated that under the present conditions, Indonesia cannot compete with Vietnam in attracting foreign investment<sup>3</sup>.

HIMKI is a small Indonesian furniture association which states it has 182 companies as its membership. These include rattan and bamboo furniture/craft producers which are not subject to the SVLK. Compared to the larger associations, HIMKI only represents a small fraction of stakeholders.

Following 2013, when Indonesia and the EU signed the VPA, Indonesia's timber exports rapidly increased, with a value of up to \$68.37 billion.

Further, SVLK-licensed products provided the largest gains within the EU tropical wood products import sector in 2019, seeing Indonesia achieve the biggest increase of market share in the EU.

Besides the argument of declining economic returns, Indonesia's Trade Minister is evidently unaware that Regulation 15/2020 would also violate the legally binding (VPA)

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<sup>2</sup> <http://www.flegtlicence.org/svlk-indonesia-s-timber-legality-assurance-system>

<sup>3</sup> <https://ekonomi.bisnis.com/read/20200130/257/1195527/regulasi-rumit-sebabkan-investasi-mebel-turun>

with the EU, casting significant doubt on the credibility Indonesia may have when negotiating future trade agreements, especially with the EU.

Indonesian civil society organisations have responded with an open letter<sup>4</sup> to President Joko Widodo, laying out their concerns and asking for the regulation to be revoked.

Concerns over the erosion of legality controls have been echoed by customers in Europe, including the Timber Trade Federation (UK) which called Regulation 15/2020 a “shock move”.<sup>5</sup>

## Impact of Regulation 15/2020

Regulation 15/2020 will:

- **weaken the chain of custody requirement for products listed in Annex I**
  - An unbroken chain of custody is the core safeguard of timber legality under the SVLK in accordance with the FLEGT VPA agreement. Removing the V-Legal documentation undermines this safeguard, leaving a crucial stretch of the supply chain vulnerable to illicit activities. Ultimately, this will make reliable due diligence an impossibility for traders in consumer countries rendering the FLEGT licensing scheme useless.
- **leave most sector relevant customs codes unregulated**
  - All Indonesian export wood products are currently subject to V-Legal documentation and can be traded in accordance with Indonesia’s commitment to good forest governance. The new regulation, however, now omits clear governance for this sector as it is unclear how products not listed under Annex I of the regulation will be handled. Product codes specifically listed in Annex I are:
    - 4407.11.00 to 4407.99.90 Semi processed and/or jointed sawn wood
    - 4409.10.10 to 4409.29.00 Processed wood pieces for floorboards etc.
    - 4418.10.00 to 4418.99.90 Wood for house construction, panels, shingles etc
    - 9406.10.90 Prefabricated buildings made of wood

This leaves most wood products (in fact, all items not covered by the codes mentioned above) under the harmonised customs code system (HS codes) without explicit regulation, thereby introducing uncertainty and scope for illicit activities to the extent that Indonesian wood products cannot be legally exported.

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<sup>4</sup> <https://eia-international.org/wp-content/uploads/Open-letter-to-president-Jokowi.pdf>

<sup>5</sup> <http://www.ttjonline.com/news/indonesians-withdraw-export-legality-licensing-requirement-7842649/>

- **violate Presidential Decree 21/2014 on the Agreement of Voluntary Partnerships between the Republic of Indonesia and the European Union**
  - Article 10 of the VPA between Indonesia and the EU stipulates that Indonesia shall verify the legality of timber exported to non-EU markets and timber sold on its domestic market.
  
- **conflict with Law of the Republic of Indonesia Number 18 of 2013 on Prevention and Eradication of Forest Destruction**
  - The Permendag 15/20 undermines the efforts to address illegal logging and associated trade, prevent forest destruction and improve forest governance.
  
- **conflict with the Regulation of Minister of Environment and Forestry 30/2016 on the Assessment of Sustainable Management of Production Forest and Timber Legality Verification System**
  - The removal of V-Legal Document requirement for exporting timber products by Permendag 15/20 directly contradicts Environment And Forest Minister's regulation which stipulates that the transportation of timber products between countries shall use V-Legal Document.

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