

Verification of Legal Origin (VLO)

January 2007

Presentation Outline

- The problem of illegal logging
- Responses to the problem
- SmartWood VLO
- Defining legality
- Standards for VLO
- Verification statement & claims
- VLO in comparison to other verification or certification programs
- The future of legality verification in Asia

The problem: Illegal logging

- Worldwide awareness of scale, extent and adverse impacts of illegal logging
- 30 – 75% estimated illegal production, exports, or imports in some countries
- In Indonesia it is estimated that up to 90% of logging is illegal
- Illegally harvested timber may exceed legally harvested
- Undermines efforts to promote social equity, environmental conservation, or sustainable forest management
- Social impact of illegal logging is significant, contributing to poverty, resource inequity and negatively affecting rural livelihoods
- In developing nations, illegal logging results in losses of assets and revenue over US\$10 billion annually

The problem: Illegal logging

Causes of illegal logging –

- poor governance
- flawed policy and legal frameworks
- lack of transparency
- corruption
- law enforcement capacity
- insufficient data and monitoring
- high demand for cheap timber

The problem: Illegal logging

Spotlight on countries and companies that may be part of the problem (potentially high negative impacts)

Consuming nations:

- Europe
- US/Canada
- Japan

High-risk forest producing nations:

- Indonesia, Malaysia, Myanmar

High-risk manufacturing and trading nations:

- China, Korea, Vietnam, Thailand, Indonesia, India, Bangladesh

International/Governmental responses to illegal logging

- G8 Action Programme on Forests (est. 1998)- raised the profile of the issue of illegal logging
- United Nations Convention on Biological Diversity
- FLEG - political process to get government commitment to address illegal logging
- FLEGT - promoting mechanisms for trade in legally verified forest products entering the EU.
- National wood procurement strategies (particularly Europe, US, Canada and Japan).

NGO and Private Sector Responses to Illegal Logging

- NGO programs to combat illegal logging (GFTN, TFT, SW).
- Financial sector responses through strengthening due diligence and developing forest policies.
- Private sector is responding by businesses working to eliminate destructive and illegal forest products from their supply chains:
 - **Voluntary verification schemes**
 - **Independent forest monitoring**
 - **Green purchasing policies and sourcing programs**

SW Verification Program

- Developing an auditing program for legality verification
- Voluntary in nature
- Borrowed on experience in FSC COC auditing
- Verifies company's timber tracking from all forest sources and all points within a defined scope
- COC is required for any entity and audited:
 - **at the forest**
 - **contractors**
 - **sawmills**
 - **Manufacturers**

SW Verification Program

- Research on existing legality definitions, standards, approaches
- Framework of principles, criteria, and indicators for legality
- Two generic standards (in draft, for consult)
- Will incorporate national 'legality definitions or standards' (as developed)
- Will be adapted for each country (China, Malaysia, Indonesia, etc)
- VLO will be linked closely to other SW programs promoting responsible forestry

SW Definition of legality: Basic Terms

Legality verification:

Verification of the source of raw material for compliance with legal issues, which could be:

- *Legal Right to Harvest (Origin)*
- *Legally Harvested (Full Compliance)*
- *Legally Traded (Full Compliance)*

Defining legality: Legal Origin

Legal Right to Harvest:

- Authorization to harvest in the forest management unit has been granted from the resource owner(s)
- Planning approvals are in place
- There is a valid permit, license or similar instrument
- Such rights are issued pursuant to the laws and regulations governing the jurisdiction of the operation(s)

Defining legality: Legal Compliance

Legally Harvested:

- Raw material harvested pursuant to a *legal right to harvest* timber in the forest management unit in which the wood was grown
- In compliance with ALL national and sub-national laws governing the management and harvesting of forest resources.

Defining legality: Legal Compliance

Legally Traded:

- Wood, or forest products, is exported in compliance with exporting country laws governing the export of wood and wood products, including:
 - payment of any export taxes, duties or levies
- imported in compliance with importing country laws governing the import of wood and wood products, including:
 - payment of any import taxes, duties or levies

Legalloq

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VLO standards – 4 principles

Principle 1: Legal Right to Harvest

- *The legal status of the forest management unit shall be clearly defined and boundaries delineated. The company shall prove that it has validly obtained the legal right to operate and to harvest timber from within the defined forest management unit.*

Principle 2: Approved Planning Authorizations

- *The company shall have received the necessary approval for the basic and fundamental planning requirements legislated as necessary to enable forest management and are adhering to production restrictions and quotas within their permitted harvest rights.*

VLO standards – 4 principles

Principle 3: Payment of Fees and Taxes

- *The company regularly fulfills all obligatory tax; fee and/or royalty payments associated with maintaining the legal right to harvest and permitted harvesting volumes.*

Principle 4: Traceability of Timber (COC)

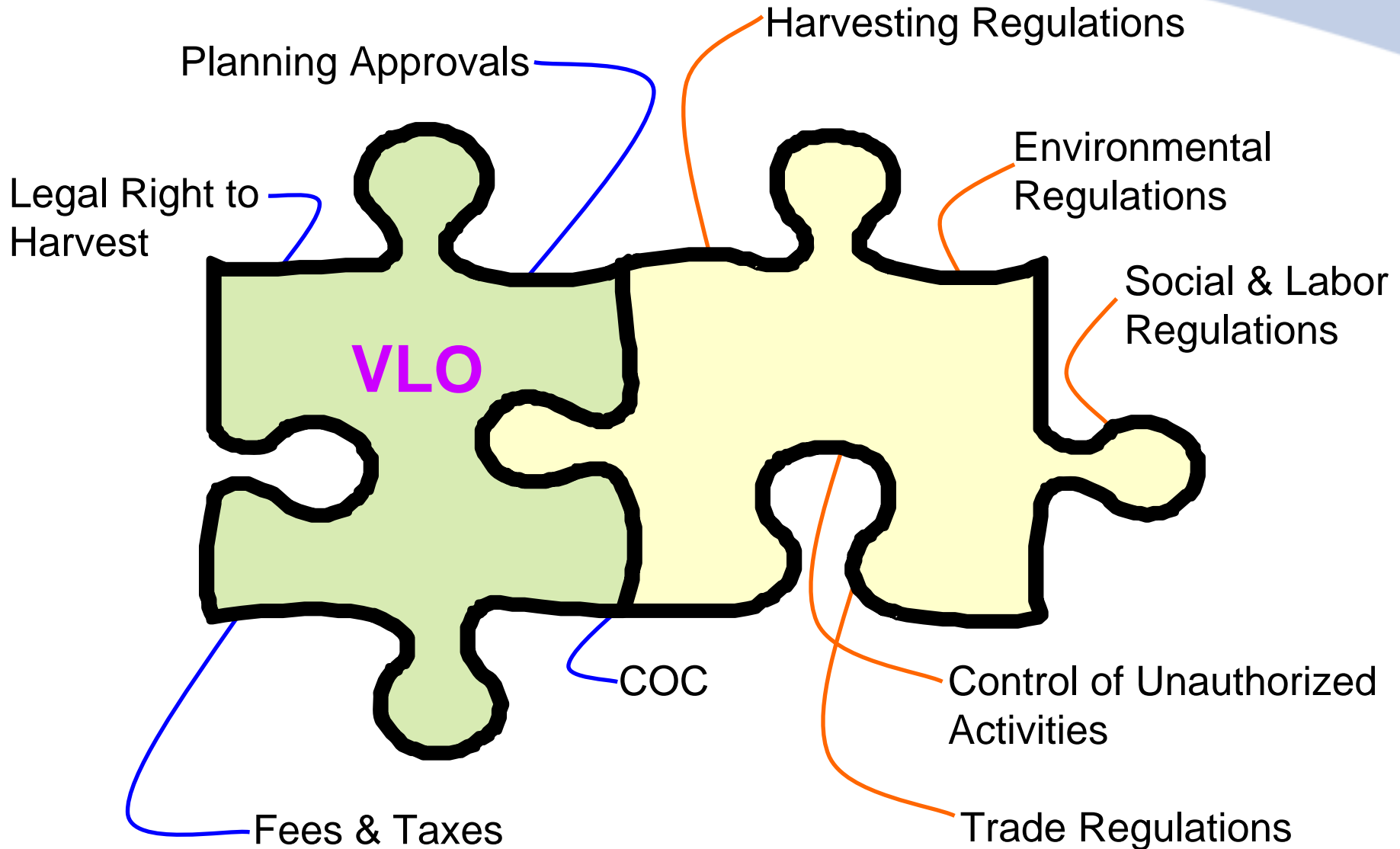
- *Documented control of the chain of custody of forest products is a fundamental requirement to ensure that separation is maintained between verified and non verified products.*

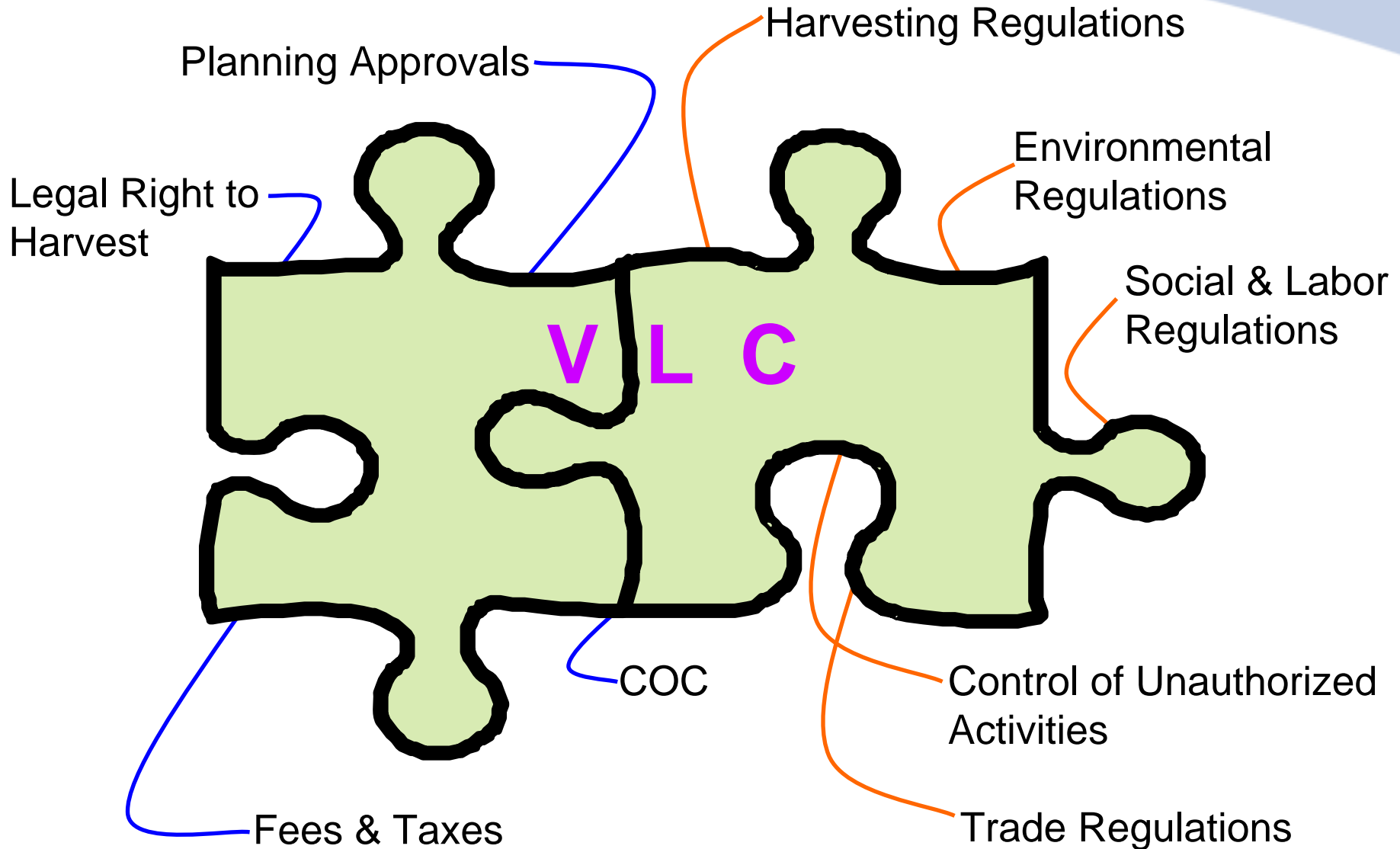
Verification claims

- VLO/VLC verified companies may communicate the message
- Evidence of status demonstrated by “Verification Statement” issued by Rainforest Alliance.
- Can use the Rainforest Alliance and SmartWood names and logos only off-product.
- Can not label a product.
- Can put a verification code number (e.g. SW-VLO-####) on invoices and on products.
- SW requires review and approval of **all** VLO related advertising, brochures, catalogues, or other promotional materials.

VLO vs VLC

- Standard for verification of legal origin (VLO) - *Right to Harvest*
 - Legal origin criteria and indicators focus on the possession of mandatory approvals, permits, and documents required by the specific permitting framework of the country involved.
- Standard for verification of legal compliance (VLC) – *All applicable laws*
 - encompasses the totality of laws relating to environmental protection, wildlife, water and soil conservation, harvesting rules and practices, worker health and safety, and fairness to communities.





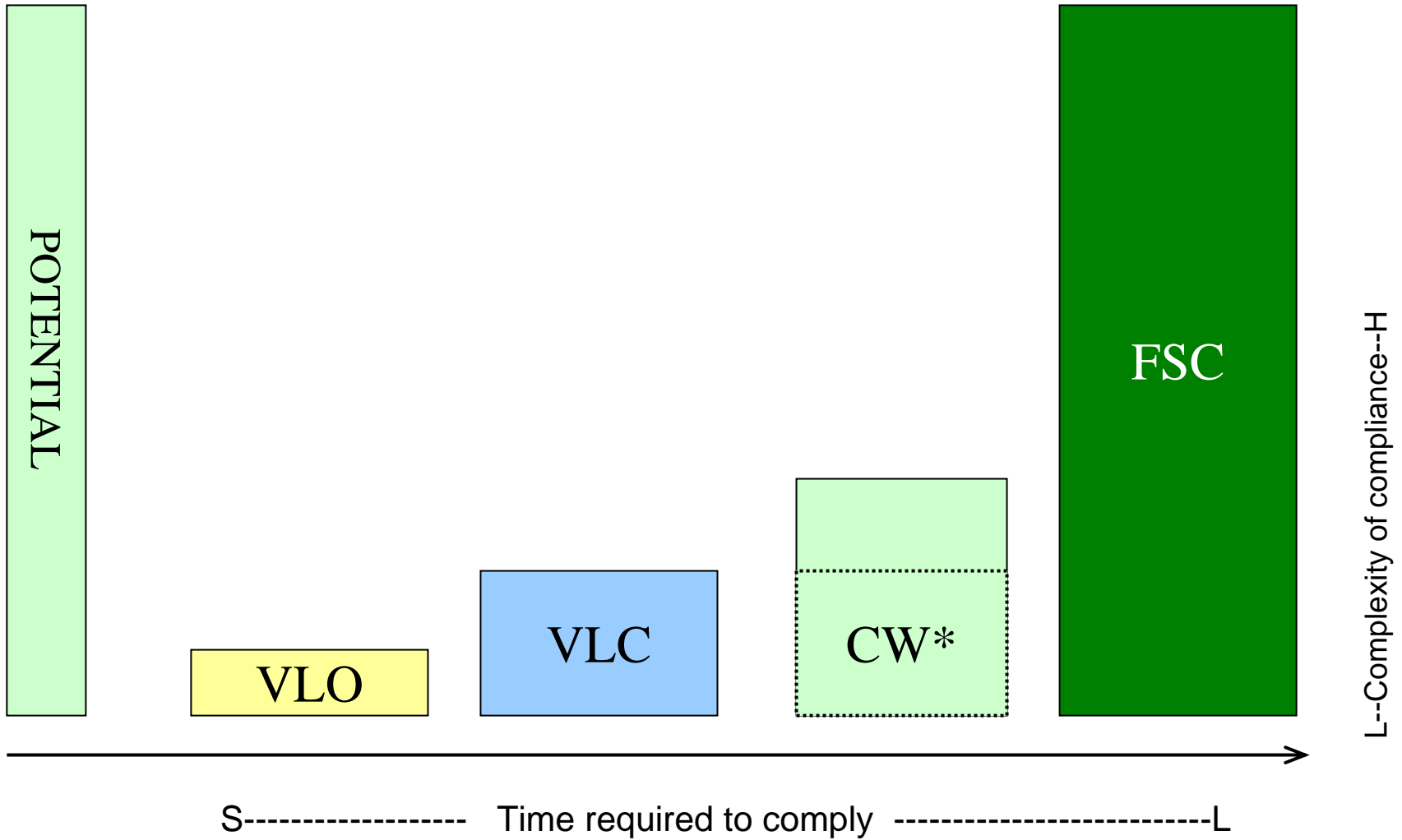
VLO vs VLC

- (VLO) - Legal origin is like:
 - having your automobile titled and licensed,
 - with valid registration,
 - operating fees paid,
 - a license to drive your vehicle on the road.

- (VLC) – Legal compliance is like:
 - what you do to obey the laws while operating that vehicle
 - retaining proper insurance,
 - conforming to the rules of the road,
 - following the speed limit,
 - not driving while under the influence, etc.

SmartWood VLO related to other steps towards certification

- VLO is the minimum acceptable starting point for legality verification
- After VLO, the goals should be:
 - VLC - Full legal compliance
 - CW – Controlled Wood certification
 - SmartStep or other phased program
 - FSC certification
- “A milestone, not a destination”



*CW legal requirements may be less than VLC for some jurisdictions

Future Possibilities for Verification of Wood Sources

Production and processing in the Asia region is growing, however a large percentage remains uncontrolled/illegal – need for improved legal implementation

Still weak market reaction to legally verified in terms of premiums – need for awareness in consuming nations.

Finance sector to strengthen lending policies and due diligence (the Equator Principles)

Increasing need for independent verification of wood tracking systems.