



Timber Legality Risk Dashboard: Indonesia

Drafted as of: September 2021

Indonesia is the first, and currently, only, country in the world with an operational Forest Law Enforcement Governance and Trade (FLEGT) licensing scheme.¹ This means that the Government of Indonesia has made significant efforts to develop a mandatory national system to track and verify legality and control illegal timber, called the Sistem Verifikasi Legalitas Kayu (SVLK), which was established in 2009. Indonesia began issuing FLEGT licenses on 15 November 2016.² The SVLK covers 99 percent of the total concession area as of 2019.³

While Indonesia has put in place a national system to track and verify legality and control illegal timber imported into the country, corruption in Indonesia across the board, particularly at the local level, remains an issue that can undermine the system.^{4,5,6} Some early challenges should be expected given that this is a new system and the first such FLEGT licensing scheme operating globally.

In Europe, the SVLK has been recognized as meeting the standards set by the European Union Timber Regulation (EUTR) since November 2016 and EU and UK importers are no longer required to conduct due diligence checks on timber from Indonesia. While SVLK / FLEGT licensing denotes complete compliance with the EUTR for European importers, a FLEGT licence may not in and of itself guarantee compliance with timber import regulations in other jurisdictions, such as the U.S. Lacey Act in the United States.

SUMMARY OF LEGALITY RISKS

Risk Scores:

Overall Country Governance Risk: 49.8 (Medium-Risk^a)⁷

Forestry-Related Risk: Presumably low as the SVLK covers 99 percent of the total concession area as of 2019;⁸ however, some question the implementation effectiveness across all regions of Indonesia (see timber legality section).

Conflict State: NO⁹

Log and Sawnwood Export Restrictions in Effect: YES¹⁰

Import Regulation in Effect: YES¹¹

- Much of the timber used in Indonesian-made wood products has been sourced domestically.
- Indonesia has developed a mandatory system to verify the legality of timber production and trade called the SVLK.
- Despite an operational SVLK, challenges remain with its full and effective functioning.
- Government of Indonesia figures suggest enforcement action is growing rapidly but reportedly still lacks clout and consistency.
- There are continued reports of illegal logging.
- Imports have tended to come from relatively lower-risk sources, with some exceptions.

TRADE PROFILE OF FOREST PRODUCTS^{B,C,12,13}

Total Imports (2019): \$3.35 billion

Total Exports (2019): \$12.36 billion.
\$4.76 billion (38.6%) to "regulated markets"^d

SUMMARY OF HIGHEST PRODUCT- LEVEL RISKS

Exports - Top Products Exported to the US by 2019 Value¹⁴

- Wood Furniture – Other (HS940360)
- Paper (HS48)
- Plywood (HS4412)
- Wood Furniture – Seating (HS940161 and HS940169)
- Wood Furniture – Bedroom (HS940350)
- Joinery Products (HS4418)
- Flooring, Moulding & Strips (HS4409)

Summary of Highest Product-Level Risks (continued)

- Frames (HS4414)
- Marquetry (HS4420)
- Wood Furniture – Office (HS940330)

Exports of logs (HS4403) and hoopwood (HS4404) have been banned since 2001, and exports of sawnwood (HS4407) and sleepers (HS4406) have been banned since 2004. Indonesia has allowed the export of plantation logs since 2017, while logs sourced from natural forests remain banned.¹⁵

SUMMARY OF HIGHEST SPECIES-LEVEL RISKS

Illegal logging and trade affect many timber species, but highly valuable - often rare and endangered - species that are protected under harvest and/or trade regulations are a key target and at an elevated risk for illegality. The following species are either currently, or have recently, been protected in Indonesia. These include:

CITES-Listed Species (Appendix II):¹⁶

- **Ramin** (*Gonystylus* spp.)^{17,18}
- **Agarwood** (*Aquilaria* spp. & *Gyrinops* spp.)^{19,20}
- **Chinese or Himalayan Yew** (*Taxus sumatrana*)^{21,22}
- **Rosewood** (*Dalbergia* and *Pterocarpus* spp., and others)²³

Currently Protected:²⁴

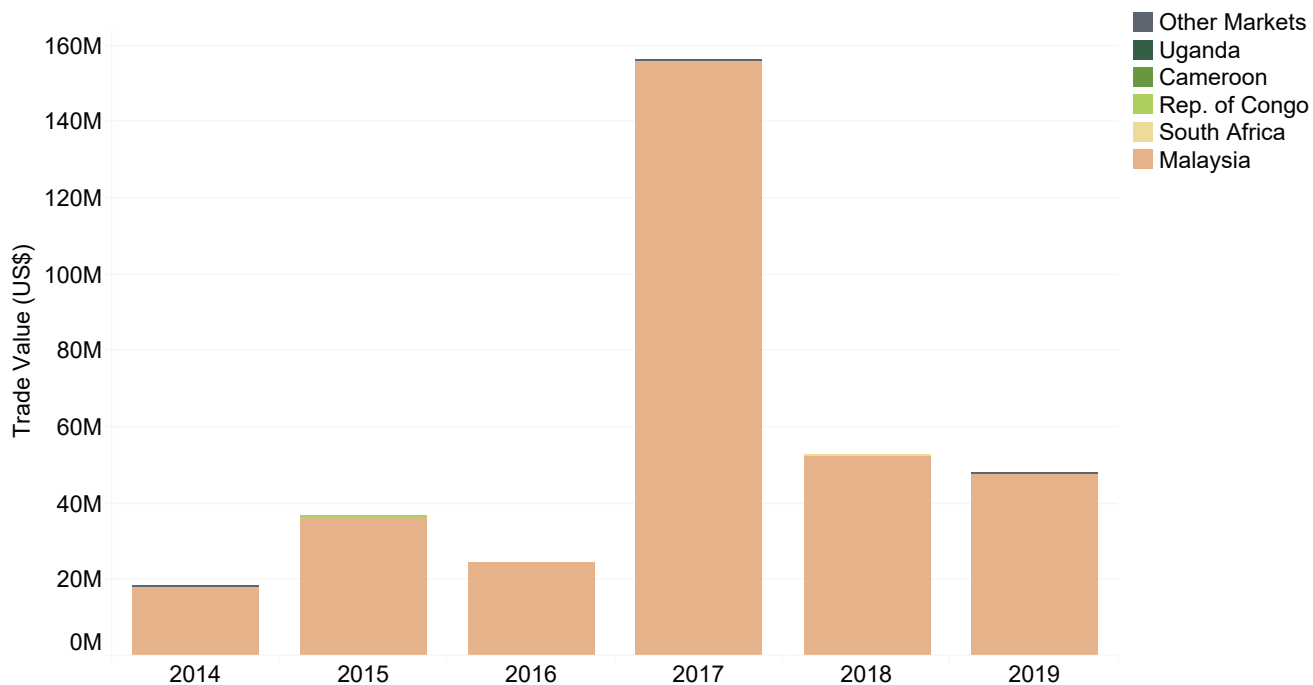
- **New Guinea Kauri** (*Agathis labillardierei*)
- **Resak** (*Vatica javanica*)
- **Berangan** (*Castanopsis argentea*)
- **Globosa Mangrove** (*Heritiera globosa*)

Historically Protected:

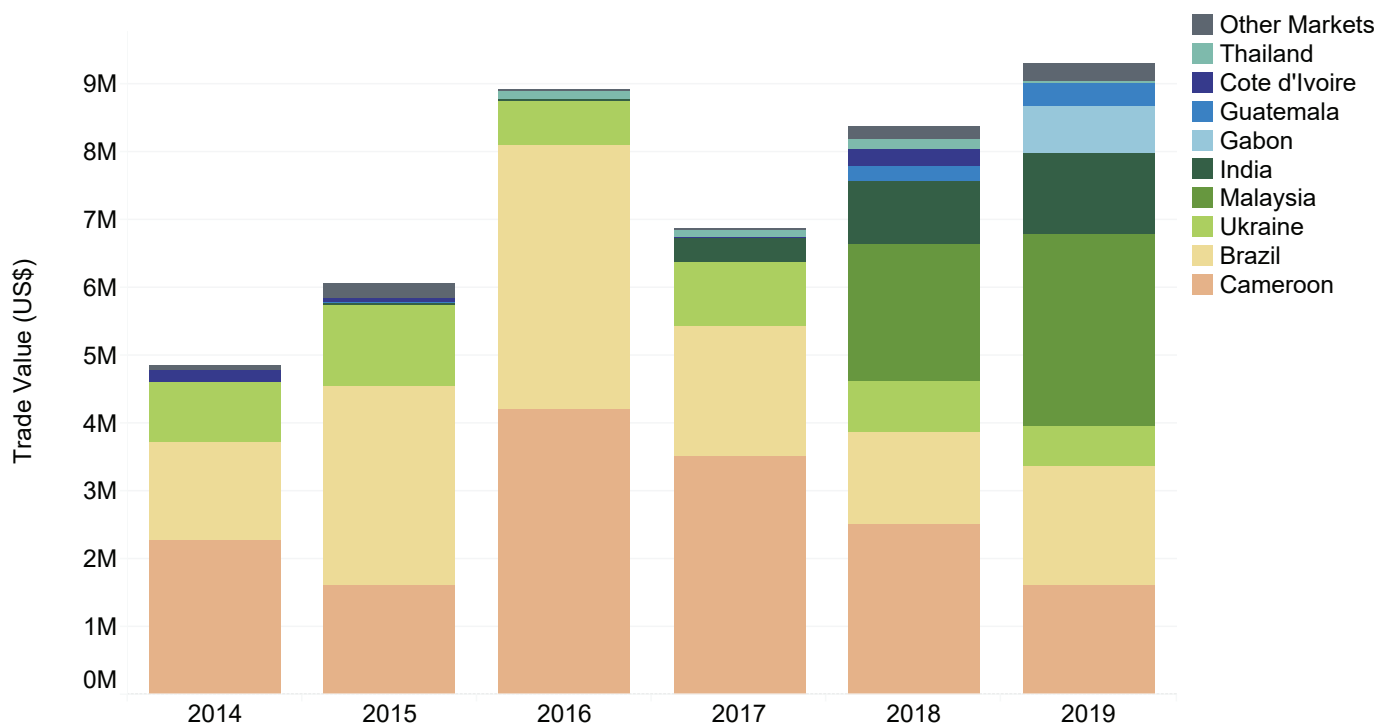
- **Kapur** (*Dryobalanops aromatica*)²⁵
- **Meranti, Balau, Bangkirai, Lauan, Marsolok, Tengawang** (*Shorea* spp.)²⁶
- **Ulin or Borneo Ironwood** (*Eusideroxylon zwageri*)²⁷
- **Keruing** (*Dipterocarpus* spp.)²⁸
- **Merbau** (*Intsia bijuga*)²⁹

Indonesia also imports logs and sawnwood from countries with active export restrictions in place, many of which apply to a list of specific species. As such, the presence of a log export restriction (LER) or sawnwood export restriction (SER) signals a need for additional risk assessment and mitigation actions to ensure that the import of logs or sawnwood from these countries does not violate the specific laws and regulations of the source country.³⁰ Indonesia's mandatory national system to track and verify legality and control illegal timber, the SVLK, also covers imported wood products. However, there remain reported challenges with the full and effective functioning of the SVLK.

**LOG IMPORTS FROM COUNTRIES WHERE ADDITIONAL DUE DILIGENCE IS NEEDED
DUE TO AN ACTIVE LOG EXPORT RESTRICTION³¹ (2014 - 2019)³²**



**SAWNWOOD IMPORTS FROM COUNTRIES WHERE ADDITIONAL DUE DILIGENCE IS NEEDED
DUE TO AN ACTIVE SAWNWOOD EXPORT RESTRICTION³³ (2014 - 2019)³⁴**



FORESTRY SECTOR

Forested Area: 92.1 million ha (54.5% protected)^{35,36}

Deforestation Rate: 0.8% annually³⁷

Forest Ownership:³⁸

- Official government statistics show, as of 2010:
 - Current forest ownership structure is contested by Indonesia's indigenous people.
 - Official government statistics show, as of 2015:
 - 86.63 million ha publicly-owned (91.2%)
 - 1.03 million ha privately owned (1.09%)

Certified Forests:

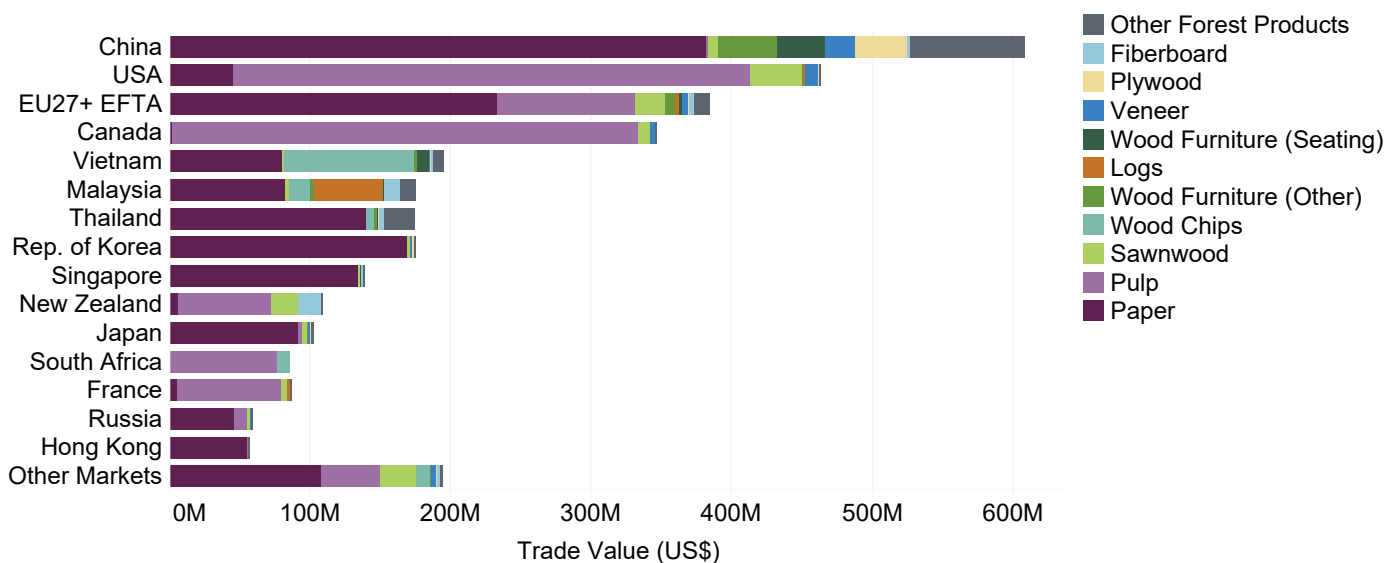
- Voluntary Forest Certification (Private Scheme)
 - FSC Certification: 2.96 million ha (2019)³⁹
 - PEFC Certification: 4.00 million ha (2021)⁴⁰
- Mandatory Timber Legality Certification (SVLK)⁴¹
 - 18.8 million ha of natural forest
 - 11.4 million ha of plantation forest
 - 0.6 million ha of ecosystem restoration forest

Together, this SVLK certified forest covers 98.7 percent of total concession area.

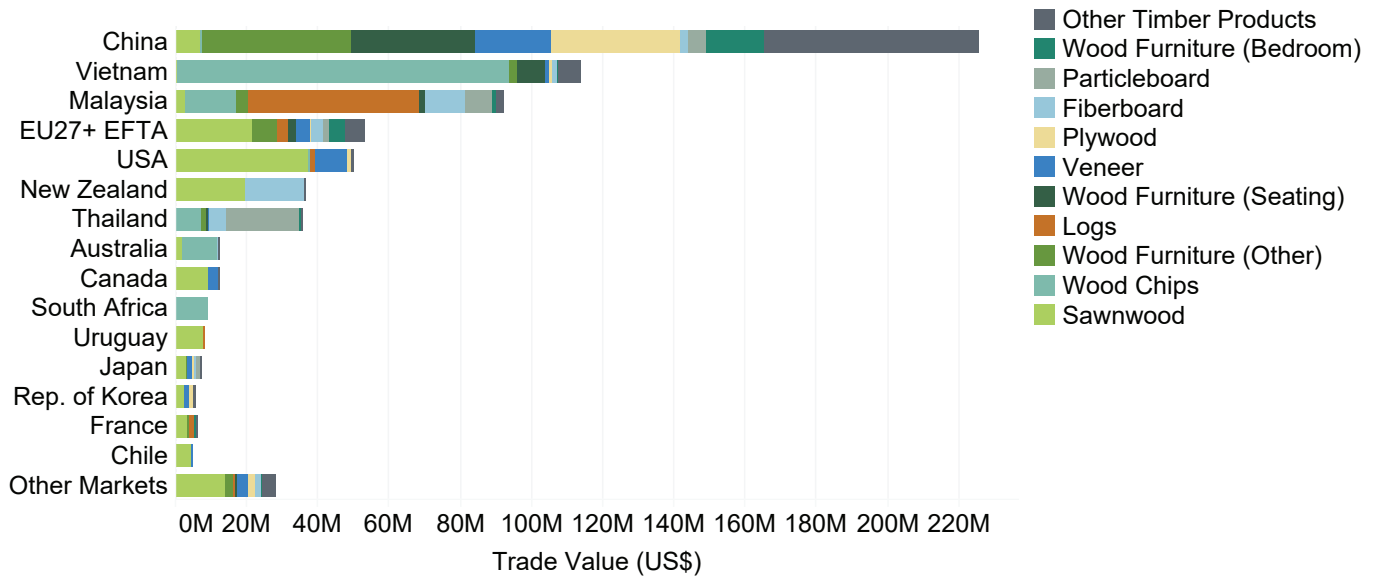
Domestic Production:⁴²

- Pulpwood, round and split, non-coniferous: 44.67 million m³ (2019)
- Sawlogs and veneer logs, non-coniferous: 33.11 million m³ (2019)
- Other industrial roundwood, non-coniferous: 5.56 million m³ (2019)
- Other industrial roundwood, coniferous: 7.00 thousand m³ (2019)
- Wood Fuel: 40.41 million m³ (2019)
- Plywood: 4.80 million m³ (2019)
- Sawnwood: 2.64 million m³ (2019)
- Wood Chips: 2.18 million m³ (2019)
- Veneer: 1.35 million m³ (2019)
- Fibreboard: 718 thousand m³ (2019)
- Particleboard: 125 thousand m³ (2019)
- Paper: 26.83 million metric tonnes (2019)
- Pulp: 16.28 million metric tonnes (2019)
- Charcoal: 664 thousand metric tonnes (2019)
- Wood Pellets: 170 thousand metric tonnes (2019)

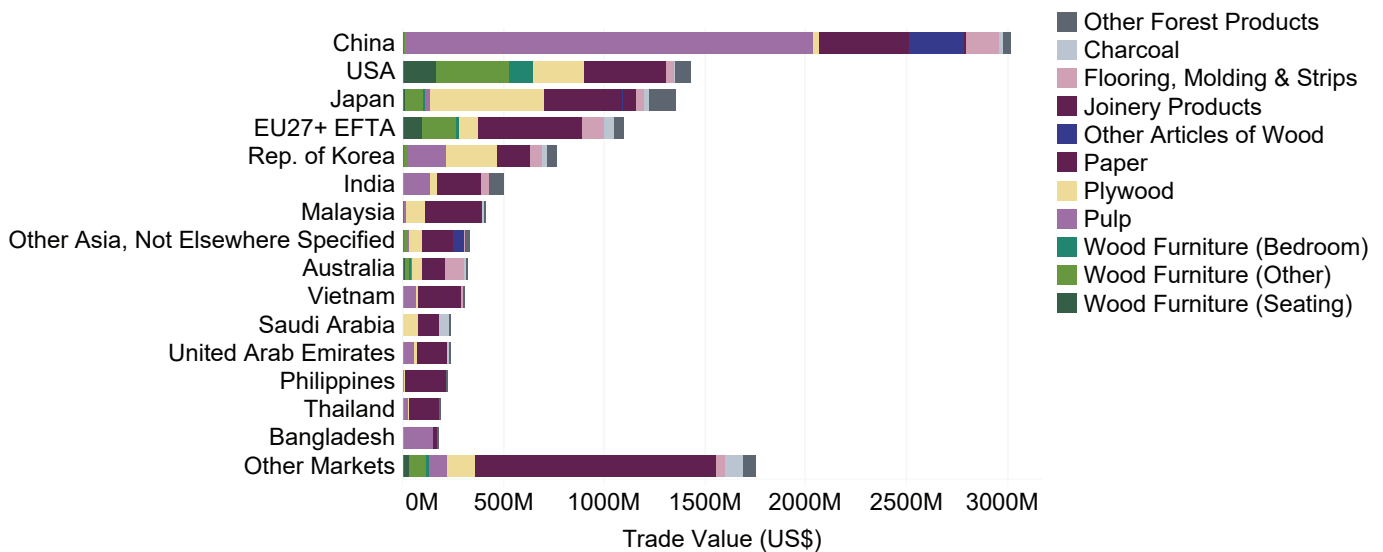
INDONESIA'S TOP SOURCE MARKETS FOR FOREST PRODUCTS BY VALUE (2019)^{E,43}



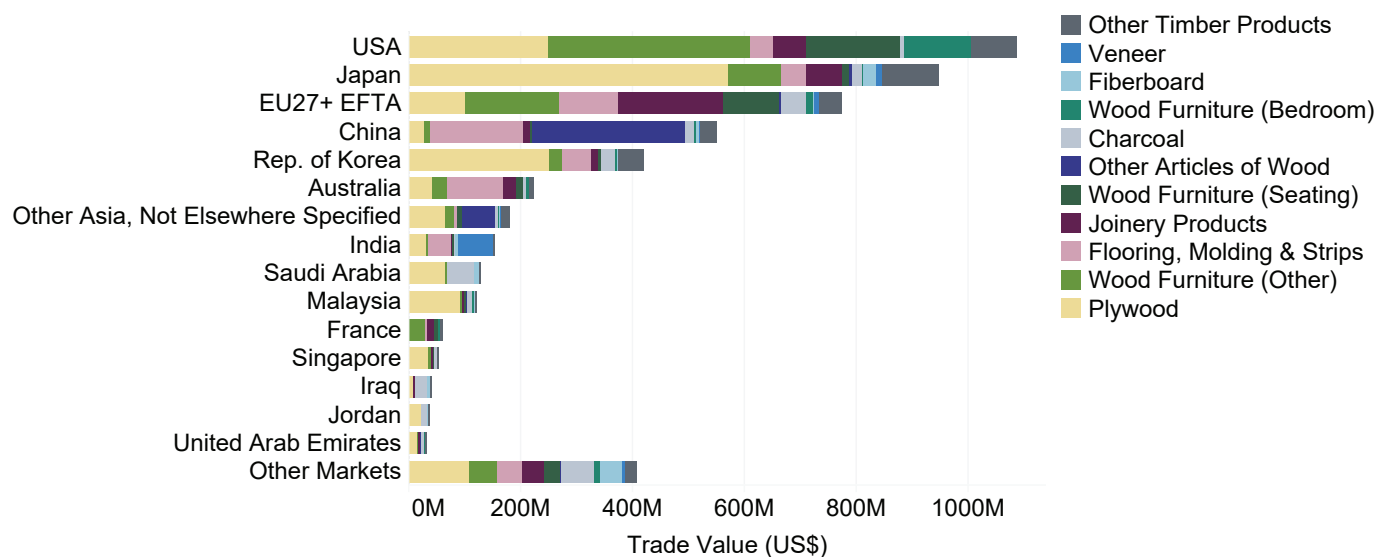
INDONESIA'S TOP SOURCE MARKETS FOR TIMBER PRODUCTS BY VALUE (2019)⁴⁴



INDONESIA'S TOP DESTINATION MARKETS FOR FOREST PRODUCTS BY VALUE (2019)⁴⁵



INDONESIA'S TOP DESTINATION MARKETS FOR TIMBER PRODUCTS BY VALUE (2019)⁴⁶



TIMBER LEGALITY

There have been substantial improvements in forest governance in Indonesia since 2003, and illegal logging has greatly declined since the early 2000s,⁴⁷ when it was estimated that more than 80 percent of Indonesia's timber was illegal. By 2015, this figure was estimated to be around 30 percent.⁴⁸ More recent figures are not yet available.

- **Much of the timber used in Indonesian-made wood products has been sourced domestically.**

More than 75 percent of Indonesia's domestic raw materials are sourced from plantations. The rest is sourced from natural forests in production or land conversion areas.⁴⁹ The majority of Indonesian plantations are located on Sumatra, which accounted for 91 percent of the country's production between 2001 and 2013. This concentration of plantations reflects the fact that 90 percent of Indonesia's pulp mill capacity is also located on Sumatra.^{50,51}

- **Indonesia has developed a mandatory system to verify the legality of timber production and trade called the SVLK.**

The Government of Indonesia has made significant efforts to develop a mandatory national system to track and verify legality and control illegal timber, called the Sistem Verifikasi Legalitas Kayu (SVLK), which was established in 2009, and improved through a binding bilateral agreement with the European Union known as a Voluntary Partnership Agreement (VPA).^{52,53} This VPA was ratified in 2014, with the EU and Indonesia confirming in 2016 that Indonesia had met the final requirements of the VPA, and Indonesia began issuing FLEGT licenses on 15 November 2016.^{54,55}

This system has been designed to provide assurances that timber and timber products produced and processed in Indonesia come from legal sources and are in full compliance with relevant Indonesian laws and regulations, as verified by accredited independent auditors and monitored by civil society. By April 2016, all active natural forest concessions, all industrial forest plantations in production, and all plantations managed by State-owned company Perum Perhutani were legally certified under the SVLK. In addition, as of 2018, 96 percent of all registered exporters (1,800 timber producers and traders) are SVLK-certified.⁵⁶ The SVLK covers 99 percent of the total concession area as of 2019.⁵⁷

The agreement with the EU covers a wide range of products and applies to all timber traders, downstream processors and exporters and also requires Indonesian importers to source legal timber.⁵⁸ As such, Indonesia has enacted mandatory measures blocking illegal timber imports. The Indonesian government issues certificates known locally as FLEGT licenses for exports to Europe or V-legal ("verified legal") documents to all other exporters to verify that their products meet legality standards and requirements. This has meant that since November 2016, the SVLK has been recognized as meeting the

standards set by the European Union Timber Regulation (EUTR), and EU importers are no longer required to conduct due diligence checks on timber from Indonesia, which are now accompanied by FLEGT licenses.⁵⁹

In February 2020, Indonesia's Ministry of Trade (MOT) issued Regulation (Permendag) No. 15/2020 as part of a series of measures announced to alleviate the impact of COVID-19 on the timber industry. The impact of this regulation would be to undermine the Indonesian SVLK by eliminating the V-Legal documentation previously required for the export of wood products.⁶⁰ If put into force, this trade regulation would also breach the agreed EU-Indonesia FLEGT VPA. In May 2020, the bill was revoked through the issuance of Permendag No. 45/2020. MOT issued further regulations Permendag 74/2020 and Permendag 93/2020 which reaffirm the mandatory nature of SVLK and V-Legal/FLEGT licensing. Despite ongoing concerns about the possibility for a weakening of the laws and requirements during the COVID-19 pandemic, as of September 2021, Indonesia was fully implementing the SVLK and issuing V-Legal documentation for wood product exports.⁶¹

While FLEGT-licensed timber and timber products are considered to comply with the requirements of the EUTR for European importers, a FLEGT licence may not in and of itself guarantee compliance with timber import regulations in other jurisdictions, such as the U.S. Lacey Act in the United States. The SVLK, like any robust third-party certification, can however be considered as a tool to help mitigate risk.

- **Despite an operational SVLK, challenges remain with its full and effective functioning.**

While most large natural forest and plantation areas are SVLK-certified, many small-scale producers are not, instead opting to be Deklarasi Kesesuaian Pemasok or DKP certified. The DKP was introduced in 2014 as an alternative to the SVLK for small-scale producers who do not export.^{62,63} It is only an option for operators dealing exclusively with low-risk planted timber from privately owned land or forest, and/or SVLK-certified plantation timber from a state-owned company in order to enter SVLK supply chains. Over the past few years, the government of Indonesia has worked to simplify the requirements of the SVLK, especially for small and medium companies, but the compliance of small-scale producers with the SVLK has been considered a major challenge as far fewer Small and Medium Enterprises (SMEs) are SVLK certified, especially those only operating in the domestic market.^{64,65,66,67} Most small timber companies are still unregistered.^{68,69}

Corruption in Indonesia, particularly at the local level, remains an issue that can undermine the system.^{70,71,72} Several studies have suggested concerns that false permits have been issued as a result of lax or corrupted enforcement.^{73,74,75} Examples include the falsification of the Nota Angkutan or DKP, transport documents, industries mixing legal timber with illegal timber,⁷⁶ or SMEs borrowing V-Legal and/or FLEGT licence legality certificates from larger firms in order to avoid costs and complicated procedures and to be able to export their products.⁷⁷ There have also been reports of falsified information relating to the origin of logs when these are cut in protected forests, invalid Environmental Impact Assessments (EIAs), or falsified numbers of logs or size of the area authorized for plantations.^{78,79} Some early challenges should be expected given that this is a new system and the first such VPA timber legality assurance system operating globally.

In addition, concessions now covering more than a fifth of the entire country have been a major cause of conflict with overlapping land use and resource claims by indigenous peoples and other local communities.^{80,81} The Ministry of Environment and Forestry received 484 complaints related to land tenure in the Forest Area between 2016 and May 2020.⁸² Of the 484 cases, 62 have been completed, 243 are ongoing and 179 have reportedly been returned or transferred. Ministry of Environment and Forestry (MoEF) Regulation No. P.21/2019 on Customary Forest and Private Forest and Ministry of MoEF Regulation No.P.17/2020 on Customary Forest and Private Forest explicitly acknowledge the customary forest rights in the production forest zone. The Ministry of MoEF Regulation No. 9/2021 on the Management of Social Forestry further reinforces the message plus outlines detailed procedures for customary forest rights delineation and timber use.

- **Government of Indonesia figures suggest enforcement action is growing rapidly but reportedly still lacks clout and consistency.**

The Government of Indonesia reported 152 operations to secure forest products and land resulting from illegal logging between 2015 and 2017, which led to the confiscation of 8,513 cubic meters of timber.⁸³ Since then, the total number of counter illegal-logging operations reached 567 as of September 2020.⁸⁴ Between 2015 and 2020, Indonesia brought 454 criminal cases related to illegal logging to trial.⁸⁵ However, forest law enforcement is often constrained by the limited budgets and field personnel.⁸⁶ Between 2015 and 2017, the annual budgets of the Directorate General for Law Enforcement of Environment and Forestry amounted to roughly \$13.7 million, which has been estimated to be equivalent to roughly 13 cents per hectare of forest.⁸⁷ In the Java-Bali-Nusa Tenggara region, the enforcement personnel to forest ratio

is just one police officer to every 60,000 hectares, while in Papua the ratio is estimated at one police officer for each half million hectares of forest.⁸⁸ Following concerns about the effectiveness of on-the-ground enforcement efforts, it was announced in January 2020 that forest rangers in Indonesia's Aceh province will be equipped with guns to carry out their enforcement efforts.⁸⁹

The World Resources Institute also reports inconsistencies in the penalties applied in current convictions. For example, Labora Sitorus, a renowned illegal logger in Papua, was originally charged with illegal logging, fuel smuggling and money laundering, but the Sorong-based police officer was found guilty of just one charge—illegal logging—and sentenced to two years' imprisonment and a fine of \$3,700 despite allegations that \$111 million of illegal timber trade money had been laundered.⁹⁰ In an appeal trial, the high court of Jayapura ruled that Sitorus was found guilty of money laundering and sentenced to 8 years in jail and \$3,700 fine. The Environmental Investigation Agency (EIA) and Kaoem Telapak also report that during the final appeal by Sitorus at the Supreme Court, the court ruled that Sitorus was proven guilty of money laundering and sentenced to 15 years in jail and a 5 billion Rupiah fine (\$370,000).⁹¹ At the same time, an elderly woman who allegedly took 38 teak logs from the State Forestry Firm (Perhutani), was sentenced to one-year imprisonment and a \$37,000 fine.⁹²

EIA and Kaoem Telapak report in 2021 that inconsistent enforcement in recent years in Papua has meant that some of the companies that have been found guilty of trading in illegal timber continue to hold a SVLK certificate. This certificate is there to confirm that a company has followed the required chain of custody ensuring that the timber in its supply chain is legal while some timber trading companies continue to operate despite being ordered to cease operating by the courts.⁹³

• **There are continued reports of illegal logging.**

In 2017, the Coalition of Anti Forest Mafia (*Koalisi Anti Mafia Hutan*) found seven companies licensed under the national timber legality assurance system in the country's Papua province that allegedly received illegally cut timber from natural forests and violated a number of supply chain regulations.⁹⁴

Forests that have not been allocated to any specific land use yet are under pressure for conversion into other land uses, notably palm oil and mining.⁹⁵ Greenpeace reported in 2018 that more than three-quarters of Tesso Nilo National Park has been converted into illegal palm oil plantations,⁹⁶ while Rainforest Action Network reported on allegations that Korindo, a Korean-Indonesian company had illegally cleared natural forest in 2018.⁹⁷ A subsequent investigation by the Forest Stewardship Council found "clear and convincing evidence" that Korindo had violated the rights of indigenous peoples failing to properly consult local communities about plans to convert their land into oil palm plantations and by providing unfair compensation to the communities.⁹⁸

An eight-month investigation by the Indonesian Magazine Tempo found companies exporting timber in 2018 that had been illegally harvested from the customary forest of indigenous people in Papua with falsified documents.⁹⁹ There have been several reports of illegal logging increasing in 2020 as a result of scaled back monitoring and enforcement during the COVID-19 pandemic, including in Sulawesi.¹⁰⁰

• **Imports have tended to come from relatively lower-risk sources, with some exceptions.**

With the increasing supply gap, imports of logs, sawnwood, pulp and wood chips have increased slightly, and were worth US\$1.4 billion in 2019.¹⁰¹ Approximately 80 percent of these imports—mainly pulp—have been sourced from the USA, Canada, South Africa, New Zealand, France, Sweden, Finland, Australia, Germany, and Uruguay, considered lower-risk for illegal logging and associated trade (based on governance and harvest-risk indicators).^{102,103} Indonesia's main log import risks relate to logs sourced from Malaysia (which accounts for 89 percent of total log imports in 2019).¹⁰⁴ Malaysia has active log export restrictions in place in the states of Peninsular Malaysia, Sabah and Sarawak.¹⁰⁵ There are significant risks associated with sawnwood from the Republic of the Congo, Cameroon, Central African Republic, Gabon, the Democratic Republic of the Congo, and Ukraine (which collectively accounted for 4.4 percent of sawnwood imports in 2019)^{106,107,108,109,110,111,112,113,114} and associated with the high percentage of raw materials sourced through global transport hubs such as Singapore and Hong Kong.^{115,116,117,118,119,120} The SVLK has been designed to cover these imported materials.

REPORTS & ADDITIONAL RESOURCES

A list of relevant reports and additional online tools to complement this country report are also available at the IDAT Risk website: <https://www.forest-trends.org/fptf-idat-home/>

Key Reading:

- Center for International Forestry Research. 2020. "Collecting Evidence of FLEGT-VPA Impacts for Improved FLEGT Communication. Desk Review – Indonesia." Center for International Forestry Research.
- Jaringan Pemantau Independen Kehutanan. 2018. "2 Years of FLEGT License, Credibility and Accountability of Timber Legality Assurance System (SVLK) Must Be Improved." Jaringan Pemantau Independen Kehutanan.
- Chitra, Josephine, and Kenny Cetera. 2018. "Indonesia Has a Carrot to End Illegal Logging; Now It Needs a Stick." World Resources Institute.

METHODOLOGY & TERMINOLOGY NOTES

- ^a The overall country governance risk scores reflect Forest Trends' 2021 updated assessment of national-level independent political, governance, business, economic and corruption indices which draw on a broad range of relevant underlying data from the World Bank, African Development Bank, Asian Development Bank, Inter-American Development Bank, International Fund for Agricultural Development's programming criteria, United Nations and governmental aggregated data, as well as independent surveys and other primary data to provide an average relative governance and corruption risk score for 211 countries globally. Countries scoring less than 25 are considered "Lower-Risk," countries scoring between 25 and 50 are "Medium-Risk" and countries scoring above 50 are "Higher-Risk." It is important to note that it is possible to source illegal wood from a well-governed, "Lower-Risk" state and it is also possible to source legal wood from a "Higher-Risk" country. As such, the risk scores can only give an indication of the likely level of illegal logging in a country and ultimately speaks to the risk that corruption and poor governance undermines rule of law in the forest sector. A full methodology is available on the IDAT Risk website: <https://www.forest-trends.org/fptf-idat-home/>
- ^b The term "forest products" is used to refer to timber products (including furniture) plus pulp and paper. It covers products classified in the Combined Nomenclature under Chapters 44, 47, 48 and furniture products under Chapter 94. While the term "forest products" is often used more broadly to cover non-timber and non-wood products such as mushrooms, botanicals, and wildlife, "forest products" is used to refer to timber products plus pulp and paper in this dashboard.
- ^c Except where otherwise specified, all trade statistics and chart data on Indonesia's trade with China is sourced from the General Administration of Customs, P.R. China, compiled and analyzed by Forest Trends. All other data comes from UN Comtrade, compiled and analyzed by Forest Trends.
- ^d Regulated markets reflect countries and jurisdictions that have developed operational measures to restrict the import of illegal timber. As of 2021, this included the U.S., Member States of the European Union (as well as Iceland, Liechtenstein, Norway, the United Kingdom and Switzerland), Australia, Canada, Colombia, Indonesia, Japan, Malaysia, South Korea, and Vietnam. Some measures are more comprehensive in scope, implementation, and enforcement than others.
- ^e All references to "EU + EFTA" signify the 27 Member States of the European Union as of 2021, as well as the United Kingdom, Iceland, Liechtenstein, Norway and Switzerland.

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- ² EFI, "EU FLEGT Facility Indonesia."
- ³ Government of the Republic of Indonesia, Directorate General of Sustainable Production Forest Management. 2019. "Data Release, DITJEN PHPL." Government of Indonesia, Directorate General of Sustainable Production Forest Management. Accessed June 30, 2020. <http://phpl.menlhk.go.id/?month=09&year=2019>
- ⁴ Martini, Maria. 2012. "Causes of corruption in Indonesia." U4, and Transparency International. Accessed June 30, 2020. https://www.transparency.org/files/content/corruptionqas/338_Causes_of_corruption_in_Indonesia.pdf

- ⁵ Campbell, Lemarque, and Adelle Thomas. 2019. "People's Experiences of Corruption: Implications for Business in South-East Asia." Transparency International. Accessed June 30, 2020. https://images.transparencycdn.org/images/2019_Report_-_ExperiencesCorruptionImplicationsBusinessSouth-EastAsia_English.pdf
- ⁶ Tacconi, Luca., and Fiona Meehan. 2017. "A framework to assess the impacts of corruption on forests and prioritize responses." *Land Use Policy* (60): 113-122. Accessed June 30, 2020. <https://www.sciencedirect.com/science/article/abs/pii/S0264837716311516>
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- ⁸ Directorate General of Sustainable Production Forest Management, "Data Release, DITJEN PHPL."
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- ¹¹ Norman, Marigold and Jade Saunders. 2017. "Regulating the Trade in Illegal Timber." Forest Trends. Accessed June 30, 2020. https://www.forest-trends.org/wp-content/uploads/2017/08/doc_5634.pdf
- ¹² United Nations Statistics Division. 2020. "UN Comtrade." United Nations Statistics Division. Accessed December 30, 2020. <https://comtrade.un.org/data/>
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- ²⁵ World Wildlife Fund, Global Forest & Trade Network. 2015. "Country Profiles - 2015; Bolivia, Cameroon, China, Colombia, Indonesia, Lao PDR, Malaysia, Myanmar, Panama, Peru, Russian Far East, Vietnam." World Wildlife Fund, Global Forest & Trade Network. Accessed June 30, 2019. http://assets.worldwildlife.org/publications/677/files/original/March_2015_Country_Risk_Profile_NA_Booklet.pdf?1429535765
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The Dashboards have been compiled from publicly available information sources to support risk assessments on the legality of timber products entering international supply chains. The Dashboards are for educational and informational purposes only. The Dashboards have been drafted with input from the Environmental Investigation Agency (EIA) and are subject to external peer review. The Dashboards will be updated periodically based on newly available information.

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