

Verification of Legal Origin
(VLO)——A Method to Improve Legal and
Sustainable Wood Trade

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Presentation Outline

- The problem of illegal logging
- Responses to the problem
- SmartWood VLO
- Defining legality
- Standards in depth
- Verification statement & claims
- VLO in comparison to other ver/cert programs
- SmartWood Verification services to date

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
- 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

Responses –

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, Cameroon, Ghana, Gabon, Ivory Coast, Congo(s), Brazil, Peru, Ecuador, Russia, Estonia, Latvia

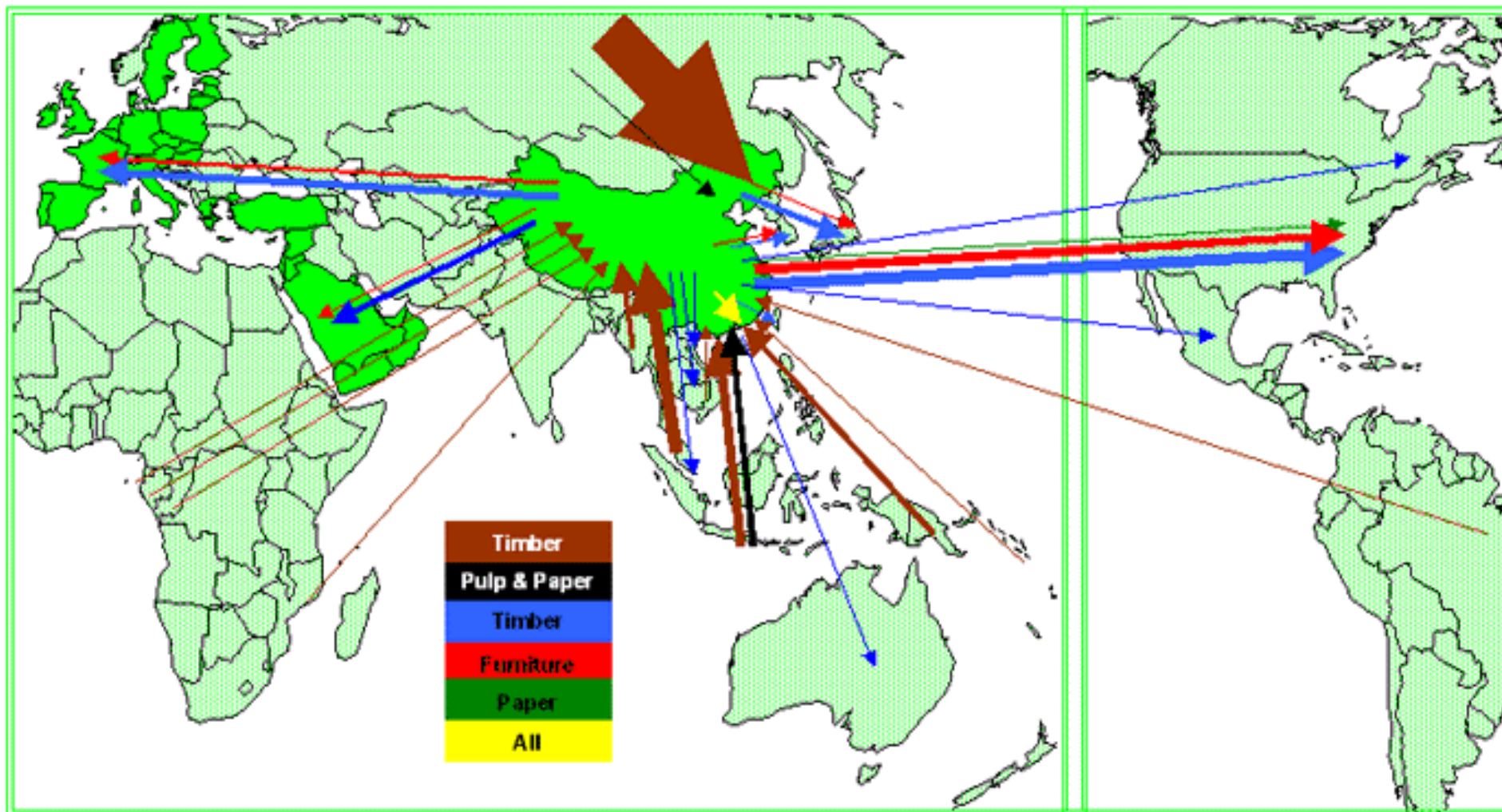
High-risk manufacturing and trading nations:

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

China - illegal imports and exports of wood-based products (2005 forecast)

(showing illegal flows >c.100,000 cubic metres roundwood equivalent volume)

Note: to be read in conjunction with a accompanying commentary



Arrow width directly proportional to RWE volume

→ Represents 1 million m³ RWE

Source (trade statistics): World Trade Atlas
Source (illegality): see accompanying commentary

International/Governmental responses to illegal logging

- G8 Action Programme on Forests - raised the profile of the issue
- FLEG - political process to get government commitment to address illegal logging
- FLEGT - promoting mechanisms for trade in legally verified forest products entering the EU

NGO and Private Sector Responses to Illegal Logging

- 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

Suppliers say they need verification



We will ensure that as a minimum, any virgin material in our supply chain *comes from legal sources*.



It is Kingfisher policy to work with our suppliers of timber and timber-containing products to *establish the origin of the wood used*. Independently verifiable documentation must be provided



IKEA minimum requirements on solid wood, veneer, plywood and layer glued wood:

- The *origin of the wood must be known*
- Wood must be produced *in compliance with national and regional forest legislation*



Companies undertaking commercial logging (from lands under their control) or primary processing of timber in “high risk” countries will be subject to standard *compliance with law representation*.



Trade participants will need to make public documented, time-bound commitments to phase out all trade in *wood from unknown, illegal and controversial sources* within 5 years.

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:
 - at the forest
 - contractors
 - sawmills
 - Manufacturers

Defining 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)*

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.*

VLO standards – key criteria

1.1: *Clear, documented and unchallenged legal registration of company with authorization for specific activities shall exist.*

1.2: *Company shall have authorization to harvest in the forest management unit.*

1.3: *Evidence shall exist that the forest management area is legally classified for the type of land-use or commercial activities conducted.*

VLO standards – key criteria

2.1: *If legally required, a forest management plan shall be approved by the relevant authorities.*

2.2: *Annual operating or harvest plans shall be approved by relevant authorities.*

2.3: *If legally required, Environmental or Social Impact Assessments shall be prepared.*

VLO standards – key criteria

3.1: All applicable and legally prescribed fees, royalties, taxes and other charges shall be paid.

VLO standards – key criteria

Company shall:

- 4.1 Define CoC system responsibilities and appoint staff positions
- 4.2 Develop and maintain up-to-date documented procedures and/or work instructions
- 4.3 Develop and implement procedures for addressing non-conformances (corrective action requests)
- 4.4 Develop and implement procedures for internal auditing of its systems
- 4.5 Develop training requirements and implement training
- 4.6 Define and document the product that will be tracked
- 4.7 Develop and maintain records to document quantities of product

VLO standards – key criteria

Company shall:

- 4.8 Verify the validity of the supplier's claim.
- 4.9 Verify that material purchased and received is consistent with the VLO timber specified.
- 4.10 Store VLO timber as separate, secure units.
- 4.11 Identify material for each VLO timber source.
- 4.12 Keep physically separate VLO timber during all stages of processing.
- 4.13 Use a tracking system or production records to document production of VLO timber.
- 4.14 Off-site processing that takes place at a subcontracted facility is covered by a signed outsourcing agreement.
- 4.15 All timber that cannot be identified as VLO shall be kept physically separate from all other material until documented evidence is obtained.

VLO standards – key criteria

Company shall:

- 4.16 Store final products of VLO timber as separate, secure units.
- 4.17 Use a distinguishing mark to identify final products of VLO timber.
- 4.18 Include claim information on sales invoices and shipping
- 4.19 All on-product and off-product/promotional claims made by the company shall be in compliance with the requirements for the specific SmartWood certification or verification program.
- 4.20 Submit all on-product and off-product/promotional claims to SmartWood for review and approval prior to use.

SW Verification claims

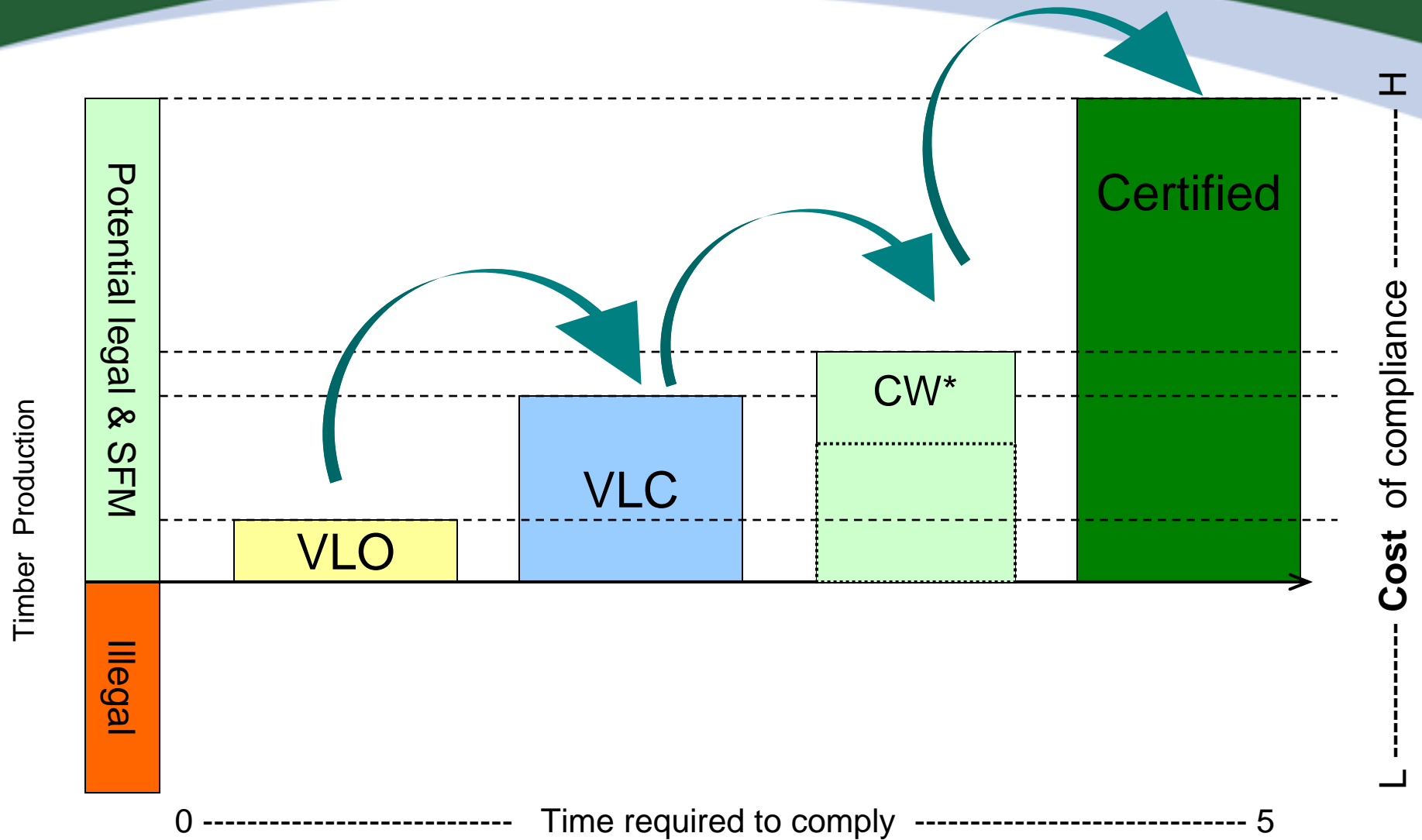
- VLO/VLC verified companies may communicate the message
- Evidence of status demonstrated by “Verification Statement” issued by Rainforest Alliance.
- Can use the Rainforest Alliance and SmartWood names and logos only **off-product**.
- Can not label a product.
- Can put a verification code number (e.g.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

Verification claims

Verification Statement will include:

- Company, seller, or representatives' name(s) and contact details
- Forest products types
- Location and jurisdiction of suppliers
- Verification code number
- Validity period of the statement

Stepwise from legality to certification

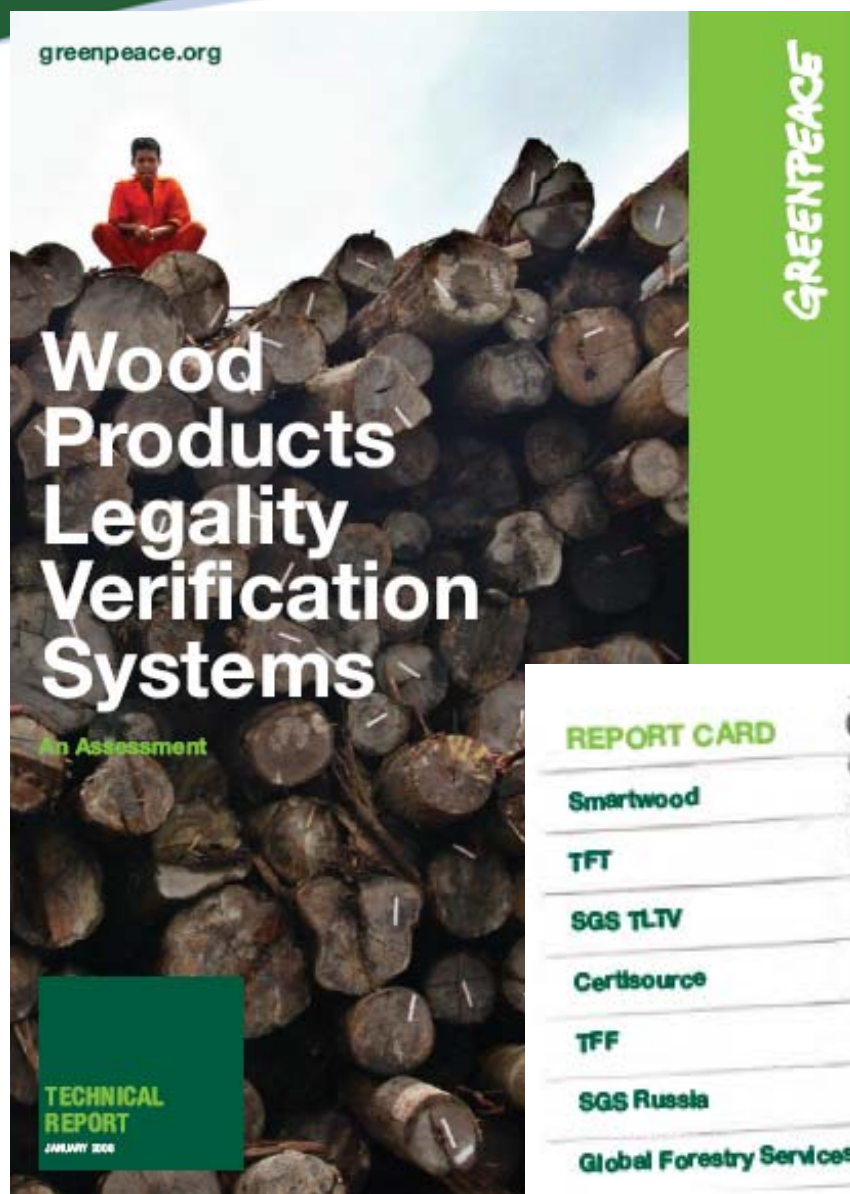


*CW legal requirements may be less than VLC for some jurisdictions

Verification services to date

To date:

- ScanCom, Vietnam, Feb 2003
- PT Suka Jaya Makmur, Indonesia, April 2003
- Les Portes Baillargeon, Quebec, 2004
- DLH / Carl Ronnow, Malaysia, 2005/2006
- SENADA/USAID Indonesia



Evaluated by Greenpeace

“the only scheme to meet almost all criteria for a credible legality verification system. It is the only scheme truly developed in a balanced multi-stakeholder manner...”

REPORT CARD

| | | |
|--------------------------|-----|---|
| Smartwood | B + | Top of the class, but could do better in addressing broader illegalities. |
| TFT | B - | Doing well, but needs to be more publicly transparent. |
| SGS TLTV | C - | Mediocre - needs improvement against several criteria. |
| Certisource | C - | Mediocre - needs improvement against several criteria. |
| TFF | D | Inadequate, needs improvement against most criteria. |
| SGS Russia | D - | Inadequate, needs improvement against most criteria. |
| Global Forestry Services | F | Unacceptable, needs improvement against almost all criteria. |



Thank You!

