

LINKING 'VERIFICATION OF ORIGIN' and  
'VERIFICATION OF LEGAL COMPLIANCE'  
with PHASED APPROACHES  
to FOREST CERTIFICATION

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WHEN YOU NEED TO BE SURE



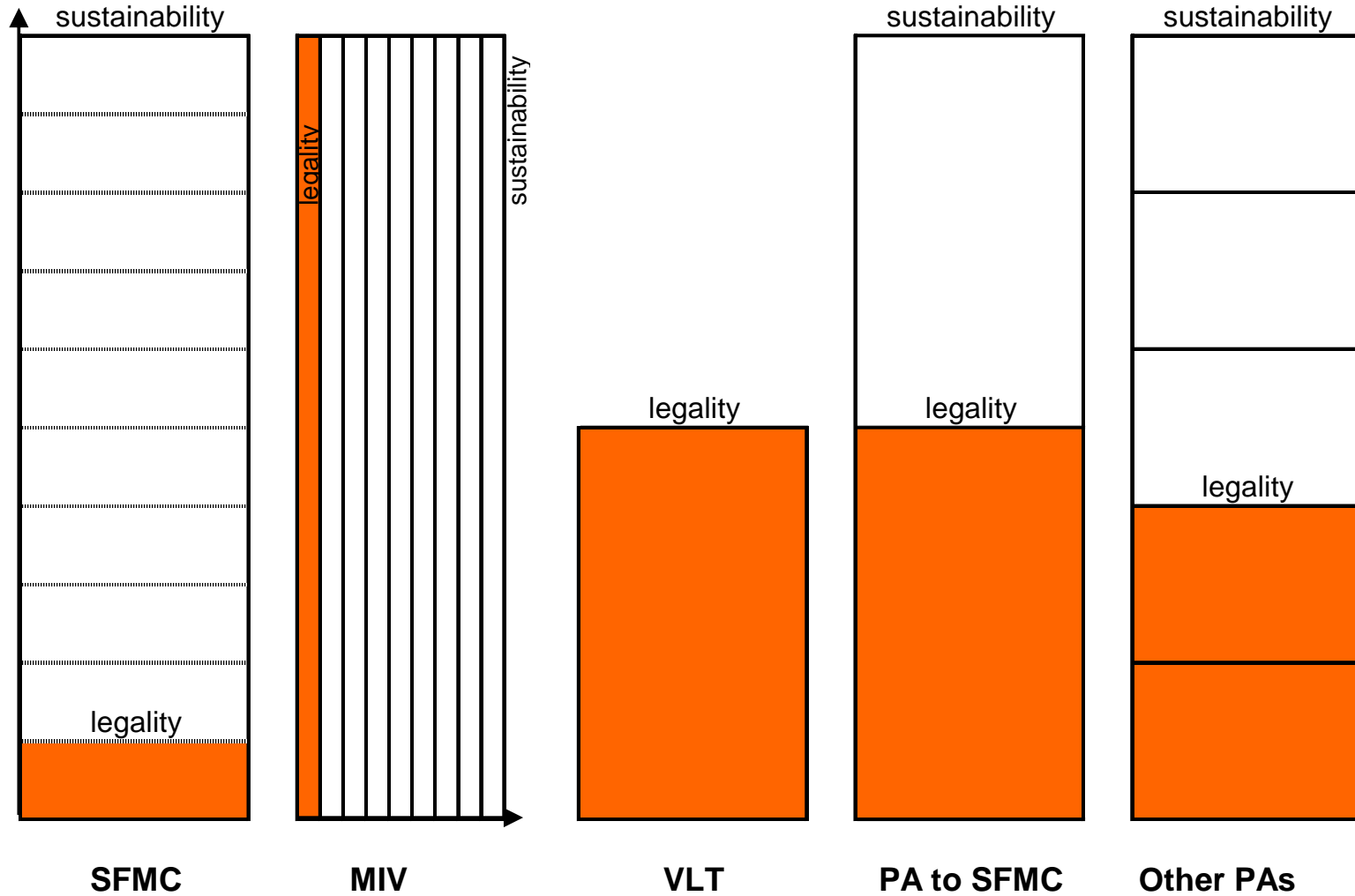
- **SGS:** providing independent inspection, verification, testing and certification through 1200 offices and laboratories and 39,000 collaborators in over 140 countries
- **SGS QUALIFOR:** a founder-member of the FSC back in 1994, today a global leader in forest certification with a network of 100 auditors, and accreditations under the main global and national schemes
- **SGS Forestry Monitoring Programme:** established to operate outside accredited certification programmes; since 1995, has developed and implemented independent Verification of Legal Timber (VLT) programmes in several countries

## Different concepts and approaches

- SFMC: Legal compliance a basic requirement in practically all SFMC (SFM Certification) standards
- MIV: In MIV (Modular Implementation and Verification) modules are verified one after the other (no steps, full compliance with all C&Is within each module)
- VLT: VLT combines ‘Verification of Origin’ and ‘Verification of Legal Compliance’ within ‘Verification of *Legal Origin*’ to demonstrate that timber products are legally owned and have been legally produced

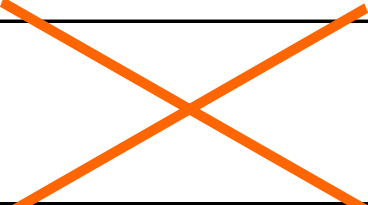
Has been designed as an alternative but complementary approach to SFMC
- PA: In PAs (Phased Approaches) towards SFM/C, Verification of Legality (VL) is recognised by many as a relevant (1st) step
- Other PAs: WWF, FoE, LEI, IKEA, DHL, TTF, VVNH, Forecoms, TFT etc. have developed similar/ related PAs and certification support programmes, although criteria and implementation differ – usually, no “certificate” issued, despite expectations

## Different concepts and approaches



Compliance verification:

- measuring the level of conformity to any agreed set of rules (law, regulation, norm, code of practice/conduct, set of principles and criteria, terms and conditions of a contract etc.)
- What ‘independent third-party assessment’ instruments can be used for providing access to restricted international markets?
- What the market demands:

Level of requirement:	Timber from <i>non-identified origin</i>	Legally <i>sourced</i> timber (legal origin)	Legally <i>produced</i> timber (legal production methods)	<i>Sustainably produced timber (SFM)</i>
Modular / stepwise approach		X	→ XX	→ XXX

## WHY WE NEED IT?

- Governments: assisting Forestry Authorities with legal compliance verification (control measures)
- Market drivers - Buyer's requirement on the producer:
  - proof that a certain level of performance has been met
  - 3 main stages:
    - legality
    - progressing toward sustainability
    - sustainability
- Market drivers - Producer/supplier's initiative:
  - to measure the progress accomplished on the way to SFM
  - to get prepared to an increasingly regulated international timber trade (public procurement rules, EU VPA, regional FLEG initiatives etc.)

## VLT programmes – Common features

- can be implemented on a mandatory or voluntary basis, at country/ region level
- endorsement of national/ regional scheme by Government
- a combination of activities implemented centrally (separate agency):
  - computerised log/ timber tracking,
  - continuous and systematic data management
  - verification/ auditing incl. documentary checks, field inspections
  - coordination with authorities for data collection and field verifications
- modular scope: export/ import, traceability, FM, timber processing, domestic market
- funding through industry fees
- costs reduced by economies of scale: commonly US\$ 0.5 - 2 per m<sup>3</sup>
- recognition of VLT Statements by Gov't, markets, and civil society as valid proof of legal compliance
- official validation of Timber Export Permits, condition to access export markets
- modular structure and gradual implementation:
  - phased enforcement of scheme at country level, as a new scheme is established
  - stepwise process at company level; steps to be completed within a set timeframe

## Key features of *mandatory* VLT schemes

VLT programmes initially developed and implemented:

- as mandatory programmes, at country (state/ region/ province) level in forest sector
- on behalf of a producer country's Government
- to be compulsory for all producers.

Additional benefits from MVLT being compulsory and centralised:

- comprehensive, fair, cost-efficient
- log/ timber tracking possibly including administration of checkpoints
- cross-checking of forest sector information/data for consistency
- reliable forest sector and timber trade data
- long-term public/ private partnership between Govt and Verifier, incl. institution capacity building and transfer of expertise where required; and
- civil society involvement.

Examples:

- SGS has experience of implementing MVLT programmes or modules in Cameroon, Central African Rep., Congo, Ecuador and Papua New Guinea.
- Ghana: FC-SGS VLTP since January 2005



## Key features of *voluntary* VLT schemes

### Design and implementation:

- a combination of voluntary initiative by individual companies, and support from/ collaboration with the authorities
- an alternative to MLTV where political, legal or institutional difficulties
- could also meet the requirements of bi-/ multilateral agreements (e.g. EU FLEGT VPAs)

Note: EU VPAs may turn voluntary into mandatory schemes for exports, to the EU, and possibly for *all* export destinations to avoid illegal exports through non-VPA countries

### Success of voluntary schemes depends on:

- the incentives for companies to participate: export trade facilitation, technical support, facilitation of administrative processes, tax incentives, and
- their capacity and willingness to participate.

### Examples:

- Pilot 'Timber Legality Verification & Tracking' Project (UK DfID, TNC Indonesia), proposal in progress in one region of Russia

## Key features of *customized VL services*

Outside of any formal, local MVLT or VVLT scheme:

- “2<sup>nd</sup> or 3<sup>rd</sup> party audits with flexible scope and methodology
- designed to meet the varied requirements of buyers, including individual companies, timber trade federations and national/ local governments in consumer countries, or producers’ associations in producer countries
- usually based on a producing company’s internal supply-chain management systems, purchasing policies, action plans and self-declarations
- and possibly involving tracking timber, from port back to stump in legitimate forest concession, on a sampling test basis; and continuous data monitoring

### ■ Verification Statements:

- reflect the exact scope and methodology
- backed by schedule and audit report

### ■ As they are currently performed, VL audits may not be enough to comply with future trade regulations or to attract official recognition, but:

- they may help a forest company to sell better and
- get prepared for more demanding schemes, including SFM Certification

Examples:

- VL audits for several individual companies in central and western Africa, and in Asia



# INDEPENDENT THIRD-PARTY ASSESSMENT TOOLS

Process	Third-party Monitoring / Verification		Certification
<b>Domain</b>	'Legality'	'Compliance' in a broad sense	'Sustainability'
<b>Approach</b>	regulatory, compulsory	voluntary, individual	voluntary, individual
<b>SGS Service</b>	Verification of Legal Timber (SGS VLT)	Compliance Verification (SGS CV) on demand	Forest Certification: FSC (SGS QUALIFOR) and other schemes Certification Support Programme (SGS CSP)

# COMPARATIVE ANALYSIS of these INDEPENDENT THIRD-PARTY ASSESSMENT TOOLS

Service	Verification of Legal Timber (VLT)	Compliance Verification (CV) on demand	Forest Certification
<p><b>Nature and scope of intervention</b></p>	<p>Assisted Official Control Programme (incl. assistance* to the Forestry Administration)</p> <p>Mandatory at national level</p> <p>Criteria: relevant laws and regulations of country</p> <p>Scope: 100% of commercial flows (continuous, imposed equally on all producers)</p>	<p>Voluntary initiative, at the individual company level</p> <p>Criteria: legal/ commercial criteria (voluntarily accepted or terms and conditions of a commercial/ trade agreement)</p> <p>Scope : consignment, or production chain (1 client, 1 group of clients or the whole production)</p>	<p>Voluntary initiative, at the individual company level</p> <p>Criteria: principles, criteria and indicators (adhesion to a certification scheme)</p> <p>Scope: Forest Management Unit</p>
<p><b>Result</b></p>	<p>Verification report Official verification statement</p>	<p>Audit report (results) Independent audit/verification statement</p>	<p>Certificates : - forest management - chain of custody</p> <p>Logo: on documents/products</p>

## assistance\* to the Forestry Administration

(\*) including crucial 'monitoring and verification' functions

- outsourced to a professional independent third-party organization
- through a long-term public/ private partnership

so as to make the whole system effective, credible and durable.

Note: in producer countries where the Forestry Authorities (FA) have the adequate systems, skills and resources, outsourcing can be replaced with external auditing of the FA's performance in verifying and monitoring compliance and enforcing the law

## Key elements:

- sources of information:
  - regulatory declarations
  - routine field inspections (forest, log/timber yards, roads)
  - reports from independent observers (civil society)
- collection, aggregation and consolidation of the data on the central database

Key elements for the traceability of products for continuous timber flow control (national):

- unique and controlled identification of all products or truckloads (barcodes)
- utilisation of the barcode numbers on all regulatory declarations (production records, product movements, sales)
- inspections and tally checks along the production chain
- collection, aggregation and consolidation of the data on the **central database** (integrated or linked with the previously mentioned data system)

## MAIN LEGAL *ORIGIN* CRITERIA (LOGS):

1. all companies fully registered and licensed to operate
2. (undisputed) access and use rights to the land and forest resources
3. traceability of the logs back to a legitimate source and legal ownership throughout the chain of custody
4. all royalties, taxes and fees duly declared and paid (area and volume based)
5. logs conform to product-related regulations (i.e. protected species, minimum diameters of exploitation)



## MAIN LEGAL *PRODUCTION* CRITERIA (LOGS):

1. no logging outside the legitimate production areas
2. compliance with authorised volumes of cut or with set quotas (per species)
3. generally, compliance with relevant regulations:
  - regulations for forest management and exploitation
  - terms and conditions of concession agreement or permit
  - preparation and implementation of management/ harvesting plans:
    - base maps, forest inventories, stratification, zoning, planning
    - assessment of social, economic and environmental impacts
    - monitoring of management and keeping production records etc.

### Key elements:

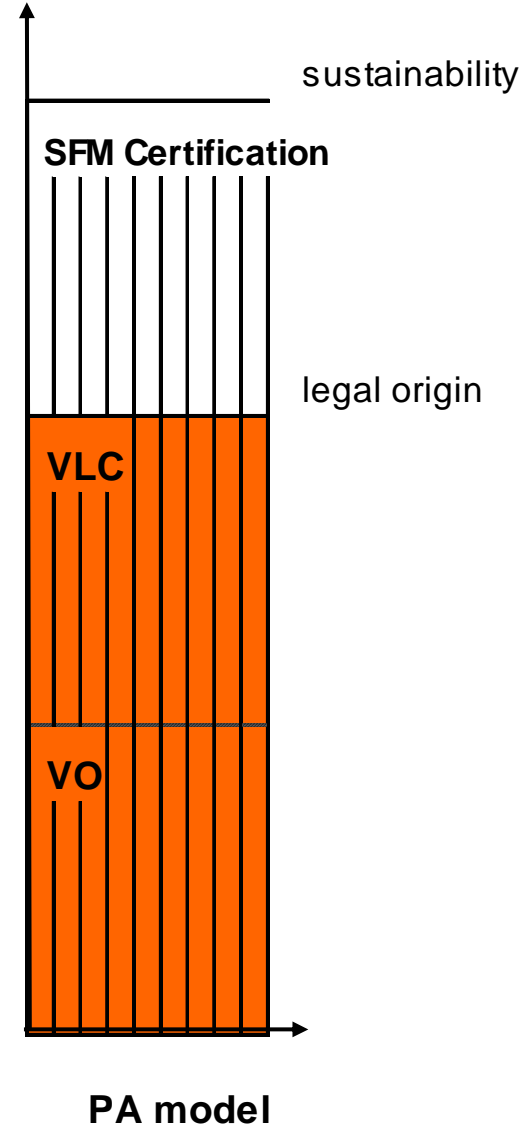
- verification (inspections, audits) into the company's documents, systems, activities and products
- independent opinion (documented, justified and impartial) issued by the verifier

# FEASIBILITY OF USING THESE TOOLS FOR LICENSING TIMBER EXPORTS/IMPORTS

Service	Verification of Legal Timber (VLT)	Compliance Verification (CV) on demand	Forest Certification
<p><b>Producers well structured and equipped with good management and supply chain control systems</b></p>	<p>YES</p>	<p>YES  (condition : rather straight and simple production chain)</p>	<p>YES  (condition : rather straight and simple production chain)</p>
<p><b>Small producers not equipped with good internal management and control systems</b></p>	<p>YES  (data management: provided by the central system)</p>	<p>NO  (unless by resorting to 2<sup>nd</sup>-party monitoring)</p>	<p>NO</p>

- Assisted, official verification programmes:
  - by far the most effective system (compulsory, systematic and centralised)
  - the most comprehensive, economical, equitable and fair
  - at the same time, easy to implement and start (gradual implementation)
  - modules currently implemented in a number of countries
  - have the potential to evolve toward comprehensive monitoring and verification systems as part of phased implementation schedule
- Compliance Verification (CV):
  - also, a rather flexible and modular system
  - under certain conditions, could be recognised and used as a possible system to provide access to restricted markets (EU VPA)
  - allows producers to progress toward certification and/or toward a regulated international timber trade, while conferring a clear marketing advantage to the company
- Voluntary Forest Certification:
  - voluntary certification and verification undertaken on an individual basis do not allow the systematic detection of illegal activities at the country level
  - is not a robust legality verification and tracking tool

## Proposed PA model



# THANK YOU

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