



Pacific Horticultural and Agricultural Market Access Program (PHAMA)

Technical Report 42: Development of Forestry Certification for Exports of Value-added Timber Products from Solomon Islands

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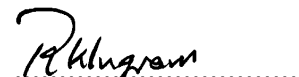
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Abbreviations

Abbreviation	Description
ACIAR	Australian Centre for International Agricultural Research
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
DAFF	Australian Government Department of Agriculture Fisheries and Forestry
DNA	Deoxyribonucleic acid
EU	European Union
FACT	Facilitating Agricultural Commodity Trade
FLEGT	Forest Law Enforcement, Governance and Trade
FSC	Forest Stewardship Council
HS code	Harmonized Commodity Description and Coding System code
IACT	Increasing Agricultural Commodity Trade
ITTG	Importers of Tropical Timber Group (New Zealand)
m ³	Cubic metres
MAWG	Market Access Working Group
MLST	Marovo Lagoon Sustainable Timbers
NGO	Non-governmental organisation
NRDF	Natural Resources Development Foundation
PARDI	Pacific Agricultural Research and Development Initiative
PEFC	Programme for the Endorsement of Forest Certification Schemes
PHAMA	Pacific Horticultural & Agricultural Market Access Program
RAMSI	Regional Assistance Mission to Solomon Islands
SBD	Solomon Islands dollars
SGS	<i>Société Générale de Surveillance S.A.</i>
SIFMP	Solomon Islands Forestry Management Project
SPC	Secretariat of the Pacific Community
SWIFT	Solomon Western Island Fair Trade
TFF	The Tropical Forest Foundation
TFT	The Tropical Forest Trust
URS	URS Australia Pty Ltd
US\$	United States Dollar
VATA	Value Added Timber Association
VETE	Village Ecoforestry Timber Enterprises
VLC	Verification of Legal Compliance
VLO	Verification of Legal Origin
VPA	Voluntary Partnership Agreements
WWF	Worldwide Fund for Nature

Executive Summary

The Australian Government's Pacific Horticultural & Agricultural Market Access Program (PHAMA) engaged URS Australia Pty Ltd (URS) to investigate areas where PHAMA might conduct activities in the forestry sector of Solomon Islands – and, specifically, investigate the development of international market access for value-added timber products through timber legality assurance and forest certification.

Context for Sawn Timber Exports

Forest product exports are the largest export industry in Solomon Islands. Unprocessed logs account for the large majority of trade, with a comparatively limited volume of sawn timber exports. The value of the sawn timber export trade is currently around SBD70 million per year, which is around 5% of the revenue generated by log exports. Solomon Islands Government policy is to diversify and increase the level of value-added processing of timber for export. There is significant scope for increasing this trade through greater domestic processing of logs that are currently exported in round log form.

Market Access Requirements

The scope to increase Solomon Islands' value-added sawn timber exports will be determined largely by market requirements, and competitiveness in its key export markets, which currently include Australia, New Zealand, China, Taiwan and the Philippines.

An emerging market requirement that could have an impact on Solomon Islands' exports is the need to provide assurance to importers that the timber is from a legal source ('timber legality assurance'). Major timber importing countries worldwide, including Australia, the United States, and those in the European Union, have enacted or are currently in the process of enacting legislation that requires importers to ensure their products are of a legal origin. Third party certification schemes are expected to play an important role in the further development of regulatory frameworks for timber legality assurance worldwide.

This emerging market requirement sits among other factors that will present challenges for the Solomon Islands sawn timber sector to maintain or improve its market access and market share. However, most international legislation relating to illegal logging and certification has only recently or will soon come into effect, and consequently the impacts of such legislation have yet to be fully realised or exact requirements specified. This situation presents an opportunity to Solomon Islands to proactively develop its capacity to obtain forest certification and demonstrate timber legality.

In the absence of activities to ensure that timber legality can be demonstrated, existing market access to key markets such as Australia and New Zealand could be reduced as customers in these markets turn to timber from alternative sources with clear legality verification processes in place.

Approach to Scoping Work

This report presents the outcomes of scoping work, conducted between November 2012 and January 2013, which incorporated consultation with key stakeholder groups, including the Solomon Islands Government, timber exporters and importers, donor agencies and non-governmental organisations. The report presents the outcomes of these consultations and recommends a set of proposed activities that relate to initiating and facilitating initiatives to develop Solomon Islands' capacity for obtaining forest management certification and demonstrating the legality of its value-added sawn timber products. Such initiatives are expected to enable the Solomon Islands government

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and industry to constructively engage with trading partners on the implementation of legality assurance systems and to assist in maintaining or increasing Solomon Islands' access to international sawn timber markets.

Certification and Legality Verification Systems

Timber legality assurance and forest certification systems are becoming an increasingly important aspect of market access for value-added timber products worldwide, and particularly for tropical hardwoods such as those produced in Solomon Islands. Underpinning this trend is increasing attention globally to the impacts of illegal logging.

Timber legality assurance is designed to verify that timber and wood products have been legally sourced; while *forest management certification systems* encompasses economic, social and environmental requirements to verify that forests are sustainably managed. This differentiation can be used to categorise forest certification into two main 'levels', with legality assurance seen as the initial threshold in progression towards certification of sustainable forest management.

There has been limited uptake of forest certification in Solomon Islands to date. However, there is interest in certification within the forestry sector and an increasing understanding of certification systems and processes. There is also growing capacity to meet certification requirements along some supply chains.

Capacity to Meet Market Requirements

Consultation with timber processors/exporters in Solomon Islands and with timber importers in Australia and New Zealand provided a qualitative indication of some of the issues associated with sawn timber export markets. Some key insights emerging from this consultation are summarised below:

- Most Solomon Islands exporters have had limited exposure to emerging trends for timber legality and forest certification, particularly in the major importer countries;
- Timber importers in Australia and New Zealand generally recognised the emerging requirement for credible forms of legality assurance and forest certification;
- Importers generally noted the attractive timber characteristics of the primary commercial species available for sawn timber in Solomon Islands;
- Currently, the major limitation on Solomon Islands' sawn timber exports is the capacity to supply, and capacity to maintain continuity of supply for selected product specifications; and
- Delivered prices for Solomon Islands' timber exports do not appear to be a significant constraint on market access.

Options to Address Market Access Requirements

This scoping work undertaken as a part of this activity incorporated a review of market access constraints and opportunities for Solomon Islands' value-added sawn timber products. For this purpose, key constraints and opportunities were identified and grouped under four broad themes:

- The regulatory framework for timber harvesting in Solomon Islands;
- Supply chain development;
- Legality assurance and forest certification systems; and
- Commercial viability of timber export operations.

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A series of options were identified, represented by proposed activities to address market access requirements for the sawn timber sector in Solomon Islands. The presentation of these proposed activities takes into consideration the fact that the current PHAMA Phase 1 program will conclude in mid-2013; while the Phase 2 program is under consideration, it is yet to be confirmed.

The proposed implementation activities for PHAMA under Phase 1 of the program include:

- Exploring the potential for establishing an industry working group (collaborative processes) or industry forum (information sharing processes) specifically for sawn timber exports to address market access requirements;
- Supporting the promotion of Solomon Islands' capacity to demonstrate legality verification, through appropriate communications at exporter level and intergovernmental forums, and also the development of checklists or toolkits for Solomon Islands exporters and importers in key markets;
- Engaging with the Ministry of Forestry on its planning and budget allocations to increase focus on monitoring and verification; and
- Exploring the potential for the provision of certification support services in Solomon Islands, with potential implementation partners managing complementary programs within the country.

A summary of the proposed activities that could be undertaken under the PHAMA Phase 1 program (i.e. within the next six months) is outlined in Table 1. Key tasks, potential implementation partners and the indicative level of project inputs (in days) are set out in the report. In total, the indicative level of project inputs for these proposed activities is between 70 and 85 days.

Table 1 Proposed activities for PHAMA under Phase 1 program (2013)

Theme	Activities
<i>Supply chain development</i>	<ul style="list-style-type: none"> • Explore the potential for an industry working group (collaborative processes) or industry forum (information sharing processes) specifically for sawn timber exports to address market access requirements.
<i>Regulatory framework</i>	<ul style="list-style-type: none"> • Support the promotion of Solomon Islands' capacity to demonstrate verified legal origin (VLO) in particular, through appropriate communications at exporter level and intergovernmental forums. • In conjunction with the Ministry of Forestry, develop a legality verification (VLO) checklist or toolkit for Solomon Islands exporters and importers in key markets. • In conjunction with the Ministry of Forestry, develop a verified legal compliance checklist or toolkit for Solomon Islands exporters and importers in key markets, building on VLO processes. • Engage with the Ministry of Forestry on its planning and budget allocations to increase focus on monitoring and verification.
<i>Legality assurance and certification</i>	<ul style="list-style-type: none"> • Engage with Increasing Agricultural Commodity Trade (IACT) to explore the potential for provision of certification support services in Solomon Islands.

Source: URS

The scope for proposed activities under Phase 2 of PHAMA was also considered, recognising firstly that this extension of the program is not yet confirmed, and secondly that these activities will depend to a large extent on the outcomes of the Phase 1 activities.

In this context, the proposed activities for Phase 2 are scoped at a high level only. They include:

- Facilitating an industry working group or forum specifically for sawn timber exports to address market access requirements – this would incorporate exploring models for aggregation of sawn timber exports, across species and dimensions, through the industry working group or forum;

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- Assisting the industry working group or forum in determining importer priority for certification or other forms of legality assurance, potentially through facilitating broader engagement between Solomon Islands exporters and importer groups;
- Exploring the potential with regional partners (e.g. Australia and New Zealand) for intergovernmental engagement on a bilateral or multilateral partnership model for developing a legality assurance system for Solomon Islands;
- Engaging with the Ministry of Forestry, the Timber Utilisation Unit and other entities on potential funding arrangements available to encourage and facilitate certification for legality assurance and forest management;
- Assisting with detailed testing of the application of Australia's forthcoming regulations for timber legality assurance (which are expected to be tabled in mid-2013) to sawn timber imports from Solomon Islands; and
- Identifying and assessing comparable models from other countries that have actively promoted a shift to increased domestic timber processing, directly or with other potential funding entities.

It is recommended that these activities and the specific tasks associated with each of these activities are reviewed pending the outcomes of Phase 1.

Complementary Programs

It is important to recognise that there are other programs underway in Solomon Islands that are potentially complementary to PHAMA's interests in the further development of market access for value-added timber products. Prominent amongst other activities are the European Union Facilitating Agricultural Commodity Trade (FACT) and IACT projects supported by the Secretariat of the Pacific Community, and also the Australian Centre for International Agricultural Research (ACIAR)-supported Pacific Agricultural Research and Development Initiative (PARDI) program. These programs and current activities are discussed and referenced in the proposed activities and key tasks for the PHAMA Phase 1 program and subsequent programs beyond.

Introduction

The Australian Government's Pacific Horticultural & Agricultural Market Access Program (PHAMA) engaged URS Australia Pty Ltd (URS) to investigate areas where PHAMA might conduct activities in the forestry sector of Solomon Islands. Specifically, this report relates to the development of international market access for value-added timber products through timber legality assurance and forest certification.

1.1 Context

Forest product exports are the largest export industry in Solomon Islands. Unprocessed logs account for the large majority of trade, with a comparatively limited volume of sawn timber exports. Current levels of harvesting for log exports are widely recognised as being unsustainable, and revenues are predicted to decline over coming years. In this context, Solomon Islands Government policy is to diversify and increase the level of value-added processing of timber for export.¹

Internationally, consumer concerns over illegal logging and the sustainability of timber harvesting, particularly extraction of tropical hardwood species (on which the Solomon Islands industry is based), has led to increasing use of forest certification to provide assurance to consumers regarding the origin and sustainability of timber and timber products.

In parallel, timber importing countries, including the United States, Australia, and those in the European Union (EU), have enacted legislation that requires importers to complete various due diligence to ensure their products are of a legal origin. In addition, an increasing number of major timber importers now demand some form of certification or accreditation from their overseas suppliers attesting to origin from legally harvested and, in some cases, sustainably managed resources.

At present there is only limited uptake of forest certification in Solomon Islands, and potential exists for the timber trade to be affected directly by these emerging requirements of timber importers to source demonstrably legal timber only.

As part of the PHAMA program, the Solomon Islands Market Access Working Group (MAWG) has requested that issues relating to continued access to international markets for Solomon Islands sawn timber be investigated, along with the merits of pursuing forest certification as a means of underpinning this market access. PHAMA has engaged URS to conduct this investigation; specifically, to carry out a scoping study to assess the capacity of sawn timber exporters to meet international market requirements and the feasibility of pursuing forest certification as a means of ensuring such access.

1.2 Market Access Requirements

Changing international market requirements will have an impact on the Solomon Islands sawn timber sector's capacity to maintain and improve its market access. However, most international legislation relating to illegal logging and certification has only recently or will soon come into effect, and consequently the impacts of such legislation have yet to be fully realised or exact requirements specified. This situation presents an opportunity to Solomon Islands to proactively develop its capacity for demonstrating timber legality and for obtaining forest certification.

This report recommends activities that would support this. Such an approach would enable the Solomon Islands government and industry to constructively engage with trading partners on the

¹ Central Bank of Solomon Islands Annual Report 2010

1 Introduction

implementation of legality assurance systems and help Solomon Islands to maintain or increase its access to international sawn timber markets.

The value of the Solomon Islands sawn timber export trade is currently around SBD70 million per year. There is significant scope for increasing this trade through increased domestic processing of logs that are currently exported in round log form. In the absence of activities to ensure that timber legality can be demonstrated, it is likely that existing market access to key markets such as Australia and New Zealand could be reduced as customers in these markets turn to timber from alternative sources with more developed legality verification processes.

1.3 PHAMA

PHAMA is an Australian Government AusAID initiative with a focus on improving the primary sector export performance of Pacific Island Countries. The aim of PHAMA is to increase exports of high-value primary products by working with government agencies and export industries to better manage the regulatory aspects of market access. PHAMA is operating in Fiji, Samoa, Solomon Islands, Tonga and Vanuatu. In each country, a MAWG is responsible for deciding on the activities implemented by PHAMA and oversees the implementation of these activities. The MAWGs are composed of representatives of government agencies and export industries. Phase 1 of PHAMA runs from January 2011 through to June 2013, with a possible 4-year Phase 2 (yet to be approved by AusAID).

1.4 Approach to Scoping Work

This scoping work carried out as part of this assignment incorporated a review of supply and the value chains in place for sawn timber exports from Solomon Islands. The following plates are illustrative of the nature of this supply, encompassing log production and primary processing across the provinces and exporting through the containerised port facilities at Honiara (Guadalcanal) and Noro (Western Province).



Plate 1-1 Harvesting in a teak plantation



Plate 1-2 Log loading area, Western Province

1 Introduction



Plate 1-3 Portable sawmill, Western Province



Plate 1-4 Sawmill in Honiara



Plate 1-5 Container of roughsawn vitex timber, for export to Australia



Plate 1-6 Container of roughsawn rosewood timber, for export to China

Photos: URS

In-country inputs

URS conducted two main in-country inputs for this review. The first was during 15–19 October 2012, which allowed for initial engagement with key stakeholders and attendance at a workshop including representation from the Secretariat of the Pacific Community (SPC) and the EU-funded Facilitating Agricultural Commodity Trade (FACT) project. The second in-country input was conducted between 28 November 2012 and 7 December 2012 and involved more focused discussions with stakeholders and preliminary testing of the feasibility of potential initiatives.

Key stakeholder groups have included government departments, timber exporters and importers, donor agencies and non-governmental organisations (NGOs). A consultation list is provided in Appendix A.

1 Introduction

Report outline

This report presents the outcomes of these consultations and proposes activities to support market access for Solomon Islands' sawn timber exports, for consideration by PHAMA. This report comprises:

- An overview of the timber production in Solomon Islands and associated regulatory frameworks (Chapter 2);
- A review of forest certification systems for assurance of timber legality and sustainable forest management; a review of the current use of these systems in Solomon Islands; and an outline of programs with complementary objectives to PHAMA (Chapter 3);
- An assessment of the capacity of the Solomon Islands sawn timber sector to meet international market requirements and identification of activities that PHAMA might undertake (Chapter 4); and
- An outline of options to address market access requirements, presented as a proposed set of activities (options) for consideration by PHAMA (Chapter 5).

1.5 Application to Other PHAMA Countries

This report relates specifically to sawn timber production in and exports from Solomon Islands. However, other Pacific countries in which PHAMA is operating (i.e. Fiji, Samoa, Vanuatu and Tonga) may face similar market access issues for timber exports. The potential need to support the maintenance of international market access for the timber sectors in these countries should be raised with the relevant MAWGs. If such needs were apparent, assessment could be made of the nature and scale of the timber export sector and whether activities to support timber legality verification were warranted. It is anticipated that the timber trades in Fiji and Samoa, in particular, are of sufficient scale that such investigations may be warranted.

Timber Production in Solomon Islands

The forest industry is of central importance to Solomon Islands. This is apparent at a national level, in terms of government revenue, and at local levels, where forest management is an important part of subsistence livelihoods.

Forest industry production and revenues are dominated by the export of unprocessed round logs, exported directly from the location of harvest. Some domestic processing is conducted, with relatively small volumes of sawn timber also being exported. This section of the report is focussed on the production and export of sawn timber from Solomon Islands, and market access requirements relating to timber legality assurance and forest certification.

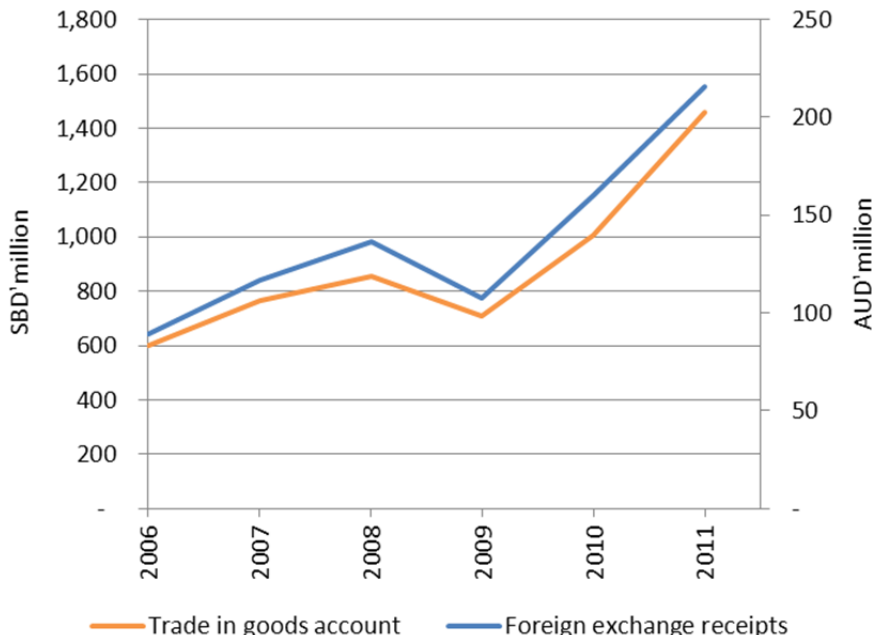
An overview of the broader forestry sector in Solomon Islands is provided in Appendix B.

2.1 Timber Trade

2.1.1 Round Logs

The export of round logs is a significant component of the national economy. In 2011, log and timber exports represented 70% of foreign exchange receipts and around 17% of total government revenues. Figure 2-1 depicts the value of Solomon Islands log exports between 2006 and 2011. The total value of logs exported from Solomon Islands between 2006 and 2011 exceeded SBD5.2 billion.

Figure 2-1 Annual revenue from log exports from Solomon Islands



Source: Central Bank of Solomon Islands

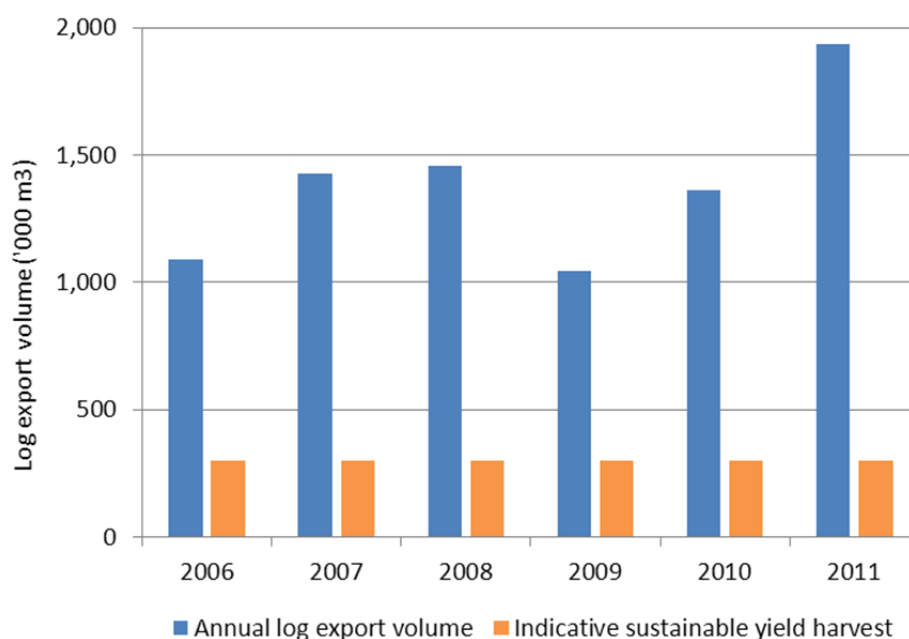
Harvesting rates have increased significantly over recent years and are recognised as being unsustainable. In 2006, the Solomon Islands Forestry Management Project (SIFMP) estimated that a

2 Timber Production in Solomon Islands

sustainable yield for national log harvests would be in the order of 300,000 m³ per annum.² Figure 2-2 shows log export volumes since 2005 have averaged around 1.5 million m³ per annum.

Harvesting rates have been maintained through ‘re-entry’ harvesting of previously logged forests.³ Recent studies have predicted that industry could continue completing re-entry logging for another decade, or longer, at reduced harvest rates.⁴ However, the study found that wood flow projections beyond about five years are highly uncertain due to the unknown extent and impact of logging on the resilience capacity of the forest. Responding to this uncertainty in harvest volumes and the associated revenue will be a key political and economic challenge for Solomon Islands.

Figure 2-2 Annual log export volume and indicative sustainable yield for Solomon Islands



Source: Solomon Islands Customs and Excise Division; SIFMP 2006

China is by far the largest destination for exported logs, taking approximately 88% of the logs exported during 2011. Solomon Islands is second only to Papua New Guinea as the world’s largest exporter of hardwood logs to China. Other markets for round logs include the Philippines, Korea and India. Figure 2-3 shows the international markets for Solomon Islands logs in order of government revenue (trade in goods account) earned during 2011.

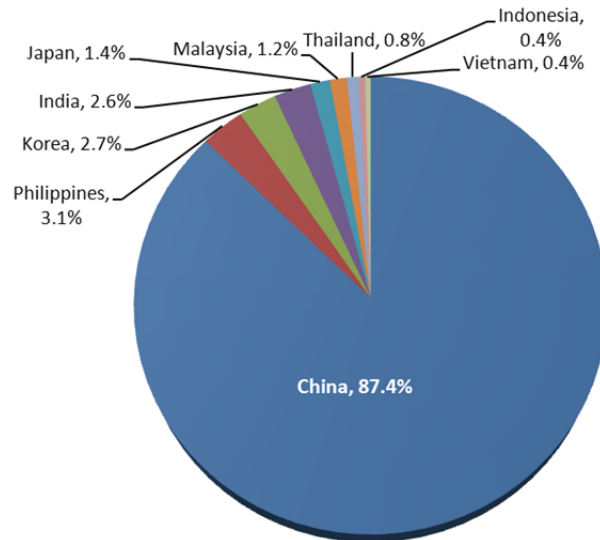
² SIFMP II (2006) Solomon Islands Forestry Management Project II, *Solomon Islands National Forest Resource Assessment Update 2006*. Prepared for AusAID and Ministry of Forestry, Environment and Conservation.

³ Central Bank of Solomon Islands Annual Report 2011

⁴ SKM (2012) *Solomon Islands National Forest Resources Assessment: 2011 update*. Regional Assistance Mission to Solomon Islands (RAMSI) Economic Governance Pillar

2 Timber Production in Solomon Islands

Figure 2-3 Destination of Solomon Islands round log exports, by revenue (2011)

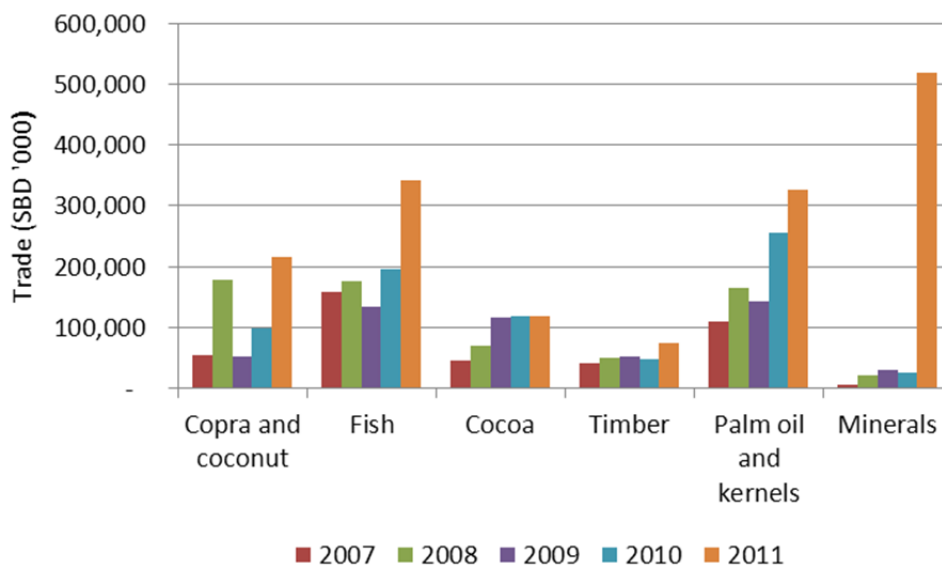


Source: Central Bank of Solomon Islands (trade in goods account)

2.1.2 Sawn Timber

The trade in sawn timber exports during 2011 was around SBD70 million, which is around 5% of the revenue generated by round logs. While the sawn timber export trade in Solomon Islands is a fraction of the round log export trade, it is useful to compare sawn timber with other primary products. Figure 2-4 shows trade data for various primary and agricultural products, excluding round logs, between 2007 and 2011. In this context, timber exports make a substantial contribution to the national trade in goods.

Figure 2-4 Export trade in goods account, selected products (2007–2011)

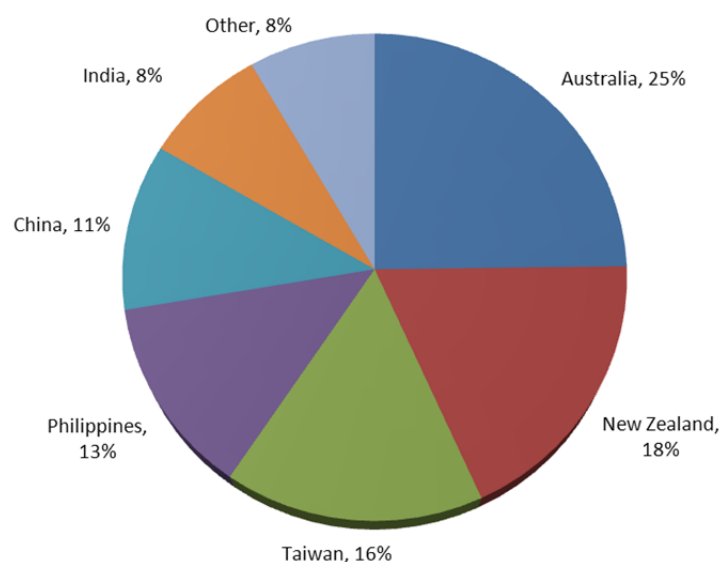


Source: Central Bank of Solomon Islands

2 Timber Production in Solomon Islands

Australia is currently the largest market for sawn timber from Solomon Islands, with New Zealand and Taiwan the other two largest markets during 2011. Figure 2-5 shows the main international markets for Solomon Islands sawn timber by foreign exchange receipts during 2011.

Figure 2-5 Destination of Solomon Islands sawn timber exports, by proportion of trade (2011)



Source: Central Bank of Solomon Islands (trade in goods account)

Import volumes of hardwood sawn timber into Australia and New Zealand between 2006 and 2011 are shown in Table 2-1 and Table 2-2, along with the unit rate in terms of United States dollars per cubic metre. Notable features of these statistics are: the relative proportion of imports coming from Solomon Islands – around 5% for Australia as compared to around 10% for New Zealand; and the somewhat higher unit rates paid for Solomon Islands timber in Australia than New Zealand.

Table 2-1 Australian imports of hardwood sawn timber (2006–2011)

Year	Total imports	Imports from Solomon Islands		
	(m ³)	Sawn timber (m ³)	Proportion (%)	Rate (US\$/ m ³)
2006	129,037	2,557	2%	571
2007	126,585	4,970	4%	652
2008	117,035	4,478	4%	704
2009	85,573	3,671	4%	709
2010	86,537	3,895	5%	817
2011	86,640	4,017	5%	850

Source: Global Trade Atlas

2 Timber Production in Solomon Islands

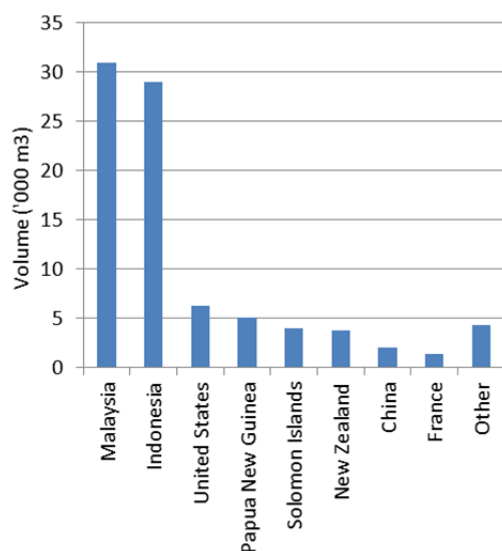
Table 2-2 New Zealand imports of hardwood sawn timber (2006–2011)

Year	Total imports	Imports from Solomon Islands		
	(m ³)	Sawn timber (m ³)	Proportion (%)	Rate (US\$/ m ³)
2006	24,283	2,787	11%	475
2007	26,359	1,198	5%	517
2008	20,031	1,880	9%	561
2009	18,644	2,277	12%	553
2010	17,303	1,947	11%	580
2011	23,513	2,128	9%	626

Source: Global Trade Atlas

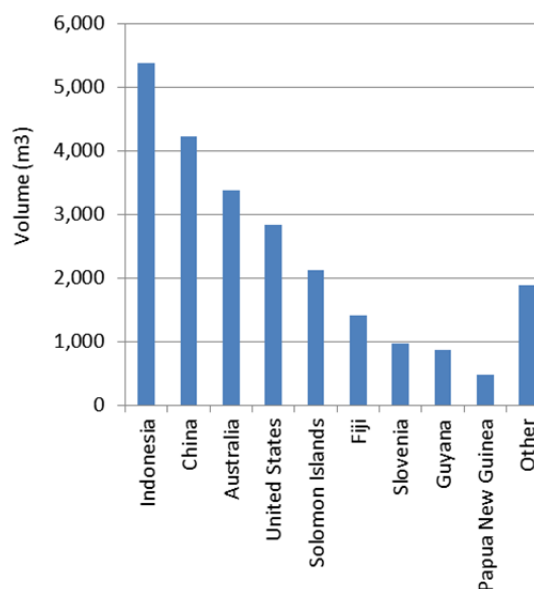
The proportion of sawn timber imports into Australia and New Zealand from Solomon Islands, relative to other countries, is shown in Figure 2-6 and Figure 2-7, respectively.

Figure 2-6 Hardwood sawn timber imports to Australia by country (2011)



Source: Global Trade Atlas

Figure 2-7 Hardwood sawn timber imports to New Zealand by country (2011)



Source: Global Trade Atlas

2.1.3 Value-Adding Operations

There is currently limited value-adding of timber products in Solomon Islands and it appears there is scope to promote greater levels of domestic timber processing.

Sawmilling and sawn timber export operations

In Solomon Islands, timber processing for export markets typically involves sawing a log into the square before further 'rough' sawing into approximate standard dimensions for packaging into containers. Most importers consulted during this project commented that, on receipt of such timber, they conduct further primary processing and dressing of the timber before on-selling or marketing as a final product.

2 Timber Production in Solomon Islands

Box 1 – Sawn timber exporters and processors based in Honiara

Sawn timber exporters and processors based in Honiara include the following:

- GoodWood
- Hatanga Group Ltd
- Honiara Timber Exporters
- John Wesley Timbers Ltd
- Lagoon Eco Timber
- Sol Pacific Timbers
- Timol Enterprises
- Top Timber Company
- Value Added Timber Association (VATA) Enterprises

There are approximately 10–12 timber processors and exporters in Honiara (see *Box 1*). Generally, these operations receive logs or rough sawn timber and undertake further processing to products that include internal mouldings, flooring and wall panelling. URS understands that to date the majority of these better finished products are sold in the domestic market; almost all exported product is rough sawn timber.

Value-adding facility development at Noro

In addition to the existing sawmilling capacity, the development of a large-scale processing facility at Noro, in Western Province, is currently underway. This facility is being developed by a Malaysian-owned company, Priceworth International Berhad. The facility is reportedly expecting to begin production from early 2013, with the intent of producing sawn timber, veneer and plywood for export to Malaysia. URS understands that all timber produced by Priceworth will be sold to its Malaysian parent company or other subsidiaries of the same group of companies.

If this development proceeds as planned, it would lead to a significant increase in domestically processed (value-added) timber exports from Solomon Islands, and would establish a substantial new export operation at Noro.

2.2 Forest Management and Regulatory Framework

International markets are increasingly requiring that importers can demonstrate a level of assurance on the timber products they import. The minimum level of assurance that is generally required is that products can be demonstrated to have been sourced legally in their country of origin. Consequently, it is important that the regulatory framework of Solomon Islands is understood by all stakeholders, particularly those involved in export and import of Solomon Islands timbers.

2.2.1 Land Tenure Conditions

Solomon Islands has a complex system of customary land tenure. Land boundaries between communities are often unclear, and can be the subject of formal and informal disputes.

The land tenure system has important implications for the management of natural resources, and forests in particular. A key consideration is that only recognised landowners can obtain a felling licence. Consequently, logging companies must negotiate with local landowners, rather than government agencies, in order to undertake harvesting.

2 Timber Production in Solomon Islands

Another factor linking land tenure with forest management in Solomon Islands is the difficulty of applying current national legislation to customary land, which restricts the national government's scope for influencing forest management decisions at a local level. Further discussion of current legislation and licencing for forest management is provided below.

2.2.2 Existing Forest Licencing Frameworks

2.2.2.1 Legislation

Forest management is governed primarily by the *Forest Resources and Timber Utilisation Act 1969*. The Act has been amended several times since the first amendment in 1982, with the most recent amendment being in 2005.⁵ The Act specifies requirements for logging licences (without which no logging is to occur) and also encompasses regulations for prescribed approvals, appeals and the management of protected species.

A fundamental limitation of the Forestry Act is that it only relates to “alienated”, government-owned land, whereas most commercial logging currently taking place occurs on customary-owned land. SIFMP, in collaboration with the Ministry of Forestry, drafted a new version of the Forestry Act during 2004 that was designed, in part, to make the Act more applicable to the land ownership and forest management conditions in Solomon Islands. This draft legislation has not yet been passed by Parliament, although, during consultations, senior officials in the Ministry of Forestry commented that they were hopeful this might yet occur.⁶

2.2.2.2 Licencing

A *felling licence* is required to harvest timber. To obtain a felling licence, landowners apply to the Commissioner of Forests, who is the responsible authority for issuing licences. Landowners then contract directly with timber companies as to the terms of any agreement to harvest timber and the associated remuneration. It should be noted that a significant proportion of logging companies are supported by foreign investment.

Under current arrangements, the national government has little scope to restrict the issuance of felling licences or to oversee the terms of agreements between landholders and timber companies. Concerns have been raised regarding the lack of guidance available to communities that are considering contracting a logging company to work on their land, and the ability of these communities to effectively negotiate terms and ensure compliance.⁷

The other key regulatory mechanism is the *Code of Practice for Timber Harvesting 1996*. It encompasses requirements for land use management, construction works for timber harvesting operations, and harvesting operations themselves.

2.2.3 Export Controls

The requirements for obtaining necessary approvals to export logs or sawn timber appear to be reasonably widely understood within the forestry sector and regulatory agencies. The primary requirement for the export of round logs is the *Specific Authority to Export*, which is issued by the

⁵ Personal Communication: Gideon Bouru, EU FACT project, December 2012

⁶ Personal Communication: Jeffrey Wickham, Permanent Secretary Ministry of Forestry, October 2012

⁷ Brogan, C. and Halton, A. (2010) *Forest Law Enforcement, Governance and Trade Information and Fact Finding Mission: Solomon Islands*. The IDL Group.

2 Timber Production in Solomon Islands

Central Bank of Solomon Islands on the basis of a Market Price Certificate from the Commissioner of Forests. The Market Price Certificate is based on guidelines maintained by the Solomon Islands Government regarding the current value of logs from key timber species in international markets. Table 2-3 outlines the key steps in the approvals processes for export of round logs and sawn timber from Solomon Islands.

Table 2-3 Outline of approval processes for export of round logs and sawn timber

Log exports	Sawn timber exports
<p>The landowner:</p> <ul style="list-style-type: none"> Submits application for felling licence to the Commissioner of Forests. 	<p>The landowner:</p> <ul style="list-style-type: none"> Submits application for felling licence to the Commissioner of Forests.
<p>The exporter:</p> <ul style="list-style-type: none"> Submits the following to the Commissioner of Forests: <ul style="list-style-type: none"> Application for Specific Authority to Export Consignment details and request for Market Price Certificate Sales Contract. 	<p>The exporter:</p> <ul style="list-style-type: none"> Submits application for Specific Authority to Export.
<p>The Forestry Division:</p> <ul style="list-style-type: none"> Checks declared prices against the stated quantity of a consignment and the published market price guidelines. Arranges any necessary inspections to confirm consignment quantity, quality and composition.⁸ If the price accords with the price guidelines, recommends to Central Bank of Solomon Islands to issue a Specific Authority to Export by issuing a Market Price Certificate. Sends relevant documents to Central Bank of Solomon Islands. 	<p>The Forestry Division:</p> <ul style="list-style-type: none"> Receives application for felling licence from landowner. Receives application for Specific Authority to Export from exporter.
<p>Central Bank of Solomon Islands:</p> <ul style="list-style-type: none"> Issues or refuses a Specific Authority to Export based on the Market Price Certificate. Informs exporter of the decision. Sends copy of Specific Authority to Customs. 	<p>Ports Authority:</p> <ul style="list-style-type: none"> Compares records of timber loaded with consignment details on Specific Authority to confirm the shipment is in accordance with the granted approvals.
<p>Customs and Excise Division:</p> <ul style="list-style-type: none"> Compares records of logs loaded with consignment details on Specific Authority to confirm the shipment is in accordance with the granted approvals. Receives export duties. Clears vessel. 	<p>Customs and Excise Division:</p> <ul style="list-style-type: none"> Receives export duties. Clears vessel.

Notes:

- This table reflects URS's current understanding of export approvals processes, based on project discussions with the Customs and Excise Division and the Ministry of Forestry in particular.
- The allowed points of export differ between round logs and sawn timber. Round logs can be exported directly from log landings near the harvest area, while sawn timber is required to go through Honiara or Noro ports for clearance. This requirement has an impact on sawn timber exporters, who must bear the costs of domestic shipping in addition to international shipping. For most exporters, domestic shipping costs are comparable to international shipping costs.

⁸ The Forestry Act requires that every shipment be inspected for compliance with consignment documentation. However, it has been beyond the scope of the present work to verify the extent to which compliance testing of this requirement is undertaken.

Timber Legality and Forest Certification Systems

Timber legality and forest certification systems are becoming an increasingly important aspect of market access for value-added timber products worldwide, and particularly for tropical hardwoods such as those produced in Solomon Islands.

Underpinning this trend is increasing attention globally on the impacts of illegal logging, notably in tropical forests. Notably, Australia and New Zealand, which are the two leading markets for sawn timber exports from Solomon Islands, have developed legislation and government policies, respectively, that require importers to consider the legality of timber imports, and ensure the risk of importing illegally logged timber is minimised by means that include preference for certified products.

3.1 Types of Certification

Certification systems that apply to forest management and timber supply chains are designed to demonstrate the legality and/or the sustainability of forest management and forest and wood products.

Different types of certification apply to different activities along the supply chain. These can be broadly grouped into those that apply to forest management (*forest management certification*) and those that track the path of timber from the forest to the consumer (*chain of custody certification*).

Within the context of forest certification, a further differentiation is made between certification of legality and the broader scope of forest management. Timber legality certification (*legality assurance*) is designed to verify that timber and wood products have been legally sourced, while forest management certification encompasses economic, social and environmental requirements to verify that forests are sustainably managed. This differentiation can be used to categorise forest certification into two main 'levels', with legality assurance seen as the initial threshold when working towards certification of sustainable forest management.

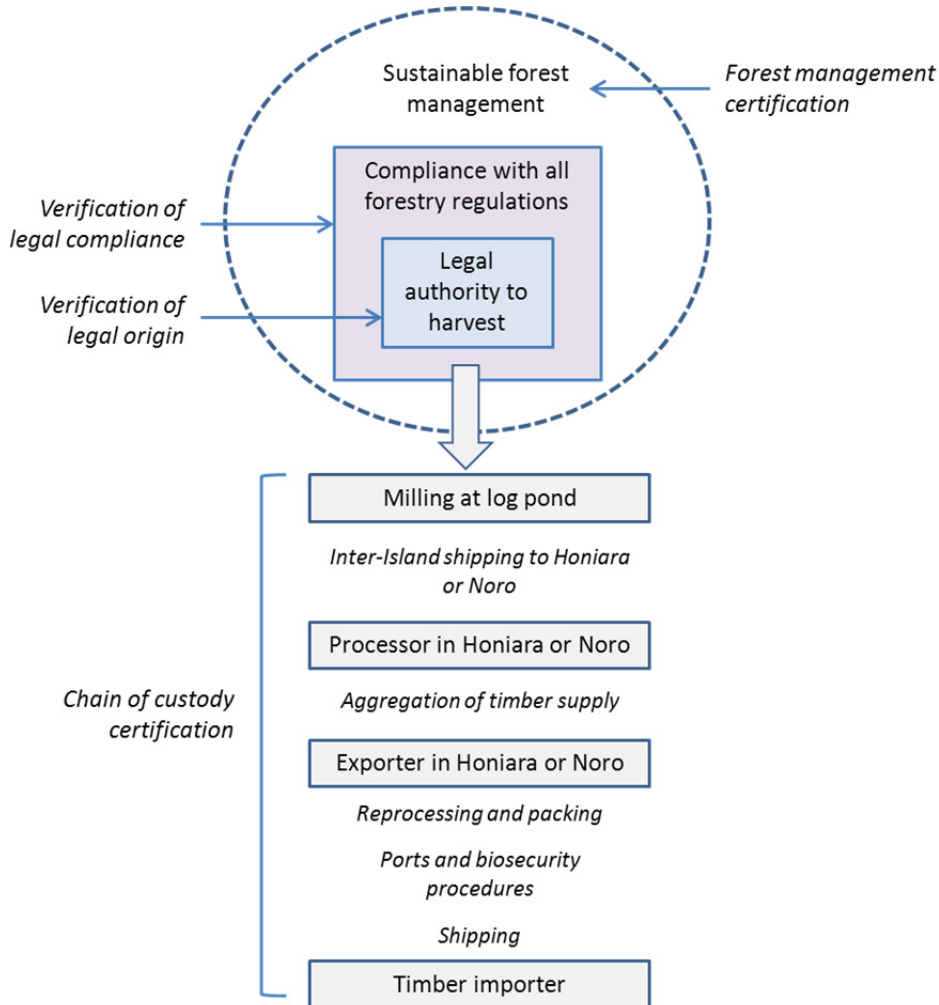
Legality assurance schemes comprise two broad components:

- *Verification of Legal Origin (VLO)* verifies that producers have the right to access and harvest, complying with the relevant timber harvesting laws and regulations. This includes possession of required approvals and permits, adherence to production quotas and allowable species, and payment of all relevant fees, charges, taxes and royalties.
- *Verification of Legal Compliance (VLC)* verifies that legal origin has been demonstrated and that producers have complied with all relevant local, national and international forestry, environmental, social and labour regulations, codes of practice and conventions.

Figure 3-1 outlines the scope of legality and Chain of Custody schemes for forest products, and their interaction in the broader context of sustainable forest management initiatives. In this framework, VLO and VLC assessments relate to forestry operations within the harvested 'forest area', and the Chain of Custody extends from the forest area to the end consumer of wood products.

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Figure 3-1 Types and scope of forest certification and chain of custody schemes



Source: URS

3.2 Development of Certification Systems

Over the past 15–20 years, forest management certification programs have played a prominent role among mechanisms to support legal timber procurement. The demand for certification over this time can be attributed in large part to NGO-led initiatives and the subsequent rise in consumer demand for certified wood products. These initiatives have focussed principally on sustainable forest management but, more recently, certification schemes have been developed specifically to verify the legal origin of timber and to a lesser degree the legal compliance of timber harvesting activities.

The prominence of certification and legality verification to date can also be attributed to limited regulatory frameworks in place and limited market information available to importers and consumers on the credentials of imported timber, in terms of its sustainability and legality. The issues relating to sustainability and legality are complex, particularly as they relate to a range of countries with different regulatory systems and cultural systems associated with harvesting and marketing timber.

3 Timber Legality and Forest Certification Systems

Various forest certification programs now operate around the world, with some being international in scope while others have been developed for a specific country or region. Certification schemes define standards with which an operation must comply in order to become certified.

The predominant programs for forest management certification worldwide are those administered by the Forest Stewardship Council (FSC) and the Programme for Endorsement of Forest Certification Schemes (PEFC). Both organisations oversee the development of national standards (through public consultation processes) for forest management and chain of custody. Under both programs, forest management operations are subject to independent, third party audits that determine whether an organisation is eligible for certification. Audits are required when an organisation first applies for certification and are then required periodically on an ongoing basis.

There is also a range of programs worldwide that are based specifically on legality assurance, encompassing VLO and VLC, and supported by associated chain of custody systems. Examples of these include VLO and VLC standards established and implemented by organisations such as Smartwood, SGS (*Société Générale de Surveillance S.A.*), and Certisource.

An overview of these and other schemes is presented in Appendix C.

3.3 Related Initiatives

In recent years, awareness and concerns about trade of timber and wood products from illegally logged sources has heightened. Studies have indicated that this trade is highly significant in volume and value terms (for example, Poyry Forest Consulting, 2010⁹), although it has been difficult to obtain definitive estimates to date.

As a result, there is now a range of programs and initiatives underway that relate to efforts to restrict illegal logging and related trade. These programs and initiatives include:

- *Intergovernmental processes and agreements*, such as the United Nations Forum on Forests, International Tropical Timber Organization policy and projects, and the EU's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. Bilateral agreements formed under these processes, such as Voluntary Partnership Agreements (VPAs) between the EU and producer countries, are supporting the further development of Timber Legality Assurance Systems where VPAs have been established.
- *National import legislation and regulations*, such as the United States *Lacey Act (2008)*, and the EU due diligence regulations:
 - Under the Lacey Act, United States-based timber importers are required to exercise 'due care' to ensure timber legality. Credible third party verification of legality or forest management certification can be used as one means of demonstrating this due care.
 - The EU due diligence regulations include requirements for member states to ensure that only legally harvested timber and timber products are placed on the market. This requires employment of a traceability system and third party verification.

Further information on relevant national legislation is presented in Appendix C.

⁹ Poyry Forest Industry Pty. Ltd., 2010. *Legal forest products assurance – a risk assessment framework for assessing the legality of timber and wood products imported in Australia*. Report prepared for the Australian Government Department of Agriculture, Fisheries and Forestry, February 2010.

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- *Government timber procurement policies*, such as the United Kingdom Timber Procurement Policy and the New Zealand Timber and Wood Products Procurement Policy, specifying the purchase of legal timber with a preference or requirement for third party verification of legality.
- *Supply chain support programs* that assist or facilitate industry members in verifying and/or strengthening the assurance of legality in their supply chains. These include government and industry sponsored programs such as the Worldwide Fund for Nature (WWF) Global Forest and Trade Network.

3.4 Policy Developments in Key Export Markets

Market access requirements specifically relating to timber legality and forest certification are outlined below for Australia and New Zealand, Solomon Islands' main markets for sawn timber exports, as well as for Taiwan, Philippines, and China.

3.4.1 Australia

The Australian Government has recently enacted the *Illegal Logging Prohibition Act 2012*, to promote the trade in legally harvested timber and timber products, and to reduce the harmful environmental, social and economic impacts of illegal logging. This legislative development has drawn on a range of intergovernmental dialogue and extensive research on issues related to illegal logging and timber sourcing, and associated consideration of appropriate regulatory mechanisms.

Under the new Act, which received Royal Assent in November 2012, it is now a criminal offence to import illegally logged timber and timber products into Australia or to process Australian raw logs that have been harvested illegally. Australian importers and processors must not knowingly, intentionally or recklessly import or process illegally logged timber.

Regulations to provide more specific guidance for Australian timber importers and processors will be developed over the next two years (see Box 2). These regulations will provide guidance on appropriate due diligence and therefore provide a reasonable legal defence to the behaviour of importers in relation to importing timber products. However, in the interim period until regulations are in place, it is clear that timber importers may be required to demonstrate due diligence to ensure that their imports do not create a breach in respect of the obligations outlined above.

Box 2 – Australia's new legislation: *Illegal Logging Prohibition Act 2012*

- Royal Assent on 28 November 2012.
- **The prohibition is now in force.**
- The regulations are due to be tabled by May/June 2013.
- Regulations will come into effect on 30 November 2014.

The new Act applies to solid timber, and manufactured and processed wood products such as sawn timber, wood panels, composite products, veneer, wooden furniture and pulp and paper.¹⁰ The two product categories listed as likely to be regulated, and relevant to Solomon Islands, are:

- *4403 Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared*
- *4407 Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm*

¹⁰ Department of Agriculture, Fisheries and Forestry, Draft list of regulated timber products for consultation (2012)

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These categories effectively capture all of the value-added sawn timber products exported from Solomon Islands to Australia.

The Australian Government has produced preliminary guidance materials for timber importers that incorporate both the information that should be gathered and the assessment of illegal logging risk factors that should be conducted. The due diligence process to be carried out by the importer will involve a three step process. These steps are: (i) identifying and gathering information to assess the risk of procuring illegally logged timber; (ii) assessing and identifying the risk of timber being illegally logged based on this information; and (iii) mitigating this risk depending on the level identified, where it has not been identified as low. Steps 1 and 2 are set out below (refer *Box 3*).

Box 3 – Guidance on draft regulations under Australia’s Illegal Logging Prohibition Act

Step 1: Information that should be gathered by an importer

- a) Description of product and, for regulated timber products, the Harmonized Commodity Description and Coding System (HS) code to six digits;
- b) The timber type/s and, where available, the common name/s and/or the full scientific name/s of the timber contained within the product, and whether plantation grown;
- c) The country of harvest and/or manufacture and, where available: (i) Sub-national region where the timber was harvested; and/or (ii) Concession of harvest;
- d) Quantity (expressed in volume, weight or number of units);
- e) Name and address of the supplier; and
- f) Available evidence of compliance with: (i) laws in force in the country of harvest; or (ii) rules or processes established or accredited by an industry or certifying body; or (iii) established operational processes.

Step 2: Key considerations for the risk assessment that should be conducted by an importer

- a) Level of completeness, accuracy and reliability of information available;
- b) The level of compliance with applicable laws in force in the country where the timber was harvested;
- c) The robustness of the forest law enforcement and governance practices within the country where the timber was harvested;
- d) The value of the timber product in relation to current market prices;
- e) The prevalence of illegal harvesting of the species of timber contained in the product;
- f) The complexity of the product; and
- g) The complexity of the supply chain.

Source: Department of Agriculture, Fisheries and Forestry – Guidance material for the draft Australian due diligence principles (2012)

The implications of this for Solomon Islands are that timber importers in Australia will be seeking to obtain clear and credible assurances of timber legality from trusted suppliers.

The specific regulations are expected to be available for review from May/June 2013. After these regulations are tabled, there would be scope for a cooperation initiative between the Solomon Islands Government and the Australian Government to test the systems in place in Solomon Islands to provide clear and credible assurance of timber legality for timber exports.

3.4.2 New Zealand

There are some key national level initiatives in New Zealand that have the objective of reducing illegal logging and associated trade. These include government and industry-led programs.

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3.4.2.1 Government Policy

The New Zealand Government is currently focussed on supporting importers and customers in understanding issues associated with illegal logging and promoting measures to reduce the amount of illegal timber imports.

The New Zealand Government has in place a policy to address illegal logging and associated trade, which incorporates actions to be taken at domestic, bilateral, regional and international levels. The policy includes guidelines for the responsible purchase of timber. These include Ministry of Agriculture and Forestry material that states:

- “Check to see if the timber or wood product carries documentation that verifies compliance with a reputable forestry management standard or certification scheme;
- Ask the supplier where the wood has come from. Do they know if it has been legally produced, harvested and traded? What supporting evidence can they produce? and
- Ask your supplier if they have a responsible timber and wood purchasing policy in which they seek to only buy legally harvested timber and wood-products.”¹¹

The policy also encourages suppliers to develop procurement policies that would enable them to meet requests such as those above.

The New Zealand Government has identified domestic and bilateral actions that it will undertake:

- Domestic actions include supporting the industry to develop a voluntary code of practice to encourage the verification of the legality of imported timber and timber products, and supporting the provision of consumer information on issues of legality and sustainability.
- Bilateral actions include seeking to develop a joint strategy with Australia and, where appropriate, discussing illegal logging under the umbrella of trade and environment agreements or arrangements concluded in the context of Free Trade Agreements.

In the context of these identified bilateral actions, the New Zealand and Australian Governments recently agreed to an *Arrangement on Combating Illegal Logging and Promoting Sustainable Forest Management*.¹² The Arrangement is intended to provide a framework for bilateral cooperation against the illegal logging trade, and will reportedly promote systems to verify the legality of timber and wood products in Australia, New Zealand and the Asia Pacific region.

New Zealand has not publicly expressed intent to implement similar legislation to that in Australia and elsewhere. However, the Government has shown interest in working to address illegal logging and promote certification, and has been directly engaged in international developments. It will be important for Solomon Islands exporters to continue to monitor the New Zealand Government’s activities in relation to timber imports and illegal logging.

3.4.2.2 Industry Initiatives

In addition to government activities, industry associations have been engaged in the issues of illegal logging. The key industry group in this regard is the Importers of Tropical Timber Group (ITTG), which includes timber importers and retailers, as well as Greenpeace New Zealand, with the Ministry of Agriculture and Forestry represented as an observer. It reports that its members account for 80% of the importation and sale of tropical timber products in New Zealand. The goals of the ITTG include:

¹¹ Ministry of Agriculture and Forestry: *New Zealand policy to address illegal logging and associated trade*.

¹² Australian Government Minister for Agriculture Fisheries and Forestry, 21 August 2012.

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- *“To ensure that all tropical timber imported into New Zealand is sourced from sustainably managed forests.*
- *To agree on certification procedures that provide purchasers with a reliable assurance of the sourcing of the product from sustainably managed forests.”¹³*

Specific initiatives of ITTG members include to only import or sell timber from Indonesia that has *“credible verification of legality, as a first step towards sustainability.”* This measure is in recognition that Indonesian timber accounts for a large proportion of the tropical timber imported into New Zealand. To support its members in implementation of this, the ITTG has developed criteria to assess the credibility of legality verification schemes.

3.4.3 Taiwan, Philippines and China

Taiwan, Philippines and China are also significant markets for Solomon Islands sawn timber, and collectively accounted for 30% of revenues from sawn timber exports in 2011. These markets do not yet have government-led initiatives or equivalent national programs relating to timber sourcing and demonstration of legality. Partly as a result, the demand for certified timber in these markets is currently limited.

It is reasonable to expect that trends elsewhere may begin to influence these markets, as the introduction of legality assurance systems in major import markets (e.g. the United States Lacey Act and the EU Timber Regulation) will establish due diligence requirements that extend through international trade to upstream processors. Any associated trends in the international timber trade will have implications for the entire supply chain, which may lead to increased customer interest in the source of Solomon Islands timber.

3.5 Legality and Certification in Solomon Islands

There has been limited uptake of forest certification in Solomon Islands to date. Currently, there is interest in certification within the forestry sector, predominantly in the context of potential price premiums for certified products, as well as maintenance of access to international markets. There is also an increasing understanding of the certification process and a limited but growing capacity to meet certification requirements.

3.5.1 Industrial Plantations

Until recently, there have only been two organisations that hold forest management certification, and both of these relate to industrial plantations that are managed primarily for log exports to related companies in Asia, as distinct from the harvesting of Solomon Islands’ natural forests that provides the major source for sawn timber exports. Both of the certificate holders, Kolombangara Forest Products Limited and Eagon Pacific Plantations Limited, hold FSC forest management and chain of custody certification.

Certification of these entities is important to the extent that FSC certification for forest management and chain of custody has been established in Solomon Islands, and provides a basis for standards development and auditor capacity in the region. However, the operational focus of these entities is expected to remain on plantation log exports, and is therefore peripheral to PHAMA’s primary focus on value-added (sawn timber) products from natural forests and smallholder plantations.

¹³ ITTG information available at: <http://nzittg.org.nz/>

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This notwithstanding, the scope for increased value adding from this industrial plantation estate in Solomon Islands should continue to be monitored over time.

3.5.2 Natural Forests and Village Plantations

The EU FACT project has been working to support selected organisations in attaining FSC certification in Solomon Islands. As part of this work, FACT engaged an auditor who performed certification audits during October 2012. A summary of organisations that have recently secured FSC certification is presented in Table 3-1.

Table 3-1 Recent FSC certification for community-based sawn timber production enterprises

FSC forest management certification	FSC chain of custody certification
<p>Natural Resource Development Foundation (NRDF)</p> <ul style="list-style-type: none"> • NRDF has recently secured group forest management certification, for a group that currently comprises two communities in Western Province: <ul style="list-style-type: none"> — Barekasi, located on Vella Lavella — Kongokolo, located in Marovo Lagoon. 	<p>Marovo Lagoon Sustainable Timbers (MLST)</p> <ul style="list-style-type: none"> • MLST holds a single source chain of custody certificate. • MLST buys timber from the Barekasi and Kongokolo communities. • MLST intends to export the certified timber from these communities.
	<p>VATA</p> <ul style="list-style-type: none"> • VATA has recently secured group chain of custody certification, for a group that currently comprises: <ul style="list-style-type: none"> — VATA Enterprises — Timol Timbers — Lagoon Eco Timber. • These enterprises are timber buyers and processors based in Honiara, mostly selling domestically with lower levels of export.

Source: URS

These developments are significant, as they represent emerging capacity to obtain forest management certification and chain of custody certification. However, the areas of certified forests under management and volumes produced remain small compared with total production of sawn timber in Solomon Islands.

3.5.3 Verification Capacity within Solomon Islands

The process of obtaining certification requires a forest manager or timber processor to undergo an assessment audit against the requirements of the relevant certification scheme, followed in due course by ongoing surveillance audits. Under most schemes, certification audits can only be undertaken by a recognised 'certification body', which is an independent third-party organisation. There are currently no certification bodies with a permanent operational presence in Solomon Islands, and consequently auditors must travel from overseas to undertake certification audits. The organisation undergoing the audit is required to cover such costs.

Organisations that have recently undertaken an FSC Forest Management audit have noted the cost of the initial certification audit was in the order of SBD120,000, with subsequent annual surveillance audits expected to be in the vicinity of SBD60–70,000.¹⁴ Chain of custody audits are generally carried out for lower cost than forest management audits, due to the lower level of complexity of certification

¹⁴ Pers. comm., Solomon Islands stakeholders that have recently undertaken FSC certification audits.

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requirements and the auditing time required. However, audit costs remain considerable for most industry stakeholders in Solomon Islands. Having accredited auditors in-country would presumably lead to savings such as on travel costs and time required for an audit, and this would go some way towards reducing the costs associated with certification audits.

3.5.4 Complementary Programs

It is important to recognise that there are other programs underway in Solomon Islands that are potentially complementary to PHAMA's interests in improving market access for value-added timber products. Prominent amongst other activities are the EU FACT and Increasing Agricultural Commodity Trade (IACT) projects supported by SPC, and also the Australian Centre for International Agricultural Research (ACIAR)-supported Pacific Agricultural Research and Development Initiative (PARDI) program. These programs and current activities are outlined below.

3.5.4.1 FACT and IACT

The EU-funded FACT project is implemented by SPC. Forestry activities undertaken by FACT have included support for organisations to meet the requirements of forest certification in Solomon Islands and elsewhere. Specifically, this work has involved the facilitation of the uptake of FSC certification among selected communities and organisations, which has led to producers and processors achieving the certifications described in Section 3.5. The FACT project started during 2008 and its operations will conclude at the end of 2012. FACT's activities have increased understanding of forest certification within the forestry sector and have contributed to an increasing capacity for obtaining certification in Solomon Islands.

A separate, though related, program to FACT is the IACT program, which is also funded by the EU through SPC and will run to 2015. Preliminary communications with IACT personnel have indicated that IACT will support forest certification for selected producers, processors and exporters. This would build on the work undertaken by FACT and would be complementary to PHAMA's selected activities. It will be important to continue consultations with IACT on activities of mutual benefit and explore opportunities for collaboration.

3.5.4.2 PARDI

PARDI is funded by ACIAR and is focussed on supply-chain and market-driven research to help address constraints to economic development.

One PARDI project is of particular relevance to PHAMA's proposed support. This project is coordinated by Griffith University and is known as *Development of a market mechanism for Teak and other high value timber in the Western Province of Solomon Islands*. Through this work, PARDI hopes to enhance teak production by linking individual teak growers in their harvesting and marketing activities. The project will also consider the feasibility of working towards FSC group certification as a tool for promoting or ensuring market access for smallholders.

This work builds on a previous ACIAR-funded project that focussed on silvicultural and agroforestry systems for smallholder plantations in Solomon Islands, also coordinated by Griffith University.

Discussions with representatives of this project have identified a number of complementary areas with PHAMA. Further discussions between PHAMA and PARDI are planned for January 2013 when, specifically, PARDI will be planning workshops to be held during mid-2013. It is proposed that some

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level of PHAMA involvement in these workshops would be beneficial in communicating international market access requirements to owners of smallholder plantations, as well as other parties that are interested in exports. Further discussion of PHAMA's proposed involvement in related activities is provided in Chapter 5.

Market Access Requirements for Sawn Timber Exports

As part of this scoping work, URS made contact with a range of timber processors and exporters in Solomon Islands, and also with several timber importers in Australia and New Zealand that have imported timber from Solomon Islands. The purpose of this engagement was to test the current requirements for timber legality assurance or forest management certification, within the context of other market access requirements.

4.1 Market Sounding Perspectives

Market sounding for this work was limited in scope. However, URS had substantive engagement with a total of eight timber processor/exporters in Solomon Islands (face-to-face meetings) and five timber importers in Australia and New Zealand (by phone). The comments, insights and perspectives provided are qualitative only.

Notwithstanding these limitations, the information provided was considered to be generally reflective of prevailing market issues relating to timber exports from Solomon Islands. A summary of the comments, insights and perspectives provided directly by timber exporters and importers for this scoping work is presented in Appendix D. These viewpoints have contributed directly to the assessment of key constraints and opportunities facing the sawn timber sector in Solomon Islands.

Timber legality and forest certification

Key insights and perspectives from these interviews specifically in relation to timber legality and forest certification include the following:

- *Most Solomon Islands exporters have had limited exposure to emerging trends for timber legality and forest certification, particularly in the major importer countries:*
 - The market sounding found there was minimal familiarity with the legislative requirements for timber legality assurance introduced in the United States, the EU and Australia;
 - Where exporters have received requests or feedback from importers for timber legality assurance or forest certification (of which there have been few to date), it has generally been demand for FSC certified timber (e.g. VATA has had feedback from Australian importers in particular that FSC certified timber is highly desirable);
 - To date, most exporters have been able to export timber without any importer requirements for legality assurance or forest certification.
- *Timber importers in Australia and New Zealand generally recognised the emerging requirement for credible forms of legality assurance and forest certification.*
 - There are some timber products imported from Solomon Islands that are subject to strict requirements to demonstrate legality, e.g. kwila (merbau) imported into New Zealand, for which there are regulatory requirements for labelling the origin of the product;
 - More generally, importers noted that the market for timber imports is moving towards a standard requirement for demonstrating timber legality, if not providing evidence of acceptable forms of third party forest management certification for imported timber products.

Other market access issues

While timber legality and forest certification is a core focus for this review, it is important to recognise that there is a range of factors that will affect market access for value-added timber exports from

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Solomon Islands. Market sounding undertaken for this scoping work incorporated consideration of these factors, which were captured in the context of strengths and weaknesses of the Solomon Islands sawn timber sector.

Key insights and perspectives provided by timber exporters and importers beyond those relating to timber legality and forest certification include the following:

- *Importers generally noted the attractive timber characteristics of the primary commercial species available for sawn timber in Solomon Islands. These species, including vitex, akwa, kwila and rosewood, featured a good range of colour and also relatively high levels of durability.*
- *The major limitation on Solomon Islands sawn timber exports is the capacity to supply, and capacity to maintain continuity of supply for selected product specifications.* Timber importers in Australia and New Zealand reported consistently on this finding:
 - Multiple importers observed that the available supply is limiting and the quality of timber products has tended to be unreliable. The quality of delivered product in this context refers to the type (species) of timber delivered, the sawn timber dimensions (consistent with the order specifications, or otherwise), and the nature of the sawing into rough sawn products;
 - The same importers reported that if Solomon Islands sawn timber was more readily available, and also if it was sawn better, they would import more and be prepared to pay more for it.
- *Delivered prices for Solomon Islands' timber exports do not appear to be a significant constraint on market access.*
 - Selected importers in Australia and New Zealand that were contacted as part of this work noted that Solomon Islands timber exports tend to be “cheap” and “good value”, relative to other products with similar timber properties;
 - The limiting factor on export prices was attributed predominantly to the scale of supply, continuity of supply and the quality of the delivered product.

These market sounding perspectives have contributed directly to identifying key market access constraints for Solomon Islands sawn timber products, and opportunities to address these constraints.

4.2 Market Access Constraints and Opportunities

The primary purpose of this scoping work is to identify options to address market access constraints for Solomon Islands sawn timber. For this purpose, key constraints and opportunities were identified and broadly grouped under four broad themes. These themes are:

- The regulatory framework for timber harvesting in Solomon Islands;
- Supply chain development;
- Legality assurance and forest certification systems; and
- Commercial viability of timber export operations.

While the primary focus of this review is on legality assurance and forest certification, the other themes relating to the regulatory framework, supply chain development and the commercial viability of timber export operations are directly relevant as the enablers that underpin and support the development of legality assurance and certification systems.

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4.2.1 Regulatory Framework for Timber Harvesting

Demonstration of verified legal origin and verified legal compliance

The existing regulatory framework for timber harvesting in Solomon Islands appears to provide the basis for determining the legal authority to harvest, and therefore the basis for VLO. The primary instrument for this is the felling licence, issued by the Commissioner for Forests, within the Ministry of Forestry. Landowners seeking to harvest trees on their customary land must apply for a felling licence. The process of determining the legal authority to harvest is a multi-staged process, generally involving a period of public notice; consideration by the relevant Local Area Council; consideration by the Provincial executive committee; and then review by the Commissioner for Forests.¹⁵ Under Solomon Islands law, the holder of a felling licence has the legal authority to harvest.

Scoping note: URS has engaged with the Ministry of Forestry on obtaining copies of felling licences and related licensing documentation, but has not yet had the opportunity to review this documentation.

As such, further work would be required to ascertain the extent to which the felling licence and related documentation would provide a satisfactory basis for determining the legal authority to harvest under internationally recognised timber legality assurance systems.

The strength of the regulatory measures outlined above is weakened by limited monitoring of timber harvesting activities across the provinces. As such, there are limited processes and resources in place for checking felling licences associated with log and sawn timber production. This is due in part to under-resourcing of the Ministry of Forestry's operational staff, leading to a lack of consistency or strength of ongoing verification activities. Indicative of this, forestry officers, who have responsibility for implementing monitoring measures, are required to cover large geographic areas, making enforcement logistically difficult. For example, previous studies have pointed out that only two forestry officers have been designated to oversee all logging activities on Choiseul, which has a land area of 3,000 km².¹⁶ During consultations, the Ministry of Forestry commented that it has a strategy to increase its focus on monitoring and verification of log exports in particular. In support of this strategy, the Ministry advised that it would be appointing additional forestry officers across the provinces. Such measures would demonstrate the Solomon Islands Government's intent and capacity to improve the monitoring controls for timber harvesting and exports.

It is recommended that PHAMA continue to engage with the Ministry of Forestry on its planning and budget allocations to increase focus on monitoring and verification, to the extent that it underpins the integrity of timber legality assurances associated with sawn timber production in the country.

Another point of weakness in the regulatory framework is the lack of clarity around processes and practices for ensuring compliance with the Code of Logging Practice and other forest management regulations applicable to timber harvesting – that is, the basis for determining VLC. Stakeholders consulted for this review indicated that they were not clear on the requirements for demonstrating legal compliance, and there is limited evidence of current practices that would address the requirements of internationally recognised VLC standards.

These observations give rise to the scope for PHAMA to assist the timber industry by facilitating the development of checklists or a toolkit, in conjunction with the Solomon Islands Government and the

¹⁵ Documentation of this application process involves the submission and approval of four separate forms ('Forms 1-4'), which are stipulated in the Forest Resources and Timber Utilization Act.

¹⁶ Brogan, C. and Halton, A. (2010) *FLEGT Information and Fact Finding Mission: Solomon Islands*. The IDL Group.

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Ministry of Forestry, to assist importers and exporters, with a clear reference to requirements for the central elements of timber legality assurance. The intent of developing such checklists would be to confirm the process and documentation required for legality assurance ahead of seeking to establish appropriate auditing and verification processes. The need for such tools was apparent during consultations when, for example, stakeholders referred to felling licences and other approvals, but some sawn timber producers acknowledged they do not take copies of these licences; furthermore, it was not possible to obtain copies of these licences from the Ministry of Forestry during the course of this scoping work.

Target for sawn timber production

The other key aspect of the regulatory framework in relation to sawn timber exports is the legislative requirement for at least 20% of log production to be processed in country.¹⁷ This legislative requirement is arguably a key driver within the existing regulatory framework for sawn timber production and exports. However, this position is undermined by recognition across the forestry sector that sawn timber production is considerably less than this minimum target. This reflects to a large extent the existing structure of the industry, in which there is limited domestic processing capacity, and the strong profit drivers for logging companies to focus on relatively low-cost log exports.

Stakeholders within the forestry sector that referred to this requirement generally did so in acknowledging that there is a lack of alignment between the policy objectives and policy implementation.

The extent to which sawn timber production can be increased up to 20% of log production is largely market constrained and, at present, the economics of exporting logs versus exporting sawn timber appear to be compelling. Given this, it may be appropriate for the Government to simply focus on how to increase sawn timber exports as much as possible. In this context, PHAMA could raise this policy disconnect and propose to the Solomon Islands Government that the target consist of progressive milestones over time.

Proposed activities

Proposed PHAMA activities arising in relation to the **regulatory framework** that supports market access for sawn timber exports are:

- Review the Ministry of Forestry's felling licence and related licensing documentation to assess the extent to which it would provide a satisfactory basis for determining the legal authority to harvest under internationally recognised timber legality assurance systems.
- Develop VLO checklist/toolkit for importers and exporters of Solomon Islands sawn timber.
- Develop VLC checklist/toolkit for importers and exporters, building on VLO processes.
- Propose that the Solomon Islands Government review its legal obligation and policy commitment to support value adding.
- In due course, support the promotion of Solomon Islands' capacity to demonstrate VLO in particular, through appropriate communications at exporter level and intergovernmental forums.

4.2.2 Supply Chain Development

The majority of the logs produced in Solomon Islands, including those from natural forests and industrial plantations, are exported as unprocessed round logs. Only very limited quantities of timber are processed for local use or export.

¹⁷ Citation for this legal requirement is pending.

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However, there are some supply chains in place for sawn timber production and export operations. The nature of these supply chains varies and they include:

- *Dedicated supply chains*: These supply chains are characterised by exclusive (or predominantly exclusive) supply arrangements between land owners and their timber harvesting operations, and the timber processor and exporter based in Honiara. Examples include Lagoon Eco Timbers, Sol Pacific Timber, the Hatanga Group and John Wesley Timber operations. These operations feature timber supply from communities that direct all of their harvested timber to their respective customers in Honiara, which generally buy timber only from one or more selected supply chains.
- *Aggregator supply chains*: These supply chains are characterised by the Honiara-based timber processor and exporter acquiring timber from a range of sources, as it becomes available. Examples include Top Timbers and Timol Timbers.

Currently, the aggregator-based supply chains account for the majority of sawn timber exports from Solomon Islands.

A major challenge facing the sawn timber sector is that multiple separate supply chains have been developed, but they all operate with relatively small volume throughput and inconsistent supply to markets. A number of exporters consulted during this review indicated that they lack the scale and continuity of supply to maintain competitiveness in export markets. There are some exceptions to this – notably Top Timber Company Pty Ltd, which is one of the largest timber producers focused predominantly on exports; and also the proposed Priceworth development at Noro, which is expected to significantly change the flows of sawn timber from the Western Province in particular and significantly increase timber exports overall.

As such, there is scope for PHAMA to explore the potential for an industry working group (based on collaboration and coordination initiatives) or a forum (based on information sharing processes), specifically focussing on market access for sawn timber exports (see *Box 4*).

Box 4 – Formation of an industry working group or forum for the sawn timber sector

It is proposed that PHAMA explore the potential for the formation of an industry working group or forum for the sawn timber sector in Solomon Islands. It is proposed that the working group or forum would be open to all sawn timber producers and exporters, and key government stakeholders such as the Ministry of Forestry and the Ministry of Finance.

As part of its activities, it is envisaged that an industry working group or forum would discuss the scope for coordinating supply to export customers; and conformance to a set of aligned product specifications as a means of improving the consistency and quality of supply. The proposed role for PHAMA would be to facilitate the industry working group in identifying ways to address these issues, rather than seeking to impose solutions or fund the ongoing operation of the group.

In the longer term, it is envisaged that the working group or forum could develop into some form of industry body. The presence of an industry body with a focus on the sawn timber sector in Solomon Islands could provide benefits in the form of ongoing coordination, communication and education relating to market access issues. Such developments would be dependent on the interest and motivation of industry representatives but, if supported, would provide a framework to facilitate the ongoing implementation of any donor-initiated activities in this area. PHAMA would expect that, in the long term, any industry body or equivalent group would need to be self-funding (i.e. operate without Aid funding).

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The main difference between an *industry working group* and *industry body* would be that the industry working group would function primarily as an open forum for information sharing and consultation, whereas an industry body may have specific marketing and coordination functions and/or industry representation roles.

Source: URS

Subject to industry interest in this initiative, PHAMA could initiate and/or facilitate the formation of this working group or forum, through to the stage of establishing a mandate and ongoing funding sources. It is proposed that the working group or forum would consider initiatives and potential industry structures that support increased scale and continuity of supply, thus helping to meet market requirements for legality assurance and product quality and performance in use.

Through collaborative initiatives and information sharing processes, industry members would stand to obtain a better understanding of export market requirements outside existing customer channels.

In addition to key roles in facilitation, PHAMA could assist the working group or forum in determining importer priority for certification or other forms of legality assurance, potentially through facilitating broader engagement between member exporters and importer groups in key export markets such as Australia and New Zealand.

Benefits from improved coordination through such an initiative could include:

- Improved communication within the sector and a focal point for discussions with international markets;
- Reduction in the cost imposed on individual companies of addressing challenges such as those presented by legality verification requirements; and
- Education of producers on commercial contracts and market quality requirements leading to an improved ability to negotiate better prices and sale arrangements.

Proposed activities

Proposed PHAMA activities arising in relation to **supply chain development** that supports market access for sawn timber exports are:

- Explore the potential for an industry working group (collaborative processes) or industry forum (information sharing processes) specifically for sawn timber exports to address market access requirements;
- Initiate and/or facilitate an industry working group or forum specifically for sawn timber exports to address market access requirements timber; and
- Assist the industry working group or forum in determining importer priority for certification or other forms of legality assurance, potentially through facilitating broader engagement between Solomon Islands exporters and importer groups.

4.2.3 Legality Assurance and Forest Certification

Central to this review of market access for sawn timber exports is consideration of current and emerging requirements for legality assurance and forest certification.

Current capacity to supply certified sawn timber

Pioneering models for forest management certification and chain of custody certification have been established over time across Solomon Islands. The most active development in recent years has been centred on forest management programs in the Western Province, and chain of custody systems for

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sawn timber value chains that extend to timber processing and export operations through Honiara. This includes FSC certification for NRDF, MLST and VATA, and the support provided by the EU-FACT project for FSC certification for sawn timber production. In addition, there is substantial prior experience in Solomon Islands with previous programs to support low impact timber export operations – for example, Village Eco-forestry Timber Enterprise (VETE)¹⁸ and forest management certification programs – for example, Solomon Western Island Fair Trade (SWIFT).¹⁹

However, the current production capacity to supply sawn timber that carries legality assurance or forest certification issued by an independent accredited verifier remains negligible. Multiple, separate initiatives have been undertaken, but these are mostly small scale and there have been limited outputs to date in relation to timber export volumes. While there is emerging capacity to obtain Chain of Custody certification through the Honiara export cluster and capacity for expansion through group certification arrangements, the supply of sawn timber (certified or otherwise) is dispersed across multiple provinces, and is uneven and irregular in volume terms.

As noted earlier, there is scope for PHAMA to address this lack of coordinated capacity through the formation and facilitation on an industry working group or forum, to facilitate a better understanding across the forest industry of legality assurance and forest certification. Ideally, this proposed activity would build on existing capacity, such as the VATA model established with the Ministry of Forestry's Timber Utilisation Unit, to aggregate supply of sawn timber resource and to progress towards international certification standards. The working group or forum could, for example, facilitate workshops on market access requirements in relation to forest certification and legality assurance, with a specific focus on capacity to supply and maintain continuity of supply.

VATA is planning to promote sustainable forest management and forest certification through a series of workshops and training sessions in 2013, and this could potentially be extended to a broader industry base.

The costs of certification

Part of the challenge and limitation on certification development in Solomon Islands is the limited capacity of land owners to pay for certification costs, including start-up costs (registration and audits) and ongoing maintenance of certification (e.g. surveillance audits). Additionally, there are associated costs of staff time and training to ensure adequate understanding and implementation of certification requirements.

An associated limitation is that there is currently minimal capacity for verification in Solomon Islands and subsequently auditors must travel from overseas in order to perform certification audits. As noted earlier, these costs form a significant proportion of the cost of certification.

PHAMA, or other programs, could seek to improve verification capacity as a means of reducing the costs of certification. However, a key limitation on such activities would be the as-yet limited

¹⁸ VETE is a not-for-profit organisation that was set up in 1997 as a marketing body with membership from landowners participating in the Solomon Islands Eco-forestry program. VETE has exported timber on behalf of the landowners. VETE retains only 15 percent of the total export value to meet its operational and handling costs, which is not sustainable at the current low export volumes.

¹⁹ The Integrated Human Development Program of the United Church of Solomon Islands set up SWIFT in 1994. Dutch foresters developed SWIFT's Forest Area Management Plan program (FAMP) and its standards, translating and transferring FSC requirements to Solomon Islands community forestry conditions. SWIFT's forest certification program was funded by the International Organization for Development Cooperation (ICCO) based in Netherlands, and provided technical support to forest harvesting, sawn timber processing and grading, and logistics support to community forest management schemes. Due to incompatibility between church and business affairs, and other management problems, SWIFT's program stopped in 2001.

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requirement (or market demand) for certification. It is worth noting that there are recognised certification bodies with offices in Australia and Papua New Guinea and that such organisations would be well placed to develop their capacity in Solomon Islands should there be sufficient demand for their services.

Therefore, it is proposed that the most appropriate type of intervention for PHAMA or other programs would be to improve the local capacity for provision of 'certification support'. This may involve, for example, employment of an extension officer with a focus on certification; or training for selected individuals in undertaking gap assessments against certification requirements and then supporting organisations in implementing the systems and processes necessary to achieve certification. Given the role of the SPC FACT project in actively promoting FSC certification, there may be scope for such certification support to be provided through the IACT program. It is recommended that PHAMA engage with IACT to discuss the possibility of the provision of such support.

Government engagement in legality verification

In addition to the lack of supply, fragmented supply chain development and the costs of certification, there is currently no substantive Solomon Islands Government engagement in international policy dialogue on restricting trade of illegally logged timber and the development of legality assurance frameworks. This stands as a major limitation on the development of a framework within Solomon Islands, and access to support from bilateral partners or multilateral forums.

It is therefore proposed that PHAMA consider its scope to **explore the potential with regional partners (e.g. Australia and New Zealand) for intergovernmental engagement on a bilateral or multilateral partnership model for developing a legality assurance system for Solomon Islands**. This could be related to or otherwise based on the EU FLEGT processes and specifically the VPA model established between the EU and producer countries such as Ghana, Cameroon, Indonesia and Malaysia. Under the FLEGT processes and the VPA model, the EU has provided funding, technical support and other forms of support for VPA partner countries to develop a legality assurance system that meets with acceptable standards for the EU.

It is proposed that PHAMA could assist the Solomon Islands Government with exploring the potential for a similar model with its major trading partner countries, such as Australia or New Zealand. PHAMA assistance could include initiation and/or facilitation of intergovernmental engagement with regional partners for development of a bilateral or multilateral partnership model for developing a timber legality assurance system for Solomon Islands. This may involve, for example, a phased approach to the introduction of consistent standards and reporting, in close consultation with the timber industry.

In the first instance, it is proposed that PHAMA should explore this scope further with the following:

- Solomon Islands Government – Ministry of Forestry;
- Australian Government – Department of Agriculture, Fisheries and Forestry (DAFF) in Canberra;
- New Zealand Government – High Commissioner in Honiara; and
- EU – representative in Honiara.

A key aspect of this proposed activity is the importance of recognition at the intergovernmental level that regional trading partners are working together to support timber legality programs as a means of restricting the trade of timber sourced from illegal logging. For example, Australia has a policy commitment to address this issue and a central component of its policy actions is the introduction of the Illegal Logging Prohibition Act, which requires timber importers to use due diligence in ensuring

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that the timber they import is not sourced from illegal logging. In this context, the Australian Government may seek to engage further with its regional trading partners, such as Solomon Islands, to promote legality verification and support the development of systems that will strengthen the regulatory framework for timber trade between the countries.

This could incorporate detailed testing of the application of Australia's forthcoming regulations under the new Act, when they are tabled in May/June 2013. This testing may provide a valuable feedback loop for the Australian Government, as well as strengthen the understanding and capacity within Solomon Islands of timber legality assurance requirements.

It is important to note there are two other donor-funded programs operating in the region with related objectives. As outlined above, the EU-funded FACT program has facilitated development of certification of smallholder interests across Pacific nations, including Solomon Islands. The FACT program was scheduled to conclude at the end of 2012, with a range of its initiatives transferred and continued under the IACT programme now underway. However, the extent to which IACT will focus on or otherwise address forest management certification requirements in the way that FACT has previously is not yet clear. This suggests that PHAMA may be able to assist with some form of bridging role, and project extension, to leverage the EU funding for forestry projects in this region.

In addition, a two-year PARDI program funded by ACIAR is currently underway on investigating models for coordinating the sale of smallholder plantation logs, notably teak. This project will incorporate substantive work on value chain analysis for logs and timber products produced by smallholder interests. Based on engagement with PARDI project staff during this review, there would be clear linkages between this work and further program support under IACT and/or PHAMA to support timber legality assurance and certification.

Another opportunity for PHAMA to assist the Solomon Islands timber industry with market access is the bringing together of relevant examples or reference models from other developing countries that have principally exported in round wood (log) form, but have moved to establish a competitive domestic processing sector with sawn timber exports. This would be useful for lessons learnt, at the national level and also at the local, on-ground level, in relation to the nature of landowner arrangements and the development of operational logistics. PHAMA could potentially assist with identifying and assessing comparable models from other developing countries, either directly or with potential funding entities such as IACT or PARDI.

Proposed activities

Proposed PHAMA activities arising in relation to **legality assurance and forest certification** that supports market access for sawn timber exports are:

- Through the industry working group or forum (see also under '*supply chain development*'), facilitate better understanding across forest industry of legality assurance and forest certification;
- Engage with IACT to explore the potential for provision of certification support services in Solomon Islands;
- Explore the potential with regional partners (e.g. Australia and New Zealand) for intergovernmental engagement on a bilateral or multilateral partnership model for developing a legality assurance system for Solomon Islands;
- Initiate and/or facilitate intergovernmental engagement with regional partners for development of a bilateral or multilateral partnership model for developing a timber legality assurance system for Solomon Islands;
- Assist the Solomon Islands Government and the Australian Government with detailed testing of the application of Australia's forthcoming regulations for timber legality assurance, in relation to

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sawn timber imports into Australia from Solomon Islands;

- Engage with the Ministry of Forestry, the Timber Utilisation Unit and other entities on potential funding arrangements available to encourage and facilitate certification for legality assurance and forest management; and
- Identify and assess comparable models from other countries that have actively promoted a shift to increased domestic timber processing, directly or with other potential funding entities.

4.2.4 Commercial Viability

This project has focussed primarily on the development of forest certification to enhance market access for exports of value-added timber products from Solomon Islands.

However, enhanced market access will also depend on other factors. These include:

- The attributes of sawn timber compared to other timber products of a comparable value;
- The scale of supply; and
- The reliability of supply.

These technical and commercial factors cannot be overlooked. International trade in hardwood timber is highly competitive and Solomon Islands is a small producer country with limited market power.

Furthermore, there is some level of dependence between the commercial factors and legality assurance in particular. Notably, there is a cost to producers in obtaining legality assurance, including the set up for certification, registration, auditing processes, and ongoing inputs to demonstrate conformance to applicable standards. This cost is borne along the supply chain and can affect the competitiveness of the product in end-use markets. If this cost is greater than can be borne by industry participants along the supply chain, the commercial viability becomes the key constraint on market access.

In this context, an important strength or advantage for the Solomon Islands timber industry is that the logs and timber production, from natural forests and smallholder plantation interest, generally comprise species that are highly regarded and valued in international (export) markets. Species such as vitex (*Vitex cofassus*), akwa (or taun, *Pometia pinnata*), kwila (or merbau, *Intsia bijuga*) and rosewood (*Pterocarpus indicus*) account for a large proportion of current sawn timber production.

However, there is very limited scale to production at present, which constrains export volumes, continuity of supply, and also supply chain efficiency and competitiveness in export markets. This leads in turn to uncertainty for some smaller timber producers in relation to the benefits of pursuing export markets, particularly when the local (domestic) market can absorb most of their production.

Underlying these challenges to establishing competitive supply chains is the fragmented forest resource base, spread across a range of islands, and relatively high fuel costs for domestic transport, including inter-island shipping of cargo. There is limited infrastructure to support inter-island shipping of timber products in such a way as to provide low-cost, regular shipping to the export ports at Honiara or Noro. These production-related considerations are beyond the scope of PHAMA; however, they are important considerations in the context of the sawn timber competitiveness in export markets.

Most importantly for Solomon Islands is the apparent need to explore models for aggregation of sawn timber exports, to increase the scale of supply and the capacity to maintain continuity of supply. Coordinated aggregation should also lead to more consistent product specification and quality of delivered products. The proposed approach to exploring alternative aggregation models is through the

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formation and/or facilitation of an industry working group, or forum, as outlined in the context of supply chain development.

The PARDI program that is focussed on smallholder plantation teak in the Western Province will also have an interest in exploring models for aggregation. It is understood that PARDI will have a more specific focus than PHAMA, but there will be complementarity between the programs in this area.

While inter-island shipping infrastructure is limited at present, there is infrastructure capacity to support increased container exports through the ports at Honiara and Noro. Furthermore, the Solomon Islands Ports Authority has advised that, based on regional benchmarking assessments, its port handling and wharfage fees are among the most competitive across the Pacific region.

The only constraint on market access beyond port handling and loading operations at Honiara or Noro is the variable cost of fumigation required for sawn timber products destined for various export markets. Currently, exports of sawn timber to Australia carry a significantly higher cost of biosecurity measures than, for example, New Zealand, largely due to Australia's requirement for fumigation treatment to be provided only by service providers that are accredited by the Australian Government and the fact that at present there is only one service provider accredited in Solomon Islands. This market access issue is already being addressed under the PHAMA program, and should reduce the cost differential between sawn timber exports to Australia and other export markets.

Proposed activities

Proposed PHAMA activities arising in relation to **commercial viability** that supports market access for sawn timber exports are:

- Explore models for aggregation of sawn timber exports, across species and dimensions, through industry working group or forum (refer 'supply chain development' above); and
- Technical assistance in grading and presenting timber products for domestic and export uses.

4.3 Summary

A summary of proposed activities and linkages under each of these themes is presented in Table 4-1. These form the basis of a proposed set of options for proposed activities that could be undertaken in the next six months, i.e. under the current PHAMA Phase 1 program, and beyond, either as part of the PHAMA Phase 2 program or with other implementing partners. This proposed set of options is presented in Chapter 5.

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Table 4-1 Summary of market access requirements for sawn timber exports

	Strengths	Constraints or weaknesses	Potential activities	Linkages
Regulatory framework	<ul style="list-style-type: none"> Framework exists essentially for demonstration of VLO 	<ul style="list-style-type: none"> Monitoring of timber harvesting activity across the provinces is limited, and monitoring processes constrained by limited funding for authorised officers Audit trail for forest certification and chain of custody of timber products is generally weak Framework for demonstrating VLC is not clear, as it currently relies on independent audit to review compliance with Code of Logging Practice and conformance with forest management plan Documentation processes for forest management and chain of custody are constrained by technology limitations 	<ul style="list-style-type: none"> Continue to engage with the Ministry of Forestry on its planning and budget allocations to increase focus on monitoring and verification In conjunction with the Ministry of Forestry, develop a legality verification (VLO) checklist or toolkit for Solomon Islands exporters and importers in key export markets In conjunction with the Ministry of Forestry in particular, develop a VLC checklist or toolkit for Solomon Islands exporters and importers in key export markets, building upon VLO processes Support the promotion of Solomon Islands' capacity to demonstrate VLO in particular, through appropriate communications at exporter level and intergovernmental forums 	<ul style="list-style-type: none"> Australian Government and other bilateral partners' development of proof of legality requirements Australian Government and other bilateral partners' development of proof of legality requirements Bilateral and multilateral regional programs to restrict trade in illegal timber
	<ul style="list-style-type: none"> Legislative requirement for at least 20% of log production to be processed in country 	<ul style="list-style-type: none"> The requirement for at least 20% of log production to be processed domestically is apparently not being met, nor is there monitoring or other initiatives designed to ensure it is met 	<ul style="list-style-type: none"> Propose consideration within the Solomon Islands Government of the need to review the legislative requirement for at least 20% of log production to be processed in-country, and the alignment of this with industry development 	<ul style="list-style-type: none"> Ministry of Forestry objectives for VATA and Timber Utilisation Unit; also, Ministry of Finance's Economic Reform Unit, which may assist with consideration of legislative issues in particular

Source: URS

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	Strengths	Constraints or weaknesses	Potential activities	Linkages
Supply chain development	<ul style="list-style-type: none"> Some dedicated supply chains for sawn timber production and export have been developed 	<ul style="list-style-type: none"> The production of sawn timber in Solomon Islands is currently less than 1% of total log production 	<ul style="list-style-type: none"> Explore the potential for an industry working group (collaborative processes) or industry forum (information sharing processes) specifically for sawn timber exports to address market access requirements 	<ul style="list-style-type: none"> VATA model established with the Ministry of Forestry's Timber Utilisation Unit to aggregate supply of sawn timber resource and to progress towards international certification standards
	<ul style="list-style-type: none"> Recent investment in a new value-adding facility near Noro port, based on sawmilling and rotary peeled veneer production from hardwood logs 	<ul style="list-style-type: none"> Multiple, separate supply chains have developed, but all with small volume throughput and inconsistent supply Most timber exporters lack the scale of supply and continuity of supply to maintain competitiveness in export markets There is limited coordination of timber products from smallholder (village) projects (certified or non-certified) 	<ul style="list-style-type: none"> Initiate and/or facilitate an industry working group or forum specifically for sawn timber exports to address market access requirements Specifically, the industry working group or forum should consider initiatives and potentially industry structures that support increased scale and continuity of supply that meets market requirements for legality assurance and product quality and performance in use 	<ul style="list-style-type: none"> PHAMA and industry marketing structures established and operating for other sectors; and Further consideration of potential for other donor bilateral programs to support the development of production and supply
	<ul style="list-style-type: none"> Some export customer channels have been developed over time, to Australia and New Zealand in particular 	<ul style="list-style-type: none"> Limited understanding of export market requirements outside existing customer channels Some export customers (notably Australia) requesting FSC (Sustainable Forest Management) certification as a pre-condition for imports 	<ul style="list-style-type: none"> Assist the industry working group or forum in determining importer priority for certification or other forms of legality assurance, potentially through facilitating broader engagement between Solomon Islands exporters and importer groups (including workshops and face-to-face meetings in country, and potentially trade missions) 	<ul style="list-style-type: none"> ACIAR PARDI project (2 years) investigating model for coordinating sale of smallholder plantation logs Agricultural Livelihoods Program provided strategies in 2010 for marketing of 'responsible timber' (effectively FSC certified)

Source: URS

4 Market Access Requirements for Sawn Timber Exports

	Strengths	Constraints or weaknesses	Potential activities	Linkages
Legality assurance and forest certification	<ul style="list-style-type: none"> Pioneering models for Sustainable Forest Management / Chain of Custody certification have been established in Western Province and Honiara 	<ul style="list-style-type: none"> Capacity to supply sawn timber that carries legality assurance or forest certification is effectively zero 	<ul style="list-style-type: none"> Facilitate better understanding across forest industry of legality assurance and forest certification, preferably through the industry working group or forum (refer above) Engage with IACT to explore potential for provision of certification support services in Solomon Islands 	<ul style="list-style-type: none"> VATA model established with the Ministry of Forestry's Timber Utilisation Unit to aggregate supply of sawn timber resource and to progress towards international certification standards
	<ul style="list-style-type: none"> Country experience from previous programs to support timber exports (e.g. VETE) and certification (e.g. SWIFT) 	<ul style="list-style-type: none"> Multiple, separate initiatives have been undertaken, but mostly small scale and limited outputs in relation to timber export volumes Absence of Solomon Islands Government engagement in international policy dialogue on restricting trade of illegally logged timber and the development of legality assurance frameworks 	<ul style="list-style-type: none"> Facilitate forums and workshops on market access requirements in relation to forest certification and legality assurance, preferably through the industry working group or forum Explore the potential with regional partners (e.g. Australia and New Zealand) for intergovernmental engagement on a bilateral or multilateral partnership model for developing a legality assurance system for Solomon Islands Initiate and/or facilitate intergovernmental engagement with regional partners for development of a bilateral or multilateral partnership model for developing a timber legality assurance system Assist with detailed testing of the application of Australia's forthcoming regulations for timber legality assurance to sawn timber imports from Solomon Islands 	<ul style="list-style-type: none"> VATA plans to promote Sustainable Forest Management and certification via workshops and training sessions in 2013 EU FLEGT model, e.g. VPAs established by EU with various producer countries Timber Legality Verification Systems have been developed at a national level in a range of countries

Source: URS

4 Market Access Requirements for Sawn Timber Exports

	Strengths	Constraints or weaknesses	Potential activities	Linkages
Legality assurance and forest certification (... cont.)	<ul style="list-style-type: none"> Emerging capacity to obtain chain of custody certification through Honiara export cluster and capacity for expansion through group certification arrangements 	<ul style="list-style-type: none"> Supply of non-certified sawn timber is dispersed across multiple provinces, and is uneven and irregular in volume terms Limited coordination of timber products from smallholder (village) projects (certified or non-certified) Limited capacity to pay for certification costs, including start-up costs (registration and audits) and ongoing maintenance of certification (e.g. surveillance audits) Limited examples or reference models from other countries to provide lessons learnt in relation to developing a sawn timber sector in developing countries with predominantly log exports 	<ul style="list-style-type: none"> Engage with the Ministry of Forestry, the Timber Utilisation Unit and other entities on potential funding arrangements available to encourage and facilitate certification for legality assurance and forest management Identify and assess comparable models from other countries that have actively promoted a shift to increased domestic timber processing, directly or with other potential funding entities 	<ul style="list-style-type: none"> FACT/IACT Program has facilitated development of certification of smallholder interests; potential role for PHAMA in bridging the transition between FACT and IACT, recognising the IACT is ongoing Ongoing local programs (e.g. VATA, NRDF and MLST) to facilitate community forestry based on sawn timber production, and potentially certification FACT/IACT program has facilitated development of certification of smallholder interests to date VATA association model established with the Ministry of Forestry's Timber Utilisation Unit International Tropical Timber Organisation research and publications relating to value adding for tropical hardwoods

Source: URS

4 Market Access Requirements for Sawn Timber Exports

	Strengths	Constraints or weaknesses	Potential activities	Linkages
Commercial viability	<ul style="list-style-type: none"> Production of high value and sought-after species in international (export) markets 	<ul style="list-style-type: none"> Limited scale at present, which constrains: <ul style="list-style-type: none"> — Export volumes; — Continuity of supply; and — Supply chain efficiency and competitiveness in export markets Uncertain benefit of export versus domestic markets 	<ul style="list-style-type: none"> Explore models for aggregation of sawn timber exports, across species and dimensions, through the industry working group or forum 	<ul style="list-style-type: none"> Refer linkages identified above under 'supply chain development' in relation to formation of an industry working group or forum
	<ul style="list-style-type: none"> Infrastructure capacity to support increased container exports through ports at Honiara/Noro 	<ul style="list-style-type: none"> Fragmented resource spread across range of islands, and relatively high fuel costs for domestic transport 	<ul style="list-style-type: none"> <i>Production issues are beyond scope of PHAMA program</i> 	<i>Nil identified</i>
	<ul style="list-style-type: none"> Port handling and wharfage fees at Honiara/Noro among the most competitive across Pacific region 	<ul style="list-style-type: none"> Limited inter-island shipping cargo capacity Multiple, separate supply chains have developed, but all with small volume throughput and inconsistent supply Exports to Australia carry relatively high cost of fumigation Most timber exporters have limited capacity to carry extended terms of trade associated with exports, especially delays to payment for goods delivered 	<ul style="list-style-type: none"> <i>Production issues are beyond scope of PHAMA program</i> Provide training to support more service providers to attain accreditation for fumigation services <i>Financing issues are beyond scope of PHAMA program</i> 	<ul style="list-style-type: none"> <i>Nil identified</i> PHAMA program to address accredited fumigation capacity in Solomon Islands PHAMA program and industry marketing structures established and operating for other sectors

Source: URS

Options to Address Market Access Requirements

A series of options, represented by proposed activities, to address market access requirements for the sawn timber sector in Solomon Islands are presented below. The presentation of these proposed activities takes into consideration the fact that the current PHAMA Phase 1 program will conclude in mid-2013; while the Phase 2 program is under consideration, it is yet to be confirmed.

5.1 Overview of Options

Options for project activities that could be undertaken under the PHAMA Phase 1 program, i.e. in the next six months, are outlined in Table 5-1, while options that would follow are outlined in Table 5-2.

Table 5-1 Proposed activities for PHAMA under Phase 1 program (2013)

Theme	Activities
<i>Supply chain development</i>	<ul style="list-style-type: none"> • Explore the potential for an industry working group (collaborative processes) or industry forum (information sharing processes) specifically for sawn timber exports to address market access requirements
<i>Regulatory framework</i>	<ul style="list-style-type: none"> • Engage with the Ministry of Forestry on its planning and budget allocations to increase focus on monitoring and verification • Support the promotion of Solomon Islands' capacity to demonstrate VLO in particular, through appropriate communications at exporter level and intergovernmental forums • In conjunction with the Ministry of Forestry, develop a legality verification (VLO) checklist or toolkit for Solomon Islands exporters and importers in key markets • In conjunction with the Ministry of Forestry, develop a VLC checklist or toolkit for Solomon Islands exporters and importers in key markets, building on VLO processes
<i>Legality assurance and certification</i>	<ul style="list-style-type: none"> • Engage with IACT to explore the potential for provision of certification support services in Solomon Islands

Source: URS

Table 5-2 Proposed activities for PHAMA under Phase 2 program (2013–2016)

Theme	Activities
<i>Supply chain development</i>	<ul style="list-style-type: none"> • Initiate and/or facilitate an industry working group or forum specifically for sawn timber exports to address market access requirements
	<ul style="list-style-type: none"> • Assist the industry working group or forum in determining importer priority for certification or other forms of legality assurance, potentially through facilitating broader engagement between Solomon Islands exporters and importer groups.
<i>Regulatory framework</i>	<ul style="list-style-type: none"> • Propose consideration within the Solomon Islands Government of the need to review the legislative requirement for at least 20% of log production to be processed in-country, and the alignment of this with current industry development
<i>Legality assurance and certification</i>	<ul style="list-style-type: none"> • Through the industry working group or forum, facilitate better understanding across forest industry of legality assurance and forest certification
	<ul style="list-style-type: none"> • Explore the potential with regional partners (e.g. Australia and New Zealand) for intergovernmental engagement on a bilateral or multilateral partnership model for developing a legality assurance system for Solomon Islands
	<ul style="list-style-type: none"> • Initiate and/or facilitate intergovernmental engagement with regional partners for development of a bilateral or multilateral partnership model for developing a timber legality assurance system for Solomon Islands

5 Options to Address Market Access Requirements

Theme	Activities
	<ul style="list-style-type: none"> Engage with the Ministry of Forestry, the Timber Utilisation Unit and other entities on potential funding arrangements available to encourage and facilitate certification for legality assurance and forest management
	<ul style="list-style-type: none"> Assist with detailed testing of the application of Australia's forthcoming regulations for timber legality assurance to sawn timber imports from Solomon Islands
	<ul style="list-style-type: none"> Identify and assess comparable models from other countries that have actively promoted a shift to increased domestic timber processing, directly or with other potential funding entities
<i>Commercial viability</i>	<ul style="list-style-type: none"> Explore models for aggregation of sawn timber exports, across species and dimensions, through the industry working group or forum

Source: URS

5.2 Outline of Proposed Activities and Key Tasks

For the purpose of providing specific guidance on the implementation of options, during the PHAMA Phase 1 program in particular, Table 5-3 sets out a more detailed activity matrix for each of the proposed activities, incorporating key tasks, proposed implementation partners, the indicative project inputs required and direct costs involved.

In relation to the proposed activities for a PHAMA Phase 2 program: firstly, it is important to recognise this extension of the program is not yet confirmed, and secondly, these activities will depend to a large extent on the outcomes of the Phase 1 activities. In this context, the proposed activities are scoped below and presented in Table 5-4. This scoping does not feature the same level of detail on key tasks; it is recommended that these activities and tasks are reviewed pending the outcomes of Phase 1.

Table 5-3 Proposed key tasks associated with PHAMA Phase 1 activities

Phase 1 activities and key tasks	Implementing partners ¹	Indicative inputs (days) ²	Nature of direct costs
<p>Explore the potential for an industry working group (collaborative processes) or industry forum (information sharing processes) specifically for sawn timber exports to address market access requirements</p> <ul style="list-style-type: none"> Convene workshop to (i) communicate outcomes from SOLS10 work to date and (ii) raise the possibility of an industry working group. Envisaged as an initial 1 day forum potentially supported by PHAMA, SPC/IACT in the context of challenges facing the sector e.g. maintaining competitiveness in markets and requirements to demonstrate legality. Follow up activities regarding potential formation of an industry working group. Facilitate and participate in preliminary industry working group discussions, including reporting. 	<p>Ministry of Forestry, VATA, IACT</p> <p>Industry working group</p> <p>Industry working group</p>	<p>20–30 (total)</p> <p>10–15</p> <p>5</p> <p>5–10</p>	<ul style="list-style-type: none"> Workshop venue hire Catering Travel costs for attendees Local liaison Local liaison
<p>Support the promotion of Solomon Islands' capacity to demonstrate VLO in particular, through appropriate communications at the exporter level and intergovernmental forums</p>		<p>20 (total)</p>	

5 Options to Address Market Access Requirements

Phase 1 activities and key tasks	Implementing partners ¹	Indicative inputs (days) ²	Nature of direct costs
<ul style="list-style-type: none"> Initiate and contribute to appropriate forums with the aim of increasing awareness of market access issues and international market requirements, e.g. PARDI workshops aimed at smallholder teak plantation owners in Western Province Engage with the Ministry of Forestry on its planning and budget allocations to increase focus on monitoring and verification; specifically, confirming its importance to support for timber legality verification, and therefore other proposed activities Discuss with the Ministry of Forestry how it envisages exporters could demonstrate their compliance with VLO and raise possibility of PHAMA discussing this with (for example) DAFF and AusAID. In conjunction with the Ministry of Forestry if possible, engage with DAFF in Canberra to communicate the Ministry's perspectives in regard to demonstrating VLO in Solomon Islands; communicate response to Ministry of Forestry, as needed. Engage with AusAID in Canberra to communicate the perspectives of the Ministry of Forestry with regard to demonstration of VLO from Solomon Islands. Communicate key perspectives to Ministry of Forestry. <i>Note: there may be scope to align with timing for engagement with DAFF.</i> 	PARDI, IACT, VATA	10 (dependent on forums attended)	<ul style="list-style-type: none"> Domestic travel costs
	Ministry of Forestry	3	<ul style="list-style-type: none"> Local liaison
	Ministry of Forestry	3	<ul style="list-style-type: none"> Local liaison
	DAFF	2	<ul style="list-style-type: none"> International travel costs
	AusAID	2	<ul style="list-style-type: none"> International travel costs
<p>In conjunction with the Ministry of Forestry, scope and develop a legality verification (VLO) checklist or toolkit for Solomon Islands exporters and importers in key export markets</p> <ul style="list-style-type: none"> Discuss the scope and objectives for the checklists with the Ministry of Forestry. Facilitate the development of the checklist/s for review by the Ministry of Forestry. Engage with timber legality verification experts for input to and review of draft checklists, as required. Distribute and communicate finalised checklist to representatives of the sawn timber sector. Communicate and distribute finalised checklist to representatives of key timber trading partners, including (for example) industry and Government stakeholders in both Australia and New Zealand. 	<p>Ministry of Forestry</p> <p>Ministry of Forestry</p> <p>IACT (Certification specialists)</p> <p>Industry working group</p> <p>Ministry of Forestry, DAFF, New Zealand Ministry of Primary Industries</p>	<p>20–25 (total)</p> <p>2–5</p> <p>8</p> <p>2</p> <p>5</p> <p>3–5</p>	<ul style="list-style-type: none"> Local liaison Local liaison International expert inputs Industry workshop Local liaison

5 Options to Address Market Access Requirements

Phase 1 activities and key tasks	Implementing partners ¹	Indicative inputs (days) ²	Nature of direct costs
<p>In conjunction with the Ministry of Forestry, scope and develop a VLC checklist or toolkit for Solomon Islands exporters and importers in key export markets, building upon VLO processes</p> <ul style="list-style-type: none"> This activity could be undertaken in conjunction with the VLO checklist with additional time required. 	Ministry of Forestry	5 (total) 5	<ul style="list-style-type: none"> Local liaison
<p>Engage with IACT to explore the potential for provision of certification support services in Solomon Islands</p> <ul style="list-style-type: none"> Engage with IACT to discuss ongoing activities to promote certification in Solomon Islands and the scope for providing extension or 'certification support' services, in support of private sector functions 	IACT	5 (total) 5	<ul style="list-style-type: none"> Local liaison
Total		70–85	

Source: URS

Notes:

- Proposed implementation partners include the following: Solomon Islands Government; Solomon Islands' Ministry of Forestry; DAFF; New Zealand Ministry of Primary Industries; and the industry working group, proposed in this report.
- Indicative inputs (days) represent total days required to manage the full task and report on outcomes.

Table 5-4 Proposed key tasks associated with PHAMA Phase 2 activities

Phase 2 activities	Implementing partners ¹	Indicative project days ²	Indicative direct costs ³
<ul style="list-style-type: none"> Initiate and/or facilitate the industry working group or forum specifically for sawn timber exports to address market access requirements 	Ministry of Forestry, DAFF (Australia), New Zealand Ministry of Primary Industries (New Zealand), Industry working group	40–80	Medium
<ul style="list-style-type: none"> Through the industry working group or forum (refer above), facilitate better understanding across forest industry of legality assurance and forest certification 	IACT, PARDI, VATA	5–15	Low
<ul style="list-style-type: none"> Assist the industry working group or forum in determining importer priority for certification or other forms of legality assurance, potentially through facilitating broader engagement between Solomon Islands exporters and importer groups (including workshops and face-to-face meetings in country, and potentially trade missions) 	IACT, PARDI, VATA	10–40	Low
<ul style="list-style-type: none"> Explore models for aggregation of sawn timber exports, across species and dimensions, through the industry working group or forum 	Industry working group, VATA	20–40	Medium

5 Options to Address Market Access Requirements

Phase 2 activities	Implementing partners ¹	Indicative project days ²	Indicative direct costs ³
<ul style="list-style-type: none"> Explore the potential with regional partners (e.g. Australia and New Zealand) for intergovernmental engagement on a bilateral or multilateral partnership model for developing a legality assurance system for Solomon Islands 	Ministry of Forestry, DAFF, New Zealand Ministry of Primary Industries, AusAID, New Zealand Air Programme, Industry working group	25+	Low
<ul style="list-style-type: none"> Initiate and/or facilitate intergovernmental engagement with regional partners on a bilateral or multilateral partnership model for developing the timber legality assurance system. It is proposed this activity would build upon the checklists developed during Phase 1 and could encompass further support for: <ul style="list-style-type: none"> Systems and processes; Project and model documentation; and Training requirements to implement a legality assurance system for Solomon Islands. 	Ministry of Forestry, DAFF, New Zealand Ministry of Primary Industries, Industry working group	50–100	High
<ul style="list-style-type: none"> Assist with detailed testing of the application of Australia's forthcoming regulations for timber legality assurance to sawn timber imports from Solomon Islands 	Ministry of Forestry, DAFF	10–30	Low
<ul style="list-style-type: none"> Engage with the Ministry of Forestry, the Timber Utilisation Unit and other entities on potential funding arrangements available to encourage and facilitate legality assurance and forest management certification 	Ministry of Forestry, VATA, IACT	20–40	Low
<ul style="list-style-type: none"> Identify and assess comparable models from other countries that have actively promoted a shift to increased domestic timber processing, directly or with other potential funding entities 	IACT, EU, PARDI, Ministry of Forestry	15–20	Low
<ul style="list-style-type: none"> Propose consideration within the Solomon Islands Government of the need to review the legislative requirement for at least 20% of log production to be processed in-country 	Ministry of Forestry, Solomon Islands Government, Regional Assistance Mission to Solomon Islands (RAMSI) (Governance), Ministry of Finance	5	Low
Total		200–395	

Source: URS.

Notes:

- Proposed implementation partners include the following: Solomon Islands Government; Solomon Islands' Ministry of Forestry; DAFF; New Zealand Ministry of Primary Industries; and the industry working group, proposed in this report.
- Indicative inputs (days) represent total days required to manage the full task and report on outcomes.
- Indicative cost range based on: High (>A\$500,000); Medium (A\$100,000–250,000); Low (<A\$100,000).

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Appendix A Project Consultation List

The following organisations and representatives were consulted during the development of this discussion paper for the PHAMA SOLS10 project.

Organisation	Representative
AusAID	Luke Simmons, Rural Development Specialist
Bank of South Pacific	Mark Corcoran, Country Manager
Central Bank of Solomon Islands	Donald Kiriau, Economics, Research and Statistics Department
	Elizabeth, Economics, Research and Statistics Department
	John Rohi, Economics, Research and Statistics Department
Development Services Exchange	Lili Chekana, Deputy General Manager
EU Aid Program	Elisabeth Gotschi, Attaché – Rural Development, EU Delegation
EU FACT project	Gideon Bouru, Trade Facilitation Assistant (Melanesian Forestry)
	Richard Laity, Regional Manager Burapha AgroForestry Co.
	Hamish Crawford, Director Cailum Pty Ltd, Lead Auditor WoodMark
Global Timber Solutions	Mark Farmer
Hatanga Group of Companies	Ringo, Sales Manager
John Wesley Timbers Ltd	Charlie Wesley, Manager
Kolombangara Forest Products Limited	Peter Whitehead, General Manager
Lagoon Eco Timber	Ridol Gebe, Manager
Live and Learn	<i>To be confirmed</i>
Ministry of Finance	Katherine Tuck, Senior Advisor Economic Reform Unit
	Richard Brennan, Deputy Comptroller, Customs and Excise Division
Ministry of Forestry	Jeffery Wickham, Permanent Secretary
	Peter, Provincial Forestry Substation, Gizo
Ministry of Forestry – Timber Utilisation Unit	Julias Houria, Joseph Tavuata
NRDF	Wilko Bosma
	Stephen Suuti
	Marlon Kuve
New Zealand High Commission	Jonathan Schwass, Deputy High Commissioner
	Matthew Howell, First Secretary – Development
PARDI	Craig Johns, Value Chain Specialist (Adelaide University)
	Professor Tim Blumfield, Griffith University
PHAMA	Dale Hamilton, Quarantine and Biosecurity Specialist
	Andrew Sale, National Market Access Coordinator (Solomon Islands)
Rosenfeld Kidson	David Liggins, Proprietor
Sol Pacific Timber	Philip Zetu, Managing Director
Solomon Islands Ports Authority	William Bartle, Chief Executive Officer
	Glyn Joshua, Operations Manager
South Pacific Timbers	Chris Vincent, Director
Timol Timber	Nanette Tutua, Managing Director
VATA	Eric Tolilalo, Yard Manager

Appendix B Overview of the Solomon Islands Forest Industry

B.1 Natural Forests

Harvesting of timber from natural forests is the dominant practice within the sector and has provided substantial economic benefit to the country and landowners. Total log production was at an all-time high of 1.9 million m³ during 2011.²⁰ The vast majority of this harvest is exported as round logs, with comparatively small amounts of sawn timber sold into the domestic market or exported. Harvesting activity has typically been concentrated in Western Province and Isabel. During 2011, these provinces represented 60% of total log production, with the remainder coming mainly from Makira, Guadalcanal, Malaita and Choiseul.²¹

Nearly all native forest harvesting occurs on customary land, where landowners and communities are legally responsible for decisions regarding forest management, with limited input from government. The process for harvesting typically involves a community entering into an arrangement with a logging company to undertake harvesting on their land for an agreed payment. The logging company then undertakes harvesting and construction of associated infrastructure (e.g. roads, log landings and wharfs) and arranges for the sale (usually export) of the logs. Some key features of such arrangements are that communities have minimal involvement in actual harvesting operations, and that the involvement of a logging company ceases once logs are harvested and sold. Few companies have any involvement in regeneration or post-harvest forest management.

An alternative framework for harvesting of natural forests is for communities to manage and undertake harvesting themselves; however, this is being used in only a small number of cases. Such management gives communities greater control of their forest resources but reduced financial benefits in the short term. Harvesting is at low intensity and is often accompanied by some form of timber processing; communities either use portable milling equipment, or sell logs to a mobile processor or aggregator of small timber volumes. This approach can have improved environmental and social outcomes and supply local timber requirements, but there are limitations on the size of immediate financial returns.

B.2 Plantations

During 2011, plantations accounted for 85,000 m³ (or 4.5%) of the total volume of logs that were exported from Solomon Islands.

The plantation sub-sector is dominated by two main industrial scale holdings in the Western Province. These operate on government land on long-term fixed estate lease arrangements – Kolombangara Forest Products Limited, on Kolombangara Island, and Eagon Pacific Plantations Limited, on New Georgia. Both sell round logs to customers in Asian markets and have FSC forest management certification.

The two companies are of similar scale. Kolombangara Forest Products Limited manages around 15,000 hectares of plantations and has around 150 full-time employees; Eagon manages around 10,000 hectares of plantations with around 120 full time employees.²² Both companies also employ contractors and temporary or part-time workers.

In addition to these two operations, there are a large number of small-scale village and community based plantings distributed across the nation, although predominantly in Western Province and

²⁰ Central Bank of Solomon Islands (2011) *Annual Report 2011*

²¹ Central Bank of Solomon Islands (2011) *Annual Report 2011*

²² Soil Association WoodMark (2012) *Woodmark Forest Certification Public Report, Kolombangara Forest Products Limited, and Soil Association WoodMark (2012) Woodmark Forest Certification Public Report, Eagon Pacific Plantations Limited*

Appendix B – Overview of the Solomon Islands Forest Industry

Malaita. Such plantations are currently supported by reforestation programs of the Ministry of Forestry, previously in conjunction with SIFMP.

SIFMP estimates made in 2007 suggest that there are around 6,000 hectares of such plantations nationally.²³ Teak (*Tectona grandis*) accounts for around 4,200 hectares of this area, with the remainder split between Brazilian mahogany (*Swietenia macrophylla*), *Eucalyptus deglupta* and *Gmelina arborea*. The large majority of this estate has been established since 2000 and, given that a typical rotation length for teak is between 20–25 years, the majority of this estate will reach harvest age from 2030 onwards.

²³ Solomon Islands Forestry Management Project II (2007) *Towards a National Plantation Forestry Program for Solomon Islands – a strategy discussion paper*.

Appendix C Certification and Legality Assurance Initiatives

An overview of selected forest certification and legality assurance schemes is provided below. This is not intended as a comprehensive list of relevant schemes; rather, it provides an introduction to the types of schemes operating in the Asia Pacific region that may be considered by timber producers and exporters in Solomon Islands to meet market access requirements.

C.1 Certification and Legality Assurance Schemes

C.1.1 Forest Stewardship Council

The FSC was established in 1993 and has developed a number of standards related to forests and timber supply chain management. It also administers product labelling of timber and timber products as third-party certified against its standards. The FSC is administered by FSC International and is implemented through National Initiatives, which promotes FSC in particular countries and supports the development of national or sub-national FSC standards.

Standards encompassing legality verification

The FSC Chain of Custody, Controlled Wood and Forest Management standards incorporate elements of legality verification for timber products. Principle 1 of the FSC Forest Management standards includes components of legal compliance, including considerations of laws relating to forest harvesting licensing, as well as international labour laws and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

FSC Controlled Wood

FSC Controlled Wood standards were developed to distinguish between acceptable ('controlled') and unacceptable ('uncontrolled') wood. There are two FSC standards related to controlled wood: the *FSC Controlled Wood Standard for Forest Management* and the *Standard for Company Evaluation of FSC Controlled Wood*. The former specifies requirements for forest management enterprises in demonstrating a controlled wood supply; the latter is designed to allow companies to avoid trading in 'uncontrolled' wood, including that which is illegally harvested wood.

The FSC Controlled Wood standards have been developed to support the production of FSC mixed sources by setting minimum specifications for non-certified material in FSC supply chains.

FSC Chain of Custody

The FSC Standard for Chain of Custody Certification is designed to track FSC certified material through the production process from the forest to the consumer, including all stages of processing, transformation, manufacturing and distribution. Only FSC Chain of Custody certified operations are allowed to label products with the FSC trademarks.

The FSC standard specifies the management and production requirements for Chain of Custody control with respect to sourcing, labelling (where applicable) and sale of products as FSC-certified, which provides the basis for a range of options for making FSC claims. The FSC requires certified organisations to identify the origin of raw materials used in FSC-certified products, to keep FSC-certified products separate from other products throughout the production process, and to allow their tracking from one operation to the next.

Appendix C – Certification and Legality Assurance Initiatives

C.1.2 Programme for Endorsement of Forest Certification

PEFC is an international non-profit, non-governmental organisation that promotes Sustainable Forest Management through independent third-party certification.

PEFC is an umbrella organisation. It works by endorsing national forest certification systems developed through multi-stakeholder processes and tailored to local priorities and conditions. Each national forest certification system undergoes rigorous third-party assessment against PEFC's unique Sustainability Benchmarks to ensure consistency with international requirements.

Currently, the PEFC umbrella encompasses over 30 endorsed national certification systems and more than 240 million hectares of certified forests. On this basis, PEFC claims to be the world's largest forest certification system. National members in the Asia Pacific region include Australia (the Australian Forestry Certification Scheme) and Malaysia (the Malaysian Timber Certification Council).

PEFC Chain of Custody certification, including its requirements on non-controversial sources, is designed to prevent illegal wood from entering the production chain. Third party auditing to verify system integrity provides assurances that PEFC-certified products entering the marketplace are not from illegal wood sources.

C.1.3 SmartWood Programs

SmartWood is a program of the Rainforest Alliance, launched in 1989. In addition to its role as an FSC certification body, the Rainforest Alliance SmartWood Program has also developed its own VLO, VLC and Chain of Custody standards.

SmartWood VLO and VLC

SmartWood's VLO and VLC standards are adapted from their 'generic standards' to national jurisdictions by incorporating local laws and regulations. During this process, it also invites stakeholder comment. To date, SmartWood has developed VLO and VLC standards for Indonesia, Malaysia and the Philippines. SmartWood also undertakes third party verification of timber legality for companies supplying timber products against these standards. SmartWood requires forest managers to commit to continual improvement toward Sustainable Forest Management when signing up for legality programs.

SmartWood Chain of Custody

SmartWood has a generic Chain of Custody standard and provides third-party verification against this standard. The Chain of Custody standard may be applied to a variety of certification and verification services to provide evidence of traceability from the origin to the 'end claim', including Verification of Legality, Verification of Origin, and SmartLogging.

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C.1.4 SGS Independent Verification of Legal Timber Services

SGS is an inspection, verification, testing and certification organisation. SGS is also a certification body for FSC's Forest Management and Chain of Custody Certification, as well as PEFC Forest Management and Chain of Custody certification. SGS has developed a suite of generic standards as part of its 'Independent Verification of Legal Timber Services'. The Legality Standards developed by SGS include:

- Timber legality and traceability verification;
- Mandatory Legal Timber Validation; and
- Voluntary Legal Timber Validation.

SGS undertakes monitoring and auditing, and issues legality-based statements or reports and export permits. These standards incorporate principles and criteria relating to Chain of Custody monitoring systems to ensure adequate control and traceability of timber production.

Timber legality and traceability verification

Timber legality and traceability verification is a voluntary company-level verification program for assessing compliance with requirements relevant to the forest and timber products industry and trade sectors. It may be used to demonstrate legal compliance to national authorities and incorporates principles and criteria relating to Chain of Custody. To date, SGS has developed timber legality and traceability verification standards in the Asia-Pacific for Papua New Guinea and Sarawak (Malaysia).

Mandatory Legal Timber Validation

Mandatory Legal Timber Validation is a country level program (national scheme) to enforce, monitor and verify timber legality. It is implemented as a mandatory standard across all parts of the forestry sector and includes VLO and VLC. There is currently a Mandatory Legal Timber Validation program operating in Papua New Guinea: the Log Export Monitoring Agreement.

Voluntary legal timber validation

Voluntary Legal Timber Validation is a voluntary country level approach which provides monitoring and verification programs associated with timber production at country level. Usually Voluntary Legal Timber Validation is initiated through individual forest companies with support from relevant authorities. Voluntary Legal Timber Validation is based on generic Legal Origin and Legal Compliance principles developed by SGS, with criteria and systems developed in-country.

C.1.5 Certisource

Certisource provides independent timber legality services for industry members that are representative of any element of the supply chain. Certisource carries out a range of legality 'checks' of forest concessions across five areas, including: Land Tenure and Use Rights; Timber Harvesting Laws and Regulations; Forest Taxes; Log identification Transfer and Deliver; and Timber Processing and Shipping. Products which meet the requirements are certified as "Verified Legal Timber" as defined by WWF and the Global Forest and Trade Network ('*Keep it Legal*' and '*Responsible Purchasing of Forest Products*' (2nd edition)).

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Where available, Certisource adapts principles and criteria to include applicable country-specific standards. For example, the *Principles, Criteria and Indicators, Verified Legal Timber, Indonesia* includes legality criteria developed by the Indonesian Eco-labelling Institute.

Certisource conducts DNA tracking of individual logs throughout their entire supply chain. The Certisource DNA Tracking Program, coupled with timber bar-coding, seeks to provide assurance of a continuous and unbroken Chain of Custody. Certisource regional offices verify harvesting activities and provide “Certificates of Legality” approved by Certisource United Kingdom.

C.1.6 Tropical Forest Foundation

The Tropical Forest Foundation (TFF) is an international, non-profit, educational NGO dedicated to the conservation of tropical forests through sustainable forestry. TFF’s regional programs are heavily focussed on the promotion and training of Reduced Impact Logging.

TFF Indonesia has a ‘forest-market linking’ initiative which incorporates TFF’s work on legality issues. Under this initiative, TFF has adopted a “step-wise” approach for engagement with forest management companies at the concession and the industry level. The first level is an agreement on the part of the forest management company to implement Reduced Impact Logging management strategies on its entire annual operating area within a two year time frame. In recognition of this commitment, TFF issues the “Legal Verified” mark based on a successful third party audit against legality and chain-of-custody standards. The legality definition considered most appropriate for this mark is the “TFF Standard of Legal Origin”. However, a forest management company may choose to be audited against the higher “TFF Standard of Legal Compliance”.

C.1.7 Tropical Forest Trust Wood Control Systems

The Tropical Forest Trust (TFT) is a United Kingdom registered charity that assists retailers and suppliers of tropical wood products in determining the origins of their timber and sourcing wood from ‘legally verified’ forest operations. Its membership includes small to multinational retailers, suppliers and importers in Europe, North America, South East Asia and New Zealand.

The TFT has a number of programs to provide companies with support in tracking timber throughout the supply-chain, including its Good Wood Guide and Wood Control System. The Wood Control System consists of seven elements that guarantee a supplier provides only “Good Wood”. The Wood Control System monitors the tropical wood orders of its members as they progress through the supply chain. The TFT undertakes second party verification of the company’s efforts to source wood from known and verified legal sources, and provides compliant TFT members with a trademark label. Labelling can relate to a number of claims, which initially may not constitute any verification of legality having taken place.

The TFT is a supporter of FSC and seeks to work with forest projects and timber supply chains moving towards FSC certification. The TFT is also involved in a partnership with the European timber trade federations under the Timber Trade Action Plan.

C.2 International Legislative Developments

A brief overview of legislative developments associated with the legality of traded timber in the EU, the United States of America, Australia and New Zealand is presented below.

Appendix C – Certification and Legality Assurance Initiatives

C.2.1 EU FLEGT Action Plan and Due Diligence Regulations

FLEGT Action Plan

The FLEGT Action Plan was established by the European Commission in 2003, with the primary aim of encouraging sustainable forest management of forests through governance reforms and capacity building to ensure timber exported to the EU comes only from legal sources. FLEGT initiatives are governed by a Committee comprising representatives of EU Member States, which assists the Commission in the implementation of the FLEGT Action Plan. The FLEGT Action Plan includes the following:

- The development of VPAs between the EU and timber exporting countries for the supply of legal timber;
- Legislation in the EU and its Member States that aims to improve the legality of timber supplies;
- ‘Green procurement’ policy development for government agencies; and
- Private sector initiatives, including the use of voluntary codes of conduct to source only legal timber.

Under the FLEGT Action Plan, the European Council of Ministers has a mandate to conduct VPA negotiations. VPAs are voluntary legality mechanisms, developed through a bilateral agreement between the EU and a timber exporting country, that aim to provide timber export countries with a competitive advantage in European timber markets without violating World Trade Organisation rules. VPAs commit both parties to actions that stop trade in illegal timber and also set out a series of licensing system requirements, including laws and regulations to determine legality of products.

The first VPA was signed in September 2008 by the EU and Ghana, under which Ghana was required to establish a Legality Assurance System for export products and markets. There are currently six VPA countries in the system development phase. These are Ghana, Cameroon, Central African Republic, Indonesia, Liberia, and the Republic of Congo (Brazzaville). In addition, there are six countries in the negotiation phase with the EU. These are the Democratic Republic of Congo, Gabon, Guyana, Honduras, Malaysia, and Vietnam.

EU Timber Regulation

The EU’s FLEGT Action Plan instigated legislative development and review with regard to legality and timber trade in the EU. This has led to the forthcoming introduction of the EU Timber Regulation, which will come into effect in March 2013.

The EU Timber Regulation is a piece of EU legislation that prohibits illegally harvested timber from being placed on the EU market. The EU Timber Regulation sets out mandatory procedures for those trading in timber within the EU. These procedures are designed to minimise the risk of illegal timber being sold. It applies to both imported and domestically produced timber. The regulation governs the trade in timber products on the EU market and covers most timber products commonly traded. Compliance with this legislation is obligatory for all operators and traders concerned.

Under the EU Timber Regulation, FLEGT-licensed timber from VPA countries will be considered to be risk-free and require no further due diligence measures from the importer.

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C.2.2 United States Lacey Act amendments

In May 2008, the United States Congress passed a law banning commerce in illegally sourced plants and their products, including timber and wood products, as an amendment to the Lacey Act. The Lacey Act was originally established in 1900 to militate against wildlife crime. The amendment made to the Lacey Act in 2008 has the following legislative implications:

- The trade in plant and plant products illegally sourced from the United States or foreign countries is prohibited;
- Importers are required to declare: the scientific name of any species used; country of harvest; quantity; and estimated value of plant material in any products that they import (including timber); and
- Stipulated penalties apply for violation of clauses in the Act.

In particular, the Act requires importers to exercise due care²⁴ and the legal expectations around exercise of due care are expected to be rigorous, noting the precedents already set under the Act with respect to wildlife trade (primarily fisheries).

To dispute a legality claim, the United States government will be required to establish that the wood / wood product imported into the United States is illegal and the following form of offences may result:

- A felony offence when an importer knowingly imports, exports or engages in conduct involving the sale or purchase of wood or wood product harvested and/or transported in violation of non-United States laws and/or without payment of relevant royalties; and
- A 'negligence type' offence where it cannot be demonstrated that the person or party knowingly traded in illegal wood or wood products, and it can be demonstrated that the importer could have established that the wood was illegally harvested if due care had been taken.

It should be noted the Lacey Act does not impose United States law on other countries and 'illegally sourced' is defined by the laws in the nation or United States State of product origin. There are also special clauses contained in the amendment for complex products of mixed materials and recycled paper products. Where mixed origin and/or species (e.g. furniture) are imported, a 'best-guess' country of origin/species is required and the products are subject to seizure by government authorities if suspected to contain illegal products. A policy for dealing with suspected illegal shipments is currently also under development.

Responsibilities for implementation of the Act provisions are shared between the United States Department of Agriculture, its Animal Plant Health inspection Service and the United States Department of Interior's Fish and Wildlife Service, with support from the Department of Homeland Security (Customs and Border Protection).

C.2.3 Australia's Illegal Logging Prohibition Act

The Australian Government has recently enacted the *Illegal Logging Prohibition Act 2012*, to promote the trade in legally harvested timber and timber products, and to reduce the harmful environmental, social and economic impacts of illegal logging. This legislative development has drawn on a range of intergovernmental dialogue and extensive research on issues related to illegal logging and timber sourcing, and associated consideration of appropriate regulatory mechanisms.

²⁴ United States Department of Agriculture, 2012 – Lacey Act Amendment: Implementation Questions and Answers. Available online: http://www.aphis.usda.gov/plant_health/lacey_act/downloads/faq.pdf

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The Illegal Logging Prohibition Act promotes the purchase and sale of legally logged timber products in Australia and gives consumers and businesses greater certainty about the legality of the timber products they buy.

The Act restricts the importation and sale of illegally logged timber in Australia in the following ways:

- Placing a prohibition on importing illegally logged timber and timber products;
- Placing a prohibition on processing domestically grown raw logs that have been illegally logged;
- Establishing offences and penalties, including up to five years imprisonment, for the importation or processing of prohibited products; and
- Establishing comprehensive monitoring and investigation powers to enforce the above requirements of the Act.

A number of key provisions of the Act are now in effect, most notably the immediate prohibitions for importing timber and timber products that contain illegally logged timber, and for processing domestic raw logs that have been illegally logged. It is now a criminal offence to import illegally logged timber and timber products into Australia or to process Australian raw logs that have been harvested illegally. Australian importers and processors must not knowingly, intentionally or recklessly import or process illegally logged timber.

Appendix D Market Sounding Perspectives

As part of this scoping work, URS made contact with a range of timber processors and exporters in Solomon Islands, and also several timber importers in Australia and New Zealand that have imported timber from Solomon Islands. The purpose of this engagement was to test the current requirements for timber legality assurance or forest management certification, within the context of other market requirements.

This market sounding was limited in scope. URS had substantive engagement with a total of eight timber processor/exporters in Solomon Islands (face-to-face meetings) and five timber importers in Australia and New Zealand (by phone). The comments, insights and perspectives provided were qualitative only.

Notwithstanding these limitations, the information provided was considered to be generally reflective of prevailing market issues relating to timber exports from Solomon Islands. A summary of the comments, insights and perspectives provided directly by timber exporters and importers for this scoping work is presented below.

D.1 Timber Legality Assurance and Forest Certification

Comments and viewpoints in relation to timber legality assurance and forest certification are summarised below (*please note*: quotations are based on verbal interview discussions with importers in particular).

Comments on requirements for timber legality assurance or forest certification	Comments on other market access considerations
<ul style="list-style-type: none"> • One importer reported that certification and legality assurance is “the way it has to go”. • Another importer said that “the ability to demonstrate legality is paramount”. • One New Zealand-based importer reported that any merbau (kwila) they sell has to be VLO certified. • One importer reported they do not see any problem with demonstrating legality in Solomon Islands. “The permission of landowners is crucial for any activity, so if you have that you will be able to demonstrate the legality of your operations”. • One leading importer in Australia noted they need to make sure that all the timber they receive is legal. Their company practice is to always ask for a certificate of origin; however, the importer also noted that they “feel comfortable” with the regulatory framework for timber products from Solomon Islands, as exporters need proper documentation before they are allowed to export. • An Australian importer noted that some of their markets (within Australia) do ask for PEFC/FSC (i.e. forest certification) labels – most typically these are government clients. The same importer noted that some, but not all clients ask for verification of legal origin. Their customers are joinery makers, so the request for such verification comes from their clients (i.e. the joinery’s clients) and so the importer does not actually know who the end customer is. 	<ul style="list-style-type: none"> • One importer said they would very much like to see more FSC certified timber available from Solomon Islands, but recognised it is difficult in the current operating environment and the lack of FSC certification does not affect their demand. • One importer reported that certification is a ‘bonus’, and not a necessity at the moment, particularly in China and India where he could sell very large volumes if he could get the supply. Another importer provided a similar comment, noting that they consider forest management certification as an “ultimate goal”.

Appendix D – Market Sounding Perspectives

D.2 Other Market Access Factors

Comments and viewpoints in relation to market access factors other than timber legality assurance and forest certification are summarised below (*please note*: quotations are based on verbal interview discussions with importers in particular).

Strengths of market competitiveness	Weaknesses of market competitiveness
<ul style="list-style-type: none"> • Solomon Islands are “the last bastion of ‘big wood’, and as a country to work in it is easier than Papua New Guinea”. • Selected species have valuable properties, e.g.: <ul style="list-style-type: none"> — Vitex – for its durability; — Kwila – attractive colour and durability; — Rosewood – attractive colour and durability. • One importer noted that sawn timber imported from Solomon Islands represents good value compared with other species in other countries. “If the supply was consistent, we would be prepared to pay more for it.” • Another importer made a similar comment, noting the price of the imported timber is cheap and the reason why they are prepared to put up with a bit of ‘drama’. The same importer noted that if timber from Solomon Islands was more readily available they would pay more for it. Other importers reported the same viewpoint, that if there was “improved access to the resource” (i.e. more resource available), they would import increased volumes. • The amount that they seek to import is largely dependent upon the market demand for the timber. Presently, “demand for Rosewood outstrips supply”. 	<ul style="list-style-type: none"> • Multiple importers noted that the major factor limiting the ability to import is Solomon Islands’ capacity to supply. Key comments included: <ul style="list-style-type: none"> — “The current approach to production just doesn’t allow the demand to be met.” Supply of species such as Vitex becoming more and more difficult. — “Supply from Solomon Islands is small relative to other supply countries, and it is difficult to source and unreliable.” — “You can’t just ring up and get a decent amount and what you get is not necessarily what you order and is often badly sawn. Of all the places around the world that we source from, Solomon Islands is the worst!” — “You can’t base a business on a product that you can’t get!” — One importer “couldn’t stress enough”, that supply is “just not available” at this point in time. • Another importer noted the approach to production in Solomon Islands needs to improve – currently the primary processing is carried out primarily using chainsaws and portable Lucas mills, leading to poor product quality and large wastage. • Other importers noted that the quality of Solomon Islands’ timber, in terms of species delivered and dimension specifications, can be variable or poor. <ul style="list-style-type: none"> — There is also inconsistency in the reliability of species – e.g. importers have asked for Rosewood but get Vitex of the wrong size. • Two importers expressed the view that the reason for the low quality of timber exported is that a lot of it is cut by villages, and by persons with limited or no experience in cutting timber. One of the importers noted they are often required to re-saw the timber once it is received in New Zealand. • Another noted that on the occasions that receive product that differs from what they ordered, they sell the timber into a different market, e.g. sell it as standard grade rather than select grade – in this case, the importer/processor does not tend to re-saw. • One importer noted similarly that the quality of the sawing is often not as good as it is in other countries; however, this doesn’t really have a direct impact and they do not see it as a determining issue. • Timber supply from Solomon Islands does tend to be seasonal in nature (i.e. more in summer, less in the rainy season), which can be a problem for particular importers.



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