

Review of options for third party timber legality assurance for the sawn timber industry in the Solomon Islands

Technical Report 106

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Acronyms

Abbreviation	Description
COC	Chain of Custody
FSC	Forest Stewardship Council
MOFR	Solomon Islands Ministry of Forestry and Research
NZ ITTG	New Zealand Imported Tropical Timber Group
PEFC	Programme for Endorsement of Forest Certification
PHAMA	Pacific Horticultural and Agricultural Market Access; a development program managed by AECOM Services Pty Ltd
SITPEA	Solomon Islands Timber Processors and Exporters Association
SPC	Secretariat for the Pacific Community
VETE	Village Eco-Timber Enterprises

Executive Summary

This report sets out an assessment of options for Solomon Islands' sawn timber processors and exporters to establish a third party timber legality assurance program.

The Solomon Islands sawn timber industry is considering various options for strengthening its position in satisfying export market requirements for product certification. The primary markets in this regard are Australia, which has implemented national regulations requiring importers to ensure the wood they are importing is not from an illegal source; and secondly in New Zealand, where timber importers are calling for all tropical timber imports to be accompanied by third party timber legality verification as a minimum industry standard by August 2016.

This report provides recommendations for PHAMA on preferred options and outlines an implementation plan and timeline for the sawn timber industry and its stakeholders.

Recent developments

The Solomon Islands sawn timber sector has responded positively to these recent market developments. Most significantly, the sector has formed a new association, the Solomon Islands Timber Processors and Exporters Association (SITPEA), comprising 10-15 members including sawmills, timber yards and timber sellers to domestic and export markets. The formation of SITPEA represents a significant step towards strengthening the sector, particularly through building capacity for demonstrating timber legality assurance as an industry group.

Industry consultation

To conduct this study, Indufor has consulted with industry representatives and other stakeholders in a range of ways. This includes an industry workshop, held in Honiara in November 2015, with SITPEA, representatives of the Ministry of Forestry and Research (MOFR) and other representatives of the sawn timber sector including processors and producer groups.

Following the workshop, Indufor conducted several site visits to sawmills and timber yards in the Ranadi district of Honiara, and conducted one on one meetings with other stakeholders, specifically to discuss the current capacity of the sawn timber sector to demonstrate timber legality assurance, either through full forest management certification or specific timber legality programs. In addition, Indufor consulted with representatives of New Zealand timber importers, to follow up and confirm their market requirements for tropical timber imports.

Options for demonstrating third party timber legality assurance

Today, there are two broad types of certification programs that provide for timber legality assurance to consider. These are:

1. Specialised timber legality assurance programs, which include the Rainforest Alliance's *Timber Legality Verification*, NEPCon's *LegalSource™* Programme, SCS' *Legal Harvest™* Verification and Soils Association Woodmark's *Chain of Custody Verification of Legal Compliance*; and
2. Forest management certification schemes, which incorporate timber legality verification as a core component of their assessment of forest management and wood from controlled sources; the leading programs globally are the *Forest Stewardship Council (FSC)* and the *Programme for Endorsement of Forest Certification (PEFC)*, which endorses national standards for forest certification and chain of custody systems.

An overview of selected examples of these programs is presented in **Figure ES-1**.

In considering the appropriate type of program, it is important to recognise the Solomon Islands timber processors cannot access forest management certification programs directly. To be able to procure, process and sell forest management certified timber products, processors would require the adoption and full compliance of certification standards by forest managers, i.e. logging licence holders and community producer groups. However, there is scope under existing timber legality assurance programs for timber processors to obtain third party verification directly, through a process of conducting due diligence on their supply sources.

Figure ES-1 Summary of comparison of selected timber legality assurance programs

Source: Indufor

While timber legality schemes are focussed on verifying the wood has been legally harvested, forest certification schemes are looking to address a broader range of social, environmental and economic considerations of the sustainability of forest management systems.

Industry requirements

The overarching objective of this study is to introduce rigorous, robust and internationally credible timber legality assurance to strengthen market access for timber produced in the Solomon Islands. To this end, through industry consultation, Indufor adopted the following criteria for assessing industry options:

- Credibility in international markets;
- Feasibility to set up in the short term;
- Relevant experience of the program in providing legality verification services to the Solomon Islands;
- Capacity of the program to provide for stepwise progression to full forest management certification; and
- Cost competitiveness of the proposed approach.

These criteria and associated indicators were used to guide the consideration of alternative approaches to timber legality assurance and assess the specific options available to SITPEA and the Solomon Islands sawn timber sector.

In addition, Indufor – acting on behalf of SITPEA – solicited proposals from selected programs providing forest management certification and timber legality verification. Indufor assessed the quality of the proposals received in terms of their understanding of the needs of the sector and the provision of clear guidance for SITPEA on the proposed approach to establishing a timber legality assurance program.

Options for the Solomon Islands

Key considerations for the introduction of a program that will provide timber legality assurance for the Solomon Islands sawn timber sector include the following:

1. *Type of program*: whether to choose forest certification or timber legality program;
2. *Approach to choosing a program*: whether to adopt an existing program or create a new program for the industry; and
3. *Approach to implementation*: whether industry participants should establish group certification or obtain certification on an individual basis.

These considerations are not necessarily sequential; and an iterative process of consideration can be appropriate and useful for testing the logic of each decision.

With this approach, a comparison of each set of options was conducted using the assessment criteria outlined above.

Recommendations

Indufor is recommending the Solomon Islands sawn timber industry:

1. Establish a third party timber legality assurance program rather than a forest management certification program in the near term;
2. Adopt an existing program with established systems and international credibility; and
3. Use the group certification model for SITPEA members.

Indufor recognises that some producer enterprises in the Solomon Islands have attained or are in the process of seeking to attain sustainable forest management certification, most notably through the FSC forest certification program. Indufor considers this initiative should be encouraged wherever it can be supported by management capacity and market drivers.

However, these FSC forest certification initiatives are not yet operating at a scale that can supply sufficient volumes to address the requirements of Solomon Islands' timber processors and exporters. The limited adoption of FSC forest certification among community producer groups to date indicates there would need to be a transformational change across the sector - over a period of time that would likely require at least three years - to reach a scale that will impact on Australian and New Zealand sawn timber markets.

In this context, the adoption of an internationally credible timber legality verification program will meet the primary objective of providing timber legality assurance to key sawn timber markets; and this will provide a platform for the industry to continue to build towards sustainable forest management certification in the future.

Indufor has recommended SITPEA adopt the group certification model on the basis that it has been designed particularly for groups of industry participants that are typically small scale. Group certification provides for a sharing of resources and costs, and reduces the time and cost burden on each individual participant, provided all members comply with the agreed standards.

An additional feature of group certification is the scope to include additional features in the scheme rules, beyond those relating specifically to timber legality. The NZ ITTG has called for the Solomon Islands sawn timber sector to look beyond timber legality certification to additional measures that lead the sector towards sustainable forest management certification – notionally through a program based on verification of legal origin *plus* (VLO+).

Through group certification, the SITPEA group could include additional requirements in the scheme rules, to which all members agree to comply. Internal and external auditors could then be asked to review and assess performance against the standard plus the additional requirements. Indufor proposes that SITPEA work with its selected timber legality verification service provider to identify the specific elements of additional measures that could be reasonably and practically introduced to the group scheme rules and requirements.

The challenge for group certification is bringing together a group of like-minded industry participants that can agree to share resources and work together to comply with an agreed standard (and other scheme rules if applicable), and maintain certification as a whole. In the case of the Solomon Islands, this pre-requisite is largely met by the formation of SITPEA and its Membership Charter being strongly aligned with this objective.

Selection of a preferred program

Through this review, Indufor worked with PHAMA and SITPEA to identify and compare existing certification programs that can provide timber legality verification services. This included direct engagement, under the SITPEA banner, with two forest certification programs (FSC and PEFC) and a range of timber legality verification service providers. These programs were invited to submit proposals to provide timber legality verification services to SITPEA or its members. Six separate proposals were received by SITPEA during January 2016 – one each from FSC, PEFC, NEPCon, Rainforest Alliance, SCS and Soil Association.

Drawing on the information presented in these proposals, Indufor assessed the suitability of these programs for application in the Solomon Islands. This assessment was conducted against the assessment criteria aligned with industry requirements. A summary of this assessment is set out in **Table ES-1** below.

Table ES-1 Summary of comparison of selected timber legality assurance programs

Criteria	FSC	PEFC	NEPCon	RA	SCS	Soil Ass.
1 Quality of proposal	✓	✓	✓✓	✓	✓	✓✓
2 Credibility	✓✓	✓✓	✓✓	✓	✓✓	✓✓
3 Feasibility	-	✓	✓✓	✓✓	✓	✓
4 Capacity within Solomon Is.	✓✓	✓	✓	✓	✓	✓
5 Capacity for progression to FM certification	✓✓	✓✓	✓	✓	✓	✓
6 Cost competitiveness	-	-	✓	✓	✓	✓✓
Preferred options			Preferred			Preferred

Source: Indufor

Symbols indicate: ✓✓ strong alignment with criteria; ✓ weaker alignment; - not aligned.

This assessment, which covers forest certification programs as well as dedicated timber legality verification programs, reinforces Indufor's recommendation for the Solomon Islands sawn timber processors to look to timber legality verification programs to meet their primary objective in the near term. As timber legality verification programs have a narrower focus, they present a less onerous set of requirements when compared to controlled wood certification within forest management certification programs. Therefore, these programs generally scored higher on the 'feasibility' and 'cost competitiveness' criteria, while maintaining comparable scores on other criteria, notably 'credibility', which is critical for acceptance in export markets.

Other requirements for consideration

In addition to identifying and selecting the most suitable timber legality verification program, it is important the Solomon Islands sawn timber sector continues to focus on building its capacity to demonstrate full compliance with the regulatory framework and be able to trace timber flows from licenced producers through the supply chain to processors pursuing certification.

In this context, it is a critical requirement that all sawn timber supplied to timber processors and exporters be accompanied by a valid Milling Licence, issued to the responsible producer prior to the timber being cut and transported to the processors in Honiara (Ranadi) or Noro.

The MOFR and SITPEA are working to ensure this is the case, and Indufor recommends that this be given the highest priority, as a foundation stone for demonstrating timber legality.

Most of the international programs offering timber legality verification services have offered to provide (for a fee) various toolkit information and also training courses for industry participants seeking certification under their program. These tools and the training sessions would set out the full set of compliance requirements under the respective standards.

Further work can be done to set out these requirements for SITPEA and its members. However, Indufor observes the processes offered by different service providers will vary to some extent. Therefore, Indufor considers it would be preferable for PHAMA and SITPEA to focus first on selecting the preferred program; and then focus on the specific requirements of the selected program with active support from the program manager.

Next steps and timeline

For implementation purposes a proposed work plan and timeline is set out in **Figure ES-2**. This work plan is based on the recommendations outlined above and further considerations required, notably the further considerations relating to the Solomon Islands' resourcing arrangements and funding models to support program implementation and third party auditing.

This proposed work plan sets out three broad streams of activities, aligned with three grouping of stakeholders:

- The MOFR and industry participants (including producers and processors);
- PHAMA and SITPEA, in the capacity of facilitators supporting industry development; and
- The third party service provider selected to conduct third party auditing and verification of the preferred program.

To establish third party timber legality assurance in the Solomon Islands within a time frame of 6-12 months will require concerted activity under these three streams, operating in parallel over this time period. The main challenges for achieving third party timber legality assurance for sawn timber production in the Solomon Islands are considered to be:

1. **Securing funding to support the multiple components of the initiative**, including the costs of appointing a group certification manager (in a part-time or full-time role), conducting internal audits, and engaging verification audits by the selected timber legality service provider.
2. **Strengthening full compliance around Milling Licence requirements**, through concerted work by MOFR and also timber processors and exporters to ensure timber suppliers (producers) have valid Milling Licences in place for all timber they are bringing to the market.
3. **Building capacity to establish new protocols and industry 'norms'**, for maintaining clear documentation of timber production linked to valid Milling Licences; and establishing clear and robust methods for physical separation of timber that does not have the necessary licence information to show it was harvested legally, in compliance with all applicable regulations.

Timeline	MOFR and industry	PHAMA & SITPEA	Third party provider
0-2 months	<ul style="list-style-type: none"> Strengthen compliance around Milling Licence requirements 	<ul style="list-style-type: none"> Engage with export markets (NZ ITTG) on proposed program scope and timeline 	
	<ul style="list-style-type: none"> Strengthen compliance around Milling Licence requirements (cont.) Support SITPEA in further work on scoping additional sustainability criteria 	<ul style="list-style-type: none"> Select preferred programs Engage with preferred providers on detailed costing 	<ul style="list-style-type: none"> Respond to queries Engage with SITPEA on components and costings
		<ul style="list-style-type: none"> Secure funding commitments for program 	<ul style="list-style-type: none"> Provide toolkit information and other support as required
2-4 months	<ul style="list-style-type: none"> Support SITPEA in seeking legality verification, specifically by: <ul style="list-style-type: none"> Implementing additional checks and controls Addressing additional sustainability criteria, if and as agreed with SITPEA 	<ul style="list-style-type: none"> Establish group certification structure and membership Appoint group certification manager Establish group scheme rules, standards and systems Review training requirements 	<ul style="list-style-type: none"> Confirm agreed standards and timeline for verification
			<ul style="list-style-type: none"> Providing in-country training, as required
4-5 months	<ul style="list-style-type: none"> Support internal audit inspections or requests 	<ul style="list-style-type: none"> Bed down standards/systems Internal auditing, e.g. PHAMA Corrective actions 	<ul style="list-style-type: none"> Respond to queries, as required
6 months	<ul style="list-style-type: none"> Support external audit inspections or requests 	<ul style="list-style-type: none"> External audit for certification Address issues arising 	<ul style="list-style-type: none"> Conduct verification audit and prepare report
7-8 months		<ul style="list-style-type: none"> Third party timber legality verification (pending) 	<ul style="list-style-type: none"> Issue certification, pending satisfactory compliance

Figure ES-2 Proposed work plan and timeline for PHAMA and SITPEA

In relation to the funding requirements, the key cost components for third party timber legality verification in the Solomon Islands will comprise:

- Contract fees for the group certification manager position;
- Group systems set up and ongoing operations;
- Training for the group by the selected third party legality verification provider;
- Systems set up by individual member companies;
- Internal auditing; and
- External auditing (third party verification).

Indufor notes that PHAMA is already supporting SITPEA and the Solomon Islands timber industry more broadly with efforts to obtain third party timber legality verification.

Indufor recommends PHAMA and SITPEA consider the broad groupings of cost components separately, and the capacity of downstream markets and potentially donor programs to contribute to meeting this range of costs to support the industry in moving towards timber legality verification and forest certification over time.

1.0 Introduction

Indufor Asia Pacific (Australia) Pty Ltd (Indufor) has prepared this report for the Pacific Horticultural and Agricultural Market Access (PHAMA) program; specifically, to assist the Solomon Islands' sawn timber processing and export industry in building its capacity to demonstrate timber legality assurance to national and international stakeholders. This report sets out an assessment of options for timber legality assurance, with recommendations for consideration by PHAMA and industry representatives.

1.1 Background

Forestry plays an important role in the economy of Solomon Islands and the livelihoods of its people. The export of forest products accounts for around 20% of national government revenues and is the main foreign exchange earner for the national economy. Unprocessed round logs account for the majority of trade, with an annual trade in 2015 of SBD 2.2 billion (approximately AUD 360 million).¹

The sawn timber sector is considerably smaller than the log export sector, but is a significant component of the Solomon Islands economy with its exports being comparable in value to the cocoa and coconut industries. Over the past five years, the value of sawn timber exports has been around SBD 80 million (AUD 13 million); around 5% of the total value of log exports.²

Exports to Australia and New Zealand have accounted for up to 60% of total sawn timber exports over the past five years, and hence these are the primary markets. However, the Solomon Islands also exports to other sawn timber markets in Asia, notably Malaysia, the Philippines, Taiwan and China.

1.2 PHAMA initiatives

PHAMA has been working in the Solomon Islands since 2011, to support market access for the sawn timber sector in particular. An Industry Working Group was established to provide a forum for engaging with the industry on key market access issues. These issues include establishing the capacity within the Solomon Islands sawn timber sector to demonstrate timber legality assurance to existing markets, and improving quality of products to realise higher market returns and access new markets.

During this period, the Solomon Islands Ministry of Forestry and Research (MOFR) and PHAMA have also worked to strengthen government systems for monitoring and verification of timber production and processing, to improve the resourcing available to the MOFR Timber Utilisation Division which is responsible for these functions.

To address these and related issues, PHAMA and the Industry Working Group facilitated a study tour to Australia and New Zealand in March 2015. Representatives from the Solomon Islands sawn timber sector met with timber importers in both countries to discuss market access issues and obtain a better understanding of market requirements in these countries.

Subsequent to this, in mid-August 2015 the Solomon Islands timber industry hosted a delegation from the New Zealand Imported Tropical Timber Group (NZ ITTG) in Honiara.³ These meetings were facilitated by PHAMA in conjunction with the MOFR; and Indufor understands this was the first such industry-level engagement between the Solomon Islands stakeholders including MOFR and New Zealand timber industries.

¹ Central Bank Solomon Islands, based largely on Customs data.

² This trade data for sawn timber exports includes veneer exports, from Noro and Honiara.

³ The NZ ITTG includes timber importers, manufacturers, retailers and conservation organisations. ITTG members represent the large proportion of the New Zealand market for tropical timber. NZ ITTG members work with producers to actively seek and develop sources of sustainably managed tropical timber.

Outcomes from these study tours and associated meetings have been set out and discussed in separate PHAMA reports.^{4,5} However, the main outcomes included the following:

- **Minimum standards for market access:** Representatives of the NZ ITTG confirmed that independent third party legality verification (refer Box 1 for definitions) would become a minimum standard for market entry among its members, within a period of indicatively 1-2 years. This market signal in New Zealand is the primary driver for this report.
- **Joint development of a work plan for legality verification:** Representatives of the Solomon Islands sawn timber industry, PHAMA and the NZ ITTG jointly developed a specific work plan comprising a suite of agreed initiatives to develop capacity for third party legality verification in Solomon Islands. This work plan (finalised in September 2015) sets out a number of activities to be implemented by the Solomon Islands industry, PHAMA and the NZ ITTG within a timeframe extending to June 2017.
- **Formation of an industry association:** Industry representatives agreed on the first key task of establishing a Solomon Islands timber industry association to coordinate industry activity aligned with attaining third party legality verification, and potentially other objectives. The work plan specified the target of completing this task by the end of 2015. The formation of this association in late 2015 is discussed below under 'Recent developments'.
- **Review of specific options for third party legality verification:** Industry representatives agreed on the second key task of PHAMA leading a review of options for establishing a third party timber legality verification program, or an organisation to facilitate this program within the Solomon Islands. This report represents the completion of this particular task and the outcomes for consideration by all stakeholders.

Box 1 - Definitions:

For the purposes of this report, the following definitions are adopted:

Timber legality verification: The process of verifying that there is sufficient evidence the timber within a defined scope has been obtained from a 'legal source' – that is, with legal authority to do so, through compliance with relevant national and provincial regulatory requirements. In this context, verification is the output of a timber legality assessment.

Timber legality assurance: The outcome of third party verification processes, which provides assurance to the market, and other stakeholders, that the timber has been obtained from a legal source. This assurance will generally be provided through some form of certification.

Third party timber legality verification: The process of verification is carried out by an auditing entity that is independent of the entity seeking verification for its wood products (first party), the buyer of the timber (second party), and of any other entities that may have an invested interest in the first or second parties. Generally, timber legality programs (see below) will require the auditing entity to be 'accredited' to a specified auditing standard, or otherwise have demonstrable competence in carrying out a timber legality audit.

Timber legality programs: Programs that are set up by organisations to provide timber legality assurance to applicant entities, through a suite of systems and processes; generally comprising a *standard* (developed by an recognised standard setting body or otherwise through open stakeholder consultation processes); *auditing functions* (accredited auditors or verifiers who are independent of the entity seeking verification for their operations); and *governance arrangements* for functions including standard setting, accreditation of auditors and appropriate use of legality assurance claims. Otherwise referred to as schemes or systems – however, the use of programs is the preferred terminology for this report.

⁴ PHAMA 2015. *Timber Export Market Mission*. SOLS18 Stage 2.

⁵ PHAMA 2015. *Solomon Islands – New Zealand timber industry consultations*. SOLS32.1 Stage 1.

1.3 Recent developments

The Solomon Islands sawn timber sector has responded positively to the outcomes of the industry study tour visit to Australia and New Zealand and to the follow up visit by the NZ ITTG to the Solomon Islands where initial actions and timelines were agreed between the two industries to progress third party legality verification.

Most significantly, the sector has formed a new association, called the Solomon Islands Timber Processors and Exporters Association (SITPEA). SITPEA currently has around 10-15 members that include sawmills, timber yards and timber sellers to domestic and export markets.

SITPEA has established a Membership Charter, which is set out in [Appendix A](#). This charter includes obligations for members to commit to the following:

- *Encourage and undertake processing and value adding of timber as a means of supporting the sustainable economic development of Solomon Islands;*
- *Source timber that has been legally produced, where compliance with the necessary licenses can be demonstrated;*
- *Work with the MOFR to ensure compliance with the Laws and Regulations governing timber production in Solomon Islands and actively supporting awareness programs to encourage compliance among timber producers; and*
- *Support and undertake practical measures to encourage sustainable forest management in Solomon Islands, including initiatives to support and encourage third party forest management certification.*

The formation of SITPEA represents a significant step towards strengthening the sector, particularly through building capacity for demonstrating timber legality assurance. The benefits of establishing an industry association with a clear charter include the following:

- SITPEA has established an industry entity that can represent the whole of the sawn timber sector in engagement and dialogue with the MOFR, which will include ensuring compliance with licensing requirements and providing further input to the review of the *Forest Resources and Timber Utilisation Act (1969)*.
- SITPEA can also represent the whole of the sawn timber sector in engagement with other stakeholders, including international market customers and NGOs, most notably on the issue of timber legality assurance but also issues such as timber quality. There is now a forum for industry discussion and collaboration on addressing issues that impact on all industry participants.
- SITPEA can potentially take responsibility for the role of coordinating or managing timber legality assurance across a group of industry members, e.g. through group certification. The scope for group certification is particularly relevant and discussed later in this report.

PHAMA will act as a secretariat to SITPEA during the formative stages of its operation, ahead of its intended shift to a self-sustaining model with assistance from PHAMA. PHAMA is assisting SITPEA to maintain liaison with the NZ ITTG and other market representatives on the development of timber legality assurance in the Solomon Islands.

1.4 Purpose of study

The objectives of this study and this report are to:

1. Review the capacity of the Solomon Islands Government (in particular the MOFR) to maintain and implement relevant forest management standards and policies;
2. Work with stakeholders to scope and identify possible systems to enable third party legality verification in the Solomon Islands;

3. Confirm market expectations for third party legality verification systems among NZ industry representatives (and among other markets as appropriate), so that appropriate processes relating to organisational governance, transparency and accountability can be developed;
4. Review existing legality standards to support the establishment and functions of a third party legality verification organisation;
5. Ensure awareness among the Solomon Islands industry (SITPEA) of the fundamental principles and processes of a third party legality verification audit and readiness to comply with a third party legality verification audit; and
6. Ensure that any proposed third party legality verification systems align with existing national legislation and standards.

1.5 Industry consultation

To conduct this study, Indufor has consulted with industry representatives and other stakeholders in a range of ways.

This has included an industry workshop, held in Honiara on the 30th November 2015. SITPEA, MOFR representatives and other representatives of the sawn timber sector including processors and producer groups, met for a half day workshop to discuss two issues: a review of third party timber legality assurance options; and an update on the current regulatory framework and key requirements for Milling Licences in particular.

At this workshop, Indufor presented an overview of timber legality assurance options for the Solomon Islands, noting there were two broad options to consider. The industry could either:

- develop its own national timber legality program to fit the local circumstances; or
- adopt an existing international program providing third party timber legality assurance.

These options were discussed and industry input was sought as part of the broader assessment.

MOFR representatives presented an update on the current regulatory framework and discussed initiatives underway to support producers in ensuring that Milling Licences are obtained and maintained. SITPEA representatives presented their full support for these initiatives and outlined new procurement rules that essentially state that no rough sawn timber would be received without a valid Milling Licence for each load.

Following the workshop, Indufor conducted several site visits to sawmills and timber yards in the Ranadi district of Honiara. These visits were conducted for the purpose of reviewing the current status of chain of custody systems within existing operations – specifically, discussing the range of suppliers, the handling systems for timber and the accompanying licensing documentation.

Indufor has also conducted one on one meetings with other stakeholders, specifically to discuss the current capacity of the sawn timber sector to demonstrate timber legality assurance, either through full forest management certification or specific timber legality programs. This included meetings with representatives from the Natural Resources Development Foundation; Village Eco-Timber Enterprises (VETE); and the Secretariat for the Pacific Community (SPC) which is supporting development of Forest Stewardship Council (FSC) forest management certification in the Solomon Islands.

In addition, Indufor has consulted with representatives of the NZ ITTG, to follow up and confirm their market requirements for tropical timber imports. This consultation provided further guidance on the outcomes of discussions between the Solomon Islands sawn timber sector and the NZ ITTG in 2015; and provided input to the industry requirements discussed below.

A list of the stakeholders consulted for this project is set out in [Appendix B](#).

1.6 Industry requirements

To assess options for third party timber legality assurance for the Solomon Islands sawn timber industry, it is important to first determine the criteria on which the assessment should be based.

The Solomon Islands' industry requirements are broadly aligned with meeting the Australian and New Zealand market requirements, and meeting the Australian *Illegal Logging Prohibition Act 2012*.

Notwithstanding this, Indufor notes the Solomon Islands' industry requirements will need to also consider the balance of benefit and costs of addressing particular market requirements, with reference to the demand in the domestic market and other markets such as in Asia.

In this context, the following criteria are proposed for the assessment of alternative legality assurance programs (**Error! Reference source not found.**).

Table 1-1 Criteria and indicators for assessing alternative legality assurance programs

Criteria	Indicators
1 Credibility in international markets	Standard established with open public consultation Standard has been applied internationally Standard has been applied in tropical developing countries
2 Feasibility to set up in the short term	Timeline for verification could be within 6-12 months Program focuses primarily on processor operations Program provides for group certification
3 Relevant experience in providing legality verification services to the Solomon Islands	Existing verification operations in Solomon Islands Existing operations within the region Program offers training services for SITPEA
4 Capacity for stepwise progression to full forest management certification	Program established to provide FM certification Program manager is accredited to provide forest certification Program provides platform to support FM certification
5 Cost competitiveness	Cost competitiveness to establish the program Cost competitiveness to maintain third party assurance over time

Source: Indufor, based on consultation with PHAMA and SITPEA and other stakeholders

These criteria and associated indicators have been used to guide the consideration of alternative approaches to timber legality assurance (outlined in section 2), and assess the specific options available to SITPEA and the Solomon Islands sawn timber sector (section 3).

2.0 Overview of timber legality programs

An overview of timber legality programs operating globally is set out below. This overview provides context for the discussion of options for the Solomon Islands in section 3.

2.1 Development of timber legality programs operating worldwide

Forest management certification programs first started emerging in the 1990s driven by NGOs, notably with the establishment of the Forest Stewardship Council (FSC). Towards the end of the decade there was increased government and industry involvement which led to, for example, the development of national sustainable forest management standards, and subsequently, the emergence of the Programme for Endorsement of Forest Certification (PEFC), which endorses national programs that comply with PEFC requirements.

Up to the mid-2000s, there was recognition of the need in some countries and settings to set the immediate focus on a more basic requirement, i.e. combatting illegal logging. As a result, specific timber legality verification standards emerged, and these have evolved in parallel with forest management certification programs.

Specific illegal logging legislation started developing 5-10 years ago⁶. This followed the increasing concern about the impact of illegal logging, particularly in developing countries, and NGOs introducing timber legality systems as separate from forest management certification to meet the market requirements of importers and traders seeking credible third party assurance of timber legality – e.g. the NZITG.

An overview of this evolution of timber legality programs is set out below (Figure 2-1).



Figure 2-1 Overview of the development of timber legality programs and regulations

Source: Indufor

Today, there are these two broad types of certification programs that provide for timber legality assurance to consider:

⁶ For example - US Lacey Act Amendment 2008; European Union EUTR in 2010; and Australian ILPA in 2012.

- **Forest management certification schemes**, which incorporate timber legality verification as a core component of their assessment of forest management and wood from controlled sources. The leading programs globally are the FSC and the PEFC (endorsing national standards for forest certification and chain of custody systems).
- **Timber legality assurance programs**, including the Rainforest Alliance's *Timber Legality Verification*, NEPCon's *LegalSource™* Programme, SCS' *Legal Harvest™* Verification and Soils Association Woodmark's *Chain of Custody Verification of Legal Compliance*.

A comparative profile of these programs are provided in [Appendix C](#). A brief overview of the origins and key features is provided below (Figure 2-2).



Figure 2-2 Examples of forest certification programs and timber legality programs

Source: Indufor, based on organisation information online

The main difference between these two types of certification programs stems from the origins and evolution of the respective programs. While timber legality schemes are focussed on verifying the wood has been legally harvested, forest certification schemes are looking to address a broader range of social, environmental and economic considerations of sustainability. These differences are described in more detail in section 3.

In considering the application of these programs in the Solomon Islands, it is important to recognise that Solomon Islands timber processors cannot access forest management certification programs directly – to be able to obtain, process and sell forest management certified product would require the adoption and full compliance of certification standards by forest managers, i.e. logging licensees and community producer groups. However, there is scope under existing timber legality assurance programs for timber processors to obtain third party verification directly, through a process of conducting due diligence on their supply sources.

2.2 Key features of timber legality assurance systems

Indufor has reviewed a selected set of certification programs⁷ and identified their prominent features. The current standards typically comprise requirements for:

- *A management system*: an overarching management system with specifications for quality management, responsibilities, procedures and keeping records;
- *A due diligence system*: a risk-based assessment to ensure wood supplies are from a legal source, and defined mitigation procedures;
- *Tracking mechanisms*: a system to track inputs and outputs of material that has been ensured is legal through the supply chain;
- *Product labelling provisions*: a clear policy on labelling and public logo use associated with the specific underlying claim; and
- *Third party independent auditing*: requirements for periodic third party audits.

These features of the timber legality assurance standards give the programs their level of rigour and robustness and ultimately provide international credibility of the scheme.

In addition, *group certification* is a feature of all of the above programs with regard to options for implementation; a number of operators can form a group and hold a certification together. The group, as the certificate holder, is responsible for managing the system as a whole, in contrast to all operators setting up their own systems as separate entities. Group certification is discussed in more detail later in this report.

2.3 Status of capacity in Solomon Islands

Against this backdrop of regional developments, the Solomon Islands has sought to strengthen its regulatory framework and capacity to demonstrate timber legality assurance for its sawn timber exports.

The primary legislation governing forest management in Solomon Islands is the *Forest Resources and Timber Utilisation Act* 1969, which is administered by the MOFR. This legislation specifies requirements for various forms of **Felling Licences** and **Milling Licences** that form the basis of legal authority to harvest.

In addition, to export timber, an exporter must obtain a **Permit to Export**, approved by the MOFR. The application for the Permit to Export must detail the relevant licence number/s, volume, species and the value of timber being exported, plus documentation of the sale arrangements.⁸

Between 2012 and 2013, PHAMA supported the MOFR in working with the Australian Department of Agriculture to develop Country Specific Guidelines that set out guidance for Australian importers on the evidence required to demonstrate legal authority to harvest and export Solomon Islands sawn timber. This was the first set of Country Specific Guidelines developed for Australian importers, and it has provided a platform on which to continue developing and strengthening sectoral capacity.

At the industry workshop held in Honiara in December 2015, it was noted that further work was required to support community producer groups in obtaining Milling Licences and ensuring this documentation accompanies timber delivered to timber processors and exporters. SITPEA members and the MOFR have undertaken to work with community producer groups to 'raise the bar' on this fundamental requirement for establishing timber legality along supply chains.

Meanwhile, FSC-led forest management certification has been the particular focus of various initiatives operating in the Solomon Islands. These initiatives have been sponsored by either development agencies or private sector investments, generally working in particular provinces.

⁷ For the purpose of identifying key features, Indufor considered the FSC Standard for Chain of Custody Certification; PEFC International Standard for Chain of Custody of Forest Based Products; Rainforest Alliance Timber Legality Assurance Standard; NEPCo LegalSource Standard; and SCS Legal Harvest Verification Standard.

⁸ Australian Government, 2014. Country specific guideline for Solomon Islands. Department of Agriculture, Canberra.

As a result of this development work over a period of 10-15 years, FSC certification has been obtained for two large industrial plantation programs (although currently there is only one with a valid FSC certificate - Kolombangara Forest Products Limited, or KFPL); and also 5-6 small community groups operating under one group certification certificate.

Outside of the KFPL operations, which are primarily geared around log exports, the area certified and the volume of sawn wood produced from FSC certified community forest areas is small – indicatively, 50-100 m³ per year from community producer groups, or well less than 1% of total production of sawn timber exports.

The limitations on expanding FSC certification beyond the current extent have included:

- The limited capacity among community producer groups to meeting challenging standards and extensive requirements associated with addressing the principles and criteria across all the environmental, social and economic dimensions;
- The limited capacity among community producer groups to clearly demonstrate the systems and processes in place to ensure that timber is being harvested on a sustainable basis; and
- a lack of market demand for forest management certification for the Solomon Islands' log exports, which account for the large majority of forestry operations across the country.

These limitations highlight the significant challenge of obtaining full forest management certification in the Solomon Islands; and the limited scope for establishing third party forest management certification for a substantial proportion of sawn timber production, within a short timeframe.

By comparison, the scope to establish third party timber legality assurance is more feasible; and a practical approach to progressing towards forest management certification in the future.

3.0 Options for the Solomon Islands

Key considerations for the introduction of a program that will provide timber legality assurance for the Solomon Islands sawn timber sector include the following:

1. *Type of program*: whether to choose forest certification or timber legality program;
2. *Approach to choosing a program*: whether to adopt an existing program or create a new program for the industry; and
3. *Approach to implementation*: whether industry participants should establish group certification or obtain certification on an individual basis.

These considerations, or key decision points, are not necessarily sequential; and Indufor observes that an iterative process of consideration is appropriate and can be useful for testing the logic of each decision. However, for the purpose of this review, these three key decisions are set out in turn below. The comparison of options is set against the industry requirements, which reflect the overarching objective of introducing a rigorous, robust and internationally credible program for timber legality assurance to strengthen market access for sawn timber produced in the Solomon Islands.

3.1 Decision 1: Selecting the right type of program

The Solomon Islands sawn timber industry needs to identify which type of timber legality assurance shall be implemented across the sector. In broad terms, the options are:

1. Timber legality verification; or
2. Controlled wood assessments within a forest management certification program.

These two types of programs differ in the claim that can be made. While timber legality verification programs focus solely on verifying that wood has been accessed legally along the supply chain, the forest management programs certify for 'controlled wood' or similar⁹. Controlled wood – or wood from controlled sources – refers to wood not originating from 'controversial sources', which includes legal harvest as well as a broader range of social, environmental and economic considerations of sustainability. In general terms, the assessment ensures the avoidance of wood that comes from *any of the following* unacceptable sources:¹⁰

- Illegally harvested wood;
- Wood harvested in violation of traditional and civil rights;
- Wood harvested from forests where high conservation values are threatened;
- Wood harvested from forests being converted to plantations or non-forest uses;
- Wood from forests in which genetically modified trees are planted; or
- Non-compliant with local, national or international legislation.

Given their narrower focus, timber legality verification programs present a less onerous set of requirements when compared to controlled wood certification within forest management certification programs – not because they are less rigorous in relation to timber legality assessments, but because they are not looking to address the broader range of social, environmental and economic considerations of sustainability.

On this basis, Indufor considers that if the primary goal for SITPEA and PHAMA is demonstrating timber legality assurance within the next 6-12 months, then selecting a timber legality verification program will be the most cost effective approach to meeting this objective (**Error! Reference source not found.**). This will provide a sound platform for undertaking additional initiatives towards sustainable forest management and associated certification, if required for market access or other drivers.

In this context, Indufor recognises that some producer enterprises in the Solomon Islands have sought and obtained sustainable forest management certification, through the FSC. Indufor considers this initiative should be encouraged wherever it can be supported by management capacity and market drivers.

Table 3-1 Review of options for type of verification program

Criteria	Timber legality verification	Controlled wood/ COC certification
1 Credibility in international markets	✓✓	✓✓
2 Feasibility to set up at industry scale in the short term	✓✓	-
3 Capacity for certification services in the Solomon Islands	✓	✓
4 Capacity for stepwise progression to full forest management certification	✓	✓✓
5 Cost competitiveness	✓✓	-
Preferred option	Preferred	

Source: Indufor

⁹ Note the FSC standards refer to 'Controlled Wood'; whereas the PEFC – and aligned national programs – refer to 'Controlled Sources'. The principles and specifications for controlled wood and controlled sources are broadly similar.

¹⁰ Note the FSC definition of wood from unacceptable sources differs somewhat from the PEFC definition of 'controversial sources', but in broad terms, they are similar in scope.

Symbols indicate: ✓✓ strong alignment with criteria; ✓ weaker alignment; - not aligned.

3.2 Decision 2: Selecting the approach to establishing program

Having recommended the Solomon Islands establish a timber legality assurance program, the next key decision is whether to:

1. Introduce an existing, internationally recognised program; or
2. Establish a new national program to draw on local capacity.

Introducing an existing, internationally recognised program would enable the Solomon Islands to immediately begin implementing a program with established systems and processes. This would include a standard with accredited auditing systems and governance structures; all generally supported by broad stakeholder engagement. Further to this, an existing program will bring international experience in establishing a certification program within countries such as the Solomon Islands¹¹. In addition, the cost of establishing one of these existing programs can be established upfront through firm quotes and ongoing rates.

By comparison, the option of establishing a new local timber legality assurance program would be more challenging and, Indufor expects, take considerably longer to implement. While there are international examples of timber legality standards to draw from, creating a new system requires reaching consensus on a broad range of matters including building governance structures and an auditing regime (including training of personnel and auditors), defining common requirements for management systems and due diligence, creating labelling provisions and building trust for the system in overseas markets.

Potential cost savings may arise from lower administration and auditing costs under a new national program; however, these saving are likely to be outweighed by the costs of setting up a full governance structure for the program, and there is scope for existing international programs to use local auditors in any case; either as the lead or in support of an international auditor.

While creating a new program can be an opportunity to tailor the standard for the local industry, the international standards are broad in their nature and have been proven to be implementable in various geographies.

Most significantly, from an Indufor perspective, use of an existing international scheme will provide for credibility in international markets, from the outset. Establishing credibility for a new national program will take considerably more time, and would be subject to – among other aspects – the stakeholder engagement processes conducted as part of its development.

On this basis, Indufor considers adoption of a recognised international program to be compelling, and the preferred option (**Error! Reference source not found.**).

¹¹ There are international certification bodies that have more than 10 years of experience in delivering certification services across the forestry sector, e.g. Rainforest Alliance and SCS since the early 1990s, and NEPCon since 2000s.

Table 3-2 Review of options for the approach to establishing a new program

Criteria	Use of existing international program	Development of new national program
1 Credibility in international markets	✓✓	✓✓
2 Feasibility to set up at industry scale in the short term	✓✓	-
3 Capacity for certification services in the Solomon Islands	✓	✓
4 Capacity for stepwise progression to full forest management certification	✓	-
5 Cost competitiveness	✓✓	✓
Preferred option	Preferred	

Source: Indufor

Symbols indicate: ✓✓ strong alignment with criteria; ✓ weaker alignment; - not aligned.

3.3 Selecting the implementation model

A further consideration for the Solomon Islands sawn timber sector is how best to implement a selected timber legality assurance program, and specifically, which organisations along the supply chain are obliged to obtain certification in order to assure legality of the wood.

The number of certificates will depend on whether the sector selects individual or group certification. The group certification option for implementation is offered by all of the timber legality assessment programs addressed in this review, i.e. the timber legality programs offered by NEPCon, SCS and the Rainforest Alliance. The Solomon Islands' sawn timber sector, potentially through SITPEA, could establish a group certification manager and seek to obtain timber legality certification on behalf of the sector-wide group of processors that can conform to the same obligations.

Group certification has been designed particularly for groups of industry participants that are typically small scale – while some programs specifying scale thresholds, in other cases the determination is more of a relative consideration.

Key features of group certification include the following:

- The certification is managed by a central office and a designated certification manager, acting on behalf of the group as the primary liaison with the certification program and third party auditors.
- There is typically a sharing of resources and costs, including development costs, administrative costs (mostly through one central office and one certification manager) and auditing costs. The larger the group, generally the lower the costs on a proportional basis.
- Audits are typically conducted through a sample of licensees, rather than each individual. This reduces the time and cost burden on each individual participant, who would otherwise be subject to individual audits every year.
- Group certification creates some pressure on each member to comply with the program, as maintaining the certification is dependent on each member complying with the program. While this does constitute a form of risk for the individual participants, it can be a positive feature of group certification programs that collectively harness the knowledge and resources across the sector to achieve certification that may not be possible otherwise.

An additional feature of group certification, which may be relevant to the Solomon Islands sawn timber sector and the NZ ITTG importers in particular, is the scope to include additional features in the scheme rules, beyond those relating specifically to timber legality. The NZ ITTG has called for the Solomon Islands sawn timber sector to look beyond timber legality certification to additional measures

that lead the sector towards sustainable forest management certification – during discussions in 2015 this was referred to as the scope for verification of legal origin *plus* (VLO+). This objective was acknowledged and incorporated in SITPEA's Membership Charter, which includes the requirement for members to commit to:

Supporting and undertaking practical measures to encourage sustainable forest management in Solomon Islands, including initiatives to support and encourage third party forest management certification.

Through group certification, the group could include additional requirements in the scheme rules, to which all members agree to comply. Internal and external auditors could then be asked to review and assess performance against the standard plus the additional requirements.

One example of this could be a group commitment to undertaking practical measures to encourage sustainable forest management in Solomon Islands, including initiatives to support and encourage third party forest management certification – possibly through preferential buying or paying a premium for timber with this certification, to provide a stronger market signal.

Other examples, drawing from the additional components of the VETE legality standard for community producers, and the 'controlled wood' or 'controlled sources' assessments conducted under the FSC and PEFC programs respectively, could include requirements for:

- Producers to have a current land use plan in place, approved by the recognised community landowners, for the land from which the timber was harvested;
- Producers to provide assurance that their timber harvesting was not conducted in areas with designated high environmental and cultural values; or
- Producers to provide assurance that their timber harvesting does not convert native forest to other vegetation types, including conversion of native forest to plantations.

Indufor proposes that SITPEA work with its selected timber legality verification service provider to identify the specific elements of additional measures that could be reasonably and practically introduced to the group scheme rules. Following this consideration, Indufor recommends further engagement on the proposed measures with the MOFR, to check alignment with regulatory requirements, and with the NZ ITTG, to check alignment with export market requirements.

The challenge for group certification is bringing together a group of like-minded industry participants that can agree to share resources and work together to comply with an agreed standard (and other scheme rules if applicable), and maintain certification as a whole. In the case of the Solomon Islands, this pre-requisite is largely met by the formation of SITPEA and its Membership Charter being strongly aligned with this objective.

On this basis, Indufor considers adoption of a group certification implementation model is the preferred option (**Error! Reference source not found.**).

Table 3-3 Review of options for the implementation model and scale

Criteria	Group certification	Individual certification
1 Credibility in international markets	✓✓	✓✓
2 Feasibility to set up at industry scale in the short term	✓✓	-
3 Capacity for certification services in the Solomon Islands	✓✓	✓
4 Capacity for stepwise progression to full forest management certification	✓✓	✓
5 Cost competitiveness	✓✓	✓
Preferred option	Preferred	

Source: Indufor

Symbols indicate: ✓✓ strong alignment with criteria; ✓ weaker alignment; - not aligned.

4.0 Recommendations

Indufor presents the following recommendations based on this review of options and our engagement with industry stakeholders in the Solomon Islands as well as with a range of international service providers for timber legality assurance. The engagement with a range of service providers has provided for testing of the recommendations in the market place, and assurance they are practical and feasible in the near term, i.e. with 6-12 months.

4.1 Recommended approach

Indufor is recommending the Solomon Islands sawn timber industry:

1. Establish a third party timber legality assurance program rather than a forest management certification program in the near term;
2. Adopt an existing program with established systems and international credibility; and
3. Use the group certification model for SITPEA members.

Indufor recognises that some producer enterprises in the Solomon Islands have attained or are in the process of seeking to attain sustainable forest management certification, most notably through the FSC forest certification program. Indufor considers this initiative should be encouraged wherever it can be supported by management capacity and market drivers.

However, these FSC forest certification initiatives are not yet operating at a scale that can supply sufficient volumes to address the requirements of Solomon Islands' timber processors and exporters. The limited adoption of FSC forest certification among community producer groups to date indicates there would need to be a transformational change across the sector - over a period of time that would likely require at least three years - to reach a scale that will impact on Australian and New Zealand sawn timber markets.

In this context, the adoption of an internationally credible timber legality verification program will meet the primary objective of providing timber legality assurance to key sawn timber markets; and this will provide a platform for the industry to continue to build towards sustainable forest management certification in the future.

4.2 Selecting a preferred program for the Solomon Islands

Through this review, Indufor worked with PHAMA and SITPEA to identify and compare existing certification programs that can provide timber legality verification services.

This included direct engagement, under the SITPEA banner, with two forest certification programs (FSC and PEFC) plus five timber legality verification service providers (NEPCon, Rainforest Alliance, SCS, Soil Association – Woodmark and SGS). These programs were invited to express their interest and put forward proposals to provide timber legality verification services to SITPEA or its members.

Six separate proposals were received by SITPEA during January 2016 – one each from FSC, PEFC, NEPCon, Rainforest Alliance, SCS and Soil Association.

Drawing on the information presented in these proposals, Indufor assessed the suitability of these programs for application in the Solomon Islands. This assessment was conducted against the industry requirements (assessment criteria) set out in section 1. The assessment results are set out in [Appendix 4](#). A summary of this assessment is set out below (**Error! Reference source not found.**).

This assessment, which covers the forest certification programs as well as dedicated timber legality verification programs, further reinforces the recommendation for the Solomon Islands sawn timber processors to look to timber legality verification programs to meet their primary objective in the near term. This assessment is attributable largely to the 'feasibility' criterion, and relatedly the 'cost effectiveness' criterion – as timber legality verification programs have a narrower focus, they present a

less onerous set of requirements when compared to controlled wood certification within forest management certification programs.

Table 4-1 Summary of comparison of selected timber legality assurance programs

Criteria	FSC	PEFC	NEPCon	RA	SCS	Soil Ass.
1 Quality of proposal	✓	✓	✓✓	✓	✓	✓✓
2 Credibility	✓✓	✓✓	✓✓	✓	✓✓	✓✓
3 Feasibility	-	✓	✓✓	✓✓	✓	✓
4 Capacity for Solomon Is.	✓✓	✓	✓	✓	✓	✓
5 Capacity for progression to FM certification	✓✓	✓✓	✓	✓	✓	✓
6 Cost competitiveness	-	-	✓	✓	✓	✓✓
Preferred options	Preferred			Preferred		

Source: Indufor

Symbols indicate: ✓✓ strong alignment with criteria; ✓ weaker alignment; - not aligned.

Further discussion and consideration can be given to Indufor's assessment of other criteria for differentiating between the various proposals, notably the criteria relating to quality of proposal, capacity for verification services in the Solomon Islands, and cost competitiveness through establishment and ongoing implementation. Indufor notes it may be preferable to discuss or negotiate further with more than one service provider, to assist in encouraging these prospective providers to be sharp and responsive in their approach to this program.

4.3 Other requirements for certification

In addition to identifying and selecting the most suitable timber legality verification program, it is important the Solomon Islands sawn timber sector continues to focus on building its capacity to demonstrate full compliance with the regulatory framework and be able to trace timber flows from licenced producers through the supply chain to processors pursuing certification.

In this context, it is a critical requirement that all sawn timber supplied to timber processors and exporters be accompanied by a valid Milling Licence, issued to the responsible producer prior to the timber being cut and transported to the processors in Honiara (Ranadi) or Noro.

The MOFR and SITPEA are working to ensure this is the case, and Indufor recommends that this be given the highest priority, as a foundation stone for demonstrating timber legality.

Most of the international programs offering timber legality verification services have offered to provide (for a fee) various tool kit information and also training for industry participants seeking certification under their program. Some of the tools and supporting fact sheets have been provided to SITPEA already during the request for proposals process conducted through this review. These tools and the training sessions would set out the full set of compliance requirements under the respective standards.

Further work can be done to set out these requirements for SITPEA and its members. However, Indufor observes the processes offered by different service providers will vary to some extent. Therefore, Indufor considers it would be preferable for PHAMA and SITPEA to focus first on selecting the preferred program; and then focus on the specific requirements of the selected program with active support from the program manager.

5.0 Implementation

For implementation purposes a proposed work plan and timeline is set out below, followed by indicative costings for the proposed set up and ongoing management of an existing program.

5.1 Proposed work plan and timeline

A proposed work plan and timeline for implementation is set out below (**Error! Reference source not found.**). This work plan is based on the recommendations outlined above and further considerations required, notably the further considerations relating to the Solomon Islands’ resourcing arrangements and funding models to support program implementation and third party auditing.

This proposed work plan sets out three broad streams of activities, aligned with three grouping of stakeholders: firstly, the MOFR and industry participants (including producers and processors); secondly, PHAMA and SITPEA, in the capacity of facilitators supporting industry development; and thirdly, the third party service provider selected to conduct third party auditing and verification of the preferred program. To establish third party timber legality assurance in the Solomon Islands within a time frame of 6-12 months will require concerted activity under these three streams, operating in parallel over this time period.

Recognising the primary driver for this work plan is meeting New Zealand timber importer requirements, Indufor recommends that PHAMA and SITPEA discuss this proposed work plan with NZ ITTG and seek its endorsement of this approach and timeline prior to substantive work on implementation. Key aspects for specific discussion would include the specified target timeline to attain third party legality verification; the consideration of scope for incorporating additional sustainability criteria in the verification program; and the funding requirements to support the Solomon Islands timber industry in implementing key tasks.

Timeline	MOFR and industry	PHAMA & SITPEA	Third party provider
0-2 months	<ul style="list-style-type: none"> Strengthen compliance around Milling Licence requirements 	<ul style="list-style-type: none"> Engage with export markets (NZ ITTG) on proposed program scope and timeline 	
	<ul style="list-style-type: none"> Strengthen compliance around Milling Licence requirements (cont.) Support SITPEA in further work on scoping additional sustainability criteria 	<ul style="list-style-type: none"> Select preferred programs Engage with preferred providers on detailed costing Secure funding commitments for program 	<ul style="list-style-type: none"> Respond to queries Engage with SITPEA on components and costings Provide toolkit information and other support as required
2-4 months	<ul style="list-style-type: none"> Support SITPEA in seeking legality verification, specifically by: <ul style="list-style-type: none"> Implementing additional checks and controls Addressing additional sustainability criteria, if and as agreed with SITPEA 	<ul style="list-style-type: none"> Establish group certification structure and membership Appoint group certification manager Establish group scheme rules, standards and systems Review training requirements 	<ul style="list-style-type: none"> Confirm agreed standards and timeline for verification Providing in-country training, as required
	<ul style="list-style-type: none"> Support internal audit inspections or requests 	<ul style="list-style-type: none"> Bed down standards/systems Internal auditing, e.g. PHAMA Corrective actions 	<ul style="list-style-type: none"> Respond to queries, as required
6 months	<ul style="list-style-type: none"> Support external audit inspections or requests 	<ul style="list-style-type: none"> External audit for certification Address issues arising 	<ul style="list-style-type: none"> Conduct verification audit and prepare report
7-8 months		<ul style="list-style-type: none"> Third party timber legality verification (pending) 	<ul style="list-style-type: none"> Issue certification, pending satisfactory compliance

Figure 5-1 Proposed work plan and timeline for PHAMA and SITPEA

5.2 Key challenges

Following the selection of a preferred program and obtaining proposals with more detailed costing information, the main challenges for achieving third party timber legality assurance for sawn timber production in the Solomon Islands are considered to be:

1. **Securing funding to support the multiple components of the initiative.** This includes:
 - Defining the resourcing requirements and indicative costs of the scheme manager;
 - Completing the business case and secure funding to support the scheme management arrangement;
 - Appointing a group certification manager (i.e. wages, potentially for a part time role);
 - Internal audits (either existing program resources or an external consultant); and
 - Verification audits by the selected timber legality service provider.
2. **Strengthening full compliance around Milling Licence requirements.** This includes:
 - MOFR working to ensure there is clear guidance and efficient means for community producer groups to apply for and obtain a valid Milling Licence, subject to application requirements and ongoing compliance requirements; and
 - Processors working with their suppliers (producer groups) to ensure they have valid Milling Licences in place for all timber they are bringing to the market.
3. **Building capacity to establish new protocols and industry 'norms',** through the group certification manager and additional support from PHAMA and SITPEA, for:
 - Maintaining clear documentation of timber production linked to valid Milling Licences; and
 - Establishing clear and robust methods for physical separation of timber that may not have the necessary licence information to show it was harvested legally and in compliance with all applicable regulations.

5.3 Indicative costings

For the purpose of scoping the implementation, Indufor has compiled indicative estimates of the main costs associated with adopting the recommendations.

The recommendations encompass activities associated with:

- *setting up* the legality verification program in the Solomon Islands and obtaining third party legality verification for an industry group within the first year of operation (i.e. over the next 6 - 12 months); and
- *ongoing administration, governance and compliance* with the legality verification program (annual costs).

A summary of the indicative estimates for costs within the next 6-12 months, and annual costs to follow in subsequent years, is set out below (**Error! Reference source not found.**).

Table 5-1 Indicative costings for program set up and ongoing management (AUD)

Cost components	Cost attributions	Cost estimate (AUD)
Set up costs		
Group certification manager, plus travel	Internal/External	10,000
Group systems and office set up	Internal/External	5-10,000
Training	External	25,000
Systems set up by member companies	Internal	Excluded
Internal auditing	Internal/External	5-10,000
Certification audit (initial certification)	External	25,000
Subtotal – External costs during first year		70-80,000
Ongoing costs		
Administration and governance	Internal/External	10,000
Internal auditing	Internal/External	5-10,000
Training (ongoing, as required)	External	5,000
Surveillance audits (annual)	External	15,000
Subtotal – Ongoing annual costs (nominal)		35-40,000

Source: Indufor, incorporating reference to various data provided in some of the proposals received from timber legality verification providers

5.3.1 Key cost components

The key cost components for third party timber legality verification in the Solomon Islands will comprise:

- *Contract fees for the group certification manager position:* The group certification manager will be responsible for coordination of the group generally; and specifically, coordination of the development of group policies and procedures; reporting and record-keeping systems; internal auditing functions; and liaison with the third party legality verification service provider. There are various models for setting up this ‘manager’ position. One approach is to appoint one person with the skill sets and experience to manage all the administrative and technical components of this role. Another approach is to appoint a manager with strong administrative skills, and support this position with another person who has strong technical skills to develop or advise on developing policies and procedures, and potentially conducting the internal audits. The most cost effective option will depend on the availability of suitable candidates and the preference among the group membership for the way in which to interact with the group certification manager.
- *Group systems set up and operation:* In the first year, there will be some additional costs associated with setting up the group. These may include the purchase of office equipment for the group certification manager in particular; systems software or other office facilities to support the operation of these systems; travel costs for the group certification manager or group members to travel for meetings or information forums; and potentially some external costs of engaging financial or legal advisers in the setting up of the group structure and in subsequent auditing and reporting arrangements.

- *Training by third party legality verification provider:* Several of the third party legality verification service providers suggested in their proposals to SITPEA that they could provide a training course in the use of their program. These training courses would typically comprise workshop sessions over 2-3 days, held in Honiara, and there would be fees associated with the trainer's time and travel expenses. Based on the proposals received by SITPEA, the cost of this type of training would constitute the next largest cost in the first year, after the anticipated costs for external auditing.

Training provided by the third party legality verification service provider would provide clear guidance on the expectations for complying with the selected system, and would mitigate against the risk of the external audit (verification) identifying major gaps or non-conformance in the program at a later stage. It is proposed the training would be provided to the group certification manager and representatives of all members of the group seeking timber legality assurance. Indufor considers this investment in training would likely be well worthwhile for SITPEA, particularly if a funding contribution could be secured from outside the industry.

- *Systems set up by individual member companies:* Following the selection of a preferred program; and ideally after training by the program providers, each of the members of the group would need to set up their systems to align with the group certification policies and procedures. This will require each member to allocate resources to setting up or otherwise ensuring they can demonstrate compliance with the group certification program.

In the case of member companies that have already established business systems for checking that suppliers are operating with valid licences for all their timber production, and tracking all timber product inputs and outputs, the additional requirements for group certification may be minimal. In other cases, there may be some substantial costs involved. However, Indufor has assumed that each member company would bear those costs individually and separately, and these 'internal' costs are excluded from the indicative costings for obtaining timber legality verification.

- *Internal auditing:* Indufor is recommending the industry group seeking third party timber legality verification sets up a process for internal auditing, to check that each member of the group is complying with the requirements of the selected program, and subsequently, to check the group is ready for the external audit. As noted above, the cost of this internal auditing will depend on the structure and personnel involved with the group. If the group certification manager has the technical capability to conduct internal audits, then the cost of their time may be borne already in the fees for that position. However, if the group certification manager does not have the skill set to conduct audits, then the group may need to procure services of a suitably qualified person to conduct these audits, potentially with external costs.
- *External auditing (third party verification):* Third party verification would be conducted by external auditors engaged by the program, and therefore this would constitute an external cost. Based on the proposals received by SITPEA, the cost of facilitating the external audit is likely to be the largest single cost in the first year, and potentially in subsequent years also. The external audit is expected to involve an international auditor travelling to Honiara, and out to the provinces as required, to inspect the group systems and the operations of the group members, for a period of indicatively 5-6 days.

The external audit will also involve some pre-preparation by the auditor, and time after the field inspections to finalise a report and discuss the findings with the group certification manager. If there are no non-conformances with the program standard and associated obligations, the outcome of the audit will be third party verification. If there are some non-conformances, the auditor will likely request the group to address these before the group and its timber products can be 'verified legal'.

5.3.2 Potential funding sources and mechanisms

The multiple cost components provide a basis for the Solomon Islands timber industry to seek funding contributions from a range of different stakeholders, for particular functions. Indufor notes that PHAMA is already supporting SITPEA and the Solomon Islands timber industry more broadly with efforts to obtain third party timber legality verification; and the NZ ITTG has advised PHAMA and SITPEA of scope to consider providing some form of support to the industry in moving towards timber legality verification and forest certification over time.

The cost components outlined above can be grouped into three broad categories:

1. *Setting up industry structures and systems* – Indufor considers this grouping encompasses the costs of the group certification manager; the group systems set up and operation; the systems set up by individual member companies; and the internal auditing. This grouping encompasses both internal and external costs.
2. *External training* – the discrete external cost of facilitating a training course for the group certification manager and group members, provided by the third party service provider.
3. *External auditing* – the discrete external cost of engaging an auditor to conduct third party verification against the program standard and associated obligations.

Indufor recommends PHAMA and SITPEA consider these three broad groupings of cost components separately, and the capacity of downstream markets and potentially donor programs to contribute to meeting this range of costs of the program.

Further to this, the determination of funding mechanisms should take into account various factors that require further consideration by industry representatives and other stakeholders. These include:

- The number of member companies and the composition of these member companies seeking timber legality verification through group certification;
- The selection of a suitable group certification manager on agreeable terms; and
- The scope for downstream markets and donor programs to contribute to selected costs.

In relation to both member contributions and potentially downstream market contributions, Indufor suggests an industry levy structure be considered. For example, in recognition of the additional effort and cost of obtaining third party legality verification, all of the Solomon Islands timber exporters that are members of the group could place a *levy* or *surcharge* on each cubic metre of timber sold as 'verified legal'. In this example, the downstream markets (e.g. NZ ITTG member companies) would accept the surcharge and each Solomon Islands timber exporter would receive additional revenue through their standard invoicing system. Then on a monthly or quarterly basis, each timber exporter would transfer the surcharge receipts to a centralised fund, which is used by the group certification manager to cover the costs of group certification.

Setting the level of the surcharge for this model should consider the amount of funds required to meet the costs of group certification, the relative proportion of the surcharge to the current cost of the timber to timber importers, and the appropriate level of contribution by industry and non-industry stakeholders in the program.

Indufor recommends PHAMA and SITPEA also consider an appropriate contingency for additional or unexpected costs that may arise – including for example, the cost of addressing any non-conformances identified through the internal or external audits.

In addition, Indufor recommends consideration be given to the benefit for SITPEA in engaging a regular financial audit of group certification functions. The proposed audit scope would include reviewing the income contributions allocated to the centralised fund or group bank account, and the outgoing disbursements over time. This would assist to provide transparency and a clear understanding among members, and other contributing entities if relevant, of the appropriate allocation of funds directed to timber legality assurance in the Solomon Islands.



Appendix A

Membership charter for
the Solomon Islands
Timber Processors and
Exporters Association

Appendix A Membership charter for the Solomon Islands Timber Processors and Exporters Association (SITPEA)

Dated January 2016

Members of the Solomon Islands Timber Processors and Exporters Association recognise and commit to the following principles:

1. Encouraging and undertaking processing and value adding of timber as a means of supporting the sustainable economic development of Solomon Islands.
2. Sourcing timber that has been legally produced, where compliance with the necessary licenses can be demonstrated. (In most cases, this means that a valid milling licence and associated documentation will be available).
3. Working with the Ministry of Forestry and Research to ensure compliance with the Laws and Regulations governing timber production in Solomon Islands and will actively support awareness programs to encourage compliance among timber producers.
4. Supporting and undertaking practical measures to encourage sustainable forest management in Solomon Islands, including initiatives to support and encourage third party forest management certification.
5. Supporting appropriate initiatives to ensure monitoring and transparency of the Solomon Islands timber industry.
6. Providing a safe and secure working environment for all its workers.
7. Continuous improvement in strengthening the Solomon Islands sawn timber sector



Appendix B

Industry consultation

Appendix B Industry consultation

For the purpose of identifying and assessing options for third party timber legality assurance for the sawn timber industry in the Solomon Islands, Indufor consulted with the following representatives of the Solomon Islands Government and industry companies and other organisations:

Organisation	Representatives
Goodwood	Elsa Gonfales Heidi Kaisi David Ling Sieng Ching
Fairtrade	Chachabule Amoe
FS Rural Quality Timbers	Danny Hiro
Hatanga Hardwoods	Adam Bartlett
John Wesley Timbers	Charlie Wesley Charles
JSC Invizo Corp.	Joseph Wane
Lagoon Eco	Robert Mesa Bradley
Ministry of Forestry and Research (MOFR)	Gordon Konairamo Julius Houria Stephanie Rikoi Joseph Tavuata Kathleen Bule Minnie Faliu
Natural Resources Development Foundation (NRDF)	Marlon Kuve Wilko Bosma
New Zealand Imported Tropical Timber Group (NZ ITTG)	Malcolm Scott (JSC Timber) Matthew Carter (Herman Pacific)
Pacific Exports Alliance	Steven Wong
Producer representatives	Charles Karolo Ricky Clayton Cornelius Keteas Derick Kalea George Kavoa Harold Tabeipwia Henry Raheana Joel Kavora Nason Nafu Sam Falura

Organisation	Representatives
	Kenaz Luiramo Joseph Tua Lincoln Koina
Secretariat of the Pacific Community (SPC)	Gideon Bourou
Top Timbers	Terry Wu
Value Added Timber Association (VATA)	Eric Tolilalo Gordon Mwakamwane
Verahue Community Milling	David Dickina
Village Eco-Timber Enterprises (VETE)	Alick Hou



Appendix C

Overview of selected
forest certification
programs providing
timber legality
assurance

Appendix C Overview of selected forest certification program providing timber legality assurance

Overview of selected forest certification programs providing timber legality assurance

FSC	PEFC
Applicable standard	
<i>FSC Standard for Chain of Custody Certification</i> FSC-STD-40-004 V2-1	<i>PEFC Chain of Custody of Forest Based Products: 2nd Edition</i> PEFC ST 2002:2013
Basis for timber legality assurance	
Controlled wood (Chain of Custody standard)	Wood from controlled sources (Chain of Custody standard)
The claim: assessment components	
Controlled wood, which ensures the wood is not from unacceptable sources that include: <ul style="list-style-type: none"> - Illegally harvested wood - Wood harvested in violation of traditional and civil rights, or - from forests where high conservation values are threatened, or forests being converted to plantation or non-forest uses, or - forests in which genetically modified trees are planted 	Wood from controlled sources, which ensures the wood is not from controversial sources, which are forest activities that: <ul style="list-style-type: none"> - Do not comply with local, national or international legislation (e.g. biodiversity conservation, health and labour issues, indigenous people' property rights, payment of taxes and royalties) - Do not comply with legislation relating to trade and customs, - Use genetically modified forest based organisms, or - Convert native forests to other vegetation types (including forest plantations)
Segments of supply chain requiring certification	
Processors can apply for COC certification without the need for all its suppliers to have forest management certification or controlled wood assessment. In these cases, responsibility sits with the processor to conduct due diligence on their supplies, and assure themselves (and auditors) that the wood meets the controlled wood criteria.	Processors can apply for COC certification without the need for all its suppliers to have forest management certification or a COC certificate at delivery. In these cases, processors need to conduct their own due diligence assessment (based on the standard) of the supply chain to assure their material is from controlled sources.
Scope for group certification	
All participating sites shall: <ol style="list-style-type: none"> a) be in the same country b) have no more than 15 employees (FTE) or: c) have a maximum total annual turnover of US\$1 million. 	Producer group members must be: <ol style="list-style-type: none"> a) domiciled in a single country; b) each have no more than 50 employees (FTE); and c) each have a turnover of max. (CHF9 million) ~US\$9 million.

FSC	PEFC
Logo use	
Stating "FSC Controlled Wood" on invoices is allowed, but using logo on products is not, unless the wood has forest management certification.	On- or off-product is allowed stating 'Controlled wood' claim. However, the PEFC logo is not allowed on-product unless the wood has forest management certification.
Links	
https://ic.fsc.org/types-of-chain-of-custody-certifications.117.htm https://ic.fsc.org/en/certification/types-of-certification/controlled-wood-02	http://pefc.org/certification-services/supply-chain

Overview of selected timber legality assurance programs

Rainforest Alliance	NEPCon	SCS	Soil Association
Applicable standard			
New <i>Timber Legality Verification</i> standard (V01-15) – due for finalisation in January 2016. Based on NEPCon's <i>LegalSource</i>	<i>LegalSource</i> Programme	<i>Timber Harvest Verification</i>	<i>Chain of Custody Verification of Legal Compliance</i>
Basis for timber legality assurance			
Timber legality verification	Timber legality verification	Timber legality verification	Timber legality verification
The claim: assessment components			
Organisations that are independently verified by Rainforest Alliance as meeting the requirements of this standard can be issued with a Rainforest Alliance TLV verification statement, entitling them to trade the products covered by the verification statement as " <i>TLV-verified</i> ".	Organisations that are independently verified by NEPCon as meeting the requirements of this standard can be issued with a NEPCon <i>LegalSource</i> certificate, entitling them to trade the products covered by the certificate as " <i>LegalSource-certified</i> ". Verified products have to: - originate from a forest that has been harvested according to applicable legislation; - be transported, traded and handled legally in the supply chain; and - not be mixed with other material of illegal origin.	SCS <i>Legal Harvest Verification</i> standards are designed to verify the legal right to harvest, process and transport wood. SCS enables certified companies to confirm that their wood products were legally sourced. Note: SCS has advised that it can adapt the standard so it fully covers all of the environmental, social, and other laws relevant to the forest management in the region; i.e. the Solomon Islands.	The Woodmark COC <i>Legal Compliance Verification</i> demonstrates legal supply by verifying that suppliers of wood adhere to local laws. Verified supply has to show a certificate of (FSC Principle 1): - legality of operation and legal right to harvest; - compliance to legislation related to forest management, environment, labour and welfare, health and safety; - compliance with legislation related to taxes and royalties and trade and exports; - respect for tenure or use-rights - compliance with international treaties (e.g. ILO, CBD) - Protection from illegal uses
Segments of supply chain requiring certification			
Processors can obtain certification	<i>LegalSource</i> does not require that all	SCS <i>Legal Harvest</i> provides COC to	Woodmark can provide COC/VLC for

Rainforest Alliance	NEPCon	SCS	Soil Association
under the standard without the need for upstream suppliers to carry certification. TLV involves the processor developing a due diligence system that scores sources of supply as low, medium or high risk.	points in the supply chain are subjected to on-site evaluation. In many cases the certification may be held by a processing or trade facility that is responsible for the implementation of the due diligence system. The certificate holder will thus be responsible for assessing risks associated with timber supply as well as mitigating any identified risks.	downstream processors that source from suppliers that have obtained timber legality assurance through SCS Legal Harvest certification or other COC programs that assess legality of operations at the forest level.	processors where the supply of wood is certified or otherwise verified legal. If this is not the case Woodmark would need to conduct some verification at the forest level.
Scope for group certification			
Usually for smaller forest growers; but RA is open to exploring group structures under the new TLV standard.	Requirements for group certification relate mainly to functions and capabilities, rather than the scale of the members.	Yes; can be adapted for small producers, while the program would still require forest level evaluations. SCS suggests developing a system for sample-based audits for such a group.	Yes; follows same principles and protocols as for FSC group certification. Covers by default all timber products that are owned and processed at member sites.
Logo use			
TLV provides only for B2B claims, e.g. on proposals, invoices and correspondence. No on-product labelling allowed.	LegalSource claims and logo may be used for B2B marketing, but not on-product.	No information to date	Woodmark allows off-product claims in promotional materials or sales documents that have been approved by Woodmark.
Links			
http://www.rainforest-alliance.org/forestry/verification/legal	http://www.nepcon.net/legalsource	https://www.scsglobalservices.com/timber-legality-verification-legal-harvest	http://www.sacert.org/woodmark/timber-legality



Appendix D

Comparison of suitability
of timber legality
assurance programs for
the Solomon Islands

Appendix D Comparison of suitability of timber legality assurance programs for the Solomon Islands

Comparison of suitability of timber legality assurance programs for the Solomon Islands

Criteria	Indicators	FSC	PEFC	NEPCon	RA	SCS	Soil Ass.	
1 Quality of proposal	Proposal shows clear understanding of requirements	✓	✓	✓✓	✓✓	-	✓✓	
	Proposal provides technical information sought	✓✓	✓	✓✓	✓	✓✓	✓✓	
	Proposal provides financial information sought	-	✓	✓✓	-	-	✓	
2 Credibility	Standard established with open public consultation	✓✓	✓✓	✓✓	✓✓	✓	✓✓	
	Standard has been applied internationally	✓✓	✓✓	✓✓	✓	✓✓	✓✓	
	Standard has been applied in tropical developing countries	✓	✓	✓✓	✓	✓✓	✓	
3 Feasibility	Program focuses primarily on SITPEA processor operations	-	✓	✓✓	✓✓	✓	✓	
	Program provides for group certification for SITPEA	✓	✓	✓✓	✓✓	✓✓	✓✓	
	Timeline for verification could be within six months	-	-	✓✓	✓	✓	✓	
4 Capacity for verification services in Solomon Islands	Existing verification operations in Solomon Islands	✓✓	-	-	-	-	✓	
	Existing operations within the region, e.g. AUS, NZ, PNG, IND	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓	
	Program offers training services for SITPEA	✓✓	✓	✓✓	✓	✓	✓✓	
5 Capacity for stepwise progression to FM certification	Program established to provide FM certification	✓✓	✓✓	-	-	-	-	
	Program manager is accredited to provide FM certification services	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓	
	Program provides platform to support FM certification	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓	
6 Cost competitiveness	Estimated position on cost competitiveness to establish program	-	-	✓	✓	✓	✓✓	
	Estimated position on cost competitiveness on auditor costs	✓	✓	✓	✓	✓	✓	
Preferred options						Preferred		Preferred

Criteria	Indicator descriptor	Score	Explanation
1 Quality of proposal	High	✓✓	Yes - full merit; detailed technical information and financial costings provided
	Medium	✓	Relevant merits to consider; some or general technical information or financial costings provided
	Low	-	No notable merits; limited or no technical information or financial costings information provided
2 Credibility	High	✓✓	Position is clear, credible and compelling; more than satisfactory
	Medium	✓	Position is clear and satisfactory - meets basic requirement but limited in scope
	Low	-	Position is unclear or otherwise less than satisfactory - although may have some merit
3 Feasibility	High	✓✓	Position is clear, credible and compelling; more than satisfactory
	Medium	✓	Position is clear and satisfactory - meets basic requirement but limited in scope
	Low	-	Position is unclear or otherwise less than satisfactory - although may have some merit
4 Capacity for verification services in Solomon Islands	High	✓✓	Yes - full merit
	Medium	✓	Relevant merits to consider
	Low	-	No notable merits
5 Capacity for stepwise progression to FM certification	High	✓✓	Yes - full merit
	Medium	✓	Relevant merits to consider
	Low	-	No notable merits
6 Cost competitiveness	High	✓✓	Most cost effective options
	Medium	✓	Mid-range option based on estimated costs
	Low	-	Least cost effective option, or no cost guidance provided

