growing
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ASSOCIATION SURVEYS FOR KNOWLEDGE (ASK)

INDONESIA

Prepared by GTF

November 2018

Contents

GLOBAL TIMBER FORUM'S ASSOCIATION SURVEY FOR KNOWLEDGE (ASK)

The Global Timber Forum's Association Survey for Knowledge (ASK) seeks to better understand the challenges faced by forest and wood-based industry and trade associations around the world. The responses from associations in Asia, Africa, Europe and South and North America will inform GTF's, and our project partners, knowledge about the skills and capabilities of associations and identify future support programmes particularly focused on priority countries.

The survey is focused on five themes:

Theme 1 Associations profile and capabilities

Theme 2 Priorities in delivering services to members

Theme 3 Challenges faced by the association membership

Theme 4 Analysis of domestic and regional markets

Theme 5 Analysis of international market and customer needs including legality and sustainability aspects

The survey was developed in collaboration with our project partners: FAO (Food and Agriculture Organisation of the United Nations) and WRI (World Resources Institute). The survey was made up of three complementary sections. Respondent associations were encouraged to complete all three sections.

The survey results are anonymised and non-attributable except at regional level. GTF will share relevant data with survey respondents and our partners to better assist the development and funding of trade-focused responsible timber trade programmes.

Indonesia

The survey of trade associations in Indonesia was conducted in September and October 2018.

GTF wishes to thank the following associations for their time in contributing to this survey:

- **APHI** - Asosiasi Pengusaha Hutan Indonesia / Indonesian Forest Concession Holders Association
- **APKI** - Asosiasi Pulp dan Kertas Indonesia / Indonesian Pulp and Paper Association
- **APKINDO** - Asosiasi Panel Kayu Indonesia / Indonesian Wood Panel Association
- **ASMINDO** - Asociasi Industri Permebelan & Kerajinan Indonesia / Indonesian Furniture Industry and Handicraft Association
- **HIMKI** - Himpunan Industri Mebel dan Kerajinan Indonesia / Indonesian Furniture and Handicraft Association
- **ILWA & IBCA** - Indonesian Light Wood Association & Indonesian Bare Core Association
- **ISWA** - Indonesian Sawmill and Woodworking Association / Asosiasi Pengusaha Kayu Gergajian dan Kayu Olahan Indonesia

Context

Changes to the Indonesian timber industry

Indonesia has over 120 million hectares (63 percent) of its land area designated as Forest Area (*Kawasan Hutan*). Production Forests (*Hutan Produksi*, HP) cover a total area of over 68 million hectares, or 57 percent of the Forest Area. This forest produces most of the timber to supply the timber industry as well as export. Conservation Forests (*Hutan Konservasi*) and Protection Forests (*Hutan Lindung*) covering the remaining Forest Area.

In the 1980s the National Annual Production quota was at 32 million m^3 per year. It declined to 6 million m^3 per year in 2007-2008 and was in the range of 5 million m^3 per year in 2015-2016.

In this period there has been a paradigm change in the wood processing industry. While large volume was prioritized in the 80s, after the 2000s the industry prioritized product quality improvement. This involved the development of increasingly efficient and competitive wood processing technology to meet market demands and the development of secondary industries of furniture, wood working, plywood and pulp and paper products. Improved marketing techniques are also creating a competitive advantage.

During the same period a significant and sustained increase has been recorded in the annual export of processed timber products.

Move from natural forest to plantation wood

The use of wood from natural forests has been greatly reduced and increasingly wood is obtained from plantation forests. Logging concessions in natural forests (HPH) and Industrial Plantation Forests (HTI) are the main producers of logs in Indonesia. High production costs and lower prices have lowered the profits of many natural forest concessions and many concessions (estimated 36%) are not currently producing.

The declining price for wood from natural forests has caused many industries to use timber from plantations (HTI) and community forests. For example, pulp and paper mills primarily use wood from HTI while the plywood and processed wood industries use a lot of light wood such as Albizia (locally known as *sengon*) or Mahogany from community forest areas.

Impact of SVLK and issues for SME's

After years of highly-focused multi-stakeholder discussions and negotiations, in 2009, the Indonesian Timber Legality Verification System (*Sistem Verifikasi Legalitas Kayu*, SVLK) was established to ensure the legality of timber sourced from within Indonesia.

The use of this system is mandatory for all enterprises utilizing timber forest products at all stages of production – including companies categorized as Micro, Small and Medium Enterprises (MSMEs). With the implementation of the SVLK, Indonesian timber and timber products that are destined for export, which are derived from forests of all different statuses, both private and state forests, must be certified as meeting legal (VLK certified) and sustainably managed (PHPL certified) criteria.

SVLK was recognized through the FLEGT VPA Indonesia-EU Agreement and came into force on 15 November 2016**.** Participation by MSMEs has been required since 2013 and some assistance in the form of financing certification and institutional capacity building has been provided by donor agencies, NGOs, and community associations to enable their participation. Despite this assistance certification of small industry entities and community forest farmers is still slow. The area of community forest that has been certified is 0.12% and the SME is 0.2%.

Research by the Indonesian Forest Research and Development Agency (FORDA) found that small industry players will be better prepared to implement SVLK if there is an increase in output prices, an increase in access to the market, a reduction in certification costs and surveillance and facilitation from other parties. The institutional aspects that most determine the readiness of small-scale industry and community forestry for SVLK certification is the efficiency of certification (simplification of certification procedures, the local availability of a Certification Body), the support of local government to help complete the SVLK requirements, and increased understanding about SVLK and coordination between stakeholders.

Availability of VLK & PHPL certified legal wood

At the beginning of the SVLK implementation in 2010-2013, the primary and secondary wood industries experienced scarcity of industrial raw materials because there were still many forest owners and timber companies that had not been certified to supply legal wood. After the FLEGT VPA Indonesia-EU Agreement came into effect in 2016, supply of raw materials from forests with PHPL-certified and VLK-certified forest has been fulfilled. Managers of community forests that plant trees on land owned and harvested to produce industrial raw materials must fulfill the timber administration requirements by issuing a DKP document or Self Declaration of Supplier.

Changes to the structure of trade associations

There are approximately seven wood and forest processing associations in Indonesia that have influence in determining government policies and increasing Indonesia's bargaining position in the global market. Association membership has experienced ups and downs due to changes in the market, political and economic situation. There is a relatively new association, ILWA (Indonesian Light Wood Association).

Summary of Results

The seven trade associations interviewed mainly draw their membership from Indonesian forestry and wood-based businesses. All associations represent members from all over Indonesia. The associations have a combined membership of over 6,951 companies. 64% of which are estimated to be small, medium or micro-sized (SME) businesses. The majority of company members are primary manufacturers (56%), followed by secondary manufacturers (27%) and forestry operations (16%). 68% of businesses are involved in export markets.

Across the country the most common services provided by the associations for their members are government relations, stakeholder engagement and public affairs.

The associations face a range of challenges in providing services. The three areas most highlighted challenges relate to providing assistance with accessing finance, assistance with promotion or marketing and the related topic of developing overseas exhibitions for their membership.

The current top priorities for the associations in terms of services offered are dominated by the need for more capacity to provide technical advice to their members. Other important priorities include:

- provision of business services,
- communications capacity for the sector,
- staff training, the capacity to organize trade fairs, and
- the capacity to advise members about the evolving legal landscape.

The main challenge for members of the association, particularly SMEs, is accessing raw materials. This is closely followed by the challenge of working with government policy, then market access and legal compliance with the timber legality assurance system SVLK.

The association's members predominately trade in export markets though the domestic market was recognized by two respondents. The dominant markets are Japan, the United States and the European Union. The majority of association members see the European Union, the United States, India and Middle East markets as suitable for growth. Expansion of the domestic customer base was also featured.

The most frequently mentioned markets with clear signals regarding legality are the European Union, The United States and Australia. Other markets mentioned include Japan, South Korea and Canada.

Respondents estimated the legality demand at a higher level than sustainability on the domestic market – though both levels of demand lower than the demand for sustainability (on a scale ranging from zero – no demand: to 100 – frequent demand). The level of demand from domestic markets for legal and sustainable timber was estimated at a significantly lower level than that for export markets.

For those associations who have members that export the demand and questions around sustainability are very frequent (rated 80/100). The clearest market signals are noted to come from the European Union, the United States, Japan and Australia.

Part 1 – Association profile & capabilities

Geographical coverage

The seven Indonesian associations interviewed draw their membership from within their own country and they operate across the whole country. The focus of their activities is almost exclusively within their own borders.

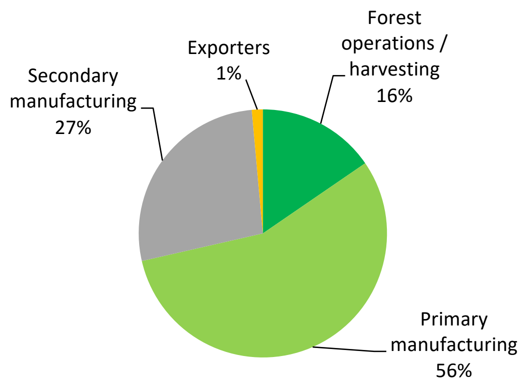
Membership & Services offered

Profile of membership

The seven associations surveyed have a combined membership of over 6,951 companies.

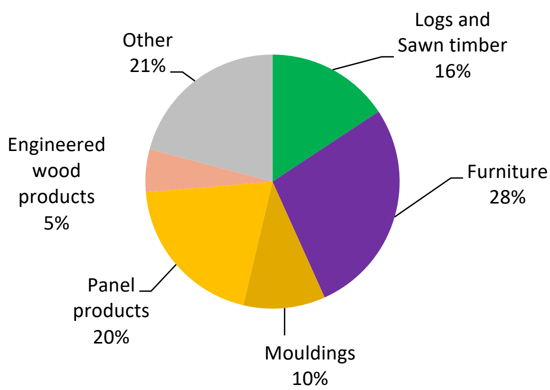
Sectors represented

The membership is dominated by operators in the primary processing sector and secondary manufacturing sector. The associations also represent forest managers and forest products exporters.



Products traded

The membership primarily trade in furniture, logs, sawn timber, mouldings and panel products. The other products include flooring, decking, bio-fuels and many other materials.



Volume traded by members

Only four of the associations were able to provide data as to the volume of wood traded by their membership. These association's members traded 90.7 million cubic metres *per annum*.

Value of products traded by members

Five of the associations were able to provide data as to the value of the wood products traded by their membership – collectively $8.63 billion USD *per annum*.

Capacity - Number of staff

Staff numbers vary widely between the associations. The numbers of full-time equivalent positions across the sample is between five and an estimated thirty-seven full time equivalent (FTE) members of staff. This includes senior management and administrators. If part-time staff numbers are included the range is between five and sixty-seven.

Technical staff

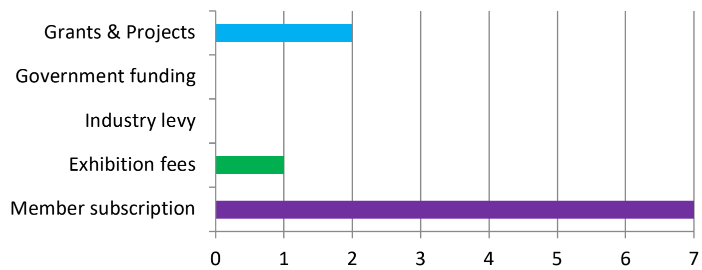
Five of the associations have dedicated staff available to answer technical questions from the membership. Numbers range from two to five members of staff.

Overall budget

Five of the associations were able to provide data regarding their annual operating budget. The average across the three countries was just over $244,000 USD per annum. The smallest budget was $16,900 per annum, the largest $845,000.

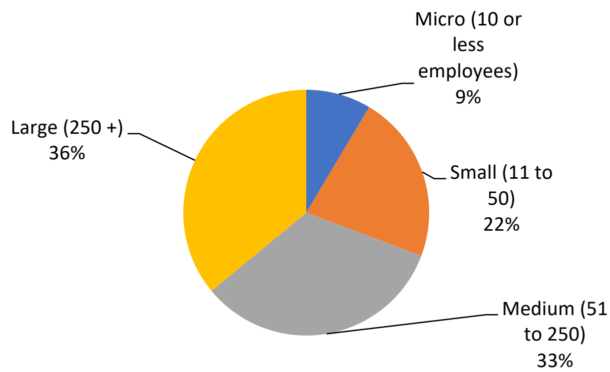
Funding

All of the associations interviewed are funded through membership subscriptions. Additionally, one also receives funding through payments for services (as exhibition fees) and two receive project funding from donors.



Size of member companies

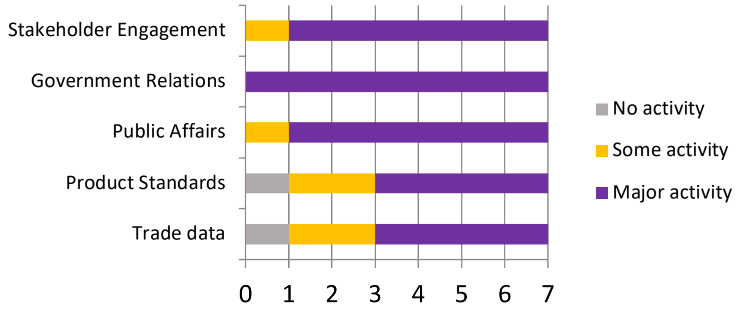
The 6,900+ members of the associations are dominated by micro, small and medium sized organisations. 36% of the organisations they represent have more than 250 employees.



Part 2 – Priorities and challenges in delivering services to members

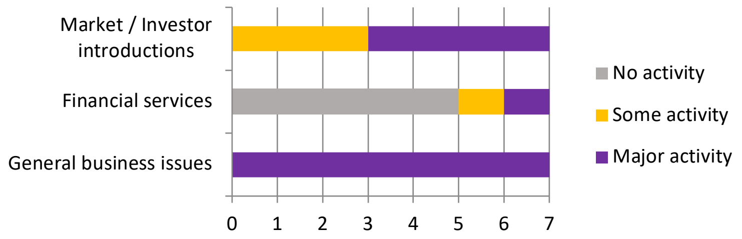
Services currently provided

Across the country the most common services provided are government relations, stakeholder engagement and public affairs.



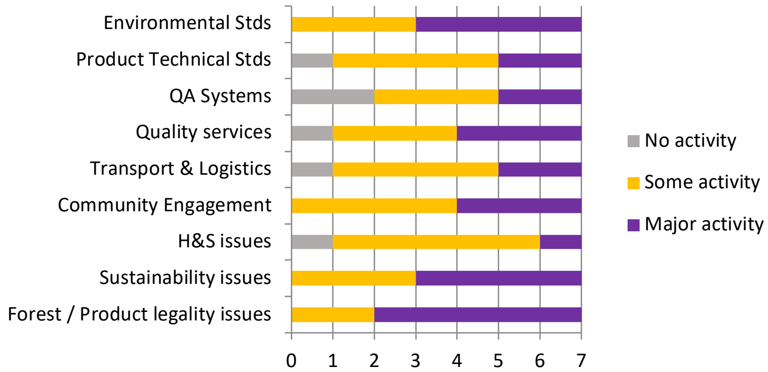
Business services provided

Support for general business issues features as an activity for all of the associations. There is little provision of financial services.



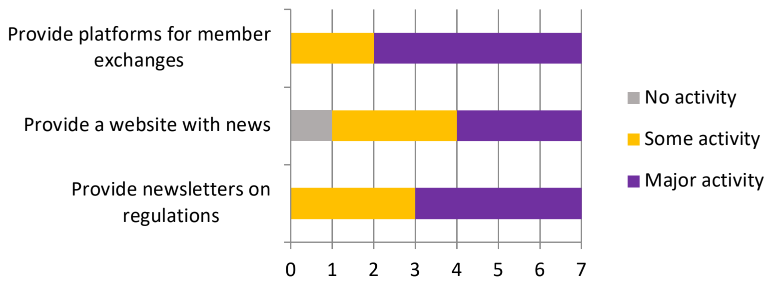
Technical services provided

The associations offer a wide range of technical services. The most common services offered are those relating to forest or product legality, followed by environmental standards and sustainability issues.



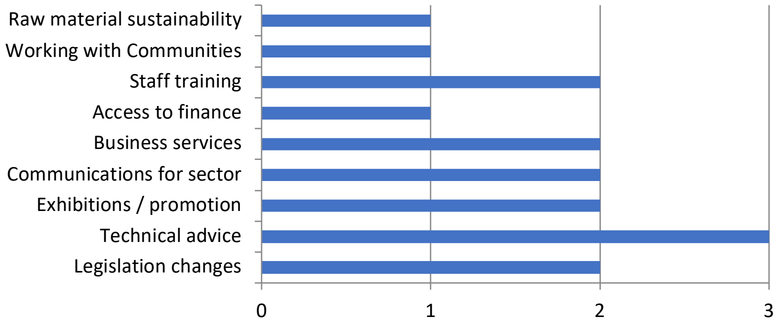
Communications with members

The primary means of communications with members is through meetings and providing newsletters on regulations and other topics. Six associations have websites which they regularly update for their members.



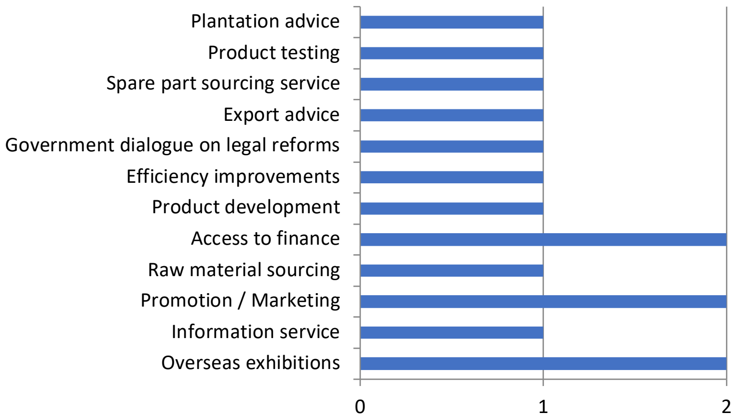
Priorities for service provision

The current top priorities for the associations in terms of services offered are dominated by the need for more capacity to provide technical advice. Other important priorities include provision of business services, communications capacity for the sector, staff training, the capacity to organize trade fairs, and the capacity to advise members about the evolving legal landscape.



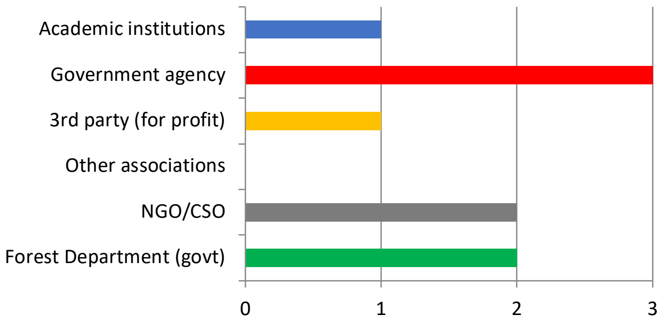
Major challenges faced by the association

The associations face a wide range of challenges in providing services. The three areas most highlighted relate to providing assistance with accessing finance, assistance with promotion or marketing and the related topic of developing overseas exhibitions for the membership.



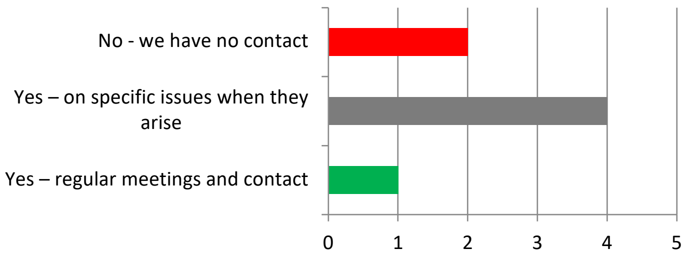
Technical support – external partners

The associations have a wide range of external partners – generally favouring government agencies. None of them stated that another association is a partner.



Contacts with enforcement agencies

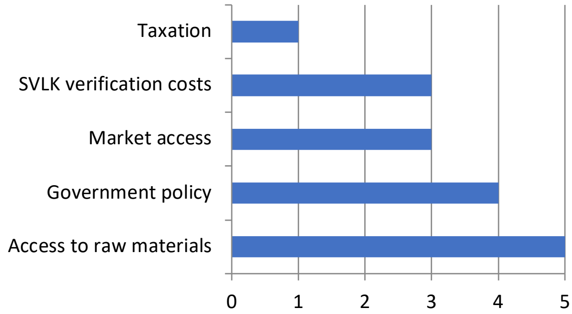
Four of the associations have ad-hoc meetings with enforcement agencies as specific issues arise. One has regular engagement.



Part 3 – Challenges faced by membership (particularly SMEs)

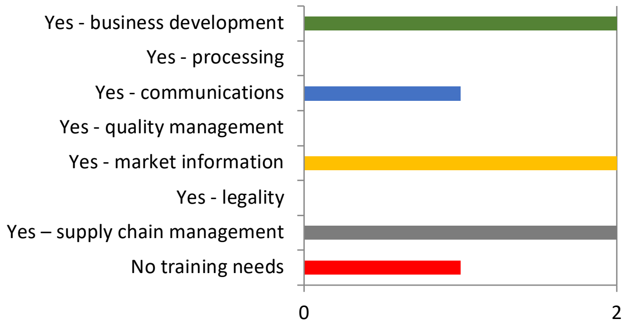
<u>Top challenges for members</u>

The main challenge for members of the association is accessing raw materials. This is closely followed by the challenge of working with government policy, followed by market access and the costs of legal compliance with SVLK.



<u>Training needs</u>

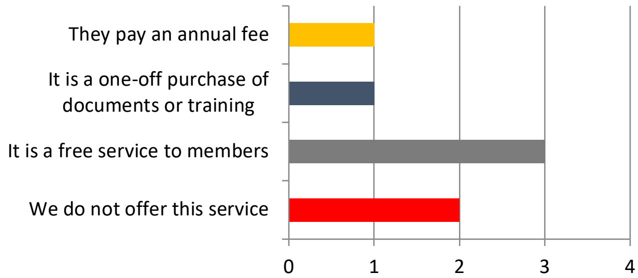
The specific training needs identified by two associations were supply chain management, business development skills and accessing market information.



<u>Training costs</u>

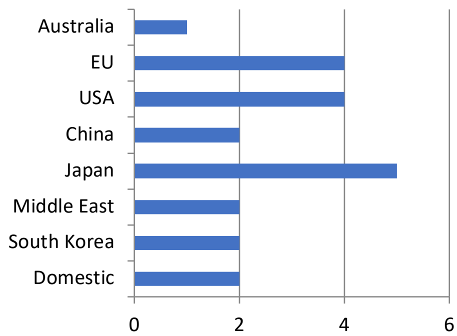
Currently where training services are offered it is commonly free to members. Only one identified they charged a fee for training.

The associations were not able to isolate the costs of training, though one estimated an annual budget of $20,000 to provide these services.



<u>Main markets</u>

The association's members predominately trade in export markets though the domestic market was recognized by two respondents. The dominant export markets are the Japan, USA and the European Union.



<u>Target markets</u>

The majority of association members see the EU, USA, India and Middle Eastern markets as suitable for growth. Expansion of the domestic customer base was also featured.

Exports – challenging issues

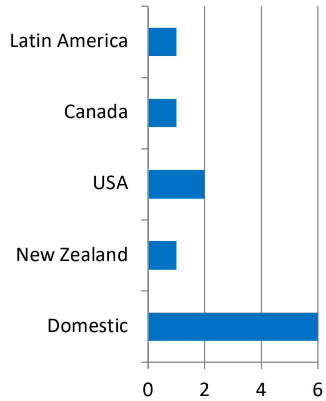
To increase exports or to enter the markets that are targeted the main issues identified are:

- Lack of promotion and exhibitions
- High tariffs
- Prohibition of log exports based on Indonesia regulation
- Lack of market information
- Lack of skilled workers
- Lack of market information.

Part 4 – Analysis of domestic and regional markets

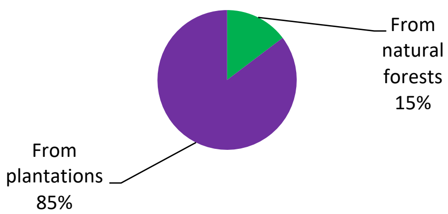
<u>Sourcing – domestic vs imports</u>

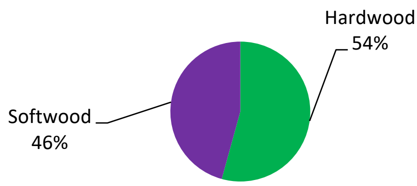
All of the associations surveyed stated that their members sourced from domestic forests. A number of import countries were also featured with the USA most frequently mentioned.



<u>Raw material types</u>

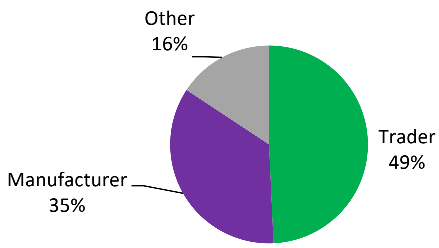
The association's members mainly source hardwood species from plantations.





<u>Exports – significance to members</u>

Across the associations surveyed an average of 68% of their members were primarily involved in export. Six of the associations stated that some members export, the lowest estimating 48%, the highest estimating 90% of all trade being exports.



<u>Customer profile</u>

The profile of the customers for the memberships varies widely. Across the seven associations traders and manufacturers represent the major markets.

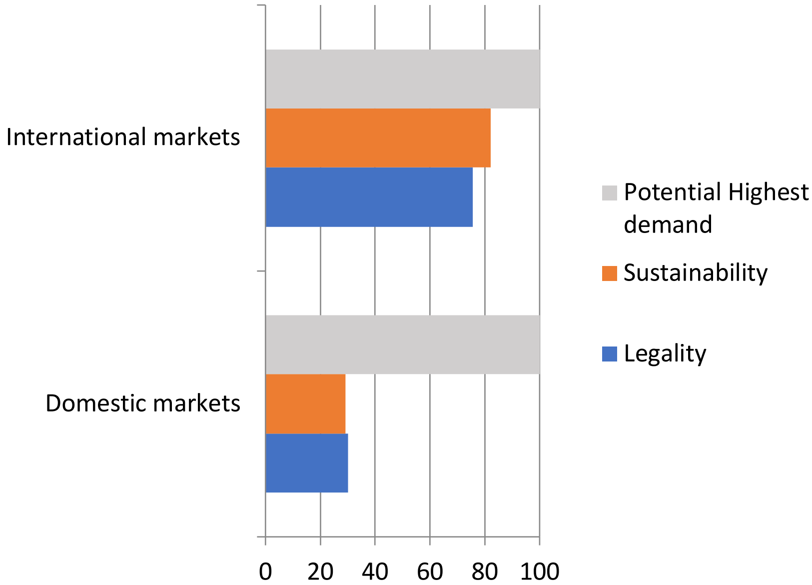
Part 5 – Analysis of international market and customer needs including legality and sustainability aspects

Legality – level of demand from international and domestic markets

For those associations who have members that export the demand and questions around this subject are moderately frequent.

The most frequently mentioned markets with clear signals regarding legality are the European Union, USA and Australia. Other markets mentioned calling for legality include Japan, South Korea and Canada.

The level of demand from domestic markets for legal timber was estimated at a significantly lower level than the demand for sustainability.



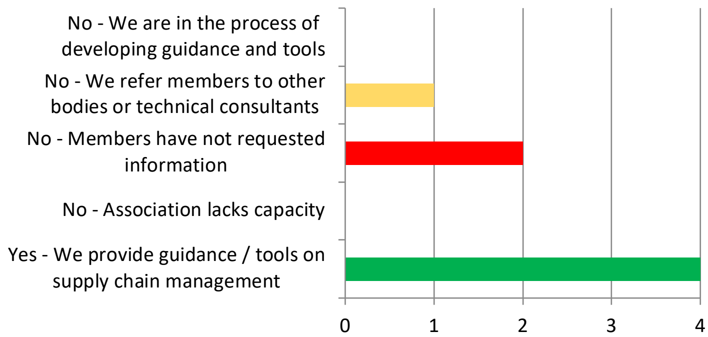
Respondents estimated the legality demand at a **higher** level than sustainability on the domestic market – though both levels of demand very significantly lower than the demand for sustainability (on a scale ranging from zero – no demand: to 100 – frequent demand).

Sustainability – level of demand from international and domestic markets

For those associations who have members that export the demand and questions around are quite frequent. The clearest market signals are noted to come from the European Union, USA, Japan and Australia.

Supply chain management support – availability

Of the associations surveyed four directly provide support for supply chain management to their members and one refers their members to an external service provider.

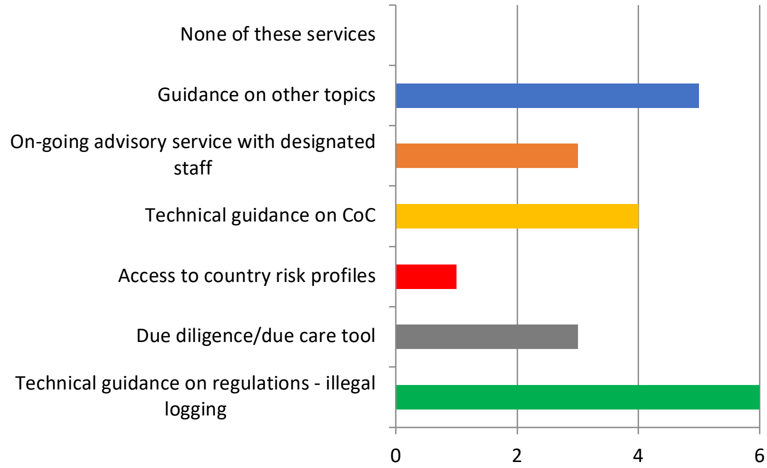


Two of the associations noted that they have not been requested by their membership to provide such services.

Supply chain management support – risk assessment provision

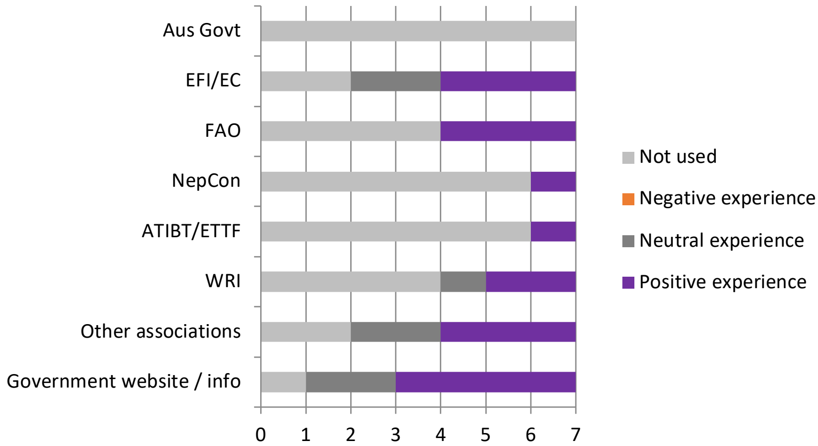
The associations surveyed provide a wide range of technical support to their members.

Technical guidance on legal compliance and risk assessment are the main services widely offered.



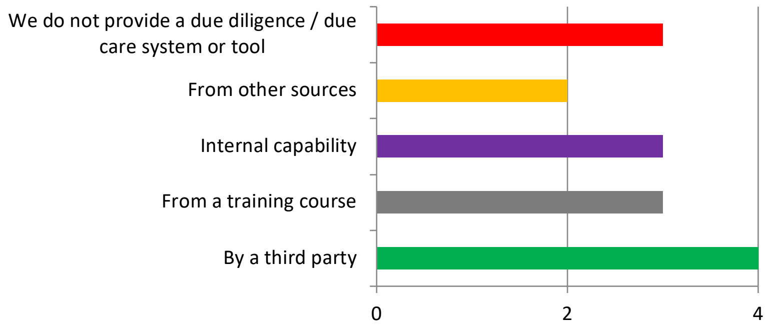
Supply chain management support – risk mitigation advice

The main sources of external information to provide guidance on risk mitigation were through domestic government website sources and other associations. Other sources of information positively viewed include EFI (European Forestry Institute), FAO-EU FLEGT Programme and WRI (World Resources Institute) databases.



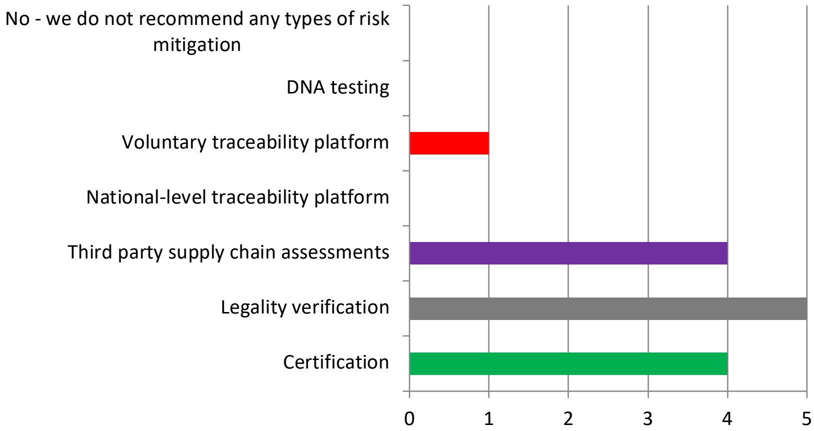
Types of risk mitigation – sources of information

Four of the associations recommend third parties to provide risk mitigation. For those associations offering their own advice they have gained their information from training courses.



Risk mitigation – types recommended

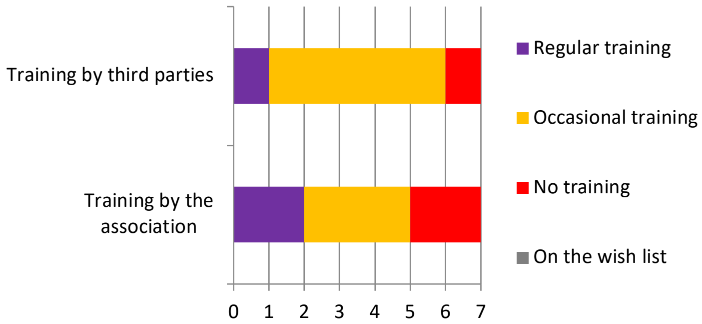
Three types of risk mitigation are generally advised – third party assessments, legality verification and certification.



Supply chain management support – training offered

Most associations offer occasional supply chain management training to their members. This training is almost exclusively offered via third parties.

In the main they would prefer to offer the training themselves rather than using third parties.



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