

# Validation Report VLO

25 January 2010

The Board of Experts declares that it has validated the RA/SW-VLO certification system for all its FMU's and the related Chain of Custody, against the criteria as laid down in the Keurhout Protocol for the Validation of Certification Systems, version August 31st, 2007:



This report may only be issued integrally

The following documents have been included in the validation:

## 1. RA/SW General documents

- CA-01 Certification procedures manual, Rainforest Alliance, January 2007
- Q-01 SW Quality Manual, Rainforest Alliance, June 2008
- Q-02 Internal audit Procedure, Rainforest Alliance
- Q-06 Regional Quality Audit Checklist, Rainforest Alliance, June 2008
- Q-08 Report Review and Approval Procedures, Rainforest Alliance, June 2008
- G-01 Conflict of Interest Policy, Rainforest Alliance, June 2008
- G-02 SW Confidentiality Policy, Rainforest Alliance
- G-03 Complaints, Appeals, and Disputes Resolution Policy, Rainforest Alliance, June 2008
- Audit and risk Committee Charter, Rainforest Alliance
- Staff List, Rainforest Alliance, June 2008
- G-28 SW Evaluation Handbook, Rainforest Alliance, May 2008
- SW Organ Chart, September 2008

## 2. VLO/VLC Program Documents

- VL-03 SmartWood Verification of Legal Origin/Verification of Legal Compliance. Supplementary Guide to Evaluation, Draft, September 2008
- SW VLO/VLC documentation conceptual framework, November 2008
- SmartWood Generic Standard for Verification of Legal Origin (VLO) Final, November 2007
- SmartWood Generic Standard for Verification of Legal Origin (VLO) Final, January 2010
- SmartWood Standard for Verification of Legal Origin (VLC) - Indonesia, February 2008
- SmartWood Standard for Verification of Legal Origin (VLC) - Philippines, Draft, February 2008
- SmartWood Standard for Verification of Legal Origin (VLC) –Sabah, Malaysia, February 2008
- SmartWood Standard for Verification of Legal Origin (VLC) –Sabah, Malaysia, October 2008

### 3. Other materials and sources

- Agreement between Rainforest Alliance and NEPCON, February 2006
- FSC Certificate of Accreditation for forest management and chain of custody of forest products (Accreditation Code: FSC-ACC-004; valid until 06/11/11)
- SmartWood, 2007. Carl Ronnow (Malaysia) Sdn. Bhd, Verification Statement, October 2007.
- SmartWood, 2008. Carl Ronnow VLO Re-assessment Report 2008 (including VLO site assessment reports Carl Ronnow-DLH)
- SmartWood, 2008. CV Mekar Jati, Verification Statement, May 2008
- SmartWood, 2008. PT Hartco VLO Assessment 2008
- SmartWood, 2008. PT Hartco CAR Verification Report, May 2008
- SmartWood, 2008. PT Hartco Utama, Verification Statement, June 2008
- SmartWood 2009. VLO Public Summary audit report. PT KAGE
- SmartWood 2009. VLO Public Summary audit report. PT Hanurata Unit III.
- SmartWood 2009. VLO Public Summary audit report. CV Citra Jepara
- SmartWood 2009. VLO Public Summary audit report. KSU KOSTAJASA
- SmartWood 2009. VLO Public Summary audit report. KPH Randublatung
- Greenpeace, 2008. Technical Report. Wood Products Legality Verification Systems. An assessment.
- [www.rainforest-alliance.org](http://www.rainforest-alliance.org)
- [www.smartwood.org](http://www.smartwood.org)
- [www.proforest.net](http://www.proforest.net)

#### Other material integrated in the validation:

In addition to the documents mentioned above other documents derived from the SW website ([www.smartwood.org](http://www.smartwood.org)) have been taken into account. Moreover RA/SW provided information on request.

## GLOSSARY

AR	Audit Report
BoE	Keurhout Board of Experts
CAR	Corrective Action Request
CITES	Convention on International Trade in Endangered Species
CB	Certification Body
CPET	Central Point of Expertise on Timber
CS	Certification System
CoC	Chain of Custody
CW	Controlled Wood (FSC)
Doc	Document
EIA	Environmental Impact Assessment
EMS	Environmental Management System
EN	European Norm
EU	European Union
FLEGT	Forest Law Enforcement, Governance and Trade (EU)
FME	Forest Management Enterprise
FMP	Forest Management Plan
FMU	Forest Management Unit
FSC	Forest Stewardship Council
GIS	Geographic Information Systems
ha	hectare
ILO	International Labour Organization
ISEAL	International Social and Environmental Accreditation and Labelling Alliance
ISO	International Standards Organization
KH	Keurhout
KH-LET	Keurhout Legal system
KH-SFM	Keurhout Sustainable system
KH-SYS	Keurhout Protocol for the Validation of Certification Systems
NC	Non-Conformity
NGO	Non-Governmental Organization
NTFP	Non-Timber Forest Products
NTTA	Netherlands Timber Trade Association
PEFC	Programme for the Endorsement of Certification Systems
RA	Rainforest Alliance
SFM	Sustainable Forest Management
SIA	Social Impact Assessment
SOP	Standard Operation Procedures
SW	SmartWood Program of Rainforest Alliance
TL	Team Leader
UNCCC	United Nations Conference on Climate Change
UNFF	United Nations Forum on Forests
VLC	Verification of Legal Compliance (SW)
VLO	Verification of Legal Origin (SW)
VPA	Voluntary Partnership Agreement (FLEGT, EU)
VS	Verification Statement
VSH	Verification Statement Holder

## 1) Validation process

Between autumn 2008 and the end of 2009 Keurhout (KH) undertook a validation of the Rainforest Alliance - SmartWood (RA/SW) systems for Verification of Legal Origin (VLO) and Verification of Legal Compliance (VLC). The assessment was performed against the *Keurhout Protocol for the Validation of Certification Systems (KH-SYS)*, which was developed in 2005 by the Netherlands Timber Trade Association (NTTA) and was amended August 31<sup>st</sup> 2007. This assessment concerns the **VLO system**, but where relevant also considers aspects of VLC, as both systems are strongly related. By December 2009 the latter covered Legal harvest of well over 1,8 million ha forest exploitation. The chain of custody (CoC) included at least 26 facilities and/or their suppliers. In total 17 Verification Statements had been issued in 3 countries. For VLC no assessments had been implemented and no verification statements had been issued yet

The KH-SYS protocol consists of five parts. Part I is the Validation procedure, the other four parts are normative documents regarding Legal Origin (Part II.a), CoC (Part III), Certification Bodies (Part IV) and the organisation and stability of the Certification System itself (Part V). The requirements are structured in the form of criteria with indicators grouped under various Principles. All criteria of the standards contained in Parts II.a to V are to be assessed. Indicators serve as practical parameters to assess compliance with the criteria. Compliance with all criteria leads to a positive decision concerning the validation of the certificate.

In February 2008 the KH Board of Experts (BoE) received a request from a representation of KH-participants to validate the VLO/VLC systems at *system level*. This was followed by a formal request from the System Manager of VLO/VLC in September 2008. The assessment of VLO was carried out as a desk study between September 2008 and January 2010. In July 2009 the BoE concluded that VLC could be admitted to KH-Legal. For the admission of VLO to KH-Legal an adjustment of the VLO standard was required. After an interactive process of adjustment and the results of the stakeholder consultation the new standard was officially established by RA/SW on January 18<sup>th</sup> 2010.

## 2) RA/SW-VLO/VLC

### Description of the system

SmartWood (SW) is a programme of the Rainforest Alliance (RA), a global non-profit conservation organisation, based in New York, USA. Through independent auditing, certification and the promotion of certified products, SmartWood's purpose is to improve forest management by providing economic incentives to businesses that practice responsible forestry. RA/SW is a well known Certification Body (CB), in the field of forestry. It applies a phased approach to certification. It is accredited by FSC for certification of sustainable forest management (SFM), Chain-of-Custody (CoC) and controlled wood (CW).

The Verification of Legal Origin (VLO) Program is a verification service by SW. It has been designed to verify that timber comes from a source that has a documented legal right to harvest, pursuant to the laws and regulations of the government of the jurisdiction. Suppliers of VLO timber must follow and maintain documented CoC systems. The VLO timber is traced and verified throughout the supply chain.

The Verification of Legal Compliance (VLC) Program goes beyond that: it considers all applicable and relevant national laws and regulations as well as international agreements. VLC is used to assess and verify that producers of timber and/or non-timber forest products (NTFP's) have complied with all the laws applicable to forest harvesting in the country and jurisdiction of operations and that all points along the defined supply chain maintain adequate systems to document and control the CoC.

As indicated, both systems consist of two components: a) the forest management component, which verifies a certain level of legality of forest products and; b) the CoC component, which verifies the presence and appropriateness of a timber tracking system from the source until the final product.

The VLO and VLC standards are interrelated: the VLO standard consists of the first 4 and the 9<sup>th</sup> (CoC) Principle of the VLC standard. The full VLC standard covers 9 Principles.

VLO and VLC represent the first two stages in the RA/SW phased approach to certification. After these stages other, more advanced verification/certification services can be provided by SW, such as SmartStep, Controlled Wood (FSC) and Forest Management /CoC (FSC). SW stimulates this by restricting the term for issuing Verification Statements (VS) for VLO and VLC in principle to 3 years. Evidence is needed to demonstrate the efforts of a company in case more time is required. Hereby SW prevents that companies accept VLO or VLC as the final level and stimulate that they continue on the path towards full forest certification.

The VLO/VLC systems have been developed in line with procedures and policies for other SW/RA certification/verification products. The system documentation therefore partly consists of general SW/RA procedures, policies, work instructions, references and other documents, which are equally relevant to the VLO/VLC systems. The systems are further specified in the Supplementary Guide for VLO/VLC and in the respective generic and local standards

### Organisation

The VLO/VLC programs are managed by the Verification Services Department of RA/SW in New York. Standards are established by the SW Director. In practice the day to day management of the programs is the responsibility of the SW Verification Services Manager. Verification audits are implemented by RA/SW related/selected/ trained audit teams (own staff or staff of formal partners).

### Standard setting and revising

The Generic VLO/VLC Standards have been developed and established by RA/SW (USA). Based on the Generic Standards, local standards will be developed before a verification can take place in a particular country. The development of a local standard is based on the principles and criteria of the Generic Standards (all criteria must be addressed). It enables the necessary adjustments to accommodate for the local legal and socio-economic context. Thereto a study is done by the audit team of relevant (legal) documents and a stakeholder consultation process is implemented. The draft local standard has to be established by the SW Director and needs to be made available to stakeholders (on request), at least 30 days before it will be used. Revisions and adjustments of standards follow ISEAL guidelines for standard development and revision and include at least 1 stakeholder consultation round of 60 days (in case of serious issues a second round is required).

### RA/SW Verification Process

In some cases the verification process starts with a Pre-Evaluation, to identify any gaps between the current performance and the one required by the standard, to ensure that the company has a good understanding of the requirements and to allow SW to gain a good overview of the situation and prepare for the Main Evaluation.

In case a national legality standard or a Voluntary Partnership Agreement<sup>1</sup> (VPA) exists, that standard will be compared to the requirements of the VLO/VLC Generic standards. If no (or a

<sup>1</sup> A bilateral agreement between the European Union (EU) and a particular partner country, including the definition of the concept "legal timber", within the context of the FLEGT program.

deficient) national legality standard or VPA exists, local standards have to be developed based on the VLO/VLC Generic Standards (see above). The Main Evaluation will assess compliance with the standard based on documentary evidence, field visits and stakeholder interviews. At the end of the evaluation the auditor(s) will discuss the audit results (including subjects of non-conformance) with the company representatives. These may provide feed back, after which the auditor(s) will prepare a draft evaluation report. The final decision on successful verification however depends on an internal RA/SW Review of the evaluation report and process.

Senior RA/SW staff not involved in the audit will implement the internal review process; the decision to issue a VLO or a VLC statement or not is finally taken by the SW Director.

A CoC audit is required for all Forest Management Enterprises (FME's) and all companies that supply and/or process VLO or VLC timber in an established chain.

Any company buying SW "VLO" or "VLC" timber must successfully undergo a CoC audit before it may use a related claim on its documents and/or in communications. On-product claims are not allowed for either of the systems, except for stating the verification statement number (e.g. SW-VLO-004034) in order to enable functional CoC tracking.

In case of a positive verification result, RA/SW will issue a VLO or VLC verification statement, which is valid for 1 year. Surveillance audits are implemented at least every six month. At the end of each one year period a re-assessment shall occur in order for RA/SW to extend the verification agreement and issue a new one year verification statement. Currently RA/SW restricts the issuance of verification statements in principle to three years. After the end of the 3-year period the statement holder is supposed to continue with a more advanced type of verification or certification (SmartStep, FSC Controlled Wood or FSC). RA/SW will then determine if verification services can be extended or if the offer to continue verification services only will be ended. In the former case, the company shall demonstrate the actions taken to progress towards a higher certification status. RA/SW monitors the use of the VLO and VLC claims and trademarks, which is not allowed on-product. RA/SW will under no circumstances allow wood confiscated from illegal operations and/or originating from conversion of natural forest as legally verified, even if considered legal in the local context.

### 3) Results of the Keurhout validation

The system has been assessed against the four normative documents of the Keurhout System validation process.

The summary of the findings of the Board of Experts is presented below. Under each Principle (P) the assessment of the related criteria is briefly summarized. This summary is captured in an overall validation per Principle with the following indication:

- OK** = Satisfactorily addressed;
- OK -** = Minor deficiency;
- = Major deficiency

Validation Part II.a: Requirements regarding the Legal Origin.

P 1 OK	The timber shall come from a legal source.
<p>Twelve criteria. The criteria concern valid registration and permits to operate, clear definition and identification of FMU boundaries, legally required impact assessments, payment of taxes and royalties, respecting of customary cutting rights, respecting of logging restrictions (species, dimensions, volumes, protected zones, approved harvesting and operational plans), monitoring of compliance of the mentioned aspects for all timber sourced from the area,</p> <p>Ten of the twelve criteria are fully covered by the VLO Generic Standard. Two criteria are sufficiently covered (respecting of customary rights and internal monitoring of compliance by statement holders). With respect to the former, the standard requires in general that “legally recognised customary user rights shall be taken into account in management of forest resources”. Although this does not explicitly require that timber cut under customary cutting rights may be sold as legal timber, implicitly it might be considered to mention this. With respect to the latter, given the facts that the audits are implemented by RA/SW staff and/or its associates and that the audit procedures follow the general audit procedures of RA/SW which have been developed in line with relevant ISO Guidelines, the BoE considers this point to be sufficiently covered.</p>	

Conclusion:

Based on the above observations, requirement Part II.a is considered to be sufficiently met.

Validation Part III: Requirements regarding the chain of custody

P 1 OK	The timber shall be traced and monitored from the moment of felling through all its possible stages of processing and transport up to the moment of being imported in the EU.
<p>Six criteria. The criteria require that parties in the CoC have valid permits to operate, an operational management system for sound timber product tracking, well documented procedures for timber tracking in the forest and through processing, register percentages and mix with at least legal origin timber in case of mixed products, and apply physical and administrative segregation and identification of third party verified timber(products).</p> <p>Five criteria are completely met. With respect to the 5<sup>th</sup> criterion the CoC standard indicates that no mixing is allowed with non-verified timber (this is avoided by the application of physical and administrative identification and/or separation). In case of mixing of VLO material with material verified or certified against an equivalent or higher standard approved by RA/SW, the organization shall apply the lowest level verification claim to the total amount of the mixed product. A condition shall be set to assure that RA/SW approved systems are at least KH-Legal admitted systems.</p>	

Conclusion:

Based on the above observations, requirement Part III is considered to be fully met, provided that equivalent or higher standards recognized by RA/SW are at least KH-Legal admitted or recognized as and dealt with according to the KH rules for Verified Legal Timber.

Validation Part IV: Requirements regarding the certifying body

P 1 OK	The certification body shall be able to demonstrate that it is capable of assessing forest management and the management system and/or the Chain of Custody.
<p>Seven criteria. The first three criteria concern the expertise and independence of the CB. The following four criteria refer to the assessment scheme. They address audit procedures including the identification of relevant legislation and existing (customary) rights, requirements for the audit report and for monitoring of continuous compliance.</p> <p>Five criteria are fully covered; two criteria are sufficiently covered (compliance with international guidelines for organisational structure and operating procedures and compliance of audit procedures applied with ISO/IEC Guides 17021 and/or 65). The RA is an NGO that acts as a certification body. Audit procedures for the VLO/VLC programme are applied in line with standard RA/SW procedures and based on international standards. SW functions under management of RA, which is not accredited for ISO/IEC Guide 17021. SW is accredited though for responsible forest management and CoC by FSC SW is not independently accredited for ISO/IEC Guide 65, but considers that Guide as the backbone for delivery of their certification and verification services. The SW program complies with these standards in order to maintain its FSC accreditation. RA is a full member of ISEAL; as such this also would require compliance with ISO/IEC Guide 65. Keurhout can not consider full ISEAL membership as sufficient proof for SW compliance with ISO-IEC Guide 65 requirements, as ISEAL does not count with functional internal monitoring / peer review mechanisms for compliance of CB's. However, the BoE considers that the valid FSC accreditation in combination with the fact that the verification scheme applies the same/similar audit procedures and staff for FSC certification and its verification services, and the need to assure compliance with ISO/IEC Guide 65 requirements to avoid the loss of FSC accreditation, provides indirectly sufficient assurances that the verification audits and staff are implemented/perform in line with internationally accepted standards. This provides similar guarantees as the non-specific ISO accreditation of CB's.</p>	

Conclusion:

Based on the above observations, requirement Part IV is considered to be sufficiently met.

Validation Part V: Requirements regarding the certification system

P 1 OK	The organisation management shall clearly act independently.
<p>One criterion. The criterion requires that the CS is managed by a well structured and contactable organisation. This criterion is considered to be fully complied with.</p>	
P 2 OK	The system manager shall be responsible for the quality and monitoring of the Certification System.
<p>Eight criteria. Criteria address the establishment process of the system, the procedures to implement the system, procedures to monitor compliance with requirements imposed by the system, the access to certification reports, appeal procedures against decisions by the certification body, access to information on the certification system. Six of these criteria are fully complied with; two are sufficiently complied with (confidentiality of documentation, access to information)</p> <p>With respect to confidentiality of documentation certain administrative and/or client documents (such as audit reports), no information will be disclosed to any third party unless with prior consent of the verified company. The system is well structured and includes a well developed set of procedures, work instructions and related documents. The availability of system documents to the general public is limited to general</p>	

<p>information, standards, audit report public summaries, and an overview of parties to which a statement was issued. Other documents may only be distributed outside of the RA/SW system with the approval of the Director. The BoE considers it acceptable that details on procedures, work instructions, etc are not necessarily made public to avoid (ab)use by other parties.</p> <p>The information provided through the RA/SW website has improved considerably since mid 2009 and includes names of successfully verified parties and summary reports. However, the information provided could be presented in a more consistent and accessible way (including tables specifying the type of operation verified, areas and annual volumes involved).</p> <p>The criterion is considered to be sufficiently covered.</p>	
P 3 OK	The development process of the generic standard, regional and national standards and the standard for the chain of custody shall be fair and transparent.
<p>Two criteria.</p> <p>The criteria pertain to fair transparent standard setting and field testing.</p> <p>Although the Generic Standard has been established by the RA/SW, a wide stakeholder consultation has taken place in line with ISEAL requirements and the local standards are always developed taking into consideration the local context and after a stakeholder consultation process, providing opportunity for the involvement of all relevant stakeholders. In most cases there is no field testing of national standards. However such standards are developed in close cooperation with experienced stakeholders; they will be continually improved through application and use. These criteria are considered to have been sufficiently met.</p>	
P 4 OK	The universal standard and the regional and national standards for Sustainable Forest Management and the standard for the Chain of Custody shall be supported and formally accepted by the system manager.
<p>Two criteria.</p> <p>The criteria concern the establishment and adjustment procedures of (local) standards.</p> <p>By default the VLO/VLC Generic Standards, containing general system and performance requirements (principles, criteria and indicators), are used as basis for the development and use of National VLO/VLC Standards. Procedures for approval of local standards are under revision. RA applies the ISEAL procedures for standard development and adjustment.</p> <p>The criteria are considered to be fully complied with.</p>	
P 5 OK	The standard shall be clearly structured, complete, usable and allow for objective assessment.
<p>Three criteria.</p> <p>The criteria refer to the suitability to apply the standard at the FMU level, consistency in terms of structure and reasoning, and compatibility with national and international laws.</p> <p>The standard is quite comprehensive and is based on the relevant local laws and regulations and takes into consideration any relevant treaties or international agreements. The standard is considered to be well structured and consistent and is applicable at FMU level. The first two criteria are fully covered; the third criterion is sufficiently covered for the VLO level.</p>	
P 6 OK	Certification Bodies shall comply with international accepted standards of professionalism and independency.
<p>Three criteria.</p> <p>The criteria require the CS to set requirements as to the status (accreditation) and professionalism of the CB and its procedures.</p> <p>The first criterion is not applicable, the second is sufficiently covered and the third is fully covered. Requirements and procedures are in place for the selection of auditors, their training level, expertise and independency, among others. RA/SW is FSC accredited and full member of ISEAL, but not ISO/IEC accredited. Keurhout can not consider ISEAL as the international guidelines SW complies with, as ISEAL does not count with functional internal monitoring / peer review mechanisms. Instead the BoE considers that the valid FSC accreditation in combination with the fact that the verification scheme applies the same audit procedures and staff, provides indirectly sufficient assurances that the verification audits and staff are implemented/performed in line with internationally accepted standards. This provides similar guarantees as the non-specific ISO accreditation of CB's.</p>	

P 7 OK	Group Certification shall be based on compliance with the performance standards for individual forest management units, respectively CoC participants, and in addition specific requirements regarding group organisation and management.
<p>Two criteria.</p> <p>The criteria require that the Group Certification system specifies the tasks and responsibilities of the group leader and that the standard imposes requirements for the management system and the expertise of the group leader.</p> <p>VLO/VLC services can be delivered under two scenarios: a) if an individual entity signs a service agreement with SW with the purpose to obtain its own verification statement and b) in case all entities in a chain are controlled by one company, providing for a similar situation as in a group certification. It is the responsibility of the verification statement holder to ensure that all members of the CoC comply with the requirements and that there are procedures to ensure conformance at all levels. Requirements for group members are the same as for individual applicants, but group members shall sign an agreement with the group manager that they will comply with the VLO/VLC requirements. Only SW personnel (own staff, staff of teaming partners NEPCON and IMAFLORA and associate partners) are authorised to render VLO/VLC verification services in line with the RA/SW regulations and VLO/VLC procedures. The criteria are considered to be fully covered.</p>	
P 8 OK	The certification System shall offer facilities for the filing of complaints and/or appeals
<p>One criterion.</p> <p>The criterion requires establishment of adequate procedures for handling of complaints and appeals. This criterion is considered to be completely covered.</p>	

**Conclusion:**

Based on the above observations, requirement Part V is considered to be sufficiently met.

## Summary of Principles with deficiencies

Part	OK	OK -	-
II a	P 1		
III	P 1		
IV	P 1		
V	P 1, 2, 3, 4, 5, 6, 7, 8		

**Overall conclusion:**

In general it is observed that all four normative parts of the Keurhout System are being fully or sufficiently covered by the requirements and procedures of the VLC system.

The BoE **accepts** the **RA/SW VLO system**, as described in the studied documents which constitute the system, to the **Keurhout Legal system** under the conditions that:

1. any wood raw materials of equivalent or higher standards recognized by RA/SW, mixed into the verified VLO CoC shall be at least KH-Legal admitted or recognized as and dealt with according to the rules for Verified Legal Timber (see [www.keurhout.nl](http://www.keurhout.nl)).
2. audits against the new standard will have been implemented for all currently verified operations within six month. Only those verification statements issued against the VLO standard dated 18/01/10 will be effectively admitted to the KH-Legal system.

*In addition:*

*RA/SW shall provide Keurhout with full copies of annual surveillance audit reports, related to the FMU's and related CoC's, whenever requested.*

*RA/SW shall inform Keurhout at least one month in advance on any changes of its standards as well as of changes in relevant legislation and/or regulations.*

*RA/SW shall provide Keurhout once every six month's with an up-dated overview of all valid verification statements.*

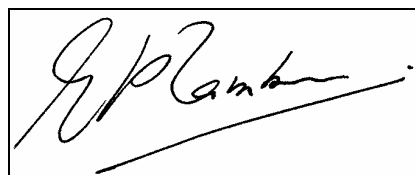
*Failure to do so may result in suspension of the admission to the Keurhout Legal system.*

Date: January 25<sup>th</sup> , 2010

Signed:

Ir. E.P. Zambon

Dr. H.H. de longh




(Secretary)

(Chairman)