



Timber Trade Federation

Forestsforever

The Environmental Voice of the Timber Industry



Changing International Markets for Timber – What Can African Producers Do

EU & International Market Drivers



1 Introduction

1.1 The last five years has seen rapid change and developments in the way that international trade is conducted. Demands and requirements of buyers are changing, driven by NGOs, public sector policies and consumer concerns. Global concern has primarily shifted from the issue of deforestation to the all encompassing phenomenon of illegal logging and the associated international trade in wood products.

2 Illegal Logging and Market Change

2.1 Illegal logging can be defined as “*the breaking of laws on cutting, processing and transporting of wood products*”, including the necessary right to manage and harvest the forest resource, i.e., the required ownership and access rights. Illegal logging includes harvesting in protected areas (such as national parks); over the allowed permit quota; processing logs without the required papers and permits; exporting without paying export duties and stumpage royalty.

2.2 By definition, the scale of illegal logging is difficult to estimate, but it is believed that more than half of all logging activities in the most vulnerable forest regions – southeast Asia, central Africa, South America and Russia – may be conducted illegally. Worldwide, estimates suggest that illegal activities may account for a tenth of the total global timber trade, representing products worth at least \$15 bn a year¹. The global value of 2002 total wood products trade, including pulp, paper and paperboard trade is \$186 billion²

2.3 Illegal logging results in a wide range of negative impacts including: environmental damage and often accelerated deforestation, costs governments billions of dollars in lost revenue, promotes corruption, undermines the rule of law and good governance, funds armed conflict and can have a detrimental impact on local forest dependent communities.

2.4 As logging timber illegally is invariably cheaper than producing legitimate products, it distorts global markets and undermines incentives for sustainable forest management. World prices are currently depressed by between 7% and 16% (depending on product) by the prevalence of illegal products in the market, as estimated by the American Forest & Paper Association in 2004³.

2.5 Illegal logging is both a producer and consumer concern, recognising that the problem is both supply and demand driven, which therefore requires a number of solutions applied throughout the supply chain of wood based products.

3 Drivers of Change – International, Regional and National Initiatives

3.1 Originating from the G8 Action Programme on Forests of 1998-2002, an increasing number of initiatives have arisen at all levels – international, regional and national and across all sectors – public, private and NGO. Such initiatives include:

- **International & regional initiatives:** the Forest Law Enforcement and Governance (FLEG) conferences in East Asia, Africa (in 2003) and (in 2005) Europe and North Asia; bilateral agreements between individual consumer and producer countries to improve enforcement and monitor trade; and the EU’s Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan (2003)
- **National initiatives (consumer-side)** centre primarily on the development of public timber procurement policies, which aim to ensure that only legal (and sustainable) timber products are bought. Other initiatives include policies such as import bans, for example Malaysia has banned the importation of Indonesian logs and scantlings.
- **National initiatives (producer-side)** include: working with donor organisations to improve the legislative framework; developing multi-sector action plans to be

(1) Duncan Brack, March 2005, as above, taken from the World Bank’s 2002 Forestry Strategy Paper.

(2) AF&PA 2004, “Illegal” Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry.

(3) AF& PA, November 2004, “Illegal” Logging and Global Wood Markets: The Competitive Impacts on the U.S. Wood Products Industry.

implemented by Inter-Ministerial Taskforces; modifying forest concession allocation systems; improving tracking and monitoring of timber harvesting and exports, strengthening and capacity building of relevant institutions; and introducing trade restricting policies, such as Indonesia's law which bans the export of logs, scantlings and sawntimber and Cameroon's ban on the export of logs..

- **Private sector & NGO initiatives** include: developing individual procurement policies building on corporate social responsibility targets of individual companies, working with timber trade federations to consolidate their actions and working directly with their producers to ensure that their supply chains are traceable and free of illegally sourced wood products and ensuring supply chains are subject to independent monitoring and auditing, both for private companies and in some cases with national governments.
- **Banking and financial sector include:** the development of funding policies for forestry related projects, including the pulp and paper industry, working collectively to agree and sign up to the Equator Principles and developing ways to improve the ethical investments made and the use of due diligence and risk assessment screening for their investments⁴.

4 International & Regional Initiatives

4.1 The 2002 World Summit on Sustainable Development in Johannesburg urged governments to "take immediate action on domestic forest law enforcement and illegal international trade in forest products...." Many recent activities have been catalysed by the G8 Action Programme on Forests, launched in May 1998. A key international initiative is the EU Action Plan on Forest Law Enforcement, Governance and Trade developed by the European Commission (2003).

European Commission's Action Plan on Forest Law Enforcement, Governance and Trade (FLEGT).

4.2 A proposed EU Action Plan was developed and subsequently endorsed by the EC Council in October 2003. The Action Plan includes support to timber producing countries, public procurement, private sector initiatives, financing and investment and legislative instruments. The Action Plan also includes a review of the options for passing a more stringent legislation in the future. The plan aims to develop bilateral or regional FLEGT partnership agreements with producer countries. The proposed development of a legality licence scheme, working indirectly with the private sector supply chain issues and providing technical and financial assistance to producer countries, will have a direct impact on the way that timber trade between the EU and participating producer countries is undertaken.⁵

(4) HSBC Forest Land and Forest Products Sector Guidelines, May 2004

(5) E Fripp, 2004, Illegal Logging: FLEGT and Trade - What will the impact be? RIIA and ERM.

Voluntary Partnership Agreements (VPAs)

4.3 The FLEGT Action Plan proposes the development of Voluntary Partnership Agreements (VPAs) between the EU and individual timber-producing countries (FLEGT Partner Countries). VPAs aim to reinforce Partner Countries' ability to control illegal timber production and offer a mechanism to exclude illegal timber from EU markets. The VPAs will focus on the use of legality licenses which will be applied to all exports as proof of legality. Under a VPA no export from the partner country to the EU will be permitted unless it is accompanied by a legality licence. The VPA will include a package of assistance, designed to work with the partner country to meet the requirements of the legality licence, including technical assistance and institutional and policy support.

FLEG (Forest Law Enforcement and Governance) Regional Processes.

4.4 FLEG regional processes began in Asia in 2001, Africa in 2003 and in East and North Asia (ENA) Region (hosted by Russia) in 2005. Of particular relevance is the Africa FLEG that took place in October 2003. The outcome of this process is a Ministerial Declaration with associated actions for implementation at the national, regional and inter-regional level. The Ministerial Declaration will directly influence trade by working at the producer/concession level, addressing issues such as policy, regulation, enforcement and governance of the domestic production of timber and related products. It will work to ensure that legality and sustainability are key factors in domestic production and export.

The Interafrican Forest Industries Association (IFIA)

4.5 IFIA was founded in 1996 by the industrial foresters from the main African producing countries, who were conscious of the determining role that they play in the sustainable development of the countries in which they are present. This association gathers together approximately 300 enterprises that employ more than 100,000 individuals, and belong to the various associations throughout Western and Central Africa, including: the Ivory Coast, Ghana, Cameroon, Gabon, Central African Republic, Congo Brazzaville, Democratic Republic of Congo and Angola⁶. IFIA has developed in association with the World Bank-led "CEO Africa working group" (a forum of concessionaries and NGOs) a Code of Conduct that some of its members have so far committed themselves to respecting and having verified⁷.

Other Regional Initiatives

4.6 Some large European-owned companies operating in African countries are members of the Dutch registered "European Foundation for the Preservation of the African Forest Resource". Established in 1996, the Foundation commits members: to contribute to the economic and social development of the African countries in which they operate; to encourage technology transfer and provide professional

(6) For further information refer to:

<http://www.ifiasite.com/anglais/Pr%C3%A9sentation%20IFIA.htm>

⁷SGS and Forestry Commission, 2005, Review of the Ghana Forestry Commission's "Validation of Legal Timber Programme" (VLTP).

training etc. These companies are engaged in a process to implement sustainable forest management (SFM) plans in accordance with the requirements of a “Practical Forest Development Plan for Natural African Tropical Production Forests” drawn up by the ATIBT and are also involved in a process to develop FORTANS, a system of independent monitoring of conformance with SFM plans. Members are encouraged to apply Reduced Impact Logging (RIL), and promote the development of a Pan African Certification system (PAFC).

4.7 Another initiative is the development of FORCOMS - a tool for progressive forest companies in Central Africa to demonstrate and communicate their commitments and efforts regarding legal forest operations and progress towards sustainable forest management. FORCOMS is seen as a preparatory tool for FLEGT and for certification.

4.8 There are numerous other regional initiatives and alliances that are in various stages of development. For example, Japan (one of the main global buyers) is moving forward, working with industry, GFTN and other NGOs, and producer countries, such as Indonesia, to develop an action plan to tackle the trade in illegal logs. Japan is also assessing its domestic policies and the possibility of a public procurement plan or policy.

4.9 In South East Asia, a regional trade action plan, the Trans-Regional EU-ASEAN Trade Initiative (TREATI) has been developed. This action plan has the potential to play a key role in the prevention or mitigation of the trade and processing in third countries before entering the EU.

5 National Initiatives

Government Procurement

5.1 With the public sector accounting for approximately 20% of purchases in most developed countries, the development of public sector procurement policies is a significant move to ensure that consumer demands and markets exclude illegal products. Five EU member states – Denmark, France, Germany, the Netherlands and the UK – all currently have or are moving towards systems which will require proof of legal origin for central government purchases of sustainably produced timber and wood products. These procurement policies are sending strong signals to the market place where private sector suppliers are in turn developing their own procurement policies or working with their suppliers to ensure that the documentation required by government is supplied.

Money Laundering

5.2 As consumer countries review domestic policy and regulations for options to control the import of illegal timber and wood products, interest has arisen in the potential use of money laundering legislation. Recent analysis by RIIA, suggests that in some countries it could (in theory) allow action against the proceeds of activities carried out abroad which would be illegal if carried out domestically, as long as the proceeds are disposed of in the relevant state. There are however, practical difficulties, not least the need to train enforcement

agencies unfamiliar with the structure of the timber industry and timber markets

Producer Country Initiatives

5.3 Working with donor agencies, through regional initiatives such as the FLEG processes, bi-lateral Memorandum of Understanding (MoU), and through pressure from domestic and international private sector, producer countries are developing initiatives to move towards meeting national and international concerns over illegal logging and rapid rates of deforestation. The loss of national revenues from non-payment of forest charges is a significant driver behind the change as well as the desire to maintain international market access.

5.4 Producer countries are addressing weaknesses in their legislative structure and policies, and institutional needs and structures. In some countries, for example Malaysia and Indonesia, action plans including an MoU between the two countries, have been developed that seek to work to mitigate illegal logging through solutions focused on the drivers of illegal logging (for example, over capacity in the industry) and including a review of legislation and policy reform, institutional capacity and requirements.

6 Private Sector & NGO Initiatives

Trade Federation Codes in Europe and US

6.1 Many Trade Federations across Europe and in the US have been working on behalf of their members to raise the standards of corporate governance and transparency in the timber trade and to stop the trade in illegal timber. Trade Federations have developed Codes of Conduct (see box below) and Responsible Purchasing Policies to help the trade steadily eliminate high risk suppliers from their supply chains.

Box 1: UK TTF Code of Conduct

The UK TTF, from 2002, requires all of its members to comply with a Code of Conduct, which commits members to “sourcing their timber and timber products from legal and well-managed forests” and notes that “members recognise that the independent certification of forests and the process chain is the most useful tool in providing assurances that the timber they deal in comes from legal and well-managed forests.” In 2004, the UK TTF finalised a Responsible Procurement Policy (RPP) to provide members with a tool to assist members with implementation of the code of conduct.

6.2 The Netherlands Timber Federation (NTTA or VVNH), for example, aims to have 25% of the total amount of imported timber coming from sustainably managed sources by 2005 and has developed a code of conduct that stipulates

“NTTA members shall exclusively bring timber on the Netherlands market in conformity with current legislation (agreed nationally as well as internationally)” and that “NTTA members only do business with suppliers who signed the declaration of legality.

Working with NGOs

6.3 The role of NGOs has been a key driver in forcing the market players to change the way that trade is done, for

example in prompting private sector companies to address weaknesses in their supply chains, and for governments to develop public sector timber procurement policies. Some pertinent NGO initiatives for Africa include:

WWF/GFTN Buyer Groups

6.4 Demand-oriented Buyer Groups are made up primarily of retailers, distributors and end-users of forest products committed to sourcing ever-increasing quantities of certified forest products. Buyer Groups are now operating in almost 20 countries and are widely recognised as having been a dominant force in generating demand for certified forest products in the 1990s. Buyer Groups have been in existence in Northern Europe for some time, but these are primarily focused on trade with South East Asia and Latin America. To increase the degree of influence in the trade with Central Africa, WWF/GFTN have established Buyer Groups in France (June 1999), Spain (January 1998) and Italy (October 2001).

WWF/GFTN Producer Groups

6.5 Producer Groups are associations of forest industry producers, processors and traders committed to achieving or supporting responsible forest management and credible forest certification. Producer Groups are a key delivery mechanism for a phased or stepwise approach to credible certification. In October 2003, the Central African Group was launched at the African FLEGT Conference in Yaounde. Members have to make a public commitment to achieve certification by a certain date. There are no fully signed up members yet. There is also a Producer Group established in Ghana, with one member, Samartex.

6.6 Working directly to link buyers with producers is the principle behind the work of bodies such as the Tropical Forest Trust

Box 2 Tropical Forest Trust

The Tropical Forest Trust (TFT) approach links the supply chain from the forest to the consumer through its three membership categories: Producing, Supplying and Buying members through Supplying members – who manufacture and/or trade in wood products that are sold to Buying members. TFT members invest a fixed percentage of their product's gross margin to fund TFT activities tailored to suit their needs, based on the volume of uncertified timber they are currently trading in. Members get a return on their investment by securing a more ethical wood supply. Before the project achieves certification, members have some assurance that their supply chain originates in a project that is demonstrably moving towards certification with TFT assistance and monitoring. TFT members have the opportunity to secure a long-term supply of certified timber and wood products once the project is certified.

6 Verification, Tracking & Monitoring Systems

6.7 Many private sector companies and increasingly governments in producer countries are developing their own systems for tracking and verification of timber in their supply chains.

6.8 Companies such as SGS, Track Record, Helveta etc, have been working with both public and private institutions to develop tracking and verification systems. For example in Cameroon, SGS are working to verify the

exports to timber to ensure that government export taxes are paid. In Ghana the Validation of Legal Timber Programme (VLTP) is being developed by the Forestry Commission and SGS.

Increasing role of civil society in forest monitoring and advocacy of sustainable forest management.

6.9 Civil society has played a key role in the advocacy of sustainable forest management and more recently in forest governance, monitoring and transparency. For example, in Cameroon Global Witness was and now REM is, the official Independent Observer (IO) of the Forest Sector with a role to support the implementation of the Cameroonian 1994 forest law and to assist in the independent monitoring and tracking of timber and related products.

7 Financial Institutions Initiatives

7.1 Efforts have increased in the monitoring and control of supply of finance and investment to the timber and related industries in countries where illegal logging is rife. This is especially applicable for the larger operations, such as pulp and paper mill, which often require considerable direct foreign investment, frequently derived from both private and public financial institutions.

7.2 For private banks, the Equator Principles, agreed by ten of the world's largest financial institutions in 2003, include a commitment to respect the environment and social safeguard policies of the International Finance Corporation in low and medium-income countries, which currently include policies on forestry, natural habitats and indigenous peoples. In addition, a number of individual banks such as Citibank (No.1 Bank), HSBC and ABN AMRO have developed policies, which for example, prohibit the financing of companies/projects in primary or high conservation value forests and act as a guide to ensure that the environment, in this case forests, are safeguarded in their investment projects.

7.3 Most export credit agencies, which are collectively the largest global source of financing for development projects, have no criteria for assessing the environmental and social impacts of their projects, but they are paying increasing attention to this area. For example, the Danish export credit agency, has unilaterally signed up to the Equator Principles.



Please note that this is a draft factsheet. We welcome your comments and feedback. Please send comments to Emily Fripp at emily.fripp@btinternet.com