

ANNEX 1.1 United Kingdom country report

1. Summary

Malaysian wood in the UK market

The main Malaysian wood products exported to the UK are wooden dining/living room furniture, wooden seating, wooden bedroom furniture, hardwood plywood, hardwood sawn lumber, "other" wood furniture, and doors.

UK government procurement policy

UK government has established a policy applicable to all central government departments (believed to account for 8%-15% of total UK timber demand) requiring that all wood must be legally verified and giving preference to verified sustainable wood where possible. From April 2009, only verified sustainable or FLEGT VPA licensed timber will be acceptable, with preference given to the former. From April 2015, only verified sustainable timber will be accepted.

There is clear evidence that UK government is firmly committed to this policy, particularly through its support for the Central Point of Expertise on Timber (CPET) with a mandate to advise UK government on policy development and implementation.

However UK government has also come up against some significant obstacles in its efforts to ensure full implementation. Application of the policy is inconsistent between departments and agencies, few of which have developed effective systems to enforce or monitor policy implementation. Furthermore, contrary to current guidance, a significant proportion of central government agencies are already insisting that all wood products supplied must be certified sustainable. Awareness of central government policy also remains very low at local authority level.

UK government is now investing time and effort to promote existing policy guidance more widely, both internally and externally, and to improve systems of enforcement and monitoring. Central government policy guidance is also now being widely reported in the UK trade press and is being actively promoted through trade associations, particularly the Timber Trade Federation.

UK government officials indicate that they support the idea of additional legislation to prevent imports of illegal wood and are looking for an EU-wide solution. Although there is a private member's bill currently before parliament to introduce national legislation strongly based on the US Lacey Act, government officials suggest this is unlikely to be implemented. The legislative framework that eventually emerges in the UK is more likely to depend on the content of the EC Communication due in May 2008.

Wood importing, distributing and manufacturing sector

The Timber Trade Federation and British Woodworking Federation are playing a key role to expand environmental timber procurement practice to a wider range of companies in the UK wood importing, distributing and manufacturing sector. Both organisations have established codes of practice which increase scrutiny of wood products' sources and seem willing to endorse the preferential use of FLEGT VPA licensed timber in the UK. The TTF is actively promoting the FLEGT VPA process

throughout the UK, although it also believes there should be equal treatment for wood that is legally verified through private sector initiatives in non-VPA countries.

Existing importers and distributors of Malaysian wood products in the UK indicate that they would prefer VPA licensed timber from Malaysia over unlicensed timber from other countries. However they would not cease to buy from Malaysia if the country did not sign up to a FLEGT VPA, indicating that they are at least as willing to use private sector legality verification and certification initiatives.

The apparent willingness of importers and distributors to pay price premiums for FLEGT VPA licensed timber varies between 0% and 8% with 5% mentioned most often. The willingness to pay higher premiums is constrained by general lack of confidence that end-users would be willing to accept higher premiums. Marginally higher premiums may be paid for MTCC certified wood if it was recognised as delivering “legal and sustainable” timber in accordance with UK government requirements.

Large plywood distributors - accounting for at least 50% of the UK market for Malaysian plywood - have indicated their firm commitment to purchase, as a minimum requirement, verified legal wood despite significant price disadvantages, particularly against unverified Chinese plywood. These companies are driven particularly by their desire to access high profile government projects, notably the Olympics, and to avoid being effectively blacklisted from these projects. These companies are currently satisfying their requirements for verified legal and sustainable plywood products from Malaysia by sourcing either MTCC or FSC certified products.

The large importers of Malaysian sawnwood and mouldings in the UK indicated high levels of commitment to sourcing legal wood products as a minimum requirement. Most of these companies are already satisfying their requirements for legally verified Malaysian wood products by sourcing MTCC certified product.

Nevertheless, there are still significant gaps in the UK market for verified wood products in the UK wood importing and distributing sector. Smaller distributors not selling into large government contracts, but which nevertheless account for a significant share of the overall UK market, are under much less pressure to demonstrate the legality or sustainability of wood products. The recent expansion of Chinese plywood sales in the UK indicates that many importers and distributors will continue to use unverified wood products where there are significant price advantages. End user demand for verified legal wood products is currently insufficient to counter this trend amongst smaller distributors.

To date, Malaysian wood product supplies have benefited from emerging demand for verified legal and sustainable wood products in the UK due to their ability to supply a proportion of their production with MTCC certification, which has satisfied UK government requirements for “legal” timber. Some Malaysian shippers have also demonstrated their willingness to adapt to these demands through delivery of new FSC lines, for example plywood combining New Zealand radiata pine cores with tropical hardwood faces.

There is clearly a strong desire amongst large plywood distributors and proactive timber importers to move beyond legality verification to verification of sustainability. So while FLEGT VPA licensed products are likely to be widely accepted as a minimum requirement within the UK wood trade, they are seen primarily as a short-term “stepping stone” to wider uptake of certification.

From a UK marketing perspective, priority needs to be attached to further adaptation of MTCC so that it meets UK government criteria for “verified legal and sustainable” timber. This may be achieved by amendment of standards and procedures so that they conform to the CPET criteria. An alternative approach would be for MTCC to achieve PEFC endorsement.

FLEGT VPA licensing of Malaysian timber is essentially seen in the UK wood sector as a useful marketing tool so far as it contributes to the expansion and further development of credible sustainable forestry certification in Malaysia.

Construction sector

Construction sector engagement in environmental timber procurement policy is still limited. There is some emerging interest amongst large corporations that are introducing Corporate Social Responsibility policies, and specifically in relation to higher profile public sector projects. Many of the UK’s large house builders are now expressing a preference for “sustainable timber”, but few have formalised procurement policies and even less have developed procedures to ensure active implementation of these policies. Very few builders are taking action on timber procurement with respect to their private units. Levels of awareness and understanding of the FLEGT VPA process are very low in the construction sector. Where there is interest in environmental timber procurement, there is tendency for building professionals to rely on well established tools, such as FSC certification and BREEAM.

As things stand, Building Research Establishment’s Environmental Assessment Method (BREEAM) is not acting as a major driver of interest in legally verified wood products in the UK construction sector. Although extra credits are made available for wood derived under a variety of private sector procedures for legality verification, these are very restricted and would have little impact on overall BREEAM scores for buildings. There is also no mandatory requirement that all wood used in BREEAM developments must be verified legal. Furthermore, overall uptake of BREEAM is still relatively restricted and heavily concentrated in the public sector construction.

However the Government has integrated large parts of the BREEAM assessment method, including environmental timber procurement requirements, into the Code for Sustainable Homes. Rating of all housing developments in the UK against this Code is expected to become mandatory sometime in 2008. Although mandatory rating does not imply mandatory assessment (developments that are not rated will simply be accorded a zero score), the policy measure is expected to significantly increase the level of uptake in the future. Therefore, the BREEAM methodology is likely to become increasingly influential in the UK construction sector in the future.

Furniture sector

Government procurement policy is expected to have a negligible impact on UK demand for Malaysian furniture products. Malaysia exports only tiny amounts of furniture in the two sectors affected by public sector demand (office furniture and kitchens for social housing).

Although environmental timber procurement practices have for long been an important factor in private sector demand for outdoor furniture, such practices are only just beginning to penetrate the interior furniture market. Some high profile

furniture retailers are now playing a leadership role on the issue, although many others have yet to become engaged.

Those furniture retailers that are taking an interest in green procurement are focusing heavily on achievement of FSC certification. While FLEGT VPA licenses may be accepted in the early stages of policy implementation as baseline evidence of responsible practice, the expectation is likely to be that suppliers move quickly forward with forest certification.

Due to the wide range of products involved, and complexities of chain of custody in the furniture sector, there has been a tendency for proactive retailers to adopt a risk assessment approach. Green procurement requirements are focused on “high risk” products. Since most Malaysian interior wood products are in rubberwood which is widely considered “low risk”, they have not been a focus for environmental attention.

2 Methodology

Environmental timber procurement practice has been under intense scrutiny in the UK now for several years. This reflects a strong focus by environmental groups, that have for long seen the UK as a testing ground for their campaigns aimed at combating the illegal wood trade and promoting FSC forest certification. It also reflects the determination of the UK government to play a leadership role to tackle illegal logging through the G8 Illegal Logging Action Plan and the EU FLEGT process. The UK government, through the Department for International Development (DFID) and Department for Environment, Food and Rural Affairs (DEFRA) have supported policy development and research efforts covering timber procurement policy and practices in both the public and private sector.

The end result of this policy development process in the UK is that the current study is able to draw on a significant body of existing published information on environmental timber procurement practices in the UK. FII Ltd has itself been monitoring these practices on behalf of DFID and the UK Timber Trade Federation (TTF) since 2005. The UK government has also established a Central Point of Expertise on Timber (CPET) which has a mandate both to develop and monitor implementation of public sector procurement policy in the UK. The Royal Institute of International Affairs (RIIA) is also working under long term contract to DFID to provide an information-gathering and dissemination role on all aspects of illegal logging. This role has extended into examination of environmental timber procurement practice amongst local authorities. The UK Housing Corporation, the public sector financier of social housing, is now working alongside the Worldwide Fund for Nature (WWF) to monitor environmental practice amongst major house builders.

In addition, trade associations - notably the Timber Trade Federation (TTF) and British Woodworking Federation (BWF) - are playing a particularly important role in the UK to develop procurement policies on behalf of their members and to monitor implementation. The Furniture Industry Research Association is beginning to play a similar role in the furniture sector.

As a result, the UK national report is able to draw on a wider range of published sources than the most other national reports prepared for this project. Nevertheless, a wide range of interviews were carried out during the period November 2007 to January 2008 in an effort to obtain specific feedback on likely commercial impact of a FLEGT VPA with Malaysia in the UK market. The study included interviews with:

- all 3 of the UK's largest builders' merchants together with a smaller builders' merchant based in northern England. These companies account for a large share of the UK plywood market.
- the UK's two largest independent importers of plywood, which together account for over half of all Malaysian plywood imported directly into the country.
- all 5 companies known to be importing Malaysian sawn timber and mouldings directly into the UK.
- the main representative trade associations in the UK, including the TTF, BWF, British Furniture Manufacturers (BFM), and British Contract Furniture Manufacturers Association (BCFMA)
- Two of the UK's largest joinery companies in the UK, Premdor and Jeld-Wen
- Three key government agencies: CPET (which also provided feedback into their research on wider government procurement practice), DFID, and the Environment Agency
- Two important research organisations: RIIA and FIRA
- Leading furniture retailers: M&S, John Lewis Partnership, Furniture Village, Laura Ashley Outdoor Living, and Robert Dyas
- Royal Institute of British Architects

Despite concerted efforts, certain sectors proved more difficult to interview than others. Generally speaking, awareness of FLEGT VPA issues and interest in the likely impact on Malaysian wood products decreased with distance down the supply chain. While timber agents and importers and large builders' merchants were very willing to spend time discussing the issue, efforts to gain information from joinery companies were more difficult, while efforts to interview construction companies were unsuccessful. And while some large furniture retailers were willing to discuss their own policies in general terms, efforts to identify specific furniture retailers dealing in Malaysian wood products proved fruitless. As a result this study has tended to rely more heavily on secondary sources for information on the attitudes of organisations in end-using sectors.

A range of UK based environmental NGOs were also interviewed for this study, including FERN, Greenpeace, WWF GFTN, and FSC UK. However, since these organisations tend to be taking a consistent line on the FLEGT VPA process at European level, their views are reported in the section on EU policy developments and are not considered separately here.

Two Malaysian organisations with a particular interest in the UK market also provided information for this report: the UK office of Innoprise; and the Malaysian Furniture Promotion Council.

3 Current market position of Malaysia in the UK

3.1 Overview

Table 1: Malaysia share of UK wood product imports by product and growth trends

Product	Total import 2006 000 euro	Malaysia import 2006 000 euro	Malaysia share of total import 000 euro	Total Import Trend % 05-06	Malaysia Import Trend % 05-06	Key competitors
Hardwood plywood	325	76	23	11	48	China, Brazil, Indonesia
Wooden dining/living room furniture	609	40	7	5	-9	China, Poland, Italy, Vietnam, Brazil
Wooden seating	1218	31	3	8	3	China, Italy, Poland, Thailand, USA
Wooden bedroom furniture	495	31	6	11	37	China, Denmark, Germany, Italy, Brazil
Hardwood sawnwood	309	29	9	9	4	USA, France, Cameroon, Ivory Coast
Other wooden furniture	533	26	5	-3	-13	China, Vietnam, Indonesia, Poland
Doors and their frames	277	24	9	16	39	Indonesia, Brazil, Poland, Portugal
Hardwood moulding	200	9	5	27	-7	China, Italy, Indonesia, Canada
Wooden office furniture	141	4	3	16	9	Italy, China, Germany, Denmark

The main Malaysian wood products exported to the UK are wooden dining/living room furniture, wooden seating, wooden bedroom furniture, hardwood plywood, hardwood sawn lumber, “other” wood furniture, and doors (Table 1, Charts 1-2 ,).

Chart 1

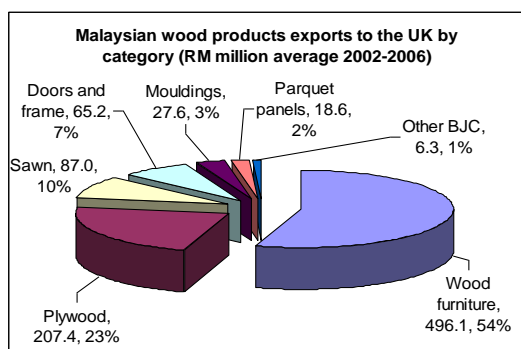
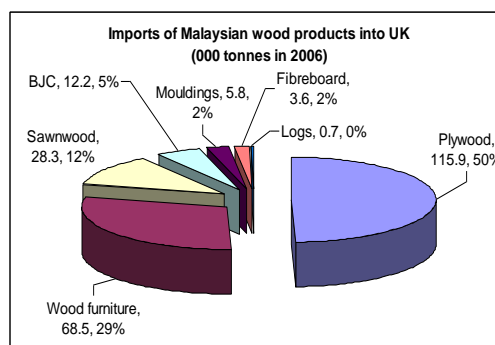


Chart 2



3.2 Furniture

Malaysia’s share of UK wood furniture imports is relatively small compared to Italy, traditionally the largest overseas supplier, and China which is becoming increasingly dominant. Nevertheless, Malaysia has been holding its own in some sections of the market, notably bedroom furniture (Charts 3-8).

Chart 3

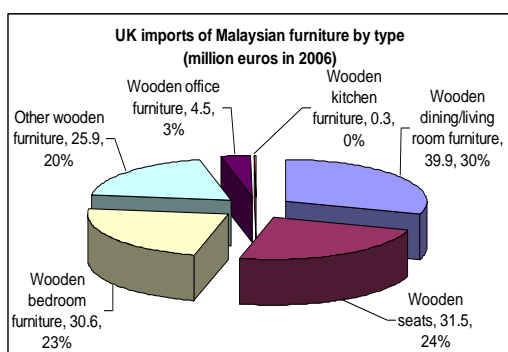


Chart 4

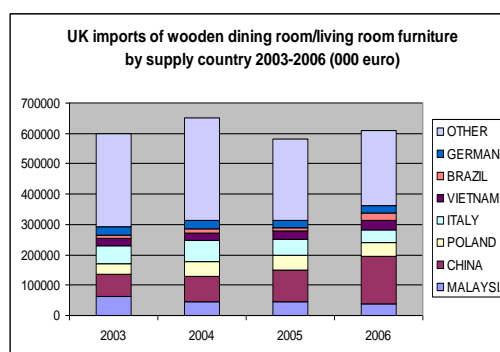


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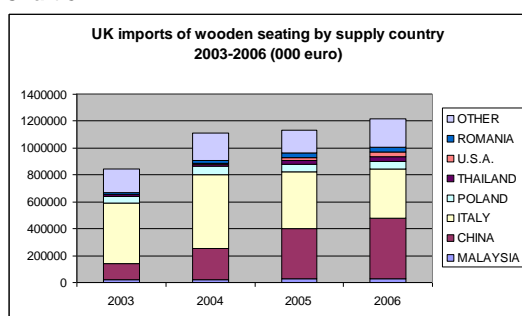


Chart 6

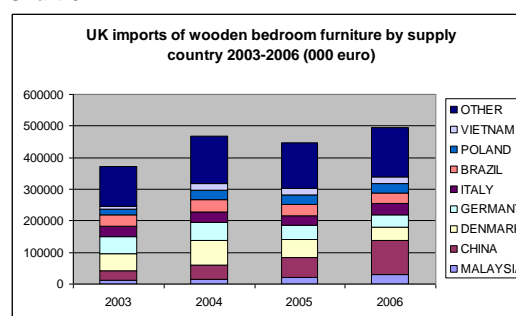


Chart 7

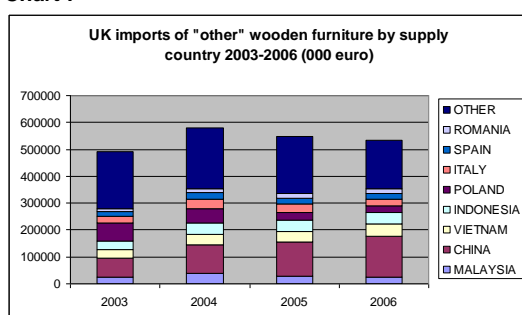
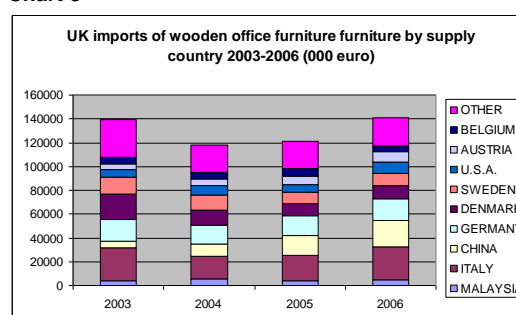


Chart 8



Due to the heavily fragmented nature of the furniture retailing sector in the UK and the huge diversity of products involved, it has not been possible to trace the major UK buyers of Malaysian furniture in the UK. The problem is compounded by demands from UK retailers to keep lead times as short as possible and stock to a minimum so they can adjust quickly to fashion changes. Distributors often buy relatively limited volumes of product from a wide range of suppliers.

An interview with John Lewis Partnership (JLP), one of the UK's largest high-street retailers, highlights the scale of the problem. JLP is unusual amongst furniture retailers, for having made (for environmental reasons) a concerted effort to identify the country of origin of most wood contained in their products. This has been an enormous task given that JLP's total range extends to 350,000 products. From this range, JLP identified a total of 19 products containing some Malaysian wood (5 in the nursery area, 2 in the living and dining room area, 2 in the lighting area, and 10 in the silverware, cutlery and frames area).

Malaysia's position in the UK furniture market also needs to be considered in the light of the country's large domestic furniture sector, with a total production value of around €11.7 billion euro in 2004. Overall furniture imports still account for only around 30% of furniture consumption. Although this sector is heavily oriented towards manufacture based on composite panels, softwood and temperate hardwoods, it continues to generate demand for small volumes of tropical hardwood – particularly in the reproduction furniture sector.

Very little Malaysian wood is used for the manufacture of furniture in the UK. During interviews conducted for this study, none of the major importers on Malaysian sawn lumber identified furniture manufacturers as buyers of Malaysian products. However, an interview with the Furniture Industry Research Association (FIRA) revealed that some furniture manufacturers use small volumes of Asian plywood for chair bottoms and backs.

3.3 Hardwood plywood

Malaysian hardwood plywood occupies an increasingly significant position in this sector of the UK wood market (Chart 9). The value of EU imports of Malaysian hardwood-faced plywood increased from 29 million euro in 2003 to 76 million euro in 2006. Around 23% of the 325 million euro of hardwood plywood imported into the UK in 2006 derived from Malaysia. This proportion has been rising strongly due to supply problems and environmental concerns associated with Indonesian plywood. The increase in Malaysian market share has occurred despite the rapid emergence of China as a key competitor in the UK hardwood plywood market. Between 2003 and 2006, the value of UK imports of Chinese plywood increased from 15 million euro to 78 million euro.

Interviews conducted for this study indicate that the vast majority of Malaysian plywood imported into the UK is sold through the large distributors and builders' merchants (notably Travis Perkins, Jewson and Wolseley). Figures supplied by these companies on the volume of Malaysian plywood traded suggest that together they probably account for at least half of the 215,000 m³ of Malaysian plywood exported by Malaysia to the UK in 2006. These large distributors are leading the way in the implementation of environmental procurement policies in the UK private sector and have turned to Malaysia (and to a lesser extent to Brazil) to source verified legal and certified plywood products.

Demand for Malaysian plywood amongst the large UK distributors has been boosted considerably by the ability of Malaysian shippers to offer a high quality "legally verified" and certified product in consistent commercial volumes at a reasonably competitive price. Availability of MTCC certified plywood from Malaysia has been improving in recent times and can be obtained by UK importers on payment of a small premium of perhaps 2% on the uncertified price. MTCC is judged by UK government to provide an assurance of legality. A growing proportion of plywood imports into the UK from Malaysia are FSC certified and comprise a tropical hardwood face with a New Zealand radiata pine core. Although this latter product is not as durable as tropical hardwood plywood throughout, it is being supplied as a "CE2+" product, meaning it is tested and fit for structural use. It therefore meets the requirements for a large proportion of UK applications.

Indonesia has suffered significantly from its inability to compete on price with China or to offer significant volumes of "legally verified" product to the larger distributors at prices comparable to Malaysia. Although FSC material has been available from Indonesia in small volumes, prices have been too high for most buyers. This fact has been compounded by tightening log supplies in Indonesia and the imposition of a 7% GSP duty on Indonesian plywood in the EU market. Malaysian shippers are only subject to a 3.5% duty. Even though the Indonesian FSC certified product is high quality, comprising tropical hardwood throughout, there has been little appetite to pay premium prices. A large section of the UK hardwood plywood market now seems content to accept the lower performance associated with a softwood core.

Brazil remains an important competitor to Malaysia in the UK hardwood plywood sector, offering comparable products at similar prices. However Brazil, like Indonesia, has suffered severely from Chinese competition and its inability to satisfy the large distributors' requirements for consistent volumes of independently verified plywood products. Furthermore, the Brazilian hardwood plywood sector has been beset in recent times by dramatic rises in production costs, a strengthening currency which has undermined export competitiveness, and government efforts to crackdown on illegal logging. However Brazilian hardwood plywood mills have developed some

capacity to supply FSC-certified product and Brazil is likely to remain an important competitor to Malaysia in this market in the long term.

Smaller UK plywood importers and distributors, which account for a significant share of the total UK plywood market, have been under much less pressure to develop environmental procurement policies and have therefore focused their purchases of tropical red wood faced plywood on China due to the significant price advantages. Interviews for this study indicate that UK delivered prices for Chinese hardwood plywood, which tends to comprise a tropical hardwood face and a poplar core, are typically 25% to 30% less than uncertified Malaysian plywood.

The initial effect of the rapid expansion of Chinese plywood in the UK market may have been to disrupt efforts by importers to move to legally verified and certified products. Market price expectations have fallen dramatically with the influx of cheaper uncertified Chinese product. In a market where only perhaps one in ten end-users have been requesting certified product, it has become increasingly difficult for importers to justify stocking legally verified or certified product from significantly more expensive supply sources such as Malaysia.

Despite the significant price penalties, the large distributors interviewed for this study indicate that the pressure to protect their image and brand is now so intense in the UK that they are maintaining their commitment to sourcing legally verified and certified products. Two of the largest distributors indicated that their policy at this stage is not to buy any plywood from China due to the difficulties of obtaining accurate information on forestry practices.

Efforts are now being made to improve the environmental credentials of Chinese products which, if successful, would significantly improve their competitive position in the UK market. UK importers have begun to work in partnership with Chinese shippers to encourage development of legally verified and certified Chinese plywood products. The Timber Trade Action Plan (TTAP) has been instrumental in encouraging UK importers to work with key Chinese shippers and the Tropical Forest Trust to improve the wood tracking and procurement systems of Chinese plywood mills. TFT has assessed 7 plywood mills in China, finding that most have little or no systems to identify the wood origin of imported timber. TFT has been working with these companies to develop action plans and to link the mills with certified and legally verified log suppliers in Malaysia and Central Africa.

Small volumes of FSC-certified Chinese plywood also began to arrive in the UK in 2007. At present only 3 or 4 of the smaller Chinese plywood mills are able to offer this product so availability is still very restricted. The plywood is an FSC-Mixed product, 75% of which by volume comprises FSC-certified material and the rest derived from FSC-controlled sources. The product has a poplar core, derived from FSC-certified plantations in China, and is faced either with red canarium from Indonesia or with a plantation grown eucalyptus species. UK-delivered price levels for the product are around 20-30% higher than the equivalent uncertified Chinese plywood, but 5-10% lower than uncertified Malaysian plywood.

Chart 9

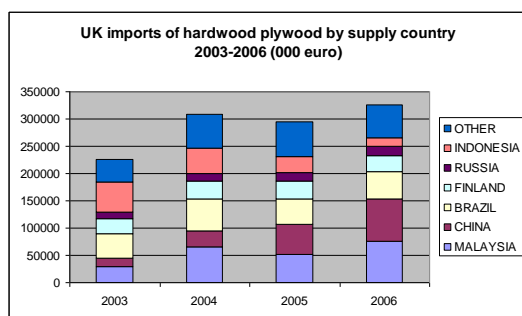
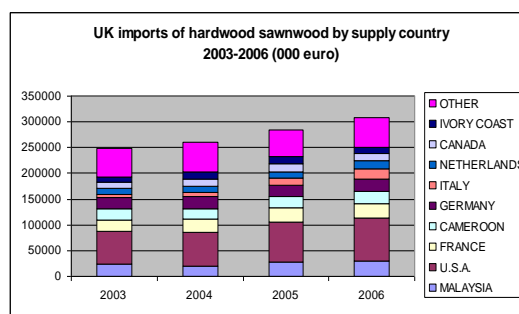


Chart 10



3.4 Hardwood sawnwood

Malaysia currently accounts for around 9% of total hardwood sawnwood imports into the UK (Chart 45). The UK market takes mainly kiln dried light red meranti tembaga lumber from Peninsular Malaysia which is used for the manufacture of joinery products and general joinery applications. The UK also imports smaller volumes of seraya majau sawn timber from Sabah, a more expensive and higher density product than meranti tembaga which is used for upmarket joinery applications and which is particularly popular in Scotland.

In the joinery market segment, Malaysian meranti and seraya compete most directly with African sapele. Other species that used to be significant in this market segment – notably Brazilian and African mahogany and Brazilian cedar – are no longer available in significant commercial volumes. Prices for meranti and sapele fluctuate widely, but have been comparable over the long term. Sapele is generally felt to have the edge when it comes to underlying wood quality, being higher density than meranti tembaga, implying greater durability.

However Malaysian shippers are generally more reliable than African shippers in delivering product on-time fully in line with contract specifications. One agent who deals in both African and Malaysian hardwood commented that *“Malaysia is the most reliable tropical hardwood supplier in the world. We have never had any claims on quality, which is second to none. All contracts are honoured at the original agreed price”*. This sentiment is backed by one of the UK’s largest hardwood importers who noted that *“quality of Malaysian sawn is very good and Malaysia is very competitive when it comes to availability and delivery time”*.

Interviews for this study also indicate that Malaysian sawn timber products have had a significant edge over their African rivals in their ability to provide assurances of good forestry practices. This is due both to the relatively strong reputation of Peninsular Malaysia and of Innoprise in Sabah on this issue, combined with the ready availability of MTCC certified products. As these products are made regularly available at a small premium (only 2% to 3% on the uncertified product), take up has been significant. Interviewees suggest that all the leading UK sawnwood importers now prefer MTCC certified timber, with even the most reluctant now coming round to the idea. By stocking MTCC, importers recognise that they have flexibility to sell into both the public and private sector.

To date, interviewees suggest that legally verified and certified African sapele has been difficult to obtain. However, there is a feeling amongst some interviewees that Malaysia could be overtaken by its African competitors on environmental grounds. One large UK importer noted that many African shippers have made far-reaching

commitments to legally verify all their wood exports and to eventual independent certification. Both Cameroon and Ghana have made significant progress towards finalisation of a FLEGT VPA with the EU. FLEGT VPAs are regarded as creating the preconditions for more widespread certification amongst African suppliers. The Inter-African Forest Industries Association – whose membership includes all the major European-based forest concession holders in Africa - has stated that all members will be credibly verified as legal and 40% will be certified to a credible standard by 2012 (includes FSC, PAFC, appropriate national standards). And a significant proportion of African shippers have now made a specific commitment to FSC certification. CIB in the Congo Republic was FSC certified in 2006, while SEFAC recently achieved FSC certification in Cameroon.

3.5 Hardwood decking

The UK imports some balau (selangan batu) decking, although the trade has become relatively restricted due to lack of supply. Brazil is the key competitor in this market. The Brazilian species offered – which include massaranduba, angelin pedra, and garapa - are generally regarded as of lower quality than Malaysian balau, but prices have tended to be slightly lower¹.

Brazilian products can be obtained FSC certified in small volumes and these have achieved significant price premiums (up to 20%) for supply into public sector contracts in the UK. Balau and Selangan batu decking has not been made available either legally verified or certified, partly reflecting the strong demand for the limited volumes available, and partly the challenges of certifying this product. The UK-based agency of a large Sabah shipper suggested that balau/selangan batu is particularly difficult to offer as a legally verified product because a significant proportion of the species is bought in from a range of smaller mills sourcing from conversion forests.

3.6 Hardwood moulding

Although still fairly limited, UK imports of hardwood mouldings have been rising in recent years in line with the general trend towards greater outsourcing by the UK manufacturing sector (Chart 10). However China's market share in this sector has risen dramatically in recent years at the expense of all other suppliers, including Malaysia.

While the raw statistics suggest that China may be the main competitor to Malaysia in the hardwood mouldings market, it is notable that interviewees for this study that are importing Malaysian mouldings did not recognise it as such. China was assumed to be selling into a different market niche and was not seen as a competing source specifically of tropical hardwood mouldings.

Interviewees for this study referred to meranti, nyatoh, and jelutong being sourced as mouldings from Malaysia.

Almost without exception, interviewees identified Indonesia moulding suppliers as by far the major direct competitor to Malaysian manufacturers, offering a very similar product at comparable prices. Indonesia's policy to ban exports of rough sawn timber has contributed to the development of a significant mouldings industry in the country.

The high degree of variability between individual mouldings suppliers in Malaysia and Indonesia means that it is difficult to comment on each countries respective

¹ Strong appreciation of the Brazilian real during 2007 significantly undermined this price advantage.

competitive position in this section of the market. However, one interviewee was prepared to comment that Indonesia tends to offer better specifications than Malaysia with colour uniformity. On the other hand, in a like for like comparison, Malaysian products tend to be slightly cheaper. Also, due to the presence of MTCC, Malaysia currently has a much larger range of suppliers offering legally verified product.

According to interviewees, mouldings are also being imported into the UK from Singapore based on a mix of Indonesian and Malaysian raw material. The Malaysian wood mainly comprises nyatoh and jelutong shipped out of the Malaysian state of Johor and then kilned and machined in Singapore.

Chart 10

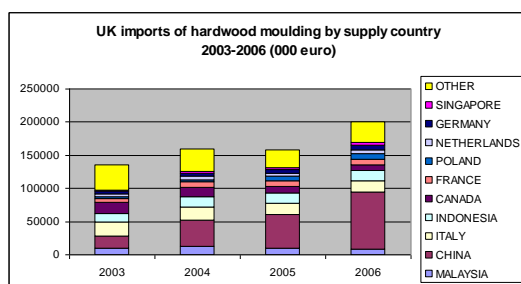
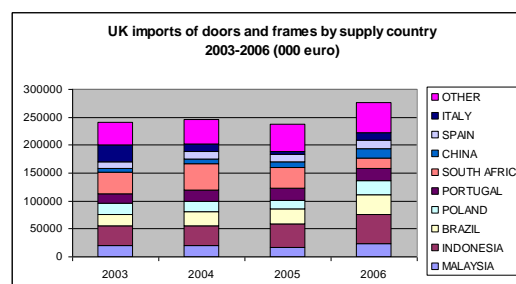


Chart 11



3.7 Doors

Malaysia is a fairly significant external supplier of doors to the UK, accounting for 9% of total imports, a proportion which has grown in recent years (Chart 11). Key competitors in this market are other major tropical wood suppliers, Indonesia and Brazil.

UK imports of doors and similar products have been rising in recent years in line with a general trend towards increased imports of pre-assembled joinery products. This process has been driven by various factors, including a joinery skills shortage and a desire to raise quality standards and simplify the on-site construction process.

4 Government policy

4.1 Central government procurement policy

The UK government has been a pioneer in policy formulation against the trade in illegal wood products. In 1997, the UK government initiated voluntary guidance on timber procurement to its departments and agencies. In July 2000, the government announced a procurement policy for timber and timber products and invited trade representatives and NGOs to discuss the timetable for its implementation. In 2002, the UK government commissioned the consultancies Environmental Resources Management (ERM) and ProForest to undertake a scoping study on contract and variant specifications for legal and sustainable timber. Apart from defining these specifications and paving the way for policy formulation, their report also recommended the establishment of an advisory service to provide government procurement personnel with information and advice to support the implementation of the policy.

The Timber Procurement Advice Note from January 2004 established new procedures for procuring wood and wood products, creating a binding commitment on all central government departments and agencies. While legal and sustainable timber procurement is not a legal requirement, it has become a "self-imposed

voluntary code of purchasing". Current guidance includes a contract clause to ensure the supply of timber from legal sources and a variant specification for the option of supplying sustainable timber.

This procurement policy applies to all central government agencies in the UK. No precise figures are available on the proportion of UK timber demand represented by central government contracts. However, a study by the Royal Institute of International Affairs suggests that, compared to private sector demand, the proportion may be relatively confined. The study suggests that the public sector is likely to account for somewhere between 10% and 20% of UK GDP, and by implication a similar proportion of timber consumption. Central government (including the Private Finance Initiative which involves public-private partnerships for delivery of public services) is thought to account for somewhere between 8% and 15% of national GDP, local authorities for no more than 3% to 5% of national GDP².

In August 2005, the government commissioned ProForest, a private forest consultancy with recognised experience in advising on responsible timber purchasing, to operate the Central Point of Expertise on Timber (CPET). CPET has been given responsibility for formulating criteria for both "legal" and "legal and sustainable" timber and for assessing forms of evidence. CPET have since developed two sets of criteria: Category A covering forest certification schemes; and Category B covering all other forms of evidence.

CPET subsequently assessed various forest certification schemes against their Category A criteria. FSC, PEFC, SFI, and CSA were judged to provide evidence that timber is "legal and sustainable". MTCC was judged (most recently in May 2006) to provide evidence that timber is "legal" but not "sustainable". A review of the CPET assessment suggests that MTCC failed on only one criterion for "sustainable timber" and that measures may already be in place to address this failing³. CPET is next due to assess MTCC in May 2008.

CPET's Category B criteria are very lengthy and complex. In simple terms, to demonstrate legality in countries lacking "robust" forest governance, independent third party verification of chain of custody and legality at forest source is mandatory. In other countries, UK government may accept a self declaration that wood is legally sourced. However, due to concerns about WTO implications, CPET provides no guidance on which countries may be viewed as lacking "robust" forest governance. With respect to sustainability, the Category B criteria essentially mirror the Category A criteria and, in practice, are very difficult to achieve in the absence of independent certification.

² An Environmental Audit Committee Report "Buying Time for Forests: Timber Trade and Public Procurement (HC792, 2001-02) paragraph 6 states that it is estimated that central government is responsible for 15 per cent of all timber procurement and that "including wider elements of the public sector (such as local authorities and private finance initiative (PFI) projects) takes this proportion to 40 per cent". However RIIA's more detailed and recent assessment questions this high estimate.

³ MTCC failed against the UK government criterion requiring that the standard-setting and decision-making process adopted must seek to ensure: a) No single interest can dominate the process; and b) No decision can be made in the absence of agreement from the majority of an interest category. CPET suggested that although the MTCC standard was adopted by consensus, the decision-making process did not have any clear procedures or safeguards relating to the influence of different interest categories. CPET also notes that MTCC is already moving to rectify this issue.

In common with all other certification schemes, MTCC also failed against the criterion requiring that the uncertified portion of percentage labelled products must also derive from sustainable forests. However failure against this criterion would have no bearing on MTCC labelled products containing more than 70% wood from MTCC certified forests.

The existing uncertainty over the Category B criteria for legality will soon be resolved following a change in UK government policy. In a move to increase purchases of sustainably produced timber, the UK Government formally announced in April 2007 that it will accept only sustainable or FLEGT licensed timber after April 2009. Only sustainable timber will be accepted after April 2015.

According to CPET, current thinking is that verified sustainable timber will be given preference over all other timber after April 2009, with FLEGT VPA licensed timber being considered a back-up option where no verified sustainable is available. Nothing will be considered “equivalent” to FLEGT VPA licenses - so no preference will be given to any private sector legality verification schemes. This policy essentially amounts to recognition that a FLEGT VPA license has a distinctive status that while not yet “sustainable” is superior to legal verification through a private sector initiative.

Judging from conversations with government officials and traders, the UK government is demonstrating considerable commitment to achieving the broad goal of ensuring widespread adoption of this policy within the public sector and also to extend it as far possible into the private sector. CPET guidance with respect to acceptable forms of evidence is becoming more widely used as the basis for procurement policies in both the public and private sectors. For example, the forms of evidence accepted by signatories to the Timber Trade Federation’s Responsible Purchasing Policy (TTF RPP) and also under BREEAM (see below) closely mirror CPET guidance.

On the other hand, experience in the UK is also indicative of the huge challenges that need to be overcome to ensure effective implementation of timber procurement policy. Ensuring central government departments follow the policy is difficult enough, while the challenges of extending similar policies through to local authorities and into the private sector are enormous.

At a meeting at Chatham House in July 2007, a DEFRA official noted that management of central government contracts is very inconsistent between departments, and also that central government is not in a position to dictate policy to regional and local government. The fact that policy implementation has been highly inconsistent, due to lack of awareness and understanding by procurement staff and lack of effective systems of monitoring and enforcement, is also revealed by various surveys (WWF Barometer, CPET, FII Limited).

Efforts are now underway to overcome these problems. CPET is undertaking a pilot study of construction industry supply chains in an effort to identify where major obstacles to policy implementation lie in this sector and what measures may be taken to overcome these. As part of the study, CPET has examined ten Government construction projects and facilities management contracts. A wide range of contractors and suppliers throughout the supply chain to government have been involved. The study draws from best practice examples to provide insights into improving compliance of public sector buyers and Government contractors to the Government’s timber procurement policy. The report on this study will not be made to DEFRA until January 2008. Recommendations for action are likely to include implementation of new central government monitoring and reporting procedures.

The construction sector pilot study includes a comparative review of timber procurement policies of 14 central government agencies that are important in the construction sector. CPET made a brief extract of the report comparing central

government agency procurement policies available to the consultant in advance of publication. This extract shows that of the 14 agencies:

- 8 had developed clear timber procurement policies of their own, 3 had no policy of their own but referred to central government policy, 1 was in the process of developing a policy in line with central government policy, and 2 had no clear policy but were including environmental timber procurement clauses in individual contracts.
- Only 2 agencies were following government policy to the letter. 5 were requiring that all wood must be from a “legal and sustainable source”. A further 4 were requiring that all wood must be either “FSC” or “FSC or equivalent”.
- None of the agencies referred to VPA licensing in their procurement policies and only 1 agency seemed very aware of the FLEGT VPA process and what this implied.
- Only 6 agencies had some system of monitoring in place to ensure implementation of the policy.

The one government agency that had knowledge of the FLEGT VPA process was contacted for this study. The agency expressed strong support for the FLEGT VPA process and agreed that preference should be given to FLEGT VPA licensed timber in government procurement as long as this did not detract from the ultimate goal of achieving forest certification. FLEGT VPA licensed timber should only be preferred where no certified alternative existed. This agency also expressed concerns that *“VPAs may be negotiated and come into force before legality assurance systems are fully operational and licensing of timber agreements commences”*. It noted that *“a key requirement must surely be that there is some type of communication/notification mechanism in place to keep public sector buyers informed about the status of VPAs and assurance/licensing agreements”*. The agency also expressed concerns about the potential for circumvention of the FLEGT VPA license agreement suggesting that *“this could significantly undermine the policy, and make a FLEGT licence even less comparable to evidence of legality via independent verification”*.

The Olympic Delivery Authority (ODA) is one government agency likely to have a particularly significant impact on the UK timber market in the immediate future. Developments for the 2012 Olympic in London will be on a large scale, comprising 11 main sports venues, a media centre, an athlete’s village housing more than 17,000 people, plus associated infra-structure. The ODA’s has made a commitment to ensuring that London 2012 will be remembered as the ‘Greenest Games in modern times’. Due to its energy efficiency and other environmental merits, wood is expected to be widely used.

The materials section of the ODA strategy emphasises responsible sourcing. The Strategy indicates that *“suppliers will be asked to demonstrate, as appropriate, responsible sourcing of materials by providing evidence of the existence of legal sourcing, environmental management systems, or through the use of chain of custody schemes. With reference to timber, the ODA expects all timber to come from known legal sources. The ODA will also seek to maximise timber from sustainable sources, with appropriate supporting evidence as defined by the UK Central Point of Expertise on Timber (CPET)”*. More recently however, in April 2007 the Director of the ODA stated categorically that only certified sustainable wood products would be accepted for Olympic projects.

In short, although UK central government policy is to recognise FLEGT VPA licensed timber when it becomes available, it is clear that there is still much work to be done to ensure that this commitment is acted on by UK government departments. A majority of departments have no systems to ensure effective enforcement and monitoring of policy implementation. And where there is commitment, the tendency in many departments is to go beyond central government guidelines and to require that wood is independently certified as derived from a sustainable source.

4.2 Local authority policy

A range of studies have been carried out to examine the level of demand for legal and sustainable timber generated by district and local governments in the UK. All these studies suggest that central government policy measures are not yet filtering down to this level of government and that demand is therefore extremely patchy. Where there is demand it tends to be driven more by environmental campaigns and focuses on FSC certification rather than following the central government line of recognising “legally verified” as a stage to sustainability.

In 2005, the WWF undertook a survey of London local authorities which indicated that only 50% of London boroughs had introduced any policy with respect to timber and paper purchases and only a quarter had taken steps to implement these policies. Those that had introduced such policies showed a strong preference for requiring FSC-only.

To complement the WWF study, in 2007 the Royal Institute of International Affairs (RIIA) assessed the timber procurement policies of a sample of 12 local authorities in the North of England. The study indicates that level of commitment to environmental timber procurement is even lower in this part of the country than in London. Although 10 of the local authorities had published a general policy on sustainable procurement, only 2 had prepared a full set of guidance on timber procurement while a further 3 have prepared partial guidance. Only 1 authority in the region had heard of CPET. Of the authorities with timber procurement policies, FSC (or equivalent) is explicitly required by Kirklees (in Leeds). FSC is mentioned as an example of appropriate certification by Hull, Leeds, and Newcastle. Only Newcastle mentions PEFC. Only Kirklees has full monitoring of policy implementation (through an EMS).

The RIIA study highlighted that local councils organise environmental responsibilities in very different ways. Some have centralised procurement functions, others are entirely decentralised allowing different departments to make their own purchasing decisions. Depending on the council, responsibility for timber procurement may be allocated to the central procurement department, to housing/construction departments, or to environment/sustainability departments. Much hinges on the presence or absence of an enthusiastic staff member willing to push the process forward. Rapid staff turnover means that policies change frequently.

The RIIA study included recommendations on possible mechanisms to improve the level of commitment to central government policy at local authority level. It noted that the current trend in national government is towards decentralisation of authority, so there is very little possibility of forcing local authorities to act by introduction of new legislation or mandatory targets. However, central government could provide financial incentives to those local authorities demonstrating progress. The “Beacon Councils” initiative already provides a mechanism by which local authorities are rewarded for high levels of performance in other areas. This could be adapted to include timber procurement.

Another approach would be to include reference to timber procurement within the CPA mechanism, a central government system which star-rates Councils based on performance. Other options include introduction of requirements for timber procurement into the building regulations (for example via the CSH), and educational programs. The latter approach is currently being pursued by CPET. Finally, ENGOs could take more action to “scare” local authorities into implementing policies.

4.3 BREEAM and the Code for Sustainable Homes

The Building Research Establishments Environmental Assessment Method (BREEAM) and the related Code for Sustainable Homes (CSH) have some potential to be more important drivers of demand for legally licensed timber in the UK.

BREEAM is a tool for comparing the environmental impact of whole buildings across their entire life cycle. The various components of buildings are assessed during the design phase for their performance against a range of environmental impact categories including Energy; Transport; Pollution; Materials; Water; Land Use and Ecology; Health and Wellbeing; and Management. Buildings are scored overall out of a hundred on a scale of ‘Pass’ (over 36 points), ‘Good’ (over 48 points), ‘Very Good’ (over 58 points) or ‘Excellent’ (over 70 points).

The government announced in its sustainability action plan “*Achieving Sustainability in Construction Procurement*” that from March 2003 all government procured projects must achieve a BREEAM or equivalent rating of “Excellent” for new build and “Very good” for refurbishments. Although survey evidence suggests that this policy has yet not been fully acted upon, it is clear that BREEAM could have significant long-term influence.

The CSH, which draws directly from BREEAM, was introduced as a standard in England in April 2007. Under this system, housing developments can achieve ratings from one to six stars. As with BREEAM, star ratings are calculated on a ‘points out of 100’ basis. The lowest level, 1 star, demands a score of 36% while six stars requires a score of 90%.

For now, the CSH is a voluntary tool for both public and private housing developers. However, all public housing will need to achieve at least a 3 star rating if it is to obtain central government funding. Furthermore, in November 2007 the Government announced that during 2008 (probably in April) it would become mandatory for new homes to be rated against the Code. This would mean that, once introduced, all homes would either have to be assessed against the Code and given a certificate indicating the rating they had achieved or would not be assessed and would be deemed to have achieved a zero rating against the Code.

As a result of this decision, there is expected to be a significant increase in uptake of the Code, which so far has not been widely used. In July 2007, only 202 Code assessments had been registered covering a total of 19,137 homes under, or anticipated to shortly be under development, across the public and private sectors.

Longer-term UK government has the objective of integrating the CSH within the Building Regulations to assist national conformance to the carbon emissions reduction targets of the Kyoto Protocol.

The role of BREEAM and CSH in driving demand for legally verified or certified timber is currently limited by the relatively low priority (and therefore credits) attached to responsible sourcing under both standards. The allocation of points is heavily

weighted towards meeting energy efficiency/carbon dioxide requirements, health and wellbeing, and local environmental issues. Under CSH, the issue of responsible sourcing accounts for only 2.7% of the total score.

Neither BREEAM nor CSH establishes a mandatory requirement that any timber used in rated projects must be as a minimum from a verified legal source. However, in order to achieve any credits for responsible sourcing under either scheme, there is a minimum requirement that timber be accompanied by a signed declaration from the supplier that it is legally sourced and not a CITES listed species. The actual allocation of points for “responsible sourcing” requires a complex calculation based on the volume of responsibly sourced product used in each separate building element, in combination with the quality of the evidence provided. The scores available for different forms of forest certification and legality verification are adapted directly from the CPET assessments. The highest scores are available only for timber which is certified under the FSC, PEFC, SFI, or CSA scheme. Lower scores are available for wood that is independently verified as legal under a variety of private sector initiatives. At present there is no direct reference to FLEGT VPA licensing, but it seems likely that it would be accorded the same level of points as private sector legality verification initiatives.

4.4 Additional legislative options

In January 2008 the UK government held a consultation on additional legislative options to prevent entry of illegal wood into the EU. The report of the meeting does not include any recommendations for future action but provides a good summary of the pros and cons of different legislative options and the current legal position with regard to these options within the EU⁴. The report highlights that there are significant legal objections to the EU pursuing either a universal requirement for legality licensing (since this amounts to a reversal of the usual burden of proof) or a Lacey-style approach (since this would require EU courts to make extra-territorial judgements on the laws of other countries which they are rarely willing to do).

Nevertheless the potential benefits of “Lacey-style” legislation have been recognised in the UK by Barry Gardiner MP, the Prime Minister's Special Envoy for Forestry. In early April 2008, Gardiner introduced a Private Members Bill for a first reading in the UK Parliament which is modelled on the US approach that would “*make it an offence for any importer or distributor to sell or distribute in the United Kingdom any wood harvested, manufactured or otherwise dealt with illegally in the country from which the wood originated or through which it passed or was transhipped*”.

UK government officials at DEFRA have emphasised that Gardiner’s Bill is a private member’s initiative and does not represent official government policy. They note that while UK government supports the idea of legislation, it is looking for an EU-wide solution. The legislative framework that eventually emerges in the UK is more likely to depend on the content of the EC Communication due in May 2008.

⁴ See <http://www.illegal-logging.info/uploads/20080220AddOppsJan08minutes.doc>

5 Sectoral analysis

5.1 Timber importers and merchants

5.1.1 Timber Trade Federation

All the UK's leading importers and agents of Malaysian sawnwood are members of the UK's Timber Trade Federation with the exception of Timbmet (including PETAL, DLH UK, Tradelink, and UCM). Some reasonably significant importers and distributors of Malaysian plywood products are members (Finnforest, Wolseley, James Latham), but the country's largest (including MLM, Travis Perkins and Jewson) are not members.

The TTF membership as a whole is estimated to account for around 60% of all UK primary wood imports (by volume) and 30% to 50% of imports from Malaysia. UK TTF members are believed to account for perhaps 75% of UK imports of sawn lumber and mouldings from Malaysia (around 22,000 tonnes of the total 28,300 tonnes imported in 2006). TTF members account for around 30% to 40% of UK imports of Malaysian plywood (perhaps 40,000 tonnes of the total 115,000 tonnes imported in 2006).

The TTF has for long been a pioneer in the development of environmental procurement policies for timber agents, importers and merchants. The first such policy, committing companies to sourcing of legal timber as a minimum, was introduced on a voluntary basis in 1991.

However, real action by the TTF to ensure implementation, through development of effective systems of monitoring and auditing of conformance, was only introduced following introduction of the central government's procurement policy. The latter has provided an important additional incentive to importers, distributors and manufacturers to implement corporate procurement policies. It has significantly increased UK timber suppliers sensitivities to negative publicity.

The TTF establishes environmental timber procurement requirements for member companies on two levels: an Environmental Code of Conduct which is mandatory for all members; and a Responsible Purchasing Policy (RPP) which is currently voluntary for TTF members. The RPP will become a condition of TTF membership when 51% of the members (by number of companies) have signed up and a subsequent TTF AGM has fixed a date. In December 2007, the RPP had 43 signatories, that is 23% of the membership. RPP signatories include Wolseley, one of the UK's largest builders' merchants,

The TTF's Environmental Code of Practice includes a firm commitment to legal sourcing: *"Members are committed to sourcing their timber and timber products from legal and well-managed forests. Members unreservedly condemn illegal logging practices and commit themselves to working with suppliers and other stakeholders towards their complete elimination"*. Through the Code, TTF Members recognise that when dealing with some countries where governance is weak and the risk of dealing in illegally logged or traded timber is high, credible evidence to demonstrate legality is necessary. The TTF is committed to drawing such cases to members' attention and to providing guidance documents as to what evidence should be obtained. Members are advised that the level of evidence required is directly proportional to the level of risk and members must demonstrate due diligence through a risk assessment process.

Companies that are found to be in breach of the Environmental Code of Practice can be ejected from TTF membership. In 2007, the TTF introduced a new disciplinary process that would enable TTF officers to look into claims that members are breaching the environmental rules.

The RPP is designed to assist companies to show compliance with the Environmental Code of Practice. It helps companies to assess the risk of illegal and unsustainable wood products from non-certified sources entering supply chains. When a company signs up to the RPP, it has one year to undertake a comprehensive risk assessment of all its suppliers using a structured questionnaire. It must then set internal targets to systematically eliminate high risk products and suppliers. Signatories to the RPP must submit annual reports to TTF. Independent auditors are employed by TTF to verify the annual reports and to recommend corrective actions.

The RPP draws mainly from the CPET definitions for “legal” and “legal and sustainable” timber. However, unlike the CPET guidance, MTCC is defined as “legal and sustainable” in the TTF guidance.

The TTF has also introduced a system of “country guidance” to advise members on the environmental and legal risks they might be facing when sourcing from a particular region. This system is still in the early stages of development. However TTF is working towards a system where some countries will be identified as very high risk from the perspective of illegal logging, others as moderate risk, and the remainder as low risk. In very high risk countries, TTF will advise members to trade only with companies that are engaged in stepwise programmes for forest certification (such as TTF or the WWF GFTN). In moderate risk countries, TTF members would be advised that trade is acceptable as long as appropriate paperwork were made available. No specific action would be required in low risk countries.

The TTF’s country guidance on Malaysia, prepared by Proforest, is still in draft form. According to this guidance, illegal logging is no longer considered an issue for wood harvested in Malaysia. Malaysia is judged to possess reliable paperwork with respect to harvesting and transport of domestically produced timber. However for all 3 Malaysian regions there is the issue of imports of illegal timber from Indonesia. Overall, Malaysian timber is judged as “moderate risk”. TTF indicate that if FLEGT VPA licenses were available from Malaysia, no further action would be required of TTF members to demonstrate that the wood is legally sourced. However TTF would continue to encourage members to increase the proportion of Malaysian timber certified as “legal and sustainable” (through MTCC, PEFC or FSC).

The TTF has been very active in promoting the RPP to a wider range of companies in the UK. It has encouraged the British Woodworking Federation to offer RPP as a voluntary option for their membership. RPP is now being promoted to the construction industry, for example through presentations to the major contractors group. The aim is encourage these contractors to endorse the policy so that they favour RPP signatories as suppliers. Efforts are also being made to ensure formal reference to the RPP in government procurement policy guidance.

The TTF has also actively promoted the FLEGT VPA process. FLEGT VPA licenses are referenced in the RPP guidance as an appropriate mechanism for demonstrating legality. TTF makes regular references to the FLEGT VPA process during seminars to the trade and construction professionals.

5.1.2. Other importers and merchants

All non-members of the TTF importing Malaysian sawnwood and plywood products interviewed for this study are implementing some form of environmental timber procurement policy. Three of these companies - which together account for around 100,000 m³/year of Malaysian wood products (mainly plywood) - are members of the WWF's Global Forest and Trade Network (GFTN). They are therefore committed to the guidance described in section , requiring all suppliers to progress through various stages including legal verification but with the ultimate objective of credible independent forest certification. Implementation of environmental procurement policy by GFTN members is also subject to external monitoring by WWF staff or their appointed auditors.

Another company which accounts for 30,000 to 40,000 m³ of Malaysian plywood imports each year is neither a member of the TTF or the WWF GFTN. This company is implementing its own corporate procurement policy which is backed by a staff member with specific responsibility for environmental affairs and regular internal monitoring. This company does not require that all wood supplied is legally verified on grounds that the *"intention is to continue to work with people that are not yet fully legally verified but for which there is clear evidence of progress"*. The company categorises products into: "FSC or equivalent"; "Progressing to sustainable"; "Basic legal conformance" and "Unknown origin". Internal targets are set each year to progressively move suppliers up the hierarchy. For example, the company claims that 53% of timber sourced is already "FSC or equivalent" and a target has been established to achieve 60% within the next 12 months.

The long term objective of the policy is to ensure that all wood derives from sustainable sources, and internal targets are set each year for progressive improvement.

5.1.3 Trade views on market impact of FLEGT VPA timber

The Timber Trade Federation, together with trading companies dealing in Malaysian timber interviewed for this study (including agents, importers, and merchants), were asked to comment specifically on the likely degree of market acceptance of FLEGT VPA licensed timber in the UK, and the impact of FLEGT VPA legality licensing on demand for Malaysian wood products. The following conclusions can be drawn:

- Generally trade respondents exhibited a very high level of awareness of the FLEGT VPA process. Of the 11 interviewees, 7 claimed to be "very well informed" of the process, 3 were "moderately well informed", while only 1 admitted to being ignorant of the process.
- Trade respondents had very mixed views of Malaysian forestry practices. Agents marketing Malaysian wood products generally held very positive views, while importers and merchants were more negative. Several respondents chose to differentiate between forestry practices in Peninsular Malaysia, Sabah and Sarawak, scoring the Peninsular more highly than the other areas, particularly Sarawak. Concerns expressed in relation to Sarawak included the flow of illegal wood products across the border from Indonesia and native customary rights issues.
- Most respondents suggested that MTCC has helped boost the reputation of Peninsular Malaysian timber in the EU market, although some respondents

had reservations about the scheme. Some respondents thought that MTCC was not sufficiently responsive to market concerns (for example citing apparent delays in shifting to the FSC based standard). There were specific worries about the MTCC certification of Samling and the lack of ENGO recognition for the scheme.

- Most respondents indicated that Malaysia already performs well against its key competitors on provision of assurances of legality due to the availability of MTCC and VLO timber.
- On the other hand, there was concern from most respondents over the lack of availability of Malaysian timber meeting UK government requirements for “legal and sustainable” timber. There was a strong feeling amongst interviewees that this is likely to present a significant obstacle to marketing of Malaysian timber in the UK in the future, and that provision of “sustainability” assurances should be the main priority.
- Most interviewees believed that Malaysia’s adoption of a FLEGT VPA would have marketing benefits. 3 of the 11 interviewees felt the market impact of supplying Malaysian timber with a FLEGT VPA license would be “very beneficial” while 5 thought the impact would be “moderately beneficial”. One thought the market impact would be neither positive nor negative on grounds that FLEGT VPA licensing would add no value to existing MTCC certification. One respondent felt it was too early to comment on the market impact as there is currently no clarity on the content and degree of stakeholder acceptance of the Malaysian VPA.
- 9 out of the 10 companies interviewed stated that they would give preference to VPA licensed timber over unlicensed timber (although most indicated that they would do so only if the unlicensed timber came without any other form of legality assurance).
- It was clear that interviewees would not cease purchasing timber from Malaysia if it did not sign up to a FLEGT VPA. All indicated that legality assurances delivered through credible private sector initiatives would be equally acceptable in the absence of FLEGT VPA licenses from Malaysia. All respondents believed that the provision of independently certified wood in accordance with UK government requirements for legal and sustainable timber would be preferable to a FLEGT VPA license.
- 6 out of the 10 companies indicated that they had set a minimum requirement that all timber purchases must be verified legal. The other 4 companies were less specific, generally indicating that this was the intent of their policy but citing pragmatic reasons for not demanding that all wood is verified legal at this stage.
- All 10 companies stated that they are giving preference to sustainable timber wherever possible, but none had set a target date to move exclusively to 100% sustainable. All companies were willing to use suppliers demonstrating genuine progress towards the goal of certification.
- Interviewees’ willingness to pay premiums for FLEGT VPA licensed timber varied significantly within the range 0% to 7.5%. 1 company said there should be no premium for legally licensed timber. 1 company said they have already

moved beyond this since they are only buying FSC certified from Malaysia (at a significant premium). 1 company noted that they are currently paying 2% for MTCC certified sawn timber and there would be no sense paying more for FLEGT VPA licensed timber. 5 companies said they would be willing to pay up to 5%. 1 company noted they are already paying 7.5% premium for MTCC certified plywood and would pay equivalent for VPA licensed timber.

- One interviewee emphasised that the issue of premiums will hinge to a significant extent on the quality of the finalised VPA. It was suggested that if the VPA simply validates business as usual, then there will be no premium. On the other hand, if it can be shown to be encouraging genuine improvement in forestry practices and by doing so gains endorsement by key stakeholders (such as the ENGOs) then it might command a premium. It was also noted that MTCC certified timber could achieve higher premiums if it was recognised as “legal and sustainable” by UK government.
- Interviewees’ reluctance to pay premiums any higher than 8% reflected a general view that the majority of their customers, with the exception of a few end users in the public sector, would be unwilling to pay any price premium for FLEGT VPA licensed timber.
- Results were fairly consistent with respect to key factors driving trade interest in environmental procurement. Environmental campaigns and the threat these pose to corporate image were seen as a “very significant” driver by most respondents. End users in the public sector were seen as “very significant” or “moderately significant” by most respondents. Shareholders and investors were also seen as “very significant” or “moderately significant”. However, end users in the private sector were either seen as “insignificant” or “moderately significant”.
- With respect to possible circumvention of a FLEGT VPA with Malaysia, private sector interviewees identified several existing indirect routes by which Malaysian wood products are believed already to be entering the UK:
 - Several interviewees noted that some Chinese plywood may be manufactured with Malaysian face material. In fact, one interviewee noted that a Tropical Forest Trust audited plywood company in China is offering plywood faced with veneer from Sabah.
 - A few joinery items imported into the UK from China may contain Malaysian wood, although interviewees suggested volumes are likely to be small at present.
 - One interviewee indicated that they are importing sheet materials from India that are known to contain some Malaysian wood.
 - One interviewee indicated that they are buying small volumes of high quality mouldings from Singapore containing a mix of Malaysian and Indonesian wood
 - Two interviewees commented that there may be potential for China (and possibly India) to supply UK with sawn lumber derived from Malaysian wood, but this is not yet a factor in the UK market. However, these views were speculative and the cost implications of such a trade are not well understood.
 - Just to complicate matters further, several interviewees highlighted that a growing proportion of wood products manufactured in Malaysia contain wood from other countries, notably New Zealand radiata pine for Malaysian plywood cores, and American oak for mouldings.

5.2 Joinery manufacturers

Membership of the British Woodworking Federation (BWF) is open to all UK based companies and individuals engaged in the manufacture, modification, and installation of joinery, timber structures and components or other woodworking products. As such it includes all the UK's largest joinery manufacturers, including Jeld-Wen which owns a large proportion of the major wood window and door brands, together with a large proportion of smaller companies. Membership of the BWF has been rising in recent years and now stands at over 600 companies. Membership has been boosted by the introduction of new accreditation schemes for windows and fire doors which require participating companies to manufacture products to exacting performance criteria.

In 2002, the BWF launched a code of conduct which is binding on all members. This is significant for the level of commitment to environmental timber procurement practices. BWF personnel visit every member company once every 4 years to assess their conformance to the code.

With respect to timber sourcing, the code states that *"all members will be expected to use their best endeavours to purchase new timber or wood based products from supply sources which can confirm, by independent certification such as the FSC, PEFC, or any other recognized system, that such products come from well managed and sustainable sources."*

The Code specifies the type of evidence that will be sought from BWF members to demonstrate their conformance: *"Assessors will seek evidence that organisations are trying to meet the objectives of this clause. This could be found in the text of purchase contracts and purchase orders, as well as correspondence with suppliers about the availability of products from sustainable sources. One example of this would be the use of suppliers adhering to Timber Trade Federation's Responsible Purchasing Policy."* Furthermore, *"assessors will seek evidence that, if asked to supply a product in a species which cannot be obtained from certificated sources, the Member has sought to offer a comparable alternative"*.

The commitments for members of the Timber Window Accreditation Scheme (TWAS) are more stringent than those imposed by the Code. All timber and wood based materials used for the manufacture of windows covered by TWAS must derive from independently certified sustainable sources. These are taken to include MTCC as well as FSC, PEFC, CSA, or SFI. BWF note that the list of acceptable certification schemes is "neither exclusive nor exhaustive".

BWF also note that the vast majority of timber windows manufactured in the UK (around 94%) are manufactured from Scandinavian timber. Only a small volume of tropical hardwoods are used (notably meranti and sapele) for upper-end products.

It's notable that BWF's other accreditation system, for fire door and doorsets, does not include any extra requirements for sustainable sourcing of products. This a pragmatic response to the greater challenges associated with obtaining independent verification for the wide range of wood products and sources – including tropical forests – involved in the manufacture of fire doors.

Overall, the message of the BWF Code and accreditation systems is that independent certification is strongly preferred over all other forms of evidence (such as FLEGT VPA licenses). Furthermore, it implies that if a particular favoured species

cannot be obtained certified, efforts should always be made to find an alternative species that is certified before turning to other forms of evidence. On the other hand, for all products with the exception of TWAS windows, the BWF does not discount the use of FLEGT VPA licenses as an alternative form of evidence when appropriate certified products are unavailable. Generally, BWF suggest they are willing to adopt a pragmatic and inclusive approach to environmental timber sourcing, not least because there is little willingness on the part of the industry's clients to pay a premium for certified sustainable products.

5.3 Construction companies

Interest in responsible timber sourcing has been slow to penetrate the UK construction sector. This is illustrated by the difficulties experienced in seeking to consult construction companies for this project. It proved very difficult to identify personnel with appropriate responsibility in large construction companies. There also tended to be little willingness to give up valuable time to discuss the issue.

The relatively low level of interest in these issues is also clear from interviews with leading builders' merchants. The latest data from one large UK builders merchant, which has over 400 branches nationwide, indicates that although around 54% of their company wood purchases were certified in 2006, onward sales to end-users specifying that the wood must be supplied as certified accounted for only 1.5% of total sales during the year. This was despite the fact that a significant proportion of timber sold by the company is believed to be destined for the public sector.

Nevertheless, there is emerging evidence to suggest that environmental issues are becoming a more significant issue in the construction sector, at least amongst the large corporations. Merchants, importers and joinery companies interviewed for this study consistently indicated that although levels of interest in environmental procurement was negligible amongst the mass of small and medium sized construction companies, the larger construction companies are now taking an interest. There is a strong trend amongst larger companies in the UK to develop corporate social responsibility policies. This is partly driven by environmental campaigning together with a new Companies Act, passed at the end of 2006 and coming fully into force by November 2008, imposing new responsibilities on company directors which include environmental and community concerns.

With respect to timber, those large construction companies responsible for managing large central government contracts are now under growing pressure to meet UK government requirements for responsible timber procurement. Several large construction companies are now directly engaged in the CPET Construction Sector Pilot Study as part of the Technical Review Group (including Balfour Beatty, Bovis Lend Lease, AMEC, and Laing).

Furthermore, a new benchmarking initiative has been launched in the UK construction sector which promises to provide an accurate and regular insight into the progress made by the industry to introduce sustainability criteria, including those relating to timber procurement.

The NextGeneration initiative brings together many of the UK's top home builders with three key stakeholders: a major investor in the sector (Insight Investment), a non-governmental organisation (WWF-UK) and the public sector funder of social housing (The Housing Corporation). The initiative builds on and expands benchmarking studies undertaken in 2004 and 2005 through greater coverage of and ownership by the UK's leading construction companies. Eleven of these companies

have been encouraged to become NextGeneration members, pro-actively supporting the initiative by participating in the development of assessment criteria and through provision of detailed information.

The first outcome of the NextGeneration initiative is the 2007 benchmarking study covering the UK's 20 largest home-builders (based on the number of units built during the 2005-2006 financial year), including the 11 NextGeneration members. The full report is available at: http://www.wwf.org.uk/filelibrary/pdf/next_gen_report.pdf

Overall the results of the survey suggest a significant increase in construction sector engagement in environmental issues in recent years. It notes that *"it is very encouraging to see many of the UK's largest home builders acknowledging the challenges ahead and coming together through the auspices of NextGeneration to benchmark their performance and share best practice. Some good practice is emerging. 70% of home builders report publicly on their approach to sustainability and 65% have published a corporate sustainability policy"*.

With respect to procurement, the study assesses construction companies using the following criteria:

- The company publishes a detailed environmental procurement policy or procedures which apply to all materials.
- It has a timber policy in place stating a preference for FSC-certified timber and requiring Chain of Custody Certification from all suppliers and contractors.
- It has its timber supply chain externally audited to trace all uncertified timber and/or paper products back to source.
- The company also includes environmental criteria in the selection of suppliers, monitors its supply chain in relation to environmental and social standards and provides examples of working in partnership with suppliers to address specific areas of environmental impact.

The assessment against these criteria concludes that *"Home builders' performance in this section varied greatly. Procurement procedures rarely cover all items and only a limited number of home builders have environmental/sustainable procurement policies in place. But evidence suggests that while 12 home builders state a preference for sustainably sourced timber, only five have formalised policies and procedures in place to ensure this. Only Redrow – which is the only home builder member of the WWF Forest & Trade Network – has a fully audited timber supply chain and provided the most robust performance data related to supply chain management"*.

Another criterion addressing the extent to which companies are using, and are planning to use, the BREEAM EcoHomes methodology to certify the private dwellings they build, also has a bearing on the demand for verified legal and sustainable timber in the UK. The study notes that *"EcoHomes certification has primarily been driven by social housing funding and local planning requirements in the home building sector, resulting in many companies performing poorly against this criterion. The average score was 8.5%, with very little performance data disclosed across the sector and few targets being set. While home builders are rising to the challenge of meeting EcoHomes Very Good rating on grant-funded affordable housing, evidence from the benchmark suggests that few see any commercial benefit in seeking certification on their private units."*

While large UK construction companies are becoming more interested in responsible timber procurement, it is important to recognise that there are factors constraining their influence. While construction companies may play a key role in managing projects, their direct influence can be quite restricted. Responsibility for sourcing timber generally lies with the sub-contractors, whereas responsibility for the choice of materials lies with the client and their architect. The construction company often arrives much too late in the project planning process to influence key decisions relating to the use of materials.

5.4 Architects

Architects obviously play a critical role in the choice and specification of building materials for construction projects. With this in mind, the Royal Institute of British Architects was contacted for this study to assess the advice they are currently giving with respect to responsible timber procurement in the UK. RIBA has taken an interest in this issue in the past, and is in fact listed as a member of the WWF's Global Forest and Trade Network. However from the interview it was clear that RIBA does not in fact promote any specific approach to environmental timber procurement within the architectural profession. RIBA does not take a position on these issues and simply acts a conduit for relevant information to be made available to architects. RIBA supports GFTN only so far as to make GFTN guidance and other literature available as part of their "Product Selector" which is a comprehensive building products' directory for UK construction industry professionals. The interviewee was not aware of the FLEGT VPA process nor had any specific knowledge of the role of legality licensing in the tropical hardwood sector.

4.4 Furniture sector

4.4.1 Private sector furniture procurement

Previous research undertaken by FII Limited, based on interviews with furniture retailers, indicates that environmental concerns related to timber sourcing have become a critical issue for suppliers of exterior furniture products. Since the high-profile Greenpeace campaigns in the mid-1990s exposed the vulnerabilities and illegal origins of timber hailing from Vietnamese factories, most major companies involved in the exterior furniture trade have devised responsible timber sourcing programmes. Companies such as B&Q, Homebase, Focus, Laura Ashley, John Lewis and Argos have all made far-reaching commitments to sourcing specifically FSC certified garden furniture products. In the words of a large garden furniture importer supplying Laura Ashley Outdoor Living "all the product we supply now has to be FSC certified, it's too dangerous to do anything else".

However the situation in the market for interior furniture, which is by far the most significant for Malaysian exporters, is very different. According to one major UK furniture retailer, environmental concerns are important to UK furniture manufacturers to the extent that more companies are now gathering background information on wood product sources as a defence against possible negative environmental campaigns. However the UK interiors furniture market as a whole is not yet under any particularly strong pressure from its customers – which are dominated by private individuals – to demonstrate that wood comes from legal and sustainable sources.

This observation is backed up by a representative of the Furniture Industry Research Association (FIRA) who notes that, with respect to interior furniture, "nobody is asking the question (about sourcing) at the point of sale". This has meant that there is still only limited interest in these issues in the residential interior furniture sector, which is

by far the largest section of the market – and also the one into which the majority of Malaysian furniture is supplied.

A generally low level of interest in these issues in the residential furniture sector is suggested by other research. In December 2006, Ethical Corporation undertook an on-street survey of furniture retailers with the aim of gaining an insight into the extent to which they are responding to concerns about the sourcing of wood products. The survey suggested that even the largest retailers are still in the early stages of developing and implementing procurement policies. Even the limited number of companies that have made far-reaching commitments to responsible sourcing – notably through membership of the WWF GFTN – are providing very little environmental information with their products. Furthermore staff at all the main furniture outlets were very poorly informed about environmental issues.

The fact that the furniture industry is still in the early stages of responding to this issue was clearly apparent from interviews for the current study. A discussion with an environmental consultant to the British Furniture Manufacturers trade association revealed that the domestic furniture industry does not at present promote any formal timber procurement policy.

A similar message was conveyed by representative of the British Contract Furniture Manufacturers Association. The Association recommends to members that they purchase FSC wherever possible and PEFC where this is not available. The recommendations include no reference to the role of legality verification. Nor are there any structures in place to ensure that these recommendations are acted upon.

Efforts to interview major furniture retailers generated a wide variety of responses. In many cases it was simply not possible to identify any personnel willing to discuss the issue. Nor did many companies publish any form of environmental policy statement on their websites. This was true of some of the country's largest furniture retailers such as DFS, Habitat and Heals.

The interviews indicated that those large retailers that are taking an interest in this issue tend to regard independent certification as the objective, with a strong preference for FSC.

In a brief interview, Robert Dyas gave a perfunctory response to the effect that they have a policy of "trying to source FSC certified garden furniture products at all times", but that there was no policy in place with respect to interior furniture products.

A representative of Marks and Spencer (M&S), that is taking a leadership role on the issue, said that their policy is to categorise all products according to risk. All timber products from Malaysia are categorised as "high risk" must therefore, under the terms of the policy, be FSC certified. It was made clear that no form of legality assurance would now be accepted as an alternative to FSC from Malaysia. It was noted that "wood products are expected to be legal in any case" and "M&S want to use FSC to move beyond legal".

The John Lewis Partnership (JLP) has adopted a more flexible approach. Like M&S, the company operates risk assessment as the first stage in the introduction of their timber procurement policy. The company has 350,000 product lines and 6,000 suppliers so "*it would be completely impossible and unenforceable to work with every one of our suppliers at the same pace.*" JLP's ultimate goal is FSC certification, but it is willing to use a range of assurance mechanisms to manage its suppliers. The consultancy Proforest has been employed to audit suppliers on its behalf, monitor

forest concessions and gather information. Malaysian rubberwood products are judged by JLP as "low risk" and, as such, have not been identified as a priority for action. Malaysian products in all other species are judged "high risk" and must therefore be either certified or in transition to certification by the end of 2008.

The Home Retail Group (owner of Argos and Homebase), which could not be contacted in time for this study, however publishes a detailed timber procurement policy on their website. The Group has established a baseline requirement of only stocking timber and timber related products from known and legal sources. Beyond this, different requirements have been established for tropical and temperate timbers, with the former being more detailed. To demonstrate legality of tropical hardwoods, the Group requires second or third party verification of the chain of custody to forest source. Wherever possible, the Group will source tropical hardwood products certified to the FSC and will promote this label to their customers. Where FSC product is not appropriate or available, the Group will request suppliers to work steadily towards FSC certification through a third-party verified stepwise approach (such as GFTN or TFT). Home Retail Group describe FSC as "*the most robust, independent, internationally recognised*" forest standard and has a policy not to promote alternative schemes, stating that to do so could cause confusion among customers.

It is important to emphasise that this brief review covers only the large retailers. A significant proportion of interior furniture is sold in the UK through smaller local retailers, few of which are believed to be engaged in the environmental issue. There are also significant technical obstacles to introduction of environmental procurement practices in the interior furniture sector. The complexity of interior furniture products, which may comprise a combination of solid timber, board products, veneers and non-wood products, makes chain of custody assessment very difficult and deterred companies from taking a pro-active stance.

The Malaysian Wood Promotion Council was also contacted for their views on the degree to which issues related to legal and sustainable sourcing are currently impacting on market share in the European market. The Council provided a very succinct response that at present this is not a significant issue as the vast majority of product comprises plantation grown rubberwood which has not been the target of any environmental criticism.

4.4.2 Impact of government procurement policy on furniture

Interviews with representatives of Furniture Industry Research Association (FIRA) and British Contract Furniture Manufacturers Association (BCFMA) indicate that the overall impact of public sector procurement policy on furniture sector demand in the UK is relatively restricted and highly focused on particular sections of the market.

The UK public sector demand is believed to account for between 30% and 50% of the UK office furniture market. The only other sector of the UK furniture market significantly influenced by public sector demand is the kitchen cabinet sector which supplies a small proportion of product into social housing.

Interviewees highlighted the emerging role of the Office of Government Commerce (OGC) in encouraging interest in environmental timber sourcing in the furniture sector. OGC is an office of HM Treasury which is responsible for improving value for money by driving up standards and capability in procurement, from commodities buying to the delivery of major capital projects. At present OGC accounts for only around 14% of total UK central government procurement (most Departments are

responsible for their own procurement). However it is government policy to improve the efficiency of procurement by progressively increasing the role of OGC.

In order to be listed as an OGC supplier, wood furniture companies must demonstrate that they possess chain of custody under a UK government recognised certification scheme (most are FSC or PEFC certified), or provide other evidence that they are capable of supplying furniture products in line with UK government policy. Theoretically, there is nothing in OGC policy preventing recognition of furniture products containing VPA licensed timber as this is in accordance with UK government policy to accept such timber as an alternative to “verifiable sustainable” until 2015.

According to interviewees, OGC policy has been a key factor driving uptake of chain of custody in the UK furniture sector. However, the overall impact of government policy on the furniture sector has been limited to date. This is clearly reflected in the chain of custody data. There are at least 7000 furniture manufacturers in the UK with some estimates putting the figure as high as 15000. Of these, less than 70 have so far achieved chain of custody certification. It is notable that those furniture companies that have achieved chain of custody are mainly involved in the sale of office furniture to the public sector.

Malaysian furniture exports to the UK are dominated by wooden dining/living room furniture, wooden seating, and wooden bedroom furniture. Malaysia exports only negligible amounts of furniture in the two sectors affected by public sector demand. Even if government procurement policy were more influential than at present in the UK furniture market, it is very unlikely that it would create any significant demand for FLEGT VPA licensed furniture products from Malaysia.

4.4.4 Furniture Industry Sustainability Programme

While interest in responsible timber sourcing issues is still restricted in the UK furniture sector, there is one industry programme in place that has potential to change the situation. The Furniture Industry Sustainability Programme (FISP), launched in February 2006 with UK government backing, is managed by the FIRA.

Furniture companies participating in the FISP programme are required to comply with a range of commitments. There are two mandatory commitments: to prepare and publish an environmental policy; and to ensure legal conformance. In addition, participants are required to adopt at least another seven core commitments from a list of nine.

One core commitment is that the company has a procurement policy in place which must cover key environmental and social issues relevant to the countries of origin. Another core commitment is that the company has implemented either FSC or PEFC chain of custody.

Companies may sign up to the programme as “Associate Members” and have two years to become “Full Members” when they have to demonstrate full conformance with programme requirements. Company conformance is audited by the Furniture Industry Research Association (FIRA).

A FIRA representative interviewed for this study noted that membership of FISP is still restricted but has been rising rapidly in recent months. There are now 33 full members (up from only 13 twelve months ago), with a further 6 associate members. Membership is dominated by the largest UK manufacturers, so the limited numbers

will account for a more significant share of total UK domestic production. Pressure is focused squarely on the office furniture sector, a reflection of demand coming primarily from government departments. There is also some pressure coming through in the office furniture sector through the major banks, building societies and utilities (gas, electric, water companies).

Although the FIRA representative acknowledged that awareness of environmental issues is still relatively low in the UK furniture sector, he was very positive about the potential marketing value of VPA legality licensing. He suggested that there is likely to be a market for legality licenses in the UK furniture sector, commenting that *“anything that indicates the product is legal reduces the risk of negative publicity and provides a mechanism by which suppliers can improve their credentials”*. He suggested that government officials, retailers, and architects are all beginning to ask more questions and it is this which has stimulated more rapid uptake of FISP in the last 6 months.