ANNEX 1.4 Germany country report

1 Summary

Hardwood sawn lumber is the largest Malaysian wood export to Germany accounting for 41% of total Malaysian wood exports to the country in 2006. Much of the Malaysian sawn wood imported into Germany comprises dark red meranti for the upmarket window manufacturing sector. Key competitors in this market segment are Indonesia and African countries supplying sapele and sipo. Wood furniture, notably seating, is the second largest Malaysian wood export to Germany. However Malaysia only occupies a tiny proportion of Germany's vast market for wood furniture.

In January 2007, the German Federal Government introduced a timber purchasing policy which is mandatory for Federal Government agencies requiring that timber products must be from legal and sustainable sources. Federal government administrations are believed to account for a maximum of 5% of national timber consumption. The Federal Government has declared that both FSC and PEFC certificates are sufficient evidence that timber is both legal and sustainable. Alternative evidence will be accepted if it demonstrates compliance with similar standards for sustainable forest management. However FLEGT VPA licenses would not meet the procurement policy requirements. Although the German Overseas Development Agency (BMZ) has argued in favour of allowing recognition for FLEGT VPA licensed timber, other agencies have not supported the change.

The federal government is promoting the purchasing guidelines to the 16 German States and other key public and semi-public institutions and expects a range of government agencies at various levels of government to make a similar commitment. The federal Government's policy has been adopted by the State of Baden-Württemberg and the State of Bavaria is expected to implement the policy shortly.

Some large German cities have also adopted timber procurement policies with a strong focus on FSC certification. An interview with the Federation of German Cities and Boroughs suggests that there is a strong market focus on forest certification at this level of government implying that the added value of legality licenses would be low.

The Federal Government has no plans to introduce national legislation to control illegal wood imports but does support additional legislation at EU level. The two leading ENGOs campaigning on forestry issues in Germany, WWF and Greenpeace, are very active advocates of additional legislation, both at EU and national level. However the leading timber trade association, GD Holz, is not supportive of additional legislation at either national or EU level.

GD Holz has introduced a Code of Conduct applying to its entire membership which accounts for around 80% of all timber imports into Germany. An underlying objective of the Code is that GD Holz members avoid trade in illegal wood. In principle, this should increase market demand and interest in FLEGT VPA licensed timber. However the wording of the Code is vague, weakening the real level commitment to purchasing only legal timber. There are no firm commitments requiring companies to take defined actions. The Code is not backed by a process of arbitration or sanctions against members that do not comply.

Demand for assurances of responsible timber sourcing still seems to be restricted in the German joinery and constructions sectors. Where such demand does exist, it

tends to focus on FSC and PEFC certification. However there are indications (from the Federation of German Builders and due to rising public sector interest) that these issues will be more important in the future.

Price pressures and intense competition from PVC may limit opportunities to obtain price premiums for legally verified wood in the window manufacturing sector. Even PEFC and FSC certification have not so far led to significant market advantages in this sector.

Companies trading in Malaysian timber in Germany tend to be small and medium sized and have therefore not been a target for environmental campaigning. The current level of awareness of FLEGT VPA and of commitment to environmental codes amongst these companies is low. Nevertheless a large majority of these companies said they would give preference to VPA licensed timber over unlicensed timber. Some also indicated a willingness to pay premiums up to a maximum of 10%, but more generally around 3% to 4%.

On the other hand, there were no indications that German importers would cease to buy from Malaysia if she did not sign up to a VPA.

Those companies already importing Malaysian wood products generally believe that Malaysia performs better than her leading competitors in providing environmental assurances. The availability of MTCC certified timber from Malaysia has been a key influencing factor.

These companies would welcome FLEGT VPA licensing, as long as price premiums are kept at a low level, because it strengthens the business case for trading in Malaysian timber. These companies feel that VPA licensed products would further increase the competitiveness of Malaysian producers in terms of quality and service, especially by comparison with Chinese producers.

But as things stand, environmental procurement policies in Germany, where they exist, are expected to encourage wider uptake of chain of custody to supply growing volumes of FSC and PEFC certified products. Without a concerted marketing campaign, a change in attitude both in the public and private sector, and/or the introduction of new EU legislation, VPA licenses are unlikely to become a significant factor for market access in Germany.

2 Methodology

The country report has been prepared jointly by Rupert Oliver of FII Ltd and Gunther Hentschel, an independent consultant specialising in environmental and sustainable issues in the EU market. The report is based primarily on interviews with trading companies, NGOs, and government organisations carried out in November and December 2007 by Gunther Hentschel.

The 16 leading importers and distributors of Malaysian timber products in Germany have been identified, of which 10 agreed to be interviewed. Unlike their counterparts in some other European countries, German importing companies were generally not willing to provide specific information on the volumes of Malaysian timber traded.
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Due to the size and complexity of Germany's furniture sector, and the relatively small part played by Malaysian products in the German furniture market, interviews concentrated on the main importers and distributors of primary and secondary wood products from Malaysia.

Interviews were also held with:

- German Timber Trade Federation “GD Holz” (Gesamtverband Deutscher Holzhandel),
- Carpenters’ FSC Group “Meisterteam”,
- Initiative “Pro Wooden Window”,
- Federation of the German Building Industry (Zentralverband Deutsches Baugewerbe e.V.)
- Federation of Carpenters and Wood Construction Baden-Württemberg e.V. (Verband der Zimmerer- und Holzbaugewerbes Baden-Württemberg)
- Federal Association of Wood and Plastics (Bundesverband Holz und Kunststoff BHKH),
- Central Association of gardening, landscaping and sports fields construction (Verbände des Garten-, Landschafts- und Sportplatzbau e.V.)
- The Federal Ministry of Food, Agriculture and Consumer Protection (BMELV Bundesministerium für Ernährung, Landwirtschaft und Verbraucherschutz),
- The German Development Agency (GTZ Gesellschaft für Technische Zusammenarbeit)
- The Federal Ministry for Economic Cooperation and Development (BMZ, Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung)
- The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU, Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit)
- City of Hamburg
- City of Bonn
- Federation of German Cities
- Federation of German Cities and Boroughs
- WWF Germany
- Greenpeace
- Pro Regenwald
- BUND – Bund für Umwelt und Naturschutz

3 Current market position of Malaysian wood products in Germany

Malaysia exports a wide range of wood products to the German market, but has only a very small share in each market segment (Table 1). This is to be expected in a country with such a large and diverse wood sector including considerable domestic production and manufacturing capacity. In addition a key trend in the German wood industry since the early 1990s has been to invest in Eastern European production which has provided another major source of wood products. At the same time German traders play an important role to supply hardwood products into the large Eastern European wood manufacturing sector. So a portion of the Malaysian wood imported into Germany may well end up being re-exported, notably into Poland.

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

Product	Total import 2006	Malaysia import 2006	Malaysia share of total import	Total Import Trend	Malaysia Import Trend	Key competitors
	Million euro	Million euro	Million euro	% 05-06	% 05-06	
Hardwood sawnwood	275	25	9	11	73	USA, Canada, Indonesia, Cameroon
Wooden seating	1109	14	1	2	42	Poland, Italy, China, Denmark
Parquet panels	180	4	2	13	-45	Austria, Poland, Switzerland
Hardwood mouldings	128	2	1	20	7	Indonesia, Poland, Austria, Italy

Hardwood sawn lumber is the key Malaysian wood export to Germany (Charts 1-3). In 2006, Malaysia exported RM 69.3 million into Germany, making up 41% of total Malaysian wood exports to the country. Eurostat trade data indicates that the country imported around 22,800 tonnes of Malaysian hardwood in 2006. Much of the Malaysian sawn wood imported into Germany comprises dark red meranti for the upmarket window manufacturing sector. Key competitors in this market segment are Indonesia, which supplies significant volumes of laminated window scantlings into the German market, and African countries supplying sapele and sipo. The trend towards just-in-time trading in Germany has meant that increasing volumes of tropical hardwood are now supplied into Germany from existing landed stocks in the Netherlands.

Chart 1

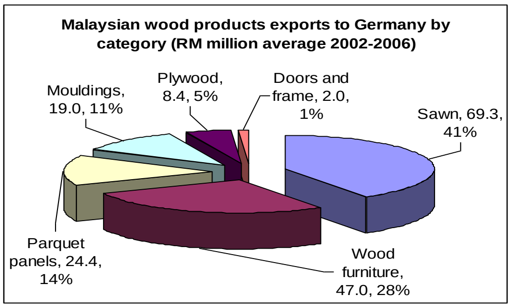
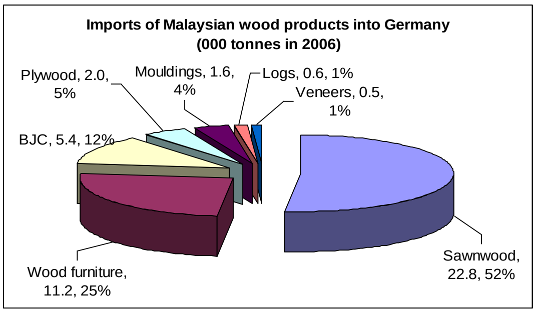


Chart 2



A significant proportion of the Malaysian furniture exported to Germany comprises wooden seating (Chart 4). Malaysia only occupies a tiny proportion of Germany's vast market for wood furniture, a market which is dominated by domestic and Polish production. Germany's domestic furniture industry had an annual production value of €27.3 billion in 2003.

Chart 3

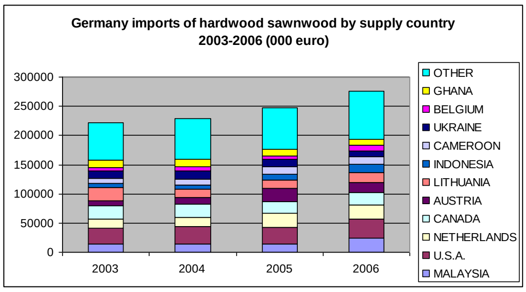


Chart 4

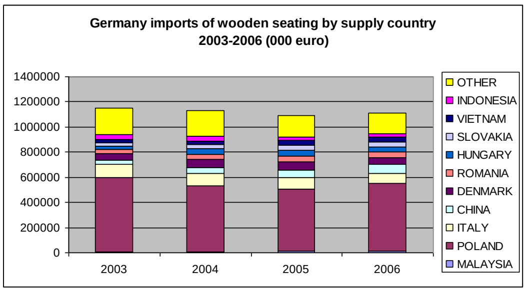


Chart 5

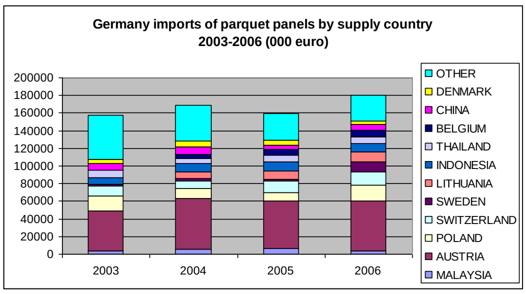
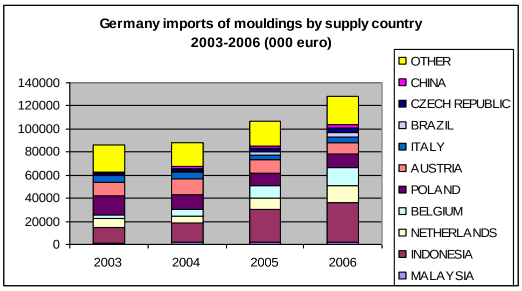


Chart 6



During interviews, German trading companies were asked to comment specifically on the market position of Malaysian wood products in relation to its key competitors. The results were mixed, suggesting that in Germany at least, individual trade contacts and suppliers in the various competing countries are more important in determining trade relations than general national characteristics. Several interviewees perceived that Malaysian wood was important only in the German window frame market and restricted their comments to potential competitors in this market. One interviewee noted that Malaysia occupies a dominant position in the high value window frame sector and has few competitors in this market niche. Indonesia was identified as the only direct competitor in this niche, since African and South American timbers are not popular for window manufacture in Germany. Oak, both European and American, was mentioned as a competitor a couple of times. One interviewee noted that tropical timber is becoming less and less important in the German market.

With respect to high value sawn lumber, mouldings and window scantlings, a variety of views were expressed with regards to Malaysia's comparative performance on product quality. Some interviewees said that Malaysian suppliers provide better quality and services, whereas others felt that Indonesian products offered superior quality. Interviewees suggested that price differences between Indonesia and Malaysia have diminished recently across all product types. Interviewees indicated that Malaysia is still the "No.1" supplier of meranti window scantlings and solid wood products. However Indonesia is gaining market share from Malaysia in markets for mouldings, wooden seating and garden furniture.

China was identified as a key competitor to Malaysia in the plywood sector. China is offering significantly lower prices in this sector, but the quality of Chinese product tends to be inferior. Interviewees expect that the Chinese plywood sector will continue to grow, but do not expect that China will play any significant role in future supply of other primary and secondary wood products to Germany.

Private sector interviewees generally expressed positive views about Malaysia's competitive position with respect to provision of environmental assurances. Of 6 interviewees that were willing or able to express an opinion, 5 stated that they believed Malaysia performed better than her leading competitors on provision of environmental assurances. Three of these companies indicated that their favourable impression was due to ready availability of MTCC certified Malaysian timber.

4 Government procurement policy

4.1 Central government procurement policy

Public Procurement Policies (PPPs) have existed in Germany for a number of years, notably for recycled materials. However these policies are a fairly new concept for timber products. In January 2007, the German federal Government introduced a timber purchasing policy applicable to all products with a "dominant virgin timber component" including rough, semi-finished and finished products[1]. Paper and paper products are excluded from the policy and are covered by another environmental procurement system[2]. The German PPP is mandatory to the Federal Government administrations, which account for a maximum of 5% of the national consumption in timber products.

The process to develop the PPP was led by the Federal Ministry of Food, Agriculture and Consumer Protection (BMELV, Bundesministerium für Ernährung, Landwirtschaft und Verbraucherschutz).

[1] *www.bmelv.de/cln_044/nn_757138/SharedDocs/Gesetzestexte/H/HolzbeschaffungErlassEN.html_nnn=true*

[2] *www.blauer-engel.de*

To comply with the PPP, timber products must be from legal and sustainable sources, and recycled components will be preferred over virgin sources. The Federal Government has declared that both FSC and PEFC certificates are sufficient evidence that timber is both legal and sustainable. However alternative evidence will be accepted if it demonstrates compliance with similar standards for sustainable forest management.

The Federal Government has appointed two public institutions to assess any such alternative evidence against the FSC and PEFC standards and the government requirements: the BfH (Federal Research Centre for Forestry and Forestry Products); and the BfN (Federal Agency for Nature Conservation). Assessments must be carried out at the request and expense of the bidder.

Although there is no overall system to monitor implementation by Federal government agencies, the BMELV regularly issues formal reminders to the respective heads of departments of their obligation to implement the directive. The policy has a time limit of 4 years and will conclude with a full assessment of impact. However, the government expect that the PPP will be extended beyond this period.

As the Federal government is responsible for only a small share of national wood consumption, initial trade expectations were that the policy would have little impact on the national wood market. As a result, the PPP was not immediately taken up as an issue by the industry or by trade bodies and journals. However attitudes are beginning to change now that two of the Länder, Baden-Württemberg and Bavaria, have stated that they also intend to implement the policy. The decision of German Rail ("Deutsche Bahn") to apply the same policy also suggests that there is potential for the policy to influence the purchasing behaviour of semi-public and private organisations.

Since "legal and sustainable" timber is the minimum requirement for the German PPP, no guidance is provided on the acceptability of FLEGT licenses. As things stand, FLEGT licensing would not be sufficient evidence of compliance. There is some pressure from the Ministry for Overseas Development (BMZ, Bundesministerium für wirtschaftliche Zusammenarbeit und Entwic) for the Federal government to adapt the policy to allow acceptance of FLEGT VPA licensed timber, but other government agencies have not supported such a change.

The attitude in other agencies seems to be that the intent of government PPPs is to set green purchasing criteria at the highest level possible level and thereby to communicate a strong political statement of the need to change market patterns. It should also be noted that most public authorities are "electorate oriented" and tend, therefore, to reflect the views of German citizens. Through far-reaching NGO and green party campaigns, German citizens have been sensitised to environmental and sustainability issues. The domestic wood industry has also invested significantly in developing certification capacity. As a result the German Federal government seems uncomfortable at present with the idea of communicating and promoting the concept of verified legal or VPA licensed timber through their procurement policy.

Apart from the federal government's PPP there are no other concrete initiatives within the public sector stakeholders that might influence trade patterns for verified legal and/or sustainable timber products.

4.2 Regional/local government procurement policy

BMELV is informally promoting the Federal Government purchasing guidelines to the 16 German States and other key public and semi-public institutions and expects a range of government agencies at various levels of government to make a similar commitment. The policy has already been adopted by the State of Baden-Württemberg and the State of Bavaria is expected to implement the policy shortly.

Some large German cities have also adopted timber procurement policies. Representatives of the City of Bonn and the City of Hamburg were interviewed for this study. Neither interview provided grounds for optimism that there would be any significant marketing role of FLEGT VPA licensed timber in the German public sector.

In 1996 the City of Bonn announced that it would cease purchasing timber from tropical and sensitive boreal forests (including those from Canada and Russia). A few years later the policy was amended to accept timber products from these forests if they are FSC certified or in compliance with similar standards. Even PEFC is not regarded as providing an equivalent level of environmental and social assurance and therefore is not accepted. However due to the restrictive requirements, the City has consistently faced supply problems. As a result the policy is not being applied in day-to-day procurement but only on a case-by-case basis for specific projects. Despite this, and the obvious potential to use VPA licensed timber to fill the supply gap resulting from lack of FSC certified timber, the interviewee remained adamant that FLEGT VPAs would not be accepted. According to the interviewee, the City would not regard VPA licenses as proof of compliance with its social or environmental criteria. The interviewee was concerned that Malaysia's legal framework was not sufficiently robust to meet environmental requirements. He also noted that the city's procurement officers are faced with numerous and often dubious certificates and verification documents by suppliers. There seemed little willingness to accept that the FLEGT VPA process may offer a legitimate form of market assurance.

The City of Hamburg has a procurement policy that applies to tropical timber for structural and civil engineering. It also specifies exclusively FSC timber, although in this instance there has been some willingness to compromise in order to overcome supply problems. The City has initiated a joint pilot project with GTZ and GD Holz to assess the ability of other certification schemes to provide proof of sustainability. The MTCC was chosen as a case study. The two-year project will be finalised in May 2008. However according to the interviewee, as things stand the city would not regard FLEGT VPA licenses as an alternative means of verifying the purchasing objectives even in the absence of suitably certified sustainable timber. Therefore the interviewee did not see any prospect for Malaysian VPA licenses providing benefits relevant to the city's purchasing policy. Furthermore, there are up-coming elections in Hamburg and the party that is widely expected to assume power has already announced it would require FSC only for all timber products.

An interview with an agency advising local governments in Germany also provided little grounds for optimism about the marketing potential of FLEGT VPAs in the public sector. The Federation of German Cities and Boroughs said that its activities in this area have focused on communicating and promoting the Federal Government's PPP and in provision of information to member cities and boroughs on forest certification. A key focus is on promoting locally grown wood, particularly from communal forests.[3]

[3] *An important driver for this has been recent price developments in the domestic timber market which have enabled local Governments to generate income from their forests (for decades, public forests in Germany have incurred costs rather than generated income).*

Most communal forests are certified to either FSC or PEFC standards. The interviewee said the Federation supported any mechanism that improves the transparency of the timber trade. On the other hand, with a strong market focus on forest certification, he suggested that the added value of legality licenses would be rather low.

4.3 Additional legislative options

Efforts have been made by previous German administrations to introduce national level legislation designed to prevent imports of illegal wood. In 2005, the German Ministry for the Environment (BMU) proposed the Virgin Forest Act (2005) which would effectively have required importers of timber products to prove the legal origin of wood. However the act was withdrawn, partly due to significant opposition from “GD Holz”, Germany’s main timber trade association, and partly influenced by the argument that these issues were better handled at EU level through the FLEGT process.

Interviews for this study with Federal government ministries indicate that the current German administration has no intention of seeking to introduce national legislation to control illegal wood imports. However all Ministries indicated their support for additional legislation to combat illegal logging at EU level and accepted that the EC should lead on this. BMZ indicated that they had made a point of proposing additional legislation to the Council of Europe. Similarly, the BMU emphasised that they had always been a keen supporter of establishing additional legislative options to combat illegal logging and that it firmly supported implementation of such legislation at EU level. No decisions seem to have been taken with respect to the type of legislation that would be supported, with German Federal agencies awaiting the results of the on-going Indufor impact assessment and other deliberations in Brussels.

The leading timber trade association, GD Holz, has not been supportive of additional legislative options to control logging either at national level or EU level. In mid-2007, in an industry magazine, GD Holz denied that there was any “risk” of legislative options such as the Lacey Act becoming an issue in Europe. This is indicative of a current attitude in the German trade that such measures are seen much more as a threat than an opportunity.

The two leading ENGOs campaigning on forestry issues in Germany, WWF and Greenpeace, have been very active advocates of additional legislation, both at EU and national level. In an interview with WWF, it was noted that the organisation intends to launch in early 2008 a further lobbying effort to encourage further action by the German Government in support of legislative options to combat illegal logging at EU level.

5 Private sector procurement policy and views on FLEGT VPA

5.1 Trade associations

5.1.1 GD Holz

Germany’s key timber trade association “GD Holz” represents about 1000 companies including a large part of the domestic industry and trading businesses. The organisation estimates its members cover around 80% of all imports of timber products into Germany. However the trade association has lost a significant number of members in recent years, so the actual share of total imports might be somewhat smaller.

In July 2007, “GD Holz” introduced a Code of Conduct applying to its entire membership, with the following wording:

“We commit ourselves voluntarily to play an active role in the exclusion of illegally harvested timber from import, trade and processing in the German market… we exclude illegally harvested timber, by:
a) getting clarity over round and sawn wood being harvested in accordance with the valid laws and regulations of the producer country,
b) for semi-finished products motivate the supplier to obtain legality verification,
c) to keep legality verification documents according to existing tax regulations,
d) significantly seek to support possibilities of trading legally harvested timber… support SFM, by:

> *i) giving certified products preference over non-certified products if available; credible certification schemes shall be used*
> *ii) if available, use timber species that better enable the protection of already endangered species,*
> *iii) support credible certification systems directly and indirectly,*
> *iv) via membership to the GD Holz, support implementation of independent certificates and marks of conformity,*
> *v) develop individual activities on the ground, which can support SFM,*
> *vi) support EU activities that lead into that direction”*

Therefore an underlying objective of the Code of Conduct is that GD Holz members avoid trade in illegal wood. In principle, this should increase market demand and interest in FLEGT VPA licensed timber.

On the other hand, the wording of the Code is vague, weakening the real commitment of members to purchasing only legal timber. GD Holz members are required only to “get clarity” and “motivate the supplier” in the provision of such assurances. There are no firm commitments that would require companies to take defined actions. The Code is not backed by a process of arbitration or sanctions against members that do not comply. The wording of the Code is such that it would be extremely difficult to prove non-compliance. GD Holz does not envisage setting specific targets for implementation (such as members purchasing a minimum of X% verified legal by year Y), nor does GD Holz aim to establish mechanisms for monitoring members’ compliance.

Although GD Holz supports the FLEGT process in principle and has agreed a Code of Conduct, it is not supportive of further national initiatives either to expand private sector action or to create additional legislation. This is reflected by “GD Holz” reluctance to link up with other European trade bodies to address the issue of illegal logging, for example through the EU Timber Trade Action Plan.

With respect to drivers of procurement practices in Germany, “GD Holz” expects the government’s procurement policy to be an important driver of demand for certified wood, particularly if a number of states (“Länder”) link up with the Federal Government’s initiative. GD Holz suggest that the main impact will be to encourage wider uptake of chain of custody by German companies to supply growing volumes of FSC and PEFC certified products. However GD Holz does not believe that legality licenses will become a significant factor for market access in Germany.

A significant feature of the German environmental debate is the extent to which environmental groups and timber trade are still extremely polarised. Unlike in other European countries, notably the UK and the Netherlands, ENGOs and the timber industry have remained aggressively opposed on forestry issues and have chosen not to co-operate. For example GD Holz has made a point of calling on members not to respond to questionnaires issued as part of the WWF's annual industry survey. It is understood that key members of the GD Holz Board have resisted calls for direct meetings with ENGOs, especially Greenpeace. However, not all member companies agree with the organisation's existing stance.

5.1.2 Initiative eV ProHolzfenster (IPH, "Pro Wooden Window")

The Initiative eV ProHolzfenster is a registered association in Germany founded and initiated by wood window manufacturers and suppliers to the wood window sector in the country. Launched in 1994 it now has approximately 330 member companies committed to promoting the advantages of wooden windows.

The Initiative has published a statement on sustainable construction according to which its members are committed to only using timber from sustainably managed forests and to combating unsustainable and illegal logging practices. According to the interviewee, the Initiative generally welcomes any additional safeguards on legal timber including VPA licensed products. The interviewee also expected that members would pay a premium for verified legal timber.

However, the interviewee also expressed concern that any limitations on trade in wood raw material could further decrease the market share of timber windows compared to PVC alternatives. Timber has been under significant pressure in the wood window sector from PVC, due primarily to the cost advantages of PVC. The interviewee felt it would be very difficult to convince architects and contractors to spend even higher prices in order to obtain legally verified legal or even fully certified wooden windows. Therefore, it is very unlikely that window manufacturers would be able to obtain price premiums for onward sales to their customers. The interviewee suggested that PEFC and FSC certification had not led to any significant marketing advantages for window manufacturers and trade.

5.1.3 Federation of the German Building Industry

According to the interviewee, the Federation has to date not provided any guidance to member companies relating to wood sourcing. At this stage, construction company clients might consider the origin of wood in those limited circumstances where wood is a dominant and highly visible component of the design (for example carports). However, there is not yet any real interest in the large residential housing sector.

Nevertheless, the interviewee believed that forest certification is likely to become a more important issue for its members in the future. While certification would be preferred, the interviewee did not rule out legality verification as a useful mechanism for its members to demonstrate good practice when certified wood products were not available. But the interviewee felt a key problem for VPA licensed timber would be to communicate its added value over unlicensed timber to customers.

5.1.5 Other associations

Various other associations were interviewed. Although there was some tentative support for FLEGT VPA licensing, some associations were dismissive.

A representative of the Central Association of Gardening, Landscaping and Sports Fields construction said that the public sector is a key customer (accounting for about 50% of demand in this sector). It is therefore very important for the Association's members to be aware of public sector procurement policy requirements. The Association is active in promoting these requirements but does not undertake any other initiatives to encourage members to use and supply legally verified or certified timber. With respect to legality licenses, the interviewee felt they could potentially provide some additional value to member companies as long as there is clear evidence of effective control “on the ground”.

A representative of the Federation of Carpenters and Wood Construction for Baden-Württemberg e.V. said that tropical timber is not an issue for the federation’s members. It was claimed that 99% of member’s timber consumption originates from Germany and is mostly softwood. The organisation has provided seminars and workshops to promote forest certification.

A representative of the Federal Association of Wood and Plastics, which supports mainly the German carpentry and joinery sector, said that the Association does not provide any guidance on timber purchasing and was not aware of the issues.

An interview with a representative of “Meisterteam”, a small federation of carpenters, metalworkers and glaziers, indicated that there there was no awareness of legality licensing or the FLEGT program. According to the interviewee, verified legal timber would not add value to raw materials purchased by the organisation’s members. It was suggested that “*customers are not aware of the issues surrounding illegal logging and expect timber to be legal anyhow*”. Meisterteam runs a subgroup consisting of 10 carpentry companies that have linked up to obtain FSC chain-of-custody group certification and to build links with merchants supplying FSC certified timber. The subgroup focuses on a niche market of environmentally sensitive customers and on exclusive delivery of FSC certified products. According to the interviewee, only the most credible environmental assurances satisfy the subgroups’ needs. Even PEFC is not accepted.

5.2 Trading companies

10 German importing and distributing companies dealing in Malaysian wood products were interviewed for this study. The majority of companies engaged in the trade in Malaysian wood products in Germany are small and medium sized, a factor which has a bearing on the results. It is pertinent to note that none of the interviewed companies had ever been targeted by environmentalist campaigns (which have focused heavily on larger companies). Furthermore, interviewees thought that due to their company’s relatively small size and low profile, the risk of their being targeted by such campaigns in the future is relatively low. The following conclusions may be drawn from the trade interviews:

- The level of awareness of the FLEGT VPA process amongst interviewees was extremely low. 9 out of the 10 interviewed companies had no awareness of FLEGT. The one company that had heard of the process had been informed by a Belgian colleague, suggesting negligible coverage of the issue in German trade media and forums.

- The level of commitment to environmental codes by interviewed companies was low. One of the companies referred to their commitment to the BD Holz Code. Another stated that they are in the process of preparing a policy. Another 3 companies said that they have no formal policy but prefer certified wood when possible. The other 5 companies said they had no timber procurement policy.

- Nevertheless, 5 of the 10 interviewed companies said that it was important for their timber suppliers to demonstrate that wood is from legal sources. Of the 5 remaining companies: 2 said that there was no demand for this sort of information; 2 said that although there is rising interest in these issues, the demand is for FSC certified wood and FLEGT VPA licenses would not add value; and 1 said that they would only be interested in FLEGT VPA licensed timber if their customers asked for it.

- Furthermore, 9 of the 10 companies said that they would give preference to VPA licensed timber over unlicensed timber. One qualified this statement with the comment that they would only prefer VPA licensed timber if there was no certified available. Another qualified this statement with the comment that they would accept VPA licensing "as long as it is credible". This company generally does not trust government assurances.

- There are no indications that any of the interviewed companies would stop buying from Malaysia if she did not sign up to a VPA.

- The interviews suggested some willingness to pay small premiums for FLEGT VPA licensed timber. 5 of the 10 companies said they would be willing to pay a premium, with the level varying from around 2% to a maximum of 10%. The median figure amongst those suggesting a willingness to pay a premium was in the region of 3-4%. The other 5 companies saw no prospect for charging a premium for FLEGT VPA licensed timber.

- 9 of the 10 companies answered a questions relating to the marketing benefits of Malaysia signing up to a FLEGT VPA process. Their responses were as follows:
    - 3 of the 10 companies agreed with the statement "It is likely to have little or no impact on Malaysia's market position"
    - 2 of the 10 companies agreed with the statement "It would be slightly beneficial to Malaysia's market position"
    - 3 of the 10 companies agreed with the statement "It would be very beneficial to Malaysia's market position"
    - 1 of the 10 companies said that marketing benefits would be entirely dependent on the credibility of the system, which is currently uncertain.

- With respect to sourcing Malaysian timber via third countries, interviewees referred only to the potential for Chinese plywood to be faced with Malaysian veneers. They saw little potential for other products containing Malaysian raw material to be sourced from third countries.

- Overall, trade interviewees suggested that they value Malaysian suppliers for their ability to provide good quality products and reliable service. Although underlying market interest in environmental issues is not great, it is increasing. Provision of FLEGT VPA licenses would generally strengthen the business case for trading in Malaysian timber as long as price premiums were kept to a minimum (i.e. below 5%). Achieving full certification, particularly to FSC, would be the surest mechanism of ensuring long-term market access in Germany, although there is only limited willingness to pay a premium even for certified products.

6 Environmental groups

Of the 4 ENGOs interviewed for this study, 2 were able to comment in detail on the FLEGT VPA process. Both WWF and Greenpeace indicated their support for the process and identified a range of actions underway backing up this claim. However criticisms were also levelled against the process.

Greenpeace has a track record of campaigning against imports of illegal timber into Germany. These campaigns have focused mainly on public building and garden furniture. The interviewee indicated that these sectors will also be the focus of future campaigning activity. Particular targets for these campaigns have been garden furniture from South East Asia and paper from boreal forests. Despite these efforts, the interviewee suggested that markets for such products in Germany and resulting trade flows have changed little.

The Greenpeace interviewee was heavily critical of Malaysian forestry practices, describing these as “a catastrophe” even in comparison with other tropical producer countries. The interviewee said that the Malaysian forest industry “covers bad practice with glossy brochures”. The interviewee expressed particular concern over the handling of native rights and over the “clear-cutting of the last virgin forests”. The Greenpeace interviewee alleged that the German (and Dutch) timber industry knowingly works with the South East Asian “timber mafia” and claimed the German Government was not taking sufficient or appropriate action. In this context, it specifically criticised the Government for not having ratified the Virgin Forest Act.

However, the Greenpeace interviewee welcomed the FLEGT approach, seeing it as an opportunity to improve public participation in forest law enforcement and in defining legality. The interviewee felt the process could improve forest law enforcement in the Malaysia and establish a basis for chain of custody and certification.

The Greenpeace interviewee was critical of overall implementation of the FLEGT program expressing particular concern over lack of commitment to additional legislative options as a central component. Concern was expressed over the potential for circumvention due to the current focus on a few primary and secondary product groups. Greenpeace felt that this opened the door to circumvention through conversion to further-manufactured products.

With respect to the PPP, the Greenpeace interviewee said that the new government policy sends out an important market signal. However Greenpeace opposes both PEFC and MTCC being accepted under the terms of the PPP and believes the marketing focus should be on FSC.

The WWF interviewee said that illegal logging has been a key focus of their campaigning activity in Germany. In 2004, the organisation carried out in-depth studies on illegal logging in Northwestern Russia and the export of timber products to Germany. At present, it is mainly engaged in a new Amazon campaign together with technical work in association with GTZ and BMVEL to develop wood tracking systems using isotope and genetic analysis.

Like Greenpeace, WWF Germany is firmly opposed to recognition of PEFC under the government’s timber procurement policy, and is openly campaigning for an FSC-only policy. WWF would also like to see government monitoring the impact of its policy through regular assessment of the total volume of certified timber being procured.

With respect to Malaysia, the WWF interviewee believed that the key issue was the "laundering" of illegal wood from Indonesia through Malaysia. Legality verification was seen as an important and necessary measure in addition to forest certification, as the two systems would cover different and complementary aspects of legal and sustainable forest management.