# ANNEX 1.6 Italy country report

## 1 Summary

Italian imports of Malaysian wood products are dominated by sawnwood, with lesser amounts of mouldings and parquet panels. Malaysian products contribute only a small proportion of overall imports into the Italian wood products sector which draws its supply from a wide range of countries. Italy's tropical hardwood imports are oriented mainly towards Africa, notably Cameroon and the Ivory Coast.

Italian importers of Malaysian timber have a generally positive perception of Malaysian forestry practices. But they also hold the apparently contradictory view that Malaysia does not compare well against its competitors in providing assurances of good forestry practice. This rather negative assessment seems to reflect lack of availability of FSC certified wood from Malaysia. FSC is currently the only responsible forestry brand that has achieved any real (although still fairly tenuous) market recognition in Italy.

The Italian national government has not yet developed a timber procurement policy, although government officials suggest that they are willing to start work on such a policy and only await passage of legislation providing a formal mandate. At this stage no decisions have been taken on the likely scope or content of the procurement policy.

Italy's timber trade associations have not yet developed any formal environmental timber procurement policies or codes of conduct for their members. However the timber trade association Fedecomlegno is very aware and supportive of the FLEGT process and has indicated that it is looking into the potential of introducing a responsible procurement policy. Members of the association have also come under pressure from Greenpeace over alleged imports of illegal wood.

There is firm support in principle for the introduction of additional legislative measures to prevent imports of illegal wood products amongst Italian institutions. All government officials, trade associations and NGOs interviewed for this study indicated their support for additional legislation, with almost all favouring legislation that would place the burden of proof on suppliers to demonstrate that all wood is legally sourced. However, neither government officials nor trade associations interviewed for this study indicated that they are currently working pro-actively to develop and implement such legislation.

In the absence of a national green public procurement framework or trade association code of conduct, regional and local government currently provides the only significant driver of demand for verified legal or certified wood products in Italy. Policies at this level are strongly influenced by environmental campaigns and focus on sourcing FSC certified wood products. Currently 124 local authorities in Italy (out of a total of around 1200) are signatories to the Greenpeace *Cities Friends of the Forests* campaign encouraging procurement of FSC certified wood. However this policy is not backed by any formal system of monitoring to ensure implementation.

Although there are signs of rising interest in environmental timber procurement issues in Italy, the available information suggests that very few timber trading companies are yet seriously engaged. The use of certified products to gain competitive advantage is currently only exploited by a limited number of very small-scale wood industries working in the green market, or by a few large distribution

chains. The bulk of the Italian wood industry – the small and medium-sized companies – are still ill informed about the potential of corporate social and environmental responsibility.

Nevertheless, interviews indicated that Italian companies trading in Malaysian wood products are generally aware of the FLEGT process. Furthermore, all interviewed companies without exception indicated that they would give preference to FLEGT licensed products, a reflection of the benefits that FLEGT VPA licensing could make to avoidance of negative publicity associated with Greenpeace campaigns.

There was some willingness amongst importers to pay a price premium for FLEGT VPA licensed timber in the region of 3% to 10%. There was less confidence in the willingness of importers' clients to pay a premium.

Importers would not stop buying from Malaysia if she does not sign up to the VPA. They would instead resort to other legality verification and certification programs where necessary.

Pressure from NGOs is by far the most significant factor driving interest in environmental timber procurement practices in Italy. Due to a slow increase in the influence of local authority procurement policies, the pressure from public sector end users is seen as moderately significant. Pressure from private sector customers and end users is insignificant.

## 2 Methodology

This report has been prepared jointly by Rupert Oliver, Director of FII Ltd, and Pierre Desclos, an independent consultant commissioned by FII Ltd. Information for the Italian report was gathered primarily through interviews with the Italian wood trade and industry and other relevant interests. Interviews were carried out by Pierre Desclos. A particular effort was made to ensure that interviewees are procuring Malaysian wood products. As a result, the interviews are highly representative of Italian imports of Malaysian sawnwood and mouldings. The companies interviewed account for more than 80% of these products' imports (by volume). In most cases the CEOs of the companies were interviewed personally. All the trading companies interviewed buy, sell or process wood or wood based products coming from Malaysia.

Interviews were also held with the leading trade associations of the wood importing, distributing and manufacturing sectors, the national government agency with responsibility for forest policy, national NGOs, and a research institute that has undertaken research into timber procurement policy and practices in the Italian market. For the government, trade associations and NGOs, the heads of the relevant departments were interviewed. The number of organisations interviewed by sector is indicated in Table 1.

**Table 1: Number of organisations interviewed by interest category**

| Organisations | Number interviewed |
|---|---|
| Wood trading, importing and manufacturing companies | 13 |
| Central government organisations | 1 |
| Regional/local government organisation | 1 |
| Trade Associations | 2 |
| ENGO's | 3 |

| | |
|---|---|
| Other (research institute, trade journal etc) | 1 |

Although efforts were made to identify construction companies purchasing Malaysian wood products, this proved extremely difficult. Italian construction companies were not inclined to engage in discussions with respect to the origin or environmental credentials of their wood products.

A variety of secondary sources have also been used during the compilation of this report. Particularly significant is the report entitled "*Sustainable procurement of timber and wood-based products in Italy*"[1] by A. Ochoa and P. Defranceschi of the ICLEI European Secretariat. ICLEI, an international association of local authorities, issued the report in March 2007 on completion of a project to promote uptake of public sector timber procurement policy in Italy. The project was undertaken in association with the University of Padova, the Italian national Ministry for Agricultural, Food and Forestry Policies, and the Ministry for Environment. The project was sponsored by the UK Department for Environment, Food and Rural Affairs (DEFRA).

## 3 Current market position of Malaysia in Italy

**Table 2: Malaysia share of Italy wood product imports by product and growth trends**

| Product | Total import 2006 Million euro | Malaysia import 2006 Million euro | Malaysia share of total import Million euro | Total Import Trend % 05-06 | Malaysia Import Trend % 05-06 | Key competitors |
|---|---|---|---|---|---|---|
| Hardwood sawnwood | 566 | 22 | 4 | 2 | 2 | USA, Croatia, Cameroon, Ivory Coast |
| Hardwood mouldings | 173 | 5 | 3 | 2 | 27 | China, Indonesia, France, Ivory Coast |

Italian imports of Malaysian wood products are dominated by sawnwood, with lesser amounts of mouldings and parquet panels (Table 2, Charts 1-2). Malaysian products contribute only a small proportion of overall imports into the Italian wood products sector which draws its supply from a wide range of countries. Italy's tropical hardwood imports are oriented mainly towards Africa, notably Cameroon and the Ivory Coast.

**Chart 1**

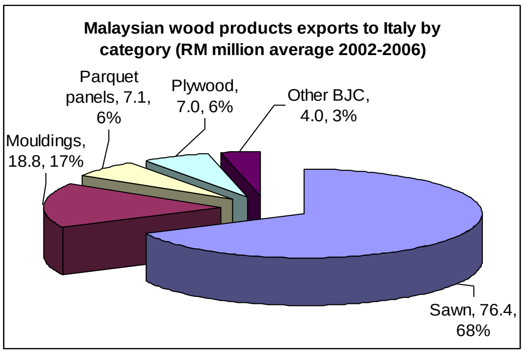
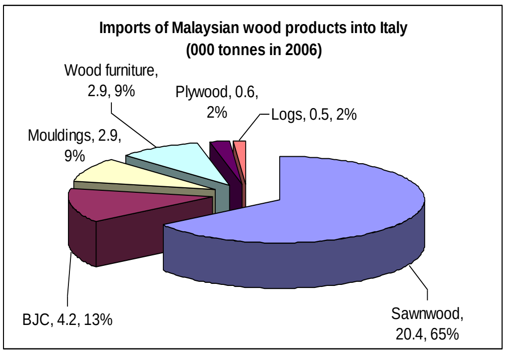



**Chart 2**




Before the recent rapid emergence of China, Italy was the largest furniture producer in the world with output of €33.6 billion in 2003. It also has a relatively fragmented furniture retailing sector, making access by external suppliers relatively difficult. As a result, imports of Malaysian furniture products into Italy remain at negligible levels.

[1] *www.iclei-europe.org/fileadmin/user_upload/Procurement/Timber/Sustainable_Timber_Report.pdf*

Italy's furniture manufacturing sector is an important market for tropical hardwood products from all regions of the world, including Malaysia. Italy also has large window, door and flooring manufacturing sectors. All these sectors are highly fragmented involving thousands of small and medium sized enterprises.

In the past, large volumes of tropical hardwood logs were imported into Italy for conversion into veneer and wood components. However reduced availability of tropical logs on the international market combined with relatively high costs of conversion in Italy, have increased imports of sawn lumber and other components at the expense of logs.

In 2006, Italy imported Malaysian sawnwood to the value of €22 million, around 4% of Italy's total imports of this commodity (Chart 3). Italy also imported €5 million of Malaysian hardwood mouldings. Hardwood moulding imports are generally rising (Chart 4), a trend mainly due to a sharp increase in imports from China, although Malaysia has also benefited from this trend.

**Chart 3**

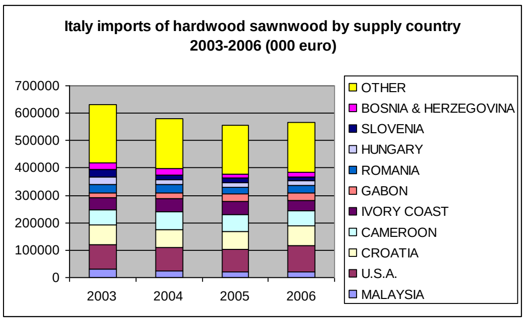
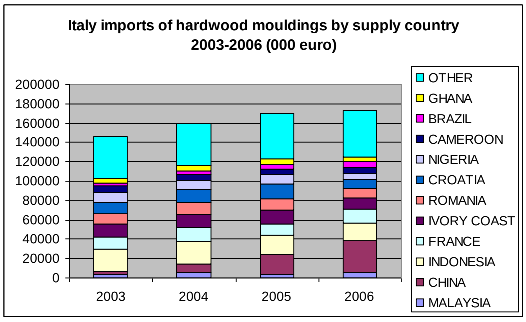



**Chart 4**




The 13 Italian timber trading and manufacturing companies interviewed for this study gave a wide range of responses when asked to identify key competitors to Malaysian sawnwood and mouldings. Indonesia, for many evident reasons, was most often seen as the traditional competitor. However, there was a general perception that competition from Africa is getting stronger. American hardwoods were also frequently referred to as competitors. Brazil was mentioned as a competitor for certain types of joinery timber. China was generally regarded as a competitor only for certain further processed goods.

Malaysia's competitive position in the Italian wood market is influenced to some extent by Italian legislation. Malaysia is considered by the Italian administration to be a tax haven[2] and as such is black listed. As a result all import operations from Malaysia are submitted to separate regulations designed to prevent tax avoidance. This situation adds an extra administrative burden for each contract agreed with Malaysian shippers and acts as a partial deterrent to trade.

With respect to product quality, all traders interviewed for this study indicated that Malaysian wood compared well with its competitors. Although some Italian companies saw Malaysia as competitive with respect to availability and delivery time, others believed that Malaysia performed poorly on this issue. This divergence of view will be explained by differences in loading ports, types of shipping (container or bulk), the nature and condition of the products (certified, kiln-dried/green) and the logistical abilities of exporters/shippers.

[2] *www.taxing.it/Documents/Resources/Tax/CJ%20Guide%20to%20tax%20haven%20legislation%20F.pdf*

Only 1 of the 13 trade and manufacturing interviewees indicated that they had a negative perception of Malaysia as a source of wood supply, although this was more due to the tax haven legislation than to forest management. Of the other interviewees, 9 had a positive perception of Malaysian forestry practices while 3 held no firm view. However several traders also chose to differentiate between forestry practices in Peninsular Malaysia (about which they were reasonably positive) and forestry practices in East Malaysia (about which they were less certain).

Despite this generally positive perception of Malaysian forestry practices, when asked how Malaysia compared against its competitors for provision of assurances of legal and sustainable timber, most interviewees either indicated that Malaysia compared poorly or said that they had insufficient information to comment. Only 3 of the 13 timber trading and manufacturing companies said that Malaysia compared well with its competitors in providing assurances of good forestry practice. This rather negative assessment of Malaysia's ability to provide satisfactory assurances of good forestry practice seems to reflect lack of availability of FSC certified wood from Malaysia, FSC currently being the only responsible forestry brand that has achieved any real (although still fairly tenuous) market recognition in Italy.

## 4 Italy government policy

### 4.1 Central government procurement policy

The Italian Government of Romano Prodi, elected in 2006 and comprising a broad coalition of parties (including the green party), promised greater engagement in the European FLEGT Action Plan than its predecessor. The Ministry for Environment has established a commission to improve implementation of the EC programme on illegal logging. The commission's main task is to look at options for development of a green public sector procurement policy for Italy. In this endeavour it has already supported workshops (at Padua University and at the Cremona fair), to provide an opportunity for initial stakeholder input of various procurement policy options.

According to the ICLEI report of March 2007 on timber procurement policies in Italy[3], the purchasing power of the public sector in Italy represents around 10% of Italy's GDP.

Central government officials interviewed for this study were well aware of the FLEGT project and indicated that they were generally supportive of the process. They are demonstrating their support in a number of ways, for example through publication of articles on FLEGT, and regular participation in seminars and workshops. It was noted that there is significant pressure for more proactive action coming from the Minister of Sustainable Development together with rising interest from individual members of parliament.

Central government officials also indicated that they are willing to start work to develop a public sector timber procurement policy but they are currently awaiting passage of legislation to provide a formal mandate. At this stage no decisions have been taken on the likely scope or content of the procurement policy.

### 4.2 Local government procurement policy

[3] *Sustainable procurement of timber and wood-based products in Italy Final Project Report Freiburg, 20 March 2007, by Amalia Ochoa and Peter Defranceschi, ICLEI European Secretariat*

In the absence of a national green public procurement framework or trade association code of conduct, regional and local government currently provides the only significant driver of demand for verified legal or certified wood products in Italy. Recognising this fact, the ICLEI project involved a survey of the current level of uptake of timber procurement policy by local authorities in Italy. The survey was carried out at the end of 2006 by the Ministry of Environment, Ministry of Agriculture and the University of Padova. It involved the issue of questionnaires to 1200 local authorities in Italy of which 114 were returned. The survey revealed that:

- 44% of respondents have included environmental criteria in their tender documents.
- 95% of respondents that have a GPP policy include some form of specific requirement in tendering processes (either green or sustainability requirements) for wood and/or paper products.
- 59% of respondents that have a GPP policy use the FSC label for the procurement of timber products. This compares to 26% using the PEFC label and 48% using the EU eco-label for paper.

The results are believed to be strongly influenced by Greenpeace' "Cities Friends of the Forests" campaign that has been running in Italy. The campaign asks participants to commit themselves to give preference in any public purchase to the use of wood products (timber furniture and equipments, paper and toilet paper) from sustainably managed forests. There is a particular focus on FSC as providing suitable evidence

Currently 124 local governments form part of the Campaign and have made a specific commitment to purchasing certified products only with a particular focus on FSC. Greenpeace has also produced a practical guide for public authorities in Italian on purchasing timber and wood-based products. An interview with a member of the "Cities Friends of the Forests" campaign for this study suggested that FSC and PEFC certification are currently the only forms of evidence accepted to demonstrate that wood is either legal or sustainable.

While the Greenpeace campaign has established an early lead in providing guidance to local authorities in Italy, other organisations are now involved. For example, DEFRA's sponsorship has allowed the on-line provision and promotion of the UK government's CPET guidance in Italian, including guidance on how public bodies can best purchase legally and sustainably logged timber. CPET's comparisons of national and international policies are also now made available in Italian.

Although the Greenpeace "Cities Friends of the Forests" campaign has been successful in encouraging some local authorities to commit to a policy favoring certified wood products, it should be emphasised that this is not backed by any formal system of monitoring to ensure the policy is being implemented. At present, there is no reliable way of assessing the extent to which Greenpeace guidance is being acted upon or the level of commitment of individual local authorities.

### 4.3 Additional legislative options

Some consideration has been given to the use of legislation in Italy to control imports of illegal wood. A study analysing the possible value of existing legislation as a mechanism to exclude illegal timber from Italy was published in January 2006[4]. The

[4] *EU FLEGT Initiative: Analysis of national legislation of relevance to excluding illegal timber from EU markets – Italy study by Barbara Pillon and Davide Pettenella.*

study formed part of a body of more extensive work on 'additional legislative options' by the Royal Institute of International Affairs in the UK. The study concluded that several national laws dealing with theft, receiving stolen goods, fraud, forgery, misdeclaration to customs, bribery and money laundering, could in theory be applicable to tracking the trade in illegal timber. However, practical application of all these laws to timber products would be extremely challenging due to lack of appropriate investigative and enforcement capacity, and the problems of establishing a chain of evidence linking imported timber with illegal timber harvesting.

However the study also suggested that there may be some potential to amend existing national legislation in Italy so as to introduce national controls on illegal timber and timber products. It noted that an attempt might be made with regard to the recent 'Code of cultural goods and the landscape', which came into force on 1 May 2004 (Legislative Decree No. 42/2004). This could be achieved by incorporating into the list of 'cultural goods' to be protected (Articles 10 and 11) timber and timber products from virgin forests or protected areas, which enter into national territory (Article 72), and can be defined as cultural goods by reason of the ecological importance of biodiversity and their particular ethno-anthropological value.

In addition, two proposals for new laws designed to control forest products imports have been presented, and rejected, at the Italian parliament[5]. Both proposals were unrealistic and had little chance of approval.

Nevertheless, the evidence of the current study is that there remains firm underlying support in Italy for the introduction of additional legislative measures. All government officials, trade associations and 2 of the 3 NGOs interviewed for this study indicated their support for Legislative Option B (placing the burden of proof on suppliers to demonstrate that all wood is legally sourced). The other NGO (PEFC Italy) indicated their support for Legislative Option A (a Lacey-style act putting the burden of proof on the prosecution to demonstrate that wood is illegally sourced).

A significant number of major Italian wood importing and distributing companies have signed the WWF-sponsored FLEGT Industry Statement calling for legislation to prevent imports of illegal wood into the EU. These companies include Coop Italy, Ebanisteria Marelli, La San Giuseppe, Palm, Palm W+P, P.E.R. Belle Arti, Romea Legnami, TABU, Tecnoform, and ZIF.

However, while there is evidence of support in principle for additional legislation, neither the government officials nor trade associations interviewed for this study indicated that they are currently working pro-actively to develop and implement such legislation. The NGOs indicated that they are encouraging development of such legislation through direct action (for example by blockading ships alleged to be carrying illegal timber), and through their campaign literature.

## 5. Private sector procurement policy and views on FLEGT VPA

### 5.1 Trade associations

[5] *Legislation proposed by Deput. Piazza see:*
*http://new.camera.it/_dati/lavori/stampati/pdf/15PDL0017930.pdf*
*Legislation proposed by Sen. Ripamonti see:*
*www.senato.it/service/PDF/PDFServer/BGT/00262111.pdf*

Italy's timber trade associations have not yet developed any formal environmental timber procurement policies or codes of conduct for their members including minimum requirements for sourcing legal timber. So far they have adopted a different approach. In April 2002, Federlegno – the Italian confederation for the wood, furniture, cork and furnishing industries – signed an agreement with Greenpeace Italia to work towards the use of legal timber and to inform its associates both about illegal logging problems and about the producers responsible for illegal practices. Every year, Federlegno and Greenpeace discuss the agreement and update the list of international companies implicated in the illegal timber trade.

The way this works in practice is that Greenpeace effectively denounces overseas producers linked with illegal logging and any Italian importers dealing with these producers. The Federlegno will then challenge the concerned member companies and facilitate meetings between these companies and Greenpeace to discuss possible action.

Although the forest division of Greenpeace Italia is not entirely satisfied with the outcomes so far, according to a press release,[6] Federlegno agreed at their Association assembly, held in June 2005, to aim to work concretely towards combating the illegal timber trade.

Furthermore, it was clear from interviews for this study that Fedecomlegno, the timber trade component of Fedelegno, is very aware and supportive of the FLEGT process. Fedecomlegno also indicated that they are looking into the potential of introducing a responsible procurement policy for their membership, although no decisions have yet been taken.

However, while there is positive interest in FLEGT and responsible procurement, the trade association is not currently engaged in any positive promotional activity to prepare the market for FLEGT VPA licensed timber.

Both Fedecomlegno and Fedelegno indicate that pressure to implement responsible procurement policies in Italy is very significant from the ENGO community and moderately significant from government Ministers and elected members of parliament. There is some interest in responsible procurement practices coming from buyers in the public sector, but interest from end users in the private sector and the general public is negligible.

### 5.2 Trading companies

Although there are signs of rising interest in environmental timber procurement issues in Italy, the available information suggests that very few timber trading companies are yet seriously engaged. This fact is, for example, suggested by chain of custody data. Despite a huge and diverse wood products sector, only 234 FSC certificates and 67 PEFC certificates had been issued in Italy in November 2007 (equivalent figures for the UK, which has smaller forest products sector, are 1153 and 525). The use of certified products to gain competitive advantage is currently only exploited by a limited number of very small-scale wood industries working in the green market, or by a few large distribution chains. The bulk of the Italian wood industry – the small and medium-sized companies – are still ill informed about the potential of corporate social and environmental responsibility.

[6] http://www.federlegno.it/servizi/comunicati/fedecomlegno/default.asp?pagina=cs05illeg05.

Interviews for this study identified 13 trading companies that, between them, are responsible for the bulk of Malaysian wood products imports into the country. A relatively high proportion of these companies are chain of custody certified. Of the 13 companies, 6 are chain of custody certified including 3 companies with only FSC and 3 companies with both FSC and PEFC. However, the lack of any form of trade association code or procurement policy is reflected in the fact that none of the companies has a formal environmental timber procurement policy. Two of the companies indicated they had an informal policy of preferring FSC or PEFC wherever possible, but this commitment is not monitored and not backed by targets.

Nevertheless, interviews indicated that Italian companies trading in Malaysian wood products are generally aware of the FLEGT process. Only 3 of the 13 indicated that they had no awareness. Importers actively involved in Fedecomlegno committees were particularly well informed. Furthermore, all interviewed companies without exception indicated that they would give preference to FLEGT licensed products, a reflection of the benefits that FLEGT VPA licensing could make to avoidance of negative publicity associated with Greenpeace campaigns.

There seemed also to be willingness to pay a price premium for FLEGT VPA licensed timber. 8 of the 13 companies said they would pay a premium with level varying between 3% and 10%. There was however less confidence in the willingness of interviewees' clients to pay a premium. It is worth noting that some said that their clients would pay a premium if well informed of the intent of FLEGT VPA licensing.

Some interviewees said they would only consider giving preference to FLEGT VPA licensed timber in cases where there were no alternative certified products. There was concern about the possibility of conflict between FLEGT VPA licensing and full certification. Some added that FLEGT VPA licensing would be a positive and appreciated move but that Malaysia needed to do more for long term market access.

Interviewees gave the strong impression that they would not stop buying from Malaysia if she does not sign up to the VPA. They would instead resort to other legality verification and certification programs where necessary.

Interviewees expressed a variety of opinions with respect to the marketing impact Malaysia signing up to a FLEGT VPA. Responses varied to some extent depending on the assumed level of uptake of FLEGT VPAs by other competing countries. Assuming Malaysia was the only country that signed a VPA, the majority gave a positive or very positive evaluation. However two interviewees gave a negative evaluation, fearing under these circumstances the price increase would benefit Malaysia's competitors.  If it was assumed that the 5 other most likely FLEGT VPA countries also signed, all but one interviewee gave a positive evaluation. Assuming the FLEGT VPA process extended to all competing suppliers, all interviewees gave a positive evaluation with most suggesting it would be very beneficial.

Interviewees indicated that they are currently importing very little wood from third countries that they know or suspect may include Malaysian raw material. Only two companies could positively identify any product on this nature, both mentioning glulam from China. However, 7 of the 13 companies suggested that their imports via third countries, particularly China, may increase in the future. One interviewee importing sawn lumber and mouldings indicated he was already receiving offers for these products from China, although he has not yet taken these offers up.

These results are at least partially influenced by the black listing of Malaysia by the Italian tax authorities which has created a peculiar situation. For an Italian importer it can be simpler to buy from China than from Malaysia.

With respect to key drivers of demand for responsible procurement practices, interviewees indicated that pressure from NGOs is by far the most significant factor. Due to a slow increase in the influence of local authority procurement policies, the pressure from public sector end users is seen as moderately significant. However pressure from private sector customers and end users is perceived to be insignificant. Most interviewees had difficulty answering the question relating to the influence of shareholders and investors. Few of the interviewees' companies are shareholding organisations and few interviewees had heard of such pressure in the forest products sector.