

Report for AF&PA

**Trade and Environment
Program in Europe**

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“INFORMING THE SUSTAINABLE WOOD INDUSTRY”

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Overview and commentary

International forest policy debate during the last quarter of 2002 was dominated by discussions of the extent of illegal logging and of the international response to this problem. In particular, a potential conflict has emerged between the approach now being adopted in the EU and that advocated by US industry. The former has been inspired by ENGO reports suggesting that illegal trade is endemic throughout the international wood products sector and relies heavily on prescriptive measures to monitor and control trade, particularly through chain of custody procedures. The latter calls for more thorough research into the scale and nature of the problem and places more emphasis on capacity building in producer countries and on the search for multi-lateral solutions.

Preliminary drafts of an EU Action Plan on Illegal Logging, now due to be finalised during the first quarter of 2003, have proposed that EU wood imports should be subject to requirements for a "legality license" which may place far reaching requirements on exporters to provide independent verification of chain of custody. Over recent months, US industry has been heavily involved in discussions with the European Commission (EC) seeking clarification on the terms of the legality license. Partly as a result of these representations, there are indications that the EC will adopt a more targeted approach. The Commission has confirmed that under the terms of the action plan:

- "legality licences" will only be required under voluntary bilateral agreements with producer countries;
- "legality licences" will be combined with capacity-building in these countries;
- requirements for providing these licenses will be flexible and will not necessarily be dependent on chain of custody.

At the same time the governments of several European countries are now proposing new public sector procurement strategies that would also establish requirements for chain of custody assessment. During the last quarter of 2002, both the German Federal and Irish governments issued statements making commitments specifically to FSC certification. In the UK, draft proposals for public sector procurement strongly favour chain of custody approach. Furthermore, the consultancy firm that drew up the UK proposals have just embarked on another study for the European Commission with a view to considering the potential for an EU-wide directive on public sector wood procurement.

The problems and costs associated with chain of custody have stimulated a search for alternatives amongst some industry organisations. For example, the UK's Timber Trade Federation is now giving serious consideration to the development of procedures for third party audit of their "Environmental Timber Purchasing Policy". If implemented, this system would link closely with the ISO14001 EMS standard and allow flexibility in the environmental procurement procedures and targets established by timber trading companies.

Meanwhile, in terms of forest area and reach, the balance in forest certification schemes continued to shift away from FSC towards PEFC during the closing months of 2002. This shift was highlighted at the PEFC Council General Assembly meeting in November which saw the acceptance into the PEFC family of eight more national certification schemes, including the first from the developing world (Malaysia, Brazil, and Chile). At the same meeting, the PEFC Council endorsed a revised and strengthened set of procedures, providing a better foundation for further expansion. PEFC certified forest area had reached 46.1 million hectares by the end of November 2002. There was also a rapid expansion in the number of PEFC chain of custody certificates issued during 2002. PEFC has now issued over 420 of these certificates, up from only 126 certificates in July 2002. Most of this growth has been concentrated in Austria, Germany and France.

The emergence of PEFC, coupled with a lack of sustained finance, has encouraged much soul searching within the Forest Stewardship Council. FSC has responded by seeking to adopt a more business like approach. At the FSC General Assembly in November, the pragmatic views of industrial and trading interests came through more forcibly than the ideals

of some environmental groups. The membership agreed to motions enabling FSC to diversify its' sources of funds; to increase the representation of economic interests on the FSC Board; and to review the percentage based claims policy in an effort to encourage greater industry participation. However this approach has already led to an environmentalist backlash. A wide-ranging critique of the FSC by the Rainforest Foundation published just prior to the General Assembly was very critical of FSC's efforts to accommodate the views of commercial interests and called for FSC to maintain the moral high ground through the implementation of high environmental performance standards and tight chain of custody procedures. Meanwhile, the overall area of FSC certified forest increased to over 30 million hectares during the last quarter of 2002, with recent gains being mainly in Croatia.

Elsewhere there is growing recognition of the problems associated with current low levels of supply of certified forest products, particularly from tropical developing countries. At their meeting in November, ITTO published a preliminary report on the prospects for the development of a "phased approach" to forest certification in the tropics. There are reports that the WWF Global Forest and Trade Network (GFTN) is also now showing greater interest in the development of so-called 'transition timber'. Transition timber is defined as "*wood coming from forests which are in transition to certification, but have not yet achieved this goal*".

In another potentially significant development, the World Bank has finally approved a new policy which gives the go-ahead for support for sustainable forest management in natural tropical forest. This represents a U-turn from the previous policy which, due to intense environmentalist pressure, had prevented the World Bank from providing any support for tropical forestry other than for totally protected areas. The new policy states that all forest projects receiving World Bank support have to agree an action plan for eventual certification.

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Attachments

**FSCsummary.doc – informal summary of motions from the FSC General Assembly
AF&PA/AHEC presentation to EC Illegal Logging Meeting**

1 Forest certification developments

1.1 Pan European Forest Certification Scheme (PEFC)

1.1.1 PEFC Council General Assembly

The PEFC Council General Assembly was held in November 2002. Significant developments at the meeting include:

- the acceptance of eight independent national forest certification schemes as PEFC members. Schemes from Australia, Brazil, Chile, Estonia, Lithuania, Luxembourg, Malaysia, and the Slovak Republic joined the nineteen existing member schemes of PEFC from Europe and North America. Joining the PEFC Council is the first stage for independent national schemes to participate in PEFC's mutual recognition framework for forest certification. The next stage is to undergo assessment against the PEFC Council's requirements.
- endorsement of the Danish Forest Certification Scheme. The PEFC Council has now endorsed 13 schemes, which together account for over 46 million hectares of certified forests.
- the acceptance of a revised set of procedures and documentation (posted on the PEFC Council website <http://www.pefc.org>). The revised documents are the main output of an 18 month independent review to assess the effectiveness of the PEFC. The changes include a new more user-friendly documentation structure, a glossary of terms, clearer requirements, and new guidelines for the revision of national forestry standards. The core of the PEFC process is now contained in the new Technical Document. This defines common elements and requirements which have to be met by certification schemes wishing to take part in and use the trademark of the PEFC Council. The Technical document is divided into a general section which describes the overall framework, and a series of Annexes which establish more detailed normative requirements as follows:
 - Annex 1 PEFC Terms and Definitions
 - Annex 2: Rules for Standard Setting
 - Annex 3: Basis for Certification Schemes and their Implementation
 - Annex 4: Chain of Custody Certification of Wood
 - Annex 5: PEFC Logo Use Rules
 - Annex 6: Certification and Accreditation procedures
 - Annex 7: Endorsement and Mutual Recognition of National Schemes and their Revision

1.1.2 PEFC Progress

By the end of October, PEFC certified forest area had reached 46.1 million hectares, up from 43.1 million hectares in September 2002, and up from 41.1 million hectares at the start of the year. The most significant increases in area during the autumn months were in the Czech Republic (1.75 million hectares) and France (400,000 hectares). The pace of growth in PEFC certified forest area this year has slowed compared to the previous two years. However, there has been rapid expansion in the number of PEFC chain of custody certificates issued this year. PEFC has now issued over 420 of these certificates, up from only 126 certificates in July this year. Since the summer months there has been particularly rapid uptake of PEFC chain of custody certification in Austria, Germany, and France.

	Certified forest area (has)	Number of C-O-C certificates	Number of PEFC logo users
Austria	3 924 000	124	71
Belgium	0	0	0
Czech Republic	1 752 944	0	1
Denmark	0	0	0
Finland	21 910 000	62	76
France	689 345	47	620
Germany	6 100 151	159	4536
Italy	0	1	1
Latvia	17 019	7	105
Norway	9 352 000	3	12
PEFC Council	0	0	16
Spain	86 679	0	2
Sweden	2 203 531	20	49
Switzerland	64 572	0	0
United Kingdom	0	0	0
Total	46 100 242	423	5 489

Table 1: PEFC Certified Forest Area, CoC certificates and logo Users, 30 November 2002

1.2 Forest Stewardship Council (FSC)

1.2.1 FSC Certified Forest Area

With little fanfare, the overall area of FSC certified forest increased to over 30 million hectares during the fall. Between the beginning of September 2002 and end of October 2002, the area rose from 29.06 million hectares to 30.85 million hectares. The major increase during this period was in Croatia where the certified forest area increased from 130,000 hectares to close to 2 million hectares. The new certified area is all under one certificate issued to Hrvatske Sume (Croatian State Forest Enterprise). Eight countries currently have over 1 million hectares of FSC certified forest: Sweden (10.1 million has), USA (3.8 million has), Poland (3.6 million has), Croatia (2 million has), Brazil (1.2 million has), Estonia (1.1 million has), U.K. (1.1 million hectares), and Canada (1 million has).

1.2.2 FSC aims and objectives

With funding from the U.K. Department for International Development (DFID), FSC held an Email conference on the organisation's future objectives. The discussion was open both to FSC members and non-members. The results were presented as input to the FSC General Assembly in November 2002. The discussion was structured into three topics:

- If FSC were to be invented today, what should it look like?
- How can FSC really start to deliver on its mission in the South?
- Should FSC diversify into other, related areas,

Active participation in the email discussion in terms of numbers of contributors was fairly restricted. 159 people registered for the FSC e-conference, but only 23 (15 %) people actively participated in the debate by submitting opinions. However the synthesis report drawn together by DFID provides a fairly wide spectrum of views.

The introduction to the report emphasizes the need for radical change in the FSC if it is to have a long term future. The report suggests that *“one success of FSC has been in holding together in a single organisation a wide range of philosophies about the management of natural resources including forests. This cohesion has been obtained at least partly by discouraging open discussion of the fundamental objectives of FSC and the relations between major categories of stakeholders.”*

The introduction suggests that this approach, of stifling debate on long term objectives, cannot continue. Various stakeholders are calling for an expansion of FSC’s role into new areas. Now *“a more business-like approach is essential in order to fund these developments.....the status of FSC funding has reached a point at which lack of finance is seriously compromising the ability of FSC to carry out its basic functions. A radical change in funding mechanisms is essential, because donor development agencies will not routinely support what has been promoted as a market-based instrument.”*

The DFID summary suggests that the majority of participants advocated that FSC should stick to its core mission of forest certification, but possibly look into developing a phased approach to certification, for example, through legal verification. Only a minority argued that FSC should diversify to offer a greater range of services, such as carbon trading.

According to DFID, conference participants suggested the following measures that FSC could take to ‘reinvent’ itself, particularly with a view to better delivery in developing countries:

- Become more professional, with a clearly defined and widely publicised strategic goal, and achievable targets.
- Develop a federal structure, with strengthened, funded National Initiatives, to help increase FSC’s presence and visibility around the world.
- Redefine the Board’s role as a strategic body rather than a hands-on management team.
- Reappraise the membership structure to become more inspirational and less governing while keeping the three-chamber structure. All members should reaffirm their commitment to FSC’s strategic goal and targets.
- Increase promotion and marketing of FSC and certified products especially in developing countries. Aim to help raise interest and awareness of certification, and link producers with markets. Possibly initiate training programmes in partnership with other organisations.
- Undertake a radical rethink of FSC’s funding. Suggestions included funding from retailers and bodies such as the World Bank and European Union.
- FSC cannot be all things to all people, increase strategic alliances with, and lobbying to, global, national and local bodies to assist FSC in its mission, especially to provide enabling conditions in developing countries.
- Facilitate certification in developing countries through: lowered certification costs, possibly through links with funding agencies; introduction of phased or “stepwise” certification; increased accreditation of southern certifiers.

1.2.3 FSC General Assembly

The FSC held their 2002 General Assembly in Mexico during November 2002. A wide range of Motions were debated and decisions taken on the future direction of FSC policy, organisation and procedures (see attachment FSCsummary.doc for a detailed summary). Judging by informal reports from the meeting, the pragmatic views of industrial and trading interests came through more forcibly than the ideals of some environmental groups. The membership agreed to motions enabling FSC to diversify its’ sources of funds; to increase the representation of economic interests on the FSC Board; and to review the percentage based claims policy in an effort to encourage greater industry participation. The FSC membership also agreed that there should be a greater role for National Initiatives.

However an ENGO inspired proposal that there should be a reference to the “Precautionary Principle” in the FSC Principles and Criteria was rejected. So too was a proposal that FSC should move more quickly to the international harmonisation of national certification standards.

Other motions were agreed with the aim of tackling long-running criticisms of FSC. For example the use of interim standards drawn up by certification bodies rather than by regional or national stakeholder groups is to be phased out.

The concept of mutual recognition between FSC and non-FSC certification schemes was a point of contention at the meeting. Although the idea of mutual recognition was not rejected outright, the General Assembly agreed a motion that the FSC Board should seek approval by formal vote of the FSC membership prior to engagement in any process designed to lead to mutual recognition. This measure is designed to “*best protect and maintain FSC’s highly-valued brand name and position in the global marketplace*”.

A motion to develop stepwise or modular approaches towards full FSC certification was withdrawn prior to the meeting, perhaps to give more time for technical development and to generate broader support for the concept.

1.2.4 Renewed ENGO criticism of FSC

A wide-ranging report by the Rainforest Foundation, a non-governmental organisation, published prior to the FSC General assembly in November, claims that the FSC is misleading the public about the reliability of its certification procedures. The Rainforest Foundation claim the report is “*based on 18 months of investigations, and includes detailed case studies of 'problematic' FSC certifications or national 'FSC processes' in Brazil, Canada, Indonesia, Ireland, Malaysia and Thailand.*” They suggest “*there is much evidence that many FSC certificates have been awarded to logging companies that are in serious breach of the FSC P&C.*” Furthermore their report “*documents examples where certified companies have been implicated in gross abuses of human rights, are logging in pristine tropical rainforest containing some of the world's most endangered wildlife species, and have falsely claimed to comply with the FSC's certification requirements.*”

The report criticises FSC National Initiatives in some countries for “*marginalising*” environmental interests at the expense of commercial interests. It suggests that “*the resulting FSC national certification standards have, in some cases, been lower even than is required by national laws.*”

The Rainforest Foundation raise concerns over the effectiveness of FSC’s chain of custody procedures and claim that the FSC percentage-based labelling policy is “*almost impossible to police in practice*”.

The Rainforest Foundation blame these problems on FSC’s rapid growth policy which has sought “*to expand the area certified, and to get FSC-labelled products onto the shelves of shops, as quickly as possible*”. This policy has, in turn been driven by several factors including pressure from retailers; efforts to compete with other certification schemes, such as the PEFC; and the “*strong vested interests of FSC accredited certifiers in ensuring successful outcomes to certification assessments -regardless of whether or not the logging company actually complies with the FSC's P&C.*”

Meanwhile, says the Rainforest Foundation, “*community forests and small-scale forest managers find it extremely difficult and costly to obtain or retain FSC certification.*”

The Rainforest Foundation's report “Trading in Credibility: the myth and reality of the Forest Stewardship Council” is available from www.rainforestfoundationuk.org.

1.2.5 FSC in Latin America

Latin America is increasingly a focus for FSC activity. In October, representatives of FSC National Initiatives from 11 countries in that part of the world met to discuss development of a regional action plan. The meeting held on October 7-9 in Buenos Aires, Argentina was attended by 30 participants from Mexico, Brazil, Colombia, Bolivia, Uruguay, Chile, Peru, Ecuador, Guyana, Guatemala and Nicaragua. Participants analyzed opportunities, weaknesses and threats to the development of FSC in Latin America. On the first day of the meeting, Heiko Liedeker, Executive Director of FSC, presented an overview of FSC's plans for decentralization and the higher profile role of National Initiatives in the organization's future. The meeting also included a training workshop on communications issues and use of the FSC trademark, and considered the basic functions of the National Initiatives and their development.

Immediately after the meeting, members of FSC National Initiatives began work on the harmonization of FSC standards for Latin America. Two working groups were created during two days of technical work in Buenos Aires: the Plantations group, which includes representatives from Chile, Brazil, Colombia, Argentina, Guatemala, Ecuador; and the Natural Forests group, composed of representatives from Bolivia, Guyana, Ecuador, Mexico, Argentina, Bolivia, Nicaragua, Brazil, Chile and Colombia. Through this process, the National Initiatives plan to review their methodologies drawing on experience from other Initiatives.

1.2.6 FSC Recruits Designers

In an effort to boost demand for FSC certified products, some FSC certified companies have begun to recruit high profile designers. For example, the German company Westeifel Industries have recruited Luigi Colani to design garden benches made from FSC-certified wood. The first designs were launched at the GaLaBau fair, held in Nürnberg, Germany at the beginning of October. According to Erwin Goergen, Executive Director of Westeifel Industries, *“innovation is required, especially on the tight market of landscaping design. The timing is right to combine high-end design with responsibly-produced materials in products destined for public spaces.”*

1.2.7 FSC specified for Heathrow

FSC-certified Brazilian plywood has been specified by contractors building a £130-million tunnel at London's Heathrow Airport. Project leaders have chosen film-faced FSC-certified plywood boards for use as concrete forms. The plywood is to be produced entirely with selected tropical hardwood veneers by Gethal Amazonas, a Brazilian company that also supplies FSC-certified hardwood. The FSC-certified plywood is being used as the framework for thousands of concrete segments forming the exterior of 1.3km twin-bored tunnels that will eventually link the airport's central terminal complex with remote buildings. Later this year, work will start on the long-awaited Terminal Five building at Heathrow. Apparently both Gethalfilm boards and Gethal's Medium Density Overlay (MDO) boards (also made from FSC-certified tropical hardwood veneers) are being earmarked for the job. The MDO boards create a matte finish and are increasingly being specified in the UK for concrete shuttering formwork.

1.2.8 Trade Network looks for “Transition Timber”

In view of limited supplies for FSC certified wood products, the WWF Global Forest and Trade Network (GFTN) is gradually watering down its requirements for forest certification. The GFTN is a network of around 800 companies around the world committed to the purchase, use and sales of certified wood and wood products, preferably FSC. Recent reports from the group suggest that there is growing interest amongst the membership in the development of so-called 'transition timber'. Transition timber is defined as *“wood coming from forests which are in transition to certification, but have not yet achieved this goal”*. Transition timber is intended to provide a more formal mechanism to provide recognition for improvements in forest management through market-based incentives. Therefore, the GFTN,

is currently developing a new tool for implementing and verifying progress towards certification called modular implementation and verification (MIV). MIV is based on the division of the standard into a series of pre-defined modules which can be implemented in a series of steps or phases. Completion of all the modules would ensure compliance with all the requirements of the standard.

1.2.9 Newly accredited certification body

The FSC has accredited the French organization Eurocertifor as an FSC Certification Body, effective September 18, 2002. Eurocertifor was founded in 1999 with the primary objective to certify and control products, services, methods and systems related to the management of wood. It has been actively promoting FSC certification in France.

1.3 Keurhout updated

The Dutch environmental trademarking scheme Keurhout completed a major restructuring process in November 2002. Restructuring was carried out on the basis of recommendations from an independent review of the scheme by KPMG Management Consultants.

KPMG had concluded that the Dutch market suffered from a significant shortfall both in the availability of supplies of certified wood raw material and in market demand for certification. This conflicted with Dutch government policy to increase the consumption of certified wood in the Dutch market as quickly as possible. KPMG proposed that supply should be increased by introducing formal procedures for recognition of step-wise implementation of the Keurhout criteria for sustainable forest management. They also proposed that further efforts should be made to market certified wood and to ensure adequate differentiation from non-certified products. KPMG also concluded that Keurhout did not enjoy sufficient public support or management capacity to undertake its' "goalkeeper" function of assessing the credibility of forest certification schemes.

KPMG recommended that the Dutch government take a much more hands-on approach to the management of Keurhout. Previously the government's role had been limited to drawing up the Keurhout criteria for recognition of forest certification schemes, and it had not been directly involved in either financing or managing the initiative. At present, Keurhout is funded partly by direct grant from industry organisations (with equal contributions from trade, industry and two trade unions) and partly through a levy on the volume of imported certified timber.

In response to these concerns, Keurhout has carried out a complete overhaul of its verification and management procedures. It has now published details of these new procedures at its website keurhout@stichtingkeurhout.nl. The procedures may be subject to further amendment following input from international experts. The new procedures aim to:

- increase transparency during the assessment of forest certification schemes.
- improve public support through linkage of the Keurhout verification process to the Dutch Council for Accreditation (RvA).
- adjust the byelaws governing the Management Board, Board of Trustees and Board of Experts to encourage greater public and NGO participation. In the past, Keurhout has been perceived as primarily an industry initiative and NGOs have refused to participate despite regular invitations.

On announcing the new procedures, Keurhout called on the Dutch government to take on joint responsibility for Keurhout and to contribute public funds. More information is available from Kees Bosdijk, Keurhout Managing Director at bosdijk@stichtingkeurhout.nl.

1.4 Malaysian Timber Certification Council (MTCC)

1.4.1 New national certification standard

A new Malaysian national standard for forest certification – covering all forests in both East and West Malaysia - was finalised and adopted at a national consultation held on 28-30 October 2002 in Kuala Lumpur.

According to the Malaysian Timber Certification Council (MTCC), the new standard (known as the Malaysian Criteria and Indicators – MC&I) was developed in accordance with the format and structure of the FSC Principles and Criteria. Development involved broad-based consultation and consensus between social, environmental and economic stakeholder groups. However, MTCC also note that some social NGOs withdrew early on from the process.

Heiko Liedeker, Executive Director of FSC, was present on the last day of the consultation and is quoted by MTCC as saying that the process to develop a standard for eventual FSC endorsement is now well “on track”. Liedeker also said that FSC viewed its collaboration with MTCC as a great opportunity to demonstrate FSC’s acceptance of certification work in developing countries. Liedeker said that FSC intended to become more pro-active in helping developing countries develop FSC-endorsable standards.

MTCC said that they will continue negotiations towards full endorsement of the national standard by FSC.

1.4.2 German assessment of MTCC

In November 2002 the German organisation Initiative zur Förderung nachhaltiger Waldbewirtschaftung e. V. (IFW) published an assessment of Malaysian forestry and the MTCC certification scheme. IFW started life several years ago as a private sector initiative to develop a German equivalent to the Dutch Keurhout trademarking scheme, but it failed in this endeavor through lack of industry and environmentalist support. Since then it has established the broader aim of promoting sustainable forest management in the tropics. It is seeking to contribute by producing regular reports on new developments in tropical forestry. The report on MTCC reflects IFW’s view that it is probably the most advanced certification scheme in the tropics. The report was prepared jointly by E.F.Brueinig and S. Schardt. The former is a highly respected expert on tropical forestry, with many years of field experience. The latter is manager of IFW.

The report includes the following overall assessment of forest management in Malaysia:

- Malaysia is finally and again on the way towards the sustainable management of its forest resources.
- Good progress has been made in Peninsular Malaysia during the last two years to which MTCC has contributed significantly.
- Malaysia is seriously determined to implement its’ commitment to the ITTO Year 2000 Objective. Forests and forestry are, politically, State matters and there are limitations to the extent the Federal Government can influence the States particularly related to land and other resources, including forests. This is particularly noticeable in the case of the two East Malaysian states, Sabah and Sarawak.
- Malaysia is, without doubt, justified to lay claim to be the most advanced in tropical forestry science and practice in Southeast Asia and maybe in the world, except some excellent pilot projects in tropical America and Africa.

However the report also suggests that “*much more must still be done and achieved if the Malaysian targets towards sustainability are to be reached and secured.*” It concludes that Malaysia’s adoption of a “*phased approach*” to forest certification and sustainable forest management is “*probably the only feasible and realistic strategy to secure sustainability under conditions of uncertainty [and] change.*”

The report commends the recent efforts by MTCC to develop a national forest certification standard, which it confirms was created “*through a lengthy process of in-depth scrutiny, aided by intensive multi-stakeholder participation*”. It then clarifies the existing relationship between FSC and MTCC as follows:

“The new standard is not an endorsed FSC standard. This requires the adoption of the MC&I by a FSC National Working Group (NWG) established in compliance with the requirements of the FSC. The NSC [National Steering Committee of MTCC] has initiated steps towards the formation of such a multi-stakeholder NWG which will formulate the standard to be submitted to FSC for endorsement. This will be followed by scrutiny of the standard in the FSC Secretariat. Only when the result is positive can the MC&I be endorsed by the FSC

“Representatives of timber industry and trade still harbour reservations concerning the exacting level of the standard. They fear that the application of the FSC Principles and Criteria will create serious problems in practice and increase costs, while a premium on certified timber products will not be forthcoming. However the increase of costs depends mainly on the skill of site-specific adaptation without compromise on principles.

“The significant difference between the MTCC and FSC is the approach in implementing certification, as the existing MC&I is already very comprehensive and professional. The FSC insists on complete fulfilment of all criteria from the outset. The MTCC adopts a “phased approach” in which a set of core criteria and indicators is used in the initial phase of the certification scheme.

“The Malaysian stakeholders and MTCC have shown their willingness to use a standard based on the FSC Principles and Criteria but hopes that FSC can be flexible with regard to its other requirements for FSC national initiatives.”

The report concludes that *“the restoration and enforcement of sustainable forest management in Malaysia in a ‘phased approach’ deserves the support of its trading partners. Consequently, the MTCC scheme and the new MC&I should be accepted by Germany and the German market on the condition that progress continues unabated.”*

2. International Agreements and Institutions

2.1 European Commission Illegal Logging Action Plan

In the September T&E report it was reported that the European Commission is developing an Action Plan as part of a policy commitment to tackle the problem of illegal logging. Preliminary drafts of this plan, due to be finalised by the end of 2002, proposed that EU wood imports should be subject to requirements for a “legality license”. Publicity material issued by the European Commission at the World Summit on Sustainable Development suggested that legality licenses would be required for all EU wood product imports, irrespective of origin, and that these would only be issued following a full chain of custody audit from forest to final consumer.

Since the beginning of September, AF&PA and its’ European consultants (Rupert Oliver and Michael Buckley) and AHEC have been working closely together to ensure no measures are introduced by the European Commission that would act as a barrier to U.S. wood trade with the European Union. They have been in regular and close communication with relevant European Commission officials. In November, U.S. industry representatives were invited to make a statement to EC officials and European trade representatives at a workshop to review the Action Plan organised by the EC Enterprise directorate. The statement was delivered by David Venables, AHEC European Director. The T&E Consultant attended in his capacity as an independent advisor to AHEC and AF&PA.

The AF&PA/AHEC statement (attached) sets out a pragmatic approach to the issue of illegal logging. The statement recognizes that the forest industry has a responsibility to tackle illegal logging, but stresses the limitations of market-led solutions to the problem. It establishes priorities as follows: first identify the extent and nature of the illegal logging problem; second target specific countries where there is a problem; third focus on capacity building in these countries; meanwhile continue to work towards possible multi-lateral solutions through the

FLEG Conferences. The statement also emphasizes the importance of avoiding prescriptive language on chain of custody.

The U.S. industry statement was well received by the European Commission, with officials suggesting it was some of the most constructive input. The Statement was circulated to all those who attended the workshop and formed part of the Chairman's report. U.S. industry representatives were invited to attend subsequent meetings and are now firmly part of European discussion on this issue.

Partly as a result of these representations, there are indications that the European Commission will adopt a more targeted approach which places less emphasis on chain of custody. The Commission has confirmed that under the terms of the action plan:

- "legality licences" will only be required under voluntary bilateral agreements with producer countries;
- "legality licences" will be combined with capacity-building in these countries;
- requirements for providing these licenses will be flexible and will not necessarily be dependent on chain of custody.

The timetable for finalisation of the Action Plan has slipped slightly, with reports now suggesting that it will be published during the first quarter of 2003. Once finalised, the Plan will be presented as a formal EC Communication for consideration by the European Parliament and European Council. If no significant objections are raised by either body, the Communication may be enshrined in European law. However, this can be a lengthy process taking anywhere between six months and four years depending on the priority attached to the issue by European politicians, and the extent of political opposition.

2.2 33rd Meeting of ITTO, Japan, November 2002

The controversy that surrounded the International Tropical Timber Organisation in the early 1990s now seems a distant memory. The Earth Negotiations Bulletin suggests that the 33rd Meeting of the UN sponsored organisation was "*a shining example of constructive dialogue....almost entirely devoid of overt conflict, leaving everyone happy, if not slightly bored*".

Even the renewed presence of the environmental community failed to turn up the heat. After withdrawing in the early 1990s from a process they labelled insignificant, the environmental NGOs have now returned to ITTO. The reasons for their return are many, but foremost was the inaugural meeting of a Civil Society Advisory Group (CSAG) to ITTO. It seems that, on this occasion, the environmental groups chose not to criticize – perhaps indicating a broader consensus on tropical forestry issues.

There was, as usual, much discussion of forest certification at the meeting. Less usual was the conciliatory tone of these discussions. Environmentalists seemed impressed by the desire of producer countries to work with the certification movement. At the same time, environmentalists seemed willing to take on board the need for "phased approaches" to forest certification in tropical countries. Interim results from an ITTO study on the potential of a phased approach to forest certification were issued at the ITTO meeting.

The tone of the meeting suggested that there is a growing international consensus on the priority need to tackle the problem of illegal logging. In the past, the mere mention of illegal logging at the ITTO promised a barrage of defensive reactions. However those days are passed and producer countries are more willing to talk openly of the need for solutions. ITTO is now contributing to the process of gathering information on the scale of illegal logging. It is supporting various projects on this issue in the Congo basin and has also funded a study looking at disparities between tropical wood import and export data.

But despite all the evidence of consensus, there were detractors. Several participants, including one large financial institution, were very pointed in their appraisal of the ITTO,

saying that in the grand scheme of international project work, ITTO makes very little difference. The level of funding for ITTO project work is tiny compared to that of other agencies, such as the World Bank. It is also totally out of proportion with the huge task that ITTO has set itself, nothing less than the sustainable management of the world's tropical forests. Some observers suggest that the emphasis of some of ITTO's work is misplaced. For example, the importance attached to certification was criticized by some observers given limited market demand for certified products.

Much of the meeting involved "housekeeping" discussions designed to streamline the work of the ITTO. There was also consideration of the timescale for renegotiation of the International Tropical Timber Agreement which establishes the framework for ITTO's operation. Renegotiation of the existing agreement, established in 1994, is due to start next year. This will be a drawn out affair, likely to take around 2 years, and may be controversial. Some countries seem keen to expand the scope of ITTA both in terms of the commodities and countries covered and of the issues discussed. The most ambitious see ITTA as providing a possible alternative to a global forest convention, with Objective 2000 providing a foundation on which to build legally binding commitments to sustainable forestry worldwide. Others are equally concerned to maintain the limited focus of the ITTA on the international trade in tropical timbers, to avoid damaging the nascent political consensus that is emerging and to ensure limited resources continue to be concentrated on tropical timber projects.

Copies of a wide range of reports from the ITTO meeting are available at the ITTO website www.itto.or.jp. These include

- interim results from the study of the potential for a phased approach to forest certification;
- a study of factors affecting market access for tropical timber;
- a review of international wooden furniture markets;
- a study of progress towards sustainable forest management in Brazil;
- a review of experience in forestry partnerships in the Congo Basin;
- a study of progress towards sustainable forest management in the Central African Republic;
- a progress report on a study assessing discrepancies in import and export data (part of an effort to assess the level of illegal trade).

2.3 World Bank Strategy

Despite continuous opposition from environmental groups, the World Bank has finally approved a new policy and strategy which gives the go-ahead for support for forest management in natural tropical forest. According to the World Bank, the aim of the new policy and strategy is to *"increase the livelihoods of some 500 million people living in extreme poverty, who depend on forests, while improving the environmental protection of forests in the developing world."*

The new policy represents a U-turn for the World Bank. Following intense environmentalist pressure in the early 1990s, the previous policy had prevented the World Bank from providing any support for tropical forestry other than for totally protected areas. According to the Bank's own assessment, the previous policy had meant that the World Bank had become "irrelevant" in the fight against tropical deforestation.

The new policy acknowledges that few countries can afford to allocate more than 10% to 20% of their forest areas for total protection and notes that *"the long-term future of biodiversity will depend just as much on sympathetic management of productive, humanized landscapes as it will on the balanced selection and management of traditional Protected Areas."* In addition, by re-engaging in areas of forests outside the protected areas the new strategy aims *"to work to improve the livelihoods of those who depend on forests most of whom are poor"*. In this regard, the strategy puts special emphasis on community forest management and agro-forestry; while conserving the environment through sustainable practices, and reducing environmentally destructive logging. Nevertheless, the World Bank

is likely to remain the world's largest financier of protected forest areas and parks. The new policy will also seek to expand the average of 8 percent of forest areas under protection in developing countries, and strictly maintain a ban on logging in these critical forests.

The Bank will now finance commercial harvesting "*in areas where strict environmental assessments, or authoritative scientific surveys have demonstrated that the areas in question do not contain critical forest areas or other critical natural habitats*". The Bank notes that illegal logging results in losses of between US\$10 billion to \$15 billion per year of forest resources. Sustainable forest management of public lands would yield valuable official revenues that could support expenditures in education and health; and at the same time reduce the areas being logged.

The new policy commits the Bank to encouraging the widespread use of internationally agreed criteria and indicators for sustainable forest management. These criteria include those defined by the International Tropical Timber Organisation (ITTO), discussed in the Intergovernmental Panel on Forests (IPF), Intergovernmental Forum on Forests (IFF), and embodied in the principles and criteria of bodies such as the Forest Stewardship Council (FSC).

The Bank remains committed to the target it established jointly with the WWF to achieve 200 million hectares of independently certified production forests by 2005. The new Policy makes clear that the Bank "*has not endorsed any particular certification system*". Instead it will assess particular certification approaches against a set of World Bank principles and criteria for credible certification. The World Bank will not require the immediate certification of forestry operations for which it provides support. However these operations will have to agree with the Bank an action plan for eventual certification.

2.4 Mahogany listed on CITES

"Big-leafed" mahogany (*swietenia macrophylla*) was listed under Appendix II of the Convention on International Trade in Endangered Species (CITES) at the CITES meeting in Santiago, Chile in November.

Swietenia macrophylla was already listed on Appendix III, which requires the issue of a "certificate of origin" by the relevant government authorities prior to export. The move to Appendix II imposes a more stringent requirement for an "export permit", which is only issued with evidence that the wood is legally obtained.

The voting was very close. 66 votes were needed to uplist to Appendix II. 68 voted in favor of uplisting, 30 voted against, and there were 17 abstentions. Although it was a secret ballot, several countries made their positions clear. The Appendix II listing was proposed by Guatemala and Nicaragua. Brazil was against uplisting, issuing a strongly worded document to outline their case. The E.U. and U.S. governments gave their formal backing for uplisting.

An amendment was adopted which allows for implementation of the listing in 12 months, as opposed to the normal 90 days.

3. National forestry regulation and initiatives

3.1 UK Illegal Logging Measures

3.1.1 Timber Trade Federation

The T&E Consultant met with representatives of the UK Timber Trade Federation on 5 December 2002 to discuss on-going efforts by UK government and timber importing industry to tackle illegal logging. The Consultant was informed that:

- The consultancy firm Environmental Resource Management (ERM) has now completed their proposals for a new UK public procurement strategy for timber. ERM's final recommendations have not been made publicly available. Earlier drafts of ERM's proposal suggested that UK public procurement officers would require all timber suppliers to provide independent assurances that wood is legally obtained. Furthermore, all government departments would be required to establish quantitative targets to ensure that all wood eventually comes from "legal and sustainable sources". The preferred method for suppliers to demonstrate compliance would be independent chain of custody audits backed by third party forest management certificates. ERM's proposals are now being considered by the UK's Department for Environment, Food and Rural Affairs (DEFRA). DEFRA have to decide: first, whether to adopt the recommendations which will require Ministerial approval; and second, whether to issue a call for a tender for the implementation phase of the project.
- ERM have just embarked on yet another "illegal logging study" - this time for the European Commission with a view to considering the potential for an EU-wide Directive on public sector wood procurement.
- In response to the rising level of political concern surrounding illegal logging, the TTF is now giving serious consideration to the development of procedures for third party audit of the Timber Trade Federation/Forests Forever "Environmental Timber Purchasing Policy". This policy, which the TTF has been promoting for the last 10 years for voluntary adoption by UK timber importers and agents, currently operates without any form of independent audit. The proposed procedures, which are still in the early stage of development, bear a striking similarity to the AF&PA wood procurement systems approach. The procedures would be closely linked to ISO14001 and the emphasis would be on continuous improvement. There would be great flexibility in the approaches that may be adopted by wood trading companies and recognition of a range of certification programs. Chain of custody assessments would be viewed as a possible tool for improving procurement practice, but not a requirement.

3.1.2 Royal Institute of International Affairs

On 5 December, the T&E Consultant met with Duncan Brack of the Royal Institute of International Affairs (RIIA) to discuss their illegal logging program. RIIA has been given a two year contract by the UK's Department for International Development (DFID) to support their work on illegal logging. As part of this contract RIIA plan, amongst other things, to:

- prepare a website on illegal logging;
- liaise with the European Commission on their action plan;
- provide technical input to the UK-Indonesia Bilateral Action Plan,
- talk to UK Customs on the potential for new legality license procedures, and on the collection of timber import data;
- look at ways of controlling international forestry investment to prevent investment in illegal logging;
- support the Africa FLEG meeting and process (should there be one).

RIIA are also contributing the UK section to an ITTO project currently underway looking at trade flow data in an effort to measure levels of illegal logging.

Duncan Brack gave the impression that RIIA's thinking on illegal logging has been heavily influenced by the green group FERN. RIIA and FERN have prepared joint reports on the illegal timber trade. RIIA has been influential in promoting the concept of a legality licence and other prescriptive trade measures which were subsequently incorporated into the draft proposals for an EC Action Plan on Illegal Logging.

3.2 German Federal Government commits to FSC

According to a report from the World Wildlife Fund, the coalition of the new German federal government has agreed that all federal public forests and tropical timber procured for public purposes will be certified under the Forest Stewardship Council Principles and Criteria. The decision, known as Coalition Agreement 2002-2006, became effective on October 16, 2002.

3.3 Irish government lends support to FSC

The Irish Minister of Foreign Affairs, Mr. Brian Cowen, lent his verbal support to the FSC at the launch of a “Good Wood Policy Guide” in late September. The Guide has been prepared by Just Forests, a non-governmental organization committed to FSC certification. The guide promotes FSC certification as a tool to promote sustainable forestry and prevent forest destruction. The Minister said that *“the Good Wood Guide that we are presenting here recommends certification provided by FSC, as it meets all the criteria for a reliable scheme. I support this recommendation and urge you, when specifying or using this beautiful natural product, to ensure that you are contributing to the preservation of the world’s tropical forests rather than to their destruction. I believe that a forest certification scheme like FSC is a powerful tool for encouraging responsible forest management”*. Just Forests is hoping that the Guide will encourage Irish wood consumers *“to insist on timber from independently certified forests”*. The Guide highlights the problems of illegal logging which it claims is *“known to occur in more than 70 countries”*.

3.4 Reports of forest destruction in Bosnia

In their annual report “The World in 2003”, the Economist claims that illegal logging is widespread in Bosnia. Since the war ended in Bosnia, the country has become an increasingly important supplier of sawn hardwood to Western Europe, notably to Italy. The Economist report suggests that Bosnia’s forested area declined from 50% to 30% between 1990 and 2002. The rate of deforestation in Bosnia has accelerated since the end of the war. The Economist suggests that *“rough roads built to supply troops now give illegal loggers access to prime forest.”* It is alleged that in the Sutjeska national park, in the Serbian bit of Bosnia, forest rangers are paid with the proceeds from illegally felled trees – the ones they are supposed to protect. Furthermore, the Economist claims, some of the lumber mills that are thought to process this wood are underwritten by international aid organisations.

3.5 Illegal logging in Brazil declines but legalised forest destruction rises

In their recently published report of an ITTO mission to Brazil, a group of forestry experts claim that levels of illegal logging have fallen sharply in Brazil over recent years. However the report also suggests that the level of legal forest conversion has risen sharply.

Based on various studies, the ITTO report suggests that levels of illegal logging in the Amazon region during the mid 1990s were probably in the order of 65% to 80%. Much of the illegal activity was closely associated with the advancing agricultural frontier.

These alarming figures created awareness in the government to step up control and enforcement efforts. The situation has been transformed since 1996 due to two factors: increasing costs of illegality and the agrarian reform. The government has introduced a huge number of new legal requirements and has improved IBAMA’s monitoring and enforcement capacity and introduced tougher penalties. As a result, the level of illegal logging has been sharply curtailed in the Brazilian Amazon.

But it is not all good news. As illegal operations have declined, the level of legally sanctioned forest destruction has increased considerably. As part of the Brazilian government’s program of agrarian reform, around 600,000 families were settled on land area covering 20 million ha between 1995 and 2001. Friends of the Earth (FoE) estimate that 62% of the settlement area is located in the Amazon region where about 50 000 families were annually settled. Although

the policy of the Ministry of Agrarian Development is not to locate settlements in tropical rainforest areas, they will recognize new settlements in these areas when they are established spontaneously. Conversion of around 1.1 million hectares of tropical forest was officially authorized both in 2000 and 2001 as part of the resettlement program. This conversion is estimated to have resulted in legal production of 22 million m³ of roundwood per year. Furthermore, timber has become the main legal source of short-term financing in settlement schemes.

As a result, the relationship between legal and illegal timber production and processing appears to have been inverted: whereas in 1996, 80% of the timber production was estimated to be illegal by FoE, the same body now estimates that 80% of timber production is legal - 75% from authorized deforestation and 5% (1.5 million m³) from approved management plans. The apparent progress made in “legalizing” timber does not, therefore, mean that sustainability has improved. The ready low-cost supply of timber from conversion areas makes it difficult for other producers complying with sustainability requirements to compete. This undermines any incentives to move towards sustainability. The issue of legality in the Brazilian context is therefore complicated by the fact that the legal requirements are not necessarily aligned with the goals of sustainable forestry.

3.6 Australian forestry standard

Australia’s forestry Ministers unanimously endorsed the new Australian Forestry Standard in October. The Standard represents the first Australian system for benchmarking and certifying sustainability in forest management. Dr Hans Drielsma, who chaired the Standard’s development committee, said that the Standard has been assessed against international schemes, and found to be compatible in requirements for environmental management. The development process involved a diverse range of stakeholders, said Dr Drielsma. The committee consulted widely and the results were based on science and international sustainability criteria. Standards Australia accredited the development and consultation process. Many players in the industry, including hardwood and softwood sectors, forest and plantation groups, as well as small growers, timber community representatives and the forest workers’ union, also welcomed the Standard. However, the environmental group WWF refused to support the Standard. Information on the Standard is available at www.forestrystandard.com.au.

3.7 British Columbia

3.7.1 New Forest Code

On 5 November 2002, British Columbia introduced legislation to make forest practices more efficient and effective while maintaining environmental standards. The new Forest Practices Code represents a shift from government micro-management to a smarter system of forest management that is more in keeping with current circumstances. Government will determine the specific standards and rules that forest companies must meet to conserve biodiversity, old growth, wildlife habitat and other values. Forest companies will have more flexibility in deciding how best to achieve government requirements. To ensure companies meet their environmental commitments, government enforcement will continue to conduct about 50,000 inspections a year, with higher penalties for non-compliance. In addition, the independent Forest Practices Board will continue to audit and report on companies’ compliance.

The new Code emphasizes environmental protection, science-based management, public involvement and open reporting. Code changes are being designed to maintain or strengthen environmental protection, with new flexibility to accommodate certification requirements and local interests. Resource professionals will have more opportunity to use their expertise in developing strategies to meet government requirements and address public comments. An independent panel of experts will help develop a monitoring and evaluation framework to assess the Code’s effectiveness, with regular public reports and options for continual improvement. Public input has been incorporated into the Code, and a new public advisory

committee will help ensure that the Code continues to reflect the interests of British Columbians.

The new Code will come into effect in spring 2003, and be implemented over a two-year period. For more information: www.for.gov.bc.ca/code

3.7.2 BC Central Coast Agreement

A concerted campaign by environmental groups is underway to protect large areas of the Central Coast of British Columbia which they have named the "Great Bear Rainforest". This part of the province is a vast area of public land regulated by the Government of British Columbia. Several forest companies have licensed harvesting operations which cover a small portion of the area. In April 2001, a multi-stakeholder agreement was concluded for the management of the region involving conservation groups, the B.C. Government, First Nations groups, forest companies and community representatives. Latest developments related to this agreement are as follows:

- cooperative planning is proceeding on schedule in the Central Coast and North Coast regions with the involvement of the above groups and other participants.
- the independent Coast Information Team is working to develop a new system of ecosystem-based management (EBM) for future resource development on the Central Coast and North Coast. Work includes developing a well-being assessment of ecological, social and economic values, and examining new systems for managing coastal streams, including salmon streams. Pilot projects led by two local First Nations are helping to determine how EBM can be practically applied in coastal regions.
- on the Central Coast, planning participants are working to complete the preliminary agreement reached in spring 2001. Participants recently reached agreement on more than 40 new small protection areas, in addition to the 20 large interim protection areas established in May 2002. The next step is to develop recommendations for "Option Areas", which are considered important both for protection and for development. First Nations groups are completing their local land use plans, and these will be integrated into the regional plan. Planning participants are scheduled to release draft final land use recommendations for the region in April 2003. Government will then consult with First Nations, before reaching final decisions by the end of June. Plan implementation will begin in the summer, including the formal designation of protection areas and the implementation of EBM.
- on the North Coast, planning is at an earlier stage. Participants are using Environmental Risk Assessment and other innovative modelling and analysis tools to develop land use options. North Coast planning is being co-chaired by a First Nations representative and a local mayor. Final land use recommendations are expected by the end of 2003.

4 Meetings

4.1 Future Meetings in Europe

4.1.1 4th Ministerial Conference on the Protection of Forests in Europe (MCPFE), Vienna, April 2003. Issues highlighted for discussion: biodiversity aspects of sustainable forest management; national forest programmes; the experiences and challenges of forestry in Eastern European countries; economic aspects of sustainable forest management; climate change; cultural and spiritual aspects of SFM; and research.

4.1.2 ECE/FAO seminar- Strategies to stimulate and promote the sound use of wood as a renewable and environmentally friendly material, 24 to 28 March 2003, Poiana Brasov, Romania. Themes addressed will include:

- Why promote the use of wood ?
- The place of sound use of wood in strategies for sustainable development of the sector.
- Is wood really “environment friendly”? - the lessons of life cycle analysis.
- New markets: the example of bio-energy.
- Promotion of wood: success stories
- Competition and substitution between forest products and other materials.
- Marketing and promotion of non-wood products and of forest services
- Communication with consumers and the general public
- Trade: certification, e-commerce and standards.

The seminar is open to all. There will be invited and voluntary papers. The programme will be structured to take account of contributions proposed by intending participants. Up-to date information on the seminar, will be made available on the Timber Committee website (<http://www.unece.org/trade/timber>).

4.1.3 Third session of the United Nations Forum on Forests (UNFF-3), 26 May 2003 to 6 June 2003, Geneva, Switzerland. For more information, contact Mia Soderlund, UNFF Secretariat; tel: +1-212-963-3262; fax: +1-212-963-4260; e-mail: unff@un.org; Internet: <http://www.un.org/esa/sustdev/forests.htm>

4.2 Future meetings outside Europe

4.2.1 AFLEG Ministerial Conference, first quarter 2003. Precise location and timing to be determined. A ministerial-level conference and technical meeting for networking and knowledge sharing. A declaration on forest law enforcement and governance in Africa is to be finalized and endorsed by African and other governments.

4.2.2 34th Session of the International Tropical Timber Council, Panama City, Panama, 12-17 May 2003. For more information, contact: International Tropical Timber Organization; tel: +81-45-223-1110; fax: +81-45-223-1111; e-mail: itto@itto.org.jp; Internet: <http://www.itto.org.jp/>

4.2.3 12th World Forestry Congress, 21-28 September 2003, Quebec City, Canada. Held under the auspices of FAO. For more information, contact: World Forestry Congress 2003 Secretariat; tel: +1-418-694-2424; fax: +1-418-694-9922; e-mail: sec-gen@wfc2003.org; Internet: <http://www.wfc2003.org/>

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