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Rupert Oliver
rupert@forestindustries.info

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Summary and highlights

The EU is deliberating a proposal for legislation that would impose a requirement on all operators who "*first place timber and timber products*" to implement a due diligence system to minimise the risk of illegal wood entering supply chains. There is much pressure from the European Parliament, ENGOs and some Member State politicians to reduce the focus of the legislation on risk assessment and to impose a requirement on operators at every stage of the wood chain to provide proof of legality through independent legality verification and CoC systems. But other Member States seem to have a fuller appreciation of the costs and practical implications of the latter approach. A compromise approach has been suggested by the UK government – to link the legislative requirement for due diligence procedures with a Lacey-like prohibition on placing illegally harvested timber on the EU market. Under this approach, the onus on proving such an offence would remain with the authorities. The expectation is that an EU regulation will be introduced before the end of 2009 with a period allowed for development of appropriate regulatory capacity following passage of the law.

Formal EU FLEGT Voluntary Partnership Agreement (VPA) negotiations have been completed now with Ghana (in September 2008) and the Congo Republic (in April 2009). Negotiations are still underway in Malaysia, Indonesia, and Cameroon. The intent of the agreements is that the EU imports only legally licensed wood products from VPA countries.

Forests are now at the very heart of international efforts to counter the threat of climate change. During 2009 there is a strong political focus on hammering out the foundations for a possible future international framework for "reducing emissions from deforestation and degradataion" (REDD) in the run-up to the UNFCCC's 15th Conference of the Parties due to be held in Copenhagen in December 2009. Policy makers are also keeping a close eye on progress of the Obama administration's "Cap and Trade" Bill which could alter attitudes to inclusion of forestry offsets into international carbon trading mechanisms. At the same time UN agencies are deeply engaged in efforts to develop international architecture for REDD, notably through the World Bank's Forest Carbon Partnership Facility (FCPF) and the UN-REDD initiative. At present much work is focused on tropical countries preparation of "Readiness Plans" for REDD and pilot projects to demonstrate the potential of the concept.

A political conflict has blown up between the greens and the European paper sector relating to the issue of allowances under the European Emissions Trading Scheme (ETS). Green groups are lobbying vigorously for the earliest possible shift to auctioning of all allowances. However the industry is pushing for a continuation of free allowances arguing that auctioning would undermine competitiveness and introduce a significant threat of "leakage" (a shift in manufacturing and associated emissions to other less heavily relegated regions).

Reports from the latest meeting of the UNFF indicate the organisation failed to reach an agreement on financing of commitments under the international non-legally binding forest instrument. The meeting highlighted the extent to which the question of international financing for SFM projects in the tropics has now shifted from UNFF towards the UNFCCC. While the latter has potential to greatly increase the level of funds that flow into forestry projects, it could also result in forest financing being skewed towards the climate regime, despite the widely held view within the forest community that this risks ignoring the role that SFM can play in both adaptation and mitigation, and marginalizing the many other values delivered by forests.

UK government procurement policy changed on 1 April 2009. Now only "legal and sustainable" timber or FLEGT licensed timber will be accepted for central government contracts. Previously "legal" timber had been the minimum standard with preference given where possible to "legal and sustainable". To simplify conformance efforts, UK timber traders are now generally assuming that government procurement agencies all require wood to be certified under one or other of the recognised "Category A" systems (PEFC, FSC, SFI, CSA).

Rising interest in environmental issues in UK construction was well illustrated by the Ecobuild show

in March 2009 which has grown dramatically since its introduction in 2006. The show indicated that while timber maintains a strong reputation as the green material of choice in the UK, there is a mixed message for those supplying wood from overseas. There is a strong feeling amongst UK architects, designers and specifiers that the key environmental issue at present is the "carbon footprint". This is linked to a very simplistic preference for any product "locally produced" and not perceived to be transported over long distances.

The Ecobuild show also emphasised that other material sectors are intent on closing the gap with timber and are now scoring green points. For example, the plastics industry highlighted the recent achievement of an A-rating for uPVC windows in the BRE Green Guide, now a key reference for green procurement in the UK construction sector as it is integrated into the Code for Sustainable Homes. BRE were also playing a leading role at Ecobuild to prop up the dubious environmental claims of the UK aggregates industry – which like the plastics industry has set its sights on undermining timber's lead on sustainability issues. The UK aggregates industry promoted itself at Ecobuild as "the Responsible Source", a claim largely dependent on their anticipated conformance to a new BRE "Responsible Sourcing Standard".

Italy's timber trade associations have not yet developed any formal environmental timber procurement policy or codes of conduct for their members. However, a potentially significant development came in early March 2009 when the Federlegno – the Italian confederation for the wood, furniture, cork and furnishing industries – signed an agreement with WWF Italy for the "*promotion of a transparent sustainable market for wood products*".

The Netherlands Timber Trade Association says that its members are still on track to meet commitments on sourcing legal and sustainable timber. The NTTA's goal for the end of 2009 is that all members must be certain of 100% of the material they trade, with 75% of the total guaranteed to be from "demonstrably sustainable forests". The latter are essentially seen as synonomous with FSC and PEFC certified forests.

The rate of increase in global certified forest area has slowed dramatically since 2006. Between May 2008 and May 2009 the world's certified forest area grew by only 1.3% to reach 321.2 million hectares. Western European countries have certified 53% of their total forest area, North America 38%, Oceania 5%, and Africa and Asia and Latin America only about 1%. Approximately 80-90% of the world's certified forest is located in the northern hemisphere where two thirds of the world's roundwood is produced; more than half (57%) of the certified forest is in North America. Despite this progress, only a very small proportion of smaller non-industrial forest owners are certified. Lack of awareness and low incentives remain major obstacles to certification in this sector.

While overall levels of certification remain low in the tropics, some significant progress in tropical certification has been recorded in the last 12 months. The area of FSC certified forest in tropical Africa increased by 80% during 2008 and now extends to 5.6 million hectares. Meanwhile two national certification schemes in the tropics, in Malaysia and Gabon, have been recognised by the PEFC Council.

While pace of increase in certified forest area has slowed, the numbers of chain of custody (CoC) certificates issued worldwide increased by 41% between May 2008 and May 2009 to reach 17,800. Nevertheless, CoC certification remains concentrated in a limited number of countries including the US, the UK and Germany. High levels of market fragmentation mean that, even in these countries, large sections of the market are not engaged in the supply of certified forest products (CFPs).

The economic downturn is widening the gap between environmentally proactive operators that are now more desperate to exploit the opportunities emerging for timber from increasing interest in green building initiatives and those that have not focused on environmental issues and which continue to sell primarily on price. There is also evidence that the economic crises together with the strong political focus on countering illegal logging is encouraging some buyers to switch from fully certified products to cheaper legally verified products.

1. International Agreements and institutions

1.1 European Union

1.1.1 EC Due Diligence Legislation

Following 18 months of intensive discussions and consultations on various legislative options to reduce the risk of illegal wood being traded in the EU, the European Commission (EC) published their recommendations in October 2008. The EC's approach is to propose that a direct obligation to apply a "due diligence system" be placed on European operators who place timber and timber products "for the first time on the Community market". The product scope of the proposed legislation is extremely broad including everything from raw logs through to furniture and paper products.

The aim of the due diligence system would be to minimize the risk of any illegal wood entering an operators supply chain. The proposed legislation would allow operators to either develop their own due diligence system or to become members of a group due diligence system operated by a "monitoring organisation" (which might include organizations like the WWF Global Forest and Trade Network or European trade associations). Both individual and group due diligence systems would have to meet certain minimum standards and be recognized by government authorities in the individual EU member states.

A fierce debate is now on-going over the detailed content of the legislative proposal. Large environmental campaigning groups complain about the failure of the EC's draft to directly impose severe penalties on any company found to be dealing in illegal wood. A vociferous element within the green movement is demanding that the legislation should impose universal requirements for legality licensing of all wood imports into the EU, backed by full chain of custody and systems for independent verification. The green movement has some powerful allies. For example, according to a recent article in the German trade journal EUWID, Germany's Federal Minister of the Environment believes the scope of the proposal is "*insufficient to solve the global problem of illegal logging*". The Minister has said he will "*fight for a full revision of the draft regulation*".

The EC's proposal is now being considered under the EU's "co-decision" procedures which require consensus agreement of both the European Parliament and the Council of Ministers. The views of the Council are still unclear, but the European Parliament passed their verdict on 23 April 2009 when they voted in favour of a legislative text containing numerous amendments introduced following intervention by the European Green Party.

The Parliamentary amendments effectively turn a proposal to require that a targeted group of EU operators practice appropriate due diligence into a proposal for a system of rigorous state control over the entire European wood supply chain. According to the Parliamentary text, the central objective of the EC's original proposal would be altered so that all forest products operators in the EU would be placed under an obligation to demonstrate the legality of the wood they deal in. This obligation would have to be met using EU-approved systems of traceability. The intent of the original proposal – that extra requirements for traceability and certification would only be required where there is a high risk of illegal wood entering supply chains – would be lost.

A more logical approach by the European Parliament would have been to propose introduction of a Lacey-style offence to reinforce the due diligence process. If a prosecutor could prove that wood derived from an illegal source, then the operator would be liable to sanction, thus providing an extra incentive for operators to implement effective risk assessment procedures.

It is now up to the European Council to consider both the original European Commission text and the Parliamentary text. Member State governments are now reviewing the various options before firming up their negotiating positions. For example, the UK government has produced an assessment of impact on the UK trade and has been consulting with national stakeholders. The impact assessment suggests that the EC's original proposal might cost the UK in the region of

£180 million per annum, comprising £150 million in higher prices for verified legal wood imported from high risk countries and £30 million for extra admin within the UK. Based on this analysis and preliminary consultations with stakeholders, the UK government has indicated they favour maintaining the strong focus on due diligence and risk assessment while also supporting inclusion of "*a prohibition on placing illegally harvested timber on the Community market*". Significantly however, the UK government has also suggested that "*such a prohibition should apply only to operators who first place timber or timber products on the Community market, and that the onus on proving such an offence should remain with the authorities*" (i.e. a Lacey-style approach).

The expectation is that an EU regulation will be introduced before the end of 2009 with a period allowed for development of appropriate regulatory capacity following passage of the law. The likely market implications of the law are still unclear being heavily dependent on the finalized text. If the resulting legislation is aligned to the EC's original proposal, it may lead to a shift away from countries and products assessed to be high risk with respect to illegal logging in favour of countries and products assessed to be low risk. On the other hand, if it is aligned to the Parliamentary proposal it is more likely to favour vertically integrated operators and those dependent on large public and state forests in western countries that are best placed to satisfy the traceability requirements.

1.1.2 Renewables Directive

In December 2008, the European Parliament and the Council reached a compromise on the Renewable Energy Directive requiring that 20% of the EU's energy consumption comes from renewable sources by 2020. The text also sets a specific target for energy used for transport. The original legislative proposal included a mandatory target of 10% of transport fuels to come from biofuels. The European forest sector was concerned that this would encourage increased diversion of wood raw material away from timber products. NGOs also expressed concern about conversion of forest land for biofuel production and other potentially damaging social and environmental impacts.

The final text allows the 10% target to be met by all renewables, not just biofuels. This has not gone far enough for some NGOs who fear that a major part of the target will still be met by biofuels. Many of amendments proposed by Parliament were rejected, such as their demand for stricter greenhouse gas savings for biofuels. Parliament had also asked that the Directive should take into account the impacts of indirect land use changes (ILUC) from biofuel production. The final compromise didn't integrate the ILUC, but the Commission is to review and report on ways to minimise the impact of ILUC by 2010. The directive also requires the Commission to report on a sustainability scheme for biomass by the end of 2009.

Meanwhile, since April 2008, a private sector initiative to develop sustainability criteria for biomass production in Europe has been taken forward by a Technical Committee of the European Committee for Standardization (CEN/TC 383). The TC is elaborating on work already carried out at national level the Dutch, British, and German authorities.

1.1.3 Emissions Trading System

A political conflict has blown up between the greens and the European paper sector relating to the issue of allowances under the European Emissions Trading Scheme (ETS). Green groups are lobbying vigorously for the earliest possible shift to auctioning of all allowances. However the industry is pushing for a continuation of free allowances arguing that auctioning would undermine competitiveness and introduce a significant threat of "leakage" (a shift in manufacturing to other less heavily relegated regions).

The ETS is the largest multi-national, emissions trading scheme in the world, and is a major pillar of EU climate policy. The ETS currently covers more than 10,000 installations in the energy and industrial sectors which are collectively responsible for close to half of the EU's emissions of CO2 and 40% of its total greenhouse gas emissions. Under the EU ETS, large emitters of carbon

dioxide within the EU must monitor and annually report their CO2 emissions, and they are obliged every year to return an amount of emission allowances to the government that is equivalent to their CO2 emissions in that year.

In order to neutralise annual irregularities in CO2-emission levels that may occur, emission allowances for operators are given out for several years at once (a Trading Period). The 1st EU ETS Trading Period ran from January 2005 to December 2007. The 2nd Trading Period runs from January 2008 to December 2012.

Currently, installations get the vast majority of their allowances for free from the EU member states' governments. Besides receiving this initial allocation on a plant-by-plant basis, an operator may purchase EU allowances from others. If an installation has received more free allowances than it needs, it may sell them to anybody.

At present, the impact of the ETS on the European paper sector is relatively light. Particularly now the economic downturn has led to a dramatic fall in energy usage across all industrial sectors so that the market is long on allowances and carbon prices have fallen. However, if demand picks up, prices will rise and the ETS be a more a significant competitiveness issue.

The impact of the ETS is also set to increase significantly. Last year, the European Commission proposed a number of changes to the scheme which would become effective during the 3rd Trading Period (January 2013 to December 2021), including:

- centralized allocation (no more national allocation plans) by an EU authority;
- an annually declining emissions cap (21% reduction in 2020 compared to 2005);
- a substantial increase in the amount of auctioning (from less than 4% in phase 2 to 60%+ in phase 3).

The new proposal is that full auctioning will be the rule for the power sector from 2013, while free allocation will be phased out for other industrial sectors between 2013 and 2021.

However the EC has indicated that a possible exception might be made with respect to some sectors – including the paper sector – if it can demonstrate a significant risk of carbon leakage. This is an issue that the European paper industry will be focusing on this year and next. The EU is committed to adopting a comprehensive regulation on timing, administration and other aspects of auctioning before December 2010.

1.1.4 FLEGT VPA Negotiations

Formal EU FLEGT Voluntary Partnership Agreement (VPA) negotiations have been completed now with Ghana (in September 2008) and the Congo Republic (in April 2009). Negotiations are still underway in Malaysia, Indonesia, and Cameroon. The intent of the agreements is that the EU imports only legally licensed wood products from VPA countries.

While negotiations were completed with Ghana several months ago, it is likely to take at least another 18 months for the licensing systems to be fully operational. A comprehensive overhaul of state forest laws and regulatory systems is currently underway. The aim is to introduce hi-tech systems to track 100% of wood traded in Ghana to specific forest of origin. A new independent Timber Validation Department is being established to oversee the system.

In Congo Republic, progress to develop the Legality Licensing system is more advanced. A traceability system linked to a legality definition has already been developed and is being field tested. An independent observer is in place and discussions are underway with respect to independent auditing.

Cameroon is also expected to conclude a VPA agreement before the end of June 2009. As in Ghana, the existing regulatory system needs a complete overhaul before legality licensing can be implemented, a process likely to take 2 years. Since Cameroon acts as a major corridor for exports

of wood products from neighbouring countries (notably the Congo Republic and Central African Republic), a significant challenge is to accommodate imported wood into the Cameroon licensing system.

Elsewhere in Africa, Liberia, the Central African Republic, Gabon, and Madagascar are now preparing to enter VPA negotiations. DRC and Sierra Leone have also expressed interest.

Malaysia already has many of the systems necessary to implement legality licensing. As part of the VPA negotiations, the Malaysian government has drawn up proposals for a Timber Legality Assurance System (TLAS) which would rely heavily on the existing system for issuance of timber export licences as implemented by the Malaysian Timber Industry Board (MTIB) in Sabah and Peninsular Malaysia, and the Sarawak Timber Industry Development Corporation (STIDC) in Sarawak. For VPA licensing, this system would be overseen by an independent third-party. However, lack of commercial incentives and the differing views of Peninisular Malaysia, Sarawak and Sabah with respect to the VPA have delayed finalisation of the negotiations. ENGOs have been keen to use the VPA process to leverage concessions from the Sarawak government on native rights issues. However Sarawak exports hardly any wood to the EU so has little commercial interest in the VPA. Only Peninsular Malaysia is a significant trading partner with the EU. However exporters in this part of the country can already obtain significant volumes of MTCS certified raw material to access European green markets.

Indonesia has also been slow to sign an VPA. Again lack of strong commercial incentive has been a key reason. Nevertheless, the process appears to be encouraging further action by the Indonesian authorities to reform legality verification systems so that they are more closely aligned to the VPA requirements. In early 2009, the Jakarta Post reported that Indonesian timber industry operators throughout the supply chain would in future be required to have their inventory inspected to ensure it is from legal sources. The Ministry of Forestry will appoint independent auditors and consult local stakeholders to verify the chain of custody. The auditors will conduct field checks where timber is harvested. In addition, companies utilizing timber as a raw material will need to obtain official certification by the government to verify their source materials as legal. Companies that do not comply with this system will be prosecuted or have their operating licences revoked. The new system, called the Wood Legality Verification System (SVLK), will replace the existing BRIK system.

1.1.5 Green political lobbying in Brussels

Increasingly the key environmental issues affecting the European forest products sector are dealt with at EU level. In the last two years, a host of laws and communications covering issues such as illegal logging, sustainable biomass production, emissions trading, and green public procurement have major potential to impact on the level and direction of forest products trade in the years ahead. This means that the relative effectiveness of industry and green lobbying power in Brussels has become increasingly critical.

Lobbying at EU level is now big business. There are around 15,000 lobbyists in Brussels and some 2,600 special interest groups have a permanent office in Brussels. Their distribution is roughly as follows: European trade federations (32%), consultants (20%), companies (13%), NGOs (11%), national associations (10%), regional representations (6%), international organizations (5%)

On this basis, it is an oft repeated claim of the green groups that they are outnumbered and outgunned by industry in Brussels. In fact, the European Green Party has been a leading advocate of change to increase the transparency of the lobbying process. However, from the evidence of the EU's illegal logging legislative proposals, the green lobby seems to be just as much at fault as the industry groups.

The greens are very well organised at EC level and have developed a considerable lobbying machine of their own. Organisations like the European Environmental Bureau and FERN have been established to co-ordinate environmental inputs at European level.

The green party is itself a significant political force – by some measures less so than a few years ago - but still potent. Early this decade, green parties were part of national coalition governments in five European countries (Germany, Finland, France, Italy, Belgium). They have since lost that prominence at national level – but their earlier success strongly influenced more mainstream parties in Europe, many of which have now adopted a strong green agenda of their own.

The European Green Party also remains a significant force in the European Parliament where it holds 5% of the seats and over 7% of voting rights. Green MEPs have been appointed to key positions on Parliamentary Committees where they play a vigorous role to influence the content of EU legislation.

There are expectations that the green party will at least maintain their position after the European Parliamentary elections in June 2009. The lead-up to the UNFCCC meeting in Copenhagen has contributed to very high profile coverage of green issues this year in the European media. At the same time, the economic crises has contributed to widespread dissatisfaction with the performance of more mainstream parties which is expected to benefit fringe parties like the greens.

The European forest sector's performance in influencing policy debate at European level has been very mixed to date. The paper industry has generally been well represented by the Confederation of European Paper Industries (CEPI), an organisation with a large Brussels office which has benefited from the consistent support of the major consolidated Scandinavian forest products companies.

However the solid wood sector has often been very slow to react to EU initiatives, a reflection of the very high degree fragmentation in this sector. There has also been a tendency for national timber trade federations to be so jealous of their own status and members' national interest as to resist any significant upward shift in power and influence to European associations. At times there seems to have been a deliberate policy of maintaining relatively weak European timber trade organisations as a short-sighted money-saving device and to prevent excessive interference by European associations in national affairs.

More recently efforts have been made to overcome this problem. The due diligence legislative proposal seems to have been particularly significant in making Europe's solid wood sector more aware of the huge potential of EU legislation to impact on trade. There have been discussions within FEBO (European Timber Trade Federation) and UCBD (European Hardwood Federation) over the potential to develop a single stronger unified association to represent the interests of the entire EU timber trade. However no formal announcements have yet been made.

1.2 Climate change

1.2.1 REDD goes into overdrive during 2009

Forests are now at the very heart of international efforts to counter the threat of climate change. The technical and political challenges of developing effective programs to reduce emissions from deforestation and forest degradation (so-called REDD programs) are considerable. Under normal political conditions, developing these programs would take years. But during 2009 there is a particularly strong political focus on hammering out the foundations for a possible future international REDD framework in the run-up to the UNFCCC's 15th Conference of the Parties due to be held in Copenhagen in December 2009.

The Copenhagen meeting is critical because it is the deadline agreed at the 13th UNFCCC meeting in "Bali Action Plan" for finalisation of a successor agreement to the Kyoto Protocol which is due to expire at the end of 2012. The Bali Action Plan effectively gave the go-ahead for far-reaching international REDD programs, specifically calling for capacity building, provision of technical assistance and technology transfer to facilitate the development of a framework that could be incorporated into the successor agreement. Underlying the focus on REDD is a realisation –

brought home for example in the UK government's 2006 "Stern Review" on the Economics of Climate Change – that forestry programs offer one of the most cost effective and efficient mechanisms to reduce global carbon emissions.

At the same time, the sense of urgency to develop an effective and yet politically digestible successor to Kyoto has been growing outside the process: the International Scientific Congress on Climate Change, held in Copenhagen in March, sent a chilling message that the worst-case International Panel on Climate Change (IPCC) scenario trajectories (or even worse) are being realized. And the process is taking place in the midst of a major global economic crisis.

While REDD mechanisms are generally regarded as amongst the most cost-effective in efforts to reduce emissions, this does not meant that they come cheap. The UK-commissioned "Eliasch Review" suggests that close to US$30 billion per year would be required to halve the rate of forest loss and its associated impacts on climate change, far beyond the level of financing produced by the international community to date. However this sum needs to be balanced against the Review's estimate that the global costs of climate change caused by deforestation could be an astounding US$1 trillion a year.

1.2.2 Funding for REDD through carbon markets or inter-governmental transfer?

While there seems to be strong international support for REDD programs, a key issue yet to be resolved is whether these programs should ultimately be funded through global carbon markets or dealt with separately through inter-governmental mechanisms.

There are signs that the US is leaning towards the carbon market approach, a fact which could have a major impact on the whole future of global REDD process. The current version of the "Cap and Trade" bill before the U.S. legislature gives prominence to REDD, including proposals for international offset credits that recognize REDD as an eligible project type and also suggesting that the proceeds from auctions of allowances may be used to purchase such credits (see http://www.reuters.com/article/gwmEnergy/idUS393144075020090527 for more detail). These proposals build to some extent on state and regional "cap and trade" programs in the US which already seem comfortable with the concept of including forestry related projects in the market for offset credits.

In Europe there has been much less willingness to accept forestry related credits as a component of carbon trading schemes. The European Union has already stated that such credits will not be allowed under the EU ETS until at least 2020. The main reasons officially cited are: that REDD credits could flood the market and undermine carbon prices; the uncertainties of accurately measuring the impact of specific REDD policy measures on forests and carbon sequestration; the potential for "leakage" (improved forest protection in one area encourages increased conversion or degradation in another); and the issue of non-permanence (how to be assured that carbon will remain stored in the long term).

While these are the official reasons, there's no doubt that the critical political factor behind the EU's stance is that most major European and Europe-based environmental NGOs are vehemently opposed to trading REDD credits in the ETS (e.g. Greenpeace Europe, Friends of the Earth International, Climate Action Network Europe, and others). The NGO pressure against market-based REDD originates primarily from interest in keeping the European carbon price high in order to facilitate domestic industrial emissions reductions.

While this is the EU's existing stance, European policy makers will undoubtedly be keeping a close eye on events in the US. There is some recognition that for any Copenhagen agreement to be acceptable in the US Congress, and to not repeat another Kyoto failure, it will have to be heavily informed by US domestic-level climate legislation. Longer term, it seems inconceivable that an effective international emissions trading framework could be developed without seeking to ensure full compatibility and fungibility with the US framework. So if the US were to introduce a framework recognising international REDD offset credits, the implications for the further development of

REDD programmes would be profound.

In the meantime the EU has, like the US, already conceded that receipts from auctioning of allowances may be used for international REDD projects. At present the EU favours a Global Forest Carbon Mechanism which would be funded by government donations in the short term, and by proceeds from a proposed 5% earmark on emissions allowance auctioning in the medium term. If the earmark for avoided deforestation does come to pass, the European Commission suggests it could generate over US$2 billion per year. Although well short of the funding that could be potentially generated through an emissions trading framework that credited forest offsets, this would still be an unprecedented level of funding for forest carbon. On the other hand, there would no doubt be a wide range of other demands on auction revenues with many interests arguing for diversion of funds elsewhere.

Meanwhile, a range of UN agencies are taking steps to develop the infra-structure for a possible international REDD framework. The Norwegian government has been a particularly significant backer of these measures, having committed $600 million annually to support the development of REDD programmes in developing countries. At present, UN agencies are generally working on the assumption that, in the early stages at least, it will be necessary to side-step the carbon market and to allow direct payments to developing nations for REDD type projects.

1.2.3 Anticipated phased introduction of global REDD framework

The exact configuration of any international REDD framework is uncertain. However, assuming consensus can be reached at Copenhagen on a follow-up to the Kyoto Protocol which includes the outline of a REDD mechanism, the development process is expected to take place in three phases:

1) Initial REDD readiness and confidence building - process currently on-going in the build up to Copenhagen;
2) Full readiness and detailed design of an international REDD mechanism - expected from 2009 through to 2011;
3) Implementation of the REDD mechanism - after 2012 when the Kyoto Protocol is replaced by the follow-up agreement.

1.2.4 World Bank Forest Carbon Facility

Of all UN agencies, the World Bank probably been most engaged in efforts to develop global infra-structure for REDD activities. The Bank has been encouraging the governments of industrialised nations and other agencies to donate to two funds established under the Forest Carbon Partnership Facility (FCPF): a ‘readiness fund’ and a ‘carbon fund’.

The FCPF ‘readiness fund’ provides financial support to countries to prepare them to begin trading avoided carbon emissions. Developing countries wishing to participate and to obtain seed funding for REDD (up to $5 million per country from this fund) are required to develop a Readiness Plan (or “R-Plan” in Bank-speak) according to a template established by the Bank. The aim is to assist a country in laying out and organizing the steps needed to achieve “Readiness” to undertake activities reducing emissions from deforestation and forest degradation in the specific country context. The R-Plan should indicate how these activities will be undertaken; what capacity building and resources are needed and who would provide them (e.g., domestic agencies, NGOs, private sector; international donors, etc.); how REDD will be organized, managed, and evaluated in the country; and the draft Terms of Reference (ToR) for each of these major activities.

There has been intense debate amongst the FCPF participants and other stakeholders over the process for national development of R-Plans which is meant to be through a transparent and participatory process. At a meeting of FCPF participants in Panama in March 2009 a document was finalised setting out standards and procedures to be applied by FCPF for approval of R-Plans. Reports from the meeting suggest that following significant intervention from NGOs, the final document was significantly strengthened compared to earlier drafts with respect to indigenous land rights, the drivers of deforestation including extractive industries, transportation and energy

infrastructure and others, as well as ways to address the non-carbon values of forests such as rural livelihoods and biodiversity.

Supported mainly by government donations, $107 million had been raised for the Readiness Fund by the end of March 2009. Formal participants that have contributed to the fund currently consist of government development agencies of 10 industrialized countries (Australia, Finland, France, Japan, the Netherlands, Norway, Spain, Switzerland, the UK and the US). By end March 2009, there were 37 developing country participants in the fund. The money raised so far is only sufficient for approximately 20 countries and an additional US$78 million is being sought to enable full grant support for the remaining countries to develop R-Plans. The fund has been closed for the time being to further developing country participants. Existing participants are: Argentina, Bolivia, Cameroon, Cambodia, CAR, Chile, Colombia, Congo Democratic Republic, Congo Republic, Costa Rica, El Salvador, Equatorial Guinea, Ethiopia, Gabon, Ghana, Guatemala, Guyana, Honduras, Indonesia, Kenya, Laos, Liberia, Madagascar, Mexico, Mozambique, Nepal, Nicaragua, Panama, Papua New Guinea, Paraguay, Peru, Suriname, Tanzania, Thailand, Uganda, Vanuatu, and Vietnam.

The aim of the FCPF's 'carbon fund' will be to administer payments to those countries considered 'ready' to trade in offset emissions. The fund will be financed by companies, institutions, agencies or countries that enter into a Carbon Partnership Agreement with the fund. Such an Agreement implies entry into a payment scheme for reduced emissions. Each carbon fund participant will be required to provide a minimum of USD 5 million to the Carbon fund. The Bank's target is eventually to raise at least US$200 million for the Carbon Fund. So far donations have been received from the governments of Germany and Norway, the EC and the Nature Conservancy.

NGO reports from the FCPF participants meeting in Panama during March suggest some dissatisfaction with the rate of progress amongst both donor and developing countries. Some developing country representatives charged that the FCPF risked "dying on the vine" because it has neither raised sufficient funds to support country readiness, nor has it capitalized the carbon fund to support long term REDD activities. Some donor country participants were concerned that FCPF has yet to actually disburse any grants.

In addition to FCPF, the World Bank is also currently developing the Forest Investment Programme (FIP) which will also support developing countries' REDD-efforts, providing up-front bridge financing for readiness reforms and investments identified through national REDD strategies. The targeted level of funding for the proposed FIP is $500 million.

1.2.5 UN-REDD project

Meanwhile three other UN agencies - FAO, UNDP and UNEP – jointly launched a parallel "UN-REDD Programme" in 2008. This programme currently has a budget of US$52 million provided by the Norwegian government. The programme has two components: (i) assisting developing countries prepare and implement national REDD strategies and mechanisms; (ii) supporting a dialogue and consensus around standardized approaches based on science and broad participation for a REDD framework linked with the UNFCCC. The programme aims to build on existing processes, including UNFCCC and the World Bank's FCPF.

In the lead up to the Copenhagen meeting, the UN-REDD Programme has focused on supporting so-called "Quick Start Actions", demonstration activities to show that early results are possible in some of the major forest countries of the world. Tropical countries have been selected based on their expressed willingness, emission reduction potential, degree of REDD readiness and existing collaborations. At present, the UN-REDD project is working with 9 developing countries: Bolivia, Congo Democratic Republic, Indonesia, Panama, Papua New Guinea, Paraguay, Tanzania, Vietnam, and
Zambia.

So far around $18 million worth of funding, roughly a third of the sums currently available to UN-

REDD, has been disbursed to developing countries under the programme.

UN-REDD is also sponsoring a lot of technical work on REDD focusing particularly on so-called MARV actions that would be required to support any future mandatory reporting requirements that might emerge from a global REDD agreement. MARV refers to “Measurement, Assessment, Reporting and Verification”, a process that UN-REDD takes to include measurement not only of the carbon impact of REDD programs, but also wider environmental and social impacts.

UN-REDD claims to have a strong focus on a human-rights-based approach drawing from the UN Declaration on the Rights of Indigenous Peoples (UNDRIP). One stated objective is to support country efforts for informed involvement of national stakeholders, particularly forest-dependent local communities in the development and implementation of national REDD programmes. In line with this objective it has developed “Operational Guidance on the Engagement of Indigenous Peoples and Other Forest Dependent Communities” to guide the evolution of these programmes

Longer term, UN-REDD has ambitions to contribute to the process of designing a global REDD financing mechanism and bringing more developing countries to full REDD readiness in line with any agreement reached in Copenhagen.

1.3 Global sustainable forest management agreement “in limbo”

At its latest meeting in April 2009, the United Nations Forum on Forests (UNFF) failed to reach an agreement on financing of international sustainable forestry programs and demonstrated that it has yet to effectively make the transformation from a forum designed to negotiate a global forestry treaty into a body for interactive dialogue. The question of international financing for sustainable forest management projects in the developing world has now shifted from UNFF towards the UNFCCC. While the latter has potential to greatly increase the level of funds that flow into forestry projects, it could also result in forest financing being skewed towards the climate regime, despite the widely held view within the forest community that this risks ignoring the role that SFM can play in both adaptation and mitigation, and marginalizing the many other values delivered by forests. These, at least, are the conclusions of the report of the meeting by the Earth Negotiations Bulletin (ENB – see full meeting report http://www.iisd.ca/vol13/enb13174e.html).

At the UNFF7 meeting two years ago, UNFF adopted the Non-legally Binding Instrument on All Types of Forests (now referred to by many as the “forest instrument”) together with a set of Global Objectives on Forests. However UNFF7 fell short of agreeing upon how to finance implementation, making this the main task of UNFF8. In the event, this discussion was postponed for another 2 years until the UNFF9 meeting due in 2011. This is despite preparation of a report for the Advisory Group on Finance of the Collaborative Partnership on Forests that concluded there is a need for substantial new and additional funding from all sources to support sustainable forest management and enable effective implementation of the forest instrument.

The G-77/China arrived at the meeting with a proposal for the establishment of a Global Forest Fund, but it soon became clear that none of the donor nations at the meeting had a mandate to negotiate such a fund. In fact even a decision to establish an ad hoc expert group to consider the need for a fund was quashed by lack of agreement over the group’s mandate or a timeline for its work, with developing countries pushing for a decision on a fund’s establishment sooner rather than later, and donor countries aligning to consider the establishment of a fund only at UNFF10.

One of the main arguments made by donors against the creation of a Global Forest Fund was that the Forum would run a great reputational risk in creating a fund that might never receive any voluntary contributions. This led them to take the strong position that a facilitative process was preferable, calling for developing countries to make better use of existing funds. The G-77/China turned this argument around, saying that the reputational risk lay in failing to create the fund, and consequently failing to produce the needed resources to implement the forest instrument.

Of course, an underlying issue is that the international focus for donor funding of tropical forestry is

now squarely on REDD rather than SFM programmes. Some delegates suggested that UNFF is no longer the venue in which donors were expected to produce big results for forest funding and that expectations should be reserved for the UNFCCC Copenhagen meeting in December.

According to ENB, this lack of agreement on SFM financing "*leaves the Forum somewhat in limbo….Without the necessary financing for their implementation, the forest instrument and the Global Objectives on Forests will likely remain as they have been for the past two years: high-level statements that are difficult to object to, but are not concrete enough to attract funding in practice*".

The ENB report also suggests that UNFF-8's extended discussions on "Forests in a Changing Environment" were marred by continued reliance on the standard UNFF negotiating format: "*Rather than discussing concerns about addressing the impacts of climate change, biodiversity loss and land degradation through SFM, delegates spent most of their time debating references to contentious concepts such as land tenure rights, illegal logging or forest certification – the same pitfalls that have haunted the international forest debate for years*".

However on a slightly more positive note, the ENB report suggests that UNFF-8's series of panel presentations and a Multi-stakeholder Dialogue allowed "*a glimpse of the Forum's potential future role*". That is it could allow for interactive dialogue in the only global forum supported by universal membership and capable of delivering a "*360-degree perspective on forests*" (as expressed by UNFF's new Director Jan McAlpine). There are reasons to hope that the outdated UN negotiating format will be ousted, as the adopted resolution on forests in a changing environment gives the Secretariat a clear mandate to explore ways to increase and improve stakeholder participation.

2. National level developments in Europe

2.1 United Kingdom

2.1.1 Government procurement policy

UK government procurement policy changed on 1 April 2009. Now only "legal and sustainable" timber or FLEGT licensed timber will be accepted for central government contracts. Previously "legal" timber had been the minimum standard with preference given where possible to "legal and sustainable".

The Government's Central Point of Expertise on Timber (CPET) has issued new guidance on implementation which, in theory, allows suppliers to provide evidence that wood is "legal and sustainable" either through certification (so-called "Category A" evidence) or through various alternative mechanisms (so-called "Category B" evidence). However in practice, discussions with traders suggest that the new guidance, particularly the "Category B" criteria, is regarded as overly complicated and potentially confusing. The Category B criteria also continue to stress the importance of independent verification of forest of origin and are therefore largely unrealistic for wood suppliers dependent on highly fragmented forest ownerships and supply chains. To simplify their conformance efforts, UK timber traders are generally assuming that government procurement agencies will require wood to be certified under one or other of the recognised "Category A" systems.

Judging from conversations with government officials and traders, the UK government has demonstrated considerable commitment to achieving the broad goal of ensuring widespread adoption of the procurement policy within the public sector and also to extend it as far possible into the private sector. CPET guidance with respect to acceptable forms of Category A evidence is becoming more widely used as the basis for procurement policies in both the public and private sectors. CPET's assessment of certification systems (which currently recognises SFI, FSC, PEFC, and CSA as legal and sustainable) is being widely used as the basis for corporate procurement policies developed by timber importers and distributors and large joinery manufacturers.

While the public sector represents only a relatively small proportion of the overall market, contacts

with large joinery manufacturers and builders merchants suggest public sector procurement is an important extra driver of demand for certified wood products. Internal management issues mean that if a company supplies certified wood to one major customer and certified raw material is sufficiently available, it is often simpler to switch over to 100% certified production. The pace of uptake of FSC and PEFC chain of custody in the UK over the last two years, which has been considerably more rapid than in any other country, is strong anecdotal evidence of the impact of the central government procurement policy on the wider UK market.

2.1.2 Ecobuild

Rising interest in environmental issues in the UK construction is well illustrated by the progress of the Ecobuild show. The show has almost doubled in size every year since its launch in 2005. The 2009 show at London's Earls Court in March hosted 857 exhibitors and 34,617 visitors. This increase in interest reflects both the strong focus on sustainability and green issues that now pervades the UK architectural and design professions together with a host of recent UK government initiatives aimed at boosting green performance in the construction sector. Behind many of these initiatives lies rising concern for energy efficiency as the UK – like all other EU countries - struggles to reduce carbon emissions in line with international Kyoto commitments.

Each booth at the show was packed with "green" innovation solutions, indicating that innovation is understood by many companies as a way out of the present economic situation and the perception that environmental consciousness and competitiveness now go hand-in-hand. The term "sustainable" may not be a feature proudly sported only by a few companies leading the way down this path to differentiate themselves from the masses but will be a "must" for any enterprise keen on maintaining market share in the UK.

The timber industry was strongly represented, participation being boosted by the Timber Works pavilion, an area dedicated to first-time exhibitors and supported by various UK timber trade associations. The clear message coming across from the timber sector was that increased use of timber can make a major contribution to sustainable construction. A huge range of highly technically advanced wood products and wood-based construction techniques were on show, driving home the message that timber is the material best placed to meet the challenges of 21st century construction – that is combining rapid and cost effective building methods, lasting technical performance and beautiful structures with unbeatable environmental credentials.

Ecobuild also featured a range of international pavilions including France, Austria, Denmark and Canada. Austrian products on show included cross laminated panel construction from KLH UK Ltd; engineered wood products and glulam construction from Binderholz and Wiehag Timber Construction; timber components from Klausner; and timber frame construction from GriffnerHaus. The Canadian timber industry was represented by BC Wood Specialities Group, the Forest Products Association of Canada, Quebec Wood Export Bureau, and Super E house producer Alouette Homes. Among the French exhibitors were timber construction specialists Derdant Demeuria and Ardonis and wood composite and fence producer Silvadec.

Highlights from the show for timber included the Eco house, a family home built in wood to very high energy and environmental standards in the space of only one week in 2008 during a live edition of Grand Designs, a hugely popular UK prime time TV show. Other highlights were ZedFactory's timber frame Zero Carbon House; KLH's Carbon Neutral Construction method comprising a honey-comb of solid timber panels recently used for construction of a 9-storey apartment block in London in the space of only 29 weeks; and JELD-WEN's launch of DreamVu, the UK's first volume made timber window to achieve a U-value of 0.7-1.0W/m2K.

The timber frame section was mostly dominated by Austrian glulam and cross laminated timber producers such as KLH Massivholz GmbH, Wiehag, Binderholz and the NordLam, Glöckel, RubnerDoors and NordPan divisions of the Rubner group. British Inwood also promoted glulam and engineered timber frames. Finnforest was also present with a wide product range of construction systems, such as prefabricated structural flooring solutions made of KERTO and

OSB3 composite I joists, branded as Finnjoists OSB panels and woodwool insulating layers. (KERTO is a type of LVL made from peeled spruce veneer to enhance the speed and ease of timber construction.) Composite timber walls of high thermal efficiency were also presented.

Those exhibiting timber doors and widows outnumbered the PVC exhibitors by far, trying in nicely with the well-publicised return to timber windows in the UK market in recent years. There are signs that wood windows are increasingly seen as the most attractive as well as the most sustainable solution among all alternatives. With the recent launching of the Wood Window Alliance it is easier now to specify these products in the UK with confidence. For the first time in the UK, the wood window industry has got together to provide a range of high quality products that meet independently audited performance and sustainability standards. Wood Window Alliance members manufacture a wide range of windows, including those which are specifically designed to meet conservation or design requirements which may take precedence over other standards. Among the exhibitors were Fairoak Timber Products Limited, Green Building Store Limited, Jeld Wen, Dendura, and BSW Timber. Many window companies participating in the show confirmed that that they now require independent certification, preferably FSC, of all their wood supplies.

There was heavy promotion at the show of heat-treated pine products as an alternative to hardwoods. The number of UK importing companies offering these products for decking, flooring, cladding, and other components is mushrooming. Examples of heat treated branded products include Accoya, Lignia, and Lunawood. While heat treated products are still available only in relatively small quantities, their technical performance is extremely strong – one manufacturer noted that he is willing to offer a 50-year guarantee for his heat-treated softwood product, compared with a 40 year guarantee for his tropical hardwood products. They can also generally be offered with either PEFC or FSC certification as standard.

The flooring products on show highlighted the continuing strength of the fashion for oak – a fashion that the manufacturers are building on and extending by offering oak products in huge diversity of finishes and stains. They are responding to a fashion for darker colours not so much by procuring tropical hardwoods, but rather by steaming or staining oak to a colour that is almost black. This trend is so entrenched that one European flooring supplier at the show said his company is now sourcing product manufactured from German oak in Indonesia.

While timber maintains a strong reputation as the green material of choice, there was a mixed message for those supplying wood from overseas. There seemed to be a strong feeling amongst architects, designers and specifiers interviewed at the show that the key environmental issue at present is the “carbon footprint”. This was linked to a very simplistic preference for any product “locally produced” and not perceived to be transported over long distances. Levels of awareness of wood’s carbon sequestration benefits and the limitations of domestic forest resources seemed low. This highglights the importance of U.S. timber suppliers providing credible quantitative information on the carbon footprint of their specific products.

The Ecobuild show also emphasised that other material sectors are intent on closing the gap with timber and are now scoring green points. The plastics industry highlighted the recent achievement of an A-rating for uPVC windows in the Building Research Establishment (BRE) Green Guide, now a key reference for green procurement in the UK construction sector as it is integrated into the Code for Sustainable Homes. The A-rating means that uPVC windows are now regarded by BRE as just as environmentally-friendly as wood windows. BRE justified the A-rating at an Ecobuild side-event, pointing to the efforts of the plastics industry to recycle a higher proportion of windows at the end of their life-cycle. However, participants at the event also noted that it is difficult to judge the objectivity of BRE’s rating as their methodology lacks transparency and the baseline data is not publicly available.

BRE were also playing a leading role at Ecobuild to prop up the dubious environmental claims of the UK aggregates industry – which like the plastics industry has set its sights on undermining timber’s lead on sustainability issues. The UK aggregates industry promoted itself at Ecobuild as “the Responsible Source”, a claim largely dependent on their anticipated conformance to a new

BRE “Responsible Sourcing Standard”. The process to develop the BRE standard, which was chaired by Tarmac – a large UK aggregates supplier - was rushed through despite stiff opposition from the timber sector to fit with the procurement timeline for the London 2012 Olympics (which requires that all materials be “responsibly sourced”). The BRE standard is now being used by the aggregates sector as a tool to neutralise the wood industry’s sustainable source message.

Competition for solid wood products is also now mounting in the decking sector. The German company Werzalit presented a new range of wood fibre and recycled plastic composite outdoor decking branded TerraZa which won the Product of the Year title in 2008 in Germany last year. The range is available in a range of colours designed to resemble hardwoods. The product comes with a 5 year guarantee and claims to combine the advantageous properties of both wood and plastic. Another company called Ecogenic was promoting a new product manufactured entirely from recycled plastic designed to replace plywood in non-structural exterior applications (notably hoardings). Two plants each capable of churning out 400,000 panels of the new product each year will be set up in the UK during 2009.

2.1.3 BREEAM and the Code for Sustainable Homes

Conversations with traders and construction industry professionals at the Ecobuild show suggest rising interest in the BREEAM standard. In part this reflects introduction of the the Code for Sustainable Homes (CSH), which draws directly from the original BREEAM “Ecohomes” concept, as a mandatory standard for new homes in England in May 2008. This means that all homes are either assessed against the Code and are given a certificate indicating the rating they have achieved, or they are not assessed and are deemed to have achieved a zero rating against the Code. The rated or zero-rated certificate is contained in the wider Home Information Pack (HIP) which must be supplied by to buyers of nearly all homes in England.

Data on the numbers of projects rated against the CSH is not available at time of this review. In the short term the impact of CSH may be constrained, given the state of the housing market and given that house builders can still opt for a zero rating. On the other hand, all public housing must already achieve a 3 star rating in order to obtain central government funding. With the downturn in private sector construction, expanding market share in publicly funded projects has become even more important for the large building contractors. And in the private sector, some planning authorities and clients are already demanding that housing be rated.

In any case, assessment is expected to become mandatory in 2010 and the Government has stated that by 2016 all new-build homes must be zero carbon and therefore comply with Code Level 6. Judging from the huge interest in BREEAM and the CSH at the 2009 Ecobuild show, many large house builders are already working on the assumption that achieving strong ratings against the CSH will be a crucial factor in long term market development.

To some extent, the role of both BREEAM and CSH in driving demand for verified timber is limited by the relatively low priority (and therefore credits) attached to responsible sourcing under both standards. The allocation of points is heavily weighted towards meeting energy efficiency/carbon dioxide requirements, health and well-being, and local environmental issues. Under CSH, the issue of responsible sourcing accounts for only 2.7% of the total score.

On the other hand, with increasing availability of certified wood products, these credits are regarded as amongst the easiest and most cost effective to achieve. Furthermore, timber frame and joinery manufacturers have now identified the CSH as a key opportunity to expand market share for timber in the UK construction sector. They have a strong interest in maximising credits to be derived from their products, including through supply of verified products as standard.

The actual allocation of points for “responsible sourcing” under BREEAM and the CSH requires a complex calculation based on the volume of responsibly sourced product used in each separate building element, in combination with the quality of the evidence provided. The scores available for different forms of forest certification and legality verification are adapted directly from the CPET

assessments.

At present neither BREEAM nor CSH establishes a mandatory requirement that all timber used in rated projects must at minimum be derived from a verified legal source. However in order to achieve any credits for responsible sourcing under either scheme, there is a minimum requirement that timber be accompanied by a signed declaration from the supplier that it is legally sourced and not a CITES listed species.

2.1.4 Carbon footprint labelling

Tesco, the UK's largest retailing group, has been instrumental in stimulating work on carbon footprint labelling. But the idea has yet to take off.

In 2007, Tesco said it aimed to develop a carbon footprint labelling measure for all products sold in store. Tesco's commitment spurred on development of the PAS 2050 standard on "Assessing the Carbon Footprint of Goods and Services", a joint initiative of the UK Government, British Standards Institute and the Carbon Trust. Spotting a potentially valuable marketing tool, the European Confederation of Paper Industries (CEPI) were also encouraged to develop a framework for carbon footprinting of paper products. The process is now being pursued at international level by ISO under TC207 (Environmental Management).

Despite this technical work, the signs are that most European retailers do not share Tesco's stance and are not actually that committed to the concept yet. CEPI report that at a meeting last year gathering major retailers, the WWF and policy makers, many retailers expressed major reservations about the concept. Several limitations of carbon foot printing were identified including: only a minority of customers look at such labels; measurements are prone to inaccuracies; labelling is not necessarily an effective way to reduce emissions; and the approach overlooks other environmental impacts.

2.2 Germany

A recent interview with GD Holz, the German timber trade federation, suggests a high degree of scepticism with regard to the value of market-based instruments such as certification for raising standards of forest management and tackling illegal logging. The GD Holz representative felt that the concept of ensuring legality is much more important than market demand for certification. However GD Holz were not enthusiatic about the EU's proposed due diligence legislation, warning of the problems associated with different interpretations and enforcement regimes by the Member States. Nor were GD Holz particularly interested in national trade initiatives such as TTF Responsible Purchasing Policies. GD Holz preferred the EU's existing FLEGT VPA approach of working directly with supplier countries and where necessary developing legality licensing in these countries. With respect to market demand for verified wood, GD Holz's comment was that the trade only cares about price, even more so under the current market situation. When certified timber is purchased, it remains in stock for ages as no-one wants to buy it.

2.3 Italy

Italy's timber trade associations have not yet developed any formal environmental timber procurement policy or codes of conduct for their members. However, a potentially significant development came in early March 2009 when the Federlegno – the Italian confederation for the wood, furniture, cork and furnishing industries – signed an agreement with WWF Italy for the "*promotion of a transparent sustainable market for wood products*". The pact was signed in the presence of Luca Zaia, the Minister of Agriculture, Nutrition and Forestry.

According to the agreement, Federlegno-Arredo and WWF Italy will act co-operatively to ensure "*Italy takes responsibility for good forestry management, promotion of certification and development of credible policies in support of producer countries*". Federlegno Arredo and WWF Italy are committed to establish a joint program "*to monitor timber flows and the domestic timber*

market, to understand this in terms of volumes and the geographical areas of origin, to promote best practice in management and procurement, and to promote joint projects in areas most affected by deforestation".

In the first instance, the two institutions will jointly promote procurement practices in line the WWF GFTN guidelines and promote the use of certified wood products, particularly in construction. A key objective will be "*to promote wood as the only certified sustainable raw material that can naturally store carbon dioxide, even throughout the product life cycle, a characteristic that distinguishes the wood than any other material*". The implication of the focus on WWF GFTN guidelines is that FSC certification is likely to be seen as the ultimate objective of procurement policies, although other forms of evidence will be accepted as part of a step-by-step approach.

2.4 Spain

The 165 members of the Spanish Asociación Española de Importadores de Madera (AEIM), which account for 70% of the Spanish import trade, are formally bound to a code of conduct including provisions for timber procurement. Members are required to "*evaluate their suppliers through careful verification of sources*" and to include in their timber procurement contracts a clause "*ensuring the exclusion of timber originating from illegal sources*". They are also required to "*consider the future implementation of a certification system*". The Code has been subject to review by the Rain Forest Alliance. However at present there are no formal systems for regular monitoring or auditing of Member conformance to the Code.

In a recent interview, an AEIM representative said the Code had been developed specifically in response to concerns raised by environmental groups, the media and to some extent politicians, with respect to wood supplies from high risk tropical countries. Environmental groups, notably WWF and Greenpeace, have been increasing pressure on importers to further develop the code so it has more teeth, including specific targets for action and third party verification.

A recent report produced by the EU's Timber Trade Action Plan (TTAP) notes that AEIM has now established an action plan to develop the Code into a more far-reaching responsible purchasing policy for its members. The action plan has led to regular cooperation with Spanish government authorities dealing with illegal logging issues and public purchasing. The organisations are working together to develop practical guidance on legality verification and tools for green timber procurement. AEIM is also evaluating the option of joining the TTAP to provide a platform to assist overseas suppliers to improve traceability and legality verification for wood supplied to the Spanish market. A similar partnership is already under way with WWF Spain, assessing suppliers in the Congo Basin in terms of verifiable legal and moving towards sustainable production. AEIM is also insistently communicating and promoting its members' commitment towards legal and sustainable timber, as well as certification.

Recent interviews with a number of Spanish timber importers and wood frame construction companies suggest that at present there is only very limited demand for certified wood in Spain, although some customers are requiring more broad reassurance that products are at least legal. There are Spanish importers and manufacturers that have invested time and money in developing procurement policies and chain of custody certification that are now complaining that there is no real demand to justify the investments made to date.

2.5 Netherlands

Until 2010, the Dutch government has indicated that timber used in central government contracts must as a minimum be legally verified. The Dutch government has adopted the UK CPET criteria for legality and requires that legality against these criteria is verified by an accredited body or auditor complying with ISO 45012. The Dutch government has also stated that after 2010, FLEGT VPA licenses will continue to be accepted as an alternative to certified sustainable where the latter is difficult to obtain.

With the agreement in mid-2008 of a set of criteria defining “sustainable timber”, the Dutch government has also stated that it will give preference to this timber before 2010. Agreement of the sustainability criteria followed a lengthy and difficult national consensus-building process (referred to as BRL). These criteria allow only for recognition of independent forest certification systems. The results of the first formal assessments against the criteria were released at the end of 2008. The Netherlands government currently recognises as sustainable FSC, PEFC Finland and PEFC Germany. Assessments are on-going for PEFC Sweden, PEFC Belgium and MTCS. PEFC International is due to be assessed after December 2009 following anticipated amendments to the system and standards.

Central government procurement is estimated to account for approximately 10% of national solid timber consumption in the Netherlands. The Netherlands has also established a target for local authorities that 50% of their timber procurement should be sustainable by 2010. Systems for monitoring of implementation have been established at both central government and local authority level.

Local authorities in the Netherlands have been a major focus of FSC promotion over the last 15 years and many are already committed to sourcing only FSC certified timber products.

Meanwhile the Netherlands Timber Trade Association says that its members are still on track to meet commitments on sourcing legal and sustainable timber. The NTTA’s goal for the end of 2009 is that all members must be certain of 100% of the material they trade, with 75% of the total guaranteed to be from “demonstrably sustainable forests”. While the assumption is that “sustainable” essentially means FSC or PEFC certification, the latter target makes some allowances for the challenges of achieving certification in different supply chains. It actually breaks down as 100% of all softwood, 75% of all plywood and 25% of all hardwood with a further commitment to 50% of all hardwood coming from verified legal sources. NTTA is currently consulting members on targets for 2010.

But interviews with Dutch traders paint a slightly less rosey picture of the market for certified wood in the Netherlands. These suggest that there are still large gaps in market demand for all forms of certified and legally verified wood further down the supply chain. While all the big retailers and manufacturers are now demanding some form of proof of legality from all their suppliers and are selecting suppliers on the basis of the evidence provided, they are generally not prepared to pay premiums. At the same time, many of the smaller construction, joinery and furniture manufacturing firms are not actively demanding any form of certification.

2.6 Finland

Finland has traditionally been highly dependent on imports of logs from Russia, particularly relatively low value softwood logs for manufacture of paper and composite panels. However progressive introduction of log export taxes by the Russian authorities designed to encourage investment in wood processing in the country, has meant that Finnish imports from Russia are likely to decline dramatically in the future. Log imports have supplied as much as 25% of all Finnish wood raw material supplies, however in 2008 this figure is believed to have declined to only 16%. Finland’s dependency on Russian logs is expected to fall to well below 10% within the next 2 years. While there has been some inward investment by Finnish firms amounting to around to €1 billion to develop primary processing capacity in Russia (producing sawnwood and panels) the RWE volume of EU wood imports from these new mills is expected to remain well below past levels of EU log imports from Russia. The Finnish industries strategy for replacing Russian log supplies focuses on mobilising higher levels of harvesting by Finland’s small private owners rather than significant inward investment in Russia.

Finland’s dependency on Russian logs has meant that the finnish forest industry has been at the forefront of environmentalist campaigns over illegal wood supplies. However, according the Finnish Forest Industries Federation (FFIF), 100% of all timber imports into Finland from Russia are now covered by comprehensive systems of wood tracking implemented by the large Finnish processing

companies engaged in the trade. FFIF is confident that these systems are sufficiently robust to guarantee the legality of all Finnish wood imports from Russia.

3. Development of Forest Certification

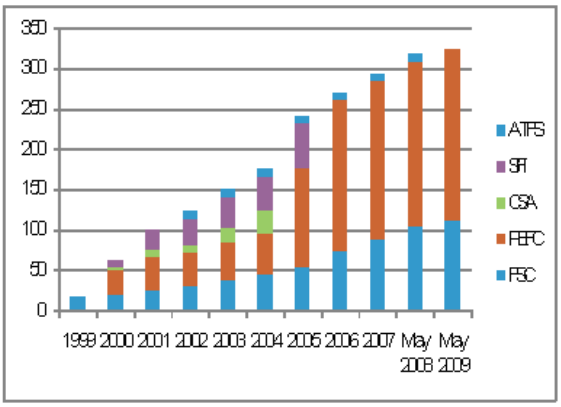
Note this section draws heavily on the UNECE Timber Committee Chapter on Forest Certification which has been prepared this year by the T&E Consultant with the support of AHEC

3.1 Overview

By May 2009 the global area of certified forest endorsed by one or other of the international frameworks – the Forest Stewardship Council (FSC) and the Programme for Endorsement of Forest Certification (PEFC) - amounted to 321.2 million hectares, around 8% of global forest area. In addition, there are some smaller areas independently certified under systems operating at national level. For example, at the end of 2008 around 4.8 million hectares were certified by the Malaysian Timber Certification System (MTCS), around 1.54 million hectares by the LEI system in Indonesia, and 0.7 million hectares by Japan's Sustainable Green Ecosystem Council.

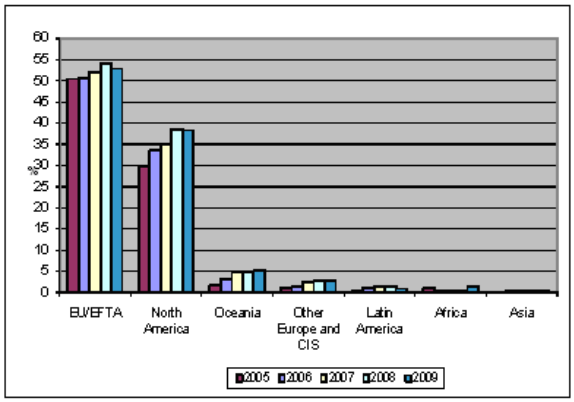
The regional distribution of certified forest area is highly uneven. Around 53% and 38% respectively of the total area of forest in Europe and North America is certified. Elsewhere the proportion is negligible, rising to 3% in Other European Countries and CIS, and to 5% in Oceania (concentrated in Australia and New Zealand) and no higher than 2% in all other regions.

GRAPH 3.1: Forest area certified by major certification schemes, 1999-2009



Source: UNECE Timber Committee

GRAPH 3.2: Certified forest as a percentage of total forest area, by region 2005-2009



Source: UNECE Timber Committee

The pace of expansion of global certified forest area has slowed dramatically in the last 3 years (Graph 3.1). Certified forest area increased by around 50 million hectares a year between 2001 and 2005 – mainly due to rapid increase in certified forest area in North America – then the rate slowed by half to 25 million hectares a year in 2006 and 2007. More recently the rate has stagnated even further, not exceeding 4 million hectares between May 2008 and May 2009.

Table 3.1 indicates that the estimated potential global industrial roundwood supply from certified forest amounted to 411 million m3 in the May 2008-2009 period, about 26% of total industrial roundwood supply. There was a slight decrease compared to the previous 12 month period reversing a long-term trend of rising potential supply.

Now that many of the largest state and industry owned lands in the developed world are already certified, the certification movement faces the significant challenge of expanding in more difficult areas. These include both developing countries – many of which still lack capacity, resources and sufficient incentives for forest certification - and the small non-industrial private and communal sector which owns or manages a significant proportion of forests in many regions of the world.

TABLE 3.1: Global supply of roundwood from certified resources, 2007-2009

Region	Total forest area (million ha)	Total certified forest area (million ha)			Total forest area certified (%)			Estimated industrial roundwood produced from certified forest (million m3)			Estimated industrial roundwood from certified forests, from global roundwood production (%)		
		2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
North America	470.6	164.2	181.7	180.3	34.9	38.6	38.3	210.1	232.5	230.7	13.2	14.6	14.5
Western Europe	155.5	80.8	84.2	82.2	52.0	54.1	52.8	166.4	173.4	169.2	10.5	10.9	10.7
CIS	907.4	20.6	24.6	25.2	2.3	2.7	2.8	3.6	4.3	4.4	0.2	0.3	0.3
Oceania	197.6	9.9	9.4	10.3	5.0	4.8	5.2	2.5	2.4	2.6	0.2	0.1	0.2
Africa	649.9	2.6	3.0	5.6	0.4	0.5	0.9	0.3	0.3	0.6	0.0	0.0	0.0
Latin America	964.4	12.1	15.0	14.6	1.3	1.6	1.5	2.1	2.6	2.5	0.1	0.2	0.2
Asia	524.1	1.6	2.0	3.0	0.3	0.4	0.6	0.7	0.8	1.3	0.0	0.1	0.1
World total	3869.5	291.8	319.9	321.2	7.5	8.3	8.3	385.7	416.4	411.3	24.3	26.2	25.9

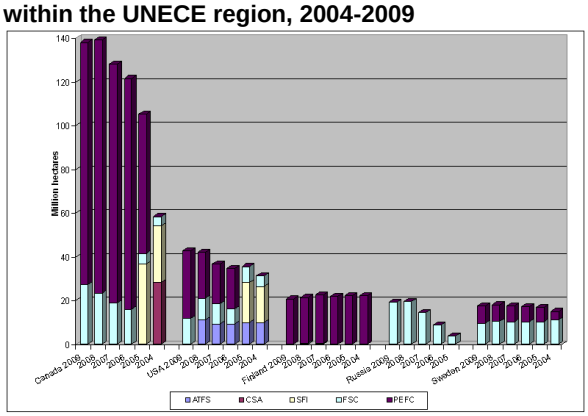
Source: UNECE Timber Committee. Information valid as of May 2009.

3.2 Regional developments in forest certification

3.2.1 Europe

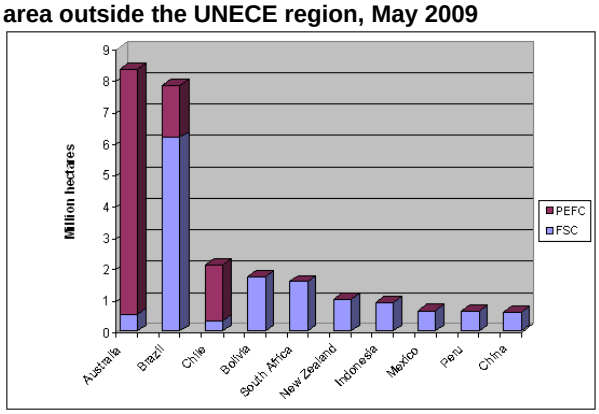
Certified forest area in Europe amounted to 85 million hectares at the end of 2008, about 50% of the continent's total forest area. There is a fairly clear split in Europe between large state and industrial ownerships on the one hand, which tend to adopt FSC certification, and small non-industrial private ownerships on the other which tend to adopt PEFC certification.

GRAPH 3.3: Five countries' certified forest area within the UNECE region, 2004-2009



Source: UNECE Timber Committee

GRAPH 3.4: 10 countries' PEFC & FSC certified forest area outside the UNECE region, May 2009



Source: UNECE Timber Committee

FSC certified area in Europe is concentrated in Sweden, Poland, Croatia, UK and Latvia. The average FSC certified forest holding in Europe is relatively large, with an area of around 83,000 hectares.

The PEFC framework has brought significant numbers of small private non-industrial forest owners into the certification movement in EU countries through widespread use of regional and large group certification. Around 66% and 22% respectively of PEFC certified forest area in Europe comprises group or regional certification. These frameworks have been particularly effective where there are strong existing regulatory structures and forest owner associations operating at regional level, notably in Finland, Norway, Sweden, Germany, France, Austria, and the Czech Republic. Overall, around 500,000 (3%) small non-industrial forest owners out of an estimated total of 16 million in Europe are now independently certified under either FSC or PEFC.

Some policy initiatives have potential to increase uptake of certification in the non-industrial forest owner sector. Romania now offers tax incentives for owners adopting forest certification. Some large buyers in the private sector are also playing a role. For example, since March 2008 the Swedish forestry group Sveaskog has been paying an extra 25 Swedish crowns per m3 for wood supplied with an FSC certificate to encourage greater interest amongst small owners. The measure was combined with the introduction of new FSC group schemes in Sweden.

Despite these measures, prospects for a significant increase in certification amongst small non-industrial forest owners in Europe seem limited in the short to medium term. In fact, the overall level of certified forest throughout the continent declined during 2008. The area of PEFC certified forest in the region fell by 2.2 million hectares with the biggest fall concentrated in Finland (down from 22.1 million hectares to 20.7 million hectares from 2007 to 2008), a country often cited as the leading exemplar of group and regional certification practices.

The reasons for the fall in European certified forest area during 2008 are not clear and may be due to technicalities (such as a time lag that occasionally occurs between expiry of a certificate and issue of a new one), failure to meet conditions of certification, or a decision by the forest owner to no longer pursue forest certification. Continuing evidence that the supply of certified softwood products to the European market is considerably in excess of end-user demand for products bearing forestry-related labels might provide one reason for some European forest owners to drop their commitment to certification.

3.2.2 Russia

Both FSC and PEFC have identified Russia as a potentially significant growth area. In 2006, FSC were confidently predicting that FSC certified area in Russia would reach 24 million hectares by the end of 2007. PEFC have forecast that somewhere between 50 million and 100 million hectares of Russian forests are likely to become PEFC certified within the next 10 years.

To date, the reality has fallen short of expectations. After an initial burst of growth in FSC certified area in 2006 and 2007, the pace slowed last year. Only an additional 800,000 hectares of forest were FSC certified in Russia during 2008. Total certified area in the country still stood at around 19.2 million hectares by May 2009.

On the other hand, there are also signs that much of the essential groundwork for more rapid expansion in the future has now been completed. In November 2008, the FSC Board of Directors delivered a positive accreditation decision for a Russian National FSC Standard. In March 2009, FSC also accredited a Russian company, Forest Certification LLC, to undertake both FSC forest management certification and chain of custody certification throughout Russia and the neighboring countries of the CIS. The move is a significant step to improve domestic FSC certification capacity, a factor which has been a major obstacle to more extensive FSC uptake in the region.

Meanwhile efforts to develop national certification initiatives in line with the PEFC requirements are coming to fruition. Two national forest certification frameworks have evolved, respectively the Russian National Council for Forest Certification (RNCFC) and the National Council of Voluntary Forest Certification in Russia (RSFC). In March 2009, PEFC announced endorsement of the RNCFC certification framework.

3.2.3 Canada

Canada continues to be the world leader in terms of certified forest area. The country accounts for over half of the certified forest area endorsed internationally by the PEFC certified through the Canadian Standards Association (CSA) and Sustainable Forestry Initiative (SFI) systems. Canada is also responsible for one quarter of FSC certifications worldwide. The total area of independently certified forest in Canada amounts to 145.8 million hectares which actually exceeds the 143 million hectares of forest land identified as subject to forest management in the Canadian government's annual "State of Canada's Forests" report. The certified area includes 82.8 million hectares certified to the CSA-Z809 standard, 39.4 million hectares certified to the SFI Program, and 27.3 million hectares certified to the FSC.

3.2.4 Japan

Certified forest area in Japan remains relatively restricted. By September 2008, Japan's national forest certification program, the Sustainable Green Ecosystem Council (SGEC), had issued 63

forest certificates covering 714,000 hectares. By May 2009, the FSC had also issued 26 forest certificates covering 280,000 hectares. The total certified forest area is less than 4% of Japan's total forest area (24.8 million hectares).

3.2.5 China

By May 2009, 16 FSC forestry certificates had been issued in China covering 1.2 million hectares (Graph 2.4). Operators managing a further 1 million hectares were participating in the WWF Global Forest and Trade Network (GFTN) and working towards FSC certification. These certified and verified areas, while significant as pilot projects, still account for little more than 1% of China's total domestic forest resource.

In a press release in January 2009, WWF highlighted the significance of two FSC certificates issued in China during 2008. The Yong'an Forest Group is the first enterprise with over 100,000 ha to achieve FSC-certification in southern China, an area where certification is complicated by diverse forest features and land tenure. The Muling Forest Bureau is an example of FSC certification in the natural forests of the north-eastern province of Heilongjiang Province. In this instance, the total forest managed area is over 260,000 hectares and is located in a WWF priority conservation area – the Amur/Heilong Eco-Region – which is also a major timber production and processing area.

More significant areas of China's forests may soon be certified through a national forest certification system that is being developed jointly by the State Forest Authority and China's Certification and Accreditation Administration (CNCA). However there are also signs that the Chinese authorities remain uncomfortable with the concept of international bodies like PEFC and FSC establishing the framework for forest certification in China.

The long term relevance to international markets of these efforts to certify China's domestic forests is constrained by Chinese manufacturers' heavy dependence on imported wood products. It is likely that imports of timber account for a significant proportion (perhaps 30-50%) of the total wood exported from China.

Furthermore, structural problems greatly constrain prospects for the rapid development of certification in China. Studies by the Tropical Forest Trust and others have highlighted that high levels of fragmentation, intense competition and price-focused business culture are a major problem in seeking to encourage responsible procurement practice. Most Chinese manufacturers do not possess the internal capability, whether in the form of Wood Control Systems, procurement policies, or internal control procedures, to even begin to monitor their raw material supply chain. The local market has shown little or no interest in legality verification and certification so a key driver for corporate action is absent.

Nevertheless, there have been positive developments. Larger export oriented companies selling to retailers in Europe and the US have become more engaged in efforts to supply verified wood products. Overseas customers, such as B&Q and now Home Depot with its recent Chinese acquisition, are looking to establish legality and sustainability in their wood supply chains. Both the Tropical Forest Trust and the WWF Global Forest and Trade network maintain a significant presence in China. By the end of 2008, 621 and 33 Chinese companies respectively had obtained FSC and PEFC chain of custody certification. This compares to equivalent figures of only 371 and 5 a year earlier.

Passage of the Lacey Act amendment in the United States, China's largest wood export market, in May 2008 and of possible EC due diligence legislation some time in 2009 is widely expected to greatly increase China's exporting companies focus on responsible sourcing.

Some sectors are moving faster than others to respond to these trends. Generally prospects for implementation of wood procurement policies and control systems are better in the flooring sector than in the plywood sector. In contrast to the plywood industry, where raw materials flow from

many sources and through many hands within China, flooring manufacturers, save smaller producers, are better able to exert some degree of control over their raw material supply chains, sourcing directly from overseas suppliers or traders.

A major issue now is the extent to which changing economic conditions will impact on the overall China-Europe trade in wood products, which in turn will have potentially very significant effects on the global trade in verified wood products. During 2007 and 2008, Chinese manufacturers faced significant rises in energy, labour, and raw material costs at a time of generally saturated international demand. The international competitiveness of Chinese firms came under significant pressure, to such an extent that many wood exporting companies were forced to close while overseas buyers began to look again at alternative manufacturing locations in the Far East, particularly Vietnam and Indonesia.

The savage economic downturn that occurred in the second half of 2008, seems to have reinforced a move to loosen the links between European and Chinese firms in several sectors. For example, some leading European flooring manufacturers that invested heavily in Chinese production in the early years of this decade, have prioritised maintenance of their domestic production over overseas production during the downturn. At the same time, some Chinese manufacturers having built up the necessary technical knowledge and marketing expertise in partnership with European and other western companies, are now choosing to go it alone and to market their own brands. The economic crises in western countries has reinforced this strategy for Chinese companies that now see that long term opportunities for market development are just as likely to emerge in their domestic market as they are in Europe and North America.

More and more European wood processing companies now see that their best opportunity to counter the threat both from emerging Chinese brands and from non-wood products may lie in a move up-market and exploiting the advantages to be gained from proximity to the European customer. Focusing on their domestic production has the advantage of ensuring tighter control of product quality and standards and allows more rapid and sensitive adjustment to customer preferences and changing fashions.

Therefore it is possible that recent economic turbulence combined with regional cost increases, declining regional availability of wood raw materials, and the growth in China's domestic market might stem the tide of rising wood products imports into Europe from China. Given the complexities of verifying the legality of wood products from China, the implementation of due diligence legislation by the European Union could well further this trend.

3.2.6 Africa

There has been some significant progress to expand certified forest area in tropical countries in the last two years. Developments in Africa have been particularly dramatic. The area of FSC certified forest in tropical Africa increased by 80% during 2008 and now extends to 5.6 million hectares. This area includes 1.3 million hectares each in Gabon and Cameroon, and 749,000 hectares in the Republic of Congo. 7.5% of the 53 million hectares of forest in Africa are currently allocated for concessions in the region. A further 10 million hectares have been legally verified under various private sector initiatives.

FSC is currently the dominant form of certification in Africa. However in April 2009, the Gabonese Forest Certification Scheme (PAFC Gabon) became the first African scheme to meet PEFC's requirements. PAFC Gabon certification forest standards draw on the ATO/ITTO principles, criteria and indicators for the sustainable management of African natural tropical forests, amongst others.

A recent article in the UK Timber and Sustainable Building (TSB) journal highlights the challenges that need to be overcome to achieve FSC certification in tropical Africa. Referring to the experience of Netherlands-based Wijma, TSB notes that besides establishing sustainable forest management practices, its FSC obligations to local stakeholders involved investment in regional infra-structure, a school, hospital and chicken farm, the latter producing cheap meat to reduce the temptation to hunt

wildlife. In most other regions of the world, forest owners can reasonably expect such services to be provided by the state and not to form part of the burden of forest certification.

Some leading players in the supply of certified and legally verified product to the European market include:

- CIB, part of the Danish-based DLH group, which manages 747,000 hectares of FSC certified forest in Congo Republic. Its remaining concessions in the country are managed are recognised under the SGS TLTV scheme or meet the FSC Controlled Wood standard. The company is able to supply a wide range of species either FSC certified or legally verified, including sapele, ayous, sipo, bosse Claire, essessang, wenge and iroko.

- Rougier which manages 688,000 hectares of FSC certified concessions in Gabon capable of delivering 35,000 m3 of okoume plywood, 17,000 m3 of okoume sawn timber, and 70,000 m3 of logs in various species. Rougier also produces 60,000 m3 of sawnwood and 30,000 m3 of logs under SGS TLTV scheme.

- The Danzer Group, now a member of the WWF Global and Forest Trade Network, is working with the WWF towards FSC certification of the 1.16 million hectare concession managed by the Group's subsidiary Industrie Forestière d'Ouesso (IFO) in the Congo Republic. This process, on-going now for 5 years, is very close to completion. The IFO forest concession has already been certified against the FSC Controlled Wood and the SGS TLTV standards. Danzer is also developing a programme to achieve FSC certification for the 1.9 million hectare concession managed by its subsidiary Société Industrielle et Forestière du Congo (SIFORCO) in the Democratic Republic of Congo. FSC certification of this area will be introduced progressively following government approval of forest management plans, a process expected to begin in 2010.

- Pallisco, one of Cameroon's largest forestry operators, achieved FSC certification for a 341,708 hectare concession in October 2008, the culmination of a four-year program. Pallisco is a significant exporter to Spain, France and the United Kingdom.

- The SEFAC Group, the Cameroon subsidiary of the Italian timber company Vasto Legno, which achieved FSC certification for 319,000 hectares of the 412,000 hectares directly controlled by the company in September 2007.

- Swiss-based Precious Woods and its subsidiary CEB which have secured FSC certification of a 618,000 hectare concession in Gabon. Okoume is by the leading species available from this concession, but the company indicates it can offer another 40.

- Wijma which manages around 100,000 hectares of FSC certified forest in Cameroon. Wijma also operates 330,000 hectares of forest legally verified under the OLB system.

3.2.7 South East Asia

Malaysia has taken decisive steps to implement certification. The MTCS was endorsed by PEFC in May 2009. The 4.8 million hectares of MTCS certified forest includes the entire area of permanent production forest in Peninsular Malaysia. On the other hand, only a small area (56,000 hectares) is MTCS certified outside Peninsular Malaysia (in Sarawak).

FSC certification in Malaysia is not extensive. Only around 200,000 hectares of the nation's forest are covered by FSC under 5 certificates. The largest FSC certified forest is the KPKKT concession covering an area of 110,000 hectares in the Dungun Timber Complex of West Malaysia and forming part of the Golden Pharos Group. Much of the raw material is utilised as face veneer for three-layer European-style parquet manufactured at the B.K.B. Hevea wood flooring factory in Ipoh. Nevertheless, around 80 FSC chain of custody certificates have been issued in Malaysia, a testament to the growing importance of the country as a processing hub for FSC certified wood raw

material imported from other countries

Forest certification and independent legality verification is still not widespread in Indonesia. FSC has certified only around 900,000 hectares in the country, about 1% of the total forest estate. A further 1.5 million hectares have been certified by the Indonesian Eco-labeling Institute (LEI). Concerted efforts are on-going to further develop and greatly extend the practice of independent forest certification and legality verification in the country. For example, a five year Global Development Alliance (GDA) program between 2003 and 2008 built an independent legal verification and timber tracking system in Kalimantan covering around 850,000 hectares of natural forest. The WWF's Global Forest and Trade Network (GFTN), the members of which overlap with the GDA, has also been very active in Indonesia. By the end of 2008, GFTN boasted 9 forest participants in Indonesia, including 3 with natural forest estates totalling around 460,000 hectares, and 6 with plantations totalling around 220,000 hectares.

3.2.8 South America

Brazil is host the largest area of certified forest of any developing country. However, the total area of certified forest in Brazil declined from 7.8 to 6.4 million hectares during the 12 months prior to May 2009. A significant proportion of Brazil's certified forests are in softwood plantation forests of Southern Brazil. FSC is the only certification system currently fully operational in the Brazilian Amazon where it has certified around 2.7 million hectares. Of this around 1.2 million hectares are forests certified for timber supply.

The leading supplier of FSC certified wood products from Brazil to the European market by a significant margin is the Swiss-based Precious Woods (which also claims to be the largest FSC tropical hardwood trader in Europe). Precious Woods manages 450,000 hectares of FSC certified forest in the state of Amazonas, and 76,000 hectares in the state of Pará. All products are processed locally in the companies own sawmills into sawn timber, pilings for marine construction projects and finished products and exported predominantly to Europe, with small volumes destined for North America and Asia. Much of the wood is distributed through Precious Wood Europe B.V., the Group's Dutch-based subsidiary. Representatives of this company interviewed in March 2009 reported that sales are predominantly to the Netherlands (around 70% of the total) and the UK (15%).

A WWF Forest and Trade Network has been very active in Brazil for many years. Forest participants currently manage just over 1.1 million hectares of forest, of which close to 1 million hectares are already FSC certified. The largest member in terms of forest area is the Orsa Group, which manages around 0.5 million hectares of FSC certified plantations in southern Brazil, mainly for pulp and paper production. Precious Woods is by far the largest tropical hardwood producer in the group.

Elsewhere in South America, there is now a major marketing drive to increase sales of FSC certified Peruvian wood. In 2008, WWF's GFTN-Peru hosted an international business roundtable at which GFTN-Peru Participants negotiated business deals of US$3.6 million in Peruvian FSC certified wood with international buyers. In Bolivia, FSC certification currently extends to around 2.3 million hectares of the 7 million hectares of natural forests for which harvesting rights have been granted in the country. Much of the wood from these forests is now destined for the USA. The certification process in Guyana has taken a backward step in recent years. The FSC certificate of the Barama Company Limited (BCL) covering 570,000 hectares was suspended by SGS-Qualifor, the FSC accredited certifier, in January 2007. In early 2009, the head of WWF's local office reported that it is no longer working with BCL and that the company is unlikely to regain the certificate due to lack of appropriate managerial and technical capabilities.

3.3 Market demand for certified forest products

3.3.1 Extent of chain of custody certification

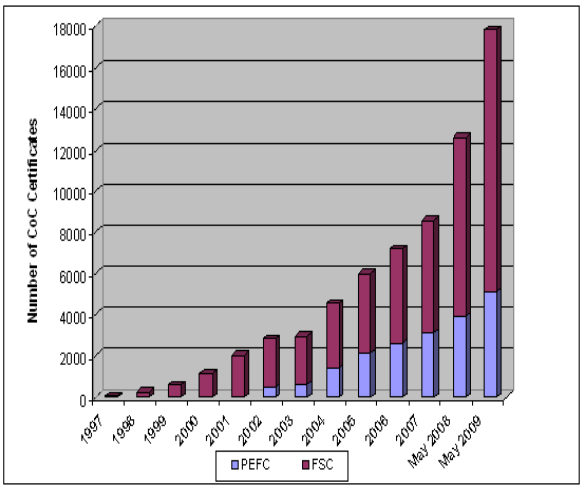
The total number of FSC and PEFC chain of custody certificates issued internationally increased by 41% in the 12 months prior to May 2009 to reach 17,815. Uptake of FSC certification has outpaced uptake of PEFC certification so that in May 2009 there were 12,707 FSC CoC certificates compared to 5,108 PEFC CoC certificates (Graph 3.5).

In addition to chain of custody certificates issued through international frameworks, a limited number of regional/national certification frameworks also issue chain of custody certificates. In terms of numbers, the most significant of these is the SFI Program in North America. The numbers of SFI Program chain of custody certificates issued increased dramatically during the course of 2008 from 100 certificates covering 400 locations to almost 400 certificates covering 1,000 locations. A significant proportion of these companies are dual certified to both the SFI and PEFC chain of custody standards. In Japan, the SGEC certification program had issued 258 chain of custody certificates by the end of June 2008.

While the pace of increase is impressive, the data also implies that engagement in chain of custody certification is heavily concentrated in a limited number of countries. 47% of the 5146 new FSC and PEFC CoC custody certificates issued internationally in 2008 were in the USA and UK (Graph 3.2). 70% of those issued during the year were in only 5 countries (the USA, UK, Germany, Japan and Canada). By the end of 2008, the USA and UK accounted for 31% of all FSC and PEFC CoC certificates issued internationally, with much of the rest in Germany (9%), France (7%), and Japan (6%).

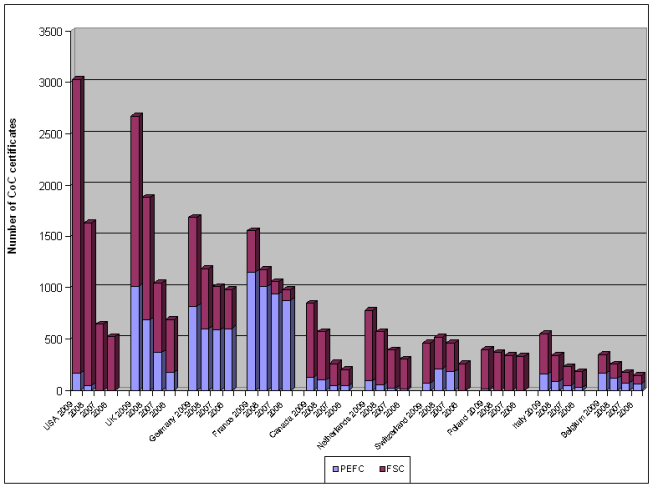
The available data also suggests that the number of FSC and PEFC chain of custody certified companies are small compared to the total number of companies engaged in the wood sector. For example, Eurostat data indicates that throughout the EU-27, where a total of around 9,750 FSC and PEFC chain of custody certificates had been issued by the end of 2008, there are in the region 191,000 wood-processing enterprises, 149,377 furniture enterprises, and 19,352 pulp and paper enterprises, many of which would in theory be eligible for chain of custody certification.

GRAPH 3.5: Chain-of-custody certification trends worldwide, 1997-2009



Source: UNECE Timber Committee

Graph 3.6 Chain-of-custody certificates in ten leading countries 2006-2009



Source: UNECE Timber Committee

In practice, chain of custody certification tends to be most prevalent in the supply chains of a few large consolidated business sectors such as home improvement retailing and parts of the paper and panels industry. It is less prevalent in more fragmented sectors which nevertheless account for a large proportion of wood consumption, including construction and furniture. The implication is that a very large proportion of the wood supplied from certified forests never makes it to market as labelled product.

3.3.2 WWF GFTN membership in the EU stabilises at a low level

Earlier in the current decade, tougher membership requirements led to a significant decline in the

numbers of companies that are members of the WWF Global Forest and Trade Network in Europe. For example the UK group saw a fall from 87 members in 2001 to 46 members by the end of 2007. The Belgian group fell from 43 members in 2004 to only 20 by the end of 2007. Two groups disappeared entirely during this period - in Italy and Denmark. Since the end of 2007, the numbers of participants has remained very stable in nearly all countries, the only significant changes being a partial recovery in the number of Belgian participants from 20 to 27, and the launch of a new group in Portugal in October 2008 with 5 participants (2 of which are exclusively engaged in cork production). Overall there has been little change in the profile of the membership which remains very heavily dominated by the large retailing sector and their direct suppliers.

Table 3.2: Membership of the WWF Global and Forest Trade Network in Europe in December 2008

	Total	DIY retailer	Other retailer	Paper/ pack-aging	Printer/ publ-ishing	Joinery/ flooring manu-facturer	Imp-orter/ dist-ributor	Other manu-facturer	Constr-uction/ Hous-ing assoc.	Other
UK	46	3	8	6	5	3	6	3	3	9
Belgium	27	4	7	2		2	9	3		
Switzerland	18		4		1	5	2	4		2
Germany	16	3	2		2		4	2		3
Netherlands	16	2	1	1		3	2	2	2	3
Sweden	14		4	1		1	3	1	1	3
France	11	2	2			3		2		2
Spain	11	1				2	5			3
Austria	8	3	1	1	1	1				1
Portugal	5		1			1				3
Romania	2									2
Total	**174**	**18**	**30**	**11**	**9**	**21**	**31**	**17**	**6**	**31**

3.4 Certification policy issues

3.4.1 Links between forest certification and climate change

Global concern for climate change and increased interest in the role of forests in mitigation strategies has major implications for the practice of forest certification. While forest certification systems like FSC and PEFC evolved with the core aim of supplying certified sustainable timber products to market, the climate change issue significantly broadens the economic “products” that might be derived from forests to include wood for energy production and carbon for climate mitigation.

New opportunities are arising for the recognition of certified sustainable forests in requirements for carbon-offset projects and in national REDD programs. These new policy objectives promise to provide a new and significant source of finance for certified sustainable forestry operations. To fully exploit these new opportunities, sustainable forest management certification systems may need adaptation, for example to include explicit recognition of the need to monitor and increase carbon stocks over time.

Meanwhile entirely new systems of certification are being evolved for sustainable bio-fuel production and for carbon sequestration which overlap with and have potential to come into conflict with existing systems of sustainable forest management certification. To ensure rational decision-making with respect to appropriate land use and forest management objectives and to reduce costs imposed on the forest sector, there is a growing need to co-ordinate and harmonize the various forest certification frameworks being evolved for sustainable timber production, sustainable biomass production and carbon sequestration.

To best enhance the role of forests in climate change mitigation, the various standards and certification systems that emerge from this process need first to avoid creating perverse incentives, for example encouraging deforestation, and second to promote a “cascaded” use of wood. New

research indicates that for many forest eco-systems, carbon storage may be maximized using management regimes targeting production of long-lasting wood products that may be recycled at the end of their life with only wood that would otherwise be wasted being used for energy production. In many instances, such management regimes are preferable to forest preservation regimes or the direct use of wood for energy from the point of view of GHG emissions.

The climate change issue adds even greater significance to the role of forest certification as a mechanism both to counter the preservationist impulse simply to lock up forests as a carbon store, which in many cases is likely to be a sub-optimal solution – and to ensure increased market access for sustainable wood products.

3.4.2 Development of legality verification

The on-going international effort to tackle illegal logging initiated originally by the G8 group of countries and coordinated through various regional Forest Law Enforcement and Governance (FLEG) processes has significant implications for the forest certification movement. However the scope and nature of the impact on supply and demand for certified wood products remains unclear. To some extent the impact will be dependent on the content and effectiveness of new legislation in the EU and US to discourage wood imports from illegal sources. Another area of uncertainty is the interplay between forest certification systems like the FSC and PEFC and the various emerging systems and procedures for legality verification.

Several legality verification systems have been developed in recent years to satisfy emerging market demands for assurances of legal wood supply. These include: SGS 'Timber Legality & Traceability Verification (TLTV); Eurocertifor-BVQi Origin and Legality of Timber (OLB); Tropical Forest Foundation Legal Verified label; Tropical Forest Trust Wood Control Systems; and Rainforest Alliance Verified Legal Origin (VLO) and Verified Legal Compliance (VLC). These various systems are becoming more widely used and visible in the market place. This has raised concerns in some quarters that rising demand for legally verified wood may deflect attention from sustainable forest management certification.

On the other hand, there are also reasons to believe that the emergence of legality verification systems will actively facilitate more widespread uptake of forest certification and labeling. Most private sector legality verification initiatives imbed legality verification procedures within a wider framework for stepwise certification. Legality verification is presented to clients not as the end of the process but rather as the first stage towards full compliance to a forest certification standard, typically FSC.

6. ENGO campaigns

6.1 European Environmental Paper Network

European Environmental Paper Network (EPPN) represents an attempt by the NGOs to co-ordinate and stimulate greater grass-roots activism relating to paper around a set of relatively simple goals: to reduce paper consumption and reliance on virgin fibre and to ensure clean production. The EEPN was formed in 2005 and comprises around 50 NGOs from 21 countries led by a steering group with Greenpeace, WWF, and Robin Wood notable members.

EPPN's Shrink campaign – which encourages individuals and companies to make a specific commitment to reduce their paper use - has probably been the highest profile to date. However uptake and impact has been relatively limited. The number of personal pledges reached no more than around 3000 EU-wide by the end of 2008, although these were boosted by a specific WWF "panda action" on the issue which brought the numbers up to 12000 by the end of January 2009.

The numbers of businesses that have signed up to Shrink remains very limited, the only notable EU companies being in the UK including Standard Life, a UK Financial Services company, and IPC Media, a large magazine and book publisher. Both companies are praised by the campaign for

adopting measures which look like sensible efforts to reduce waste and improve efficiency of paper use.

The industry response, coordinated by CEPI, has been to highlight that the European paper industry now fulfils sustainability criteria – so rising consumption of paper does not necessarily imply rising environmental impact.

6.2 WWF Guide to Buying Paper and Scorecard

The WWF Guide to Buying Paper and associated Scorecard is probably the most significant initiative in the EU designed to provide retailers and other companies with specific tools to improve their paper procurement practices. The WWF Guide suggests practical corporate measures to reduce paper consumption, collect waste paper for recycling, change to papers with higher recycled content, purchase from environmentally committed manufacturers, and select fibre from responsibly managed forests.

Buyers are encouraged to ask their suppliers to score their products against a simple Scorecard and to seek verification of this rating by a third party. Third party audited results are also presented on the WWF website. The Scorecard rates specific paper products on a scale of 1 to 100 based on their performance against a limited number of key environmental criteria.

Credit is given for: post-consumer recycled fibre and virgin fibre from FSC-certified forests; conformance to the FSC Controlled Wood standard for uncertified fibre; manufacturers' conformance to ISO14001; low dependence on fossil fuels during manufacture; unbleached or total chlorine free products; and reduced waste to landfill.

Some of the measures seem reasonable but there are bones of contention for the paper industry – notably WWF's continuing refusal to acknowledge anything other than FSC.