

**Report for AF&PA**

**Trade and Environment  
Program in Europe**

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“INFORMING THE SUSTAINABLE WOOD INDUSTRY”

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## Consultants commentary and highlights

European politicians seem to be determined to position the EU as the world leader in tackling climate change. This is partly a reflection of widespread public concern. According to a recent opinion poll taken by the University of Maryland's Program on International Policy Attitudes, nine out of ten Europeans think climate change is a serious world problem. But a recent article in the Economist suggests another reason for mounting political interest in green issues: Europe's search for a new role in the world as its political and economic influence in other areas has waned. According to the Economist: "*The EU has embraced greenery partly from conviction, partly to give itself a role in the world. Europe will rescue the environment from destruction; the environment will rescue Europe from irrelevance*".

Whatever the reason, this new commitment to greenery seems certain to be felt in the wider economy and society. At a summit in March, the 27 countries of the EU agreed to cut greenhouse gas emissions by 20 percent by 2020. They promised to deepen the cut to 30% if other rich countries joined in.

For the wood industry, concern for climate change is adding considerable political impetus to EU initiatives aimed at tackling illegal logging which is seen as a major contributor to tropical deforestation (which in turn results in higher carbon emissions). Europe's new-found commitment to greenery should present major new opportunities for the timber industry in the years ahead. New tougher energy efficiency standards in construction are being fashioned which should boost interest in wood with its excellent insulation properties. The London 2012 Olympic Development Authority has set out a strategy that positively encourages the use of sustainable timber. Carbon trading schemes promise to provide a significant new source of income for sustainable forestry operators. Scrutiny of wood from dubious sources is increasing, potentially providing a boost for legal and sustainable American wood products.

But there are also challenges for American wood suppliers, as European governments and companies are introducing procurement requirements specifying that wood must be traceable to forest of origin and forestry practices independently verified as legal and sustainable. Although objective assessments of forestry certification systems by the likes of the UK CPET have reduced the grip of FSC in European procurement policies, FSC still remains the favored brand for many end-users. And large influential organisations continue to publish exclusive policies - most recently the UK retailer M&S and twelve Housing Associations in the Netherlands.

At the same time, the major competitors to American wood suppliers in the European market are forging ahead with their efforts to ensure conformance to European procurement requirements. Increasing numbers of softwood suppliers from Nordic and Baltic countries, Russia and Canada are able to deliver certified wood products as standard with no price premium. In the hardwood sector, European oak and beech can be easily obtained either FSC or PEFC certified. Certified tropical hardwoods remain scarce and generally command a significant premium, but tropical suppliers are increasingly able to deliver "verified legal" hardwood at only a small premium. Moves to encourage Chinese plywood manufacturers to supply certified products are beginning to bear fruit.

Meanwhile the European Commission work on FLEGT is now focused on finalisation of FLEGT Voluntary Partnership Agreements with several "high risk" countries including Malaysia, Indonesia, Ghana and Cameroon. These should provide a platform for further increases in the supply of verified legal tropical wood products to the European market.

Environmental groups and some European industry groups pushing for a "level playing field", are agitating for more far reaching legislative measures to exclude illegal wood products. The European Commission is currently formulating its position on these "additional legislative options", which may include universal "legality licensing" or the introduction of a European equivalent to the Lacey Act.

## **1. Development of Forest Certification**

### **1.1 Overview of global certified forest area**

The global area of certified forest has increased rapidly in the last 2 years (Annex 1, Chart 1). Much of this recent growth has been concentrated in industrial forest lands of North America and in state-owned forest lands of transition countries, notably Russia.

Over the last two years, the large companies making up the Forest Products Association of Canada have been delivering on their commitment to achieve certification of all industrial forest lands. This has contributed to a big increase in the area certified under the CSA, FSC and SFI certification systems in Canada. This pace of growth is likely to tail off now that the vast majority of industrial forest lands in Canada are certified under one system or another.

Meanwhile, FSC has been making significant progress to certify large state-owned forests in various transition countries, notably Russia, Belarus and Romania. There remains significant scope for continued increase in certified forest area in these countries, although again the pace of growth may well slow now that a significant proportion of the more accessible and better managed state forests are already certified. Political issues are also emerging, particularly relating to national sovereignty, which contributed to a decision by the two organisations promoting development of national certification systems in Russia to link up and align with the PEFC framework. It remains to be seen what impact this will have on the future of Russian forest certification.

Elsewhere in Eastern Europe, it is likely to be a challenging task to extend certification amongst the large numbers of relatively small and often inexperienced private forest owners that control a significant portion of the forest estate. A number of national systems have emerged operating within the PEFC umbrella to provide certification services to these smaller owners. PEFC has endorsed certification systems catering mainly to small owners in Latvia, Czech Republic, and Slovakia, and endorsement decisions are pending on systems for Slovenia, Estonia, Poland, and Lithuania. To date however, only the Czech and Slovakian systems have certified a significant area of forest land.

Meanwhile the area of certified forest in Western Europe, which already accounted for a significant proportion of total forest area at the end of 2004, has seen only slow incremental growth over the last 2 years. A more significant change in this region has been the rapid uptake of both FSC and PEFC chain of custody certification which has meant that a much larger proportion the certified wood that is harvested can be delivered to the market as labelled product. Since the end of 2004, the number of chain of custody certificates issued in Western Europe by FSC has increased from 2263 to 3528 (including joint forest management/CoC certificates). Equivalent figures for PEFC are from 1808 to 2855.

A large part of the recent progress to expand forest certification has continued to be concentrated in western countries and in the transition economies of Eastern Europe and Russia. As a result the distribution of certified forest area and chain of custody certificates remains heavily skewed towards these countries (Chart 3). Only a tiny proportion (less than 2%) of total forest area in Latin America, Asia and Africa is currently certified under any system (Annex 1: Table 1, Chart 2). Chain of custody certification has been rising in a number of developing countries in recent times – notably China, Brazil, and Vietnam - but the vast majority of these certificates are still concentrated in Europe and North America (Annex 1: Chart 3).

### **1.2 Program for the Endorsement of Forest Certification (PEFC)**

#### **1.1.1 Status and area**

PEFC certified forest area at the end of March 2007 stands at 196 million hectares, up from 192 million hectares at the end of October 2006. The only significant changes were an additional 2.8

million hectares under the Australian Forestry Standard system and an additional 850,000 hectares under the CSA system.

Forests New South Wales (NSW) was by far the largest single entity PEFC certified in the last 6 months. The organisation which is responsible for managing over 2.4 million hectares of public forests in NSW was certified to the Australian Forestry Standard by NCS International in December 2006. Forests NSW is a public trading enterprise within New South Wales Department of Primary Industries.

Seven forest certification systems are currently undergoing the PEFC endorsement process. Lithuania has just submitted its forest certification system for PEFC endorsement and the UK for PEFC re-endorsement. Meanwhile public consultation for the assessment of the systems for Estonia, Gabon, Italy, Poland and Slovenia has now ended and assessment reports are being compiled.

### **1.1.2 New strategy in development**

Discussions are on-going within PEFC with the objective of developing a long term strategic plan for the organisation. PEFC has never before developed a long-term strategy – in the past forward planning has been restricted to operational plans for the next 12 months. During the second half of 2006, a SWOT analysis was undertaken and all PEFC members were asked to identify what they believe the organisation's goals and long-term priorities should be. A professionally facilitated strategy workshop for PEFC members was then held in Paris in January 2007. Several key themes have emerged including marketing, staffing, financial sustainability, and priority target regions for expansion (understood to include Russia, China, and South America). The PEFC Executive Board will hammer these general themes into a strategic plan during the course of 2007 and the plan will be presented for endorsement by the members at the next General Assembly (October/November).

### **1.1.3 Panel of experts to ensure greater international consistency**

Much of the criticism levelled against PEFC by environmental groups over the years has focused on the variable quality of the certification systems that have achieved PEFC endorsement. This in turn is seen as partly the result of inconsistent assessments of certification systems by the external consultants commissioned during the endorsement process. In an effort to counter these criticisms, the PEFC Council Board of Directors has taken steps to strengthen the endorsement process. At the end of 2007, the existing optional peer review of the external assessors reports by a 'Panel of Experts' became mandatory for all assessments and reassessments of certification systems. The Panel of Experts will act as a monitoring and quality assurance team for the publicly available assessment reports and provide advice to the PEFC Council Board of Directors that is ultimately responsible for any endorsement decision.

### **1.1.4 Marketing**

In most European countries, market recognition of the PEFC brand remains low compared to the FSC. PEFC is making some progress to rectify this, notably by ensuring recognition in government procurement policies in the UK, France and Germany, but there is a long way to go.

Judging from reports in the PEFC newsletter, marketing is very focused on business-to-business communication and is relatively low key. For example, the PEFC Council has been promoting PEFC through a seminar series on the theme "*Responsible Procurement - Why PEFC certification is good for Business*". Two seminars in London and Tokyo targeting paper producing, trading and printing companies were held in October last year and will be extended into 2007. PEFC national members have also been promoting PEFC through seminars for trading companies. For example, in 2006 PEFC Belgium held eight information seminars for companies. Meanwhile, PEFC national members in Austria, Belgium, Luxembourg and Germany have developed product databases allowing users to identify suppliers of PEFC certified products on-line.

While marketing has been low key, PEFC has been gaining support in the European paper sector which should help increase visibility of the brand. In the UK, Blackburn-based Heritage Envelopes recently became the first UK envelope manufacturer to use the PEFC logo across a range of their products. Heritage, one of the leading bespoke envelope manufacturers in Europe, produces over 45 million envelopes a week. Envelopes carrying the PEFC logo and accompanied by the statement “promoting sustainable forestry” are currently used by two of Britain’s largest banks – Royal Bank of Scotland and National Westminster. The UK also saw publication of the country’s first PEFC-certified book in November 2006. The book “*Tourism in the Middle East*”, which was published by Channel View Publications, features the PEFC logo on the first page and also carries a statement on the company’s commitment to using papers that “are made from wood grown in sustainable forests”.

Meanwhile, the Belgian mail-order company Collishop has announced that it will present all PEFC certified products in its new spring catalogues together with the PEFC logo and a short explanation on what the PEFC logo stands for. Collishop is part of the Colruyt group, one of the largest mail order service companies in Belgium. The Collishop catalogue is printed twice a year and goes to more than one million customers in Belgium.

In Austria, two leading paper merchants, Map Austria Ltd. and PaperNet Ltd., attained PEFC certification for their sites in Austria in the middle of last year and are now offering large volumes of PEFC-certified paper. Three Austrian printing companies are also chain of custody certified and labelling their products with the PEFC logo. The largest of these, Ferdinand Berger Ltd., prints the magazine *AutoTouring* with the highest circulation in Austria and a print run of 1.3 million copies per month.

In France, PEFC has been working with the French national printers’ federation FIGG in an effort to encourage the organisation’s 6,000 member companies to achieve PEFC group chain of custody certification. In January 2007, the collaboration reached a new stage when the first group of printers was certified to PEFC. It is expected that there will be about 60 printers certified to PEFC by the end of 2007. Also in France, the paper company Condat recently published newspaper adverts on becoming the first company to launch a 100% PEFC certified paper line in the country.

## **1.2 Forest Stewardship Council**

### **1.2.1 Status and area**

FSC certified forest area stood at 88 million hectares at the end of March 2007, up from 79 million hectares at the end of September 2006. All the most significant increases in the last 6 months have been in Russia (up 4.8 million hectares to 14.7 million hectares), United States (up 1.5 million hectares to 9.3 million hectares) and Canada (up 0.8 million hectares to 18.9 million hectares). FSC certified forest area has remained stable in all other regions.

### **1.2.2 FSC claims status as “the internationally recognised standard for forest management”**

The FSC has released a paper arguing that national governments specifying FSC in public procurement is in line with WTO rules. In fact, the paper implies that countries that are signatories to the Agreement on Government Procurement (GPA) may be obligated to commit to the FSC standards. The argument hinges on FSC’s controversial claim to equivalency with the ISO as a body competent to develop international standards.

The paper claims that the FSC Principles and Criteria meet the requirements set by WTO for international standards. Referring to a WTO document (TBT Agreement Annex 3), the paper states that recognized international standards are set by international organizations whose mandate includes the promulgation of standards, with an international scope, open membership, open standard development and decision-making. FSC claims that it meets all these requirements. FSC claims it is further qualified by virtue of: its compliance with the ISEAL Alliance Code of Good

Practice for Setting Social and Environmental Standards; its compliance with ISO standards for accreditation; the fact that it has certified state-owned forest enterprises and received state funding from government authorities; its recognition by the World Bank; and because it is referenced in government specifications.

The FSC paper goes on to suggest that countries that have signed the GPA are not only explicitly allowed to include non-economic factors (such as environmental and social aspects) in procurement decisions, but also that “*where international standards exist, procurement specifications are required to be based on these international standards*”. GPA is an agreement that regulates government procurement. GPA signatory countries include The United States, Canada, countries of the European Union, Switzerland, Japan, Korea, Hong Kong and Singapore.

The paper can be interpreted as an effort by FSC (and the ISEAL Alliance) to depose the primacy attached to the ISO framework and various inter-governmental processes as the most appropriate fora for development of international standards with a bearing on social and environmental issues. The paper is available at:

[http://www.fsc.org/keepout/en/content\\_areas/29/71/files/Fact\\_Sheet\\_on\\_Procurement\\_2006\\_12\\_15.pdf](http://www.fsc.org/keepout/en/content_areas/29/71/files/Fact_Sheet_on_Procurement_2006_12_15.pdf)

### **1.2.3 FSC expands in the Mediterranean**

An FSC National Initiative was launched in Portugal in December 2006 at an event in Lisbon organised by the WWF which gathered around 200 representatives from environmental, economic and social sectors. An FSC working group is already set up in Portugal.

Meanwhile, the Moroccan government has decided to certify their national forests under the FSC system. The effort is led by Morocco's High Commissariat for Water and Forests and Combating Desertification (HCEFLCD) and is supported by the WWF. The commitment to FSC certification is part of the country's efforts towards biodiversity conservation and in securing the income of local communities. The kingdom's nine million hectares of forest lands and 'steppes' are critical in the fight against desertification. Pre-assessments of the first two forest areas began in February 2007. Over the next months a National Working Group will be set up in Morocco and will be tasked with developing national FSC standards for Morocco.

### **1.2.4 Final Harry Potter book on FSC paper**

The seventh and final book in the Harry Potter series will be printed on FSC paper. Totalling \$43 million, this is the largest purchase of FSC-certified paper for a single book printing to date. SmartWood, the FSC accredited certifier, worked with the publisher, Scholastic Inc., to develop a plan to buy FSC-certified paper. For the initial print run of 12 million copies in the United States, Scholastic is committed to ensuring that 65% of the 16,700 tons of paper used is FSC-certified. In addition, all the paper used in the print run will contain at least 30% post-consumer waste fiber.

### **1.2.5 Australian Paper promotes FSC**

Australia's leading paper manufacturer, Australian Paper, has launched a nationwide media campaign promoting its FSC certified paper products. In conjunction with this market development, Australian Paper is launching a number of new FSC certified papers. Australian Paper gained FSC certification last year after introducing changes to its sourcing strategies and negotiating supply agreements with FSC certified producers and forest managers. Australian Paper is actively working with a number of major Australian companies to incorporate Australian FSC certified and recycled paper in their purchasing policies. Australian banks and major companies in the mining sector are leading the way in changing paper sourcing strategies.

### **1.2.6 Suspension of certificate in Guyana**

On 10 January 2007, Barama Company Ltd's FSC certification in Guyana was suspended by SGS-

Qualifor (SGS) for failure to comply with certain conditions under the certificate. The suspension was initially for three months. The suspension came after both Barama and SGS-Qualifor were found to be deficient at varying levels by Accreditation Services International (ASI) – FSC's accreditation service - after an audit late last year.

The FSC's Annual Surveillance of SGS for 2006 found that Barama had been deficient on a number of fronts, including harvesting on Amerindian reservations, logging outside of its concession, basic health and safety requirements for workers, no evidence of sustainability in harvesting, failure to perform the relevant environmental impact assessments and the unsafe disposal of environmentally hazardous waste.

Barama was awarded FSC certification in February 2006 for 570,000 hectares of its forests in west central Guyana by SGS. WWF provided financial and technical support to Barama in the process leading up to its successful certification. Barama's certification was contingent upon correcting several minor deficiencies, for which SGS issued "corrective action requests" (CARs). These CARs detailed mandatory improvements in Barama's performance in the areas of worker housing, hygiene and safety, road planning and several other issues. These CARs formed the basis of SGS's monitoring audit in November 2006. The suspension reflected a failure on the part of Barama to carry out many of the improvements in line with the CARs.

However in March 2007, Barama reported that it was *"confident of being back in good stead with the FSC after a pre-audit inspection by the WWF showed that the company has fulfilled most of the corrective actions required"*. The company also said it was not going to turn back on the FSC programme, whatever the cost. The company remained committed to eventual FSC certification of their entire concession in Guyana, totalling 1.6 million hectares.

### **1.2.7 Allegations of a progressive erosion in FSC Chain of Custody standards**

Prompted by a recent report in the FSC Newsletter on the introduction of multi-site certification, environmentalist critics of FSC reporting at [www.FSC-Watch.org](http://www.FSC-Watch.org) claim that there has been a progressive erosion of FSC chain of custody standards. FSC-Watch criticise the FSC chain of custody process on a number of fronts, claiming that it *"does not require checking or labelling all the way through to the end-user or retailer, nor does it provide information on the actual FSC-certified source of the products which are in the chain"*. The report suggests that certifiers have on occasion overlooked major irregularities when certifying corporate chain of custody systems. Furthermore, quoting from *"an FSC report obtained by FSC-Watch"*, FSC Watch claim that over the years, around 2,000 FSC Chain of Custody certificates have been suspended or cancelled. FSC Watch suggest that *"It seems highly doubtful that the FSC has managed to ensure that all the products passing through these thousands of de-certified chains of custody have, in fact, been 'de-labelled' as having a Chain of Custody certificate"*. FSC-Watch allege that the new multi-site procedures, together with FSC's volume credit systems and controlled wood standards increase the chances of fraud and misuse of the FSC label.

## **2. International Agreements and institutions**

### **2.1 European Union**

#### **2.1.1 FLEGT VPA Negotiations**

The European Commission continues to focus efforts on negotiation of Voluntary Partnership Agreements with "high risk" supplier countries. Three countries have entered into formal negotiations with the EU – Ghana, Malaysia and Indonesia – with Cameroon and possibly Liberia expected to follow soon.

Malaysia first announced its intention to enter into a FLEGT VPA with the EU in September 2006. The country held a first round of FLEGT negotiations with the EU in January 2007. A World Bank report suggests that the Malaysian government sees promise in the VPA process as both a



demonstration of the Malaysian timber industry's commitment to legal/sustainable forest management, and a method to maintain and enhance market access to the EU. The next steps to achieve these goals will be establishing a practical definition of legality. The government of Malaysia is expected to propose that the Malaysian Timber Certification Council play a key role in VPA licensing requirements. The Malaysian Government has given an assurance that the VPA negotiations will be a participatory process welcoming input from diverse stakeholders. However, Malaysian civil society groups remain cautious about these discussions, stressing the necessity of transparent and open proceedings and taking native and customary rights to forests into account when constructing a definition of legality.

In Indonesia, following a March 2005 Presidential Instruction to control the legality of wood products, the Ministry of Forestry established a national working group in early 2006 to facilitate a multi-stakeholder dialogue on the development of an EU-Indonesia VPA. This process began with the first National Workshop on April, 2006, followed by discussions with the EU, regional workshops, and a second National Workshop in November 2006. On January 8, 2007, Indonesia and the EU officially agreed to tackle illegal logging through a FLEGT VPA. As formal negotiations have only recently begun, the key elements of the partnership are yet to be defined. The discussions will be informed by a study, currently underway, on the potential impacts on Indonesia. A final draft of the Indonesian legality standard and verification system was finalized in early 2007 and awaits official approval.

Ghana has already concluded consultations and preparations for its VPA with the European Union and has officially begun negotiations. A Steering Committee, comprised of government officials, timber industry representatives, a facilitator from IUCN and a local NGO coalition called Ghana Forest Watch, was established in May 2006 to guide the process. In December 2006, the Government of Ghana and the EU committed to a VPA. Although formal negotiations have only recently begun, the Steering Committee has already put forward some of the Ghanaian government's positions. Most notably, social issues and civil society empowerment are given top priority. Verification of legality is viewed as a stepping stone to sustainability for the forest sector overall — not just for exports to the EU — rather than as a goal in and of itself. Both sides aim to finalize the VPA by November 2007.

Cameroon is anticipated to become the next country to sign on to a VPA process. Cameroon can already claim to be the first country in Africa with a document providing a practical definition of legality in the forest sector. Initial meetings between the EU and the Cameroonian government took place in 2005. A technical study has assessed the status of chain of custody systems, and shortcomings identified are being tackled. A workshop in October 2006 invited stakeholders to discuss standards of legality. The German Agency of Cooperation (GTZ) is providing support to Cameroon for the development of the VPA.

In Liberia, a major forest reform process is currently underway with the objective of putting the country on the path to sustainable forest management. A forestry law was adopted in October 2006 and a process is now underway to work towards a community rights bill. Once this has been completed, there should be a firm legal basis for VPA negotiations to begin with the EU.

Environmental groups have developed a website [www.LoggingOff.info](http://www.LoggingOff.info) to report and exchange information on the VPA negotiations. Each VPA country has a page dedicated to it, with background papers and links to relevant resources and fora where stakeholders can post updates on the VPA process and upload documents.

### **2.1.2 EC consultation on “Additional Legislative Options”**

Meanwhile the European Commission has been hosting a series of “additional options” consultations. The Commission has come under pressure from certain groups – notably NGOs and trade and industry representatives in north western Europe – to go beyond the development of VPAs. A series of studies have been commissioned (e.g. from Chatham House) exploring how existing European legislation may be used to counter-act the illegal timber trade. A public

consultation on additional legislative options was held between January and March 2007.

Main options under consideration are:

- Reliance on FLEGT VPAs;
- Further development and promotion of private sector action;
- Make it an offence for importers to trade in wood from illegal sources, so that prosecutions could be pursued if sufficient evidence were gathered that a specific parcel of wood derives from an illegal source (i.e. burden of proof lies with the prosecution).
- Introduce mandatory legality licencing, so that importers would have to demonstrate that all wood derives from a legal source (i.e. burden of proof lies with the timber trader).

At present the EC remains neutral with respect to the various additional options. Future policy will be guided by the outcome of the public consultation process and by the results of an impact assessment of the various options.

### **2.1.3 New guidelines impose new environmental conditions on EU state aid for forestry**

On 6 December 2006 the European Commission adopted State aid guidelines for the agriculture and forestry sector for the financial period 2007–2013. Unlike the previous guidelines, the new guidelines prohibit existing plantations from receiving State aid. State aid can now only go towards 'living trees' and their natural environment in forests if the Member State can demonstrate that the measures directly contribute to maintaining or restoring the ecological, protective and recreational function of forests. The new guidelines also restrict State aid for measures that would cause irreparable damage to bog and swamp forest. 'Drainage measures' and 'soil improvement measures' are only accepted when they do not reduce biodiversity, cause nutrient leaching or adversely affect natural water ecosystems or water protection. However, State aid can still be used to establish plantations on non-forest land, without accompanying conditions relating to the environment and biodiversity loss.

Available at:

[http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/c\\_319/c\\_31920061227en00010033.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/c_319/c_31920061227en00010033.pdf)  
(paragraph 173 onwards)

### **2.1.4 EU biofuels commitment stirs up controversy**

At a summit in March, the 27 countries of the EU agreed to cut greenhouse gas emissions by 20 percent by 2020. In order to achieve this ambitious goal, European officials are placing a lot of emphasis on developing new sources of renewable energy. Biofuels alone are expected to account for 10 percent of transport energy.

The commitment to biofuels reflects the fact that Europe is rich in crops like flax and rapeseed and plenty of other crops and byproducts that may be used to make energy. However, there is considerable concern being expressed by both the forest products industry and environmentalists, that setting binding targets on biofuel use could do more harm than good.

The European wood and paper industries are concerned about the detrimental effects on the wood market of rising demand in the energy sector. The Confederation of European Paper Industries (CEPI) suggests that diversion of wood fibre to the biofuels sector has led to severe local shortages and price increases ranging between 25% and 600%. CEPI complains that the biofuels sector benefits from unfair state support. According to a CEPI fact sheet issued in March 2007 "*CEPI firmly believes that wood should be used for high value-added, job creating applications. In a study carried out by Pöyry for CEPI, the comparison of the pulp and paper chain and the renewable energy chain shows clearly that the paper industry creates 4 times more value and retains 6 times more jobs than the biomass energy sector*". CEPI has drawn up a joint position on bio-energy policy in conjunction with the WWF. Among the areas agreed are positions on equal sustainability/certification requirements for wood biomass vs. wood raw material, facilitated wood mobilisation, short rotation forestry, and wood resource assessment.

Environmental groups are also questioning the environmental benefits of the EU's biofuels policy. For example, the Brussels-based NGO FERN suggests that there is "*growing evidence that even the EU's current target of 5.75 per cent biofuel by 2010 – which the Commission does not expect to be met – is spurring forest destruction and the conversion of biodiversity-rich ecosystems across the world, from South America to Southeast Asia*". FERN is particularly concerned about the prospect of rising EU demand for palm oil which derives from plantations established through conversion of natural tropical forest.

The European Commission's position is essentially that they are sensitive to the environmental pros and cons of biofuels - but that these concerns should not outweigh the need to boost Europe's biofuels industry, especially when European public opinion is growing more concerned over global warming, and increasingly pressing governments to act. The Commission has also said that it plans to issue "green certificates" to biofuel producers in developing countries who export to Europe. The European Commission will be presenting proposals for revising the existing EU Biofuels Directive during 2007.

## **2.2 OECD Round Table on Sustainable Development**

On January 8-9 2007 the OECD Round Table on Sustainable Development brought together 13 ministers from countries including Indonesia, Japan, and Ghana together with other stakeholders to discuss the possibilities for strengthening international efforts to stop illegal actions in the forest sector. Three key messages highlighted at the discussions were:

(a) avoided deforestation under emerging climate change regimes is an important opportunity for the international forest community, and forest experts should be involved in the early design of financing mechanisms and the allocation of benefits;

(b) interagency communication within and between countries is a crucial factor in the success of FLEG programs and finance ministries and custom agencies need to co-operate through dedicated forums;

and (c) there is an urgent need for more information and analysis on the cost of certification and its effect on relative competitiveness.

More information can be found at [www.oecd.org/sd-roundtable](http://www.oecd.org/sd-roundtable) or by contacting Richard Doornbosch, OECD at [richard.doornbosch@oecd.org](mailto:richard.doornbosch@oecd.org).

## **2.3 International banks encourage certification**

Since signing the Equator Principles in June 2003, international private sector financial institutions have become increasingly engaged in developing policies to ensure that loans in the forestry sector are directed only to legal and sustainable forest operations.

The Equator Principles are a set of voluntary guidelines for the categorization, assessment and management of social and environmental risks in the project finance sector. To date, 45 financial institutions have signed on to the original Equator Principles, and 39 have already adopted a revised set of Equator Principles (introduced in July 2006) with the remaining likely to join shortly. Together, the original members represent approximately 85% of global cross-border project finance, and include some of the world's largest project financiers. In recent years, export-credit agencies and multilateral development banks have also signed on to the Equator Principles, which have since become the de facto standard for all banks and investors on how to deal with potential social and environmental effects of projects to be financed.

The Equator Principles are based on the International Finance Corporation's (IFC) Policy and Performance Standards on Social and Environmental Sustainability (revised April 2006). By signing the Equator Principles, financial institutions are committed to not providing loans to

borrowers that are not willing or able to comply with IFC Performance Standards. While broadly applicable to a wide range of industrial sectors, including extractive industries, infrastructure and manufacturing, the IFC Standards include specific prohibitions with respect to forest operations.

The IFC standards specifically require that forest resources be managed in a sustainable manner. Lending to forest operations that lead to the conversion or degradation of natural forests is expressly prohibited. There is also a clear requirement for a comprehensive social assessment for all proposed loans and also for indigenous peoples' informed participation in such an assessment. The client must also demonstrate sustainable management through an appropriate system of independent certification. An appropriate certification system is defined as *"one which is independent, cost-effective, based on objective and measurable performance standards and developed through consultation with relevant stakeholders, such as local people and communities, indigenous peoples, civil society organizations representing consumer, producer, and conservation interests. Such a system has fair, transparent, independent decision-making procedures that avoid conflicts of interest."* Furthermore forestry standards must meet *"performance standards compatible with internationally accepted principles and criteria for sustainable forest management."*

The IFC standards do, however, include scope for a phased approach to forest certification, stating that: *"where a pre-assessment determines that the operation does not yet meet the requirements of such an independent forest certification system, the client will develop and adhere to a time-bound, phased action plan for achieving such certification"*.

Several of the world's leading banks – including the four largest (by shareholder equity) - have been encouraged to develop internal policies that go even further than the Equator Principles in setting out criteria for loans in the forestry sector.

Citigroup, the world's largest bank, has developed a policy designed specifically to ensure that no loans are made to clients engaged in illegal logging. The bank has developed procedures whereby countries are assessed to be high or low risk with respect to illegal logging. In high risk countries the policy requires that clients in the forestry sector must achieve independent certification within a time frame agreed between Citigroup and the client. Furthermore, FSC certification is mandatory *"where there is a significant threshold of concern about the legitimacy of forest operations"*.

JP Morgan Chase, the world's second largest bank, has developed a policy which *"prefers FSC"* when the bank finances forestry operations that may impact high conservation value forests *"unless a comparable assessment process underpins a conservation plan"*. However the Bank also states that *"we will review and understand the merits of the different internationally accepted forestry certification standards to better understand best practices."*

Bank of America, the world's third largest bank, has a policy which prohibits any loans for forest operations in primary tropical forests or *"intact forests"* as defined by the World Resources Institute. Loans may only be made for forest operations in primary temperate and boreal forest if these are independently certified. The Bank's policy states that it will be evaluating the value of certification programs in association with *"existing environmental alliances"*. This Bank also has a detailed procurement policy for paper products setting out criteria for appropriate forms of independent certification which draws heavily on SFI documentation.

HSBC, the world's fourth largest bank, states with respect to loans to forest operations a *"preference to deal with customers operating to FSC or an equivalent FSC-recognised standard."* While the bank will accept clients that are not FSC certified, it requires that all clients are *"following a credible path to achieve [FSC] compliance"*.

Barclays, one of the UK's largest banks and one of the world's largest cross border lenders has not published a policy specifically relating to forestry operations. However, its most recent annual environmental report includes a forestry case study designed to demonstrate the bank's level of environmental commitment. Barclays reports that during 2006 *"we had the chance to start a new relationship with a client operating internationally.... The deal we were asked to look at was not*

*project finance or a loan, but given the nature of the business we went ahead with a full review of the Company's environmental and social management systems and policies, following the spirit of the Equator Principles. Our reputational risk committee also considered the matter. In the end we decided not to go ahead – even though the Company had started to work in a more sustainable manner, we felt we needed more proof that this was a long-term commitment. Forest Stewardship Council certification would be one way of demonstrating this, or membership of a recognised industry body.”*

While these large banks represent the majority of cross-border lending and other financial services it would be wrong to overstate their influence over social and environmental policy. Such banks can be, and frequently are, undercut by other financial institutions that have not adopted similar environmental or social safeguards. In many cases, locally based lending institutions and export-credit agencies still do not have or lack the capability to implement environmental or social safeguard policies.

Meanwhile direct ENGO pressure on these large banks to conform to the Equator Principles is rising. An ENGO group “Banktrack” has been established with the specific aim of monitoring and reporting on conformance ([www.banktrack.org](http://www.banktrack.org)). Most recently they were alleging that the ANZ Bank of Australia was failing in its commitment to the Principles because one of its clients – the Tasmanian paper company Gunns – was seeking to develop a controversial pulp mill in the Tamar Valley in northern Tasmania. Banktrack are also critical of Credit Suisse, HSBC and Australia-based Macquarie for underwriting the initial public share offering of Samling, the Malaysian forestry operator, on the Hong Kong Stock Exchange.

#### **2.4 Role of CITES to tackle illegal logging**

Commissioned by the Program on Forests (PROFOR) at the World Bank, TRAFFIC International have published a study on “*The Role of CITES in Combating Illegal Logging — Current and Potential*”. Describing CITES as “*the only international mechanism that could regulate international trade in wild species, including timber,*” author Chen Hin Keong details the opportunities and challenges to using CITES to enhance forest governance and limit the trade of illegally harvested wood. The study finds that there are several elements of the convention that address FLEG issues, in particular its function as a monitoring system and data repository, the sustainability requirements of Non-detriment Findings (NDFs) for Appendix I and II species and the obligation of the Parties to adhere to domestic laws protecting wild plants and animals. The report includes four annexes of cases studies of CITES-protected species: big-leaf mahogany, agarwood, ramin, and alerce. The full report is at <http://www.traffic.org/content/709.pdf>

#### **2.5 FAO State of the World's Forests 2007**

FAO have just released their State of the World's Forests 2007 report. The report evaluates progress towards SFM at regional and global scales, and discusses eighteen selected issues in the forest sector, including climate change, forest tenure, trade, and wood energy. The report shows that global deforestation remains a major problem and that the world lost 3% of its total forest cover between 1990 and 2005.

The report shows that half of global forest loss during the 1990-2005 period was in Africa. The region lost 9% of its total forest cover during that period. Progress towards SFM has been very uneven in Africa. However the majority of African countries have new forest policies and laws and the region is active in developing innovative regional approaches.

On Asia and the Pacific, the report shows that forest area throughout the region as a whole actually increased during the 2000-2005 period, reversing a major decline in the previous decades. However, the increase was confined mainly to China, where a large investment in plantations offset declines elsewhere in the region. The rate of deforestation continued to accelerate in South East Asia. The report suggested that countries with expanding forest areas in the region tended to be those with high income. This implies that rapid economic growth provides more resources for



forest management.

The report notes that deforestation in Latin America accelerated during the 2000-2005 period, however it also commends the large increase in the area designated for biodiversity conservation in the region and that regional cooperation to improve forest management is gaining strength.

The report suggests “*it is tempting to conclude that Europe has achieved sustainable forest management*”, pointing to stable forest cover and strong regional policy mechanisms and institutions. However it also notes areas of concern in Europe, including declining employment and income derived from the forestry sector, and the challenges of ensuring good management amongst private owners in transition countries.

The report notes the stable forest cover in North America and refers to the strength of the region's forest institutions. However as in Europe, it is noted that the forest sector's contribution to the regional economy is declining. It is also noted that North America has shifted from being a major net exporter of forest products to a major net importer during the last decade.

The full report is available at:

<ftp://ftp.fao.org/docrep/fao/009/a0773e/a0773e00.pdf>

## **2.6 UNFF Preparations**

A key political event for the international forestry sector is scheduled for April 2007. The United Nations Forum on Forests (UNFF) is due to meet for its seventh session to adopt a non-legally binding instrument (NLBI) on all types of forests. The UNFF must also to adopt a new multi-year programme of work (MYPOW) for the next nine years. A preparatory meeting was held in Indonesia during February. This meeting developed a broader understanding of the various concepts and elements to be included in the MYPOW. It also provided recommendations to UNFF-7 regarding the structure and substance of the MYPOW. It focused mainly on the agenda for future UNFF policy discussions. A full report of the preparatory meeting is available at:

<http://www.iisd.ca/ymb/mypow/html/ymbvol134num4e.html>

## **2.6 East Asia and Pacific Forest Law Enforcement and Governance (EAP FLEG)**

A Second Ministerial meeting in the EAP FLEG process is now scheduled for the first quarter of 2008 in Manila, Philippines. The Association of South East Asian Nations (ASEAN), a key regional institution, now officially supports the process and will soon inform the EAP FLEG secretariat on specific areas for collaboration where ASEAN can contribute. EAP-FLEG future activities are expected to focus on three areas: regional customs cooperation; forest sector transparency; and country reporting. As a follow up to the Bali Declaration from 2001, a ministerial “statement of intent” or a ministerial “resolution”, encompassing action programs for these three areas, is expected to be endorsed at the Second EAP FLEG Ministerial.

## **2.8 Central America FLEG**

Since early October 2006, the Central American Commission for Environment and Development (CCAD) and the Consejo Agropecuario Centro Americano (CAC), and the World Bank have been working to develop a strategy for a FLEG regional initiative in Central America. The CCAD Executive Secretariat, CCAD's Forestry Technical Committee, the IUCN Regional Office for Mesoamerica, the Asociacion Coordinadora Indigena y Campesina de Agroforesteria Comunitaria (ACICAFOC), GTZ and Tropenbos (Netherlands) have completed an initial proposal for a FLEG regional initiative that is expected to result in a Central American FLEG Ministerial Declaration that would outline commitments and indicative actions to combat illegal logging, associated trade and other forest crimes in Central America. This initiative is being developed within the framework of the forest ecosystems governance component of the Programa Estrategico Regional par el Manejo de Ecosistemas Forestales (PERFOR). For more information contact Mr. Danilo Saravia, CCAD, at [dsaravia@sica.int](mailto:dsaravia@sica.int)

## **2.9 Europe-North Asia Forest Law Enforcement and Governance (ENA FLEG)**

### **2.9.1 New Russian Forestry Code**

After nearly three years of debate, Russia's new Forest Code took effect on January 1, 2007. The Code provides a new legal framework under which many forest administrations functions are delegated from Moscow to the provincial governments, and industrial forest users would assume comprehensive forest management obligations under competitively awarded long-term forest leases. Over 60 new regulations and by-laws will need to be developed during 2007 - many at the provincial level - to make the law fully operational.

### **2.9.2 National Action Plans for Illegal Logging**

A key component of the ENA-FLEG process are a set of "*Guidelines for Developing FLEG National Action Plans*" that was presented at an ENA FLEG held in Antalya, Turkey, in May 2006. President Putin has mandated the creation of a Russian National Action Programme (NAP) to prevent illegal logging and related crimes. The NAP aims to reduce illegal logging in Siberia and the Russian Far East by 20–30 % within the first two years through a broad array of activities constructed around five goals: improving legislation, ameliorating state governance, optimizing forest management, implementing targeted socio-economic mechanisms and fostering international cooperation. President Putin's decision to push forward the NAP upholds commitments that Russia agreed to in the St. Petersburg Declaration, adopted at the ENA FLEG Ministerial Conference in November 2005.

Kyrgyzstan in Central Asia has also begun work to develop a national strategy based on the "Antalya methodology". So far Kyrgyzstan has collected appropriate data, undertaken a detailed analysis of the legal framework, and begun stakeholder consultations in line with the methodology. A Kyrgyz FLEG group has been formed, with support from Swiss Intercooperation, which includes representatives of the State Agency for Environment Protection and Forestry, the National Agency for Local Self Governance Affaires and civil society. In spring 2007 a workshop will be held to further elaborate the Kyrgyzstan national action plan. Representatives from neighboring countries will be invited to the workshop, helping to facilitate the sharing of lessons learned at the regional level.

## **3. National Procurement Policies**

### **3.1 Germany announces procurement policy recognising both PEFC and FSC**

In January 2007, the German federal government announced that all wood procured by its services will have to be from verified sustainable sources. Both PEFC and FSC certificates will be accepted. Other certificates or supplier specific evidence must comply with either FSC or PEFC national standards in the respective producer country. Compliance of alternative evidence will be assessed by the Federal Forestry Ministry (Bundesforschungsanstalt für Forst- und Holzwirtschaft - BFH) in Hamburg and the Federal Environment Ministry (Bundesamt für Naturschutz - BFN) in Bonn at the cost of the supplier. This procurement regime will be valid for a period of 4 years. Reviews of the scheme may occur if necessary. All wood products except paper and paper products fall within the scope of the new policy.

### **3.2 UK**

#### **3.2.1 Legal and sustainable mandatory from 2009**

On 5 March 2007, the UK government presented its Sustainable Procurement Action Plan. Along with the aim of achieving a saving of 1 million tonnes of CO<sub>2</sub> emissions by 2020, the Action Plan announced a change in timber procurement policy to be implemented by 2009. '*From 1 April 2009 only timber and timber products originating either from independently verified legal and sustainable*

*sources or from a licensed Forest Law Enforcement, Governance and Trade (FLEGT) partner will be demanded for use on the Government estate – appropriate documentation will be required to prove it. From 1 April 2015, only legal and sustainable timber would be demanded*. This is a tightening of the existing policy that requires legal timber but only prefers sustainable timber, and brings UK policy in line with Dutch policy, which requires exclusive use of sustainable timber by 2010.

### **3.2.2 London Olympic's to favour wood, but it has to be certified**

In January, the Olympic Development Authority launched their "Sustainable Development Strategy" intended to ensure that London 2012 is remembered as the 'Greenest Games in modern times'. Low Carbon, low waste, green transportation and high re-use of materials during construction are at the fore-front of the strategy. According to the press statement, the strategy "*will ensure that, during the construction phase, the ODA will set new standards for the sustainable design and construction of major sports venues and infrastructure used for the Games. It sets challenging performance measures for tackling climate change, maximising use of sustainable transport, minimising and re-using waste.*"

The UK timber trade and industry has been focusing heavily on ensuring that wood's environmental credentials are given full recognition. So far, these efforts appear to have been largely successful. Under the materials section of the ODA Strategy, particular emphasis is placed on the the "embodied impact of materials". The strategy states that "*The specification of the major building elements will be expected to achieve an area-weighted average rating of A or B as defined in the current third edition of the Green Guide to Building Specification (due to be updated in 2007).*" Wood products regularly achieve an A rating in the Green Guide to Building Specification.

The materials section of the ODA strategy also emphasises responsible sourcing. The approach adopted seems reasonably rigorous and fair, relying on CPET guidance and extending requirements for chain of custody to non-wood products. The Strategy notes that "*Suppliers will be asked to demonstrate, as appropriate, responsible sourcing of materials by providing evidence of the existence of legal sourcing, environmental management systems, or through the use of chain of custody schemes. With reference to timber, the ODA expects all timber to come from known legal sources. The ODA will also seek to maximise timber from sustainable sources, with appropriate supporting evidence as defined by the UK Central Point of Expertise on Timber (CPET)*".

The Olympic developments in London will be on a massive scale, comprising 11 main sports venues, a media centre, an athlete's village housing more than 17,000 people, plus associated infrastructure, including the construction of 23 bridges.

### **3.2.3 Majority of wood supplied to the UK is now certified**

According to a report issued by the Timber Trade Federation, 56% of the volume of wood products (including logs, lumber, veneers, plywood and panels) imported into the UK in 2005 was certified. However the volume varied widely depending on product group. A significant proportion of UK imports of OSB (98%), MDF(88%), particleboard (77%), sawn softwood (58%) and softwood plywood (47%) were certified. In contrast only a small proportion of hardwood plywood (24%) and sawn lumber (11%) were certified. The report also included the results of a survey of UK companies involved in wood importing which indicated that only around 1 in 10 of their customers were demanding that goods be certified. The TTF survey suggested that demand at the level of the end-user remains very restricted.

Contacts with the UK trade tend to confirm the conclusions of the TTF study and emphasise the importance of the large distributors and merchants in driving the UK's market shift to certified product. A recent discussion with one of the UK's largest timber and building materials suppliers seems particularly revealing. This company, which has over 400 branches nationwide and annual timber sales of around £250 million, is implementing a policy to move to 100% certified wood. The



company's latest data indicates that around 54% of company wood purchases were certified in 2006. So the volume of demand generated by this company's procurement policy is considerable. However, the company's data also shows that onward sales to end users specifying that wood must be supplied as certified accounted for only 1.5% of total sales in 2006.

The importance of corporate procurement policies in generating demand for certified wood in the UK is underlined by various corporate pronouncements in recent weeks. Travis Perkins, one of the UK's largest builders merchants, has announced a goal of having 85% of all the timber it supplies certified by the end of 2008. Currently 73% of the group's timber supplies are certified, the majority FSC with the balance comprising FSC and SFI products. Travis Perkins aims to achieve the target by encouraging more of its direct suppliers to undergo chain of custody certification and also by working with organisations like the Tropical Forest Trust to drive certification in supply countries.

Meanwhile, Marks and Spencer's, one of the UK's largest retailers, announced that it intends to push ahead with its £200 million "Plan A" green scheme which includes a commitment to source wood from the Forest Stewardship Council "or equivalent". More than 50% of M&S's home products are in timber including a wide range of furniture products. Efforts by PEFC to convince M&S to adopt a more flexible policy have so far failed. M&S have only said that they conceded that they would consider non-FSC schemes "as a last resort".

### **3.4 Denmark, UK and Netherlands work to harmonise procurement policy**

Denmark, the Netherlands, and the United Kingdom are working to harmonize national green procurement policies for timber. Teams from the three countries are comparatively evaluating their respective purchasing criteria for "legal" and "sustainable" timber and weighing options to better align their approaches. Last year the Netherlands government decided to use the UK's criteria for legality, accepting the validity of five certification systems (CSA, FSC, MTCC, PEFC and SFI). Denmark expanded its procurement policy in 2006 to cover all types of timber and launched temporary guidelines for purchasing timber recognizing the same five. Denmark is currently in the process of revising both legality and sustainability criteria and a draft for public comments is expected in early 2007. All three countries have developed assessment criteria for acceptable types of documentation (Denmark's are currently under revision) and their comparison reveals compatible requirements on key aspects. All three countries have agreed to continue their collaboration for more harmonized and transparent requirements for timber procurement.

For further information, contact Bob Andrew, UK Department for Environment, Food and Rural Affairs ([bob.andrew@defra.gsi.gov.uk](mailto:bob.andrew@defra.gsi.gov.uk)), Janneke de Jong at the Netherlands Ministry of Housing, Spatial Planning, and the Environment ([janneke.dejong@minvrom.nl](mailto:janneke.dejong@minvrom.nl)) or Christian Lundmark Jensen of the Danish Forest and Nature Agency ([clj@sns.dk](mailto:clj@sns.dk))

### **3.5 Spain leans towards PEFC**

There are signs of mounting recognition for the PEFC certification framework in Spain. The Spanish Ministry of Environment recently sponsored a marketing campaign run by PEFC-Spain under the heading "*From sustainable forest management to responsible consumption: Forestry Certipack*". The four leaflets in the "Certipack" have one theme in common: "*What is behind the PEFC label?*" Each Certipack contains leaflets targeting consumers, public procurement officials in city councils, guides for forest owners on sustainable practices, and guides to good practice in industry. The aim is for the packs to be distributed by local authorities. Over 500 municipalities have been targeted so far and the intention is to reach the whole of Spain as financial resources become available. The 524,952 hectares of PEFC certified forests in Spain account for 96.5% of all forest certification in the country. PEFC accounts for three out of four Chain of Custody certificates issued in the country.

### **3.6 Australia Releases a Policy to Address Illegal Logging.....**

Senator Eric Abetz, the Australian Minister for Fisheries, Forestry, and Conservation, announced a

draft policy in November 2006 and circulated a discussion paper, entitled “Bringing Down the Axe on Illegal Logging — a Practical Approach,” for public input through January 31, 2007. The Paper outlines the background to illegal logging within global and Australian contexts; provides the Government’s policy commitment and highlights the policy contexts and issues in Australia as well as international initiatives. It sets out measures and appropriate actions aimed at reducing the amount of illegally-sourced forest products imported into Australia. On procurement policies, the emphasis is placed squarely on promoting these in the private sector. The commitment to procurement action in the public sector is limited, only to “*Consider including information about illegal logging in its existing voluntary purchasing guidelines to assist its departments and agencies in purchasing legally sourced forest products.*”

On certification, a proposed measure aimed at global level is to ‘*Promote policies and strategies at international forums that encourage greater use of legal and sustainable forest management practices, certification and product chain of custody schemes*’. A domestic measure proposed is to ‘*Develop voluntary certification and product chain of custody schemes for Australian forest products*’. The paper highlights the Australian Forest Certification Scheme for an Australian solution and reproduces both the AFS and PEFC logos (but not FSC) as examples of certification schemes designed to meet these requirements.

The Australian discussion paper can be downloaded at:  
<http://www.daffa.gov.au/forestry/international/illegal-logging>

### **3.7 .....and so does New Zealand**

In December 2006, the New Zealand Minister of Forestry, Jim Anderton, announced a comprehensive New Zealand policy to help address illegal logging and associated trade. Key parts of the policy include making it mandatory for Government departments and agencies to seek timber and wood products that are sourced from legally harvested forests and supporting discussion on the potential for a multilateral agreement to address illegal logging. The New Zealand Cabinet has also asked for a further report back on the feasibility of making the purchasing of timber and wood products from sustainable managed sources a mandatory provision of the policy in 2008.

Guidance to the New Zealand policy lists all the leading forest certification schemes (PEFC, FSC, SFI, CSA, MTCC). It also identifies various alternative mechanisms for demonstrating good practice such as the Tropical Forest Trust, the New Zealand Imported Tropical Timber Group (a group of importing companies promoting an environmental procurement standard), and the SGS legality verification system.

The development of a strategy for international engagement on illegal logging will be undertaken over the next six months based on the key policy objectives of regional cooperation, development of bilateral arrangements, and working within existing international forums.

The website for the New Zealand policy to address illegal logging and associated trade can be found at: <http://www.maf.govt.nz/forestry/illegal-logging/index.htm>

## **4. National forest policies**

### **4.1 Romania gives tax break to certified forests**

Romania has introduced new legislation in an effort to encourage smaller private owners to adopt certification. Law no. 105 on the Environmental Fund states that all companies that use in their wood processing activities standing wood and/or assortments of raw wood derived from logging in certified forests are not required to contribute to the Environment Fund. For any other situation the law requires companies to contribute 3% of the sale value of the wood to the Environment Fund.

Of all Eastern European countries, Romania offers the best combination of forest area and forest

quality to allow for some significant future expansion in supply of higher value hardwood sawlogs and veneer logs. At the end 2005, the Romanian government announced it's intension to increase the area of FSC certified forests from around 1 million hectares to 4 million hectares. However this is proving a slow process now that a large proportion of Romanian forest area is in the hands of relatively small private owners. Romania has more than 6 million ha of valuable forests, of which about 70% was returned to its former owners during the land restitution process implemented following the collapse of the communist regime. The tax break is intended to encourage these owners down the certification route.

#### **4.2 Liberian forest reform**

Liberian forests have traditionally provided diverse benefits to local people, including shelter, food, medicine, and income. As recently as 2002, Liberia's forests generated up to 60 percent of the nation's foreign exchange. But years of corruption siphoned off revenues from timber sales to fund armed conflict in the region. Following the fall of the Taylor regime and the UN sanction on the export of Liberian timber, donors helped to form the Liberia Forest Initiative (LFI), a partnership of government, international organizations and NGOs. With assistance from the LFI, the Government of Liberia has undertaken significant reforms related to concession allocations, forest laws, draft regulations, and financial controls. In July 2006, the UN sanctions were lifted. Furthermore, under the supervision of a Liberian Land Use Planning Commission, the LFI completed a forest use suitability map in June 2006. The map defines how forests should be divided amongst the three major use opportunities: conservation, commercial forestry, and community management of forests.

An ongoing project of the LFI is to strengthen protected areas and community involvement in managing forests. LFI and its partners, including the Liberian Forest Development Authority, the World Bank, Conservation International, and Flora and Fauna International, helped protect Sapo National Park by developing park management plans, training personnel, and removing illegal loggers, miners and squatters. The LFI has also initiated a program to increase community involvement in managing forest resources, and is identifying ways that communities can share in the economic benefits derived from well managed forests. For more information, contact Oliver Pierson, USDA Forest Service - Office of International Programs at [opierson@fs.fed.us](mailto:opierson@fs.fed.us)

#### **4.3 Nicaragua adopts independent forest monitor**

Global Witness has been invited by the Nicaraguan Forest Authority INAFOR (Instituto Nacional Forestal) to pilot a forest monitoring system similar to the Independent Forest Monitoring project that it conducted in Honduras. To this end, both parties signed an agreement in June 2006, and with support from DFID, the UK aid program, commenced activities in August 2006. The primary objectives of this initiative are to generate reliable information about illegal logging and trade in specific regions in the country, ensure that activities of forest authorities are objective and transparent, and strengthen the operational capacity of the relevant authorities through joint field missions.

Through this process Global Witness and INAFOR hope to build the institutional basis for an Independent Forest Monitoring system in Nicaragua by establishing a working relationship between INAFOR, other government institutions, civil society groups and the private sector. To date, the partnership has carried out several field missions with the forest authorities, resulting in four publicly-available mission reports, accessible at [www.globalwitness.org/pages/en/.html](http://www.globalwitness.org/pages/en/.html). For more information contact Marvin Sujo, INAFOR at [msujo@inafor.gob.ni](mailto:msujo@inafor.gob.ni) or Laura Furones, Global Witness at [lfurones@globalwitness.org](mailto:lfurones@globalwitness.org).

### **5. Private sector initiatives**

#### **5.1 Timber Trade Action Plan leading efforts to develop procurement policies**

Timber importing trade associations in several European countries are now seeking to extend

environmental timber procurement practices to a wider range of companies. This is a key role of the European Timber Trade Action Plan (TTAP) developed jointly by the UK, Dutch and Belgian timber trade associations with funding from the European Commission. In addition to providing direct assistance to overseas suppliers embarked on log tracking projects, TTAP intends to promote development of a harmonised procurement policy and a set of environmental guidelines for members of European timber trade associations.

TTAP recently undertook a survey of European timber trade associations to assess their commitments on environmental timber procurement. Of twelve associations assessed, eight already have a Code of Conduct for their members which includes environmental commitments. All eight codes share a common objective: to trade only in legal timber and to prefer sustainable timber. Five of the codes require defined actions (Belgium, France, Netherlands, Spain and UK) and three of the codes (UK, Netherlands, Spain) are binding on members (i.e. companies would be subject to sanction, including ejection from membership, if found to be non-conformant). Two of the codes (France, Netherlands) establish time bound targets for signatories (for example requiring a specific percentage of wood purchases to be certified).

In June 2007, TTAP will be holding a meeting of timber trade associations from all over Europe to exchange information and begin work on best practice guidelines.

## **5.2 Dutch construction companies sign an agreement with FSC**

Following a campaign promoted jointly by the WWF, FSC Netherlands, Woonbrom (a large Dutch housing association), and several other large parties in the Dutch housing sector, twelve housing associations have signed an agreement to use only FSC timber for all their construction works. The agreement is estimated to cover around 25% of Dutch housing construction.

## **5.3 African traders move to develop supplies of FSC and verified legal timber**

In recent months, some of the large European-owned companies managing concessions in Central Africa have been making more progress to increase supplies of “verified legal” and certified wood products for environmentally conscious European markets. However volumes available are still very restricted.

Perhaps the most far-reaching development over the last 12 months - at least in terms of sending a signal of intent – was the announcement in April 2006 that the 300,000 hectare Kabo concession, managed by Congolaise Industrielle des Bois (CIB), had become the first FSC certified forest in the Congo Basin. CIB, part of the DLH/ tt-Timber Group, is currently finalising management plans for another 4 concessions, covering an additional 1 million hectares, with a view to seeking certification from 2007 onwards.

Similarly Danzer announced its intention to join WWF’s Global Forest and Trade Network (GFTN) in September 2006. As part of Danzer’s cooperation with WWF, Danzer subsidiaries IFO in the Republic of Congo Brazzaville and SIFORCO in the Democratic Republic of Congo are scheduled to be certified by FSC from 2008 onwards. The IFO concession, comprising 1.3 million hectares, is scheduled to achieve FSC certification during 2008. Gradual certification of the five SIFORCO concessions, totalling 1.9 million hectares, is set to begin in 2010.

There have also been developments in Ghana. Samartex Timber and Plywood Co. Ltd, one of Ghana’s leading producers of forest products, became the inaugural member of the WWF’s Ghana Forest and Trade Network (Ghana FTN) in December 2004. Samartex took this step with the encouragement of two of its major UK buyers: Timbmet Silverman and Travis Perkins. Samartex is now working towards a plan to achieve FSC certification in 2007. Since Samartex joined the Ghana FTN, eight other companies have followed its lead and applied for membership. Two of them have prepared action plans to achieve FSC certification based on baseline audits of their forests totaling over 85,000ha. According to GFTN data, Samartex membership of the GFTN puts more than 22% of Ghana’s forest reserves on the path to certification. When the other companies

complete their audits and action plans for certification, that figure will reach nearly 60%.

The volumes of verified legal and certified wood products that can be supplied from Africa are very modest. A leading African shipper into the European market contacted by the consultant emphasised that legally verified wood still accounts for only around 5% of their total African supply. FSC certified African hardwood is only available in small volumes from the CIB concession, and the vast majority of this is being absorbed by the company's existing long-term customers.

Contacts suggest that price premiums for legally verified African hardwoods in the European market are relatively small, perhaps 2-3% on the price of unverified product. This aligns closely with the premiums being paid for equivalent MTCC certified Malaysian hardwoods. With respect to FSC certified, contacts in the UK emphasise that due to the small volumes involved and the fact that the product is currently being sold mainly to long term customers, it is too early to provide any accurate guidance on likely premium levels.

#### **5.4 Canadian softwood exporters turn to Europe again**

Serious softwood supply problems in Nordic and Baltic countries, combined with strengthening European currencies, have meant that more European buyers are turning again to Canadian shippers. Contacts with Canadian shippers selling into the European market indicate that they are reasonably well geared up to supply certified product. Discussions with a representative of the leading Canadian supplier to the UK, delivering lumber from Eastern Canada, indicated that 75% of their wood products can now be supplied SFI certified. One of their mills is also now moving to FSC certification which, when achieved, will mean that perhaps 90% of their wood supplies will be either FSC or SFI certified. However it was noted that they are exceptional, most other Canadian mills could supply probably only 30%-40% of their product as certified. It was noted that European buyers are generally unwilling to pay price premiums for those certified Canadian softwood products that are competing directly with Scandinavian products.

#### **5.5 Mixed supply situation for Russian certified softwood**

With Russian policy now focused on restricting log exports and increasing domestic processing, the country is likely to become a more important direct supplier of sawn softwood lumber to the European market in the future. Recent discussions with contacts involved in this trade reveal a mixed picture with respect to forest certification. A representative of one UK agency said that his company had no problem securing FSC certified Russian softwood given that they represent the largest FSC certified mill in Russia capable of supplying 100,000 m<sup>3</sup> of 100% certified lumber. Their problem has been lack of demand and unwillingness on the part of buyers to pay a price premium to cover the huge costs of investment. His view was that government timber procurement policy was not being translated into any visible up-tick in demand for certified product.

In March 2007, the UPM-owned company Tikhvinsky Lespromkhoz in Russia announced that it had successfully passed an FSC forest management certificate audit for 184,000 hectares of forest leased by the company. Quoted in the Timber Trades Journal, the Director of the company stated that this was "*the first step towards making certified products available from UPM's Russian mills*".

In contrast to these positive announcements, a representative of another large timber producer with interests in Russia highlighted some of the difficulties of achieving certification in that country. He suggested that it would cost around £100,000 to achieve chain of custody certification for their mill in Karelia together with forest certification for a forest area sufficient to supply the mill for one year. However each year production has to move to a different site which also has to achieve certification. The costs of maintaining certified log supplies to the mill are therefore considerable. He also noted that due to the difficulties and costs of certifying in this environment, the vast majority of mills and commercial forest area in Russia is still uncertified.

#### **5.6 Promoting certification in the Chinese hardwood plywood business**

China is becoming an increasingly important supplier of plywood into the European Union. For example, imports of Chinese hardwood-faced plywood into the UK (Europe's largest plywood importing nation), rocketed from only 55,000 tonnes in 2004 to 145,000 tonnes in 2006. China is also now the UK's fourth largest supplier of softwood-faced plywood. China's emergence as the leading external plywood supplier to the EU has been driven almost exclusively by price. Prices for hardwood-faced plywood from China are around 20%-30% lower than prices for hardwood-faced plywood from Malaysia and Indonesia.

Chinese plywood faced with tropical hardwoods, particularly bintangor from Papua New Guinea, has been at the very centre of environmentalist campaigns targeting illegal wood imports. Because it is used for external applications around building sites, the product tends to be highly visible. Government departments and several large plywood distributors have been embarrassed in recent years by Greenpeace campaigns identifying hardwood plywood from allegedly illegal sources at high profile government construction projects.

Because of the extremely low price of Chinese hardwood plywood compared to the alternatives, and very restricted supplies of certified hardwood plywood, these campaigns have presented a serious dilemma for European plywood distributors. If they commit to supplying only certified product, they risk losing market share to less scrupulous companies willing to supply cheap Chinese product. But if they themselves supply the Chinese product, they risk being targeted by environmentalists.

Plywood distributors have been addressing the problem by working directly with overseas manufacturers to develop new sources of certified supply. Initially interest focused on Malaysian and Brazilian producers. For example Travis Perkins, the UK Builders Merchant, has established a long term supply contract with a large Brazilian mill able to supply FSC certified product. Other large distributors have been heavily engaged in Malaysia, encouraging suppliers to develop both MTCC-certified and FSC-certified product lines. However, due to the huge price differential between certified Malaysian and Brazilian products and uncertified Chinese products these efforts have been only partially successful. In the UK, a typical sheet of certified Malaysian or Brazilian plywood may sell for £18-£20, while the price of uncertified Chinese hardwood-faced plywood may be as little as £10. Given that only a very few end-users are actually asking for certified plywood, the risks of stocking such an expensive product are considerable.

Now distributors have begun to look for solutions in China itself. The Timber Trade Action Plan (TTAP) has been instrumental in encouraging UK plywood importers to work with key Chinese shippers and the Tropical Forest Trust to improve the wood tracking and procurement systems of Chinese plywood mills. TFT has assessed 7 plywood Chinese mills, finding that most have little or no systems to identify the wood origin of imported timber. TFT has been working with these companies to develop action plans and to link the mills with certified and legally verified log suppliers in Malaysia and Central Africa.

Meanwhile, in early 2007, the first consignments of FSC-certified Chinese plywood began to arrive in the UK. A representative of the one of the importing agencies involved noted that at present only 3 or 4 of the smaller Chinese plywood mills are able to offer this product so availability is very restricted at this stage. The plywood is an FSC-Mixed product, 75% of which by volume comprises FSC-certified material and the rest derived from FSC-controlled sources. The product has a poplar core, derived from FSC-certified plantations in China, and is faced either with red canarium from Indonesia or with a plantation grown eucalyptus species. UK-delivered price levels for the product are around 20-30% higher than the equivalent uncertified Chinese plywood, but 5-10% lower than uncertified Malaysian plywood, and around 10-15% lower than uncertified Indonesian plywood. Although the product has not yet been widely tested in the UK market, given that this is an FSC product with full CPET "legal and sustainable" status, interest is expected to be high.

The hardwood plywood market may be about to shift again as political factors could come into play. In November 2004, the EU imposed anti-dumping duties ranging from 8.5% to 23.9% on four enterprises and 48.5% on all other enterprises exporting okoume-faced plywood from mainland



China. Now there are moves to extend these duties to a wider range of hardwood plywood products from China. In November 2006, following a complaint by the European Federation of the Plywood Industry (FEIC), the European Commission launched a further investigation into EU imports of Chinese plywood. FEIC have argued that the current duties on Chinese okoume-poplar plywood should be extended to other Chinese plywood products with different face veneers, such as bitangor, red canarium and kedondong. The measure remains under dispute, with some importers objecting to the FEIC case contending that Chinese plywood is competing mainly with Brazilian and Southeast Asian plywood rather than European products. One option being considered to resolve the deadlock is that the EU extends the anti-dumping duties to a wider range of species as proposed but provides an exemption for certified plywood. Such a measure could provide a significant incentive for Chinese firms to move down the certification route

## **6. Environmental campaigns**

### **6.1 NGO alleges violations of FSC standard in Sweden**

Launching an appeal to help save Sweden's remaining old-growth forests, the NGO network [Skydda Skogen](#) (Protect the Forest) has suggested that "*major violations against the FSC standard are made by FSC-certified forest companies in Sweden.*" At its website, Skydda Skogen goes on to say:

*"Many of the Swedish forest companies are certified by FSC (Forest Stewardship Council) but researches made by Swedish NGOs show that major violations against the FSC standard are made by the companies. For example both the big forest companies HOLMEN SKOG and state owned SVEASKOG are clear-cutting ancient old-growth forests and other forests with high value for the biodiversity. The forest companies that are certified by FSC in Sweden are to save at least 5 percent of their total productive forest areas for nature conservation, but, according to recent research 1/4 - 1/3 of these set aside areas don't have high nature values. Instead, the forest companies are saving low productive forests with almost no biodiversity, this at the same time as they are clear-felling forests which are hundreds of years old with great importance for the biodiversity."*

### **6.2 EIA allege continuing widespread illegal operations in Indonesia**

According to a new report by the Environmental Investigation Agency, efforts by the Indonesian government to curb illegal logging are being undermined by a weak and corrupt justice system and the continued overseas demand for cheap wood products. The report entitled "The Thousand-Headed Snake" alleges corruption and collusion at all stages of the Indonesian justice system, from the police and prosecutors to judges. This has meant, according to the report, that the main culprits behind illegal logging in Indonesia remain at liberty. The report also alleges that over two shipments of expressly illegal Indonesian logs and sawn timber entered U.S. ports every day in 2006, worth almost US\$14 million.

The report claims that an unprecedented anti-illegal logging operation in Papua Province in March 2005 failed to snare the powerful timber barons and their protectors in the police and military. Although the operation identified 186 suspects, by January 2007 only 13 convictions had been secured and none of these were the ringleaders. Of 18 major cases which made it to trial, all the defendants were cleared by the courts.

The report suggests that after a dramatic reduction in timber smuggling from Indonesia in 2005, illicit timber is flowing out of the country again in increasing amounts. EIA claim to have identified new smuggling routes and methods, such as concealing stolen timber in shipping containers. The report claims that notorious timber barons have made a fortune from timber theft but have never been seriously investigated. EIA also suggest that neighbouring Malaysia and Singapore continue to benefit from forest crimes in Indonesia. Significant quantities of timber stolen from Indonesia are alleged to be entering Malaysia while Singapore is said to serve as an important financial and logistical hub for illegal logging, and to provide a haven for criminals as it has no extradition treaty

with Indonesia.

## 7. Events

**Seventh Session Of UN Forum On Forests:** 16 April 2007 - 27 April 2007. New York, NY, USA. The seventh session of the UNFF is expected to consider the multi-year programme of work, a non-legally binding instrument on all types of forests, the multi-stakeholder dialogue, and enhanced cooperation and policy and programme coordination. For more information contact: Internet: <http://www.un.org/esa/forests/session.html>

**ITTC-42: The forty-second session of the International Tropical Timber Council and Associated Sessions of the Committees** will be held from 8-12 May 2007, in Port Moresby, Papua New Guinea. For more information, contact: ITTO Secretariat; tel: +81-45-223-1110; fax: +81-45-223-1111; e-mail: [itto@itto.or.jp](mailto:itto@itto.or.jp); internet: <http://www.itto.or.jp>

**14th Meeting Of The Conference Of The Parties To CITES:** 3 June 2007 - 15 June 2007. The Hague, The Netherlands. The meeting is being organized by the CITES Secretariat. For more information contact: CITES Secretariat; tel: +41-22-917-8139; fax: +41-22-797-3417; e-mail: [cites@unep.ch](mailto:cites@unep.ch); Internet: <http://www.cites.org/eng/news/calendar.shtml>

**Global Vision Of Forestry In The 21st Century:** 30 September 2007 - 3 October 2007. Toronto, Canada. This congress will be organized under the themes of global challenges, responsibilities and leadership in forestry, frontiers of science and a healthy and diverse forest environment, and cultures, markets and sustainable societies. For more information contact: Shashi Kant, University of Toronto; tel: +416-978-6196; fax: +416-978-3834; Internet: [http://www.forestry.utoronto.ca/centennial/int\\_congress.htm](http://www.forestry.utoronto.ca/centennial/int_congress.htm)

**Second Latin American IUFRO Congress:** 23 October 2007 - 27 October 2007. La Serena, Chile. Hosted by the Chilean Forestry Institute (INFOR), the International Union of Forest Research Organizations Congress will focus on three main subjects: forests, environment and society; forests and production; and arid and semiarid zones. For more information contact: Santiago Barros; tel: +56-2-693-0700; fax: +56-2-638-1286; e-mail: [sabarros@vtr.net](mailto:sabarros@vtr.net), [seminarios@infor.gob.cl](mailto:seminarios@infor.gob.cl); Internet: <http://www.infor.cl>

**Fifth Trondheim Conference On Biodiversity:** 29 October 2007 - 2 November 2007. Trondheim, Norway. Hosted by the Norwegian Government in cooperation with UNEP, this conference aims to provide input to the CBD and its preparations for the ninth Conference of the Parties (COP-9), to be held in Germany in 2008. Focus will be on the critical role of biodiversity and ecosystems in providing goods and services that are necessary for human well-being and security and for economic development. Its key objectives will be to: illustrate and highlight the role of biodiversity in poverty alleviation and in reaching the MDGs; consider progress on the 2010 target to significantly reduce the current rate of biodiversity loss; and provide insights and inspiration for enhanced implementation of CBD's Strategic Plan. For more information contact: Norway's Directorate for Nature Management; e-mail: [postmottak@dirnat.no](mailto:postmottak@dirnat.no); Internet: <http://english.dirnat.no/wbch3.exe?p=2392>

**Convention on Biodiversity COP-9:** 19 May 2008 - 30 May 2008. Bonn, Germany. This conference is organized by the CBD Secretariat. For more information contact: CBD Secretariat; tel: +1-514-288-2220; fax: +1-514-288-6588; e-mail: [secretariat@biodiv.org](mailto:secretariat@biodiv.org); Internet: <http://www.biodiv.org/meetings/default.shtml>