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Rupert Oliver
rupert@forestindustries.info

“INFORMING THE SUSTAINABLE WOOD INDUSTRY”

VAT Registered No: 746311248 – Registrar of Companies for England and Wales Company No: 4689869

Head Office: The Little House • 18 Church Street • Settle • North Yorkshire • BD24 9JE • United Kingdom
Tel: +44 (0)7553 346410 / www.forestindustries.info

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Summary and highlights

EU policy developments relating to illegal logging and timber procurement are reaching a critical stage. Two EC Communications are due to be released in May 2008, one covering Additional Legislative Options, the other covering Green Public Procurement (GPP). The former Communication is expected to recommend far-reaching legislation designed to prevent EU imports of illegal wood. Informal discussions with EC officials suggest that due to technical and legal constraints, it will recommend neither a Lacey Style Act nor a system of requiring compulsory legality licensing, the two main options considered during the lengthy public consultation process. More likely is a recommendation to directly impose a requirement for due diligence on European wood sector operators, including importers, manufacturers, and distributors. These operators would be required by law to conform to industry Codes of Conduct or equivalent company based programs involving comprehensive risk assessment of suppliers.

The Communication on GPP forms part of an EC initiative designed to provide Member States with the necessary tools to raise the quantity and quality of GPP in the EU. Expectations are high that the Communication will greatly improve the current incomplete and inconsistent EC guidance on public sector timber procurement which has contributed to the development of a confusing array of policies at national level.

EU policy makers continue to invest considerable time and effort into refining the details of public sector timber procurement policies. The extent to which social criteria may be included in government timber procurement policies has been a focus area for discussion. Chatham House is facilitating a process to review social issues in government timber procurement and to produce recommendations. In other developments, the UK government is sticking to its timetable of recognising in central government contracts only verified sustainable and FLEGT VPA licensed timber after April 2009, but it has indicated it may be willing to allow use of detailed risk assessments as a means of verifying sustainable wood supply from small owners in countries with good forest governance (like the US). The Belgian government is currently reviewing its procurement policy which has been widely criticised for being too exclusive with regard to forest certification systems and lacking in transparency and objectivity. After years of deliberation, the Netherlands government is about to finalise a set of criteria for assessment of forest certification schemes. The Danish government has faced a rebellion by NGOs after announcing that it would temporarily recognise both FSC and PEFC as providing an equivalent assurance of sustainability. The Spanish government has released a Green Public Procurement Plan which while covering wood furniture and paper products, does not establish any requirements for responsible sourcing of wood in public sector construction projects.

EU negotiations towards finalisation of Voluntary Partnership Agreements (VPAs) on illegal logging are under way, at different stages, in Ghana, Indonesia, Malaysia and Cameroon. A wide range of additional countries, notably in Africa, are pressing to join the process, delayed mainly by lack of EC capacity.

The EC and individual Member States have also been actively engaged in Japan and China promoting more far-reaching measures on the demand-side to prevent trade in illegal wood products. Japan is already encouraging demand-side measures, particularly focusing on private sector efforts to develop codes of conduct. In China, while there are many obstacles to encouraging responsible procurement practices, opportunities may arise as policy-makers are becoming increasingly concerned about long-term security of raw material supply to maintain economic growth.

2008 looks set to be a year for forest policy issues in various other international fora. Japan has made illegal logging a priority for discussion during their presidency of the G8 this year. It recently held an international workshop to provide input on the issue to the G8 Environment Ministers meeting scheduled for May. The informal Globe G8 Legislators Forum on Illegal Logging delivered their recommendations to the Japanese Prime Minister in February calling for moves towards an international legality licensing system for timber and additional legislation to prevent imports of illegal wood. The Parties to the Convention on Biodiversity that are scheduled to meet in Bonn in May are due to make recommendations on further action to protect forest bio-diversity following an in-depth review of the existing CBD forest work programme. Meanwhile following formal recognition of the potential efficiency of programmes to Reduce Emissions from Deforestation and Degradation (REDD) as a means of tackling climate change at the UNFCCC meeting in Bali in December, a concerted international effort is now underway to develop appropriate infra-structure and mechanisms. The World Bank is hoping to play a central role through development of a Forest Carbon Partnership Facility.

Changes are also underway in the forest certification movement. Global certified forest area now exceeds 300 million hectares. However this still accounts for just 11% of the world's productive forest area and there has been only relatively slow progress to expand the movement outside those countries where forests were already recognised as reasonably well managed before the whole certification movement began in the early 1990s. Recent growth in chain of custody certification has been spectacular, with FSC continuing to outstrip PEFC, but this movement too remains highly concentrated in North America, North Western Europe, and Japan. Now FSC and PEFC are jostling for market position, both engaged in wide-ranging processes of restructuring as they seek to adapt to new policy interests (illegal logging and climate change), improve marketing and communication, and to more effectively protect and prevent abuse of their labels and brands.

In the last two years, the slow pace of certification in some areas, combined with increasing concern over the 8-10% of the world's timber believed to derive from illegal sources, has led to a growing realisation amongst environmentally concerned timber buyers that they can increase their effectiveness in promoting responsible wood use by focusing not just on rewarding the top performers through forest certification, but also by "weeding out the bottom", ensuring that uncertified wood does not derive from illegal forest operations which tend to be particularly destructive.

1. International Agreements and institutions

1.1 European Union

1.1.1 EC Communication on Green Public Procurement

The long-awaited and much anticipated EC Communication on Green Public Procurement (GPP) is now expected to be released in May 2008. The Communication will form part of an EC initiative designed to provide Member States with the necessary tools to raise the quantity and quality of GPP in the EU. The Communication will aim to promote legal compliance as an underlying baseline for GPP, respect of internal market principles and continuous improvement of the environmental performance of products and services.

The Communication is expected to identify timber products as one of 10 priority products and services for more detailed consideration in GPP. Expectations are high that the Communication will greatly improve the incomplete and inconsistent EC guidance on public sector timber procurement currently provided in "Buying Green! – a handbook on environmental public procurement". Lack of clear guidance at EU-level has been a major factor leading to the emergence of a confusing and inconsistent range of government timber procurement policies at national level within the EU. The Communication is expected to contain guidance on appropriate public sector specification clauses for timber products.

EC DG Enterprise has been playing a key role in canvassing private sector opinion on existing public sector timber procurement policies and practices within the EU and ensuring that private sector views are taken into account during formulation of the Communication. DG Enterprise has produced a so-called "non-paper" on the issue (the paper does not represent official EC policy and instead summarises views received). The paper identifies a number of needs and clarifications to be addressed through the Communication and subsequent EU processes:

- The need to ensure that specification requirements for timber are equitable with respect to competing materials and that comparisons are made on a full life cycle basis;
- The definition of and relationship between "legal" and "sustainable" timber;
- The extent to which it is legitimate to specify that wood must derive from a "sustainable" source (current expectations are that the communication will include sample specification clauses establishing legality of timber as a condition of contract, but providing tenders with the option of offering sustainable timber as a variant);
- The extent to which it is allowable to include social criteria in public sector specifications for timber and other products;
- The need to adopt an inclusive approach for assessing certification schemes and alternative means of proof for both legality and SFM;
- The place of FLEGT VPA licenses and other forms of legality verification in public sector procurement (current expectations are that FLEGT VPA licenses will be referenced in the communication as an example of an appropriate form of legality verification alongside other approaches).

Although there are expectations that the Communication will help to resolve some of these issues, EC officials are quick to point out the limitations. Since conformance to the guidance contained in the Communication will be voluntary for EU member states, it is not expected to lead to harmonisation of timber procurement policies, particularly amongst those states like the UK and Germany that have already developed elaborate procedures. But there are hopes that the Communication may contribute to a process of gradual convergence of public sector procurement policies. EC officials note that after publication of the Communication, moves to convergence will continue to be explored in the EU's Standing Forestry Committee. Furthermore a workshop on application of GPP to wood and woodbased products is tentatively scheduled for 13 June 2008.

1.1.2 Social criteria in public sector timber procurement

The extent to which social criteria may be included in government timber procurement policies continues to be a focus area of discussion for government officials and other interests in the EU. For example the governments of the Netherlands and Denmark have concluded that social issues may be included in procurement criteria, whereas the UK government has excluded these criteria on grounds that they are not directly related to the subject matter of the contract. UK government's decision not to include social criteria has been a major point of issue for environmental groups. Environmentalists are keen to ensure that social issues are explicitly covered as they see this as a way of boosting market prospects for FSC (which they perceive to be particularly strong on social issues).

To some extent the issue is a red herring since UK government policy is quite clear in stating that, in order to satisfy requirements for sustainability, forestry standards "must be consistent with a widely accepted set of international principles and criteria defining sustainable or responsible forest management at the forest management unit level." All the international principles identified in the guidance – FSC, Pan-European, Montreal, and ITTO – cover social issues alongside economic and environmental.

Nevertheless, the social issue continues to exercise the minds of EU procurement officials. PEFC has also responded to the debate by commissioning Chatham House to produce a public report on social criteria in timber procurement policies and certification schemes. PEFC seem confident that their requirement for certification systems to develop standards through a national stakeholder consultation in line with international sustainable forestry principles is enough to ensure comprehensive coverage of social issues.

The Chatham House study, which is due for completion in July 2008, will "test" existing timber procurement policies and timber certification schemes against a list of social issues seen as relevant to forests. These issues include: rights of indigenous peoples; rights of local communities; community-based forest management; land tenure; protection of traditional knowledge; workers' fundamental rights; health and safety; fair trade; participation; capacity-building; dispute resolution; and good governance. A draft report is currently available for comment on the www.illegal-logging.info website and a workshop to discuss preliminary results will be held at Chatham House on 11 June.

Contrary to the expectations of the ENGOs, the outcome of this debate is unlikely to lead to any significant change in the relative level of acceptance of FSC and PEFC. A more significant outcome (and one which seems to make the UK government nervous) is that if it is openly acknowledged that social issues must be addressed in public procurement requirements for timber, then there is no justification for not extending similar requirements to competing materials. Therefore the "social issue" could prove to be a useful means of further boosting recognition of timber as one of the few truly sustainable building materials.

1.1.3 Significance of public sector procurement

One of the more interesting sections of the Chatham House study of social issues is that it analyses the significance of public sector procurement within the overall EU market for timber products. The report notes an EC estimate for the EU-25 in 2002 which gave a figure for total public procurement of €1500 billion, accounting for 16.3 per cent of the Union's GDP, with a range between 21.5 per cent for the Netherlands and 11.9 per cent for Italy. The report then goes on to note this figure of 16.3% relates to all government consumption and includes substantial amounts for "employee compensation" such as salaries and pensions. According to an OECD study, government purchasing of products and services from third parties is significantly smaller: perhaps around 9% of GDP for OECD countries during 1990–97. Chatham House suggest that in measuring the impact of government purchasing decisions on the economy, the smaller figure should be used.

Chatham House also note that these figures relate to the entire public sector, which includes central and sub-central government and often many quasi-independent agencies. Across the OECD as a whole, central governments are believed to account for about 30–35% of total public sector expenditure, though this varies substantially between countries, from highly centralised states such as the UK, where central government account for about 70 per cent of public sector expenditure, to highly decentralised ones such as Canada, where the corresponding figure is about 15 per cent. Government purchasing also, of course, varies significantly across product sectors, from very high proportions (e.g. defence, road-building) to very low (e.g. consumer goods), but detailed figures are generally very difficult to get hold of.

Data is incomplete but, overall, the information that is available suggests that in the vast majority of countries public sector procurement, particularly by central government, probably accounts for only a small minority of overall timber procurement - certainly less than 10%.

1.1.4 FLEGT VPA Negotiations

EU negotiations towards finalisation of Voluntary Partnership Agreements (VPAs) on illegal logging are under way, at different stages, in Ghana, Indonesia, Malaysia and Cameroon. Under the terms of VPAs, all wood imported into the EU from partner countries would be subject to strict legality licensing requirements. Ghana is expected to be the first to conclude the process in June 2008. Several other countries have expressed an interest. During 2008, discussions about engaging in the VPA process will be started with Republic of Congo, Central African Republic (CAR), Gabon, Democratic Republic of Congo (DRC) and Liberia. Other countries that have expressed an interest include Guyana, Ecuador and Sierra Leone. The EU is also working with China; at a workshop in September 2007 the two parties agreed to work together to address illegal logging and develop a common approach to legality verification systems for imports, business-to-business links and information exchange. Other work in 2008 will include ministerial discussions to raise the profile of FLEGT in Central America and East Africa.

The biggest debate in the VPA negotiations relates to the legality definition and legality assurance systems. Government and industry tend to opt for a narrow definition, whereas other stakeholders want the VPA to reinforce a wider legal framework. Environmental groups in the EU are generally supportive of the VPA process as they see it as a mechanism to encourage broader stakeholder participation and to promote forest sector reform in VPA countries. However in some countries there is tension between ENGOs and the private sector, the latter tending to insist that the process is about assuring conformance to existing laws rather than encouraging forest sector reform. This tension is particularly apparent in Malaysia where levels of domestic illegal logging are generally perceived to be low and where there is relatively low dependency on the EU market. The private sector in VPA countries is more concerned about costs of implementation and lack of obvious market incentives. This is leading to a strong focus amongst EU policy makers engaged in VPA processes on increasing these incentives, for example by encouraging explicit references to FLEGT VPA licenses in government procurement policies and promoting additional legislation that would effectively block illegal wood from non-VPA countries.

More rapid expansion of the VPA process has been hindered by lack of resources at the Commission. However more staff are now being recruited for in-country support and the European Forest Institute (EFI) has been commissioned to provide additional support. FAO has also pledged financial support for FLEGT in 2008.

1.1.5 Additional legislative options

Over the last 12 months, discussions have been underway within the EU on possible legislation designed to ensure that no illegal wood is imported. The process has now reached a critical stage with an EC Communication on the subject expected within the next few weeks. The European Commission has examined in detail the various legislative options through a wide-ranging public consultation exercise and by commissioning an impact assessment. This process has indicated that there is a very high level of support for such legislation from regulators, environmental groups

and the timber industry.

While there is broad support for legislation in principle, the debate over the pros and cons of the different forms this legislation might take has been intense. One legislative option requiring that no timber should be allowed to enter the EU unless it is licensed as legal by the exporting country has gained strong support from sections of the environmental movement, particularly Greenpeace. However this approach has been challenged by the private sector and many legislators on grounds that it would represent a reversal of the burden of proof - all wood would be assumed to be illegal unless proven otherwise. Such a measure would be disproportionate to the scale of the problem - all suppliers, even in low risk countries, would have to prove legality in order to capture the relatively low volume of wood that might be illegal.

Another option under consideration is to introduce a Lacey-style Act in the EU. Unlike the previous option, this would place the burden of proof on the prosecution that would have to demonstrate that wood derives from an illegal source. The EU private sector has been reasonably supportive of this approach on grounds that it places a lesser burden on business and is more targeted on high risk imports. However, legislators have expressed concern over the practicalities of introducing such a law in the EU. It would require EU courts to make “extra-territorial” judgements on the laws of other countries, something which they are only rarely willing to do. Another problem is that bringing prosecutions under a Lacey-style act would require a much higher degree of co-operation on legal matters than currently exists with many exporting countries. EU formal cooperation on legal matters with other countries is often limited, particularly with governments that still use capital punishment. Some ENGOs – again led by Greenpeace - have also opposed such a legal framework on grounds that it would be very difficult to establish a chain of evidence and to bring prosecutions.

There is still no clear information on what the EC Communication will actually recommend. Informal discussions with EC officials suggest that it might seek to avoid the apparent legal obstacles of “Lacey-style” legislation in the EU by proposing a law that directly imposes a requirement for “due diligence” on importers and distributors. The legal and technical issues associated with development and implementation of such a law are likely to be challenging – for example how is “due diligence” to be defined, which companies should be subject to the requirement, and how will compliance be monitored and enforced? On the other hand, timber trade associations in the EU are already engaged in a process to develop Environmental Timber Procurement Policies and Codes of Conduct which might provide a foundation for evolution of a regulatory framework. If this option proves too difficult, the EC has suggested a fall-back position might be just to require a declaration of origin for all timber imports, similar to that proposed in the amendment to the Lacey Act.

1.1.6 Eco-labelling for wood furniture

At the December 2007 EU Eco-labelling Board meeting, ten countries called for a lowering of the current draft requirements for certified content in EU Ecolabelled wood furniture. They claimed that reducing the percentage of certified wood in such products from 70 to 50 per cent for solid wood and from 40 to 30 per cent for wood-based materials would make the requirements achievable. Four countries argued that the original requirement should be kept. The UK led opposition to any watering down arguing that it would make the Ecolabel criteria lower than its public sector purchasing policies. The discussion is particularly important as any decision made may affect this year’s decision on EU Ecolabels for wood floor coverings and copying paper. The final criteria for Eco-labelling of wood furniture will be voted on at the Regulatory Committee on 24 April 2008.

1.1.7 Recommendation to drop 10% biofuels target

At the end of January, the European Commission issued a proposal for a EU Renewable Energy Directive which included a target of increasing the amount of sustainable fuel used in the transport sector to ten per cent by 2020. However this proposal has been met with a barrage of criticism from EU Member States, research organisations and ENGOs.

Research released in the run up to the launch from organisations including the Royal Society - the Joint Research Centre, the European Commission's in-house science and research group, the UK Parliament Environmental Audit Committee (EAC) and a number of NGOs suggested that, in the absence of Commission plans to significantly reduce overall transport volumes, the target could only be met by a massive boost in use of agrofuels.

In February 2008, the UK government announced a review of, among others, the environmental impacts of agrofuels, stating that *"We are not prepared to go beyond current UK target levels for biofuels until we are satisfied it can be done sustainably."* Then in the first days of March, the EU's Environment Council reconfirmed that it saw the 10 per cent target proposed by the Commission as binding only if production was sustainable and effective sustainability criteria were fulfilled. The Dutch environmental assessment agency MNP's also issued a study which found that the 10 per cent target *"should be reconsidered"*.

The criticism came to a head on 10 April 2008 when the European Environment Agency's Scientific Committee recommended that the 10% agrofuel target be suspended. The Committee stated that *"[t]he overambitious 10 per cent biofuel target is an experiment, whose unintended effects are difficult to predict and difficult to control."* The European Parliament is now preparing its amendments to the proposed Directive in the light of these recommendations.

More details:

1. <http://www.eea.europa.eu/highlights/suspend-10-percent-biofuels-target-says-eeas-scientific-advisory-body>
2. http://ec.europa.eu/dgs/jrc/downloads/jrc_biofuels_report.pdf

1.1.8 New report reinforces benefits of forest sector action to mitigate climate change

A new report by the Centre for European Economic Research drawing on the latest economic models reinforces the view that actions targeting the forest sector are cost effective in mitigating global carbon emissions. The report "Reducing Deforestation And Trading Emissions: Economic Implications For The Post-Kyoto Carbon Market" by Niels Anger and Jayant Sathaye, quantitatively assesses the economic implications of crediting carbon abatement from reduced deforestation for the emissions market in 2020. The report emphasises that forests play a twofold role in climate change: while growing trees absorb carbon dioxide from the air and store carbon by the process of photosynthesis, forests can become a major emissions source when the stored carbon is released into the atmosphere by means of deforestation activities. The paper quantitatively assesses the economic implications of crediting carbon abatement from reduced deforestation for the emissions market in 2020. The report finds that integrating avoided deforestation in international emissions trading considerably decreases the costs of post-Kyoto climate policy – even when accounting for conventional abatement options of developing countries. At the same time, tropical rainforest regions receive substantial net revenues from exporting carbon-offset credits to the industrialized world. Moreover, reduced deforestation can increase environmental effectiveness by enabling industrialized countries to tighten their carbon constraints without increasing mitigation costs. The report can be downloaded at: <ftp://ftp.zew.de/pub/zew-docs/dp/dp08016.pdf>

1.2 Japan makes illegal logging a high priority at the G8

Japan has made illegal logging a priority issue during their presidency of the G8 in 2008. In February at a meeting of a Climate Change Forum held in Brasilia, Brazil, Japan's Prime Minister Yasuo Fukuda said: *"While promoting sustainable forest management, we need to try to halt deforestation and forest degradation. I intend to promote a discussion on forest-related issues with the countries concerned in order to make important progress towards their resolution."*

In March, Japan hosted a second "International Experts Meeting on Illegal Logging" to provide input for a report on the international response to illegal logging being prepared for the G8 Environment Ministers meeting scheduled for May. The meeting was attended by 51 experts on

the illegal logging issue as well as 11 private sector and civil society observers from 19 timber producing and consuming countries, and representatives from international organisations and institutions. The meeting considered recent actions taken by countries and international organisations and their impacts. It considered practical lessons learned from a range of initiatives underway including development of procedures to verify legality and sustainability of timber, the introduction of government procurement policies. However judging from the Chairman's summary of the meeting, there were no concrete recommendations for additional action by the G8 countries. The Chairman's summary is available at:

<http://www.illegal-logging.info/uploads/FinalChairpersonssummary.doc>

1.3 Globe Legislators Forum

An initiative organised by GLOBE (Global Legislators Organisation for a Balanced Environment) has produced a series of recommendations for action on illegal logging by G8 and timber-producing countries. GLOBE's Dialogue on Illegal Logging is an informal network of legislators from major wood product consumer and producer countries in the G8 and EU, together with China, India, Brazil, Peru, Indonesia, Malaysia, Ghana, Cameroon, Gabon, Republic of Congo, Democratic Republic of Congo and Papua New Guinea. Participants also include a limited number forest industry representatives and civil society organisations. The recommendations were submitted directly to the Japanese Prime Minister following his opening address to the GLOBE meeting held in Brasilia in February 2008.

The Dialogue recommendations include:

a. Introduction of a global licensing scheme for timber. This would be a “*global system for recognizing and enforcing the license schemes for legal timber, encompassing all major timber source and consumer countries*”. This would entail “*the development of a system that recognizes and respects the laws of each producer country. Each source country to define clearly the scope of rights and obligations such as ownership, customary usage, authorized forest management, permitted species, export and customs regulations and taxation. A system of verification to establish that the laws of the relevant source country have been complied with*”.

b. Introduction of domestic legislation within G8 countries to exclude illegal timber products from consumer markets

c. Other measures to build protected markets for legal and sustainable timber product including:

- public procurement policies requiring legal and sustainable timber for all government contracts; moves towards harmonization of these policies;
- use of building standards to promote the use of legal and sustainable building materials.
- industry associations in consumer countries to provide guidance on procurement policies requiring evidence-based supply of legal and sustainable wood product in line with public policy processes.
- development of supply chain systems that eliminate illegal products.
- development of common standards for legality verification
- governments to assess which existing certification and legality verification systems satisfy their government's criteria for legality and sustainability.

d. G8 to support the introduction of a global Forest Transparency Initiative (FTI) developed with international finance institutions. This would aim to “*make available robust and relevant financial information that can improve accountability and governance of national forest resources*”. The FTI should be backed by “*a requirement for public and private bodies to participate in/comply with the requirements of an FTI*”.

e. Measures to encourage investment in the tropical forestry sector and to assist in “the transition of progressive timber companies to forest management companies” including:

- the G8 directing official development assistance to producer countries to support capacity building, certified sustainable forest management activities, and development of sustainable value-adding timber processing capacity.
- the G8 creating mechanisms through international finance institutions and other institutions such as the Global Environment Facility to encourage realistic private capital investment in sustainable tropical forestry projects, including carbon financing and financing to secure other ecosystem services.
- the G8 developing options for financing sustainable forest management based on payments for ecosystem services.

1.4 Draft recommendations on forests for the Convention on Biodiversity

Forests are expected to be high on the agenda at the 9th Conference of the Parties (CoP-9) of the Convention on Biodiversity which will take place in Bonn from 19th to 30th May 2008.

The CBD aims to encourage progress towards the international target to "*reduce significantly the rate of biodiversity loss by 2010*" originally endorsed in 2002 at the CoP-6 conference and by the World Summit on Sustainable Development in Johannesburg. The CBD operates by imposing a legal requirement on Parties to implement national bio-diversity protection programmes.

At the CoP-7 meeting held in 2004, parties to the CBD adopted measurable indicators and specific goals to be achieved by the year 2010. These included conserving at least 10% of each type of ecosystem, protecting those areas that have a particular importance for biodiversity, stabilizing populations of certain species now in decline and ensuring that no species of wild flora or fauna are endangered by international trade.

Also at the CoP-7 meeting, parties to the Convention agreed a work program specifically on forest biological diversity. The program encourages incorporation of relevant forestry indicators into biodiversity protection programs; greater regional-level cooperation to protect forest bio-diversity; and improved collaboration and integration with other sectors. Parties to the Convention also requested that the CBD Secretariat develop outcome-oriented targets for protection of forest biodiversity to be integrated into the work program.

At the CoP-8 meeting held in 2006, the CBD secretariat was asked to carry out an in-depth review of the forest work programme in order to make further recommendations for action at the CoP-9 meeting in 2008.

Following consideration of the review by the CBD Subsidiary Body on Scientific, Technical and Technological Advice (SBSTTA) at a meeting in Rome during February 2008, preliminary draft recommendations for consideration at the CoP-9 meeting were produced. These call on the Parties to strengthen implementation of the programme of work on forest biodiversity in order to reach the 2010 biodiversity targets. A wide range of measures are proposed, many focusing on improved co-ordination between CBD and other existing international policy mechanisms covering forests such as UNFF, FAO, and ITTO. The following proposed recommendations have specific implications for the timber trade and industry:

- Address obstacles to sustainable forest management, such as market access to value added forest products originating from sustainably managed forests;
- Strengthen national forest governance and forest law enforcement and further engage to prevent illegal and unauthorized harvesting of timber and other forest products and related trade
- Discourage forest products obtained from illegal and/or unsustainable management and their related trade
- Encourage the development, adoption and promotion of consistent and appropriate voluntary market based certification schemes and public and private procurement policies which promote the use of legally and sustainably produced timber and enhance public awareness of these schemes and procurement policies;

- Continue work on establishing processes and mechanisms for licensing and tracking timber to ensure that only legal timber products enter the markets
- Ensure that possible actions for reducing emissions from deforestation and forest degradation in developing countries do not run counter to the objectives of the CBD
- Address direct and indirect negative impacts that the production and consumption of biomass for energy might have on forest biodiversity

One of the most controversial issues relates to genetically modified trees. As a result the draft recommendations are heavily bracketed, with various options provided. These options essentially vary in the extent to which it should be necessary to rigorously apply the “precautionary approach” and to avoid all use of GM trees pending clear scientific certainty on their potential impacts.

1.5 World Bank

1.5.1 Forest Carbon Partnership Facility

With the UNFCCC Bali Agreement in December 2007 effectively giving the go-ahead for far-reaching international programs to reduce emissions from deforestation and forest degradation (so-called REDD programs), the World Bank is moving quickly to put in place the necessary supporting infra-structure. During the opening months of 2008, a series of consultations have been held on the establishment of a Forest Carbon Partnership Facility (FCPF) which aims to provide a new financial mechanism to fund REDD activities. As such, the Facility has potential to alter the way forests are viewed in tropical countries by significantly increasing the financial value of standing forests for carbon storage.

The Bank is proposing that the FCPF be funded from market sources (carbon trading) and non-market sources, including funds from bilateral development agencies, public finance institutions, the International Finance Corporation, the Global Environment Facility and private foundations. Public funds would be used primarily for “readiness” activities to pave the way for REDD financed through the carbon market.

Structurally the Facility would have two funding mechanisms: a ‘readiness fund’ and a ‘carbon fund’. The purpose of the ‘readiness fund’ is to provide financial support to countries to prepare them to begin trading avoided carbon emissions. The ‘carbon fund’ would administer payments to countries considered ‘ready’ to trade in offset emissions. The Bank plans to start operating the Facility once a minimum level of USD 20 million has been raised from its various potential donors for the Readiness Fund. The Carbon Fund would come into operation once its capital reached USD 40 million from donors. The Bank aims eventually to raise USD 300 million, USD 100 million of this being allocated to the Readiness Fund and the remaining USD 200 million to the Carbon Fund.

Three types of participants are recognized by the Facility:

- a. REDD country participants - countries (ie governments) which apply to the Readiness Fund and develop their required ‘REDD strategy’, monitoring system and baselines.
- b. Donor participants –any country, agency or institution that provides at least USD 5 million to either of the two trust funds in the Facility.
- c. Carbon fund participants – any company, institution, agency or country that enters a Carbon Partnership Agreement with the fund, meaning that they enter into a payment scheme for reduced emissions. Each carbon fund participant must provide a minimum of USD 5 million to the Carbon fund.

The Readiness Fund is the first part of the Facility that the Bank plans to bring on line, and it is the part of the Facility for which the most advanced plans have been prepared. The objectives of the ‘readiness fund’ have been defined by the Bank as:

- a. Designing and implementing accurate measurements, monitoring and verification systems to enable countries to report on emissions from deforestation and eventually forest degradation;

- b. Adopting a national REDD Strategy that reflects each country's priorities and is mindful of its constraints; and
- c. Developing a national reference scenario for REDD.

The Carbon Fund is seen as the payment mechanism for 'reduced emissions'. The details of how this fund will operate and of the measures that will be eligible for payment have yet to be worked out. Broadly, the intention is that participant countries may apply for money in return for "Emission Reduction Programmes" which credibly demonstrate reduced emissions from deforestation and degradation. The Bank foresees four main areas in which such programmes could be proposed:

- a. General Economic Policies and Regulations (including taxation and law enforcement improvement)
- b. Forest policies and regulations (including again taxation and forest law, governance and enforcement activities and expansion of protected areas – also mentions land reform and land tenure issues)
- c. Forest management (including 'reduced impact' logging and reforestation through plantations)
- d. Rural development (including community development and 'alternatives' to swidden agriculture).

These programmes may be proposed at a national or sub-national level, but will be the responsibility of the sovereign government to design and enforce. Only when the national government approves an alternative entity may a different organization enter into such a programme.

Already the World Bank proposals have drawn criticism from ENGOs. For example FERN has expressed concern that the FCPF will "finance industrial logging companies", "allow low impact logging" in natural forests, and encourage "plantation development...at the expense of indigenous peoples and the environment".

1.5.2 New Guidance for "Sustaining Forests in Development Co-operation"

The World Bank Group has compiled the "Forests Sourcebook: Practical Guidance for Sustaining Forests in Development Cooperation" with the aim of tackling the "complexity of issues surrounding forests role in poverty reduction, economic growth, and the protection of local and global environmental commons". The Sourcebook is designed to be a resource for countries, staff of the World Bank Group, government and development agencies and other stakeholders in the design and implementation of activities in the forest sector, including investment projects, development policy lending, coordination between sectors, and analytical services. The first part of the Sourcebook covers "innovative approaches to implementing the World Bank's Forest Strategy" using case studies grouped into seven themes including poverty reduction, improving forest governance, and mainstreaming forest considerations in international policy dialogue. The second part of the Sourcebook provides specific guidance on how to implement the World Bank's Operational Policy on Forests. More details:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTARD/EXTFORESTS/0,,contentMDK:21662025-menuPK:985797-pag ePK:64020865-piPK:149114-theSitePK:985785,00.html>

1.6 ALFA Initiative

The main objective of ALFA Initiative (Forest Law Application in the Amazon) is to create and implement a regional agenda for the improvement of forest law application (or forest governance) in the Amazon within the context of sustainable development. ALFA has a mandate from the forestry ministries in the Amazon Cooperation Treaty (ACT) countries, including Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname and Venezuela. ALFA also includes representatives from the private sector, NGOs, communities and other stakeholders. ALFA is designed to provide a framework for tackling the problem of illegal logging appropriate to an area that is rich in resources and biodiversity and also vulnerable, supporting 30 million people many of whom live in poverty. Although it is very difficult to assess accurately, levels of illegal logging in the region are believed to be high with much of the volume destined for the domestic market.

Initial outputs of ALFA have included good practice guides on public policy, the regulatory framework, institutional capabilities and structure, and technology and information. Country representatives have drawn up a list of priorities and of general conditions for forest law enforcement and governance improvements focusing very much on development of effective policy, regulatory and planning frameworks at national level. ALFA has suggested a number of actions that could be taken by member countries to strengthen these frameworks including:

- Training in low-impact logging technologies.
- Training in effective and low-cost forest cover monitoring systems.
- Country scoping studies including: forest sector analysis with emphasis on illegal activities, status of illegal logging and other aspects of forest sector legal compliance, forest sector institutional analysis, underlying causes, knowledge management and forest sector competitiveness.
- Lessons learned in forest sector financing: country studies, covering Central America and the Caribbean.
- Analyses of the forest sector contribution for the national economy.
- Implementation of a pilot project in Ecuador and preparation of another in Bolivia.
- Preparing a pilot project in the Peruvian and Brazilian boundary to facilitate the coordination of control activities.

2. National level developments in Europe

2.1 United Kingdom

2.1.1 DEFRA Minister spells out long term vision of global licensing scheme

At the Chatham House Illegal Logging Update Meeting held in January 2008, the UK Environment Minister Phil Woolas noted his long term vision to develop a “global licensing system” for timber designed to provide assurances that wood is from legal sources. Woolas emphasised that illegal logging is now very high on the political agenda, suggesting that the process is accelerating and that there is genuine movement in political discussions at international level and that any country blocking progress will be very unpopular. He suggested that the Russia-China relationship is a key issue in the debate. Woolas emphasised the need for demand-side measures, suggesting that “it is crucial that all major global consumers agree to demand a minimum of verified legal products as a first step to a global licensing scheme”. He highlighted the Lacey Act amendment in the United States noting that the US is showing leadership by introducing legislation to outlaw illegal timber. Woolas also commented that the UK prime minister has raised the profile of illegal logging by appointing two special representatives:

- Johan Eliasch, Special Representative on Deforestation and Clean Energy – to concentrate on financing mechanisms for forests. A final report is due before Easter.
- Barry Gardiner, Special Representative on Forestry whose main role is to work with the co-chairs of the Congo Basin Forest Partnership (CBFP) fund. The UK has committed £50m to this fund.

2.1.2 UK government consultation on additional legislation

In January the UK government held a consultation on additional legislative options to prevent entry of illegal wood into the EU. The report of the meeting does not include any recommendations for future action but provides a good summary of the pros and cons of different legislative options and the current legal position with regard to these options within the EU (see <http://www.illegal-logging.info/uploads/20080220AddOppsJan08minutes.doc>). The report highlights that there are significant legal objections to the EU pursuing either a universal requirement for legality licensing (since this amounts to a reversal of the usual burden of proof) or a Lacey-style approach (since this would require EU courts to make extra-territorial judgements on the laws of other countries which they are rarely willing to do).

Nevertheless the benefits of “Lacey-style” legislation have been recognised in the UK by Barry Gardiner MP, the Prime Minister's Special Envoy for Forestry. In early April 2008, Gardiner introduced a Private Members Bill for a first reading in the UK Parliament which is modelled on the US approach that would “*make it an offence for any importer or distributor to sell or distribute in the*

United Kingdom any wood harvested, manufactured or otherwise dealt with illegally in the country from which the wood originated or through which it passed or was transhipped”.

UK government officials at DEFRA have made clear that it is unlikely that Gardiner’s Bill will ever be implemented. They note that it is a private member’s initiative and does not represent official government policy. They note that while UK government supports the idea of legislation, it is looking for an EU-wide solution. So the legislative framework that eventually emerges in the UK is more likely to depend on the content of the EC Communication due in May (see section 1.1.5). The EC has indicated to the UK government that a separate effort to develop national level legislation would not be helpful at this stage.

2.1.3 Government responds to public consultation on procurement policy change

The UK government’s Central Point of Expertise on Timber (CPET) has now issued a response to comments received during their public consultation undertaken in 2007 on the change of timber procurement policy due to be implemented in April 2009. After that date, only timber and timber products originating either from independently verified legal and sustainable sources or from VPA countries under a FLEGT license will be purchased for government contracts. From April 2015, only legal and sustainable timber will be accepted. Comments received during the public consultation are being fed into new guidance on timber procurement policy due to be published in April 2008.

The UK government’s response makes clear that input from the public consultation has encouraged no change in the substantive content of the UK government policy. Many private sector interests were calling for greater flexibility in the definition of “sustainability” to ensure that certain producers that find certification difficult are not discriminated against. There was also concern from sections of the private sector that recognition of FLEGT VPA licenses and not other forms of legality verification was effectively discriminatory. However in their response, the UK government shrugs off comments on both counts, stating that the definition of sustainability will not change and making clear that FLEGT VPA licenses will be the only alternative to verified sustainable accepted between 2009 and 2015.

Nevertheless, there is a ray of light for AHEC’s proposal made in their formal comments that the sustainability of wood supply from small non-industrial forest owners in countries with good forest governance may be demonstrated by means of independent objective risk assessment rather than by certification. Uniquely, amongst of the 282 comments received, this is the only one to which UK government responded that it had *“initiated an ongoing dialog to discuss how this issue might best be addressed”*. Furthermore, in response to numerous comments received, the UK government used the following stock phrases:

- “it is recognised under the UK Government Procurement Policy that the burden of proof is proportional to risk. The new policy guidance will reflect this”; and
- “the UK Government Policy will continue to allow Category B evidence as an alternative means of proving compliance. Innovative proposals put forward as Category B will be considered and assessed to establish whether it meets Category B requirements”.

It helped AHEC’s case that this same issue of ensuring the policy did not discriminate against small non-industrial forest owners was raised by several other key stakeholders. For example, the UK Forestry Commission indicated that *“currently about 25% of domestic supply is not certified, including owners who choose not to do so, and a significant range of woodland management for which certification is never going to be appropriate. This range includes small woods, hedgerow trees, developing markets for wood fuel as an alternative to fossil fuels and generally wood generated from ad hoc management. It is vital that these suppliers have access to a range of markets”*. The WWF were also concerned about impact on smaller owners, although their concern was focused on local community forestry operations in the tropics: *“WWF is concerned that the new government policy could exclude access to UK timber and wood product markets from local and indigenous communities with customary land rights in countries with poor governance structures, which fall outside of both certification and the current round of the FLEGT VPA*

process”.

The UK government response is available at:

http://www.proforest.net/cpet/review-comments-1/Comments%20received%20Policy%202009%20%20responses%20v3%20r_final.pdf

2.1.4 Procurement policy implementation

Two priorities have been established for UK government timber procurement policy in 2008. The first is to undertake another review of certification schemes, due in May. The second is to tackle the more immediate problem of lack of on-ground implementation of the existing requirements. Evidence of lack of conformance to the UK government policy both by central government agencies and local authorities is beginning to undermine the credibility of the whole process.

CPET recently completed a pilot study of the construction sector aimed at encouraging implementation of the policy by public bodies and to develop practical recommendations. The study showed that use of guidance from DEFRA is inconsistent, contract requirements are inconsistent, and very little timber reporting is required. Many government agencies are not following central government guidance: some exceeding requirements by specifying that wood must be certified (in some cases demanding FSC); while others are falling well short. There has been a lot of focus on flagship projects, which by and large are conforming, but conformance levels for more mundane run-of-the-mill projects are very low. Site visits revealed that timber is not a priority and that filtering requirements through levels of contractors is difficult. Timber is more of a priority when other drivers are applied to the project, such as BREEAM or a contractor timber policy.

Following on from the pilot study, CPET recommended further action to engage in projects at the design stage and with sub-contractors. CPET also noted that there is a clear need to provide more guidance and training and suggested that existing initiatives, such as BREEAM, construction company policies or project chain of custody, should be built on and developed.

Lack of uptake by local authorities has been another issue, highlighted recently by a study of 45 local authorities in the north-east of England which revealed that only 2 had developed any form of timber procurement policy. This situation led Phil Woolas to write an article for the TTJ appealing to timber traders to help to encourage local authorities to adopt the CPET policy. Woolas suggested that “*very often you (the timber trade) have more direct contact with the buyers than we do*”.

The UK government has said that efforts to increase measuring and monitoring of policy implementation, increase reporting on timber, and continue training and awareness will all be priorities for action in 2008. CPET is performing a co-ordinating role, running free regional workshops, a website and an enquiry hotline

2.2 Spanish government develops Green Public Procurement Plan

The Ministry of Presidency of Spain under the proposal of the Ministers of Environment and Finances launched the “Green Public Procurement Plan” recently. It is based, among other regulations, on the Spanish Strategy for Climate Change and Clean Energy and the draft Integrated National Waste Program. The plan will be applied by the Spanish General Administration. Current information suggests that the plan includes no specific criteria for timber used in public-sector construction projects, although paper products and furniture are covered. The main measures relating to wood and paper mentioned in the plan are:

- Environmental criteria for building upkeep:
 - Use materials which are easily recyclable or reusable at the end of their lifecycle.
- Paper and publications:
 - Sourcing products conforming to sustainability criteria based on the European Eco Label for Paper.
 - Giving preference to electronic formats thereby reducing paper publications in

- Public Administrations by 40% before 2015.
 - Recycled paper to make up 50% of publications before 2010 and 90% before 2015.
 - Responsible purchasing training sessions for civil servants.
- Furniture:
 - No virgin wood from illegal logging, genetically modified trees or high environmental value species.
 - The origin of wood to be “documented by a certificate of sustainable forest management”.

2.3 Belgian government reviews timber procurement policy

Proforest, the UK based consultancy that also runs CPET, has been commissioned to review Belgium’s timber procurement policy. The policy, which currently recognises only wood certified by FSC and a limited number of PEFC national certification schemes, has been heavily criticised for its exclusivity and lack of transparency during the process of assessing certification schemes. Proforest’s final report will be presented to the Environment Minister and is believed to be imminent. This will be followed by a stakeholder consultation in late Spring 2008. The Minister will then decide whether to amend the policy in the light of Proforest’s recommendations.

The Proforest study involves an analysis of the 11 criteria currently used by the Belgium government to assess certification systems, an analysis of the use of social criteria, a review of the existing assessment of certification schemes, and a comparison with the procurement policies of other EU member states.

The study also involves an analysis of current implementation of the policy by federal ministries and institutions through questionnaires and face-to-face interviews. Preliminary results of this aspect of the study suggest that 55% of federal agencies are actively implementing the policy. 37% indicate that the policy is “easy to implement the policy”, while 60% have suggested a need for additional support. A general conclusion is that existing policy requirements are not sufficiently clear and procurement officers lack understanding of timber procurement issues.

2.4 Netherlands close to approving criteria for assessing certification systems

In June 2005 the Dutch parliament adopted the motion Koopmans/de Krom requiring central government authorities to source only sustainable products, including wood, in all public tenders by the end of 2010. Until then, 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 NEN-EN-ISO 45012.

The Dutch government has also indicated that it will give preference to “sustainable” timber once an adequate definition has been established. However the process of developing sustainability criteria that are both acceptable to the (rather extreme) demands of Dutch NGOs and practical to implement has proved very challenging. A consensus based process (referred to as BRL) produced draft sustainability criteria which were pilot tested in 2007. But these proved so demanding that no certification scheme could comply. Since then a process has been underway to develop an improved and simplified set of sustainability criteria based on experience gathered during the test runs.

It is now expected that the sustainability criteria will be finalised in May 2008 when they will be submitted for approval to the Dutch Minister for Spatial Planning, Housing and Environment (VROM). The results of the first formal assessments against the criteria are scheduled to be released in the third quarter of 2008.

Meanwhile Probos, a Dutch consultancy firm, is being commissioned to fulfil a similar role to that performed by CPET in the UK, preparing more detailed guidance for policy implementation,

establishing a helpline, providing training courses, and constructing a web page.

Central government procurement is estimated to account for approximately 10% of national solid timber consumption in the Netherlands.

2.5 Danish government forges ahead with procurement policy without NGOs

In February 2006 the Danish Environment Minister Connie Hedegaard launched a 9-point-plan for public purchase of legal and sustainable timber, which expanded the existing policy for tropical timber to cover all timber products, regardless of origin. According to the policy, all public institutions should buy legal and sustainable timber. The policy covers both wood and paper products.

Under the Danish Environmental Protection Act, each central government institution is obliged to develop its own green procurement policy as well as an action plan for its implementation, which effectively makes the timber procurement policy voluntary. However, some products such as office furniture and office paper are covered by binding agreements for all state purchase of such goods. The current contracts stipulate that timber products should be legally produced. More products are expected to fall under such contracts in future. Requirements on timber are in each case considered and included in accordance with the actual possibilities in the market place.

The Danish government uses certification schemes as a way to demonstrate compliance with the government policy. A guide on public purchase of tropical timber was published in 2003 in which FSC and MTCC were found to deliver legal and sustainable and legal and progressing to sustainable respectively. Danish government is now, after having expanded its procurement policy to cover all kinds of timber, working on an update and revision of criteria for legality and sustainability, and subsequent assessment of certification schemes. Other types of evidence will also be considered, which will be similar to the UK Category B evidence.

As a temporary measure, on 28 February 2008, the Danish Forest and Nature Agency announced that it would recognize both FSC and PEFC as guaranteeing sustainable forestry. However this announcement led to environmental groups (including WWF, IWGIA, and Nepenthes) withdrawing from further participation in the government steering group on timber procurement policy. They said they disagreed that PEFC can be considered a guarantee of sustainable forestry and complained that it was *“unprofessional to recognize a controversial certification scheme like PEFC on such a loose basis”*. They complained that the process to develop criteria for assessing certification systems was very slow and called on the Danish government to focus more effort on finalizing these criteria. According to the NGOs *“we do not want to be part of a process, where we no longer believe that a reasonable result is possible”*.

Meanwhile the Danish government has indicated its intent to continue to develop improved and more practical guidance covering all timber, focusing particularly on meeting end-users and establishing what their needs are. They intend to carry out an information campaign on green procurement and continue to cooperate in relevant fora to explore options for harmonisation of procurement policy at EU level.

3. National level developments outside Europe

3.1 China

3.1.1 Alarm bells ring over “timber security”

Most recent reports tend to highlight the problems of developing environmental timber procurement policies in China. For example, a Tropical Forest Trust (TFT) report commissioned by the UK government’s Department for International Development (DFID) into Chinese wood supply chains suggests that domestic market conditions are not conducive to efforts to eradicate illegal wood imports or develop environmental timber procurement policies. It notes that *“In the near term,*

China itself is unlikely to be able to implement control systems to ensure legality of product entering its wood processing industry, for reasons including bureaucratic indifference; local protectionism of manufacturing and jobs; tax and revenue demands; cost competition within not only the domestic industry but also from other wood production centers; and difficulties in implementing and enforcing a nation-wide system”.

Another study by the University of Beijing on the potential for a government timber procurement policy in China highlights some equally significant challenges in the public sector. This study notes that an appropriate “macro environment” for implementation of a public sector timber procurement policy is absent at present. There is a lack of appropriately qualified purchasing professionals in the Chinese government. Furthermore China does not have a comprehensive and unified government procurement system capable of disseminating appropriate information, imposing standards and monitoring implementation at all levels of government.

So rapid moves to eradicate illegal wood imports or establish environmental timber procurement policies in China seem unlikely. However one factor which may have potential to drive a more proactive response is the threat posed by unsustainable wood imports to the long-term economic performance of the Chinese wood industry. A recent article in the journal *China Wood* quotes Duan Xinfang, a researcher at the Chinese Academy of Forestry, who suggests that “*timber security has become a key factor affecting the economic security of China*”. According to the article, on a roundwood equivalent (RWE) basis, the gap between domestic wood supply and demand in China may reach 160 million m³ by 2010 and 300 million m³ by 2015. This implies the need for a massive growth in wood imports which currently amount to around 100 million m³ on a RWE basis. The article notes that wood shortages are likely to be particularly pronounced with respect to large diameter quality timber which is “*an important strategic resource used mainly in construction, decoration, furniture and manufacturing*”.

According to Xinfang, “*it is now really imperative for China to solve the problem of timber supply by establishing a long-run timber security system*”. Timber security is defined as “*a state of balanced supply and demand of timber resources, harmonized logging and forest ecological environment protection, and modest reliance on timber imports, a state in which the supply of timber can guarantee the security of national economic operation*”. Xinfang notes that the “*timber trade is said to be secure when a country's reliance on imported timber and wood-based products in international trade is below the warning line, the price of imported timber and the risks of transportation are moderate, and countries exporting timber to the country are evenly distributed around the world*”. On this basis, Xinfang notes that the current very heavy reliance on Russia as a source of supply is highly problematic.

Xinfang suggests that the “*uncertain timber trade will greatly threaten the security of national economic operation in the long run, because many enterprises will have to shut down or even exit the market due to severely short supply of timber. More over, under pressure from international environmental organizations, countries such as Russia, Southeast Asia, South America, and Africa where China's imported timber is mainly sourced are restricting the export of logs. Therefore supply of timber to China may come to a halt at any time*”.

Based on this analysis, Xinfang concludes that “*in the light of the enormous demand for timber in China, it will be hard to realize timber self-sufficiency. Hence establishing a long-run timber security system in 20 or 30 years seems to be of urgent necessity*”. Recommended actions to achieve this aim include: promoting legal and responsible logging; efficient utilization of timber; exploring wider range of timber supply bases; enhancing the productivity of forests through improved forest management; greater focus on cultivating rare wood species and large-diameter timber; increased wood recycling; research and development into alternative biomass materials; and expansion of Chinese joint forestry enterprises in wood exporting countries. .

These ideas seem to be gaining traction in sections of the Chinese government. Concerns over long-term economic security are a major factor driving efforts by China's Ministry of Commerce to develop a “sustainable trade strategy”. As part of this process, the International Institute for

Environment and Development (IIED) was commissioned to prepare a study considering how to integrate sustainable development into China's policies on forestry and international forest products trade. IIED suggest that attitudes to responsible timber trade practices within the Ministry of Commerce have shifted during the course of the project. The Ministry was initially defensive and highly sceptical but, with provision of more information, there has been growing acceptance that China can play a positive role to help eradicate illegal logging and promote sustainable practices in supplier countries. IIED's study, which was finalised earlier this year and presented to the Ministry of Commerce, includes a number of recommendations including that consideration be given to the development of a Chinese government procurement program to encourage legal and sustainable wood products, and that the Ministry seeks to improve China's "brand" through better corporate responsibility aimed at sustainable wood products.

3.1.2 Africa's wood trade with China

A new Forest Trends report examines Africa's wood trade with China. It is a response to recent media coverage focusing on China's efforts to secure access to natural resources in Africa. This has encouraged a widespread perception that Africa exports a significant and growing volume of timber to China. The study highlights that the timber trade links between Africa and China are more complex. Key findings include:

- China's imports of Africa's forest products grew rapidly from a small baseline during 1995-1997, but have since fluctuated around a relatively flat trend, reaching 2.6 million cubic meters roundwood equivalent (m³ RWE) in 2006. This amount is a small proportion (2.9% by volume) of China's overall forest products imports.
- For most exporting countries in Africa, European markets still dominate. In 2006, Africa exported 4.4 million m³ RWE of natural (non-plantation) timber products to the European Union (EU), compared to 2.1 million m³ RWE sent to China.
- Logs dominate the mix of African forest product exports to China (85% in 2006), playing a greater role than in China's overall imports of forest products (where logs accounted for 36%). Chinese markets are buying very little processed wood from Africa, though many African countries export value-added timber products to European markets.
- The relative importance of China can vary greatly across countries. Important West African wood exporters such as Ghana, Cote d'Ivoire and Cameroon tend to export to EU markets, with little trade to China. Mozambique, on the other hand, sent more than 90% of its timber exports to China in 2006.
- Gabon has historically been the leading African supplier of timber to China, followed by Equatorial Guinea, the Republic of Congo, Cameroon and Mozambique. South Africa and Swaziland exported significant amounts of pulp and paper to China as well.
- Only northern African countries (not forest producer countries) are currently purchasing Chinese manufactured wood products.

3.2 Japan's timber procurement policy

The Japanese government has been a leading advocate of increased global efforts to tackle illegal logging. According to the Ministry of Agriculture the government's "fundamental policy" is that illegally harvested wood should not be used in the country. The government sees efforts to combat illegal logging, and therefore to help reduce carbon emissions resulting from deforestation, as a key element of international efforts to tackle climate change.

Japan's policy responses initially focused on capacity building and other supply side measures in timber supplying countries. More recently the Japanese government has increased its emphasis on demand side measures within Japan. In April 2006, Japan introduced a government procurement policy favoring wood and wood products harvested in a legal and sustainable manner. The policy which is compulsory for central government departments while local authorities are also encouraged to comply, establishes "legality" of timber supplies as a compulsory "criteria for decision" and "sustainability" as a voluntary "factor for consideration". Five categories of wood and wood products are covered namely paper, stationary, office furniture, interior fixtures and

beddings, and wood and wood products used in public works projects.

In contrast to some European government procurement policies, the Japanese Guideline on policy implementation is relatively short and lacking in detail. “Legality” in the context of wood products is defined briefly as *“harvested in a legal manner consistent with procedures in the forest laws”*. The Guideline does not seek to establish an operational definition of sustainable forest management. The Guideline allows three different mechanisms by which suppliers may verify legality and sustainability: forest certification and chain of custody systems; codes of conduct of wood industry associations; and self-established procedures of individual companies. However no criteria are established to assess the credibility of different forms of legality verification and forest certification.

In practice therefore, the Japanese government has been highly flexible with regard to the forms of evidence to be accepted. By recognising codes of conduct and other private sector initiatives, a great deal of responsibility has been passed on to the private sector. There is a strong rationale for this approach. The public sector does not itself cover a significant proportion of overall procurement activity in Japan, only around 3%. Public procurement is reasonably significant for some products – for example concrete forming plywood for public works projects – but barely impacts on the vast majority of wood consumption. Therefore a major intent of Japan’s procurement policy has been to elicit a response from the private sector. In this it seems to have been successful. In particular, the strong emphasis on codes of conduct has encouraged a remarkable and rapid increase in levels of industry participation in these initiatives.

The Japan Federation of Wood Industry Associations (JFWIA) has played a leading role to develop interest in and demand for legally verified products in Japan. Following formulation of their procurement policy, the Japanese government delegated responsibility for managing a “Project to Promote a Comprehensive Response to Illegal Logging” to the JFWIA. This three-year project (2006-2009) is backed by a grant of US\$ 1 million from the Japanese Ministry of Agriculture, Fisheries and Forestry (MAFF). It has involved the formation of a “Council for Tackling Illegal Logging Issue” comprising representatives from environmental NGOs and timber associations and academic experts. A Verification System Study Group has been placed under the authority of the Council with a mandate to assess appropriate systems to verify legality and sustainability. Another working group has been established to undertake educational and marketing activities. It has developed a website (<http://www.goho-wood.jp/>) and pamphlets providing information on action in Japan to combat illegal trade. Other working groups have been established to manage and commission a range of research programs in support of the Project including case studies of overseas companies with progressive timber procurement policies and a survey of systems to verify legality/sustainability in three exporting countries (China, Russia and Indonesia).

JFWIA has also played a key role in designing and implementing trade association codes of conduct that may be used to demonstrate conformance to the public sector procurement policy. JFWIA finalised a code of conduct in March 2006 just before the government policy came into effect. Article 1 of the “Code of Conduct Concerning Measures Against Illegal Logging” states that JFWIA *“strongly opposes all illegal activities that may impair the health of forests”*. The Code announces that JFWIA supports the procurement policy of the Japanese government (Article 3) and that in the international arena it is committed to “showing respect” to the efforts of international forest conservation/forestry organisations and the producer countries.

JFWIA’s Code is supported by an “Operating Procedure” which regulates the accreditation of businesses with respect to verification of legality and sustainability of wood products. The Operating Procedure also prescribes on-site inspections when they are deemed necessary. Businesses belonging to the JFWIA member associations are required to provide information during such inspections, which are announced in advance. In case of infractions, such as falsification of evidence, accreditation may be withdrawn and the infraction may be publicised on the corresponding association’s website.

The JFWIA Code of Conduct has served as a prototype for the majority of its member associations. By 16 March 2007 all 19 national timber industry associations and 104 prefectural

timber industry associations had established codes of conduct for the purpose of supplying public contracts. Conformance to the Codes is voluntary for members of each association, although those companies that formally sign up are subject to mandatory checks. In January 2008, the research association IGES reported that 6000 (24%) of all the associations' member companies (25,286) were signatories to the policies. The pace of company uptake of the Codes remains high, rising by over 20% during the course of 2007.

As part of the "Project to Promote a Comprehensive Response to Illegal Logging", Japanese wood importers, their associations and the JFWIA have explored options to accept existing verification schemes in producer countries. According to current documentation on the Goho wood website¹, verification of legality may be provided through:

- forest certification (with SGEC, FSC, SFI, CSA, PEFC mentioned as examples);
- or "documents issued by authorities concerned on legality and sustainability of wood and wood products (Permission on harvesting, exporting, etc.)";
- or other documents with the same level of reliability as the above.

There is also a broad and not clearly defined requirement for an adequate chain of custody to ensure the legality of timber and for evidence that wood is harvested in a legal and sustainable manner. It is noted that forms of evidence will vary due to differing legal systems and commercial customs in each country. It is also noted that "additional papers and documents might be requested if there is considerable evidence of the existence of illegal logging".

3.3 Russia

The Ministry of Natural Resources reports that illegal logging throughout Russia exceeded 21 million m³ in 2007. This amounts to around 10% of the total harvest - legal logging in Russia last year amounted to 180-190 million m³ (still well below the allowable annual forest cut of 635 million m³). According to the Russian Minister of Natural Resources, a whole criminal sector has sprung up in the forest industry in the border regions, particularly of the Russian Far East, in which representatives of all supervisory and law enforcement agencies participate.

According to the Russian NGOs Forest Club, an informal working group of representatives from the largest NGOs working in Russia, illegal logging falls into three categories:

- criminal activities such as logging without official permission, timber theft, falsification of documents, financial crimes, and use of violence against local people;
- illegal activity in forests by the rural poor in order to satisfy basic needs for food and fuel;
- thinnings carried out in middle-aged or premature forests authorised by corrupt government officials. According to Greenpeace Russia almost 100 percent of such commercial thinnings actually involve high-grading leaving degraded, unhealthy and often unstable stands. These "thinnings" are one of the major sources of unregistered and unpaid (illegal) wood, especially of most valuable hardwoods and high grades of softwood logs.

The problems are significant but there are also reports of efforts to improve enforcement by the Federal authorities. According to local media reports in 2007, 120 criminal cases were initiated by customs authorities involving timber and more than 4 million m³ of wood material was confiscated. The Federal government suggests that the customs service has now reduced the number of customs checkpoints that will process unfinished timber exports from 668 to 128 and is taking steps to ensure that the remaining checkpoints have appropriate technology to assess timber cargoes. And most recently, Valery Roshchupkin, head of the Russian Ministry of Natural Resource's Federal Agency for Forestry, or Rosleskhoz, announced at a meeting of the Interdepartmental Commission on Prevention of Illegal Timber Circulation that by 2011 there will be a "unified information system" in operation for controlling timber circulation in Russia. The intention is that the new system will track the transfer of timber from point of harvest through processing to point of export.

¹ www.goho-wood.jp, "Documents Required for Verification on Legality and Sustainability of Wood and Wood Products - Illustration for Overseas Company"

3.4 Indonesia

3.4.1 Illegal wood exports to Malaysia continue

According to Indonesia's forestry minister, Malaysian companies continue to import timber illegally from Indonesia. In an interview with Radio Australia, the Minister said that smuggled timber from Indonesia is also exported to China, Vietnam and other Asian countries through Malaysia. "*With documents obtained by the Indonesian police there is enough evidence to show the delivery of illegal timber from Indonesia to a company in the Malaysian state of Sarawak,*" he said. In March, the Indonesian National Police intercepted 19 boats carrying 12,000 cubic metres of timber at Pawan River, in Ketapang, east Kalimantan, suspected of being smuggled to Malaysia. The Minister suggested that illegal logging remains at high levels in Indonesia, notably in Kalimantan and Sumatra, with operations facilitated by a well organized mafia network, often involving high ranking local officials. The Minister called for closer cooperation between the Customs Office, Police and Forestry to stamp out timber smuggling from Indonesia. The Minister also called on the Malaysian government to impose harsh sentences on businessmen buying timber illegally from Indonesia.

The Indonesian environmental group WALHI Indonesia claims that more than 10 million m³ of timber goes to Malaysia illegally every year. However WALHI also suggest that the flow of illegal timber from Kalimantan and Sumatra to other parts of Indonesia has declined in the past few years due to the government crackdown.

3.4.2 Auditing of timber concessions reveals widespread irregularities

In a move designed to raise forestry standards and prevent illegal logging, the Indonesian government is auditing all concession holders in the country. Audits are being conducted by the "Independent Verification Institute (LPI)" and funded by the government. According to the Forestry Minister, among 40 forest concession holders that underwent an audit last year, only 19 companies met the standards. The government has not yet made the names of the concession holders public, giving those that failed six months during which they must take steps to meet the required standard or their licenses will be revoked. Of the 19 forestry companies that passed the audit, seven were commended for good performance, while the remaining 12 were considered "moderate". By the end of 2007, the LPI had audited 143 concession holders to check whether companies are managing forests sustainably. So far, only 48 concession holders have passed the audit. LPI is expected to audit 61 forest concessions this year.

3.4.3 Major supply problems reported

The government crackdown on illegal logging combined with past over-exploitation of the Indonesian forest resources is contributing to major supply problems in Indonesia. All Indonesian wood manufacturing sectors are affected including plywood, window and door manufacturers, and furniture. According to the Forestry Industry Revitalization Agency (BRIK), a government-sanctioned agency tasked with rejuvenating the sector, no improvement in supply is expected in the immediate future.

BRIK note major short-falls in domestic supply of wood compared to levels of demand. In 2007, the country produced around 44 million m³ of wood, while annual domestic demand was 62 million m³. BRIK indicate that in 2007, only 700 of the approximately 2,000 registered companies in the wood-working subsector managed to export their products. This is about a hundred less than in 2006. For plywood, only 40 percent of the 120 registered companies maintained operations. Total Indonesian plywood exports in 2007 were valued at \$1.3 billion, compared to \$1.6 in 2006. Wood-working exports were \$1.2 billion compared with \$1.3 billion in 2006. Already BRIK is forecasting further falls in exports this year.

Lack of supply combined with rising fuel costs, poor access to transportation and legal uncertainty is leading to major socio-economic problems in timber producing regions. In 2006, around 50,000 workers were laid off from a number of wood producers in South Kalimantan and West Kalimantan.

3.4.4 Furniture sector moves to certification

A recent report in the Jakarta Post suggests a significant move by both the government and furniture associations to promote forest certification. An official at the Export Development Agency (Nafed) of the Indonesian Trade Ministry is quoted: "*recently, we received massive orders for window and door frames from abroad and we have had difficulty in finding companies with wood certification after the buyers asked for it*". The chairman of the Indonesian Furniture and Handicraft Association (Asmindo) is also quoted, saying that certification will help the industry by improving its competitiveness in the global market. Asmindo estimated that Indonesia's exports of wooden furniture last year reached around US\$897 million, a 10% increase on the previous year. The Asmindo Chairman noted that only a very small proportion of around 2,000 exporters that are members of the association have obtained certification. Dini Rahim, a regional manager at Senada, a four-year project funded by USAID aiming to improve the competitiveness of manufacturing industries in Indonesia, comments that it is now normal practice for Indonesian furniture manufacturers offering certified product to raise prices by up to 30%.

3.5 Brazil announces another crackdown on illegal logging

There are reports that Brazil has boosted efforts to combat illegal logging in recent months, partly in response to news that the rate of deforestation increased at the end of last year. However the apparent lack of a coherent strategy, short-comings in enforcement capacity on the ground, and the continuing dependency of poor rural communities on illegal harvesting raise doubts over the long term effectiveness of the measures.

After three years of declining rates of deforestation, new statistics derived from satellite monitoring by the National Institute for Space Research, INPE showed that deforestation for the last five months of 2007 was 3,235 square kilometers (2,010 square miles), a 60% increase over the five-month average of the previous year. "*It is a completely new and very worrying development*," Joao Paulo Capobianco, executive secretary at the Environment Ministry, admitted at a press conference to announce the figures in January.

Illegal logging is widespread and is a major part of the problem. Some 90 percent of all logging in Brazil is done without the proper permits, according to the Environment Ministry (IBAMA). A large proportion of the illegal logging is not linked to the timber industry. IBAMA places more of the blame on farmers who clear forest plots to create soybean fields and cattle ranches. Officials say that ranching and farming are responsible for up to 80 percent of total deforestation nationwide. Brazil is the world's leading beef exporter, and a recent agricultural boom driven by the global rise in food prices has it poised to surpass the United States as the world's top soy exporter. Much of the illegal logging also comprises young trees used to feed charcoal ovens. 35% of all logging in the state of Para is now believed to be destined for charcoal production as demand for this commodity has risen dramatically. Charcoal is purchased by companies that resell it for steel production for which there is huge international demand, particularly driven by China.

Enforcing the law is spotty at best. Regulators are only able to monitor a small fraction of the Amazon region at a time. One recent press article highlights the plight of a typical IBAMA official who is expected to monitor approximately 250,000 square kilometers with just five other inspectors, two of whom are administrative and never leave the office. The team has only five cars, two of which are currently broken, four motorbikes, and a motorboat.

IBAMA applied almost \$1 billion in fines last year but only received about 10 percent of the value levied, according to its own estimates. Authorities have passed laws to make it easier to confiscate timber, machinery, and vehicles but officials don't have the resources to seize more than a fraction of the potential haul.

Nevertheless, the government seems determined to act. The recent deforestation figures were so alarming that President Luiz Inacio Lula da Silva announced a range of measures to combat the rise. Lula decreed a total ban on deforestation in the 36 worst-hit municipalities. The president also told landowners they must prove they are complying with the law, which requires that 80 percent of their land be preserved as natural vegetation. Those not in compliance will be ineligible for government credit and prohibited from selling their property. Measures will also be introduced to stop noncompliant businesses from marketing their produce. Hundreds of federal agents are being deployed to help enforce the measures. Fines for illegal cutting have been stiffened. Officials also have tried to expand the scope of potential violations. For example, slaughterhouses that process meat from illegally cleared ranches can be cited.

Critics complain that increased enforcement activities are a knee-jerk reaction and do not get to the heart of the problem. They call for a more co-ordinated response which links greater enforcement activities with measures to provide alternative sustainable livelihoods for the rural poor. Illegal logging has come to be valued as a consistent economic opportunity for the millions living below the poverty line in the Amazon region.

One recent press article reports on the impact of the government crackdown in the town of Tailandia, about four hours by car from the mouth of the Amazon River. Officials estimate that 70% of Tailandia's population of about 65,000 depends on the wood industry. Some work for big logging operations but many more are small producers of charcoal. According to the report, in the weeks following the announcement of the crackdown on 25 February, Federal inspectors found that most of the 25 sawmills operating near Tailandia were violating the law. The inspectors levied more than \$2 million in fines and confiscated more than 8,000 cubic meters of illegal timber. The article was particularly critical of heavy handed police raids on numerous small subsistence producers of charcoal which led to the destruction of 800 unlicensed charcoal-producing ovens. Measures like this to tackle illegal logging are often unpopular and are deeply resented. The crackdown in Tailandia was met with a public riot.

The Brazilian government is unapologetic. "*This is the most important challenge we have ' to transform an economy that's been based on a predatory process since, well, forever, and turn it into a sustainable one,*" said Joao Paulo Ribeiro Capobianco, the country's deputy minister of the environment. "*To do that, we have to stop the illegal activities first,*" Capobianco said. "*You can't stimulate sustainable logging if you have another business nearby operating in a different way and putting wood in the same market.*" But many Brazilians will need some convincing if they're going to play along.

3.6 New tracking technology being applied in Liberia

Commercial harvesting was due to begin again in Liberia's forests in March 2008 for the first time since the United Nations imposed a ban on trade in the country's logs in 2003. Back then, Liberia was a byword for uncontrolled and environmentally devastating logging. Now with the help of a high-tech monitoring and control system, the authorities hope to set the standard for the enforcement of forestry law.

The Liberian Forest Development Authority has hired SGS and Helveta (a software firm) to set up a system to track all of Liberia's timber. Future forestry concessionaires will be obliged to attach a bar code to each tree they fell (and the stumps they come from). A corresponding entry in a database will record the origin, species, size and destination of the log in question. Inspectors can then scan logs at random to see if they match their description in the database. In theory, this should make it hard to forge paperwork and easy to catch those who misrepresent the amount of wood they have harvested, or where it has come from.

Several other countries have experimented with such schemes. But Liberia's is different in three important respects. First, it covers all commercial forestry so any log without a barcode is inherently suspect. Second, it takes the decision about whether a consignment is legitimate out of

the hands of inspectors in the field. They do not know what they are looking for; the system simply requires them to scan each barcode and then enter a description of the log it is attached to. If there is any discrepancy between the description in the database and that provided by the inspector, the system flags it automatically making it much harder to bribe the inspector to turn a blind eye. Finally, when such inconsistencies arise, the system alerts the authorities directly, by e-mail or text message. In the case of a few mislabelled logs, it might summon local police and forestry officers; if a valuable shipment is about to leave port without having paid the correct taxes, it will warn the ministry of finance.

No system is infallible, of course. But the technologies available to identify the source of timber and thus weed out illegal logs are becoming ever more elaborate. Certisource, a firm based in Singapore, offers to compare the DNA of logs and the stumps they are said to have come from, to make sure no unidentified timber has slipped through the net. Most of its customers are Western retailers worried about the bad publicity an inadvertent purchase of illegal logs might bring.

3.7 Democratic Republic of the Congo

3.7.1 World Bank increases its engagement

The World Bank is increasing its involvement in the Democratic Republic of Congo's (DRC) forestry sector with US\$64 million in new funds after an independent inquiry of its work in the area. According to a Reuters report, the World Bank's board has backed plans to step up forestry reform efforts in the country.

The recent inquiry by a World Bank inspection panel into the Bank's role in the DRC's forestry sector followed complaints by indigenous forest-dwellers that accused it of encouraging commercial logging that threatened their livelihood. The panel found that the Bank's support of logging in DRC originally overestimated the export revenue to be gained from the process and discouraged sustainable forestry and conservation. But it also noted it was important that the Bank remain engaged in the sector in the country.

The new funds for the Bank's work in DRC will include a forest reform grant of US\$50 million, a US\$7 million grant for protected areas from the Global Environmental Facility, and a multi-donor trust fund which has so far collected US\$7 million from donors.

According to a Bank spokesperson, the Bank's involvement in DRC to date has been limited and has not included any significant investment support. The Bank has provided advice and modest levels of financial support through development policy lending. The World Bank has sponsored a government-led legal review of 156 logging deals to reorganize forestry concessions, many of them illegally allocated during DRC's civil war. However no significant resources have been made available to help the government implement improved forest management on the ground.

The new money will be used to expand Bank's work through pilot programmes with communities on to protect DRC's tropical forests. The Bank intends to work with regional and local authorities in overseeing forest management planning and curbing illegal logging.

Before announcing its renewed commitment in the country, the Bank sought assurances from the DRC government that an existing moratorium on allocation of new logging concessions would be maintained. The Bank has also urged the government to cancel illegal concessions and those in breach of a new Forest Code.

3.7.2 Global Witness identify widespread illegal practices

Global Witness, the UK based NGO, has released their findings from a scoping mission on independent forest monitoring in DRC. The findings suggest that the forest sector in the country is still in total disarray and that little progress has been made to improve the situation since the end of the civil war. According to Global Witness:

- Reform was proposed for land use planning in 2002, but was not implemented. To date, no participatory forest use planning or national zoning plan has been initiated
- 70% of the current 156 forest titles were issued or modified after the moratorium on new concessions in 2002, many absorbing areas of traditional forest use and villages;
- Local people have been excluded from using the forests for their livelihoods, leading to social tensions; The legal framework in DRC is incomplete and inconsistent. Of the 42 application decrees in the Forest Code, only four have been signed.
- There is no budget for control operations, the salaries of forest administration officials are low, there is no technical equipment and the professional capacity among control officials is low. Artisanal loggers are not registered, but are receiving logging permits.

Global Witness suggest this has resulted in a willingness by forest administration officials to accept bribes, widespread unregulated and illegal logging, and the creation of a large 'informal' sector which is dependent on short-term demand from industry. Global Witness suggest there is no control of timber production, transport, trade or export except in one province. Companies are not reporting their timber production or producing operation plans, the current export inspection system does not conform to any accepted standards, and forest control staff has insufficient expertise in investigating and reporting.

Global Witness calls for a moratorium on industrial logging operations until these issues are addressed.

3.7.3 Industry responds to Global Witness claims

The Global Witness report drew a vigorous response from the Fédération des Industriels du Bois en RDC which insists that while illegal logging is rife in DRC, the industrial wood sector is not to blame. The Federation suggests that industry exploits only about 400,000 m³ per year in DRC, whereas the small-scale artisanal sector and illegal loggers, according to a recent FAO study, exploit 5 million m³ per year. The local population collects and burns (slash/burn) an additional 50 million m³ per year. The Federation claims that recent financial audits have demonstrated that industrial companies operating in the DRC do pay their taxes despite struggling to survive in a country with negligible infrastructure and a highly uncertain and volatile business environment.

The Federation comments that *“Industrial logging companies hope that the conversion of their old titles will take place during 2008, which will result in a new type of contract and the ability to implement SFM plans. Some companies are already working on SFM and, in the near future, DRC will be able to demonstrate that 6–8 million ha of forest concessions are exploited in a sustainable manner. The next step will be to achieve certification”*.

3.7.4 Alternative finance mechanisms for sustainable forest use

A range of research projects are underway considering alternative mechanisms to industrial logging for sustainable forest use in the DRC. The work is now being co-ordinated by the Centre for International Forestry Research (CIFOR) and funded by the World Bank, various government development agencies, and NGOs. The work is intended to lead to real proposals for action which will be presented at a high-level event during the first half of 2008, possibly at the World Bank, to help mobilise funding.

The projects are:

- Carbon finance in DRC – REDD (reduced emissions from deforestation and forest degradation). This project is looking at establishing a baseline for emissions and how emissions could be reduced in agriculture, plantations and logging. Partners involved are the Woods Hole Research Centre, USA and the Ministry of Environment, DRC.
- Conservation contracts for forest communities – concessions for the communities or other bodies to manage the forests for conservation purposes. The partner involved is Conservation International, USA.

- Linking communities with innovative financing mechanisms – for example, communities undertaking forestry linked to markets for environmental services. The partner involved is Forests Monitor, UK.
- Endowment fund for protected areas – the partner involved is WWF-CARPO.

4. Development of Forest Certification

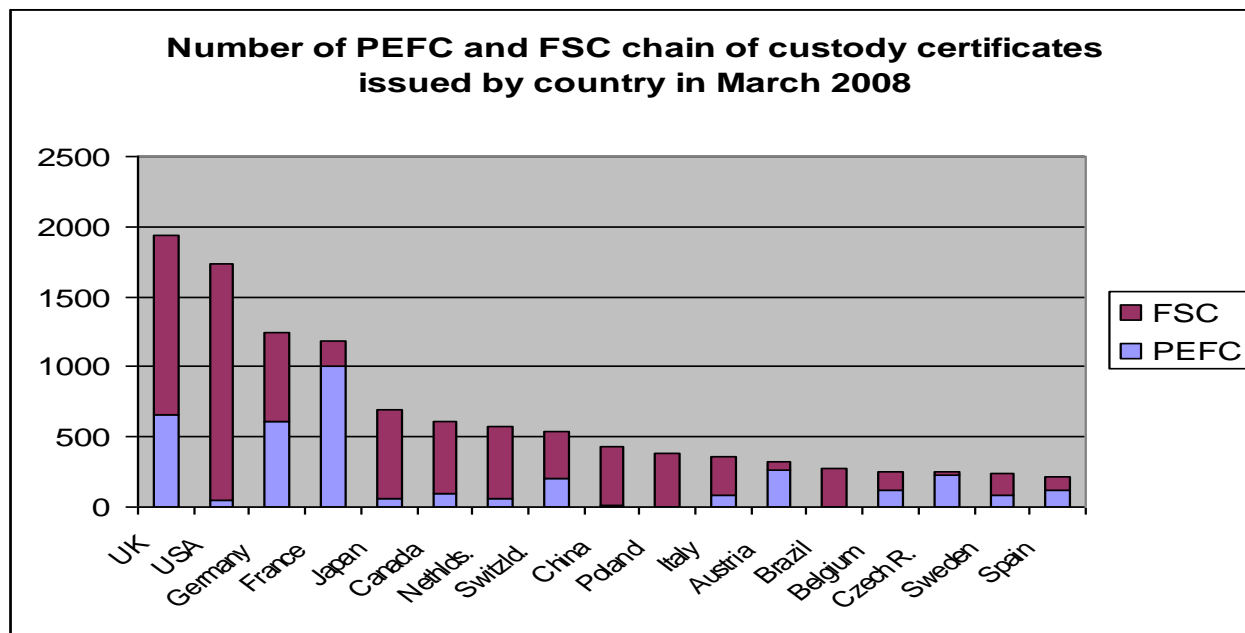
4.1 Global trends

Table 1: Certified forest area by region - Million hectares in March 2008 (and % change since Nov 2007 in brackets)

	North America	Europe	Russia	South & Central America	Oceania	Asia	Africa	Total
FSC	34.2 (+14)	32.0 (+2)	19.7 (+13)	10.9 (+21)	1.6 (+23)	2.0 (+11)	3.0 (+3)	103.4 (+10)
PEFC-SFI	60.9 (+9)							60.9 (+9)
PEFC-CSA	76.7 (+4)							76.7 (+4)
PEFC-Other		54.2 (-4)		2.6 (-4)	7.8 (-10)			64.6 (-5)
Other	9.3 (+0) ¹					4.8 (+0) ²	1.2 (+0) ³	15.3 (+0)
Total	181.1 (+7)	86.2 (-2)	19.7 (+13)	13.5 (+15)	9.4 (-6)	6.8 (+3)	4.2 (+2)	320.9 (+5)
% Productive area	55	57	3	2	6	2	1	11

1. American Tree Farm System; 2. Malaysian Timber Certification Council; 3. Forests in Gabon certified by Dutch Keurhout initiative

Total area of certified forest worldwide stood at 320.9 million hectares at the end of March 2008, an increase of 11% since November 2007 (Table 1). FSC certified area stood at 103.4 million hectares and PEFC certified area at 202.2 million hectares. The biggest recent changes have been in North America where both FSC and PEFC certified forest area has increased significantly, and in Russia where FSC certified area has risen by 13%. Meanwhile the area of PEFC certified forest has declined slightly in Europe (due to the Latvia PEFC system recently losing its endorsement) and in Australia.



FSC chain of custody certification has continued at a very rapid pace over the last four months. By the end of March 2008, FSC had issued 9611 chain of custody certificates, an increase of 1074 (13%) since the end of November 2007. Much of this increase has been concentrated in the USA (357 new certificates), the UK (127), Canada (86), Germany (53), and Japan (48).

PEFC chain of custody certification also increased over the four month period but at a slower pace than FSC. By the end of March 2008, PEFC had issued 3866 chain of custody certificates, an increase of 342 (10%) since the end of November 2007. Major gains were in the UK (129 new

certificates), France (55), the USA (23) and Spain (22).

Recent increases in chain of custody certification have not significantly altered the overall worldwide distribution of this type of certification which remains heavily concentrated in north-western Europe, North America and Japan (see chart). The top 15 countries account for over 80% of all chain of custody certificates issued. However FSC chain of custody certification is beginning to make inroads in China (426 certificates), Vietnam (152), Malaysia (70) and Indonesia (66).

4.2 PEFC

4.2.1 Status of national certification systems

Two more national certification systems were recently endorsed by PEFC in Estonia and Poland. Systems for Belgium, Denmark, Switzerland and the UK were all recently re-endorsed by PEFC. PEFC now recognises 25 national certification schemes. Six forest certification systems are currently undergoing the PEFC endorsement process. These include the American Tree Farm System, two systems in Russia, and national systems in Latvia, Chile, and Spain. Assessment of a system for Gabon has been interrupted and will continue when revised documentation is submitted.

4.2.2 Restructuring process

A process of restructuring is currently underway within PEFC in line with the new strategy adopted by the PEFC General Assembly at the end of last year. As part of this process, the PEFC international office is being transferred from Luxembourg to the World Trade Center in Geneva, Switzerland, by mid May. The PEFC secretariat is also in the process of recruiting new communications, development and administration staff. Meanwhile PEFC has initiated several reviews, the first being a governance review to be conducted by a review panel, including external consultants and stakeholders, which will propose improvements and alterations to the present governance structure. Work on the development of a new communications strategy and implementation plan will start with the appointment of the new Head of Communications. Concerted efforts are also underway to review and revise documentation with a view to making the rules and standards easier to understand and implement without diluting their rigour. This process is due to begin with the revision of the PEFC international Chain of Custody standard and logo usage rules.

4.2.3 Guidance on project certification

To meet emerging demand for “project certification” in the construction sector, PEFC UK Ltd. in co-operation with the PEFC Council has developed a guidance document which provides an interpretation of the PEFC Chain of Custody standard for the purposes of site and a time specific projects. Examples of appropriate projects include a building such as a stadium or an office building. The guidance is applicable worldwide and can be downloaded at:
http://www.pefc.org/internet/resources/4_1334_1430_file.2090.doc

4.2.4 Position paper on carbon sequestration and forest certification

The PEFC Council has issued a position paper on the carbon issue and forest certification. The paper outlines possible links between the mitigation of global climate change and carbon emission and their interactions with forest certification activities. PEFC argues that only sustainably managed forests should qualify for carbon credits or any other payments relating to afforestation, reduction of deforestation; forest management (maintaining or increasing stand-level or landscape level carbon density) or increasing off-site carbon stocks in wood based products. Furthermore it suggests that “*sustainable forest management must be demonstrated through credible certification like PEFC*”.

4.3 FSC

4.3.1 Market information pack

FSC now publishes a “Market Information Pack” bringing together indicative statistics on FSC growth, market share, and label recognition. The latest pack reveals that:

- Currently, 103.4 million hectares of forest are FSC certified, distributed over 79 countries.
- By forest type, more than half of global FSC certified forest area comprises natural forest. Only around 7% is plantation forest.
- About half of all FSC certified forest is boreal and around 12% is tropical or sub-tropical. Only 13 million hectares of tropical forest are FSC certified.
- Large state and industrial forest owners dominate the FSC network. Only around one in six forest management certificates issued by FSC are to communities and small forest owners.
- Globally, FSC certified forests represent the equivalent of 7% of production forests.
- The global market for FSC products has now topped 20 Billion USD and shows continued signs of growth.
- Public recognition of the FSC brand is growing in a few countries. Particularly notable is the Netherlands where the FSC logo is the fourth best-known trademark in the country. Prompted recognition of the brand tops 60% in several countries and unprompted recognition continues to grow.

More details: www.fsc.org/charts

4.3.2 Recent and on-going reforms of the FSC system

FSC is going through a major process of reform at present as efforts are made to tighten certification and accreditation procedures and tackle problems associated with misuse of the FSC logo and with inconsistent application of the FSC Principles and Criteria by different certification bodies. Recent developments include:

- FSC has revised its audit procedures to allow Accreditation Services International (ASI) – which is now responsible for accrediting FSC certification bodies - to perform spot audits.
- FSC is in the last phases of public consultations on a so-called 'policy of association' which sets out criteria that companies have to fulfill before they can apply for FSC certification. The aim of this policy is to reduce the likelihood of FSC being misused by companies who only have parts of their operations certified to FSC standards.
- A review of the FSC Principles and Criteria (P&C) and relevant guidance relating to plantations – presently work is on-going to develop practical guidelines and tools to assist plantation and forest managers in meeting FSC requirements
- A review of the FSC P&C and relevant guidance relating to pesticides – presently work is on-going to develop guidance for integrated pest and vegetation management and for appropriate use of pesticides
- Efforts to develop a single set of “international generic indicators” applicable to all forest types and regions derived from the FSC P&C with the objective of minimising the scope for variation in interpretation of the P&C by individual FSC accredited certification bodies.
- Revisions to the accreditation standards to ensure they are more closely aligned to international standards for accreditation.
- The development of a new dispute resolution process.
- An increased number of audits and auditors working for ASI.
- The development of a new training program for auditors to ensure more consistency in audits.
- The installment and development of information systems designed to allow faster and more efficient detection of inconsistencies and to better support monitoring and evaluation systems. This includes an improved on-line Certificate Search to include more information on certificates and certified products available at www.fsc-info.org. This is where external stakeholders can check the validity of the certificate number. It will also soon include a

detailed list of FSC certified products offered by the certificate holder given the scope of their certificate. All of this information is uploaded by the certification body to ensure credible and correct information is presented.

- A recruitment drive: in addition to seeking a new Executive Director and ASI's recruitment of more auditors, FSC International advertised eight positions between January and March including an IT Officer, a Communications Manager, a Market Development Manager, a Market Development Officer, a Trademark Manager, a Trademark Officer, a Financial Controller, and an administrative assistant.
- FSC has created a new company, called FSC Global Development, which has responsibility for protecting the FSC brand and resources to follow up on trademark abuse, including legal action if necessary.

4.3.3 UK Market recognition of FSC logo

An FSC commissioned survey of 992 adults in the UK conducted in January 2008 by GfKNOP on behalf of FSC, suggested that public recognition of the marque on wood products had grown to 23%, up from 19% in March 2007. However despite a recent surge in uptake of FSC accredited paper stocks, only 9% had noticed the FSC logo on paper products. This seemed to be due to the fact that on paper the logo has to jostle for position with rivals, as well as being limited in space. End consumers of paper products are much more aware of and have greater understanding of the recycling logo. Nevertheless, the survey indicated that once consumers understood the concept of FSC, the idea attracted a positive response. 22% of respondents said they would definitely choose FSC products in the future and 37% said they probably would.

4.4 Greenpeace assessment of private sector legality verification schemes

Greenpeace has issued a report comparing the various private sector initiatives designed to verify the legality of wood products against a set of its own criteria. Greenpeace note that *"as governments and the private sector are likely to use one or more commercial legality verification systems to assure imported timber is legal, the need to assess and monitor the credibility of these schemes is critical"*. The assessment is based on desktop analysis and direct correspondence with the verifiers concerned. Greenpeace note the shortcomings of this approach and suggest that *"an independent body needs to be established to accredit schemes against a credible legality standard and monitor its performance to ensure the schemes are competent and independent"*.

This assessment grades seven legal verification systems – Tropical Forest Foundation (TFF), Tropical Forest Trust (TFT), Certisource, Global Forestry Services, SGS Russia, SGS TLTV (Central Africa) and Smartwood - against a set of six criteria determined by Greenpeace *"to provide the essential minimum requirements to ensure credibility"*. The assessment uses each system's current requirements and only considers proposed revised criteria if publicly available in final draft form.

According to Greenpeace, to be effective, a legality verification system must include:

a. Full transparency, indicated by:

- availability on the internet of legality standards and chain-of-custody (CoC) procedures
- sharing of summary audit reports and Corrective Action Requests (CARs)
- publication of up-to-date lists of companies and concessions assessed
- open and clear procedures for publication of information

b. Balanced multi-stakeholder involvement in:

- oversight of system governance
- legality and CoC standards and procedures development.

c. Legality standards, incorporating:

- understood, respected and resolved customary rights
- compliance with environmental and social regulations

- legal concession allocation and consideration of broader illegality issues (e.g. corruption, transfer-pricing and other criminal activity)

d. Robust auditing procedures, measured by:

- regular and random audits
- requirement of third-party auditing
- accredited systems and auditors

e. CoC protocol, with:

- clear CoC procedures
- definitive marketing rules which should not allow on-product labelling

f. Commitment to achieving environmentally and socially responsible forest management, in particular:

- a time-bound commitment to achieve FSC certification

By including the last criterion, Greenpeace deviates from the idea that these mechanisms should only verify legality. Greenpeace note that in their assessment this last criterion is “*weighted greater than the others*” on grounds that “*legality can, and should, only be seen as a starting point in meeting the end goal of ensuring wood products come from environmentally and socially responsible forest management*”. This weighting has a significant impact on the results which are as follows:

- Smartwood: "B+": Top of the class, but could do better in addressing broader illegalities.
- TFT: "B" - Doing well, but needs to be more publicly transparent.
- SGS: TLTV "C" - Mediocre - needs improvement against several criteria.
- Certisource: "C" - Mediocre - needs improvement against several criteria.
- TFF: "D" Inadequate, needs improvement against most criteria.
- SGS Russia: "D" - Inadequate, needs improvement against most criteria.
- Global Forestry Services: "F" - Unacceptable, needs improvement against almost all criteria.

4.5 Fair Trade Timber Certification

In an opinion piece entitled “*A cut above: building the market for fair trade timber*”, Duncan Macqueen of the International Institute of Environment and Development (IIED) argues that “*Unlike coffee and cotton, timber has yet to become a fair trade commodity. But now its time has come*”. Macqueen begins with the sweeping statement that “*rights over forest resources are increasingly ceded to small-scale community forest enterprises (CFEs), as large-scale industrial logging is now largely discredited in the sustainable development context*”. He suggests that the fair trade emphasis on just pricing for poorer producers is exactly what CFEs need as incentive to invest in sustainable forest management while also securing environmental and poverty reduction benefits. Macqueen notes that the Fair Trade Labelling Organizations International and FSC are exploring the ways and means through a new partnership. Macqueen suggests that “*consumers must be made aware of why paying higher prices is key to creating CFE incentives for sustainable forest management and poverty reduction.... Time and money are needed for consumer education and installing fair trade timber in producer country forest policies, market segregation and procurement policies at all levels*”

More details: <http://www.iied.org/pubs/pdfs/17033IIED.pdf>

5. Other private sector initiatives

5.1 TTAP and Verifor analysis of legality standards

As part of the EU FLEGT Action Plan the UK-based research organisation VERIFOR and the EC-funded Timber Trade Action Plan (TTAP) is carrying out a joint research project to contribute to the development of legality standards. The first phase of the research has focused on three questions:

- Is there consensus between differing definitions of legality over which elements of the law need to be assessed to demonstrate legal compliance?
- Are the emerging national legality standards of those countries expected to enter into VPAs with the EU consistent with EU Member State (MS) national procurement policies for timber?
- How close is legal compliance to forest certification?

Reporting to the Chatham House Illegal Logging Update Meeting in January 2008, Neil Bird of VERIFOR noted that the researchers have so far examined six certification scheme standards, three draft national legality standards (Indonesia, Ghana and Cameroon), two EU MS public procurement policies (UK and Denmark), and three private-sector checklists.

The research has shown that the extent to which environmental and social issues are addressed in the various standards differs. Some countries cover a wider range of issues and take a step wise approach to compliance (Cameroon), whereas others require full conformance but cover a narrow range of issues (for example Ghana, where the legality standard makes no mention of environmental, health and welfare and safety laws).

Nevertheless, Bird noted in the post-UNCED era there has been a general movement internationally to redefine national regulatory standards for forestry to accommodate sustainable practices. In some countries (for example Bolivia), legal codes and forest certification standards are now broadly the same. According to Bird, this raises some new questions including:

- Has the compliance bar in some countries been set too high during this process of reform?
- In the longer term, will demand for certification fall away as and when legal standards ensure sustainability?
- The cost of monitoring compliance (through public funding) is now being added to by the cost of monitoring standards of compliance (through private funding?) – what will be the effect on the price of timber?
- Can legality standards generate good governance or merely reflect good governance when it is already in place?

5.2 Tropical Forestry CEO's Group

The “Forestry CEOs Group” which brings together a range of companies with an interest in the European tropical hardwood trade issued a paper setting out a “vision” for the sector in advance of the Globe Legislators Forum on Illegal Logging (see 1.3 above). The “vision” is built on six pillars:

- Credibly certified sustainable forest management
- Forest revenue generation that includes timber, non-timber products, and ecosystem services
- Collaboration between forest enterprises and local communities
- Coherent and efficient markets for forestry products worldwide
- Technology transfer to enable value-adding in timber producing countries to boost job creation
- Financing mechanisms tailored to the needs of the source countries

The “vision” was developed by the Group following consideration of a range of “progressive” business models encompassing both timber producers in Africa or Latin America and timber importers, builders merchants and construction companies in Japan, Europe and the United States.

The vision includes specific proposals for policy measures to be implemented now including improvements to public procurement policies in producer and consumer countries, legislation to prevent imports of illegal wood, mechanisms for improved access to capital, protection for investors, transparency, value-added processing, and development assistance. Longer terms measures include new mechanisms in areas such as global product licensing, ecosystem service

markets, and incentives for avoiding deforestation.

Barry Gardiner, the UK Prime Minister's Special Envoy for Forests who works closely with the Group gave the proposals his support noting that "*This vision from the private sector is not a public relations exercise - it represents a statement of genuine intent that will require radical change in the way business operates*".

Members of the Forestry CEO's Group are Balfour Beatty Group, DLH-tt Group, Rougier, Inter-African Forest Industries Association (representing 90 timber producing companies), John Bitar & Co (Ghana), Precious Woods, Reef Hout, Likouala Timber, Timbmet Group, Samartex & Plywood Company, and Saint Gobain Building Distribution.

5.3 TTF/PwC Finance Sector Initiative

The UK Timber Trade Federation is working with Price Waterhouse Coopers (PwC) on an initiative to develop a comprehensive resource and guidelines for banks to facilitate the development of their own policies on financing the forest products sector. The underlying rationale is that while banks are already involved in a number of relevant initiatives (including corporate social responsibility initiatives, the Equator Principles, World Bank programmes, and the UNEP Finance Initiative), the approach with respect to forests is uncoordinated.

A preliminary workshop facilitated by the TTF and PwC and attended by several banks was held in November 2007 to discuss three case studies and attitudes to the timber trade. The workshop found that banks are involved in all parts of the timber value chain and bank policies have had some impact, although there is little specific advice to customers. Other conclusions were:

- Reputational risk is a growing and major concern at senior level;
- There is a lack of consistency which is confusing to customers, and which makes banks wary of implementing policies that could disadvantage them in the market;
- The challenges are global and risk profiles diverse;
- Any new initiative must recognise and respect existing work;
- There has to be global follow through, making a difference on the ground, to ensure there is consistent discrimination in favour of progressive companies.

Banks at the workshop were willing to endorse the view that timber is the greenest building material and also a potentially valuable biofuel and indicated that sustainability is a key aspect of their long-term strategies. It was agreed that more work needs to be done to increase knowledge and understanding. PwC were due to convene a second meeting of the core banks in February 2008 to discuss this further, although details of the follow-up meeting have yet to be made available.

6. ENGO campaigns

6.1 EIA target Vietnam

In a new report, the Environmental Investigation Agency (EIA) allege that "*Vietnam is operating as a centre for processing huge quantities of unlawfully-logged timber from across Indochina*".

Based on undercover investigations the report suggests that while some countries like Indonesia have cracked down on the illegal timber trade, criminal networks have shifted their attention to looting the forests of Laos. This illicit trade is in direct contravention to the laws in Laos banning the export of logs and sawn timber. Investigators visited numerous Vietnamese furniture factories and found the majority to be using logs from Laos. In the Vietnamese port of Vinh, they witnessed piles of logs from Laos awaiting sale. At one border crossing on one occasion alone, 45 trucks laden with logs were filmed lining up to cross the Laos border into Vietnam. The report estimates at least 500,000 cubic metres of logs are moved in this way every year.

The report suggests that in addition to Vietnamese companies, Thai and Singapore traders are also importing illegal wood from Laos. The report also claims that some Vietnamese businesses continue to buy illegally exported Indonesian logs from Malaysian dealers that can arrange for

paperwork declaring the logs to be Malaysian.

More details: http://www.illegal-logging.info/item_single.php?item=document&item_id=609

6.2 Friends of the Earth target EC use of illegal wood

Milieudefensie (Friends of the Earth Netherlands) have targeted the alleged use of illegal wood in building projects financed by the European Union through several funds, grants and subsidies and in buildings which house the European Commission. Milieudefensie say that during their research they found “*spruce, meranti, ipé and azobé wood species, lacking certification of legal or sustainable forest management, sourced from regions which fall under the OECD definition of ‘high risk areas’ for illegal logging (China, Russia and all tropical countries)*”. Based on this analysis, Milieudefensie claims that the European Commission has put into operation “*no effective measures*” to implement the EU’s FLEGT Action Plan. Milieudefensie calls on the EC to adopt legislation requiring that timber products placed on the European market come only from legal sources.

6.3 Greenpeace block Brazilian shipment into France

At the French port of Caen in February, Greenpeace temporarily blocked a shipment of Brazilian hardwood which they claim was “*acquired from companies linked to illegal logging activities*”. Publicity for the campaign claimed that “*between 63% and 80% of timber from the Brazilian Amazon is illegally logged*”. Greenpeace used to the event to demand for EU legislation requiring that all wood imports are legally sourced.

7 Events

Dialogue on Timber Trade, Forest Law Compliance and Governance at Asia-Pacific Forestry Week. 21-26 April 2008, Hanoi, Vietnam . The first-ever Asia-Pacific Forestry Week will be held in Hanoi, Vietnam, from 21 to 26 April, as a parallel event to the 22nd Session of the Asia-Pacific Forestry Commission (APFC). It is expected to be the largest and the most significant forestry-related event in the region in 2008. The event will bring together around 500 participants from governments, NGOs, research institutions, regional and international networks, UN agencies and the private sector from throughout the Asia-Pacific region. One major Asia-Pacific Forestry Week session is the “Dialogue on Timber Trade, Forest Law Compliance and Governance”, hosted by the Asia Forest Partnership (AFP) and co-organised by IGES, CIFOR, DFID and TNC. The Dialogue will provide a prominent platform for forest stakeholders to discuss policy solutions that address concerns about forest governance and legal compliance in the international trade of timber and forest products.

International Expert Meeting to promote the role of tropical forests and their sustainable management in climate change mitigation and adaptation. 30 April 2008, Yokohama, Japan. The Expert Meeting will particularly focus on integrating the reduction of emissions from deforestation and forest degradation (REDD) and carbon sequestration as an additional criterion for the attainment of sustainable forest management. More information on the Expert Meeting, its venue, the registration form and the provisional programme will be made available on the ITTO website (www.itto.or.jp rfm@itto.or.jp)

G8 Environment Ministers Meeting, 24-26 May, Kobe, Japan. Attended by Environment ministers of the G8 countries and the European Commissioner responsible for the environment to exchange opinions on various environmental issues. Climate change and illegal logging are expected to be high on the agenda. The meeting is part of the lead-up to the Hokkaido Toyako G8 Summit in July.

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; Internet:

<http://www.biodiv.org/meetings/default.shtml>

Chatham House Illegal Logging Update Meeting, 9-10 June 2008. The meeting is free and open to all, but places are limited so registration is essential. A provisional agenda will be available in late April. Contact: Parthena Karypidou pkarypidou@chathamhouse.org.uk

Meeting On Operational Modalities Of Future Work Of The ITTC: 9 June 2008 - 12 June 2008. Accra, Ghana. This high-level meeting of members of the International Tropical Timber Organization will address modalities of its Council's future work, including clarification of the operational issues needed to be considered on the entry into force of the International Tropical Timber Agreement, 2006. Although this meeting will not include Council or Committee sessions, arrangements will be made to approve and fund projects submitted to ITTO under the current 6-month project cycle. The meeting will also include a one-day conference for ITTO African member countries focusing on regional challenges. More: Collins E. Ahadome, ITTO Secretariat; tel: +81-45-223-1110; fax: +81-45-223-1111; e-mail: ahadome@iito.or.jp; Internet: <http://www.iito.or.jp/live/PageDisplayHandler?pageld=223&id=3915>

International Conference: Adaptation Of Forests And Forest Management To Changing Climate With Emphasis On Forest Health: A Review Of Science, Policies, And Practices: 25 August 2008 - 28 August 2008. Umeå, Sweden. Co-hosted by the UN Food and Agriculture Organization, the International Union of Forest Research Organizations and the Swedish University of Agricultural Sciences, this conference will focus on the current state of knowledge of ongoing changes in climatic conditions in different regions of the world, and the implications of these changes for forest health, forest management and conservation. Presentations and discussions will emphasize research, policies and practices that are needed to enable us to plan for and manage healthy, productive forests to meet future societal needs for forest products and the full range of forest goods and services. More: Alexander Buck, IUFRO; tel: +43-1-877015113; e-mail: buck@iufro.org; Internet: <http://www.forestadaptation2008.net/home/en/>

Eighth Session Of The UN Forum On Forests (UNFF-8): 20 April 2009 - 1 May 2009. United Nations (UN) headquarters, New York, United States of America. This session will meet at UN headquarters in New York. Agenda items include working to reach agreement on a decision on voluntary global financial mechanisms, a portfolio approach and a forest financing frame work. For more information contact: tel: +1 212 963 3160 / 3401; fax: +1 917 367 3186; e-mail: unff@un.org; Internet: <http://www.un.org/esa/forests/session.html>