

**Report for AF&PA**

**Trade and Environment  
Program in Europe**

**September-October-November 2008 Report**

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“INFORMING THE SUSTAINABLE WOOD INDUSTRY”

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## **AF&PA Trade and Environment Report**

**September to November 2008**

**Rupert Oliver, AF&PA T&E Consultant**

Over the last 3 months there have been a series of meetings on key emerging environmental issues that are now impacting on the international wood trade. The T&E report covering the period September-November 2008 consists of a series of detailed reports on these meetings (attached) which include:

- Meeting of International Timber Trade Federations to discuss emerging illegal logging legislation (see ittf\_meeting.doc).
- UNECE Timber Committee workshop on inclusion of Harvested Wood Products under the Climate Change Convention (see UNECEHWP\_report.doc).
- FSC General Assembly in South Africa (see fscGA\_report.doc).
- UNECE Timber Committee hosted workshop on Green Building Initiatives (see gbiseminar\_report.doc).
- meeting of an informal network of UK based trade associations was convened by the UK Timber Trade Federation to help co-ordinate responses to emerging environmental issues (see UK\_TTF\_group.doc).

The scope of these reports highlights the complexity and the high political profile of the environmental issues which are now impacting on the international wood trade.

### **1. Timber Trade Federations discuss illegal logging**

In the first meeting of its type, 29 timber trade associations from 18 countries and 20 international forest companies came together during October to discuss how the timber industry can best respond to new international demands to prevent trade in illegally logged timber. According to the Tropical Forest Trust, which organised the meeting in their capacity as the Secretariat to the EC-funded Timber Trade Action Plan, participants at the meeting collectively represented nearly ten thousand companies from around the world - including North America, Europe, China, Southeast Asia, Oceania, South America and Africa.

The central purpose of the meeting was to discuss the potential impact of, and international private timber sector response to, the recent passage of the Lacey Act Amendment in the United States and the EC's proposals for additional legislation to combat illegal wood imports.

Maria Pachta of EC environment set the theme of the meeting with a presentation on the EC's legislative proposal published on 17 October. The proposal would require that individual EU operators engaged in the trade and production of wood products implement a "due diligence" management system to reduce the risk of any illegal wood entering their supply chains. The legislation would apply to operators who place timber and timber products "for the first time on the Community market". Responsibility for recognition of due diligence systems would lie with the individual member states.

The EC's legislative proposal must now be considered by both the European Parliament and European Council of Ministers. The earliest conceivable date on which it could come into force is April 2009. The proposal includes a provision for the

due diligence requirements to be phased in over a period of 2 years, so individual operators would have to demonstrate compliance from April 2011 onwards. Patcha was confident that the legislative proposal would be eventually passed into law, and emphasised that trade associations should prepare themselves for the new legislation. EU TTFs expressed general support for the EU proposals at the meeting.

Ron Tenpas, Assistant Attorney General at the Environment and Natural Resources Division of the U.S. Department of Justice, then provided details of the recent Lacey Act Amendment which makes it unlawful to “*import, export, transport, sell, receive, acquire, or purchase*” in interstate or foreign commerce any plant, with some limited exceptions, taken or traded in violation of the laws of a U.S. State, or most foreign laws.

The T&E Consultant delivered a presentation introducing the concept of trade association responsible purchasing policies (RPP) using the AHEC RPP for Exporters as a Case Study. This included reference to the AHEC-Commissioned Risk Assessment of Lawful Harvesting and Sustainability of U.S. Hardwood Exports as a response to increasing market demands for credible evidence that wood is legally sourced. The Consultant emphasised that this risk based approach to legality verification is particularly appropriate to the US hardwood sector where there is strong evidence of good forest governance and where fragmented forest ownership makes timber tracking difficult. The T&E Consultant concluded with some positive remarks with respect to the Lacey Act Amendment and EU legislative proposals, emphasising that legislators in both the US and EU had heeded the call for flexible mechanisms that are proportionate to the scale of the problem and which recognise the value of a risk based approach.

There was further discussion of the concept of risk assessment given its central role in demonstrating compliance to both the EU legislative proposal and the U.S. Lacey Act. Maria Pachta of the EC specifically requested further guidance from the private sector on how to establish criteria for risk assessment.

Inevitably, there was a mixed response to the new legislation from trade associations in countries that are likely to be considered high risk from the perspective of illegal logging. Chinese associations expressed confidence that existing control measures ensured that “*there is no smuggling of timber into China*” and that “*all timber imports into China are from legal trade*”. On the other hand, they also noted their members are struggling to comply with new Lacey Act requirements because “*there is very little legally verified wood on the market*”. They also noted that the ability of trade associations in China to assist members to comply to the Lacey Amendment and EC proposals through development of effective RPPs is severely limited by management weaknesses and lack of finance. In any case, other economic problems are now coming to the fore likely to reduce China’s competitiveness in the future. Chinese importers and manufacturers now face significant rises in energy, labour, and raw material costs at a time of decreasing global demand. Meanwhile regional availability of tropical hardwoods is declining.

Chinese associations, while having undertaken some measures to improve their members’ corporate social responsibility, were generally more interested in emphasising their intermediary role in the international wood trade. They called on producing governments to take the lead in developing a “Global Timber Legality Assurance Scheme”.

Indonesian and Brazilian shippers also emphasised the challenges that the new legislation presented for their members and noted the likely costs of compliance to new demands for legality verification.

On the other hand, Malaysian association representatives were more responsive to consumer led initiatives to help tackle illegal logging, having developed and marketed the MTCC certification system for many years. They are also deeply engaged in the EU FLEGT VPA process. However, they were also very critical of the lack of harmonisation of procurement policies and approaches, particularly within the EU, which adds costs and creates barriers to trade.

African producers were also reasonably positive about the new regulations. This seems to reflect broad recognition that the illegal logging issue might in time give African producers a significant market boost. In satisfying demands for verified legal wood products, African producers can exploit their relatively simple supply chains involving only unprocessed and semi-processed wood products, their high dependence on wood from large centrally planned and regulated concessions, the strong willingness on the part of African governments to engage in the EU FLEGT VPA process, and recent progress to develop FSC certification in the region.

Representatives of European consuming associations were generally keen to emphasise the need for overseas producers to take rapid action in response to the new legislation. Stakes for countries to demonstrate good forest governance rising. It was also emphasised that the Lacey Act Amendment and the EU Due Diligence legislative proposal might be just the tip of the ice-berg. The money potentially channelled into the forest sector to meet global climate change objectives could amount to tens of billions of dollars thereby dwarfing the money generated by the timber trade. So-called REDD programs are being developed under the auspices of the UN Climate Change Convention that may compensate countries for “avoided deforestation”. However if countries cannot show that they are capable of controlling illegal logging it will be difficult for them to claim REDD credits.

## **2. Harvested Wood Products under the Climate Change Convention**

This meeting highlighted the tremendous opportunity that now exists to build mechanisms encouraging increased use of wood products into the UN Framework Convention on Climate Change (UNFCCC). Under the current Kyoto Protocol commitment period which runs until the end of 2012, there are certain provisions for the inclusion of forestry activities by Parties as part of their efforts to reduce greenhouse gas emissions. For example removals by forest sinks resulting from afforestation and reforestation that have occurred since 1990 can be used to meet Parties’ emission reduction commitments. However there is currently no explicit option to recognise in national carbon accounts the increased carbon sink that might result from a rise in the use of wood products

Discussions are now on-going with a view to including explicit accounting of “harvested wood products” (HWPs) in the post-Kyoto agreement. The EU has already formally announced its intent to support the measure having stated that “*The EU believes that the .... review of current accounting rules ..... should seek to provide a basis for further incentives .... to promote the use of wood products.*”

To achieve this objective an immediate need is to reach agreement on the appropriate accounting approach. There are various different options (including the “Stock Change”, “Production” and “Atmospheric Flow” approaches) which essentially differ in how benefits and liabilities for carbon storage and emissions from wood

products are allocated (i.e. whether to the country of harvest or the country of consumption). All these approaches represent a major shift from the IPCC “Default” approach which simply counts all wood harvested from forests as an emission.

The current situation where the carbon stocks contained in HWP are not accounted for creates a perverse incentive penalising wood harvesting in countries accounting for forest management as part of their Kyoto commitment. On the other hand, accounting for HWP would be an incentive for more use of wood in long-lived material. However the scale of the impact would also depend on factors such as the carbon price and the actual accounting method eventually chosen.

The meeting highlighted that there is now great urgency to reach agreement on the accounting approach. If this measure is to be included in the post Kyoto agreement which is due to be concluded at UNFCCC COP 15 in Copenhagen in December 2009, consensus on HWP accounting mechanism must be reached by mid 2009. Negotiations towards this objective are due to be held in Poznan in December 2008. The timber industry needs to support the political process where possible, for example through provision of relevant facts and figures, direct lobbying, and broader market promotion.

### **3. FSC faces up to mounting NGO criticism**

The number of questions raised by NGOs and other stakeholders over the effectiveness of the Forest Stewardship Council (FSC) in delivering responsible forest management has been on the rise in recent times. Advocates of FSC have become increasingly concerned that they may lose support of environmental groups as their views come into conflict with FSC’s drive for more rapid growth. The latter has been linked to pragmatic measures designed to increase FSC’s market visibility, improve availability of certified wood products and encourage greater uptake by the commercial forest products sector.

In the run up to the FSC’s 2008 General Assembly – which began on 3 November in Cape Town, South Africa - environmental groups announced their intent to bring these issues to a head at the meeting. Green groups raised detailed concerns, particularly with respect to: the quality of procedures for accreditation of certifiers; the widening use of the controlled wood standards without appropriate regulation; and certification of large areas of forests that green groups regard as inappropriate such as plantation monocultures and “intact” natural forests.

The response of FSC to most of these issues at the General Assembly seems to have been sufficiently robust to placate more moderate and consensual elements within the FSC. FSC also passed a potentially significant motion calling for the core International Labour Organization (ILO) conventions to be included in all parts of the FSC certification system, including the chain of custody standard. On the other hand, more radical green groups were left feeling rebellious and dissatisfied.

### **4. Green Building Initiatives Workshop**

This workshop hosted by the UNECE Timber Committee in Rome on 20 October 2008 and sponsored by the American Hardwood Export Council amongst others, aimed to share knowledge and experience of what the obstacles to increased wood use in the construction sector might be and to identify the actions needed for an increased use of wood in green building.

There were presentations from European architects and their representatives providing valuable insights for the timber industry into their perceptions of wood products and points of leverage for improved market access in the construction sector. While there is generally strong awareness amongst architects that wood is a green building material, misconceptions persist with respect to wood's technical qualities (rot and fire resistance, strength and durability).

Various other key factors limiting uptake of timber in construction in addition to lack of awareness were identified during the workshop. For example many countries have outdated building codes and inadequate legal and institutional frameworks to promote alternative building materials. There is still a relatively low level of research activity to demonstrate wood's positive technical attributes.

The workshop included useful updates of the current status of Green Building Initiatives (GBIs) which include systems like LEED and Green Globes in the US, BREEAM, LENS and HQE in the EU, and CASBEE in Japan. The workshop highlighted the significant scale of the challenge to increase uptake of these initiatives which in most countries still account for a very small share of overall construction activity despite much political rhetoric on the need to be green. Nevertheless the current international policy focus on energy efficiency in construction creates a huge opportunity to increase uptake of GBIs. While perception of high cost is a major constraint in encouraging green construction, various case studies presented at the workshop indicated that building to high green specifications in timber can in fact be significantly cheaper than other traditional forms of construction.

Another challenge is to ensure that wood is given appropriate credit under existing GBI standards. The scientific foundation of these initiatives has to be significantly improved, for example by revising those standards (such as LEED) which use a list of single attributes of materials as indicators of environmental quality so that there is much greater reliance on objective and comprehensive life cycle analysis.

## **5. UK trade associations discuss threat to wood's unique selling point**

This meeting of an informal network of UK based trade associations was convened by the UK Timber Trade Federation to help co-ordinate responses to emerging environmental issues. Underlying the meeting was an emerging awareness that a range of environmental initiatives and negative publicity campaigns by competing materials sectors, combined with growing and often disproportionate demands on timber suppliers to demonstrate their environment credentials, has potential to significantly undermine timber's leadership on this issue.

A key focus of the meeting was to discuss the recent activity of the Building Research Establishment whose environmental programs (including the BRE Green Guide, BREEAM and BRE's new Responsible Sourcing Standard) are having an increasing impact on the construction sector in the UK and, through their significant ability to influence CEN standards, the wider EU. While BRE environmental programs in the past have generally been quite favourable to wood, there are clear signs that increased spending and engagement in these programs by competing sectors over the last two years is significantly eroding wood's advantage.

In short the meeting provides a salutary lesson that the wood industry cannot take for granted that the growing interest in environmental issues will improve its competitive position in relation to other materials. There is a serious and immediate need for increased and more unified industry engagement in environmental issues,

encompassing both research and effective political lobbying, to ensure that wood maximises the market opportunity and minimises the threat of the green issue being hijacked by other material sectors.

**Rupert Oliver 30 November 2008**