

EFI Policy Brief 5

EU FLEGT Facility

Changing International Markets for Timber and Wood Products

– Main Policy Instruments



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The European Union is one of the largest consumers of timber in the world and in the forefront of fighting trade in illegal timber and stopping indiscriminate consumption. The EU has set the seal to ban illegal timber products from the European market through new legislation. The Illegal Timber Regulation requires importers and operators to trade in timber only from known legal sources – or face sanctions. The other critical elements of the EU’s strategy to combat illegal logging are partnership agreements with timber producing countries that strengthen their own regulation and governance of the sector. These contribute to economic development while at the same time helping to meet market expectations through a licensing scheme that guarantees legality. The FLEGT agreements are win-win: the licenses reassure European operators that they are purchasing legally produced logs, plywood or other timber products, and partner countries improve their competitiveness on the global market and consequently increase the sectors contribution to economic development, potentially increasing revenue and creating jobs. Some EU countries have introduced public procurement policies that oblige government institutions to purchase timber and wood products which have the evidence to show that these have been legally and sustainably produced. Many businesses have introduced similar purchasing policies, while those in the business of supplying the market are investing in certification schemes to ensure that they only sell legal and sustainable wood. There is a clear positive trend across the EU: growing demand for “good wood” where people in Europe want to know what they are buying.

Andris Piebalgs
European Commissioner for Development



Introduction

The EU is a major consumer of timber products, and exporters to the EU need to be aware of evolving market requirements and preferences if they are to compete effectively. Such requirements may be of a technical nature, but can also be linked to policies concerning the wood used in timber products. This policy brief looks in particular at recent policies and legislation aimed at excluding illegal timber from markets and at promoting the use of timber from legally harvested and sustainably managed forests. Recognition of the shared responsibility of consumer and producer nations to combat illegal logging by addressing both supply and demand for such timber was highlighted in the 1998–2002 G8 Action Programme on Forests and has been followed by a number of policy developments initiated by governments and the private sector. This brief describes some of the main policy instruments.



Tim Lewis, Handcrafted Films

THE EU MARKET FOR IMPORTED WOOD

Taken as a single market, the European Union is the largest consumer of timber products in the world. In 2007, the EU consumed 236 million cubic meters of timber products, of which 60.4 million cubic meters was imported. In volume terms, imports are dominated by sawnwood (39%), logs (36%), and plywood (18%).

By volume, 65% of the wood imported into the EU is derived from countries located in temperate and boreal forest zones, while only 14% comes from countries located mainly in tropical zones. The latter product groups, however, are relatively more expensive than other products, accounting for 26% of imports by value. The remaining 21% derive from countries straddling tropical and temperate zones, notably China and Brazil.¹

¹ Rupert Oliver: EU market conditions for “verified legal” and “verified legal and sustainable” wood products; study prepared for the UK Timber Trade Federation, 2009

Illegal logging has a devastating impact on some of the world’s most valuable remaining forests and the people that live in them and rely on the resources they provide. Its environmental effects include deforestation, the loss of biodiversity and the emission of green house gases. Its direct impacts on people include conflicts with indigenous and local populations, violence and human rights abuses, the fuelling of corruption and exacerbation of poverty. In

some cases it has even funded armed conflict. The World Bank has estimated that the governments of some of the poorest countries in the world lose over \$15 billion per year in revenue and foregone growth as a result of illegal logging – money that should be spent improving the lives of their people.

By buying wood and wood products with “no questions asked” consumer countries in Europe and beyond have unknowingly provided

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The Spanish Timber Trade Federation represents 148 companies and around 70% of the trade in timber products in our country. We have been working with our members to establish responsible purchasing policies and systems to implement them since 2005. We are aware that European consumers are increasingly concerned about the social and environmental impact of the products they buy, and government and corporate policy is responding to this trend. The new EU Illegal Timber Regulation will ensure that our members are even more aware of their responsibility to remove illegal wood from their supply chains, in order to be ready for full implementation of the legislation in 2013.

Alberto Romero

Asociación Española del Comercio e Industria de la Madera (AEIM)

Niina Verkerk, EFI



financial incentives for those committing forest crimes, and undermined efforts to enforce the law in some of the world's poorest wood-producing countries. Government recognition of a shared responsibility for illegal logging, for example in the G8 Action Programme on Forests (1998–2002), was the first step towards a more responsible attitude to buying timber interna-

tionally; a step which has now been translated into a range of policy developments in Europe, most framed in the EU Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan², as well as in the USA and the Asia-Pacific region.

At the same time, there has been a surge in corporate social responsibility initiatives, resulting in voluntary commitments to responsible

timber-sourcing on the part of companies, investors and consumers around the world. Research shows that these policies and commitments are already having an impact on market demand for wood products³ and this is likely to increase dramatically as policies proliferate and are implemented more effectively, and buyers respond by finding new product lines and suppliers.

² www.efi.int/files/attachments/publications/efi_policy_brief_2_eng_net.pdf

³ Rupert Oliver: EU market conditions for “verified legal” and “verified legal and sustainable” wood products; study prepared for the UK Timber Trade Federation, 2009



JL Doucet

“ The U.S. Federal Government hopes that the Lacey Act revision will support the efforts of other countries to govern their forest resources effectively and put in place financial and criminal sanctions to incentivize companies trading in wood products to do the same.

*Elinor Colbourn
Senior Trial Attorney, Environmental Crimes Section,
Environment and Natural Resources Division,
U.S. Department of Justice*

Legislative Measures

The EU Illegal Timber Regulation

The EU has created new legislation which was formally adopted in the fourth quarter of 2010. The legislation will make it an offence to place illegally-produced wood products on the EU market, and requires companies to have systems which can effectively exclude illegal wood from their supply chains. The legislation covers a wide

range of timber and forest products, including processed items such as furniture and paper.

When the legislation enters into force in early 2013, the operator who first places timber or a timber product on the EU market will have to be able to have access to information on the timber and its legal origin. All subsequent sellers will be obliged to keep records on from whom they

bought the timber and who they sold it to, in order to ensure that the legality of the wood can be traced at any point in the supply chain.

The requirements are EU-wide, affecting all companies in all 27 Member States, and national governments will establish penalties and fines on offenders. Under the regulation, timber or products entering the EU with a FLEGT license⁴

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Alpi Group produces high quality veneers made of timber coming from its own concessions in Cameroon. It strives not only to attain excellence in the quality of its products but also in forest management, to make sure future generations will be able to enjoy the benefits of forests as well. Alpi Group therefore decided to reach FSC certification with the intermediate step of verified legality (OLB – origin and legality of timber) that was reached in April 2009 for its concessions in Cameroon. Alpi Group has established perfect traceability for its products back to the stump, has developed robust management plans to ensure re-growth of trees and trains its staff to use reduced impact logging techniques amongst others. Alpi Group is welcoming the EU Timber Regulation that will most likely enter into force early 2013 and is already compliant with the requirements of the FLEGT Voluntary Partnership Agreement that Cameroon has signed with the EU. FLEGT timber will be considered as legal under the EU regulation.

Luciano Pradal
Alpi Group



Andreas Kneill



Tim Lewis, Handcrafted Films

will be considered to meet the obligations of the regulation.

The US Lacey Act

In 2008, the U.S. Congress passed a landmark amendment to the 100 year-old Lacey Act, originally enacted to prohibit the transportation of illegally captured animals or wildlife products across U.S. State lines and international borders. The new law extended this protection to

timber, paper and other forest products, establishing sanctions for those found guilty of trading in illegal forest products. In addition, the amendment created a powerful tool to increase transparency in the global forest product supply chain by requiring importers to declare the country of origin of harvest and species name of all plants contained in their products. Misreporting of this information is also a crime under the amended Act.

Lacey requirements are valid throughout the US supply chain, making it illegal for anyone in the US to import, export, transport, sell, receive, acquire or purchase illegally-sourced forest products. Potential sanctions include forfeiture of goods and vessels, fines and prison sentences, depending on the severity of the case.

It is important to note that, as with European legislation, the Lacey Act does not impose US law on other countries. ‘Illegally sourced’ is de-



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The Group Saint-Gobain is present in 64 countries and is today the world leader in the habitat market, bringing about innovative solutions to save energy and protect the environment. With close to 4,200 sales points, the Saint-Gobain Building Distribution Sector (SGBD) is the leading distribution network of construction materials in Europe. The Timber Environmental Policy of SGBD rests essentially on the criteria of responsible purchase, which main objective is to obtain credible guarantees on the legal origin of the products that we are marketing. The observance of said policy is systematically contracted out in the framework of our agreements with our partners. SGBD and its related trademarks (Point P, Lapeyre, SGBD Deutschland, Jewson, Optimera among others) are officially engaged in favour of the FLEGT process. Indeed, despite all of our efforts and due to the noted lack of governance in some timber producing areas, we cannot be certain today at 100% that the products that we are selling have not been made up with timber originating from an illegal exploitation. The implementation of a restrictive legislation, such as FLEGT, should help us obtaining unquestionable guarantees on the legal origin of timber. On the other hand, that legislation will help responsible companies, such as ours, not to be subjected to unfair competition of ecological and social dumping of timber products.

*Philippe Delétain
Saint-Gobain Building Distribution*

finied by the content of a sovereign nation's own laws.

Switzerland

In Switzerland, an ordinance on the declaration of timber and timber products⁵ has entered into force on 1 October 2010, with a transitional period until end of 2011. With this, suppliers selling timber or wood products to Swiss end consumers have to provide information on the species of wood and where it has been harvested. The mandatory declaration requirements were adopted

by the Swiss Government to promote transparency throughout the supply chain and to enable customers to decide on what products they want to buy and if they want to purchase wood from endangered species or high risk countries. In a first stage, the duty of declaration covers mainly round wood, raw wood and some products entirely made out of solid wood. If the country of harvest cannot be determined, suppliers selling timber to Swiss end consumers can declare the products as “from unknown origin” or indicate more than one country or a region.

⁵ Ordonnance sur la déclaration concernant le bois et les produits en bois, www.admin.ch/ch/f/as/2010/2873.pdf



Green Public Procurement and Building Standards

European Union

The public sector is a significant purchaser (or specifier) of timber for a variety of uses such as construction, office, school and municipal furniture, and paper products. Purchasing of goods and services by public authorities – central, regional and local – is estimated to account for an average of about 16 per cent of GDP across product categories in the EU⁶. However the impact of this demand is often substantially higher, since companies involved in government contracts may find it more ef-

ficient to move towards managing their whole supply chains in compliance with government requirements rather than only the specific percentage of products or services that serve public contracts.

Several EU member states now have central government procurement policies aimed at ensuring that public agencies use only legal and/or sustainable timber and wood products, and the European Union has an ambitious policy on green procurement. The EU encourages all member states to establish policies which in-

clude verification of legality as a minimum requirement for wood-based products.

European countries with such policies include Belgium, Denmark, France, Germany, the Netherlands, and the UK; a number of other EU member states are currently developing policies.

These policies are already starting to have an impact on market demand for wood products. To date two countries – the Netherlands and the UK – have undertaken market research studies on the impacts of public procurement policies

⁶ Communication on Public Procurement for a Better Environment (COM(2008)400)



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UK POLICY WITH RESPECT TO FLEGT-LICENSED TIMBER

The UK Timber Procurement Policy was announced in 2000 and initially had a minimum of requirements for ensuring legality, with a preference for sustainable of all timber and wood derived products. The policy was taken a step further in April 2009 and now requires central government departments, their executive agencies and non-departmental public bodies to procure timber and wood-derived products originating from verifiable legal and sustainable or FLEGT-licensed or equivalent sources. Legality and sustainability is clearly defined by a set of criteria against which evidence of compliance is assessed. Both Forest Stewardship Council (FSC) and the Programme for Enforcement of Forest Certification (PEFC) has been assessed by the UK Governments Central Point of Expertise on Timber Procurement (CPET) and found to ensure legality and sustainability. The UK policy also accepts FLEGT licensed timber as equivalent to timber from legal and sustainable sources⁷.

⁷ www.cpet.org.uk/uk-government-timber-procurement-policy

on overall supply. Both showed that the volume of verified and certified timber products imported had grown steadily since the introduction of the policy, and other research has shown that investment in chain of custody certification in Europe has grown most in those countries which have procurement policies in place.⁸

Since 2009, there has been a process at European level⁹, including representatives of Member States and a number of stakeholder groups, to develop a better understanding of the technical aspects of public procurement policies for timber and wood products as well as guidance

on the application of such schemes, including the role of FLEGT licenses.

Other

Following G8 commitments in 2002, the Government of Japan developed a procurement policy for wood products in 2006. It covers paper, stationery, office furniture, interior fixtures and beddings, and wood and forest wood products used in public works projects, requiring all products to be legally-produced, with additional consideration given to those that are certified as sustainable.

The status of relevant products requires verification either through forest certification and chain of custody systems, wood industry associations' codes of conduct or individual companies using in-house procedures.

New Zealand also has a policy enacted at the end of 2006, which commits the government to purchasing legal and preferably sustainable wood products.

Green public procurement policies for timber have also been introduced at city, regional or national level in a number of other countries such as US, China, Mexico, and Brazil¹⁰.

⁸ Rupert Oliver: EU market conditions for "verified legal" and "verified legal and sustainable" wood products; study prepared for the UK Timber Trade Federation, 2009

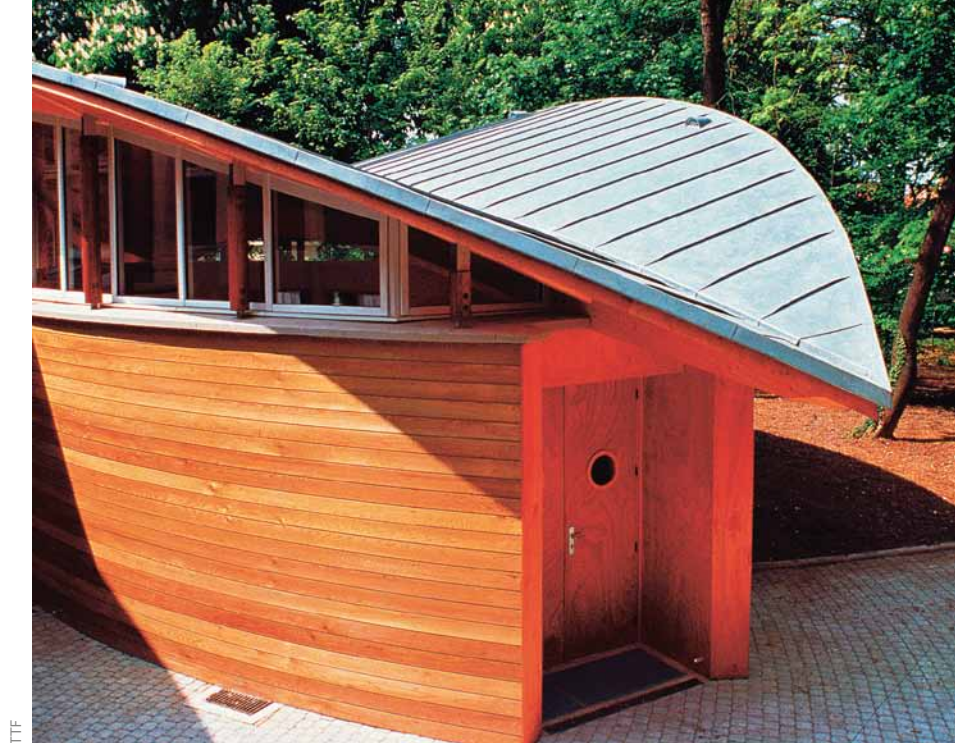
⁹ Standing Forestry Committee (SFC) working group (WG) on public procurement of wood and wood-based products, discussions of final report in autumn 2010

¹⁰ Markku Simula: The pros and cons of procurement; ITTO Technical Series 34, 2010

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Jacobs is one of the world's largest and most diverse providers of technical, professional, and construction services. Building strong, long-term relationships with our clients is the key to our success as a company. As designers, we actively respond to requirements to specify legal and sustainable timber, which sits comfortably with our own commitment to sustainability. Particularly prevalent in the public sector markets where we are active, requirements come in the form of client briefs, procurements policies and pre-requisites for BREEAM or LEED assessments. We are mindful of the Lacey Act in the US, and are monitoring the progression of the 'Due Diligence' driver for Europe. The BREEAM and LEED methods have reached a point of prominence and contain clear 'credit' requirements for legal and sustainable timber. We advise clients on achieving these on an extensive range of projects. Our experts have also engaged with FLEGT and industry groups and promoted sustainable timber internally as a low embodied carbon design option with engineering properties suitable to many construction applications.

Jeff Kersey
Jacobs



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Green building standards

There is increasing interest in “green” building standards as a means to promote energy efficient buildings with low environmental impact. This is a rapidly evolving field. Two of the key standards are described below.

BREEAM / pan European process

BREEAM (the Building Research Establishment Environmental Assessment Method) is the world's most widely-used environmental assessment method for buildings, with over 110,000 buildings certified since its inception.

Although developed in the UK, BREEAM is designed to be easily adapted to local regulations and conditions, and as a result it is used all around the world, both to assess single developments or portfolios of developments both within and across national boundaries. The scheme is also becoming established in a number of rapidly growing markets, for example the first BREEAM certified development in China was recently accredited – a shopping mall with offices and a five-star hotel attached – and a number of other developments are expected to follow shortly.¹¹

The standard currently includes a timber specification which recognises wood products certified by the Forest Stewardship Council (FSC) and any scheme endorsed by the Programme for the Endorsement of Forest Certification (PEFC).

In 2009, the BREEAM organization joined forces with a group of other green building certification schemes operating in different EU member states, with the aim of developing a pan-European Sustainable Building Alliance (SBA)¹², to establish common technical standards for key construction products, including

¹¹ www.sballiance.biz/sballiancega/sbalertarchive_files/SB%20Alert%20%2322.pdf

¹² For more information see www.sballiance.org/



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As a professional producer and trader of wood products in China, we not only aim at producing and trading in high quality wood products but also to “grow green” for our company’s “Growing Green Environmental Policy” and to be ready for the upcoming EU regulations and to comply with the US Lacey Act too. We are very proud to be the first ever Chinese company having achieved Verification of Legal Origin (VLO) and want to offer FSC and PEFC certified products to our clients in the future. Therefore, we are buying VLO certified logs and veneers and will buy PEFC and FSC certified logs, sawn timber and veneers to produce VLO, PEFC and FSC certified plywood and other wood products used for furniture industry, flooring based panels and construction formwork etc for our clients worldwide.

Victor Pu

Vice President of Jiangsu Sainty Bancom Wood (Pro-trading) Co., Ltd

timber. This new alliance is likely to result in increased technical harmonization across building standards in the EU, and improved incentives for those using them in the medium-term.

LEED

The Leadership in Energy and Environmental Design (LEED) standard was developed by the U.S. Green Building Council in 1998. Meeting it requires third-party verification that a building or community has been designed and built using environmentally-responsible products and processes. The standard includes criteria on energy savings, water efficiency, CO₂ emissions

reduction, improved indoor environmental quality and, most relevant to the timber sector, stewardship of resources.

Buildings are judged on a credit system with points available for products that are deemed to reach the highest standards. In addition, a number of product areas include basic requirements which do not earn credits but must be met in order for any project to be assessed.

The standard for timber is currently being revised, but recent drafts suggest that timber verification systems will be evaluated for eligibility against a measurable benchmark that includes criteria on resource governance, technical/

standards substance, third party auditing, chain of custody control and labelling.

Over 14,000 construction projects now meet the standard, in the U.S. and internationally, and the number is increasing as a range of incentives are established in different U.S. States and cities. For example in Cincinnati, Ohio there is a 100% property tax exemption for newly constructed or refurbished commercial or residential properties that earn minimum LEED certification, and similar initiatives in other places have put in place varying tax credits, tax breaks, bonuses, reduced fees, priority or expedited permitting, free or reduced-cost technical assistance, grants and low-interest loans.



Private Sector Responses

Trade federations and traders

Timber trade federations across the EU have responded to increased public expectations of corporate social responsibility, including responsible purchasing, and the new policy environment described above, by developing a range of voluntary and mandatory codes of conduct for their members. These recommend ways for responsible buyers to ensure that their wood supplies are low-risk and reliable, including for example:

- Purchasing third-party audited sustainable or legal wood

- Where this is not available, sourcing from suppliers that are actively engaged in changing their business models as members of initiatives such as TTAP and GFTN¹³ ensure that a number of steps are taken to obtain additional evidence of legal sourcing
- Reducing the total number of suppliers, to focus on those willing to provide evidence of product sources

Some companies are going beyond the recommendation of their Federations, by committing to purchasing only third-party verified and

certified products. This can be for a number of reasons; to meet national public procurement requirements, maintenance of market share, protection of corporate reputation, improved supply chain efficiency or business-to-business communication; and as a foundation for pro-active marketing of wood's positive environmental credentials in relation to non-wood products.

These policies appear to be particularly well developed in large companies in the Benelux countries and the UK. Due to their scale and volume of purchases, their orders can be an effective

¹³ Timber Trade Action Plan (TTAP): www.tft-forests.org/ttap/ and the Global Forest & Trade Network (GFTN): gftn.panda.org/



Niina Verkerk, EFI

tive incentive for suppliers to invest in systems for legality or sustainability verification.

The development of comprehensive responsible purchasing policies is currently more advanced in the timber importing sector than in downstream manufacturing sectors or in sectors dominated by more processed imports such as furniture, however this is likely to change in response to the new European legislation described above.



The European Timber Trade Federation (ETTF) is the umbrella organisation for eleven national timber trade federations in the EU. Members of these federations import and trade in hardwood, softwood and plywood. It is estimated that around 90% of the tropical timber imported in the EU is imported by ETTF Members. It goes without saying therefore that the forthcoming EU Timber Regulation is high on our agenda, and we support it, including the prohibition on importing illegally produced timber into the EU market. ETTF and its members have endorsed joint statements of industry and NGOs asking for robust legislation directed against illegal logging and the Federation is of the opinion that the measures imposed by the regulation are reasonable and practical. Most ETTF members are already bound by national Codes of Conduct and have put responsible purchasing policies in place which they will use to comply with the new requirements when they are in legal force.

André de Boer
European Timber Trade Federation

FOREST FOOTPRINT DISCLOSURE PROJECT

The Forest Footprint Disclosure Project is a new initiative, created to help investors identify how a company's activities and supply chains contribute to deforestation, and link this 'forest footprint' to their value. Modeled on the successful Carbon Disclosure Project, it aims to increase transparency in supply chains with legal and illegal deforestation risks, and increase public scrutiny of investor portfolios in these sectors.

Participating companies must disclose annually how their operations and suppliers are impacting on forests worldwide, and on their own policies for managing those impacts responsibly. This will give investors and the companies themselves a better understanding of global environmental dependencies, and how the changing climate and new regulatory frameworks could affect access to resources and the cost of doing business in the long term.

The project is in active collaboration with the UNEP Finance Initiative, a public-private partnership between the United Nations Environment Programme and the global financial sector, which works closely with over 170 financial institutions including banks, insurers, asset managers and pension funds. Under this initiative 43 financial institutions managing over US\$4 trillion in collective assets, have put their names to a letter requesting disclosure of companies' forest footprints under the project.¹⁴

¹⁴ www.forestdisclosure.com/

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EFI Policy Briefs



Unbiased science-based and policy-relevant information is essential for sound decision-making. EFI Policy Briefs convey current forest policy questions and challenges and outline courses of action to resolve them with the help of research.



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