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A large raft of logs floating on a river at sunset. The logs are bundled together and float in neat rows. The water is calm, reflecting the soft light of the setting sun. In the background, a forest line is visible under a hazy sky.

Failing the Forests
Europe's illegal timber trade

Contents

	List of Tables	ii
	List of Charts	iii
	Executive Summary	1
1	Introduction	6
2	Methods and data sources	7
3	Illegal timber exports to the EU	11
4	The Amazon Basin	22
5	The Baltic States	32
6	The Congo Basin	42
7	East Africa	57
8	Indonesia	62
9	The Russian Federation	70
10	EU member country imports from the regions covered	76
11	Other significant countries	83
12	Acknowledgements	86
	Appendix 1. Glossary	87
	Appendix 2. Principles for FLEGT Partnership Agreements	90

List of Tables

A	League table of estimated illegal timber imports from the six regions into the EU – 2004	5
1	League table of estimated illegal timber imports from the six regions into the EU – 2004	13
2	Summary of salient statistics for EU trade	14
3	Timber sector imports during 2004 (importing country, by supplying region)	19
4	Paper sector imports during 2004 (importing country, by supplying region)	20
5	Summary of salient information for 1–5 countries in the Amazon Basin	24
6	Summary of salient information for 5–10 countries in Amazon Basin	26
7	The Baltic States: summary of salient information	33
8	The Congo Basin: summary of salient information	49
9	East Africa: summary of salient information	59
10	Indonesia: schedule of main sources of production and forest area	63
11	Indonesia: Summary of salient information	68
12	Russia: Summary of salient information	74

List of Charts

1	Past trends in supplying region exports – timber sector. (Note: chart does not show illegal timber for the period 1999–2004)	15
2	Past trends in supplying region exports – paper sector. (Note: chart does not show illegal timber for the period 1999–2004)	16
3	Past trends in EU imports from each supplying region – timber sector	16
4	Past trends in EU imports from each supplying region – paper sector	17
5	Amazon Basin: past trends and forecast exports – timber sector (by supplying country). (Note: chart does not show illegal timber for the period 1999–2004)	23
6	Past trends and forecast exports – timber sector (by supplying country). (Note: chart does not show illegal timber for the period 1999–2004)	36
7	Past trends and forecast exports – timber sector (by supplying country). (Note: chart does not show illegal timber for the period 1999–2004)	37
8	Congo Basin: past trends and forecast exports – timber sector (by supplying country). (Note: chart does not show illegal timber for the period 1999–2004)	48
9	Analysis of the EU’s wood-based product imports from Indonesia during 2004 (import value)	65
10	Analysis of the EU’s wood-based product imports from Indonesia during 2004 (RWE volume)	65
11	Indonesia: past trends and forecast exports – timber sector. (Note: chart does not show illegal timber for the period 1999–2004)	66
12	Indonesia: past trends and forecast exports – paper sector. (Note: Chart does not show illegal timber for the period 1999–2004)	67
13	Russia: past trends and forecast exports – timber sector. (Note: chart does not show illegal timber for the period 1999–2004)	72
14	Russia: past trends and forecast exports – paper sector. (Note: chart does not show illegal timber for the period 1999–2004)	73

EXECUTIVE SUMMARY

Illegal timber and its global trade are now widely recognised as key threats to forest survival throughout the world. Not least among the players is the European Union (EU), which is now a major importer of such timber.

Based on trade data for six key timber-producing regions – the Amazon Basin, the Baltic States, the Congo Basin, east Africa, Indonesia and Russia – this report explores how the EU is driving the illegal timber trade worldwide, and assesses the potential to limit illegal logging over the next 10 years. Other significant countries are mentioned in Section 11.

Presenting a league table of the EU's top importers of illegal timber (Table 1), and combining up-to-date information on both timber imports and EU policy, the report predicts that the main factor limiting illegal logging in the near future will be the exhaustion of forest resources. The implications are far-reaching: biodiversity, human health and national economies across the world will all be affected.

The report concludes with a series of recommendations, which address the need for the EU and its member states to take more proactive steps to halt the practice of illegal logging and the trade in illegal timber. It also highlights the urgent need for meaningful co-operation from other major importing countries, including China, Japan and the US.

Background

Although trade in illegal timber has been widespread for decades, it is only recently that the issue – and specifically the international trade in illegal timber – has become a major concern for civil society. This trade is now recognised as a key global threat that contributes to deforestation and biodiversity loss, and often undermines the rule of law. In many producer countries, the trade has long encouraged high-level corruption and tax evasion, which reduces national revenues and limits the resources available to invest in sustainable development. Furthermore, the illegal trade in forest resources continues to undermine international security and is frequently associated with money laundering, organised crime, human rights abuses and, in some cases, violent conflict.

Yet despite a detailed understanding of these issues, importing countries – including EU member states, China and the US – have consistently favoured cheap imports over legal ones. This has led to destabilised markets and a situation where unfair competition effectively punishes responsibly behaving companies. Given a global market where illegal timber so drastically undercuts the price of legally – never mind sustainably – produced timber, progress towards eliminating the illegal trade has been predictably slow.

With global forest loss now exceeding 12 million hectares per annum, and the degradation of remaining forests still occurring at an alarming rate, the global trade in illegal timber constitutes one of the main barriers to establishing sustainable forest management systems, and ultimately to achieving the UN's Millennium Development Goals.¹ In light of this, and given the EU's key role as a timber importer, this report uses existing information on global trade to rank the member states' current imports, and to forecast the EU's wood-based product imports for the year 2015.

¹ There are eight Millennium Development Goals: (1) eradicate poverty and extreme hunger; (2) achieve universal primary education; (3) promote gender equality and empower women; (4) reduce child mortality; (5) improve maternal health; (6) combat HIV/Aids, malaria and other diseases; (7) ensure environmental sustainability; (8) develop a global partnership for development.

The report's main goals are to predict the contribution of illegal logging to future global forest loss and degradation; to consider its potential impact on people's livelihoods; and to determine the extent to which the EU might use trade relations to influence these impacts over the next 10 years. Based on detailed trade information, and focusing on six priority regions, this report provides key insights into these issues and concludes with recommendations aimed at the EU, national governments and the timber industry.

Key findings

By analysis of existing trade data for the Amazon Basin, the Baltic States, the Congo Basin, east Africa, Indonesia and Russia, the report reveals that, of an estimated €10–15 billion lost through illegal logging globally each year, the EU is responsible for almost €3 billion of this, due to its trade with these six regions alone. With the EU importing just under 20 million cubic metres (total roundwood equivalent volume²) of illegal timber from these producers each year, Indonesia accounts for the highest value (an estimated €0.9 billion), while Russia and the Baltic States supply the greatest volume (around 13 million cubic metres). In total, these regions probably supply more than three quarters of the illegal timber imported by or produced in the EU. Moreover, of the 20 EU member states currently believed to be importing illegal timber (Table 1), the top three are Finland, Sweden and the UK, which together account for a roundwood equivalent (RWE) volume of some nine million cubic metres – roughly 40% of the EU's total illegal production and imports.

In terms of the EU's potential to use trade to limit rates of illegal logging, the report's findings can be summarised as follows:

- The EU imports around 45% of all timber exported from the *Amazon Basin*. Brazil is by far Latin America's biggest supplier to the EU. However, Brazil's exports account for only around 20% of domestic tropical timber production – most of that timber remains in Brazil. This limits the EU's potential to use trade to reduce illegal production in this region. France, the Netherlands and the UK account for the largest share of the region's exports to the EU. In this case then, an emphasis on providing markets and technical support to improve supply chain management would probably prove to be more effective than trade-related instruments.
- The EU is probably importing a substantial and increasing quantity of illegal timber from all regions (except the Baltic States) indirectly *via* China.
- In the *Baltic States*, Latvia (which supplies half this region's timber exports) and Estonia have the most to gain from a reduced trade in illegal timber. Sweden and the UK are the leading destinations for the region's timber exports. In this case the EU needs to make sure that illegal trade within its own borders is eliminated if it is to engage credibly with other producer countries.
- Timber is one of the *Congo Basin's* principal export commodities. In contrast to the Amazon Basin, most of the Congo Basin's production (around 80%) is exported. The EU and China are the leading destinations for these exports. Unfortunately, the EU's potential to use its market strength to reduce the production and sale of illegal timber is jeopardised not only by China's increasingly strong influence in the Congo Basin, but also by the scale and nature of its illegal timber imports from the region.
- Cameroon and Gabon supply 80% of the region's timber exports to the EU. Congo-Brazzaville supplies a further 10%. Italy, France and, to a lesser extent, other southern EU countries, are the leading EU importers of timber from the Congo Basin – which, given the lack of real progress concerning public procurement policy in

² Roundwood equivalent volume – a unit of measure that illustrates the volume of logs that would typically be required to make a given quantity of a wood-based product (such as plywood, pulp or paper).

those EU countries, makes EU policy concerning the prohibition of illegal timber from the region all the more important.

- While the volume of *east Africa's* direct exports to the EU is relatively small compared with other regions, these imports can include high-value species whose habitat is particularly threatened.
- The EU accounts for more than 10% of *Indonesia's* tropical timber exports and rather less of its tropical timber production. Belgium, Germany, the Netherlands and the UK together account for the largest share of these EU imports. The estimated value of the EU's imports of illegal timber from Indonesia is probably sufficient to enable the EU to exert significant leverage. However, EU efforts to eliminate this trade will also require the active and meaningful co-operation of China, Japan and Malaysia, all of which import significant quantities of wood-based products from Indonesia.
- Finally, the EU imports the majority of timber exported from *north-west Russia*, accounting for between half and two-thirds of this part of Russia's production in 2004. While Finland imports most of this (especially as pulpwood), Estonia, Germany, Sweden and the UK also play a significant role. Finland and Sweden probably also import wood-based products from Russia indirectly via Estonia (a substantial proportion of whose exports are likely to derive from Estonia's own imports from Russia). Meanwhile, China is again a major market, but from Siberia and the Russian Far East, where it imports almost as much as the EU.

Looking ahead

In addition to assessing current trade figures, the report forecasts the six focus regions' future exports based on three scenarios – 'optimistic', 'likely' and 'pessimistic', as determined by current and future political initiatives both at an EU level and internationally. The forecasts are for exports of wood-based products for 2008, 2010 and 2015, and highlight their expected illegal timber content. In particular, they focus on those exports to the EU. The report and the forecasts suggest the following:

- The diminishing availability of forests, and particularly natural forests, as a source of raw material will increasingly constrain trade, and negatively impact upon both biodiversity and people, especially in Indonesia and the Congo Basin.
- Significant variation will be apparent in the role played by individual member states in shaping trade in illegal timber, due primarily to the degree to which their imports concentrate on certain countries and products.
- Given that the paper sector is responsible for around a quarter of illegal timber imports into the EU (in terms of roundwood equivalent volume) and, in some regions such as north-west Russia, for the majority of illegal imports, any EU-based action on trade in illegal timber will have to cover both the timber and paper sectors.
- Current EU political initiatives will do little to minimise EU trade in illegal timber unless the currently proposed legality licensing system (which provides the legal basis for Voluntary Partnership Agreements) covers all wood-based products traded by partner countries; they cover trade via third countries; and they make independent monitoring and third party verification a requirement of any partnership agreement.
- There is a risk that the proposed legality licensing system within the EU's Forest Law Enforcement Governance and Trade (FLEGT) process may undermine various efforts towards sustainable and responsible forest management (which the EU has already supported), unless the Voluntary Partnership Agreements recognise that legality is just the first step towards achieving sustainable forest management.
- Current EU political initiatives may well place legitimate business at a disadvantage.
- The EU will fail to eliminate illegal timber from its imports unless applicable legislation is put in place. This would need to prohibit the import of illegal timber and wood products both from producer countries and from processing countries, notably China.

- There will be a need for other major importing countries – principally China, Japan and the US – to do substantially more towards eliminating illegal timber from their own imports.
- The EU’s Forest Law Enforcement Governance and Trade³ process does not cover intra-EU trade in illegal timber. Illegal timber accounts for a substantial proportion of the production and exports of some EU countries, including those in the Baltic States.

The report concludes with five main recommendations.

- As a matter of urgency, the EU must develop legislation that prohibits the import of illegal timber and wood products into the EU, so that enterprises in importing and processing countries, and not just those in producer countries, will be held accountable for trade in illegal timber.
- The wood-based product industries of the leading importing countries must take a lead in eliminating illegal timber from their supply chain. This could involve, for example, assigning these countries the task of developing best practice for the EU in relation to trade with specific suppliers. The EU should seek not only to facilitate this process, but also to minimise the risk that a proliferation of standards (of legality or for certification) would evolve and which could inhibit trade with the EU.
- The EU and its member states must use their influence to bring about far more active efforts by other major importing countries – notably China, Japan and the US – to eliminate illegal timber from their own imports.
- Governments and regions must work together to develop a multilateral agreement to tackle illegal logging and deliver the ultimate goal of sustainable forest management around the world.
- The EU should provide technical assistance and financial resources to improve the capacity of its new member states to improve governance, especially in the forest-timber industry, and to enforce their own laws.

³ The EU Forests Law Enforcement Governance and Trade (FLEGT) action plan promotes voluntary agreements between member states importing timber and external countries producing it. However, while its aim is to prevent illegal timber being imported into the EU, it is neither mandatory, nor does it prevent illegal timber being imported into the EU via third countries.

Table A: League table of estimated illegal timber imports from the six regions into the EU – 2004

	Sum of illegal timber imports from the six regions only	Timber Sector		Paper Sector	
		Total	Estimated Illegal only	Total	Estimated Illegal only
EU sum	20	42	13	28	7
Finland	5.1	6.3	1.8	12	3.3
Sweden	2.6	2.2	0.6	8.4	2.0
UK	2.3	7.9	2.2	0.8	0.1
Germany	1.5	4.5	1.4	1.2	0.2
Italy	1.4	2.6	1.0	1.1	0.4
France	1.3	3.2	1.1	0.5	0.2
Netherlands	1.1	2.6	1.0	0.4	0.1
Belgium	1.1	2.1	1.0	0.5	0.1
Estonia	0.7	2.5	0.7	0.2	
Spain	0.6	1.2	0.5	0.1	
Denmark	0.5	1.1	0.3	0.8	0.2
Latvia	0.4	1.5	0.4	0.1	
Greece	0.2	0.5	0.2	0.2	
Lithuania	0.2	0.7	0.2	0.1	
Portugal	0.2	0.4	0.2		
Poland	0.2	0.5	0.1	0.4	0.1
Ireland	0.2	0.4	0.2		
Austria	0.2	0.5	0.1	0.2	0.1
Hungary	0.1	0.3	0.1	0.3	
Czech Republic	0.1	0.2	0.1	0.2	
Cyprus					
Luxembourg					
Malta					
Slovakia					
Slovenia					

1. Units: million cubic metres roundwood equivalent (RWE) volume.
2. Note that amounts shown are estimates (particularly those pertaining to illegal timber) and exclude indirect imports via third countries, notably China.
3. The illegal timber percentages derive primarily from WWF sources. For a number of countries, the figures for illegal logging have been derived by assuming that the difference between consumption plus exports, and production plus imports, is illegal.
4. There are no consistently available published estimates of the proportion of illegal timber in country's exports of wood-based products. It has therefore been assumed that the percentage of illegal wood products exported is the same as the percentage of illegal logging in a country. The robustness of this assumption would rise as the share of production that is exported rises. It is recognised that the actual illegal trade may be significantly different to this, depending on characteristics of the trade flows and any steps being taken by industries and governments. There is, however, no official data available to describe the situation. Civil society groups would be pleased to participate in studies to clarify the scale and scope of the issue.
5. To calculate estimated figures for illegal logging imports into EU Member States, the report has multiplied the illegal logging percentage by the total imports from each of the countries within the six regions.
6. Note also that the table only shows amounts exceeding 50,000 cubic metres RWE volume.
7. Because the amounts shown are rounded, columns may not add up exactly to the sums shown.

1. Introduction

At a time when trade in illegal timber is becoming increasingly recognised as a key threat to global forest survival, it is clear that the European Union (EU) – a major importer of such timber – has a responsibility to address urgently both its role in driving this trade and its potential for stopping it. Yet despite massively increased public concern over this issue in recent years, few countries to date – either inside⁴ or outside the EU – have done much to eliminate their own imports of illegal timber.

With a view to informing EU policy development on curbing illegal timber imports throughout Europe, this report presents current data on the scale of the illegal trade into and across Europe, and uses these data, together with three forecast scenarios to predict future levels of trade and to assess Europe's potential to limit this trade over the next 10 years. It concludes that, on the basis of current political efforts, the only factor limiting illegal logging in the near future will be the exhaustion of forest resources, and warns that the implications of this will be far-reaching, affecting biodiversity, human health and national economies across the globe.

The countries or regions chosen for study are those that supply high value timber and/or some of the largest quantities of illegal timber to the EU – the Amazon Basin, the Baltic States, the Congo Basin, East Africa, Indonesia and Russia. Presenting a league table of the EU's top importers of illegal timber (please see Table 1 above), and combining up-to-date information on both timber imports and EU policy, the report sets out to forecast the EU's wood-based imports in 2015, and assesses its potential to use trade as a tool to limit illegal logging over the next 10 years.

Extended commentaries, including a description of the assumptions used in making the forecast, are presented in the individual sections on the forest and timber industries of each of the countries covered in the report. The report concludes with a series of recommendations which, while aimed primarily at the EU, highlight the urgent need for active co-operation from other global timber traders including the USA, China and Japan.⁵

Status and potential of FLEGT

The European Commission has acknowledged the need to tackle the trade in illegal timber, and in 2003 put forward a number of highly positive proposals in an action plan on Forest Law Enforcement, Governance and Trade (FLEGT), which was approved by the European Member States and the European Parliament. This forms one of the cornerstones in addressing illegal logging and unsustainable forest management. Unfortunately, progress in key areas – such as a feasibility study into legislation to outlaw the import of illegal timber and wood products and salient examples of member state legislation, which could be used to control and exclude illegal timber and wood products – has been inordinately slow. The EU Member States have chosen to focus on a voluntary process, which will have only a very limited impact on the illegal trade and whose real achievements will probably be in establishing dialogue and highlighting governance problems.

These in themselves will be highly significant achievements, for if corrupt political administration lies at the heart of much of the dynamic between government, the timber industry and forest management practice, then it will be difficult substantially to reduce trade

⁴ Belgium, Denmark, Germany, the Netherlands and the UK are the exceptions

⁵ China is probably the world's leading importer (and one of the world's leading exporters) of illegal timber; the USA imports roughly a third of the exports of China's timber sector, and about half of those of the Amazon Basin region; Japan imports roughly one third of the exports of Indonesia's timber sector (primarily as plywood) and as much as the EU's timber sector does from China.

in illegal timber unless governance improves more widely, including beyond the extractive industries.

Commendable efforts to derive credible minimum thresholds of legality are being made by producer countries in conjunction with trade groups from importing countries. The aim is to eliminate illegal timber from the imports of the sponsoring countries by 2010 – in lieu of a prohibition by the EU – while making self-evident progress towards sustainable forest management.⁶

However, the findings of this report highlight that it is now a matter of urgency that the EU exclude illegal timber and wood products from its supplies. Thus, it is imperative that the voluntary approach is backed up by legislation to outlaw the import of illegal timber and wood products into the EU. Given the closing window of opportunity for the world's forests, this may be the only viable option if we are to drive the necessary changes in forest governance in producer countries and within the timber industry itself and focus on delivering sustainable forest management.

To remain credible in its engagement with producer countries, the EU will also need to address intra-EU trade in illegal timber and wood products. Such trade is understood to account for a substantial proportion of the production and exports of some EU countries. The EU should provide technical assistance and financial resources to improve the capacity of its new member countries – both to improve governance, especially in the forest industry, and to enforce their own laws.

2. Methods and data sources

Trade data

This report presents current and predicted trade data derived from, or estimated on the basis of, official sources, including Eurostat and the World Trade Atlas. Additional sources are cited as footnotes. The forecasts and data for the six years 1999 to 2004 are shown in chart form within the text of each region. These compare EU imports to those of the rest of the world from the six regions – detailed in the charts as “non-EU imports”. The quantity of illegal timber from the six regions is shown separately for the year 2004 and beyond, both for the EU and for the rest of the world. Brief descriptions of the main flows of timber and illegal timber imports are given for each EU country, as are comments on trends in those flows and on the participation of government and industry in terms of their efforts to combat the trade in illegal timber.

The forecasts for the illegal timber imports of the EU and others are estimated by judging how the assumptions in each scenario are likely to affect the trade.⁷ They are presented for three

⁶ <http://www.timbertradeactionplan.info/>. The Timber Trade Action Plan (TTAP), financed jointly by the EU and timber trade associations in Belgium the Netherlands and the UK, was launched in October 2005. The trade associations of other EU countries may join in as this new venture gains credibility. The countries in which TTAP is to be applied are Cameroon, Congo (Brazzaville), Gabon, Indonesia and Malaysia – four of which are covered by this report. Other countries have already expressed interest in participating (including Brazil and China).

⁷ The methodology is necessarily somewhat intuitive. For example, the RWE volume of a county's imports of illegal timber from a particular supplier country will fall to the extent that the importing country prohibits illegal timber, has public procurement policies that preclude illegal timber, whose timber industry actively seeks to minimise its imports of illegal timber. The amount, if any, by which the importing country's timber imports tend to reduce will reflect the availability of alternative supplies of comparable but legal timber from the supplying country. A decline in amounts exported may also reflect a reduction in demand (for example due to recession or loss of price competitiveness) or a lack of availability (for example, due to forest exhaustion).

years: 2008, 2010 and 2015. Data for the rest of the world (non-EU imports) have been included for comparative purposes. The forecasts recognise that the proportion of illegal timber in the wood-based product exports of supplying countries may differ from importing countries and from year to year.

Data are presented on the basis of the following:

- ‘declared imports’ are used as a proxy for exports;
- the market for ‘wood-based products’ has been divided into ‘the paper sector’ and ‘the timber sector’;⁸
- the unit of measure for volume, roundwood equivalent (RWE), is used to facilitate comparison between the quantity of logs required to supply particular trade flows and consequently assist in forest management.⁹
- for timber sector products other than logs, RWE volume is generally around twice that of wood volume.¹⁰

Issues around data interpretation

Much of the information presented here highlights the risk that published statistics, if taken at face value, may mislead planners and the media.¹¹ For example, in the case of the Democratic Republic of Congo (DRC), which has much the largest forest area in the Congo Basin, industrial logging is actively promoted as a means of economic revitalisation. In practice however, much of that forest is of variable quality and, in effect, inaccessible (both far from ports for export and in swampy terrain). The RWE volume of the country’s annual timber exports has rarely exceeded 300,000 cubic metres (20 times less than current, promotional, estimates). Even the actual export figure accounts for timber harvested from forests that are widely recognised as not having being under sustainable management regimes – the rights of the affected forest people having been largely ignored, as has the impact of logging and its associated economy on biodiversity and the environment.

Illegal trade data in timber and wood based products.

The proportions of illegal timber¹² in bilateral trade flows which this report adopts are based on data in a recent WWF survey of the literature¹³ or, if not available from this or subsequent WWF source material, assumed from raw data, or based on the work of others.¹⁴ Details of these percentages are given in the footnotes to the text of this report.

Although the report does not focus on the production or trade of illegal timber outside the six regions it covers, it does make assumptions (as distinct from estimates) regarding the proportion of illegal timber production and trade in other countries. This is in order to see how the EU’s imports of illegal timber from the six regions might compare with both other regions outside the EU, and the production of illegal timber within the EU¹⁵ (assuming that the Baltic States are the only EU countries that produce illegal timber).

⁸ See Glossary (under Paper Sector and under Timber Sector).

⁹ See Glossary (under RWE volume).

¹⁰ It is clearly important to distinguish between wood volume and RWE volume.

¹¹ http://www.illegal-logging.info/papers/EFI_impacts_NWRussia.pdf tends to endorse this.

¹² See Glossary (under Illegal Timber).

¹³ http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf. (Note that the percentages cited in that report were not necessarily derived by WWF).

¹⁴ One of the recommendations made by civil society (industry, research institutions and NGOs) to Ministers prior to the G8 Summit of March 2005 sought to formalise estimation of trade in illegal timber – see http://www.illegal-logging.info/papers/G8_consultation_analysis.pdf. Under the UK’s presidency, this recommendation appears to have been ignored.

¹⁵ for some relevant insights (but only in respect of countries which acceded to the EU during 2004) see

Although estimated on the basis of best available information, the precise quantities of illegal timber estimated in bilateral trade are perhaps less worthy of note than either the overall scale of that trade,¹⁶ or the trends and differences observed both between EU importers and the regional producers covered in this report. The estimates adopted provide a notional benchmark against which changes during the forecast period can be illustrated. The report does not present a critique of the estimates adopted.

Forecast scenarios

The forecasts take into account public procurement policies within the EU as follows:

For countries that are **genuinely committed to legal trade**, it is assumed that:

- once acceptable standards of good practice have been developed, wood-based product procurement policies (which central governments in a number of EU Member States are developing) will be adopted – in most of northern Europe (by 2008) and elsewhere in Europe (by 2010);
- local government will probably follow suit (local and central governments each probably account for around 20% of the total RWE volume of wood-based products which enter end-use in their respective countries);
- private sector clients will adopt procurement policies similar to those of their central government, both by following government example and in response to the increased volumes of legal timber that are expected to arise as industry pursues an economy of scale in purchasing legal timber.

For countries which, irrespective of their rhetoric, **condone trade in illegal goods**, it is assumed that:

- local suppliers will lose market share to suppliers of legal timber based in other EU Member States who have the ability to meet the needs of an increasing number of customers who voluntarily specify that all wood-based products supplied to them or their projects must be legal.

Each forecast envisages that:

- forest exhaustion will lead to reduced trade (in terms of RWE) and increased logging costs;
- unit prices will rise to reflect not only the rarity value of timber as a forest becomes exhausted, but also the risks of being caught producing and trading illegal timber;
- legality (and in particular the minimum standard of legality that will be required under the FLEGT process), will not be deemed to be a barrier to free trade;
- the US economy will slow down quite sharply between 2008 and 2010 (due in particular to sustained increases in imported raw material prices (attributable to increased demand from China and India), further erosion of manufacturing and service sector employment (to those two countries), and consequent increased difficulty in financing the USA's growing trade deficit) – this assumption is relevant primarily in so far as the USA is the leading destination for the timber sector exports of China and is a major destination for timber exports from the Amazon Basin;

http://www.illegal-logging.info/papers/Organised_environmental_crime_-_summary.pdf and http://www.panda.org/about_wwf/where_we_work/europe/problems/illegal_logging/Downloads/ILLEGAL%20LOGGING%20EASTERN%20EUROPE.pdf

¹⁶ If an exporting country is estimated to lose a great deal of potential revenue by condoning the export of illegal timber and the proportion of illegal timber in that trade is estimated to be, say, 27%, that country would also forego a great deal of revenue if the true percentage were 20% or 30%.

- the EU economy will take time to adjust to the impact of China – particularly on world resources and EU competitiveness (for reasons similar to those that are assumed to slow down the USA’s economy).

Scenario A – ‘optimistic’

Envisaging the creation of legislation to prohibit illegal trade, **Scenario A** assumes that:

- prior to 2008, the EU will make it a criminal offence to trade in illegal timber within the EU;
- by 2008, for large consignments, the EU will permit the import of wood-based products only if accompanied by credible certificates indicating that they are legal;
- by the end of 2008, the USA¹⁷, China¹⁸ and Japan¹⁹ will likewise prohibit illegal timber imports.

Scenario B – ‘probable’

Based on the development of Voluntary Participatory Agreements (VPAs), which close down trade via third countries, cover all products, and have high uptake, **Scenario B** assumes that:

- by the end of 2010, the import of illegal timber into the EU (and the production and trade of illegal timber within the EU) will, in effect, have been prohibited;
- by 2015, most large-scale logging concessions from which the EU ultimately imports wood-based products will be managed sustainably;
- the proportion of illegal timber in China’s wood-based product exports will be negligible by 2010, i.e. after the 2008 Olympic Games.²⁰

Scenario C – ‘pessimistic’

Based on the current situation, where there are few real attempts to develop and implement VPAs, a lack of real action by the majority of EU Member States, and limited (if any) attempts to include third countries or all wood-based products, **Scenario C** assumes that:

- China, Japan and the USA continue to take few demonstrably effective steps to eliminate illegal timber imports;
- producer countries continue to supply whatever export markets are willing to buy, irrespective of legality;
- EU policy will continue to permit EU Member States to engage in illegal trade;
- those EU Member States that remain or become demonstrably committed to legal trade will tend to reduce their imports from the countries of the six regions, despite laudable efforts by reputable suppliers and EU buyers to maximise trade in legal timber from those countries.

Given the difficulty of accessing accurate data – if indeed such data exist – the report has interpreted existing trade data in light of the author’s experience, wider reference material and a series of assumptions in its attempt to give some clearer indication of the scale of the illegal trade, both now and in the future. Given the concerns of WWF at the weak progress being made in the political process, we have felt it necessary to highlight some of the worst

¹⁷ After the next Presidential election.

¹⁸ The Olympic Games and the change in the USA’s policy serving as catalysts.

¹⁹ Because the *status quo* will have changed.

²⁰ China is assumed here to have a VPA with the EU in place prior to the Olympic Games – not least to avert any possible criticism of China’s record for illegal timber imports (and exports) which could adversely affect advertising revenue during the games and skew media coverage of that event. This scenario assumes that, by 2010, China will only permit the import of illegal timber if that timber is destined for end-use within China.

performers – whether due to ignorance, acceptance of the *status quo*, or calculated prevarication.

3. Illegal timber exports to the EU

EU trade and trade legislation

As concern over trade in illegally produced wood has grown, the EU has made some notable efforts to assess and address its own role in driving illegal logging elsewhere. In 2003 the European Commission, still seeking means to stem the flow of illegal timber into Europe, established the Forest Law Enforcement Government and Trade (FLEGT) action plan. The goal of the plan was to make Europe more accountable for its timber footprint and to help it to tackle its contribution to illegal logging globally and meet its commitments on sustainable forest management. The action plan was widely viewed as a very positive development. Since its inception, however, progress has been inordinately slow and the EU is neither implementing the full scope of the original aims of the plan, nor is it delivering on those areas it has prioritised.

Under the FLEGT action plan, the EU is currently prioritising the implementation of a licensing agreement which gives the European Commission the mandate to negotiate bilateral voluntary partnership agreements (“VPAs²¹”) with producer countries to minimise (the EU’s) imports of illegal timber. Unfortunately, there are limits to the likely effectiveness of these VPAs. For example, VPAs do not have to be independently audited, VPAs only cover a few basic products (roundwood, sawnwood and plywood) and VPAs are confined to producer countries (but discussions are underway to engage China – perhaps the leading hub for global trade in illegal timber²² – in a VPA).²³

It was also envisaged that by mid 2004, a feasibility study would have been completed on the options for outlawing the import of illegal timber and wood products into the EU. This was deemed critical by environmental NGOs as a means of underpinning the voluntary process and also as a means of demonstrating real political commitment to the illegal logging and sustainable forest management issue. Recent information confirms that this study will not now happen until 2006, if at all.

This lack of progress is entirely unacceptable given the recognition that current EU trade makes a significant contribution (around €3 billion) to the estimated €10–15 billion per annum that the illegal timber trade costs the economies of some of the world’s most impoverished countries. The estimated cost to these countries is, rather interestingly, pretty much half of the EU’s annual overseas development aid budget.

²¹ Please see Appendix 1 at the end for WWF principles on voluntary partnerships agreements.

²² <http://www.globaltimber.org.uk/G8IllegalTimber.htm> and also

<http://www.globaltimber.org.uk/ChinaIllegalImpExp.htm>.

²³ http://www.illegal-logging.info/papers/TTF_Report_-_FLEGT_Industry_Consultation_09.05.doc.

Box 1

“Improved global competition” as a euphemism for unsustainable and illegal logging

The main source of much of what is being described as increased global competition in the global roundwood market is probably unsustainable logging (much of which is criminal, i.e. illegal).

Competitive advantage in world trade gained from criminal behaviour should not be tolerated.

Efforts to minimise trade in illegal goods (including illegal timber) should never be regarded as a barrier to free trade, even in the country that is host to the WTO and Bretton Woods institutions.

Results for EU trade data

For this section, data from the six regions have been summarised in a series of charts and tables to demonstrate the importance of their trade with the EU and to highlight the component of this trade that is probably illegal. Using the three scenarios, the author has presented forecasts of those regions’ exports of wood-based products highlighting the illegal timber content of those exports, in particular those to the EU. The forecasts indicate that the trade in illegal timber²⁴ is likely to:

- cause the governments in the countries of the regions covered in this report to lose substantial potential revenue – affecting their ability to repay foreign debt and attract further investment, to alleviate poverty and to focus on sustainable development;
- contribute directly to poor governance generally and particularly in forested rural areas;
- increase conflict and political tension;
- create competitive disadvantage for those seeking to engage or invest either in sustainable forest management or in the trade or processing of legal wood-based products;
- weaken forest protection and contribute to the destruction of valuable forest ecosystems;
- increase the negative impact on the natural wealth of the countries covered in this report, especially in those countries or concessions in which unsustainable forest management is the norm. (Unsustainable forest management may well persist even if trade in illegal timber is minimised.)

Also apparent from the research is that:

- the availability of forest will increasingly constrain trade.
- EU countries acting individually or even as a unit may have little impact on reducing global trade in illegal timber in some key regions
- the forests of the regions covered by the report are more under threat than ever.

²⁴ See Glossary (under Illegal Timber).

Table 1: League table of estimated illegal timber imports from the six regions into the EU – 2004

	Sum of illegal timber imports from the six regions only	Timber Sector		Paper Sector	
		Total	Estimated Illegal only	Total	Estimated Illegal only
EU sum	20	42	13	28	7
Finland	5.1	6.3	1.8	12	3.3
Sweden	2.6	2.2	0.6	8.4	2.0
UK	2.3	7.9	2.2	0.8	0.1
Germany	1.5	4.5	1.4	1.2	0.2
Italy	1.4	2.6	1.0	1.1	0.4
France	1.3	3.2	1.1	0.5	0.2
Netherlands	1.1	2.6	1.0	0.4	0.1
Belgium	1.1	2.1	1.0	0.5	0.1
Estonia	0.7	2.5	0.7	0.2	
Spain	0.6	1.2	0.5	0.1	
Denmark	0.5	1.1	0.3	0.8	0.2
Latvia	0.4	1.5	0.4	0.1	
Greece	0.2	0.5	0.2	0.2	
Lithuania	0.2	0.7	0.2	0.1	
Portugal	0.2	0.4	0.2		
Poland	0.2	0.5	0.1	0.4	0.1
Ireland	0.2	0.4	0.2		
Austria	0.2	0.5	0.1	0.2	0.1
Hungary	0.1	0.3	0.1	0.3	
Czech Republic	0.1	0.2	0.1	0.2	
Cyprus					
Luxembourg					
Malta					
Slovakia					
Slovenia					

1. Units: million cubic metres roundwood equivalent (RWE) volume.
2. Note that amounts shown are estimates (particularly those pertaining to illegal timber) and exclude indirect imports via third countries, notably China.
3. The illegal timber percentages derive primarily from WWF sources. For a number of countries, the figures for illegal logging have been derived by assuming that the difference between consumption plus exports, and production plus imports, is illegal.
4. There are no consistently available published estimates of the proportion of illegal timber in country's exports of wood-based products. It has therefore been assumed that the percentage of illegal wood products exported is the same as the percentage of illegal logging in a country. The robustness of this assumption would rise as the share of production that is exported rises. It is recognised that the actual illegal trade may be significantly different to this, depending on characteristics of the trade flows and any steps being taken by industries and governments. There is however no official data available to describe the situation. Civil society groups would be pleased to participate in studies to clarify the scale and scope of the issue.
5. To calculate estimated figures for illegal logging imports into EU Member States, the report has multiplied the illegal logging percentage by the total imports from each of the countries within the six regions.
6. Note also that the table only shows amounts exceeding 50,000 cubic metres RWE volume.
7. Because the amounts shown are rounded, columns may not add up exactly to the sums shown.

Table 2. Summary of salient statistics for EU trade²⁵

Amazon Basin	Baltic States	Congo Basin	East Africa	Indonesia	Russia
EU imports of illegal timber (million Euro, cif)					
300	500	400	<10	900	500
Share of FLEGT products in import value of EU imports of illegal timber					
60%	70%	100%	-	20%	70%
EU imports of illegal timber (million cubic metres, roundwood equivalent volume)					
1	5	1	<0.1	3	8
EU's share in given region's wood-based product exports (RWE volume basis)					
45%	85%	60%	10%	15%	30%
Net exports as a percentage of given region's timber production (RWE volume basis)					
20%	60%	80%	80%	c70%	70%
Imports from given region as a percentage of EU imports (RWE volume basis, wood-based product)					
5%	-	5%	<0.1%	5%	30%
Illegal timber imports from given region as a percentage of the sum of the EU's illegal timber production and imports (RWE volume basis)					
5%	25%	5%	<0.1%	15%	35%

Table 2 above shows that, during 2004:

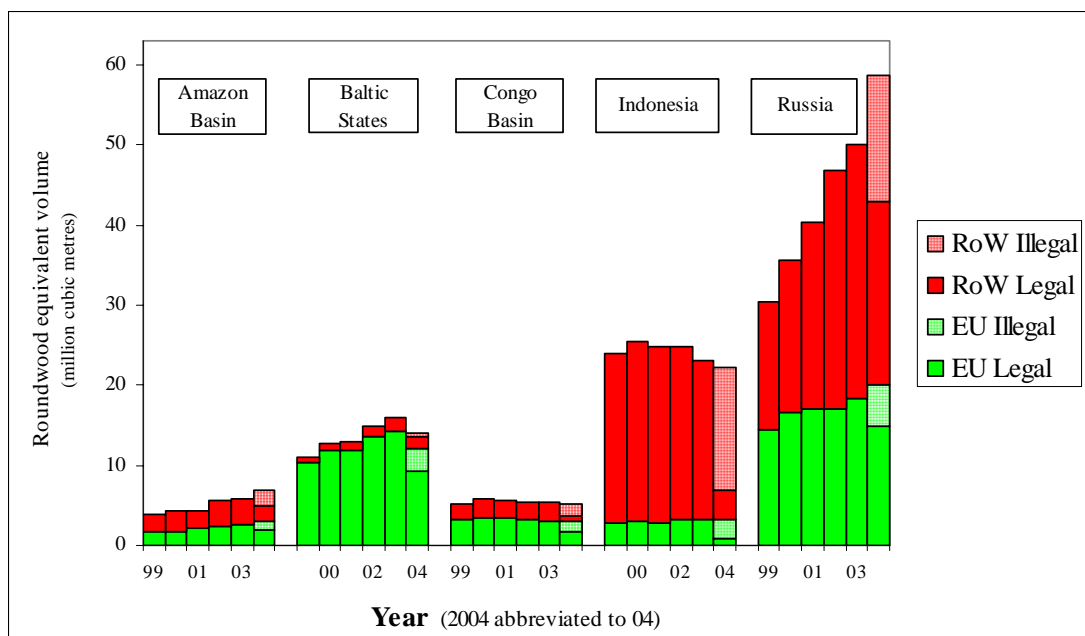
- the import value of the illegal timber which the EU probably imported from these six regions amounted to over €2500 million, and that Indonesia was the leading supplier, followed by the Baltic States, the Congo Basin and the Russian Federation;
- the products covered by the EU FLEGT process accounted for only two thirds of the import value of the EU's imports from three of the regions, 100% for the Congo Basin and only 20% for Indonesia;
- the RWE volume of the illegal timber the EU imported from these regions, amounted to just under 20 million cubic metres. Russia and the Baltic States accounted for most of this. The products the EU imported from Indonesia had a higher unit value than those it imported from the Baltic States and Russia.
- the EU was a major destination for only three of the regions – the Amazon Basin, the Baltic States and the Congo Basin. This indicates, at one level, the degree to which the EU might generate leverage in combating trade in illegal timber.
- with one exception – the Amazon Basin – net exports (exports – imports) are generally a high percentage of each region's timber production – indicating that trade probably has a major influence on the production of illegal timber;
- with one exception – the Russian Federation – the regions account for only a small proportion of the RWE volume of wood-based products that the EU imports; and
- the regions probably supply more than three-quarters of the illegal timber that the EU imported or produced.

²⁵ Data are rounded and based on official statistics published mainly by Eurostat and World Trade Atlas (for trade) and FAO (for production); trade data has been adjusted for anomalies.

In aggregate, the RWE volume of wood-based products that the EU imported from the six regions amounted to some 70 million cubic metres during 2004. Of this, roughly 40% was imported for use in the pulp and paper industry, herein described as the Paper Sector.²⁶ Excluding supplies from the Baltic States, the remaining five regions supplied roughly half the RWE volume that the EU Timber Sector imported from outside the EU during 2004. The corresponding proportion for the Paper Sector was nearer 60%.

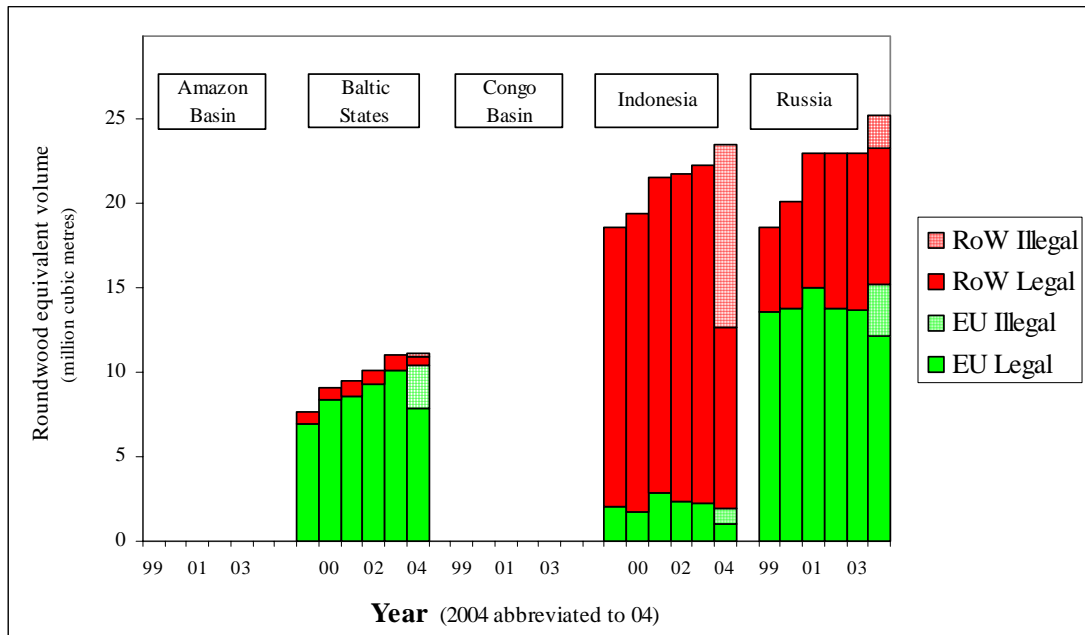
Charts 1 and 2 illustrate recent trends in the exports of the regions covered. They indicate that the EU is likely to be a major destination for the illegal timber exports of each of the five regions shown. East Africa is not shown because its exports to the EU are too small to register on the chart.

Chart 1: Past trends in supplying region exports – timber sector. (Note: chart does not show illegal timber for the period 1999–2004)



²⁶ See Glossary (under Paper Sector – and for all other wood-based products, Timber Sector).

Chart 2: Past trends in supplying region exports – paper sector. (Note: chart does not show illegal timber for the period 1999–2004)



Charts 3 and 4 illustrate recent trends in the EU’s direct imports from the five main regions, highlighting which EU countries accounted for the largest proportion of those imports.

Chart 3: Past trends in EU imports from each supplying region – timber sector

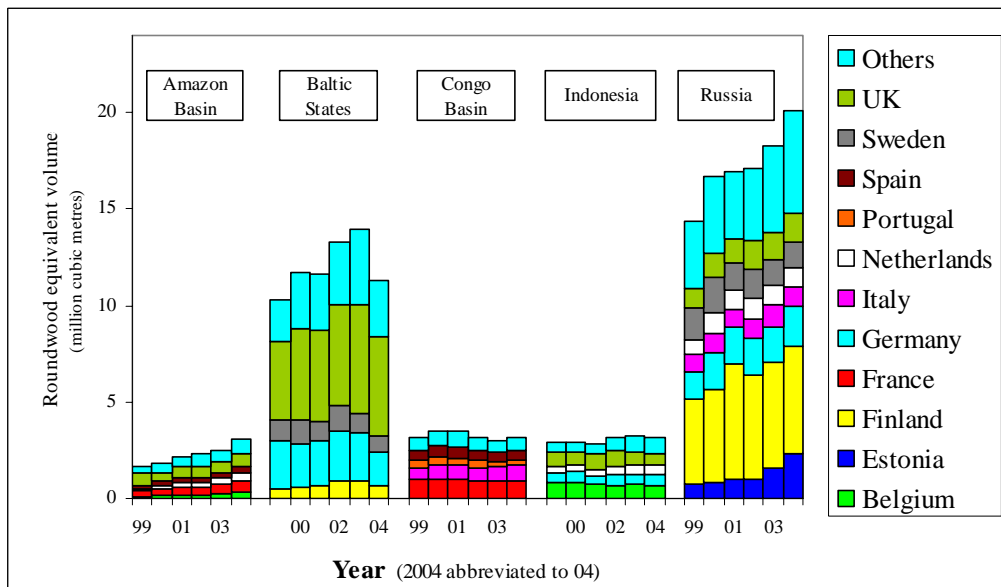
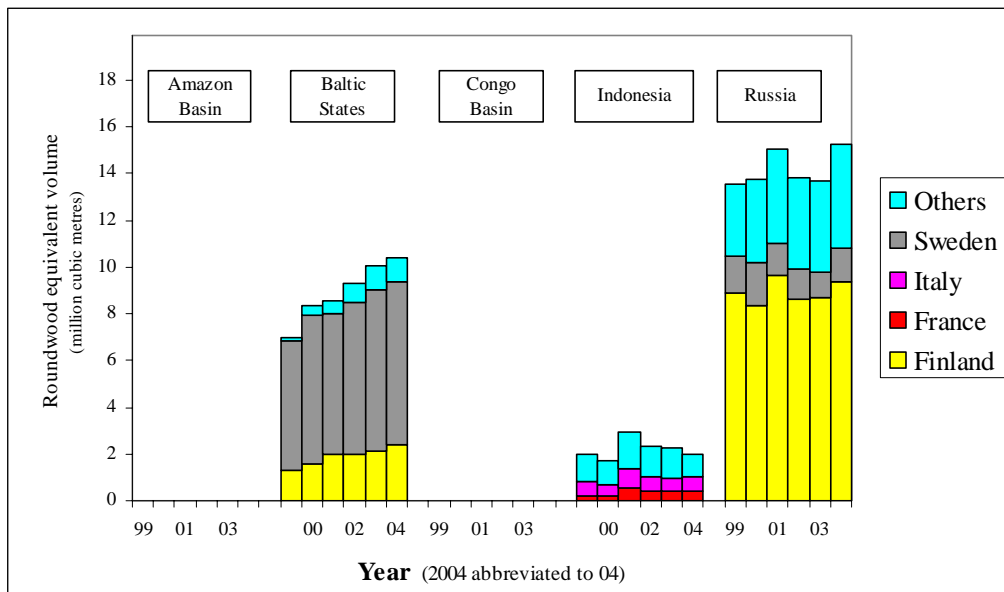


Chart 4: Past trends in EU imports from each supplying region – paper sector



The Amazon Basin, the Congo Basin and Indonesia supply similar amounts to the EU's Timber Sector. The Baltic States and Russia supply rather more. Concerning the EU's Paper Sector, the Baltic States (whose exports are rising strongly) and Russia supply roughly similar amounts – and Finland and Sweden import the great majority.

Although, relative to the other regions, the quantity of East Africa's (direct) exports to the EU is negligible, those exports may include species whose habitat is particularly threatened. China is much the largest importer of East Africa's timber exports. Some of what China imports might be exported to the EU after being processed – a concern that all the other regions covered in this report, except the Baltic States (from which China imports a negligible quantity of timber), share.

In the Amazon Basin, although Brazil is much the biggest supplier to the EU, its exports to the EU account for about 10% of production – limiting the potential of the EU to use trade to reduce illegal production. Providing markets and technical support to improve supply chain management will of course help. Several countries account for a substantial share of this region's exports to the EU, primarily France, the Netherlands and the UK. Bolivia is an example of a country in which responsible forest management can coexist with an economy that has an unflattering rank in Transparency International's Corruption Perceptions Index.

In the Baltic States, Estonia and Latvia (which supplies half this region's timber exports) have most to gain from a reduction in trade in illegal timber. Sweden and the UK are the leading (EU) destinations for the region's timber exports. Swedish commercial interests along the chain of supply within the region are substantial (as are those of Finland in Estonia and, in the timber drying sector only, those of the UK) in the region.

In the Congo Basin – although most of the region's production is exported, timber is one of the most important of the region's exports, and a number of concessionaires are committed to both legality and sustainable forest management – the potential of the EU to use trade to reduce illegal production is jeopardised by China's influence in the region. A lack of suitable forest is likely to affect the industry in the region during the period covered by this report. Cameroon and Gabon supply 80% of the EU's timber imports from the region, Congo (Brazzaville) supplies a further 10%. Italy and France (and to a lesser extent, other southern

EU countries) are the leading EU importers of the region's timber exports. EU enterprises, particularly French and Italian, have substantial commercial interests in the logging, timber processing and timber transportation sectors of this region.

In Indonesia, although the EU accounts for a little more than 10% of Indonesia's tropical timber exports and rather less of its tropical timber production, one or two EU member states have demonstrated the leverage that such small percentages of output can achieve through trade – if applied sensibly with a genuine aim of pulling through demonstrable improvement. A lack of suitable forest is likely to affect the industry in the region during the period covered by this report. Most of Indonesia's timber exports to the EU are imported by northern EU countries.

In Russia, excluding pulpwood, although the EU is the destination for most of the timber exported from forest in north-west Russia, from Russia as a whole China alone imports almost as much as the EU. Exports are likely to have accounted for between half and two thirds of Russian production during 2004, perhaps somewhat less in north-west Russia (but nevertheless still enough to generate leverage over governance in that part of Russia). Although several EU countries import substantial quantities of timber from Russia, Finland imports the clear majority, particularly of pulpwood, but also of other wood. Finnish commercial interest in the production and trade of timber within Russia is substantial, and is naturally predominantly focused on exports to Finland.

Table 3: Timber sector imports during 2004 (importing country, by supplying region)

	Wood-based products (including Illegal Timber)					Illegal Timber				
	Amazon Basin	Baltic States	Congo Basin	Indonesia	Russia	Amazon Basin	Baltic States	Congo Basin	Indonesia	Russia
EU sum	3	12	3	3	20	1.1	2.7	1.3	2.4	5.1
Austria		0.1			0.4					0.1
Belgium	0.3	0.5	0.1	0.7	0.5	0.1	0.1	0.1	0.6	0.1
Cyprus					0.1					
Czech Republic					0.2					
Denmark		0.6		0.1	0.4		0.1		0.1	0.1
Estonia		0.2			2.3					0.6
Finland		0.7			5.6		0.2			1.2
France	0.6	0.5	0.9	0.3	1.0	0.2	0.1	0.3	0.2	0.3
Germany	0.2	1.7	0.1	0.5	2.0		0.3	0.1	0.4	0.5
Greece			0.1		0.3					0.1
Hungary					0.2					0.1
Ireland	0.1	0.2	0.1		0.1					
Italy	0.3	0.2	0.8	0.2	1.1	0.1	0.1	0.4	0.2	0.3
Latvia		0.3			1.2					0.3
Lithuania		0.2			0.5					0.1
Luxembourg										
Malta										
Netherlands	0.5	0.5	0.2	0.5	1.0	0.1	0.1	0.1	0.4	0.3
Poland		0.3			0.2		0.1			
Portugal	0.2		0.3			0.1		0.1		
Slovakia										
Slovenia										
Spain	0.3	0.1	0.5	0.1	0.2	0.1		0.2	0.1	0.1
Sweden		0.9			1.3		0.2			0.4
UK	0.7	5.1	0.1	0.6	1.5	0.2	1.1		0.4	0.4

Source of import statistics (product weight or product volume): Eurostat.

Units: million cubic metres roundwood equivalent ("RWE") volume.

Note 1: amounts shown are estimates (particularly those pertaining to Illegal Timber) and exclude indirect imports (via third countries, notably China).

Note 2: table only shows amounts exceeding 50,000 cubic metres RWE volume.

Note 3: table shows the total for all Timber Sector products (which include mouldings, joinery and furniture).

Note 4: bilateral flows that warrant particular attention (partly because they are the largest and may be associated with substantial investment) are highlighted.

Note 5: East Africa is not shown because its direct bilateral flows to the EU are all less than the threshold for inclusion in this table.

Table 4: Paper sector imports during 2004 (importing country, by supplying region)

	Wood-based products (including Illegal Timber)					Illegal Timber				
	Amazon Basin	Baltic States	Congo Basin	Indonesia	Russia	Amazon Basin	Baltic States	Congo Basin	Indonesia	Russia
EU sum	-	10	0	2	15	-	2.5	0	0.9	3.0
Austria				0.1	0.1					
Belgium				0.2	0.4				0.1	0.1
Cyprus										
Czech Republic					0.2					
Denmark		0.8					0.2			
Estonia		0.1			0.1					
Finland		2.4		0.1	9.4		0.7		0.1	2.1
France				0.4	0.1				0.2	
Germany				0.1	1.1					0.1
Greece				0.1	0.1					
Hungary					0.3					
Ireland										
Italy				0.6	0.5				0.3	0.1
Latvia					0.1					
Lithuania					0.1					
Luxembourg										
Malta										
Netherlands				0.2	0.1				0.1	
Poland					0.4					0.1
Portugal										
Slovakia					0.1					
Slovenia					0.1					
Spain				0.1						
Sweden		7.0			1.4		1.6			0.4
UK				0.1	0.6					0.1

Source of import statistics (product weight or product volume): Eurostat.

Units: million cubic metres roundwood equivalent ("RWE") volume.

Note 1: amounts shown are estimates (particularly those pertaining to Illegal Timber) and exclude indirect imports (via third countries, notably China).

Note 2: table only shows amounts exceeding 50,000 cubic metres RWE volume.

Note 3: table shows the total for pulpwood, pulp (other than based on recycled paper or non-wood material) and paper.

Note 4: bilateral flows that warrant particular attention (partly because they are the largest and may be associated with substantial investment) are highlighted.

Note 5: East Africa is not shown because its direct bilateral flows to the EU are all less than the threshold for inclusion in this table.

Note 6: The Amazon Basin region relates only to tropical timber (i.e. to exclude pulpwood farms).

Conclusions for EU trade data

- far more active steps by major importing countries, notably China, Japan and the USA, are required towards eliminating illegal timber from their own imports;
- EU legislation is required to prohibit the import of illegal timber, both from producer countries and processing countries (notably China); and
- a credible legality licensing system is necessary to enable that EU-wide prohibition to be applicable.

This will of course have an effect on the current strategy of the EU's FLEGT process (which should be extended to cover all EU imports of wood-based products, not just logs, sawn wood and plywood).

The wood-based product industries of these leading importing countries should take a lead in eliminating illegal timber from their supply chain, perhaps being assigned the task of developing best practice on behalf of the EU in connection with trade with particular supplying countries. The EU should seek both to facilitate this and to help minimise the risk that a proliferation of standards of legality and certification will develop (which could inhibit trade with the EU).

Box 2

Resourcing of state management/oversight functions

China as Number 1 - *caveat emptor*

China is the dominant importer of illegal timber from four of the six regions covered in this report.

The EU and other countries probably import a substantial quantity of illegal timber from the regions covered indirectly, via China.

China is estimated to have exported an RWE volume of almost two million cubic metres of illegal timber during 2004 – about 10% of world trade in illegal timber.²⁷

Only a fraction of the competitive advantage that China has as an exporter of wood-based products derives from its cheap, disciplined blue-collar labour force. Innovation, political support for overseas sourcing of wood raw materials, illegal timber, unaccountability, poor social and environmental standards, and fiscal benefits available to exporters, may be even more relevant.

The USA is the main destination for China's wood-based products. China's reliance on the USA as a market for its industry and the USA's reliance on China to support its national debt may be creating an economic bubble. If this were to burst, the effects on China's forest footprint may be large – and beneficial to poorly governed producer countries, not least because, in order to find markets, Chinese manufacturers will at last find it expedient to ensure that their supplies are legal and from sustainably managed forests.

The increased price of oil – linked to war and to China becoming much more significant as both an oil market and a procurer of oil interests – may depress world economic activity (as may continued loss of manufacturing jobs to China) and lead to reduced demand for wood-based products. In so far as China supplies the mass market, and the purchasing power of this sector of the market is particularly sensitive to recession, there is a risk that forecasts of an expansion in China's wood-based product exports may not be achieved.

²⁷ <http://www.globaltimber.org.uk/china.htm>

Importers should insist that their prospective purchases from China are credibly certified as legal, otherwise, as a modicum of due diligence would indicate,²⁸ there is a high risk of their becoming complicit in illegal trade.

4. The Amazon Basin

The Amazon Basin is defined here as Bolivia, Brazil, Colombia, Ecuador, French Guyana, Guyana, Paraguay, Peru, Suriname and Venezuela.

This report only considers the tropical timber exports of this region and therefore makes assumptions as to whether wood products described in general terms by customs statistics are tropical or not.²⁹ Pulpwood, pulp and paper or coniferous timber (much of which derives from plantations, rather than natural forest) are not addressed here. Additional products such as particleboard and fibreboard panels are also excluded.

Timber production and forest management in the Amazon Basin

Brazil is by far and away the Amazon region's leading timber exporter and, by an even greater margin, the region's leading producer.

During 2004, roughly 80% of Brazil's tropical timber production entered its end-use within Brazil.³⁰ This severely constrains the ability of the EU to use trade to help Brazil combat the supply of illegal timber from Amazon forest. Any leverage the EU might have in this respect is handicapped by fact that the range of products currently covered by the EU's FLEGT process accounts for only 60% of the EU's timber imports from Brazil.

Nevertheless, the efforts now being made by timber traders from several EU Member States, are of significant value – not least in building up local capacity in the management of supply chains and auditing legality.

In addition, the EU is likely to receive an increasing quantity of this region's timber exports, often indirectly (for example as flooring products made in China). It is therefore important that the EU FLEGT process is extended without delay to cover both trade in all timber products and trade from countries such as China, which imports wood raw material for subsequent export as manufactured goods.

Progress towards forest certification (to FSC or lesser standards) in the Amazon Basin has been encouraging – particularly in Bolivia and Brazil.

Progress towards eliminating trade in illegal timber in Bolivia and Ecuador has also been encouraging.³¹ Indeed, Bolivia appears exemplary in its efforts to enhance governance in its forest-timber sector, notably by making its law equitable, simple, unambiguous and

²⁸ For example, by searching for +“illegal timber” +China in a search engine and then reading the first few webpages displayed. Even though membership of timber trade associations based in the USA (China's main market for timber product exports) tends to be open to those who deal in illegal (timber) goods, those trade associations may be able to advise their members on the risks of doing business with China. Similarly for the customs services of those ports in China that specialise in the import of tropical or Russian timber – for example Zhangjiagang and Manzhouli.

²⁹ The descriptions of each commodity for which a country declares import or export statistics do not all state explicitly that they refer solely to (natural) tropical timber – i.e. it might comprise, for example, softwood (or, in the case of furniture, panels other than plywood).

³⁰ Roughly 6 million cubic metres exported out of total production of between 24 and 30 million cubic metres (although one source suggests that 36% of timber processed the Brazilian Amazon region is exported – http://www.imazon.org.br/upload/ea_2e.pdf).

³¹ http://www.illegal-logging.info/papers/emerging_best_practice.pdf.

accessible.³² This is despite having a very poor ranking in Transparency International's Corruption Perceptions Index³³ – which indicates that one can work successfully with corrupt countries towards sustainable forest management.

Timber exports to the EU

Brazil supplies well over 90% of the RWE volume of the EU's imports from this region.

The EU imports roughly half of the RWE volume of the region's timber exports. The USA, and China (including Hong Kong) import much of the remainder.

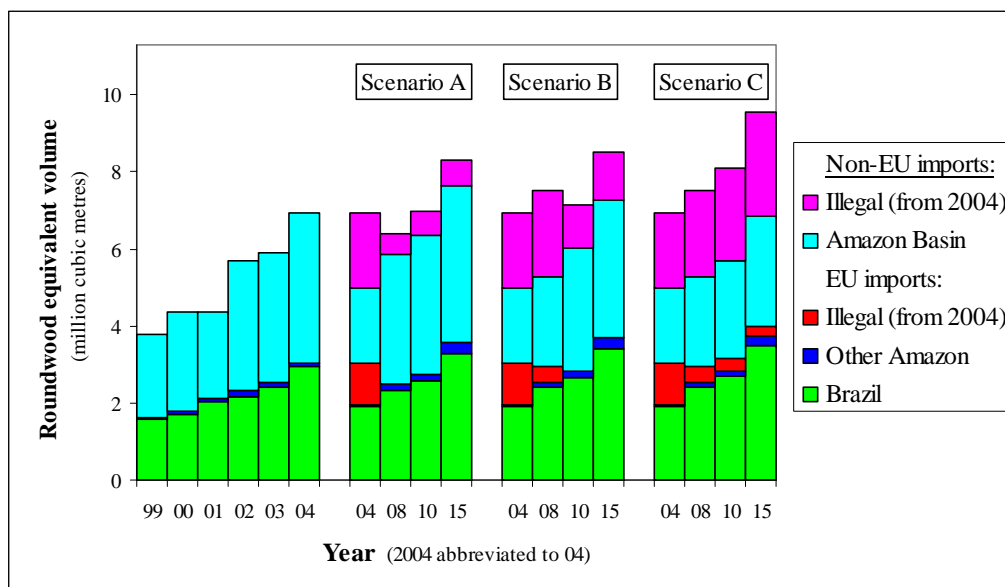
China's imports have risen strongly during the last couple of years.

None of the other countries of the region supplied the EU with an RWE volume exceeding more than about 40,000 cubic metres during 2004. Guyana was the leading supplier, followed by Paraguay and Peru. Bolivia and Ecuador were the only other countries to have supplied the EU with an RWE volume more than 10,000 cubic metres.

Either one or more of China, India and the USA tend to import more from these other countries than does the EU.

Forecasts and implications for the EU

Chart 5: Amazon Basin: past trends and forecast exports – timber sector (by supplying country). (Note: chart does not show illegal timber for the period 1999–2004)



Each of the scenarios shown in Chart 5 indicates that the timber exports of Brazil and other countries will tend to rise (at a rate slower than that during the early years of this decade). Exceptions include occasional reductions, which coincide with the coming into force of import prohibitions, and Bolivia, whose exports are forecast to grow rather faster (albeit from a low level). This reflects the declining potential of forests elsewhere in the tropics to sustain current rates of production.

³² http://www.illegal-logging.info/papers/emerging_best_practice.pdf.

³³ <http://www.transparency.org/cpi/2004/cpi2004.en.html#cpi2004>. Note that Ecuador, and Paraguay, Venezuela have very low CPI rankings.

It is likely that it will be quite easy to reduce the RWE volume of illegal timber from Brazil's exports if the Brazilian government were to enforce its own laws – as it has shown that it can do when there is “political will”.

The chart indicates that legal timber and total imports are likely to be greater and lower respectively in Scenario A than in the other two scenarios. One might conclude therefore that it would be in the best interests of the governments of the region (primarily Brazil) if Scenario A pertained – it is likely to generate the highest revenue of the three scenarios.

All three scenarios envisage that the EU's imports from the countries of the region other than Brazil will have become significant by 2015.

The increased quantities that the forecasts indicate might be exported from each country are unlikely to have a material impact on total production in those countries.

Country-specific comments relating to the forecasts and to trade in illegal timber

Table 5: Summary of salient information for 1–5 countries in the Amazon Basin

	Bolivia	Brazil	Colombia	Ecuador	French Guyana
Timber exports in 2004 (million cubic metres RWE)	0.1	5.8	c0.05	0.4	(0) ³⁴
of which to EU	15%	50%	-	c2%	-
Other destinations	USA ³⁵	China, USA ³⁶	-	USA ³⁷	-
Main EU destinations	-	Belgium, France, Germany, UK	-	-	(France)
Percentage assumed illegal ³⁸	80%-90%	47% ³⁹	42%	70%	-
Drivers of illegal timber	Poor Governance	Poor Governance	-	Poor Governance	-

³⁴ French Guyana is administered as a part of France. Therefore it declares no exports statistics.

³⁵ USA 50% (also Brazil 25%) particularly as sawn wood and joinery products such as doors.

³⁶ China 10%, USA 30%.

³⁷ USA 70%, mainly as plywood (also India 10%).

³⁸ See sources cited in http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf.

³⁹ A wide range of estimates has been published for the proportion of illegal timber production in Brazil's Amazon forest. The 47% figure reflects – for the year 2001 – the difference between actual log production and the volume of log production for which advance approval had been given. More recent estimates are rather larger, for example, in excess of 58.8% (see <http://www.greenpeace.org/raw/content/international/press/reports/lawless-illegal-timber.pdf>) and 90% (see http://www.brazzilmag.com/index.php?option=com_content&task=view&id=4515&Itemid=49).

Table 5: Summary of salient information for 1–5 countries in the Amazon Basin (contd.)

	Bolivia	Brazil	Colombia	Ecuador	French Guyana
Industrial roundwood production (million cubic metres)	0.7 ⁴⁰ , 8 ⁴¹	100 ⁴²	2 to 3 ⁴³	1 ⁴⁴	0.06 ⁴⁵
Percentage net exports	C10%	20%	<5%	40%	-
Source giving EU optimum leverage	Trade	Technical Assistance	-	-	-
Wood-based industry as percentage of GDP ⁴⁶	0.4	0.5% ⁴⁷	<0.1%	0.5	-
Importance of wood-based exports	Increasing	Modest	Negligible	-	
“Forest” area (million hectares) ⁴⁸	53 ⁴⁹	540 ⁵⁰	50 ⁵¹	11 ⁵²	8 ⁵³
Certification	Substantial ⁵⁴	Substantial ⁵⁵	-	-	-
TI 2005 Corruption Perceptions Index ⁵⁶	117	62	55	117	-

⁴⁰ “Annual Review and Assessment of the World Timber Situation 2004” by ITTO (data for 2004).

⁴¹ “State of the World’s Forest 2005” by FAO (2002 data). Note that this figure is probably less robust than that of the ITTO (see footnote above).

⁴² “State of the World’s Forest 2005” by FAO (2002 data).

⁴³ 2 million m³ – “State of the World’s Forest 2005” by FAO (2002 data) and 3 million m³ (of which 2 million m³ is tropical) – “Annual Review and Assessment of the World Timber Situation 2004” by ITTO (data for 2004).

⁴⁴ “State of the World’s Forest 2005” by FAO (2002 data) cites 0.9 million cubic metres for all timber but “Annual Review and Assessment of the World Timber Situation 2004” by ITTO cites 1.2 million cubic metres (and 1.5 million cubic metres for 2002) for tropical timber and 1.6 million cubic metres for all timber.

⁴⁵ “State of the World’s Forest 2005” by FAO (2002 data).

⁴⁶ http://www.fao.org/documents/show_cdr.asp?url_file=/docrep/006/j2459e/j2459e07.htm (data for years around the period 1999/2000).

⁴⁷ For all the country’s output, not just tropical timber.

⁴⁸ See Glossary – this statistic can be misleading.

⁴⁹ “State of the World’s Forest 2005” by FAO (2000 data). Note that of this, 29 million hectares are said to be production forest – see http://www.itto.or.jp/live/Live_Server/1051/Tomasselli%20-STCP.pps – and less than 10 million hectares is actively managed – see <http://www.rainforest-alliance.org/news/2005/bolivia.html>.

⁵⁰ “State of the World’s Forest 2005” by FAO (2000 data). Note that 410 million hectares of this is in the Amazon Basin – see http://www.panda.org/news_facts/newsroom/news.cfm?uNewsId=2668&uLangId=1 – and of this 250 million hectares is said to be production forest – see http://www.itto.or.jp/live/Live_Server/1051/Tomasselli%20-STCP.pps.

⁵¹ “State of the World’s Forest 2005” by FAO (2000 data). Of this a little over 10% is said to be production forest – see http://www.itto.or.jp/live/Live_Server/1051/Tomasselli%20-STCP.pps.

⁵² “State of the World’s Forest 2005” by FAO (2000 data). Of this, one third is said to be production forests – see http://www.itto.or.jp/live/Live_Server/1051/Tomasselli%20-STCP.pps.

⁵³ “State of the World’s Forest 2005” by FAO (2000 data).

⁵⁴ <http://www.tropicalforesttrust.com/projects/bolfor.htm>.

⁵⁵ During 2004, the total area certified reached 1.8 million hectares – see http://www.americas.org/item_18523. Of this, 1.2 million hectares was certified to FSC standard – see http://www.fsc.org/en/whats_new/news/news/16. The area certified includes community forest – see http://www.panda.org/about_wwf/what_we_do/forests/news/news.cfm?uNewsID=16910. Supplies of products having the specification and delivery sought by prospective importers are lagging behind demand.

⁵⁶ <http://www.transparency.org/cpi/2005/cpi2005.sources.en.html#cpi> Ranking: 1= least corrupt, 158 = most corrupt.

Table 6: Summary of salient information for 5–10 countries in Amazon Basin

	Guyana	Paraguay	Peru	Suriname	Venezuela
Timber exports in 2004 (million cubic metres RWE)	0.2	0.2	0.2	c0.02	c0.02
Of which to EU	20%	20% ⁵⁷	10%	-	-
Other destinations	India, USA ⁵⁸	Brazil, China ⁵⁹	-	-	-
Main EU destinations	UK	Italy	Italy, Spain	-	-
Percentage assumed illegal ⁶⁰	-	- ⁶¹	80%	-	-
Drivers of illegal timber	Poor Governance	Poor Governance	Poor Governance	-	-
Industrial roundwood production (million cubic metres)	0.25 ⁶²	4 ⁶³	1.2 ⁶⁴	0.15 ⁶⁵	1.4 ⁶⁶
Percentage net exports	C80%	5%	10%	10%	<5%
Source giving EU optimum leverage	Technical Assistance	Technical Assistance	Technical Assistance	Technical Assistance	-
Wood-based industry as % of GDP ⁶⁷	-	0.9%	0.1%	-	<0.1%
Importance of wood-based exports	Considerable	-	-	-	Negligible
“Forest” area (million hectares) ⁶⁸	17 ⁶⁹	23 ⁷⁰	65 ⁷¹	14 ⁷²	50 ⁷³
Certification	Starting ⁷⁴				
TI 2005 Corruption Perceptions Index ⁷⁵	117	144	65	78	130

⁵⁷ Mainly as flooring.

⁵⁸ India 30%, USA 40%. Plywood is particularly prominent in Guyana’s timber exports.

⁵⁹ Brazil 20%, China (including Hong Kong) 40%.

⁶⁰ See sources cited in http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf.

⁶¹ No published estimate – but, like that of its neighbours, it might be substantial, especially given Paraguay’s very low ranking in the TI Corruption Perceptions Index.

⁶² “Annual Review and Assessment of the World Timber Situation 2004” by ITTO. Note that much of this may have been produced by East Asian logging enterprises, which were granted several years of tax holiday on procuring large concessions prior to the country having set up a network of conservation areas – see <http://www.panda.org/news/press/news.cfm?id=1974>.

⁶³ “State of the World’s Forest 2005” by FAO (2002 data).

⁶⁴ “Annual Review and Assessment of the World Timber Situation 2004” by ITTO.

⁶⁵ “Annual Review and Assessment of the World Timber Situation 2004” by ITTO.

⁶⁶ “Annual Review and Assessment of the World Timber Situation 2004” by ITTO. This figure includes 0.6 million cubic metres of tropical timber.

⁶⁷ http://www.fao.org/documents/show_cdr.asp?url_file=/docrep/006/j2459e/j2459e07.htm (data for years around the period 1999/2000).

⁶⁸ See Glossary – this statistic can be misleading.

⁶⁹ “State of the World’s Forest 2005” by FAO (2000 data). State forest covers c13 million hectares and almost half the forest area is allocated as logging or conservation concessions – see <http://www.landofsixpeoples.com/news02/ns203182.htm>.

⁷⁰ “State of the World’s Forest 2005” by FAO (2000 data).

⁷¹ “State of the World’s Forest 2005” by FAO (2000 data).

⁷² “State of the World’s Forest 2005” by FAO (2000 data).

⁷³ “State of the World’s Forest 2005” by FAO (2000 data) Of this one third is said to be production forest – see http://www.itto.or.jp/live/Live_Server/1051/Tomasselli%20-STCP.pps.

⁷⁴ <http://www.landofsixpeoples.com/news403/nk407173.htm>.

If the EU and the USA shared a common commitment towards minimising their respective imports of illegal timber from this region, they (the EU and the USA) could probably exert greater leverage in combating trade in illegal timber from the region than they could by working on their own.

The region has a bad reputation for law and order, particularly in Brazil's Amazon forest. This probably depresses the willingness of the market to import from the region. After some particularly unsavoury incidents, Brazil's reputation improved somewhat during 2005, but it is unclear whether the change will be short-lived.⁷⁶

4.1. Country-specific comments relating to the forecasts and to trade in illegal timber

Bolivia

Bolivia is said to have 53 million hectares of forest,⁷⁷ and of this almost 29 million hectares is deemed production forest.⁷⁸ However, it appears that less than ten million hectares of the total is formally managed.⁷⁹

Given that Bolivia's population is about eight million and its GDP/capita is quite low, it is likely that Bolivia's annual production of timber is nearer 650,000 cubic metres⁸⁰ than eight million cubic metres.⁸¹

During recent years, Bolivia has tended to export an RWE volume less than roughly 100,000 cubic metres, primarily as sawn wood but also as joinery products such as doors, mainly to the USA.

Progress towards FSC or equivalent certification is good within Bolivia. This is particularly due to the (part-funded by USAID) Bolfor project, which covers some two million hectares.⁸²

Consequently, given that the EU has tended to import annually an RWE volume less than 10,000 cubic metres, there would appear to be potential to import rather more.

It would seem fair nowadays to describe Bolivia as exemplary in its efforts to enhance governance in its forest-timber sector. These efforts include making its law equitable, simple, unambiguous and accessible.⁸³

This is despite having a very poor ranking in Transparency International's Corruption Perceptions Index⁸⁴ – which indicates that one can work successfully with corrupt countries towards sustainable forest management.

⁷⁵ <http://www.transparency.org/cpi/2005/cpi2005.sources.en.html#cpi> Ranking: 1= least corrupt, 158 = most corrupt.

⁷⁶ During 2005, the Brazilian government chose to enforce its own laws rather more rigorously than normal in the Brazilian Amazon forest, in response both to the murder of a nun supporting peasants and to an exposé of high level links between the soya industry and illegal logging – see <http://www.guardian.co.uk/international/story/0,,1450655,00.html> and <http://www.greenpeace.org/international/news/brazilian-federal-police>

⁷⁷ “State of the World's Forest 2005” by FAO (2000 data).

⁷⁸ http://www.itto.or.jp/live/Live_Server/1051/Tomasselli%20-STCP.pps.

⁷⁹ <http://www.rainforest-alliance.org/news/2005/bolivia.html>.

⁸⁰ “Annual Review and Assessment of the World Timber Situation 2004” by ITTO (data for 2004).

⁸¹ “State of the World's Forest 2005” by FAO (2002 data).

⁸² <http://www.tropicalforesttrust.com/projects/bolfor.htm>.

⁸³ http://www.illegal-logging.info/papers/emerging_best_practice.pdf.

Brazil

Brazil is said to have some 540 million hectares of forest.⁸⁵ Of this roughly 410 million hectares is in the Amazon region⁸⁶ but only 120 million hectares is deemed production forest.⁸⁷

Brazil's timber production probably amounts to just over 100 million cubic metres. Tropical timber accounts for about 30 million cubic metres during 2004.⁸⁸ Almost half this is logged in the state of Para.⁸⁹

The RWE volume of Brazil's exports of tropical timber have more than doubled since the late 1990s, and reached approximately 5.8 million cubic metres during 2004. The EU accounts for about half of the total and the USA accounts for a further 30%. China's share in the total has increased rapidly, and amounted to about 10% of the total RWE volume in 2003 and 2004 – not least to supply cheap (often illegal) raw material for the wooden flooring market in China and beyond. Canada and Hong Kong are also major destinations for Brazil's tropical timber exports.

China and Hong Kong accounted for a third of the RWE volume of Brazil's tropical sawn wood exports during 2004. The EU (primarily France, the Netherlands and Spain) accounted a little over half the almost two million cubic metre total.

Plywood accounted for two thirds of the RWE volume of the USA's tropical timber imports from Brazil in 2004. Plywood and sawn wood each accounted for a third of the EU total – mouldings and joinery accounted for a further 20%.

Of the RWE volume of (tropical) plywood, mouldings and joinery, which the EU imported from Brazil during 2004, the UK accounted for almost half the plywood and a third the joinery, and together France and the Netherlands accounted for two thirds of the mouldings.

The USA and the EU each accounted for about one quarter of the two million cubic metre RWE volume of tropical plywood that Brazil exported during 2004.

This indicates that France, the Netherlands and the UK should have lead roles in EU efforts to combat illegal exports from Brazil and in promoting sustainable forest management in Brazil. France and the Netherlands should take the lead in the sawn wood and mouldings sectors, and the UK should take the lead in the plywood and joinery sectors.

A substantial quantity of timber deriving from forest that is certified to FSC or equivalent standard is being exported from Brazil. However, demand exceeds supply (and deliveries into the EU are not always timely) and the proportion of such certified timber accounts for a small proportion of Brazil's timber exports.

The area of Brazil's tropical forest that is certified as being sustainably managed is increasing rapidly. During 2004, the total area certified reached 1.8 million hectares.⁹⁰ Of this

⁸⁴ <http://www.transparency.org/cpi/2004/cpi2004.en.html#cpi2004>. Note that Ecuador, and Paraguay, Venezuela have very low CPI rankings.

⁸⁵ "State of the World's Forest 2005" by FAO (2000 data).

⁸⁶ http://www.panda.org/news_facts/newsroom/news.cfm?uNewsId=2668&uLangId=1.

⁸⁷ http://www.itto.or.jp/live/Live_Server/1051/Tomasselli%20-STCP.pps.

⁸⁸ "Annual Review and Assessment of the World Timber Situation 2004" by ITTO, and http://www.atibt.com/pdf/atibt_5oct_Forum_programme_AndreEugenio.pdf and also http://www.imazon.org.br/upload/ea_2e.pdf.

⁸⁹ http://www.imazon.org.br/upload/ea_4e.pdf.

1.2 million hectares was certified to FSC standard.⁹¹ The area certified includes community forest.⁹²

There is a wide range of estimates for the proportion of illegal timber in Brazil's tropical timber exports. Relevant law has recently changed, which accounts for why some feel it appropriate to use a much lower proportion than the previously recognised norm – 20% instead of 80%. However, the new law appears not to be integrated with other laws. It has also increased land speculation and associated difficulties concerning land tenure.⁹³ Cuts in government budgets have contributed to much of the Amazon being almost lawless⁹⁴ – which compounds the difficulties of those who seek to trade in legal timber or to produce timber from sustainably managed forest. It should also make one suspect that the proportion of illegal (tropical) timber being exported from Brazil is high.

The proportion of illegal timber used in this report for the forecasts – 47% – is based on comparison of actual log production with the volumes of production for which advance approval had been given.⁹⁵

During the 1990s, the Brazilian government found that most concession management plans and logging rights included some form of irregularity and that they should be revoked.⁹⁶ Also during the 1990s, a number of Malaysian and Chinese enterprises sought to negotiate access to timber resources in Brazil's Amazon region.⁹⁷ A number of East Asian companies have logging and milling operations in the region.⁹⁸

Colombia

Colombia is said to have 50 million hectares of forest.⁹⁹ Of this, a little over 10% is deemed to be production forest.¹⁰⁰

Colombia's timber production probably amounts to between two¹⁰¹ and three¹⁰² million cubic metres. Colombia's production of tropical timber is on a rising trend and may have exceeded two million cubic metres during 2004.¹⁰³

During recent years, Colombia has tended to export an RWE volume of tropical timber of the order of 50,000 cubic metres, primarily as plywood (to Venezuela and the USA) and as teak logs to India. Thus, the great majority of Colombia's tropical timber production enters end-use within Colombia.

⁹⁰ http://www.americas.org/item_18523.

⁹¹ http://www.fsc.org/en/whats_new/news/news/16.

⁹² http://www.panda.org/about_wwf/what_we_do/forests/news/news.cfm?uNewsID=16910.

⁹³ http://www.imazon.org.br/upload/ea_4e.pdf.

⁹⁴ <http://www.greenpeace.org/raw/content/international/press/reports/amazon-under-seige.pdf>.

⁹⁵ http://www.imazon.org.br/upload/forest_facts_2003_v4a.pdf but see also

http://research.yale.edu/gisf/assets/pdf/tfd/logging/presents/TFD_illegal_logging_Smeraldi_presentation.ppt and

<http://www.iied.org/NR/forestry/documents/Brazil.pdf>.

⁹⁶ <http://www.regenwald.org/pdf/JointReport.pdf>.

⁹⁷ <http://www.forestsmonitor.org/reports/highstakes/part4b.htm>.

⁹⁸

<http://66.102.9.104/search?q=cache:imqUHMgbb84J:nanxing.en.alibaba.com/aboutus.html+%22China+Forestry+import+and+export%22&hl=en> and also <http://anxin-flooring.en.alibaba.com/>.

⁹⁹ "State of the World's Forest 2005" by FAO (2000 data).

¹⁰⁰ http://www.itto.or.jp/live/Live_Server/1051/Tomasselli%20-STCP.pps.

¹⁰¹ "State of the World's Forest 2005" by FAO (2002 data).

¹⁰² "Annual Review and Assessment of the World Timber Situation 2004" by ITTO.

¹⁰³ "Annual Review and Assessment of the World Timber Situation 2004" by ITTO.

The EU imports no significant volumes of timber from Colombia and is unlikely to do so. Given that the Colombian government does not have control over much of the country, one might expect the proportion of illegal timber in trade to be high.

Ecuador

Ecuador is said to have 11 million hectares of forest.¹⁰⁴ Of this, one third is deemed to be production forest.¹⁰⁵

During 2004, Ecuador is likely to have produced approximately one million cubic metres of tropical timber.¹⁰⁶

During recent years, Ecuador has tended to export an RWE volume of approximately 200,000 cubic metres, primarily as plywood, mainly to the USA

The EU, having imported an RWE volume of about 3,000 cubic metres of tropical timber from Ecuador in 2003, has very little leverage through trade over the legality and sustainability of Ecuador's forest and tropical timber sectors.

French Guyana

French Guyana is said to have eight million hectares of forest and to have produced some 60,000 cubic metres of timber during 2002 for end-use within French Guyana.¹⁰⁷

French Guyana does not appear to export timber. This may be because French Guyana is administered by France.

Guyana

Guyana is said to have 17 million hectares of forest.¹⁰⁸

During 2004, Guyana is likely to have produced approximately 250,000 cubic metres of tropical timber.¹⁰⁹

During recent years, Guyana has tended to export an RWE volume of approximately 200,000 cubic metres, (particularly as plywood). The USA imports roughly half that amount. The EU accounts for about a quarter. The Netherlands and the UK account for most of this.

Some, if not most, of this might derive from the operations of East Asian logging enterprises, which negotiated large forest concessions (whose output would be free of tax for several years) from the government prior to the country having even a basic network of protected areas.¹¹⁰

Paraguay

¹⁰⁴ "State of the World's Forest 2005" by FAO (2000 data).

¹⁰⁵ http://www.itto.or.jp/live/Live_Server/1051/Tomasselli%20-STCP.pps.

¹⁰⁶ "State of the World's Forest 2005" by FAO (2002 data) cites 0.9 million cubic metres for all timber but "Annual Review and Assessment of the World Timber Situation 2004" by ITTO cites 1.2 million cubic metres (and 1.5 million cubic metres for 2002) for tropical timber and 1.6 million cubic metres for all timber.

¹⁰⁷ "State of the World's Forest 2005" by FAO (2000 data).

¹⁰⁸ "State of the World's Forest 2005" by FAO (2000 data).

¹⁰⁹ "Annual Review and Assessment of the World Timber Situation 2004" by ITTO.

¹¹⁰ <http://www.panda.org/news/press/news.cfm?id=1974>.

Paraguay is said to have 23 million hectares of forest.¹¹¹

Paraguay may annually produce of the order of four million cubic metres of timber.¹¹²

During recent years, Paraguay has tended to export an RWE volume of approximately 200,000 cubic metres. Brazil and Hong Kong are the destinations for most of those exports, and the EU accounts for about 30,000 cubic metres.

The EU's imports are primarily for wooden flooring. Italy accounted for more than half of this.

Peru

Peru is said to have 65 million hectares of forest.¹¹³

During 2004, Peru produced some 1.2 million cubic metres of (tropical) timber.¹¹⁴

Since 2002, Peru has annually exported an RWE volume of almost 200,000 cubic metres. The USA accounts for two thirds of this, Hong Kong accounts for 15% and the EU accounts for between 10% and 20%.

In other words, the RWE volume of the EU's imports comprise a very small proportion (about 2%) of Peru's timber production.

Suriname

Suriname has 14 million hectares of forest.¹¹⁵

Suriname's annual timber production is approximately 150,000 cubic metres.¹¹⁶

During recent years, Suriname has tended to export an RWE volume of tropical timber of the order of 10,000 cubic metres, predominantly to China (which seeks to clear forest ostensibly for a palm oil estate¹¹⁷) and the Netherlands. Thus, the great majority of Suriname's tropical timber production enters end-use within Suriname.

The Netherlands, having historic ties to Suriname, is likely to maintain its current low level of imports.

Elements within government have resisted offers to grant large logging concessions to inward investors, no doubt partly recognising that the government lacks the capacity to maximise revenue from, or monitor, such operations.¹¹⁸

Venezuela

Venezuela is said to have almost 50 million hectares of forest.¹¹⁹ Of this, one third is deemed to be production forest.¹²⁰

¹¹¹ "State of the World's Forest 2005" by FAO (2000 data).

¹¹² "State of the World's Forest 2005" by FAO (2002 data).

¹¹³ "State of the World's Forest 2005" by FAO (2000 data).

¹¹⁴ "Annual Review and Assessment of the World Timber Situation 2004" by ITTO.

¹¹⁵ "State of the World's Forest 2005" by FAO (2000 data).

¹¹⁶ "Annual Review and Assessment of the World Timber Situation 2004" by ITTO.

¹¹⁷ <http://www.surinamenetwerk.org/documenten/Analysis%20Paper%20MEF%20rev2.pdf>.

¹¹⁸ <http://www.panda.org/news/press/news.cfm?id=1974>.

¹¹⁹ "State of the World's Forest 2005" by FAO (2000 data)

Venezuela's timber production amounted to roughly 1.4 million cubic metres during 2004. Of this some 600,000 was tropical timber.¹²¹

During the last few years, the RWE volume of Venezuela's annual exports of tropical timber has tended to be between 10,000 and 30,000 cubic metres

The EU imports no significant volumes of timber from Venezuela and is unlikely to do so.

5. The Baltic States

The Baltic States – Estonia, Latvia and Lithuania – acceded to the EU during 2004. They are the only supplying countries that are both covered in detail by this report and are Member States of the EU. They are included not least to indicate the scale of probable trade in illegal timber between EU countries (including that which derives from forest within the EU).

These three countries' timber and paper sectors account for a substantial share in their GDP and exports.¹²² Consequently, minimising illegal timber exports could have a substantial and beneficial impact on their economy (and governance).

Activities that contribute to the trade in illegal timber in the region include tax fraud, weak enforcement capacity and unsuitable legislation. Official statistics tend only to measure illegality in connection with log extraction, not economic crime. Mismatches in trade statistics, particularly if persistent, may indicate the scale of undeclared production or trade (both presumably illegal) but may also indicate the (lack of) thoroughness with which the administrative authorities gain and collate their statistics,¹²³ and differences in methods of measuring the volumes traded.

¹²⁰ http://www.itto.or.jp/live/Live_Server/1051/Tomasselli%20-STCP.pps.

¹²¹ “Annual Review and Assessment of the World Timber Situation” by ITTO.

¹²² See Table 6

¹²³ <http://www.panda.org/downloads/forests/balticillegalloggingreport.pdf> and also http://ld.panda.org/about_wwf/where_we_work/europe/problems/illegal_logging/Downloads/ILLEGAL%20LOGGING%20EASTERN%20EUROPE.pdf.

Table 7: The Baltic States: summary of salient information

	Estonia		Latvia		Lithuania	
	Timber Sector	Paper Sector	Timber Sector	Paper Sector	Timber Sector	Paper Sector
Timber exports in 2004 (million cubic metres RWE)	3.6	3.4	7.3	6.9	3.2 ¹²⁴	0.9
of which to EU	80%	80%	90%	95%	85%	95%
Other destinations	Norway	Norway	-	-	USA	-
Main EU destinations	Finland Germany Sweden UK	Finland Sweden	UK	Finland Sweden	Germany UK	Sweden
Percentage assumed illegal	40% ¹²⁵		20% ¹²⁶		(-) ¹²⁷	
Drivers of illegal timber ¹²⁸	Economic crime		Economic crime		Economic crime	
Industrial roundwood production (million cubic metres)	13 ¹²⁹ , 9 ¹³⁰		10 to 12 ¹³¹		4.9 ¹³² , 6.3 ¹³³	
Timber imports in 2004 (million cubic metres RWE)	2.9 ¹³⁴		2.4 ¹³⁵		2.1 ¹³⁶	
Percentage net exports	c40%		100% ¹³⁷		c30%	

¹²⁴ This total includes more wooden furniture – more than the total exported by Estonia and Latvia.

¹²⁵ A figure of 50% is more usually assumed – see http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf. That 50% figure was derived by assuming that production from state forest is legal and from research that suggested that 75% of production in non-state forest is illegal. However, given that Estonia is importing large and increasing quantities of timber from countries whose timber production is less illegal than pertains in Estonia, it seems that that 50% figure might be an overestimate. Hence the adoption of the notional figure of 40%.

¹²⁶ http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf The amount cited is in the middle of the estimated range published by the original source – http://www.wwf.dk/db/files/wwf_baltic_illegal_logging_report.pdf.

¹²⁷ No published estimate. A notional figure of 10% has been used – official figures (much smaller) do not reflect economic crimes (see http://www.wwf.dk/db/files/wwf_baltic_illegal_logging_report.pdf). Whether the figure should be zero or 20% (or more), the portrayal of the forecasts is unlikely to change significantly – the RWE volume which it exports is so much smaller than that exported by the other two countries of this region.

¹²⁸ For further information see pages 9 and 10 of http://www.wwf.dk/db/files/wwf_baltic_illegal_logging_report.pdf.

¹²⁹ Of this, 2.7 million cubic metres may have derived from state-owned forest. Given that Estonia's Annual Allowable Cut (see Glossary) is 8.5 million cubic metres, much of the timber which the country produces from non-state forest is clearly unsustainable.

¹³⁰ "State of the World's Forests 2005" by FAO (data for year 2002).

¹³¹ "Forest Sector in Latvia 2005" by Latvia's Forest Sector Information Centre. One third of this derives from state-owned forest and 0.7 million cubic metres comprises thinnings – see http://www.lvm.lv/eng/our_forests/. Annual Allowable Cut for the country as a whole is 8.35 million cubic metres whereas that for state forest is 4 million cubic metres – see http://www.innovasjon Norge.no/templates/Page_Meta___55336.aspx and http://www.lvm.lv/eng/for_press/press_releases/?doc=330 respectively.

¹³² "State of the World's Forest 2005" by FAO (data for the year 2002).

¹³³ <http://www.unece.org/trade/timber/mis/market/market-63/lithuania.pdf>. This total includes 3.6 million cubic metres from state-owned forest – the same amount as in every year since the mid 1990s.

¹³⁴ 80% deriving from Russia (mainly as logs).

¹³⁵ 30% from Belarus (illegal timber content assumed to be less than 10%); 50% deriving from Russia

¹³⁶ 30% from Belarus (illegal timber content assumed to be less than 10%); 20% deriving from Russia; most of these imports were of sawn wood.

¹³⁷ Errors in source statistics might explain this large percentage.

Table 7: Summary of salient information

	Estonia		Latvia		Lithuania	
	Timber Sector	Paper Sector	Timber Sector	Paper Sector	Timber Sector	Paper Sector
Source giving EU optimum leverage	Trade	Trade	Trade	Trade	Trade	Trade
Wood-based products as % of all exports	20% ¹³⁸		35% ¹³⁹		-	
Wood-based industry as % of GDP	5% ¹⁴⁰		10% ¹⁴¹		-	
Importance of wood-based exports	Substantial		Substantial		Substantial	
“Forest” area (million hectares)	2.2 ¹⁴²		3.0 ¹⁴³		2.0 ¹⁴⁴	
Certification	50% ¹⁴⁵		50% ¹⁴⁶		50% ¹⁴⁷	
TI 2005 Corruption Perceptions Index ¹⁴⁸	27		51		44	

Commendably, all state forests in the region are FSC certified. State forests account for about half of each of the three countries’ forests. However, state forests account for a rather smaller share of these countries’ timber production.

The process of restitution of forest to its former owners, which began when these countries regained sovereignty in 1990/1991, does not appear to be fully complete in either Lithuania or Estonia (especially where the forest area concerned is just a few hectares).¹⁴⁹ Unfortunately, exploitation of newly owned forest areas has tended to be intense and not infrequently illegal – to maximise short term gain¹⁵⁰ – and has been the focus of organised crime.¹⁵¹ Further, there is concern about who become the *de facto* owners of forest areas allocated during the process of restitution.¹⁵²

¹³⁸ <http://www.fas.usda.gov/ffpd/wood-circulars/mar2001psd/feature~articles.pdf>.

¹³⁹ http://www.lvm.lv/eng/for_press/press_releases/?doc=330.

¹⁴⁰ <http://www.mtk.ut.ee/orb.aw/class=file/action=preview/id=110174/febawb36.pdf>.

¹⁴¹ “Forest Sector in Latvia 2005” by Latvia’s Forest Sector Information Centre.

¹⁴² <http://www.panda.org/downloads/forests/finalanalysisestonia.pdf>. This figure includes conservation areas and 0.5 million hectares of small, fragmented units that await restitution and clarification of ownership.

¹⁴³ Of this, about half is state-owned and roughly three quarters is available for commercial exploitation – see http://www.innovasjon Norge.no/templates/Page_Meta___55336.aspx.

¹⁴⁴ <http://www.lietuvosmediena.lt/index.php?cid=443> and <http://www.rainforest-alliance.org/programs/forestry/smartwood/documents/lithuaniasfetelsiaifmpubsum04.pdf>. Of this 30% is protected or otherwise restricted.

¹⁴⁵ All 1.1 million hectares of state forest is FSC certified – see http://www.elfond.ee/alaleht.php?id_kategooria=143&keel=inglise.

¹⁴⁶ All state-owned forest and some privately owned forest is certified to FSC standard – see http://www.lvm.lv/eng/for_press/press_releases/?doc=331 and <http://www.rainforest-alliance.org/news/2001/latvia.html>.

¹⁴⁷ <http://www.unece.org/trade/timber/mis/market/market-63/lithuania.pdf>.

¹⁴⁸ <http://www.transparency.org/cpi/2005/cpi2005.sources.en.html#cpi> Ranking: 1= least corrupt, 158 = most corrupt.

¹⁴⁹ http://www.unece.org/trade/timber/docs/fpama/2005/2005_fpamr.pdf.

¹⁵⁰ http://www.illegal-logging.info/papers/Alliance_Investment_Safeguards_Final_report.pdf.

¹⁵¹ http://www.roheline.ee/forest/illegal_logging_estonia.doc.

¹⁵² http://www.fern.org/media/documents/document_3407_3410.pdf.

There is considerable foreign investment and operations in each country's forest-timber sector.¹⁵³ This foreign interest includes multi-national wood-based product companies based in Sweden¹⁵⁴ and Finland who have considerable expertise in the management of chains of raw material supply, in some cases up to the forest itself, and who also have a vested interest in minimising the risk that their product portfolios are contaminated by illegal timber. The Baltic States should seek the assistance of these enterprises so as to accelerate the development and widespread adoption of best practice in the region's timber sector, notably in improving the traceability of the chain of supply of wood from either forest or point of import to port of export.

It is particularly important that the governments of the region have clear policies that actively seek to promote the verification of such chains of supply (using credible certification systems).

A number of these companies import a substantial quantity of pulpwood from the Baltic States.¹⁵⁵

Timber exports from the Baltic States

The EU imports most of the region's wood-based product exports. There is some trade between the Baltic States themselves.

Of the roughly 14 million cubic metres RWE volume which the region exported to the **timber sector** in 2004, Latvia supplies approximately half, while Estonia and Lithuania each supply one quarter. The UK imported roughly one third of the total.

Of the roughly 11 million cubic metres RWE volume which the region exported to the **paper sector** in 2004, Latvia and Estonia supplied approximately 60% and 30% respectively, with Sweden importing almost two thirds of the total.

Although the proportion of illegal timber in Estonia's wood-based product exports may be rather higher than that for Latvia, because Latvia exports rather more than Estonia, the RWE volume of illegal timber which Estonia supplies is only a little greater than that which is supplied from Latvia.

The region's timber imports (at least some of which probably includes illegal timber) are substantial and on a strong rising trend, partly in response to the demand created by the large timber mills that have come into operation during recent years (some with foreign investment). Using illegal timber as raw material would of course jeopardise these mills' export business.

Forecasts and implications for the EU

Given the significance of the UK (timber sector) and Sweden (paper sector) in importing products from the Baltic States, any EU-wide effort to eliminate trade in illegal timber from the region should clearly seek the active participation of these two countries.

¹⁵³

http://www.exim.lv/pls/eximmain/exim_foreign?lang=2&katalogs=FLS&klinks=woodworking.html.

¹⁵⁴ http://www.taigarescue.org/_v3/files/pdf/23.pdf.

¹⁵⁵

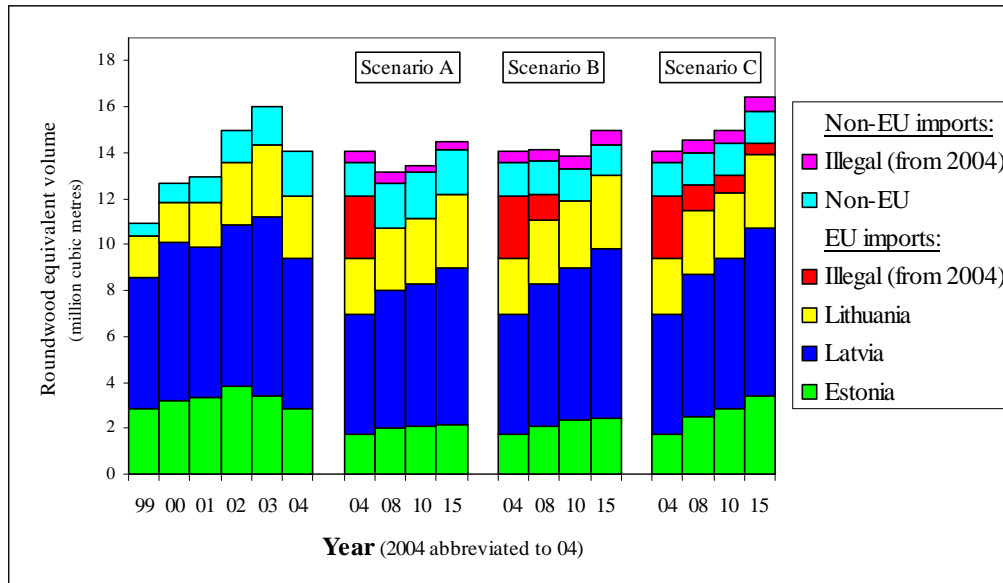
http://www.wwf.lv/doc_upl/Swedishreport.pdf?PHPSESSID=7611a209308e62bb45e4b0c347a49e09

Note: this report makes assumptions about the quantity of pulp logs exported – see Glossary (under Paper Sector).

Technical assistance provided with EU support could help the region minimise its imports of illegal timber, especially that from its main supplier – Russia. Russia supplied roughly three-quarters of the nearly six million cubic metres RWE volume of timber which the region imported from outside the EU. Belarus supplied almost one quarter.¹⁵⁶ An essential first step would be to establish a credible legality licence scheme with the Russian authorities.

In order to minimise illegal timber production within the EU (including the Baltic States), the EU should consider measures to promote good governance within its new member states and where feasible target these at the forest/timber sector.

Chart 6: Past trends and forecast exports – timber sector (by supplying country). (Note: chart does not show illegal timber for the period 1999–2004)

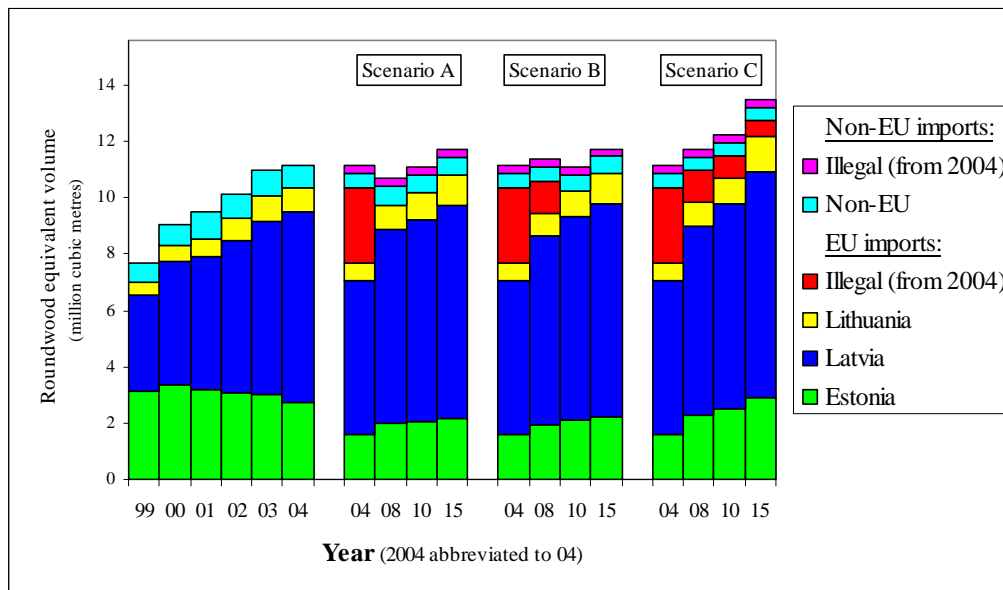


The scenarios shown in Chart 6 assume, for each of the three countries, that legal timber exports will increase throughout the period and that, by 2008, most of that growth, particularly that for Estonia and Latvia will be supplied from imports, primarily Belarus and especially in Scenario C, Russia. The scenarios also assume that production will decline in Estonia and Latvia to reflect the exhaustion of their forests, which is likely to follow the over-exploitation of recent years.

The gradual reduction in EU imports of illegal timber in Scenario C assumes that public procurement schemes such as those of the UK will become increasingly widespread within the EU and that pan-European timber trading and manufacturing enterprises will, increasingly, adopt policies that exclude illegal timber from their supply chains.

¹⁵⁶ Given the high degree of state control in Belarus, it is unlikely that Belarus exports much illegal timber, perhaps not more than 5% – the figure that (in lieu of published estimates) this report adopts for the year 2004.

Chart 7: Past trends and forecast exports – timber sector (by supplying country). (Note: chart does not show illegal timber for the period 1999–2004)



The forecasts shown in Chart 7 assume that the region’s exports to the EU will rise over the period. However, the forecasts also assume that production from the region’s forest will probably fall from 2004 levels due to forest exhaustion. The forecasts assume that the balance will be met by increased imports (notably from Russia and to a lesser extent Belarus). Note that the rate of growth illustrated during the period 2004 to 2015 is rather slower than that for the period 1999 to 2004.

The WWF Government Barometer¹⁵⁷ indicates that Lithuania would welcome participation in a scheme similar to the Voluntary Partnerships, which are being developed between the EU and a number of non-EU producer countries. Estonia and Latvia would do so but with some reservations. Unfortunately, none of these three countries has a procurement policy that permits public institutions to ensure the legality of their timber purchases.¹⁵⁸

5.1. Country-specific comments relating to the forecasts and to trade in illegal timber

Estonia

Estonia has 2.2 million hectares of forest, including conservation areas.¹⁵⁹ Of this, roughly 0.5 million hectares comprise small, fragmented units that await restitution and clarification of ownership.

All 1.1 million hectares of state forest is certified to FSC standard.¹⁶⁰ Currently, prospects for the certification of non-state forest are generally poor.¹⁶¹ A primary reason is the high cost per unit of area of certifying small forest holdings (which would of course be reduced if small woodland owner schemes were developed in parallel with supporting administrative infrastructure so as to encourage such certification). Other factors include the current over-exploitation of those (coniferous) species that are of current commercial interest,¹⁶² and the

¹⁵⁷ <http://www.panda.org/barometer/>.

¹⁵⁸ <http://www.panda.org/barometer/>.

¹⁵⁹ <http://www.panda.org/downloads/forests/finalanalysisestonia.pdf>.

¹⁶⁰ http://www.elfond.ee/alaleht.php?id_kategooria=143&keel=inglise.

¹⁶¹ not for citation: http://www.yale.edu/forestcertification/symposium/pdfs/estonia_symposium.pdf.

¹⁶² http://www.roheline.ee/forest/illegal_leaflet.pdf.

temptations of engaging in illegal business practice. Further, powerful timber industry interests are understood to be inhibiting government efforts to combat the production and trade of illegal timber.¹⁶³ That said, the forest of two (small) groups of forest owners has recently been certified to FSC standards. Further, such owners have expressed considerable interest in gaining such certification.¹⁶⁴

Total annual production of industrial roundwood from state and other forests was almost 13 million cubic metres during 2004,¹⁶⁵ of which roughly 2.7 million cubic metres may have derived from state forest.¹⁶⁶ Production has been at about this level since the late 1990s.¹⁶⁷ Given that the Annual Increment for the country as a whole is said to be some 8.5 million cubic metres,¹⁶⁸ the current level of production per unit of area from non-state forest seems far from sustainable.

The UK accounted for a quarter of the almost four million cubic metres RWE volume that Estonia exported to the Timber Sector during 2004. Most of the UK's imports were as sawn wood. Finland, Germany and Sweden each imported about 10% of the total.

Finland and Sweden imported three quarters of the almost four million cubic metres RWE volume of pulpwood which Estonia exported during 2004. Norway imported about 15% of the total.

During 2004, the RWE volume of Estonia's timber imports (nearly three million cubic metres) was approximately 40% of the RWE volume of Estonia's wood-based product exports (and a rather higher percentage of the exports of Estonia's Timber Sector). With such a high proportion, efforts to minimise the percentage of illegal timber in Estonia's exports should focus particularly on establishing, through legality licence, the legality of those imports.

Russia accounted for almost 80% of the RWE volume that Estonia's Timber Sector imported during 2004. Logs and sawn wood respectively accounted for roughly 60% and 30% of those imports from Russia. Imports from Russia rose very strongly during 2003 and 2004.

There is substantial foreign investment in Estonia's timber processing industry.¹⁶⁹

The proportion of illegal timber in Estonia's production – 50%¹⁷⁰ – was estimated by assuming that production of illegal timber derives solely from non-state forest, almost three quarters of whose log production might be illegal.¹⁷¹ The figure is considerably higher than

¹⁶³ http://www.roheline.ee/forest/illegal_leaflet.pdf.

¹⁶⁴ <http://www.nepcon.net/index.php?nodeid=151&lang=en&article=41>.

¹⁶⁵ This amount differs markedly from that reported in the 2005 edition of the FAO's State of the World's Forests (8.57 million cubic metres).

¹⁶⁶ <http://www.panda.org/downloads/forests/finalanalysisestonia.pdf>.

¹⁶⁷ Not for citation: http://www.yale.edu/forestcertification/symposium/pdfs/estonia_symposium.pdf.

¹⁶⁸ <http://www.efi.fi/publications/proceedings/19.html>.

¹⁶⁹

<http://www.investinestonia.com/index.php?option=displaypage&Itemid=115&op=page&SubMenu=>
<http://www.compiler.fi/tradestation/finland/bizfinland/pressreleases/2005/March/03.2005-pr8.html>.

¹⁷⁰ http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf.

¹⁷¹ http://www.taigarescue.org/_v3/files/pdf/48.pdf and also

http://www.roheline.ee/forest/illegal_logging_estonia.doc and also

http://ld.panda.org/about_wwf/where_we_work/europe/problems/illegal_logging/Downloads/ILLEGA%20LOGGING%20EASTERN%20EUROPE.pdf.

estimates of illegal logging *per se* (for example, 1%)¹⁷² which do not take into account such things as criminality associated with the non-state forest sector.

However, using 50% may overestimate Estonia's illegal timber exports not least because a high proportion of those exports are likely to derive from timber imported from countries whose timber exports are assumed to include a lower percentage of illegal timber – for example 27% for imports from Russia. It may also do so if production from state forest accounts for a higher proportion of exports than it does of national production.

Reflecting this, this report assumes that 40% of Estonia's wood-based product exports comprise illegal timber.

The Kunda Pulp mill¹⁷³, which is due to commence operations in 2006, will increase demand in Estonia by some 0.4 million cubic metres. Although substantial, this is unlikely to have a major impact on the exports of timber or pulpwood from Estonia, not least because it uses Aspen, a species that does not account for a substantial share in Estonia's timber or pulpwood exports (but which has important natural value in parts of Estonia). Further, the developer (Estonia Cell, with support from the EBRD)¹⁷⁴ has guaranteed that pulpwood supplied to the mill will be legal and that, within three years of commencing production, 50% must also be certified to FSC standards.¹⁷⁵ The developer anticipates importing pulpwood for this. However, particular care will be needed to exclude illegal timber, especially from Russia. The mill should be closed down, without compensation to the owners and without loss to the EBRD, if it does not meet these preconditions.

The forecast assumes that end-user consumption of timber in Estonia will rise a little and that imports (including of illegal timber) will rise as a consequence. The forecast also assumes that production in non-state forest will fall gradually at first, then faster for the next few years – to reflect availability,¹⁷⁶ which will decline as the impact of current over-exploitation becomes more apparent, and also the negative perceptions about Estonia's laws (and their inequitable application) – and will ultimately start to rise once the legal regime has improved.

Latvia

Latvia has just under three million hectares of forest. Of this, roughly three quarters is available for commercial exploitation and about half is state-owned.¹⁷⁷ The remaining half is owned by individuals, enterprises, local government and the church,¹⁷⁸ the latter two of which one might expect to be particularly interested in sustainable forest management. The total area of Latvia's forest is on a rising trend, primarily as abandoned land becomes forested.¹⁷⁹

All state forest is certified to FSC standard.¹⁸⁰ A small but increasing proportion of other forest is certified to either FSC¹⁸¹ or PEFC¹⁸² standard.

¹⁷² http://www.unece.org/trade/timber/docs/sem/2004-1/full_reports/Estonia.pdf and also <http://www.envir.ee/66762> and also <http://www.illegal-logging.info/news.php?newsId=893>.

¹⁷³ <http://www.sveeb.ee/ecell/index.php?page=13&lang=eng> and also http://www.roheline.ee/baltic/pulp_paper.pdf.

¹⁷⁴ (European Bank for Reconstruction and Development) <http://tal.ebrd.com/pubs/general/6388c.pdf> see also <http://www.tolaram.ee/index.php/15459/> and also http://www.rzb.at/eBusiness/rzb_template1/0,6589,1026359884948-1026067948581_108124926759646208-153411630224259432-NA-NA-NA,00.html.

¹⁷⁵ not for citation: http://www.yale.edu/forestcertification/symposium/pdfs/estonia_symposium.pdf.

¹⁷⁶ not for citation: http://www.yale.edu/forestcertification/symposium/pdfs/estonia_symposium.pdf.

¹⁷⁷ http://www.innovasjon Norge.no/templates/Page_Meta___55336.aspx.

¹⁷⁸ "Forest Sector in Latvia 2005" by Latvia's Forest Sector Information Centre.

¹⁷⁹ "Forest Sector in Latvia 2005" by Latvia's Forest Sector Information Centre.

¹⁸⁰ http://www.lvm.lv/eng/for_press/press_releases/?doc=331.

Total annual production of industrial roundwood from state and other forests appears to have reached a plateau – fluctuating between 10 and 12 million cubic metres for the last five or so years – having increased strongly during the 1990s.¹⁸³ A third of Latvia’s current production derives from state forests¹⁸⁴ (0.7 million cubic metres of this comprised thinnings).¹⁸⁵

Current production is some 25% less than the current Annual Increment in standing stock (16 million cubic metres¹⁸⁶). The Annual Increment for state forest is seven million cubic metres.¹⁸⁷ Although the Annual Allowable Cut (“AAC”)¹⁸⁸ is 8.35 million cubic metres for the country as a whole, it is said that commercial production might stabilise at 10 million cubic metres.¹⁸⁹ The AAC for state forest is four million cubic metres.¹⁹⁰

Comparison of production with AAC and Annual Increment tends to confirm that production might be close to, or in excess of, rates commensurate with sustainable forest management.¹⁹¹

Belarus and Russia account for about 80% of the two million cubic metres RWE volume that Latvia’s Timber Sector imported during 2004. Sawn wood accounts for the great majority of the total from Belarus. Logs and sawn wood each comprised about half the total from Russia.

The UK imported about half of the seven million cubic metres RWE volume that Latvia exported to the Timber Sector during 2004. The UK did so mainly as sawn wood.¹⁹²

Sweden imported almost three-quarters of the roughly seven million cubic metres RWE volume of pulpwood that Latvia exported during 2004.¹⁹³

Foreign investment – particularly Swedish, Finnish and British – is significant in Latvia’s Timber Sector. In the Paper Sector, foreign companies (primarily Swedish/Finnish – both manufacturers and traders) are actively engaged in the supply of pulpwood exports from Latvia.

The proportion of illegal timber in Latvia’s exports to the Timber Sector assumed in this report is 20%.¹⁹⁴ This figure is considerably higher than estimates of illegal logging *per se* but less than the volume produced using informal labour.¹⁹⁵ Concerning the Paper Sector, the sum of RWE volumes derived from importing country declarations indicate that imports from Latvia exceed the sum of Latvia’s production and imports – this warrants further study.

¹⁸¹ <http://www.rainforest-alliance.org/news/2001/latvia.html>.

¹⁸² <http://www.pefc.cz/register/statistics.asp> PEFC is the abbreviation of the Programme for the Endorsement of Forest Certification.

¹⁸³ “Forest Sector in Latvia 2005” by Latvia’s Forest Sector Information Centre.

¹⁸⁴ “Forest Sector in Latvia 2005” by Latvia’s Forest Sector Information Centre.

¹⁸⁵ http://www.lvm.lv/eng/our_forests/.

¹⁸⁶ “Forest Sector in Latvia 2005” by Latvia’s Forest Sector Information Centre. Note however that in 1996 the Annual Increment was 13 million cubic metres – see <http://www.fris.sk/Phare/Projects/ManagementOfForestInEurope/PDF/annex1.pdf>.

¹⁸⁷ http://www.lvm.lv/eng/our_forests/.

¹⁸⁸ See Glossary (under Annual Increment and Annual Allowable Cut).

¹⁸⁹ http://www.innovasjon Norge.no/templates/Page_Meta___55336.aspx.

¹⁹⁰ http://www.lvm.lv/eng/for_press/press_releases/?doc=330.

¹⁹¹ See Glossary (under Annual Increment and Annual Allowable Cut).

¹⁹² See also <http://www.latviantimber.lv/latviantimber/lapas%20anglu/timberexport.htm>.

¹⁹³ See Glossary (under Paper Sector).

¹⁹⁴ http://www.illegal-logging.info/papers/Illegal_logging_in_Baltic_Sea_region.pdf as cited in http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf.

¹⁹⁵ http://www.illegal-logging.info/papers/Alliance_Investment_Safeguards_Final_report.pdf.

Latvia is already actively seeking to improve governance within its forest/timber sector,¹⁹⁶ and this may well warrant a reduction in future estimates of the proportion of illegal timber (produced from forest in Latvia) that Latvia exports.

The proposed Baltic Pulp mill would require an increase in log production of about 20% (if current flows of pulpwood exports are not redirected to this mill).¹⁹⁷ This may increase the quantity and proportion of illegal timber produced in, or imported into, Latvia. This report assumes that the mill will not be built.

The forecast assumes that end-user consumption of timber in Latvia will rise a little, that production will remain steady (production increasing in state forest and decreasing to more sustainable levels elsewhere) and that exports (particularly of plywood) will increase somewhat (the increase being supplied mainly by increased imports).

Lithuania

Lithuania has 2.0 million hectares of production forest of which some 30% is either protected or available for only restricted logging.¹⁹⁸ All one million hectares of state forest has been certified to FSC standard.¹⁹⁹

Annual production of industrial roundwood was 6.3 million cubic metres in 2004²⁰⁰ – down slightly on the figure for 2003 (the highest level for several decades). Of this, 3.6 million cubic metres derived from state forests.²⁰¹ Production from state forest has remained at about that level since the mid-1990s; production from non-state forest grew strongly from the end of the 1990s.

Production appears to be a little over half of the Annual Increment.²⁰² However, one should not infer from this that production is lower than that commensurate with sustainable forest management.

Belarus and Russia account for roughly half of the two million cubic metres RWE volume that Lithuania's Timber Sector imported during 2004. Sawn wood accounts for roughly two thirds of the total from Belarus and almost all that from Russia. During 2002, most of Lithuania's log imports from Belarus are understood to have been pulpwood, for onward export to Sweden.²⁰³

¹⁹⁶ Notably through a change in taxes applicable to private forest owners.

¹⁹⁷ http://www.illegal-logging.info/papers/Alliance_Investment_Safeguards_Final_report.pdf.

Note however that most of the redirected pulpwood would otherwise probably have been exported to Sweden – including for use by companies that compete with the Finnish group that is promoting the mill. The financial and environmental cost of providing the mill with electric power might be substantial. The mill would primarily serve export markets – where it would have to compete against some of the world's largest pulp suppliers (and the small new pulp mill in Estonia).

¹⁹⁸ <http://www.lietuvosmediena.lt/index.php?cid=443> and <http://www.rainforest-alliance.org/programs/forestry/smartwood/documents/lithuaniasfetelsiaifmpubsum04.pdf>.

¹⁹⁹ <http://www.unece.org/trade/timber/mis/market/market-63/lithuania.pdf>.

²⁰⁰ <http://www.unece.org/trade/timber/mis/market/market-63/lithuania.pdf>.

Note however that this differs markedly from the figure given in the 2005 edition of the FAO's State of the World's Forest (4.86 million cubic metres).

²⁰¹ <http://www.unece.org/trade/timber/mis/market/market-63/lithuania.pdf>.

²⁰² <http://www.fris.sk/Phare/Projects/ManagementOfForestInEurope/PDF/annex1.pdf> see also

<http://www.latviantimber.lv/latviantimber/lapas%20anglu/forest%20resources.htm>

<http://www.efi.fi/fine/resources/increment.html> and Glossary (under Annual, Increment).

²⁰³ <http://www.unece.org/trade/timber/mis/market/market-61/lithuania.pdf>.

In contrast to Estonia and Latvia where there has been a major expansion in saw milling capacity, wooden furniture accounts for a substantial share in Lithuania's Timber Sector exports. Lithuania's wooden furniture exports are rising strongly, and their RWE volume reached just under 500,000 cubic metres during 2004.

Germany and the UK each accounted for about 20% of the roughly three million cubic metres that Lithuania exported to the Timber Sector during 2004. They did so primarily as sawn wood.

In addition, Sweden imported some two thirds of the roughly one million cubic metres RWE volume of pulpwood that Lithuania exported during 2004.

For want of a suitable estimate published by others,²⁰⁴ the proportion of illegal timber in Lithuania's exports to the Timber Sector during 2004 assumed solely for forecasting purposes in this report is 10%.²⁰⁵

Comparing Lithuania's wood-based product exports with production and imports indicates that exports account for the minority of production.

This report assumes that both end-user consumption within Lithuania and production will increase gradually, with the necessary increased supply met primarily from a rise in imports.

Although there was a proposal to construct a large (500,000 tonne/year) pulp mill in about 2001,²⁰⁶ the forecasts assume that no such mill will be operational during the period covered by this report.

6. The Congo Basin

The Congo Basin is defined here as Cameroon, Central African Republic, the Republic of Congo ("Congo (Brazzaville)"), the Democratic Republic of Congo ("Congo (Kinshasa)"), Equatorial Guinea and Gabon.

The Congo Basin, particularly Congo (Kinshasa), accounts for most of Africa's remaining primary rain forest.

Timber production and forest management in the Congo Basin

Industrial logging in the region has, since the colonial era, focused primarily on supplying export markets.²⁰⁷ Consequently, one might argue that these export markets (mainly in southern Europe and, since the mid-1990s, particularly China) have primary culpability for driving the norms of forest management in the region.

Progress towards certification to FSC or lesser standards in the Congo Basin will tend to increase the quantity of timber that the EU imports. Such progress is most evident amongst the handful of logging companies that appear to have long-term commitment to parts of the region.

²⁰⁴ http://www.wwf.dk/db/files/wwf_baltic_illegal_logging_report.pdf.

²⁰⁵ Official estimates of the proportion of illegal logging in Lithuania are less than half those for Latvia. However, economic crime – which is likely to be the primary source of illegality in Lithuania's timber exports (as it is elsewhere, including Estonia and Latvia) – is not included in these official estimates. The precise proportion is largely immaterial when forecasting future trends for the region as a whole – Lithuania exports least and the percentage assumed for its illegal exports is also least.

²⁰⁶ <http://www.ukmin.lt/index.php/en/industry/industry/pulp/>.

²⁰⁷ It has expanded in part to offset the decline in production from the Ivory Coast and Ghana, much of whose forest has been exhausted by over-exploitation.

However, for certification to be acceptable as evidence of sustainable forest management, social and environmental concerns (including the participation and support of affected local stakeholders) must be taken into account.²⁰⁸

Although an increasing number of concessionaires have forest inventories and management plans for their concessions,²⁰⁹ this tends to be a legal requirement and not necessarily an indication of commitment to sustainable forest management.²¹⁰

Logging concessions have tended to be allocated on the basis of political patronage, direct negotiation, or, more recently, through a competitive bidding process. The trend is towards competitive bidding, not least because the award process is likely to be more transparent.

Most of the relevant and available forest within the region – other than in Congo (Kinshasa) – either is, or has until fairly recently been, allocated as logging concessions. Most logging in those concessions has been carried out unsustainably. Consequently, these concessions are likely to yield (or have yielded) rather more timber than the subsequent rotation (if any) will.

Within the Cameroon, Equatorial Guinea and Gabon the longevity of current governance could foster sustainable forest management – to assure the availability of revenue-generating assets for subsequent generations. However, the underlying instability of these countries – attributable to poor governance structures, particularly in relation to the (export-oriented) extractive industries – militates against long-term considerations.²¹¹

Civil war or coups characterise the recent past of the Central African Republic, Congo (Brazzaville), and Congo (Kinshasa). During periods of instability, formal logging is likely to decline (thereby easing pressure on the forest). In subsequent periods, logging is likely to expand, not least to reward the loyal supporters of whoever gained power. In Congo (Kinshasa), there is concern that revenue from timber sales is fuelling conflict.²¹²

In recent years, China has become particularly influential (if not the dominant external power) in the region, and it is likely that at least some of the major logging companies that supply China are supported by China's diplomatic effort.²¹³

²⁰⁸ This is a requirement for FSC certification, which is why the FSC scheme is endorsed by international NGOs. The two forest management certificates that have been issued in the region – one for a concession in Gabon and one in Congo (Brazzaville) – were subsequently withdrawn under pressure from civil society – see <http://www.wrm.org.uy/bulletin/6/FSC.html> and http://www.yale.edu/forestcertification/symposium/pdfs/gabon_symposium.pdf.

²⁰⁹ http://www.atibt.com/pdf/atibt_4oct_Forum_Programme_Bernard_Cassagne.pdf.

²¹⁰ It is important that concession companies at least participate in the preparation of inventories and management plans – rather than co-opt research carried out by others.

²¹¹ It has been suggested that pressure on forests might increase as revenue from oil exports reduce – see <http://info.worldbank.org/etools/bspan/PresentationPrint.asp?PID=846&EID=437>.

²¹² <http://www.illegal-logging.info/approachesLev3.php?approachId=1&approachSubId=56> and also <http://www.rainforestfoundationuk.org/files/ARD%20report%20vol3afr.pdf>.

²¹³ A leading Chinese timber product manufacturer (Vicwood) has major logging concessions in Cameroon and Central Africa, and Malaysia's leading logging multi-national (Rimbunan Hijau) – which appears to specialise in production to supply markets in China – is very prominent (albeit under various pseudonyms) either as a concessionaire or logging contractor in Congo (Brazzaville), Equatorial Guinea and Gabon.

The largest and most (technically and/or financially) capable timber companies (concessionaires or their logging contractors) tend to be at least nominally owned by foreign (mainly Chinese, Malaysian, and French), or expatriate (typically Lebanese, of French) interests. The mix is changing in response both to poor governance and to a tightening of law enforcement.

The (lack of) success of the tree plantation sector over the last several decades – whether of tropical timber²¹⁴ or pulpwood²¹⁵ – should lead one to judge with scepticism arguments that the future of forestry in the Congo Basin lies in tree plantations. The local species, which is perhaps best suited to plantations in the region, okoumé (*Aucoumea klaineana*), tends to grow better in natural forest than in plantations. The region's only major pulpwood plantation – in Congo (Brazzaville) – has been abandoned. Prospects for a plantation sector (and indeed for sustainable forest management in natural forests) might improve if the risk of political interference were lower.

Improvements in the region's road network, particularly in or near forest will tend to subsidise the logging industry, accelerate deforestation and increase detrimental commercial trade in bushmeat. Prior to agreeing to fund such improvements, the EU (and others) should independently commission comprehensive social and environmental impact assessments and refuse to fund the proposed improvements if the risk to the forest is likely to be substantial and the probability that suitable migratory measures will be carried out is small. The improvement to the road between Kinshasa and the port of Matadi, part of which has been funded by the EU²¹⁶, will greatly facilitate the export of timber from Congo (Kinshasa).

Governments in the region have tended neither to maximise the collection of revenue from the logging and timber export sectors nor to prevent the over-exploitation of their forests. This impoverishes their countries. Addressing this failure (across all the extractive industries) should be a major component of poverty reduction strategies. Towards that end, the EU should work with the G8, World Bank, IMF and others – specifically China – to maximise pressure on these export-dependent producer countries.

A reduction in illegal timber exports would not necessarily induce a loss of revenue given that more is being collected per unit of wood or forest.

Timber exports to the EU

Cameroon and Gabon supply the majority of the timber that is exported from the Congo Basin, including that exported to the EU.²¹⁷

Revenue from timber exports accounts for a substantial share in the foreign exchange earnings of the countries of this region.

China's imports were negligible until the mid-1990s but now account for most of the exports from three countries of the region.²¹⁸ Unit prices do not appear to have increased in response

²¹⁴ In Congo (Brazzaville) and Gabon.

²¹⁵ In Congo (Brazzaville).

²¹⁶ <http://www.otal.com/Services/waldec03.htm>.

²¹⁷ During 2004, Cameroon and Gabon each supplied about one third of the region's timber exports; Congo (Brazzaville) supplied about a sixth.

²¹⁸ China's imports from these three countries are predominantly of one species – okoumé (*Aucoumea klaineana*) – which is particularly suitable as external veneer for plywood. China's large and increasing exports of plywood (as a product itself or as a component of other products – such as furniture) are having a major impact on world trade in plywood, particularly that whose core is made of poplar and whose front and back faces are of (probably illegal) okoumé (*Aucoumea klaineana*) veneer. One might argue that, where the technical or aesthetic quality of such veneer is a primary determinant

– indicating lack of interest by those countries’ governments either in maximising (for their nations) the potential revenue of their (dwindling) forest assets or seeking to manage those assets sustainably. Those exports to China almost entirely comprise logs – particularly okoumé (*Aukoumea klaineana*), whose range states are Gabon, Congo (Brazzaville) and Equatorial Guinea – in contravention of the laws of their supplier countries (which stipulate that logs should comprise a minority of the timber exported). Further, China uses these logs to compete in export markets with the embryonic timber processing industries of those supplier countries.

Given this and the EU’s imposition of anti-dumping duties on plywood made in China with okoumé (*Aukoumea klaineana*) from the Congo Basin, the EU should seek to extend its FLEGT process to include countries such as China whose exports depend on timber they have imported.²¹⁹

As part of its FLEGT process, the EU is currently negotiating bilateral voluntary partnerships with two of the countries of the Congo Basin – Cameroon and Gabon. The EU FLEGT should be extended to cover Congo (Brazzaville). This is because EU importers might simply switch their source of okoumé (*Aukoumea klaineana*) supply from Gabon to Congo (Brazzaville) – Gabon’s main competitor in the supply of this species (which accounts for more than half the RWE volume of the exports of its range states). Further, excluding Congo (Brazzaville) will increase the temptation to launder timber from Cameroon’s forest by exporting this as if it were from Congo (Brazzaville) – most of the exports of northern Congo (Brazzaville) are currently exported through Cameroon.

The timber trade associations of Italy and France (countries that not only have substantial investments in the region’s forest/timber sector but are also the principal EU importers of the region’s timber) should be assigned a formal role to participate in and report on these partnerships.

The EU-based industry-led Timber Trade Action Plan is engaging with companies that have logging concessions in Cameroon, Congo (Brazzaville) and Gabon with a view to increasing the acceptability (measured against legality and sustainability criteria) of those companies’ output in the sponsoring trade associations’ main markets.²²⁰

Most of the Congo Basin’ timber exports is shipped by sea from a few ports – mainly Douala (Cameroon), Libreville/Owendo and Port Gentil (Gabon) and Pointe Noire (Congo (Brazzaville)). This makes it comparatively simple both to administer provision of legality licences (such as those envisaged in the EU’s FLEGT process) at points of export and to check that export declarations match subsequent import declarations (so as to better monitor trade and, particularly, reduce the scope for fraud).

It is currently impossible to correlate robustly the declared exports of Cameroon, Central African Republic and Congo (Brazzaville) with the quantity of imports declared by importing countries. Being able to do so would help minimise customs fraud and help check whether logs of certain species that are declared as from the Central African Republic or Congo

of the choice of prospective buyers, use of illegal timber in that veneer should render the whole product illegal.

²¹⁹ A recent exposé (see <http://www.greenpeace.org.uk/MultimediaFiles/Live/FullReport/7251.pdf?CFID=3483210&CFTOKE N=47541340>) of the UK’s imports of plywood made in China from bintangor (*Callophylum spp.*) – the species used by China since anti-dumping duties were imposed as a substitute for okoumé (*Aukoumea klaineana*) – tends to indicate that China will find it increasingly difficult to export timber products to the EU (and potentially elsewhere) without credible certificates of legality (back to the forest(s) of origin).

²²⁰ http://www.tropicalforesttrust.com/docs/TTAP_LAUNCH0710.pdf.

(Brazzaville) actually derive from Cameroon (which prohibits their export). Making the necessary change would be simple and cost little – merely requiring that import and export documentation clearly states both the country from whose forest the product derives and the country of final embarkation.²²¹

²²¹ A single company has a contract to inspect exports from these three countries – <http://www.sgs.com/flegpapermarch03.pdf>.

The Congo Basin should not be subsidising China's timber exports

China is the leading destination for the exports of logs from the Central African Republic, Congo (Brazzaville), Equatorial Guinea, and Gabon. China is supplied by two enterprises in particular.

One seems to have a diplomatic role in the region – which tends to oblige it to demonstrate long-term commitment to the countries in which it operates (for example to supply only legal timber and to make progress towards certification to FSC or similar standards).

The proximity of the other to key figures in the political establishment appears to enable it to operate outside the law, gaining an unfair competitive advantage over law abiding companies (especially those seeking to certify the management of their concessions), depressing prices, and earning the Congo Basin, China, and its home country (Malaysia) an unsavoury reputation.

It is estimated that China uses between a third and a half of the timber that it imports as raw material in the products it subsequently exports.²²² A substantial proportion of those processed exports are likely to include illegal timber from the Congo Basin, particularly okoumé (*Aucoumea klaineana*) veneer, in combination with poplar (*populus spp.*) or other species – which may also be illegal.

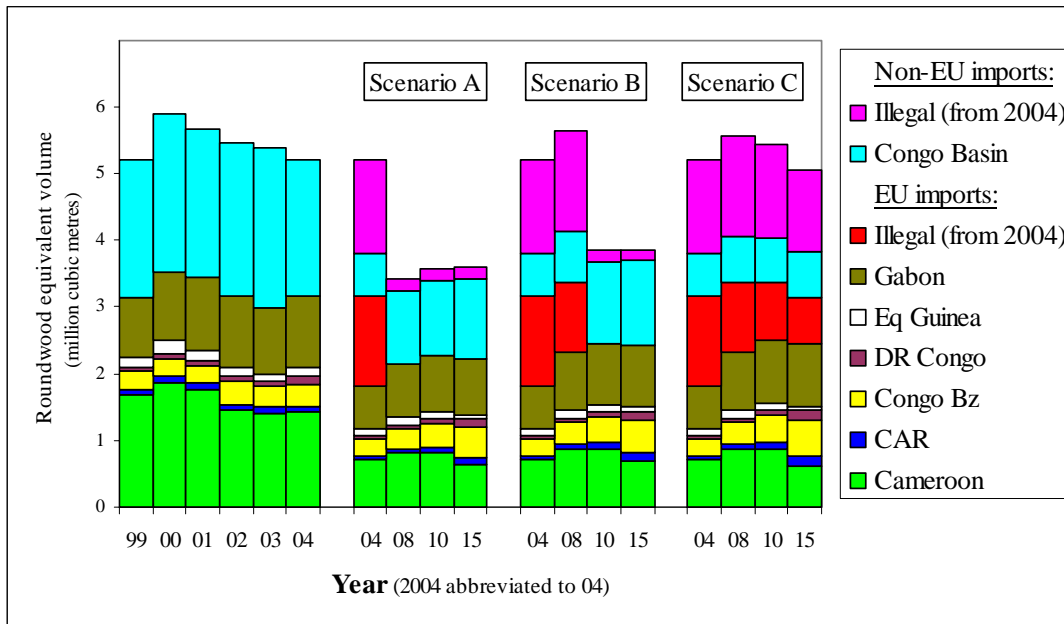
If the EU does not prohibit the import of illegal timber from China and other processing countries, efforts to minimise trade in illegal timber from the Congo Basin or to promote the diversification of the timber sector in that region may backfire.

Tracing the flow of okoumé from concession to China and beyond should be inexpensive and straightforward, even if made into composite products in a series of small, properly authorised mills – labour is unlikely to be a constraint in China – especially if under regular contract.

Although lack of accountability may give manufacturers/exporters a competitive advantage, it would be regarded as sloppy management or even dangerous in most other industries if manufacturers did not bother to ascertain the source (and quality) of their raw material. Such manufacturers would quickly go out of business.

²²² See for example http://www.forest-trends.org/documents/publications/Export%20Overview_final_rev%208-29-05.pdf and also <http://www.globaltimber.org.uk/china.htm>. Note however that poplar grown in China accounts for a significant proportion of the volume of the timber products that China exports.

Chart 8: Congo Basin: past trends and forecast exports – timber sector (by supplying country). (Note: chart does not show illegal timber for the period 1999–2004)



The forecasts illustrated in Chart 8 are particularly sensitive to assumptions about when and if China prohibits the import of illegal timber. During 2004, China probably imported as much illegal timber from the region as did the EU (i.e. almost 50% of the total each).

It is likely that China will continue to import timber from the region once it prohibits the import of illegal timber. This, reflected in Scenarios A and B, is likely to be the case even if the prohibition prompts the one corporate group that supplies a high proportion of China's imports from the range states of okoumé (*Aucoumea klaineana*) to withdraw from the region.

The forecasts also show the likely significance of forest exhaustion in Cameroon (to some extent already manifest in the downward trend prior to 2004) and Equatorial Guinea. The forecasts assume an increase in timber exports from the north of Congo (Brazzaville) and, for Scenario C only, a decline in timber exports from the south of the country – reflecting again the probable exhaustion of the southern forest due to over-exploitation. The forecasts envisage increases in production by both CAR and Congo (Kinshasa) but not to levels exceeding their previous records. The EU and particularly China should take active steps to ensure that their imports of timber from the regions whose forests are likely soon to be exhausted do not contribute to that exhaustion.

Government revenue from timber exports might not decrease much despite the decline (substantial in the case of Scenarios A and B) in forecast production. This is partly because the RWE volume of legal production is likely to remain largely unchanged.

Scenario C illustrates the likelihood that a large share of the timber imports of the EU will continue to comprise illegal timber. This is because most of this is imported by those (southern) EU countries that have yet to show credible intent concerning the elimination of illegal timber imports from their own countries. The EU's FLEGT process will of course oblige these laggard countries to improve their performance in this regard – but only if, in the near term, it becomes more comprehensive than now and is both accepted and made effective by producer countries.

The proportions declared as imports from forests in Cameroon, the Central African Republic and Congo (Brazzaville) would differ if the EU were to record the country of origin of its timber imports from those countries, irrespective of whether they left Africa from ports in Cameroon.

Table 8: The Congo Basin: summary of salient information

	Cameroon	Central African Republic	Republic of Congo	Democratic Republic of Congo	Equatorial Guinea	Gabon
Timber exports in 2004 (million cubic metres RWE)	1.4 ²²³	0.3 ²²⁴	1.1 ²²⁵	0.1 ²²⁶	0.5	2.0 ²²⁷
of which to EU	80%	70%	40%	90%	20%	50%
Other destinations		China ²²⁸	China ²²⁹		China	China India Morocco
Main EU destinations	Italy Spain	Spain	France Portugal Spain	Portugal	France Spain	France Italy
Percentage assumed illegal	50% ²³⁰	(-) ²³¹	(±50%) ²³²	(-) ²³³	±50% ²³⁴	(±50%) ²³⁵

²²³ http://www.atibt.com/pdf/lettre_22.pdf. Note that, although the sum of exports from Cameroon, the Central African Republic and Congo (Brazzaville) is equal to the sum of declared imports from those three countries, importing countries declared that they imported 1.7, 0.1 and 0.9 million cubic metres (RWE volume) from each respectively.

²²⁴ http://www.atibt.com/pdf/lettre_22.pdf – substantially less than the 0.5 million cubic metres exported during 2000 (due in part to political instability). This contrasts with the total amount declared by importing countries – which has varied little for several years at about 0.1 million cubic metres.

²²⁵ http://www.atibt.com/pdf/lettre_22.pdf more than half of which was probably exported from the south western forest – http://www.atibt.com/pdf/lettre_20.pdf.

²²⁶ Has rarely if ever exceeded 0.3 million cubic metres. Nevertheless, the World Bank and FAO are promoting a figure 20 to 30 times greater as the country's potential production – see <http://www.wrm.org.uy/bulletin/93/AF.html> and also [http://Inweb18.worldbank.org/ESSD/envext.nsf/80ByDocName/CentralAfricaLawEnforcementAssessmentOctober2002700KBPDF/\\$FILE/ForestLawAssessmentInSelectedAfricanCountries.pdf](http://Inweb18.worldbank.org/ESSD/envext.nsf/80ByDocName/CentralAfricaLawEnforcementAssessmentOctober2002700KBPDF/$FILE/ForestLawAssessmentInSelectedAfricanCountries.pdf). Such high levels of production are probably not consistent with sustainable forest management and may be so optimistic as to do the opposite of attracting reputable logging companies or sources of finance.

²²⁷ Logs accounted for 1.5 million cubic metres of the total – see http://www.atibt.com/pdf/lettre_22.pdf.

²²⁸ <http://www.cbfp.org/documents/rca/statgraph.pdf>.

²²⁹ http://www.atibt.com/pdf/lettre_22.pdf (40% of the total and – judging by http://www.atibt.com/pdf/lettre_20.pdf – mainly from the south western forest where okoumé (*aukoumea klaineana*) is the species extracted in greatest quantity).

²³⁰ cited in http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf

²³¹ No published estimate. Perhaps in the same order of magnitude as in neighbouring countries.

²³² No published estimate. Likely to vary greatly between destination countries and concessionaires.

²³³ No published estimate. Perhaps large given the level of civil conflict.

²³⁴ http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf. Supplies from one logging company and to one country are likely to be well in excess of the average – see <http://www.globaltimber.org.uk/eqguinea.htm>.

²³⁵ Published estimate (70% – see figures cited in http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf) is considered to have become out of date given a change in the law.

Table 8: Summary of salient information (contd.)

	Cameroon	Central African Republic	Republic of Congo	Democratic Republic of Congo	Equatorial Guinea	Gabon
Drivers of illegal timber	Powerful interests; Temporary permits; Excess mill capacity		Powerful interests; Log export percentage		Powerful interests ²³⁶	Powerful interests; Tax arrears
Industrial roundwood production (million cubic metres)	1.2 ²³⁷ 2.4 ²³⁸ 2.8 ²³⁹ 5.1 ²⁴⁰	0.6 ²⁴¹	1.3 ²⁴²	3.7 ²⁴³	c0.4 ²⁴⁴	2.5 ²⁴⁵
Percentage net exports	Large	Large	Large	Small	Large	Large
Source giving EU optimum leverage	Trade	Technical assistance	Trade; Technical Assistance	Advocacy	Advocacy	Trade

²³⁶ <http://www.globaltimber.org.uk/eqguinea.htm>.

²³⁷ “State of the World’s Forests 2005” by FAO (data for 2002, when the RWE volume of timber which importing countries declared as imports from Cameroon was about 1.9 million cubic metres).

²³⁸ “Annual Review and Assessment of the World Timber Situation” by ITTO (2004) (data for 2004).

²³⁹ http://www.cifor.cgiar.org/publications/pdf_files/OccPapers/OP-14.pdf (in 1996/7, roughly 2.0 million cubic metres of which was exported).

²⁴⁰ Cited in “Sold Down the River” by Forests Monitor (2001).

²⁴¹ http://www.atibt.com/pdf/lettre_22.pdf. Note however that for 2002, this source gives a figure similar to that given in <http://www.beafrica-opinions.com/reflexions/MT07.htm> and http://www.banque-france.fr/fr/eurosys/telechar/zonefr/2004/p4_centra.pdf, but that these figures are 50% lower than that published by the FAO for 2002 in “State of the World’s Forests 2005”. Production reached a peak of 0.8 million cubic metres during 2000 – see <http://www.beafrica-opinions.com/reflexions/MT07.htm> – a level that was thought might be unsustainable – see http://store.eiu.com/index.asp?layout=show_sample&product_id=30000203&country_id=CF.

²⁴² “Annual Review” by ITTO (2004) and allowing for an increase in production since 2002, “State of the World’s Forests 2005” by FAO. Annual Allowable Cut (see Glossary) for the northern and south western forest is respectively 1.5 and 0.5 million cubic metres. Note that, although Congo (Brazzaville) used annually to produce between 0.3 and 0.5 million cubic metres of eucalyptus pulpwood (for export), this business has closed. However, a major multi-lateral organisation has suggested those same plantations could annually produce four million cubic metres – see <http://www.imf.org/external/pubs/ft/scr/2005/cr0539.pdf>. Such optimism does not reflect likely reality and will tend to lull government and donors into a false sense of confidence that natural forest areas can be neglected and, once these have been deforested, the livelihoods, biodiversity and export markets that will have been lost will be more than compensated by mono-culture pulpwood farms and some hitherto unavailable rural development.

²⁴³ “State of the World’s Forests 2005” by FAO (data for 2002), but the great majority of this is produced informally. The country’s corporate timber industry is export-oriented and the RWE volume of its exports amount to less than 5% of that 3.7 million cubic metres.

²⁴⁴ during the last few years and making allowance for local end-usage, production (and often also exports) has exceeded the country’s Annual Allowable Cut (of 450,000 cubic metres) – see <http://www.imf.org/external/pubs/ft/scr/2005/cr05151.pdf> and also <http://www.oecd.org/dataoecd/35/1/1824667.pdf>.

²⁴⁵ “State of the World’s Forests 2005” by FAO (data for 2002, reduced to reflect declining exports). However, some suggest that it may be higher (see Figure 3 of <http://www.imf.org/external/pubs/ft/scr/2005/cr05147.pdf>) by up to 50% (see “Annual Review and Assessment of the World Timber Situation 2004” by ITTO). These amounts exceed by a substantial margin the Annual Allowable Cut (of two million cubic metres – see [http://lnweb18.worldbank.org/ESSD/envext.nsf/80ByDocName/CentralAfricaLawEnforcementAssessmentOctober2002700KBPDF/\\$FILE/ForestLawAssessmentInSelectedAfricanCountries.pdf](http://lnweb18.worldbank.org/ESSD/envext.nsf/80ByDocName/CentralAfricaLawEnforcementAssessmentOctober2002700KBPDF/$FILE/ForestLawAssessmentInSelectedAfricanCountries.pdf)).

Table 8: Summary of salient information (contd.)

	Cameroon	Central African Republic	Republic of Congo	Democratic Republic of Congo	Equatorial Guinea	Gabon
Wood-based products as % of all exports	c25% ²⁴⁶	50% ²⁴⁷	7% ²⁴⁸	-	5% ²⁴⁹	9% ²⁵⁰
Wood-based industry as % of GDP	5–10% ²⁵¹	8% ²⁵²	1% ²⁵³	-	4% ²⁵⁴	3% ²⁵⁵
Importance of wood-based exports	Substantial	Substantial	Substantial (if oil is excluded)	Currently low	Substantial (if oil is excluded)	Substantial (if oil is excluded)
“Forest” area (million hectares)	24 ²⁵⁶ 16 to 21 ²⁵⁷	23 ²⁵⁸ 3 ²⁵⁹	22 ²⁶⁰ 16 ²⁶¹	135 ²⁶²	1.8 ²⁶³	22 ²⁶⁴

²⁴⁶ http://www.cifor.cgiar.org/publications/pdf_files/OccPapers/OP-14.pdf.

²⁴⁷ <http://www.cbfp.org/documents/rca/tableaubord.pdf> and also http://www.banque-france.fr/fr/eurosys/telechar/zonefr/2004/p4_centra.pdf. Note however that these estimates might not take into account the large quantities of diamonds that are exported (from the same region as that in which most of the country’s logging takes place).

²⁴⁸ <http://www.state.gov/r/pa/ei/bgn/2825.htm#econ>.

²⁴⁹ <http://strategis.ic.gc.ca/epic/internet/inimr-ri.nsf/en/gr110775e.html>. Note however that oil exports have grown substantially since the year (2000) to which this percentage pertains.

²⁵⁰ <http://www.imf.org/external/pubs/ft/scr/2005/cr05147.pdf>. This percentage is likely to change as Gabon’s oil exports dwindle and efforts to increase timber exports so as to offset the resulting loss in national (and, more importantly, private) income.

²⁵¹ http://www.etfrn.org/etfrn/newsletter/news4142/nl41_oip_4_3.htm.

<http://www.summitreports.com/cameroon/onadef.htm>.

<http://www.imf.org/external/pubs/ft/scr/2005/cr05165.pdf>.

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²⁵² http://www.itto.or.jp/live/Live_Server/1029/E-CEM-CFI37-6.doc.

²⁵³ <http://www.imf.org/external/pubs/ft/scr/2004/cr04231.pdf>.

²⁵⁴ <http://www.oecd.org/dataoecd/35/1/1824667.pdf>. Note however that the oil sector will have expanded since the year to which that 4% pertains.

²⁵⁵ <http://www.imf.org/external/pubs/ft/scr/2005/cr05147.pdf>.

²⁵⁶ Total, as in “State of the World’s Forests 2005” by FAO (data for 2000).

²⁵⁷ A more relevant area – see <http://www.globalforestwatch.org/common/cameroon/english/report.pdf> and also

[http://lnweb18.worldbank.org/oed/oeddoclib.nsf/0/293fb3f9728509978525698b0055b9ad/\\$FILE/Cameroon.pdf](http://lnweb18.worldbank.org/oed/oeddoclib.nsf/0/293fb3f9728509978525698b0055b9ad/$FILE/Cameroon.pdf). However, this amount includes conservation areas, some of which are at risk from logging – see <http://www.forestsmonitor.org/reports/solddownriver/cameroon.htm#ei>.

²⁵⁸ Total, as in “State of the World’s Forests 2005” by FAO (data for 2000).

²⁵⁹ A (much) more relevant area – <http://www.forestsmonitor.org/reports/solddownriver/car.htm#pse> This area includes conservation areas.

²⁶⁰ Total, as in “State of the World’s Forests 2005” by FAO (data for 2000).

²⁶¹ A more relevant area – see <http://www.imf.org/external/pubs/ft/scr/2005/cr0539.pdf> Note however that that amount includes roughly two million hectares of conservation area and seven million hectares of swamp forest which may be of little interest for logging – see <http://snrcongo.free.fr/>.

²⁶² Total, as in “State of the World’s Forests 2005” by FAO (data for 2000). However, a substantial proportion of this area is probably of no commercial interest at current price levels – being too remote, the terrain too difficult for access, and of course due to civil conflict. Further, a substantial (but poorly protected) area is reserved for conservation. The forest in the coastal province (Bas Congo) is largely exhausted on account of past over-exploitation – see <http://www.forestsmonitor.org/reports/solddownriver/drc.htm#pse>.

²⁶³ Total, as in “State of the World’s Forests 2005” by FAO (data for 2002). Approximately 80% of this is available for logging and all of this is allocated to concessionaires.

Table 8: Summary of salient information (contd.)

	Cameroon	Central African Republic	Republic of Congo	Democratic Republic of Congo	Equatorial Guinea	Gabon
Coverage by current or recent concessions	Most; ²⁶⁵ Exhaustion by 2015 ²⁶⁶	Most ²⁶⁷	Most	Subject to major revision ²⁶⁸	Most ²⁶⁹	Most of the area that is rich in okoumé
Certification	Preliminary ²⁷⁰	Nil ²⁷¹	Imminent ²⁷²	Nil	Nil	Intended ²⁷³
TI 2005 Corruption Perceptions Index ²⁷⁴	137	NA	130	144	152	88

²⁶⁴ Total, as in “State of the World’s Forests 2005” by FAO (data for 2000). Three million hectares of Gabon’s land area is reserved for conservation (see <http://www.imf.org/external/pubs/ft/scr/2005/cr05147.pdf>) and most of this will be in forest given that most of Gabon is forested.

²⁶⁵ Following concern (particularly from the World Bank) about the lack of transparency in the allocation of concessions, large (long-term) concessions are awarded on the basis of competitive bidding; however, although having an approved forest management plan is a legal requirement, several of the concessions which have been allocated do not have such approved plans.

²⁶⁶ That is, prior to the end of many current concessions. Cited in “Sold Down the River” by Forests Monitor (2001) and understood to be based on a quote from a former Minister for Cameroon’s forests. Note that much effort has been expended (led by WWF and the National Working group which WWF helped establish) in trying to shift the major logging companies towards sustainable management of their concessions – a legal requirement

²⁶⁷ <http://www.forestsmonitor.org/reports/solddownriver/car.htm#pse>. The area during the 1990s was roughly two million hectares (see <http://www.fao.org/ag/AGP/AGPS/Pgrfa/pdf/africcen.pdf>). The area increased when a now disgraced former President of the country granted a large additional area of forest as a concession. The duration of concessions in Central African Republic is open-ended – which would tend to facilitate the adoption of sustainable forest management.

²⁶⁸ <http://www.ttf.co.uk/forests/responsible/Producer%20Country%20Fact%20Sheets.pdf>. From the outset, Congo (Kinshasa) should demand that logging on new (or reallocated) concessions must be compatible with sustainable forest management. Given the high costs of production in Congo (Kinshasa) and the corresponding need to sell to market niches which seek high value timber, this is probably the best way for the country’s timber industry to compete in export markets.

²⁶⁹ c80% – see http://pdf.dec.org/pdf_docs/PDACD530.pdf.

²⁷⁰ <http://www.afrol.com/articles/15557>.

²⁷¹ However, one small concessionaire has, with some support from a neighbouring EU-funded conservation project, made real progress towards certification, but that company feels that market conditions are not yet conducive to further progress – see <http://www.beafrica-opinions.com/reflexions/MT07.htm>.

²⁷² The largest concessionaire in the northern forest is about to submit its initial application for FSC certification. Another major concessionaire in that forest is likely to follow suit. As is the case in several countries, the Forest Code of Congo (Brazzaville) – in effect the law – has been drafted with the intent of ensuring that timber production is consistent with sustainable forest management (see <http://www.ttf.co.uk/forests/responsible/Producer%20Country%20Fact%20Sheets.pdf>).

²⁷³ Some of the major concessionaires whose forest management plans meet Gabon’s legal requirements are likely to seek (or have sought) to certify their concessions, but not yet to FSC standard.

²⁷⁴ <http://www.transparency.org/cpi/2005/cpi2005.sources.en.html#cpi>. Ranking: 1= least corrupt, 158 = most corrupt.

Box 4

Exports of illegal timber from the Congo Basin

Three countries supply the majority of the EU's imports from the Congo Basin – Cameroon, Congo (Brazzaville) and Gabon.

The proportion of illegal timber in Cameroon's timber exports has probably grown during the last few years (due to an increase in production from temporary logging licences).

Providing credible evidence of the legality of timber produced from the several concessions that are, at last, making progress towards certification in Congo (Brazzaville) and Gabon should be straightforward and inexpensive.

Likewise for the chain of supply for timber produced to meet contracts rather than for speculation.

A mechanism may be needed to ensure that being obliged to make corrupt payments to the administration does not invalidate any certificate one might have for the legality of one's operations and chain of supply.

Companies should by definition operate legally. Thus, the cost of ensuring the legality of a logging company's operations should be small. The cost of ensuring that logging is consistent with sustainable forest management should be no more than the additional cost over and above that required to operate legally.

Much of the illegal timber exported from Congo (Brazzaville), Equatorial Guinea and Gabon is supplied by one company that operates both as a concessionaire itself and as a logging contractor for others. Its principal destination market is China.

6.1. Country-specific comments relating to the forecasts and to trade in illegal timber

Cameroon

A number of major concessionaires have now carried out inventories and have had credible management plans for their concessions approved by government – this is a legal requirement. In contrast, other major concessionaires still have difficulty tracing the origin of the timber they ship.

During the last few years, Cameroon's timber exports appear to have declined. This may be attributable in part to reductions in production by those few concessionaires who have modified their logging in order better to reflect long-term availability. It may also reflect (a) the reluctance of importers to procure from Cameroon while illegal timber is so prevalent, and (b) the use of an Independent Forest Observer to help the government combat illegal logging. Further, it may also be due in part to a reduction in exports from the Central African Republic (reflecting a coup and its aftermath), most of whose exports appear to be declared by importing countries as from Cameroon.

Declared imports from Cameroon were some 300,000 cubic metres greater than the RWE volume that Cameroon declared for all its exports²⁷⁵ of timber. The corresponding figure for logs was 200,000 cubic metres. The difference is likely to be attributable to timber being

²⁷⁵ For Cameroon's declared exports see http://www.atibt.com/pdf/lettre_22.pdf.

classified (not necessarily fraudulently) as imported from either the Central African Republic or Congo (Brazzaville).²⁷⁶

The prohibition against the export of unprocessed logs of an increasing number of species has led to an excess of saw mills. This excess capacity has caused apparent demand to rise and has added to competition for increasingly scarce supplies of logs – thereby contributing to the prevalence of illegal and unsustainable logging in the country.²⁷⁷

The proportion of illegal timber in Cameroon's timber exports assumed in this report – 50%²⁷⁸ – is perhaps an underestimate given that it was derived prior to the increase in abuse of the temporary logging permit system.

It is likely that end-user consumption of industrial roundwood in Cameroon will remain unchanged. It is also likely that Cameroon's timber exports to the EU will continue their downwards trend, not least to reflect the Timber Trade Action Plan (see above) and other efforts to minimise Cameroon's exports of illegal timber, but also in reflection of the declining resource base – which will of course also affect the availability of timber for Cameroon to export to other parts of the world.

Central African Republic

It is likely that illegal timber accounts for a substantial proportion of timber exports from the Central African Republic. Laundering of logs between Cameroon and CAR may be significant.²⁷⁹ Species have been fraudulently misclassified.²⁸⁰ Non-payment of taxes by concessionaires has been a major problem in the past – but the current President has made efforts to eliminate this.²⁸¹

In addition, the proportion of logs in the RWE volume of CAR's timber exports has fallen from half to a quarter during the last few years. However, the proportion of logs in those exports should not exceed 15%. Consequently, if sales of timber to the local market in CAR are small relative to exports, one might argue that more than half of CAR's timber exports are illegal.

This report assumes that end-user consumption within CAR will remain at current levels (but they may rise if the country becomes an exporter of crude oil during the period covered), and that exports will rise. That rise, limited by the capacity of the forest, would partly offset a decline from forest in Cameroon and would reflect the increase in market prices that is likely as forests become exhausted and efforts to combat illegal logging succeed.

²⁷⁶ Documents might name the country of the port of embarkation as the origin rather than the country from whose forest the wood raw material was extracted. Given that one company has a contract to monitor the timber exports of Cameroon, the Central African Republic and Congo (Brazzaville) – <http://www.sgs.com/flegpapermarch03.pdf> – one might argue that eliminating this ambiguity would be cheap and easy

²⁷⁷ To the extent that the management and technical capability of these mills leads to the use of a greater volume of logs per unit of output than those overseas mills they replace, the prohibition on the export of logs of certain species may, ironically, have caused the consumption of those species to increase.

²⁷⁸ http://www.wwf.at/downloads/Illegal_Holzeinschlag_und_oesterreich.pdf.

²⁷⁹ <http://www.greenpeace.org.uk/MultimediaFiles/Live/FullReport/4785.pdf>.

²⁸⁰ http://store.eiu.com/index.asp?layout=show_sample&product_id=30000203&country_id=CF.

²⁸¹ See also http://www.banque-france.fr/fr/eurosystelechar/zonefr/2004/p4_centra.pdf and also <http://archive.wn.com/2004/01/15/1400/p13/edc397842667ea.html>.

Republic of Congo

Given that most of China's imports are supplied from the south western forests and China's imports rose by 100,000 cubic metres in 2004, it is likely that the AAC of the south western forest was exceeded by a significant margin during 2004.

Further, one company has built sufficient (short-term) infrastructure to supply almost the entire AAC of the south-western forest on its own.²⁸² This company anticipates producing 650,000 cubic metres annually from its concession in the south.²⁸³ Within the industry there are concerns that the company's practices will improve even if it is subject to the scrutiny of the Independent Forest Observer which the Congo (Brazzaville) government seems likely to appoint.²⁸⁴

Approximately three-quarters of declared exports were in log form – the law requires that this percentage does not exceed 40%. As indicated above, much of this excess is attributable to the exports of one company.²⁸⁵

The lack of transparency in revenue collection from the forest/timber (and oil) sector is a major concern. The IMF stipulated that, as part of the country's Poverty Reduction and Growth Facility, a certified audit of forestry revenue was to have been completed and handed over to the government by 30 September 2005.²⁸⁶ Recent tax increases appear to have been applied inequitably (born primarily by concessionaires in the north – for whom the cost of transportation from forest to sea port are probably rather higher than that of their counterparts in the South-west).

It is likely that end-user consumption of industrial roundwood within Congo (Brazzaville) will not have a material impact on production. It is also likely that exports to the EU will decline until about 2010 – primarily as efforts to minimise Congo (Brazzaville)'s exports of illegal timber take effect. However, this reduction will be offset by an increase, particularly after 2010 from concessions that are certified (or are making credible progress towards certification) to FSC or equivalent standard.

However, that growth will depend on the ability of well-intentioned concessionaires to compete against companies that have an unfair competitive advantage from being allowed to export illegal timber (notably from forest that is being unsustainably managed).

The forecast also reflects the fact that the rate of exploitation in the southern forest is already in excess of the likely limit for sustainability, and assumes that production will decline during the latter part of the period covered to reflect exhaustion.

It seems likely that the Congo Ocean railway (in a poor state of repair) will continue to be unattractive for the transport of timber from northern forests – timber used to account for 30% of its freight.²⁸⁷ Exports would tend to rise if rail transport were reliable.

²⁸² http://www.atibt.com/pdf/lettre_uk_20.pdf.

²⁸³ <http://www.mafrica.com.my/Mafrica.htm>.

²⁸⁴ Pers.opinion of author

²⁸⁵ <http://www.ttf.co.uk/forests/responsible/Producer%20Country%20Fact%20Sheets.pdf>. Note also that this company is reported to have current plans to construct of a major veneer mill near Pointe Noire. Given that this company may have acquired its concession(s) illegally, it is unlikely that the mill will be able to export its output to the markets intended – the EU and the USA.

²⁸⁶ <http://www.imf.org/external/pubs/ft/scr/2005/cr05301.pdf>.

²⁸⁷ <http://www.imf.org/external/pubs/ft/scr/2005/cr0539.pdf>. Improvements in revenue collection which will flow from this initiative may provide the domestic source of the substantially increased investment budget for the forest sector envisaged by the IMF for the period 2005–2007.

Democratic Republic of Congo

As shown in the forecast, exports to the EU will probably remain at their current low level until between 2008 and 2010. Exports are likely to rise thereafter, as the availability of legal timber and market prices increase.

Equatorial Guinea

A new law introduced in 1997 has been unable to achieve its aim of improving practice in the forest/timber sector.²⁸⁸

If one assumes that local consumption within Equatorial Guinea has averaged 100,000 cubic metres, imports by China alone have exceeded the balance between AAC and domestic consumption in five of the last six years.

Information about the impact that a large (multinational) logging company is having on the forest of this oil-rich but fearful country tends not to be published.²⁸⁹ Efforts to minimise trade in illegal timber from Equatorial Guinea should focus on this one company.

At current rates of logging, it is likely that Equatorial Guinea's forests will become exhausted (well) before the end of the period covered in this report.²⁹⁰

The forecast for Equatorial Guinea is primarily a forecast of China's imports, which are assumed to decline during the latter part of the period due to the exhaustion of the forest.

Gabon

The new (2001) law requires that plans be approved by the end of 2005 for the sustainable management of most of the forest area – between 14 and 16 million hectares, primarily comprising major concessions. However, as of mid-2005, less than half of this area was covered by approved plans.²⁹¹

Most of the leading European concessionaires have approved management plans. Few of their East Asian competitors (at least one of which, in addition to being a concessionaire, is understood to be the logging contractor for an important political figure) do. This indicates that the former (especially their owners and sponsors) are more likely than the latter to be committed to good governance, sustainable forest management – indeed the welfare of their host country.

There is some controversy about the allocation of logging permits, particularly those of a relatively small area.²⁹² The closure (from January 2006) of the quasi-state organisation SNBG, which had a marketing monopoly for okoumé (*Aucoumea klaineana*) should improve Gabon's ability to compete in timber export markets and also improve governance in the sector.

The average financial return per unit of concession area will tend to reduce prior to the end of the period covered by this report – because all the forest that is rich in okoumé (*Aucoumea*

²⁸⁸ <http://www.oecd.org/dataoecd/35/1/1824667.pdf>.

²⁸⁹ Perhaps for fear of reprisal – http://www.amnestyusa.org/countries/equatorial_guinea/document.do?id=CA2C296F4B4F5DDD8025690000693493.

²⁹⁰ http://www.ccoo.es/guinea.ec_democratica/enlaces/maderatropical.htm. See also “Conservacion de los ecosistemas forestales de Guinea Equatorial” by John Fa for IUCN (1991).

²⁹¹ <http://www.imf.org/external/pubs/ft/scr/2005/cr05147.pdf>.

²⁹² <http://www.imf.org/external/pubs/ft/scr/2005/cr05147.pdf>.

klaineana) will have been logged at least once.²⁹³ However, a wider mix of species may then be exploited.

Prior to 2002, logs accounted for about 90% of Gabon's timber exports (i.e. the great majority of production). This was well in excess of the maximum proportion of production allowed by the then law. By 2004, the proportion of processed products in Gabon's timber exports had increased to about 25%. The target is 75% by 2012.²⁹⁴ The proportion prior to 2012 appears to be subject to negotiation.

The average proportion of illegal timber in Gabon's timber exports assumed in this report – 50% – reflects a lack of approved management plans, the failure of a variety of concessionaires (who account for 60% of the area allocated nationwide) to pay relevant taxes. It also reflects the likely commitment of some concessionaires (or their logging contractors) to sustainable forest management and local processing as envisaged in the new Forest Code. The percentage is lower than earlier estimates – of 70%.²⁹⁵

The proportion of illegal timber entering the EU from Gabon could easily and substantially be reduced if, for example, concessionaires (primarily those who gained their concessions through political patronage) and their logging contractors routinely paid all their taxes.

It is likely that Gabon's exports will continue their current downward trend – reflecting increased (largely illegal) production of okoumé (*Aucoumea klaineana*) in neighbouring Congo (Brazzaville) until Congo (Brazzaville)'s southern forest shows clear signs of over-exploitation. Thereafter, because production of this tree species in the other range state, Equatorial Guinea, is already declining due to exhaustion, exports from Gabon may increase.

Scenario C assumes that the main EU importers of timber from Gabon (France and Italy) will only reduce their illegal timber imports to the extent that they procure from those concessions that are seeking certification to FSC or equivalent standards. It also assumes that their total imports will not change dramatically over the period.

7. East Africa

This region, here defined as Kenya, Tanzania and Mozambique is included primarily on account of the small quantities of high value, rare timber they are believed to export.

The number of tree species in Kenya and Tanzania that the IUCN Red List classifies as Vulnerable is the highest in Africa. Several species from Mozambique are also included in the IUCN Red List.²⁹⁶

Timber production and forest management in East Africa

During the last few years, China has come to dominate the region's timber exports – which derive almost entirely from Mozambique and Tanzania. Timber production in those two countries has increased sharply as a consequence. Indeed, at current levels of exploitation,

²⁹³

[http://Inweb18.worldbank.org/ESSD/envext.nsf/80ByDocName/CentralAfricaLawEnforcementAssessmentOctober2002700KBPDF/\\$FILE/ForestLawAssessmentInSelectedAfricanCountries.pdf](http://Inweb18.worldbank.org/ESSD/envext.nsf/80ByDocName/CentralAfricaLawEnforcementAssessmentOctober2002700KBPDF/$FILE/ForestLawAssessmentInSelectedAfricanCountries.pdf).

²⁹⁴ <http://www.imf.org/external/pubs/ft/scr/2005/cr05147.pdf>.

²⁹⁵ Cited in http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf.

²⁹⁶ <http://www.wcmc.org.uk/trees/Background/africa.htm>. Overall, Madagascar has more species listed on the IUCN Red List than Kenya but less than Tanzania.

the commercial and probably also the social and environmental value of substantial areas of these countries' forests will be exhausted within the next ten or so years.²⁹⁷

In contrast with the other five regions, timber production in East Africa tends to be small scale.

Timber exports from East Africa

In terms of their magnitude only, the total RWE volume of timber that the region exports to the EU is negligible to the EU – averaging less than about 15,000 cubic metres in each of the last five years. During 2004, almost all this was sawn wood (irrespective of supplying country). Mozambique supplied the majority of the total (particularly for use as flooring).

However, the EU may be importing more from this region indirectly – notably from China – in the form of manufactured goods, including musical instruments²⁹⁸, ornaments and flooring.

The factories in China in which these goods are made, may tend to specialise in making these products, will probably be few in number and will work independently or on a subcontract basis for particular brands. Consequently, the chain of supply of these goods is relatively straightforward and, if legal, should be inexpensive (relative to the price to end-users) to credibly certify as legal. However, it may of course be difficult to ascertain that corruption is not involved along the chain of supply.

Forecasts and implications for the EU

Poor governance will tend to cause a reduction in EU imports from the region (at least by those businesses that are anxious to avoid risk to their reputations). However, given the high value of the products concerned, there is hope that some producers and traders will endeavour to supply legal timber that is either from forests that are managed to FSC or equivalent standard to niche markets in the EU or of species that are listed under CITES. The RWE volume of the EU's imports from this region are so small relative to those of the other five regions and relative to those of China that a chart illustrating the region's forecast exports under the three scenarios is not provided. Given China's dominance, the EU should seek to influence governance in the region's timber/forest industry through technical assistance rather than trade *per se*.

It is likely that, if China does prohibit the import of timber that is not accompanied by a credible certificate of legality, then the timber exports of the region will drop sharply – at least initially. Thereafter, it is likely that manufacture of products made from the region's timber will be relocated from China to other countries – particularly those with which the EU does not have a partnership agreement under the FLEGT process. This would tend to cause the region's timber exports to rise again.

Consequently, end-user markets, notably the EU, should prohibit the import of timber from any country unless it is accompanied a credible certificate of legality.

However, because the quantities that the EU would import may be smaller than any threshold for a general legality licensing scheme, it is particularly important that import documentation should credibly specify the species out of which the imported product is made.

The number of tree species listed for control under CITES²⁹⁹ should be extended to cover those particularly threatened by trade. The species, which are subject to indirect trade (i.e. via

²⁹⁷ <http://www.wrm.org.uy/bulletin/96/AF.html#Mozambique>.

²⁹⁸ http://www.globaltrees.org/reso_tree.asp?id=1.

²⁹⁹ http://www.tfcg.org/pdf/article_cites.pdf.

China), should be assessed first for inclusion on that extended list. The EU should support the work needed to extend the list and enforce its application.

The EU should also provide technical assistance to ensure equitable law enforcement in the region's forest/timber sector.

Table 9: East Africa: summary of salient information

	Kenya	Mozambique	Tanzania
Timber exports in 2004 (million cubic metres RWE)	0.003	0.10	0.06
of which to EU	The majority ³⁰⁰	10%	5%
Other destinations	-	China ³⁰¹	China ³⁰² India
Main EU destinations	None in particular	Italy Portugal	Italy
Percentage assumed illegal	(-) ³⁰³	(-) ³⁰⁴	(-) ³⁰⁵
Drivers of illegal timber	Governance	Powerful interests	Governance, Road improvement
Industrial roundwood production (million cubic metres)	2.0 ³⁰⁶	1.3 ³⁰⁷	2.3 ³⁰⁸
Percentage net exports ³⁰⁹	Negligible	10%	<5%
Source giving EU optimum leverage	Technical assistance	Technical assistance	Technical assistance
Wood-based products as % of all exports	-	-	-
Wood-based industry as % of GDP	-	c4% ³¹⁰	c3% ³¹¹

³⁰⁰ The quantities declared as exports are so small as to not warrant the insertion of a percentage here.

³⁰¹ China (80%) – China's imports started rising to their current level during 1999.

³⁰² China (80%), India (10%). During 2003, China's imports jumped very sharply from an insubstantial quantity to their current level. Much of what India imports may be plantation teak.

³⁰³ No published estimate. Media reports indicate that the percentage (from natural forest) might be substantial – see <http://www.illegal-logging.info/search.php?searchTerm=Kenya&mode=bounce>.

³⁰⁴ No published estimate. Probably substantial given the surge in exports (to China) and poor governance.

³⁰⁵ No published estimate. Media reports indicate that the percentage (from natural forest) might be substantial – see <http://www.illegal-logging.info/search.php?searchTerm=Tanzania&mode=bounce>. This tends to be confirmed by studies such as http://www.traffic.org/livelihoods/chapters5_6_7_8.pdf.

³⁰⁶ "State of the World's Forests 2005" by FAO (data for 2002).

³⁰⁷ "State of the World's Forests 2005" by FAO (data for 2002).

³⁰⁸ "State of the World's Forests 2005" by FAO (data for 2002). Whereas much of Tanzania's production was attributable to the state enterprise TWICO, that enterprise is being privatised – see <http://www.unido.org/en/doc/7963>.

³⁰⁹ Although the percentages shown are small, the quality of the timber exported is high and its availability is quite rare.

³¹⁰

<http://www.fao.org/forestry/foris/webview/forestry2/index.jsp?siteId=5081&sitetreeId=18927&langId=1&geoId=0>.

³¹¹

<http://www.fao.org/forestry/foris/webview/forestry2/index.jsp?siteId=5081&sitetreeId=18927&langId=1&geoId=0>.

Table 9: Summary of salient information (contd.)

	Kenya	Mozambique	Tanzania
Importance of wood-based exports	Negligible	Substantial	Substantial
“Forest” area (million hectares)	17 ³¹²	31 ³¹³	39 ³¹⁴
Certification	Some ³¹⁵	Nil	Nil
TI 2005 Corruption Perceptions Index ³¹⁶	144	97	8

7.1 Country-specific comments relating to the forecasts and to trade in illegal timber

Kenya

The logging of “indigenous” timbers was prohibited by law in 1986.³¹⁷ The logging of state plantations was also banned – in 1999.³¹⁸ However, given that Kenya’s current President has recently expressed concern about illegal timber,³¹⁹ it seems likely that some such logging continues.

Mozambique

Mozambique’s forest is said to be able to produce, on a sustainable basis, 0.5 million cubic metres each year³²⁰ but production is only 15% of that volume.³²¹ That percentage may have applied in the past. However, another source³²² indicates that production at the end of the 1990s was about 120,000 cubic metres and this amount appears credible, judging by the quantity of milled timber produced and the RWE volume of importing country declarations for log imports from Mozambique (c20,000 cubic metres).

Thus, China’s imports have probably caused timber production in Mozambique almost to double.

³¹² Total, as in “State of the World’s Forests 2005” by FAO (data for 2000). However, the great majority of this is unlikely to be of interest to industrial, export-oriented logging.

³¹³ Total, as in “State of the World’s Forests 2005” by FAO (data for 2000). However, much of this is unlikely to be of interest to industrial, export-oriented logging.

³¹⁴ Total, as in “State of the World’s Forests 2005” by FAO (data for 2000). However, much of this is unlikely to be of interest to industrial, export-oriented logging. In contrast, Tanzania has some 80,000 hectares of plantations – see <http://www.unido.org/en/doc/7963>.

³¹⁵ http://www.panda.org/about_wwf/what_we_do/forests/news/index.cfm?uNewsID=19414.

³¹⁶ <http://www.transparency.org/cpi/2005/cpi2005.sources.en.html#cpi> Ranking: 1= least corrupt, 158 = most corrupt.

³¹⁷ http://www.wcmc.org.uk/trees/Species%20in%20trade/mil_exc.htm.

³¹⁸

<http://www.fao.org/forestry/foris/webview/forestry2/index.jsp?siteId=4621&sitetreeId=16218&langId=1&geoId=73>.

³¹⁹ <http://www.illegal-logging.info/news.php?newsId=811>.

³²⁰ http://www.iied.org/NR/forestry/documents/Study_concessions_Mozambique.pdf.

³²¹

[http://www.africansdi.com/members/iii/sdi.nsf/0/9ab74b38c085be9542256cda0034f88c/\\$FILE/Mtwara%20Factsheet.pdf](http://www.africansdi.com/members/iii/sdi.nsf/0/9ab74b38c085be9542256cda0034f88c/$FILE/Mtwara%20Factsheet.pdf).

³²² <http://www.intracen.org/sstp/Survey/wood/mozamb.pdf>. Note that this amount is of a different order of magnitude to that shown. This would be the case if the sort of timber described by the former is more akin than the latter to the sort of timber that is in international trade.

Consequently, one should expect that this major expansion in timber exports has had a substantial impact on forestry (and governance) in Mozambique.

Rather than accept the complimentary rhetoric of the international community,³²³ it may be more realistic to assume that this quantum leap in logging and trade (including foreign exchange revenues) has attracted the personal interest of powerful vested interests.

This must be recognised by those making efforts to improve governance in the forest/timber sector.³²⁴

It is understood that some if not most of the export-oriented supply of timber from Mozambique is facilitated by credit provided by (foreign) traders.³²⁵ This may well have had led some entrepreneurs to become severely compromised, inducing them to log illegally in order to pay off their debts.

It is not uncommon for such management plans as are approved to indicate that the intent is to remove all commercial timber within five years.³²⁶ Such indications of poor governance are not uncommon and have become a major concern,³²⁷ at least locally.³²⁸

Although the law requires that only a proportion (less than 60%) of Mozambique's timber exports should be in the form of logs, logs comprise well over 90% of those exports. That this is permitted is indicative of complicity in trade in illegal timber corruption at high levels. That said, an increase in investment in saw milling in Mozambique seems likely (concentrating the influence of the major enterprises).³²⁹ However, until it becomes more profitable to export sawn wood rather than logs, there will be a temptation for concessionaires to set up mills at minimal cost merely in order to appear committed to meeting legal requirements.³³⁰

Tanzania

However, it is highly probable that the new road bridge over the River Rufiji in the south east of the country will be a primary factor in increasing the flow of timber exports from Tanzania³³¹ and in reducing biodiversity in the localities it purports to serve. Funded by Kuwait, Saudi Arabia and OPEC,³³² it has opened up access to the richest remaining stands of miombo forests in the region (which were already being over-exploited).³³³

³²³ <http://www.thecornerhouse.org.uk/pdf/briefing/33mozamb.pdf>.

³²⁴ http://www.iied.org/NR/forestry/documents/Mozambique_FGLG_final.pdf and also http://www.policy-powertools.org/Tools/Engaging/docs/Mozambique_study_Johnstone_et_al.pdf.

³²⁵ <http://www.wrm.org.uy/bulletin/96/AF.html#Mozambique>.

³²⁶ <http://www.wrm.org.uy/bulletin/96/AF.html#Mozambique>.

³²⁷ <http://www.wrm.org.uy/bulletin/96/AF.html#Mozambique>.

³²⁸ <http://allafrica.com/stories/200404060453.html> and also http://www.iied.org/NR/forestry/documents/Mozambique_FGLG_final.pdf and also http://www.policy-powertools.org/Tools/Engaging/docs/Mozambique_study_Johnstone_et_al.pdf.

³²⁹ <http://ctbg.cirad.fr/ctbg/ecompl/reports/trrt40315.PDF>.

³³⁰ <http://ctbg.cirad.fr/ctbg/ecompl/reports/trrt40315.PDF>.

³³¹ http://www.tfcg.org/pdf/arc_article1.pdf.

³³² <http://www.tanzania.go.tz/government/viambatishomaguf%5CKambatanisho%20Na%205.xls>.

³³³ http://www.tfcg.org/pdf/arc_article1.pdf and also <http://www.nfp.co.tz/documents/PFM%20and%20website/Lessons%20learned%20to%20date/Jeffrey%20Lewis%20Lessons%20Learned%20in%20PFM%20Tanzania.pdf>.

It seems that although the law in respect of community forests and tree tenure has improved in recent years,³³⁴ villagers have been unable to enforce the law³³⁵ – indicating complicity in illegal logging at high levels.

Zanzibar appears to be significant as a staging post for Tanzania's exports of illegal timber.³³⁶ Tourism, one of the island's main foreign exchange earning sectors, is vulnerable to association with such trade.

The sort of timber sought by export markets tends to be that on the verge of extinction.³³⁷

8. Indonesia

Until recently, Indonesia has been described as having some of the world's richest and most extensive forests. These forests are under severe threat from illegal logging - particularly that driven by export opportunities – including within several national parks.³³⁸ Trade in illegal timber is also increasingly leading to conflict, particularly where such trade threatens the rights and livelihoods of forest people.³³⁹

Timber production and forest management in Indonesia

Table 10 is provided in order to minimise the risk that readers are misled³⁴⁰ by unqualified statistics of Indonesia's production of industrial roundwood "IRW" or forest area.

Although an annual production of two million cubic metres is said to be available from rubberwood plantations,³⁴¹ these plantations tend to be of a scale or in locations that make them unlikely to be attractive to the timber industry.

Conversion Forest accounts for the largest (and a rising) proportion of annual production. It is remarkable that this does not appear to be recognised by important external institutions, notably the World Bank.³⁴² Indeed, logs deriving from Conversion Forest do not seem to be covered by the EU's legality licensing proposals – which appear³⁴³ to focus only on HPH³⁴⁴ concessions.

³³⁴ <http://www.iucn.org/themes/fcp/publications/arborvitae/avnewsletter/arborvitae26.pdf>.

³³⁵ <http://www.illegal-logging.info/search.php?searchTerm=rufiji&mode=bounce>.

³³⁶ <http://www.ippmedia.com/ipp/guardian/2005/07/13/44302.html>.

³³⁷ <http://www.iucn.org/themes/fcp/publications/arborvitae/avnewsletter/arborvitae26.pdf>.

³³⁸ <http://www.globalforestwatch.org/common/indonesia/sof.indonesia.english.low.pdf>.

³³⁹ http://www.usaid.gov/locations/asia_near_east/sectors/env/documents/vol2_asia.pdf.

³⁴⁰ http://www.forest-trends.org/documents/publications/Indonesia%20Report_final%202008-22-05.pdf.

³⁴¹ http://rimbawan.com/april_05/Technical%20Reports/log_supply_capacity.pdf.

³⁴² <http://www.rff.org/rff/Documents/RFF-Bk-which-way-forward-ch9.pdf>.

³⁴³ <http://www.panda.org/downloads/forests/20050322indonesiacountryfactsheets.pdf>.

³⁴⁴ These (logging) concessions generate only a minority of Indonesia's formal timber production.

Table 10: Indonesia: schedule of main sources of production and forest area

2004	Planned IRW extraction ³⁴⁵	2002 (1999)			Permanent Forest Area ³⁴⁶
Designation ³⁴⁷	(million cubic metres)	Designation			(million hectares)
		Sum	A	B	
PT Perhutani	0.8	HSAW – Conservation	20	18	1
Imports	2.0	HL – Protection	32	29	3
RKT – AAC ³⁴⁸	5.7	HP – Limited	22	16	5
Plantations	7.5	HPT – Commercial	36	28	8
IPK – Conversion	10.7	HPK – Conversion	14	14	0
Informal	15.6	Other ³⁴⁹	8	-	-
Total	42.3		131	105	18

Much of the Conversion Forest seems to have been allocated to those major timber groups that have either had their former HPH concessions³⁵⁰ revoked (for malpractice) or had to reduce the output from their HPH concessions (because the Annual Allowable Cut that applied to those concessions had been reduced).

Published information on which enterprises have been allocated substantial areas of Conversion Forest (and where such forest is located) is not readily available. Further, information about how much AAC is allocated within each concession is also not readily available.

Such lack of transparency arouses suspicion (irrespective of any BRIK documentation³⁵¹), adding to the difficulties which those concessionaires who have a credible Allowable Cut may have in assuring prospective buyers of the legality of their timber. It also denies those concessionaires the opportunity to obtain a price premium for their output.

³⁴⁵ <http://www.asiaforests.org/doc/events/ITTOWS/Illog/Banjar.ppt>.

³⁴⁶ <http://www.dephut.go.id/INFORMASI/STATISTIK/Stat2002/Baplan/Baplan.htm>. Note that the area for HPK forest excludes the area of marine reserves (KP); data in column A are for 2002 and excludes North Sumatera, Riau and Central Kalimantan; data in column B are for 1999 and refers solely to those three provinces. Some sources indicate that actual cover of Permanent Forest is somewhat less than indicated here. Given that much Conversion Forest ceases to be forest once logged, it would be rather odd to continue to describe the area logged as either permanent or forest. Although permission may have been granted to replace Conversion Forest by palm oil plantations or pulpwood farms, several million hectares of the area thus approved has been cleared and subsequently abandoned – see <http://www.globalforestwatch.org/common/indonesia/sof.indonesia.english.low.pdf>.

³⁴⁷ The designations are assumed from abbreviations given in the source and should not be relied on; the teak plantations of PT Perhutani used to be the jewel in the crown of Indonesia's forest-timber sector, however poor governance and theft have warranted the withdrawal of all the FSC certificates which had been granted – a consequence being that Indonesian teak furniture exports (a major source of foreign exchange) has lost its prestige and price premium.

³⁴⁸ This statistic is often (and very misleadingly) presented as if it were the Annual Allowable Cut for Indonesia as a whole.

³⁴⁹ http://rimbawan.com/april_05/Technical%20Reports/log_supply_capacity.pdf.

³⁵⁰ Logging concessions in Production Forest or Limited Production Forest.

³⁵¹ A joint Indonesian industry / government initiative to certify the legality of timber exports; BRIK has little credibility outside Indonesia – <http://www.odifpeg.org.uk/publications/reports/IFM%20Paper/IFM%20Final.pdf>.

Further, the trade federations of a number of EU member states have published reports that show that, despite BRIK documentation to the contrary, none of the several mills they audited could provide credible assurance that their wood raw material was legal.³⁵² Their findings have tended to be confirmed by the response of the Indonesian authorities – to reduce substantially the number of audits they carry out themselves (thereby minimising further embarrassment and to defer remedial action)

The very great majority of HPH concessions have not been gazetted.³⁵³ Gazettement is a fundamental requirement of the law. Failure to respect this has led to animosity, particularly between forest people and logging companies (and in-migrants), enabling the police and military to justify a presence (the better to engage in trade in illegal timber – to supplement their institutions' budgets and private incomes).³⁵⁴

Some 75% of Indonesia's poor live in rural areas and probably half of these are affected by what happens inside state forestlands, which make up 60% of the country's land area.³⁵⁵

Clearly, properly addressing the issue of forest people may not only eliminate a primary source of illegality from Indonesia's timber exports but it may also contribute substantially to efforts to alleviate poverty – and resentment against in-migrants and the timber industry – in that country. Doing so would of course make it even more difficult for the Indonesian military to justify remaining in the areas affected.

Particular rigour should be applied to scrutiny of the legality and chain of supply of wood-based products supplied by enterprises connected to either the Indonesian military or the Indonesian police – who are deeply involved, despite conflict of interest, in Indonesia's forestry/timber sector.³⁵⁶

Corruption is one of the main impediments to legality in Indonesia's wood-based products industry.³⁵⁷ It is unlikely that the rapid degradation of Indonesia's forests, and hence its natural resource base (and increased erosion, landslides, flooding, etc) will be halted without reducing corruption generally in Indonesia and particularly in the forestry/wood-based products sector.³⁵⁸ Transparency will be crucial if entrenched and influential vested interests against reform are to be neutralised.³⁵⁹

Suggestions which, if implemented, might help reduce pervasive illegality in the sector include requiring performance bonds from all major concessions³⁶⁰ and an anti illegal logging task force, which reports direct to the head of state.³⁶¹ For BRIK documentation to be credible, an Independent Observer should be appointed to audit that documentation.

³⁵² www.illegal-logging.info/papers/TTF_Indonesia_TFBL.ppt.

³⁵³ http://www.illegal-logging.info/papers/TNC_final_report.doc

³⁵⁴ <http://siteresources.worldbank.org/INTINDONESIA/Resources/Publication/03-Publication/Combating+Corruption+in+Indonesia-Oct15.pdf>.

³⁵⁵ <http://siteresources.worldbank.org/INTINDONESIA/Resources/CAS/CAS04-07.pdf>.

³⁵⁶ <http://siteresources.worldbank.org/INTINDONESIA/Resources/Publication/03-Publication/Combating+Corruption+in+Indonesia-Oct15.pdf> and also http://www.usaid.gov/locations/asia_near_east/sectors/env/documents/vol2_asia.pdf.

³⁵⁷ <http://www.itto.or.jp/live/contents/download/tfu/TFU.2002.01.English.pdf>.

³⁵⁸ http://www.usaid.gov/locations/asia_near_east/sectors/env/documents/vol2_asia.pdf.

³⁵⁹ <http://siteresources.worldbank.org/INTINDONESIA/Resources/Publication/03-Publication/Combating+Corruption+in+Indonesia-Oct15.pdf>.

³⁶⁰ http://www.itto.or.jp/live/Live_Server/202/E-C31-10.zip see section entitled Report.

³⁶¹ <http://www.itto.or.jp/live/contents/download/tfu/TFU.2002.01.English.pdf>.

Indonesians themselves are increasingly learning how to investigate and publicise cases of illegal logging – in particular in gaining robust evidence with which to convict key individuals – but this may need external support.

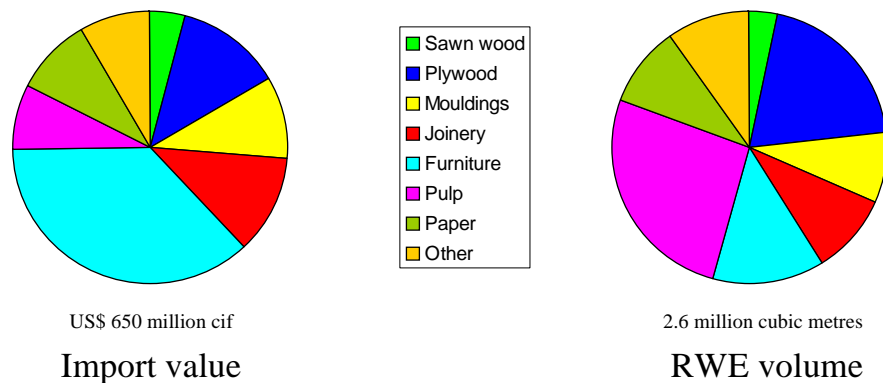
The excess of processing capacity relative to log availability tends to induce the supply of illegal timber. Consequently, a major reduction in this capacity will be needed if such supplies are to be minimised. This should not be a burden to most mill owners; the great majority of Indonesia’s mills will by now be fully depreciated.

Timber exports from Indonesia

The RWE volume of the declared exports of Indonesia’s timber sector has remained remarkably constant for most of the last decade, at about 25 million cubic metres. The exception being the last couple of years, when the amount declared has noticeably declined. Some of the decline is probably attributable to competition (from China)³⁶² and to exhaustion of Indonesia’s forest (rather than as a response to Indonesia’s reputation for trade in illegal timber). However, there is little evidence that Indonesia is anxious either to address this apparent lack of competitiveness or to maximise the potential of its natural forest. Perhaps the trade component of the EU’s FLEGT Support Project will assist in this.

Japan ought to be taking a much more prominent and effective role in combating illegal logging.³⁶³ Japan is the main destination for Indonesia’s timber sector exports and dominates Indonesia’s plywood market. Japan’s general trading companies continue to have a major role in facilitating this trade,³⁶⁴ and in supplying (what may well be illegal) timber from Indonesia and elsewhere to countries such as China and the USA.³⁶⁵

Charts 9 & 10: Analysis of the EU’s wood-based product imports from Indonesia during 2004



Charts 9 and 10 are included primarily in order to illustrate that the legality licensing proposed by the EU for voluntary bilateral partnerships will not even cover one quarter of the RWE volume of the EU’s imports of wood-based products from Indonesia.³⁶⁶

³⁶² http://www.itto.or.jp/live/Live_Server/1049/mis20050902.pdf.

³⁶³ As with China’s illegal timber exports, amongst the countries that are most culpable in promoting such exports are those that wish either to maintain proximity to their supplier country’s raw materials or to sell aircraft, high speed trains and nuclear power sector services and military equipment.

³⁶⁴ "Shadows in the Forest: Japan and the politics of timber in Southeast Asia" by Peter Dauvergne (1997).

³⁶⁵ <http://forestalert.org/forest.php?id=74&lang=en>.

³⁶⁶ Legality licences are required for logs, sawn wood, veneer and plywood only.

Whereas the import value per unit of RWE volume of this pulp is somewhat less than the average for the EU's wood-based product imports from Indonesia, that of the EU's imports of wooden furniture is somewhat higher than that average. This explains why the sizes of the "pie slices" differ between each of the charts presented.

Indonesia has banned the export not only of logs but also sawn wood (of a thickness greater than 6 mm).³⁶⁷ This may prompt the misclassification of such sawn wood as mouldings – or the laundering of such products by smuggling them out of Indonesia and re-classifying them as of Malaysian origin prior to their being imported by China.³⁶⁸

Forecasts and implications for the EU

Chart 11: Indonesia: past trends and forecast exports – timber sector. (Note: chart does not show illegal timber for the period 1999-2004)

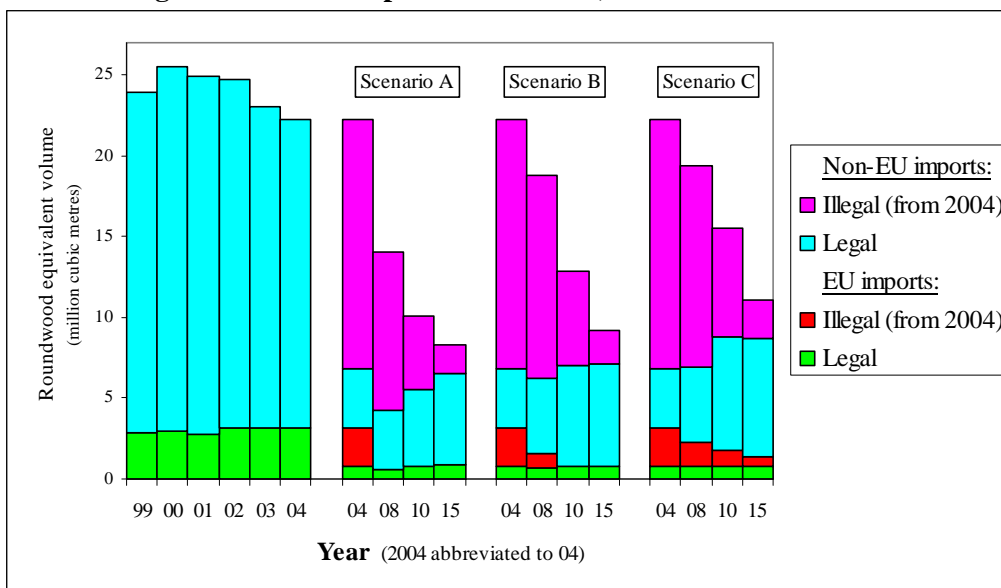


Chart 11 indicates that the decline in Indonesia's timber sector exports, which started in 2001, will accelerate progressively during the period of the forecast – reflecting exhaustion of the forest.

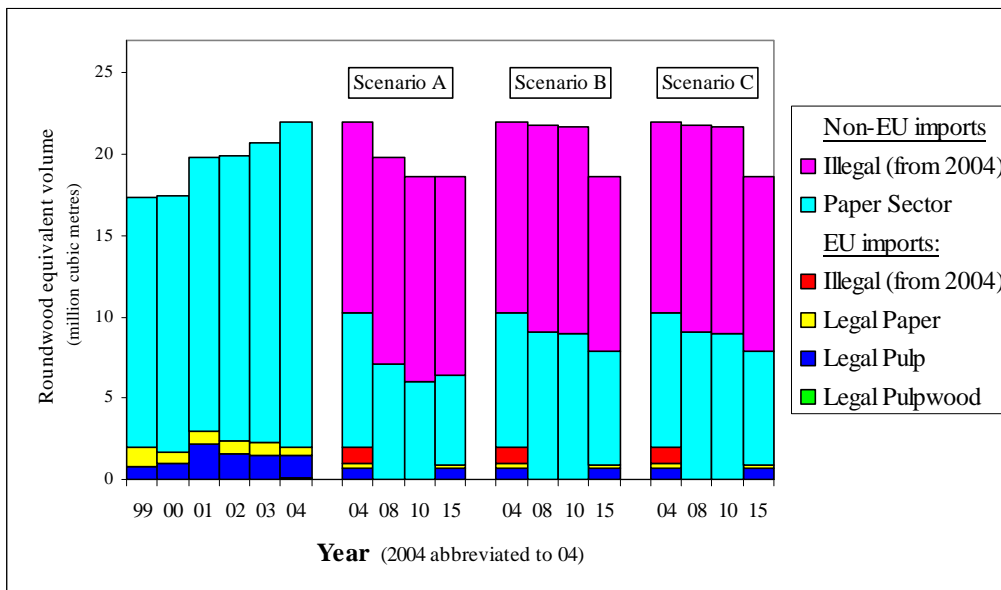
The scenarios also take into account that Indonesia's reputation for poor governance is likely to persist – which would tend to increase the downwards trend in EU imports.

Government revenue from the timber sector need not reduce nearly as much as the decrease in log production – if the government seriously sought to eliminate the fraud and corruption that drive much of current illegality. Further, one can expect unit prices to rise with the scarcity of suitable forest in Indonesia (and Malaysia).

³⁶⁷ <http://www.panda.org/downloads/forests/20050322indonesiacountryfactsheets.pdf>.

³⁶⁸ <http://www.globaltimber.org.uk/MirrorStatistics.htm>.

Chart 12: Indonesia: past trends and forecast exports – paper sector. (Note: Chart does not show illegal timber for the period 1999-2004)



The forecasts shown in Chart 12 indicate that the EU will probably cease to import pulp or paper from Indonesia prior to 2008 and will only restart such imports when Indonesia's major mills:

- cease using natural forest as their feedstock;
- certify (to FSC or equivalent standard) that their pulpwood derives from sustainably managed plantations on land that was not cleared of natural forest to make way for the plantation;
- credibly certify that their chain of supply from forest to customer is legal – not least to ensure that their products do not derive from Indonesian pulp that has been laundered through (affiliated mills) in China; and,
- demonstrate that their businesses are being operated properly (including without fraud, particularly in relation to debt repayments).

Scenario A indicates that production might decline, as it would if plantations continued to fail to supply some pulp mills and measures were in place to prevent exploitation of natural forest for use as pulpwood. Scenarios B and C envisage that production of pulp and paper will remain constant – i.e. that no further pulp mill capacity will be installed – until after 2010. Thereafter, installed capacity may decline as owners with a poor record for fraud, loan repayments and pulpwood supply find it difficult transparently to obtain suitable funding for the replacement of their existing equipment. The scenarios also assume that China will continue to be willing to purchase the majority of the exports of Indonesia's Paper Sector.

Table 11. Indonesia: Summary of salient information

	Indonesia (Timber Sector)	Indonesia (Paper Sector)
Timber exports in 2004 (million cubic metres RWE volume)	22	24 ⁱ
of which to EU	15%	10%
Other destinations	China, Japan ⁱⁱ	China, Korea, Japan ⁱⁱⁱ
Main EU destinations	Belgium, Germany, Netherlands, UK	France, Italy
Percentage assumed illegal	80% ^{iv}	(as Timber Sector) ^v
Drivers of illegal timber	Powerful interests; Enforcement authorities	Powerful interests; Fraud
Industrial roundwood production (million cubic metres) ^{vi}	(30), ^{vii} 17 to 20, ^{viii} 33, ^{ix} 60, ^x 66 to 82 ^{xi}	6 ^{xii} +19, ^{xiii} 8+21, ^{xiv} 27 ^{xv}
Imports (million cubic metres RWE volume)	0.5 ^{xvi}	4 ^{xvii}
Industrial roundwood consumption (million cubic metres RWE volume)	3.5, ^{xviii} c43 ^{xix}	-
Net exports as a proportion of production	-	c80%
Source giving EU optimum leverage	Trade; Technical Assistance	Financial transparency
Wood-based products as % of all exports	10% ^{xx}	
Wood-based industry as % of GDP	2% ^{xxi}	
Importance of wood-based exports	Substantial	Substantial ^{xxii}
“Forest” area (million hectares)	See Exhibit	-
Coverage by current or recent concessions	Most of the forest available	Some plantations still unsatisfactory ^{xxiii}
Certification	Some ^{xxiv}	nil
TI 2005 Corruption Perceptions Index ³⁶⁹	137	137

Notes to Table 11

ⁱ The RWE volume of Indonesia's paper sector exports rose strongly during mid to late 1990s but has increased much slower since then.

ⁱⁱ China 15% (but might be as much as 20% if one includes timber fraudulently or otherwise supplied as if it were from Malaysia). Japan 30%, primarily as plywood.

ⁱⁱⁱ China 35%, primarily as pulp (probably to supply paper mills within the same corporate group – e.g. APP and APRIL – some of whose production is destined for export). South Korea 15%. Japan 10%.

^{iv} The figure 73% cited in http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf (the source of the great majority of the percentages of illegal timber adopted in this report) is here deemed to underestimate current reality. For example, considering whether concessions have been properly gazetted might lead one to recommend use of a percentage even higher than 80%.

^v This amount might overestimate the average percentage of illegal timber. The average should reflect the individual contributions of each of the four major exporters of paper and/or pulp (two of these account for 75% of Indonesia's pulp milling capacity – http://www.forest-trends.org/documents/meetings/Beijing_2004_sept/Chris%20Barr.pdf). The percentage should take into account any corruption and fraud during the initial phases of their development (i.e. prior to full scale operation of the mills and prior to the establishing of pulpwood plantations – see for example [http://lnweb18.worldbank.org/eap/eap.nsf/Attachments/FLEG_S4b-2/\\$File/4b+2+Chris+Barr+-+CIFOR.pdf](http://lnweb18.worldbank.org/eap/eap.nsf/Attachments/FLEG_S4b-2/$File/4b+2+Chris+Barr+-+CIFOR.pdf)) and during subsequent refinancing, if any.

^{vi} The Sustainable Annual Harvest from Indonesia's natural forest is said to be 25 million cubic metres – <http://www.rff.org/rff/Documents/RFF-Bk-which-way-forward-ch9.pdf>. However, it is not clear to what sort of forest this statistics refers.

^{vii} “The State of the World's Forest 2005” by FAO and “Annual Review and Assessment of the World Timber Situation 2004” by ITTO. Note that what these sources report is somewhat constrained by the data they receive from their member governments. Note also that these sources would be rather misleading if, as one might expect, they include pulpwood – i.e. they might grossly underestimate reality.

^{viii} http://www.asiaforests.org/files/_ref/events/ITTOWS/Illog/DAY3Banjar.htm.

^{ix} Based on Table 4 of <http://www.infid.be/Forestry.pdf> this estimate makes the same assumptions as in Table 9-1 of <http://www.rff.org/rff/Documents/RFF-Bk-which-way-forward-ch9.pdf>. It also assumes that the source refers to output capacity not log input volume (for which the estimate would

³⁶⁹ <http://www.transparency.org/cpi/2005/cpi2005.sources.en.html#cpi> Ranking: 1= least corrupt, 158 = most corrupt.

be 23 million cubic metres, making the sum of RWE volumes in the timber and paper sector 50 million cubic metres, not 60 million as mentioned later in the text).

^x <http://www.illegal-logging.info/news.php?newsId=106>.

^{xi} <http://www.rff.org/rff/Documents/RFF-Bk-which-way-forward-ch9.pdf> (citing two sources for 1997).

^{xii} Note that this amount refers solely to supplies from pulpwood plantations supplies – cited in http://rimbawan.com/april_05/Technical%20Reports/log_supply_capacity.pdf for the year 2001.

^{xiii} Tables 2,3&4 of http://rimbawan.com/april_05/Technical%20Reports/log_supply_capacity.pdf indicate that, for 2002, 20 or so million cubic metres RWE volume of pulpwood from natural forest in Indonesia was probably consumed by Indonesia's pulp mills.

^{xiv} http://www.forest-trends.org/documents/meetings/Beijing_2004_sept/Chris%20Barr.pdf suggests that, for 2003, 70% of Indonesia's pulpwood supplies derived from natural forest.

^{xv} Table 4 of <http://www.infid.be/Forestry.pdf> Based on pulp mill capacity 5.9 million tonnes at an RWE volume of 4.5 cubic metres per tonne of capacity.

^{xvi} Gross anomalies in Indonesia's declared import statistics tend to make it impracticable to estimate the RWE volume of the imports of Indonesia's timber sector.

^{xvii} The RWE volume of the imports of Indonesia's paper sector has remained at about this level since the late 1990s.

^{xviii} http://www.asiaforests.org/files/_ref/events/ITTOWS/Illog/DAY3Banjar.htm. Note that this amount represents an implausibly low rate of consumption *per capita* – a figure nearer 0.1 cubic metre per person might be closer to the rate of consumption in countries with comparable economies.

^{xix} Data for 1997 and 1998 in Table 1 of

<http://www.rnr.lsu.edu/lfpdc/unece/Logging/documents/Causes%20of%20Illegal%20Logging.pdf>.

^{xx} <http://siteresources.worldbank.org/INTINDONESIA/Resources/CAS/CAS04-07.pdf> It is unclear whether this statistic, which probably relates to 2002, is confined only to wood-based products.

^{xxi} http://siteresources.worldbank.org/INTINDONESIA/Resources/Country-Data/National_Inc_Accts.pdf This percentage might appear remarkably small.

^{xxii} One might argue that exports by Indonesia's paper sector are rather more significant economically than those of its timber sector in so far as the former sector is far more indebted to the Indonesian state than is the latter. However, this should not be used as an excuse by any paper sector company to justify its continued use of natural forest, including that in conservation areas, as pulpwood.

^{xxiii} For example, the largest pulp manufacturer, Asia Pulp and Paper, planned to use natural forest for the great majority of its pulpwood supplies during 2004 and 2005 – see http://www.wwf.or.id/attachments/SAP_Final.pdf – not least due to the failure of its plantations to meet projected yields.

^{xxiv} See for example http://www.rainforest-alliance.org/news/2005/erna_djuliawati.html, <http://www.tropicalforesttrust.com/news/fscplywood.htm> and <http://www.fsc-info.org/default.htm> FSC certificates have been withdrawn from the state controlled teak plantation company PT Perhutani – which supplied Indonesia's formerly prestigious outdoor furniture industry. The award of FSC certificates to a number of other concessionaires has led to controversy – see <http://www.rainforestfoundationuk.org/files/FSC.01.pdf>.

The range of figures for production given above in Table 11 and discussed in the notes for this table indicates that processing capacity greatly exceeds log availability. Inevitably, such an excess tends to promote the supply of illegal timber. Consequently, a substantial reduction in this capacity is essential if such illegal supplies are to be minimised. This should not be a burden to most mill owners because the great majority of Indonesia's mills will by now be fully depreciated.

China, Japan and the Republic of Korea – which are major destinations for Indonesia's (declared and, particularly in the case of China, undeclared³⁷⁰) wood-based product exports – each have a Memorandum of Understanding with Indonesia. However, it seems that these bilateral gestures have not led to demonstrable improvement in their trade practice with Indonesia.³⁷¹ The only bilateral (or multilateral) programme, which has generated real hope for tangible improvement, is the Memorandum of Understanding with the UK.³⁷²

³⁷⁰ <http://www.globaltimber.org.uk/MirrorStatistics.htm>.

³⁷¹ The most notable outcome of that with China has been the *exposé* (neither by China nor Indonesia) of a huge (i.e. highly conspicuous) smuggling racket – see <http://www.eia-international.org/cgi/news/news.cgi?t=template&a=242&source=>. Perhaps the most notable outcome of that with the Republic of Korea is the continuation of large scale logging activities in West Papua (implicitly illegal) of one of Korea's flagship enterprises in Indonesia – see <http://www.korindo.co.id/eng/about/ceo2.asp>.

³⁷² http://www.illegal-logging.info/papers/1_Indonesia-UK_MoU.pdf.

Box 5

Making more from tropical timber

There is widespread recognition that tropical timber is in increasingly short supply - due to unsustainable (and often implicitly illegal) forest management.

A significant proportion of trade in tropical timber is in products that do not need to contain 100% tropical timber in order to be fit for their intended purpose. Such cases tend to be those in which the product competes on the basis of price, not on the superior technical or aesthetic qualities of tropical timber.

China recognises this and is taking market share from tropical timber producing countries – notably Indonesia – in this price-sensitive, undifferentiating sector.

Further, the timber industries of these producer countries show little sign of seeking to diversify, and those countries' administrations appear to condone if not personally benefit from the (often illegal) supply of the very raw material with which China uses to compete against them.

The inclusion of illegal timber in a composite wood product will of course give that product an unfair price advantage when competing with a similar product that does not include illegal timber.

With this in mind, the EU should extend its efforts to minimise trade in illegal timber from producer countries (including those within the EU) so that they not only address imports from processing countries specifically China, but that they also cover composite wood products – whether or not the core to which the illegal timber is fixed is certified to FSC or equivalent standards.

Promotional effort by the trade, both for tropical and other species from natural forest, should target particular market niches – including boat building – and should perhaps be increased in order to ensure that the often superior technical and aesthetic qualities of such timber are more widely recognised and sought after. The rewards are likely to more than compensate for the costs and should help assure a future for such forest.

9. The Russian Federation

Timber production and forest management in Russia

Forests, which supply most of Russia's wood-based product exports, are located primarily in Eastern Russia (Siberia and Russia's Far East and Northwest Russia.³⁷³ The former mainly supplies Russia's wood-based product exports to East Asia. The latter supplies most of the wood-based products that the EU imports from Russia. Much of the forest in these two areas is characterised by slow growth and fragile environments.³⁷⁴ Much of it is of little interest to industrial logging due to its current inaccessibility,³⁷⁵ the mix of its tree species and the quality of its stands of timber.

Although this might assist conservation in these parts of Russia, it also tends to indicate that the area of commercially attractive forest may become a constraint on logging rather sooner than might generally be anticipated.

³⁷³ <http://www.fas.usda.gov/gainfiles/200502/146118885.pdf>.

³⁷⁴ http://194.84.38.65/files/esw/files/Forestry_Russia_PolicyNote_eng%20.pdf.

³⁷⁵ <http://www.forest.ru/eng/problems/forests.html>. Note that governments (and other donors) should not fund roads whose primary users will be the timber-paper industry especially if the wood flows are likely to derive from unsustainable sources or otherwise be illegal. Such funds would be subsidies.

Fires, initiated primarily by lightning, have been the greatest cause of forest loss in Russia, especially in parts of eastern Russia.³⁷⁶ In some areas, this may change the species mix of the forest³⁷⁷ and perhaps reduce the long-term value of the area affected. However, in order to export timber to China from forest that would otherwise be illegal to log,³⁷⁸ forest fires are increasingly being started deliberately. These (criminal) acts are being committed in order to “justify” logging for “sanitary” purposes. Although the impact of man-made fire on forest ecosystems tends to differ from that of natural fire, they both generate large quantities of the “greenhouse” gas CO₂ wherever they take place, including in the tropics.

Further, particularly in Northwest Russia,³⁷⁹ logging is causing the species mix of the forest to change. This tends to seriously effect the commercial attractiveness of the forest, particularly where, if logging is too intense or reforestation is inadequate, large areas of high conservation value and old-growth forest are being converted into secondary forest or wasteland.

If the national Annual Allowable Cut³⁸⁰ reflects the potential commercial interest of the timber industry (and this is an important *caveat*), then it would appear that Russia could export a significantly increased RWE volume of wood-based products.

This would tend to attract foreign investment. However, such investment, including any export credit guarantees, should of course not be made available for mills whose raw material is likely to include a significant proportion of illegal timber.

Timber exports from Russia

In terms of RWE volume, Finland is much the largest (initial) destination for Russia’s timber and pulpwood exports to the EU. Finnish enterprises probably account for much of the EU’s private investment in the wood-based products sector in Russia. Consequently, entities representing Finland’s Timber and Paper sectors should have a major role in facilitating the Europe and North Asia FLEG process, including being audited for progress towards the purported aims of that process.

Italy and Germany have tended to be the EU’s leading importers of Russia’s pulp. For Russian paper, the leading importers have tended to be Germany and the UK. Finland is much the biggest EU importer of Russian pulpwood, followed by Sweden.

China dominates the timber exports of (and implicitly has a major impact on timber production in) Eastern Russia.

³⁷⁶ http://194.84.38.65/files/esw/files/Forestry_Russia_PolicyNote_eng%20.pdf.

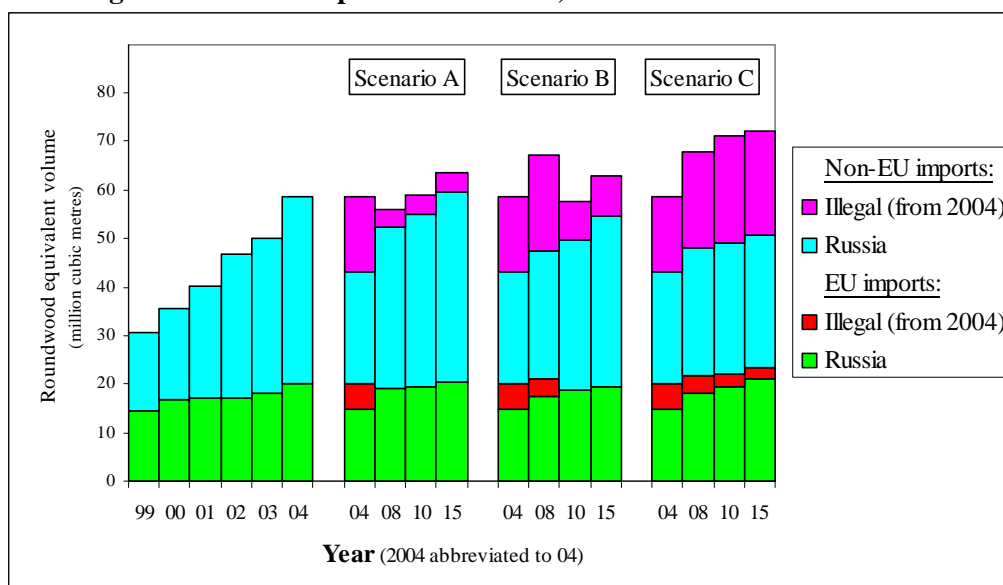
³⁷⁷ <http://www.forest.ru/eng/publications/north/02.htm>.

³⁷⁸ http://194.84.38.65/files/esw/files/Forestry_Russia_PolicyNote_eng%20.pdf.

³⁷⁹ http://194.84.38.65/files/esw/files/Forestry_Russia_PolicyNote_eng%20.pdf.

³⁸⁰ See Glossary (under Annual Allowable Cut).

Chart 13: Russia: past trends and forecast exports – timber sector. (Note: chart does not show illegal timber for the period 1999–2004)



The scenarios illustrated in Chart 13 assume that EU imports of legal timber will rise throughout the forecast period,³⁸¹ not necessarily from Northwest Russia. Scenario C assumes that public procurement policies such as those in the UK will both directly and indirectly cause a reduction in Russia’s illegal timber exports – anticipating that Finnish and Swedish timber manufacturers will seek to eliminate illegal Russian timber from the products that they seek to sell in those countries that have such policies.

Scenario C assumes that the increase in Russia’s timber exports is likely to derive almost entirely from an increase in illegal timber. It also assumes that Russia’s legal timber exports will be less than those in Scenarios A and B.

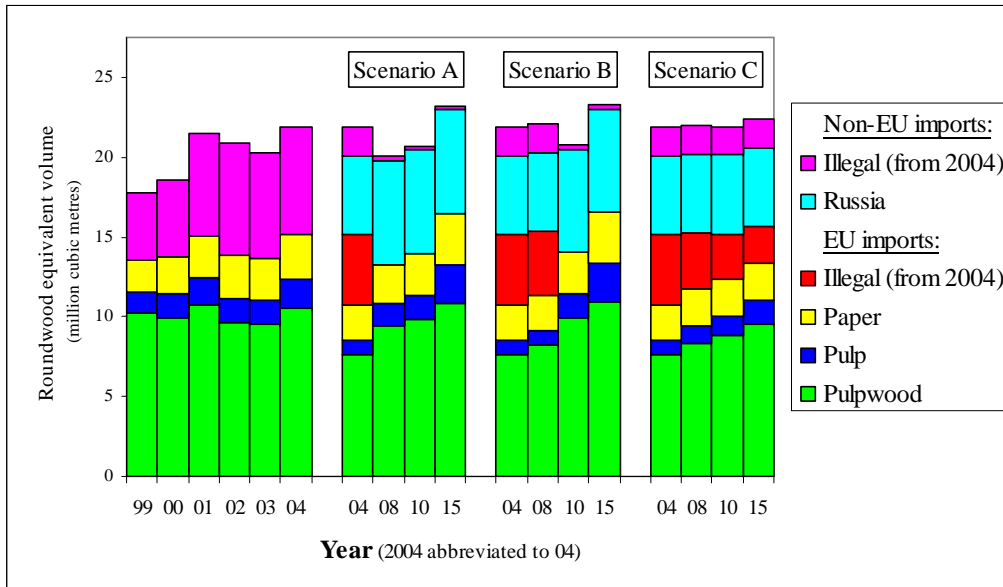
Scenario C assumes a slowdown in the rate of growth of China’s imports between 2010 and 2015. That assumption reflects the likelihood that concern about the sustainability of forest management in eastern Russia will rise so sharply both within Russia and beyond that the government will have to give serious attention to combating the export of illegal timber to China. A start has been made.³⁸² Russia’s task would be easier if China were then also under pressure from its main export market, the USA, to eliminate the use of illegal timber in the wood-based products China exports. However, for this to happen, the EU would probably have had to extend its FLEGT process to include China prior to 2008. The decline in 2015 assumes that such pressure on China will be effective. If it is not, this will of course increase the risk of embarrassment to China and particularly the sponsors of its Olympic Games in 2008.

³⁸¹

http://www.efi.fi/attachment/f5d80ba3c1b89242106f2f97ae8e3894/8c229d17c99d4c4980c8703e4369865a/TR_19.pdf.

³⁸² http://www.illegal-logging.info/papers/FLEG_News_No1.pdf.

Chart 14: Russia: past trends and forecast exports – paper sector. (Note: chart does not show illegal timber for the period 1999–2004)



The scenarios illustrated in Chart 14 assume that imports of pulp and paper will remain constant throughout, except for during the last period of Scenarios A and B, by which time the investment climate may have improved sufficiently to warrant investing in additional mill capacity. Funds for that additional capacity should be conditional on credible guarantees of sufficient legal supplies from sustainably managed forest. This is so as to allay the probable anxiety of reputable investors who wish to minimise their exposure to reputational and other risks until Russia's image as a purveyor of illegal timber from unsustainably managed forest improves.³⁸³

The scenarios reflect the likelihood that EU imports of pulpwood are likely to rise slightly (continuing the apparent trend of the previous six years). Scenario C forecasts that the illegal timber content of that pulpwood will reduce, as Finnish and Swedish enterprises increasingly certify the legality of their supply chains and the forest origins of their imports – in order to protect their reputations and businesses prospects.

³⁸³ Reputable investors should also be conscious of the financial risks of investing in the sector on account of the fraudulent practices of the Paper Sector in Indonesia (and now also China).

Table 12: Russia: Summary of salient information

	Russia (Timber Sector)	Russia (Paper Sector)
Timber exports in 2004 (million cubic metres RWE volume)	59 (10) ⁱ	25
of which to the EU	35%	60%
Other destinations	China, ⁱⁱ Japan, West Asia & North Africa	China
Main EU destinations ⁱⁱⁱ	Estonia, Finland, Germany, Latvia, Sweden, UK	Finland
Percentage assumed illegal	27% ^{iv} ($\pm 50\%$) ^v	As Timber Sector ^{vi}
Drivers of illegal timber	Trade ^{vii}	Trade
Annual Allowable Cut ^{viii}	609, ^{ix} 500 ^x	
Industrial roundwood production ^{xi} (million cubic metres)	110, ^{xii} 187, ^{xiii} 180, ^{xiv} 125, ^{xv} 81 to 97 ^{xvi}	
Industrial roundwood consumption (million cubic metres RWE volume)	256 ^{xvii}	
Net exports as a proportion of production	Substantial	Substantial
Source giving EU optimum leverage	Trade	Trade
Wood-based products as % of all exports		
Wood-based industry as % of GDP		
Importance of wood-based exports	Substantial	Substantial
“Forest” area (million hectares) ^{xviii}	722 ^{xix} , 760, ^{xx} 851 ^{xxi}	
Coverage by current or recent concessions	-	-
Certification	Increasing ^{xxii}	
TI 2005 Corruption Perceptions Index ³⁸⁴	126	

Notes to Table 12

ⁱ <http://www.fas.usda.gov/gainfiles/200502/146118885.pdf> - log exports for the year 1990.

ⁱⁱ China's imports have risen very strongly since the mid 1990s. The main driving force behind for much of this was efforts to replace supplies of similar species from forest in China, which has become subject to China's Natural Forest Protection Programme. The main impetus will now derive from growth in end-usage within China and, of greater relevance to this report, the willingness of export markets such as the EU and USA to procure (Russian) wood-based products that derive from unsustainable sources (including illegal timber) after they have been processed in China.

ⁱⁱⁱ Much of the wood-based products that Finland and Sweden (also Estonia and Latvia) import from Russia is probably processed in those countries and then exported.

^{iv} This report adopts the figure 27% for Russia's timber sector exports other than to East Asia. That figure is derived – for North West Russia – in <http://www.wwf.de/imperia/md/content/pdf/waelder/ruslandstudie1.pdf> and it supersedes the 36% suggested in earlier work, which seems to have underestimated the RWE volume of Russia's plywood production for 2001. A recent report, which provides a detailed critique of that estimate and which uses different data and a more wide ranging analysis, suggests that 15% rather than 27% would better estimate what that 27% figure does. WWF has not yet had the opportunity to respond. Whether one adopts 15% or 27% or makes allowance for the efforts particular countries (notably Finland) have made since 2001 (the year to which that 27% figure pertains) to minimise their imports of illegal timber from Russia, not only would the ranking presented in the Executive Summary probably stay the same but Russia would probably remain the EU's leading supplier of illegal timber. Those two conclusions would seem rather more salient to this report than the figure actually adopted in this report – this report of course illustrates how, during the forecast period, Russia's illegal timber exports might change relative to their notional amount at the start of the period.

^v The percentages applicable for timber exports from eastern Russia (which account for roughly half of Russia's timber sector exports) are considerably larger than those applicable to North West Russia. Given the scale and rate of increase of China's timber imports from Russia (and given the response of Russia's authorities), one might expect that percentages of illegal timber in the production of timber in eastern Russia (and its export) which were estimated during the first years of this decade might underestimate current reality.

^{vi} The percentages adopted in this report for the timber sector are likewise adopted for the paper sector. The paper sector's exports are dominated by pulpwood exports to Finland and pulp exports to China. Consequently, one should estimate illegal percentages for the flows to each of these countries

³⁸⁴ <http://www.transparency.org/cpi/2005/cpi2005.sources.en.html#cpi> Ranking: 1= least corrupt, 158 = most corrupt.

in order to estimate more robustly the illegal timber exports of Russia's paper sector. Further, the nature of the supply of pulpwood to mills in Russia may differ from that of Russia's timber sector exports – the majority of a mill's pulpwood supplies might derive from forest in which the mill has long term logging rights – and one should consider whether there might have been significant illegality in connection with the financing of the mills that have been built or expanded since the Soviet era.

^{vii} Poor governance is likely to be a primary driver of illegality in eastern Russia's timber sector – and this is likely of be case primarily in connection with China's imports.

^{viii} See Glossary. Note that, for North West Russia Administrative Region (9 "oblast"), timber production is said to be roughly 40% of the Annual Allowable Cut "AAC" (source: WWF internal communication 19 October 2005) whereas others consider that production in North West Russia is (on average but with widespread variation between localities) currently close to the subregion's AAC (see <http://www.metla.fi/julkaisut/workingpapers/2005/mwp007.pdf>).

^{ix} WWF internal communication 19 October 2005 – data for 2004 relating to Russia as a whole. Of some 300 million cubic metres might be coniferous – see <http://www.fas.usda.gov/gainfiles/200502/146118885.pdf> (25% of 300 million m³ = c81million m³).

^x The amount some sources indicate pertained during the last ten years – for example <http://www.metla.fi/julkaisut/workingpapers/2005/mwp009.pdf>.

^{xi} Some of the differences between these figures might be accounted by their inclusion or exclusion of data for the Ministry of Defence.

^{xii} Source cited by others: Federal Forest Agency

^{xiii} Source cited by others: Ministry of Natural Resources – data for year 2004; for year 2000 150 million cubic metres

^{xiv} http://194.84.38.65/files/esw/files/Forestry_Russia_PolicyNote_eng%20.pdf – data for year 2000

^{xv} "State of the World's Forests 2005" by FAO (data for 2002).

^{xvi} <http://www.fas.usda.gov/gainfiles/200502/146118885.pdf> ble-1.html – data for year 2004.

However, the RWE volume of Russia's timber exports (a small proportion of which will have derived from imports) appears to have exceeded the lower of the two quantities.

^{xvii} <http://www.fas.usda.gov/gainfiles/200502/146118885.pdf> - data for year 1990.

^{xviii} The source http://194.84.38.65/files/esw/files/Forestry_Russia_PolicyNote_eng%20.pdf indicates that the area (but not necessarily the commercial quality) of Russia's forest has increased since the Soviet era due in part both to the reduction in domestic consumption within Russia and to the abandonment of farms that have ceased to be viable. It also indicates that the conservation value of forest in areas that are accessible for logging in Russia is tending to deteriorate rapidly. In addition, the source http://194.84.38.65/files/esw/files/Forestry_Russia_PolicyNote_eng%20.pdf indicates that sustainable forest management might greatly increase the potential volume of logs which could be extracted from Russia's forest over the long term. However, this would only be feasible where suitable forest can be grown (e.g. not in primary forest) and when management resources and financial incentives are more suitable than at present.

^{xix} WWF internal communication 19 October 2005 citing Russia's most recent forest inventory (2001). Note that the area of interest to industrial logging may be much less than this. For example, in much of Russia's Far East, statistics indicate that dense forest accounts for roughly three quarters of all the area designated as forest in that particular region. They also indicate that, of that dense forest area, less than half comprises merchantable stands – see http://www.forest-trends.org/documents/publications/Sheingauz_final.pdf

^{xx} http://194.84.38.65/files/esw/files/Forestry_Russia_PolicyNote_eng%20.pdf.

^{xxi} "State of the World's Forests 2005" by FAO (citing data for the reference year 1998).

^{xxii} See for example http://www.forest.ru/eng/sustainable_forestry/certification/fsc-russia.html.

Although not a fully comprehensive revision of the earlier Forestry Code, the Forestry Code of 1997 does represent an advance towards sustainable forest management. However, much of Russia's illegal timber production and trade is likely to derive from economic crime, which is beyond the scope of the Forestry Code.

Further, since 2000, there has been no independent environmental control in Russia by or on behalf of government,³⁸⁵ and reforms are required both in the law, particularly concerning private leases and in the resources made available (and institutional arrangements made) by the state for management and law enforcement.³⁸⁶ However, the number of forest areas being certified to FSC standards has grown rapidly, particularly during the last two years.³⁸⁷

³⁸⁵ http://www.illegal-logging.info/papers/EC_LEGAL_TIMBER_FINAL_REPORT.pdf and also http://194.84.38.65/files/esw/files/Forestry_Russia_PN2_eng%20.pdf.

³⁸⁶ http://194.84.38.65/files/esw/files/Forestry_Russia_PolicyNote_eng%20.pdf.

³⁸⁷ [http://www.forest.ru/eng/news/news.html?cmd\[36\]=i-37-f86c31b518e6132b9cbea0a84580ef62](http://www.forest.ru/eng/news/news.html?cmd[36]=i-37-f86c31b518e6132b9cbea0a84580ef62) and http://www.fsc.org/keepout/en/content_areas/63/22/files/FSC_PUB_20_03_06_2005_06_30FINAL.pdf.

That illegal logging is regarded as a serious issue at the highest levels in Russia is not in doubt given the launch (in September 2005) a Plan of Action to Combat Illegal Logging and Associated Timber Trade – which covers Russia as a whole and Far East Russia in particular.³⁸⁸

10. EU member country imports from the regions covered

The following introduction to the imports of the Timber Sector of each EU member state is provided in order to indicate the scale of those imports. It also gives, for the larger EU importing countries in particular, an indication both of the share of those imports that is supplied from the regions covered in this report, and of the country's apparent commitment to combating trade in illegal timber.

Introductions are not given for Cyprus or Malta because the RWE volume of their timber imports is so small. They are also not given for Estonia, Latvia and Lithuania because they are described at greater length in this report (as suppliers within the Baltic States region).

The EU's timber imports from the East Africa region, too small to warrant consideration in this section, are introduced in the section which discusses the East Africa region.

Further statistical information is presented in the Introduction.

It is important to interpret the statistics with care – for example, a substantial proportion of intra-EU trade in wood-based products is destined for processing and subsequent export rather than end-use in the importing country. Thus, because they relate to direct trade only, some estimates of illegal timber imports might overestimate the RWE volume of illegal trade entering end-use in processing countries and underestimate that, in the ultimate end-user country. In order to guard against accusations of laundering illegal timber, one might expect such processing countries (notably Finland, Italy and Sweden) to be particularly anxious to eliminate illegal timber from their chains of supply.

*Austria*³⁸⁹

Germany and the Czech Republic supplied almost two thirds of the 16 million cubic metre RWE volume which Austria's Timber Sector imported during 2004. Together, Hungary, Poland and Slovakia supplied a further 20%.

Of Austria's probable imports of illegal timber from the regions covered in this report, only those from Russia are substantial and these are small relative to the corresponding imports of other EU countries.

Most of Austria's probable imports of illegal timber are likely to be supplied from other EU countries. The Balkans, Romania and Ukraine are likely to supply a substantial proportion of the RWE volume of illegal timber which Austria imports – perhaps as much as 150,000 cubic metres. It is also likely that Austria imports illegal timber unwittingly via its main supplier – Germany.

³⁸⁸ http://www.illegal-logging.info/papers/FLEG_News_No1.pdf.

³⁸⁹ <http://www.wwf.dk/264000c>.

*Belgium*³⁹⁰

France, Germany and the Netherlands supplied more than half of the 14 million cubic metre RWE volume that Belgium's Timber Sector imported during 2004. Brazil, Indonesia, Poland and Russia supplied a further 20%.

Of Belgium's probable imports of illegal timber from the regions covered in this report, the Baltic States supply much the most, followed by Indonesia and Russia.

Excluding countries in the EU, China is likely to have supplied most of the illegal timber which Belgium imported from elsewhere in the world.

The Belgian timber industry is committed to minimising Belgium's imports of illegal timber and is an active supporter of the Timber Trade Action Plan.³⁹¹

The European Timber Trade Association ("FEBO"), based in Belgium, has recently committed its membership to eliminate trade in illegal timber.³⁹²

*Czech Republic*³⁹³

Germany, Slovakia and Poland supplied three quarters of the four million cubic metre RWE volume that the Czech Republic's Timber Sector imported during 2004.

Although the Czech Republic's probable imports of illegal timber from the regions covered in this report are negligible, those from elsewhere in the EU may be substantial. Of those from other countries, Belarus and Ukraine may have supplied an RWE volume of 30,000 cubic metres.

*Denmark*³⁹⁴

Finland, Germany and Sweden supplied almost two thirds of the seven million cubic metre RWE volume which Denmark's timber sector imported during 2004. Together, Poland and Russia supplied a further 10%.

Of Denmark's probable imports of illegal timber from the regions covered in this report, the Baltic States, Indonesia and Russia supplied the great majority – primarily the Baltic States.

Excluding countries in the EU, China is likely to have supplied most of the illegal timber that Belgium imported from elsewhere in the world.

Denmark has advanced somewhat further than other EU countries in its policies for central and local government procurement of tropical timber. Denmark is already working with partners in Russia to combat trade in illegal timber. However, unequivocal evidence that these (recent) measures are achieving their aims has yet to be forthcoming.³⁹⁵

³⁹⁰ <http://www.wwf.dk/3a3000c>.

³⁹¹ See Introduction.

³⁹² <http://www.febo.org/GFEBOD3.htm>.

³⁹³ <http://www.wwf.dk/301000c>.

³⁹⁴ <http://www.wwf.dk/246000c>.

³⁹⁵ http://www.wwf.dk/db/files/wwf_baltic_illegal_logging_report.pdf.

*Finland*³⁹⁶

Russia supplies roughly two-thirds of the eight million cubic metre RWE volume that Finland's Timber Sector imported during 2004. Estonia supplies in excess of a further 10%. Latvia, Sweden and the UK together supplied approximately 15%.

Russia and, to a rather lesser extent the Baltic States, are the only significant suppliers of Finland's probable imports of illegal timber. Much of that illegal timber is likely to be exported after processing.

The Finnish Forest Industries Federation ("FFIF") would appear to have considerable experience and presumably success in ensuring that the very large RWE volumes of wood-based products which its members process or supply are legal.³⁹⁷ In addition, Finland accounts for roughly 30% of the RWE volume, which the EU's Timber Sector imports from Russia (and roughly 60% of the imports of the EU's Paper Sector). Consequently, there may be merit in formally engaging with the FFIF to assist in the development and application of any EU-wide effort to minimise EU imports of illegal timber direct from Russia. Of course care would have to be exercised to ensure that the FFIF's remit does not compromise the competitive position of either its members or other EU-based enterprises.

*France*³⁹⁸

Belgium and Germany supplied one third of the 19 million cubic metre RWE volume that France's Timber Sector imported during 2004. Together, Brazil, Finland, Italy, Poland, Portugal Russia and Spain supplied a further third.

France's probable imports of illegal timber from each region are substantial.

China and, to a lesser extent, Belarus and Romania are also likely to have supplied France's Timber Sector with substantial quantities of illegal timber.

France's policy in relation to illegal timber seeks to eliminate this from public procurement by 2010 (in effect condoning trade in illegal goods until then).³⁹⁹

France has provided funding to support the preparation of inventories and management plans of a number of logging enterprises in the Congo Basin. French companies have a number of substantial investments in the logging and timber processing industries of the Congo Basin, particularly Gabon.

The ATIBT/IFIA, the leading trade association for the timber industry in West Africa and the Congo Basin, is based in Paris. With others it is promoting a scheme, FORCOMS, with which to partner the EU's FLEGT process in Africa.⁴⁰⁰

*Germany*⁴⁰¹

Poland supplied almost 20% of the almost 30 million cubic metre RWE volume that Germany's Timber Sector imported in 2004. Taken together, Belarus, the Baltic States, the

³⁹⁶ <http://www.wwf.dk/247000c>.

³⁹⁷ <http://english.forestindustries.fi/press/2003/20030331135841.html> and also

http://www.wwf.dk/db/files/wwf_baltic_illegal_logging_report.pdf.

³⁹⁸ <http://www.wwf.dk/248000c>.

³⁹⁹ http://www.illegal-logging.info/papers/Tropical_Forests_Action_Plan_France.pdf.

⁴⁰⁰

http://www.ifiasite.com/index.php?rub=Press&nom_page=Newsletter&sous_page=none&langue=en&numero=9.

⁴⁰¹ <http://www.wwf.dk/249000c>.

Czech Republic, Russia and several countries of the “old” (pre-2004) EU supplied more than half the total. Brazil, China, Indonesia, Romania, and Ukraine supplied a further 10%.

The Baltic States, Indonesia and Russia are likely to have supplied rather more of Germany’s probable imports of illegal timber than did the Amazon Basin and the Congo Basin.

Of that which is likely to have been supplied from outside the EU and the regions covered in this report, Belarus, China, Romania and Ukraine supplied the great majority – perhaps as much as 600,000 cubic metres.

Germany has gone further than other EU countries in seeking to prohibit (its own) illegal timber imports – proposing to make it an offence for large companies to market illegal timber sourced outside the EU.⁴⁰²

Current German investment in the Congo Basin is largely attributable to two companies that have substantial investments in logging concessions in Congo (Brazzaville).

*Greece*⁴⁰³

Bulgaria, Italy, Romania and Russia supplied more than half of the three million cubic metre RWE volume that Greece’s Timber Sector imported during 2004.

Of Greece’s probable imports of illegal timber from the regions covered in this report, Cameroon and Russia were the only substantial suppliers.

The EU and the regions covered in this report probably supplied Greece’s Timber Sector with less illegal timber than the rest of the world did during 2004. That from Bulgaria and Romania may have been as much as 150,000 cubic metres.

*Hungary*⁴⁰⁴

The Ukraine supplied one quarter of the four million cubic metre RWE volume that Hungary’s Timber Sector imported during 2004. Together, Romania and Slovakia supplied a further quarter.

The great majority of Hungary’s probable imports of illegal timber are likely to have been supplied by countries other than those of the EU and the regions covered in this report.

Together, Romania, Slovakia and the Ukraine might have supplied Hungary with as much as 400,000 cubic metres of illegal timber during 2004.

Ireland

The UK supplied one third of the roughly three million cubic metre RWE volume that Ireland’s Timber Sector imported during 2004. Finland and Sweden supplied a further quarter.

Ireland probably imports a small RWE volume of illegal timber from each of the regions covered in this report.

⁴⁰² <http://www.illegal-logging.info/news.php?newsId=792>.

⁴⁰³ <http://www.wwf.dk/24a000c>.

⁴⁰⁴ <http://www.wwf.dk/302000c>.

China may well have supplied more illegal timber to Ireland during 2004 than any other single country.

*Italy*⁴⁰⁵

Austria supplied one third of the roughly 27 million cubic metre RWE volume that Italy's Timber Sector imported during 2004. Together, France, Germany and Switzerland supplied a further 20%, as did several European countries (other than the Baltic States but including the Balkans) which may themselves produce illegal timber.

The RWE volume of illegal timber that Italy probably imported from European countries other than those of the EU may have been as much as 500,000 cubic metres.

Italy imports a substantial RWE volume of illegal timber from each of the regions covered in this report, particularly the Congo Basin and Russia. Italy is likely to be the EU's leading importer of illegal timber from the Congo Basin.

Italy's timber industry is characterised by small businesses (which tends to be a disadvantage when seeking to combat trade in illegal timber). In order to secure long term supplies of suitable timber for high quality products, several Italian enterprises have invested in concessions and/or timber processing outside Italy, particularly in the Congo Basin. Consequently, one should expect Italy's timber industry to suffer particular competitive disadvantage if efforts to eradicate trade in illegal timber are only applied to producer country exports to the EU.

Luxembourg

Most of the timber Luxembourg imports is processed into products that are subsequently exported.

Luxembourg does not import substantial quantities of illegal timber.

*The Netherlands*⁴⁰⁶

Germany supplied roughly 20% of the 13 million cubic metres RWE volume that the Netherlands' Timber Sector imported during 2004. Together, Belgium, Finland, France, Poland, Russia and Sweden supplied half the total. Tropical timber accounted for approximately 10%.

The Netherlands' probable imports of illegal timber from each of the regions covered in this report were substantial, and particularly so from Indonesia and Russia.

Of the Netherlands' probable imports of illegal timber from countries other than those of the EU and the regions covered by this report, China is likely to have supplied the most, perhaps an RWE volume of as much as 100,000 cubic metres

The Netherlands is one of the EU's leading importers of timber from Indonesia. Reflecting this, the Dutch timber trade federation ("VVNH") is actively seeking to improve the transparency of the chain of supply of its imports from Indonesia,⁴⁰⁷ particularly that from

⁴⁰⁵ <http://www.wwf.dk/24c000c>.

⁴⁰⁶ <http://www.wwf.dk/24d000c>.

⁴⁰⁷ http://www.unece.org/trade/timber/docs/sem/2004-1/full_reports/Netherlands.pdf.

forest to mill. In contrast, the Netherlands' government does not yet have in place a policy for public procurement of wood-based products.⁴⁰⁸

VVNH will only accept as members those who sign a code of conduct (which refers specifically to legality). The members of this association account for a high proportion of the Netherlands' timber imports. In addition, VVNH is also a founding member of the Timber Trade Action Plan.⁴⁰⁹

*Poland*⁴¹⁰

Germany supplied one third of the almost five million cubic metre RWE volume that Poland's Timber Sector imported during 2004. Taken together, Belarus, Slovakia and the Ukraine supplied a further one third.

Of the regions covered in this report only Russia and Indonesia are likely to have supplied an appreciable RWE volume of illegal timber. However Poland's imports account for only a small proportion of EU imports from those two countries.

The RWE volume of illegal timber that Poland imported from countries other than the EU or the countries covered in this report may have been as much as 200,000 cubic metres.

*Portugal*⁴¹¹

Spain accounted for almost one third of the almost two million cubic metre RWE volume that Portugal's Timber Sector imported during 2004. The Congo Basin and tropical timber from Brazil each accounted for more than 10% of the total.

These two regions accounted for the great majority of Portugal's probable imports of illegal timber, with the Congo Basin supplying about half the total.

*Slovakia*⁴¹²

The Czech Republic, Germany, Poland and the Ukraine each accounted for of the order of 20% of the one million cubic metre RWE volume that Slovakia's Timber Sector imported during 2004.

Although the RWE volume of Slovakia's probable illegal timber imports is not large, countries other than those of the EU and the region covered by this report may have supplied as much as 40,000 cubic metres of that total.

Slovenia

Austria, Bosnia Herzegovina, and Croatia each accounted for of the order of 20% of the one million cubic metre RWE volume that Slovenia's Timber Sector imported during 2004.

Countries other than those of the EU and the regions covered in this report are likely to have accounted for roughly two thirds of the roughly 200,000 cubic metre RWE volume of Slovenia's probable imports of illegal timber.

⁴⁰⁸ <http://www.wwf.dk/24d000c>.

⁴⁰⁹ See Introduction.

⁴¹⁰ <http://www.wwf.dk/305000c>.

⁴¹¹ <http://www.wwf.dk/24e000c>.

⁴¹² <http://www.wwf.dk/306000c>

*Spain*⁴¹³

Taken together, France and Portugal supply some 40% of the eleven million cubic metre RWE volume that Spain's Timber Sector imported during 2004. Finland, Germany, Sweden and the USA supplied a further quarter of the total.

Spain's probable imports of illegal timber from each of the regions covered in this report derived primarily from the Amazon and Congo Basins. Spain is one of the EU's leading importers of timber from each of the two regions.

Of Spain's probable imports of illegal timber from countries other than those of the EU and the regions covered by this report, China is likely to have supplied the most, perhaps an RWE volume of as much as 100,000 cubic metres

*Sweden*⁴¹⁴

The Baltic States accounted for almost 40% of the ten million cubic metre RWE volume that Sweden's Timber Sector imported during 2004. Finland, Germany, Norway and Russia each supply in the order of 10% of the total.

Sweden's total probable imports of illegal timber from the regions covered in this report are likely to be very substantial and to derive almost entirely from the Baltic States and Russia. Sweden is one of the EU's leading importers of timber from each of the two regions – and therefore likely to be one of the UK's leading importers of illegal timber.

Although Sweden is somewhat reluctant to introduce policies that seek directly to minimise its imports of illegal timber *per se* and from individual supplying countries, it does support efforts to promote both the transparency of trade flows in wood-based products in the Baltic States and forest sector governance in Russia.⁴¹⁵

Of Sweden's probable imports of illegal timber from countries other than those of the EU and the regions covered by this report, China is likely to have supplied the most, perhaps an RWE volume of as much as 100,000 cubic metres.

*United Kingdom*⁴¹⁶

Taken together, Germany, Finland, Latvia and Sweden accounted for almost half of the roughly 30 million cubic metre RWE volume that the UK's Timber Sector imported during 2004.

The UK's total probable imports of illegal timber from the regions covered in this report are likely to be very substantial and to derive primarily from the Baltic States and, to a lesser extent, Indonesia and Russia. The UK is the EU's leading importer of timber from the Baltic States and the Amazon Basin. It is one of the EU's leading importers of timber from Indonesia and Russia.

Of the UK's probable imports of illegal timber from countries other than those of the EU and the regions covered by this report, China is likely to have supplied the most, perhaps an RWE volume of as much as 500,000 cubic metres. Consequently, China is likely to be the UK's second largest supplier of illegal timber.

⁴¹³ <http://www.wwf.dk/24f000c>.

⁴¹⁴ <http://www.wwf.dk/250000c>.

⁴¹⁵ <http://www.wwf.dk/250000c>.

⁴¹⁶ <http://www.wwf.dk/251000c>.

In the UK, all wood-based products supplied to central government (including that used in temporary construction works) must be legal and preferably from sustainably managed forest. The UK has set up a Central Point of Expertise in Timber (“CPET”) to adjudicate between the different forms of evidence that may be submitted to demonstrate legality.⁴¹⁷

Separately, the UK government’s Department for International Development has had a particularly successful and well-respected programme concerning forest governance and trade in wood-based products.⁴¹⁸ Whether it will be able during the next few years to build on the foundations it has set is, of course, dependent on its forthcoming budget, which is currently under review.

The UK’s Timber Trade Federation (“TTF”) is working with the UK and Indonesian governments (which have a bilateral Memorandum of Understanding concerning trade in illegal timber) to determine a mutually acceptable standard for legality.⁴¹⁹ The TTF has for two years been implementing an Action Plan to source only legal timber from Indonesia.⁴²⁰

11. Other significant countries

The regions covered in this report supply most of the EU’s imports of illegal timber; however, not only does the EU import illegal timber from other countries or regions (which are introduced below)⁴²¹ but some European countries⁴²² also produce and export illegal timber.

An introduction to a number of these is given below.

The Balkans

Having risen strongly since the late 1990s, the RWE volume that the EU’s Timber Sector imports from the Balkans amounted to roughly two million cubic metres during 2004.

Based on preliminary research, the probable illegal timber content of those imports may be quite high.⁴²³

Other Eastern Europe

The RWE volume which the EU’s Timber Sector imported from Bulgaria, Romania and the Ukraine during 2004 amounted to about 11 million cubic metres (roughly 20% of the RWE volume that the EU’s Timber Sector imported from outside the EU). Initial research indicates that a substantial proportion of this may be illegal.⁴²⁴

⁴¹⁷ http://www.illegal-logging.info/papers/CPET_Phase_1_Final_Report.pdf.

⁴¹⁸ <http://www.dfid.gov.uk/casestudies/files/g8/review-illegal-logging.pdf>.

⁴¹⁹ http://www.illegal-logging.info/events/Briefing_note_on_FLEGT_and_Indonesia.doc.

⁴²⁰ <http://www.ttf.co.uk/news/releases/2004/april.asp>.

⁴²¹ Each is included either primarily because the RWE volume of illegal timber in their exports may be substantial or because the proportion of timber that should be deemed illegal has fallen significantly.

⁴²² http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf.

⁴²³ http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf.

⁴²⁴ For Bulgaria see <http://www.wwf.at/downloads/finalillegalloggingbulgariafebr05.pdf>.

For Romania see <http://www.wwf.at/downloads/finalromaniaillegallogging.pdf>.

Burma (Myanmar)

Although the EU imports negligible quantities of timber direct from Burma, it may do so indirectly, for example, from China⁴²⁵ and elsewhere in East Asia, particularly as furniture and flooring.

China

China is widely regarded as a major purveyor of illegal timber – not only due to its own imports but also due to its exports (including timber grown in China⁴²⁶). From about 1998 until recently, official production of industrial roundwood in China has declined sharply. China's exports have increased rapidly since the mid-1990s.⁴²⁷ Consequently, it is likely that imported wood raw material accounts for between 30% and 50% of the total RWE volume of wood-based products that China exports – perhaps between one third and a half.⁴²⁸ China has chosen to focus its wood-based product imports on countries in which governance is poor – from which it can procure, at low cost to importers in China, (implicitly illegal) timber. This of course gives wood-based product manufacturers (Chinese or foreign) in China a competitive advantage (especially in the export-oriented sector it has been promoting⁴²⁹).

The annual RWE volume that the EU's Timber Sector imports from China is rising very strongly and was approaching four million cubic metres during 2004. In excess of one third of that is deemed here to have been illegal.⁴³⁰

Malaysia

Because, within the last few years, Indonesia has banned the export of logs and sawn wood and Malaysia has banned the import of logs (squared or otherwise) from Indonesia, one can expect the proportion of illegal timber in Malaysia's timber exports to have dropped substantially. The RWE volume of Malaysia's timber exports has risen and now appears substantially to exceed that of its competitor Indonesia – whose forests cover a much larger area.

The wood volumes that China declares as imports from Malaysia are very much greater than those that Malaysia declares as exports to China. This may indicate large scale fraud and, assuming that this timber was not logged in Malaysia, discredits the reputation for legality that Malaysia seeks for its exports. A solution would be to require that all its timber exports are accompanied by a credible certificate of legality (small as well as large, to prevent offshore consolidation of small consignments); this would greatly help protect Malaysia's

⁴²⁵ <http://www.globalwitness.org/reports/show.php/en.00046.html> and also http://www.forest-trends.org/documents/publications/Myanmar-China%20livelihoods%20chain_final-4-19-05.pdf.

⁴²⁶ <http://www.forest-trends.org/documents/publications/ifr%20an%20assessment%20of%20China%27s%20forest%20resources.pdf>.

⁴²⁷ <http://wwf.panda.org/downloads/forests/chinawoodmarkettradeenvironment.pdf>.

⁴²⁸ Estimated by comparing the RWE volume of imports and exports of Timber Sector products in (30%) <http://www.globaltimber.org.uk/China.htm>

(50% - imports) http://www.forest-trends.org/documents/publications/China%20Import%20Overview_English06-02.pdf

(50% - exports) http://www.forest-trends.org/documents/meetings/beijing_2005/Xiufang%20Sun_China%20Exports_07-07.ppt.

⁴²⁹ As indicated by anti dumping allegations which have been upheld in the USA and the EU.

⁴³⁰ http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf. Note that the analysis from which the 32% figure quoted by this source was based was on year 2000 data – China's trade in wood-based products has increased sharply since then and it is likely that the percentages of illegal timber in China's imports have increased. Consequently, it is likely that 40% better estimates current reality.

reputation. A growing volume of Malaysia's timber exports are credibly certified as legal – under the Malaysian Timber Certification Council scheme.⁴³¹

The RWE volume that the EU's Timber Sector imported from Malaysia during 2004 was roughly half that which it imported from China.⁴³²

Ghana

Ghana's forest, due to over-exploitation, can no longer produce the sort of volumes it used to, and so Ghana is participating actively in the EU's FLEGT process.

The RWE volume that the EU's Timber Sector imported from Ghana during 2004 amounted to some 400,000 cubic metres. Much of that is likely to be illegal.⁴³³

Some progress is being made towards certification.⁴³⁴

Ivory Coast

The Ivory Coast remains a significant exporter but, due to over-exploitation, the quantity and quality of its exports has fallen. Although the EU is the primary export destination for the Ivory Coast's timber, efforts to extend the EU's FLEGT process to include Ivory Coast may be unsuccessful, not least because the country is in a state of internal conflict.

The RWE volume that the EU's Timber Sector imported from Ivory Coast during 2004 amounted to some 800,000 cubic metres. Much of that is likely to be illegal.⁴³⁵

Papua New Guinea

The EU imports negligible quantities of timber direct from Papua New Guinea. However, it might import significant quantities of such timber indirectly – primarily from China notably as face veneer to plywood (on its own or as part of other products such as furniture).⁴³⁶ China is the main destination of Papua New Guinea's timber exports⁴³⁷ and much of this is supplied by a single Malaysian logging group,⁴³⁸ (the same one which appears to have a similarly privileged position in the Congo Basin.

The Solomon Islands

The EU imports negligible quantities of timber direct from the Solomon Islands, but may do so indirectly as furniture made from certified plantation timber.⁴³⁹ The Solomon Islands is mentioned here because much of its substantial exports of timber are likely to be illegal.⁴⁴⁰

⁴³¹ <http://www.mtcc.com.my/>. See also http://www.mtib.gov.my/TEB_legality_eng.doc but this (Malaysia Timber Industry Board) scheme has yet to be independently verified as credible.

⁴³² This report is primarily concerned with natural forest, so it excludes products made from rubberwood.

⁴³³ http://www.wwf.at/downloads/Illegaler_Holzeinschlag_und_oesterreich.pdf.

⁴³⁴ <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=84632>.

⁴³⁵ Given the civil conflict in the Ivory Coast and the prevalence of illegal timber in the exports of Ghana and the Congo Basin.

⁴³⁶ Following anti-dumping allegations against China for the supply of Okoumé plywood, China is reputed to have simply replaced Okoumé (*aucomea klaineana*) with another species Bintangor (*calophyllum spp.*) which accounts for a significant proportion of the timber exports of Papua New Guinea (and which is also exported from Indonesia and Malaysia).

⁴³⁷ http://www.forest-trends.org/documents/publications/PNG_Study_final_rev_5-26.pdf.

⁴³⁸ <http://www.masalai-i-tokaut.com/>.

⁴³⁹ <http://www.kfpl.com.sb/Main.htm>.

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The views expressed herein are those of the author and are not necessarily endorsed by WWF.

⁴⁴⁰ <http://www.abc.net.au/ra/news/stories/s1250057.htm>.

⁴⁴¹ *WWF Network*: Gerald Steindlegger, Peter Hirschberger, Duncan Pollard, Han Zheng, Mutai Hashimoto, Lynne Ladbrook, Alison Sutton, Emmanuelle Neyroumande, Felix Romero Canzares, Harri Karjalainen, Laurent Some, Elena Kulikova, Anatoly Kotlobay, Mathé Laszlo, Soh Koon Chng, Jennifer Biring, Rodney Taylor, Mauro Armelin, Estevao Braga, George White, David Hoyle, Kerstyn Schuyt, Peter Denton.

Individuals: Darius Stoncius, Janis Rozitis, Emmanuelle Obot, Catherine Cotton, Simon Milledge, Kaupo Kohv.

Appendix 1

Glossary

Annual Increment

A potentially misleading term that quantifies the amount of wood growth in forest areas – often irrespective of whether the accessibility of those areas and the species and quality of the trees growing therein render their forest unsuitable for commercial logging.

Annual Allowable Cut

A potentially misleading term that proscribes the maximum volume of timber that can be felled in a specified forest area during a typical year – often irrespective of whether the accessibility of the forest or the species and quality of the trees growing therein render that forest unsuitable for commercial logging.

Chain of Custody

A term to describe the ownership of a consignment at each stage in its chain of supply (see Supply Chain below).

FSC – Forest Stewardship Council

A scheme that sets standards for the appraisal of whether or not a forest is being managed sustainably and the auditing of the chain of supply of wood-based products from forest to point of final sale. Those standards include an assessment of legal compliance. The FSC scheme is currently the only such worldwide scheme that is endorsed by major international NGOs – its competitors tend not to take sufficiently into account local stakeholders or flora, fauna and the environment.

Illegal Timber

Wood-based products deriving from forestry practices or activities connected with wood harvesting, processing and trade that do not conform to national law. Given that major capital investments follow the allocation of forest ownership, logging rights and approvals for mill development, there is particular need for transparency in the allocation process so as to minimise the risk of corruption and money laundering.

A distinction should be made between illegal timber produced for commerce (particularly for export) and that to meet the domestic needs of people living in and native to forest areas.

Industrial roundwood

Logs for use by the wood-based products industry.

Legality Licence

A document required for bilateral trade. The document certifies that a specific consignment does not contain illegal timber. Legality in this context is determined against clearly defined standards agreed to by the governments of the supplying country and importing country. Those standards should seek to ensure sustainable forest management.

Paper Sector

Here defined as the market for wood chips, pulp logs, pulp (based primarily on virgin wood fibre) and paper-based products.

The variant of the United Nations Harmonised System for classifying traded commodities used by the EU for logs does not classify pulpwood separately from other wood. This introduces considerable risk if using official import/export statistics to help plan or manage trade in wood-based products. Nevertheless, it seems that the commodity codes 44032019,

44032039, 44032099 and 44039959 (which were introduced after 2001) are being used to record trade in pulpwood. These codes appear to have been introduced so as to subdivide the former codes (44032010, 44032030, 44032090 and 44039950) in which pulpwood and other woods were presumably aggregated. This report assumes that the proportion of pulpwood in the bilateral trade flows of each of these four commodities, which has been apparent since 2001, also pertained in prior years.

Production

The quantity of industrial roundwood extracted from a forest. It does not include the volume of felled timber left in the forest during logging – which can be considerable. Although it is assumed to exclude fuel wood, official statistics sometimes include fuel wood.

Responsible forest management

As recognised by the FSC principles and criteria for responsible forest management

RWE volume – roundwood equivalent volume

The volume of logs that would have been required to produce the volume of wood present in a given product. The volume of logs needed per unit of wood volume tends to vary with the equipment and management of each mill.

RWE volume is determined here by multiplying wood volume or (in the case of the Paper Sector) product weight by commonly used or assumed factors, for example 1.8 for sawn wood, 2.3 for plywood, 4.5 for pulp, 3.5 for paper.

If wood waste generated in a mill is used in making a second product – such as fibreboard or pulp – the volume of logs needed to make both the primary and the secondary product will be less than that which would have been required if the two products were made by different mills and the wood waste were not used.

Supply Chain

A term used to describe the progress of an item from its origin to its destination, for example from forest to mill to port to retailer.

Sustainable Forest Management

There have been many attempts to define what is often called “sustainable forest management,” ranging from national criteria and indicators (Montreal Process) to site approaches such as independent certification of good management. WWF has been active in developing and promoting good management through the Forest Stewardship Council (FSC).

The FAO⁴⁴² define sustainable forest management as “the stewardship and use of forests and forest lands in a way, at a rate that maintains their biological diversity, productivity, regeneration capacity, vitality and their potential to fulfil, now and in the future, relevant ecological, economic and social functions, at local, national and global levels, and that does not cause damage on other ecosystems.”

Timber Sector

Here defined as the market for wood-based products other than those destined for the Paper Sector. Such products include wooden furniture and wooden flooring, as well as sawn wood and plywood.

Traceability

The degree to which the supply of a consignment can be traced back to its forest origin. A number of timber tracking systems are in use and being developed, for example those which

⁴⁴² www.fao.org/docrep/003/x6896e/x6986e0e.htm

simply involve applying a bar code to each log and a related bar code to the products or product components subsequently made therefrom (and of course entering these into a computer database).

Voluntary Partnerships

Bilateral agreements between the EU (on behalf of its member states) and governments of individual supplying countries made under the auspices of the EU's FLEGT process (see above). They apply to trade in particular products (currently only logs, sawn wood and plywood) and oblige every EU member state to prohibit the import of consignments of those products unless these are accompanied by an applicable legality licence (see above). There are no current voluntary partnerships. However, a number are being negotiated – with Cameroon, Gabon, Indonesia and Russia – but it is too early to indicate if and when any might come into force.

Appendix 2



GREENPEACE



PRINCIPLES FOR FLEGT PARTNERSHIP AGREEMENTS

January 2005

Introduction

In May 2003 the European Commission presented an EU Action Plan on Forest Law Enforcement, Governance and Trade,⁴⁴³ which included a proposal for a licensing scheme aimed at preventing the import into the EU of illegally logged timber. In July 2004, the Commission presented a draft regulation⁴⁴⁴ that establishes the import regime and provides for partnership agreements with exporting countries within which national licensing systems will be developed and implemented. Partnership agreements will be negotiated by the Commission on the basis of a mandate given to it by the Council.

Partnership agreements and licensing systems need to be based on common principles in order to ensure credibility and a level playing field for partner countries. However, the draft regulation does not provide any detail with regard to: the laws that will come within the scope of the definition of legality; the procedures for verifying that timber has been produced in compliance with those laws; for monitoring of the partnership agreements and the licensing scheme; the process of negotiating partnership agreements; or the process of developing licensing systems and the verification procedures that will underpin them. Instead, the approach that is being taken by the EU is to establish a general framework by means of the Regulation, whereas most of the detail that will determine the effectiveness of partnership agreements and of the licensing system in particular will be developed on the basis of the Commission's negotiating mandate.

Thus, most of the detail that will determine the effectiveness of partnership agreements and of the licensing system in particular will be developed on the basis of the Commission's negotiating mandate. It is essential, therefore, that the mandate establishes the basic principles that should be included in all partnership agreements, as well as in the Regulation.

This paper sets out the principles that FERN, Greenpeace and WWF consider to be essential.

⁴⁴³ Communication from the Commission to the Council and the European Parliament. Forest Law Enforcement, Governance and Trade (FLEGT). Proposal for an EU Action Plan. 21.5.2003 COM (2003) 251 Final.

⁴⁴⁴ Draft *Council Regulation concerning the establishment of a voluntary FLEGT licensing scheme for imports of timber into the European Community*; 20.7.2004; Com(2004)515 Final.

1. The Main Principles

- **Partnership agreements must commit producer countries to a time-bound action programme** that will tackle the weaknesses in forest sector governance and that will lead ultimately to Sustainable Forest Management (SFM). The EU's continued acceptance of FLEGT licences must be tied to satisfactory progress by partner countries towards implementing the action programme.
- Weaknesses and injustices in a partner country's laws must be identified and proposals for change developed in a process that involves all stakeholders. Transparency and participation in legislative reform are conditions for good governance. **The Commission's negotiating mandate must specify that the programme of activities set out in a partnership agreement will include as the first step a participatory review of all the partner country's forest related laws (including human rights law, customary law etc) to identify weaknesses and injustices.** The review should conclude with proposals for changes to address identified weaknesses and injustices.
- Independent verification of legality prior to the issuing of a licence and independent monitoring of the licensing system are fundamental to the success of the scheme. **The Commission must ensure that both the verification and the monitoring procedures adopted by all partner countries are effective and transparent.** Criteria for effective verification and monitoring must therefore be written into the Commission's negotiating mandate. Independent spot checks by civil society groups should be part of the process.
- Partnership agreements must be developed through a full stakeholder process. Therefore it is essential that partnership agreements are developed through a process of broad engagement with non-state actors, are favourable towards community forestry and are aimed at creating public accountability and transparency in forest management. **The negotiating mandate should lay out clear conditions for the process of developing partnership agreements and should make adoption of partnership agreements conditional on the support of a representative range of non-state actors.**
- Licensing only of products destined for the EU increases the likelihood of resuming exports of illegal forest products to the EU, in particular by laundering through third countries. This will limit the impact and legitimacy of the scheme. **Mandatory licensing of all exports to all destinations should be a pre-condition of a partnership agreement.**

The main principles are further elaborated in the following three sections:

1. principles governing the content of partnership agreements in relation to forest management;
2. principles governing the design and implementation of licensing;
3. principles governing the process of developing and implementing partnership agreements.

2. Principles for the content of partnership agreements in relation to forest management

A partnership agreement is a component of a national forestry programme

Partnership agreements should place action against illegal logging in the context of a partner country's broader programme for achieving sustainable forest management. Actions set out in the partnership agreement should be complementary to other actions being taken by the partner country and the connections to other actions should be clearly set out.

A partnership agreement must include a time-bound programme of activities and milestones

Partnership agreements should commit the producer country to a programme of activities and milestones aimed at achieving improvements in forest sector governance that will lead ultimately to sustainable forest management. As specified by the Council in its Conclusions on the FLEGT Action Plan, these improvements should include: strengthening land tenure and access rights especially for marginalised, rural communities and indigenous peoples; strengthening effective participation of all stakeholders – notably of non-state actors and indigenous peoples – in policy-making and implementation; increasing transparency in association with forest exploitation operations; and reducing corruption in association with the award of forest concessions and the harvesting and trade of timber.

Existing laws to be reviewed in a transparent, participatory process

Existing laws of partner countries may be unfair, their coverage may be inadequate when compared to even basic principles of responsible forest management and they may be ambiguous or may conflict with one another, making enforcement and verification of compliance difficult and in some cases impossible. Licensing should not begin until existing laws have been reviewed in a transparent process open to all stakeholders, gaps identified, and ambiguity and verifiability noted. Thus, review of legislation followed by proposals for reform and enactment of amendments should be the first step in the programme specified in a partnership agreement.

The development of a legality definition or basic principles of responsible forest management

Laws in partner countries may provide incomplete coverage, may be unjust, or may be ambiguous. Without a clear description of legality the door will be open to different sets of laws being used as the basis for licensing in different countries, or to licensing being based on unjust laws such as the death penalty proposed for illegal loggers by the Indonesian government. A lack of a clear description would also lead to the creation of an uneven playing field on which partner countries that base licensing on a narrow set of laws will have an unfair advantage over those that apply a wider set. The Commission's negotiating mandate must therefore establish baseline criteria that will be used to assess whether timber has been produced legally. The criteria should express basic principles of responsible forest management that must be provided for

in a partner country's laws and supported by effective enforcement mechanisms. In this way the EU will fulfil its responsibilities to its citizens for ensuring that their consumption of forest products does not cause environmental or social harm and the producer country will fulfil its responsibility for protecting the rights and values of its citizens against potentially negative impacts of EU rules.

The criteria should be informed by the requirements of schemes with a similar focus – for example, the SGS Verification of Legal Timber scheme – and the principles developed by an Indonesian multi-stakeholder group⁴⁴⁵ in a project run jointly by the Indonesian and UK governments – and should be developed in a transparent process open to all stakeholders.

Suggestion for what constitutes a basic level of responsible forest management.

A partner country's laws should provide for the following:

- ❑ **Allocation of forest to timber production.** A transparent process for allocating forest to production that includes a strategic social and environmental assessment and the prior informed consent of forest dependent communities.
- ❑ **Land Tenure and Use Rights.** Clear definition of the legal status of, and tenure rights to the territories in which harvesting takes place. A fair and transparent process for awarding user rights that includes safeguards for protecting customary rights.
- ❑ **Forest management plan.** A requirement for a forest management plan to be prepared in a prescribed manner, to be subject to an environmental and social assessment, and to approval by a government body before forest operations begin.
- ❑ **Compliance with the forest management plan.** Monitoring of forestry operations by a government body and suspension of rights in the event of deviation from the forest management plan.
- ❑ **Community Relations.** A requirement for forest management enterprises to have procedures for consulting with local communities during the preparation of the forest management plan and before starting operations likely to have a significant impact, and for resolving disagreements.
- ❑ **Workers Rights.** A requirement for forest management enterprises to have safeguards in place that protect the health and well-being of its workforce including contractors and for the implementation of safeguards to be monitored by a government body.

3. Principles for the content of partnership agreements in relation to a licensing scheme

⁴⁴⁵ Indonesian Definition of legality is available at: <http://www.illegal-logging.info/papers/Z%20Introduction%20and%20Principles.htm#Principles>. A report evaluating the process: Colchester, M. (for The Nature Conservancy) 2004. *Strengthening the Social Component of a Standard for Legality of Wood Origin and Production in Indonesia*.

Licensing to apply to all exports

Licensing only of products destined for the EU increases the likelihood of resuming exports of illegal forest products to the EU, in particular by laundering through third countries. This will limit the impact and legitimacy of the scheme. Mandatory licensing of all exports should be a pre-condition of a partnership agreement.

EU's acceptance of licences conditional on satisfactory progress with action programme

There must be provision for the Community to suspend recognition of a licence if the producer country is not making sufficient progress towards the milestones set out in the partnership agreement.

Prescribed chain of custody system procedures

Partner countries should lay down standardised procedures that all operators in export supply chains are required to follow. The procedures should conform to international best practice, for example the standards of the FSC or equivalent.

The tracking system to be applied to all material destined for export

Licensing must apply to all exports to prevent "laundering" of illegal timber through non-partner countries. Partner countries must therefore make mandatory for all exporters the chain of custody systems that provide the evidence for verifying legality.

Licenses to be issued by a separate body

The licensing body might be a government body but should be a separate entity, removed from the influence of government forestry authority and forest management bodies; or it might be a private body, although independent of industry interests, authorised by the government to issue licences on its behalf.

Licensing body to actively check

The issuing of a license should not be simply a matter of checking that a chain of custody certificate for the consignment exists (or that the owner of the consignment at the time of export clearance has a verified chain of custody system in place if verification is of the system rather than of individual consignments) and adding a signature. The licensing authority should be provided with evidence of legality or should check for evidence of illegality that might justify detention of the consignment until further checks have been made.

Verification by an independent body

The body that verifies legal compliance and security of the chain of custody should be independent of the government, separate from the licensing authority and should have no commercial involvement in the forest products trade except as a verification body. The partnership agreement should specify the procedures that will be used to verify compliance with the specified set of laws and to verify the security of the chain of custody.

Customs to do final paper check and physical check

Customs clearance is the final check in the partner country's system. In addition to checking documentation of legality (export permit and, possibly, a copy of the verification statement), customs authorities need to have powers to carry out physical inspections of goods and to search vessels and detain them if there is suspicion of illegality.

Verification body and customs to count

It is essential that the verification body should be allowed to carry out, either jointly with the customs authorities or independently, a tally counting of the actual shipments at the time of loading logs or timber bundles onto the ships.

Civil society monitoring

A system of monitoring by independent organisations with civil society involvement has proven important to ensure that procedures for verifying legality and chain of custody are being implemented properly and to check for illegal timber that goes undetected by the licensing system. Civil society monitoring organisations need to have access to data and premises so that they can carry out their functions effectively.

4. Principles for the process of developing and implementing partnership agreements

Negotiated in a transparent manner with stakeholder participation.

Partnership agreements are aimed at achieving improvements in governance and good governance provides for stakeholder participation in the development of policy and instruments of policy. Furthermore, the success or failure of a partnership agreement depends in part on the support of stakeholders and their involvement in its implementation.

The negotiating mandate should lay down a clear process for stakeholder consultation in the development of partnership agreements and a threshold for minimum participation by different stakeholder groups – notably local people – before an agreement can be concluded. This is to ensure no partnership agreement can be concluded where civil society organisations cannot freely participate in public discussions.

Be aimed at creating public accountability and transparency

Lack of transparency and accountability are serious problems in the forestry sector in many producer countries, North and South, which is clearly shown in the fact that many timber producing countries including Cameroon, Indonesia and Burma feature in the top ten of the Transparency International Corruption Index 2003.⁴⁴⁶ In these countries, industrial logging, embodied in the concession system as it currently functions, is one of the main drivers of illegal logging. Increasing transparency and eliminating corruption are the major first hurdles. Support should be made conditional on producer countries providing all relevant information such as legislation, concession maps, details of concession companies, cutting licences, transport permits etc.

Subject to regular monitoring and review.

Progress towards partnership agreement milestones and the effectiveness of licensing and other measures that are implemented under partnership agreements must be monitored to ensure that partner countries are on course to fulfil their commitments. Information about the implementation of each partnership agreement should be made publicly available in order that all stakeholders can help ensure that progress is satisfactory and that measures are effective. A report on the progress that is being made under each partnership agreement should be prepared annually. The report should include an assessment of the impacts of the actions that have been taken and should identify reasons for poor or better than expected progress so that lessons can be learned by the Community and the partner country concerned,

⁴⁴⁶ See www.transparency.org/pressreleases_archive/2003/dnld/cpi2003.pressrelease.en.doc.

other partner countries and potential partner countries. The report should be made publicly available.

CONTACT DETAILS

Saskia Ozinga
FERN
saskia@fern.org
+44 1608 652895

Sebastien Risso
Greenpeace European Unit
sebastien.risso@diala.greenpeace.org
+32 2 274 19 01

Beatrix Richards
WWF EPO
brichards@wwf.org.uk
+33 1 55258488



The mission of WWF is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by:

- conserving the world's biological diversity
- ensuring that the use of renewable resources is sustainable
- promoting the reduction of pollution and wasteful consumption

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WWF-UK

Panda House, Weyside Park
Godalming, Surrey GU7 1XR
t: +44 (0)1483 426444
f: +44 (0)1483 426409