

Illegal Logging Cut It Out!

The UK's role in the trade in
illegal timber and wood products

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Executive summary

Illegal logging exists because enormous profits can be made. These profits are most easily realised in countries with endemic corruption, lax law enforcement and poor social conditions, where there is little incentive to change forestry practice. Many of the countries supplying timber and wood products to the UK have high levels of foreign debt, poor governance systems, high levels of poverty and unsustainable forest management, and are experiencing loss of some of the world's most biodiverse forests at an alarming rate. These factors – which by no means comprise an exhaustive list – contribute to the illegal and unsustainable trade in timber and wood products.

Arguably the problems associated with illegal activities are most acute in developing countries, those countries with emerging economies and in the transitional economies of Russia and eastern Europe. These are areas of the world where weak political institutions and weak regulatory enforcement in the forested regions are often the norm, and where corruption is common.

This report attempts to estimate the volume of illegal wood entering the UK and to identify which sectors of the UK market utilise this wood and fibre. It identifies various processes involving the UK government as a purchaser or specifier, as well as national and international governmental processes and market-based mechanisms that are in place to counter illegal logging. It identifies their effectiveness and weaknesses and makes a series of recommendations.

Background

Illegal logging occurs when timber is harvested, transported, processed, bought or sold in violation or circumvention of national or sub-national laws. 'Illegal logging' therefore describes a variety of illegal practices, ranging from theft of standing timber and logs through to corrupt business practices, such as under-declaring volumes processed, or tax avoidance.

Illegal logging costs the global economy an estimated US\$10-15bn a year and undercuts legitimate business. In a significant number of countries, illegal logging is a major problem that poses a serious threat to forests, communities and wildlife. The negative impacts of illegal logging include:

- encouragement of corruption and bad practice;
- major loss of revenue for governments, with knock-on effects for social infrastructure and human well-being in the countries concerned;
- loss of long-term income and security for forest-based communities;
- degradation and clearing of forests and consequent loss of habitat for plant and animal species;
- increased vulnerability to natural disasters such as erosion, river silting, landslides, flooding and forest fires;
- loss of long-term supplies of timber, threatening both quality and quantity; and
- undercutting of and unfair competition with responsible, well-managed forestry, potentially leading otherwise committed managers from legal practices to illegal ones.

The UK plays a significant role in the global marketplace for forest products. It is a major importer for many sectors of the industry and is one of the main markets for six of the seven major forest product categories that are traded globally¹. In 2005, according to Forestry Commission statistics², the UK imported 20 million cubic metres (RWE – round wood equivalent) of sawn wood, 7.7 million cubic metres (RWE) of wood-based panels and 7.2 million cubic metres (RWE) of pulp and 17.6 million cubic metres (RWE) of paper. The total value of wood product imports in 2005 was £6bn, of which £3.9bn was pulp and paper. This represents approximately 0.9% of the UK's gross domestic product.

KEY FINDINGS

The report shows that the UK is the world's third-largest importer of illegally harvested or traded timber and wood products (3.2 million cubic metres RWE), after China (8.2 million cubic metres RWE) and Japan (5.3 million cubic metres RWE). It is Europe's largest importer. In terms of overall share of imports the UK has the second-highest illegal share – estimated at 7.2%, it is higher than Japan (6%) and second only to China (almost 10%).

These figures are conservative, using a limited number of countries (17) combined with some of the more moderate estimates of illegal harvesting and trade in the countries concerned. In reality, the UK imports significant volumes of forest products from in excess of 60 countries. Many of these countries have, as yet, undocumented or unreported incidences of illegal logging or illegal trade. The 'actual' figure may well be in the range of 3.5 to 5 million, though this figure is speculative.

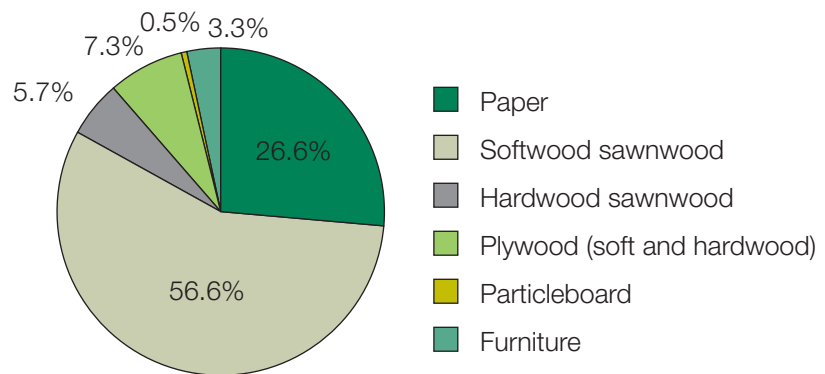
The majority of this illegal trade (around 2.8 million cubic metres) comes through – or originates from – Sweden, Finland, Russia, Estonia and Latvia. The tropical countries of Brazil, Indonesia, Malaysia and central and west Africa account for a significantly smaller volume: collectively around 370,000 cubic metres per year.

The UK spends an estimated £712 million (US\$1.4bn) on illegal timber and wood products per year – the equivalent of £11.76 per person in the UK. This equates to 7.2% of the total value of forest product imports (£9.9bn) in 2005.

The estimated breakdown of the illegal component within the different product sectors is as follows:

Sector	Illegal volume (m3 RWE)	Examples of end use
Paper	800,000	High grade paper for high quality printing, low grade paper for packaging
Softwood sawnwood	1,700,000	Rough sawn timber, construction, through to moulded timber such as tongue and groove board
Hardwood	170,000	Rough sawn timber, tongue and groove sawnwood board, furniture and flooring
Plywood (soft and hardwood)	220,000	Construction, furniture, temporary covering, flooring
Particleboard	15,000	Interior joinery products, furniture, construction
Furniture	100,000	Garden, interior, office

Chart1: Proportion of Estimated Illegal Timber Imports in each Key Product Sector for the UK by Volume (RWE)



It is estimated that the most significant proportion of the illegal trade – more than 65% of all illegal imports – goes into the construction sector.³

Diagram 1 Trade flow of illegal timber entering the UK (m3 RWE)

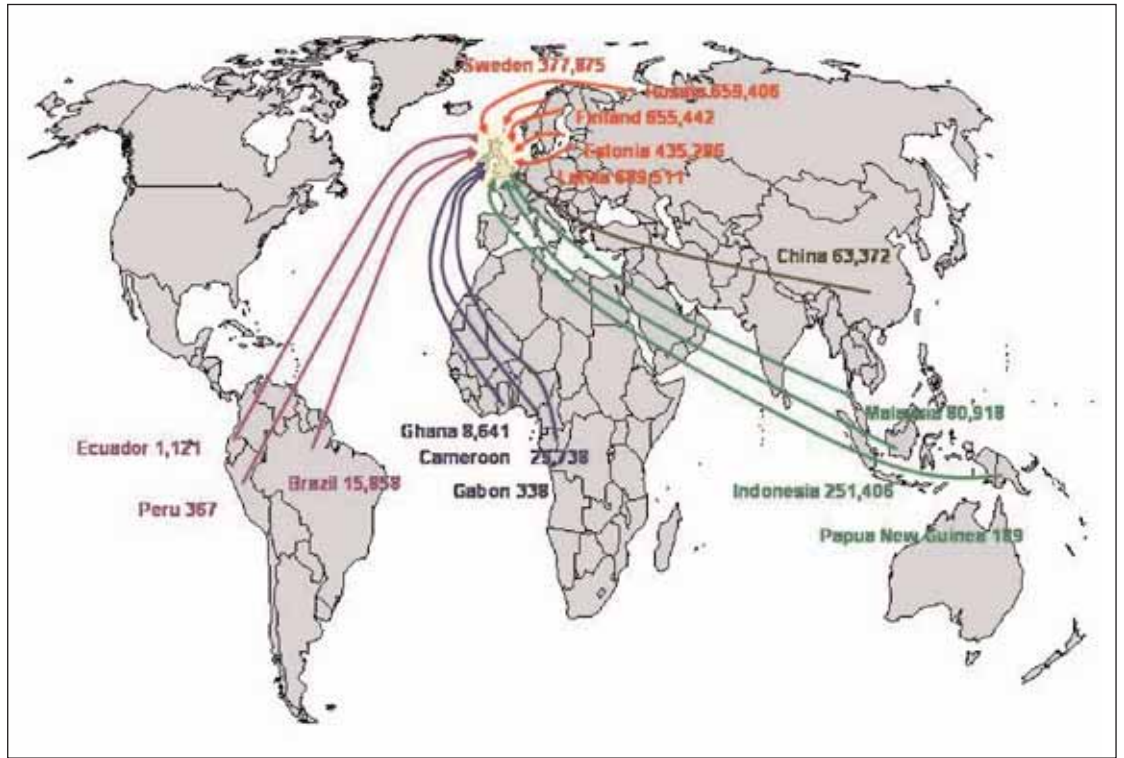


Diagram 2. Where illegal timber gets used in the UK

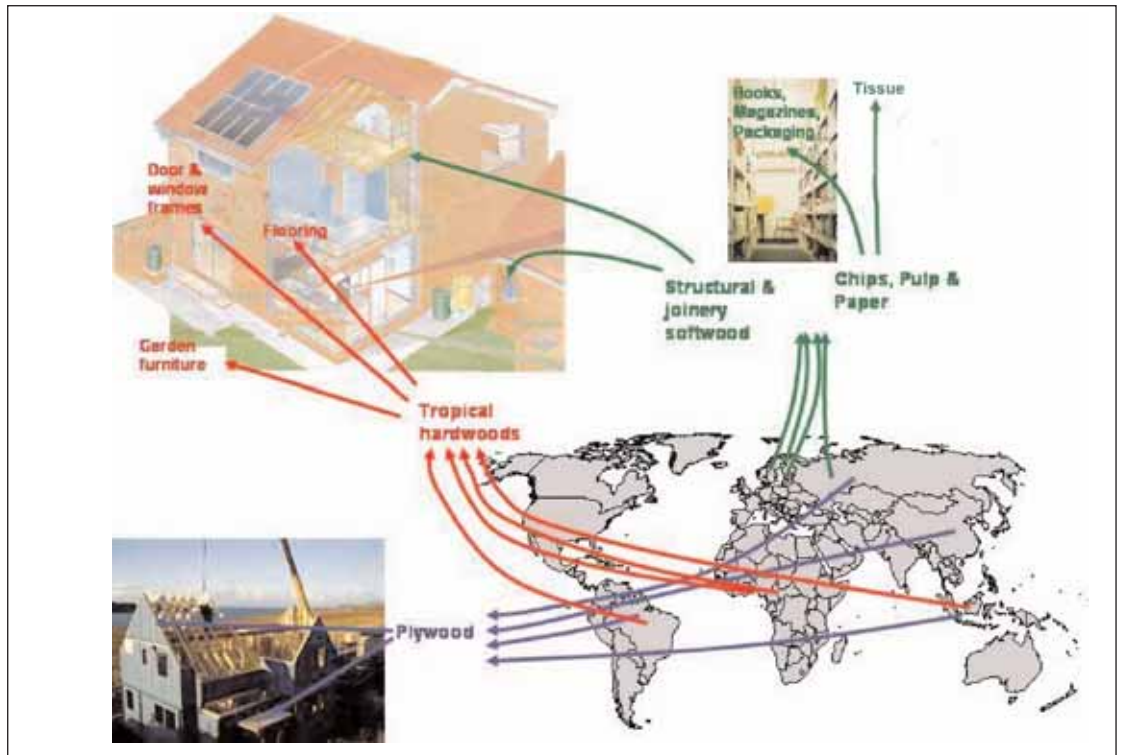
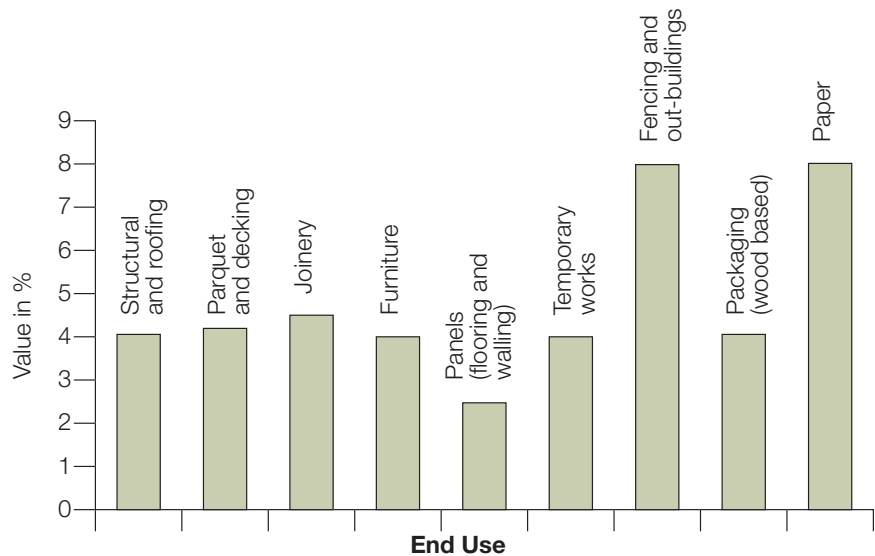


Chart 2: Approximate percentage of illegal timber in different end uses

Graph to show approximate % of illegal timber in different end uses



The report details a number of ongoing political, NGO and industry-led processes that attempt to deal with the trade in illegal and unsustainable timber and wood products in the UK. Strong concerns are raised with regards to critical gaps in key political processes such as the EU Action Plan on Forest Law Enforcement Governance and Trade (FLEGT) and the UK central government procurement policy. The report does reflect, however, on the positive elements of the FLEGT Action Plan and also on a number of voluntary, market-led initiatives that would appear to be having a positive impact:

FLEGT

The FLEGT Action Plan was adopted by the European Commission in May 2003. A key part of the Action Plan involves a series of voluntary but binding partnership agreements with wood-producing countries and regions that wish to eliminate illegal timber from their exports to the EU. Through these partnerships, the EU and partner countries will set up a licensing scheme to ensure that all

timber exports from the partner countries to Europe are legal. Unlicensed consignments from partner countries would be denied access to the European market under the scheme. The partnerships will also encourage governance reforms in wood-producing countries, particularly to promote greater equity and transparency in association with forest harvesting operations. Currently the agreements cover only roundwood, sawnwood and plywood, less than 3% of the trade, although a producer country can opt to extend this list.

Other elements of the Action Plan include looking at the viability of existing Member State legislation to control the illegal trade in timber and wood products, as well as a commitment to consider 'additional options'. The consideration of legislation that makes it illegal to import illegal timber and wood products is one such of these additional options.

Although acknowledging the potential positive impact that voluntary partnership agreements

(VPAs) can have, several large, international NGOs⁴ as well as a significant number of timber industry companies have concerns about some of the potential pitfalls within VPAs, with regards to:

- 1. Reach.** The VPA system will only have a significant impact on the level of illegal logging in partner countries if it is rolled out across the entire country, to include all exports and the domestic timber trade.
- 2. Laundering.** If the partner country has no national legislation prohibiting the importation of illegally logged timber and timber products, then timber logged illegally in a non-partner country could enter Europe legally via the partner country, accompanied by a valid legality licence. Importation into Europe would be legal, despite the timber's illegal origins. The timber would, in effect, have been laundered.
- 3. Circumvention.** VPAs will only cover direct trade between the VPA country and the EU Member States. Timber and wood products imported via a third-party country, such as China, are not addressed.

4. Product coverage. The current VPA proposal does not address the imports of pulp, paper and furniture.

5. Undermining legitimate business. The voluntary nature of these proposals means that timber and wood products that fall outside these VPAs can still enter the EU market unchecked. Companies operating legitimately will therefore continue to be undercut by other, less scrupulous operators.

UK government initiatives

With a purchasing budget of more than £13 billion a year, the UK government is a significant player in procurement. Central government is responsible for around 15% of all timber procurement in the UK, making the UK government the country's largest single consumer of timber. When local authorities (LAs) and private finance initiative projects are included, the figure rises to 40%.⁵

In recognition of its massive purchasing power, the UK government has had a timber purchasing policy in place for over six years. However, despite the setting up of the Central Point of Expertise On Timber (CPET), this policy is not being effectively implemented and does not include social criteria to protect the interests of local communities – an odd omission given the UK government's commitments to the Millennium Development Goals⁶. Adequate, systematic data is also not being collected on timber usage, spend or status. The UK government has no idea what volumes of illegal timber enter the country and has no mechanism in place to assess the effect of counter-measures.

It remains impossible to get an accurate picture of how much timber by volume is procured by central government, or what proportion of this is illegal and/or unsustainable.

In addition, despite the substantial consumption of timber by local authorities, the level of awareness of procurement initiatives such as the CPET remains perilously low, as does awareness of the existence of positive policies in favour of certified product.

The UK government appears to have set only one target on public procurement in relation its response

to the World Summit on Sustainable Development in 2002⁷. This was: "by November 2006, 50% of expenditure on timber by central government departments in England will be on products which can be independently verified as being from sustainable sources".⁸

It is not possible to quantify whether this target has been achieved because, from 2004, government departments were no longer required to report on timber they procured. They are, however, able to do so, on a voluntary basis.



FSC

The Forest Stewardship Council (FSC) certification scheme is a market-based initiative launched by the timber industry and environmental NGOs in 1993. A credible forest certification system such as the FSC inspects forests to check that the management is meeting environmental, social and economic principles and criteria, including legality. Critically, it also has a means of tracking timber and associated products from the certified forest through each step of the production, packaging and wholesale supply chain by means of a 'chain of custody'. The validity of this chain of custody is confirmed at each step by an independent, third-party audit.

The recent development and introduction of the FSC Controlled Wood Standards (at both forest management and chain of custody levels)⁹ is set to have a positive impact with regard to reducing illegal and other 'controversial' timber entering supply chains. These standards were introduced to ensure that FSC-labelled products containing less than 100% FSC certified material would certainly not contain controversially sourced material such as illegally logged timber or that from high conservation value forests¹⁰. It is the only certification scheme currently that offers this additional guarantee.

Globally, more than 80 million hectares are now FSC certified and, encouragingly a significant number of companies are signed up to processes that should ultimately ensure the timber and wood products they trade are legal and come from responsibly managed forests.

WWF-UK Forest & Trade Network (UK FTN¹¹)

UK FTN members account for an estimated 31% of UK imports. Around 47% of all material traded by members in 2005 was FSC certified (approximately 12 million cubic metres). Members are committed to procuring their timber and wood products from legal and responsible sources and report their progress on an annual basis. WWF-UK FTN membership is focused, as far as possible, on companies trading within the most important biodiverse and threatened regions of the world, while at the same time supporting the efforts of the producers in these regions.

The UK FTN is part of the Global Forest & Trade Network, comprising both timber and wood product producers and buyers. Globally, nearly 500 companies are committed to procuring legal and sustainable timber. These companies

manage more than 28 million hectares of forest in some of the world's most biodiverse regions. They account for more than 2% of the world's productive forests and purchase over 10% of the world's production of timber.

Timber Trade Federation's (TTF) Responsible Purchasing Policy (RPP).

There are currently 36 signatories to the TTF RPP who, according to the TTF, represent the key importing sectors in the UK. There are no companies that are members of both the UK FTN and the TTF. Unfortunately no data is available to show the impact of the UK TTF RPP, though given its focus, the key requirements for participation, and the scope of the TTF membership, it should in the longer term have a beneficial effect on a significant proportion of the remaining 69% of imports.





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Recent estimates from the UK Timber Trade Federation¹² suggest that the volume of certified forest products are growing and as much as 50% of UK imports of softwood and panel products are certified under the major certification systems. This is encouraging but certification is still at a level where the market has room for illegal wood on a massive scale.

BREEAM

BRE's Environmental Assessment Method (BREEAM) is used to assess the environmental performance of both new and existing buildings. It is regarded by the UK's construction and property sectors as the measure of best practice in environmental design and management. BREEAM assesses the performance of

buildings across a range of areas including materials (such as responsible sourcing and environmental impacts – i.e. life cycle assessment). Credits are awarded in each area according to performance. A set of environmental weightings then enables the credits to be added together to produce a single overall score. The building is then rated on a scale of 'Pass', 'Good', 'Very Good' or 'Excellent', and a certificate awarded that can be used for promotional purposes. On timber, BREEAM currently considers FSC as falling within its top tier, earning the maximum number of credits available. The Canadian and US forest certification schemes also fall within this top tier but are subject to needing to pass additional criteria on social issues as well as needing to be

accompanied by a chain of custody in the case of the US scheme.

Feedback received from the Timber Trade Federation confirmed that the BREEAM is having a positive impact on the market for legal and sustainable timber and wood products, but it was not possible to confirm how significant this impact is.

CONCLUSIONS & RECOMMENDATIONS

The UK is one of the world's key market destinations for illegal wood. The UK government has demonstrated clear commitment to reduce the role it plays in this trade, using voluntary mechanisms, i.e. public procurement, encouraging the uptake of credible certification, and certifying the entire UK state forest under the FSC. National industry and NGO initiatives are similarly working on voluntary initiatives to limit access to illegal and unsustainable markets. However, the lack of any standardised methodology for assessing the levels of illegality, no agreed formula for calculating the degree or nature of illegality, and apparently no compulsory monitoring of the trade in legal and sustainable timber and wood products, makes it impossible to judge how effective these efforts are. If anything, there are clear signs currently that the impacts of these processes are limited. The UK government's CPET process, in particular, has still to demonstrate that it has had any impact on the trade at all.

It is becoming increasingly apparent that, given the nature of illegal logging and unsustainable forest management, leaving the procurement of legal and sustainable timber and wood products in the hands of voluntary, market-led mechanisms will only take us so far. Currently around 90% of the global timber market lies outside firm

commitments on legality and sustainability. This is after around 15 years of voluntary effort by NGOs, industry and government alike; coupled to this are the increasing demands on global supplies by the emerging economies of China, India, Brazil and Russia. China's demand for wood, the scale of its through trade (estimated at around 80% of its total imports), and general lack of interest in the legality of wood imports in particular, will ensure that China will be a major source of illegal wood in the future.

This report argues that strategies to bring about further change and minimise the UK's timber footprint overseas would therefore be better targeted at a wider range of measures including: compulsory measures such as legislation to make it illegal to import illegal timber; coordinated government procurement policy, with greater transparency with regards to implementation as well as mandatory reporting of progress; and a combination of incentives and business-level decisions. Failure to do so will make it difficult for the UK government to live up to its intention of being a world leader in the sustainable procurement of timber and wood products.

The report concludes with a number of recommendations:

UK central government and local authorities

To tackle the importation of illegal and unsustainable timber and wood products effectively the UK government must:

- Call for EU legislation to make it illegal to import illegal timber and wood products into the EU.
- Set targets for the procurement of legal and sustainable timber within central government and ensure monitoring and evaluation of central government procurement of legal and sustainable timber and wood products, including on-site, random checks.
- Commission an audit into the effectiveness of CPET in promoting sustainable procurement of timber.
- Engage with local authorities to develop a time-bound strategy to ensure all local authorities have policies to procure legal and sustainable timber and wood products.
- Ensure that social criteria are included in the CPET evaluation process.

European Union/European Commission

Given the importance to UK timber markets of EU initiatives such as the public procurement directives and the FLEGT Action Plan, the EU must:

- Develop and implement, as a matter of urgency, 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.
- Monitor and evaluate the Member State timber and wood product procurement policies for their impact on legal and sustainable forest management.

Industry

Support the call for EU legislation to outlaw the import of illegal timber and wood products.

- Ensure better availability and harmonisation of information systems on the efforts of UK importers with respect to their commitments to responsible purchasing, especially those companies working under the

Timber Trade Federation's (TTF) Responsible Purchasing Policy (RPP).

- **House builders and construction companies** should commit to sourcing legal and sustainable timber and wood products as a matter of priority.
- **European Trade Federations** should continue to work with members to encourage best practice with regard to responsible timber procurement.

Financial institutions

Banks and investment companies should implement policies to ensure that finance is not provided to companies involved in commercial logging operations:

- in forests of high biodiversity that are not credibly certified;
- in forests that include any species listed on CITES, or that are not credibly certified or progressing to credible certification (in the case of Appendix II species);
- that are in violation of local or national laws in respect of illegal logging; or
- that ignore the rights of local communities.

General public

The general public is advised to think before buying forest products and should choose products that are either credibly certified, under schemes such as the FSC, or recycled – or both. Expressing interest and a demand for an FSC or recycled product can help bring about change at company levels.

1 Sawnwood, plywood and veneer, pulp, paper and fibreboard.

2 Forestry Commission (UK), Forestry Facts and Figures 2006.

3 Includes joinery, furniture, flooring and temporary coverings.

4 Global Witness, Greenpeace and FERN Briefing on FLEGT and VPAs, Undated, 4 pages.

5 House of Commons Environmental Audit Committee, Buying time for forests: timber trade and public procurement, Sixth Report of Session 2001-02, The Stationery Office Ltd, 24 July 2002, page 8, section 6.

6 MDGs. www.un.org/millenniumgoals/

7 International Biodiversity Delivery Plan, Beyond Johannesburg: Delivering Our International Biodiversity Commitments, published 24 May 2004.

8 Government Response to the House of Commons Environmental Audit Committee, Sustainable Timber, Second Report of Session 2005-06, The Stationery Office Ltd, 4 May 2006, page 12, section 47.

9 Forest Stewardship Council. 2004. FSC Standard For Non FSC-Certified Controlled Wood. FSC-STD-40-005 (V1-0) EN. Forest Stewardship Council. And: Forest Stewardship Council. 2006. FSC Controlled Wood Standard For Forest Management Enterprises FSC-STD-30-010 (V2-0) EN. Forest Stewardship Council.

10 In summary the FSC controlled wood standards are designed to stop the following material from entering FSC labelled products:

- illegally harvested wood;
- wood harvested in violation of traditional and civil rights;
- wood harvested in forests in which high conservation values are threatened by management activities;
- wood harvested in forests being converted to plantations or non-forest use; and
- wood from forests in which genetically modified trees are planted.

11 The WWF-UK FTN is part of the wider WWF Global Forest & Trade Network.

12 Timber Trade Federation, Measuring Timber Certification, Industry Sector: Timber Importing & Trading, November 2006



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