



Timber-Sourcing from Fragile and Conflict-Affected States

This paper presents data on the timber products sourced from fragile and conflict-affected states into regulated markets, focusing on the European Union. It argues that political instability and violence inherent to these situations indicates significant likelihood of buying illegal timber. Rather than pulling out, responsible global trade in legal forest products can be an effective way to create rural jobs and promote stability. As such companies wishing to source from fragile and conflict-affected states need to invest significant resources to ensure that their timber is legal and they “do no harm.”

Summary

Fragile and conflict-affected states face particularly severe development challenges and are characterized by weak institutional capacity, ineffective Rule of Law, poor governance, political instability, and the threat or reality of on-going, small-scale violence (Woolcock 2014). Armed conflicts frequently erupt in rural areas, often in forests, which are generally far from centers of government oversight, and provide a context for concealing armed forces. Forests also represent an opportunity to exploit valuable natural resources, by cutting and selling timber either locally or internationally, meaning that forests have often been implicated in patterns of conflict in fragile states (USAID 2005; Cheng and Zaum 2016). Demonstrating the legality of timber imported from fragile and conflict-affected states is particularly challenging, made even harder by the fact that most states in conflict do not have one uncontested government with a clear mandate to legislate for the production of timber.

Despite the high-risk profile for timber imports of this kind set out above, in 2015 the European Union (EU) reported that its combined imports of timber from fragile and conflict-affected states increased 14% on the previous year, hitting a total of €178 million. Notably there is significant variation in import levels across the EU, but they have been rising steadily in at least twelve of the twenty-eight Member States since 2010, despite legislation that prohibits the import of illegal wood into the EU, and requires companies to undertake Due Diligence.

While it is possible to buy legal wood in a fragile and conflict-affected state, the political instability, weak governance, and violence inherent to these situations indicates a significant likelihood of buying illegal wood. Responsible buyers must negotiate unclear political mandates, contested laws, weak governance and a lack of state enforcement of laws and regulations relating to forest protection and a significant vulnerability to fraud and forgery in official documents, premised on the likelihood of corruption (Norman et al. 2016).

This brief therefore presents data on the timber products sourced from fragile and conflict-affected states that are imported into the EU and other regulated markets. It argues that that under the Due Diligence requirements of regulations like the EU Timber Regulation (EUTR) and the Australian Illegal Logging Prohibition Act (ILPA), as well as the Due Care requirements of the US Lacey Act, companies need to invest significant resources in documenting area of harvest and undertaking forest-specific risk assessment and robust mitigation to ensure that timber harvested in this context is legal. In addition, it is imperative that international demand for timber product exports does not fuel further internal disputes or provide the financial means for a return to conflict and violence. Companies wishing to source timber products responsibly from conflict states are likely to have to go beyond ensuring legality in order to make sure that they “do no harm”.

Conflict-Affected States and Efforts to Tackle the Global Trade in Illegal Wood

Conflict and illegal logging are often linked. Illegal exploitation of forests can cause both small scale conflict between security forces of the logging companies (and the police/military) and forest-dependent people who rely on non-commercial access for their local livelihoods and everyday subsistence, as well as larger, civil wars with governments and rebel groups illegally logging forestland or corruptly facilitating illegal logging to finance military campaigns. Illegal logging, conflict, and corruption thus have a symbiotic relationship, and together have an enormous impact on local communities and social dislocation.

Even in post-conflict states, ceasefires often fail within a decade and countries can fall back into a “conflict trap” of repeating cycles of violence that undermine both development and good governance as well as natural resource management (Canby et al. 2016). This dynamic poses a risk for sourcing timber products from a country currently in conflict or recently emerging, post-conflict. At the same time, supporting well-governed, sustainably managed forests, and a responsible global trade in legal forest products, is an effective way to create rural jobs and the stable economic conditions in which growth and peace can occur.

To categorize “fragile and conflict-affected state” for this paper, we refer to the World Bank’s annual assessment of fragile and conflict situations, released as the Harmonized List of Fragile Situations. The concept and the list have evolved in line with World Bank’s understanding of the development challenges in countries affected by violence and instability. The list for 2017 was used for this assessment recognizing that violence tends to erupt in fragile situations within a ten to twenty-year timeframe.¹ While the list provides a national-level classification, it is important to note that the list belies the reality that conflict is generally a spatially explicit phenomenon. Conflict often occurs in a certain place and that is not necessarily at the country-level. To understand the full complexity of conflict and illegal logging would therefore require a sub-national/spatially explicit analysis, which is currently outside the scope of this paper. This also means that countries not on the list may experience pockets of regionally or area specific armed conflict, and as such, it is important to consider appropriate Due Diligence for all potential conflict situations on a case-by-case basis.

To reduce the market for any illegally logged timber and to incentivize further reductions in global rates of illegal logging, a number of countries, most notably the member states of the EU, the US, Australia, and Canada, now have legislation that requires companies to trade only in legally-harvested timber. In the EU and Australia, the legislation requires regulated companies to establish a Due Diligence System (DDS) and be able to document how they assess and mitigate their risk of buying illegal wood at any point within their product supply chains.

In the United States and Canada² the legislation creates a strict liability prohibition which makes it unlawful to import, export, transport, sell, receive, acquire, or purchase in interstate or foreign commerce any plant, with some limited exceptions, taken or traded in violation of the laws of the United States, a U.S. State or a foreign country. In the US, the prohibition is backed by a declaration requirement that includes scientific name, country of harvest, value and volume. Penalties for violations of either the prohibition or declaration requirement vary based on the violator’s ability to demonstrate that “due care” was taken; that being whether the company did everything reasonable to determine that a product was legal before purchase.

European Timber Product Imports³ from Fragile and Conflict-Affected States

In 2015, EU reported⁴ wood imports from fragile and conflict-affected states increased 14% to a total value of €178 million, fueled particularly by the reopening of trade with Myanmar following a period of sanctions (Figure 1). The top fragile and conflict-affected producer countries supplying the EU are the Ivory Coast, the Democratic Republic of Congo (DRC), Myanmar, Central African Republic (CAR), Liberia, Madagascar, Papua New Guinea (PNG), Togo, Syria and Lebanon. Notably, imports from Syria have decreased significantly since the start of the Syrian Civil War in March 2011.

¹ The first such list was compiled in 2006 and has gone through a series of changes in terms of classification from the Low Income Countries Under Stress List (LICUS) (2006-2009), to the Fragile States List (2010) to the Harmonized list of Fragile Situations (2011-2017). The full list of countries considered to be fragile or in conflict under the World Bank classification is available here <http://pubdocs.worldbank.org/en/154851467143896227/FY17HLFS-Final-6272016.pdf>

² More information on Canada’s Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade Act (S.C. 1992, c. 52) is available at <http://laws-lois.justice.gc.ca/eng/regulations/SOR-96-263/page-1.html#h-4>

³ Based on data analysis related to the Harmonized Tariff System- HTS chapter 44: Wood and Articles of wood; wood charcoal

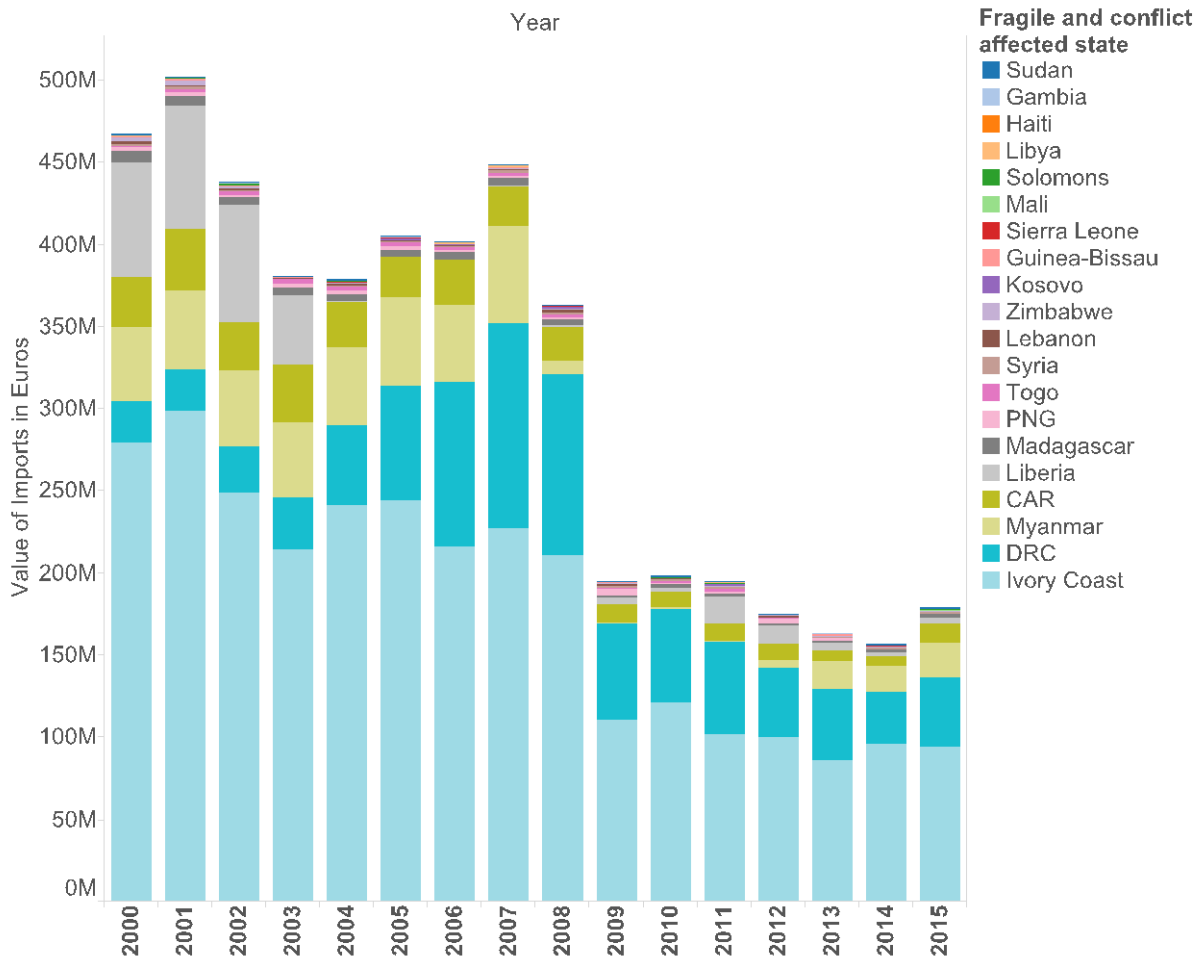
⁴ Based on data from Eurostat Comext, which is the main trade data source of the Statistical Office of the European Communities with reporting in Euros. More information is available at <http://epp.eurostat.ec.europa.eu/newxtweb/>

European timber product imports from the Ivory Coast were worth almost €3 billion between 2000 and 2015, more than the combined total imports from the other top nine fragile and conflict-affected producer countries (Figure 2).

While European imports from fragile and conflict-affected states have decreased across a number of Member States, Belgium has seen steady increases and now imports timber products worth roughly €40 million a year (Figure 3). Overall, the top European importers from fragile and conflict-affected states are Italy (29% of EU trade since 2000), France (16%), Spain (15%), Belgium (9%) and Germany (6%).

Figure 1: EU28 Member State Imports from Fragile and Conflict-Affected States

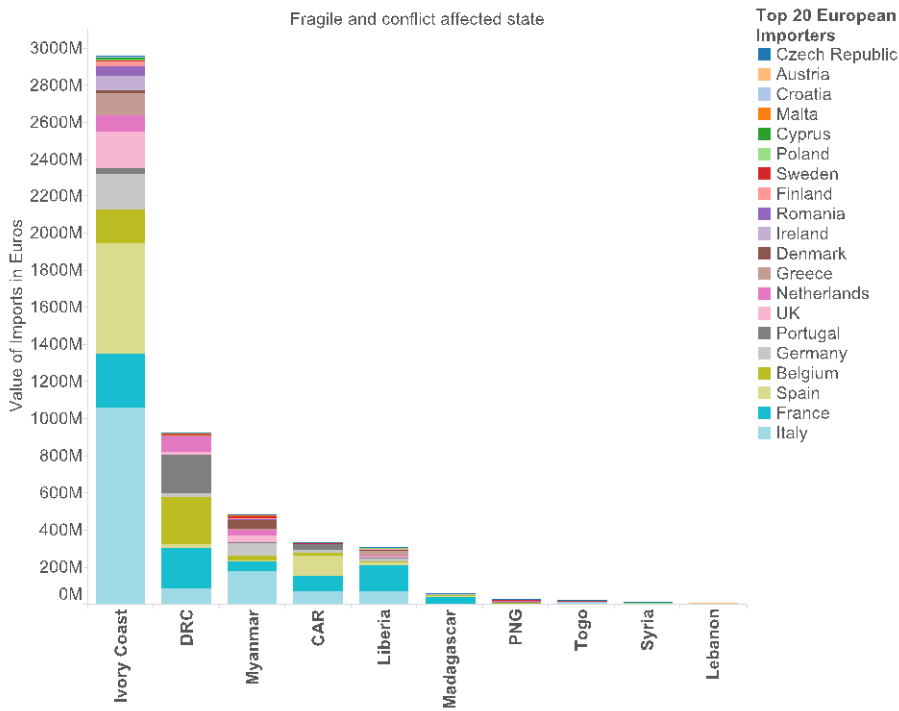
The chart shows the 20 most significant source countries based on the value of imports in Euros.



Source: Eurostat Comext, 2017. Compiled by Forest Trends.

Figure 2: Top Twenty Fragile and Conflict-Affected States Supplying the European Market between 2000 and 2016

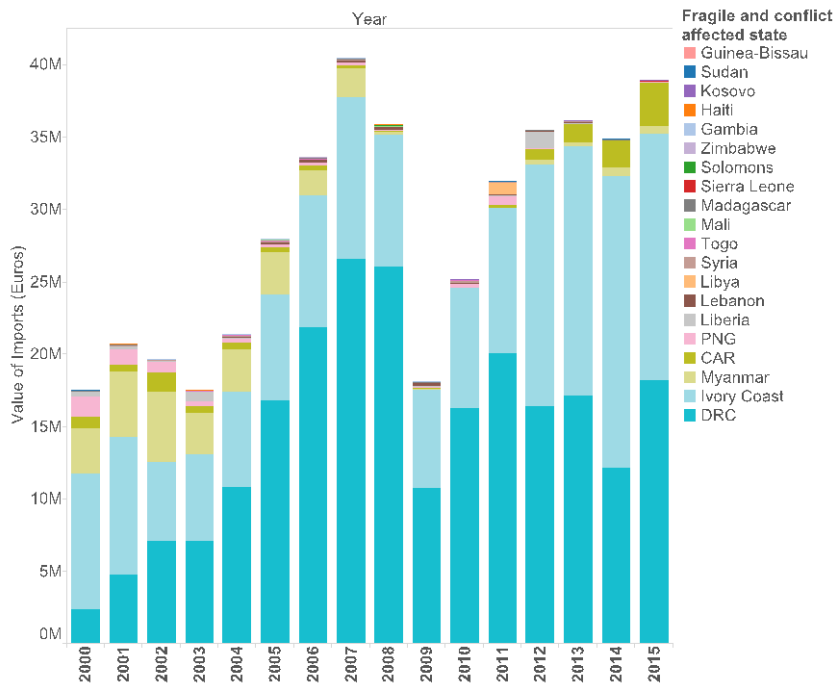
This chart is based on the value of European imports in euros.



Source: Eurostat Comext, 2017. Compiled by Forest Trends.

Figure 3: Belgian Sourcing of Timber Products from Fragile and Conflict-Affected States 2000 and 2015

This chart is based on the value of European imports in euros.



Source: Eurostat Comext, 2017. Compiled by Forest Trends.

By contrast, imports reported⁵ into the US, Australia, and Canada show less significant sourcing from fragile and conflict-affected states compared to the EU. The US sourced timber products worth a total of US\$20 million in 2015, primarily from the Ivory Coast, the DRC, PNG, CAR, and, since 2015, Myanmar and Sierra Leone. The US was the biggest global market for Sierra Leone’s timber products in 2015.

Australian imports from fragile and conflict-affected states reached just over US\$10 million in 2015. The major source countries are regionally different from other regulated markets, with a strong focus on sourcing from Pacific islands such as PNG and the Solomon Islands. However, Myanmar, Ivory Coast, and the DRC are also sources for the Australian market.

Canada reported just US\$200,000 worth of timber imports from fragile and conflict-affected states in 2015, making it the fourth most significant global buyer of timber products (veneer) from Afghanistan in 2015 behind Pakistan, France and the United Arab Emirates.

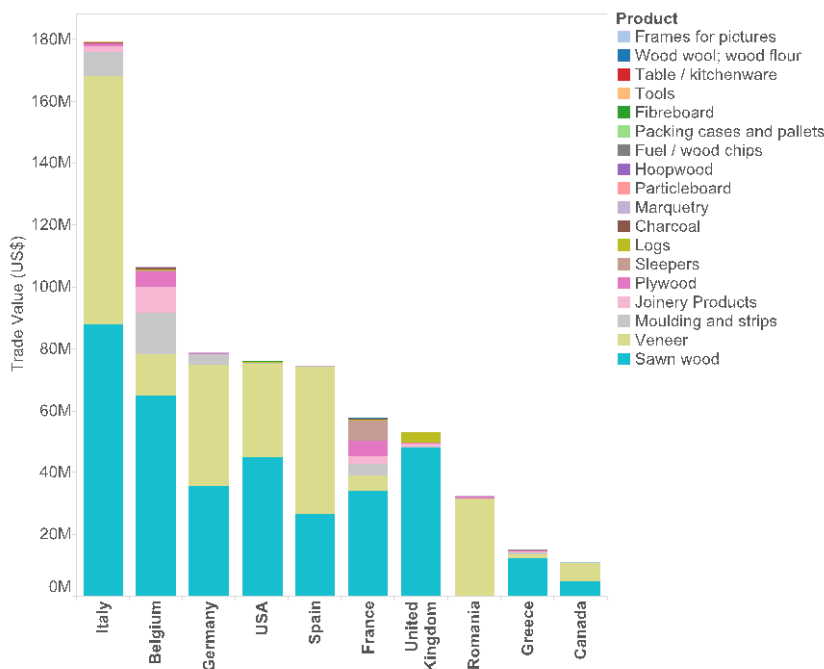
What Timber Products Are Sourced from Fragile and Conflict-Affected States?

Companies in regulated markets in the EU, the US, Canada and Australia are predominantly sourcing logs and sawn wood from fragile and conflict-affected states. Figures 4-8 show the breakdown of timber products entering regulated markets from the Ivory Coast, the DRC, Myanmar, CAR, and Liberia focusing on the products sourced by their top ten market buyers.

Ivory Coast is a major source of sawn wood and veneer products for regulated markets particularly in Europe and the US (Figure 4). Italy is the biggest global market for Ivory Coast veneer followed by Romania and Spain. Together, these three markets accounted for more than half (57%) of all globally reported veneer imports from Ivory Coast in 2015. Romanian companies have significantly increased their veneer imports from Ivory Coast since 2011, with 2015 imports worth US\$8.4 million. Italy, Belgium, Germany and France are also sourcing moulding and strips and joinery products from Ivory Coast, and represent roughly 70% of the global market for the two products (based on the value of global imports in USD reported to UN Comtrade for 2015).

Figure 4: Products Sourced from Ivory Coast by Regulated Markets between 2011 and 2015

The chart shows the top ten regulated market importers based on value in US dollars.



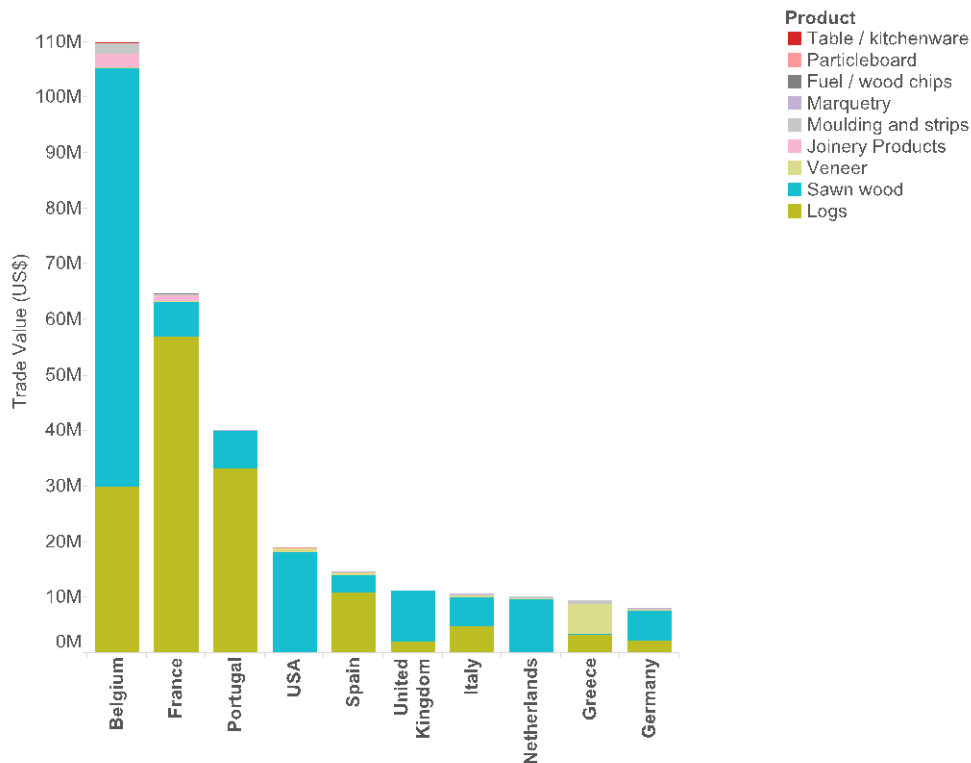
Source: UN Comtrade, 2017. Compiled by Forest Trends.

⁵ Based on data from UN Comtrade which holds information on exports and imports reported by national governments in USD. More information is available at <https://comtrade.un.org/>

From the DRC, the top regulated markets are primarily sourcing logs and sawn wood (Figure 5). French and Portuguese companies collectively bought around 21% of the global demand for DRC's logs in 2015. Belgium is sourcing close to 40% of the DRC's trade in sawn wood (based on the value of global imports in USD reported to UN Comtrade for 2015).

Figure 5: Products Sourced from DRC by Regulated Markets between 2011 and 2015

The chart shows the top ten regulated market importers based on value in US dollars.



Source: UN Comtrade, 2017. Compiled by Forest Trends.

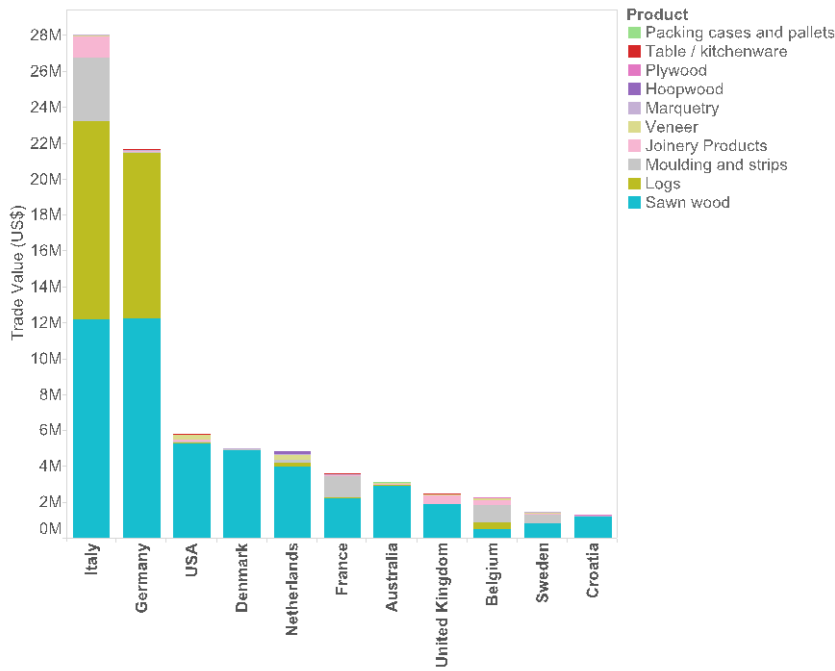
Greece has significantly increased imports of veneer from the DRC since 2011. In 2015, Greek companies bought 70% of all the DRC's veneer, which remains a relatively small industry worth US\$2.7 million annually. France and Belgium have also sourced joinery products and moulding and strips from the DRC, but the overall annual value of imports have declined over the last few years.

Sawn wood is the most significant timber product category sourced from Myanmar (Figure 6). Log imports have been declining in value, particularly since Myanmar introduced a log export ban from April 2014 but Italy and Germany have continued to report imports in 2015. Italian companies reported log imports worth US\$1.5 million in 2015, while German companies reported a much smaller volume worth around US\$213,000. Investigations by the German enforcement authority suggest that this was actually misreported sawn wood, which was incorrectly reported on customs declarations. The US, Canada, Belgium, and the Netherlands have increasingly sourced veneer products from Myanmar with the value of trade rising in 2014 and 2015.

From the Central African Republic, companies in regulated markets are primarily buying logs and sawn wood (Figure 7). French and Portuguese companies imported around 25% of CAR's logs in 2015. This represented a significant increase, particularly for Portuguese companies, which sourced four times more logs from CAR in 2015 compared to the year before. Spain and Italy are also sourcing small volumes of plywood, joinery products, and moulding and strips from the Central African Republic but values remain low.

Figure 6: Products Sourced from Myanmar by Regulated Markets between 2011 and 2015

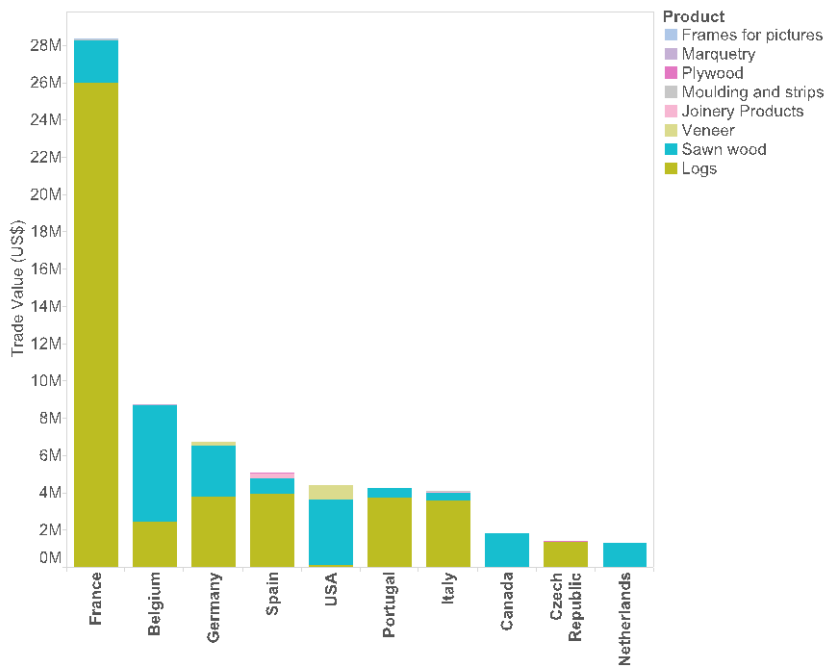
The chart shows the top ten regulated market importers based on value in US dollars.



Source: UN Comtrade, 2017. Compiled by Forest Trends.

Figure 7: Products Sourced from CAR by Regulated Markets between 2011 and 2015

The chart shows the top ten regulated market importers based on value in US dollars.

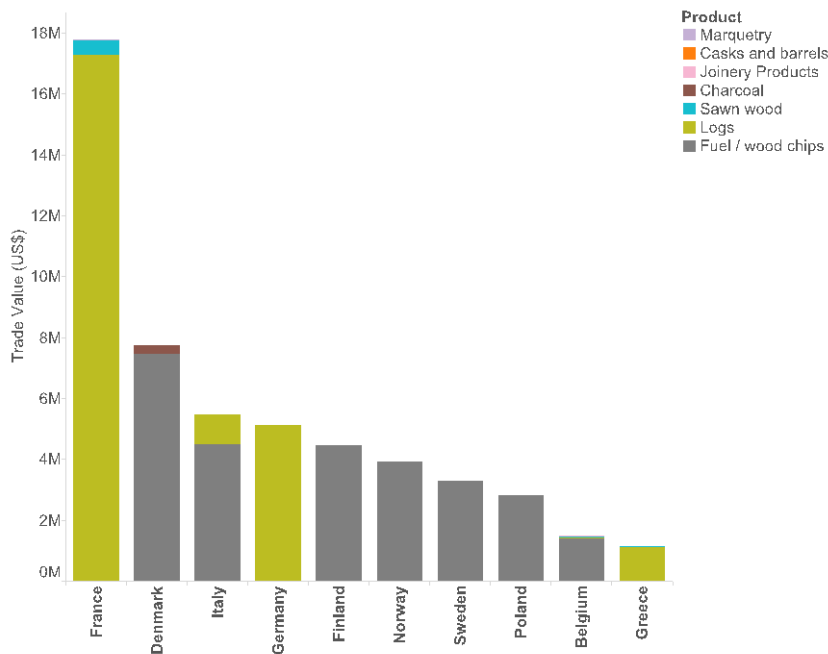


Source: UN Comtrade, 2017. Compiled by Forest Trends.

From Liberia, France, Germany, and Greece are primarily sourcing logs (Figure 8). The civil war between 1989 and 2003 largely destroyed the forestry industry and the rural infrastructure, which has meant that logs are the bulk of the export volume. Italy, Denmark, Norway, Finland, Sweden, Poland, and Belgium are sourcing fuel wood and wood chips.

Figure 8: Products Sourced from Liberia by Regulated Markets between 2011 and 2015

The chart shows the top ten regulated market importers based on value in US dollars.



Source: UN Comtrade, 2017. Compiled by Forest Trends.

Regulated Timber-Sourcing from Fragile and Conflict-Affected States

In the EU, companies are required to undertake three stage Due Diligence, with standards for risk assessment set by EC Guidance,⁶ which suggests that regulated European companies should consider where the timber was harvested, the level of governance in that country, whether compliance documents are verifiable, any reported incidents of companies in the supply chain being involved in practices related to illegal logging and the extent to which the supply chain is complex (see Box 1 for further description on the key questions to consider).

In the USA norms for appropriate Due Care have emerged from case law rather than regulatory guidance,⁷ and include considering product risk, the level of vertical integration between forest and supplier, country level corruption ratings, any reported legality concerns, any unusual “deals” or sales methods, whether relative market or offer prices are quoted, results from any in-person audits as well as the supplier’s past and present ability to provide documentation that appears legitimate.

⁶ For more information see the European Commission Guidance Document for the EU Timber Regulation, February 2016 http://ec.europa.eu/environment/forests/timber_regulation.htm

⁷ For more information see the Lacey Act Compliance Framework, 2015 http://c.ymcdn.com/sites/www.iwpawood.org/resource/resmgr/Files/LL_Inc_ECP_9_25_2015.pdf

Box 1: What Is Due Diligence for Timber Products in the Context of the EUTR? Guidance from the European Commission

The EU legislation regulating illegal timber, the EU Timber Regulation (EUTR), published by the European Commission defines Due Diligence as a three-stage process of: 1) Information gathering; 2) Risk assessment and 3) Risk mitigation.

Guidance issued by the European Commission in February 2016 states that “The level of risk can only be assessed on a case-by-case basis, as it depends on a number of factors. Although there is not a single accepted system for risk assessment, as a general rule the operator has to address the following questions:

- **Where was the timber harvested?** Is illegal logging prevalent in the country, sub-region or concession from which the timber originates? Is the specific tree species involved particularly at risk of illegal logging? Are there sanctions imposed by the UN Security Council or the Council of the European Union on timber imports and exports?
- **Is the level of governance a concern?** The level of governance might undermine the reliability of some documents showing compliance with applicable legislation. Therefore, the country’s corruption level, business risk indices, and other governance indicators should be considered.
- **Are all documents showing compliance with applicable legislation made available by the supplier, and are they verifiable?** If all relevant documents are readily available, it is more likely that the product’s supply chain is well established. The operator can be confident that the documents are genuine and reliable.
- **Are there indications of a company in the supply chain being involved in practices related to illegal logging?** (There is a higher risk that timber purchased from a company that has been involved in practices related to illegal logging will have been illegally harvested.
- **Is the supply chain complex?** The more complex the supply chain, the harder it may be to trace the origins of a product’s timber back to the logging source. Failure to obtain the necessary information at any point in the supply chain may increase the possibility of illegally harvested timber entering the chain.”

Source: European Commission Guidance Document for the EU Timber Regulation, February 2016.

At the same time, data reported by European Member States⁸ shows that the top five European importers of timber products from fragile and conflict-affected states have remain unchanged since the EUTR came into force in 2013 (Italy, Belgium, France, Spain and Germany). The UK has moved up to the sixth most significant importer reflecting significant increases in trade with Ivory Coast and growing trade with the DRC and the Solomon Islands in 2015.

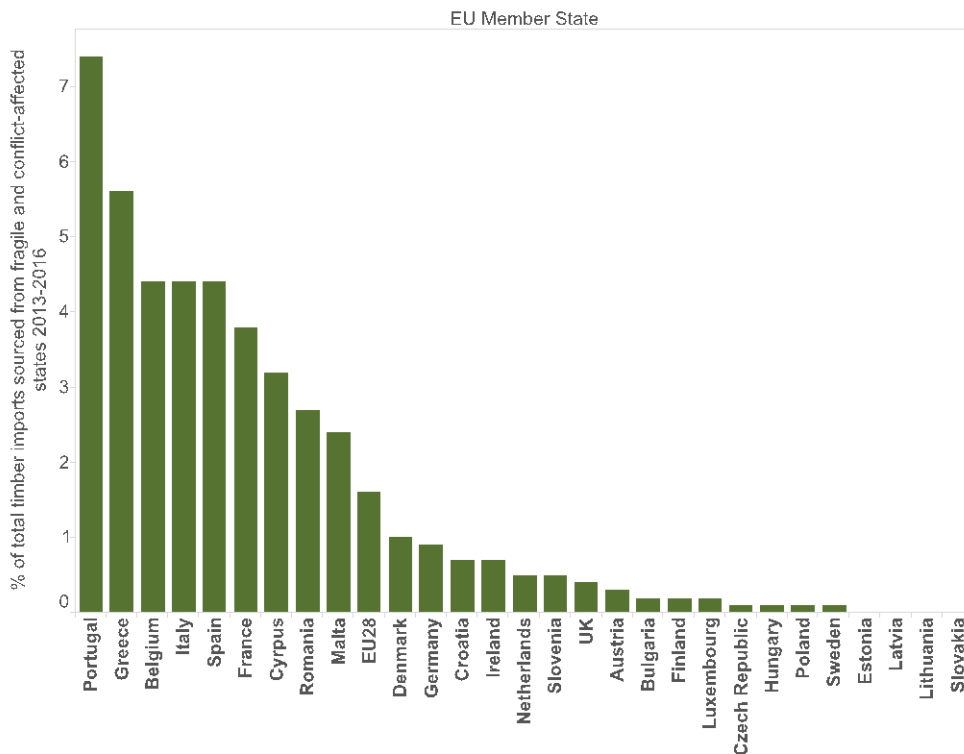
The data also shows that there is considerable variation in the proportion of timber products sourced from fragile and conflict-affected states across different Member States (Figure 9). Portugal sources the highest proportion of its total timber imports from fragile and conflict-affected states (averaging 7.4% of total imports since 2013). Greece, Belgium, Italy, Spain, France, Cyprus, Romania, and Malta all source proportionally higher volumes of timber from states in conflict and have remained above the EU28 average since 2013. Operators in these countries are primarily sourcing from Ivory Coast, DRC, CAR and Myanmar. Other key fragile and conflict-affected source countries include Guinea-Bissau for Spain and Kosovo for Italy, Germany, and Austria.

While it is possible to buy legal wood in a fragile and conflict-affected state, the political instability, weak governance and violence inherent to these situations indicates a significant likelihood of buying illegal wood. Weak governance and a lack of state control during conflict undermines enforcement of laws and regulations relating to forest protection. Government documentation can also be particularly vulnerable to fraud and forgery premised on corruption (Norman et al 2016). Under the Due Diligence requirements of the EUTR and Australian ILPA, as well as Due Care requirements of the US Lacey Act, Operators sourcing from fragile and conflict-affected states should be investing significant on-the-ground resources in documenting area of harvest and undertaking forest-specific risk assessment and robust mitigation in order to be confident that any product is legal.

⁸ Based on data from Eurostat Comext, which is the main trade data source of the Statistical Office of the European Communities with reporting in Euros. More information is available at <http://epp.eurostat.ec.europa.eu/newxtweb/>

Figure 9: The Percentage of EU28 Timber Imports Sourced from the World Bank List of Fragile and Conflict-Affected States since 2013

On average, 1.6% of EU28 total timber imports between 2013 and 2016 were sourced from these fragile and conflict-affected states.⁹



Source: Eurostat Comext, 2017. Compiled by Forest Trends.

Conclusions: Responsible Sourcing from Fragile and Conflict-Affected States

Conflict and illegal logging are inherently linked. Even post-conflict states are fragile and vulnerable to the conflict trap where ceasefires often fail within a decade and countries can fall back into repeating cycles of violence that undermine both development and good governance as well as natural resource management. This dynamic poses a significant risk to companies seeking to buy timber products from a source country currently in conflict or one that has recently emerged post-conflict.

Countries that can secure economic growth after conflict are less likely to fall back into war and jobs, economic opportunity and wealth creation are critical to stability. Supporting well-governed, sustainably managed forests, and a responsible global trade in legal forest products from fragile states, can be an effective way to create rural jobs and the stable economic conditions in which growth can occur. However, it is imperative that international demand for timber product exports does not fuel further internal grievances and disputes or provide the financial means for a return to conflict and violence. All companies sourcing timber products from conflict states must make sure that they “do no harm.”

Enforcement Authorities for the EUTR are instructed to take a risk-based approach to enforcement, which should consider the particularly negative potential impact of illegal timber sales in a conflict state (in terms of funding corruption, further conflict and social dislocation) and require a complex risk assessment and robust risk mitigation for timber sourced from countries currently in, or emerging out of, conflict.

⁹ Data on the percentage of EU28 timber imports sourced from fragile and conflict-affected states since 2013 was extracted from Eurostat Comext on February 3rd 2017 and reflects reporting for 2013, 2014, 2015 and the first 10 months of 2016. Each EU Member State percentage figure was calculated by comparing the value of imports from the fragile and conflict-affected states with the value of all non-EU timber imports into that Member State over the period.

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