



# CONFLICT, FRAGILITY AND GLOBAL TRADE IN HIGH-RISK TIMBER

By **Jade Saunders** and **Marigold Norman**

## SUMMARY

Weak institutions and a weak rule of law have proved major impediments in reversing patterns of illegal logging in many forest-rich countries. However, they become even greater obstacles in countries with a history of violent or armed conflict. The World Bank's latest List of Fragile and Conflict-affected Situations (FCS) includes a number of countries that export a significant volume of timber. With or without the presence of violent conflict, the chaotic governance situation in countries with high levels of institutional and social fragility increases opportunities for the illegal exploitation of forest resources.

The act of purchasing timber from conflict-affected or fragile states is not illegal anywhere in the world. However, operating in such countries requires responsible buyers to negotiate unclear political mandates, contested laws, weak governance, safety concerns for monitoring personnel and a lack of state enforcement of laws and regulations. Furthermore, many timber trade regulations demand that companies establish robust due diligence systems to ensure that only legal timber is purchased. The implementation of these requirements is far more difficult in fragile and conflict-affected situations.

This report analyses the international trade in timber from countries on the World Bank's 2020 List of Fragile and Conflict-affected Situations. It examines the challenges in sourcing legally harvested wood in these contexts, and discusses the danger that, without further regulation, the timber trade might fuel further conflict and instability.



## Defining Conflict and Fragility

In February 2020, the World Bank published its updated annual list of countries considered fragile and conflict-affected situations (FCS). The list functions primarily as a tool to alert the World Bank Group (WBG) and other users of the need to adapt their approaches, policies, and instruments in difficult and complex environments.

The 2020 list sorts countries into three distinct categories, namely those experiencing

- high-intensity violent conflict;<sup>1</sup>
- medium-intensity violent conflict<sup>2</sup>
- high levels of institutional and social fragility.<sup>3</sup>

The previous World Bank list, the Harmonized List of Fragile Situations, aggregated all forms of fragility and conflict into just one category. The new categorizations add greater nuance and reflect a new approach to World Bank engagement in conflict situations, which also notes explicitly that: “private sector development, like all development, must be guided by “do no harm” principles to avoid generating more fragility through corruption, illicit trade, and the financing of violent groups,” (World Bank 2020a). Indeed, the WBG Fragility, Conflict, and Violence (FCV) Strategy also states that: “revenue generated by extractive industries requires priority attention because it can be easily channeled toward illicit or corrupt activities,” (World Bank 2020b).

The latest List of Fragile and Conflict-affected Situations includes a number of countries that export a significant volume of timber. As highlighted in Forest Trends’ 2017 report *Timber Sourcing from Fragile and Conflict-affected States*, the political instability and violence inherent in these states significantly raises the likelihood of buying illegal timber. Companies wishing to source from countries categorized as fragile or conflict-affected should therefore be investing significant resources in due diligence if they are to ensure that their timber is legal and its production and trade “do no harm” (Norman and Saunders 2017).

## Conflict, Fragility and Illegal Logging

The List of Fragile and Conflict-affected Situations highlights those countries facing the greatest challenges of this nature. In reality, conflicts are often highly localized, affecting specific areas or regions within a nation.

Nonetheless, FCS countries do face particularly severe development challenges due to weak institutional capacity, ineffective rule of law, poor governance, political instability, and the threat or reality of on-going violence at variable scales (Woolcock 2014). Well-governed, sustainably managed forests, and a responsible global trade in legal forest products, are effective means

<sup>1</sup> Countries in high intensity conflict are defined as those with: (i) an absolute number of conflict deaths above 250; and (ii) a number of conflict deaths relative to the population above 10 per 100,000, reflecting widespread and intense violence across many parts of the country.

<sup>2</sup> Countries in medium intensity conflict are defined as: (i) countries with lower intensity conflict, as measured by: (a) an absolute number of conflict deaths above 250; and (b) between 2 and 10 per 100,000 population; or (ii) countries with a rapid deterioration of the security situation, as measured by: (a) a lower number of conflict deaths relative to the population between 1 and 2 and (b) the number of casualties more than doubling in the last year.

<sup>3</sup> Fragile situations are defined as those: (i) With one or more of the following situations: (a) the weakest institutional and policy environment, based on a revised, harmonized CPIA1 below 3.0; or (b) the presence of a UN Department of Peace Operation (DPO); or (c) flight across borders of 2,000 or more per 100,000 population, who are internationally regarded as refugees in need of international protection; (ii) And that are not in medium- or high-intensity conflict (see definition below), as such countries have moved beyond “fragility.”



through which to create the rural jobs and stable economic conditions required for such countries to develop peacefully. However, forests can also exacerbate conflict and fragility, through means summarized by Forest Trends in an earlier version of this paper (Norman and Saunders 2017):

- **Forests attract conflict:** Conflicts, including armed conflicts, frequently erupt in rural areas, often in forests since these are generally far from centers of government oversight and can conceal armed forces. These regions and the impoverished ethnic minorities who often live within them have many times been neglected, weakening their allegiance to their governments.
- **Revenues from forest resources can finance and fuel conflict:** Groups engaged in conflict are often attracted by the opportunity to profit from the cutting and selling of timber, either locally or internationally (Cheng and Zaum 2016). Indeed, the logging of forestland, or the corrupt facilitation of it, is used by both governments and rebel groups to finance military campaigns and civil wars. The exploitation of forests can also provoke small scale conflicts, such as those between the security forces of logging companies and the forest-dependent people who rely on non-commercial access for their livelihoods and everyday subsistence.
- **Corruption and conflict have an enduring, symbiotic relationship:** In post-conflict states, ceasefires often fail within a decade. Countries fall back into a “conflict trap” - repeated cycles of violence that undermine development, good governance and natural resource management in the long term (Canby, Blundel and Harwell 2016).

While it remains possible to buy legal wood in an FCS country, responsible buyers must negotiate unclear political mandates, weak governance, contested laws, and a lack of state enforcement of these laws and regulations. These factors increase the risk that purchasing timber could fuel the outbreak or continuation of violent conflict, undermining national endeavors towards development, good governance and rule of law.

**TABLE 1 Responsible timber purchasing challenges in fragile and conflict affected situations**

	Key Characteristics	Risks and challenges associated with responsible timber purchasing
High intensity conflict	Widespread and intense violence across many parts of the country and a significant number of conflict-related deaths relative to the population of the country.	Where there is no recognized national or sub-national government, or a government mandate is unclear, forest permitting and other applicable legislation may not have a reliable legal basis.  Harvest areas in conflict zones make government enforcement and third party auditing in harvest areas impossible. Harvesting areas may also be controlled and exploited by military groups.
Medium intensity conflict	Less intense conflict, sub-national areas of violence, the potential for a rapid deterioration of the security situation and lower number of conflict-related deaths.	Risk of illegal timber being harvested in conflict areas which could become mixed with timber from non-conflict areas.
High institutional and social fragility	The weakest institutional and policy environment characterized by deep institutional crises and very poor transparency and government accountability.	Inability to maintain rule of law, control corruption or establish credible public systems for documenting supply chains, particularly from rural areas.  Responsible buyers must therefore negotiate unclear political mandates, contested laws, weak governance and a lack of enforcement of laws and regulations relating to forest management and protection. Significant risk of fraud and forgery in official documents, premised on the likelihood of corruption.

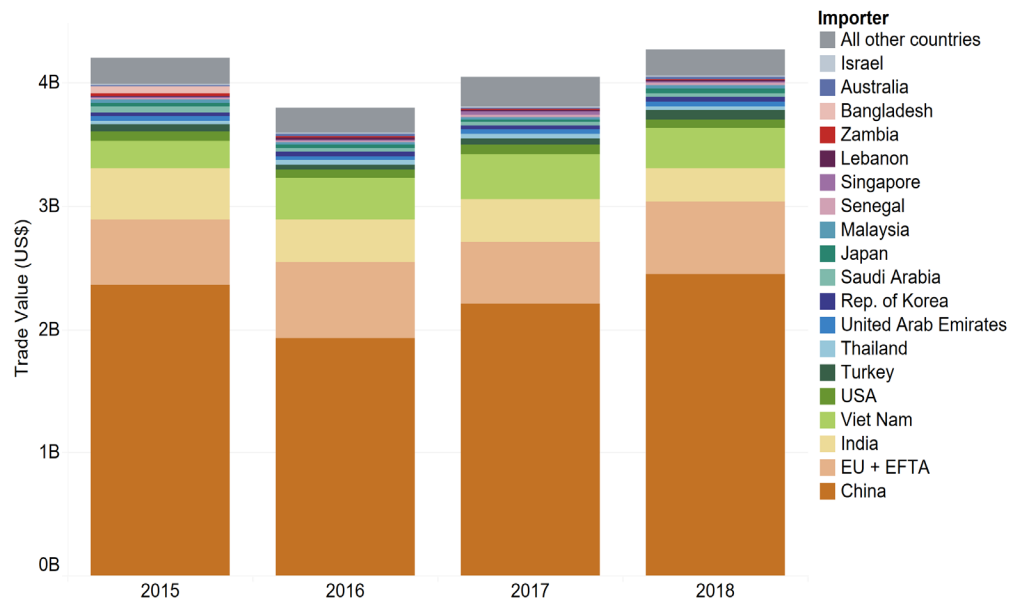


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## What Does The Available Data Tell Us About Imports Of Forest Products From FCS Countries?

Global imports of forest products<sup>4</sup> from FCS countries declined between 2015 and 2016, but then increased annually through 2018, when imports from countries on the 2020 World Bank list were valued at US\$4.3 billion (Figure 1). China purchased 57 percent of all FCS forest products in that year, followed by the EU and EFTA countries combined (14 percent), Vietnam (8 percent), India (6 percent) and the US (2 percent).

**FIGURE 1** Top global importers of forest products from fragile and conflict-affected situations (FCS) 2015-2018 (value in USD)



Source: UN Comtrade, 2020, compiled by Forest Trends, 2020<sup>5</sup>

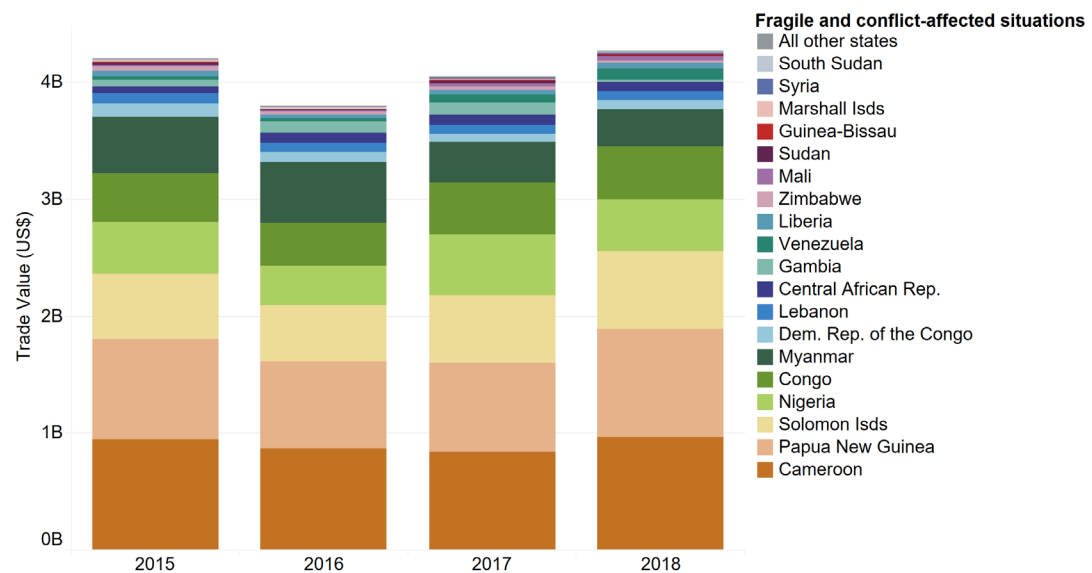
Around 23 percent of imported forest products from FCS countries (by value) were sourced from Cameroon (Figure 2), an export sector valued at US\$964 million in 2018. Other key FCS countries supplying the global market were Papua New Guinea (PNG) (accounting for 22 percent), Solomon Islands (16 percent), Nigeria (11 percent), Republic of Congo (RoC) (11 percent) and Myanmar (8 percent).

<sup>4</sup>The term “forest products” is used to refer to timber products (including furniture) plus pulp and paper. While the term “forest products” is often used more broadly to cover non-timber and non-wood products such as mushrooms, botanicals, and wild-life, for Forest Trends reports, “forest products” is used to refer to timber products plus pulp and paper.

<sup>5</sup>For this analysis UN Comtrade data is used throughout, as it provides a consistent methodology for comparison at the global level; however, it should be noted that some individual national customs agencies do have public data sets which can differ from the information that their national governments report to Comtrade.



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**FIGURE 2** Top FCS supplying global markets with forest products 2015-2018 (value in USD)

Source: UN Comtrade, 2020, compiled by Forest Trends, 2020

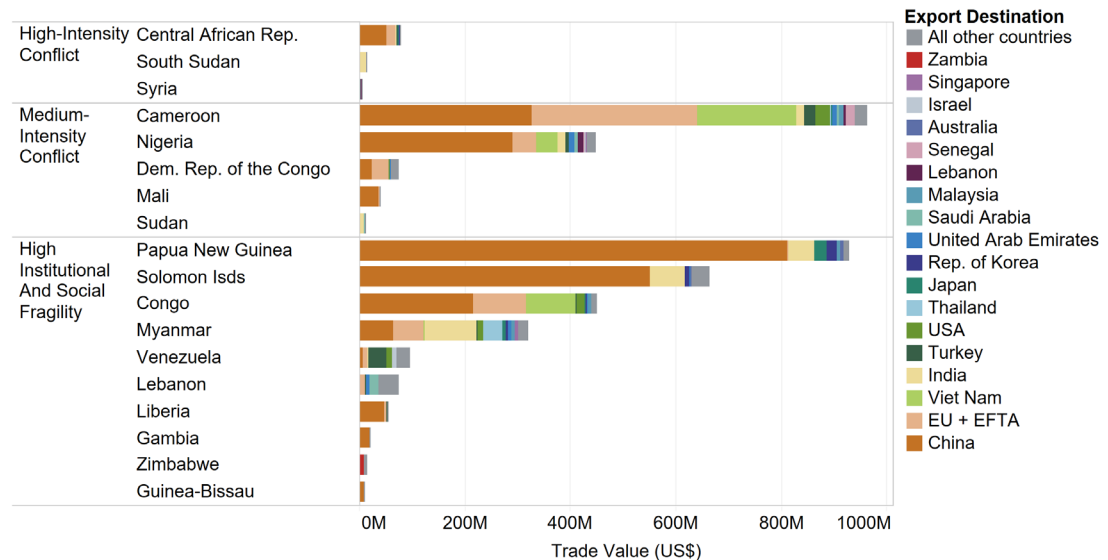
**High-intensity conflict situations:** Sourcing of forest products from countries in this category remains low, with total global imports valued at around US\$100 million in 2018 (Figure 3). The three main high-intensity conflict situations supplying the global market in 2018 were the Central African Republic (CAR), South Sudan and Syria. China purchased over 65 percent of CAR's forest products in 2018, with the EU importing around 19 percent. Over 98 percent of South Sudan's forest products were purchased by India. Following several years of conflict, Syria's forest product trade is now very small, with most exports reportedly destined for countries within the region including Lebanon and Kuwait.

**Medium-intensity conflict situations:** Appetite for forest products from countries in this category is much higher. In 2018, global imports were valued at US\$1.5 billion. Two thirds of forest products bought from medium-intensity conflict situations came from Cameroon, with Nigeria accounting for close to one third.

**High-institutional and social fragility situations:** Global sourcing from countries in this category is higher still, with the total export trade valued at US\$2.6 billion in 2018.



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**FIGURE 3** Global forest product imports from FCS by World Bank category in 2018 (value in USD)

Source: UN Comtrade, 2020, compiled by Forest Trends, 2020

## The EU + EFTA

All Members of the EU and EFTA are obliged to enforce the requirements of the EU Timber Regulation, which prohibit the import of illegally harvested timber and establish a legal requirement for companies to undertake due diligence to avoid buying illegal timber. Nonetheless, in 2018, EU and EFTA countries imported FCS forest products valued at US\$589 million (Figure 4).

European sourcing from FCS countries varies significantly across Member States (Figure 5). In 2018, Belgium was the largest importer, accounting for 30 percent of Europe's total imports of FCS forest products, although it is not clear whether the timber was consumed in the country or circulated further in the single market. After Belgium, Italy (18 percent), France (12 percent), the UK<sup>6</sup> (8 percent) and Germany (7 percent) were the EU's five biggest importers of FCS forest products.

However, early reporting to UN Comtrade by Belgium suggests that 2019 sourcing from FCS countries has declined by US\$21 million to US\$155.9 million, in part due to Belgium's increasing enforcement of the EUTR common position on teak from Myanmar (Norman 2020). Other FCS countries such as Cameroon, Democratic Republic of Congo (DRC) and Nigeria also exported less to Belgium.

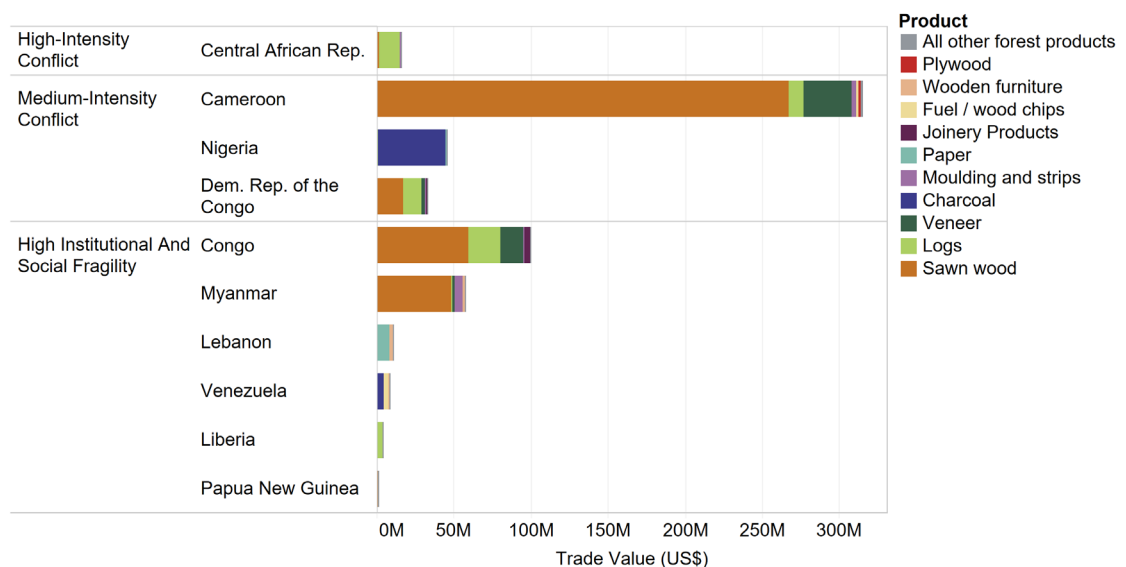
- **High-intensity conflict situations:** Of the total FCS exports to the EU and EFTA, only a small proportion (valued at US\$15 million) were from high-intensity conflict situations, and these mainly consisted of logs from CAR.
- **Medium-intensity conflict situations:** US\$393 million of forest products were exported to the EU and EFTA from Cameroon, Nigeria and the DRC.

<sup>6</sup> The EUTR remains in force in the UK during the Brexit transition period so its trade data has been included in the EU and EFTA section.

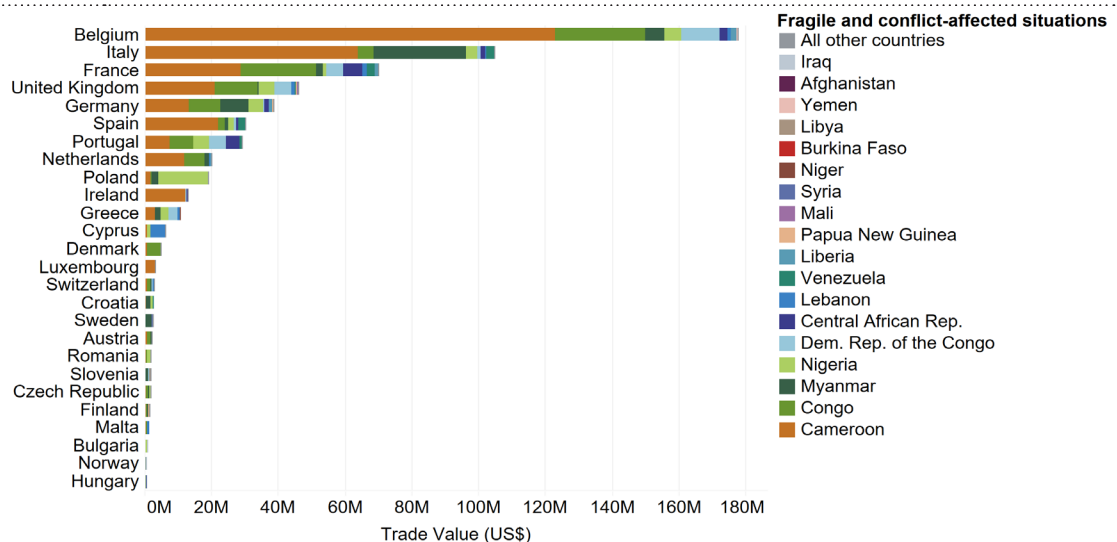


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- **High-institutional and social fragility situations:** The EU and EFTA was the biggest market for forest products from high-institutional and social fragility situations in 2018, worth US\$181 million. Around US\$100 million of this was sourced from RoC, which has supplied European markets with sawnwood, logs, veneer and joinery products for many years. Europeans have also continued to source forest products from Myanmar, with imports valued at US\$57 million in 2018.

**FIGURE 4** EU and EFTA imports from FCS countries by in 2018 (value in USD)

Source: UN Comtrade, 2020, compiled by Forest Trends, 2020

**FIGURE 5** EU and EFTA imports of forest products from FCS countries by World Bank category in 2018 (value in USD)

Source: UN Comtrade, 2020, compiled by Forest Trends, 2020



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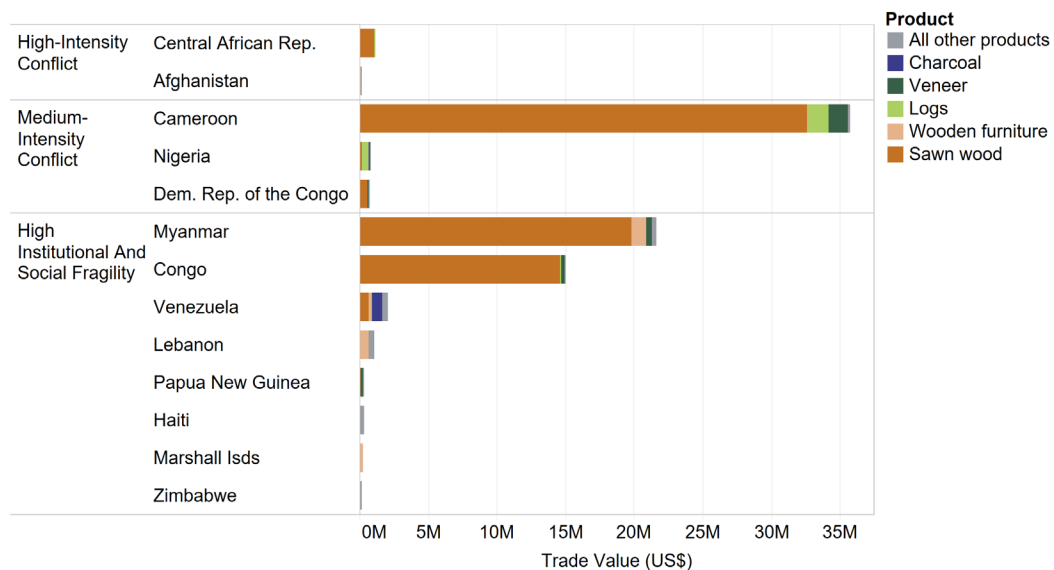
## The USA

All companies and individuals in the USA are subject to the US Lacey Act which bans trafficking in illegal wildlife and was amended in 2008 to include plants and plant products, making it the world's first ban on trade in illegally sourced wood products.

Nonetheless, the US sourced US\$79 million of forest products from FCS countries in 2019:

- **High-intensity conflict situations:** 2019 imports were valued at US\$1.2 million, including US\$1.09 million sawnwood from CAR and US\$35,000 of wooden seating products (HS 940161) from Afghanistan (Figure 6).
- **Medium-intensity conflict situations:** In 2019, US\$37 million was sourced primarily from Cameroon (US\$35.6 million). Just US\$800,000 came from Nigeria (including charcoal, logs and sawnwood despite a full export ban on logs and sawnwood which has been in place since 1976) and US\$730,000 from the DRC.
- **High-institutional and social fragility situations:** 2019 imports were valued at US\$41 million. Myanmar and RoC were the most significant source countries. These countries primarily supplied sawnwood and, to a much lesser extent, wooden furniture products. The US sourced veneer, sawnwood and other articles of wood from PNG and sawnwood, furniture and charcoal from Venezuela.

**FIGURE 6** US imports of forest products from FCS Countries by World Bank category in 2019 (value in USD)



Source: UN Comtrade, 2020, compiled by Forest Trends, 2020



## Regulated Markets in the Asia Pacific (Australia, Korea, Japan and Indonesia)

A number of countries in the Asia Pacific region have regulations in place to tackle the trade in illegal timber or promote imports of legally harvested timber, notably the Republic of Korea,<sup>7</sup> Japan,<sup>8</sup> Australia,<sup>9</sup> and Indonesia.<sup>10</sup>

**Japan:** Sourced US\$37 million in forest products from FCS countries in 2018 (Figure 7). Just over US\$2 million of timber products were imported from high-intensity conflict situations in 2018, including US\$2 million in sawnwood and logs from CAR and US\$8,000 of paper products from Afghanistan.

US\$3 million worth of timber was sourced from medium-intensity conflict situations, primarily Cameroon and DRC (Figure 7). Of the US\$32 million sourced from situations of high-institutional and social fragility, the majority were logs sourced from PNG and sawnwood from Myanmar, and a lesser part logs from the RoC.

**Republic of Korea:** Imported forest products worth US\$36 million from FCS countries in 2018 (Figure 7). Just US\$386,000 came from high-intensity conflict situations and US\$599,000 from medium-intensity conflict situations in 2018. As well as logs from CAR, this reportedly included paper imports from Afghanistan and charcoal from Nigeria, neither of which fall within the scope of their import legislation. More than US\$35 million was sourced from high-institutional and social fragility situations, with the majority in the form of logs and sawnwood from PNG and the Solomon Islands, as well as a range of forest products from Myanmar.

**Australia:** Sourced forest products worth US\$12.5 million from FCS countries in 2018 (Figure 7). In 2018, just US\$8,000 came from high-intensity conflict situations and US\$499,000 from medium-intensity conflict situations including, reportedly, paper from Afghanistan and veneer from Cameroon. US\$12 million of forest products were sourced from high-institutional and social fragility situations, primarily plywood from PNG and sawnwood from the Solomon Islands and Myanmar.

**Indonesia:** Imported forest products worth \$6.6 million from FCS countries in 2018 (Figure 7). US\$91,000 came from high-intensity conflict situations and US\$3.5 million from medium-intensity conflict situations in 2018. The majority of this took the form of sawnwood sourced from

<sup>7</sup> The Act on the Sustainable Use of Timbers operates as a mandatory, pre-import control measure. The Act prohibits the importation, distribution, production, or sale of illegal timber. Importers are required to submit an import declaration containing evidence of legality to the Forestry Promotion Institute, who verify and report to the Korea Forest Service (KFS). KFS then checks that the product matches the declaration, and upon verification Korean customs issues customs clearance.

<sup>8</sup> The Clean Wood Act operates as a voluntary measure of operators who take additional steps to verify the legality of their imported wood. Registered operators can promote their materials as “verified” under the system. The Act aims to promote the sale of legal timber, rather than prohibit the import of illegal timber.

<sup>9</sup> The Illegal Logging Prohibition Act makes it a criminal offense both to intentionally import wood, and pulp and paper products into Australia; and to process Australian wood that has been illegally logged. The act establishes a due diligence measure similar to the EUTR.

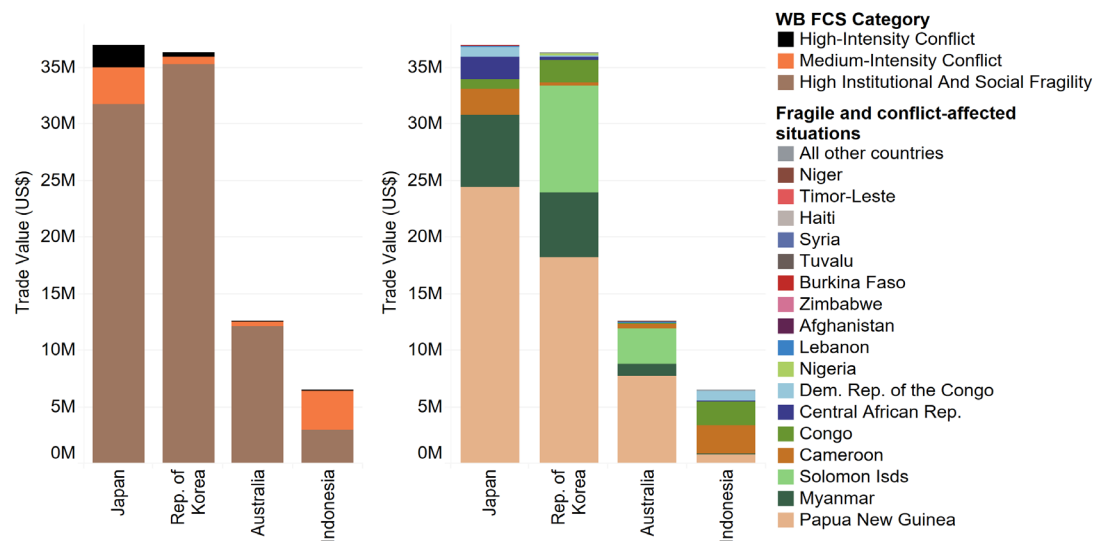
<sup>10</sup> Indonesia operates under a Voluntary Partnership Agreement with the EU, which involves developing a system to ensure timber legality. In Indonesia this system is called the Sistem Verifikasi Legalitas Kayu (SVLK) and includes . Timber imports are subject to an import permit issued by the Ministry of Trade. Registered importers are instructed to exercise due diligence on the legality of timber products by assessing the legality risks involved and, where necessary, applying mitigation measures before the import takes place. The legality risks are assessed by considering the exporter’s track record, timber products, tree species, country of harvest, country of dispatch and forest concession (for import of logs only). Risk mitigation is document-based.



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Cameroon, DRC and CAR. US\$3 million was sourced from high-institutional and social fragility situations, primarily sawnwood from RoC and PNG.

**FIGURE 7** Asia-Pacific “regulated” market imports from FCS countries in 2018 (USD)



Source: UN Comtrade, 2020, compiled by Forest Trends, 2020

## Significant processing countries with export-oriented manufacturing industries (China, India, Vietnam and Thailand)

Several global manufacturing hubs have been increasing their imports of primary forest products to feed a growing domestic and export-oriented industries. China, India, Vietnam and Thailand fall into this category, yet have no regulations in force to stop the import of illegally harvested timber.

China has recently revised the country's Forest Law to bar Chinese companies and investors from trafficking in illegal timber, however it remains unclear whether courts will interpret this as applying to wood harvested outside the country. India is yet to take steps to develop import measures to control the import of illegal timber, while Vietnam and Thailand are in the process of implementing FLEGT Trade Agreements<sup>11</sup> which will include import controls. However, these mechanisms are not yet operational.

All four countries process FCS wood into paper, furniture and panel boards which are then exported around the world, finding their way into regulated markets in ways that are hard to detect in publicly available data sets.

**China:** Imported forest products were valued at US\$1.83 billion from FCS countries in 2019 (Figure 8). Of these, 1.9 percent (US\$33.9 million) were sourced from high-intensity conflict

<sup>11</sup> FLEGT trade agreements, known as Voluntary Partnership Agreements (VPA) are based on a licensing system for legal wood, and make trade in forest products contingent on the issuance of such a license. Central to the VPA is the Timber Legality Assurance System (TLAS). Each TLAS must include a definition of legality, a procedure for verifying control of the supply chain, the designation of a national authority to issue FLEGT licenses, and an independent audit. It also includes a screening mechanism to exclude illegal timber from import.

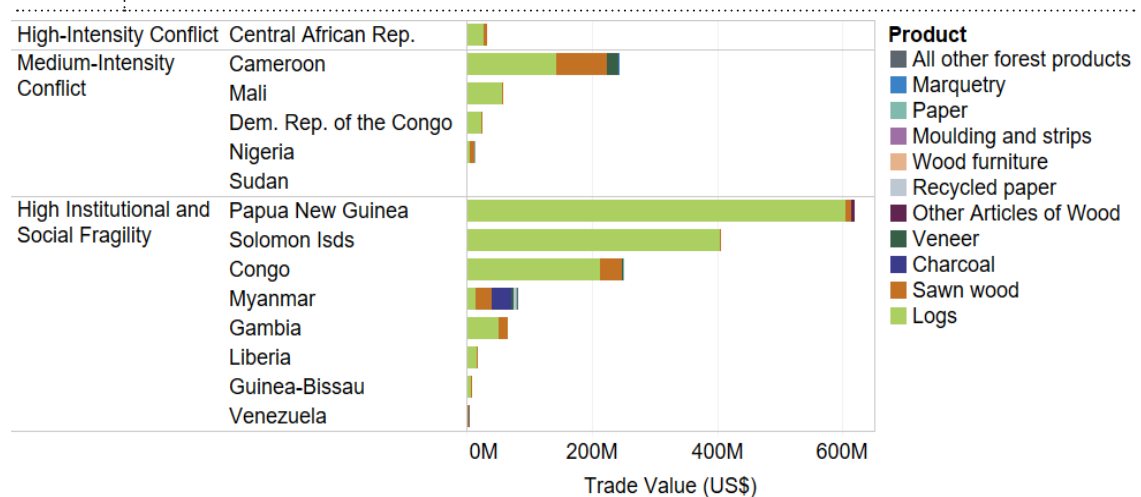


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situations (mostly in the form of logs from CAR); 18.6 percent (US\$340.1 million) were sourced from medium-intensity conflict situations (largely logs from Cameroon, Mali and the DRC, as well as sawnwood from Cameroon and Nigeria and veneer from Cameroon); and 79.5 percent (US\$1.45 billion) were sourced from high institutional and social fragility situations.

Approximately US\$1.27 billion of these imports from high institutional and social fragility situations were logs sourced from PNG, the Solomon Islands, the RoC and Gambia, with sawnwood from the RoC, Myanmar and Gambia (US\$61 million) and charcoal from Myanmar (US\$34 million) representing other significant imported products.

**FIGURE 8** Chinese imports from FCS by World Bank category in 2019 and product (value in USD)



Source: Data from the General Administration of Customs, P.R. China, compiled and analyzed by Forest Trends.

**India:** Sourced US\$268 million worth of forest products from FCS countries in 2018 (Figure 9). US\$15 million came from high-intensity conflict situations in 2018. These primarily consisted of logs and sawnwood from South Sudan and, to a lesser extent, logs from CAR. US\$37 million was sourced from medium-intensity conflict situations, in the form of logs from Cameroon, Nigeria and Sudan.

US\$216 million was sourced from high-institutional and social fragility situations, with the majority in the form of logs from PNG and the Solomon Islands, as well as veneer and sawnwood from Myanmar.

**Vietnam:** Sourced US\$322 million worth of forest products from FCS countries in 2018. US\$228 million<sup>12</sup> came from medium-intensity conflict situations, primarily in the form of logs and sawnwood from Cameroon and Nigeria. US\$95 million was sourced from high-institutional and social fragility situations (Figure 9), with the majority in the form of logs and sawnwood from the RoC.

**Thailand:** Sourced US\$24.5 million worth of forest products from FCS countries in 2018. US\$80,000 came from high-intensity conflict situations and US\$1.4 million from medium-intensity conflict

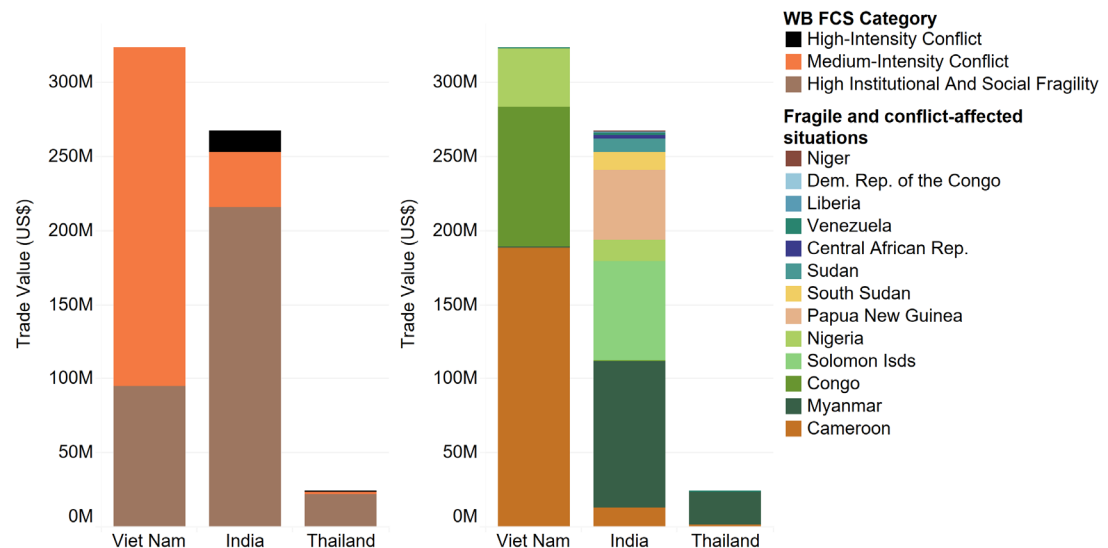
<sup>12</sup> Imports of products as classified in the Combined Nomenclature set out in Annex I to Council Regulation (EEC) No. 2658/87 were analyzed for this paper at either the relevant four- or six-digit Harmonized System (HS) code level. The relevant HS Codes this instance include: 4403, 4407, 4408, 4409, 4410, 4412, 4418,



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situations, including logs from the CAR and the RoC. US\$23 million was sourced from high-institutional and social fragility situations, primarily sawnwood from Myanmar.

**FIGURE 9** Significant processing countries (with export-oriented manufacturing industries) imports from FCS in 2018 and source country (value in USD)



Source: UN Comtrade, 2020, compiled by Forest Trends, 2020

## Why the Trade in Timber from Conflict and Fragile Countries Matters

With a total export value of US\$4.3 billion, the potential for unaccountable financial flows from the timber sector to contribute to corruption, further inequity and destabilize institutions is clear.

However, the World Bank has found that: “Lack of economic opportunities and high unemployment exacerbate other FCS drivers. A vibrant and inclusive private sector can ignite economic growth, provide jobs and services, and help stabilize societies,” (World Bank 2020b).

It also concludes that “successful management of natural resources can prevent them from becoming a powerful driver of FCS that can both spur and finance conflicts,” (ibid). since fragility can also be exacerbated by stresses on the environment and natural resources.

Supporting well-governed, sustainably managed forests, complemented by a transparent and responsible global trade in legal forest products, can thus be an effective means of creating the rural jobs and stable economic conditions on which peaceful growth depends.

By 2030 the World Bank has projected that over half the world’s extreme poor will live in countries characterized by fragility, conflict, and violence. Preventing and mitigating these challenges is essential if progress is to be made toward the Sustainable Development Goals (SDGs) and towards the international community’s broader aims of promoting peace and prosperity (ibid). Until effectively tackled, illegal logging and the trade in illegally harvested timber will continue to undermine international aid efforts.



## Fragile States and Existing Timber Trade Laws

### *Consumer Countries with Timber Trade Laws*

Globally, the EUTR and Australian ILPA are the only laws that make explicit reference to the risks associated with buying timber from conflict-affected or fragile situations. Neither, however, goes so far as to make the purchase of timber from countries categorized as FCS an illegal act.

Both the EUTR and ILPA oblige companies to undertake three stages of due diligence in order to determine that the timber they are sourcing is legal, with standards for a risk assessment set by EC general guidance, (updated in 2016),<sup>13</sup> and the Australian department of Agriculture, Water and the Environment.<sup>14</sup>

Under Article 6 of the EUTR, operators' due diligence systems must incorporate risk assessment procedures capable of analyzing and evaluating the risk of illegally harvested timber, including: "consideration of the prevalence of armed conflict", as well as "sanctions imposed by the UN Security Council or the Council of the European Union on timber imports or exports."

Further to this, in June 2018, the European Commission published a draft guidance document for the EU Timber Regulation entitled "Prevalence of Armed Conflict", "Sanctions" and Consideration of Armed Conflict in Due Diligence Systems" which sets out principles to help Operators and Competent Authorities consider conflict within their own risk assessments.

This document has not yet been adopted or endorsed by the European Member States. If it were, however, it would bring the EUTR into line with the EU's approach to conflict minerals,<sup>15</sup> as well as similar guidance published by the OECD.<sup>16</sup>

In both Australia and the EC however, if wood from a conflict situation can reasonably be assumed to have been legally harvested after reasonable due diligence has been conducted, it can be purchased.

While the US Lacey Act does not specifically make reference to the risks associated with buying timber from conflict-affected or fragile situations, importers sourcing and manufacturing in foreign markets are expected to comply with Foreign Corrupt Practices Act and Sanctions administered by the Office of Foreign Assets Control.

### *Processing Countries with Significant Gaps in their Timber Trade Laws*

Together, China, India, Vietnam and Thailand imported US\$2.4 billion from FCS countries in 2018, turning those materials into exports valued at US\$35.6 billion for EU+EFTA, US and Australian markets.

<sup>13</sup> 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](http://ec.europa.eu/environment/forests/timber_regulation.htm)

<sup>14</sup> For more information see Government Guidance for the Illegal Logging Prohibition Act here: <https://www.agriculture.gov.au/forestry/policies/illegal-logging/importers/due-diligence#option-3c--using-the-regulated-risk-factors>

<sup>15</sup> For more information see the European Union's Conflict Minerals regulation here: <http://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/regulation-explained/>

<sup>16</sup> For more information see OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas here: <http://www.oecd.org/corporate/mne/mining.htm>



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These processing countries continue to lack robust regulations preventing companies from importing timber that exacerbates conflict and fragility. Thus companies buying processed products from China, India, Vietnam and Thailand run the risk of inadvertently supporting or fueling conflict elsewhere in the world, even if they can demonstrate that wood has been legally harvested.

## The Wider Legal Context

Approximately three quarters of the countries listed on the 2020 World Bank List of Fragile and Conflict-affected Situations have some form of UN, EU or OFAC sanctions imposed against them, including arms embargoes and asset freezes to prevent instability or corruption. This includes prohibiting all transactions with sanctioned individuals or entities, even if the commodities traded are not sanctioned themselves.

Most timber producing countries have domestic law[s] requiring the implementation of UN sanctions and all EU countries have law[s] mandating the implementation of EU sanctions.<sup>17</sup>

Thus, while existing timber trade laws do not make it illegal to trade in conflict timber, companies buying wood from countries in high or medium intensity conflict may find themselves breaking national and international law related to sanctions.

This can happen even if they remain compliant with timber trade laws, unless they implement the highest levels of transparency in their supply chains and financial affairs.

In order to remain on the right side of international law, operators should therefore consider the following when sourcing timber:

- Whether there are UN or EU sanctions relating to any stage or actor in the supply chain
- Whether any aspect of the timber supply chain is located in conflict-affected and high-risk areas
- Whether there is any indication that harvest or trade in timber is used to finance violence or other gross violations of international humanitarian law, including human rights abuses
- To what extent security forces (military, police, etc) and/or armed groups are known to be involved in the exploitation (eg harvesting, trade or export) of timber and timber products in the source country or sub-national region in conflict.

## Conclusion

An overwhelming majority of the wood sourced from countries categorized as FCS is now flowing into the unregulated markets of Asia, a regional export destination with a value to these fragile economies of US\$2.4 billion in 2018. Both China, by far the biggest importer, and India, which as yet has no laws governing imports of timber, have key roles to play in the better regulation of the market for timber from FCS countries. Vietnam, Thailand and Indonesia are developing such laws, but to date these are not yet fully developed and implemented.

<sup>17</sup> International sanctions are political and economic decisions that are part of diplomatic efforts by countries, multilateral or regional organizations against states or organizations either to protect national security interests, or to protect international law, and defend against threats to international peace and security. These decisions principally include the temporary imposition on a target of economic, trade, diplomatic, cultural or other restrictions (sanctions measures) that are lifted when the motivating security concerns no longer apply, or when no new threats have arisen.



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However, this trade flow has implications well beyond Asia. Since these countries are the work-shops of the world, products manufactured from FCS timber travel from them into global markets, including those with regulations that would require scrutiny for direct supply chains out of such challenging situations.

This is a grave concern, because while buying wood that funds conflict is not in itself prohibited within existing timber trade regulations, companies that do so may still find themselves in contravention of other national or international laws and sanctions. The reputational risk of public association with conflict and fragility is also significant.

Companies must therefore shoulder the responsibility to invest even further in their due diligence systems should they wish to operate in fragile or conflict-affected states. However, regulations too must be made more robust, requiring greater transparency from companies sourcing in such high-risk situations through, for example, the adoption of the 2018 EC draft guidance or by taking inspiration from the EU's approach to conflict minerals.

The timber sector stands at a vital crossroads in its relationship with conflict-affected and fragile states. With robust regulation and due diligence systems, it can become a force for regeneration, creating rural jobs and furthering stability. Without, it risks exacerbating fragility, fuelling conflict and undermining both international aid efforts and progress towards stability in such states.

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Other policy and information briefs can be found at [www.forest-trends.org](http://www.forest-trends.org).

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