Meeting Summary:

Timber Regulation Enforcement Exchange: Chinese Supply Chains, Risk, and Legal Compliance

Barcelona, Spain

April 14 – 16, 2015

FOREST TRENDS

Introduction

Held in Barcelona, Spain from April 14 to 16, 2015, this workshop was part of the Timber Regulation Enforcement Exchange, an ongoing series of workshops supporting networking and information sharing between US Lacey Act enforcement officials and EU Competent Authorities implementing the EU Timber Regulation (EUTR). The meeting focused on Chinese supply chains for products entering the US and EU, particularly those manufactured with source material from high-risk regions (e.g., Russia, Africa, and the Mekong). The workshop featured trade data analysis and discussions on the tracking of raw materials through multi-country supply chains. It also featured presentations on robust Due Diligence Systems and the use of forensics in both Due Diligence/care and enforcement. This report summarizes the presentations and discussions from the open sessions of the meeting.

Day One – Tuesday, April 14

EU Process Update

Presentation

Bojan Grlas, from the European Commission's Directorate-General for the Environment (DG Environment), provided an update on the EU-China Bilateral Coordination Mechanism (BCM), which was established in 2007 as a forum for the EU and China to share information and coordinate to combat illegal logging and associated trade. DG Environment is working with China in Southeast Asia, Africa, and Russia to eliminate illegal logging. The perception of the EUTR has evolved in China—some stakeholders used to view the EUTR as a trade barrier and form of protectionism, but recently China has become more open to the EUTR and may be interested in developing its own EUTR-like legislation. The BCM had its last meeting in Brussels in March, and the draft 2015 work plan was agreed upon. The BCM will be used to ensure EU-China cooperation in various timber producing countries such as Myanmar. Issues can also be raised for discussion in the BCM by European Member States, so suggestions, new ideas, and questions are welcome from Competent Authorities and other Member State Ministries. In light of the likely issuance of legality licenses from Indonesia this year, China has recently mentioned the possibility to consider the recognition of FLEGT licenses within its national systems. The next mid-year review meeting will be in October 2015, and Competent Authorities and other Member State institutions are welcome to participate. The next official BCM meeting will be in March 2016 in China.

Next, **Lucy Cullinane** from EFECA provided an update on the EUTR review process. EFECA, a natural resources consultancy, is part of a consortium supporting the European Commission (EC) in the EUTR Review (alongside Indufor and the University of Padua). Work includes assessing Monitoring Organization applications, developing biannual reporting formats, and supporting the assessment of progress made towards implementing and enforcing the EUTR. Begun in 2013, the project will last until the end of 2015. The effectiveness report will be finished before the FLEGT Evaluation Team's report (see below), but both groups are collaborating to ensure that their conclusions are complementary. Ms. Cullinane described the reporting process set out in the relevant legislation, which requires each Competent Authority to submit a report of its application of the EUTR during the previous two years. Every six years, the EC shall review the functioning and effectiveness of the EUTR in an evaluative report that includes the biannual report analysis and the effectiveness review. This will be submitted to the European Parliament and Council, and is designed to help the EC evaluate progress toward eliminating illegal timber from the EU market. The next large review of EUTR effectiveness will occur in 2021, but the Member States will participate in the biannual report again in April 2017. Ms. Cullinane also provided details about the Member State reports, emphasizing that the reports cover the period from March 2013 to February 2015, and that all questions should be answered as thoroughly as possible. In the next week or two, the online survey for stakeholder consultation will be launched, and any feedback entered there will feed into the evaluative report, including inputs from outside the EU.
http://ec.europa.eu/environment/consultations_en.htm

James Hewitt gave a presentation about the FLEGT Action Plan Evaluation process and team. He said that team members would like to hear from the Competent Authorities about their perspective on the requirements of the EUTR and what changes could be made to the legislation in order to increase its impact. The team is also interested in hearing about possible enforcement synergies with the US Lacey Act. The scope of the evaluation covers the seven pillars of the original Action Plan, which will be used to evaluate progress: support to producer countries, licensing scheme/multilateral frameworks, public procurement, private sector, finance and investment, use of existing laws, and conflict timber. Currently the team is scheduling country visits, including countries with concluded VPAs, countries that are negotiating VPAs, a non-EU consumer country (China), and several EU Member States. At the end of the month, a report will be submitted based on the results of the desk research phase of the Evaluation. A final report is due by the end of October, to feed into European Commission and Member State policy discussions about the future of FLEGT.

Discussion

There was a question about the relationship between the different processes, how data will be shared and conclusions drawn in a way that is consistent. In addition, the role of the European Commission in publishing data collected as part of the Review and Evaluation process was discussed.

Chinese Trade Data Overview and Traceability in Chinese Processing

To provide context on China's role as both importer and exporter in the global market for timber, **Eve Richer** of Forest Trends presented a series of trade charts, primarily based on Chinese customs data. China depends heavily on timber imports to feed its large wood processing sector, and imports have steadily increased by both volume and value over the past few years. Imports primarily come in the form of logs and sawn wood, which China then converts to value-added products for both the domestic market and export to the EU and US as well as other consumer markets.

In the early to mid-2000s, Russia dominated the Chinese import market for softwood logs, but then began to lose market share after Russia's 2007 implementation of a log export tariff and the 2008 global financial crisis. New Zealand is now China's top softwood log supplier, but Russia is a close second, followed by the US, Canada, and Australia.

A look at China's hardwood log imports indicates that China's main supplier countries are in parts of Oceania, Asia, and Africa that are perceived to have weak forest governance (e.g., Papua New Guinea, Solomon Islands, Russia, Myanmar, Mozambique, and Democratic Republic of Congo) and as such represent a much higher risk of illegality. The data suggest that Due Diligence Systems should be significantly more detailed and rigorous for importers purchasing high value hardwood products from China.

Approximately 44 percent of China's timber product exports are destined for the US and EU, and this has been steady for the past few years. Japan is China's next most important market, followed by other parts of Asia and Africa. Wood exported from China to the US and EU is mostly in the form of furniture and plywood. In 2014, the volume of exports to both the US and EU increased, primarily driven by a plywood increase in the US and a furniture increase in the EU. Over 75 percent of China's exports to the EU (by volume) are destined for just five EU member states: UK, Germany, France, Belgium, and the Netherlands. Ms. Richer concluded by briefly presenting import data from the EU and US, which supports the conclusion that China has a large and growing market share in the jurisdictions implementing the US Lacey Act and EU Timber Regulation.

Sofia Ryder from EFECA gave a presentation on China's domestic wood resources, the plywood sector, and how insight from trade data can be applied to Due Diligence Systems (DDS) and the enforcement of timber regulations in relation to imports.

She noted that the main natural forests in China are in the northeast, and include deciduous broadleaf species such as Mongolian oak, birch, larch, and pine (Mongolian Scotch and Korean). For years the region supplied China with a

significant source of timber, but due to a long period of over-logging, the Natural Forest Protection Program has set permitted quotas and drastically reduced logging levels. Therefore the forest products sector primarily depends on imported materials and Chinese plantations. Plantations in Central China are growing, with widespread planting of poplar, and in Southern China, pine species (e.g., Masson, slash, Yunnan, loblolly), fir, and spruce are common, as well as hardwoods such as eucalyptus and acacia. Ms. Ryder stressed the importance of supply chain traceability to gauge whether a DDS is working. For processed products such as furniture, it is important to consider the source and species of individual components in order to assess associated risks of illegality. Understanding China's domestic raw material production, raw material imports, and the materials used in key sectors allows for the design of more effective DDS and a targeted enforcement approach. For example, with plywood, the core is generally made from relatively low risk planted material like eucalyptus, poplar, or pine. Imported material is usually used in higher grade components of furniture and facing for plywood and flooring.

Linyi in Shandong Province and Pizhou in Jiangsu are the plywood production centers, and are located near plantation sources for core materials, and near ports through which log and timber imports arrive and plywood can be exported. The face and back components of plywood use higher grade raw material from Africa, Southeast Asia, Russia, and North America. Plywood can also incorporate imported plantation pine or eucalyptus from New Zealand and South America. With this in mind you can look for evidence that the materials are coming from the expected hubs and relevant provincial documentation.

Ms. Ryder also discussed documentation relevant to conducting Due Diligence. In China, documents called "fapiao" are used as evidence of purchase and wood transport, and are used by the government to monitor the tax paid on any transaction. They are printed and distributed by tax authorities and are generally not subject to significant fraud. The "fapiao" is useful for tracking movement of wood through supply chains, but it does not include key specific details such as species. For imported materials, origin is usually traced using a certificate of origin, bill of lading, and invoices. For legal Russian imports, harvesting licenses are generally available. It was noted that supply companies can create supplementary invoices, but these are not legal documents and species/origin information may be incorrect, so they should not form the basis of a robust DDS. Some manufacturers supply products along with more reliable documents to the markets that are more discerning, but many manufacturers do not apply effective traceability systems that ensure documents correspond to the correct products.

Discussion

Log quotas in China change each year, and there is very little natural forest production area left in NE China. There is little to no remaining veneer-quality oak. There may be some furniture grade oak, but it would be a small amount. The value of certification was discussed, with Ms. Ryder saying it provides better control over supply chains and can support a more clear chain of custody, by enabling manufacturers to trace their materials through production. As such it can be an effective tool for the mitigation of risk where used correctly. There is always a risk of fraud in a certification system, but certification does provide regular monitoring, and these systems are looking at ways to prevent fraud. Another question was about fraudulent documents. Ms. Ryder said she has not seen fraudulent "fapiao," but that the problem is they were designed to be receipts for tax paid and were not designed for tracing transactions in a DDS. Species are often not correctly or sufficiently described. The challenges around verifying recycled/reclaimed materials were also discussed.

Plywood and Engineered Flooring Sectors

Presentation

Michael Worrell from the UK's National Measurement and Regulation Office (NMRO) gave a presentation on an enforcement project which involved anatomical testing of plywood imported into the UK from China. The NMRO focused on Chinese plywood because it is the most significant importer of this product and the agency was concerned about risks related to the face of plywood (more so than the core, which is low risk and usually comes with

documentation as noted above). The trade is high volume and has a complex supply chain, going through a number of different mills and agents before reaching operators in the UK. For this project, the NMRO identified plywood-importing companies through customs data and requested they provide their Due Diligence information. Products from these companies were also purchased and tested anatomically, to identify whether or not the genus of a given product matched up with the operator's documentation. When test results came back, the NMRO found that a significantly high proportion of products did not match the claims in the paperwork, indicating an inadequate DDS. The companies with problematic results were given fourteen days to take corrective action; failure to address the problem was followed by legal warning letters. It was noted that in response to the problem a number of companies have starting to change their buying practices and use anatomical spot testing themselves. Others are moving towards buying independently audited products or narrowing their supply base to exclude mills and agents who are unable to provide the necessary evidence for high risk species. The NMRO plans to conduct similar projects for other product sectors and will eventually revisit plywood. In the UK, more labs are making themselves known and available for testing. NMRO also plans to look at the use of isotopic testing in relevant product sectors.

Discussion

Following the NMRO's testing process, some companies kept their suppliers but became more engaged with them, while others dropped certain products and moved to products with lower risk. Over six months, 20 companies were contacted as part of the project. In terms of outreach to producer countries, the Global Timber Forum arranged for the translation of key elements of the report into Chinese, and Forest Trends supplied a Vietnamese translation to a Vietnamese trade journal. The European Commission was very supportive of the NMRO approach, noting that it is extremely useful for Competent Authorities to produce enforcement reports that can be shared with interested stakeholders in producer countries as well as the private sector in the EU.

Presentations

Rachel Butler from the Global Timber Forum (GTF) introduced GTF as an international communications and networking hub for timber trade federations, national and regional industry bodies, and others associated with the timber sector. It was described as an online space to share news, reports, and have relevant stakeholder discussions. After the NMRO plywood report was released, the GTF shared it with producer countries, issuing a press release in English and Chinese, including a quote from the Director General of China's National Forest Products Industry Association (CNFPIA). GTF is looking at how to evaluate the level of awareness and effectiveness of the EUTR among Chinese plywood exporters and is communicating with the CNFPIA, which is a semi-Government body. Significantly, the Chinese federations acknowledge that there are challenges in relation to legal facing material sources and they are keen to address them, and the CNFPIA's link to the State Forest Administration ensures political support for their activities. Ms. Butler emphasized that the NMRO plywood report is a powerful tool in China to show that the EUTR is being enforced and will increasingly have commercial impacts.

Next, **Cindy Squires** described the International Wood Products Association (IWPA) and its work on compliance with the US Lacey Act. IWPA, the only US trade association dedicated to the interests of wood importers, has a membership consisting of importers in the US and elsewhere in North America as well as some overseas exporters who want access to US industry members. Associated members also include various NGOs involved in the production or promotion of wood products. Part of IWPA's strategic plan is to engage more proactively with customers, government, and industry, and to provide education and support. Legality under the Lacey Act is both simple and complex in that due care is required, but there is a lack of guidance on the nature of appropriate due care that makes implementation difficult for companies. IWPA members are struggling with the practical implementation of due care. Challenges include keeping up with trends in DDS, country-specific developments, and US regulatory requirements, and this is especially hard for small and medium-sized enterprises (SMEs). Members receive information about risks but do not receive much information about how to effectively mitigate those risks.

There is also the issue of staff turnover and the need to train new staff while keeping veteran staff up to date. Compliance staff want to network and learn from each other. IWPA is therefore partnering with WRI and USAID to create a training program for Lacey, CITES, and phyto-sanitary compliance staff. The development of the training program has three stages: I) Needs assessment; 2) Develop course and workshop materials; and 3) first test workshop in October 2015. The first phase includes consultation with people doing the work on the ground and supervisors in different market contexts. The goal is to create a one-day training program, though this depends on the results of the needs assessment. The material will be an introduction to Lacey and more advanced levels will be developed as needed. Priorities include training employees new to Lacey compliance and exposing them to global resources, and helping them refine their companies' standard operating procedures (SOPs). Another goal is to provide for continuous improvement and cross-pollination between companies and the different compliance regimes. Ms. Squires noted that the NMRO plywood report was very much appreciated and is a good example of a practical case study which can be used in the training program to illustrate specific questions that compliance staff should ask of their suppliers, and highlight how anatomical testing can be used in risk assessment and mitigation. It is important that the information source is the UK government (vs. a non-governmental source) since it is viewed as more credible by the private sector. In the US there have been a few settlements but information of the sort that is in the NMRO report is not available. Another issue the IWPA is working on is the need for voluntary audits, which can help a company figure out if they are correctly conducting due care. Currently, independent auditors that could be hired are unlikely to be familiar with Lacey compliance. Ms. Squires also spoke about the complexity of supply chains, which were designed for high utilization, grade, and efficiency, meaning mixing is a normal part of lumber distribution. Wood and wood products are not usually sorted by country of origin or species but by factors like color or length. Retrofitting a new Due Diligence System onto these supply chains is therefore a great challenge. Ms. Squires recommended that enforcement officials and others outside the industry recognize this situation when working with those in the industry.

Discussion

Within China there is an understanding of the challenges and a willingness to work on addressing problems. It was noted that much of the work done by the BCM has been focused on government, and there is a desire among Chinese stakeholders to focus more on business-to-business capacity building and communication. China has expressed an interest in gathering together 50 companies and the associations to discuss the trade issue from the industry perspective.

Furniture Sector

Presentations

Christian Sloth from NEPCon presented a case study of a medium-sized furniture retailer whose main suppliers are in China, Vietnam, and Indonesia. The study found that information made available by suppliers was often incorrect or incomplete. The retailer asked suppliers for self-declarations and sent them forms to complete. Supply chains in China were considered by the company to be very opaque and complicated. It was noted that the retailer had not been able to get much information about material sources beyond their immediate supplier. Generally in the furniture sector the material composition is complicated and includes parts from many different sources, which is another challenge. NEPCon developed a plan to help the company engage with their suppliers, including setting up training sessions with suppliers to teach them about the EUTR, and setting up supplier visits. In China, 12 companies were visited. During these visits it became apparent that the Chinese suppliers did not have complete information about origin of materials, especially where component parts were sourced from other Chinese factories. Risk assessment was therefore a significant challenge, though it varied by product type. There was more information available for veneer and solid wood, while the visits resulted in lower confidence in the information available about composite and other materials used in furniture manufacture. There was also confusion relating to the use of recycled materials and how their source should be documented. General issues that NEPCon faces as a Monitoring Organization (MO)

include documentation and risk assessment. Documents that claim materials are legal are not sufficient on their own. It is also essential that documents are translated, that their relationship to the material is understood by the buyer, and that dates are checked. Often documents are dated several years before the shipment, and this is a red flag for enforcement officials assessing a DDS. To help with risk assessment, NEPCon is producing two-page country profiles that outline general risk and are easy for companies to read. The majority of companies rely solely on documents for their Due Diligence Systems. Mr. Sloth also addressed the role of Monitoring Organizations (MOs). Currently there is minimal interest in MO services because companies feel like they are inviting 'law enforcement' in, and problems will be reported to Competent Authorities. There is a lack of transparency around MOs and how they can support companies with EUTR-compliance.

Anders Hildeman discussed IKEA's efforts to eliminate illegal and unsustainable products from its supply chains. More than half of IKEA's products are wood-based, with 25 wood types coming from 48 countries and 360 suppliers. Due diligence is applied to all suppliers but is risk-based, and demand-side legislation applies to 90 percent of their sales. IKEA has implemented an internal legality requirement since 1998, but the demand-side legislation is still fairly new. All IKEA suppliers must comply with traceability requirements. The Due Diligence System at IKEA applies to all plant-based products, not just wood, and its standard (IWAY) was designed to integrate all legal requirements (including the Lacey Act, the EUTR, and the Australian Illegal Logging Prohibition Act). Legality is considered a minimum requirement, and IKEA's goal is to have all sources be sustainable as well. Currently, 40 percent of IKEA's materials are certified.

Discussion

For IKEA, FLEGT-licensed timber is not very relevant because the company does not source high-value tropical timber and does not plan to start. The other issue is that there is no FLEGT-licensed timber yet. IKEA would like to see an alignment between certification and FLEGT. Mr. Sloth was asked if companies are thinking of using forensic testing as part of Due Diligence, and he said it is something they are working on. He recommends clients use some kind of testing. IKEA has tried isotopic testing and DNA testing on oak from the Russian Far East.

Another question related to recycled wood in furniture, and how a responsible company should account for it. There needs to be a distinction between recycled wood, which goes through a chemical process, and reclaimed wood. Fiber testing can be used to see if wood has been recycled. Onsite checking is important for recycled/reclaimed materials. There was also a discussion about whether trade data can be used to look at flows of reclaimed wood, whether there is a specific HS customs code for it, and whether reclaimed wood is part of the waste exemption. Opinions varied and there was a consensus that research about recycled/reclaimed wood is very much needed. Finally, there were more questions for NEPCon, including where it works as an MO and where it supports Due Diligence Systems in an informal capacity. Examples of informal work areas included Lithuania, Switzerland, the UK, the Netherlands, Germany, Sweden, Denmark, Poland, Czech Republic, Latvia, and also in countries outside the EU. NEPCon can function formally as an MO, in which case issues found with a company need to be reported, but it can also serve as an advisor in an informal relationship, in which case reporting is not requirement.

Day Two – Wednesday, April 15

Chinese Domestic Production

Kerstin Canby of Forest Trends presented an overview of China's domestic timber production situation. There are natural forests in China, particularly in the northeast, but increasingly strict logging restrictions mean much of this timber is not being harvested. China also has a large plantation program; however, plantation production has remained relatively flat during the past few years and about half of China's timber demand is met by imports. The main species being grown on Chinese plantations are fir, poplar, eucalyptus, larch, and pine.

In 1998, China's first logging bans were enacted, known as the National Forest Protection Program (NFPP). Commercial logging was banned in natural forests in the upper reaches of the Yangtze River and then in 2000 this was extended to the medium and upper reaches of the Yellow River. Reduced logging was permitted in state-owned forests in northeast China (Heilongjiang, Jilin, and Inner Mongolia), until in 2014 a trial logging ban was announced in key state-owned forests in Heilongjiang province. There are more hardwoods than softwoods in this region, the major species being Dahurian larch (*Larix gmelinii*), Scotts pine (*Pinus sylvestris*), Korean pine (*Pinus koraiensis*), *Picea*, *Abies*, Mongolian oak (*Quercus mongolica*), White birch (*Betula platyphylla*), and Asian black birch (*Betula platyphylla).* In February 2015, China's State Forestry Administration (SFA) announced plans to expand the trial logging ban to include all key state-owned forests in Jilin and Inner Mongolia, which covers 11.65 million hectares of natural forests and an annual timber production volume of 2.56 million cubic meters. By the end of 2016 there will be a commercial logging ban in all natural forests, with the supply gap being met by plantation timber and imports. This means that by 2017, if species such as Mongolian oak, Northeast Chinese ash, or Korean pine are found on the market, it is very unlikely that they are of Chinese origin, and should therefore be considered high-risk.

Discussion

The Chinese logging ban is for commercial logging, so it is likely that thinning/sanitary cleaning will be allowed. There was concern that this could be used as a loophole. Forest Trends is preparing a policy brief on China's logging ban, and will look into this question further.

Material Source Risks from Russia

Presentation

Brian Milakovsky of WWF-Russia presented on risks and standards of Due Diligence/ care for timber flows from the Russian Far East (RFE). Trade data illustrates that China dominates the market for RFE exports of logs and sawn wood. A very small amount goes directly to the EU and some other countries, but the vast majority is destined for Chinese processing. Logs are the main timber product exported from the RFE to China, but there has been a recent increase in crude log processing taking place on the Russian side of the border to avoid log export tariffs. Illegal logging is a serious problem in the RFE and the volume of valuable hardwoods exported from Russia is at least two times greater than the legal supply. Some common forms of illegal logging involve schemes where official documents are used to provide fake evidence of legality (e.g., leaseholders log more than allowed or beyond leased area, and abuse of "sanitary" logging permits). There are many legal suppliers in this region, but illegal suppliers are undercutting them. The highest risk species in the RFE are valuable hardwoods such as oak, ash, linden, and elm. Softwoods tend to be lower risk, but extra care should be taken for the best grades of valuable softwoods such as pine and spruce.

It is extremely difficult to track RFE wood out of Russia through supply chains in China. Traders increasingly keep company information hidden in trade data. A common practice is to mislabel the species or country of origin (e.g., declare Russian wood as German), although one side effect of China's new logging ban is that it will remove some ambiguity around Russian wood that had previously been labeled as Chinese origin.

WWF encourages responsible actors to continue sourcing from RFE forests, but recommends that special efforts are taken to ensure supply traceability and legal compliance. It is the position of WWF that the best option is to source wood that is certified by the Forest Stewardship Council (FSC), which will reduce risks and increase transparency. However, certified supplies of valuable hardwoods are very limited, particularly. There is a greater supply of FSC-certified pine, larch, spruce, and aspen. If EU and US buyers push their suppliers to source more FSC-certified wood from the RFE, this would send an important message that markets are demanding certified supplies and increase the incentive for companies willing to invest in certified legal and sustainable forest management. The alternative to sourcing FSC wood is to establish a strong risk-mitigation system with chain of custody tracking and on the ground, third-party legality validation. If a company makes a credible, honest effort to source wood using this method, it is not difficult to secure legal wood. However, if a company is not willing to make this investment in understanding and

controlling their supply chain, then high-risk species should be avoided because the chance of sourcing illegal wood is extremely high.

Mongolian oak and Manchurian ash were recently listed on Appendix III of CITES, a decision which was encouraged by WWF. It is unique to list these kinds of species in CITES since they have such commercial significance, but if enforced well, this represents a potentially powerful mechanism to support chain of custody tracking and legal trade in the region. Russian authorities have expressed a commitment to strong CITES enforcement, indicating they will not simply take supplier documents at face value when issuing CITES export permits, but will analyze volumes and other declared information and stop shipments that are illegal. They also plan to develop a database to identify when one document is used repeatedly. Russian industry bodies are currently reported to be lobbying to weaken CITES enforcement in this regard.

In terms of official paperwork, there are several basic documents that authorize logging in Russia. The "forest declaration" authorizes forest leaseholders to conduct commercial logging and it is one of the most important documents for determining timber origin and assessing risk. A similar document exists for "improvement" or "sanitary" logging in unleased forests. Both documents establish the volume, species, and grades of timber authorized for logging, and also the location(s) where the logging can take place. Some logging also takes places for personal use or firewood, but in this case export is prohibited. Many traders think their due diligence has ended once they have paper declarations in hand, but fraud is very common and many questions need to be asked to evaluate the credibility of the documents. Could the imported product match the volume suggested by the documents? There is a big difference between the volume that can be logged and the volume that is commercially exportable, and often the figures do not add up. Does the quality of the wood align with the quality noted on the declaration? For example if veneer quality oak is sold with "sanitary" logging permits, that is very suspicious.

When sourcing valuable hardwoods from the RFE, WWF strongly encourages US and EU buyers to not only meet with their Chinese suppliers but also do randomized field checks in the RFE forests, with a third party auditor. Laundering of high-grade illegal logs through 'low grade' forests is common, and one can easily identify red flags during a site visit. For Mongolian oak, stable isotopes and genetic technology can also be used in a Due Diligence Dystem to check whether the declared species and country of origin is accurate. Mr. Milakovsky concluded by emphasizing that Due Diligence/ care in the RFE goes beyond simply collecting paperwork, and that FSC certification and CITES enforcement currently represent the best options to track chain of custody.

Discussion

When enforcement officials have questions about Russian permits and paperwork, there are Russian authorities they can contact for clarification and confirmation of authenticity. In late 2013 Russia also amended its federal forest code to create the Russian Roundwood Act, which will create a chain of custody for the movement of roundwood through Russia. This new law will be challenging to implement and it's taking longer than expected to come into force, but the Russian Government plans to create a large database of documents tracking the movement of Russian logs throughout the country. This will help companies conduct Due Diligence/care.

One way to identify disreputable actors dealing in Russian timber is to find out which companies have been officially sanctioned or prosecuted, e.g., under organized crime laws or logging violations. This is public information, though it would only represent a small portion of irresponsible actors.

WWF-Russia has developed a guide for timber buyers wishing to keep illegal Russian timber out of their supply chains, called Keep it Legal. This booklet contains many examples of Russian permits and other relevant documents. WWF-Russia would also like to produce a field-based booklet, and Mr. Milakovsky encouraged enforcement officials to contact him about what information they'd find most useful in this new guide.

Although this session focused specifically on the Russian Far East, some participants inquired about the level of risk when importing wood from other regions of Russia. WWF-Russia has developed a very basic risk assessment, by

region, identifying the Russian Far East, Caucasus, and parts of SE Siberia as the regions with the highest risk. The lowest risk levels are in products from the European side of Russia. Staff at WWF's Moscow office are a great resource for questions about parts of Russia close to the European Union, and Mr. Milakovsky offered to put officials in touch with his colleagues there.

A question also came up about wood pellets from western Russia, but when dealing in lower quality trees for this sort of product, risk levels are lower and illegality is generally of less concern than when compared to more valuable, higher-quality wood products.

Presentation

Anders Hildeman then presented on IKEA's approach to high risk areas. IKEA's goal is to have its materials 100 percent FSC certified by 2017, and audits are conducted yearly. Mr. Hildeman described high biodiversity areas in Western Russia with high quality Angara pine. It was reported that this area has a fair amount of illegal logging, done using a 'hit-and-run' approach. Illegally harvested logs are then taken to small or medium sized enterprises (SMEs) for basic processing. There is a high concentration of valuable softwoods. Local police are trying to combat illegal logging, and it is a very risky job. Documents are important, but Mr. Hildeman stressed the value of meeting suppliers. Meeting in person can help determine if they are interested in cooperating, and it is a good way to spot red flags (such as evasive answers to questions). It is also important to see the sites, and to determine whether the materials in the log yards could possibly have come from the harvesting sites (considering size and grade of logs). Log yards are also where traceability is usually lost and products are mixed. Legality is also not the only issue in Russia; workers' conditions are often poor and so is the safety and efficiency of equipment used etc. With high quality pine, a large amount of volume is lost due to low quality equipment. Also, much of the wood goes across the border to China, and there is reportedly no demand by Chinese authorities to present documents at the border (though this may change with the new roundwood law). Additionally, corruption is considered common and found within the SMEs as well as at the administrative level. One of IKEA's suppliers requires that three people sign off on the materials to ensure no one is receiving bribes. In high risk areas, IKEA's approach is to have the suppliers lead the process once IKEA has told them what is needed. New supply chains require approval, and uncertified suppliers have their supply chains audited. It is important to have capacity on the ground, and to have contacts in China who can verify the supply chains. Regarding staff training, IKEA provides formal training and then requires the purchasing team to perform a task within three months, which means the lessons are put into practice.

Discussion

There was a question about IKEA's goal of 100 percent FSC certification and whether that applies to all products. Mr. Hildeman answered that it is for all wood-based products in high risk areas, and that in some cases products would be FSC-mixed. There was also a question about the higher costs for managing forests sustainably, and he said that IKEA does have to pay that, but that they also will keep the products affordable, and that auditing costs decrease with higher certification levels. A question about the role of DNA testing was raised. Because it is hard to have DNA testing with statistical significance, if it is used as an operational tool to control supply chain flows, it is better to use it to probe supply chains as a type of spot check.

Material Source Risks from Africa and the Mekong

Presentations

Kerstin Canby and **Phuc Xuan To** of Forest Trends discussed timber trade trends through the Mekong region and into China, with a focus on Vietnam's role as an importer, processor, and exporter of timber products. There is not much value-added manufacturing happening in the Mekong region, but Vietnam is an exception, home to a large and growing furniture industry. Vietnam sources timber from a wide range of countries, with Laos supplying the highest value wood (mostly rosewood) and the US and China being important suppliers of lower value wood. China is the main market for Vietnam's timber exports, but the US and EU are important markets for Vietnamese furniture.

China's log imports from Vietnam are significant by value, consisting primarily of rosewood logs which are not of Vietnamese origin but rather are re-exports from neighboring Mekong countries (there is a logging ban in Vietnam's natural forests). This rosewood is generally processed and consumed on China's domestic market, although there is a small market for rosewood furniture in the EU and US. About two years ago authorities seized a rosewood shipment at the Vietnamese border that had been destined for Denmark, and interviews conducted in Vietnamese wood villages indicate that there are UK companies importing rosewood products from Vietnam.

Apart from Vietnam, China also imports wood directly from Cambodia, Laos, Thailand, and Myanmar, primarily in the form of logs and sawn wood. Trade data by port of entry suggests that the vast majority of direct timber exports from Myanmar to China are smuggled overland from ethnic conflict areas, despite the Government of Myanmar's requirement that all timber be exported from the southern port of Yangon. Myanmar wood also reaches China through indirect trade routes, such as through Thailand, Malaysia, and Hong Kong.

Kate Horner from the Environmental Investigation Agency (EIA) discussed risks of illegality for wood sourced in the Congo Basin and exported to manufacturers in China. While direct Africa-China trade has increased in recent years, there is still a large amount of direct and indirect trade between China and the EU. These supply chains are often less opaque than more complex chains which pass through China, so they should not be ignored from an enforcement perspective.

It was noted that Independent Monitors (IMs) in African countries represent a unique source of information, since they are independent from the government but government-validated and work with an official methodology in a transparent way. It was considered critical to be in contact with the validators of the reports – governments validate the reports in the presence of international donors – to ensure the most strategic use of IM data by enforcement agencies.

Ms. Horner presented EIA's pilot initiative, the Log Marking Guide, as a solution to the lack of reliable information about the origin of imported timber; a major barrier to enforcement. The Guide includes photos of logs and processed timber with the markings explained, and has a brief summary of the legal marking requirements. Research was conducted in the Democratic Republic of Congo (DRC). Markings include the buyer initials and cutting permits, as well as identification of the logger, concession number, and management plan block. This information is available for a great number of concession holders in the DRC, Cameroon, Gabon, and Republic of Congo. Though the information is not complete, the guide is a good starting point and it was hoped that enforcement officials and responsible importers would use it.

Ms. Horner also provided some context on the Congo Basin, where most stakeholders consider there to be rampant corruption and weak judicial systems, as well as vested interests in the forestry sector on the part of high ranking military and political figures. There are two types of logging in the countries in the region: industrial logging and artisanal logging. The former is generally undertaken with heavy equipment, largely takes place under official concessions issued by the Government and is controlled by a relatively small number of major companies. Almost all of the production is for export. Artisanal "chainsaw" logging is supposed to supply the domestic market (and some neighboring countries). Numerous traders and SMEs are involved, and there is concern that artisanal permits are being abused by large international companies on a large scale. In the Republic of Congo, fraud designed to reduce tax exposure is common; in 2012, over 7.8 million euros of taxes and fines were unpaid. Fraud includes non-declaration of abandoned wood, under-declaration of volumes, and under-valuing timber in official documentation. There is also a lack of respect for export quotas, and illegal cutting, mostly involving violations of annual cutting permits. Specific species that are high risk are *okoume* and *sapelli*, as well as *ayou*, *sipo*, *iroko*, and *wenge*. The export market for these species is dominated by China and European Member States.

Congolese law requires all exports to be processed, with a procedural allowance of 15 percent log exports, but in fact log exports are much higher than processed wood exports. In Gabon, the situation is different because there is no Independent Monitor, though some local civil society organizations and international organizations have conducted

investigations. *Okoume* accounts for 60 percent of timber production and is used in plywood in China and Europe. Since 2010, there has been a log export ban and Gabon is trying to increase domestic processing capacity in order to increase revenue from the timber sector. Interestingly, log imports from Gabon show up in China's 2012 customs data. Since the ban, half of Gabon's wood products have gone to the EU and 30 percent have gone to China. Nearly all of the veneer and plywood exports go to Europe. Documented illegalities include large companies being issued concessions in excess of the 600,000 hectares defined by law as the maximum. In China, the plywood manufacturing sector is the primary destination for these high risk species, and is dominated by traders. Amongst the high-risk log importers, the top 10 companies imported over half of the total (by volume), and the top 25 companies imported nearly three-quarters of the total. It seems that less than five of these companies are manufacturers – the rest are trading companies.

Discussion

There are a variety of complicated trade routes for smuggling high value timber into China. Laundering most frequently happens in Hong Kong, Taiwan, Singapore, or sometimes India, before logs are transported to China. Other transit countries that have been implicated in NGO research include Mozambique, Kenya, and Sri Lanka. One participant noted that in Russia some trading companies are established then closed down within a very short time period in order to facilitate illegal trades. One participant asked if this happens in the Congo Basin as well. Ms. Horner reported that the importers and exporters in these chains are generally established companies, so, in theory, levels of accountability and reputational risk on their part should be higher than they appear to be.

Forensic Update

Presentations

Shelley Gardner from the US Forest Service and **Thorsten Hinrichs** from the German Ministry of Food and Agriculture gave a presentation about international activities on timber identification technologies, including an update on the Global Timber Tracking Network (GTTN) and ITTO Timber Tracking projects, as well as DNA testing of oak and implications for compliance, enforcement, and due diligence. GTTN was established at an inception workshop in Germany in 2012 and aims to facilitate and promote the integrated use of technologies in timber tracking to combat illegal logging. Its approach includes hosting a database designed to allow labs around the world to share key data for genetics, chemistry, and wood anatomy testing. Users can log on and query the database to verify their declarations, using genus, species, geographic origin, or to find out what types of technology and qualified labs can do the necessary tests (and which tests are possible). There is a separate interface for lab staff, which allows access to more detailed data to facilitate testing. Currently the database is a prototype.

Other components of the project are a network of policy makers, authorities, researchers and other stakeholders as well as the worldwide first standardized lab testing methods, to ensure that labs meet the needs of the private sector and authorities, allowing credible compliance and enforcement. Regional workshops were held with various stakeholders in Asia, Africa, and South America to generate lists of priority species. The highest priority is given to 80 species worldwide. Progress is being made toward having methods and reference data for all these species, but that information is not currently public. For more information on this please contact Thorsten Hinrichs directly.

Phase One of GTTN finished at the end of 2013. For Phase Two, Germany is looking for support from a broader group and is working to build a global alliance of donors to support GTTN and the timely collection of reference data for the 80 species. Outreach is underway (in the US, European Commission, Norway, and Australia, and open for others). Phase Two is set to launch in September at the World Forestry Conference in Durban, South Africa). Priority species projects include the ITTO Africa project, which will have its final conference in Cameroon in July 2015, and a larch and Mongolian oak project in Russia. There is also an ITTO Indonesia project, funded by Australia, as well as a large-scale project that includes 14 species in Africa and Latin America, funded by Germany. Ms. Gardner also explained

XyloTron, a field-deployable automated wood identification tool (currently a prototype). It will be tested in labs in Brazil shortly.

GTTN is also taking part in international activities like the International Consortium on Combatting Wildlife Crime (ICCWC) Expert Group Meeting on timber analysis, which plans to create guidelines, as has been done already for ivory as well as a decision tree for law enforcement. There is also an effort to work with the European Commission, the CITES Secretariat, and TRAFFIC to develop a timber identification directory for CITES.

Caitlin Clarke of Double Helix presented results from a study which asked the following question: how much oak being sold in the UK as "US-sourced" is actually mislabeled? Mystery shoppers in the UK were hired to purchase products that were manufactured in China and labelled as US white oak, and samples were then genetically analyzed at the Thunen Institute. More than half of the samples were found to be from outside of North America, with mixing happening at all companies and across all product types tested. The results do not necessarily indicate that these products were illegally harvested or laundered, but they do indicate a failure of Due Diligence on the part of UK Operators. Ms. Clarke concluded by stating that genetic testing can be a powerful tool in a Due Diligence System and easily applied to white oak. It was expected that if a similar study were conducted in the US or other EU member states, the results would likely be the same, and publicizing such findings could have a profound effect on expectations of traceability up and down the supply chain.

Discussion

There was some discussion about DNA testing and whether the same technology can be used for composite products as for solid wood products. The short answer was no, because it is harder to extract the necessary DNA strands from more processed material. The method used by Double Helix is good for sawn wood and logs, and can also work for veneer if the sample is big enough. The test does not work for a truly composite product, or for paper. However, fiber testing can be used for testing processed materials and can provide interesting information about paper fiber sources. For instance, a test can show if acacia or eucalyptus were used (common plantation species), or if other tropical hardwoods were the source, in which case it is likely not from a plantation, which suggests a much higher risk of illegal logs being used in the mill.

Transshipments and Use of Forensic Technology in the Legal Context

Presentation

Patrick Duggan of the U.S. Department of Justice provided a prosecutor's perspective on forensic technology and transshipment cases. Forensic testing is a useful tool to guide investigations, confirm assumptions, demonstrate a company's lack of due care/due diligence, and provide leverage when bargaining with defendants in the US judicial system. However, for forensic evidence to be admissible in a courtroom, it must meet very high methodological standards and be based on science that is peer-reviewed and widely accepted across the scientific community. All of this is important to keep in mind in the context of transshipment cases, which are characterized by complex supply chains that end with operators who are usually far-removed from the original concession-level crime. To prove underlying illegality, prosecutors often look for circumstantial indicators of the crime, such as false paperwork or false declarations. Investigators will typically use various methods to demonstrate that an importer's declarations are false, one of them potentially being forensics (e.g. a DNA test proving that the timber species or origin declaration is inaccurate). Other methods can also be used to strengthen the case, such as statistical analysis which indicates counterfeit or dubious paperwork along the supply chain. Proving false declarations can have a similar impact as proving underlying illegality in the country of harvest, by triggering criminal penalties that promote enhanced Due Diligence/care throughout the market.

New Information Portal Established by European Commission

Meriam Wortel from the Food and Consumer Product Safety Authority in the Netherlands described a new information portal being used by the EU Competent Authorities. The platform was set up by the European Commission and is being hosted on the Capacity4Dev web site. The EU Competent Authorities have access to a private group which includes a blog, a library for sharing files, and an area to list events. It is simple to use and members can choose to receive daily or weekly digest emails with updates. It is quite different from the EU TWIX database used by CITES officials use to share information, because there is no database with seizures information and members cannot use it to interact in real time. So far, the primary use of Capacity4Dev has been to upload reports, press releases, and other written materials.

Intelligence Sharing for Enforcement: Data Protection and Privacy

Emily Unwin from ClientEarth presented to the group on data protection and privacy laws and implications for intelligence sharing across the EU and US. She described some of the limitations of data protection requirements, explaining that in addition to considering a communication system for enforcement officials that would be optimal in relation to their responsibilities, it's important to consider what system would be manageable. Although Ms. Unwin did not analyze the legislation of every EU Member State, she noted that sharing information about high-risk suppliers and products within the EU is relatively simple. Transferring that information outside the EU becomes much more difficult, though it is not impossible. The key legal considerations root back to the process of sharing the information, the security of the data, and the storage. Research into other intelligence-sharing platforms suggests that such systems can take time to develop, but when they are developed, their impact on capacity for enforcement is significant.

Jade Saunders of Forest Trends reflected on the rationale for sharing information more broadly on EU and US enforcement actions with industry and producer country stakeholders. Firstly, it is important to publicize the fact that laws such as US Lacey and the EUTR are being enforced in order to sustain political support for them. Secondly, enforcement information will help reinforce norms for due care and Due Diligence and support capacity for compliance across the industry in producer, processor and consumer nations. Forest Trends has the resources and network to help with these communication efforts. Ms. Saunders proposed several ideas: a) establish a mailing list for key government/industry/federations contacts to share relevant information; b) collect enforcement information from EU Competent Authorities on a regular basis; and c) work with enforcement officials to translate and disseminate "special projects" to the appropriate audiences (e.g., NMRO plywood report).