THE FALSE LEGALITY CHALLENGE

ROBERTO S. WAACK

Forest Product Legal Trade Legislation
Forest Trends - Chatham House - FAO
Rome – October 2014
Brazil

- 4rd largest producer of logs (8% mkt sh)
- 5th largest producer of sawn timber (6% mkt sh)

- Plantations in Brazil
  - 90% of legal logs production
  - 75% of legal sawn timber production

### Industrial Roundwood

<table>
<thead>
<tr>
<th>Production</th>
<th>Imports 1000 cum</th>
<th>Exports</th>
<th>ANC</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1537214</td>
<td>111530</td>
<td>114533</td>
</tr>
<tr>
<td>USA</td>
<td>300218</td>
<td>1318</td>
<td>11586</td>
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<tr>
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<td>132800</td>
<td>12</td>
<td>21243</td>
</tr>
<tr>
<td>Canada</td>
<td>129558</td>
<td>4745</td>
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<tr>
<td>Brazil</td>
<td>128400</td>
<td>3</td>
<td>24</td>
</tr>
<tr>
<td>China</td>
<td>102428</td>
<td>35217</td>
<td>133</td>
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</tbody>
</table>

### Sawnwood

<table>
<thead>
<tr>
<th>Production</th>
<th>Imports 1000 cum</th>
<th>Exports</th>
<th>ANC</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>390695</td>
<td>110479</td>
<td>110740</td>
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<tr>
<td>USA</td>
<td>58645</td>
<td>16515</td>
<td>4502</td>
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<tr>
<td>Canada</td>
<td>38667</td>
<td>2073</td>
<td>22375</td>
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<tr>
<td>China</td>
<td>37685</td>
<td>16238</td>
<td>835</td>
</tr>
<tr>
<td>Russian Fed</td>
<td>28312</td>
<td>31</td>
<td>17781</td>
</tr>
<tr>
<td>Brazil</td>
<td>25080</td>
<td>84</td>
<td>1359</td>
</tr>
</tbody>
</table>
BRAZILIAN TROPICAL TIMBER MARKET

- Annual consumption of logs ~14 million m$^3$
- Annual consumption of sawn timber ~ 6 million m$^3$
- Average saw mill yield 46%
- Industry income ~ R$ 4.3 billion (US$ 1.9 billion)

(*) signs of illegality (conversion of illegal to legal timber)


<table>
<thead>
<tr>
<th>Item</th>
<th>1998$^a$</th>
<th>2004$^b$</th>
<th>2009$^c$</th>
<th>2010$^d$</th>
<th>2011$^e$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumo anual de madeira em tora (milhões m$^3$)</td>
<td>28,3</td>
<td>24,5</td>
<td>14,2</td>
<td>11,6</td>
<td>12,9</td>
</tr>
<tr>
<td>Produção anual processada (milhões m$^3$)</td>
<td>10,8</td>
<td>10,4</td>
<td>5,8</td>
<td>5,9</td>
<td>5,9</td>
</tr>
<tr>
<td>Rendimento médio do processamento</td>
<td>38%</td>
<td>42%</td>
<td>41%</td>
<td>50%</td>
<td>46%</td>
</tr>
<tr>
<td>Número de polos madeireiros</td>
<td>72</td>
<td>82</td>
<td>71</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Número de indústrias</td>
<td>2.570</td>
<td>3.132</td>
<td>2.227</td>
<td>1.203</td>
<td>1.945</td>
</tr>
<tr>
<td>Receita bruta (R$ bilhões)$^f$</td>
<td>2,88</td>
<td>6,75</td>
<td>4,94</td>
<td>3,52</td>
<td>4,28</td>
</tr>
</tbody>
</table>
✓ 78% of tropical forest operations in Para State are illegal (non authorized)
✓ Percentage of non authorized is growing
✓ Para accounts for around 40% of timber production in Brazil
Imazon

- 54% of tropical forest operations in Mato Grosso State are illegal (non authorized)
- Percentage of non authorized is growing
- Mato Grosso accounts for around 30% of timber production in Brazil
Para + Mato Grosso, 70% Brazilian timber production

Average 65% non authorized operations

Can be roughly extrapolated to Brazilian territory:

65% of tropical timber production are from non authorized areas. Illegal!
SATellite MONITORING OF REDUCED IMPACT OPERATIONS

Monitoramento remoto de concessões florestais na Amazônia - Flona do Jamari, Rondônia

André Luiz Silva Monteiro¹
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Carlos Moreira de Souza Jr.¹

¹Instituto do Homem e Meio Ambiente da Amazônia - Imazon
4% of RIL in Pará are considered of good quality (satellite image monitoring)
33% are of low quality, meaning high illegality content (overexploitation for instance)
10% of RIL in Mato Grosso are considered of good quality (satellite image monitoring)
50% are of low quality, meaning high illegality content (overexploitation for instance)
- Para + Mato Grosso, 70% Brazilian timber production in RIL
- RIL accounts for around 35% of authorized areas

~40% of total timber production originated in authorized Reduced Impact Logging operations, have high content of illegality!

That accounts for ~15% of total Brazilian tropical timber production.
Brazil has ~7 million hectares of authorized RIL (*) with around 240 thousand ha exploited per year (cycle 25 years)

Good/medium quality RIL accounts for 60% or ~ 145 thousand ha per year. Average of 15m³/ha = 2.2 million m³/year of logs

~% 20% of timber production can be considered truly legal!

(*) PA + MT = 170 thousand ha/year . 70%. Total Brasil = 242 thousand ha. Management cycle 30 years > Total Brazil = 7 Million ha
SYNTHESIS OF TROPICAL TIMBER MARKET IN BRAZIL

✓ ~65% illegal origin (deforestation and degradation)
  ✓ partially falsely documented (?? 30%??)

✓ ~35% authorized RIL
  ✓ 40% with low quality (high degree of illegality)

✓ In a nut shell: 80% illegal timber (majority documented!)
  ✓ 35% illegal not documented
  ✓ 30% illegal but documented
  ✓ 15% low quality RIL documented (high degree of illegality)

Disclaimer: all date are estimates. Despite of huge efforts from NGOs like Imazon and Imaflora as well as from the Brazilian Forest Service (Ministry of Environment) the information from illegal component are, obviously, of very poor quality.
✓ From the total area of 8 million hectares certified, 2.8 million hectares are of tropical forests (remaining are plantations);
✓ Around 1.4 million ha are RIL dedicated to timber production, almost stable since 2006.
Total FSC production

- Logs ~ 350 - 600 thousand m³
- Sawn timber (35% yield) ~ 125 - 200 thousand m³
- 2 a 3% of total Brazilian sawn timber production
- 70% exported
THE LEGALITY TRAP – HOW ILLEGAL LOGS BECOME LEGAL TIMBER

Manag/t Plan IBAMA Sisflora (MT/PA) → POA/AUTEK GF → DOF/GF Forest → DOF/GF Sawmill → Market

False Manag/t Plans
Non existing areas generates documents for illegal logs

False forest yields and species

Illegal timber being washed and falsely legalized
False saw mill yields

Decentralization
Protected areas
Land settlers
Original people areas

Illegal timber
Deforestation
Forest degradation

DOF – Forest Origin Document
FALSE LEGALITY SCHEMES

• False (“phantom”) Management Plans
• False timber credits coming from false forest and saw mill conversion rates
• Over exploitation of approved management plans
• Illicit data insertions in the DOF/GF system
• Inter operations and inter states fraudulent credits transferences
• Reduced Impact Logging operations with illegal forestry, environmental and social practices

• Evident incongruence's in the system
  » Unfeasible and impossible logistics
  » Impossible loads in different logistics modals
  » Unreal times for logistics

• Close to zero condemnation probability – less than 1% of fines area applied. No law enforcement
Average cost of false legal timber is around 40% lower compared to 100% legal
What must be done

- Command & control must continue to suffocate deforestation;
- Harmonization of Federal and State systems (IBAMA and Sisflora) must be done;
- Information on authorizations of forest activities must be organized, with full disclosure and transparency;
- DOF and GF systems must be redesigned and reinforced;
- Saw mill activities must be focused, specially redesign of yields controls;
- Forest degradation now in the radar, increasingly being monitored;
- Satellite monitoring system working (governmental and ONG Imazon);
- Implementation of Forest Code and Rural Properties Registry (CAR) will enhance efficiency of satellite control;
- Availability of legally titled forests must increase. Public concession process developing slower than expected;
- Legal Timber program implemented in states like Sao Paulo. Must spread out over the country;
- EUTR and Lacey with positive effects in signalizing importance of true legality;
- Public procurement under discussion for infrastructure development;
- Court of Audit (TCU) discussing sustainable procurement;
- Law enforcement and punishment of illegal operations must become effective.
In low governance and low law enforcement situations, going beyond legality is crucial. Traceability is needed. Independent certification schemes are options (reliable, credible and even cheapest!).

THANK YOU!

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