



Forest Trends

## **Changes in Demand for Legally or Sustainably Harvested Wood Products:**

### ***Implications for Chinese Export-Oriented Wood Products Industry***

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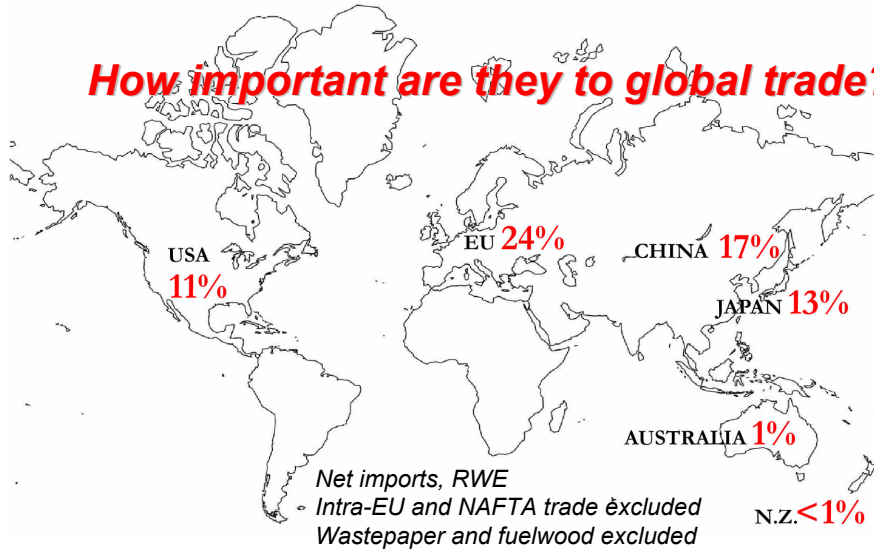
International Workshop on Sustainable for Trade in  
Timber and Timber Products  
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Beijing, China

## **Overview of Presentation**

- Which markets are requiring proof of legality or sustainability for their wood products (both domestically produced as well as imported)
- Why is this happening?
- What mechanisms are being used by governments, industry or retailers to ensure their wood is legal or sustainable?

## Which markets are requiring some form of proof of legal / sustainability?

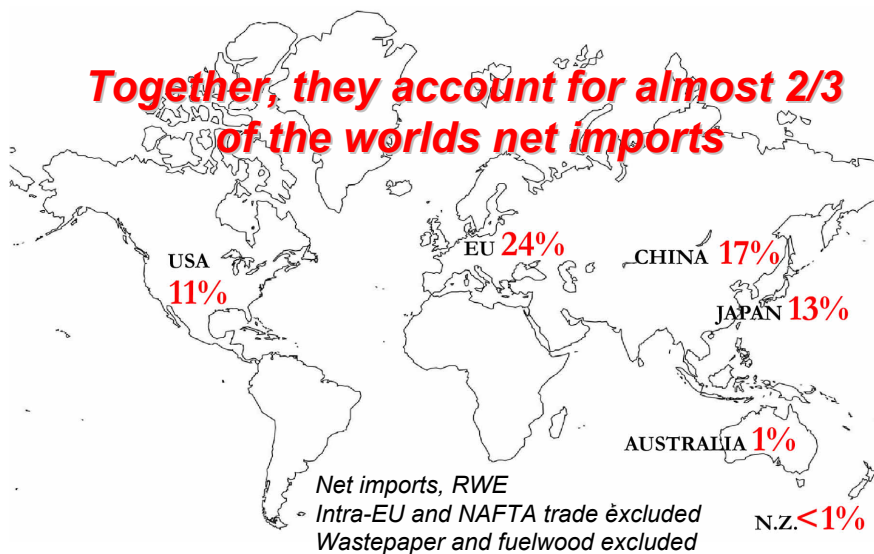
**How important are they to global trade?**



Source: GlobalTimber.org.

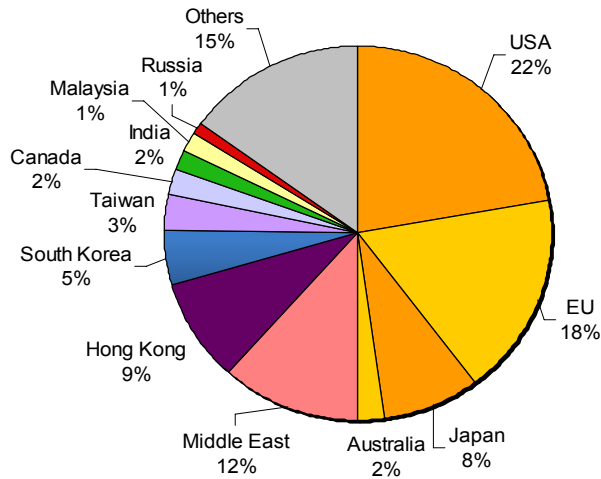
## Which markets are requiring some form of proof of legality / sustainability?

**Together, they account for almost 2/3 of the worlds net imports**



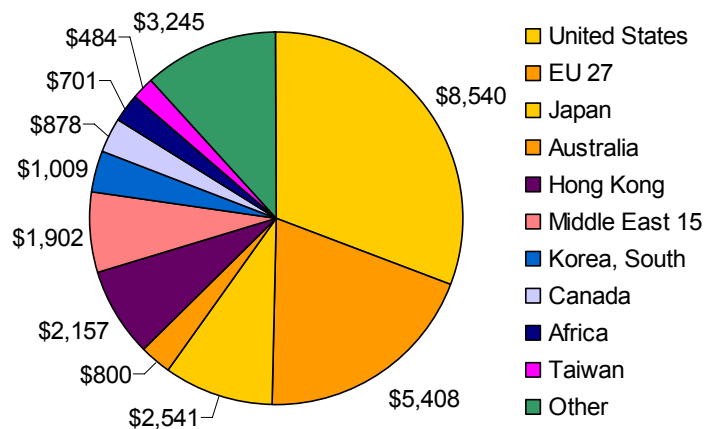
Source: GlobalTimber.org.

## Importance of these markets to China (volume)



**China's Forest Product Exports  
by Volume, RWE, 2007**

## Importance of these markets to China (value)



**China's Forest Product Exports  
by Value, millions \$, 2007**

## Why are these changes happening?

- Consumers are becoming more socially and environmentally aware, and want 3<sup>rd</sup> party verification of manufacturers claims of “sustainable wood”

- Environment, social and supply chain management issues also affecting other sectors (fisheries, palm oil, textiles, etc)



## Why are these changes happening?

- Retailers want to show corporate responsibility and minimize risk:

- reputational risk
- risk of prosecution (US)
- sustainability of supply

**We believe in sustainable fishing. Hook, line and sinker.**

look behind the label



**It's not just our green dyes that won't harm the environment**

look behind the label



**Our coffee won't leave a bitter taste in your mouth. It's Fairtrade.**

look behind the label



## Why are these changes happening?

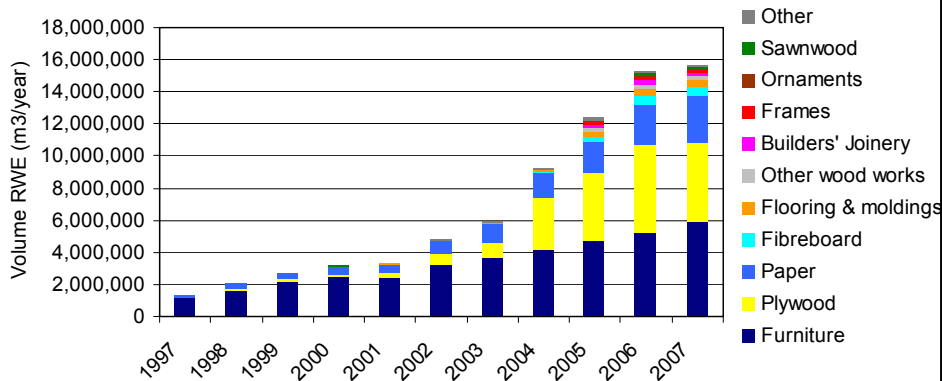
- Governments recognize that demand-side measures related to trade complement development programs and law enforcement efforts in producing countries (many of which have forest governance problems)

## Legislative mechanisms: US Lacey Act

- New regulation in the US gives government the power to fine, and even jail, individuals and companies who traffic in illegally harvested wood products.
- This new law, and the new import declaration it requires, will affect manufacturers and exporters who ship a variety of products made from wood to the US (paper, furniture, lumber, flooring, plywood, etc.)

## Importance of US market to Chinese exporters

- One of the fastest growing markets (thru 2007)
- Valued at US\$8.5 billion in 2007



## Legislative mechanisms: EU due diligence

- October 2008, the EC published a draft regulation aiming to establish a system of “due diligence” to prevent the entry of illegal timber and timber products to the EU:
  - *Operators shall use a system of concrete measures & procedures (due diligence system) which on the basis of a risk management procedure shall provide sufficient guarantees as regards legality.*

## Documentation requirements of both Lacey and the EU draft regulation

- Both the Lacey and EU draft regulation call for import declaration requirements, including the requirement to know the country of harvesting of the timber – though the EU requirement also requires information about the legality of the product

## Mechanisms: Public Procurement Policies

- The public sector in many countries is a major consumer of wood and paper products; many are developing public procurement policies (PPP) to exclude illegally harvested wood from supply chains
- Several European member states and Japan are developing or currently have public procurement policies on wood products (UK, Denmark, France, Germany, Spain...)
- PPPs cover 10-20% of total EU market
- In North America, green building initiatives are developing

## **Mechanisms: Public Procurement Policies**

- Primarily effect construction timber, furniture and paper products
- In most cases, PPPs require documentation of source and 3rd party evidence of legal compliance or sustainable forest management
- Companies that bid for government contracts do not want to have separate supply chains for public and private commissions; thus they are moving to verified / certified supply chains for all their projects
- Government PPP seen as 'setting standard' for all building

## **Mechanisms: Responsible Purchasing Policies**

- RPPs generally consist of a set of guidelines and/or rules to help buyers of timber products to buy legal and/or sustainable wood and wood products.
- Walmart, the world's largest company, expects suppliers to be able to document country of origin of timber sources (even more stringent than required under Lacey)
- IKEA policy "origin of wood must be known and wood must be produced in compliance with national and regional forest legislation"



## Mechanisms: Responsible Purchasing Policies

Several Timber Trade Federations have developed Codes of Conduct and Responsible Purchasing Policies, helping member companies set standards transparent information and assurances on the legal and sustainable source of raw materials.

Examples: UK Timber Trade Federation responsible purchasing policy; other examples in France, Spain, etc.

## Summary and Recommendations

These markets are all heading in the same directions. Some are mandatory according to governmental regulation, others are voluntary. However, recommended compliance actions similar:

1. **Understand your sourcing:** have a management processes that investigates the product supply chain
2. **Be able to demonstrate that product is legal and/or sustainable:** provide documented assurance that potentially illegal wood products are not being received and used.

## Summary and Recommendations

There are potential opportunities for those that can provide assurances about the legality of their wood product.

Tools:

- Certification standards (FSC, PEFC, others)
- Verification of Legal Origin (VLO)
- Wood licensed under the EC FLEGT programs in countries which have Voluntary Partnership Agreements with the EC (Ghana, possibly Malaysia, Cameroon, Indonesia, Vietnam)

*Thanks*

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