

## Linking Timber Trade and Forest Practice

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### Linking Timber Trade and Forest Practice: How the UK Uses Market Power to Tackle Illegal Logging

*The Government of the United Kingdom is widely seen as a leader in efforts to combat illegal logging and associated trade. UK government officials have been deeply engaged in dialogues aimed at increasing regional and international collaboration to tackle these problems, and their donor funding helps governments of timber-producing countries by supporting improved governance in forestry and related sectors. Perhaps most importantly, the UK government promotes demand-side measures related to international trade, including its own timber procurement policy, to complement producing countries' law enforcement efforts.*

Over the last 20 years the Government of the United Kingdom has provided development assistance to support improved forest management in a number of timber-producing countries. These countries are often characterised by weak governance and an inability to enforce forest laws, likely resulting in significant volumes of illegally produced timber exports. In some cases, the consequent estimated direct annual loss to their governments through failure to collect the correct revenues – estimated to be millions of dollars a year– has outstripped total UK aid to the country across *all sectors*.

Because the UK is the world's fourth largest net timber importer, it is highly likely that a proportion of this trade is in illegally harvested timber. Clearly, it made little sense for the UK to continue trading in a commodity that undermined the very reforms that its government's development efforts sought to encourage, while revenues from illegal timber harvests that could support such efforts were being lost.

Meanwhile, several other influences were in play. Civil society organisations in the UK were increasingly targeting timber traders. These actors focused on the environmental and human rights impacts of illegal logging, and questioned the morality of the trade in illegal timber products. However, since such pressure was likely to discourage importers from purchasing any wood products from “high-risk” countries, it risked discouraging even those few operators that tried to comply with the law and aim for better forest management. This would have limited opportunities for market drivers to reinforce UK development assistance. And finally, some timber-producing countries, realising that their enforcement efforts were ineffective in the face of indiscriminating global markets, asked for UK help by refusing to accept illegal timber.

The UK government recognized that markets could play an important role in bringing about better global environmental stewardship, including management of forests. It also understood that actions to address widespread illegality were needed if progress towards sustainable management was to be made and part of the responsibility for these lay with consuming countries. To encourage such actions, the UK government embarked on a long-term multi-agency program to better understand the problem and to implement change.

***Development of a coherent approach across government***

The UK policy on tackling illegal logging and associated trade evolved over several years, starting in 1998 when the G-8 governments first committed to an “Action Plan on Forests”. This specifically recognized the need to combat illegal logging and associated trade.

By 2002 the UK Government had initiated several programs aimed at tackling illegal logging and associated trade. These involved several agencies including the Department for International Development (DFID), the Department for Environment, Food and Rural Affairs (Defra) and the Foreign and Commonwealth Office. In order to ensure cross-departmental coherence, an interdepartmental working group, chaired by DFID and Defra ministers was formed. This brought together officials from a range of government agencies with the aims of keeping each other informed of programs and plans and to coordinate approaches. In particular, a common view was needed with regard to emerging EU policy developments.

To support this and other international work, a three-year program was launched. This aimed to achieve a better understanding of extent and causes of illegal logging and to develop better-targeted solutions; to work towards coherent EU and G8 approaches; to enhance communications between stakeholders; to support the development of tools and systems to address problems; and to continue promotion of the regional Forest Law Enforcement and Governance (FLEG) processes.

An important part of this program was support for a public forum for dialogue facilitated by the London-based think tank, Chatham House. This forum and its associated website ([www.illegal-logging.info](http://www.illegal-logging.info)) have brought government, private sector and NGO representatives together regularly to share information and innovative approaches to tackling illegal logging and associated trade.

***Adoption of demand side measures – government leadership in the market***

The UK timber procurement policy, adopted in July 2000, was a first step by Government, in its role as a market participant, to address forest management issues. It required all central Government departments and their agencies to actively seek to buy timber and timber related products from legal and sustainable sources.<sup>1</sup> Over time, the government established clear criteria and processes for government contractors to identify and prove they were supplying legal and sustainable timber that could be verified mainly through independent 3<sup>rd</sup> party processes.<sup>2</sup> Systems to provide on-demand advice for government procurement officers and suppliers were established. Today, all government suppliers must provide legally-produced timber as a condition of contract, and sustainable timber is preferred.

These actions have had a significant impact on the private sector. The Timber Trade Federation, the UK’s main trade association, has adopted a Code of Conduct that obliges member companies to eliminate illegal timber products from their supply chains. Compliance with the procurement aspects of the Code of Conduct is through implementation of a Responsible Purchasing Policy. This is still a voluntary set of procedures but the Federation intends to make it compulsory. Some member companies considered this too weak and they resigned the Federation.

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1. By raising the costs of timber and timber products, it would also reduce demand and encourage consumption of timber substitutes – though certified products, already bearing the costs of proof of legality, would not increase in price and would therefore become more competitive. It can certainly be argued that timber prices are currently held artificially low because of the prevalence of illegal products, but this proposal would raise the *costs* (but not the revenue to its producers) of legal but not sustainable timber.
  2. For example, Thailand, in the latest stage of the long-running shrimp-turtle dispute, challenged the US regulations as a matter of principle, even though its fishing practices had been certified as acceptable by the US and its shrimp exports were therefore not embargoed.

Several other European governments, as well as Japan and New Zealand, now have similar timber procurement policies or are in the process of developing them. Both the London and Vancouver Olympic construction projects are working on procurement policies that specify only legally verified or certified wood products are used in those venues.

There is no evidence that the cost of government construction projects in the UK has risen due to its public procurement policy. While prices for some certified tropical hardwoods have indeed increased, these increases so far appear largely to be absorbed by the trade. And the bulk of wood used in most construction is temperate softwoods, for which there is now an adequate supply of certified material to meet all demand with no price premium.

***Political engagement in the Forest Law Enforcement and Governance (FLEG) ministerial processes***

The UK government has played a lead role in ensuring that consumer governments take responsibility for the problem of illegal logging. In September 2001 ministers from a number of timber-producing countries in East Asia, together with their counterparts from the main consuming countries, met in Bali, Indonesia at a conference sponsored by the UK and the US. The resulting Bali Ministerial Declaration commits producing and consuming countries to act together to address the shared problems of poor forest governance and inadequate law enforcement. The Declaration recognized the role that trade could play and was highly influential in stimulating other related international actions, including other regional processes for Africa (AFLEG) and Europe and North Asia (ENA FLEG), as well as several bilateral arrangements between timber producing and consuming countries.

***Collaborative programs with Producer Governments: putting words into action***

Following the East Asia FLEG conference, UK and Indonesian ministers decided to take joint action on both demand and supply sides through a Memorandum of Understanding (MoU). This agreement, signed in April 2002, supported a series of measures to address illegal logging in Indonesia, and design of elements such as definitions of legality and timber tracking systems, needed to regulate trade. However the MoU could not extend to implementation of trade measures since, for EU Member States, these are possible only at the EU level. Development of the MoU was a key moment of political engagement for the UK. It recognized the UK's responsibility as a major importer of forest products to help resolve the problem of illegal logging. It also helped build commitment across government.

***Partner in the EU FLEGT Action Plan – providing a basis for trade measures to eliminate illegally logged timber from European markets***

For EU Member States, trade measures can be taken only through an EU-wide approach. Strong public support for the proposition that illegal timber should not be imported into the EU, backed up by calls from some timber producing countries to stop accepting illegal timber, led to inception of the EU Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. This plan, initiated in 2002 and adopted in 2004, includes a series of measures to achieve this goal, including promotion of public procurement, involvement of the private sector, use of improved due diligence in investment planning, and examination of money laundering legislation.

But voluntary trade-based Partnership Agreements between the EU and timber producing countries are at the FLEGT Action Plan's core. These will depend on export licenses that show that consignments of timber products destined to the EU have been legally produced, backed up by credible systems to verify legality and to track products from forest of origin to export. A new EU regulation has been adopted to empower border control agencies to deny entry to shipments from such "partner countries" unless they are covered by FLEGT licenses.

The EU will provide development assistance to help partner countries develop the verification and licensing systems and make them operational. It is recognized that FLEGT alone will not cover all of the current international trade associated with illegal logging, but it provides a starting point and helps partner countries put in place the structures and systems that provide evidence of legality that other importing countries can readily adopt.

There will be significant benefits to partner countries. These include investment in control systems to improve enforcement, improved collection of state revenues, sometimes exceeding development assistance budgets, and assured continued access to EU markets, where proof of legality is fast becoming a market requirement.

EU Member States will also benefit from FLEGT. Because unlicensed (and illegal) timber imports from partner countries will be eliminated, timber traders will be assured that all imports can be sold as legally-produced, without needing to invest in proprietary chain of custody controls.

***Next steps – making plans a reality***

The UK recognizes that significant investment in legality verification systems is needed to make the FLEGT system work. This must cover defining legal timber production, establishing systems to check compliance in the forest and to track products from forest to export, and establishing or strengthening licensing agencies. Together with other EU Member States, the UK will support partner countries in Asia and Africa to set up and initiate operation of these systems.

It is also recognized that FLEGT is only a partial solution to the problem. Trade can be directed through non-partner countries thereby circumventing the licensing scheme, or non-partner countries can benefit from market advantages of the scheme by directing their production through partner countries. And the bulk of trade finishes up in countries outside the EU, so would be unaffected by the scheme. Solutions to these issues need to be found as well as addressing the core governance problems of corruption, lack of transparency and misallocation of resources that lie at the root of illegal logging. The UK will continue to work on these concerns.

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***For further reference:***

- **EU FLEGT Action Plan:**  
[http://ec.europa.eu/comm/development/body/theme/forest/initiative/index\\_en.htm](http://ec.europa.eu/comm/development/body/theme/forest/initiative/index_en.htm)
- **UK's Public Procurement Policy:**  
<http://www.defra.gov.uk/environment/internat/forests/uk-timber.htm>
- **The Central Point of Expertise on Timber Procurement (DFID's Program to tackle illegal logging):**  
<http://www.dfid.gov.uk/casestudies/files/g8/g8-illegal-logging.asp>
- **Foreign and Commonwealth Office information on Forestry and Illegal Logging:**  
<http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1145895527770>
- **The Timber Trade Federation's "Forests Forever" website:**  
<http://www.forestsforever.org.uk/>

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