EU demand for verified legal and sustainable timber

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Introduction

- "Verified wood" includes third party legally verified and certified wood
- What is the scale and what is the main driver of EU demand for verified wood?
- To what extent is the EU private sector engaged in the verified wood trade?
- What has been the impact of EU public sector procurement?
- How may private sector engagement in the verified wood trade be increased in the future?

What is the scale and what is the main driver of EU demand for verified wood products?

Case study of UK timber distributor

- One of the UK's leading timber and building materials supplier with over 440 branches nationwide.
- Annual timber sales £250m ($490m)
- Policy to move to 100% certified wood
- 54% of wood purchases were certified in 2006
- Volume of demand generated by the company’s procurement policy is considerable
- End users specifying certified wood accounted for only 1.5% of onward sales in 2006
- Volume of demand from the end user is limited

TTF study of certified wood supply and demand in the UK

- Estimated share of total UK imports that arrived as certified product in 2005
- 56% of primary wood product imports certified by volume
- Large proportion of OSB (100%), MDF (88%), sawn softwood (58%), softwood plywood (47%)
- Small proportion of hardwood plywood (24%), hardwood sawn lumber (11%)
- Only 10% of the customers of surveyed companies require that wood be certified

The main driver: private sector procurement policies

- Risk management:
  - Avoid damaging environmental publicity
  - Avoid exclusion from high profile government contracts (e.g. London Olympics)
  - Secure reliable long-term supplies
- Internal operational factors:
  - High costs of stocking mixture of uncertified and certified products, particularly if carrying other product labels (e.g. CE marks)
  - Where supply is readily available, a big incentive to shift over to 100% certified input

To what extent is the European private sector engaged in trade in verified wood products?

EU Softwood & Panels Sector

- Supplies of certified wood are becoming readily available
- Most products derive from large state and industrial forest lands in Europe, North America and Russia
- Relatively well resourced, centrally planned large estates which have benefited from economies of scale in forest certification
- Generally no price premiums required

EU Hardwood & Plywood Sector

- 42% of EU hardwood imports are tropical. Certification progress slow: lack of infra-structure; land tenure and political problems; limited demand for certified wood in domestic and emerging markets
- 15% of EU hardwood imports from the US. Fragmented forest ownership complicates certification. Little demand for certified American hardwoods from domestic buyers.
- Certified hardwood supplies inconsistent, premiums in the range 5%-30% on EU delivered price
- Widespread presence of Chinese plywood lowered price expectations for uncertified product in the EU market
- Commitment to certification implies major compromises on price, product quality, yield, and delivery times
- Risky commercial strategy when only 1 in 10 customers request certified product

Major changes needed to boost trade in verified hardwood

- Leaving aside the possibility of EU legislation which could completely alter market parameters
- Any significant shift in the EU hardwood and plywood market towards verified legal and sustainable wood will require significant changes both on the supply side and demand side
- A lot of uncertainty
- But several trends hold out the prospect of more widespread EU trade in verified hardwoods

What has been the impact of EU public sector procurement?

- Only a minority of EU countries – UK, Denmark, Netherlands, France, Germany
- Only central government, slow and difficult process to extend to local authorities
- Overall volume of demand generated so far represents relatively small proportion of trade
- More significant for their standards-setting role
- Formal recognition of a variety of approaches to legality verification and forest certification
- Reduced supply log-jam created by FSC-only policies

Exporters responding to flexible approach

- AHEC study proposal to assess risk that American hardwoods derive from illegal sources. UK government advisors indicate that this would be acceptable “Category B” evidence of legality
- Tropical shippers implementing verification procedures encouraged by VPA process and financial aid
- MTCC certified meranti sawn lumber regularly obtained for 2-3% premium in EU market
- Major European-owned operations in Congo Basin developing legality verification procedures and committed longer term to FSC
- Ghanaian authorities developing Validation of Legal Timber Programme. Leading Ghanaian shippers committed to FSC
- Gabon PEFC national certification scheme

How may private sector engagement in the verified wood trade be increased in the future?

Key role for trade association procurement policies

- UK experience indicates these can be a very effective tool to generate and direct demand for verified wood
- Cover a wide proportion of the industry and import trade
  - e.g. 40 of the 180 members of the UK TTF are committed to the Responsible Procurement Policy. Compulsory for all TTF members once 51% sign up.
- Based on risk assessment so that companies adjust their practices and procedures depending on the level of risk that wood derives from illegal or unsustainable sources.
- Allows effective targeting of limited time and resources and ensures that responses are proportionate to the scale of the problem

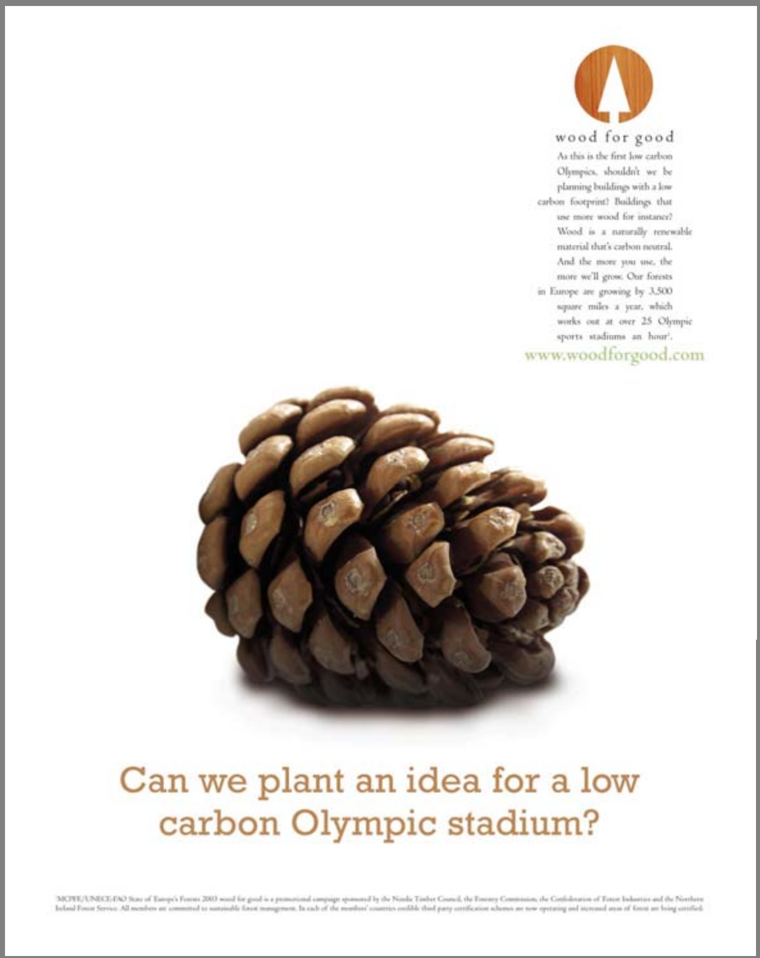
Trade association procurement policy challenges

- Not yet an efficient mechanism to encourage change
- Only 3 national trade associations (UK, Netherlands, France) have developed policies backed by binding commitments, targets and independent monitoring
- Resistance amongst some TTF members
- Difficult to convince members of the need for these initiatives when their customers may seem little interested in environmental issues
- Huge task to educate and motivate

Enhancing effectiveness of TTF procurement policies

- Timber Trade Action Plan promoting a common approach to procurement policy amongst trade associations throughout the EU.
- Harmonisation would improve effectiveness and efficiency of these initiatives and reduce obstacles to market access for suppliers
- TTAP holding a meeting for EU TTF's in June 2007 to exchange information and begin work on best practice guidelines.
- Expected to encourage adoption of binding commitments, targets and independent monitoring
- Long term development of EU demand for verified wood will be heavily dependent on progress of this initiative

One reason for timber traders to implement procurement policies



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Public/private sector interaction

- Extensive adoption of trade association procurement policies and procedures mitigates emerging EU demand for universal legality licensing
- A priority for public sector action should be to reinforce progress to implement corporate procurement policies and procedures
  - Focus of any legislative measures should be to encourage due diligence by importers
  - Government procurement policies should give preference to companies demonstrating progress to implement recognized procurement systems

Thank you!

Questions?