

# TFD Review



## Practical Actions to Combat Illegal Logging

A summary of a multi-stakeholder dialogue on best practice for business and civil society

7-10 March 2005  
Hong Kong, P.R. China

The Forests Dialogue

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### ***TFD Review***

The purpose of the *TFD Review* is to inform stakeholders about the dialogues and activities sponsored by TFD. For more information on topics covered in the issue visit our website at [www.theforestsdialogue.org](http://www.theforestsdialogue.org)

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## Executive Summary



From March 7-10, 2005, more than 120 leaders from business, civil society, government and academia met in Hong Kong to explore collaborative strategies for combating illegal logging in Asia and throughout the world. This meeting was convened by The Forests Dialogue (TFD), an international organization which provides a forum for multi-stakeholder dialogues on sustainable forestry issues.

The Dialogue included presentations and case studies on current efforts by businesses, environmental and social non-governmental organizations (NGOs), and government representatives to address illegal logging. These presentations highlighted many factors that contribute to illegal logging, including weak governance, corruption, poor law enforcement, inadequate public lands management, social conflict, unclear property rights, failure to recognize local community needs and rights, and uneven levels of commitment from the business community. Participants agreed that governments, companies and NGOs share responsibility for addressing the challenges of illegal logging.

Participants agreed that *business and civil society should foster the following actions:*

- Continue to strengthen and promote important existing alliances to combat illegal logging.
- Work in partnerships to develop uniform, auditable, practical national legality standards, especially in countries with a high risk of illegal logging.
- Create a simple, credible, independent and objective ratings system that can be utilized to identify high-risk countries and tree species, and possibly expanded to cover companies.
- Encourage companies to use innovative wood tracking technologies, and to implement best practices to ensure that illegally sourced, harvested or traded wood does not enter their supply chains.

Participants agreed on the following actions to promote *increased governmental commitment*:

- Encourage strengthening of laws that protect forests and local communities that depend on forests. Strengthen law enforcement in both exporting and importing countries.
- Encourage public procurement policies and voluntary partnerships with exporting countries to reduce illegal wood imports. Promote regional collaborative initiatives on forest law enforcement and governance.
- Urge increased commitment on the issue of illegal logging at inter-governmental meetings and with top officials in key capitals in Asia, Europe, and beyond.
- Strengthen existing partnerships with industry and civil society.



Dialogue participant Sani Bakar addresses the group

## Introduction



Nigel Sizer

Nigel Sizer, Dialogue Co-Chair  
Director, Asia-Pacific Forests Program  
The Nature Conservancy

Up to 30 percent of hardwood lumber and plywood traded globally could be of suspicious origin, and as much as 17 percent of roundwood traded internationally is illegally harvested. The highest rates of illegal logging activity are primarily in areas that also have the world's richest biological diversity.

Illegal logging and the trade of illegally harvested wood is destroying forests in many parts of the world. This destruction contributes to social conflict and human rights abuses, costs governments billions of dollars in lost taxes, impacts biodiversity, and undermines confidence in the use of wood as a sustainable resource. Significant amounts of illegal wood enter global trade, depressing the price of wood products, and presenting unfair competition to those companies that respect the law.

To explore collaborative strategies for combating illegal logging in Asia and throughout the world, from March 7-10 2005 The Forests Dialogue (TFD) convened its first Dialogue on Practical Actions to Combat Illegal Logging. More than 120 leaders from business, civil society, government and academia attended. Objectives of the Dialogue were as follows:

- Raise awareness, especially among business leaders, about the seriousness of illegal logging and current strategies to address the problem.
- Identify cost-effective, practical solutions to address illegal logging, particularly those that businesses can implement.
- Agree on specific actions that companies, NGOs and governments can take collaboratively to implement these solutions.



Cassie Phillips, Dialogue Co-Chair  
Vice-President for Sustainable Forestry  
Weyerhaeuser Company

Illegal logging has significant negative consequences for global companies. Forest products companies that operate legally and pursue sustainable forest management are at a competitive disadvantage against companies that do not. A recent report by the American Forest & Paper Association (AF&PA) states that prices of U.S. wood products are suppressed by \$500 million per year due to illegal logging. In addition, the reputation across the forest industry suffers when consumers cannot differentiate between "good" and "bad" in commodity markets. In order to limit illegal logging, forest products companies must comply with laws, require the same from their suppliers and contractors, and use "due diligence" in sourcing their wood. Significant opportunities also exist to lobby governments to adopt model laws, to improve law enforcement, and to partner effectively with NGOs. Examples include Weyerhaeuser's successful international partnerships with CARE, USAID, and the Rural Development Institute in Nepal.

David Kaimowitz, Director General  
Center for International Forestry Research (CIFOR)

World prices of forest products are 7-16% lower than true costs because of the externalities and uncaptured revenues associated with illegal logging. Banks and investors cannot easily evaluate companies for legal harvesting practices. In countries with the greatest illegal logging problems, complicated and conflicting forestry laws and enforcement authority exist both within and among different government levels. Unfortunately, few incentives exist to correct the problem because too many parties benefit financially from the confusion. Additionally, NGOs and other groups often propose rules that cannot be reasonably applied on the ground.



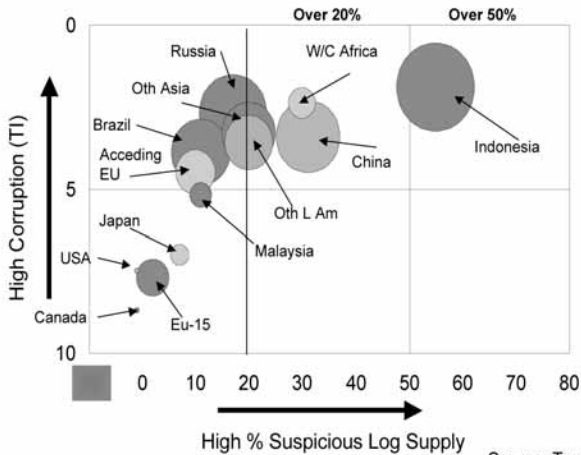
Cassie Phillips



David Kaimowitz

Despite these problems, there are some hopeful signs. There is an increasing level of concern among the public, government, and business sectors about illegal logging. The banking sector could play a much greater role because creditors are growing increasingly aware of the need to verify wood legality. Many international lending institutions have recently adopted the Equator Principles, a voluntary set of social and environmental guidelines for project financing. The International Finance Corporation (IFC) faces pressure to stop lending to companies that cannot verify wood legality. Governments are beginning to apply anti-money laundering and anti-corruption laws to illegal logging cases. Companies are growing more aware that good environmental management is a wise long-term business strategy. China will be a key stakeholder in finding solutions, as more and more companies with a desire to verify timber legality are moving into the country.

### Corruption & Illegal Logging



Source: Transparency International; WRI/SCA estimates

# Case Study Presentations

## Government Initiatives

John Bazill, Directorate General Environment  
European Commission

The European Union (EU) is actively engaged in Forest Law Enforcement and Governance (FLEG) initiatives around the world, increasing awareness about illegal logging by both producer and consumer governments. EU Forest Law Enforcement, Governance and Trade (FLEGT) partnerships with several countries are identifying supply-and demand-side measures to combat illegal logging. Implementation of the EU FLEGT may lead to increased consumer pressure on countries and companies exporting processed timber products to the EU from unknown or questionable sources. FLEGT discussions are underway with Ghana, Democratic Republic of the Congo, Congo, Gabon, COMIFAC (Commission for Forests in Central Africa), Malaysia, and Indonesia. The EU is also actively developing its own public procurement policies and exploring ways to address illegal logging through existing legislation. Political declarations are starting to be translated into action, but there is still much progress to be made. Remaining challenges include determining how best to track legal and illegal timber given discrepancies in timber trade customs data and shipping trade data.

Su Ming, Deputy General Director, International Forestry  
Cooperation Center  
State Forestry Administration, P.R. China

In recent years China has improved the quantity and quality of its forest resources, but it is still a forest-poor country with enormous challenges in creating a sustainable forest industry. The country has intensified forest monitoring and protection related to illegal logging, forest fires, timber transportation, forest rights, and pest and disease control. The Chinese government agrees that sustainable forestry should be promoted



John Bazill

and that illegal logging harms forest resources. However, China also has a huge demand for timber at a reasonable price, and it cannot address legality issues alone; the global community, forest workers and consumers must work together to crack down on illegal logging, imports of illegal wood, and associated trade. China is taking important steps, including signing an agreement with Indonesia addressing illegal logging and trade, and discussing a similar agreement with Russia. China welcomes assistance from other countries and NGOs to eradicate illegal logging and illegal trade.

Shinichiro Kobayashi, Director, and  
Noriko Ishitobi, Assistant Director  
Japan Forestry Agency - Illegal Logging Working Group

82% of Japan's wood consumption is from imports, so ensuring legality of those imports is key. The Illegal Logging Working Group recommends technical and practical strategies to the Japanese government for addressing illegal logging. Recent government achievements include the 2003 Japan-Indonesia "Joint Action Plan" to combat illegal logging, and Japan's participation in the Asia Forest Partnership. The Working Group is engaged in fostering international cooperation; developing technology such as remote sensing and log tracking systems to better document, inspect and track legal wood; promoting private sector initiatives; and developing a more widely accepted definition of illegal logging.



Noriko Ishitobi describes Japan's actions to address illegal logging

The Working Group has highlighted the following issues to the Japanese leadership: 1) the increasing importance of NGOs in combating illegal logging; 2) the need for heightened levels of cooperation between exporting and importing countries; and 3) the importance of considering future generations in making today's forestry decisions.

**Hugh Speechly, Programme Coordinator  
Forest Law Enforcement and Governance  
U.K. Department for International Development (DFID)**



Hugh Speechly

The U.K. Government's programmes to address illegal logging and associated trade involve strengthening U.K. public procurement policies, coordinating with the private sector, actively promoting the EU's FLEG and FLEGT initiatives, utilizing anti-money laundering legislation, and focusing on the role of financial institutions. The successful public-private partnership between DFID and the U.K. Timber Trade Federation holds promise for demonstrating that if illegal and unsustainable timber can be eliminated from wood product supply chains, wood can be the most environmentally responsible material. The U.K. central government is required to purchase wood products from sustainable and legal sources as verified by leading certification schemes. Public procurement in the U.K. accounts for 15-20% of total sales in the U.K. as a whole, so this program has already impacted the timber trade. In addition, the U.K. is advocating specific proposals for G8 member countries to consider in their efforts to combat illegal logging.

**Transtoto Handadhari, Director of Forestry Information Center  
Indonesia Ministry of Forestry**

The Indonesian government loses around USD \$3 billion per year in taxes and other revenue due to illegal logging and the illegal wood trade. The main causes of illegal logging include lack of law enforcement, failures of coordination and training in government agencies, an imbalance between the needs of forest industry and the supply of legal raw logs, the failure of past forest and land use policies and licensing



Transtoto Handadhari

programs, and poverty inside and around forested areas. Recent government efforts are focusing on better tracking of timber concessions and industries, improving law enforcement, and promoting economic alternatives. A prohibition remains on raw log exports from Indonesia's natural forests. Annual production quotas from those forests are being reduced. The government is also formulating a policy on log exports from industrial plantations to reduce pressures on natural forests. Indonesia is participating in ITTO (International Tropical Timber Organization), FLEGT and NGO initiatives. The government has signed memorandums of understanding (MOUs) with consumer countries including the U.K., China, Japan, and Norway, and also with the EU. Similar agreements are pending with Malaysia, India and the Philippines.

## Views from Civil Society

Ian Kosasih, Forest Programme Director  
Worldwide Fund for Nature (WWF) - Indonesia

Illegal logging is devastating the forests of Indonesia. The country has lost 25-40% of its forest cover over the past 50 years, dramatically affecting natural forests and the people and animals that depend on them. Some estimates indicate that up to 82% of Indonesia's wood harvest is illegal. Some of this illegally harvested wood is from protected forests, but most is cut from designated production forests that are being harvested at a much greater rate than is allowed or sustainable. To address these issues, WWF-Indonesia, The World Bank, and the Indonesian government have been coordinating the Indonesia FLEG assessment. This assessment has involved extensive stakeholder participation, produced a "map" of illegal timber flows within and from Indonesia, and outlined a "12-Step Program" of recommendations for government action (currently under government review), focused on prevention, detection and suppression of illegal logging.

Kenichi Nakazawa, Director  
Friends of the Earth (FOE) - Japan

FOE Japan estimates that as much as 33% of Indonesia's illegal wood exports and 17% of Russia's illegal wood exports may be going to Japan. As much as two-thirds of Japan is covered by forest, but the country's demand for wood products, especially paper, is increasing significantly and Japan's self-sufficiency ratio is declining. There is a significant need for better tracking and legality verification to prevent illegal logging from filling gaps in the supply chain. FOE Japan has coordinated with other NGOs to successfully promote several recent initiatives related to legality, including: 1) "Green Purchasing" initiative with recommendations to Japanese companies regarding paper purchasing; and 2) "Fairwood Campaign" to reduce the presence of illegal wood in Japanese markets, assist producers of sustainably harvested wood products, promote forest certification, and encourage the Japanese government to develop better wood procurement policies.

Anatoly Lebedev, Chairman  
Bureau for Regional Outreach Campaigns (BROC) - Russia

Logs currently flow across the border from Siberia into China without much scrutiny, negatively affecting Siberia's protected forests, wildlife habitat and government revenues. The use of fake documents, bribery and falsified volume records is common in the timber trade. However, for many local communities in Siberia, illegal logging has positive aspects: it is relatively small scale; it is selective and community-based; and it is essential to the financial security of many families. Recent forestry trends in Siberia include a deepening divide between local and national interests. There is now greater activity by large, highly funded NGOs, increasing efforts by illegal loggers to enter restricted forests zones, and increasing efforts by Chinese importers to gain access to these forests. BROC is working with local, regional and national governments and with NGOs to address these complex issues.



Anatoly Lebedev

Roberto Smeraldi, Director  
Friends of the Earth (FOE) - Brazil

In Brazil, 75% of land is owned by the government, which issues permits for harvest. FOE Brazil considers defining "legality" one of the most significant challenges in discussions about illegal logging. This is because some technically "legal" operations may have illegally obtained permits, or may result in harvesting in an unsustainable manner. Conversely, some technically "illegal" practices may be sustainable, such as forest management and harvesting of non-timber forest products by communities that do not have the legal status to obtain permits. Costs can be enormous for companies striving to comply with existing laws and permit requirements. The costs of operating illegally are higher now than in previous years, but are still beneficial enough for some parties to continue. FOE Brazil is advocating for: 1) a government taskforce to formally register the land of traditional local communities and the public; and 2) legislation to allow some forest concessions on public land and to establish a mechanism for responsible harvesting.

## Forest Industry Approaches

A. J. Devanesan, President  
Asia Pacific Resources International Holdings Ltd (APRIL)

APRIL is one of the world's fastest growing pulp and paper companies, with 250,000 hectares of fiber plantations on the Indonesian island of Sumatra. While emphasizing the business realities of making a profit, the company also considers sustainability in all its operations. APRIL believes that illegal logging is the biggest threat to forest biodiversity in Sumatra. The main challenges in combating illegal logging are lack of law enforcement, adverse reactions from local loggers, and physical dangers faced by businesses and their employees when they try to stop illegal operations. APRIL is willing to do its part, but it emphasizes the importance of involving government, NGOs and other stakeholders. The



company has implemented community development programs that include hiring illegal loggers and helping them find alternative employment. It has also implemented wood tracking procedures, undergone independent audits, engaged with NGOs, and committed to source all its wood from plantations by 2009.

**John Heissenbuttel, Vice President, Forestry and Wood Products  
American Forest & Paper Association (AF&PA)**



A.J. Devanesan

AF&PA recently published a report on the economic impacts of illegal logging on the U.S. forest industry. The report defines "illegal logging" as theft of timber or logs, or the process of obtaining logs from areas not authorized by government. The report also acknowledges that definitions vary widely, but should be tightened and more widely accepted at a global level. The report concluded that 5-10% of global roundwood production is illegal under the AF&PA definition, and that the cumulative effect on the U.S. forest industry is \$4.6 billion (excluding paper). The report cites law enforcement as the most important element in combating illegal logging world-wide, and highlights the prohibitive costs that can accrue to legal producers from efforts to stem illegal logging. AF&PA recently signed a MOU with Conservation International that focuses on reducing illegal logging in globally significant protected areas. AF&PA also is working with the Sustainable Forestry Initiative (SFI) to strengthen procurement practices.

**Lu Weiguang, Chairman of the Board  
Shanghai Anxin Flooring Company Ltd**

Shanghai Anxin, established in 1994, is a large Chinese flooring company with operations in Beijing and Brazil. To show its commitment to sustainability, the company is pursuing Forest Stewardship Council certification, and Shanghai Anxin's Beijing factories have already passed ISO (International Standards Association) certifications. In Brazil the company has strict requirements against logging on steep slopes and in important wildlife habitats.



Anna-Liisa Myllynen

**Sharon Haines, Director  
Sustainable Forestry & Forest Policy, Forest Resources  
International Paper (IP)**

International Paper is the world's largest paper and forest products company. Based in the U.S., the company has operations spanning the Americas, Europe, Asia Pacific, Australasia and Africa. IP has 8.3 million acres of forestland in the U.S., and manages or has interest in more than 11 million acres in Brazil, Canada, New Zealand and Russia. IP is working toward third-party certification of all its forestlands. The company is focusing on ensuring legal wood supplies in its Russia and New Zealand operations by utilizing log tracking techniques.

**Anna-Liisa Myllynen, Vice-President, Forest Environmental  
Stora Enso**

Stora Enso is a global integrated paper, packaging, and forest products company based in Finland. With sales totaling EUR 12.4 billion in 2004, and with 45,000 employees in more than 40 countries, Stora Enso is actively engaged in efforts to ensure legal wood supplies. The company's goal is to purchase only certified wood, but globally, less than 5% of world-wide forests are certified. Therefore, clear definitions of legality must be established in order to derive clear solutions. The most important tool for businesses is traceability, which can be pursued in the following ways: 1) clear corporate policies regarding legal wood sources; 2) verification standards; 3) NGO and media cooperation; and 4) third-party auditing through ISO. Stora Enso believes that joint efforts are needed by many sectors and stakeholders to prevent illegal logging.

**Amir Sunarko, President Director  
PT Sumalindo Lestari Jaya**

PT Sumalindo Lestari Jaya is an integrated wood-based industry in East Kalimantan, Indonesia, on the island of Borneo. The company produces timber from natural forests and industrial plantation forests, and also

operates a plywood mill. PT Sumalindo has obtained both ISO 9002 and ISO 14001 certificates for its factories. It has also entered into a partnership with The Nature Conservancy and SGS (an international testing and certification company) to build a better wood legality verification system, and is also pursuing forest certification. One of its primary efforts related to log tracking is a pilot project which uses bar coding to track logs throughout the supply chain.



Amir Sunarko

## Verification of Wood Legality

Per Rosenberg, Director, WWF Global Forest and Trade Network, and Anna-Liisa Myllynen, Stora Enso WBCSD & WWF pilot project: Latvia

With an estimated USD \$15-30 million/year loss in revenue to the government of Latvia due to illegal logging, this pilot project sought to develop wood tracking systems for verification of wood from Latvian origin through the application of the World Business Council for Sustainable Development & WWF Collaborative Framework. Questionnaires were circulated amongst the major forest companies in Latvia, and results indicated a strong compliance with legally mandated Wood Transportation Waybills at all trade points. Additional non-mandatory verification measures periodically used in Latvia included: cutting licenses, audits, company to company commitments in contracts of legality, and optional third party verification. It was concluded that illegal logging will only be successfully addressed by the government using a combination of measures in cooperation with the private sector and NGOs.



Hiroyuki Nishimura describes Oji Paper's efforts to ensure legality in its supply chain



Rod Taylor

Rod Taylor, Forest Coordinator, WWF Asia Pacific  
Bensen Yu, Forestry Manager, IKEA Trading (Hong Kong) Ltd.  
WWF and IKEA in China

IKEA's "Keep it Legal" manual, developed in partnership with WWF, has become a model for demonstrating how businesses can take responsibility to reduce the risk of illegally logged wood in their supply chains. The manual offers comprehensive approaches to address assist companies in: 1) defining "legal" wood; 2) equating "legal" with "desirable"; and 3) determining how much legality checking a company should do. WWF's "Stepwise Approach to Responsible Procurement" is highlighted as one of the solutions available.

Moray McLeish, Program Manager  
Alliance to Promote Forest Certification & Combat Illegal Logging  
The Nature Conservancy (TNC)  
Legality Verification and Timber Tracking in Indonesia

Recognizing the importance of wood legality as a first step towards forest certification, this pilot project was developed in partnership with government, industry and civil society in Indonesia. It addresses three critical points: 1) How can legal wood be identified?, 2) What does legal mean?, and 3) How can third party verification be implemented? The pilot project succeeded in creating a legal standard for Indonesia with stakeholder consultations to arrive at an agreeable set of principles. Accompanying criteria and indicators were developed as a basis for practical field auditing. With verifiable legal standards in place, the second stage of the pilot project focused on developing an auditing and tracking system. The three-pronged approach utilizes satellite imagery for forest surveillance, bar-coded log tracking systems for chain of custody, and third party verification for forest and factory auditing. The pilot project will be scaled up to other companies and countries.

Sani Bakar, General Manager  
Security & Asset Protection, Strategic Planning, Land Use  
Sarawak Forestry Corporation

Recognizing the multitude of drivers responsible for illegal logging, Sarawak Forestry has developed a multifaceted approach to curbing the problem along points of the supply chain which they can monitor. Focusing their leverage at the source country level, the company exercises asset protection through selecting and implementing best possible counter-measures. Verification initiatives include chain of custody, a robust royalty system, a license management program, and promoting regional and global cooperation in managing seepage. Through the integration of wood tracking technologies, Sarawak Forestry has realized an increase return on royalties, offsetting the initial investment costs.



Sani Bakar

Scott Poynton, Executive Director  
Tropical Forest Trust (TFT)  
The Evolution of Good Wood Systems

TFT has years of experience developing and testing "good wood" procurement systems in Asia. The organization has found that while documents, chain of custody, and third party audits are key components of legality verification, there are some intrinsic weaknesses within these tools including cost of implementation, conflicts of interest, and "day in the sun" phenomenon, where abnormally good conditions prevail for the auditor's visit. TFT's "Wood Control System" offers a comprehensive approach to exclude illegal wood before it enters the supply chain. TFT's most recent innovation features the TracElite Always On™ tracking system, which uses bar-codes, handheld devices, satellite communication, and the internet, to allow for near real-time monitoring of harvested wood as it travels from the forest through the supply chain.



Aimi Abdullah

## Customer Initiatives

Aimi Abdullah, Director, Public and Corporate Affairs Division  
Malaysian Timber Council  
Malaysian experience in regulating timber imports

Sound infrastructure and strong institutions are the cornerstones of Malaysia's sustainable resource management. In part due to strong enforcement of regulations, illegal logging is suspected to account for only 1% of harvest. Both timber harvest and log production have been reduced in Malaysia since the late 1980s, and correspondingly the demand has grown for imported timber. National regulations designed to enforce legal timber imports include obtaining CITES (Convention on International Trade in Endangered Species) certificates and permits, and a ban on importation of logs and square logs (cants) from Indonesia. Regulations are enforced through monitoring of ports and jetties, enhanced cooperation between agencies, and the installation of authorized entry points into Sarawak from Indonesia. Additionally, Malaysia is involved with bilateral, regional, and international initiatives advancing the legality of timber imports.

Duncan Brack, Associate Fellow, Sustainable Devt. Program  
U.K. Royal Institute of International Affairs (Chatham House)  
Keeping illegal products out of EU markets

Chatham House is an independent research institute that works on all aspects of international affairs. The organization has been working on the EU FLEGT timber licensing system to generate certificates of legality that can accompany timber shipments to the EU. Through Voluntary Partnership Agreements (VPAs), accreditation bodies and independent monitoring systems are identified to certify the legality of wood products. The certificates issued for legally harvested timber must be presented to customs authorities in order to clear legal shipments for export to the EU and for importation into the EU. This approach builds on the EU's green

procurement policy and strengthens markets for legal products. Various countries within the EU are adopting timber import policies that integrate legal, sustainable and/or social criteria, and provide incentives for supplier country participation. Although challenges still exist for implementation, these efforts hold significant promise. Chatham House maintains a website with information related to illegal logging: <http://www.illegal-logging.info>.



Sam Doak

Sam Doak, Executive Vice President

Metafore

### Metafore's observations from North America

Metafore is a non-profit organization that works with leaders in business and other parts of society to create innovative, market-based approaches that support forests and communities. By co-hosting Forest Leadership Forums and workshops on illegal logging, Metafore has brought together U.S.-based companies, NGOs, and government agencies to identify and clarify roles in different sectors. Observations from these events highlight that: 1) much work is still needed on the subject of illegal logging; 2) the active involvement of China in formulating long-term solutions is key; and 3) market-based solutions differ from government-based systems of detection and legal enforcement, but together can create an effective, complementary system to combat illegal logging. Through market-based solutions, businesses can use their purchasing power to support responsible producers. In response to a demand for tools to assist businesses in maintaining an array of social and environmental values in their supply chains, Metafore, in collaboration with eleven businesses, is developing the Environmental Paper Assessment Tool (EPAT).

Andy Roby, Adviser, Corporate Social Responsibility

Timber Trade Federation (TTF), U.K.

### U.K. business governance: enlightened self-interest

TTF is an industry association that works with its members to import and sell wood products in the U.K. TTF's Code of Conduct requires legality,



Andy Roby

and members are committed to trade in legal timber. Market drivers of legal wood trade in the U.K. include government procurement policies, corporate responsibility, and competition amongst other non-timber building suppliers. TTF is working with its members to fill U.K. demand for tropical hardwood from verified legal and sustainable sources. Specific initiatives include the Indonesian Action Plan, EU Timber Trade Initiative, Responsible Purchasing Policy (RPP), and the development of an online information service to help buyers and suppliers fulfill the RPP. To increase the trade of legal timber in the U.K., big companies should lead by example because their purchasing decisions can have immense power in creating desired change.

Per Rosenberg, Director

WWF Global Forest and Trade Network (GFTN)

**GFTN - A tool to promote good forest management**

To address the absence of forest certification or forest protection in many of the world's most valuable and threatened forests, GFTN is working with forest producers and buyers to improve forest management in these regions. GFTN's "Stepwise Approach to Responsible Purchasing" is built around six key activities: 1) reviewing, 2) management support, 3) developing policies, 4) communicating policies, 5) traceability, and 6) assessment. These activities lead GFTN members through a number of tiers towards certification. Presently, over 398 companies in sixteen countries are GFTN buyer members. Twenty-seven forest managers and processors from Brazil, Ghana, Indonesia, Russia, and Malaysia have subscribed to GFTN membership as forest producers. Through integration of GFTN's best practices, buyers and producers alike can demonstrate their commitment to sustainable and legal forest management.



## Legal Wood in the Wider Context

Marcus Colchester, Director  
Forests Peoples Programme  
Sourcing legal timber with respect for human rights

With half of the world's one billion poorest people dependent on forests for livelihood, the rights of local communities must be a central consideration in a discussion of illegal logging. Throughout the world, forest policies and forestry laws have often led to conflict with the land use rights of local people. With too narrow a focus on the enforcement of forestry laws, local livelihoods are undermined, rights violated, and laws are administered unjustly. Meanwhile, land tenure laws, which recognize local people's rights to their land, are often not enforced. However, through the recognition of local people's rights and good participation, successful conflict resolution can be achieved. Many opportunities exist for the private sector to lead the way in creating solutions, especially through joint venture agreements, socially responsible management, and encouraging government reform.



Marcus Colchester

Jeffrey Hayward, Regional Manager, Asia Pacific  
Rainforest Alliance Smartwood Program, Indonesia  
Stepwise & phased approaches, legality and certification

Smartwood is the world's leading non-profit forestry certifier, conducting independent forestry certification (FSC-accredited) and third party audits. Smartwood works in all forest types with a variety of forest operations, fulfilling a growing demand for forest certification and chain of custody audits and monitoring. The organization's "Smartstep" approach responds to voluntary requests by providing verification agreements and statements, verification of legal right to harvest, and conducting independent audits from forest to factory. This approach is not an attempt to substitute forest certification or create "legality"



Melissa Brown

labeling, but rather to respond to demand from companies wishing to increase responsibility through their supply chains, meet basic green procurement policies, and verify wood source legality at a time when limited certified forest products are available from the Asia-Pacific region.

Jim Cannon, Deputy Director  
Center for Conservation & Government  
Conservation International (CI)

### Strengthening enforcement to combat illegal logging

A supply chain is only as strong as its weakest link. CI's illegal logging initiatives seek to strengthen the enforcement capacity and rule of law in supplier countries. CI's initiatives are focused on protected areas seriously affected by illegal logging, and where real improvements can be made. Examination of the illegal logging situation in Papua, Indonesia led to the following enforcement priorities: 1) support joint operations (i.e., between Navy and Police); 2) reform enforcement policies; 3) prioritize actions for improving detection; and 4) implement adaptive management. While initial progress has been made in Papua, much work remains, and the need for ongoing financial support is crucial.

Melissa Brown, Executive Director  
Association for Sustainable and Responsible Investment in Asia  
Legal Wood: Links to Asian investment community

The number of forest products companies listed on stock markets is relatively small, and largely funded by banks rather than by equity investors. As a result, Asian investors are not well informed about the forest products sector. However, when investors do look at sustainability issues, they tend to focus on deforestation, money laundering, NGO campaigns, best practices, and regulatory risks. Supply chains are becoming increasingly important, providing investors with insights on how global companies operate. Overall, investors are generalists in terms of expertise in the sectors they invest in, so for "legal wood" to get the

attention of investors, there must be simple or tiered. Such clear standards could attract investors who typically shy away from complexity.

Jim Schweithelm, Senior Associate  
ARD, Inc.  
Conflict and illegal logging

ARD is an independent consulting firm that has conducted research on conflict timber in Asia. From these studies, two main types of conflict were identified. The first occurs in Liberia, Cambodia and Indonesia, where proceeds from illegal logging often go towards funding military operations. The second type of conflict observed is between companies and communities. The major causes of conflict were identified as: 1) bad governance, 2) complicit government and/or security forces, 3) loose banking regulations, and 4) ambiguous land tenure. To address forest conflict in these areas, it is recommended that governments of producing countries improve governance and oversight, and that NGOs and donor countries play a primary role.

Steven Johnson, Statistician  
International Tropical Timber Organization (ITTO)  
ITTO's work on illegal logging and illegal timber trade

ITTO seeks to strengthen sustainable forest management, control illegal logging, and improve forest law enforcement. ITTO recently commissioned a study that highlighted the discrepancy in trade statistics between China's imports and Indonesia's exports to China and Hong Kong. ITTO has also mobilized funds for in-depth country case studies and a global study of illegal logging and trade. To date, ITTO has spent more than USD \$5 million on country-specific projects with objectives of controlling illegal logging and improving forest law enforcement. ITTO is involved in the FLEG process, CITES collaboration, regional meetings, and a joint ITTO/FAO study on best practices in forest law enforcement. Some of ITTO's most recent initiatives focus on civil society: private sector partnership grants to promote sustainable forest management in small concession holders with a focus on indigenous communities.



Company-community  
conflict over illegal  
logging in Indonesia



# Key Issues

The key issues emerging from the presentations and the discussions throughout the Dialogue can be summarized under the following themes:

- Roles and Responsibilities of Different Sectors
- Cooperation and Partnerships
- Stepwise Approaches
- Social Impacts
- Definitions and Legality Standards
- Technical Solutions

## Roles and Responsibilities of Different Sectors

Participants agreed that governments, businesses, and civil society must exercise their unique roles and responsibilities to combat illegal logging. This realization led to an agreement that stronger communication must be developed between sectors. As one participant said, "If we're the experts, why are we learning so much here? It is obvious we need to communicate more."

### Governments

Governments must play a key role in addressing illegal logging, through making and enforcing laws, implementing policy initiatives, influencing public opinion, making responsible wood purchases, and protecting constituents who may be harmed by illegal logging. Responsibilities of governments differ between import and export countries, though actions from both are necessary to combat illegal logging. With respect to export countries, Dialogue participants felt that weak governance, corruption, poor law enforcement, conflict, unclear property rights, and low investment in public agencies are the key issues that must be addressed. With the loss of revenue from royalties and taxes, governments lose significant revenue from illegal logging; this severely hampers national development and poses a risk to future donor commitments.

Many of the presenters identified major discrepancies between government statistics on timber imports and exports (logs, squared logs, sawn timber). To monitor illegal logging, transparent and accurate trade data must be produced by government agencies.

Participants agreed that existing laws in consumer countries, such as those related to money laundering, anti-corruption, and the marketing of stolen goods, could be applied to illegal logging cases. Some participants advocated new laws in consumer countries prohibiting importation of illegal wood. Malaysia's reciprocal log import ban was presented as an effective way for importing countries to take responsibility. Other measures presented were the procurement policies and timber licensing systems being developed by the European Union through FLEGT. While trade controls will likely offer effective leverage to promote legality, some participants warned of weaknesses to this bilateral approach. For instance, importing countries must be cognitive of the risk of "exporting environmental problems back to exporting countries." There was also concern that "legality licensing" as proposed by the EU would increase costs for legal operators, thus increasing the incentives for illegal logging. Participants agreed that consumer countries must work co-operatively with exporting countries to help create, track or verify legal products rather than just shift trade elsewhere. Other limitations of trade controls included the lack of policies applicable to finished products, as well as the inability of policies to affect domestic markets in producer countries.



Most of Siberia's illegally harvested logs flow across the border into China

Finally, the group agreed that developed country governments must actively support the efforts of developing country governments in their initiatives to combat forest crime.

## Private Sector

Presentations from the private sector highlighted many concrete actions that businesses can take to ensure legality. The purchasing power that businesses possess, combined with an increased awareness and desire to source or produce legal products, has great potential for combating illegal logging. Dialogue participants urged the private sector to show leadership in addressing forest conflict with local people, as well as to develop alternative employment opportunities.

Participants also discussed supply chain approaches as one of the most effective ways to reduce the consumption of illegal products. Companies were urged to take responsibility for ensuring that all products in their supply chains are legal. Forest industry participants at the Dialogue showcased current tools for verifying the legality of products, including log tracking technologies, independent audits, chain of custody systems, transparency to third parties, and enforcement.

Although companies must take leadership and initiative in mainstreaming these measures into their operation, they need collaboration with other sectors. NGOs have focused on developing manuals for suppliers and consumers, recommending approaches to create and/or source legal wood products. Discussions between NGOs and businesses can help identify strategies to curb illegal logging and minimize additional costs to legally-operating producers.

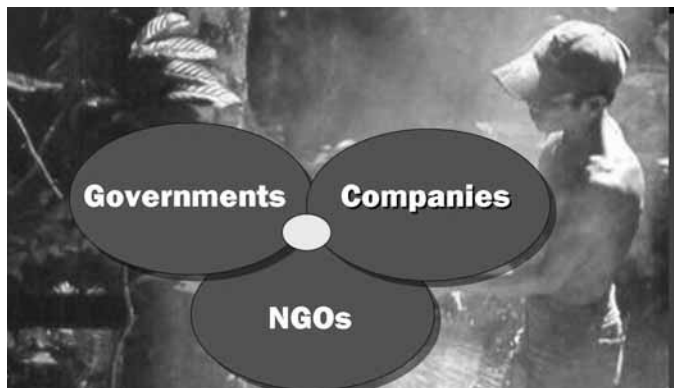
## Civil Society

Throughout the meeting, stakeholders stressed the importance of the NGO community in effectively communicating the severity and

prevalence of illegal logging. The Dialogue showcased effective NGO initiatives that encourage partnerships. Current alliances such as those between WBCSD/WWF and GFTN offered opportunities for increased membership. Throughout the meeting, NGOs were encouraged to support third party auditing and verification, develop tools and manuals to assist other sectors, lobby government, facilitate multi-stakeholder involvement in the process of defining legality, and foster partnerships between stakeholders. Some participants highlighted the risk for NGOs that rate companies' legal performances, citing the need for clear standards and transparent methodologies.

## Cooperation and Partnerships

Participants reiterated throughout the meeting the importance of creating and maintaining partnerships within and between sectors, while acknowledging the unique opportunities for each sector to take on more responsibility. As Lu Weiguang, Chairman of Shanghai Anxin Flooring Company said, "Forest products companies, manufacturers, governments, and consumers are all part of the wood supply chain. We all must work together to eliminate illegal logging." Examples of



Cooperation between sectors is essential



cooperation at various scales include the following:

- WBCSD & WWF joint agenda to combat illegal logging
- Conservation International/American Forest and Paper Association Alliance to combat illegal logging in protected areas
- TNC-WWF Alliance to promote forest certification and combat illegal logging
- The Global Forest and Trade Network led by WWF
- Forest Law Enforcement and Governance (FLEG) and Forest Law Enforcement, Governance and Trade (FLEGT) regional initiatives
- Asia Forest Partnership



Log tracking

Government representatives at the Dialogue welcomed increased involvement from civil society in helping to address the problem of illegal logging, both in production and consumption. Other government officials discussed the need for increased cooperation between countries and increased partnerships between businesses. For companies to take more responsibility in the management of their supply chains, businesses have to build trust, partnerships and communication channels to create, track, and maintain products from legal sources. Participants recognized the challenges this may present, as legality also requires compliance with competition and consumer protection laws.

## Stepwise Approaches

Throughout the meeting, discussion often turned to a fundamental issue: "Are we targeting the 5% of good companies, like those here today? Or are we trying to develop standards that will and can be adopted by a much larger sector of the industry - especially those currently logging illegally?" Should we be striving for an inclusive approach to addressing illegal logging in which a company can pursue a stepwise gradation of measures, or are the solutions so difficult that only a few responsible parties can comply? Several diverse stepwise approaches were discussed, including:

- DFID's illegal logging and associated trade policies
- TFT's Wood Control System
- GTFN's "Stepwise approach to Responsible Purchasing" and "Stepwise approach to Responsible Forest Management"
- TNC's pilot project in legality verification and timber tracking
- Smartwood's "Smartstep" approach towards legality and certification
- Stepwise approaches to forest certification recommended by ITTO and others



Participants discussed whether or not these stepwise approaches undermined the end goals -- especially forest certification. Does creating a "verified legal" product undermine efforts to create certified forest products, in which a much broader range of criteria are considered? The discussion also noted the risk of misleading consumers, and the need to clearly distinguish various product labels.

## Social Impacts

Dialogue participants agreed that local community and land tenure issues must be incorporated into all discussions about illegal logging. Unclear land tenure poses one of the greatest challenges to defining legality: many countries have land tenure laws, but too often these laws are not enforced, or it is difficult for local communities to formalize their legal rights. Many wood licensing and legality schemes do not give adequate consideration to local communities and their land tenure

rights. Both NGOs and companies can play a significant role in improving this situation at the community and government levels.

Participants agreed that illegal logging and poverty go hand-in-hand, and that social development considerations must be paramount. There is a significant difference among entities that control illegal logging activity - often the people who are becoming wealthy from illegal logging - and local people who are involved in illegal logging to support their basic livelihoods. Local people cannot be expected to change their practices unless viable income alternatives are available and companies must actively engage with local communities to promote these alternatives.

Participants also noted that local communities do have a responsibility to forests and their own futures. Where economically feasible, these communities should seek ways to protect their forests and promote their sustainable use.



Understanding communities and land tenure issues is key in addressing illegal logging issues

## Definitions and Legality Standards

Participants agreed on the importance and urgency of generating widely accepted definitions of legality. However, discussions revealed how complex this issue is. The assumption of equating "legal" with "desirable" was continually challenged. Although legality is determined by nations' formal laws, desirability reflects issues of morality and equity. Participants provided examples of circumstances in which legality can lead to undesirable conditions, and conversely those in which illegality leads to more desirable outcomes. The Dialogue also reinforced the notion that legality is only one component of sustainable forest management.

## Technical Solutions

Although technical solutions alone will not address the overarching drivers of illegal logging, their application has tremendous potential in forest monitoring and enforcement, chain of custody and supply chain management, and verifying legality of forest products.

The merits of log tracking and forest monitoring systems were accepted by Dialogue participants, but qualified by concerns about who should bear the costs of these monitoring systems. Many participants believed suppliers should bear the costs, as it is their role to verify that their products are legal. Customers also have a responsibility to track wood sources and reduce the social and environmental costs associated with illegal sources. Companies were urged to view the implementation of tracking technologies as an investment, while those developing the technologies were urged to make their products affordable. The cost of acquiring satellite imagery, for example, prohibits widespread utilization of the technology. Donor support may be a means to offset initial costs.

# Moving Forward Together

Dialogue participants agreed that the ultimate goal in combating illegal logging is sustainability: of forests and the businesses, communities, biodiversity, governments, and the economies that depend on them. The key to sustainability is shared responsibility.

Priority actions that emerged from the Dialogue included the following for *businesses and civil society*:

- **Strengthen and promote existing alliances** to combat illegal logging.
- **Work to develop accepted, auditable, and practical national legality standards**, especially in countries with a high risk of illegal logging.
- **Create a simple, credible, independent and objective ratings system** that can be applied to identify high-risk countries and tree species. Such a system would help forest products companies, retailers and customers, as well as investors, creditors and insurers improve their ability to support legally sourced, harvested, and traded forest products through their wood and paper buying and financial services.
- **Encourage companies to use innovative wood tracking technologies**, and to share best practices to improve their supply chain management, reduce costs, and ensure that illegally harvested or traded wood does not enter their supply chains.

Participants also agreed on the following actions to promote *increased governmental commitment*:

- **Encourage strengthening of law enforcement** by both exporting and importing countries of laws that protect forests and the local communities that depend on them. Importing country governments are encouraged to make and strengthen the law that makes it illegal to import illegally sourced timber from other countries.

- Encourage efforts by countries to pursue **public procurement policies** and voluntary partnerships with exporting countries to reduce illegal wood imports, and regional collaborative initiatives on forest law enforcement and governance, recognizing that there are mixed opinions on legality licensing or verification. These efforts should take care to not increase costs for legal operations.
- Urge increased commitment on the issue of illegal logging at **intergovernmental meetings and with top officials** in key capitals in Asia, Europe and around the world.
- **Strengthen existing partnerships with industry and civil society.**



Side meeting with participants involved in Asia FLEG initiative

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Yale School of Forestry  
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World Business Council for  
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The Forests Dialogue (TFD), formed in 1999, is an outgrowth of dialogues and activities that began separately under the auspices of the World Business Council for Sustainable Development, The World Bank, the International Institute for Environment and Development, and the World Resources Institute. These initiatives converged to create TFD when these leaders agreed that there needed to be a unique, civil society driven, on-going, international multi-stakeholder dialogue forum to address important global forestry issues.

TFD's mission and purpose is to bring key leaders together to build relationships based on trust, commitment and understanding and through them, generate substantive discussion on key issues related to achieving sustainable forest management around the world. TFD's dialogues serve as a platform to share aspirations and learning and to new seek ways to take collaborative action on the highest priority forest conservation and management issues.

**All Dialogue presentations and additional resources are available through TFD's website:**

**[www.theforestsdialogue.org](http://www.theforestsdialogue.org)**

TFD is developing and conducting international multi-stakeholder dialogues on the following issues:

- *Forest Certification*
- *Illegal Logging and Forest Governance*
- *Intensive Forest Management*
- *Forests and Biodiversity Conservation*
- *Forests and Poverty Reduction*

There are currently 23 members of the TFD Steering Committee. The Committee is responsible for the governance and oversight of TFD's activities. It includes representatives from private landowners, the forest products industry, ENGOs, retailers, aid organizations, unions, and academia.

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