

Timber-procurement policies have a role to play in promoting the sustainable management of tropical forests

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Road to compliance: Cameroon's VPA means logs like these will have an easier path to the EU market. *Photo: CIFOR*

Timber-procurement policies (TPPs) are being considered and implemented by public agencies, trade associations and private companies in many traditional tropical timber markets. ITTO member countries (mainly developed countries but, increasingly, developing countries as well) in the public and private sectors are in the process of implementing such policies with specific requirements for timber and timber products. Regulatory instruments have been introduced to limit market access to illegally harvested timber. In addition, green building initiatives have started to define specific requirements for how timber and timber products used in construction should be produced.

A recent ITTO study (Simula 2010; see page 28) reviewed these various initiatives, assessed the ability of tropical timber producers to meet the emerging requirements of TPPs and other consumer-led initiatives, and explored their possible economic, environmental and social impacts on tropical countries. This article and the three country case studies that follow are based on the findings of that study.

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Strong drivers

Public-sector and private-sector TPPs are demand-side tools targeted at strengthening forest governance and promoting sustainable forest management (SFM). There are four main underlying drivers for their emergence: international commitments (such as the International Tropical Timber Agreement, 2006); general concerns about illegal logging and unsustainable forest practices, particularly to the tropics; general national strategies for sustainable consumption and production; and, more recently, climate-change mitigation.

The strongest direct driver has often been pressure from non-governmental organizations in combination with responsible companies that have sought a level playing field against illegal logging and trade and a marketing advantage. Another contributing factor has been grassroots public concern about the environmental credentials of timber and timber products.

Public sector leads the way

Twelve countries presently have operational central-government TPPs (see table). The European Union (EU) has been particularly active: six EU member states—Belgium, Denmark, France, Germany, the Netherlands and the United Kingdom (UK)—have operational TPPs. Outside the EU, China, Japan, Mexico, Norway, New Zealand and Switzerland also have operational central-government TPPs. Several other countries are in the planning stages of developing TPPs or are addressing the issue within broader green public procurement policies.

The EU has also been negotiating two-way voluntary partnership agreements (VPAs) with some timber-producing countries (discussed in more detail in the following articles). Each 'partner country' that enters into a VPA with the EU agrees to implement a system to verify that its wood-product exports to the EU have been produced legally.

The minimum requirements in public-sector TPPs refer to either legality or sustainability, or to both. In the EU, four countries—Belgium, France, Germany and the UK—have set sustainability as a minimum requirement, thus going beyond the guidance of the EU, which specifies legality as the core (minimum) criterion. The Japanese and New Zealand policies require legality, but sustainability is preferred. In Mexico, legal origin and sustainability are required. The Chinese policy requires that timber supplies meet the criteria of a domestic eco-labelling scheme. Some TPPs allow a degree of flexibility

Different strokes

Status and minimum requirements of central-government TPPs

COUNTRY	STATUS	MINIMUM REQUIREMENTS FOR TIMBER AND TIMBER PRODUCTS	DEGREE OF OBLIGATION
Belgium	Operational since 2006; under revision	Sustainable sources	Mandatory
Denmark	Operational since 2003; under revision	Legal sources minimum; preference for sustainable sources	Voluntary
European Union	Operational since 2004; under revision	Sources demonstrably legal	Guidance to member states
France	Operational since 2004; under review	Legal and sustainable sources	Mandatory
Germany	Operational since 2007; review in 2011	Legal and sustainable sources	Mandatory
Netherlands	Announced in 2004	Legal sources minimum, sustainability required if possible	Mandatory
Norway	Operational since 2008; revision in 2010	No tropical timber to be used	Voluntary
Switzerland	Operational since 2004	Sustainability but if not possible legality	Voluntary
UK	Operational since 2003, revision in 2010	Legal and sustainable sources or Forest Law Enforcement, Governance and Trade licences or equivalent	Mandatory
New Zealand	Operational since 2004	Legal sources minimum, preference for sustainable sources	Mandatory
China	Operational since 2007	Environmentally labelled products (national eco-labelling scheme)	Mandatory
Japan	Operational since 2006	Legality; sustainability is a criterion of consideration	Mandatory
Mexico	Operational since 2007	Certified legal origin and SFM	Mandatory

with regard to the availability of supply. The overall tendency appears to be towards both legality and sustainability as minimum requirements in public-sector TPPs.

Evolving definitions and requirements

Clear definitions of legality and sustainability are crucial to the implementation of TPPs. The general approach to defining legality is to equate it with compliance with national laws and international conventions. This is in line with the recognition that countries have the sovereign right to define legality taking account of their specific conditions. However, many public-sector TPPs contain quite detailed provisions for the scope and aspects of relevant national legislation that must be covered to qualify for legality. There is a need for more clarity in definitions of legality, and for greater consistency between various public-sector TPPs. Since, overall, the various approaches are quite similar, there is potential for harmonization through, for example, the development of a generic definition (or standard) of legality.

Three approaches have been taken in defining sustainability in TPPs. These are the use of:

- short, overarching definitions (e.g. Japan) or the listing of a few key elements of SFM (e.g. Belgium)
- detailed provisions for various elements of sustainability, largely within a framework of the internationally agreed elements of SFM (e.g. Denmark, the Netherlands and the UK)
- the definitions used by forest certification systems (e.g. France, Germany, New Zealand and Switzerland).

Significant differences between the TPPs of different countries in their legality and sustainability requirements are a cause of concern for those tropical-timber producers who want to supply several markets. There is a danger that differing definitions will continue to emerge, further complicating international trade. Detailed, comprehensive sets of requirements for sustainability are likely to lead to a situation in which the options for demonstrating compliance will, in practice, be limited to certificates issued under 'acceptable' forest certification systems.

Demonstrating compliance

Public-sector TPPs provide three main options for demonstrating compliance with their requirements:

- certificates issued under recognized certification systems
- audit statements issued by independent bodies
- other documentary evidence.

The first of these, certification, plays a leading role in the implementation of TPPs and a need has therefore arisen to define criteria and methodologies for assessing certification standards and systems. The two international certification schemes (the Forest Stewardship Council—FSC—and the Programme for the Endorsement of Forest Certification—PEFC) dominate in TPPs as acceptable proof of sustainability (and legality). Independent national certification schemes in tropical countries, such as LEI (*Lembaga Ecolabel Indonesia*) in Indonesia, have had difficulties in obtaining broad acceptance and, in such cases, PEFC endorsement appears to be the only feasible option. Friction is likely to arise if only one of the international schemes (i.e. the FSC) is accepted, an outcome that is being pursued by non-governmental organizations in some importing countries. This would have significant market implications because insufficient supplies of FSC-certified timber would be available to meet demand. The unintended result would be the increased substitution of timber with other materials.

In view of the slow development of certification in tropical-timber-producing countries and inherent weaknesses in forest governance and capacity, it is important that suppliers have feasible, clearly identified options for providing alternative proof of their compliance with TPP requirements.

Green building

Green building initiatives have been under active development in several countries for a number of years. The aims of such initiatives are to minimize construction impacts on the environment; use fewer resources, particularly energy; and minimize waste. Targeted schemes were reported in nine countries and there are also several international initiatives. The overall market impact of green building initiatives has so far been fairly limited, except in the UK and the United States. However, such initiatives are likely to become a strong market driver for sustainably produced timber. Existing schemes tend to rely on forest certification as a key tool for demonstrating compliance but, like public-sector TPPs, they suffer from the same problem of the proliferation of requirements.

Private sector response

Several large enterprises in the forest sector and their main customers have adopted corporate TPPs. These focus on:

- the accuracy and credibility of information on timber supplies, often associated with third-party verification
- the sustainability of forest management
- the legality of production
- knowledge of product origin.

There are differences in how the various concepts are expressed, and detailed criteria also vary. It is difficult for tropical-timber producers to provide proof of performance if they are supplying several buyers with different purchasing criteria. In order to simplify matters, however, many corporate policies refer to one or both of the existing international certification schemes.

In at least twelve countries in Europe and North America, timber trade and industry associations and their federations have purchasing policies or codes of conduct related to wood supply, and these have become an increasingly important market driver. In most cases the principle of trading legality-verified timber, at a minimum, is required, with a preference for sustainable supplies whenever possible.

Public-sector TPPs in developing countries

The public sector in developing countries is a very large and diversified enterprise and its purchasing policies can have a major impact on the domestic demand for timber. In Vietnam, for example, 45–65% of the government budget is spent on procurement. Implementing TPPs in these countries is not a simple affair, however, and a number of issues will need to be addressed, including the appropriateness of the legal framework, the adequacy of existing procurement practices, the capacity and resources of procurement agents, and the availability of an adequate supply of acceptable products.

Providing evidence

In the long run, most TPPs (public or private) will require suppliers in tropical-timber-producing countries to provide adequate evidence of the legal origin of their products, the legal compliance of their operations, and the sustainability of forest management in the areas in which the timber is harvested. There are two main, non-exclusive options for how such evidence can be provided and it appears that, in the short and medium terms, both approaches will be applied in parallel. These options are:

- *government-implemented timber legality assurance system (TLAS)*; likely to be applicable in countries where the size of the timber sector is sufficient to justify the public investment needed to set up such a system.
- *private-sector-implemented auditing/certification or other due-diligence systems, typically involving independent audits*; this option is generally applicable to sustainability requirements but may apply to legality verification in situations where the government-operated control and supervision system cannot (yet) provide the necessary assurance of legal compliance.

Initial experience in strengthening existing monitoring and control systems in countries that have signed or have entered a negotiation process to sign a VPA with the EU has shown that considerable effort is often needed before a national TLAS will be deemed sufficiently robust to prevent illegal timber from entering the supply chain. Few tropical countries currently have such control systems in place.

Improving existing TLASs in tropical-timber-producing countries is a complex, country-specific exercise that requires resources and time. Despite their higher apparent costs, it will often be in a country's best interest to favour advanced technologies, as Malaysia intends to do, because digitized systems can eliminate the loopholes of paper-trail-based systems. In the short term, however, many countries are likely to opt to improve their existing systems because of the significant additional costs of digitized control systems.

Since the strengthening of public-sector control systems will take time, the private sector has to move ahead on its own. The key instruments at its disposal for demonstrating legality and sustainability are independent audits and forest certification. As explained in the following case studies on Cameroon, Malaysia and Peru, however, the adoption of such instruments means significant and potentially crippling additional costs, particularly for community forests and smallholdings. Depending on country conditions, the size of the enterprise and/or forest management unit, the existing state of planning and management systems, and other factors, such costs can represent a significant percentage of the product's final sale price. Meeting these costs is likely to be beyond the capacity of many small or poorly organized operators, and this may rule them out of export markets.

Market impacts of TPPs

Depending on the exporting country, 25–40% of the total medium-term demand for tropical timber in the major import markets could be subject to legality and sustainability verification for TPPs and green building initiatives. For logistical reasons, such a large market share would also have a significant leverage effect on other purchasing.

The direct impact of public-sector TPPs will be strongest in timber products used for office furniture and building construction and in civil works, such as marine construction, where tropical timber has an established position. Private-sector policies have already had a major impact on imported garden furniture of tropical origin, but the impact has been minimal in other home furniture.

Regulatory measures targeted at eradicating illegal timber products from international trade will have a much broader impact on demand because non-complying actors will gradually be eliminated from the supply chain. The present and planned regulations in the United States (through the recently amended Lacey Act) and the EU (through a proposed due-diligence regulation) would directly affect 49% of the total imports of tropical timber and timber products (including further-processed products) from ITTO producer countries and China combined.

Supply lagging

In 2009 the total area of certified forests in Africa, Latin America and Asia was 23 million hectares, with an estimated annual production potential of about 4.1 million m³ per year. Two-thirds of these certified forests were in Latin America, although the total certified area in the region was lower in

2009 than in 2008. Africa is finally making progress, with its certified forest area almost doubling in 2009 to 5.6 million hectares. The spread of certification has slowed in Asia, however, and no more than 3 million hectares are currently certified in that region. Combined, these three developing regions account for only 1% of the total estimated global supply of wood from certified forests (UNECE/FAO 2009), demonstrating that the response of tropical-timber suppliers to the demand for certified products has been lagging behind.

Despite the slow progress, the total certified production in developing countries appears to be sufficient to meet the short-term demand for sustainably produced tropical timber and timber products induced by public- and private sector TPPs (Oliver 2009). This is not usually the case in practice, however, due to differing product and geographic patterns between demand and supply, the complexity of supply chains, and the fact that part of the certified production is not sold as certified.

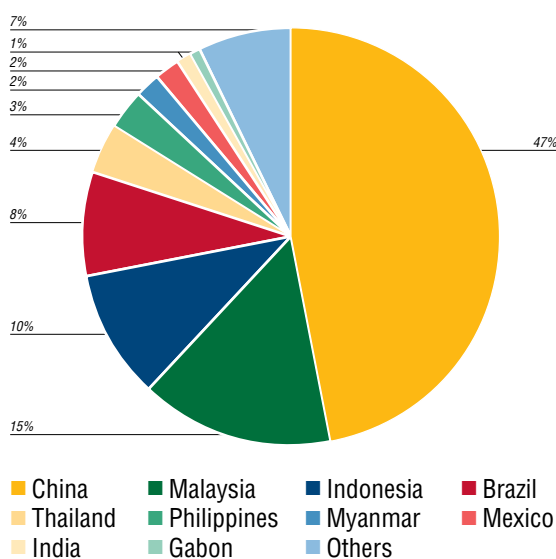
Abruptly excluding [informal] operators from national markets would have the perverse effect of increasing poverty rather than reducing it.

Better prices?

Significant price premiums have been obtained for some tropical-timber species and products. In Europe, legality-verified timber from Asia can be sold at a 3–15% premium, and high-end FSC-certified wood products from Africa and Brazil can obtain 20–50% premiums. Premiums of 5–10% have been reported for certified temperate hardwood from the United States (Oliver 2009). Price premiums of this magnitude, however, appear to be achieved mainly in niche markets and cannot be generalized. Moreover, the way in which such premiums are shared between the various stages of the supply chain is unclear, since exporters in producer countries quote much lower

China syndrome

Main exporters of tropical timber and timber products



Note: Based on 2008 export values for ITTO producer countries and China. Products covered are logs, sawnwood, veneer and plywood, other wood-based panels, builders' woodwork and furniture.

premiums (if any). It appears that most of any price premium is secured further along the supply chain and does not reach forest management units.

With the gradual elimination of illegal logging, industrial roundwood production in developing countries could decrease by up to 8% in 2020 compared with 2007, and world prices could rise by 1.5–3.5% for industrial roundwood and by 0.5–2% for processed products (Li et al. 2009).

Impacts on trade

The total trade of tropical timber and timber products—including further processed products—from ITTO producer countries plus China was valued at about US\$44 billion in 2008. China's share of the total was 47%, followed by Malaysia, Indonesia, Brazil and Thailand and then by other smaller exporters (see chart). However, as a share of the total production of logs, sawnwood, veneer and plywood, exports are highest in Thailand, Malaysia, Papua New Guinea, Cambodia, Democratic Republic of the Congo, Gabon and Myanmar.

In relative terms the dependency on 'sensitive' markets with TPPs (i.e. the EU, the United States and Japan) is highest in the Philippines, Mexico, Liberia and Cameroon (more than 80% of total export value), followed by China, Brazil, Democratic Republic of the Congo, Indonesia, India, Côte d'Ivoire and Bolivia (more than 60%).

At a regional level, TPPs in consumer countries will have the strongest direct impact in Africa due to the high dependence of producers in that continent on exports to the EU (53% of total export value). The recent amendment to the Lacey Act in the United States is likely to have a strong impact in Latin America because the United States' share of total regional exports there is high (39%), but intra-regional trade is more important in Latin America than it is in Africa. The United States takes a quarter of Asia's total tropical-timber exports, followed by the EU (21%) and Japan (15%), with the rest mostly intra-regional trade.

Positive and negative impacts

Progress towards legality and sustainability, as induced by TPPs, would have a positive effect on forest governance through improved legal frameworks, increased enforcement, stronger institutions, and improved security in forest areas. Voluntary certification has the potential to reduce government enforcement costs. Fiscal revenue could increase in those countries where illegal production is substituted by legal operators. The magnitude of such positive effects would vary depending on the specific country situation.

In countries where primary-processing capacity exceeds sustainable timber production, the downsizing of industries to sustainable levels will be necessary. Mill closures can have drastic short-term impacts on employment and income in forest areas. On the other hand, the improved management of supply chains is expected to bring significant competitive advantages in terms of cost savings and quality improvement. With legal and sustainable products, the industry could avoid losing access to existing markets, which is crucial because alternative markets are usually less lucrative. In some cases, new markets could also be gained.

In many countries, the impacts of TPPs on poverty reduction could be negative in the short term but in the longer term they could be positive if the necessary sector reforms are implemented. The social costs are likely to be highest in countries where primary-processing capacity has to be downsized significantly. The capacity to offset these costs will depend on the ability of the sector to shift to alternative raw materials, such as plantation wood, and to build up competitive further-processing industries.

The most worrying impacts concern the informal sector, which, in many countries, supplies most of the national demand for timber products and employs large numbers of people. The informal sector's social benefits are significant, but formalizing its operations is usually unrealistic, at least in the short term, for political, economic and social reasons. In addition, forestry administrations are usually unable to monitor the activities of operators in the informal sector. Abruptly excluding such operators from national markets would have the perverse effect of increasing poverty rather than reducing it. It would be preferable, therefore, to put in place procedures that allow operators in the informal sector to progressively enter the formal sector.

Conclusions

Despite the difficulties and obstacles faced by tropical-timber producers in meeting the emerging requirements of TPPs in major import markets, such instruments should be seen as useful 'soft' policy tools. The market pressure for a legal and sustainable trade is strong and increasing, and the forest sector worldwide must adjust. TPPs represent a compromise between market pressure and a cooperative approach between stakeholders and governments. It is time for the timber sector at large to shift from resistance towards proactive measures. The current situation shows that this shift can pay off.

Many tropical-timber products have unique characteristics that provide producers with an inherent market advantage over temperate wood and other materials. Increasingly, the sector's growth in the tropics will have to be generated by the development of further-processing industries and new, sustainable sources of raw materials. Eradicating illegal logging and illegal trade is necessary, not only for meeting current market requirements but also to enable the industry to adjust its operations domestically to sustainable levels.

The ITTO study of TPPs revealed much scope for their improvement—in regard to definitions of legality and sustainability, procurement criteria, time-schedules and implementation arrangements—in order to make them more effective in attaining their objectives. At least in the short term, the impacts of TPPs in tropical producer countries could be drastic and, if they lead to large job cuts, they could create serious political problems for the governments of those countries. Such outcomes would not be in the interests of importing countries. Phased approaches to the setting of requirements and target dates should be encouraged to ensure outcomes that balance the needs of all stakeholders.

If the forest sector is to be socially acceptable in both producer and consumer countries, free-riding by illegal loggers and traders cannot continue. Sustainable forest industries can only be viable if responsible operators are able to compete on a level playing field.

In order to meet the requirements of TPPs, tropical producer countries must be prepared to accelerate their efforts to improve forest governance. Governments in producer countries should adopt TPPs with the aim of transforming local demand. Meeting emerging market requirements will also mean that many countries will need to review their forest laws and strengthen their enforcement systems. It will be particularly important to help community-based forest enterprises and small and medium-sized forest-based enterprises to overcome the obstacles they face in meeting emerging market requirements.

Consumer countries should consider the implications of their TPPs for tropical producer countries and, to reduce the additional problems created by the proliferation of procurement criteria, they should work towards harmonizing national requirements. There is a need to make central-government and local-government policies consistent and compatible with agreed policy objectives.

Finally, there is a need for the international community and importing countries to significantly increase their support for efforts by tropical-timber producers to achieve and demonstrate the legality and sustainability of their forest management. ITTO's recently launched thematic programmes offer an appropriate tool for this.

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