



House of Commons
Environmental Audit
Committee

Sustainable Timber

Second Report of Session 2004–05

Volume I

Report, together with formal minutes

*Ordered by The House of Commons
to be printed Wednesday 18 January 2006*

HC 607

Published on Thursday 19 January 2006
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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References

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by page number as in 'Ev12'. number HC *-II

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Conclusions and recommendations

1. A significant part of the timber trade involves a world market in what are effectively illegal and stolen goods, worth up to \$15 billion a year, for which the EU (including the UK), the US and Japan are the main markets. The impacts of this illegal trade on valuable ecosystems, the world's poor, the economies of developing countries and climate change mean there is a moral imperative to address this problem in every way possible. (Paragraph 5)
2. For natural and ancient forests to survive and function properly in providing livelihoods and protecting the planet's climate and species, the final goal must be not just a *legal* timber trade but also a *sustainable* timber trade. In the long term, anything less would have to be regarded as failure. (Paragraph 11)

The Timber Trade

3. Any measures put in place to tackle illegal logging in the EU must be considered in the context of China and India as alternative, and very hungry, markets where there are few if any existing controls on the sources of timber entering the country and very little prospect of this changing for the better in the near future. (Paragraph 15)
4. Illegal timber is currently a fact of life within the UK timber trade. It is therefore virtually impossible for even those companies that are attempting to eliminate illegal timber from their chain of supply to guarantee that they have done so (Paragraph 19)
5. By allowing its members to use the Code of Conduct in promotional material, without thorough and transparent enforcement, the Timber Trade Federation is in danger of misleading customers as to the legality and sustainability of the industry it represents. (Paragraph 22)
6. Whilst the establishment of the Responsible Purchasing Policy by TTF is encouraging, the low uptake at its launch is definitely not. It also raises the question as to why it was needed given that all its members are supposedly already complying with the Code of Conduct and therefore sourcing their timber and timber products from legal and well-managed forests. (Paragraph 23)
7. Progressive timber companies struggle to ensure they have legal supplies of timber. For those UK companies that are less committed to ensure legality and a reliable chain of custody, the only real drivers for improvement will be the need to comply with legislation and a very real threat of prosecution. (Paragraph 26)
8. In our view, FSC is ideally positioned to expand its role and work to raise awareness of sustainable timber and related issues, if increased resources were made available to it. (Paragraph 28)

International Agreement

9. The conclusion of most witnesses was that, however desirable, it is unlikely that a multilateral agreement will be reached within the short to medium term and other

measures are needed to reduce illegal logging and improve sustainability. It is with regret that we agree, despite the fact that we see a binding multilateral agreement as the most effective way of improving the management of forests worldwide. (Paragraph 37)

10. We are very keen to hear from the Government how the G8 agenda on timber is being taken forward, together with any positive outcomes from the recent ENA FLEG meeting held in November 2005. (Paragraph 40)

FLEGT Action Plan

11. Progress towards implementing measures on illegal logging under the FLEGT Action Plan during the last six months has been disappointingly slow. It would be useful for us to receive a detailed report from DEFRA on what progress has been made during the UK Presidency and what discussions there have been with Austria to ensure that, whatever momentum there is, is carried forward during the first six months of 2006, when it takes over the EU Presidency. (Paragraph 43)
12. Measures that properly address circumvention and illegal imports from non-partner countries are of crucial importance for Voluntary Partnership Agreements (VPAs) to be a success. It is an enormous lost opportunity that the licensing scheme approved by the Council of Ministers does not satisfactorily address either of these. (Paragraph 48)
13. If we are asking poorer producer countries to spend what are often precious and limited resources in improving their forestry management the onus must surely then be on the EU and Member States to do the utmost in their power to secure a stable market for the resulting certified timber. This should include some form of commitment to purchase timber from VPA signatory countries. (Paragraph 51)
14. We urge the UK Government, through its own channels and those of the EU, to assist Ghana and other interested countries in every way—financial or otherwise—to achieve their aim of putting the necessary procedures in place to verify legal timber production and enter into a VPA with the EU. (Paragraph 51)
15. We are disappointed at the lack of will both within the UK Government and the EU to push legislation on illegal timber forward as an integral part of putting in place successful VPAs. Without legislation to underpin VPAs they will undoubtedly fail—if they are taken up at all. (Paragraph 55)
16. If the issue of illegal timber is to be tackled there is no option but to legislate against it. We agree with the Minister that, if there are difficulties with WTO rules, alternatives to a direct ban on illegal timber imports need to be examined. We support the German proposed legislation and would very much hope to see this applied on an EU-wide basis in the future. (Paragraph 57)
17. As progress on any matter on an EU-wide level is usually slower than would be ideal, options for UK national legislation must also be taken forward as a matter of urgency. The UK Government must pursue all options, including the implementation of a Lacey-style Act within the UK making it illegal to possess or

market illegal timber products. Anything less would demonstrate a lack of commitment by the Government. (Paragraph 58)

18. We would hope to see legislation in place in the UK within the next three to five years. With this in mind DEFRA should commission Chatham House, which is already doing excellent work in this area, to examine what kind of effective legislation could be introduced within that timeframe. (Paragraph 59)

UK Timber Procurement

19. We very much welcome the changes in Government policy on sustainable timber procurement that have been put in place since our predecessor Committee's report in July 2002. We also recognise the personal commitment of the Minister, Elliot Morley MP, to the subject and we very much welcome his determination to continue to tackle this very important issue. (Paragraph 62)
20. It seems incredible to us that the complete lack of reliable data, clearly identified as a fundamental hurdle to improving sustainable timber procurement at least four years ago, and recognised as such by the Government, has yet to be properly addressed. (Paragraph 63)
21. The Government needs to set out a clear strategy to address this lack of data for all procurement, ideally within SDiG. In the meantime Central Point of Expertise on Timber (CPET) should lead the way by focusing on timber procurement and we would like to see set out in detail how this will be done. (Paragraph 64)
22. Many environmental groups and members of the timber industry, such as Timbmet, argue that a forest cannot be said to be sustainably managed if it does not protect the rights, health and livelihoods of people who live in or adjacent to forests and are dependent on them. We would agree. (Paragraph 75)
23. We therefore question whether it is possible for the Government to state that it has a sustainable timber policy—legal, yes—if the social implications of how and where it purchases timber are not a consideration. As it stands sustainable timber procurement is a misnomer. (Paragraph 76)
24. We urge the Government to seek clarification regarding the basis of the Danish approach and the EU position on the inclusion of social considerations in procurement contract. Furthermore, given that the decision not to include social considerations for once appears to be unrelated to restrictions under any WTO agreement, the Government must work hard within the EU to change policy and remove these restrictions, should it become clear that they are real rather than apparent. (Paragraph 77)
25. CPET should make clear to PEFC that it would be desirable for it clearly and simply to set out the minimum standards it expects all its national members to conform to if it wants continued approval of its scheme. (Paragraph 82)
26. It is important that whatever form Category B proof takes, CPET establishes a clear and comprehensive method of assessment that really delivers legality and

sustainability and leaves no room for confusion amongst suppliers or procurers regarding what is required. It is also vital that CPET offers practical support to procurement officers in making judgements as to whether or not proof provided is acceptable. (Paragraph 84)

27. We welcome the Minister's assertion that he is keen to extend the standards set for Central Government to other public bodies, and that he is taking action to do this. We would be very interested in hearing what precise form this action is taking. (Paragraph 86)
28. Every effort is necessary to ensure a harmonized timber procurement policy across Europe. We welcome DEFRA's efforts to engage with other EU members on the issue of Government procurement and look forward to hearing how it intends to take this agenda forward with its European partners. We would however caution against implementing any common European standard that resulted in a reduction of the standards already put in place by the UK Government. (Paragraph 88)
29. CPET offers by far the most advanced form of sustainable procurement advice within Government. As such a pioneer we are hoping to see it have significant impact. We also expect it to be used as a tool by DEFRA, OGC and all those involved in procurement, with the hope that what is learnt through improving the Government's procurement process for timber can be applied across all other areas. (Paragraph 89)
30. We encourage CPET to examine ways in which departments and procurers can be encouraged to purchase timber and timber products from producers working to achieve sustainability, over those simply achieving legality, when sustainable products aren't available. This should include the introduction of a third category of timber, above legality and below sustainability, of 'progressing towards sustainability' to be included in guidance as soon as possible. (Paragraph 90)
31. It is also vital for DEFRA to set a clear timetable for implementing a requirement for all departments and other government bodies, local and national, to purchase only sustainable timber. In our view five years would be a realistic deadline. This would give clear signals to the market that legality is not enough and an incentive to work towards increasing sustainable timber production. (Paragraph 91)
32. Whatever criticism there may be from ourselves and others with regard to the detail, it is undoubtedly true that CPET's work has the potential, as has already proved to be the case, to have significant impact on timber procurement and timber production worldwide. We look forward to seeing greater positive impacts worldwide as CPET's role expands and develops in the future. (Paragraph 92)

Conclusion

33. In many of the areas covered by this report the UK Government has proved to be an international leader: government procurement, assessment of certification schemes, negotiation of VPAs. Now its EU presidency is over it must not become complacent and must continue in this role. It must lead by example. It must push for EU wide legislation. If this fails it must implement national legislation. It must also, very

importantly, ensure that companies based in the UK are not allowed to carry out or finance destructive activities in other parts of the world that would not be allowed in this country. Timber and sustainability is an area in which we will watch to monitor progress, and which we may wish to return to in the future. (Paragraph 95)

Introduction

1. In July 2005 we announced our decision to establish a sub-committee to carry out an inquiry to follow on from our predecessor Committee's Report *Buying Time for Forests: Timber Trade and Public Procurement*, published in July 2002.¹ This concluded, amongst other things, that:

Not only does the Government have the responsibility to lead by example in environmentally sound timber procurement practices; it also has, through its buying power, the potential to change the nature of timber markets through the procurement decisions that it makes.

This was a conclusion very much echoed on a more general level three years later in that Committee's more recent inquiry into Sustainable Public Procurement published in April 2005.²

2. Since the publication of the original report there have been several developments of interest to us. The UK Government published in January 2004 revised guidance for Government departments on how to comply with the requirement to purchase only legal, and where possible, sustainable timber. In addition, a Central Point of Expertise on Timber has been set up within the Department for the Environment, Food and Rural Affairs (DEFRA), tasked with providing advice to procurers and suppliers on purchasing legal and sustainable timber. In the international arena the EU put forward a proposal for a Forest Law, Governance and Trade (FLEGT) Action Plan in 2002, which includes provision for setting up a licensing scheme for all timber imported from specific partner countries into the EU with the aim of guaranteeing its legality. There has also been a more recent statement from the G8 in July 2005, under the Presidency of the UK Government, setting out the commitment of its members to tackling illegal logging.

3. In the course of the inquiry the Sub-Committee, chaired by Joan Walley MP, received 25 memoranda from a range of organisations, for which we are grateful. The Sub-Committee also took oral evidence from Elliot Morley MP, Secretary of State for Climate Change and the Environment, and from Neil Scotland, Forestry Policy Adviser to the Directorate General Development of the European Commission, and from a range of other organisations. We are grateful to all those who have contributed to our inquiry.

Background

4. Forests are a vital part of the world's ecosystems. Natural forests, which once covered 48% of land on the planet, are irreplaceable and their loss has profound economic, social and environmental impacts. Forest cover has now been reduced to 29% (3,900 million hectares) and continues to decrease every year at an alarming rate. Sixty million indigenous

¹ EAC, *Buying Time for Forests: Timber Trade and Public Procurement*, HC 792-I, 24 July 2002

² EAC, *Sustainable Public Procurement*, HC 266, 13 April 2005

people are almost wholly dependent on forests to live, and forests support up to 1.6 billion people to greater or lesser extent worldwide. Forests also act as an enormous carbon sink.³ The total carbon stored in forest biomass, deadwood, litter and soil represents roughly 50 percent more than the amount of carbon in the atmosphere. The destruction of these forests is estimated to contribute almost two billion tonnes of carbon to the atmosphere every year. This carbon is being released into the atmosphere as a result of deforestation, forest degradation and land use change. This represents a staggering 25% of all man-made emission into the atmosphere every year.⁴ Furthermore there are concerns that the impacts of climate change may increase carbon emissions further, as a result of forest die-off in tropical and temperate areas caused by the predicted increase in temperatures and droughts. Forests, particularly tropical forests, are also one of the most biodiverse habitats on earth and a vast natural resource, containing the majority of the worlds terrestrial species, many as yet unknown, and some which may be of great use to society should they survive to be discovered.

- Only 12% of the world's forests lie in protected areas
- The world lost an estimated 14.6 million hectares of natural forests per year from 1990 to 2000. An area half the size of the UK is cleared every year.
- The ten most forest-rich countries account for two-thirds of the total forest area: Australia, Brazil, Canada, China, the Democratic Republic of the Congo, India, Indonesia, Peru, the Russian Federation and the United States of America
- Around 20% of the world's mangrove forests have disappeared during the past 25 years as a result of over-exploitation and conversion to other uses
- Logging at current rates in some of the world's most pristine habitats, such as Papua New Guinea, is predicted to destroy their forests and habitats in as little as 10 years from now.
- 50% of all logging takes place in vulnerable forests in SE Asia, Central & South America, Russia, Africa.
- 80% of orangutan habitat has disappeared in the last ten years.

5. Timber and forests are also an international economic resource. The value of global forest products traded internationally is estimated by the World Bank to be in the order of US\$270 billion, of which developing countries account for 20%. A significant proportion of this is illegal timber (timber which is harvested, transported, processed, bought or sold in violation of national laws) estimated to be worth \$10-15billion per year. This is only a rough estimate because, as a recent UN Forest and Agriculture Organisation (FAO) report acknowledged, “*an unknown proportion of the world's timber is illegally felled, processed and traded*”.⁵ The illegal timber trade is estimated to depress world prices between by 7% and 16%. It also represents a significant loss of government revenue, often in poorer

3 Forest biomass is estimated to contain around 283 Gigatonnes (Gt) of carbon.

4 FAO, Global Forest Resources Assessment 2005. <http://www.fao.org/newsroom/en/news/2005/1000127/index.html>

5 FAO Forestry Paper 145, Best Practices for Improving Law Compliance in the Forestry Sectors, 2005

countries where it is needed the most. It is estimated, for example, that Indonesia's government suffers \$1bn loss of revenue a year as a result of illegal logging.⁶ In addition, illegal logging is often associated with criminal activities, such as money laundering, tax evasion and violence to indigenous people. The three main international markets for timber and timber products are the EU, US and Japan. In addition China and India are playing a significantly increased role in importing timber from producer countries, particularly in Asia and Africa, and exporting processed goods to the main markets. **A significant part of the timber trade involves a world market in what are effectively illegal and stolen goods, worth up to \$15 billion a year, for which the EU (including the UK), the US and Japan are the main markets. The impacts of this illegal trade on valuable ecosystems, the world's poor, the economies of developing countries and climate change mean there is a moral imperative to address this problem in every way possible.**

6. Within the context of the international timber trade it must be remembered that the FAO estimates that 50% of all timber illegally felled is for domestic consumption. The adverse impacts of this are equal to those of the international trade although it is a much harder issue to tackle internationally. As an economic and governance issue it must be resolved at country level—for which countries like the UK should offer all assistance possible in the form of capacity building and aid where required. Addressing the issue of domestic illegal consumption of timber is as important from a development and environmental perspective as is the need to tackle the international illegal timber trade. We hope to see DFID and the EU, within the context of its work on the timber trade and governance, continue to address this issue through development aid and assistance.

Legality and Sustainability

7. The difficult task of addressing the issue of the sustainability of the international trade in timber within the context of the serious problem of illegal logging means that the main international focus has been on this second area, illegality, with the aim of ensuring that all timber exports are at least compatible with the legislation of the country of origin. The underlying causes of illegality were summarised by the FAO as including a flawed policy and legal framework; minimal enforcement capacity; insufficient data and information about the forest resource and illegal operations; and corruption in the private sector and in government.⁷ All these are areas that need to be addressed if forest protection worldwide is to become a reality.

8. The issue of legality is less pressing in temperate forests, which form the major source for timber purchased in the UK and EU—although there are serious concerns regarding timber sourced from Russia and the Baltic States. However, issues of sustainability are a very real concern even in temperate forests. Legality and sustainability are both problems in many tropical countries, something that is beginning to be addressed to some degree in Asia, but is still most serious in both Africa and Latin America.

6 Emily Fripp, *Overview of Market Drivers*, Ghana Timber Trade Forum, Kumasi, May 2005

7 FAO, *Best practices for improving law compliance in the forestry sector (145)*, 2005

9. Forest certification systems, which offer a varying degree of certainty of sustainability—though they do for the most part offer a certainty of legality—cover 10% of forests worldwide. This figure, whilst encouraging, needs to increase significantly if forests are to be protected in the long term. Unfortunately, tropical forests which are in the greatest need of protection are also those forests which are least likely to be certified and struggle the most to achieve the governance standards required to achieve certification.

10. Logging for timber is not the only threat to forest sustainability. In Brazil large expanses of forests are being cleared to allow cattle farming to feed the beef export market and in Indonesia, particularly Borneo, large areas continue to be cleared to be replaced by palm oil plantations. Palm oil is, according to Friends of the Earth in a recent report *The Oil for Ape Scandal*, an ingredient found in 1 in 10 supermarket products and 84% of UK companies that import palm oil have done little or nothing to make sure their palm oil is not from a destructive source.⁸ This highlights the fact that in order to protect the world's forests not only are controls on logging required, efforts must also be made to tackle how and by whom other detrimental activities, such as forest clearance, are funded. Those who make procurement decisions need to consider the sustainability of all the products they purchase, not just timber.

11. Throughout this Report there will be a great deal of focus on how to achieve a legal timber trade. It must be remembered, however, that achieving this can only be regarded as a step in the right direction and should go hand in hand with achieving sustainability. This means not only putting in place what—in this context—could be regarded as the easier measures to combat illegality, but also addressing the more complex demand and investment issues that fuel forest destruction. **For natural and ancient forests to survive and function properly in providing livelihoods and protecting the planet's climate and species, the final goal must be not just a *legal* timber trade but also a *sustainable* timber trade. In the long term, anything less would have to be regarded as failure.**

The International Timber Trade

12. In a world market of timber and timber products worth around \$270billion the value of tropical woods exported from producer countries as logs, sawn timber, veneer and plywood in 2003 was \$7.3billion. The export of secondary processed wood products (SPWP) from tropical timber producing countries was worth \$8.3billion.⁹ The value of timber and timber products exported from Russia and the Baltic states, where there are significant concerns regarding illegality, was \$8.3billion in 2003 according to FAO figures.¹⁰

13. Tropical hardwood log production for 2004 was estimated to be 58% from Asia-Pacific, 27% from Latin America and 14% from Africa, a total of 136 million m³. There are very significant discrepancies between reported exports of tropical hardwood logs from

8 FOE, *The oil for ape scandal: How palm oil is threatening the orang-utan*, September 2005

9 International Tropical Timber Organisation, Annual Review and Assessment of the World Timber Situation, 2004

<http://www.itto.or.jp/live/PageDisplayHandler?pagelid=199>

10 FAO, FAOSTAT data, 2005. <http://faostat.fao.org/>

producer countries and the significantly higher figures reported by importing countries: 17% in 2003 and 14% in 2004. This is taken to be an indication of the extent of illegally logged tropical timber being traded worldwide.¹¹

14. China was the world's biggest importer of tropical logs, with over half of the total, or 7.3 million m³, which is almost triple its 1997 imports. Malaysia, Papua New Guinea, Myanmar and Liberia were the main sources, though it must be remembered that Indonesian timber (80% of which estimated to be logged illegally) is often exported as Malaysian timber. China also imported 17.7 million m³ of temperate timber from Russia in 2003, where a third of production is thought to be illegal. The five major importers of tropical logs were China, followed by India, Japan, Taiwan and Portugal. China is also the world's largest exporter of timber products or SPWP, exporting \$7.5 billion worth in 2003. The biggest markets for timber products in 2003 were the US (\$3.9 billion and 21% of the US market) and the EU (\$2.6 billion and 11% of the EU market) followed by Japan.¹²

15. The most significant change in the world timber markets in the last eight years has been the enormous increased imports of timber by China, together with its increased export of timber products to the EU, Japan and the US. This shift has the potential to undermine many of the efforts to address the illegal timber trade by the EU. **Any measures put in place to tackle illegal logging in the EU must be considered in the context of China and India as alternative, and very hungry, markets where there are few if any existing controls on the sources of timber entering the country and very little prospect of this changing for the better in the near future.**

The UK Market

16. According to the Office of National Statistics the import value of timber and timber products into the UK in 2004 was £2.9 billion.¹³ The Timber Trade Federation (TTF) told us that *“about 70 per cent of wood used in the UK is imported and, of that, 95 per cent is either temperate softwoods or temperate hardwoods, the lion's share being the softwoods principally imported from Scandinavia and the Baltic States, with 5 per cent of the wood coming into this country from tropical sources.”*¹⁴ Timbmet, one of the largest hardwood timber merchants in the UK, told us that 60% of its timber came from tropical regions and that *“We see ourselves on the hardwood side competing in a marketplace of about £300-350 million, and of that we possibly represent 15 to 20 per cent. It is a very fragmented industry.”*¹⁵

11 International Tropical Timber Organisation, Annual Review and Assessment of the World Timber Situation, 2004

12 *ibid*

13 The UK apparent consumption of wood products in 2004 was 45,000 thousand m³ of timber, imports where 52,000 thousand m³, whilst domestic production and export where 8600 and 15600 thousand m³ respectively. The UK imported 18,000 thousand m³ of wood, 7,100 thousand m³ of pulp, 8,000 thousand m³ of pulp and 18.4 thousand m³ of paper.

14 Q110

15 Q70

17. Figures for the proportion of certified timber products consumed in the UK are difficult to come by. However the Forestry Commission reported that 66% of wood consumed by UK based sawmills was certified.¹⁶ It also reports that, particularly for softwoods which usually come from temperate areas, it is difficult to obtain a premium for certified timber products.

18. What proportion of timber in the UK is illegal? According to a recent WWF report up to 26% of the UK's and up to 28% of the EU's imports of timber from six key producing areas could be illegal.^{17, 18} The difficulty in producing accurate estimates—due to a lack of reliable data—has resulted in these figures being disputed by Forest Industries Intelligence, an industry consultant. Its response to WWF's report highlights Sweden and Finland as the major importers of illegal logs due to heavy reliance on Russian timber, followed by the UK due to heavy reliance on the Baltic States. The estimate it gives for the UK is that 9% of 930,000 m³ primary wood product imports are illegal.¹⁹

19. Illegal timber is currently a fact of life within the UK timber trade. It is therefore virtually impossible for even those companies that are attempting to eliminate illegal timber from their chain of supply to guarantee that they have done so. This was clearly expressed to us by Simon Fineman of Timbmet, who added a strong plea for Government intervention:

We try our best and we do put a lot of resource into auditing our supply chain, but I think that there are areas that we just cannot cover, hard as we try, and it is one of the reasons why two or three years ago we started becoming, if you like, politically active, because we realised that on our own we just cannot do it and we have got to have the support of this Government and other governments to do that.²⁰

The Timber Trade Federation

20. The Timber Trade Federation calls itself the voice of the UK timber industry and states that its mission is to help create and sustain the conditions in which its members can prosper. It represents around 85% of the timber industry in the UK. It lists its members as UK and overseas sawmillers, timber importers, agents and timber merchants.

21. In its evidence to the Sub-Committee the TTF was very keen to emphasise the economic importance of the industry and the small proportion of timber imported into the UK from tropical areas. We were told that “*TTF and the wood industry are wholly against illegal logging and practices that support it*”²¹ and great emphasis was placed on the TTF's

16 Forestry Commission, *UK Timber Market Statement*, September 2004

17 The Amazon Basin, the Baltic states, the Congo Basin, West Africa, Indonesia and Russia.

18 WWF-UK, *Failing our forests - Europe's illegal timber trade*, November 2005

19 FII, *An Independent Appraisal of the WWF "Failing the Forests" Report*, 25 November 2005

20 Q102

21 Q110

Code of Conduct and the recently introduced Responsible Producer Policy. The first line of the Code of Conduct states:

Members are committed to sourcing their timber and timber products from legal and well-managed forests. Members unreservedly condemn illegal logging practices and commit themselves to working with suppliers and other stakeholders towards their complete elimination.²²

22. According to the TTF failure to comply with the Code would result in expulsion from the Federation.²³ However, in the two and a half years of the Code's existence no company been expelled. This we find surprising given that the level of illegal timber in the UK market is estimated by industry consultants at 9% and by WWF at 26%, and in the light of the difficulties acknowledged by even those companies that are working the hardest to eliminate illegal timber from their stocks. It would seem to us that given that TTF membership covers 85% of the timber trade in the UK, it is very unlikely that all its members deal exclusively in legal timber. Given this and the lack of any expulsion of members due to non-compliance with the Code we can only conclude that it is more or less meaningless. **By allowing its members to use the Code of Conduct in promotional material, without thorough and transparent enforcement, the Timber Trade Federation is in danger of misleading customers as to the legality and sustainability of the industry it represents.**

23. Our view of the Code is reinforced by the relatively low take up of the Responsible Purchasing Policy (RPP) introduced by the TTF in July 2005.²⁴ Twenty-six members signed up at its launch, which according to TTF covers around 30% of the volume of wood traded in the UK. We are concerned about those companies that have not and what this indicates as to their commitment to the Code which they *have* signed up to. The RPP, unlike the Code of Conduct, commits members to taking meaningful action and to producing an annual report on progress, which will be externally audited. We very much look forward to seeing these when they are published next year for the first time. **Whilst the establishment of the Responsible Purchasing Policy by TTF is encouraging, the low uptake at its launch is definitely not. It also raises the question as to why it was needed given that all its members are supposedly already complying with the Code of Conduct and therefore sourcing their timber and timber products from legal and well-managed forests.** We have since been told by the TTF that all its members will be signing up to the RPP and that they will be investigating ways of auditing their supply chains with the aim of improving their purchasing policies.²⁵ This is all very welcome and we hope to see this resulting in meaningful changes in how the UK timber trade operates and the implementation of proper chains of custody for all the timber products they supply

22 TTF Code of Conduct, <http://www.ttf.co.uk/buying/conduct/>, 13 January 2006

23 Q119

24 TTF Press Release, '26 Members sign up to RPP', 18 July 2005

25 Ev31

Imports from third party countries

24. Our concerns regarding the legitimisation of the timber trade by the TTF, and also China's prominent role in the timber market, were highlighted by a report published by Greenpeace in October 2005, *Partners in Crime*. The report set out the findings of the organisation's investigation into the use of illegal timber from Malaysia and Papua New Guinea in making plywood in China, which is then exported to developed countries including the UK. Greenpeace highlighted the fact that 1 in 2 illegally felled tropical timber logs are currently exported to China and that imports of Chinese plywood into the UK have increased by 155% over the last few years. Greenpeace was able to purchase plywood produced in China, made with illegal timber, from companies such as Wolseley, who are members of TTF and have signed up to both the Code of Conduct and the Responsible Producer Policy. Indeed on its website, Wolseley highlights steps it is taking to achieve Chain of Custody accreditation for its outlets and goes on to state that even where this has yet to be achieved it is able to "*provide evidence of legal felling and sustainability to customers, if requested.*"²⁶

25. We were very concerned to hear the defence for the purchase of Chinese plywood put forward by the TTF, both to us and in a letter in *The Independent*.²⁷ TTF confirmed that Chinese plywood has increased its share of the UK market significantly over the last year to around 30% and "*is probably in the region of 100,000 cubic metres*"²⁸ and that as only the veneer on the plywood is tropical hardwood "*of that 100,000 cubic metres of timber, 95 per cent of it comes from this plantation-grown poplar with 5 per cent from this questionable source in Papua New Guinea about which we now have serious concerns as a supplier country and which two years ago was not supplying the UK*".²⁹ Whilst this, if correct, means that the volume of illegal timber involved is less than might originally be assumed, it still reveals that every single piece of plywood entering the UK from China has a 1 in 2 chance of having an illegal timber component. This is entirely unacceptable.

26. The above is a perfect illustration of why, if illegal logging is to be addressed, there is a need for legislation. **Progressive timber companies struggle to ensure they have legal supplies of timber. For those UK companies that are less committed to ensure legality and a reliable chain of custody, the only real drivers for improvement will be the need to comply with legislation and a very real threat of prosecution.**

27. The TTF told us about the work it has been doing with producers in Indonesia, a country whose Government has declared that 80 per cent of timber is illegally logged, to assist them in working towards producing verified legal timber. As a result of its work there is now a supply of FSC certified plywood from Indonesia available in the UK. Unfortunately, according to reports from the Tropical Forest Trust, due to its inability to compete with Chinese produced plywood, which undercuts most other producers by

26 <http://www.wolseley.co.uk/corp/news/news52.html>

27 *The Independent*, 'Letter: carbon emissions exported to China', October 21, 2005,

28 Q161

29 *ibid*

around 25%, it did not initially find any buyers.³⁰ Whilst buyers have now been found for the FSC plywood, this is a perfect illustration of the problems faced by sustainably produced timber products competing in a market of illegal and unsustainable products, an issue to which we will return to later on in this report.

28. It is clear that the companies that form part of the timber industry are a very diverse and differing group of organisations, at least when it comes to their environmental record. Given this and the significant efforts being made by some progressive timber companies, such as those involved in the G8 industry and ministerial round table, to move towards sustainable and legal timber supplies—independently of any trade association—it is surprising to us that there is not greater co-ordination amongst them to publicise their efforts. Companies who have taken the long view and have realised that their survival depends on maintaining a sustainable supply of timber worldwide would surely benefit from increasing awareness both in the private sector and among the general public of the differences between themselves and less conscientious companies—and the impacts of the timber they supply—with the aim of increasing their market share. We urge these companies to consider greater investment in this approach. This could be done directly or through supporting credible certification schemes, such as the FSC, to raise awareness. It was apparent from their evidence to us that FSC is an organisation that is achieving a great deal with very limited resources, but which could do much more. **In our view, FSC is ideally positioned to expand its role and work to raise awareness of sustainable timber and related issues, if increased resources were made available to it.**

Destructive Forest Activities

29. The flow of finance into industries that have a serious impact on illegal logging is a complex issue, but one that has profound impacts on the world's forests. It is also an area for which there is little clear and comprehensive data on the scale of investment.

30. The private sector has in the past invested heavily in the timber processing industry, which is often dependent on illegal timber. In Indonesia this investment resulted in a significant processing over-capacity which fuelled the need for timber. The scale of the problem is illustrated by the fact that after the economic collapse in Indonesia in 1998, £1.8 billion was owed to US and EU investors by timber-processing companies that did not have any access to secure or demonstrably legal sources of raw materials.³¹ Agri-business, which in tropical regions is heavily linked to forest clearance to access land, is also an area of significant investment. For example, of the 6.5 million hectares of oil-palm plantations across Sumatra and Borneo in 2004 almost 4 million hectares were originally forest cleared for plantation.³²

31. Extracts from a recent *International Herald* article, from November 2005, on Indonesia's intention to seek \$3 billion from investors for three paper pulp factories

30 TFT Press Release, 'Turning Our Backs: FSC Indonesian plywood fails to find a buyer', 3 October 2005

31 Jade Saunders, *Improving Due Diligence in Forestry Investments*, Chatham House, 1 June 2005

32 FOE, *The oil for ape scandal: How palm oil is threatening the orang-utan*, September 2005

illustrate the scale of the problem and the increasing influence of China and other developing countries on the trade in timber and timber products:

Indonesia wants to lure investors to build three pulp mills on the island of Borneo at a cost of at least \$3 billion, according to government officials. The building of new mills would fulfil a longstanding government ambition of significantly expanding the Indonesian pulp and paper industry. Jaakko Poyry Group, a leading consultancy in the pulp and paper industry, expects demand in China to grow 5 percent a year from 2004 to 2020. But forest researchers and environmental activists say the industry is already running above its capacity because of a shortage of plantation timber. A study by Barr estimated that only 10 percent of the wood harvested for the pulp industry from 1988 to 2000 was from plantations. He estimates that the industry still relies on natural forest for as much as three-quarters of its feedstock. International Paper, the world's biggest paper manufacturer, says it refuses to buy wood or pulp from Indonesia because of concerns about illegal logging and encroachment into natural forests. Some foreign investors are [...] likely to be attracted by the relatively cheap supplies of timber, which normally account for 60 percent of the cost of running a pulp mill.³³

This is in a country which has recognised it has a serious problem and has banned the export of unsawn timber to try to tackle the issue of illegality. This also illustrates the fact that whilst it is important that logging activities comply with national legislation this is in no way a guarantee of sustainability and raises the question of whether there is a need for an internationally agreed definition of legality—rather than simple compliance with national legislation—to ensure that requirements to purchase legal timber have meaningful impacts.

32. In 2003, ten major world banks signed up to the Equator Principles, which include a commitment to ensuring safeguards are in place when carrying out investments that affect forestry, natural habitats and indigenous peoples.³⁴ However there is little information on how these commitments are being implemented and monitored and when one hears, for example, that analysts have been recommending investing in China, again in the pulp and paper mills industry (despite the fact that the industry is already at overcapacity if only legally available pulp supplies are considered), it raises the question as to whether these principles are having any significant impact.³⁵

33. Public sector finance includes finance available through national Export Credit Agencies (ECA). Development banks such as the World Bank and the Asian Development Bank (ADB) also play a role in forest destruction. Whilst there have been efforts to ensure that environmental and sustainability issues are taken into account when considering

33 International Herald Tribune, 'Outcry as Jakarta tries to revive paper industry', 2 November 2005

34 On 4th June 2003 ten leading banks from seven countries announced the adoption of the "Equator Principles", a voluntary set of guidelines developed by the banks for managing social and environmental issues related to the financing of development projects. The signatories were: ABN AMRO Bank, N.V., Barclays PLC, Citigroup, Inc., Credit Lyonnais, Credit Suisse First Boston, HVB Group, Rabobank, Royal Bank of Scotland, West LB AG, and Westpac Banking Corporation.

35 Q218

funding projects that may affect forests directly, this has not always translated into good practice on the ground, particularly with the ADB.³⁶ There have also been concerns that imposing strict standards on ECAs puts a country at a competitive disadvantage when competing with countries whose ECAs set lower standards.

34. Some effort is being made within Europe to address the issue of investment, although progress so far has been minimal. We would like to see the UK Government take the initiative within Europe on working towards ensuring multinational companies make more considered investment in activities that could finance forest destruction. Unfortunately there appears to be little willingness outside DEFRA to tackle the issue of corporate responsibility head on. This was exemplified by the Chancellor's announcement in November 2005 that he would be dropping the proposed Operating and Financial Review reporting requirements that were due to come into force in April 2006. This would have obliged large companies to report on, among other areas, their environmental performance and impacts. The Government has also recently been criticised for failing to properly implement the OECD's guidelines on corporate responsibility for multinationals.³⁷ Both of these could be - if properly implemented—powerful tools, not only in ensuring the investment decisions of companies based in the UK are not harmful to forests worldwide, but in protecting the environment generally.

35. This lack of willingness to make companies accept responsibility for their environmental impacts is short sighted indeed. In the case of illegal logging significant effort is going into addressing the issue through the FLEGT Action Plan, but the lack of willingness to impose restrictions on how companies operate through legislation threatens to jeopardise all the hard work undertaken. There is a double standard operating that we find deplorable. We are expecting other national Governments to change their laws and implement significant changes in how their industries operates to prevent us from consuming their illegal timber. At the same time in this country we are unwilling to properly implement international guidelines, which we have signed up to and agreed to enforce, as to how multinationals should operate abroad or simply to make large companies report on their environmental performance. It is shameful.

The International Approach: The UN, the G8 and the EU

36. The aim of any international policy that attempts to address the problems of the forest and timber industry worldwide must be to achieve sustainably managed forests that are guaranteed long term survival as healthy ecosystems able to provide resources and income to those who live in and around them. This is as yet very far from being achieved and, as became very clear during the course of the inquiry, even an international agreement to ban the trade in illegal timber is still far from being a reality.

36 Jade Saunders, *Improving Due Diligence in Forestry Investments*, Chatham House, 1 June 2005

37 Friends of the Earth, Christian Aid and Amnesty International UK, *Flagship or failure?* 10 January 2006

37. The United Nations has been working towards a multilateral agreement on timber for the last fifteen years. This work resulted in the agreement in 1992 in Rio de Janeiro of a set of non-legally binding “Forest Principles” and the inclusion of the issue of deforestation within Agenda 21.³⁸ Work has continued since then through various international bodies and is now being pursued through the United Nations Forum on Forests (UNFF), which was established in 2002 to promote “the management, conservation and sustainable development of all types of forests and to strengthen long-term political commitment to this end”. This meets for two weeks every year, when Member States are able voluntarily to report progress toward implementing the Forest Principles. Its failure to in any way move towards a binding multilateral agreement is an illustration of the complexity of an issue where there are so many and different conflicting interests. Indeed the debate has been described as “*very tedious at times, very bogged down*” and the Sub-Committee was told of the lack of progress in the most recent UNFF meeting which “*ended with no clear conclusions or direction, and there seem to be quite substantial divisions, so many of the very important forest countries are not in any way wanting to support any international obligations in this area*”.³⁹ **The conclusion of most witnesses was that, however desirable, it is unlikely that a multilateral agreement will be reached within the short to medium term and other measures are needed to reduce illegal logging and improve sustainability. It is with regret that we agree, despite the fact that we see a binding multilateral agreement as the most effective way of improving the management of forests worldwide.**

38. A further forum for discussion on illegal logging has been the G8 meetings. Progress within these meetings resulted in the publication of an Action Programme on Forests in 1998 and was followed by the instigation of a Forest Law and Governance process (FLEG) which is described as “*a multilateral, multi-stakeholder strategy for improving governance and legal compliance through the organization of corrective actions at both national and international levels*”.⁴⁰ There have been various meetings held under the FLEG banner since 1998 including an East Asia FLEG meeting (2000), and African FLEG Ministerial Conference (2003) and European and North Asia (ENA FLEG) Ministerial Conference in November 2005. However these forums for debate on the various issues involved have yet to lead to any binding commitments.

39. The UK Presidency of the G8 resulted in a further statement, on Climate Change and Illegal Logging, being approved at Gleneagles in July 2005. The statement describes how G8 members will attempt to tackle illegal logging:

- by taking steps to halt the import and marketing of illegally logged timber, for example through border control and voluntary bilateral agreements;

38 A plan of action adopted at the "Earth Summit" in Rio de Janeiro in 1992 to protect the environment and encourage nations to move towards achieving sustainable development in the 21st Century

39 Q391

40 World Bank, ENA FLEG Website, December 2005

- by doing more to support developing countries' own efforts to enforce forest law and improve governance;
- by using government procurement to ensure that governments do not contribute to the problem of illegal logging; and
- by reviewing progress on these commitments next year.⁴¹

The G8 also importantly acknowledged the role that tackling illegal logging could have in combating climate change:

We recognise the impacts that illegal logging has on the livelihoods of many in the poorest countries in Africa and elsewhere, on environmental degradation, biodiversity loss and deforestation and hence global sustainable development. We particularly recognise the importance of global carbon sinks, including the Congo Basin and the Amazon.

We agree that working to tackle illegal logging is an important step towards the sustainable management of forests. To tackle this issue effectively requires action from both timber producing and timber consuming countries.⁴²

40. Whilst this is all very welcome, and demonstrates a continued willingness amongst the international community to discuss illegal logging and how it could be addressed, there is little evidence as yet of anything new having come from the Gleneagles meeting. When we pressed Elliot Morley MP on this, he told us that the G8 was not the right forum for international agreement but that it was “*quite important in terms of working for that, confidence building, sharing information, sharing technologies [...] I think the real place for having a major impact on illegal logging is within the EU because we are a single market.*”⁴³ **We are very keen to hear from the Government how the G8 agenda on timber is being taken forward, together with any positive outcomes from the recent ENA FLEG meeting held in November 2005.**

The European Approach: FLEGT Action Plan

41. Since September 2001 the European Union has been engaged in a process aimed at limiting the amount of illegal timber entering Member States. It is working towards this through the implementation of a Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan, first published by the Commission in May 2003. The Action Plan includes a list of aims for the EU to work towards:

- to assist producer countries in tackling illegal logging;

41 DEFRA/DFID PR 131/05, ‘G8 Environment and Development Ministers Agree Action on Illegal Logging and Put Climate Change in Africa on Agenda for G8 Heads’, 18 March 2005

42 G8, Gleneagles Plan of Action: Climate Change, Clean Energy and Sustainable Development, July 2005

43 Q264

- in the short term to set up a licensing scheme for timber imports from countries after setting up a Voluntary Partnership Agreement (VPA) binding them to exporting only legal timber to the EU;
- in the long term will work towards a multilateral international agreement or, if this fails, a ban on the import of illegal timber into the EU;
- to encourage the private sector to set up a voluntary agreement to purchase legal timber and the public sector to procure only legal timber;
- to encourage due diligence in the parts of the financial sector that invests in forestry operations; and
- to put in place a work programme to implement all of the above.⁴⁴

42. With regard to the above list, work is currently most advanced on the setting up of a licensing scheme and the Voluntary Partnership Agreements. Indeed progress in all the other areas has been disappointing to say the least. We were told that some work has been carried out to examine the possibility of EU-wide legislation and to improve procurement practice, but little if anything has been achieved on encouraging due diligence in the financial sector's investment in forestry activities.⁴⁵ The reason for such slow progress may well be due to the minimal interest expressed in this issue by the majority of Member States. For example, whilst countries such as Denmark, France, Germany, Netherlands and the UK are working to improve and develop government procurement of sustainable timber, no other Member State has any policies in place.⁴⁶ Germany is the only Member State that is actively considering legislation to ban the import of illegal timber. Furthermore some Member States, Finland and Portugal for example, are reported to have actively opposed measures that would improve VPAs' effectiveness during negotiations. Finland's pulp industry is heavily dependent on imports from the Baltic States and Russia, of which estimates are that between 10% and 25% of imports to the EU are illegal. Portugal is the fifth largest importer of tropical hardwood timber worldwide according to the International Tropical Timber Organisation (ITTO).⁴⁷

43. Progress towards implementing measures on illegal logging under the FLEGT Action Plan during the last six months has been disappointingly slow. It would be useful for us to receive a detailed report from DEFRA on what progress has been made during the UK Presidency and what discussions there have been with Austria to ensure that, whatever momentum there is, is carried forward during the first six months of 2006, when it takes over the EU Presidency.

44 EU Commission, Forest Law Enforcement, Governance and Trade (FLEGT): Proposal for and EU Action Plan, COM(2005)251 final, 21 May 2003.

45 Q362

46 Ev64

47 ITTO has 59 members who represent about 80% of the world's tropical forests and 90% of the global tropical timber trade.

Voluntary Partnership Agreements (VPAs)

44. Voluntary Partnership Agreements are bilateral agreements between a timber producing country and the EU. Their aim is to ensure timber entering the EU from that partner country is guaranteed to have been harvested in conformity with its relevant national legislation. Timber from a partner country will not be allowed into the EU without proof of this conformity, which will be provided through compliance with the proposed licensing scheme. The crucial characteristic of the proposed scheme is that it is voluntary and bilateral, involves mutual agreement and no third party countries. As a result it does not fall within WTO rules that would apply to a unilateral border control aimed at limiting the movement of illegal timber, and is therefore not in danger of being challenged by any WTO member.

45. The Regulation putting in place the licensing scheme was agreed by the Council of Ministers in October 2003. As yet there are no VPAs in place. In its memorandum the Commission told us that work is currently underway to explore the possibilities of setting up Voluntary Partnership Agreements with countries such as Ghana, Gabon, Democratic Republic of Congo, Malaysia, Indonesia and Vietnam. Negotiations are most advanced with Ghana and Malaysia.⁴⁸

46. The original Commission document setting out the proposals for the FLEGT Action Plan made very clear what would be required for the proposals to be successful:

In order for the scheme to function properly, FLEGT Partner Countries would need to establish reliable and credible systems and structures to identify and certify timber harvested in conformity with national legislation and monitor its flow to the EU and elsewhere.⁴⁹

The document also recognised the need to deal with timber from a partner country entering the EU via a third country, which would therefore avoid having to conform with the licensing scheme and the VPA's requirements:

This could involve development of a means of verifying that timber imports from third countries, which were then subject to further processing and exported to the EU, were harvested in conformity with national legislation in the country where the wood was logged.⁵⁰

The original Commission communication also highlighted some other areas that would have to be addressed, namely:

48 Ev115

49 Communication From The Commission To The Council And The European Parliament, Forest Law Enforcement, Governance And Trade (Flegt): Proposal for an EU Action Plan, COM (2003) 251 final, 21 March 2003.

50 *ibid*

procedures for distinguishing legal from illegal timber arriving from countries which are not participating in the voluntary licensing scheme; and how to treat shipments of wood from non-partner countries which are suspected to be of illegal origin.⁵¹

47. Unfortunately, despite the real awareness present within the Commission from the beginning of negotiations of the importance of dealing with these areas of concern the licensing scheme that was approved in October 2005 by the Council of Ministers was incomplete and failed to tackle these issues. That this was likely to be the case was made clear in DEFRA's memorandum to the Committee drafted before the October agreement "*FLEGT is not a panacea. It is voluntary and will not cover all wood products at the outset. Furthermore, displacement of illegally logged timber to markets that are less discriminating than the EU cannot be wholly prevented*".⁵² The memorandum went on to state that proposal to tackle circumvention by requiring a certificate of origin for all timber imports to the EU was a matter of debate amongst Members in Brussels as it "*presented significant practical difficulties*".⁵³

48. As a result of objections from some Member States the final document included no measures to address the issue of circumvention via third party countries, such as China. Furthermore VPAs and licensing schemes will not address the issue of illegal timber from non-partner countries being allowed into the EU to compete unfairly with legally harvested timber - nor will it cover all wood and wood products, at least to begin with.⁵⁴ **Measures that properly address circumvention and illegal imports from non-partner countries are of crucial importance for Voluntary Partnership Agreements to be a success. It is an enormous lost opportunity that the licensing scheme approved by the Council of Ministers does not satisfactorily address either of these.** The Commission told us that the principal behind FLEGT is to encourage improved governance in producer countries, which is one of the reasons that the partnership approach has been taken: thus the legal basis for the legislation is Article 133 (trade) rather than Article 173 (environment) despite objections from some Member States and the European Parliament.⁵⁵ Whilst there may be good reasons for this, it must not be forgotten that there are also fundamental environmental concerns that also need to be addressed by the FLEGT Action Plan.

A Case Study: Ghana

49. All the above issues were raised with members of the Sub-Committee by the Ghanaian Parliamentary Committee of Land, Forestry and Mines, which visited London in October 2005, and were reiterated to the Sub-Committee by the Ghanaian Deputy Minister for Land, Forestry and Mines, the Hon Adjei Yeboah in November 2005.

51 *ibid*

52 Ev91

53 *ibid*

54 The scheme will initially cover rough wood, sawn wood, veneer and plywood. The intention is to extend it to other wood products at a later date.

55 Q368

50. Europe is a major market for Ghana, with up to 54% of its export timber purchased by EU member countries, although this is only 6% of the total amount of tropical hardwood timber imported by the EU. During our meeting with the Ghanaian Committee its members expressed serious reservations regarding the equity of a situation in which Ghana as a country will have to legislate to ensure that only legally sourced timber is exported to the EU but none of the individual EU Member States are willing to legislate to outlaw the import of illegal timber—nor is FLEGT aiming to achieve the same on a EU-wide level, at least in the short to mid-term. Furthermore neither will the EU or its individual Member States be making any commitment to purchase Ghanaian certified timber, which is likely to become more expensive as a result of the costs associated with putting in place a proper chain of custody and certification system that can guarantee that timber is legally sourced.

51. Concerns were also expressed regarding both the transitional costs of implementing the necessary chain of custody scheme and the fact that setting up a national certification system for timber is likely to increase the cost of exported Ghanaian timber by around 10% but would only result in a price premium of 2-3%. We cannot help but agree with the Ghanaian Committee's concerns. **If we are asking poorer producer countries to spend what are often precious and limited resources in improving their forestry management the onus must surely then be on the EU and Member States to do the utmost in their power to secure a stable market for the resulting certified timber. This should include some form of commitment to purchase timber from VPA signatory countries.** The cost of implementing a reliable chain of custody for Ghanaian timber was set at 11 million euros and the time-frame for achieving this, and therefore being able to enter into a VPA, was the end of 2006. **We urge the UK Government, through its own channels and those of the EU, to assist Ghana and other interested countries in every way—financial or otherwise—to achieve their aim of putting the necessary procedures in place to verify legal timber production and enter into a VPA with the EU.**

52. A further concern was that licensed Ghanaian timber, which will be more expensive to produce, will be competing with illegally logged timber which is believed to depress the market price by between 7% and 16%. The solution proposed during both the meetings with Ghanaian representatives was one that was heard many times during the course of this inquiry: a ban on imports of illegal timber into the EU. If this does not comply with WTO rules, then legislation needs to be put in place to make it an offence to purchase or supply illegal timber within the EU.

Legislation

53. The FLEGT Action Plan includes the commitment to work towards a multilateral agreement on illegal timber and, failing this, towards a ban on the import of illegal timber into the EU. Given the acknowledgement the Sub-Committee received from both the Minister and the Commission that a multilateral agreement in any form is currently a very remote possibility, we had hoped to see in its place some effort being made towards implementing EU legislation to deal with illegal timber. This unfortunately has not been the case despite the Minister telling us that a ban of illegal timber *“is the logical conclusion,*

*the logical end result of this process.*⁵⁶ The Royal Institute of International Affairs (Chatham House) is in the process of producing an assessment of additional measures to exclude illegal timber from EU markets which includes examining the potential for introducing legislation. Duncan Brack who is carrying out this work, stated in evidence that his *“preliminary conclusion would be that there are no domestic laws that are likely to be very useful in controlling the import of illegal timber, particularly countries that do not sign a partnership agreement”*. In addition, he stated that he *“would agree with the NGOs that this kind of legislation [to control the import of illegal timber] would be extremely useful as a reinforcement to the licensing scheme”*.⁵⁷

54. The TTF also called for a ban on imports of illegal timber, stating that it *“would support a ban on illegal timber [...] any pressure that we can bring both on the supply and the demand sides of the equation to bring an end to this practice has got to be welcomed.”*⁵⁸ Indeed, 73 retailers and members of the European timber industry have called for the European Commission to *“adopt new EU legislation which makes it illegal to import all illegally-sourced timber and wood products into the European market”*.⁵⁹ TTF did qualify its support stating that an immediate ban would be unworkable and a lead-in time for producers and the industry to adapt would be necessary.⁶⁰ In fact, the only industry body that has expressed the view that legislation on illegal timber is not necessary—although it does agree that illegality is a problem—is Forest Industries Intelligence (an industry consultant) which stated that Voluntary Partnership Agreements *“may well be the most effective and efficient policy response to the problem”*⁶¹

55. There is also very strong support for legislation within the European Parliament. The Parliament’s Committee on Industry, External Trade, Research and Energy wrote to the Commission in March 2004 to express the view, with which we wholeheartedly agree, that the proposed *“measures are not sufficiently far reaching to tackle a problem of this scale”*. And that:

A coherent solution to this problem cannot rest solely on partnership agreements with willing countries. Binding legislation is required to tackle the trade in illegally logged timber and forest products directly, irrespective of the countries of origin so as to enable the authorities in EU Member States to prosecute companies and individuals importing or marketing illegally sourced timber and forest products.⁶²

56 Q287

57 Q212

58 Q130

59 FLEGT: Industry Statement. Common European rules for fair competition and sustainable markets, March 2005

<http://www.greenpeace.org/raw/content/international/press/reports/FLEGTIndustry.pdfm>

60 Q134

61 FII, An Independent Appraisal of the WWF "Failing the Forests" Report, 25 November 2005

62 Letter from the Chairman of the Industry, External Trade and Research Committee of the European Parliament to the Council of the European Union and to the European Commission, 3 March 2004.
http://europa.eu.int/comm/development/body/theme/forest/initiative/docs/Doc7-EP_motion.pdf

We are disappointed at the lack of will both within the UK Government and the EU to push legislation on illegal timber forward as an integral part of putting in place successful Voluntary Partnership Agreements (VPAs). Without legislation to underpin VPAs they will undoubtedly fail—if they are taken up at all.

WTO Rules

56. The main obstacle to legislation raised during our inquiry was the possibility of conflict with WTO rules. These rules take a dim view of any restrictions that could be construed as representing trade barriers between member countries. Proposals for environmental measures often fall foul of WTO rules if they are likely to be viewed by any members as protectionist measures, and a threat of a challenge under the rules is often enough for countries to drop any proposals. In this case, the concerns appear to be not with the actual ban on illegal timber imports but how this would be enforced. As has been made clear during this inquiry, the majority of timber traded, particularly of temperate origin, is not illegally harvested. Imposing a requirement to provide proof of legality on all timber could be seen as an unnecessary administrative burden as some form of certification would be required. In addition, to be equitable, a control of imports into the EU would also require controls of timber movements between Member States, which again would be likely to prove unpopular as the vast majority of timber produced within the EU is legally, although not necessarily sustainably, produced. The difficulties were acknowledged by the Minister:

I think a ban on illegal timber is entirely justified and defensible even within the WTO context. But there are considerable legal difficulties and I think that the way forward is probably a step-by step process, and what we are seeing with the EU FLEG is the beginning of that process, not the end of the process.⁶³

The suggestion has been put forward that legislation based on the principles contained in the Lacey Act in the United States would circumvent any WTO objections, as this would impose restrictions on the ownership and sale of illegal timber rather than ban imports directly. This is the type of legislation that was proposed by the German Government in March 2005. The Virgin Forests Act, if it comes into force in Germany, will “*prohibit the possession and marketing of timber and timber products that were illegally logged in virgin forests*”.⁶⁴

63 Q288

64 German Federal Ministry of Environment, Nature Conservation and Nuclear Safety, 14 December 2005 <http://www.bmu.de/english/nature/doc/35279.php>

The Lacey Act was adopted in 1900 in the US. Its original purpose was to outlaw intra-US traffic in birds and other animals illegally killed in their state of origin. It was amended on a number of occasions, its scope expanded and its enforcement provisions and penalties strengthened. The Act makes it ‘unlawful for any person ... to import, export, transport, sell, receive, acquire, or purchase in interstate or foreign commerce ... any fish or wildlife taken, possessed, transported, or sold in violation of any law or regulation of any State or in violation of any foreign law.’ Currently the Act does not cover timber or timber products. An offence is committed under the Act whether or not the offender was aware the materials were of illegal origin. The Act also requires clear labelling of all fish and wildlife shipments. It has been used successfully in carrying out many prosecutions, over 1500 in 1999 for example.⁶⁵

When the issue of legislation along these lines in the UK was raised with the Minister he stated: *“I actually think the Lacey Act is a very powerful tool and I would really like something along those lines here in the UK that we could apply, and the German system is very akin to it really. It is something which I am looking at with interest.”*⁶⁶

57. If the issue of illegal timber is to be tackled there is no option but to legislate against it. We agree with the Minister that, if there are difficulties with WTO rules, alternatives to a direct ban on illegal timber imports need to be examined. We support the German proposed legislation and would very much hope to see this applied on an EU-wide basis in the future.

58. As progress on any matter on an EU-wide level is usually slower than would be ideal, options for UK national legislation must also be taken forward as a matter of urgency. The UK Government must pursue all options, including the implementation of a Lacey-style Act within the UK making it illegal to possess or market illegal timber products. Anything less would demonstrate a lack of commitment by the Government.

59. We would hope to see legislation in place in the UK within the next three to five years. With this in mind DEFRA should commission Chatham House, which is already doing excellent work in this area, to examine what kind of effective legislation could be introduced within that timeframe.

⁶⁵ Duncan Brack, EU FLEGT Initiative: Assessment of ‘Additional Measures’ to Exclude Illegal Timber from EU Markets, Chatham House, July 2005.

⁶⁶ Q 284

The National Approach: Central Point of Expertise on Timber

60. The Government's approach to addressing the use of illegal and unsustainable timber within the UK has been to lead by example and focus on central Government procurement. Central Government departments are estimated to purchase 20% of all timber bought in the UK. The overall figure including all local authorities and other governmental bodies could be as high as 40%. However as there is no centralised data collection of what is purchased by governmental bodies (for all procurement spend, not only timber) this is a very rough estimate. Despite this lack of information it can be concluded that governmental spend has a significant influence on the timber trade in this country. As a result there have been longstanding campaigns from organisations such as Greenpeace and Friends of the Earth aimed at ensuring Government projects lead by example by sourcing only sustainable timber, and well-publicised efforts have been made to highlight that this has often not been the case.

61. Until July 2000 Government departments were subject to voluntary guidance on their timber purchasing. This changed with the announcement to the House of Commons by Michael Meacher MP, Minister of State for the Environment, that there would be a binding requirement on departments to "*actively seek to buy from sustainable and legal sources*".⁶⁷ However, despite this, it was concluded by our predecessor Committee that there was no systematic or even anecdotal evidence of any significant change in the pattern of procurement in the two years following that announcement. As a result the 2002 EAC Report on Timber Procurement included in its recommendations that the Government should by the end of that year set a sustainable timber procurement policy as a priority; establish a clear criteria for the assessment of certification schemes and provide definite guidance to procurement officials.⁶⁸

62. In its response to the Timber Report the Government, in July 2003, announced that it would be setting up a Central Point of Expertise on Timber (CPET) to facilitate implementation of actions recommended by consultants and officials.⁶⁹ **We very much welcome the changes in Government policy on sustainable timber procurement that have been put in place since our predecessor Committee's report in July 2002. We also recognise the personal commitment of the Minister, Elliot Morley MP, to the subject and we very much welcome his determination to continue to tackle this very important issue.**

67 HC Deb, 28 July 2000, 947W

68 EAC, *Buying Time for Forests: Timber Trade and Public Procurement*, HC 792-I, 24 July 2002

69 EAC, *Buying Time for Forests: Timber Trade and Public Procurement - Government Response to the Committee's Sixth Report*, HC 689, July 2003

Timber purchasing in Government

63. According to the Sustainable Development in Government (SdiG) 2004 report, around £2.5 million was spent on timber in 2003-4 by government departments.⁷⁰ How accurate these figures are is questionable as five Departments (DWP, DfT, FCO, CO and DCA) did not provide data on their purchases of construction timber and seven other Departments (DfES, DoH, DTI, ECGD, HMT, LOD and ODPM) reported zero spend. Of the £2.5 million, £885,278 was spent on construction timber from a recognised certified source and a further £898,000 was spent on construction timber with evidence of sustainable and legal sourcing but not certified. This represents 71% of total spend. Two Departments (DCMS and HO) spent a total of £32,260 on construction timber with no evidence of sustainable and/or legal sourcing. The MoD spent a total of £800,000 on construction timber but was unable to break down its sources. Total spend on manufactured timber products by Departments was reported as £17.5 million. Of this, 78% was spent on timber products from a recognised certified source and 19.5% was spent on timber products with evidence of sustainable and legal sourcing but not certified. A total of 2.5% had no evidence of legal sourcing. When considering the above figures it must be remembered that, although performance appears to be improving, both ourselves and the National Audit Office have questioned the robustness of the data provided by departments on procurement in the past.⁷¹ Indeed the problems with this data have been acknowledged by the Minister who stated that “*there are some issues that we need to address in relation to how individual departments collect a range of data, not just on timber, and how it is made available both to the Government and indeed to the EAC. I think we have some work to do on that.*”⁷² This is extremely disappointing particularly as it is an issue that was raised by our predecessor Committee three years ago, and acknowledged by the Government in its response two years ago when it stated:

The Government recognises that it is crucial that proper systems for collecting timber spend data are established if the Government is effectively to monitor performance and report on progress.⁷³

The Government also set out the need for a comprehensive system of recording and reporting timber spend to a central point where the information would be used to inform resource requirements, determine appropriate targets and shape future policy developments. With this in mind, whilst we welcome the news the Government intends to commission ProForest, and independent consultancy that runs CPET for DEFRA, to audit a sample of departments to assess the quality of the information on which the reporting on timber purchasing in the Sustainable Development in Government is based, this seems far too little far too late. **It seems incredible to us that the complete lack of reliable data, clearly identified as a fundamental hurdle to improving sustainable timber**

70 DEFRA, Sustainable development in Government: Third Annual Report 2004,

71 NAO, *Sustainable Procurement in Central Government*, 1 September 2005.

72 Q321

73 EAC, *Buying Time for Forests: Timber Trade and Public Procurement - Government Response to the Committee's Sixth Report*, HC 689, July 2003. Para 62

procurement at least four years ago, and recognised as such by the Government, has yet to be properly addressed.

64. The Government needs to set out a clear strategy to address this lack of data for all procurement, ideally within SDiG. In the meantime Central Point of Expertise on Timber (CPET) should lead the way by focusing on timber procurement and we would like to see set out in detail how this will be done.

Certification Schemes

65. CPET was tasked, once set up in December 2003, with firstly assessing the five internationally recognised certification schemes most commonly used by departments for their ability to meet the Government's criteria for sustainability and legality. These criteria were compiled, following consultation, by ProForest.

Certification schemes work by setting forestry management standards that have to be met by organisations who own forest concessions or process timber and who seek certification. These standards are assessed by accreditation bodies that have been accepted by the certification schemes as being competent in carrying out the work. The Rainforest Alliance, for example, has accreditation for assessing compliance with FSC standards. A clear and transparent Chain of Custody (CoC) and rules regarding labelling and claims made for timber must also be enforced to ensure that claims made for timber at point of sale are true.

66. Timber certification, or Category A proof, as it is referred to by CPET, cannot be exclusively used to decide on a supply of timber, as it would be in contravention of WTO trade rules by discriminating against timber suppliers that were not able to provide a certificate under any of the approved schemes. Furthermore certification only covers 10% (300 million hectares) of the world's total productive forest area, mostly in temperate forests. Many of those forests that are in most need of protection and sustainable management are in tropical areas and not certified. As a result a Category B proof of legality and sustainability will allow departments to purchase timber that carries alternative proof of its sustainability and legality. Whilst extensive work had been done to assess acceptable Category A proof, the standard of allowable proof for category B has yet to be set out by CPET.

67. Reliable certification is recognised as the easiest method for ensuring the environmental credentials of any timber and timber products purchased. There are a large number of certification schemes worldwide, which generally fall into two categories: national schemes and those that are international in scope. The first international certification scheme, the Forest Stewardship Council (FSC), was set up specifically to address the need for a credible way of determining whether timber has been sourced and processed sustainably. The FSC came into existence in 1993 and certified its first timber in 1996. It currently certifies over 55 million hectares of forests and estimates the global market of FSC certified timber at US\$5 billion of which the UK market constitutes US\$1.7

billion.⁷⁴ Throughout our inquiry the FSC was held up as the “gold standard” of forest certification both for the extent of stakeholder involvement in its processes and the degree to which it takes into account environmental and social considerations. Indeed Greenpeace told us that “*the FSC is the only internationally recognised forest certification scheme on the market that can give rigorous and credible assurance that timber products come from well managed forests*”.⁷⁵ However, Simon Fineman from Timbmet told us that while FSC is the gold standard “*it is a very difficult gold standard for certain areas of the world to aspire to*”.⁷⁶

68. The second major international certification scheme is the Programme for the Endorsement of Forest Certification (PEFC) schemes. The PEFC describes itself as an independent, non-profit, non-governmental organisation, which promotes the sustainable management of the world’s forests through independent, third party certification and which currently certifies 123 million ha of forests. It works as a global umbrella organisation for the assessment and mutual recognition of national forest certification schemes. The PEFC (then the Pan European Forestry Certification) Scheme was set up in 1999 when it was seen by some as a response by the European timber industry angered by what it saw as interference from environmental groups and retailers.⁷⁷ However it has also been pointed out to us that FSC’s original approach was not particularly appropriate for small forest owners, particularly in Nordic countries and this is one of the issues PEFC addressed.⁷⁸

69. There are a large number of national schemes. However, the majority of these now come under the PEFC umbrella or are attempting to do so. As Saskia Ozinga from Fern told the Sub-Committee:

the FSC was the first one and it was established by a multi-stakeholder process with the timber industry, with environment NGOs and social groups all sitting together to design and implement the programme. Subsequently, many other schemes (there are, in total, eight or nine, depending on how you count them) have come into operation, but almost all of those fall under the umbrella of the PEFC at some stage, or at least are trying to get under the umbrella of the PEFC. So, in effect, you have the Programme for the Endorsement of Forest Certification schemes as one and then the FSC is another, which narrows it down to only two operational systems, if you like, in the long term.⁷⁹

The array of different certification schemes and their different groupings, whether national or international, cause confusion in the market:

74 FSC Press Release, ‘Estimated size of FSC global market revised to US\$5 billion’, April 25th, 2005

75 Ev39

76 Q74

77 ENDS Report, Rival wood product labels vie for UK market, April 2003.

78 Q177

79 Q167

The number of labels is confusing for everybody. I personally do not believe that the marketplace can cope with more than one or two, and there are already five or six credible labels.⁸⁰

I think that there is a very small minority of customers who are well informed and know what they want. Usually when they do know what they want, they want FSC. I think the rest, as I said earlier, rely on us to do it for them and they will take our word for it.⁸¹

70. This is a clear illustration of the need for simplicity to help increase customer awareness and encourage responsible purchasing. Ideally we would have one international body that assured the legality and sustainability of any timber on the market by setting a minimum—stringent—standard for all certification schemes to meet. Unfortunately, as we have seen, this is very unlikely to arise in the near future. Failing this, the EU could have a role in creating an EU-wide sustainable and legal timber label. Unfortunately, the desirability of such a role is not accepted by the Commission, which told us:

The Commission believes that these [private] schemes should be allowed to continue to develop as market-based mechanisms, without regulatory interference from government bodies. Consequently there are no plans to introduce any further regulation or standards in this field.⁸²

We disagree with this position. The problems associated with illegal and unsustainable timber in Europe are too serious and too urgent to rely on market-based mechanisms to produce a clear and meaningful timber certification system which at the moment, with the FSC, PEFC and the large number of national schemes, is far from reality.

71. Failing any intervention we would hope to see the approach and standard used by FSC becoming the target for all other certification schemes, such as PEFC. Given the difficulties acknowledged by many in achieving FSC's high standards quickly, we would also like to see a phased approach to certification introduced which would allow companies making progress towards certification to be labelled as such, as long as progress was clear and continuous and certification was achieved within a set period of time. This would also assist producers in developing countries that have a long way to go to achieve certification.

CPET's Criteria

72. CPET carried out a desk based assessment of the following certifying organisation's policies:

- Forest Stewardship Councils (FSC)
- Programme for the Endorsement of Forest Certification Schemes (PEFC)
- Canadian Standards Association (CSA)

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- Sustainable Forestry Initiative (SFI)
- Malaysian Timber Certification Council (MTCC)

Of the above CSA, SFI and MTCC are now all members of the PEFC assembly, the scheme's governing body, although only the CSA and SFI schemes have been endorsed as conforming with PEFC standards. This raises the issue of how the MTCC can be a member of PEFC's governing body despite its scheme not currently meeting the required standard for endorsement.

73. ProForest firstly set out 26 criteria it would use to assess any certification schemes.⁸³ The criteria were then scored as 0 (inadequately addressed and not accepted), 1 (partially addressed) or 2 (acceptable). A score of at least 1 was required for all criteria relating to legality for a scheme to be deemed to guarantee legality. A score of 75% or more including at least a score of 1 for all criteria applicable to sustainability was deemed to guarantee sustainability. ProForest's argument for limiting the scoring system was that it made the process less subjective:

the score of 1 applied to a wide range of situations, but this was considered a better option than trying to divide partial compliance into a number of different levels which carries a significant risk of becoming subjective.⁸⁴

The proposed criteria were reviewed by departments, by the certification schemes involved and by an advisory body that included members from both industry and NGOs. All apparently supported the majority of the criteria.⁸⁵

74. Whilst simplicity is always something to be welcomed wherever possible, in this case the scoring system is too simple to give meaningful results. Limiting the scores to three possibilities has made the process much less informative and much less useful than might have been possible as it has combined in one single category those certification schemes that are doing some work towards meeting a criterion together with those schemes that are close to fully meeting the criterion. Since the publication of ProForest's conclusions NGOs have been critical of the endorsement of some schemes, of how some of the criteria have been interpreted and of the scores awarded to the different certification schemes. Given the narrow range of scores used, which can encompass such varying performance, these disagreements were inevitable.

Social Considerations

75. Sustainable development has three equal strands: social, environmental and economic. It is therefore of great concern to us that the Government's current interpretation of the EU rules governing procurement do not allow social considerations to be taken into

83 The 26 criteria are divided between the sections on the standard (13 criteria), certification process (6 criteria), accreditation (1 criterion), chain of custody and claims (6 criteria).

84 DEFRA, *Government Timber Procurement Policy Assessment of five forest certification schemes CPET Phase 1 Final Report*, November 2004

85 *ibid*

account when awarding a procurement contract. This means that the assessment of the various forestry certification schemes did *not* include an assessment of how social issues, such as the rights of indigenous people, are dealt with. The FSC is currently the only certification scheme that does this comprehensively. **Many environmental groups and members of the timber industry, such as Timbmet, argue that a forest cannot be said to be sustainably managed if it does not protect the rights, health and livelihoods of people who live in or adjacent to forests and are dependent on them. We would agree.**

76. We therefore question whether it is possible for the Government to state that it has a sustainable timber policy—legal, yes—if the social implications of how and where it purchases timber are not a consideration. As it stands sustainable timber procurement is a misnomer.

77. We were told by the Minister that *“my advice is that it is not, in terms of contracts, legally possible to insist upon the social element in relation to sustainable forestry management”*.⁸⁶ Denmark, one of the EU Member States, which along with the UK has a more advanced sustainable procurement policy, does allow social considerations to be taken into account. Commenting on Denmark’s position Mr Morley stated that *“Denmark have taken a slightly different approach, although their approach only applies to tropical timber...I understand that Denmark are considering applying this criteria in their definition of sustainability as a compulsory requirement”*.⁸⁷ **We urge the Government to seek clarification regarding the basis of the Danish approach and the EU position on the inclusion of social considerations in procurement contract. Furthermore, given that the decision not to include social considerations for once appears to be unrelated to restrictions under any WTO agreement, the Government must work hard within the EU to change policy and remove these restrictions, should it become clear that they are real rather than apparent.**

CPET’s Conclusions

78. CPET’s conclusions were that FSC and CSA certification schemes gave assurance of legality and sustainability. SFI, MTCC and PEFC were considered to give assurance of legality though not sustainability. Following these conclusions the SFI and PEFC schemes modified their procedures and are now deemed to be proof of sustainably sourced timber. These conclusions contrast with the views of NGOs such as WWF, Fern and Greenpeace, and other bodies such as the Tropical Forest Trust, who consider the FSC to be the only scheme stringent enough to offer a guarantee that timber purchased has been harvested sustainably. This disagreement is based on three issues: the lack of inclusion of social considerations; the reliability of a paper based assessment and the environmental record of some of the certification schemes.

79. Firstly, regardless of what is or is not allowed under EU rules, a certification scheme that is not judged on its social impacts cannot be considered to have been fully assessed for

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its sustainability. As we have made clear we agree that one of the integral aims of any sound forest and timber policy must be to protect the rights of those indigenous and other people who depend on healthy forest ecosystems for their livelihood. Secondly, assessing a certification scheme on what it sets out on paper as its approach to sustainability is not sufficient to guarantee accurate assessment. Though we can understand the approach taken by ProForest—a thorough assessment of practice on the ground would be prohibitively costly and time-consuming—it is an issue that cannot be ignored. Whilst we would not expect CPET to assume the role of watchdog, we would expect it to reassess its conclusions should any evidence be brought to its attention regarding how schemes implement their policies in practice, which calls into question legality or sustainability.

80. Lastly, there are concerns that although many—if not all—of the schemes may be proof of legality they are in actual fact endorsing many unsustainable practices. For example Greenpeace states that PEFC endorses the Finnish Forest Certification Scheme (FFCS) (which itself has submitted a memorandum to the Committee) despite its logging of some of the few remaining Finnish old growth forests on disputed land that is being claimed as belonging to the Saami people. The SFI endorses schemes where forests containing endangered species are being logged and certifies timber that comes from areas that are being completely cleared for development. The CSA allows logging companies to set their own forest management standards, with no minimal agreed standard. Currently its rights to log 13 million hectares of Canadian forest are being disputed by environmental and indigenous groups in the Canadian courts.⁸⁸ The MTCC raises the most concerns. Greenpeace has published a report entitled *Missing Links: Why the MTCC Certificate doesn't prove that MTCC timber is either legal or sustainable*. The report highlights the lack of stakeholder consultation in Malaysia when concessions for logging are granted and that the resulting certificate is issued on a state-wide level (therefore endorsing widely variable methods of management offering no guarantee of sustainable management practices). It also expressed serious concerns regarding a very weak Chain of Custody (CoC) from log stump to processing mill, which makes it particularly easy for illegally logged timber to enter the supply chain. In its memorandum Greenpeace told us that “*by accepting CSA, SFI, and PEFC certification schemes as evidence of legality and sustainability and MTCC as evidence of legality, CPET is giving a veneer of respectability to schemes that fail to recognise the rights of indigenous people, to protect forests of critical importance that have a weak chain of custody tracing and no third party auditing. It is, in effect, driving procurement officers to certification schemes that certify timber from destructively logged sources.*”⁸⁹

Programme for the Endorsement of Forestry Certification

81. Whilst we support the approval of the FSC by CPET and are supportive of its work in assessing a variety of schemes we do have some concerns regarding the endorsement of PEFC. As an umbrella scheme it encompasses a large number of different national schemes and it is unclear whether all of these achieve a common minimal standard. When asked

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what minimum standards PEFC requires of members during our evidence session no answer was forthcoming. Since then PEFC has written to us setting out how various standards are applied in different parts of the world by its members. This however still begs the question of why PEFC does not have in place a clear set of principals and standards that apply to all members. This would ensure that—from wherever PEFC certified timber was sourced—it would come with a clear guarantee of what exactly it represents. That this is not the case is troubling. As we were told by FERN:

If you say: “Is the PEFC a greenwash?” my answer would be: “In some countries, yes; in other countries, no.” That is an intrinsic problem for a scheme which has one label and one logo.⁹⁰

Given this it is difficult to see how it is possible to endorse the scheme as a whole, without having concerns about the different standards applied in different countries. It also raises the question of what would happen if it became clear that one or more of the national schemes were not conforming to DEFRA’s sustainability or legality standards. Would the PEFC be removed from CPET’s approval list as a whole and, if so, what is the value of approving it rather than the schemes individually? If under such circumstances, CPET were not prepared to remove PEFC as a whole from the approved list then it makes a travesty of the whole process. Procurers purchasing timber bearing the PEFC logo would do so under the impression that they were purchasing sustainable timber when it may be nothing of the sort.

82. Our concerns are partly addressed by CPET’s decision to review PEFC’s approval within 6 months. However this is not enough, unless some form of assessment is carried out of some of the schemes it covers. In particular CPET should pay special consideration to cases where the legality of a logging concession is being called into question in the courts or there are concerns regarding the extent of logging in old growth forest areas. **CPET should make clear to PEFC that it would be desirable for it clearly and simply to set out the minimum standards it expects all its national members to conform to if it wants continued approval of its scheme.**

Category B Proof

83. We understand from DEFRA’s evidence that the criteria for Category B proof of sustainability and legality of timber are in the process of being developed. We absolutely support this work, not only from a WTO perspective, but because, as pointed out several times during evidence, many of the forests that are most in need of protection from damaging harvesting are in tropical areas where there is little hope of achieving certification for a significant amount of time. Given the concerns raised regarding CPET’s assessment of certification schemes, it is vital that any category B assessment is thorough and CPET gives clear guidance on what will be considered acceptable and clear proof of legality and sustainability. Mr Andy Roby, from the Timber Trade Federation, told us what

he would consider acceptable proof of legality in light of his experience of working in Cameroon:

I would ask to see evidence that concessions have been allocated legally, I would ask to see evidence that the taxes have been paid and that there is some sort of tracking back according to the government system, so three pieces of paper, and that, to me, would constitute in the first instance Category B evidence of legality of timber from Cameroon.⁹¹

With regard to proof of sustainability, where no certification scheme was in place he said:

I would expect to see a copy of a forest management plan that has been authorised by the Government in some way. Failing that, because governments themselves do not always do their jobs properly of checking up on plans, I would expect to see an independently audited management plan and actually the same applies to legality certificates. I think those can equally well be got in all sorts of nefarious ways and there really ought to be some auditing going on independent even of government structures in some countries.⁹²

84. It is clear from the above that providing proof of legality and sustainability, other than by certification, will be complex. Indeed, it is difficult to see how untrained procurement officers will have sufficient knowledge or experience to be able to judge for themselves. Our view was confirmed by Timbmet who told us they have found that:

there is still a problem, that the actual people who are procuring timber for government projects do not understand the issues and do not even understand the specifications that are handed down to them.⁹³

Because of this we would hope the advisory role of CPET, particularly its helpline, will include practical assistance for procurers when it comes to judging whether proof provided is acceptable. **It is important that whatever form Category B proof takes, CPET establishes a clear and comprehensive method of assessment that really delivers legality and sustainability and leaves no room for confusion amongst suppliers or procurers regarding what is required. It is also vital that CPET offers practical support to procurement officers in making judgements as to whether or not proof provided is acceptable.**

85. In the same way that CPET's focus on certification schemes has resulted in worldwide changes as to how such schemes carry out the work, we would hope to see credible Category B criteria encouraging major suppliers of hardwood timber to have a robust chain of custody in place to ensure the legality and sustainability of their supply. Progressive timber companies have proved that it is possible to do so and are likely, very deservedly, be at an advantage when supplying Government contracts in future. However

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even companies such as Timbmet have recognised that it is impossible to guarantee that all the timber it supplies is legal because despite all the systems that have been implemented “*the market at the moment is just so flooded with illegal logging*”.⁹⁴ Yet again this makes a very strong case for legislation that prevents illegal timber entering the market in the first place.

Local authorities and NDB

86. The significant buying power amongst all areas of Government, including local authorities and non-departmental bodies make it imperative that every effort is made to include all these bodies within the scope of CPET’s work. However, we are disappointed that there appears to be little appetite within Government to oblige local authorities to purchase their timber sustainably. We do not see why this should be the case. From an international perspective—if VPAs are to succeed—there is a need for a large and clearly defined market for certified products. There needs to be an obligation on the part of local authorities to buy sustainable timber, and the Government should enter into discussions with the Local Government Association and other bodies to help expand the market for sustainable timber and timber products and support the underlying drive for all this work: protecting and preserving the world’s forests. **We welcome the Minister’s assertion that he is keen to extend the standards set for Central Government to other public bodies, and that he is taking action to do this. We would be very interested in hearing what precise form this action is taking.**

Timber Procurement Across Europe

87. In the absence of any legislation, effective Government timber procurement is the most powerful tool available to reduce the levels of illegal timber consumed within the EU. However, for procurement to become a truly valuable tool in protecting the world’s forests there needs to be effective efforts across the EU to co-ordinate timber procurement policy. This would provide a common standard for timber producers and importers to aim for. It would also provide a very significant common market that would act as an incentive to implement the required standards of proof of legality and sustainability. The fact that as already highlighted only five countries, Denmark, France, Germany, Netherlands and the UK, have put policies in place is discouraging. However, other countries such as France and Belgium are beginning to show some interest in this issue and we hope to see further efforts being made within the FLEGT Action Plan to increase the number of Member States putting sustainable procurement policies in place.

88. **Every effort is necessary to ensure a harmonized timber procurement policy across Europe. We welcome DEFRA’s efforts to engage with other EU members on the issue of Government procurement and look forward to hearing how it intends to take this agenda forward with its European partners. We would however caution against implementing any common European standard that resulted in a reduction of the standards already put in place by the UK Government.**

CPET's Future Work

89. The aim of CPET should be to put in place for the Government an exemplary timber procurement policy that is effective and has clear and measurable impacts. It should also aim to facilitate the creation of an educated procurement workforce that understands the issues surrounding timber and how to resolve them on a day-to-day basis. **CPET offers by far the most advanced form of sustainable procurement advice within Government. As such a pioneer we are hoping to see it have significant impact. We also expect it to be used as a tool by DEFRA, OGC and all those involved in procurement, with the hope that what is learnt through improving the Government's procurement process for timber can be applied across all other areas.**

90. There has been some attempt to recognise those timber producers and suppliers that are working towards sustainability and certification, but have yet to achieve it. Timbmet told us about their work on an Independently Verified Progress mark which rewards progress towards FSC certification. FSC told us of their recent approval of a modular, approach to achieving certification. The Tropical Forest Trust, financed by the private sector, works with concession managers to help them achieve FSC certification. WWF is doing the same with its WWF-Forest Trade Network. All of these instances recognise that it is important to identify and assist those producers who are working towards achieving sustainability. Notably all these organisations are working towards achieving FSC certification, rather than any other scheme. **We encourage CPET to examine ways in which departments and procurers can be encouraged to purchase timber and timber products from producers working to achieve sustainability, over those simply achieving legality, when sustainable products aren't available. This should include the introduction of a third category of timber, above legality and below sustainability, of 'progressing towards sustainability' to be included in guidance as soon as possible.**

91. **It is also vital for DEFRA to set a clear timetable for implementing a requirement for all departments and other government bodies, local and national, to purchase only sustainable timber. In our view five years would be a realistic deadline. This would give clear signals to the market that legality is not enough and an incentive to work towards increasing sustainable timber production.**

92. Setting aside the relatively long time it has taken CPET to get up and running, its creation is very welcome by us, and those campaigning and working in the timber industry. We have received praise of CPET and its approach from industry, NGOs and even overseas timber organisations. **Whatever criticism there may be from ourselves and others with regard to the detail, it is undoubtedly true that CPET's work has the potential, as has already proved to be the case, to have significant impact on timber procurement and timber production worldwide. We look forward to seeing greater positive impacts worldwide as CPET's role expands and develops in the future.**

Concluding Remarks

93. It is gratifying to find in this follow-up inquiry that there has been some very significant progress on the issue of timber since the EAC's predecessor Committee's Report in 2002. Concerns about illegal logging and deforestation have risen rapidly up the agenda both in the UK and within the EU in the last three and a half years. However, a great deal still remains to be achieved if forests worldwide are to have their long-term survival assured. With this in mind it is clear to us that there are several areas that it is vital are taken forward as a matter of urgency.

94. Social considerations are integral to whether or not timber can be considered to be sustainably logged. DEFRA must seek clarification on the EU position on these social considerations as soon as possible and work towards removing any restrictions on taking them into account as a matter of urgency. Every effort must be made to assisting producer countries to be in a position to enter into VPAs in sufficient numbers so as to create a significant presence in the EU timber market. Likewise, the EU and UK Government must endeavour to harmonise timber public procurement policy across Europe to insure a significant market exists for sustainably felled timber and timber products from VPA countries. This must also be underpinned by effective legislation, preferably EU wide, which addresses the issue of illegal timber imports, including circumvention and illegal timber imports from non-partner countries. Furthermore the difficult issue of the financing of illegal and destructive forest activities based in the UK and EU must be addressed. Multinationals and financial institutions must be made responsible for their destructive activities abroad. Finally, those companies and organisations that are working to increase the sustainability of timber worldwide should work together to promote their activities and make consumers aware that they have a simple choice to make every time they purchase a piece of timber or a timber product: to help destroy the world's forests or to help protect them.

95. In many of the areas covered by this report the UK Government has proved to be an international leader: government procurement, assessment of certification schemes, negotiation of VPAs. Now its EU presidency is over it must not become complacent and must continue in this role. It must lead by example. It must push for EU wide legislation. If this fails it must implement national legislation. It must also, very importantly, ensure that companies based in the UK are not allowed to carry out or finance destructive activities in other parts of the world that would not be allowed in this country. Timber and sustainability is an area in which we will watch to monitor progress, and which we may wish to return to in the future.

Formal minutes

Wednesday 18 January 2006

Members present:

Mr Tim Yeo, in the Chair

Ms Celia Barlow

Mr Martin Caton

Colin Challen

Mr David Chaytor

Mr David Howarth

Mr Nick Hurd

Mr Mark Pritchard

Emily Thornberry

Dr Desmond Turner

Mr Ed Vaizey

Joan Walley

The Committee deliberated.

Draft Report (Sustainable Timber), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 95 read and agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Chairman do make the Report to the House.

The Committee further deliberated.

[Adjourned till Wednesday 25 January at 2.30p.m]

Past reports from the Environmental Audit Committee since 1997

2004-05 Session

First Greening Government: the 2004 Sustainable Development in Government Report, HC 698

2004-05 Session

First Housing: Building a Sustainable Future, HC 135
 Second Corporate Environmental Crime, HC 136
 Third World Summit on Sustainable Development 2002: A UK Progress Report, HC 381
 Fourth The International Challenge of Climate Change: UK Leadership in the G8 and EU, HC 105 (*Reply Cm6617*)
 Fifth Environmental Education: Follow-up to Learning the Sustainability Lesson, HC84 (*Reply Cm6594*)
 Sixth Sustainable Public Procurement , HC 266
 Seventh Pre-Budget 04 and Budget 05, HC 261 (*Reply HC 528*)

2003-04 Session

First Annual Report 2003, HC 214
 Second GM Foods – Evaluating the Farm Scale Trials, HC 90
 Third Pre-Budget Report 2003: Aviation follow-up, HC 233
 Fourth Water: The Periodic Review 2004 and the Environmental Programme, HC 416 (*Reply, HC 950*)
 Fifth GM Foods – Evaluating the Farm Scale Trials, HC 564
 Sixth Environmental Crime and the Courts, HC 126 (*Reply, HC 1232*)
 Seventh Aviation: Sustainability and the Government Response, HC 623 (*reply, HC1063*)
 Eighth Greening Government 2004, HC 881 (*Reply, HC 1259*)
 Ninth Fly-tipping, Fly-posting, Litter, Graffiti and Noise, HC 445 (*Reply, HC 1232*)
 Tenth Budget 2004 and Energy, HC 490 (*Reply, HC 1183*)
 Eleventh Aviation: Sustainability and the Government's second response, HC1063
 Twelfth Environmental Crime: Wildlife Crime, HC 605 (*Reply, HC 438*)
 Thirteenth Sustainable Development : the UK Strategy, HC 624

2002-03 Session

First Pesticides: The Voluntary Initiative, HC100 (*Reply, HC 443*)
 Second Johannesburg and Back: The World Summit on Sustainable Development–Committee delegation report on proceedings, HC 169
 Third Annual Report, HC 262
 Fourth Pre-Budget 2002, HC 167 (*Reply, HC 688*)
 Fifth Waste – An Audit, HC 99 (*Reply, HC 1081*)
 Sixth Buying Time for Forests: Timber Trade and Public Procurement - The Government Response, HC 909
 Seventh Export Credits Guarantee Department and Sustainable Development, HC 689 (*Reply, HC 1238*)

Eighth	Energy White Paper – Empowering Change?, HC 618
Ninth	Budget 2003 and Aviation, HC 672 (Reply, Cm 6063)
Tenth	Learning the Sustainability Lesson, HC 472 (Reply, HC 1221)
Eleventh	Sustainable Development Headline Indicators, HC 1080 (Reply, HC 320)
Twelfth	World Summit for Sustainable Development – From rhetoric to reality, HC 98 (Reply, HC 232)
Thirteenth	Greening Government 2003, HC 961 (Reply, HC 489,2003-04)

2001-02 Session

First	Departmental Responsibilities for Sustainable Development, HC 326 (Reply, Cm 5519)
Second	Pre-Budget Report 2001: <i>A New Agenda?</i> , HC 363 (HC 1000)
Third	UK Preparations for the World Summit on Sustainable Development, HC 616 (Reply, Cm 5558)
Fourth	Measuring the Quality of Life: The Sustainable Development Headline Indicators, HC 824 (Reply, Cm 5650)
Fifth	A Sustainable Energy Strategy? Renewables and the PIU Review, HC 582 (Reply, HC 471)
Sixth	Buying Time for Forests: <i>Timber Trade and Public Procurement</i> , HC 792-I, (Reply, HC 909, Session 2002-03)

2000-01 Session

First	Environmental Audit: <i>the first Parliament</i> , HC 67 (Reply, Cm 5098)
Second	The Pre-Budget Report 2000: <i>fuelling the debate</i> , HC 71 (Reply HC 216, Session 2001-02)

1999-2000 Session

First	EU Policy and the Environment: An Agenda for the Helsinki Summit, HC 44 (Reply, HC 68)
Second	World Trade and Sustainable Development: An Agenda for the Seattle Summit, HC 45 (Including the Government response to the First Report 1998-99: Multilateral Agreement on Investment, HC 58) (Reply, HC 69)
Third	Comprehensive Spending Review: Government response and follow-up, HC 233 (Reply, HC 70, Session 2000-01)
Fourth	The Pre-Budget Report 1999: pesticides, aggregates and the Climate Change Levy, HC 76
Fifth	The Greening Government Initiative: first annual report from the Green Ministers Committee 1998/99, HC 341
Sixth	Budget 2000 and the Environment etc., HC 404
Seventh	Water Prices and the Environment, HC 597 (Reply, HC 290, Session 2000-01)

1998-99 Session

First	The Multilateral Agreement on Investment, HC 58 (Reply, HC 45, Session 1999-2000)
Second	Climate Change: Government response and follow-up, HC 88
Third	The Comprehensive Spending Review and Public Service Agreements, HC 92 (Reply, HC 233, Session 1999-2000)
Fourth	The Pre-Budget Report 1998, HC 93
Fifth	GMOs and the Environment: Coordination of Government Policy, HC 384 (Reply Cm 4528)

Sixth	The Greening Government Initiative 1999, HC 426
Seventh	Energy Efficiency, HC 159 (<i>Reply, HC 571, Session 2000-01</i>)
Eighth	The Budget 1999: Environmental Implications, HC 326

1997-98 Session

First	The Pre-Budget Report, HC 547 (<i>Reply, HC 985</i>)
Second	The Greening Government Initiative, HC 517 (<i>Reply, HC 426, Session 1998-99</i>)
Third	The Pre-Budget Report: Government response and follow-up, HC 985
Fourth	Climate Change: UK Emission Reduction Targets and Audit Arrangements, HC 899 (<i>Reply, HC 88, Session 1998-99</i>)
