

## **Timber consumer countries should join forces and coordinate legislative measures to eliminate illegally sourced timber from their markets**

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On February 29 a group of people with interest in addressing illegal timber in Asian supply chains gathered at the Inamori Center, Kyoto University Kyoto Japan. The group represented the private sector, civil society organizations and academia. During the day six presentations were given on topics related to illegal timber in the region, and participants at the event discussed implications, especially for illegal timber policies in the regions consumer countries. The PowerPoint presentations, this summary and comments on presentations can be viewed at: <http://www.cias.kyoto-u.ac.jp/event/?p=426>.

The present document summarizes some of the key insights that emerged from the presentations and discussions and ends with recommendations.

The problem of illegal timber in Asian forest product supply chains has been recognized since the issue became of global concern, during the late 1990s. Efforts have been made to stop illegal timber in the region. In the three major timber consuming countries, China, Japan and South Korea, steps are being taken towards eliminating illegal timber from supply chains. However, China, Japan and South Korea have still among the highest proportions of illegal timber in their foreign timber imports. Estimates by Chatham House suggest the percentage of imported timber that is from illegal sources is 20% for China, 12% for Japan, and 15% of South Korea, and these figures are considered to be conservative estimates.[2]

Japan has been trying to promote the trade and use of only legal timber in the country by implementing a so called “Goho Wood” system. The system, however, is voluntary for the private sector, and is considered to have design flaws, and thus to be ineffective to stop illegal timber entering into the country. Political parties are currently developing legislation that is intended to address the illegal timber problem. It remains to be seen how strict a possible new legislation will be, and whether if it will impose higher standards and punish offenders. A recommended scenario is that any new legislation will be on par with the EU timber regulations, USA Lacey Act or the Australia Illegal Timber Prohibition Act.

South Korea has since 2013 enacted the Act on the Sustainable Use of Timber that includes countermeasures against illegal timber from Korea or from elsewhere being traded and used in the country. However, no “Enforcement Ordinance” has yet been adopted, an ordinance that would effectively activate the legislation. It is anticipated that South Korea will introduce voluntary due diligence among timber traders and manufacturers by 2017.[3] Timber and other wood products processing companies and the wider public are largely unaware of the legislation or of the fact that their country stands out among timber consumer countries by how much illegal timber still enters the country.

China has been in the process of developing the Chinese Timber Legality Verification System for some time. The first draft of this CTLV was published, followed by a pilot study initiated by the

industry. The development of CTLV is continuing and a second draft is to become public in the near future. The CTLV proposes standards that are comprehensive and quite rigid, and compare well with standards used in, the USA, EU and Australia. How diligent these standards will be applied, however, remains to be seen. The standards are now being tested by third parties. Once these standards will be accepted as the norm, adequate and appropriate legal tools will exist to eliminate illegal timber from Chinese supply chains. The expectation, however, is that the adoptions of the standards may not happen soon. Especially governance issues of the application of the norms, or of the administration of the CLTV in general, appear to stand in the way of the mechanism being up and running soon.

Both China and Japan have adopted legal timber procurement policies, meaning that government agencies are required to acquire wood based products that are prepared from legal timber only.

Evidence of illegal timber entering into China and Japan can be observed when scrutinizing ineffective efforts of legality verification in Sarawak, but also from other Southeast Asian countries, or when tracing timber along supply chains that originate in Eastern Russia. While Malaysia claims to have a comprehensive legality verification system, this applies to Peninsular Malaysia, but not yet to Sarawak. The three Malaysian States: Peninsular Malaysia, Sarawak and Sabah are autonomous in their natural resource governance and policies, including related to forests. Companies draw on domestic and international certification schemes to produce certified timber which is then traded, for an important part to Japan, but in this trade timber that is not certified is commonly included. Companies, for instance, accommodate the status of areas under their control, to make sure that only those forest operations that meet the certification standards, are assessed. They then present themselves as certified timber companies, to also trade timber that is not certified, quite often illegal. The weak requirements of Japan's Goho Wood System allow this to happen.

Eastern Russia is a major supplier of timber into China, and via China to Japan, or directly to Japan. Itinerant logging brigades who operate entirely outside the law extract hardwood pine or Mongolian oak, which then is reported to be laundered higher up timber value chains. Chinese companies have invested in operations and trading depots across the border in Eastern Russia and Myanmar. These practices are known, but accepted by loggers, traders and buyers alike. The Russian illegally logged timber is traded to the USA, EU and Japan. Their origin from traders who source illegal timber can be confirmed from import records.

The lack of an adequate legal requirement to only source legal timber in Japan becomes also evident when Japanese buyers negotiate with Chinese or Russian wood traders. Japanese buyers are very demanding related to the quality of the product they acquire, or of the absence of toxic chemicals in timber shipments, for instance. Japanese buyers go to great length to verify that imported timber meets quality standards that are legally required. The timber being legal is not one of those requirements, and Japanese buyers, therefore do no check, nor insist that the timber they buy is legally sourced.

In Japan, China and South Korea the private sector is anticipating that legality standards will be raised in most developed consumer countries. In some sectors, companies, or their representative organizations, are actively promoting and even demanding that companies comply with higher

standards. This, for instance, is evident in the case of the Japan Paper Association, which is developing a Due Diligence Tool and the association assists member companies in moving forwards towards responsible sourcing. Many of the companies who are member of the association already use certified timber and woodchips to avoid illegal wood in their supply chains.

A positive observation can be made related to Asian producer countries. While examples like Sarawak and Eastern Russia still send important volumes of illegal timber onto Asia markets, considerable progress is being made, for instance, with the Voluntary Partnership Agreements (trade agreements specific for guaranteed legal timber between the EU and a partner country, i.e. Asian timber producer countries). Most of the ASEAN countries are working on such agreements with the EU. Indonesia is going to be the first country that export timber to EU that will have a FLEGT license, under the EU-Indonesia Voluntary Partnership Agreement, hopefully stimulating the other countries in ASEAN to follow suit.

The Asian timber sector in both consumer and producer countries is changing dramatically. There is much pressure and interest to move forward towards a more legal sector. Civil society organizations are pressuring, international and bilateral development cooperation is facilitating, and the private sector is responding and sometimes even leading the way. Governments and their respective agencies in the three most important timber consumer countries, China, Japan, South Korea, are not yet adopting leadership to implement legal standards that provide more guidance and that also will help producer countries' national governments and their supporters to make progress towards a forest sector that meets global standards of due diligence, and social and environmental responsibility.

It is not yet clear if there will be, and who will be, winners and losers because of the changes in legality compliance. Smallholders and communities may in the years to come find it more difficult to engage in forestry entrepreneurship and contribute through forest activities to their daily livelihoods. These actors have over the last decades progressively been brought into the domestic and international timber trade, as a result of forest devolution and recognition of customary ownership over forests. The negative outcome for smallholders and communities of higher legality standards is recognized, but needs to be addressed better by governments, civil society organizations and international development cooperation. The fallout needs carefully monitoring and initiatives need to assure that the most vulnerable participants in the forest sector will not suffer from the changes.

A second possible negative outcome in producer countries of an inadequate regulated forest sector may be that forest operators who are not able to continue forest extraction without complying with regulations, may boost estate crop production, and as a result convert forests from which timber used to be logged.

Forest management and forest policies are the prerogative of countries, and our suggestions here are made while fully respecting individual country's sovereignty. When focusing especially on the competences and responsibilities of national governments and their forest agencies, the following recommendations can be made. National governments, legislative bodies and forest agencies in Asian countries have an important tasks before them to device and implement legislation that further restrains illegal timber from being traded in Asian supply chains. This will be a key

instrument that will put pressure on governments of producer countries to more effectively eliminate illegal timber, but it will also become a most helpful tool for those same governments and other actors in the forest sector to effectively implement policies and programs towards a more legal forest sector. National governments, sector agencies and other support organizations in producing countries do need to pay much attention to possible negative fallout of more effective legality verification and legality compliance, and adjust regulations and administrative procedures to make sure that smallholders and communities do not suffer, but rather can benefit from a more legal forest sector. And finally, the same governments and agencies should make sure that a more and effective regulated forest sector does not result in a different type of illegal logging when forest entrepreneurs shift from logging operations to estate crop production, or other forest destructive activities.

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[2] <https://www.chathamhouse.org>

[3] This information came from comments of a South Korean delegate at the 2016 FAO Asia Pacific Forestry Week