



MARKET DEMAND FOR LEGAL WOOD: LATEST TRENDS

EVENT SUMMARY

- Presented by:** Forest Legality Alliance, World Resources Institute
Getúlio Vargas Foundation's Friends of the Amazon Network Program
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TRAFFIC
- Event details:** September 25, 2013 - Hangar – Amazon's Convention and Trade Shows, Belém, Brazil
- Event Purpose:** This event aimed to discuss the international and domestic demand for Amazon's legal forest products, existing wood supply-chain control systems, and latest technology developments in Brazil and other Amazon-basin countries.
- Target Audience:** Private sector, trade associations, relevant Brazilian government agencies, civil society organizations, and academia.

Table of Contents

Session I: International market demand for legal timber	2
Lecture 1: Europe: The European Union Timber Regulation and the FLEGT	2
Lecture 2: Amendments to the Lacey Act – 2008: exercising due diligence to ensure compliance.....	2
Lecture 3: Perspectives from a private-sector buyer	3
Lecture 4: The impact of the legal regulations in China	4
Session II: Domestic Market demand for legal timber	6
Session III: Supply-chain Management and Monitoring Technologies	7

Session I: International market demand for legal timber

Lecture 1: Europe: The European Union Timber Regulation and the FLEGT

Speaker: John Bazill, European Commission

John Bazill began his speech contextualizing the European Union Timber Regulation (EUTR). This legislation touches three main topics: (i) prohibiting the trade of illegally harvested wood in European countries, (ii) operator's *due diligence* - measures to be taken to minimize risks in the wood supply chain, (iii) risk management exercise - analysis of supplier's risk criteria. These are new concepts for wood control, similar to an ISO. The supply company must have adequate procedures and traceability information to offer operators.

According to the speaker, FSC certification or any other type of accreditation with independent verification is a positive sign, provided it is consistent and meets the EU regulations. However, the EU itself does not recognize certification as a document to ensure traceability and legality within the principles proposed in the EUTR.

In Bazill's opinion, the concept, criteria and implementation of the "*due diligence*" system is a still evolving process by the European buyers. According to this system, European buyers (operators) and organizations should have access to information proving that the tropical wood was legally harvested. On the other hand, traders and provider organizations must be able to provide such information in an organized and transparent manner.

It is the buyer's responsibility to establish "*due diligence*" systems to assess, manage and mitigate risks in order to ensure they are not buying illegally harvested wood.

Representatives from wood importers to Europe attending the event claimed that, today, European buyers are asking for additional documentation besides the District of Origin for Controlled Wood (Documento de Origem Florestal – DOF), in order to comply with the "*due diligence*" system. In some cases, there are requests for evidence and documentation for each container. Asked if there is any initiative to standardize the documentation required by Europe, Mr. Bazill replied that there is no initiative to standardize the documentation by EUTR, but there is dialogue among importers, exporters and governments about what should be required, taking into account that it would be up to a court. The speaker also said that the competent authorities of each country are still defining their internal procedures for control and punishment of timber entering the European Union.

Lecture 2: Amendments to the Lacey Act – 2008: exercising due diligence to ensure compliance

Speaker: Tom Swegle, U.S. Department of Justice

Mr. Swegle began his talk by presenting the history of the Lacey Act. It is the oldest statute for wildlife protection in the US and one of the most comprehensive policies to combat wildlife crime. The law was amended in May 2008 to provide a tool for combating illegal logging, trading and trafficking of wild animals, fish and plants.

The Lacey Act makes it illegal to import, export, transport, sell, receive, acquire or purchase, in interstate or international market, any plant-based product made from trees or other plants that were logged or traded in violation of a U.S. law or a law in the country of origin.

The speaker gave some examples of wood illegally harvested: timber theft, operating without official authorization or in its opposition, logging without payment of royalties, taxes or required fees, failure to pay taxes or tariffs on a shipment of logs, to name a few.

Regarding Lacey Act violations, he explained that each case is assessed and penalized individually, with punishment usually consisting of forfeiture of goods, civil penalties (fines), and criminal ones (possible jail time). Mr. Bazill exemplified each case: (i) forfeiture of goods – the product is seized permanently if the plant was harvested, possessed, transported or sold illegally; (ii) civil penalties – apply to cases when the buyers, within the "due diligence" system, did not identify legality problems in the plant (harvest, transport, purchase and sale); or cases when the buyer had the knowledge of illegality, but the sale was less than \$350.00; (iii) criminal cases – willful infringement, where the buyer had knowledge of the facts and its illegality (involving import, export or transaction of plants exceeding \$350.00 in value).

According to Mr. Swegle the concept of "due care" is not prescriptive, but directs buyers to be cautious when purchasing plant-based products. This concept is designed to be applicable in different ways for different categories of people with different degrees of knowledge and responsibility by American courts. The Department of Justice gives indicators of what a person / company could follow to use "due care" (common sense and being alert) on the purchase of wood, mainly:

- Goods significantly below the market price,
- Lower prices or demand for cash payment for goods without documentation,
- Invalid or suspect documentation,
- Unusual sales methods or practices,
- Transactions that fit the descriptions of illegal transactions discussed in magazines and industry / trade publications,
- Inability of suppliers to respond rationally to routine questions.

A person caught buying illegal wood who can prove that he/she applied the "due care" may have his/her penalty relaxed. The Lacey Act requires the U.S. importer to fill a form stating that he/she understands and enforces the Lacey Act in its activities.

Mr. Swegle also cited the case of the company Crouch and Cocobol, Inc., in which it was identified by customs and bureaucratic measures that the company was selling illegal wood from Peru in the amount of \$ 7,150.00. The U.S. government seized the wood, according to the Lacey Act, and the application for its return was denied in June 2010.

Lecture 3: Perspectives from a private-sector buyer

Speaker: Brett Ellis, Sabra International

Tom Swegle's lecture was complemented by the testimony of businessman Brett Ellis of Sabra International, which sells Amazon timber to the U.S. In Mr. Brett's opinion, the Lacey Act helped entrepreneurs to act according to the law, once its clear regulations provide safeguards to the entrepreneur. The speaker also highlighted that the U.S. market is very open to Brazilian wood. In the beginning, the Lacey Act seemed daunting to wood traders, but Mr. Ellis thinks that legal protection is a plus. According to him, Brazilian bureaucracy is difficult to understand. He also mentioned that, certification, especially in Brazil, is still very expensive and that government initiatives such as the Lacey Act are very helpful in making it easy for the market to trust the product's origin.

After the first two exhibitions it was the audience's turn to speak. One of the main topics of discussion was the fact that some of the forest wood species have already been wrongly identified in the database, jeopardizing the legality in the trading process, due to the shortage of human expertise. How does the US Government mitigate this risk? The speakers answered that the Lacey Act's requirements are being gradually implemented and that the law also allows the naming and listing of all species.

The audience also raised the question as to why the FSC certification is not considered a guarantee of legality, since it is an existing, financially accessible tool, which ensures the legality of the process. For the US, independent legality certification or validation is not considered a valid formal document of origin, but it is highly

encouraged. The US Government cannot authenticate the FSC as proof of legality, but considers it as evidence within the "due care" system.

Lecture 4: The impact of the legal regulations in China

Speaker: Dr. Xu Bin, Chinese Academy of Forestry

Dr. Xu Bin brought to the debate the Chinese perspective about the impact of the timber legality regulations in the Chinese market. In his view, the regulations can play an active role in combating illegal logging, improving environmental protection and forest resources as well as promoting fair competition.

According to him, there are still many issues with the implementation of the rules in China and it is difficult for companies to comply with all requirements. In addition, operational details have not yet been developed, and the companies do not know how to meet those requirements.

With regards to the profile of the Chinese wood market, Mr. Bin pointed out that the European and American markets, with legality requirements for wood products, account for about 40% of total exports of Chinese wood. China lacks enough forest resources, almost half of the wood sourced being imported mainly from developing countries like Russia, Africa, Brazil, etc.

Regarding the impacts of the Lacey Act and EUTR in China, its companies have to adjust their sourcing practices depending on the country of origin and species: purchase more wood from low-risk countries and species, and seek the evidence of the legality of the wood. China has complex internal supply chains, which makes the traceability a challenge.

Given this reality, the speaker argued that in recent years, the wood imports from high-risk countries has decreased and increased from low-risk countries. He also said that the purchases from Brazil have increased in the past years.

Finally, Mr. Xu Bin presented an action plan that is being considered by the Chinese government. The plan aims, among other goals, to improve wood harvesting, transportation and processing regulations, to develop the legal wood guide to the main sourcing countries, to provide technical support for the companies on supply chain management, to strengthen the cooperation with key sourcing countries and markets, to develop the Guide for Responsible Forest Product Trade, and to develop the Chinese Wood Legality System.

Lecture 5: The Brazilian experience in the international timber trade

Speaker: Guilherme Carvalho, Pará State Wood Industry Exporters Association (AIMEX)

According to Mr. Carvalho, the Sisflora (Forest Products Trade and Transportation System) processes need to be more transparent. Aimex main concerns: lack of standard documentation to be produced in Europe and faulty database with wrong species (genus / species). The IBAMA (Brazilian Institute of Environment and Renewable Natural Resources) should standardize the species names in order to simplify the database and avoid these kinds of problems.

Mr. Carvalho also mentioned his concern regarding the industry's high costs (environmental, social and operational), which has negative effects on businesses. The industry cannot afford more costs. Wood products are being replaced by alternative products (aluminum frames, plastic windows) – for example, the *Minha Casa, Minha Vida* (My House, My Life in English) government program uses iron for roof structure and does not encourage the use of wood for construction.

The speaker also points out that the FSC certification is not highly valued by international bodies, since companies that are FSC certified do not always have any advantage nor any differentiation when it is time to export. Given this picture, how could the debate progress? Companies that are FSC certified should have a differentiated treatment (for example: pay half price of the forest declaration form, as it was in the beginning). The government treats FSC certified companies in the same level as non-FSC certified companies. Lacey / FLEGT should make life easier for FSC certified companies.

In Mr. Carvalho's opinion, it is necessary to improve the domestic price – the buyer must be aware of the costs of legal timber, once there is no progress without fair pricing.

Finally, the speaker pointed out that many times notices are not accessible to businesses in the award stage. He also asserts that the Brazilian market is promiscuous: there is delinquency, default, shell companies, as well as the buyer's (wholesalers or retailers) culture / behavior.

Session II: Domestic Market demand for legal timber

Lecture 1: São Paulo public procurement policy: The case of CadMadeira program

Speaker: Cassia Callegari, São Paulo's Secretary of the Environment

Ms. Callegari began her presentation by explaining that the CadMadeira program was created after the realization that the state of São Paulo is the largest consumer of wood in the country (according to Imaflora - Institute of Agricultural and Forest Management and Certification). The program was created by the State Ordinance #53.047/2008 and consists of a database of all companies trading native forest products and byproducts.

CadMadeira goals are:

- I. Getting to know and making available to the public the list of companies which trades forest products and byproducts of Brazilian native flora, allowing consumers and the public sector to identify them on the market, specially wood intended for construction;
- II. Act as an instrument of the state to control the origin of such products marketed on its territory more efficiently;
- III. To guide and regulate the actions of the State Government in implementing sustainable procurement policy of forest products and by-products derived from native Brazilian flora.

The Department of the Environment awards the Legal Timber Seal to corporations with headquarters or branches in the State of São Paulo which market forest products and byproducts from native flora in a responsible and legal way. In order to earn the seal, the company must be registered in CadMadeira. It is worth to mention that, although voluntary, the Legal Timber Seal is mandatory for participation in the process of state public procurement.

The CadMadeira is part of a broader list of government strategies related to sustainability criteria in its procurement policy. Ms. Callegari also mentioned the Social Responsibility Seal, the guidelines for implementation of sustainable procurement, and the State Ordinance #53.336/2008, which establishes a State program for sustainable public procurement.

Lecture 2: How to align demand requirements with supply expectations?

Speaker: Camila Nardon, The Forest Trust

The speaker began his speech by addressing the current scenario of the wood chain originated in the Amazon. On the international scene programs like FLEGT and Lacey Act were explained. On the national scene, Camila Nardon argued that the country has no legislation that punishes buyers and that the domestic market is known to not require control (DOF, GF, Certifications, traceability) for the product –competition with illegal products prevents the legality of the industry.

Having explained the current landscape, the speaker presented two case studies, companies Camargo Correa and Leroy Merlin:

In Camargo Correa's case, the contractor confronted a scenario with regions of deforestation and the purchase of large volumes of illegally harvested wood. The company first implemented an internal purchasing policy, suppliers registry and support vendors in search of good practices (backed by TFT, workshops, open communication channel). Camila Nardon highlighted the issue of logistics and price as the most important challenge faced by the company.

Leroy Merlin's case refers to the competitive retail market, in a context of complex chains. As for the actions taken, the company also established an internal purchasing policy, worked with manufacturers to know their suppliers, reworked the already established supply chain and established new connections with responsible sources. As with Camargo Correa, the issue of price, logistics and the existence of only a few vendors were the most important challenge the company faced.

Finally, the representative of TFT considers that there are signs of change in the domestic market behavior. Indeed, in order for the transformation to really happen, changes must come from within the company, mainly through internal purchasing policy. In addition to certification systems, transparency is the key concept to solve this issue.

Lecture 3: New control of forest management

Speaker: Flavio Macedo, SEMA - Center for Information Technology

The speaker gave a presentation on a system to optimize the process of forest management. He explained the current operation of the forest management project, highlighting the importance of the specification phase and that in the current format the trees are not geo-referenced.

On the other hand, in the new management control the technician in charge would register the management project through the Internet. This process would allow the trees to be registered individually. With this new control, the trees would be geo-tagged with their alphanumeric information related to each individual and the technical manager or chief operator would have to inform which trees were shot down, thus generating the volume knocked down, to be used when filling the Forest Transportation form (GF).

In the enforcement side, the new control would allow the inspection team to obtain the list of trees that were registered, inspected, released to cut and cut. Therefore, each tree could be individually monitored.

In phase 2, the project will identify the production chain all the way to the tree where it originated. Mr. Macedo also presented the possibility of using an electronic chip for tree identification and monitoring, which would enable the creation of a green seal for forest products as well. The electronic chip distribution and control could be done by the environmental agency or by a qualified technician in the company. The chip would contain the physical characteristics of the property, preventing its recording out of the UPA declared Polygon.

Data collection for the chips play an important role in the project presented by Mr. Macedo. The data collector is responsible for chip encryption, ensuring the security of data collected during the Forest Inventory. Finally, the speaker pointed out the possibility of chip reuse in a new transport, thus suggesting the use of vehicles with embedded GPS for effective monitoring of the operation.

This panel audience focused its questions to the SISFLORA representative, due to the flaws pointed out by the users both on the handling and on the use (i.e.: system was off the air for a few days), as well as the information the system provides (i.e.: data / incoherent filters). The speaker explained that the system is constantly changing and requires frequent adjustments.

Lecture 1: Demand for legal timber: concept, progress and use of technology to ensure the legal use of forest resources: Experiences gained in the development of the Peruvian National Forest & Fauna Information System

Speaker: Rafael Ramirez, Department of Information and Control of Forestry and Wildlife, Peruvian Ministry of Agriculture

Mr. Ramirez spoke about the responsible use of forest resources based on the Peruvian experience. Peru occupies the 9th place with respect to global forest cover and the 2nd in South America. There are 1,500 native and peasant communities in the Peruvian Amazon. They occupy 20% of the Peruvian Amazon (13,6 million ha.).

Faced with the need to manage natural resources in a sustainable manner, the government created the Peruvian National Forest & Fauna Information System. It has a system control module to:

- Ensure that stakeholders commit and effectively participate at both the political and technical level;
- Agree with the legal regulations for the development of the forest and wildlife control module, including public actors' participation;
- Socialize and incorporate user's opinion in a decentralized way.

To achieve these goals, the speaker mentioned the importance of a transparent process and rules to articulate actors through a system. Moreover, infrastructure, equipment, inter-connectivity and long-term financing are necessary as well.

Lecture 2: Deforestation Alert System (SAD in Portuguese acronym) market demands for legal wood: latest trends

Speaker: Martins Heron, Imazon

The speaker presented the Deforestation Alert System (DPS). This system has been developed for almost two years in collaboration with Google. The final testing phase started in January 2012 and was recently completed.

This system's main advantages are that all data and satellite image processing tools and digital maps are available and stored in Google's cloud system. The time for pre-processing, analysis and data dissemination has been reduced, reaching up to 50 % reduction of the time it takes to generate alerts.

The other advantage of DPS is that it allows the integration of mobile communication systems (smartphones and tablets, for example) and the Internet computer network. This integration eases the verification of the data in the field – which is in the core of data reliability as well as in the access to the deforestation and forest degradation alerts by the final users.

Additionally, system employees provide real time data and information collected in the field.

In addition, employees of the system provide data and information collected in the field in real time. Thus, the DPS has enormous potential to contribute to an integrated platform of collaborative and global monitoring, once the information is available.

Mr. Heron showed the data obtained from the DPS: from March 2011 to June 2013, there were 2,197 Deforestation Alerts and of these, 407 alerts were checked in the field and 51% were actually confirmed as outbreaks of deforestation, proving the system as efficient. All data are monthly available at the Imazon site in the Forest Transparency Bulletin.

The speaker also introduced the use of DPS to induce new public policy tools and presented two interesting cases: (i) using the DPS monitoring system and coordinated action between the public sector and NGOs, it was possible to plan and achieve zero deforestation in the municipality of Paragominas, in Pará state and (ii) using the

DPS monitoring system the MPF (Department of Justice) of Pará state forced the ICMBio to fight fires in state conservation areas.

Ruth Noguerón added to the Imazon presentation information regarding the partnership between the WRI and Imazon in a new global initiative called Global Forest Watch (GFW). The GFW is an online platform where Imazon analyses and other deforestation maps will be published and disseminated to allow stakeholders to understand what is happening in the forests and then take action.

Lecture 3: DNA supply chain and traceability in Brazil

Speaker: Alexandre Sebben (Forestry Institute geneticist and researcher)

Mr. Alexandre Sebben presented research on forest DNA. He demonstrated the advantages of DNA (it is unchangeable and eternal) making it even possible to trace wood boards through the DNA of the logs.

To conduct a forest management plan that is truly sustainable from an ecological standpoint, it is necessary to ensure regeneration by crossing the remnants. A cutting cycle of 30 years is not enough to ensure crossing between the remnants and valuable species will not come back for the second cut.

Concerning the rules of forest management in Brazil, the minimum cutting diameter (50cm), with a cutting cycle of 25 to 30 years, removes the best trees and impedes regeneration. Using genetic modeling we conclude that this model is not sustainable, because in a cycle of 30 years there is no recovery of the basal area.

The speaker argued that when the largest (and best) young trees are extracted and there is no young replaceable, the trees left are the ones with worst trunk (hollow or bent, for example). The best genotypes are thus extracted, incurring in a gene selection that is damaging to the forest. He stressed that "Legality is one thing, sustainability is another." Finally, Mr. Alexandre Sebben suggested the adoption of forest management practices by species instead of by area. Today up to 90 % of the area is used by cutting trees with 50 cm in diameter, returning to the area after 30 years. He suggested the use of 40 % of the area with diameters from 75 cm and return to the area after 100 years.

After Mr. Sebben's lecture the audience addressed him their questions, mainly due to his technical suggestions. Many in attendance said that these practices are being used by sustainable management businesses.

Lecture 4: The automated system for wood identification

Speaker: Alex Wiedenhoft (U.S. Department of Agriculture's Forest Service)

Alex Wiedenhoft is a specialist at the Research Center for Wood Anatomy of the Forest Products Laboratory, where we can find the largest wood collection in the world. According to Mr. Wiedenhoft, the fast and accurate identification work of wood is one of the main tools to combat its illegal trade and to prevent fraud such as the transport of a prohibited or restricted species "disguised" as a legal one.

The technology presented by Mr. Wiedenhoft during the event enables the distinction between very similar wood types through the use of a portable device, which assesses, automatically in a few seconds, all the possible wood genres and species, based on anatomical structures. The expert said that the principle of the American equipment is similar to the existing biometric systems in Brazil and that both have similar basis: to identify wood species at multiple levels. One of these levels would be the evaluation of the anatomical characteristics of the wood, such as vessels and parenchyma. Mr. Wiedenhoft said that the idea of the system is to "teach" the computer to read the information from a timber as a human eye does.

At the end of his presentation, the audience verified closely the system presented by the speaker and asked him their questions directly.

Closing remarks

Mrs. Thais Megid, the Friends of the Amazon Network executive secretary highlighted the success and importance of the event. "We were able to bring together actors from around the world to explain and demonstrate the laws and actions that influence the timber market," she said. She also warned about the need to learn from the examples presented here, "it is important that we learn from each other, so we can increasingly move towards sustainability in the sector ", she concluded.