

## FAIRLY TRADING THE WORLD'S TIMBER

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Lessons on Global Forest Governance  
and Trade from Europe and Liberia

*A World Policy Paper*

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## EXECUTIVE SUMMARY

Sustainably managing the world’s forest stock—4 billion hectares, covering about 30 percent of the earth’s land surface—is key to reducing poverty, conflict, and the greenhouse gases that cause climate change. Yet the planet is losing 12 million hectares of forest a year, due in no small part to failures of both governance and markets which combined have allowed illegal logging to continue.

Past approaches have been largely unsuccessful for two reasons. First, they have not used trade policy to ban illegally sourced wood. Second, they have failed to work rigorously with exporting countries to ensure adequate local capacity to control illegal logging. To address the first bottleneck, the EU Timber Regulation, like the amended US Lacey Act, prohibits illegal timber. To tackle the second bottleneck, the European Union (EU), in partnership with Ghana, Cameroon, Indonesia and other developing countries, has come up with a novel approach: the EU Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan Voluntary Partnership Agreements (VPAs). These are negotiated, bilateral agreements that use multi-stakeholder dialogues among civil society, the private sector, and government to create a way for timber-exporting nations themselves to define and enforce legality. The process creates a bigger tent in which to carry out forest sector legal reform, pulling all stakeholders into the discussion. When exporting countries enter into VPAs, they receive financing from the EU to implement modern systems to regulate forest practices, track forest products, and license their exports to the EU. The EU also generally gives these countries preferential access to EU markets that only allow the import of legal timber. The West African country of Liberia provides an excellent window into both the promise and pitfalls of this approach. The Liberia case, and the experience to date with FLEGT around the world, suggests six fundamental recommendations for how to mitigate illegal logging globally:

- 1. Use trade policy to create clear market signals:** First and foremost, all countries that import wood need to send the market signal that trade in illegal timber is no longer acceptable. The European Union grants trade preferences for developing countries that comply, for example, with core international labor standards; the European Timber Regulation—like the amended US Lacey Act—extends these preferences into environmental standards around legal forestry.
- 2. Address opportunity cost:** If forests pay, they stay. FLEGT VPAs help create a supply of certified legal timber to fill pent-up demand from increasingly environmentally conscious European consumers. These tools create a financial incentive for the developing country to create a legal, sustainable supply of timber.

- 3. Use procurement policies to drive demand:** The EU has flexed its government procurement muscle to drive demand for sustainable wood. Importantly, these policies arose from pressure from European citizens organized into Green parties and advocacy groups. It is estimated that EU government purchasing accounts for up to 20% of the market, and evidence already suggests that they are stimulating the market for legal timber even further.
- 4. Involve stakeholders in the beginning, middle, and end:** FLEGT seeks a shared global prosperity that will lead to a robust globalization resistant to shocks. It does so by involving developing country governments, private sectors, and—most significantly—local stakeholders as full partners, even if the process takes more time.
- 5. Build producer country capacity:** Significant capacity gaps exist in exporter-nations' forestry ministries. Investments must be made to increase governments' ability to establish clear policies for timber extraction and export, and then to monitor the trade in a transparent manner.
- 6. Coordinate regionally and globally:** Developed-world forestry policies today are poorly coordinated and inconsistent. These sometimes contradictory regimes must be knit together into a complementary framework. Guided and incentivized by the G-8, regional bodies such as ASEAN and MERCOSUR should push for FLEGT standards in their jurisdictions. As the FLEGT standards are embraced more widely via these regional bodies' participation, they will be further refined, strengthened, and standardized globally.

It is urgent that these recommendations be integrated into emerging frameworks in the other major consumers of timber— China, Japan, and the United States. Specifically:

- China and other growing manufacturing and consuming nations should enact an EU Timber Regulation/Lacey Act style prohibition on commerce in illegally sourced wood material.
- Parallel to this, China should also adopt a FLEGT VPA process beginning in Russia, Ghana, Gabon, and the Democratic Republic of Congo (DRC).
- Because US consumers are the end users of most Chinese wood products, the US has the buying power clout to press China on the above recommendation and should do so. In a parallel process, the US must strengthen the Lacey Act, which prohibits the trade of illegal wood and plant products, to include FLEGT capacity building and participation practices to enable developing country forestry ministries to be more effective in ensuring compliance.
- Japan's Green Procurement Law is very weak, and the country has yet to take meaningful action to combat illegal logging. In addition to stepping up to enact a ban on illegally sourced wood, Japan should provide FLEGT capacity building support to its major suppliers, Indonesia and Malaysia, and synchronize with EU efforts concerning these countries' threatened forests.

## PART I. DISAPPEARING FORESTS: A GLOBAL PROBLEM

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At the signing of the Kyoto Protocol on December 11, 1997, a group of 37 industrialized nations representing 90% of the world's economic output committed themselves to reducing greenhouse gas emissions. The Protocol represented a sea change in the fight for a global response to climate change.

The world has changed since 1997. Since Kyoto, events such as the 1997 Asian financial crisis, the 9/11 terrorist attacks, the rise of emerging markets and BRIC<sup>3</sup> large developing nations, global epidemics including SARS and the H1N1 flu, the global food and fuel crisis of 2007-08, and the global economic recession have highlighted the numerous global forces that have shaped the world today. Global interdependence has never been more apparent and clearly crucial to the nature of public policy issues, whether global public health, international financial systems, or climate change.

In December 2009, nations met in Copenhagen to discuss ways to slow climate change. High on the agenda was the issue of forestry management, a topic that had been considered but ultimately dismissed at Kyoto. Leaders of developed and developing nations now understand that reducing greenhouse gas emissions alone is not enough to hold back the impending damage associated with climate change, such as the melting of the polar ice caps and widespread environmental problems.

The world has approximately 4 billion hectares of forest, covering almost 30 percent of the earth's land surface. The World Wildlife Federation estimates that global forests lose more than 12 million hectares each year.<sup>4</sup> For example, between 1990 and 2005, Africa lost over 9% of its forests, representing about 57 million hectares or about 1.5% of the world's forests. In the same time span, Latin America lost 64 million hectares, representing 2% of the world's forests. Such statistics are alarming, and raise the question of *why* this is happening at such a rapid rate. The Food and Agriculture Organization (FAO) of the United Nations cites deforestation and uncontrolled forest fires as particularly rampant in war-torn countries or areas rife with conflict, and also notes, "most forests in Africa are owned by national governments, and the national forest agencies in many countries lack the financial resources required to manage the forest resources sustainably." While these disruptions affect the supply side of the timber market, there also are problems on the demand side, where timber and timber related products are imported without consideration of whether the products came from legal or illegal sources.

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<sup>3</sup> BRIC countries: Brazil, Russia, India, and China.

<sup>4</sup> World Wildlife Foundation, "Failing the Forests: Europe's Illegal Timber Trade." 22 November 2005.

But the picture need not be entirely pessimistic. Responsible forestry management practices have immense potential in the fight against climate change. Jan Heino of the FAO suggests that, “since forests and trees are vital storehouses of carbon, such an investment could also make a major contribution to climate change mitigation and adaptation efforts.” An FAO report estimates that investment in sustainable forestry management can create more than 10 million jobs. Contrast this against \$15 billion in lost revenues and foregone macroeconomic growth that the World Bank estimates is the result of illegal logging and poor safeguards on forests in the past decade,<sup>5</sup> and it becomes obvious that the forestry issue is not just about climate change. It’s about global economic prosperity.

## PART II. FLEGT: A FRAMEWORK FOR TRADE, PROSPERITY, AND EQUITY

Sustainable forest management is not a new concept. Since the early 1990s, individual country governments—particularly those in the G-8 group of powerful nations—multilateral organizations such as the United Nations have recognized this as a priority issue in the climate change debate.

As early as 1992, the United Nations Conference on Environment and Development (UNCED)—more widely known as the Rio de Janeiro Earth Summit—put deforestation on the agenda<sup>6</sup>, resulting in twelve countries<sup>7</sup> developing criteria and indicators for sustainable forest management as part of the Santiago Declaration in the Montreal Process of 1995.<sup>8</sup> The seven criteria include “vital functions and attributes (biodiversity, productivity, forest health, the carbon cycle, and soil and water protection), socio-economic benefits (timber, recreation and cultural values) and the laws and regulations that constitute the forest policy framework.”<sup>9</sup> Indicators correspond to each of the criteria; for example, the “the number of forest-dependent species” is an indicator of biological diversity (Criterion 1). Since then, more than 150 countries have endorsed the Santiago Declaration and adopted its criteria and indicators. While the UN Commission on Sustainable Development worked to produce 149 individual proposals for action on various topics within sustainable forestry management, the G-8 was also convening to develop an Action Program on Forests.

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<sup>5</sup> World Bank estimate, see <http://go.worldbank.org/RPDDNI38J0>.

<sup>6</sup> Specifically, deforestation was written into Chapter 11 of Agenda 21, the action plan derived from the summit.

<sup>7</sup> The Montreal Process Working Group countries represent a combined 90% of the world’s temperate and boreal forests, and 60% of all forests in the world.

<sup>8</sup> The Montreal Process represented a series of meetings, beginning in 1994, with the goal of developing and implementing internationally agreed criteria and indicators for sustainable forest management.

<sup>9</sup> Montreal Process website: [http://www.rinya.maff.go.jp/mpci/rep-pub/1999/broch\\_e.html](http://www.rinya.maff.go.jp/mpci/rep-pub/1999/broch_e.html)

In 1998, G-8 members committed financial and technical resources to taking specific actions in five major areas of sustainable forestry practices: monitoring and assessment, national forest programs, protected areas, the private sector, and illegal logging. The UN followed up by establishing a permanent subsidiary body, the UN Forum on Forests (UNFF), in 2000. Between 2000 and 2005, the UNFF built on the individual proposals for action, eventually resulting in a rather weak agreement on international forest policy and coordination in 2007. The agreement, the Non-Legally Binding Instrument on All Types of Forests, calls on countries to adopt a voluntary financing mechanism for forest management by the year 2009. Though the deadline has passed, this global fund is still under development.

## The Genesis of FLEGT

Responding to the G-8 Action Program on Forests, the European Commission hosted a World Summit on Sustainable Development in Johannesburg in 2002. The participating nations committed themselves to combat illegal logging and, partly as a result of major advocacy efforts by civil society in Europe, followed up one year later with the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. Adopted in 2003, FLEGT focuses on promoting the rule of law in operating forests legally and responsibly. It recognizes that as one of the world's largest importers of illegal tropical timber,<sup>10</sup> the EU is partially responsible for the problems caused by global deforestation and forest degradation. Using bilateral trade incentives and capacity building, FLEGT asks countries to voluntarily enter into a negotiation that produces what is, in essence, a binding trade agreement. The so-called Timber Regulation, finally passed by the European Parliament in July 2010, requires EU importers to carry out due diligence to ensure that the timber they purchase has been logged legally. Because purchasers require evidence of legality, market mechanisms place a premium on legal timber products, thus increasing the incentives for producer countries to enforce sustainable forestry practices to remain competitive.

Bilateral agreements between EU and producer countries, called FLEGT Voluntary Partnership Agreements (or VPAs), institute a licensing scheme to establish and subsequently verify the legality of timber, and to promote demand for legal timber imports into the EU while dampening demand for illegally logged timber. These VPAs are sovereign, legally binding trade agreements.

By signing on, exporting countries receive financing from the EU to implement modern systems to regulate forest practices, track forest products, and license their exports to the European Union. After a country enters into a VPA, it has an agreed time period to put the necessary systems in place. After these systems are established, only licensed timber from said country will be permitted to cross the EU border.

Timber exporting countries benefit in several ways:

- Improved access to EU markets, as public and private procurement policies increasingly specify the use of legal timber and the exclusion of unidentified or illegal timber
- EU political and financial reinforcement of forest governance

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<sup>10</sup> European Forest Institute. Saunders, Jane. EFI Policy Brief 2, "Forest Law Enforcement, Governance and Trade - European Union approach" (2008)

- Increased revenue from taxes and duties which, in some cases, may exceed the costs associated with running the licensing system
- Increased revenue from the EU to finance poverty reduction and community development programs
- Priority for EU development assistance for FLEGT-related measures
- Additional enforcement tools to combat illegal activities
- Improved international reputation for governments that commit to good governance

Trade with countries that choose not to enter into VPAs is unaffected. However, as purchasers increasingly adopt policies favoring procurement of verified legal timber, countries with illegal logging problems that choose not to enter into VPAs will lose market share in the EU. Clearly, exports of unlicensed timber from FLEGT Partner Countries would amount to smuggling of illegal timber; there is no obstacle in WTO rules to the implementation of bilateral agreements aimed at countering such illegal practices. The proposed trade measures aimed at fighting illegal timber production are based on voluntary, bilateral agreements and therefore pose no problem for WTO compatibility.

The FLEGT action plan also consists of furthering consensus building and broad stakeholder consultations to ensure governance reform is sustainable, promoting trade of legal timber, instituting green public procurement policies, supporting private sector initiatives, providing safeguards for financing and investment, addressing the problem of conflict timber, and using legislative instruments to ensure legal timber imports are seamlessly adopted into EU timber supply chains.

<b>Participating VPA Countries<sup>11</sup></b>
Cameroon
The Republic of Congo
Gabon
Ghana
Indonesia
Malaysia
Liberia
Central African Republic
Democratic Republic of Congo
Vietnam

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<sup>11</sup> Countries that are either in the system development or negotiation phase of the FLEGT process.

## Other FLEG Initiatives around the World

The EU FLEGT is not the only program of its kind. Three initiatives were established around the same time in Southeast Asia, Africa (AFLEG), and Europe and North Asia (ENAFLEG). Supported by the World Bank, these programs showed initial promise upon creation but have since made little progress. The fundamental difference is that FLEGT has a *trade* component, which means it has teeth; in contrast, the World Bank FLEG initiatives do not provide binding power to require countries to take action or sanction them if they do not.

The ENAFLEG initiative co-hosted by the Russian Federation and the World Bank brought together participants from 27 countries in a preparatory conference in June 2005, but it has produced little beyond meeting minutes and draft reports. Similarly, the AFLEG initiative sputtered out after its initial ministerial conference in 2003, with its only major outcome being a combined task force with FLEGT.<sup>12</sup> The AFLEG/FLEGT joint task force was meant to develop an action plan for implementing the Central Africa Forests Commission (COMIFAC) convergence plan, but statements from an evaluation meeting held in the spring of 2009 suggested that the task force “was handicapped for several reasons such as the inadequate effective participation of delegates, the non-involvement of the private sector and the lack of information between the different actors... [and] the task force did not have a proven influence on the forestry governance.”<sup>13</sup>

Despite the plethora of commitments and programs geared toward sustainable forest management, few have had as much traction and real impact in high-risk countries as FLEGT has had in Liberia, as will be detailed further. This is because FLEGT’s market based mechanisms add economic incentives to diplomacy in order to ensure compliance and feasibility. For example, while the French Parliament adopted a Forest Law (2001) and the Government of Canada established a National Forest Strategy (1998), none of the resulting government activities has addressed the needs of developing countries in enforcing sustainable forestry management practices as directly as has FLEGT. France’s international efforts do include reaching out to several countries (including Cameroon, the Democratic Republic of Congo, Gabon, Guinea, and Mali) as part of the Tropical Forests Action Plans and National Environmental Action Plans. Unfortunately, the program stops at capacity building. The Canadian government has limited its international activities to participation in the Intergovernmental Forum on Forests (1995-2000) and primarily focused its efforts inward, implementing criteria and indicators to define and measure sustainable forest management within the country as part of its Domestic Model Forest Program. FLEGT takes the VPA process a step further, coordinating suppliers to purchase legal timber. Japan’s Forest and Forestry Basic Law, passed in 2001, focuses on adopting the Santiago Declaration criteria and indicators for measuring progress. In 2006, Japan updated its Green Procurement Law (“Goho”) in an attempt to ensure that all forestry goods and services purchased by the state were harvested legally and came from sustainable sources. However, Japan did not obtain buy-in from private timber-purchasing industry groups as FLEGT—which compelled 73 major private company and industry groups including IKEA (Sweden), Chartered Institute of Builders (UK), and Timber Trade Federation (UK) to commit to these principles—had done. Despite its Goho policy, Japan continues to be one of the worst actors in consuming illegal timber.<sup>14</sup>

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<sup>12</sup> Created in 2005.

<sup>13</sup> Source: COMIFAC : Evaluation Workshop on AFLEG/FLEGT Task Force

<sup>14</sup> See Section IV, below.

FLEGT is unique in that it uses the EU, instead of an individual country, as an economic bloc to coordinate efforts. As a result, a growing number of countries within the region have implemented their own public procurement laws limiting purchasing to only legal timber, including Belgium, Denmark, France, Germany, and the United Kingdom. The 2008 amendment to the Lacey Act made the United States the first country in the world to prohibit the import, export or trade of illegally sourced timber and, because American entities represent a substantial portion of global timber purchases, made a significant impact. Nevertheless, there is much to be gained from adopting a regional initiative throughout the Americas, beginning with a public procurement program banning illegal timber products. EU member state governments are encouraged to voluntarily adopt public procurement policies on products such as legal and sustainable paper, construction timber, and office furniture, to name a few. FLEGT can and should be adopted by the NAFTA group; existing initiatives such as AFLAG and ENAFLAG can be resurrected using lessons from FLEGT.

However, an effective VPA cannot stand alone; it must be supported by sufficient political will by both the EU and the partnership country, and enforced through strong judiciary oversight. Producer countries can manipulate even the most comprehensive VPA. If enforcement is weak and violations are not pursued, the program will lose credibility.

## PART III. DRILLING DOWN: THE LIBERIA CASE

To fully understand the FLEGT VPA, it is necessary to see how it operates on the ground in a producer country. Liberia is an excellent window into both the promise and potential pitfalls of FLEGT.

Twenty-five years of dictatorship and civil war, preceded by a century and a half of misrule, have made Liberia one of the world's economically poorest countries. But Liberia has something that the world values now more than ever: a vast rain forest. The country's status as a republic with strong ties to the United States kept out European colonizers, so no Western power came in to slice rails and roads into the interior. Nature flourished in splendid isolation, and—due in part to international actions through the UN to sanction illegal timber from the country—more than a third of the country today is virgin rain forest, one of the largest proportions of any nation in the world.

A Garden of Eden blooms in Liberia: colobus monkeys crash through the jungle canopy, pygmy hippos toboggan into rivers, and sometimes the only roads through the forest are those blazed by elephants. Conservation International says that Liberia is the linchpin of West Africa's Upper Guinean forest, which is believed to shelter the highest mammal species diversity of any region in the world. The Liberian forest serves us all: it mitigates global warming; harbors vulnerable species like the Mount Nimba viviparous toad and zebra duiker; could be the source of new medicine; acts as a rich source of livelihood; and provides aesthetic and spiritual well-being.

## Blood Timber

Liberia's forests came under threat in the 1997-2003 Charles Taylor era when “blood timber” contractors, the notorious Oriental Timber Company (OTC) in particular, cut down and exported tens of thousands of acres of rainforest timber, often exchanging the logs for weapons that fueled the Liberian civil war. With the negotiated ceasefire and exile of Charles Taylor to Nigeria in 2003, and the election of Africa's first female president, Ellen Johnson-Sirleaf in 2005, politics there improved, but not economics. For example, the public health cost of stunting and wasting of people's bodies from malnutrition—\$400 million a year—effectively canceled out all official development aid. The government needed cash. All eyes turned to the forests.

Instead of selling mahogany and ironwood on the quick, President Johnson-Sirleaf joined forces with progressive international policymakers to ensure that Liberia got the highest possible price for its timber. Crucially, they did so by making sure that the timber was sustainable. Johnson-Sirleaf issued Executive Order Number One, the termination of all “blood timber” era contracts on the grounds that they had not paid taxes. UN sanctions on Liberian timber were lifted. She then launched the FLEGT process, signaling to the world that Liberians, in coordination with the international community, would try to transform a dodgy conflict-timber reputation into one of ecological stewardship.

## Dialogue to Counter Resistance

Sharp and swift internal resistance arose on three fronts. Some in the Liberian government wanted to open new concessions at once in order to produce a swift cash infusion. The private sector, having lost its concessions, threatened to sue Liberia. Finally, “pitsaw loggers,” thousands of ordinary rural Liberians who made their living through the extra-legal felling timber for sale in internal markets, felt that a new legality and enforcement scheme would put them out of a job.

The FLEGT process addressed all of these threats through open, inclusive dialogue beginning in 2006. A neutral convener, the World Conservation Union (IUCN), facilitated the establishment of six working groups that brought together the private sector, the government of Liberia, and civil society including pitsaw loggers. In fact, four members of the Multi-Stakeholder Steering Committee were comprised of civil society representatives. Through months of meetings, resistance weakened. Liberian government buy-in increased because the working groups became “teaching moments” about the importance of a long-term vision of making the Liberian forests pay more over time through stewardship. Private sector actors also began to see new opportunities in the seemingly inevitable emerging system.

“Commercial logging has resumed in Liberia after four years of thorough reform,” said John Woods, the director of the Forestry Development Authority (FDA), Liberia's national forest service. “Our National Forestry Management Strategy now calls for forests to be managed to bring benefits to local communities, conservation, and commercial forestry (the ‘three Cs’). In 2006, we passed a reformed Forestry Law and since then the FDA has adopted international standards in forest management. We welcome the assistance of Europe and the FLEGT framework in creating a vibrant forest sector and supporting responsible markets at this critical moment for our forests.”<sup>15</sup>

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<sup>15</sup> EFI Policy Brief 2 – Forest Law, Enforcement, Governance and Trade.

A specific working group on “pitsawing” was established. A member of that group, John Gueama of the FDA, personally went into the poorest parts of Monrovia’s public markets to talk with pitsawers, and helped organize them into a “pitsawers union” to participate in the multi-stakeholder dialogue. Instead of feeling threatened, these chain-saw operators now were able to help shape policy. The result is an emerging concession system that allowed ordinary Liberian pitsawers—not just big logging companies—to receive concessions.

All of this led to Liberia officially entering into formal VPA negotiations with the EU in March 2009. In a parallel process, the Swiss monitoring group SGS has been brought in through a US government contract to establish a chain-of-custody system where logs are tracked from stump to ship using barcodes and GPS. According to Thomas Pichet, director of SGS in Liberia, this is the most comprehensive system in Africa. In short, the Liberian case is a window into how illegal logging can be minimized even in the least likely of places through broad-based, pro-poor involvement; turning an apparent crisis into an opportunity for intelligent change; and the power of premium-priced markets for sustainable products—backed by progressive trade policies in the North— to convince developing countries to think long term.

### **Need for Global Initiatives**

Despite the progress made, Liberia’s situation is not perfect, for three reasons. First, concerns are growing that the Liberian government’s commitment to enforcing FLEGT regulations is waning, given that several concessions have been allocated in violation of various aspects of the law. Second, Goldman Environmental Prize winner Silas Siakor reports that although the VPA negotiation table includes three private sector representatives, their participation and involvement needs to be far more active. Third, and more fundamentally, China is not part of FLEGT, creating real concerns over leakage. Since FLEGT is strictly an EU-Liberian agreement, the process only ensures that all logs exported to the EU are certified legal. China, meanwhile, has constructed one of its largest embassies in West Africa in Liberia, and its foreign chancellor has stated bluntly that “China wants Liberia’s forest resources.” Recognizing the potential for leakage, the EU insisted that the Liberian forestry ministry ensure that FLEGT regulations on legal timber standards apply to all exports over and above those that are bought from EU member states. For the Liberian government to make such a move would signal substantial commitment toward addressing the issue of forest reduction and degradation. The EU and Liberia found a solution in this case, but the leakage issue points to the need for a coordinated global solution.

## PART IV. SCALING UP

The EU-Liberia experience provides lessons in how commitment from wealthy timber consuming countries can produce real results in sustainably managing the world's climate-stabilizing, biodiversity-harboring forest stocks. FLEGT is where the rubber hits the road, and needs to be scaled up in order to make headway on global deforestation. As seen in the case of Liberia, the efficacy of FLEGT depends upon the economic influence that the EU (and other importing nations) can assert on countries from which it imports illegal timber. Bilateral negotiations and trade capacity building can only be effective if there is sufficient trade volume to leverage a long-term relationship.

The world's major consumers of timber are the EU, China, Japan, and the United States. Using market demand for timber as a proxy for economic leverage and taking into consideration existing efforts and programs, the FLEGT experience between the EU and Liberia might provide a useful framework for policymakers and interested stakeholders such as the IUCN or the World Bank.<sup>16</sup>

### **China**

The Chinese market for wood and timber products has grown immensely in recent years, alongside its own economic growth and mass urbanization. The domestic real estate market has been booming, and with it the demand for timber and timber related products. UN Comtrade statistics show that China is one of the major drivers for overall growth in global timber consumption. Notwithstanding negative shocks due to the recent global economic recession, timber exports are estimated to be growing at an annual rate of 30%, and Global Witness reports that China accounts for about a quarter of the global trade in illegal timber.

A study published in December 2007 by the Environmental Investigation Agency (EIA), a private non-profit watchdog group, surveyed Wal-Mart suppliers in northern China to understand their knowledge about the legality of their wood supply. The EIA discovered a “don't ask, don't tell” policy with regard to where the Chinese suppliers were obtaining their wood, and noted the “particularly dangerous consequences for the high conservation value forest of the Russian Far

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<sup>16</sup> This section draws from 2005 data from a report published by the World Wildlife Foundation and a separate data by [globaltimber.org.uk](http://globaltimber.org.uk).

East (where illegal logging rates are thought to be 35%-50%) and the endangered species dependent on them, including the world's largest cat, the Siberian tiger.” Although Wal-Mart management decisions certainly are not in the purview of Chinese officials, the study revealed an important aspect of the Chinese wood-supplier incentive structure: low costs. The pressure to maintain a comparative advantage and low prices for Chinese manufacturers translate to sourcing timber from illegal sources, which, in the absence of regulations and enforcement of the rule of law, is amenable to cost effective business practices. The study concludes that about 84% of Wal-Mart's wood products are made in China, presenting a continual threat to the efficacy of other global efforts to curb the illegal trade of timber.

As China's urban centers, including Shanghai and Beijing, continue to grow at double-digit rates, the demand for raw timber imports is also expected to boom. With China's state-owned forests being protected through the China National Forest Conservation Program, this appetite for timber can only come from foreign sources. Russia and Indonesia stand out as two of China's major suppliers of timber, and threatened natural forests have been supplying the growth in demand for raw timber imported to China. China's bilateral trade with Russia in 2005, amounting to 12 million cubic meters of timber, or \$900 million in revenues, suggests that this is a good place to start, assuming Chinese authorities are serious about their stated commitment to “build a society that is energy-efficient, environment-friendly, wholly coordinated and sustainable.”<sup>17</sup>

While the Chinese government has made forestry protection one of its goals, there is still no evidence that it has made substantial progress in stemming the global trade of illegal timber. Domestically, there are no public procurement policies encouraging the use of legal timber. China's effectiveness in controlling legal timber imports is equally weak. One example, among many, involves a 2001 seizure of two Chinese-owned vessels transporting illegal logs from Indonesia. Although China had been in the process of signing a bilateral agreement with Indonesia to address issues of illegal logging, no subsequent action had been taken to implement the commitments made in the relevant Memorandum of Understanding.<sup>18</sup>

Nonetheless, the Chinese government established the Asian-Pacific Network for Sustainable Forest Management and Rehabilitation. It published two guides on overseas sustainable forest management. It also aims to strengthen cooperation with NGOs, signing MoUs with major trading countries including Indonesia (2002), the US (2008) and the EU (2009). In a September 2007 EU-China FLEGT conference, both governments made agreements to fight illegal logging by establishing mechanisms to tackle illegal practices; verify the legality of timber products; and share best-practices knowledge about implementation of trade, certification, and other relevant policies. China's Natural Forests Protection Program has signaled at least a small change of wind in domestic politics. The program was created to protect natural forests as plantation forests expand and threaten to overtake natural forests in supplying the timber needed for a growing economy.

At an April 2008 meeting between the European Commissioner for the Environment and the Director

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<sup>17</sup> 11<sup>th</sup> Five Year Plan Guidelines, The 16th Central Committee of the Communist Party of China (CPC). 9 November 2005.

<sup>18</sup> Testimony of Allan Thornton to US House of Representatives Committee on International Relations, Subcommittee on Africa, Global Human Rights and International Operations, 28 July 2005.

of China's State Forestry Administration, both parties reiterated their commitments to coordinate efforts and cooperate on promoting sustainable forestry management practices in Africa. One month later, eight Chinese forest sector representatives toured Ghana, Gabon, and the Democratic Republic of Congo, with participation by Liberian delegates. The tour was hosted by the IUCN, and a subsequent report for the tour noted that the Liberian government's Forestry Development Authority (FDA) had established a special working group on China. The working group intended to focus efforts on establishing closer economic ties and to move forward on China's stated commitment to promote legal timber trade practices. The Chinese delegation made overtures to encourage the Liberian FDA to continue to pursue the issue in the future.

Since then, China has taken no other action. China's economic rise has increased international pressures for China to step up its global responsibilities as a major power. As such, there is room for recourse on behalf of the G-8 nations to address China's role in global deforestation and forest degradation through illegal timber practices.

As a basic policy, China should adopt a US Lacey Act or EU Timber Regulation style prohibition on import or export of illegally sourced wood products. This would send a clear market signal and buttress US and EU efforts. China also should pursue bilateral negotiations for a VPA with Ghana, Gabon, and the DRC. About 80% of the Congo Basin's timber is exported, 30% of which is harvested illegally. Most of this illegal timber is supplied by Cameroon and Gabon, and goes to both the EU and China. Specifically, the EU accounts for about 95% of Cameroon's total illegal sawn wood exports. China buys 75% of Gabon's illegal log exports. This opens a window for the EU to cooperate with China in leveraging their combined economic power in the region.

A Chinese-EU cooperative strategy toward Russia should be a priority, given that China consumes 86% of East Russia's illegal export of logs. In addition, the EU accounts for 80% of total illegal trade flows in West Russia, making a strong case for joint efforts in reining the Russian illegal timber market into compliance with strong capacity building efforts such as those provided for in FLEGT VPAs.

A second approach involves placing public influence on the Chinese government by the end users of most of China's timber products: American consumers. A large majority of the timber imported into China is for final product assembly of consumer goods that are shipped out to foreign consumer markets. Domestic consumption of products in China, with the exception of certain urban areas such as Shanghai and Beijing, remains well below the global average given a per capita GDP of about \$4,000. Much of the wood imported into China is processed and re-exported, mostly to the US, rather than being consumed domestically<sup>19</sup>. Therefore, significant responsibility must rest with the consuming nations— particularly the US— in the event that the forest owning and processing countries do not take on the full responsibility of protection themselves.

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<sup>19</sup> It is important to note that recent reports from Forest Trends and the ITTO demonstrate that an increasing amount of wood imported into China is for domestic production. Percentages exported depend on the species and sector.

## Japan

Most of Japan's timber is imported from neighboring Asian countries, notably Indonesia and Malaysia, who are both already involved in the FLEGT process with the EU. This presents ample opportunity for extending a VPA with Japan, should Japan choose to reform its own processes to take a FLEGT approach. In 2005, about \$900 billion worth of plywood was imported from Indonesia and Malaysia, representing 40% and 43% of total export demand from these countries respectively. The USDA estimates that over 10 million cubic meters of logs were illegally smuggled out of Indonesia in 2006 alone. Although Japan's Green Procurement Law (2006), otherwise known as "Goho," requires that all forestry goods and services purchased by the state be harvested legally and from sustainable sources, expert Jade Saunders of the European Forest Institute describes Goho as "very weak." Despite its Goho policy, Japan continues to be one of the worst actors in terms of consumption of illegal timber.

The first and most significant step Japan should take is to send a market signal that trade in illegally sourced timber is no longer acceptable by passing an EU or US style prohibition on illegal wood. Then it should ensure the core engagement and involvement of civil society *on the supplier side* that the FLEGT-VPA offers.

In its favor, Goho does share similarities with FLEGT, including domestic interest group support, such as the Japan Lumber Importers Association, which has pledged to verify the legality and origin of timber products imported by its members. In 2008, the government launched a campaign to raise awareness about sustainable practices for timber and wood products. Over 7,500 timber-related companies, some of which were Russian, have become registered "Goho" suppliers, though this may amount to little more than "greenwashing" in the absence of an all-out prohibition on illegal wood. Also, it is not apparent what Japan is doing on an international level, not only to encourage sustainable forest management practices, but also to provide capacity building support to suppliers in countries like Indonesia and Malaysia.

Interestingly enough, the push for Goho coincided with Japan's accession to the Presidency role in the G8, a multilateral platform for international cooperation amongst the eight richest countries in the world. Is this evidence that multilateral cooperation provides incentive for countries to take action? Perhaps. In spring 2008, a round table meeting on Goho took place as part of the G8 Hokkaido Toyako Summit. From this, the G8 Illegal Logging Dialogue was created, with the purpose of developing policy proposals in consultation with legislators in tropical forest producing countries. As one of the founding members of this group, Japan helped develop the legislative policy agenda to include the introduction of a global system for recognizing source country licensing schemes, reinforcing domestic legislation within the G8 nations, building protected markets for legal and sustainable timber products, improving forest sector transparency through the Forest Transparency Initiative<sup>20</sup>, stimulating the allocation of investment capital to the tropical forestry sector, and assisting in the transition of progressive timber companies to forest management companies.

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<sup>20</sup> The FTI is a private sector-led initiative whereby timber companies take the lead in sharing information, prompting public agencies to do the same, thereby creating a positive cycle of increasingly far-reaching voluntary disclosure.

## ***The United States***

Historically, the President's Initiative against Illegal Logging, created in July 2003 under the George W. Bush administration and implemented by the US State Department, was a notable American effort in the area of sustainable forestry management. The program had originally focused efforts on three regions: the Congo Basin, the Amazon Basin and Central America, and South and Southeast Asia. The initiative was meant to provide support for developing countries in the fight against illegal logging and corrupt practices in the forestry industry. Although the initiative is now defunct, some gains were made. In November 2006, the US government signed a bilateral agreement with Indonesia to ensure that legal timber and wood products would have preferential access to US markets. Progress was also made in Liberia, where governance reforms in the forestry sector were being encouraged and supported. Finally, the US Free Trade Agreement with Central America and the Dominican Republic allocated \$18 million toward improving forest law enforcement. A disjointed picture has emerged of various piece-meal initiatives to promote sustainable forest management, but little real traction resulted.

That said, when the US finally stepped up to the plate in 2008, it did so with force. The latest US action was the passing of an amendment to its long-standing Lacey Act in May 2008.<sup>21</sup> The updated Lacey Act prohibits the illegal trade of timber and wood products, along with other plant imports. The first phase of the declaration requirement came into force on April 1, 2009. It created an electronic database for tracking all timber related imports including its origins and supplier. The Act is a strong move on the part of American interest groups and policymakers because, according to EIA's Andrea Johnson, "it creates an incentive for companies and countries that wish to procure to the US markets to strengthen their legal systems. It is a strong model that provides substantial flexibility to the private sector to figure out for itself what the best practices are to avoid trading illegal timber."

Though it is a strong step, Lacey remains incomplete. It lacks a US government public procurement policy and implementation remains problematic. For instance, an article in the *Guardian* newspaper reports that many US retailers still advertise illegal Burmese wood flooring. The legislation would also benefit from the stronger capacity building found in the FLEGT-VPAs.

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<sup>21</sup> The Lacey Act of 1900 has been a mainstay in combating wildlife crime by banning illegally sourced animal products into the U.S. It has been amended several times since its inception; most recently— in 2008—to place a similar ban on plants, including trees, and lumber products such as paper, furniture and flooring. In other words, the updated Lacey Act has become a tool in reducing illegal logging and global deforestation.

## PART V. CONCLUSIONS

The European FLEGT Action Plan and VPAs are a bright spot on the global stage, a laboratory of how to fairly trade the world's timber in a way that sustains global forests for future generations. Its implementation in Liberia shows that, even in a difficult post-conflict environment, such policies can find traction and begin to demonstrate success.

However, the European Commission must also move forward on its promise to be more aggressive in conducting investigations to prevent circumvention and laundering.

Liberia, for its part, must review several forest concessions that have been recently allocated in violation of various aspects of the law; involve the private sector more actively; and move to apply FLEGT standards to all exports beyond those to EU states, with a particular emphasis on the growing role of Chinese logging firms operating in Liberia.

Experience so far with using trade and procurement policies in combination with active participation from timber-producing nations yields six lessons:

- 1) Use trade policy to create clear market signals;
- 2) Address opportunity cost;
- 3) Drive demand through procurement policies;
- 4) Involve people in the beginning, middle, and end of the process;
- 5) Build producer country capacity;
- 6) Coordinate regionally and globally.

Additionally, China, the United States, and Japan all need to take the following actions:

- China and other growing manufacturing and consuming nations should enact an EU Timber Regulation / Lacey Act–style prohibition on commerce in illegally sourced wood material.
- Parallel to this, China should also adopt a FLEGT VPA process, beginning in Russia, Ghana, Gabon, and the Democratic Republic of Congo (DRC).
- Because US consumers are the end users of most Chinese wood products, the US has the buying power clout to press China on the above recommendation and should do so. In a

parallel process, the US must strengthen the Lacey Act, which prohibits the trade of illegal wood and plant products, to include FLEGT capacity building and participation practices to enable developing country forestry ministries to be more effective in ensuring compliance.

- Japan's Green Procurement Law is very weak, and the country has yet to take meaningful action to combat illegal logging. In addition to stepping up to enact a ban on illegally sourced wood, Japan should provide FLEGT capacity building support to its major suppliers, Indonesia and Malaysia, and synchronize with EU efforts concerning these countries' threatened forests.

Important synergies exist between the emerging REDD (reducing emissions from deforestation and degradation) framework for climate change mitigation and FLEGT. In cases where illegal logging is a driver of deforestation, FLEGT's legality assurance system is a key best practice. As exporter governments take FLEGT measures, investor confidence in REDD projects will increase. Additionally, as Jade Saunders has pointed out, "import limitations on illegal wood reduce the incentive for illegal logging, thereby reducing the opportunity cost of REDD" and making limitations a supporting measure for REDD as described in the December 2010 Cancun climate change conference.

Finally, the work of global bodies such as the United Nations and the G-8 nations present a forum for the United States, China, Japan, and the EU to bring issues of sustainable timber production to the top of producer countries' legislative agendas. Although the G8 has provided stimulus funding for projects related to illegal timber since 1998, its influence is limited to policy advice rather than implementation. As for the United Nations, the issue of illegal timber has been discussed through the United Nations Forum on Forests (UNFF) in various forms but little actionable progress has been made. Difficulties in obtaining consensus on a multilateral platform through the UNFF partly have to do with the problem of weak forestry ministries in producer countries. This is not easily overcome through a multilateral negotiation. Often, the ability to focus political will on actionable outcomes becomes even more difficult in the presence of such an environment. Therefore, smaller trading blocs such as ASEAN or MERCOSUR may present a stronger opportunity for success. Guided and incentivized by the G-8, each regional body should push for FLEGT standards in their regions. As this happens and gains further traction, the FLEGT standards will be further refined, strengthened and globalized. ●



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