

UK Timber Trade Federation Country Guidance for Responsible Purchasing

Independent stakeholder consultation

7 November 2007, Royal Society, London

Discussion notes

The meeting was held under the Chatham House rule of non-attribution and independently facilitated by Duncan Brack of Chatham House's Energy, Environment and Development Programme.

Background

The meeting was one stage in a stakeholder consultation process that aims to identify appropriate documentary due diligence for buyer to meet the requirements of the TTF Code of Conduct for non-certified timber. Once the guidance has been finalised and approved by the TTF, abiding by it will be a condition of the Code of Conduct and therefore membership of the TTF.

General discussion

It was noted that it was not yet completely clear that the fundamental approach of document-based due diligence to country guidance is feasible. It may be that it works for some countries and not others. In addition, in FLEGT VPA countries it may not be possible to implement this guidance before VPAs are in place – making it potentially irrelevant. However it may be possible to use the guidance as a baseline for companies wishing to pursue “Category B” evidence of sustainability.

Generally it was felt that ‘risk mitigation’ was not best served by a document-specific assessment of credibility. Stakeholders were concerned that buyers did not have the specialist knowledge (including language) to make robust judgements about documentary evidence. It was recommended that, in the absence of third party verification, documentation could be backed up with a series of safeguards – one supplier suggested, for example, civil society statements.

TTF members were concerned that information was difficult to get from suppliers and that behaviour may be difficult to change where individual buyers are relatively unimportant to a given supplier. However, the agricultural sector was held up as an example, as food safety concerns have driven an overhaul of global supply chains using information technology. It was hoped that similar developments would eventually occur in the timber trade.

Each country guidance paper included a number of broader sustainability questions (eg the treatment of HCV forests, land conversion) but it was not clear to all participants how these issues related to simple legality definitions or the implementation of the RPP. It was decided that those issues that are specific to FSC controlled wood standards should be included if identified as such, and only in the guidance on countries to which the Controlled Wood

standards are relevant. On the question of conversion forest it was noted that “where timber comes from?” should include both the geographical location and the type of forest.

Each country noted the use of TI Corruption Perceptions Index as a reference for reliability of evidence. It was suggested that a trend could give a better sense of the current situation and a ‘basket’ of similar indicators may be necessary to get a real sense of document reliability. It was noted that Chatham House is planning to undertake a country risk assessment project as part of a wider impact monitoring programme.

It was proposed that the guidance should draw on a wider range of recent country-specific research relating to legality verification. And that additional columns in the proposed matrix of verifiers should include: 1) which agency issues a document and whether it is possible to cross check its veracity, 2) the main elements/actions that are necessary to obtain any given document.

Concerns were raised about the difficulty of verifying paper documentation provided by factories with multiple sources and multiple clients. The more complex or fragmented the supply chain, the higher the risk of illegal timber entering it.

Another general concern expressed during discussion was that the UK government’s new procurement policy will be restricted to certified sustainable or FLEGT VPA timber after 2009.

Brazil country guidance

Rainforest Alliance gave an overview of some of the main risk issues relating to forest legality in Brazil.

General discussion

- It was felt that the long guidance should include context about government efforts to tackle illegality in the country.
- Stakeholders were concerned that Guidance should not be a fixed snapshot of the forestry sector in a given country at any one time. It was suggested that TTAP and other FLEGT-support projects could update the Guidance over time.
- It was felt that Brazilian chain of custody from mills/factories onward was reliable, but the critically risky section of the supply chain was identified as the forest floor to mill.
- It was noted that short integrated supply chains represented the least risky option for all buyers.
- One trader noted that his company payment schedule was based on legitimate export documents, so that was relatively easy to verify, but that documentation for all factory input was difficult to request in situations where his company was not the factory’s sole buyer.

Documentary assessment (based on proposed buyer decision tree)

- Brazilian mills tend to buy wood from a wide range of sources, particularly in light of current log shortages, so the first point in the decision tree should be “can you identify the forest source of your product?” without this certainty, the rest of the paper trail was considered invalid. There was no single reliable official document that would allow a buyer to identify forest source if a mill buys from a number of raw material suppliers.

Ghana country guidance

ProForest gave an overview of some of the main risk issues relating to forest legality in Ghana. The powerpoint file is available at www.illegal-logging.info.

General discussion

- The representative of the Ghana Forestry Commission noted that the Ghanaian forest plan allocates 20% of HCV forest for intensive conservation management (reserve). Off-reserve zones were allocated for use, including legal land conversion. Around 65% of total Ghanaian production comes from this area.
- Ghana is involved in FLEGT partnership negotiations with the European Commission. This process will support the clarification of the legal framework and evidence required to demonstrate compliance.

Documentary evidence

- Ghana is relatively small so most factories have a reasonable idea where their raw material comes from. It is now necessary for processors to demonstrate the source of their supplies using a yield list from the Ghana Forestry Commission (GFC). Without this it is not possible to get export contract approval.
- Although Salvage Permits (SP) can be issued legitimately, salvage timber was highlighted as coming from a high-risk source, as it was felt that are widely abused to 'launder' illegal wood. It was suggested that regular supplies of SP timber may be suspect as the SP was established to deal with non-standard situations.
- All three logging permit documents (Timber Utilisation Contracts (TUCs), Temporary Utilisation Permits (TUPs), and SPs) can be applicable to legitimately exported off-reserve timber. UK companies are currently buying significant volumes of TUP timber although these are supposed to be used for smaller suppliers (up to 5 trees). The representative of the GFC agreed that the Commission would supply data on the breakdown of total exports between the three permits and legitimate volumes of each. On reserve TUC areas represent the most intensively managed and should be the least risky for buyers.
- It is a legal requirement in Ghana for each concession to have a Forest Management Plan (FMP) for each compartment (prepared by the GFC) but not every TUC has one, and an annual operational plan (prepared by the company), which includes a yield list, is generally available for most harvesting operations.
- The proposed FLEGT VPA system will include electronic identification of every tree, to be traced through the supply chain. Currently the system is paper based, which makes reconciliation difficult.
- Yield lists become powerful once data reconciliation is in place; however it was noted that currently the system is high-risk as yield lists can be used to claim multiple export licenses.

Guyana country guidance

ProForest gave a brief overview of some of the main risk issues relating to forest legality in Guyana.

General discussion

- UK imports from Guyana are minimal, covering marine applications for sea defences, railway sleepers for bridges and crossings and small amounts of plywood. The vast

majority imported is greenheart, which is clustered in specific areas in specific concessions, and of a relatively high value, so it may be that species-specific due diligence procedures could be established.

- Until 1999 it was reported that Samling/Barama was perceived as a model company, but that its recent activities had been highly controversial.
- It was felt that the national legal code was generally of reasonable quality but fundamental questions were raised about clarity and equity of land tenure, the quality of legal implementation and the level of corruption, all of which made the validity of documentary evidence almost impossible for buyers to judge without significant reputational risk.

Indonesia country guidance

Rainforest Alliance gave a brief overview of some of the main risk issues relating to forest legality in Indonesia.

General discussion

- Indonesia has the lowest Transparency International Corruption Perception Index (CPI) rating of the six countries discussed.
- It was noted that the Government of Indonesia (GoI) had been tackling illegality in the forest sector for a number of years and was in the process of negotiating a FLEGT VPA with the European Commission. Reportedly one of the most active regions was Papua Province, which recently declared a new conservation policy that was recognised by Time Magazine. In addition to restricting illegal logging, the GoI is keen to pursue high value processing for smaller volumes and carbon-related livelihoods to support avoided deforestation.
- The Global Forest Trade Network (GFTN) is also working on guidance so efforts will be made to combine the two drafts.
- The FLEGT-led legality definition will also be reflected in the final guidance document.
- However, fundamentally it was felt that document-based due diligence in Indonesia may not be credible. Given the likelihood that a FLEGT partnership would be achieved in the relatively short-term, participants suggested that it might be more effective to focus on buying FLEGT licensed timber as soon as possible.

Documentary evidence

- The group concluded that sourcing from Indonesia was not credible in the absence of third-party verification.
- Provincial variations in Indonesia were highlighted. It was noted that any documentary due diligence should reflect the situation in different areas.
- A wide range of stakeholders highlighted the unreliability of documentary evidence in Indonesia. Trade representatives reported that documentation could be 'manufactured to order' along with the product. They also reported lack of responsiveness to the RPP and the UK trade moving away from trading with Indonesia as a result of both increasing price and the lack of reliable documentation. In light of this, sourcing un-certified Indonesian products was considered seriously high-risk.

- BRIK certificates were not considered reliable 'alone'. It was also noted that they are not translated into export languages adding an extra challenge to buyers attempting to judge their authenticity.
- It was noted that concession licenses do not necessarily demonstrate that the concession was allocated in a way that recognises the rights of forest communities. Some provinces require that all community conflicts are addressed before cutting is licensed.
- The Timber Trade Action Plan, however, has drawn up a checklist amalgamating the LEI legality definition, that has been successfully applied in practice to get a reliable assessment of legality and several factories have managed to get Chain of Custody certification.

Malaysia country guidance

ProForest gave a brief overview of some of the main risk issues relating to forest legality in Malaysia. The powerpoint file is available at www.illegal-logging.info.

General discussion

- It is reported that substantial volumes of timber continue to be imported illegally into Malaysia from Indonesia. Border checks in Malaysia only relate to legality of import; legality of production is not considered. It was therefore noted that timber bought from Malaysia could be at risk of being 'laundered' Indonesian wood.
- Social issues are highly controversial in Malaysia, particularly Sarawak. These are technically covered by Malaysian legislation (The Indigenous People's Act, which is included in the code of each region), but conflicts have arisen around how these codes are interpreted by courts.
- Although Malaysian production documents are generally reliable, in the absence of MTCC or other certification (around 2/3 of the product of Peninsular Malaysia) it was noted that it would be hard to collect data to support reliable control over a supply chain, as there is no central collection or reconciliation point in the Malaysian system.
- The Malaysian Government has taken measures to reduce the import of illegal logs from Indonesia, but fitches and sawntimber are still imported in large volumes and Malaysian companies are increasingly investing in primary processing across the border in Indonesia. Imports are also increasing from other countries in Africa and Europe.
- Legal forest management in Malaysia is based on a unified Federal Forest Act, which each State implements in a slightly different way. Often the content of documents representing different stages in management and timber production will reflect the similarities, but names, management practices and reliability differ in different states.
- Land clearance for conversion is legal and timber from these areas requires a different set of documents. The most reliable document relating to both production forest and clearance timber is a removal pass.
- The availability of FSC product in Malaysia is growing and suppliers are increasingly willing to produce documentary evidence of legal compliance.
- It was felt that a documentary flow chart would be a useful due diligence tool in Malaysia, with separate document flows for different States.

Russia country guidance

Rainforest Alliance gave a brief overview of some of the main risk issues relating to forest legality in Russia.

General discussion

- As with Malaysia it is necessary to make a distinction between timber sourced in different regions of Russia – in this case the West and in the East. North West was considered relatively better managed, with a reasonable area of certified forest. Increased risk is implied by sourcing from the East.
- It was not clear whether or not the majority of UK import from Russia was indirect. Some felt that more was imported via Finland and the Baltics or China than directly from Russia. A large proportion of UK trade was reported to be direct with small independent traders, some of which was reported to be without documentation.
- Large FSC hardwood areas were considered the lowest risk option for purchasers, but certified products have not been available recently due to log shortages (bad weather, new laws). Similarly there is great competition for certified softwood from northern European processors.

Summary, flow charts and next steps - Andy Roby, UK TTF

It was felt in summary that the documentary approach may only constitute credible due diligence for buyers in a small number of countries (Malaysia, perhaps Brazil, Ghana). In others (Russia, Indonesia, Guyana), it was concluded that partnerships leading to third party verification would be necessary in the absence of certification.

Two principal weaknesses in the documentary approach were identified:

- 1) Fake documents: in principle it may be possible to check these with the issuing authority, in practice there is no streamlined communication system
- 2) Legal documents that have been issued corruptly: in this situation it is very hard to set out appropriate due diligence that could be undertaken by a buyer.

In VPA countries it was felt that a documentary approach may not be necessary or useful.

Next steps will include arranging smaller focused meetings on each of the countries concerned. Meetings will include experts in the field. Results will be presented to the appropriate TTF governing bodies. It is unlikely that any country guidance reports will be published before July 2008.