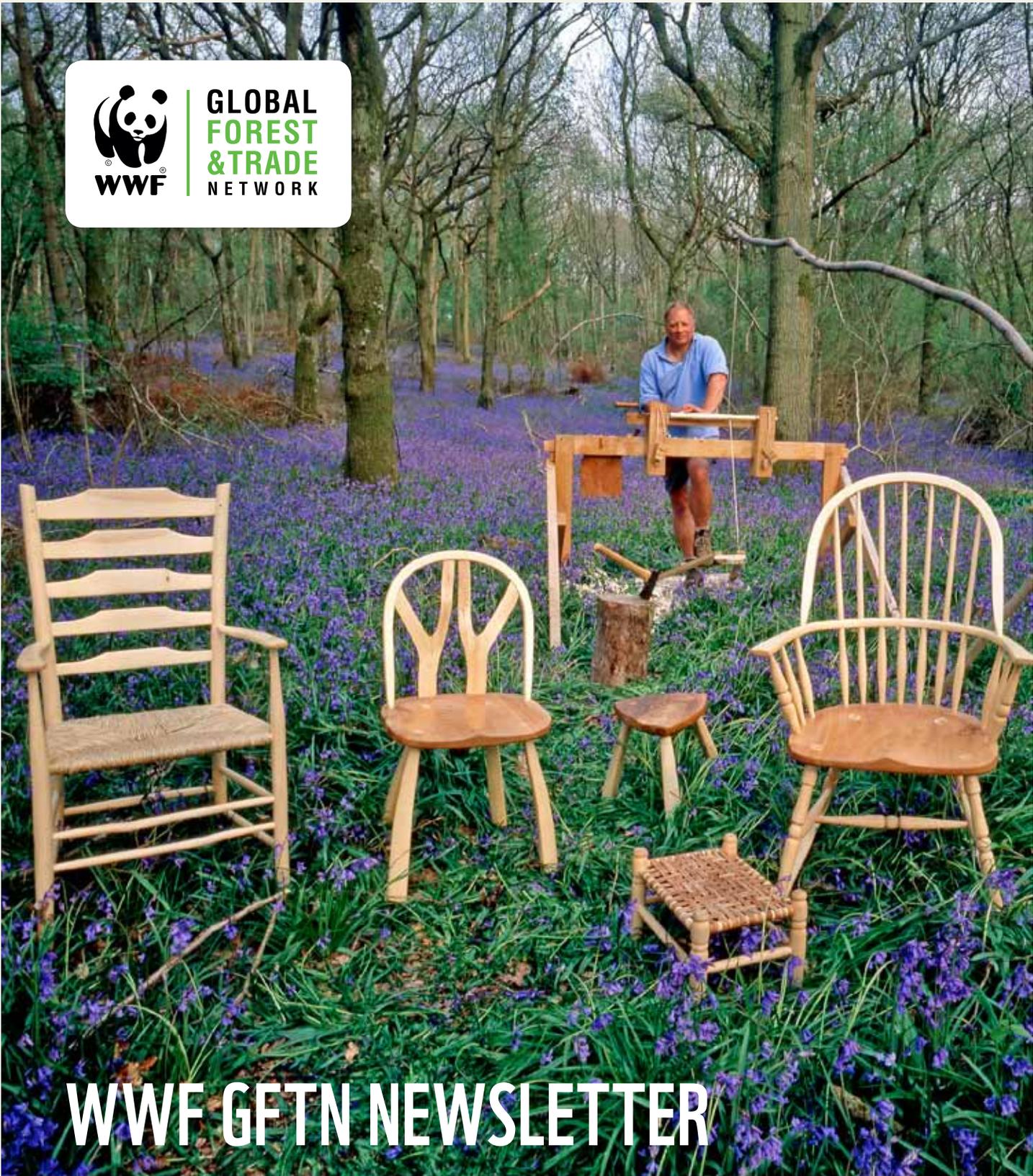




**GLOBAL
FOREST
& TRADE
NETWORK**



WWF GFTN NEWSLETTER

JANUARY 2013

SPECIAL EDITION: EU TIMBER REGULATION

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GFTN is WWF's initiative to eliminate illegal logging and transform the global marketplace into a force for saving the world's valuable and threatened forests. By facilitating trade links between companies committed to achieving and supporting responsible forestry, GFTN creates market conditions that help conserve forests while providing economic and social benefits for the businesses and people that depend on them. GFTN considers independent, multi-stakeholder-based forest certification a vital tool in this progression and helps infuse the principles of responsible forest management and trade practices throughout the supply chain.

MESSAGE FROM GFTN HEAD GEORGE WHITE

Making illegal logging a practice of the past



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The last few years have marked an important milestone in governments' commitments to curb illegal logging. In 2008, the amended Lacey Act in the US demonstrated the intentions of a key market in placing a stop sign to illegal harvesting and related trade. This year marks a second major change in the legal landscape – the coming in to force of the European Union Timber Regulation. This will be followed by the Australian illegal logging law, which passed in December 2012 and will be fully implemented by 2014. As you will read in the rest of this especially themed newsletter, the right signals are now being sent from crucial marketplaces that illegal logging – a major driver of deforestation, forest degradation and inherently, loss of biodiversity – will not be tolerated.

Since GFTN's establishment over two decades ago, countering illegal logging and trade have long been on the agenda for the programme and the wider WWF Network. Illegal logging is the antithesis of what we are trying to achieve. It undermines the positive role in conservation that right-minded companies can have on the forest environment, and forces unfair competition on those that seek to operate legally and perhaps more importantly, responsibly. Unburdened by the costs of compliance and operating outside the law, illegally harvested and traded timber devalues all forest products.

Since GFTN published its first set of guidance on responsible purchasing in 2003, we have supported legality as an important step on a journey to responsible purchasing and credible forest certification. As our guidance has evolved over time, it has effectively become a due diligence system – ready, tested and available off the shelf – a system that promotes transparency, questioning, checking and improvement, all of the key attributes of practicing due diligence. The stepwise approach we have long developed, advocated for and promoted amongst companies that participate in our programme is an excellent starting point for those now compelled to comply in Europe and beyond. The new legislation should be welcomed broadly as markets are increasingly closed to illegal wood, but we must ensure that it is implemented and enforced, and that companies recognize that it is just one step toward responsible forest management and trade.

The new playing field that is emerging should be a boost to efforts to credibly certify production forests, which is the simplest and best way of demonstrating due diligence. This should be a welcome fillip to those that strive to maintain the conservation value of the world's production forests and to help them resist conversion to other land uses.

Let us hope that the emerging legislation in Europe and elsewhere is truly effective and that 2013 is the year that illegal logging starts to become a thing of the past.

George White
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EUTR IN ACTION

Countdown to the EU Timber Regulation: What you need to know

Starting on 3 March 2013, placing timber from illegally harvested forests and products derived from such timber will be prohibited in the European Union. The new timber regulation impacts companies that not only bring timber and related products into the EU, but also suppliers in producing countries that serve that market.

The new law requires “operators” to set up a due diligence system that complies with the specific requirements outlined in the legislation. Once timber products are in the EU, “traders” are required to keep records of their immediate suppliers and buyers.

The new legislation clearly elevates the need for companies to know the source of wood and wood products in their supply chain, and to ensure that it is not coming from illegal sources, a challenging task for small and big companies alike.

Are you an operator or trader?

Operators are those that place timber products in the EU market for the first time, for example, importers, retailers or manufacturers that directly import wood based products and forest managers that supply timber from a European forest.

Operators are required to set up a due diligence system to avoid the risk of illegally harvested timber and keep records of their immediate customers. Operators can use their own due diligence system, use an existing system or work with Monitoring Organizations in their respective countries to establish it. GFTN’s *stepwise* approach is an excellent framework within which companies can find guidance on tools and systems helpful for meeting the requirements of the EU Timber Regulation.

Regardless of which system is used, operators are legally liable for ensuring that no illegal timber enters the supply chain.

Traders are those that buy and/or sell wood based products that are already placed in the EU market by an operator. Traders need to keep records of their direct suppliers and customers for all wood based products. Individual final consumers are not covered by the EU Timber Regulation.



A logging truck being checked by forest guards in Cameroon.

Key requirements for operators, traders and traders that sell directly to the final consumer:



What is “due diligence”?

A due diligence system is a framework of procedures and measures to minimize the risk of placing illegally harvested timber or timber products on the EU market. Below are three key elements of the system and guidance on steps that companies can take to reduce risk.

Key elements	Description	GFTN Guidance
1. Information	The operator must be able to provide a description of the timber and/or timber products (trade name, type of product, common name of tree species and its full scientific name where applicable), country of harvest (the sub-region and concession of harvest, where applicable), quantity, name and address of supplier and buyer and information on compliance with national legislation. This list is not exhaustive.	<ul style="list-style-type: none"> • Gather all the needed information along the supply chain from suppliers or forest managers. • Check compliance with applicable legislation in country of harvest.
1. Risk assessment	The operator should assess the risk of illegally harvested timber in its supply chain by taking into account the information identified above as well as assurance of compliance with applicable legislation, prevalence of illegal harvesting of specific tree species, risk of illegal harvesting, bans, armed conflicts or sanctions in country of harvest, and complexity of the supply chain. The assurance of compliance can include certification or other third party verified schemes, which cover compliance with applicable legislation. Note that only products in compliance with FLEGT, VPA and CITES are considered to be legally harvested under EUTR.	<ul style="list-style-type: none"> • Check risk of illegal logging by species. • Check risk of illegal logging at country of origin. • Check lack of governance in country of origin. • Check species listed in CITES. • Check international trade sanctions and armed conflicts in country of origin. • Check traceability systems in place to ensure origin of products. • Check complex supply chains (for example mix-products such as MDF or paper)
3. Risk mitigation	When the risk of illegal timber in the supply chain is not negligible, adequate and proportionate measures and procedures have to be put in place to effectively minimize that risk.	<ul style="list-style-type: none"> • Request additional information and documentation from suppliers. • Reduce complexity of supply chain. • Use certification or other third party verified schemes that include verification of compliance with applicable legislation. • Develop a responsible sourcing programme for your company to work with suppliers to map out the supply chain and identify critical points and actions to address illegal logging.



People working at Nature, a laminate flooring factory in Shanghai, China.

© BRENT STIRTON / GETTY IMAGES / WWF-UK

What products are covered under the EU Timber Regulation?

- Solid wood products, flooring, plywood, pulp and paper.
- Both imported and domestically produced timber and timber products.
- Bamboo is generally not exempt, depending on the customs code.
- Not included are recycled products, rattan, and printed papers such as books, magazines and newspapers. The product scope is subject to future amendment by the EU.

What are the penalties of non-compliance?

The penalties and sanctions are to be established by individual Member States and are not yet ready in all countries. They may include:

1. Fines proportionate to the environmental damage, the value of the timber or timber products concerned and the tax losses and economic damage resulting from the infringement.
2. Seizure of the timber and timber products concerned.
3. Immediate suspension of authorization to trade.

Will certification be considered proof of legality?

Certification schemes will not be considered proof of legality, although the law recognizes that certification or other third party verified schemes that include verification of compliance with applicable legislation may be used in the risk assessment procedure.

Only timber licensed under the Forest Law Enforcement, Governance and Trade (FLEGT) programme and coming from a country with which the EU has a Voluntary Partnership Agreement (VPA), or is permitted in the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) will be accepted as proof of legality.

How is the EU Timber Regulation different from the US Lacey Act?

The two laws are similar in intent as they both prohibit the import of illegally sourced wood in their respective countries. However, both contain different elements.

First, the Lacey Act prohibits trade in, or handling of plants taken, harvested, possessed, or transported by all individuals and/or companies throughout the supply chain that are in violation of respective laws in a foreign country or in the US. The EU Timber Regulation prohibition, however, applies only to operators, though traders can be penalized for not keeping records. Penalties vary by country.

Second, the Lacey Act requires a customs declaration for certain products containing details of the product, species and country of origin at the point of entry. Under the EU regulation, there is not a specific customs declaration requirement. The Competent Authority in each Member State is to ensure the enforcement of the regulation in that particular country.

Third, the Lacey Act does not describe procedures of a “due care” or “due diligence” system. By contrast, the EU Timber Regulation explicitly requires that the operator implement a due diligence system and defines the essential components of that system.

Fourth, there is no document that can be used as proof of legality under the Lacey Act. Under the EU Timber Regulation, FLEGT VPA and CITES licenses are considered proof of legality.

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Further information is available at:

The European Commission

http://ec.europa.eu/environment/forests/timber_regulation.htm

WWF/GFTN Briefing Note on the EU Timber Regulation

http://awsassets.panda.org/downloads/final_eutr_gftn_briefing.pdf

House built from 90% FSC certified timber. Stockholm, Sweden.



Voluntary Partnership Agreements: EU's work with producing countries

Illegal logging makes up 15-30 percent of the global trade today and has serious repercussions on biodiversity and lives of some of the poorest people in the world, per a new report, Green Carbon, Black Trade, published by INTERPOL and the United Nations Environment Programme (UNEP). It also creates unfair inequalities in the private sector and lessens the profits of responsible producers and operators.

To respond to the rising threat of illegal logging, the European Union published the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan in 2003. FLEGT sets out a range of measures available to the EU and its Member States to tackle illegal logging in the world's forests, such as the new timber regulation. As part of that action plan, the European Union is also negotiating a series of bilateral, Voluntary Partnership Agreements (VPA) with key timber producing countries.

**ILLEGAL LOGGING
ACCOUNTS FOR 15-30
PERCENT OF THE GLOBAL
TRADE**

One of the main components and end results of this process is that the producer country will establish a licensing scheme – a Legality Assurance System – that will provide guarantee that all the relevant legislation has been complied with. This licensed material will be considered legally harvested under the EU Timber Regulation. However, this only applies to products that are covered under the VPA agreement; which does not necessarily mean all products covered by EUTR. The range of products covered varies by country and a FLEGT license should not be considered the green lane for all products.

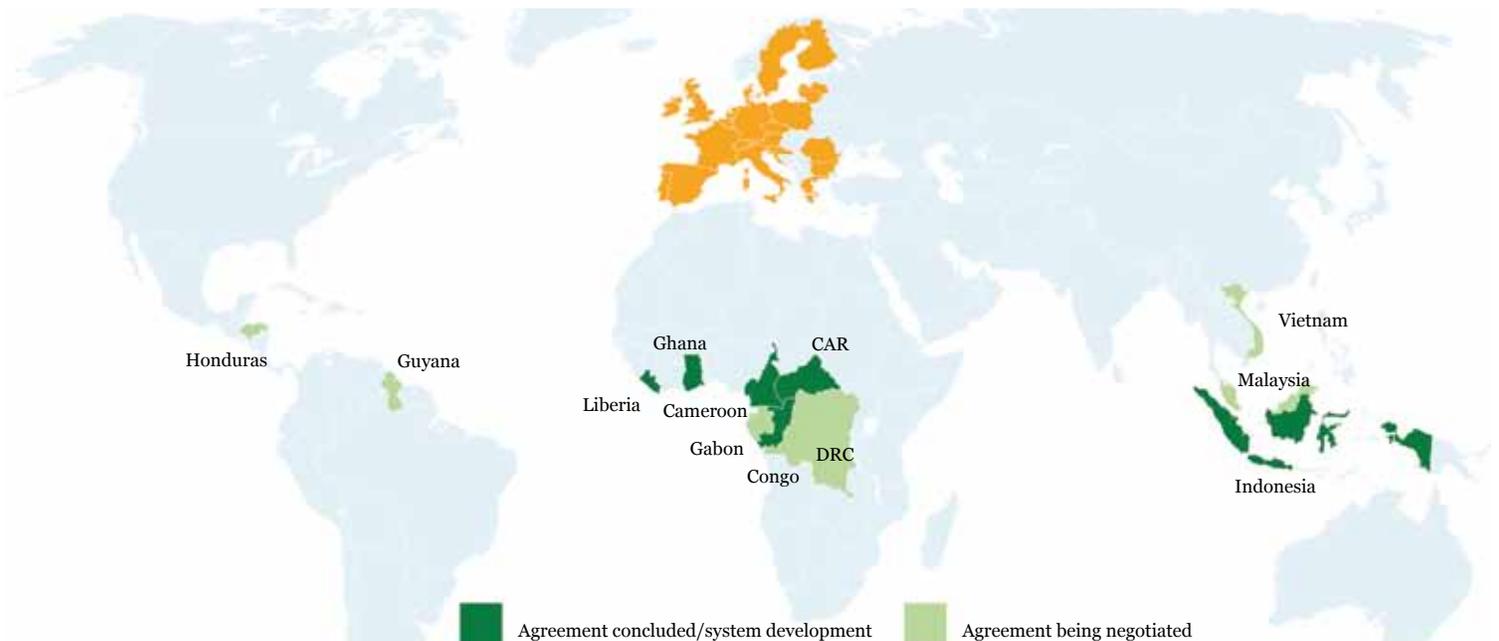
The EU has completed negotiations with six countries – the Congo, Cameroon, Central African Republic, Ghana, Indonesia, Liberia and the Republic of Congo – that are developing the Legality Assurance System. The EU is negotiating with an additional six countries to develop such schemes – Democratic Republic of Congo, Gabon, Guyana, Honduras, Malaysia and Vietnam. Additionally, 15 countries have expressed interest in forging a VPA with the EU.

To date, no licensing agreement has been finalized.

For more information, visit:

EFI - <http://www.euflegt.efi.int/portal/>

Chatham House - <http://www.illegal-logging.info/>





Logs being rafted, East Kalimantan, Borneo.

Suppliers face bigger onus to verify legality as EUTR takes force

The EU Timber Regulation places new responsibilities on companies that place timber on the market, but it also has significant implications for those supplying to Europe as the onus to provide more detailed information about the source of timber increases.

Only timber and timber products covered by valid FLEGT or CITES licenses are considered to comply with the requirements of the new regulation. But currently, no FLEGT licensing systems are operational and that's expected to remain the case beyond March. That means suppliers have to take steps on their own to understand the new regulation as well as local laws, and assure buyers in Europe that the timber being supplied is in fact coming from legal, known sources. Though suppliers outside the EU cannot get prosecuted under the new law, they may face more scrutiny by their own governments, especially in countries that are involved in VPA negotiations. If the supplier is legally established in the EU, it can be prosecuted. Furthermore, timber or timber products can be seized, no matter where the product comes from.

As operators in the EU ramp up due diligence, suppliers both inside and outside the EU will likely be asked more questions and will need to provide more documentation about the origin and legality of the products they intend to sell.

Is certification the answer?

Certificates are not considered an evidence of legality and do not absolve importers from the obligation to collect all the information and assess all risk mitigation factors as required by the regulation.

However, seeing that currently there are no operational FLEGT licensing systems and certification systems have legality requirements captured within them, Forest Stewardship Council (FSC) certification serves as the best tool available for suppliers, and even forest managers, in ensuring their buyers that they are able to supply all the information that's required in the regulation. Certification can help suppliers comply not only with the EU Timber Regulation, but also the existing US Lacey Act and the Australian illegal logging law, as all three have similar intentions but varying requirements. In addition, it demonstrates greater commitment towards responsible forest management and moving beyond legality to preserve the world's forests.

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CITES-Listed species

In addition to the FLEGT licensed timber coming from a country with which the EU has a VPA, the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) permits will also be accepted as proof of legality.

CITES is a global response to concern about the trade of endangered species and regulates the trade in live animals, animal parts, ornamental plants, medicinal plant parts and timber species. It was enacted in 1975 and 160 countries have ratified the treaty. CITES seeks to identify threatened species and creates increasingly strong legal barriers to their harvest and trade, depending on their conservation status.

CITES lists threatened or endangered wood species under three classifications, known as the Appendices. The restrictions on trade within these appendices vary depending on the extent to which the species is threatened with extinction. The CITES listing includes species that are traded for timber, traded for medicinal purposes and are rare, but it does not include commercially traded species.

For more information, visit:
CITES – <http://www.cites.org>

PAS 2021: providing guidance to promote legal forest trade

PAS 2021:2012

Exercising due diligence in establishing the legal origin of timber and timber products – Guide to Regulation (EU) No 995/2010



One of GFTN's main goals is to make responsible forest trade mainstream practice. To that end, GFTN has developed innovative solutions for over 20 years to encourage and help more businesses play their part in ensuring that the legality and responsibility of their forest products is clear. This is now more imperative than ever as businesses need to meet new obligations under the EU Timber Regulation to do due diligence for timber and timber products.

To help companies in the UK market achieve this, and to tackle the risks in their supply chain, GFTN-UK, in conjunction with the British Standards Institution (BSI), has developed new guidance to help the timber industry meet the impending EU Timber Regulation. The new guidance, known as PAS 2021 – Exercising due diligence in establishing the legal origin of timber and timber products – Guide to Regulation (EU 995/2010), is a good practice guidance to support industry efforts in the responsible sourcing of forest goods and sustainable forest management.

“This new standard builds on WWF’s collaboration with businesses in the UK to eliminate illegal and unsustainable timber and timber products from their global supply chains,” said David Nussbaum, Chief Executive, WWF-UK. “A thriving legal timber market, that helps to protect the environment as well as the resources it provides, is the best way to support those investing in sustainable commodities. It will take many stakeholders to play

their part to achieve this, and the PAS 2021 standard is another tool to help them do so.”

GFTN-UK began the process of collaboration with BSI at the end of 2010, having earlier set up a working group of GFTN participants to debate the focus of the PAS based on their previous experiences and drawing up a skeleton framework. Once BSI was formally engaged, a consultative process was initiated with the establishment of an expert steering group.

“Those organizations which use PAS 2021 will find guidance that helps them understand their legal obligations and operate good practice. The standard encourages organizations to put a microscope on their business processes to ensure they minimize the risk of illegal timber in the supply chain,” said Shirley Bailey-Wood, Director of Publishing at BSI.

PAS 2021 aims to help organizations to:

- understand what the regulation is;
- understand if they are affected by the regulation and, if so, how they are affected (i.e. are they operators and/or traders);
- develop and implement a due diligence system to minimize the risk of illegal timber in the supply chain;
- communicate performance of due diligence to interested parties, including regulatory authorities; and
- share good practices, tools and frameworks to enable organizations to go beyond compliance in the responsible sourcing of timber and timber products.

PAS 2021 predominantly covers the timber regulation's requirements, but also includes pointers for business in going beyond compliance – to meet customer's expectations, or to deliver their own sustainability aspirations as an organisation.

“With only a very short time before the regulation hits, we really hope as many businesses as possible will take advantage of PAS 2021, and our next task is to carry on raising awareness of it as a useful, practical tool to guide people in playing their part for more responsible forest trade,” said Julia Young, Manager, GFTN-UK.

PAS 2021 can be downloaded for free at: <http://shop.bsigroup.com/pas2021>

For more information, contact:

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Stocks of FSC certified timber at one of Sweden's largest finished wood suppliers.

LEGALITY TRENDS

Changing attitudes in the EU on effective timber regulation

The EU Timber Regulation gives new responsibilities and trust to operators when it comes to due diligence. But the new regulation is just the first step in a journey towards responsible forest management and trade.

Undeniably, the EU Timber Regulation will bring about changes for companies and even more so for the EU and its Member States. Some of these changes may require the investment of time and resources. Understandably, companies would like to get as much information as possible from the European Commission to be able to comply with the regulation and to set up their due diligence systems in the right way. Many point to the lack of information for operators on how to prepare for the enforcement of the legislation as a critical gap.

It should be kept in mind that there are reasons why the regulation does not explain every possible scenario or step that should be undertaken. The most important one is that the operator knows best.

Operators know best

Companies often underestimate their expertise and abilities when it comes to implementing due diligence in their supply chain. In some ways it would have been rather impractical to include specific descriptions about how a due diligence system should be formed, since a company will fit the requirements of the legislation to its own operations in a way that suits them best. A company working in this sector is best placed to judge from its suppliers if there is a risk in sourcing illegal timber. The same goes for countries it is sourcing from.

Some people argue that this approach is too vague and could give way to misuse and fraud. However, there will be controls on the operators – certainly not as frequent and thorough as we would have liked them to be - but nevertheless, they do keep a check on the timber sourced. In some Member States, this could also lead to criminal sanction, including jail sentences. It is encouraging that the EU acknowledges that companies know best how to assess the risk related to their supply chains.

There is also concern that more detailed legislation could lead to a greater number of loopholes, as the industry sectors involved have very different practices.

It will be imperative that Member States devise and enforce effective sanctions and penalties to ensure a level playing field across the EU. Businesses that try to evade the law should be given a proper response. Furthermore, the regulation needs effective implementation by the Member States. We call for regular checks that should address all suppliers on the market, regardless of their size or the risk of illegality.

The implementation of the EU Timber Regulation in March is only the beginning of the story. It remains to be seen whether the law will be properly implemented so it can achieve its primary goal of halting the trade in illegal timber in the EU market.



*Anke Schulmeister, Senior
Forest Policy Officer, WWF
European Policy Office*

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Going beyond legality

Within all these discussions on how to comply with due diligence and whether the law is too burdensome, it is often forgotten that this legislation is about what is legal or not. It requires the company to respect the laws in the countries they are sourcing from, an essential value for any country, be it in the EU or elsewhere.

What the law does not address is sustainability, even though it is of much higher value. It seems to be easily forgotten that the purchase of a legal product does not necessarily stop the destruction of ecosystems, halt deforestation or protect extraordinary habitats. We need to consider the EU Timber Regulation as only the first step in achieving the real goal of responsible forest management and trade.

In a world where resources are becoming scarcer by the day, responsible behaviour from governments, companies and consumers is essential. Companies must continue to increase responsibly produced timber and timber products in their supply chains, and consider the EU Timber Regulation as the first step in this journey.

Global trends in timber legality

Wood removals globally have been valued at about US\$100 billion annually in 2003–2007. However, the global wood trade including value added is much higher, with INTERPOL quoting UNEP's figure of US\$327 billion annually. Timber remains an important commodity: the value of solid timber-based commodity products (vener, sawn wood, plywood and logs) in international trade was US\$46 billion in 2006. However, the issue of illicit timber trade continues to persist, with INTERPOL estimating the loss of revenue and tax income from it at US\$30-100 billion annually.

The international community recognizes that trade-related instruments and tools to improve forest governance and conserve forests are becoming more relevant. There is also growing acceptance and understanding of responsible production, supply chain development, and consumption among industry and consumers. Transparent forest governance based on legality and sustainability is also a critical element to reduce the contribution of forest loss and degradation to climate change.

Illegal logging is a national issue and domestic laws should provide the legal framework to stop it. Once illegally harvested logs are exported in raw form or processed, there are limited provisions in the regulations of importing countries to take action. In addition, there is limited legislation and there are few institutions to govern domestic trade in timber and non-wood-based forest products. In the Congo Basin, the domestic timber sector is informal and lacks accountability systems.

Recently, several countries have instituted new legislation to combat illegally harvested and traded timber products entering their countries. The US amended the Lacey Act in 2008 to cover plants and timber products and the EU is working on the timber regulations for all non-FLEGT VPA countries exporting timber products to the region. China, an increasingly important driver in timber trade flows, has defined rules on responsible conduct for Chinese enterprises involved in forestry abroad. Some governments around the globe now implement public procurement schemes that consider a combination of legality and sustainability criteria. Malaysia has banned the import of logs and timber from Indonesia classified as "HS 4403" under the Harmonized Commodity Description and Coding System of the World Customs Organization, a category that includes logs and large squares and scantlings over 387 cm². This is to reciprocate in response to Indonesia's ban on round logs from Malaysia.

© TRAFFIC



Chen Hin Keong, Timber Trade Programme Leader, TRAFFIC

THE VALUE OF SOLID TIMBER-BASED COMMODITY PRODUCTS IN INTERNATIONAL TRADE WAS US\$46 BILLION IN 2006.

Currently, there is no readily available international mechanism to combat illegal logging, with the possible exception of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Fortunately, governments in key markets have increasingly recognized the need to address illegal logging and trade, as shown by the Australian illegal logging policy initiatives, and various initiatives to enhance bilateral co-operation, such as those of the EU and USA with China, Japan and other tropical timber-producing countries. These will all help producer countries approach this complex challenge of illegality and sustainability with support from consuming countries, industry, civil society and the public.

With the exception of governments mentioned in this paper, others are not taking a more stringent approach towards combating illegal logging in trading partner countries, however. There has been an increase in trade with markets such as India and the Middle East in recent years. Economic development in those areas increased their demand for timber products and helped establish developed business networks that continue to support an increase in trade. India's situation is intensified by its strong and stringent controls over use of its own forest resources, which drive imports from other sources to feed its voracious demand. Likewise in China, when it instituted various policies and regulations to protect and conserve its own forests, this led to a vast increase in timber imports.

At the international level, TRAFFIC and WWF/GFTN have developed the Common Framework for Assessing Legality of Forestry Operations, Timber Processing and Trade. This includes nine principles relating to the entire supply chain from forest access, use and tenure rights, to management, harvesting, processing, transport, and taxes and import and export, together with specific principles on environment, conservation and social legislation. The social component includes content on use, access and tenure for large concessionaires, marginalized and indigenous peoples, and also regarding the health and safety of workers and gender issues, where applicable in law. This tool will assist regulators, responsible companies, civil society and all stakeholders understand what it means to be legal and to verify the legality in their supply chain in support of good corporate social responsibility.

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Australia latest to tackle illegal logging

In December 2012, the Australian Parliament enacted historic legislation that criminalises the import or processing of forest products from illegal sources. Passage of the Illegal Logging Prohibition Act places Australia alongside the US, EU and other importers in the global effort to reduce pressure on critical forest habitats, protect community livelihoods, and level the playing field for legitimate business.

In 2011-12, Australia imported over US\$4.2 billion worth of forest products, much of it from the Asia Pacific region, including China, Indonesia and Malaysia. Estimates from the European Commission suggest that 10-20 per cent of Australia's forest product imports, totalling between US\$400 and \$850 million, are illegally harvested.

An unlikely alliance

It is no surprise that WWF welcomes this Act, given the well-documented links between illegal logging, deforestation, and biodiversity loss.

What is more surprising is that WWF, Greenpeace, the Wilderness Society and other "green" groups in Australia stood side by side with major industry players – including GFTN participants Bunnings, IKEA and Kimberly-Clark – and social justice groups

**IN 2011-12,
AUSTRALIA IMPORTED
OVER US\$4.2 BILLION
WORTH OF FOREST
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PACIFIC REGION**



Illegal Logging activities inside Tesso Nilo National Park, Indonesia.

such as Oxfam and Uniting Church, to support the legislation. This is no mean feat given the long history of fierce debate between the forest industry and the environmental movement in Australia but it illustrates that these two groups can come together to promote responsible forest management and equality in trade.

“We joined forces because illegal logging is not just an environmental issue; it’s also a problem for legitimate business as well as a major social concern,” said Tim Cronin, GFTN-Australia Manager. “Illegal logging is estimated to generate between US\$10-15 billion annually in criminal proceeds, while depriving local communities of their rights and livelihoods in some of the poorest parts of the world.”

While passing the Act was a sign of leadership by the Australian Government, implementing the Act will require carefully tailored regulations and continued collaboration between industry and environmental groups to strike the right balance between strong enforcement and incentives for compliance.

Beyond legality

The Australian Illegal Logging Prohibition Act combines aspects of the EU Timber Regulation and the US Lacey Act. However, important elements are yet to be clarified, including the register of timber products covered by the legislation and guiding principles for a robust due diligence system. It will be crucial that the legislation include provisions that align with and reinforce voluntary forest certification.

“Legality is not the end game,” Cronin said. “While strong regulations can shut the door on irresponsible operators, there remains a need for continuous improvement by industry leaders, based on performance standards that are not just legal, but genuinely sustainable.”

This is where schemes such as FSC can not only play a role in verifying legality, but also help companies to raise the bar even higher. To this end, GFTN provides a proven, transparent framework through which Australian companies, as well as those exporting forest products to Australia, can remove unknown and unwanted sources from their supply chains and move progressively towards legally verified, and ultimately credibly certified, sources.

Supporting compliance

Shortly after passing the Illegal Logging Prohibition Act, the Australian Government launched the Illegal Logging: Regional Capacity Building Partnership, a new initiative to support trading partners throughout the Asia Pacific region in complying with the new legislation.

Through this initiative, the Australian government will support the Responsible Asia Forestry and Trade (RAFT) programme, a coalition of dedicated partners that work with producers and traders of forest products in China, Indonesia, Vietnam, Laos and Papua New Guinea to combat trade in illegally and irresponsibly sourced timber.

RAFT, which includes GFTN, The Nature Conservancy (TNC), the Institute for Global Environmental Strategies (IGES), TFT The Forest Trust, the Tropical Forest Foundation (TFF) and TRAFFIC, the Wildlife Trade Monitoring Network, will provide technical support to improve verification of legality and the overall transparency and traceability of forest product supply chains.

Floating logs from illegal logging, Central Kalimantan, Indonesia.



The ultimate aim of the new Act, the RAFT programme, and of GFTN, is to make it easier for producers and exporters of forest products do the right thing. And the more responsibly sourced wood that is available from Asia Pacific, the easier it will be for Australian importers to comply with the new legislation.

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Further information on RAFT is available at:

<http://www.responsibleasia.org>

New legislation bolsters impact of the US Lacey Act

More than ever, legality is high on the agenda for companies and the US Lacey Act has become a global model for a policy-based approach to combating illegal timber sourcing and trade. While the US Congress barbers budget spending and deficit reduction, the Lacey Act has proven itself as a low cost, high impact programme, strengthening the market for US-based companies, increasing the demand for legally sourced timber, and disincentivizing irresponsible practices on the ground.

The Lacey Act has made major headway in increasing demand for legally harvested timber, but it alone cannot prevent illegally sourced wood from entering the global market. Without complementary legislation adopted and enforced elsewhere, “leakages” still occur; illegally sourced products sometimes simply go elsewhere. The Australian illegal logging law and the EU Timber Regulation will help in closing this gap. With pressure moving down the supply chain from influential companies like GFTN participants, Lacey has already begun to create the governance conditions necessary to reduce illegal logging on the ground, promote responsible forestry, and maintain credibility in the market. The EU and Australian legislations will serve to strengthen and expand that positive impact.

While the legal requirements vary, “due care” remains an intrinsic element in all three forms of regulation. In August 2012, the US Department of Justice enforced its first major Lacey case related to the importation of illegal wood products. The case ended in a settlement that included a compliance programme to help the company involved, Gibson Guitar Corporation, to only source legal wood in the future. Following the settlement, additional tools for legality and traceability have emerged from various sources within the forest products community, fueling a renewed emphasis on legality, due diligence, and certification as a tool to that end.

GFTN participants are already well positioned to assess their supply chain in compliance with the Lacey Act, EU Timber Regulation, and the Australian Illegal

Logging Prohibition Bill, armed with a suite of GFTN resources that include the [GFTN Online Lacey Act Course](#). The course allows companies to understand the issue of trade in illegally sourced wood, ways in which companies can practice due care or assist their customers in due care, and clarifies some of the misconceptions surrounding the Lacey Act and its enforcement.

For more information, contact:

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*Commercial logging,
Bahia, Brazil.*



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CUTTING EDGE INSIGHTS

Interview with Anders Hildeman, Global Forestry Manager, IKEA

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*Anders Hildeman, Global
Forestry Manager, IKEA of
Sweden AB*

IKEA has a long history of working on forest-related legislations. IKEA-preferred wood sources are FSC certified and recycled wood, and its goal is to increase the amount of these to 10 million m³ by 2017, so that 50 percent of its wood is either certified or recycled. Two-thirds of the wood that IKEA sources goes through chain of custody certification, and the remaining one-third is audited by the company's own foresters.

IKEA's Anders Hildeman discusses what the company has done to prepare for the EU Timber Regulation, and the challenges and opportunities surrounding this new legislation.

What are some of the key actions that IKEA has taken to prepare for the EU Timber Regulation?

IKEA is in a good position as we introduced our due diligence system for legality about 15 years ago. And over the years, we have been improved this continuously. Ahead of the introduction of the EU Timber Regulation, we have reviewed our due diligence system and closed some of the gaps we identified. To provide independent input, we carried out a third-party review of our system and are also amending some of our IT systems to deliver the information that is required.

One important aspect of this is that we have had an active dialogue for the last four years with representatives from the EU, US and Australia – the politicians and the authorities – on the requirements and the challenges we face as an international retailer that's trading wood and wood products around the globe, and sourcing in 50 different countries and selling in 25. The aim of this ongoing dialogue is to provide our perspective and ensure that decision makers understand the realities of supply chain management and supply chain control.

What are some of the top issues, or the most challenging components, in this new regulation?

One of the big challenges is international harmonization, because Australia, US and the EU are all implementing legislation against illegal logging but all take slightly different approaches. We're trading across all these geographies, we do not want to operate more than one due diligence system and therefore we would like to see a common understanding of what constitutes legality in logging and how to apply due diligence.

Another challenge is to understand exactly how the scope of the legislation should be interpreted and how far the operators' responsibility extends. Our interpretation is that the wood/wood product has come unlawfully in possession of an operator somewhere in the supply chain. But there have been a number of different interpretations and as a business we want to know what are we supposed to do to be certain that we are complying with the legislation.

The more complex the product is, the more different types of materials that are included, the more cumbersome it becomes to provide evidence of legality. For example, we have composite material such as particleboard that presents special issues because of the nature of the supply chains. We have taken active steps to develop our approach to board material. One case has been documented in a study carried out with the [World Resources Institute](#).

How is IKEA addressing these issues?

We have a code of conduct for all our suppliers – which is referred to as the Forestry IWAY – where we have a contractual obligation from our suppliers to provide information on where they are sourcing from and also to ensure the legality of the wood that comes into our supply chain. We are promoting certification and pushing chain of custody certification upstream in our supply chains to reach all the way back to the forest. We are also training our own staff and suppliers so they understand the requirements. With about 380 suppliers delivering wood containing products to us and maybe 150 different people in IKEA who are involved in direct sourcing, we need to have an understanding across all these different categories of people of what is required and that they have the competence to be able to implement it.

Many companies, especially small to medium size enterprises, are still struggling to understand the new regulation and what it means for them. What would be your advice to such companies to prepare for the new regulation?

Each company has its own supply chain and its own products, and the first thing they need to understand is what they look like and the risks associated with them. They also need to start asking how the supplier can demonstrate legality of the wood.

There is guidance available describing how to carry out due care. But this is going to be a real challenge for the small and medium enterprises and not only inside the EU or inside the US, it will be as much of a challenge in the countries who are selling to the EU or the US. They need to be prepared to deliver legality assurance as a service that is part of the product, as much as the quality of the product and the price and all the rest. Therefore, communication regarding the legislation to suppliers is extremely important for companies to prepare for the regulation, to make sure that everybody in their supply chain understands what is required from them.

How can certification help companies comply with new legal requirements in the EU and elsewhere, and what role, in your opinion, do these schemes play in due diligence efforts?

Certification is a tool that we consider as best business practice. None of these legislations say that certification automatically signifies compliance. Even though they consider it as admissible as evidence, it's not regarded as a conclusive proof. Certification is, however, one of the important tools that you have in demonstrating due diligence towards these legislations, otherwise you will have to do all the auditing and checking of documents yourself. The first challenge is to understand the forestry legislation in the sourcing countries. Certification can really help you do this because it provides evidence from the source that this material has been checked for legality and is normally also confirmed by an independent third party.

One of the weak points of certification still is that it does not take into account customs fees and all the administrative requirements around the imports and exports of wood. Certification normally starts in the forest and all the legislation that you find around harvesting in the forest would be covered by it, but what is further down the supply chain has to be somehow incorporated in the chain of custody approach.

What opportunities, do you feel, does the EUTR bring for the industry?

For a company like IKEA that wants to show it's sourcing responsibly, this brings a lot of opportunities. We have operated an in-house due diligence system for 15 years now, and what was originally a commitment from our side has become a legal prerequisite. So from a commercial point of view it creates the level playing field that we want to have.

Of course, the devil is in the details here. If legislation is interpreted as requiring physical traceability, it would create huge problems for operators who are buying or selling manufactured wood products in an international market. Even if the objectives of the legislation are perfectly sound, it could end up as a formidable barrier to trade. But it does give those companies who are able to operate efficient due diligence systems for legality a commercial advantage.

There's another aspect that's very important not to forget. Most customers – people who are the normal consumers – would be quite outraged if they knew that it was perfectly legal and still is actually, to trade illegally logged wood in most countries in the EU. I think there's a general advantage for wood based products to be able to show that there is a requirement to be legal, and it will help to improve the perception of wood and wood containing products in the eyes of the general consumers. Wood is also one of the few raw materials that, through certification, has systems in place to demonstrate legality. Hopefully it will help highlight that responsibly sourced wood is a renewable, recyclable material with excellent sustainability performance.

Interview with Koh Ee Lin, General Manager, PT. Seng Fong Moulding Perkasa

PT. Seng Fong Moulding Perkasa (SFMP), a subsidiary of Singapore-based SF Resources Group, is the largest timber flooring manufacturer in East Java, Indonesia. A GFTN trade participant since 2006, SFMP obtained FSC CoC certification in August 2011, and now maintains a chain of custody document management system to run its entire production process. The company also obtained the Timber Legality Assurance System (TLAS) certificate in November 2010, a mandatory verification for exporters. SFMP exports more than 18,000 m³ of wood products annually, including to Europe and Australia. Over the years, SFMP has grappled with the challenge of attaining enough certified wood to fulfill demand.

Here, SFMP's General Manager Koh Ee Lin discusses what the company is doing to prepare for the EU Timber Regulation.

What steps have you taken to prepare for the EU Timber Regulation and ensure that the timber you sell to European buyers is in compliance with the new law and originates from legal sources?

Since SFMP became a trade participant of GFTN in 2006, our company's direction is to deal only with legal timber, and this policy was implemented before any of these legislations were in place. Other than due diligence on our part, we are also working with several third party auditors to verify the origin of our timber.

Specifically, what kind of information are you gathering to demonstrate to buyers in Europe that the timber comes from legal origin?

Part of our due diligence process involves obtaining information and documentation about concessions or plantations which we are procuring from, to ensure that they are legal and licensed. For each receipt of timber, we also insist that suppliers provide us with the source documents for us to back-track the timber to its origin.



Koh Ee Lin, General Manager, PT. Seng Fong Moulding Perkasa

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How are you going to provide your client with information that the supply chain is controlled?

Our factory is FSC CoC accredited and TLAS Certified. Part of this accreditation involves regular audits and checks to ensure that our operations are in line with the standards requirements. We also have check points at various stages of our supply chain to ensure that our procedures are running correctly and consistently.

What are the main challenges or concerns that you are facing in preparing for this new legislation?

The challenge we see with this new legislation is in streamlining the procedures so that there is no duplication of functions and responsibilities. This will also help in reducing costs and time wastages in documentation. On our end, our company is ready to meet the requirements of EUTR.

Australia is one of SFMP's largest export markets. How are you preparing for that particular illegal logging bill that was just passed, and what similarities and/or differences do you see compared to the EUTR?

SFMP has been exporting third party legality verified timber into Australia since 2007, so we do not foresee any problems meeting the requirements of the illegal logging bill. Pertaining to our operations, there is no significant difference between the two legislations.

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Toba Lake and surroundings North Sumatra, Indonesia.

GFTN TOOLBOX

Exporting in a Shifting Legal Landscape

WWF GFTN/TRAFFIC

This guide to legal exports is aimed at companies that currently export, or intend to export, forest products to the US market. The guide also makes reference to developments within the European market and the new timber regulation.

<http://gftn.panda.org/resources/tools/?193890/Exporting-in-a-Shifting-Legal-Landscape>

Briefing Note on the EU Timber Regulation

WWF/GFTN

This briefing note explains the various components of the EU Timber Regulation, who is affected, how they are affected and guidance on how compliance might be achieved.

http://awsassets.panda.org/downloads/final_eutr_gftn_briefing.pdf

Lacey Act online course

WWF/GFTN

This online training module aims to ensure that the details of the Lacey Act amendment are broadly understood and to help companies understand what is required in order to ensure compliance.

http://gftn.panda.org/resources/gftn_online_courses/

Framework for Assessing Legality of Forestry Operations, Timber Processing and Trade

WWF GFTN/TRAFFIC

By providing information on a forest-focused subset of applicable laws and regulations in a clear and accessible manner, this legality framework helps both regulators and companies, in countries of export and import, to verify that timber and other forest products contribute to responsible forest management.

<http://gftn.panda.org/resources/tools/?202483/Framework-for-Assessing-Legality-of-Forestry-Operations-Timber-Processing-and-Trade>

The GFTN Guide to Legal and Responsible Sourcing

WWF/GFTN

This guide lays out a generic approach for the development and implementation of a responsible purchasing policy and is for use by a purchasing organization that wishes to develop a programme for the responsible purchasing of forest products.

<http://sourcing.gftn.panda.org/>

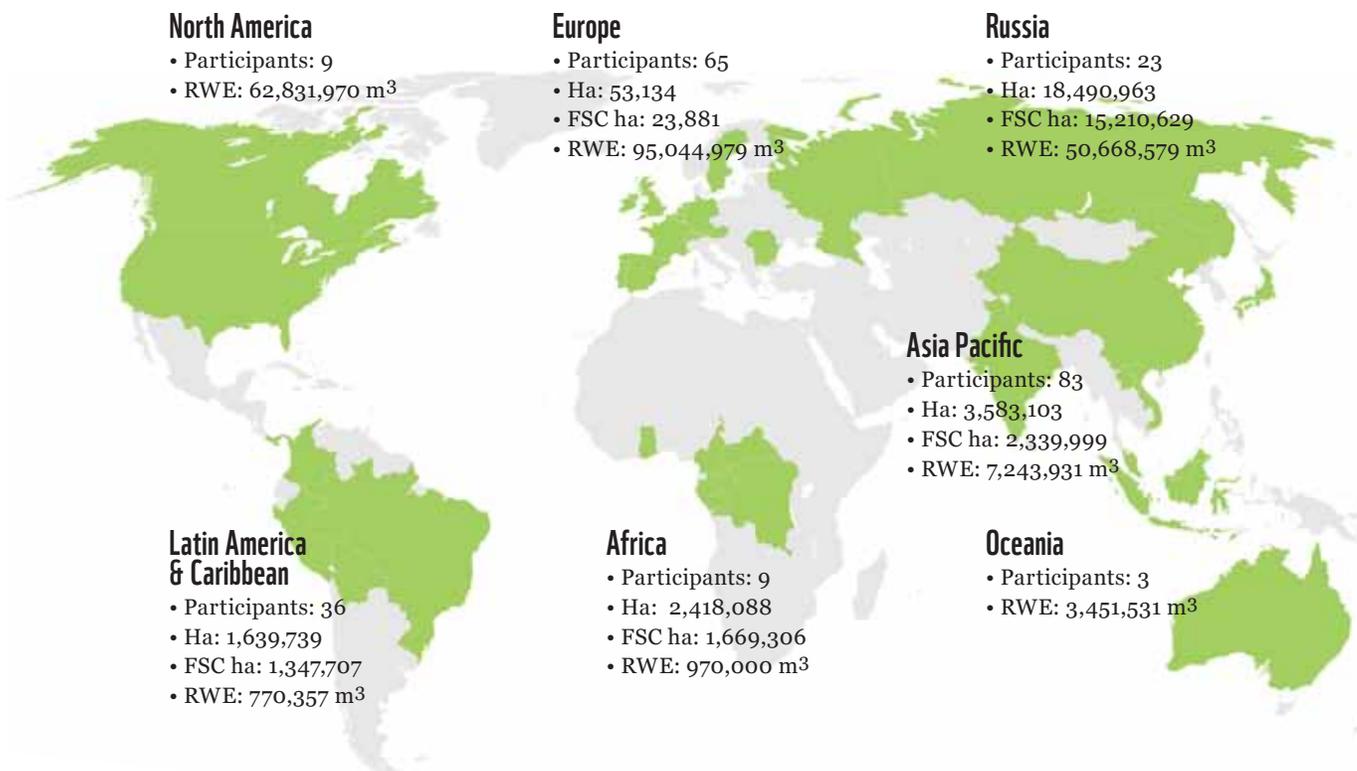
WWF Living Forests report

WWF

The Living Forests Report is part of an ongoing conversation with partners, policymakers, and business about how to protect, conserve, sustainably use, and govern the world's forests in the 21st century.

http://wwf.panda.org/what_we_do/how_we_work/conservation/forests/publications/living_forests_report/

GFTN AT A GLANCE



1st GFTN Business Roundtable for Responsible Forestry in Panama

WWF and GFTN-North & Choco Darien (GFTN-NACD) invite you to participate in the 1st Business Roundtable for Responsible Forest in Panama, to be held on Monday, March 18, 2013 in City of Knowledge, Panama City.

The meeting is designed to connect producers and buyers of forest products to facilitate trade and cooperation, and promote domestic and international trade of wood from certified forests. WWF will conduct an informational seminar alongside the Business Roundtable on topics such as forest certification, reforestation, financing, responsible purchasing and conservation of forests and biodiversity, among others. The goal is to establish a forum for exchange of information and showcase the impact of market links.

Registration is open until 15 February, 2013.

For more information, contact:

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GFTN GLOBAL STATS

40

GFTN operates in nearly 40 countries around the globe

230

GFTN encompasses roughly 230 global companies, employing nearly 1.5 million people worldwide



220 MILLION M³

GFTN participants trade more than 220 million m³ of timber and fibre per year.

26 MILLION

GFTN participants manage 26.2 million hectares of forests and more than 20 million hectares of FSC certified forests representing nearly 15% of the global FSC certified forest area.

450 BILLION

GFTN participants have combined annual sales of over US\$450 billion with sales of forest products totaling \$63 billion per annum

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Why we are here

To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

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