
Assessment of Impact of Import and Sales Ban (additional options 3 and 4) on FLEGT Implementation

Presentation at UK national stakeholder consultation on Additional FLEGT Options

by

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INDUFOR

Additional Option 3: Border Measures to Prevent the Importation of Illegally Harvested Timber (Import Ban)

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Scope

- Prevents entry of illegally harvested timber to the EU from all non-EU countries
- Legality controlled at EU border
- The responsibility for providing evidence on legality rests with the authorities in the exporting country

Key Benefits

- If implemented effectively, the import ban would be a comprehensive approach eliminating
 - the possibility of circumvention as well as
 - the cost advantage enjoyed by illegal timber on the EU market

Possible Mechanism of Implementation

- Authorities in non-EU countries
 - Field verification of forest operations and supply chain
 - Data management (e.g. transmission of data between the private sector and the state authorities, reconciliation of quantities in the prior and subsequent stages in the supply chain)
 - Issuance of a legality certificate
- Authorities in EU Member States
 - The competent authorities of the EU Member States check the legality of 1% of the imported consignments systematically. The check is based on the control of documents and communication to the authorities in producer countries.

Estimated Administrative Costs in Non-EU countries

- In non-EU countries

Countries	Exports to the EU ¹	Cost of LAS	
	million m ³ /a	EUR/m ³	Total million EUR/a
Cameroon	1.4	0,16	0.2
Indonesia	1.9	0,16	0.3
Brazil	5.2	0.20	1.0
Russia	30.0	0.24	7.2
US	4.1	0.31	1.3
Switzerland	2.8	0.31	0.9
Croatia	1.2	0.25	0.3
All non-EU countries	72.9	0.22	16.0

* Roundwood equivalent (RWE), basic VPA products

Source: Comtrade, Indufor estimates

- the legality checks to be conducted by the competent authorities in the EU are estimated to cost less than EUR 0.01/m³

Implications by Regions

- Likely to favor countries that already have well developed systems in place or have capacity to quickly develop them (the USA, Switzerland, Norway, Brazil, Malaysia, Vietnam)
- Non-industrial forest owners (e.g. in the US, Balkans) may face higher cost of legality control than other suppliers of roundwood because of small average size of woodlots -> could be disadvantaged in terms of exports to the EU

Definition of Legality

- Introduction of import ban without cooperation of non-EU governments may raise questions regarding sovereignty
- Non- EU governments may have differing perceptions on legality definition -> should EU impose a common definition to ensure equal treatment of countries and secure meeting the minimum objectives set for FLEGT?
- To find common ground with as many governments as possible, it might be necessary to adopt a rather narrow definition of legality (e.g. legality of origin) -> social and environmental objectives of FLEGT could be put at risk

Credibility

- Existing control systems in non-EU countries have varying degrees of rigor and usually not subject to independent auditing -> is the EU in a position to demand improvements in case systems are not perceived as credible?
- The type of assurance that can be considered sufficient may vary from one non-EU country to another -> is the EU in a position to discriminate between exporting countries in this manner?

Reciprocity

- Introduction of import ban could provoke non-EU countries to impose similar requirements on EU exports
- EU exports a total of 36 million m³ (RWE) of basic VPA products. With this volume, the total cost for the EU is estimated at about EUR 11 million/a (0.31 EUR/m³/a). If all wood products including pulp and paper were considered, the cost would nearly triple
- The cost would be shouldered mainly by Sweden, Finland and Germany, which are the principal Member States exporting wood products

Implementation in non-EU countries

- Funding the initial investment in the control system could be a constraint for some governments
- From the private sector's standpoint, indirect costs such as slowness of procedures or new opportunities for corruption may be significant
- The practical arrangements to verify legality could become an obstacle for exports to the EU. In practice, it would be necessary to decide prior to each harvesting operation whether the logs to be harvested or products made thereof are destined for EU exports

Enforcement in the EU

- EU Customs officers interviewed considered the scheme feasible, if verification is based on documentation and the procedures are incorporated into the existing computerized systems (except in Finland)
- EU Customs Offices and other concerned agencies have limited resources and capacity for any further investigations; preventing imports of illegal timber is not a priority for customs or other law enforcement agencies.
- The EU Customs Offices have no resources or authority to conduct investigations in the country of origin

Impact on Illegal Logging

Estimated volume of exports of illegal timber to the EU from all non-EU countries in 2005

Total industrial roundwood production in all non-EU countries (million m ³ RWE)	615
Estimated illegal production of industrial roundwood in all non-EU countries (million m ³ RWE)	136
Estimated volume of exports of illegal timber to the EU from all non-EU countries (million m ³ RWE)	14
Exports of illegal timber to the EU of total illegal production of industrial roundwood in all non-EU countries(%)	10
Exports of illegal timber to the EU of total production of industrial roundwood in all non-EU countries (%)	2

Source: COMTRADE, Turner et al 2007 (illegal logging)

- Impact is proportionate to the volume of EU imports
- Maximum potential difficult to attain because of possibility to divert illegal timber to other markets than the EU

Trade Impacts

- In non-EU countries, projected changes in value added in the forest sector within a range of $\pm 1\%$
- In EU countries average changes of same order of magnitude, forest owners benefit

Change in valued added in EU Member States by region compared to business as usual scenario

Group of Member States	Change in Valued Added 2009-2015		
	Forestry	Forest industries	Total value added
	%	%	%
Member States (MS) in Nordic Region	8.2	-2.3	0.1
MS in Central and Western EU	5.5	0.7	1.4
Other MS	4.0	2.0	2.4

MS in Nordic Region = Finland, Sweden, Estonia, Latvia and Lithuania

MS in Central and Western EU = Belgium, France, Germany, Italy, the Netherlands, Spain, the UK

Environmental and Social Impacts

■ Environmental Impacts

- In non-EU countries, environmental impacts depend on how effectively the scheme is able to suppress illegal activities
- In the EU, increased harvesting could increase pressure on environment but monitoring systems are generally robust and able to contain potential threats

■ Social Impacts

- In non-EU countries the social impact depends to a great extent of the definition of legality i.e. whether social provisions are included
- In EU countries, the main impact is changes in employment but these are projected to be very modest

Option 4b: Legislation which requires that only legally harvested timber and timber products be placed on the market (Sales Ban)

Scope

- Requires suppliers to provide evidence of the origin of timber and evidence on legality of forest harvesting in the origin
- Legality controlled at point of sales within EU borders
- The burden on proof is on the party placing goods on the market. Being unable to prove legality would constitute an offence punishable under European laws

Key Benefits

- If implemented effectively, the sales ban would be a comprehensive approach eliminating
 - the possibility of circumvention as well as
 - the cost advantage enjoyed by illegal timber on the EU market

Optional Mechanisms for Implementation

- Private sector arrangements
 - 1) Including the requirement of legality in the supply contracts as well as the right to conduct second party audits on supplier's operations;
 - 2) Excluding suppliers that are not certified as legal producers/traders;
 - 3) Establishment of the legality control system to cover the buyer's own operations and those of all the suppliers;
- Government-operated arrangements
 - 4) National Institutions issue legality certificates

Assessment of Costs

- Costs assessed based on alternative 2 (exclusion of non-certified suppliers)
- Acceptable proof include third party certified evidence or certificates from FSC, PEFC, ISO 14001 or nationally accepted certification schemes provided that they cover both forest management and chain-of-custody
- "Low-tech" solutions assumed
- Government agencies in EU Member States systematically inspect the market operators; inspection frequency 1% of the timber consignments

Estimated Administrative Costs

Country	Imports*			EU roundwood production			Total admin cost
	volume	admin cost	Total	volume	admin cost	Total	
	million m ³ /a	EUR/m ³	million EUR	million m ³ /a	EUR/m ³	million EUR	million EUR
Finland	15.3	0,005	0,08	54.9	0,005	0,27	0.4
Germany	2.7	0,005	0,01	50.9	0,005	0,25	0.3
Romania	0.3	0,005	0,00	11.5	0,005	0,06	0.1
All EU	72.9	0,005	0,36	370.2	0,005	1,85	2.2

* Roundwood equivalent (RWE), roundwood, sawnwood, plywood and veneer

Source: COMTRADE, Indufor estimates

Estimated Private Sector Costs

Country	Export to the EU/ roundwood production* million m ³	Cost of control systems	
		EUR/m ³	EUR
Cameroon	1.4	0.24	0.3
Indonesia	1.9	0.24	0.4
Brazil	5.2	0.23	1.2
Russia	30.0	0.27	8.1
US	4.1	0.28	1.1
Switzerland	2.8	0.24	0.7
Croatia	1.2	0.16	0.2
All non-EU countries	72.9	0.28	20.4
Finland	47.1	0.17	8.0
Germany	50.9	0.25	12.7
Romania	11.5	0.29	3.3
All EU countries	370.2	0.26	96.7

* Non-EU countries: Calculated based on exports quantities (RWE) to the EU, roundwood, sawnwood, plywood and veneer

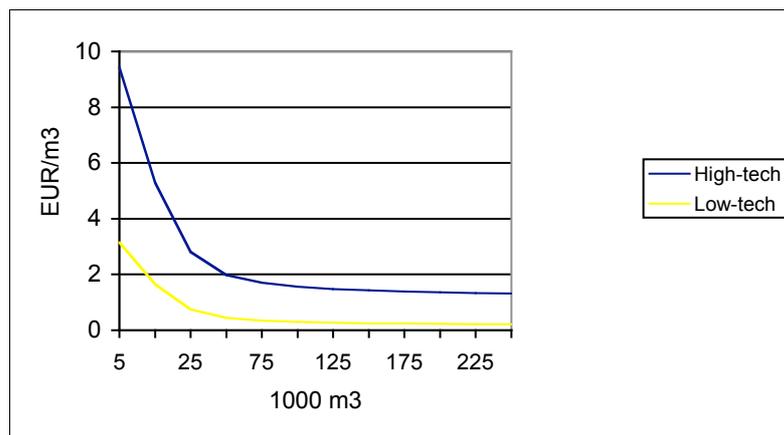
EU countries: Calculated based on production of industrial roundwood

Source: COMTRADE, Indufor estimates

Impact of private sector costs

- With "low-tech" solutions, estimated unit cost 0.16-0.29 EUR/m³ -> has minor significance compared e.g. to roundwood prices at mill gate (40-100+ EUR/m³ in EU Member States)
- With "high-tech" solutions, the unit cost could be up to five times higher
- The cost estimate applies to a production unit processing 75 000 m³ of roundwood annually
- Smaller SMEs may face higher costs, more than 2 EUR/m³ with "low-tech" solutions; these include mainly "micro" SMEs employing 1-9 persons (EU classification and terminology)
- "Micro" SMEs account for more than 80 % of number of enterprises in the EU forest sector, more than 10 percent of value added, and 20 percent of employment (Eurostat 2007)

Sensitivity of Private Sector Cost to Volume of Processed Roundwood



Impact on Regions/Stakeholder Groups

- Potential beneficiaries include EU Member States and other developed countries as well as the private sector in middle-income developing countries such as Brazil and Malaysia, as well as transforming economies, such as Vietnam,
- Non-industrial forest owners potentially disadvantaged, because small size of woodlots may increase the costs associated with legality control
- Interviews with timber traders in Baltic countries suggest that the risk of discrimination against private forest owners is limited, if private forests represent a major source of timber supply; part of cost may be passed on to forest owners in the form of lower roundwood prices

Risks (1)

- The requirement of traceability substantially increases the potential to detect illegal activities
- Risks of implementation relate mainly to law enforcement and the authorities' capacity to produce evidence on criminal cases
- If irregularities surface, the certifying party cannot be considered legally liable. The legal responsibility rests always with the party placing goods on the market -> in criminal investigations the supply chain would have to be traced back to the point where the alleged criminal act took place -> complex investigations, especially, if the crime took place in non-EU countries.

Risks (2)

- Penalty regime may vary depending on Member State. If violations were treated as an administrative offence, deterrence could be weak
- Stakeholders have questioned the principle that legality of goods must be proved (as opposed to illegality)
- Using third party auditors may be considered to be in conflict with the mandate that national governments traditionally are responsible for (e.g. in Cameroon)
- The cost for companies operating within EU borders is estimated at EUR 100 million/a; the main potential benefit, a reduction in illegal logging, would materialize mainly outside of EU -> a potentially sensitive issue

Impact on Illegal Logging (1)

Estimated volume of exports of illegal timber from non-EU countries and estimated illegal roundwood production in EU in 2005

Global production of industrial roundwood (million m ³)	1 709
Estimated illegal global production of industrial roundwood (million m ³)	139
Estimated volume of exports of illegal timber from all non-EU countries (million m ³ RWE)	14
Estimated illegal roundwood production in the EU (million m ³)	3
Exports of illegal timber to the EU + illegal roundwood production in the EU of global production of illegal industrial roundwood (%)	12
Exports of illegal timber to the EU + illegal roundwood production in the EU of global production of industrial roundwood (%)	1

Source: COMTRADE, Turner et al 2007 (illegal logging)

Impact on Illegal Logging (2)

- The potential to reduce illegal logging of the same order of magnitude as with option 3
- The requirement of traceability an effective means of enforcement
- The possibility of diverting illegal timber to other markets remains a major weakness

Other Impacts

- Trade, environmental and social impacts largely the same as in option 3, the import ban, assuming that both are implemented effectively