Tackling Illegal Logging and the Related Trade

What Progress and Where Next?

Executive Summary and Recommendations

The world's forests remain under threat from illegal logging – an issue that has serious implications for tackling climate change and achieving sustainable development. Illegal logging perpetuates corruption, undermines livelihoods, fuels social conflict, deprives governments of revenue and erodes countries' natural resource bases.

Important progress has been made in reducing illegality in the forest sector over the past decade. However, the problem remains widespread. In 2013 more than 80 million cubic metres (m^3) of timber – as measured by roundwood equivalent (RWE) volume – were illegally produced in the nine producer countries in this assessment. This is equivalent to nearly one-third of their total production of timber, and will have released at least 190 million tonnes of carbon dioxide into the atmosphere. To put this in perspective, the combined carbon dioxide emissions of Denmark, Norway and Sweden in 2010 amounted to 155 million tonnes.

Chatham House has been tracking the impact of efforts to tackle illegal logging since 2006. During this period, many measures have been taken. The use of certification and supply chain controls has increased in the private sector. Consumer-country governments have pursued various approaches, including introducing legislation to prohibit imports of illegal timber; promoting markets for legal timber; and pursuing bilateral cooperation with producer countries to improve governance and encourage legal exports. In parallel, producer governments have implemented extensive policy and governance reforms.

Advances in tackling illegal logging have slowed in recent years

Chatham House's first assessment of international progress in tackling illegal logging was encouraging. Published in 2010, it found that concerted efforts in the early 2000s to improve law enforcement had resulted in a significant decline in illegal logging in many countries.

This second assessment, conducted in 2012–14, presents a more mixed picture. At the national level progress is clearly evident. Nearly all the consumer countries assessed have reduced the shares of illegal timber in their imports. Although forest governance remains very weak in most of the producer countries, there has been continued improvement in numerous areas. Correspondingly, many of the producer countries assessed have reduced the shares of illegal timber in their exports.

However, at the global level progress has stalled. In the countries assessed, the volume of illegal timber imports

had risen by a fifth since the end of the financial crisis to an estimated 60 million m^3 (RWE volume) in 2013, almost the level of a decade ago.

This development is disconcerting because it coincides with ambitious government action to tackle illegal logging. It comes at a critical moment for the international community: in 2015 governments are preparing for a new global climate agreement and a new framework for sustainable development, and are considering global priorities for development finance. To succeed, these processes will require radical improvements in the governance of the world's forests as well as sharp reductions in greenhouse gas emissions.

So what has happened? In short, efforts to tackle illegal logging have been eclipsed by three major changes in the forest sector. First, new markets for timber have diluted the impact of policies introduced by some developed countries. Half of all the trade in illegal wood-based products is now destined for China, the largest consumer as well as a major processing hub. At the same time, domestic demand for timber has been rising in producer countries, providing a market for both legal and illegal timber. Second, more forest is being cleared for agriculture and other land uses. As much as half of all tropical timber traded internationally now comes from forest conversion, of which nearly two-thirds is thought to be illegal. Third, logging by small-scale producers has soared in many countries. Such activity is often illegal and remains beyond the scope of many policy and regulatory efforts.

This second Chatham House assessment is based on research on nine producer countries (Brazil, Cameroon, the Democratic Republic of the Congo [DRC], Ghana, Indonesia, Laos, Malaysia, Papua New Guinea [PNG] and the Republic of the Congo), three processing countries (China, Thailand and Vietnam) and seven consumer countries (France, India, Japan, the Netherlands, South Korea, the UK and the US). It charts the progress in tackling illegal logging and related trade since 2000. At the same time, it offers recommendations on how efforts can be strengthened and adapted in response to the changes that have taken place in the sector.

Key findings

The share of illegal imports into nine out of the 10 processing and consumer countries declined during the period 2000–13. The most marked reductions took place in some of the 'non-sensitive' markets[1], where illegal imports

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[1] 'Sensitive' markets are those in which there is a strong preference for legal timber owing to the existence of legislation or other policies and/or consumer choice. This assessment identifies the following as such markets: Australia, Canada, the EU, New Zealand, Norway, Switzerland and the US. All other markets are considered 'non-sensitive'.

Figure 1: Estimated percentage of imports of wood-based products at high risk of illegality into the 10 processing and consumer countries (by RWE volume), 2000–13
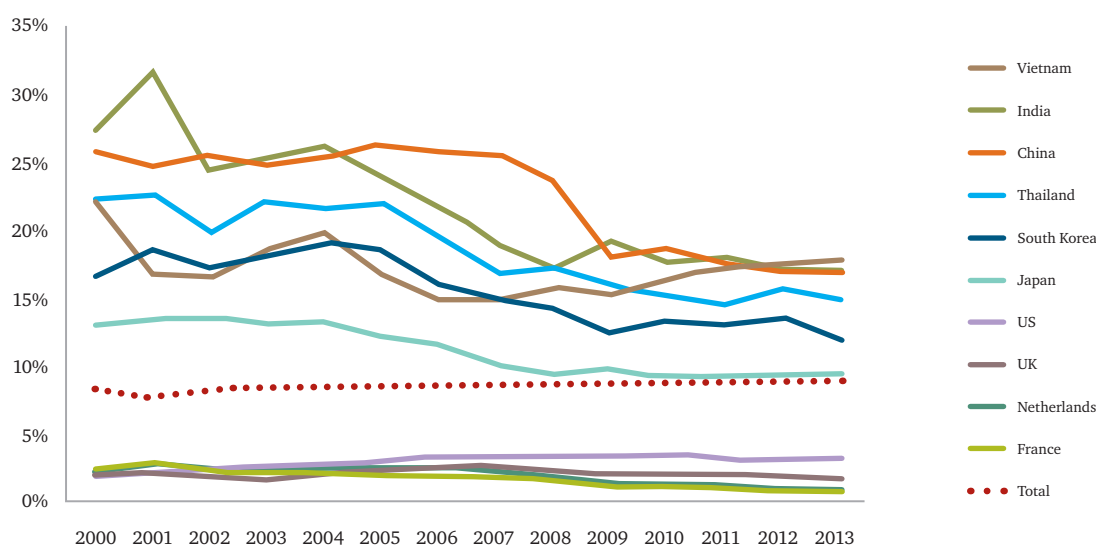
Sources: Based on illegality estimates by Chatham House; and official national trade statistics for the UK, France, Netherlands (Eurostat), Trade Statistics of Japan, the US (USITC Trade DataWeb), General Administration of Statistics of the People's Republic of China, Customs Service of the Kingdom of Thailand, South Korea (Korea Customs Service), India (UN Comtrade) and official statistics for the imports of Vietnam's partner countries. Data for all countries also draw on UN Comtrade and on analysis by Chatham House.

were very high at the turn of the century. For example, in China the share of illegal imports declined from 26 per cent to 17 per cent, and in India from 27 per cent to 17 per cent. The US was the one country that bucked this trend: the share of illegal imports increased from 2 per cent to 3 per cent between 2000 and 2007, and then stabilized.

Measures to eliminate illegal timber imports into the EU and the US have had a positive impact, but the bulk of illegal trade is now to other countries. In 2013 volumes of illegal wood-based products imported by the US fell by one-third compared with their peak in 2006. In the case of the three EU countries in this assessment, volumes halved over the same period. Meanwhile, the quantity of illegal products imported by the emerging economies of China, India and Vietnam increased by over 50 per cent. This shift renders the policies of the EU and the US (so-called 'sensitive' markets) less influential.

The share of illegal products in international trade has remained the same since the turn of the century. Although most of the processing and consumer countries have reduced their illegal imports, there has been a shift, and overall growth, in trade to those countries with larger shares of illegal imports, most notably China. As a result, the

share of illegal imports for all 10 countries has remained at just under 10 per cent since the turn of the century.

The enactment of legislation by all major processing and consumer countries could have a dramatic impact on the legality of the timber trade. The global trade in illegal wood-based products could be slashed by two-thirds if other consumer countries reduced their illegal imports to the proportions seen in the US and the EU. Owing to the scale of China's imports, the spotlight will be on that country's emerging policy framework. But wealthier Asian countries such as Japan and South Korea could lead the way.

Most illegal timber comes from three of the producer countries, but other countries have much higher shares of illegal production. The vast majority of illegal timber in 2013 came from Indonesia (around 50 per cent), Brazil (25 per cent) and Malaysia (10 per cent). This in part reflects the size of these countries' forest sectors, as they also produce large volumes of legal timber (see Figure 2). Other countries, such as the DRC, Ghana, Laos, Papua New Guinea and the Republic of the Congo, produce less timber overall but have much higher shares of illegal timber in their total production. For example, nearly all timber produced in the DRC comes from illegal sources.

Figure 2: Estimated production of legal and illegal timber in the nine producer countries, 2013
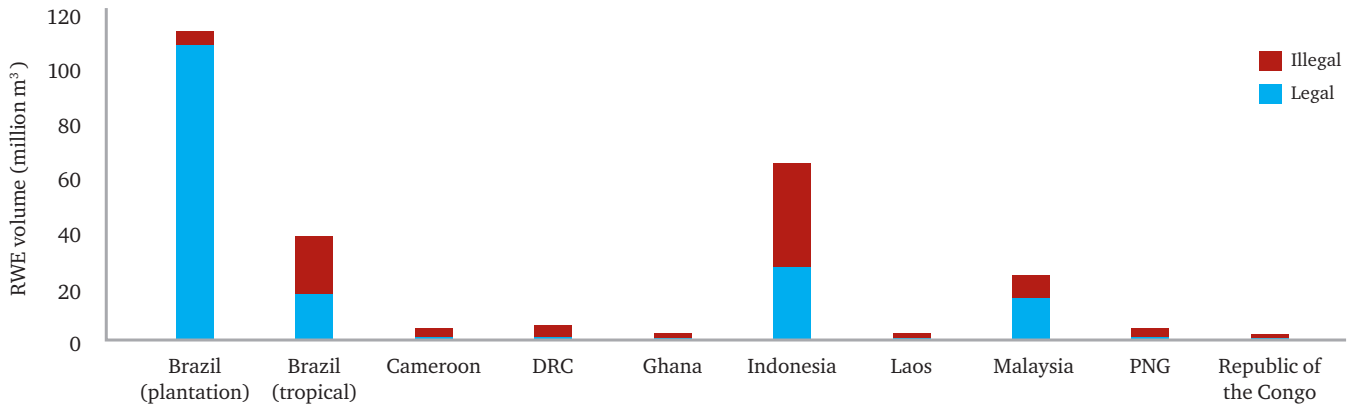
Sources: Chatham House estimates of illegality, ITTO, UN Comtrade and national agencies.

The nature of illegality in the forest sector is changing. The proportion of forest verified as legal or certified as sustainable has increased significantly since 2000. This corresponds to a decline in illegal practices relating to the allocation and management of large-scale forest concessions for selective logging. Furthermore, unlicensed large-scale logging is now less prevalent in many countries, particularly in Brazil and Indonesia. However, these gains have been offset by increased illegal timber production from forest conversion and from informal small-scale logging.

Investing in governance is crucial for reducing illegal logging. Countries that achieved a high score in the policy assessment, such as Brazil and Indonesia, tend to have lower levels of illegal production. Those with poor policy scores, such as the DRC and Laos, have high illegality rates (see Figure 3). However, no scoring system can capture the full complexity of the reality on the ground. Ghana does well in the policy assessment but has high rates of illegal logging owing to its rapidly growing informal small-scale sector. Malaysia has the lowest rates of illegal logging but scores poorly in terms of its policy framework; this is in part because of weaknesses in the legal framework relating to the allocation of logging rights.

Significant improvements in forest governance have been achieved in most producer countries. Indonesia, for example, has targeted corruption and financial crime in its forest sector, implemented a national system for timber legality assurance, and issued a landmark court ruling that provides for formal recognition of customary land rights. At the other end of the spectrum lie the DRC, Laos and the Republic of the Congo, where corruption is rife, government accountability lacking and law enforcement weak.

**Despite improvements in forest governance, gaps remain and reforms must continue.** Many countries have taken important steps towards more open and participatory decision-making processes, and improved legal clarity. However, more must be done to ensure these gains are embedded: for example, new laws await implementation; effective institutions and freedoms need to be in place so that additional data on the forest sector can be used to hold governments to account.

Recommendations

Illegal logging remains widespread. However, this state of affairs should not be interpreted as signalling the failure of recent efforts *per se*. In fact, there is considerable evidence to the contrary: initiatives to tackle illegal logging have yielded success in a number of important areas. The problem is that recent efforts have not kept pace with rapid changes in timber production and trade.

This issue cannot be addressed through the individual efforts of a few enlightened governments, important though these are. The scale of the challenge demands a coherent and decisive international response. Under current proposals, the new UN Sustainable Development Goals (SDGs) could galvanize the international community into tackling important supply-side issues such as forest management and governance. The SDGs could also promote private-sector efforts to establish sustainable supply chains. However, success also requires significant reductions in the markets for illegal timber.

Figure 3: Policy scores and levels of illegal production, 2013
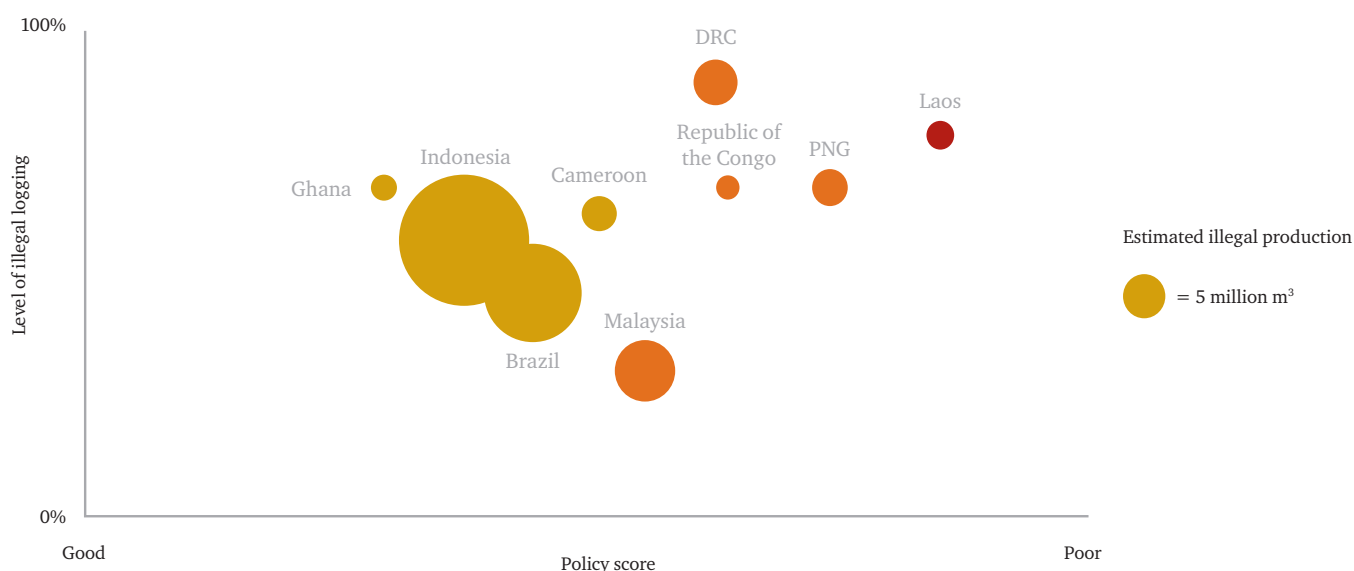
*Shading reflects the score for the relevant policy area as a percentage of the possible maximum: **red** = 25 per cent and below; **orange** = >25–50 per cent; **yellow** = >50–75 per cent; and **green** = above 75 per cent.

Sources: Chatham House policy assessment, ITTO, UN Comtrade and national agencies.

The EU and US are well placed to provide global leadership on this agenda, building on their successes and disseminating best practice. Working with others, the goal should be to marshal and harmonize the efforts of key producer, processing and consumer countries alike. For example, bilateral arrangements such as the EU's voluntary partnership agreements (VPAs) could be extended to include a third consumer or processing country such as China. Producer governments could cooperate to disseminate best practice on tackling illegal logging. With donor support, this could be formalized through a capacity-building and knowledge network.

Looking more broadly, the G20 could provide a forum to help establish a stronger international regime, incorporating supply- and demand-side measures. Its members account for more than 90 per cent of global tropical timber imports and include both 'sensitive' and 'non-sensitive' markets, as well as the leading exporters of tropical wood-based products – namely, Indonesia and Brazil. Building on the legacy of the G8's Action Programme on Forests, a G20 commitment to tackle illegal logging could push the issue up the political agenda in countries such as Brazil, China, Japan, Russia and South Korea.

A revitalized global agenda to tackle illegal logging would require action on five fronts. It should seek to:

1. Go deeper

Following early gains, governance reforms in many producer countries have slowed. Getting back on track will require a step change in political commitment and willingness to tackle the more difficult remaining governance issues – such as corruption. Priorities include:

- Establishing properly resourced and empowered anti-corruption agencies in producer countries;

- Enabling monitoring of the forest sector by civil society, including creating an institutional framework to respond to findings;

- Strengthening enforcement efforts in producer countries, including through capacity-building in the judicial sector;

- Making more concerted efforts in the EU and US to implement legislation prohibiting illegal imports;

- Fulfilling existing commitments to ensure transparency in producer countries, and including

the forestry and agriculture sectors in those states' submissions to the Extractive Industries Transparency Initiative (EITI); and

- Requiring logging companies to disclose payments to governments of countries in which they are operating, and developing rigorous standards for company reporting on forest impacts.

2. Go wider

The most progressive demand-side approaches remain confined to a small subset of developed consumer countries, which account for a declining share of global imports of wood-based products. Comparable efforts should be undertaken by other developed countries – such as Japan and South Korea – as well as by emerging consumers and processors such as India and China. In addition, producer-country governments should tackle the rapidly growing consumption of illegal timber at home. Priorities include:

- Passing legislation in the major processing and consumer countries to prohibit the import or sale of illegal wood-based products and require companies to perform credible due diligence (this should be supported by international cooperation to share best practice and ensure alignment of approaches);

- Considering the introduction of rigorous public procurement policies in the major processing and consumer countries as an interim measure; and

- Implementing measures to promote a domestic market for legal timber in each producer country, including rigorous procurement standards for both the public sector and businesses.

3. Get smaller

Efforts to date have focused on large-scale logging concessions, but small-scale production should be given much more attention. Priorities include:

- Incorporating small-scale producers and processors into the formal sector by reducing barriers to entry and facilitating legal compliance (in many cases this will require producer governments to undertake legal reform and adapt legality verification processes, while in all cases significant investment in capacity-building and extension services will be needed);

- Developing VPAs or other bilateral cooperation agreements that focus specifically on the small-scale sector;

- Introducing public procurement policies for legal timber from small-scale producers in more producer countries; and

- Establishing long-term, supportive partnerships between traders and retailers, on the one hand, and small-scale producers and processors, on the other.

4. Get smarter

The pervasive lack of data, particularly in the public domain, undermines efforts to monitor logging by civil society, to implement best practice by the private sector, and to develop effective policies by producer and donor governments. The reporting and accessibility of data should be improved and new technologies explored. Priorities include:

- Investing further in statistical services in producer countries to enable the supply of robust data on production, consumption and trade (the G20 could play a key role in galvanizing action and supporting international cooperation in this area); and

- Implementing systematic government monitoring of the impact of policies and development assistance on forest governance and levels of illegal logging, particularly in donor countries.

5. Go further

Increasingly, illegal timber production is resulting from the expansion of agriculture, mining and infrastructure. There is an urgent need for coherent cross-sector strategies that extend efforts to tackle illegal logging beyond the forest sector. Priorities include:

- Clarifying and enforcing laws related to land-use planning and management by producer-country governments (it is in the interests of the private sector to encourage governments to act, since private businesses will otherwise find it difficult to fulfil commitments to establish legal and sustainable supply chains);

- Ensuring that initiatives to tackle illegal logging – including legality assurance systems – cover timber from the illegal clearance of forest for other land uses;

- Developing processes by producer-country governments through which past illegalities related to forest conversion can be reviewed and, where appropriate, redressed (for example, through applying sanctions or renegotiating permits);

- Developing policies in consumer countries to reduce the trade in non-forestry products linked to illegal deforestation (for example, through legislation prohibiting such trade, through public procurement policies, and through requirements for corporate reporting on environmental policies and impacts); and

- Developing stronger safeguards within free trade agreements to facilitate the mitigation of any negative impacts on forests.

Looking ahead

During the past 15 years, efforts to tackle illegal logging have made significant gains, despite growing pressure on the world's forests. But much more needs to be done.

In 2030 governments will be measured against the commitments they make later this year: to cut greenhouse gas emissions as part of a new global climate deal, and to establish a new set of SDGs. Illegal logging is inimical to both of those undertakings. Concerted international action on the five fronts identified above can turn the tide against illegal logging. It can create a global forest sector that absorbs carbon rather than emitting it, that generates sustainable livelihoods rather than causing social conflict, and that contributes to public revenues rather than bolstering illicit finance.

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