



CENTER FOR INTERNATIONAL FORESTRY RESEARCH



Current initiatives and future challenges to Japan's timber sector

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Structure of the Presentation

- 1) Current significance of the issue of illegal logging
 - How widespread is illegal logging and trade?
 - How much money is involved?
 - What actors are involved? What are impacts?
- 2) Overview of the international efforts to address illegal logging
 - Strengths and limitations of each
- 3) Japanese efforts to deal with the illegal logging issue
- 4) Future challenges
 - Opportunities for potential engagement of G-8

Forest crime is a global problem, with major implications in Asia-Pacific

Estimated illegal timber production and trade
-- Curtin (2007), MoFr (2006):

- \$23 billion worth of timber products are produced from illegal wood annually
- 25% of globally traded hardwood lumber of suspicious (illegal) origin
- 30% of globally traded hardwood plywood of suspicious (illegal) origin
- Illegal logging continues to be significant in timber production in Asia-Pacific
- E.g. in 2006 illegal logging in Indonesia estimated at 52 million m³



Illegal logging results in significant revenue losses in producer countries



Globally, World Bank (2006) estimates annual losses of:

- US\$ 10 billion in assets & revenues, due to illegal logging on public lands
- US\$ 5 billion in government taxes and royalties, due to legally sanctioned logging

Illegal logging is a major driver of forest degradation and deforestation

In Indonesia, approximately 2 million hectares is lost each year – and a similar area degraded

Causes include:

- Logging outside licensed concession areas
- Logging above approved levels
- Harvesting of protected species
- Unlicensed forest conversion
- Logging in protected areas



'Need-based' vs. 'greed-based' forest crime

Key distinction:

- 'Need-based' forest crime is driven by poverty, and involves small-scale actors seeking to meet basic needs
- 'Greed-based' forest crime is driven by profit and is highly organized, involving large amounts of money and powerful actors

'Greed-based' forest crime – Who's involved?

Illegal timber mafias include:

- Military, police, and other law enforcement agencies
- Corrupt forestry officials
- Illegal timber brokers
- Licensed concession-holders operating beyond contract
- Wood processing companies
- Shippers, exporters, customs officials
- Financiers (both formal and informal sector)



These networks are often national and regional in scale

Overview of international efforts to address illegal logging

- 1) Conventional law enforcement
- 2) Certification / legal verification
- 3) Green procurement policies
- 4) Voluntary partnership agreements
- 5) Regional and multilateral processes

Conventional law enforcement

Periodic 'crackdowns' often focus on 'the little guy with the chainsaw, not the big guy with the bank account'

- Prosecution of elite actors is rare, and convictions even more so (e.g. 2% conviction rate in Indonesia)
- Disagreement over the definition of "legality" between FLE agencies
- Police and armed forces are often directly involved in forest crime, and judicial systems are weak



Certification and legal verification

FSC and other certification systems provide tools for log tracking and chain of custody assessments by third parties



Certification is gaining acceptance, but faces constraints:

- Certification schemes apply varying definitions of legality
- Certification is often too expensive for small producers
- Price premiums for certified products have not always materialized
- Step-wise approach is controversial

Green procurement policies

As major purchasers, governments can strongly influence demand for legal timber products

- Japan's 2001 'Green Purchasing Law'
- A number of EU countries have implemented similar policies (e.g. UK, Netherlands, Germany)
- Legality incorporated as a pre-requisite
- Various verification mechanisms



Japan's efforts to address illegal logging

- Introduction in 2001 of 'Green Purchasing Law'
- Legality (Goho) incorporated as 'criteria for evaluation'
- Guideline for the verification of legality drawn up in 2006
- 3 approaches: i) certification; ii) codes of conduct; iii) individual company procedures
- Significant progress to date: 120 industry groups or 6000+ trading companies verified
- Private sector given high level of autonomy
- Questions about the robustness of (third party) verification

Japan's efforts to address illegal logging (cont)

- Leading role in stressing the urgency over the illegal logging issue at G8 forum
- Japan's leading role in climate change mitigation process (Kyoto Protocol)
- Generous support for REDD to sustain tropical forests
- Long-standing and continuing support for AFP – information exchange platform on forest governance in Asia-Pacific
- The world community certainly hope that this will continue

Voluntary Partnership Agreements

VPA's initiated by UK-Indonesia in 2002, now endorsed by the EU under FLEGT – structured as bilateral agreements based on producer country legality standards



- Mutually agreed mechanisms for verification
- BUT, lack of universal participation creates loopholes
- Assumes producer gov't's have capacity & will to assess legality
- Focus on legality, not sustainability or social impacts
- Pulp and paper not included

Regional and global processes

Since 2001, FLEG has facilitated a broad dialogue on illegal logging and trade in key regions. In Asia-Pacific, it has been enhanced by Asia Forest Partnership.

- Emphasis on
 - i) inter-govt cooperation
 - ii) technical collaboration
 - iii) multi-stakeholder forum
- Very successful at raising global profile of illegal logging
- But concrete actions limited
- Increasing participation of China and Malaysia encouraging



Future challenges – and potential opportunities for G-8

- 1) Impacts of forest law enforcement on livelihoods
- 2) Role of law enforcement agencies in forest crime
- 3) Corporate reporting and disclosure standards (in relation to forestry investment – timber/biofuel plantations)
- 4) Trade liberalization
- 5) Financial due diligence and anti-money laundering
- 6) Effective support for REDD

Impacts on livelihoods

Links between illegal logging and rural livelihoods are complex, and need to be understood better



- Large numbers of rural poor are engaged in informal timber sector
- Law enforcement can undermine their livelihood security
- Law enforcement also disproportionately targets rural poor

Japan's potential contribution:
help find ways to enable
community based timber to enter
major timber markets legally

Role of law enforcement agencies in forest crime

- In many countries, the police and military are actively involved in illegal logging syndicates
- Formal and informal involvement of security forces in the timber business often due to inadequate allocations from the state budget
- Efforts to curtail illegal logging ultimately require effective and professional law enforcement agencies

Japan's potential contribution: Provide assistance for capacity building (professionalization) of forest law enforcement agencies in producer countries

Corporate reporting and disclosure

Improved transparency and accountability for forestry corporations is critical to ensure operations are fully legal



- Currently no industry standard for reporting on wood sourcing
- UNEP Global Reporting Initiative provides a useful framework
- Important given the growing investment in timber and biofuel plantations (e.g. Indonesia seeks 20 billion for 14 million ha of new plantations by 2016)

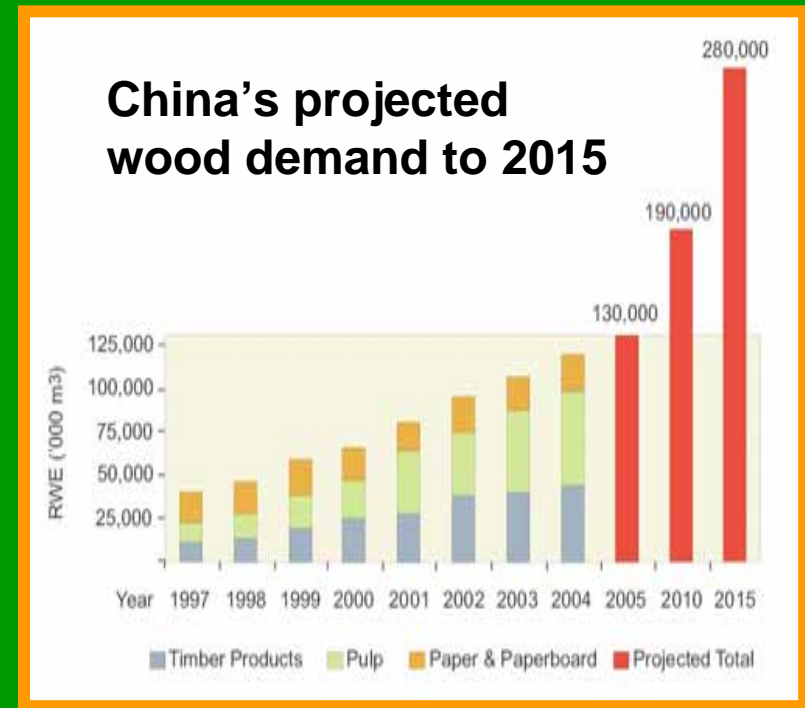
Japan's potential contribution:
replicate sector-wide the exemplary conduct of Japan's pulp and paper producers e.g. Oji Paper, Nippon Paper

Trade liberalization

Emergence of WTO and other trade liberalization initiatives has facilitated global expansion of trade in forest products

- China has fueled much of the growth
- India may be following a similar growth path
- Legality verification not always a priority

Challenge for Japan: can its procurement withstand the context where not all the players are meeting the same standard?



Financial due diligence

Given prevalence of forest crime, banks need improved tools to ensure they do not finance illegal activities



- Improved due diligence could strengthen risk analysis and social-environmental impact assessment
- Banks need access to forestry expertise

Japan's potential contribution: greater support for international and national (in producer countries) initiatives to combat corruption and money laundering

Effective support for climate change mitigation through REDD

Given vast financial resources being made available for REDD programs in countries with poor (forest) governance, donors need improved tools to ensure they do not finance illegal activities



- REDD will offer payments per ha for avoided deforestation
- Japan has recently committed \$2 billion to this new scheme
- World Bank's carbon trade facility with similarly large resources

Challenge for Japan and other donors: ensuring that funds are used effectively and responsibly and do not support illegal activities

Thank you for your attention...

