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DEMANDING DEFORESTATION:

WHAT LESSONS CAN ILLEGAL LOGGING AND INTERNATIONAL TIMBER TRADE POLICY TEACH US FOR EFFECTIVELY REDUCING EMISSIONS FROM DEFORESTATION AND FOREST DEGRADATION?

AN EIA BRIEFING



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In Brief:

1. Illegal logging causes deforestation and forest degradation directly and is also a basic indicator of failures in forest governance and law enforcement. Illegal logging is fueled in substantial measure by a large and indiscriminate international market demand for (artificially) cheap wood products.
2. Building the conditions for successful reduction of emissions from deforestation and degradation (REDD) will require both improving governance on the ground and addressing international trade in forest products and agricultural commodities as drivers of deforestation. These policy arenas can and should be mutually reinforcing.
3. Support for demand-oriented laws and initiatives to combat illegal logging and transform wood product trade streams, such as the U.S. Lacey Act and the E.U. FLEGT process, should be incorporated into forest-climate policy discussions and scaled up internationally as a necessary element to underpin any credible REDD framework.
4. A decade of investigating timber trafficking has helped EIA to understand the importance of supply chain tracking, transparency, and independent monitoring for legal forest commodity markets. These lessons will be critical for emerging forest carbon markets as well.

INTRODUCTION:

MERGING THE ILLEGAL TIMBER TRADE AND REDD CONVERSATIONS

The world's forests are a critical piece of the climate change puzzle. Forests cover 30% of Earth's land surface, sequester some 45% of terrestrial carbon, and influence the climate through albedo and regional weather pattern effects.¹ Scientific literature increasingly supports the fact that primary forests store vast amounts of standing carbon and continue to sequester new carbon.² While very real debates exist regarding how a mechanism should be structured and financed, the basic goals of reducing deforestation and forest degradation (REDD) are shared by everyone.

Reducing deforestation is not, of course, a new goal. For decades, communities, governments and international institutions have been struggling to slow deforestation and address its causes. One of these causes is illegal logging — timber harvesting or its associated trade in contravention of a country's laws. Large-scale illegal logging and trade are criminal activities, financed and fueled by ever-growing demand from international markets that do not discriminate legal from illegal wood products.

Illegal logging demonstrates both the basic governance failures and the contradictory market forces that, if unchecked, will undermine the capacity and credibility of any effort to reduce emissions from deforestation and degradation in the long term. It is therefore crucial to integrate the policy discussion of forest carbon with the policy discussion of illegal logging.

ILLEGAL LOGGING AND ASSOCIATED TRADE: DIRECT AND INDIRECT CLIMATE IMPACTS

In the past decade, efforts to combat illegal logging became a policy priority as the global community woke up to the true extent of the associated ecological, economic and social impacts. The World Bank estimates that illegal logging costs developing nations close to \$15 billion annually in lost assets and revenues. This amount is over eight times that spent on sustainable management of the world's forests³ — and does not even factor in the social conflict, human rights abuses and economic dislocation in developed country forest sectors caused by this illegal trade.

Illegal logging is an integral part of the deforestation that contributes some 20% of global carbon emissions annually.⁴ In both Brazil and Indonesia, which alone account for around 50% of the world's deforestation emissions, illegal logging in natural forests has previously been estimated to make up over 70% of the total harvest.⁵ While such figures are difficult to accurately estimate due to the nature of illicit activity, they certainly point to a significant problem.

On one level, impacts of illegal logging are felt through the direct removal of forest cover. One recent in-depth analysis of global timber trade statistics estimated that 10% of the U.S.'s wood products imports were derived from material at high risk of illegal origin: some 28 million cubic

meters of round-wood equivalent.⁶ Assuming that a cubic meter of wood contains, on average, 0.75–1.0 ton of CO₂e,⁷ this represents 21–28 million tons CO₂ equivalent coming out of the worlds' forests and into American markets alone from illegal sources. By some estimates, 10% of wood product on the global market is at high-risk for illegality. This vast market, in addition to reducing carbon stocks, undervalues timber and therefore standing forests.

Second, illegal logging contributes to deforestation through triggering a chain of land use change — infrastructure development, subsequent settlements, fires, conversion. Uncontrolled logging for valuable hardwoods or cheap wood fiber is time and again the 'gateway activity' that leads down a harmful slope for forests and the global climate.

But perhaps most importantly, illegal logging and associated timber trade are serious indicators of a failure in the forest governance regime of a given country (or region or concession). The most damaging illegal logging is not a factor of poverty and small landholders, but rather of large-scale corruption and criminal networks, facilitated by judicial impunity and financed by the massive 'no questions asked' global market where price creates incentives for all but a progressive few companies to look the other way. This corruption and impunity harms not only the forests and the climate but also human lives, livelihoods and the rule of law.

The REDD Credibility Problem

Rampant illegal logging in many of the world's deforestation hotspots casts serious questions over the credibility of any REDD credits these countries might eventually issue. On one level, the question is simply this: if a government cannot prevent illegal cutting of trees, then how can it possibly be a source of reliable, verifiable or permanent credits for avoided deforestation? For a government to credibly project that it can reduce deforestation from a given baseline scenario, and for a public fund or privately-financed market to apportion funds in response to this projection, the government must demonstrate its capacity and political will to do the work that will make its policies a reality. Illegal logging demonstrates a disconnect here, a breakdown in the governance link between policy prescriptions and forest outcomes. Given that it is precisely upon this connection that successful REDD depends, substantial illegal logging undermines a country's claims and projections of REDD credits.



ZHANGJIAGANG, CHINA:
The world's largest tropical log trading port.
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On another level, as long as the world's consumer markets continue to buy billions of dollars of no-questions-asked timber, with no legal repercussions, these low-risk profits will create an ongoing incentive for illegal activity. Globally, wood products is a trillion dollar industry, so the incentives this trade generates will be competitive with any incentives created by a REDD framework with \$20–50 billion in annual financing, a range that many proponents argue would reduce deforestation up to 50%.⁸

TABLE 1: DEFORESTATION AND ILLEGAL LOGGING RATES IN KEY TROPICAL COUNTRIES

Tropical Forest Countries with High Estimated Rates of Deforestation Emissions	% of Global Deforestation Emissions*	Receiving FCPF Funds?	Illegal Logging in Natural Forests Estimates	
			Over 50%	20-50%**
BRAZIL	25%		●	●
INDONESIA	23%		●	
NIGERIA	6%	●	●	
CONGO DR	4%	●	●	
BURMA	3%		●	
ZAMBIA	3%		●	
CAMEROON	3%	●	●	
PHILIPPINES	2%		●	●
VENEZUELA	2%		D.N.A.	
BOLIVIA	2%	●	●	
GHANA	2%	●	●	
TANZANIA	2%		●	
ECUADOR	2%		●	
PAPUA NEW GUINEA	2%	●	●	●
HONDURAS	2%		●	●
VIETNAM	<2%	●		●
PERU	<2%	●	●	●
MEXICO	<2%	●		●
GABON	<2%	●	●	
NICARAGUA	<2%	●	●	

* Source = Nicholas Institute 2008 (courtesy of NRDC)

** Both columns marked where differing estimates exist. Data compiled from various sources available upon request.

Given that so many of the countries interested in participating in a REDD framework (e.g. countries receiving funds under the World Bank's Forest Carbon Partnership Fund (FCPF)) are also illegal logging hotspots [see Table 1], policy makers must think seriously about both the direct problem *and* the underlying failures that it manifests. And, critically, the world's policy makers must help foster the conditions to fix these failures, through supporting producer country efforts to build governance *and* creating demand-side market conditions that will not undermine these efforts.

BUILDING THE CONDITIONS FOR REDD: LESSONS FROM ILLEGAL LOGGING

A renewed international effort to reduce emissions from deforestation requires several key elements to be in place. Lots of money and good satellite imagery aren't enough. At least two other particularly critical elements must be present: in-country forest governance and international trade policies that are consistent with the goal of reducing drivers of deforestation.

In-country Governance

Effectively reducing emissions from deforestation and degradation will require seriously establishing the governance that is absent or has broken down in places where illegal logging dominates. Improving in-country governance means creating institutions that are transparent, accountable and inclusive and can do a variety of things: eliminate corruption and judicial impunity; improve tenure arrangements; define forest users' rights and responsibilities; increase participation in decision-making; do a better job of monitoring on the ground and aerially; enforce property rights and tenure arrangements, and invest in institutional capacities at local, regional and national levels.⁹

Most advocates of a REDD framework believe that it will support good governance and prevent illegal logging, by creating new financial and legal incentives for governments, companies and communities to enforce property rights and laws. But without basic enabling conditions, this framework of incentives will be fundamentally undermined by inadequate institutions, conflicting economic priorities, and policies that do not address the underlying drivers of deforestation in a given national context.

International Policy Consistency

In a world of global supply chains, lowered barriers to trade and rising demand for both wood products and other commodities that entail forest conversion to industrial agriculture, it is imperative that policy makers look at the existing trade context in which efforts to build a new forest-carbon market are developing. How can the laws, policies and markets of major forest product-consuming nations encourage, rather than undermine, efforts to reduce deforestation?

Global trade in illegal wood products is a clear example of the consequences of inadequate or incoherent demand-side policies. As just one example: The budget of the U.S. “President’s Initiative on Illegal Logging” in recent years was equivalent to less than 1/200th of the U.S.’s annual imports of high-risk wood product from China *alone*. In the same vein, the impact of millions of dollars in well-intentioned bilateral aid money has been undermined in Indonesia by the G8’s ongoing import of hundreds of millions of dollars in illegal timber from this nation. See Table 2.

DEMAND-SIDE POLICIES: TIME TO SCALE UP WHAT WE’VE STARTED

The role of developed-country demand and corresponding trade in illegally-logged timber products has been clearly articulated in official reports and well-documented exposés.¹⁰ The G-8 nations at the Gleneagle Environment and Development Ministerial in 2005 raised illegal logging and climate change as the two major environmental issues of the day, declaring that “We agree that tackling illegal logging requires action by both timber producing and consuming countries. We will act in our own countries. We will take steps to halt the import and marketing of illegally logged timber ...”

The U.S. and the E.U. have begun these steps, as the sections below explain. Now is the time to scale up: to build on and expand these initial actions through the G8 and beyond to key manufacturing nations like China, creating an internationally consistent landscape of demand-side laws and measures against trade in illegally sourced wood products. *Internationally consistent commitment* is needed to prevent leakage — carbon continuing to flow out of standing forests as illegal timber trade simply shifts to less regulated markets. *Laws* are needed to create the possibility of permanence, so that countries’ efforts to fight illegal logging and improve governance are not undermined anew if timber prices increase dramatically.

The New U.S. Lacey Act: Changing the Playing Field

In May 2008, the U.S. became the first country in the G8 or the world to pass a ban on import, export or trade in illegally sourced timber and wood products. This landmark statute — commonly called the Lacey Act as it amended a 100-year old anti-trafficking law — is already sending shock waves through the global timber industry. The law completely rewrites companies’ equation of risk and benefit for asking questions about how wood fiber is sourced. It applies to any and all sectors with wood products: supply chains like pulp and paper, furniture, plywood and building materials.

The Lacey Act dramatically changes incentives for the global timber industry. LACEY ESTABLISHES:

A PROHIBITION: trade in illegally sourced plants and plant products in the U.S. is prohibited. Products are illegal if they are taken in violation of any country’s domestic laws.

TRANSPARENCY: U.S. importers are required to declare species, country of origin, value, and volume of their plant(s) or plant product(s).

CONSEQUENCES: strict penalties for violating the law are established, such as forfeiture of goods, fines and possible jail time.

See www.eia-global.org/lacey for more information.

The Lacey Act is a potential game-changer for illegal logging and governance in producer countries that are central players in REDD development. Demand-side laws like Lacey create powerful incentives for companies to improve their practices all the way down the supply chain, on the one hand, and for governments to improve their enforcement rather than be branded as high-risk sources. Such laws cut off the cash flow that has facilitated criminal logging operations, shine a light on supply chains and encourage information sharing and enforcement cooperation between governments.

E.U. Policy Processes and Proposals

The European Union has been carrying out several demand-side policy initiatives since passage of the Forest Law Enforcement Governance and Trade (FLEGT) regulation in 2003. Under FLEGT, the E.U.

TABLE 2: WOOD PRODUCT IMPORTS AND LEGAL TIMBER TRADE POLICIES OF G8 AND OTHER MAJOR CONSUMER NATIONS

Country	2007 Imports of Select Wood Products*	Estimates of Illegal Proportion of Annual Import Stream**	Prohibition on Illegal Timber Import or Trade	Other Legislation or Formal Agreements Designed to Exclude Illegal Material	Public Procurement Policy with ‘Legal’ and/or ‘Sustainable’ Requirements
UNITED STATES	\$53,611,055,296	10%	Yes	MOUs (China, Indonesia); Bilateral Agreement with Peru	No
CANADA	\$7,473,547,891	5–9%	No	No	No
JAPAN	\$16,139,063,887	17–21%	No	No	Yes (Legal as ‘Criterion of Evaluation’)
RUSSIA	\$2,351,531,060	Net Exporter, 10–50% Illegal	No	No	No
UNITED KINGDOM	\$16,659,870,448	6–10%	No	FLEGT; VPA Agreement Process	Yes (Mandatory Legal and Sustainable as of April 2009)
GERMANY	\$15,072,547,000	4–8%	No	FLEGT; VPA Agreement Process	Yes (Mandatory Legal and Sustainable)
FRANCE	\$13,600,317,993	4–8%	No	FLEGT; VPA Agreement Process	Yes
ITALY	\$7,457,466,786	4–8%	No	FLEGT; VPA Agreement Process	No
AUSTRALIA	\$2,755,782,799	9%	No	No; Official Policy in Review	No
NEW ZEALAND	\$416,039,461	~1% sawn timber, ~15% secondary products	No	No; Has an Official Policy, Focused on Merbau Imports	Yes (Mandatory Legal; Sustainable Where Possible)
CHINA	\$8,516,113,765	>40%	No	No	No

* HTS Ch44 & 9403. UN Commtrade data. Estimates of illegal proportion compiled from various sources available upon request.

** “Proportions rise by 2-4 times when exports from other EU countries, US and Canada are excluded.

is negotiating Voluntary Partnership Agreements (VPAs) with a number of important tropical timber producers. These bilateral Agreements establish a scheme of monitoring and export licensing designed to ensure only legal timber reaches European borders. In addition, the E.U. is currently reviewing draft legislation to mandate certain due diligence practices by all importers of timber and certain wood products. Although currently the draft legislation falls short in critical aspects, its improvement and passage would provide an important underlying framework for the VPAs as well as amplifying the strong market signals now being sent by the U.S. Lacey Act.

While demand-side laws and initiatives have not been emphasized in forest-climate policy discussions thus far, there is still time. It is important not to sideline or waste the effort that has already gone into established processes like FLEGT. And with another year to go before Copenhagen, there is ample time for Annex I and key manufacturing countries to commit to enacting demand-side laws and policies regarding illegal timber and wood products. Putting such measures in place will substantially increase the robustness of any forest mechanism included in the post-2012 framework.

TRACKING ILLEGAL TIMBER FLOWS: LESSONS FOR FOREST CARBON

Through both the voluntary carbon market and, likely through the formal UNFCCC negotiations, we are seeing the formation of a new commodity market in standing forest carbon. There is no reason to think this market will be immune to the same failures that have plagued more traditional commodity markets. EIA's decades of experience investigating the impacts of illegal trafficking of timber, wildlife and climate-depleting chemicals suggest some useful lessons about what to expect and how to reduce market flaws.

Trafficking, laundering and illegal harvesting activities thrive on both corruption and lack of transparency. By contrast, markets where information about sources and production methods is available enable governments to better enforce laws, and buyers to make better decisions about what they want to purchase. Ensuring that supply chains of wood products and of forest-carbon are traceable and transparent is an important part of creating clean markets, holding both producers and consumers accountable, and allowing the market to differentiate low-end from high-quality products.

Monitoring at different scales and with civil society participation is necessary. A satellite does not capture supply chains or social injustices. There will always be a role for an engaged and independent civil society that understands the legal framework and complexities on the ground, has the ability to document problems, and has access to a mechanism for communicating concerns to the government and other stakeholders.

Large profits from commodity markets time and again have overwhelmed the capacity of governments to effectively manage their natural resources, and undermined even the most well-financed and well-intentioned projects. The lure of great profits for exported wood and wood pulp in a trillion dollar sector has overwhelmed enforcement, undermined forest governance and built a sector plagued by corruption and in many cases organized criminal networks. A REDD strategy would ignore this reality at its own peril. The situation must be addressed head on via a change in the incentive structure of the commodity market itself: the market must be directed to ask questions and to care about the origin and production of its goods.

Preventing new forest-carbon markets from simply consolidating the economic power of the same suite of actors will require courageous and consistent enforcement and actions on the part of governments. Large scale illegal logging is destructive for many reasons, among them the

way in which timber barons are able to consolidate economic and political power with funds obtained through illegal trade. In country after country, tackling timber barons and their cronies will be one of the toughest aspects of creating a REDD mechanism, especially as confidence in such a mechanism's justice or credibility is already severely lacking within much of civil society and the general public.

Recommendations

1. Parties to the UNFCCC should commit to enact internationally consistent legislation that prohibits trade in wood products sourced in contravention of the laws of other nations. Language to this effect should be included in any negotiated REDD text as part of establishing the conditions for effective and credible reductions in emissions from deforestation.
2. Developed country parties to the UNFCCC should support developing country parties' efforts to reduce illegal logging and associated trade through financial, technical and institutional means. Such measures should be considered nationally appropriate mitigation actions for both developed and developing countries under paragraphs 1(b)(i) and 1(b)(ii) of the Bali Action Plan. Measurable, reportable and verifiable measures include:
 - Passage and implementation of demand-side legislation
 - Conclusion of bilateral/regional agreements to exclude illegal timber from trade streams
 - Establishment of bilateral or regional enforcement mechanisms to train customs officers and share relevant enforcement information with trading partners
 - Training for judges and prosecutors in forest, anti-corruption and anti-money laundering laws
 - Establishment of independent forest monitoring
4. The World Bank's Forest Carbon Partnership Fund and any other REDD readiness projects with tropical forest countries should explicitly incorporate support for both existing and new bilateral or multilateral initiatives associated with reducing illegal logging and timber trade.

(ENDNOTES)

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3. World Bank. 2006. Strengthening Forest Law Enforcement and Governance: Addressing a Systemic Constraint to Sustainable Development. Report No. 36638-GLB. Available at <http://go.worldbank.org/FMKUJFABJ80>.
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10. See, e.g. World Bank, 2006; Contreras-Hermosilla et al., 2007; EIA/Telapak, 2006. Behind the Veneer: How Indonesia's Last Forests are being Felled for Flooring.

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