



European
Commission



Combating illegal logging

Lessons from
the EU FLEGT Action Plan

*Forest
Law
Enforcement,
Governance &
Trade*

The Directorate-General of Development and Cooperation – EuropeAid (DG DEVCO) is responsible for designing EU development policies and delivering aid through programmes and projects across the world. This brochure provides an overview of the European Union FLEGT (Forest Law Enforcement, Governance and Trade) Action Plan which was launched in 2003 to propose measures to fight against illegal logging and associated trade.

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Andris Piebalgs
European Commissioner
for Development



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European Commissioner
for Environment

Foreword

By Commissioners Piebalgs and Potočnik

Illegal logging has a devastating impact on some of the world's most valuable remaining forests and on the people who live in and from these forests. Billions of euros are lost every year, the livelihoods of millions of poor people are affected, as are we all. Illegal logging contributes to the deforestation and forest decline that has knock-on effects on climate change.

The EU is one of the biggest global markets for timber products and as such we are both part of the problem and the solution. This is why the EU has taken the lead in the global fight against illegal logging and especially illegal timber imports into Europe.

In 2003, the EU adopted a new approach, set out in the FLEGT Action Plan, which aims to blend action in Europe with actions in timber producing countries to fight against illegal logging, thus tackling both demand and supply. This foresees support to timber producing developing countries, development of a licensing system to check what is imported into Europe, support to the private sector to promote tailor-made business solutions, work on financing measures to encourage responsible investments and new domestic policies to promote legal and sustainably produced products in European governments purchasing practices.

Ten years on, as reflected in this brochure, we see very positive developments as well as the very real challenges of putting new systems

and approaches into practice. We have started a new approach to development, framed in formal international treaties with partner countries, known as FLEGT voluntary partnership agreements (VPA) and reinforced through EU-wide legislation. To date six VPA have been concluded, seven are in negotiation and more countries are expressing interest.

The VPA is a simple idea: a country sends its timber to the EU with evidence that reassures the consumer that it has been legally harvested. The negotiations remind us that reality is more complex: causes of illegality are complex, forest trade and governance touch on many policies and laws, interests in forest resources are multiple and conflicting. Only tailor-made, country by country solutions that match the expectations of national stakeholders are appropriate. As trade agreements, the VPAs have afforded a powerful lever to bring stakeholders around the table and to identify and tackle difficult forest governance challenges. The process can bring improvements to legal frameworks, securing rights, better law enforcement, introducing transparency that will in turn facilitate monitoring by civil society and encourage greater accountability as well as ensuring the European market is supplied with legally harvested timber and derived products.

Through the VPA we have renewed our policy dialogue. Already the VPA has fostered positive processes, encouraging

stakeholder engagement, securing law reform, putting in place systems to combat corruption, and also building the capacities of administrations, private operators and civil society in developing countries, which is so essential for sustainable development.

VPA's hold great promise to improve accountability and contribute to economic growth – but clearly such results rest on their effective implementation. We enter this critical stage now. The first licences are expected in 2013 and 2014. The forthcoming entry into application of the EU Timber regulation in March 2013 will bring changes to businesses in Europe and beyond, encouraging operators to know their supply chains and to make sure that they are purchasing legally produced goods. This will reinforce the efforts of developing country governments and stakeholders who want to see their laws and rights respected. All these efforts contribute to our vision of a sustainable and sound forest stewardship where the sector contributes to economic growth and development, where illegal timber trade is stopped and global markets are no longer affected by this unfair trade.

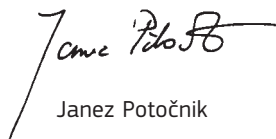
As indicated in this brochure, we see promise, but for lasting results work must continue, and together with Member States, the European Commission is committed to continue its support through the implementation of the FLEGT Action Plan. We need to do this in partnership, producing and consuming countries, with businesses in

Europe and in developing countries and with civil society and NGOs who have been pushing us hard and who have proved to be indispensable partners here and in producing countries.

With new policies and regulations in many countries, increased awareness and continued commitment of stakeholders in both consumer and producer countries, we are hopeful that we will eradicate the problem of illegal logging in the next ten years. With the urgency of climate change and the global threat to biodiversity, we must build on the positive momentum to date to reach this goal and achieve lasting results.



Andris Piebalgs



Janez Potočnik



Summary

The good governance of forests is vital to the many people who depend directly on them and to the economies of those countries that are involved in the trade of timber and timber-related products. This trade, however, is undermined by illegal logging practices that threaten livelihoods and the sustainable management of forests.

The stakes are high, and for this reason, the Commission, EU Member States and partner countries across the world have made great efforts over the past ten years to combat illegal logging and related trade, including through voluntary, but legally binding, trade agreements. These VPAs (voluntary partnership agreements between the EU and the partner country) recognise the joint

responsibility of the importing and the exporting countries for ensuring timber has been legally felled and traded.

VPAs form the cornerstone of the EU's FLEGT initiative, which was launched in 2003. The Action Plan includes both supply and demand-side measures to tackle the root causes of illegality, namely poor governance.

VPAs work by supporting and developing the 'legality assurance systems' of countries, engaging all stakeholders in the verification process from tracking the progress of timber to the awarding of licences and auditing. This multi-stakeholder process has been shown to be an

effective way to tackle difficult and often deep-rooted governance challenges.

The first VPAs were negotiated and agreed with Ghana, Cameroon, Republic of Congo, Central African Republic, Liberia and Indonesia and are now being implemented. Other VPA negotiations are ongoing (Vietnam, Democratic Republic of Congo, Gabon and Malaysia), or are starting (Honduras, Guyana and Laos). The first VPA legality assurance systems should become fully operational in 2013.

The Action Plan also proposes changes in how companies operate. The EU Timber Regulation, which will apply from March 2013, complements VPAs and ensures that EU operators exercise due diligence in the way they procure timber and timber products. Together with the initiatives of other countries, such as the US and Australia, the Regulation sends a strong signal to the market of the importance of trading only in legal timber.

Ten years on from its launch, it is clear that the Action Plan's focus on legality was the right one. It has helped reinforce the sovereignty of governments, tackling corruption and fostering

a climate in which sustainable initiatives can flourish. The legally binding VPAs have involved influential actors from beyond the forest sector, whose involvement along with the private sector is necessary for creating the changes that the initiative aims to effect.

The Action Plan is opening up political space for previously unheard voices, redressing the balance of power among stakeholders and creating incentives for change. However, competition for land and pressure from consuming countries is increasing. It is vital, therefore, to maintain the momentum for reform that the FLEGT Action Plan is generating.

The initiative is not only of relevance to trade in timber. Forest governance is a key component of programmes on REDD+ (Reduction of emissions from deforestation and forest degradation), and hence has a key role to play in combating climate change. It is up to developing countries, the EU and other markets to ensure that this promising approach delivers real success over the next ten years and beyond.

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I. Introduction

10 Years of FLEGT Action Plan

This brochure provides an overview of the EU FLEGT (Forest Law Enforcement, Governance and Trade) Action Plan which was launched in 2003 to propose measures to fight against illegal logging and associated trade. Illegal logging has severe negative impacts: on a local level, it contributes to the degradation of the environment through biodiversity loss, destruction of habitats for animal species and forest-dependent people; on a global level, it impacts on the water cycle, carbon emis-

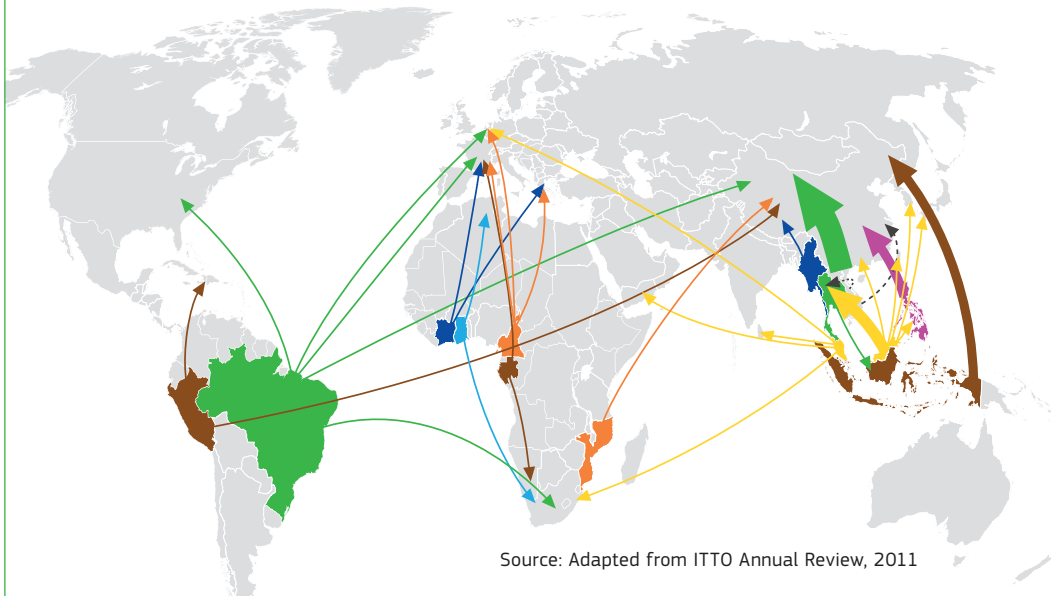
sions and climate change. Illegal logging undermines livelihoods, reduces the competitiveness of legitimate forestry practices and decreases government revenues, which could have been invested in development. Moreover, it undermines the rule of law and fosters corruption.

Key elements

The FLEGT Action Plan was innovative in emphasising trade and governance as key elements in the EU response. The plan recognised the shared

Major trade flows: tropical sawnwood 2010

Size of the arrow is proportional to the volume traded. Only trade flows larger than 0.1 million m³ are represented.

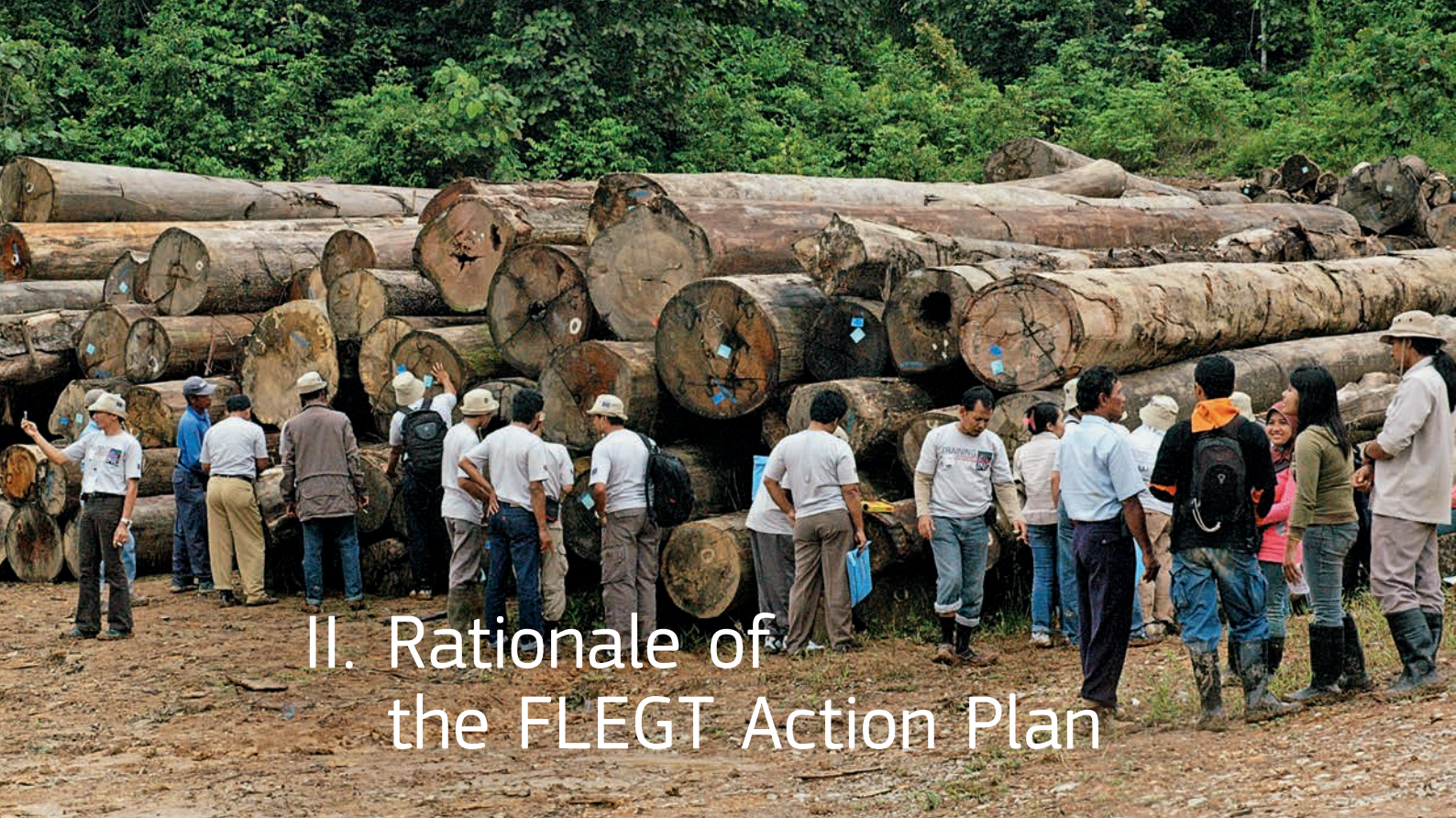


responsibilities of producing and consuming countries, particularly EU Member States. In recognition that governance failure is one of the root causes of illegal logging, governance reforms were placed at the heart of the Action Plan.

Future and prospects

Ten years after its adoption, it is time to look back, analyse the lessons learned and identify future prospects.

This brochure outlines the origins of the Action Plan, the concerns which led to its introduction and the progress that has been made. It analyses the implications it had on the overall governance in producing countries, on trade and on development. It identifies the changes that have occurred during the last ten years, both in developing countries and in the EU. It also analyses the global trends and changes that have implications for forests and related land use and for the Action Plan. It draws lessons from experience to date and suggests some ways forward.



II. Rationale of the FLEGT Action Plan

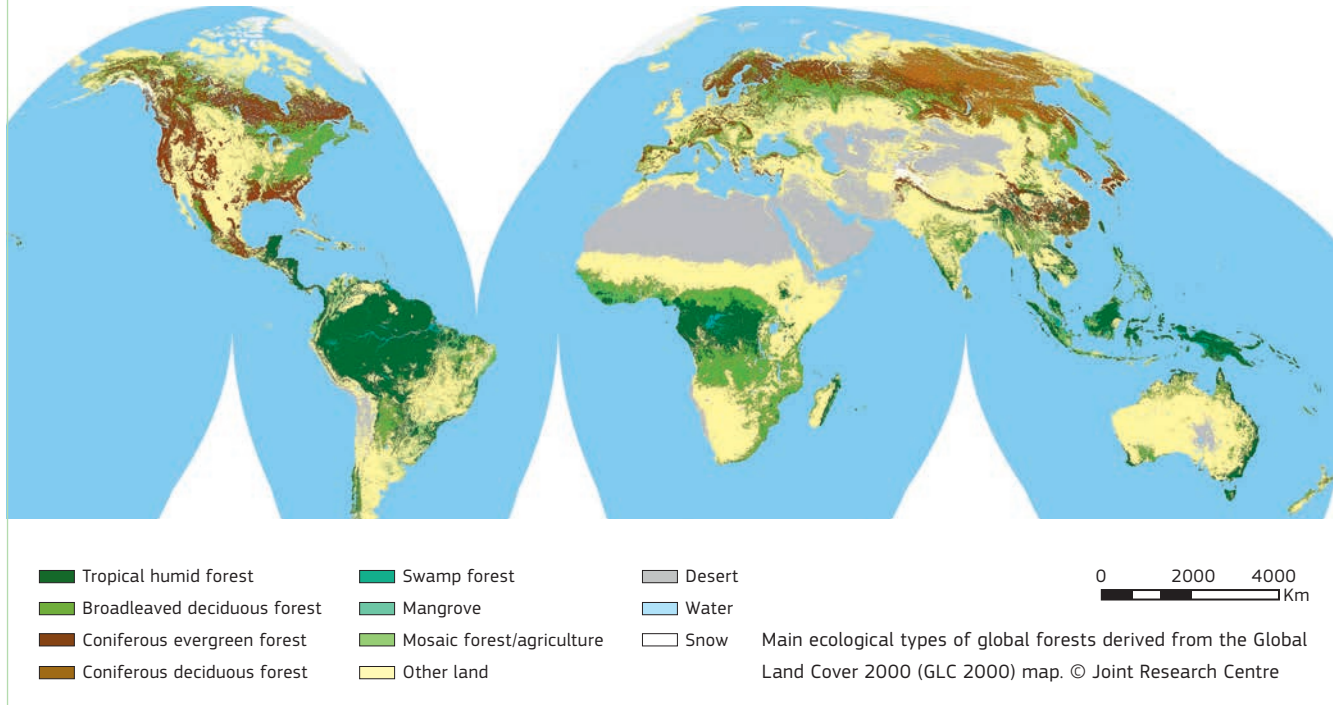
Forests, development, governance and trade

Many people depend on forests for their livelihoods. Forests are a source of wood for many uses such as construction, furniture, packaging and paper, woodfuel, fruits, bush meat, medicines and non-timber forest products. In addition to their important economic role they contribute to climate change mitigation and adaptation, support biodiversity and play a key role in environmental protection, for example, by preventing local desertification and erosion.

Forests serve many functions. Regulation of these different functions and uses of forests is

complex but essential; weak regulation in some developing countries often favours illegal logging and leads to conflict of forest and land uses. Sustainable management of forests requires the contributions of all stakeholders. Governance of the forest sector is therefore a key challenge. Addressing deforestation is an even more complex undertaking as it involves land uses and markets other than forests and timber. The FLEGT Action Plan is focused on forests and forest governance; additional instruments and policies will be required to address deforestation comprehensively.

Main ecological types of global forests



About forests

- The total global forested area covers around 4 billion hectares (ha), that is about 0.6 ha per inhabitant.
- About 13 million ha of forest were lost per annum during the period, 2000–2010, compared to 16 million ha for 1990–2000.
- Forests and trees provide at least €180 billion p.a. in income from timber, fuel wood and non-timber forest products, out of which the

value of logs for timber industry is estimated at about €80 billion p.a.

- 1.3 billion of the world's poor depend on forests for part or all of their livelihoods – 630 million mosaic forest farmers, 430 million in forest frontier communities and 200 million primarily indigenous forest dwellers.

Source: FAO – Forest resources assessment, 2010



Woodcutter

Forest governance

There is no accepted definition of what governance means. The Profor programme defines “forest governance” as including the norms, processes, instruments, people, and organisations that control how people interact with forests. (ref: Nalin Kishor and Kenneth Rosenbaum. 2012. Assessing and Monitoring Forest Governance: A user’s guide to a diagnostic tool. Washington DC: Program on Forests (PROFOR))

As mentioned in the ‘Framework for assessing and monitoring forest governance’ (FAO, 2011), “Governance is generally considered ‘good’ if it is characterised by stakeholder participation,

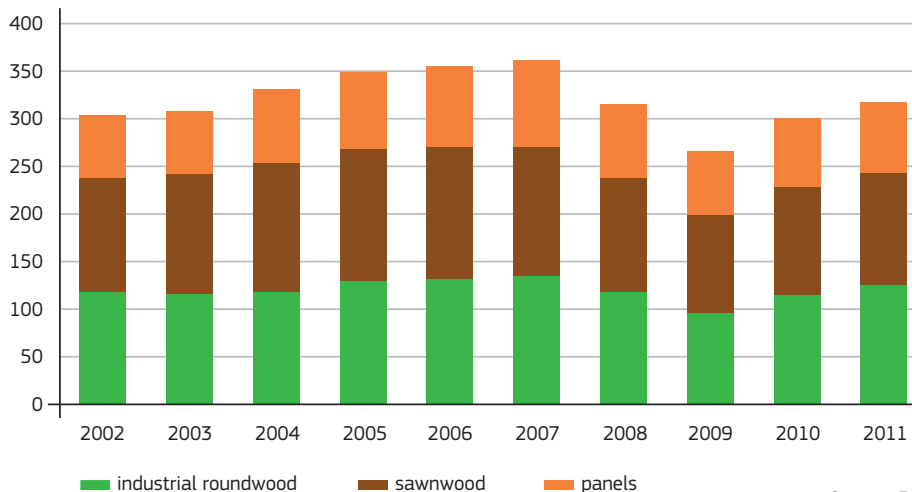
transparency of decision-making, accountability of actors and decision-makers, rule of law and predictability. ‘Good governance’ is also associated with efficient and effective management of natural, human and financial resources, and fair and equitable allocation of resources and benefits.”

Capacity, responsibility and co-ordination are important considerations for better governance.

The world's timber trade is dynamic. The volume of timber and timber products traded internationally was estimated at 316 million m³/year in 2011. Due to the global economic crisis in 2008, the value of timber trade dropped by 11% from the peak in 2007, but since then trade has been recovering: in 2011 the global trade of primary timber products rose to over €108 billion, of which 35% was by and within the EU. The share of tropical timber in overall EU timber imports was 13% in 2010, valued at €27 billion. The EU's share of global timber trade has reduced as emerging economies such as China and India increase imports of timber.



Global trade of primary forest products (million m³)



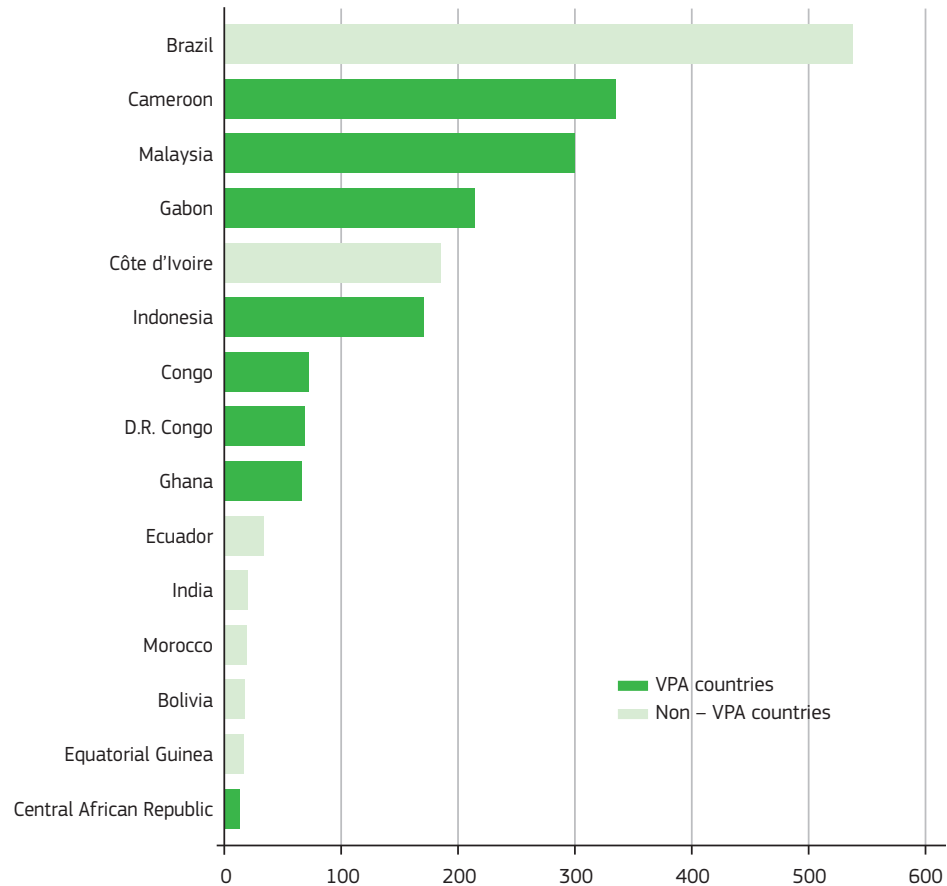
Source: FAO, 2012

Logging truck in
Indonesia

For some countries, timber represents an essential resource for the economy, comprising up to 40% of export earnings. In some Central African countries the forestry sector is the most important provider of jobs after the public administration.

Forest areas often overlap with areas of high poverty. Forests can help reduce poverty by providing opportunities for those on subsistence or low incomes, as well as occasionally a pathway out of poverty.

Top 15 tropical timber exporters to the EU (value in \$ 1,000)



Primary forest products include industrial roundwood, sawnwood, panels and veneer.

Source: FAO, 2012

Illegal logging

Illegal logging refers to harvesting, transporting, processing, buying or selling timber and timber products in contradiction with national laws. These laws not only regulate harvests but can cover access to resources, tenure, forest management, harvesting, environment, customs, processing, imports, labour, community welfare, trade and export procedures and also taxes, duties and fees related to timber harvesting and timber trade.

Illegal logging can cover a wide range of activities, including:

- Harvesting in protected areas (national parks) or areas which are not authorised.
- Harvesting without the proper rights.
- Harvesting species which are not allowed, harvesting undersize trees.
- Non-compliance with prescriptions of the management plan.
- Non-payment of due taxes.
- Bribing officials to circumvent the law.
- Contravention of labour law.
- Non-respect of the rights of forest communities or of indigenous people.

Background to the adoption of the FLEGT Action Plan

Illegal logging had long since been apparent but it was not until the late 1990s that work in Cambodia and Indonesia in particular revealed its severity. It became a subject of inter-governmental discussion as part of the 1998 G8 Action Programme on Forests. This increased awareness and stimulated a range of responses by governments, the private sector and NGOs. A landmark conference on Forest Law Enforcement and Governance in Indonesia in 2001 provided additional impetus for the adoption of the FLEGT Action Plan in 2003.

Illegal logging is a symptom of poor governance and the failure of policies and markets to fairly use resources. Unfair and insecure property rights, the corruption and patronage that undermine

regulation and law enforcement, capture of national resources by elites and exclusion from decision-making processes are examples of these failures. Illegal logging and associated trade harm forest-dependent communities most, undermining legitimate trade and damaging the environment. In some cases illegal logging may be associated with organised crime while in others, such as Liberia, it has also been linked to revenue generation for armed groups engaged in civil conflict. Thus tackling illegal logging can help address underlying causes of instability and conflict.

For many families, forest products contribute as much as a quarter of household income. They often, however, do not have secure rights to use the forests on which they depend. They are constrained by burdensome licensing and planning requirements and have no recourse should their land be appropriated.

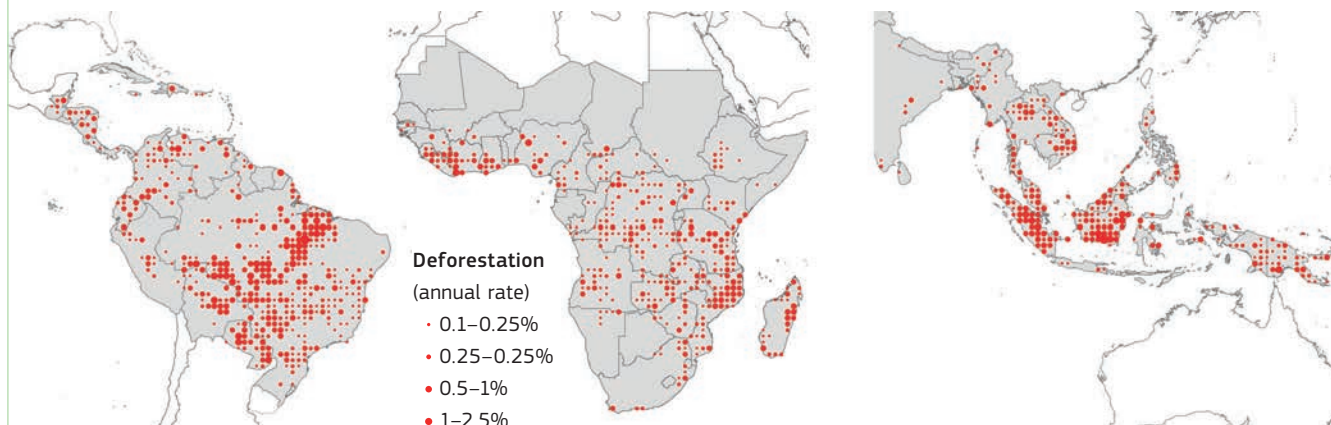
Globally, illegal logging has been estimated to cause losses of €7 billion p.a. (World Bank, 2006) of which €3.5 billion p.a. in lost royalties and taxes for governments, not to mention losses related to ecosystem services. Modelling suggests that illegal logging depresses world prices for forest products by 7% to 16% depending on product type.

As well as affecting international trade, illegal logging has repercussions for small- and medium-size forest enterprises, some community-based, which account for up to 90% of the total in developing countries. These enterprises provide direct employment for 20 million people and account for more than 140 million in the informal sector. They create gross value-added of more than €90 billion. Business also faces insecure ownership of lands and forest products. Such insecurity, together with

barriers from regulations that were developed for large-scale commercial enterprises, and bribery, often force enterprises to remain in the shadowy informal sector, excluded from the political process towards better conditions.

Deforestation and illegal logging are not synonyms; deforestation can be planned, authorised and legal. Logging of all kinds – legal and illegal – can improve access and lead to changes in forests that increase the risk of fire and the likelihood of the land being converted for use as commercial agriculture. The extent to which illegal logging causes deforestation is difficult to determine. However, a study in Indonesia found that Kalimantan and Sumatra lost 5.4 million ha (9.2%) of their forest cover between 2000 and 2008. More than 20% of forest clearing occurred in areas where

Tropical deforestation



Tropical deforestation measured between 1990 and 2000 from satellite imagery in samples of 20 by 20 km every degree. The size of the circles is proportional to the measured deforestation, while the samples with no deforestation are not represented.

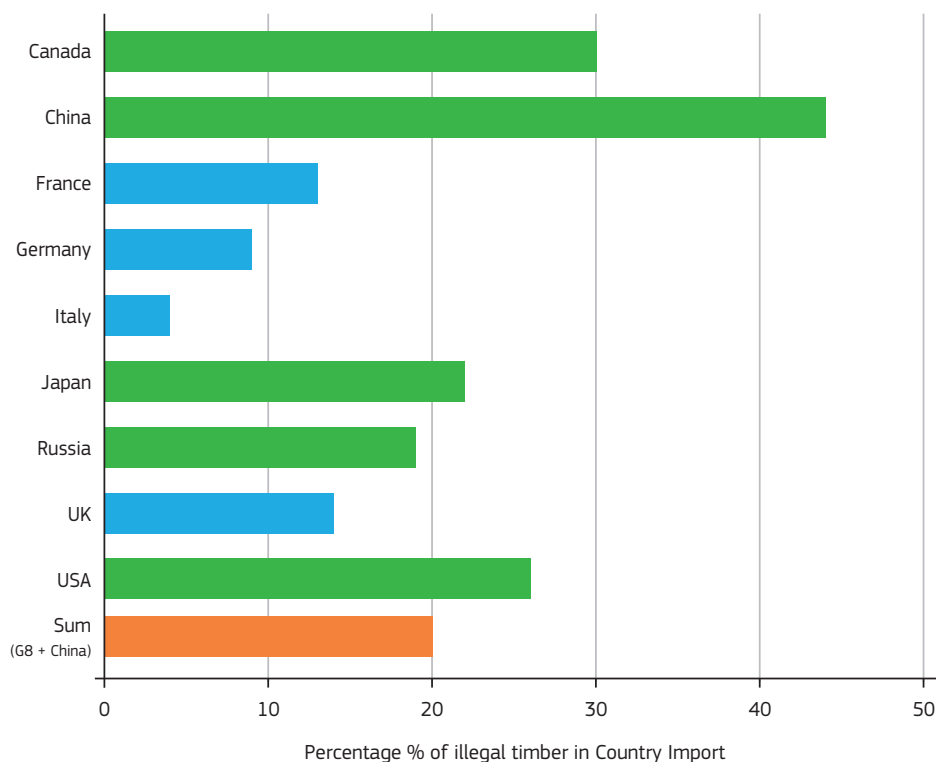
Source: JRC, 2012

land conversion was either restricted or prohibited and where forestry laws were not enforced.

In some cases, lack of stakeholder involvement has led to laws that do not benefit the poor and do not contribute to development. Combating illegal logging must also therefore support the reform of inadequate laws through a multistakeholder process.

Consumers have a responsibility. When EU citizens buy timber that results from illegal logging, they jeopardise the efforts of timber producing countries to fight against illegal logging. Some NGOs have led campaigns on this growing concern, issuing reports on illegal logging by country. Although the figures produced are very rough estimates, they are nonetheless alarming and helped citizens to understand the seriousness of the problem.

Estimation of illegal timber imported by China and G8 in 2000, according to a WWF report from 2002



Source: The timber footprint of the G8 and China, 2002



III. Adoption of the FLEGT Action Plan and progress to date

FLEGT Action Plan: a mix of demand and supply side measures

The FLEGT Action Plan was adopted by the European Union in 2003. The Action Plan consists of a package of related measures:

- Support for timber producing countries to help put in place legality assurance schemes that verify timber is legal and tracked; to assist policy and legislative reforms and measures to promote transparency and improve governance of the sector; and to develop the capacity of partner country governments, timber industry (notably SMEs) and civil society.
- Regulating trade in timber mainly by means of Voluntary Partnership Agreements (VPAs) between timber-producing countries and the EU whereby partner countries issue a license attesting to the legality of timber exported to the EU, and EU Member States verify that imports are licensed. See below for a specific chapter on VPAs. As the EU is only part of a global market it also undertook to cooperate with other major markets sharing the objective of eliminating illegal logging.
- Public procurement policies in EU countries specifying legality requirements in procurement procedures.
- Support for private sector initiatives that promote responsible practices by EU companies and their suppliers.

Bad governance of forested regions not only contributes to global warming and the loss of forest ecosystems, it fosters pervasive corruption, lawlessness, and violence that limit economic growth and improvements in social welfare. Over the last few years, the European Commission and member states have made a surprising amount of progress with addressing this issue. They have used economic incentives and technical assistance to initiate constructive dialogues between governments, private companies,

environmentalists, and rural communities about how to bring the rule of law to forests. This often means not just enforcing existing forestry laws, but recognizing communities' ancestral rights over land and agreeing about what the laws should be.

David Kaimowitz

Director of the Natural Assets and Sustainability Unit
Ford Foundation, Mexico

- Financing and investment measures for better financial due diligence of forestry investments.
- Additional legislative measures to avoid circumvention and increase the incentive for trade in licensed products.
- Conflict timber and measures to reduce conflicts related to forests.

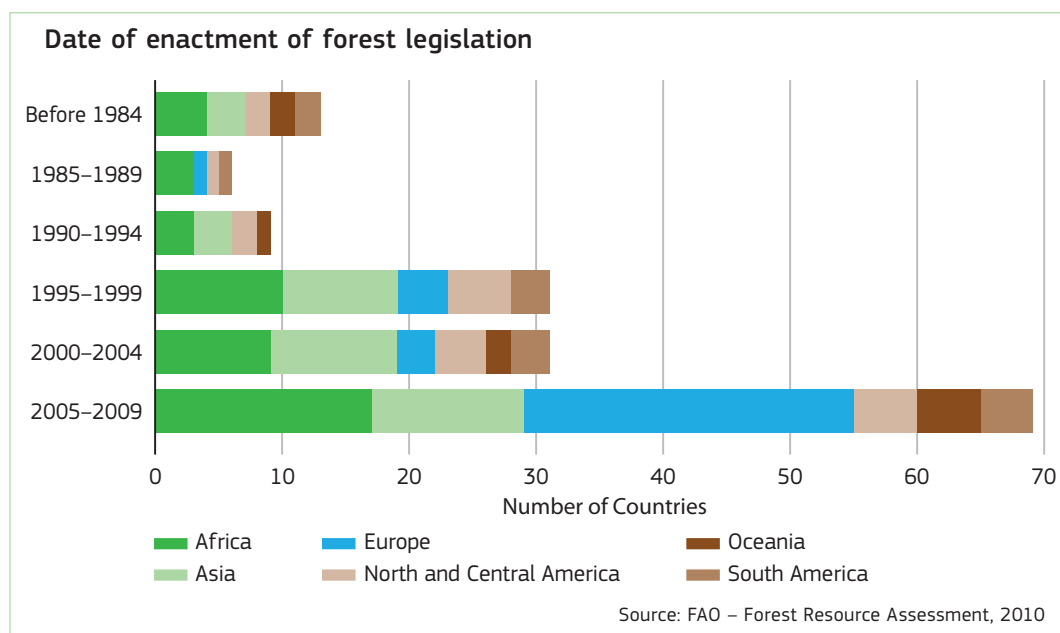
In late 2010 the European Commission and EU Member States assessed progress in the implementation of the Action Plan. The European Forest Institute (EFI) was commissioned to produce a report that summarised the actions taken by the Commission and Member States and their perceptions of progress. A summary document is available on <http://www.efi.int/portal/projects/flegt/>.

The progress review has shown the value of the Action Plan. Most progress is being made with support to timber-producing countries, more responsible trade in timber and public procurement policies. The other aspects of the Action Plan, however have received less attention.

Support to timber producing countries

A great deal of support has been provided to timber producing countries through development cooperation, including to support VPAs (see below specific chapter on VPAs). In addition to VPAs, the EU has provided technical and financial support to policy and legislative reforms, civil society and private sector initiatives in timber producing developing countries.

Considerable progress has been made in review forest policies: 76 countries have updated their forest policies since 2000, and 69 countries, mainly in Europe and Africa, have updated their forest law since 2005. The European Union has provided technical or financial support to a number of these forest review processes.



When the Action Plan was adopted some concern was expressed that an emphasis on law enforcement could prejudice the interests of poor people. There was evidence that regulations often discriminate against small producers and that law enforcement targets them rather than the owners and financiers of illegal logging companies who have the money and connections to evade the law. EU support has been provided to timber producing countries to try and avoid unfair enforcement of inappropriate laws.

One of the approaches to stopping illegal logging from the buyer or consumer side is to prevent illegal timber from entering the country. Indonesia has been proactive in combating illegal logging through enforcement. However, this cannot work if the market for illegal timber still exists. So we now ask buyers and consumer countries to be more proactive to prevent illegal timber entering their countries.

Hadi Daryanto

Secretary General, Ministry of Forests, Indonesia

Regulating trade in timber

Since the start of the Action Plan, a clear shift in attitude within the EU and internationally has occurred due to awareness-raising efforts, sustained NGO lobbying and the adoption of EU legislation (FLEGT Regulation, FLEGT Implementation Regulation, and Timber Regulation). Efforts to regulate trade in timber and promote trade of legally verified timber only have also come from outside Europe, with the adoption in 2008 of the Lacey Act amendment in the US as well as other regulations in Switzerland (2010 ordinance on the declaration of timber and timber products) and a bill is under discussion in Australia (2011 Illegal Logging Prohibition Bill).

The EU and VPA partner countries are also exploring with China, Japan and India ways to promote policies that favour trade in legal timber. China and the EU have set up a bilateral coordination mechanism on illegal logging in 2009. Recent trade agreements between the EU and third countries (eg with Peru and Colombia) include commitments to cooperate towards trade in legal and sustainable timber.

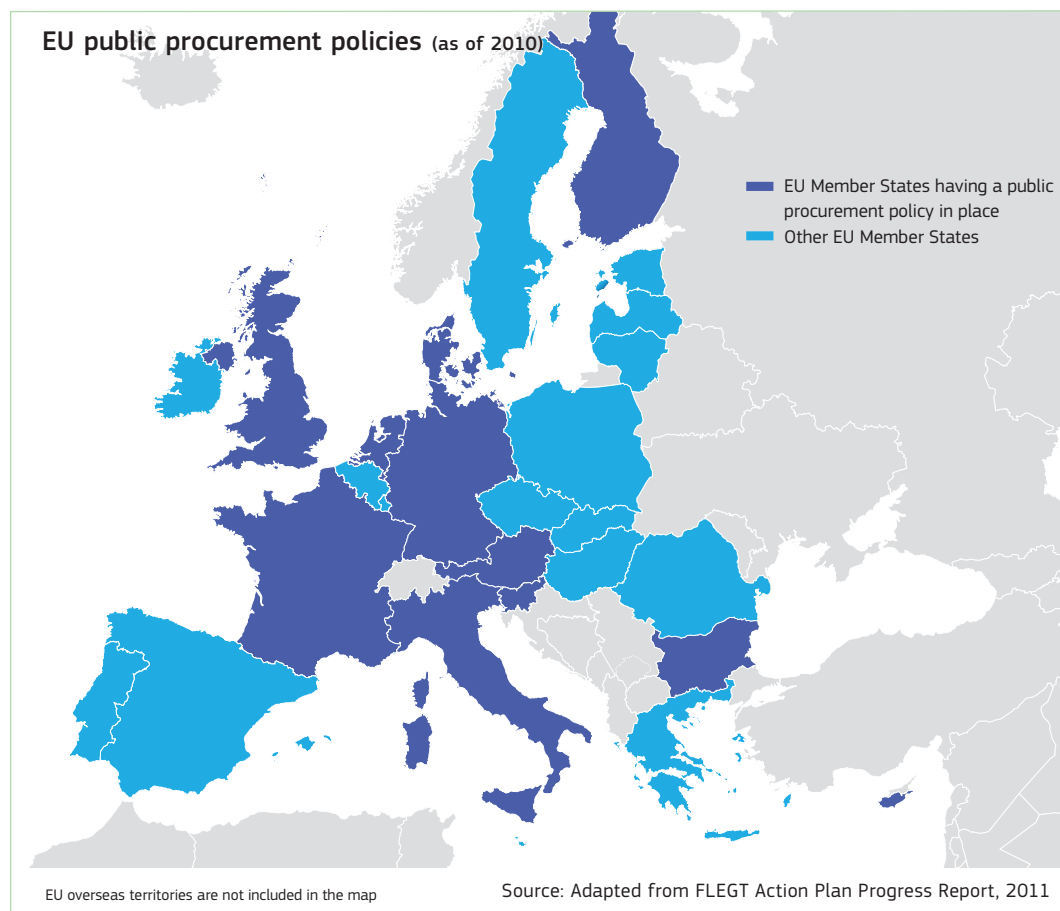


Port Tacoma (USA), Loading logs

Public procurement

Public procurement policies – through which governments set out requirements or preferences for the goods and services they buy – influence the business models of companies which supply both public and private entities. Promotion by the Action Plan accelerated adoption of such policies and contributed to harmonisation efforts. Eleven Member States have such policies and, with the

exception of Denmark, the Netherlands and the UK, whose policies are now very similar, progress in harmonising existing policies has been limited. Since the Action Plan was launched, the ‘soft law’ instrument of procurement policy has been followed by the ‘hard law’ instruments of the US Lacey Act Amendment and the EU Timber Regulation and it remains to be seen what role Member State public procurement policies will play once the Timber Regulation is in force.



Tropical timber producing countries are also setting up public procurement policies that favour trade in legal timber products. The state and city of São Paulo, in Brazil, has set up such a policy, and Ghana is also developing its own.

Support for private sector initiatives

The practices of EU timber companies and federations have changed in a number of ways as a result of the actions by the EU. Beyond a greater acceptance by the private sector of the need to verify legality, companies have adopted voluntary codes of conduct, procurement policies and chain-of-custody initiatives, particularly in the timber, paper and construction sectors.

Support for industry, in particular SMEs, in developing countries is gaining importance.

The EU recognises the important role of voluntary forest certification schemes. Such schemes certify areas of forest as being managed according to defined standards for sustainability, or in some cases legality. Support has been provided by the Commission and by EU Member States for the development of such schemes in developing countries. They are complementary to the FLEGT VPAs, as described in the box on the following page.

The European Timber Trade Federation strongly supports FLEGT and it urges the Commission to speed up developments. Certainly within the frame of the coming EU Timber Regulation it is of vital importance to the timber trade that as many countries as possible sign a VPA.

Andreas von Möller, President/Chairman Softwood Section

Armand Stockmans, Boardmember/Chairman Hardwood Section

Raoul Dedonder, Boardmember/Chairman Plywood Section

André de Boer, Secretary General, European Timber Trade Federation



Sawmill operator,
© EuropeAid

FLEGT VPAs and voluntary certification: a summary of synergies

FLEGT VPAs and voluntary certification schemes for Forestry Management Units (FMUs) both aim to promote sustainable forest management, but approach it from a different angle. The VPAs take a national approach based on ensuring that existing legislation is effectively implemented, and using the process to improve legislation if necessary. Forest certification operates at a smaller scale (the forest management unit) but generally checks that forest operations go beyond legal compliance to meet standards for responsible/sustainable forest management.

Improvements in forest law enforcement and forest governance resulting from FLEGT VPAs will create a fairer enabling environment for forest managers, reducing unfair competition for

responsible operators. This will often reduce the size of the 'gap' between current management practices and those required under forest certification.

Forest certification provides useful experience for VPAs at a technical level and in the use of independent auditing. It can also be used for consumer labelling when combined with traceability systems. It provides examples of best practice of forest management.

FMU-level certification and the FLEGT VPA process are mutually reinforcing mainly as a result of the enhanced capacity of the forestry sector that they help achieve.

Financing and investment measures

Financing and investment measures have received less attention than anticipated. Limited progress has been made for reasons related to the sources and instruments of finance for forestry investments and a general lack of awareness among financial institutions.

Indonesia has made some progress with money laundering legislation. Following inclusion of forest-related crimes in Indonesia's anti-money laundering law in 2003, its central bank required commercial banks to implement anti-money laundering programmes and with the help of CIFOR provided guidance and procedures.

The potential for influencing behaviour and recovering funds from anti-money laundering and related anti-corruption measures is very large. The governor of East Kalimantan was jailed in 2007 for issuing permits for oil palm plantations during 1992–2002 that resulted in illegal clearing of a million hectares of forest. The businessman who bribed the governor was also jailed and US\$37.5 million was returned to the government.

The increased understanding of the role forests play in climate change, however, has increased the interest of the financial sector. Some banks and other institutions have changed their policies and practices by, for example, adhering to the Equator Principles (www.equator-principles.com), which require independent evidence to be obtained

showing that timber operations or sources of supply are legal and sustainable. Contracts are cancelled with those suppliers which fail to comply. The Norwegian Pension Fund has stopped investing in a company allegedly involved in illegal logging activities, while PricewaterHouse Coopers and the World Business Council for Sustainable Development have developed a Sustainable Forest Finance Toolkit and advise clients on financial due diligence.

At local level, some VPAs have utilised the process to increase transparency of revenues and benefit sharing within the forest sector. Tax collection is tracked and relevant information made public.

In 2011, the European Commission proposed to amend the Accounting Directives (78/660/EEC and 83/349/EEC) and the Transparency Directive

(2004/109/EC). The proposals include provisions to improve the transparency of payments made to governments all over the world by EU-based logging companies operating in primary forests, both through a country-by-country reporting system and specific reporting on a project basis (where payments have been attributed to specific projects). Such disclosure would provide civil society in resource-rich countries with the information needed to hold governments to account for income made through the exploitation of natural resources. This obligation is imposed on all limited liability companies which are incorporated under the law of a European Economic Area (EEA) Member State, but also to all companies which are listed on EU-regulated markets even if they are registered in a third country. The information disclosed on payments to governments would be publicly available to



Logging truck driving through forest



all stakeholders either through the stock market information repository or the business registry in the country of incorporation.

All of this, together with other work on due diligence of investments in agribusinesses and pulp plantations on forest land, offers promise for the future. Lessons could also be used to influence the sharing of benefits coming from REDD+.

Additional legislative measures

Prior to adoption of the EU Timber Regulation in 2010, a number of Member States analysed their domestic legislation to assess whether it could be applied to tackle forest-related crimes. While in some cases existing legislation could in theory be used to prosecute forest crimes in third countries, difficulty in gathering evidence and preoccupation with other higher priority areas of crime suggested that new legislation was required.

The EU Timber Regulation

At the time of the adoption of the Action Plan, VPAs were clearly identified as the cornerstone, but the possibility was left open to add new legislative measures if needed. Because VPAs are indeed voluntary and do not cover all timber exporting countries and require time to be implemented properly, additional measures were deemed necessary to prohibit the marketing of timber or timber products produced in breach of the laws of the country of origin and to maximise the impact of the Action Plan.

To complement and strengthen the VPA initiative, the EU adopted a new regulation known as the Timber Regulation (Regulation (EU) No 995/2010 of the European Parliament and of the Council of 20 October 2010), which lays down the obligations of operators who place timber and timber products on the market.

The EU Timber Regulation will enter into application in March 2013. See details in the next chapter.

Conflict timber

Though the Commission and five Member States supported work related to forests and conflict during the period under review, the concept of 'conflict timber' did not capture attention in the same way as 'conflict diamonds'. Conflicts related to forests, and natural resources in general, will continue to be a matter of concern for the EU.

The global response

The broad conclusion of the progress report is that the Action Plan remains relevant and should be expanded. The global response to tackling illegal logging and improving forest governance supports this conclusion. A major study by Chatham House

(2010) of 12 producer, processing and consumer countries demonstrates that actions taken by governments, civil society and the private sector from 2000 to 2010 in response to illegal logging and related trade have been extensive and have had a major impact.

Impacts of work on illegal logging

Illegal logging has dropped by 50% in Cameroon, by 50–75% in the Brazilian Amazon, and by 75% in Indonesia in the last decade. This reduction, shown in three of the five tropical timber producers studied, has prevented the degradation of up to 17 million ha of forest. Imports of illegally sourced wood to the seven consumer and processing countries studied are down 30% from their peak in 2004.

By preventing forest degradation, efforts to tackle illegal logging in these three countries may over time help prevent, at low cost, at least 1.2 billion tonnes and as much as 14.6 billion tonnes of CO₂ emissions. Conversely, if the timber

were harvested under government auspices and revenue collected as it should be, an estimated €4.7 billion could be raised in these countries alone.

The Chatham House report, however, cautions against complacency. It points out that illegal logging continues at the rate of about 100 million m³ p.a. (more than the annual production of Sweden) and that greater efforts and new approaches will be needed to deal with illegal logging for domestic markets, illegal harvesting by licensed companies and the illegal issuing of licences to clear forests.

Country examples of impacts

Efforts against illegal logging in Indonesia and Cameroon from 2001 to 2006 resulted in the avoidance of:

- 1.6 billion tonnes of CO₂ emissions (about 4% of current annual global human-induced carbon emissions).
- US\$4 billion in tax losses.

In Cameroon, forest reforms resulted in tax revenues increasing from zero in 1994 to US\$50 million in 2004, including 10 million for local authorities.

Source: Chatham House, 2010



IV. Voluntary partnership agreements and the EU Timber Regulation: origin, developments and state of play

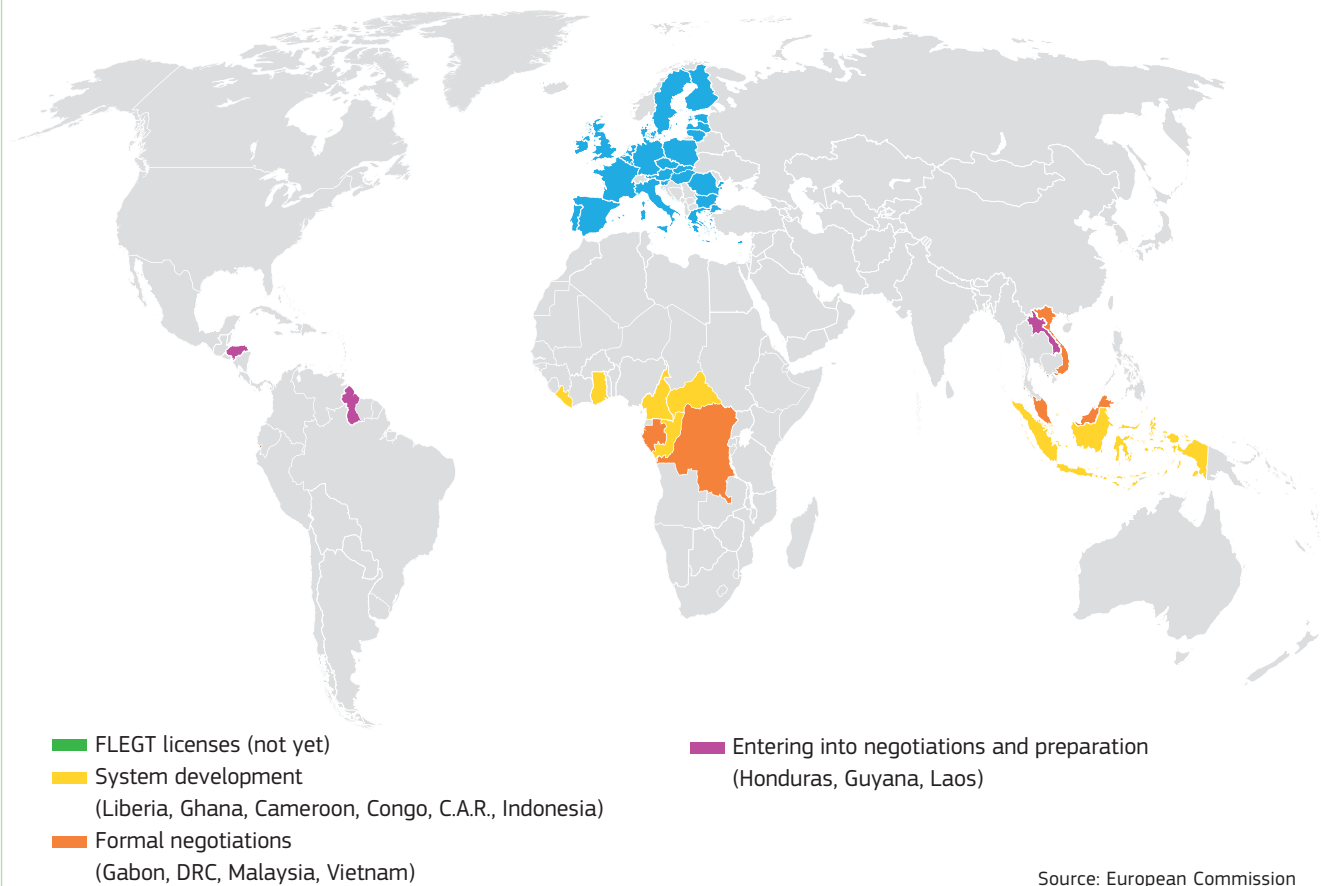
Origin of the VPA

The Action Plan recognises the need to deal with the demand for illegal timber and derived products as well as the supply. That means regulating trade. While a multilateral agreement is the most appropriate way to control such trade, in 2003 the prospects for negotiating such an agreement seemed remote. Furthermore, although illegal logging and associated trade is a worldwide phenomenon, much of the volume of such timber entering international trade is from a relatively small number of countries. It was concluded that focusing on these countries would have the largest impact.

An approach based on bilateral agreements compatible with the WTO and involving major exporting and importing countries was seen as the best way forward. Such an approach would provide a credible way for the EU to assist countries to meet EU demand for legal timber, accompanied by technical assistance and capacity building and involving governments, the private sector and civil society.

Those bilateral agreements were proposed to timber producing countries who wanted to fight against illegal logging and associated trade in their country. They are called voluntary partnership agreements (VPAs).

FLEGT VPA partner countries (as of October 2012)



Voluntary partnership agreements

The FLEGT Regulation (2173/2005), adopted in 2005, defined the operation of the FLEGT licensing scheme in the EU, specifying that for countries which have an operational VPA, only timber and timber products that are accompanied by a FLEGT licence will be authorised to enter the European market.

The first VPA negotiations started with Malaysia and Ghana in 2006. Negotiations take time and the first negotiation concluded was with Ghana in 2009.

As of October 2012, Ghana, Republic of Congo, Cameroon, Central African Republic and Liberia have signed VPAs, while Indonesian VPA is to be signed at the beginning of 2013. In addition, VPA negotiations

are in progress with the Democratic Republic of Congo, Gabon, Malaysia and Vietnam, and they have started with Guyana, Honduras and Laos. National discussions are underway in particular in Cote d'Ivoire and Thailand – and other countries have also expressed interest in the VPA process (Cambodia, Madagascar, Bolivia, Guatemala...).

Before the system becomes operational, and FLEGT licences are delivered, a VPA must pass through several steps: in-country consensus building, formal negotiation, initialling, signature and ratification of the legal agreement and systems development.

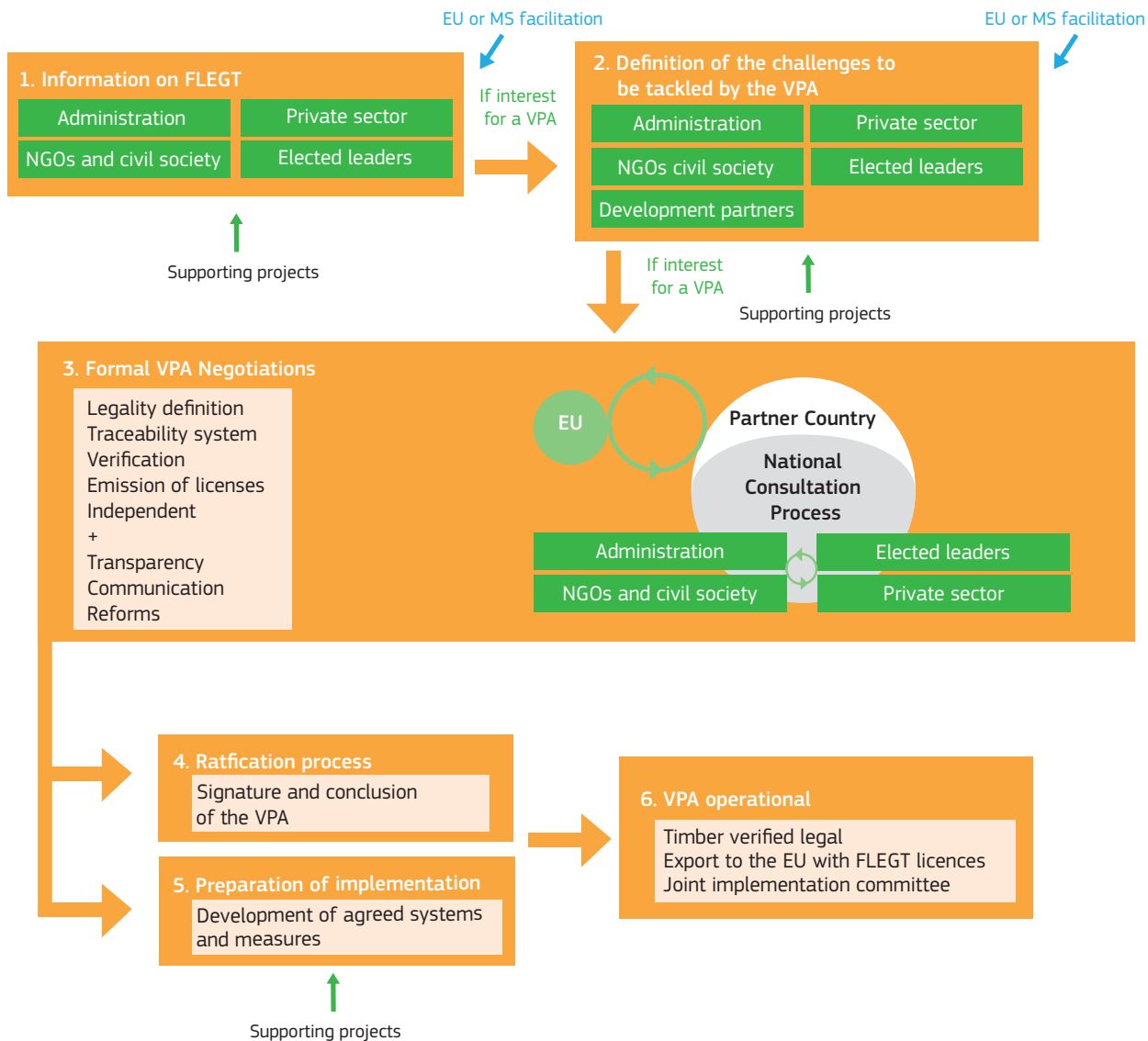
In the past Liberia's wood products and logs had been exploited illegally by people who used it during our conflict to gain funding to foster their conflict. This historic agreement is a stepping stone for a new, stronger Liberia, built on principles of good governance, transparency, and rule of law. So, when this agreement enters into force, it will represent a very aggressive move by the government of Liberia. I want you to know that this has been driven not by the European Union, but by the government of Liberia to assist us in ensuring the European market, a market that we want to target for our forest products.

Florence Chenoweth
Minister of Agriculture, Liberia

Forest in Madagascar



VPA process



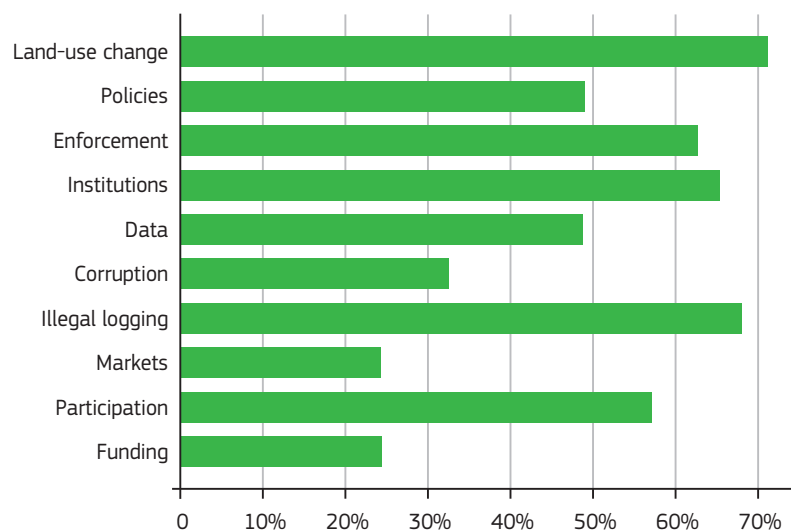
Although the agreement is a trade agreement, negotiation focuses on how the partner country will implement a system that provides evidence that the timber has respected the laws of the country, as outlined in the legality definition, all along the chain of custody.

The negotiation of VPAs requires indeed a definition of a standard of legality that is objectively verifiable. In all the VPAs that are under negotiation or have been signed, a process of negotiation, supported by the EU, has taken place between national stakeholders, including representatives of community interests, to develop

a consensus on this issue. Negotiations can be difficult and protracted. Such matters used to be the exclusive realm of government agencies and powerful lobbyists. In most VPAs inconsistencies and inadequacies in the laws affecting forests have been identified, and processes of legal change agreed.

VPAs are legally binding agreements. They anchor the commitments of both parties in an international agreement, which secures the results of the consensus reflected in the agreement in the long term. They set out a national approach, often requiring change in practices from operators

Forest governance challenges



Challenges related to forest law compliance and governance, as identified by government representatives of 36 tropical countries.

Source: adapted from FAO, 2009

as well as government agencies working in the country and fostering greater transparency and accountability.

Negotiations are thus tailored to the realities of the country. The multi-stakeholder consultation gathers different perspectives on what sector challenges should be addressed. By focusing on the national legal framework and the national governance challenges, the process reinforces state sovereignty and ownership of the results: legality assurance system, proposed policy and legal reforms, transparency and governance measures.

FLEGT VPAs employ a unique approach that combines trade and governance issues. This approach has a great impact because it helps bring all stakeholders to the table. In the negotiation processes, ad hoc alliances have been formed to foster change on specific topics. Moreover, this bilateral approach allows change to occur in countries where it was not possible before: the process of discussion of the framework for legal logging has in many cases been the first time this framework has been looked at comprehensively by multiple stakeholders. In many countries this has led governments to review the legal framework so as to address deficiencies identified by stakeholders from communities and the private sector that have made the framework ineffective or inequitable.

A VPA involves all steps along the supply chain and thereby demands inter-agency collaboration, which in turn promotes more effective governance. The VPA process also promotes a different way for the government to interact with the public. It helps build the capacities of different stakeholders and

the relationships among them, aiding the finding of solutions.

Most partner countries have used the VPA process to achieve objectives broader than securing supplies of legal timber for the EU market, seeing them as tools to promote reforms over the entire forest sector; applying the legality assurance system designed for the VPA to exports to all markets (not only the EU) and, in some cases, to domestic markets, while the categories of products covered by the VPA has been extended beyond basic timber products to more processed products.

The question of circumvention of trade regulation via third countries, which preoccupied those drafting the FLEGT Regulation, has proved to be of less concern than anticipated. Already signed VPAs will verify the legality of all exports, not just those to the EU. In addition, where FLEGT partner countries are geographically clustered, and cooperation between them on licensing, verification and chain of custody systems may reduce the risk of illegal timber slipping into the supply chain.

In many developing countries the domestic market for forest products is growing more quickly than the international market. Although most of the VPAs signed to date will apply reforms to all markets, domestic markets, especially informal domestic markets, present a particular challenge.

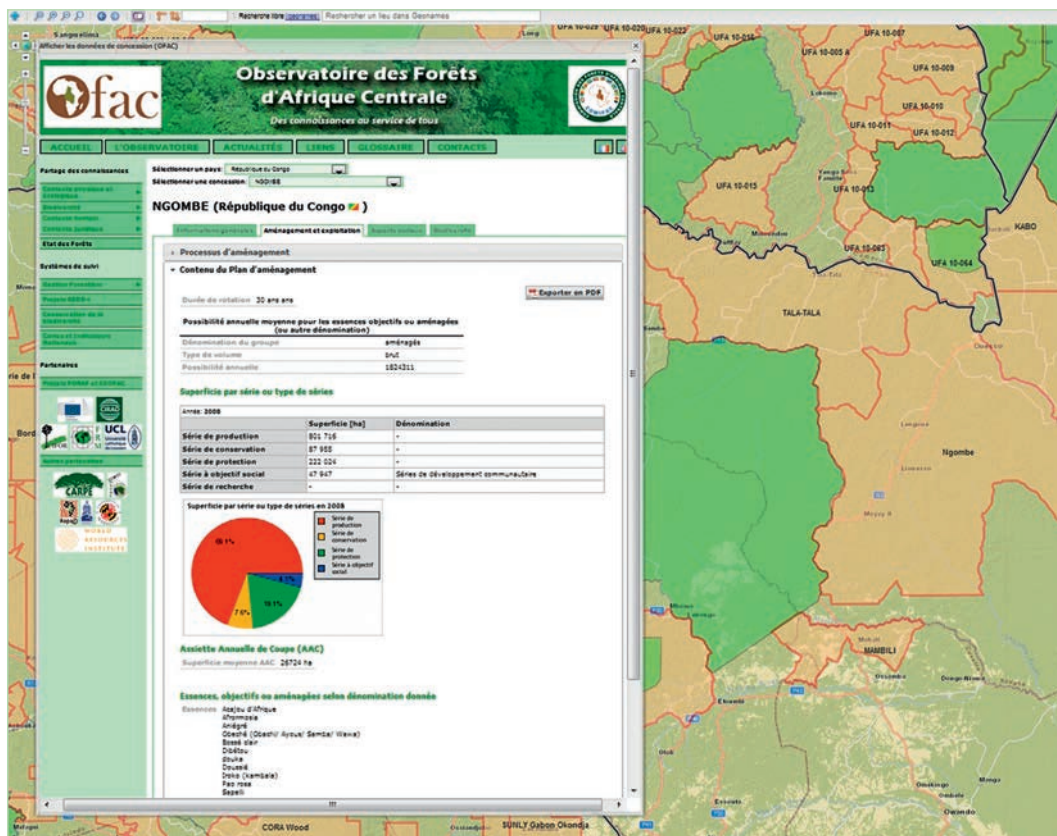
Agreements contain strategic policy elements that can frame future interventions in the forest sector. They also establish multi-stakeholder consultative bodies that can be used to better coordinate all projects contributing to forest sector governance.

All VPAs contain transparency measures. Most agreements include a specific annex that lists information that will be made public. In a sector that was known for its capacity to keep information confidential, the commitment of VPA partner countries to make information accessible is remarkable. Such transparency is in line with such initiatives as the Global Forest

Watch, led by the World Resources Institute (www.globalforestwatch.org), or the Observatory for the Forests of Central Africa, developed by the Joint Research Centre with worldwide leading research organisations under the auspices of COMIFAC (www.observatoire-comifac.net).

Most partner countries are developing their own website that will contain all relevant information (see example from Congo – <http://apvflightcongo.org/>).

Regularly updated information on forest cover, biodiversity, legal and institutional framework and law enforcement, timber production and exports can be easily accessed, at regional, country or concession level.



VPA processes and support

VPA processes are supported by several activities. During the in-country consensus building phase, awareness-raising among stakeholders is essential. This is complemented by an analysis of existing systems and an analysis of forest sector governance challenges. Preparation for the negotiation process includes the setting up of stakeholder platforms and associated capacity building. The presence of a FLEGT facilitator has been found to be a useful factor to facilitate dialogue between groups of stakeholders.

The negotiation phase includes talks between the European Commission and the partner country (generally a team with representatives of different stakeholders), in the form of face-to-face meetings and videoconferences but as importantly negotiation between the different groups of stakeholders at national level to define country positions.

Once agreed, the VPA enters into a ratification process, which can take several months. Implementation of the proposed systems, however, can start immediately and includes the upgrading of systems for verifying legal compliance, the recruitment of the independent auditor, legal reforms, and transparency and communication measures. Capacity building and communication are also vital.

Once the legality assurance system has been assessed jointly as functional and the FLEGT licensing scheme declared operational, the joint implementation committee monitors the VPA. Some specific activities on impact analysis or timber promotion may be developed as well.

The negotiation and implementation of VPAs is resource intensive, both for the EU and for the partner countries. Development cooperation funds may support technically and financially some of these implementation costs, but in the long run operational running costs will have to be supported by the partners' own funds for the systems to be sustainable.

VPAs and poverty alleviation

VPAs create an opportunity for poverty issues to be discussed. These include local property rights, local decision-making on the use of forests, the involvement of civil society, access to benefits and accountability. VPAs stimulate legislative and policy reform as well as emphasising environmental and social safeguards. In this way, they actively promote a policy framework that better addresses the alleviation of poverty.

Since 2003 several hundred million euros have been allocated by the Commission, Member States and partner countries. There has been considerable innovation in responding to demands from timber-producing countries. As of 2011, six EU countries, as well as the Commission, had provided financial and technical support to partner countries.

Several instruments have been used by the European Commission and Member States to support VPA processes. Development cooperation funding from the European Commission and EU Member States has been from bilateral programmes and from global thematic programmes promoting sustainable development.

These instruments have been deployed in a complementary manner. Bilateral cooperation focussing on systems development has included budget support, basket funding and projects. However, programming of bilateral cooperation is often a slow process, which can lead to funding gaps. 'Thematic' programmes can often adjust more rapidly and have generally been used to promote dialogue and innovative approaches with a variety of stakeholders, including private sector federations, international or national civil society organisations.

The EU FLEGT Facility

A FLEGT Facility has been established at the European Forest Institute to support FLEGT Action Plan implementation, with contributions from the Commission and five Member States.

The Facility provides specific country-level technical assistance to governments and stakeholders in tropical forest countries, to support FLEGT VPAs, as well as other appropriate national and regional programmes that address forest sector challenges.

It is responsible for a range of analytical studies which identify and bridge gaps between policy makers and primary researchers, promote strategic decision-making and contribute to the factual base for FLEGT activities.

The team plays a communications and facilitation role in supporting the market-based mechanisms at the core of the Action Plan as well as promoting international

understanding of the aims and scope of the FLEGT approach and encouraging lesson sharing.

The Facility's remit includes capacity building in forest relevant institutions to strengthen their ability to engage with regional processes focused on forest governance. The team works with a wide range of strategic partners in tropical forest countries and the EU.

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



As the FLEGT VPAs develop from a negotiation process to full implementation the relative importance of these funding instruments will change.

Partner countries have also used their own budget to support the recurrent costs of legality verification systems, human resources and capacity building,

as well as some of the costs associated with the negotiation multi-stakeholder processes.

Targeted support for the forest sector from financial institutions (notably the World Bank) has been aligned, whenever possible, to the national priorities as set out in the VPA.

Below are some examples of these projects:

Support to private sector

Managed by TFT, a British NGO, in partnership with a number of European Timber Trade Federations, the Timber Trade Action Plan (TTAP) is a project funded by the European Union that helps companies on the path to responsibility starting with the legality of their timber products. TTAP provides training, advice and technical support to companies working towards legality

verification of their supplies and helps establish timber tracking systems that allow companies to trace their wood from the forest, through processing factories and on to the export destination in the EU.



Support to civil society

In a project called A strong seat at the table, FERN, a Dutch NGO, provides support and training to forest dependent peoples and their representatives to enable them to be more effective in the use of the opportunities arising from participation in legal, institutional and policy reform arising from the VPA process.



SDI Liberia



Independent observation of forest activities

REM, a British NGO, has implemented projects in Cameroon, Congo and DRC of independent Monitoring of Forest Law Enforcement and Governance (IM-FLEG,) to tackle illegal logging in two fundamental ways: 1. By conducting field investigations, often in collaboration with forest authorities and/or civil society, to collect reliable data on logging illegalities and governance strengths and weaknesses, 2. By establishing a

platform allowing the government, donors, and civil society to review field investigation results and identify specific corrective actions to take. By engaging the government in the process of reform using credible field data, a transparent and productive relationship between actors is established paving the way for real reform.



Transparency

Transparency International's Forest Governance & Integrity Programme (FGI) tackles corruption as a primary driver of illegal logging and poor forest management. In Asia, the programme has succeeded in putting corruption on the forestry agenda, in identifying main corruption



practices and corruption risks, and in analyzing with national stakeholders what could be done in each country to prevent corruption.

Annual project coordination meetings have been organised by the Commission since 2004 to increase coordination and interaction between FLEG-related projects and policy processes, both at global and local level, and to improve cross-fertilisation and lesson-learning.

VPAs address complex governance issues through dialogue, policy development and systems-building. These are not changes that occur overnight, but require long-term support and investment to see them through. Sustained support from Commission and Member States development programmes to VPAs will be necessary to ensure that best practices as framed in the VPAs become normal practice.

The EU FAO FLEGT Programme

The FLEGT Support Programme was established by the UN Food and Agricultural Organisation with funding from the Commission to support activities related to the FLEGT Action Plan on a demand basis. It was financed in its first phase with funds dedicated to Africa, Caribbean and Pacific countries, but has now been expanded to also cover Latin America and Asia.

The overall objective of the Programme is to improve governance in the forest sector through improvement of policy, legal and regulatory frameworks; increasing capacity of civil society, private sector and forest sector staff to manage forest resource; enforcement of forestry legal frameworks; and knowledge sharing on the FLEGT process.

During the last four years, 100 small-scale projects (less than €100 000 each) have been selected in 32 countries to promote better forest governance.

Here are some examples of projects selected in Cameroon showing the diversity of stakeholders and themes, but all contributing to the same objectives of improving forest governance.

<http://www.fao.org/forestry/eu-flegt/en/>



<i>Institution</i>	<i>Project description</i>
<i>Groupement de la Filiere Bois</i>	<i>Reinforcing private sector ability to implement the FLEGT Voluntary Partnership Agreement</i>
<i>Ecole nationale des Eaux et Forets (ENEF)</i>	<i>Improving trainer and student knowledge of the FLEGT VPA process at the Ecole Nationale Eaux et Forets (ENEF)</i>
<i>COMIFAC</i>	<i>Developing harmonized tools to trace legality and origin of wood exported through the port of Douala (Cameroun, Congo, CAR)</i>
<i>Programme de Sécurisation des Recettes Forestieres</i>	<i>Improving the system for collecting and monitoring forest sector royalty payments in Cameroon</i>
<i>Forêts et Développement Rural (FODER)</i>	<i>Reinforcing community participation and monitoring of VPA implementation</i>
<i>Ministère des Forêts et de la Faune</i>	<i>Training decentralized forestry law enforcement personnel on enforcement procedures relevant to the new VPA processes</i>

EU Timber Regulation

The EU Timber Regulation (995/2010) lays down the obligations of operators who place timber and timber products on the market. The regulation covers a wide range of timber products listed in its Annex, from solid wood products, flooring, plywood to pulp and paper. Not included are recycled products, as well as printed papers such as books, magazines and newspapers. The product scope will be amended if necessary. The regulation applies to timber and timber products placed on the EU market, whether from within the EU or imported.

The regulation was developed taking into account best practice of private sector operators engaged in trade in timber and timber products.

The regulation applies to operators placing timber or timber products on the EU market for the first time, whether it is timber harvested in the EU or imported. Two main obligations apply to these operators: placing on the EU

market of illegally harvested timber and timber products is prohibited; EU operators who place timber and timber products on the EU market for the first time must exercise 'due diligence' to minimise the risk of illegal timber in their supply chain. Following the first placing on the market the timber and timber products may be sold on or transformed and sold before they reach the final consumer. Commercial operators in this part of the supply chain (referred to as traders in the regulation) have an obligation to keep records of their suppliers and customers, so as to facilitate traceability.

The regulation is legally binding on all Member States, which are responsible for establishing effective, proportionate and dissuasive penalties for non-compliance. Each Member State will designate a competent authority that will coordinate enforcement of the regulation.

The EU has adopted an implementing regulation (No 607/2012) on the risk assessment and risk mitigation

What is due diligence?

Due diligence is a risk management exercise to minimise the risk of placing illegally harvested timber or timber products on the EU market. The due diligence system consists of three key elements:

1. Information: the operator must have access to information describing the timber products, country of harvest, quantity, details of the supplier and information on compliance with national legislation.
2. Risk assessment: the operator should assess the risk of illegal timber in his supply chain, based on the information identified above and taking into account criteria set out in the regulation.
3. Risk mitigation: when the assessment shows that there is a risk of illegal timber in the supply chain that risk can be mitigated by requiring additional information and verification from the supplier.



Field checks,
© EuropeAid

measures that are part of the due diligence system, as well as on the frequency and nature of checks that competent national authorities will conduct on the monitoring organisations. The purpose of this regulation is to ensure the uniform implementation of the EU Timber Regulation.

The EU has also adopted a regulation (No 363/2012) on the procedural rules for the recognition and withdrawal of recognition of monitoring organisations. Operators can thus develop their own due diligence system or use one developed by a 'recognised' monitoring organisation. The EU Timber Regulation will enter into application in March 2013, its full impact will only be apparent later in 2013 or 2014.

EUTR and VPAs

The EU Timber Regulation stipulates that operators that place on the market timber and timber products covered by valid FLEGT or CITES licenses have complied with the requirements of the regulation, which is a positive incentive for partner countries that have entered into a FLEGT VPA.

In this respect, the Timber Regulation has helped motivate current VPA partner countries and the private sector to fully implement the VPA. However, VPAs should remain voluntary, driven by partner countries' interest in changing the governance of their forest sector.

A photograph of a dense tropical forest with a river in the foreground. The forest is filled with various types of trees, including palm trees, and the water reflects the surrounding greenery.

V. Changes and trends

Many factors have changed since the Action Plan was launched. The forest sector is now influenced by climate change measures (REDD+ in particular); increased pressure from consuming markets; shifts in the patterns of demand for timber and in the centres of processing; increasing competition for land to produce food and fuel as well as fibre (wood); and the green economy and sustainable consumption.

Climate change and REDD+

As mentioned the role of forests in climate change mitigation and adaptation is more recognised than in 2003. Increasing the value of forests by paying for the non-market benefits they provide in terms

of climate regulation improves the prospects for more informed decisions about whether forests should be retained or converted to some other use and how they should be managed.

Financial incentives are necessary but not sufficient to reduce deforestation. Much inappropriate deforestation and degradation, which can generate large profits for certain elites, occurs because of poor governance and law enforcement. Around 80% of the REDD+ readiness countries selected by the Forest Carbon Partnership Facility (FCPF) and UN-REDD are ranked in the bottom half of the World Bank's survey of governance and 30% are in the lowest quartile.

Members of UN-REDD and FCPF

Legend:

- UN-REDD National Programmes (Green)
- FCPF (Forest carbon partnership facility) (Orange)
- UN-REDD National Programmes and FCPF (Forest carbon partnership facility) (Blue)

As of date: October 2012

As of date: October 2012

The Centre for International Forestry Research (CIFOR) reviewed REDD+, forest governance and rural livelihoods, focusing on the characteristics of good governance for REDD+:

- Recognition and enforcement of ownership or use rights of forest land, and carbon, including those rights of indigenous groups.
- Inclusion, participation and influence of forest communities and civil society in policy processes, institutional arrangements and setting management priorities.

- Effective, transparent and accountable forest management practices, and third party verification and scientific advisory groups to provide technical input.
- Effective, fair and proportionate enforcement and sanctions for illegal activities.
- Responsive, decentralised government, coordination between local and higher levels of government, inter-sectoral coordination, checks and balances to prevent domination by one level or branch of government.
- Mechanisms for managing conflict effectively.

FLEGT VPAs address many of the same governance issues that are required for REDD+. Where they take place in the same country FLEGT and REDD+ should be mutually supportive. Under pressure to deliver quickly, to contribute to emissions reductions and to honour the financial commitments announced by donors, critics claim that REDD+ initiatives are paying insufficient attention to governance issues including rights of forest-dependent people and land conflicts. Furthermore, the parallel development of a proliferation of bilateral and multilateral initiatives – REDD+ programmes, FLEGT, inter alia – is placing a burden on the administrations of developing countries. The situation is, however, changing: synergies are being developed between FLEGT and REDD+ at country level, and governance has become more prominent in the REDD+ discussions, and governance safeguards have been adopted.

Increased pressure from other consuming markets

In 2008, the US Congress amended the Lacey Act to include the handling of illegal timber and timber products. This amendment influenced the perceptions of the market and was influential in discussions in the EU in the process of adoption of the EU Timber Regulation.

Australia proposed a bill on illegal logging in 2011 which at the time of writing was still under consideration by the legislature.

Changing patterns of trade

Trade patterns were already changing quickly when the Action Plan was adopted. China has come to dominate the trade in tropical timber, producing processed products for its domestic market and for export to the US, Europe and Japan. Vietnam has since emerged as a highly competitive processing centre, while Russia has shifted to more domestic processing as a result of policy and tax reforms. With increasing economic growth in

Norway congratulates Indonesia and the EU on concluding the negotiations of a FLEGT VPA. We wish you good speed ahead in turning it into a fully fledged system for ensuring the legality of timber. Fully operational, the VPA will serve as a central tool in ensuring good governance of Indonesia's forests. From the Norwegian perspective the VPA is a key achievement, providing strong impetus for our joint efforts with Indonesia on REDD. Both processes are transformative and aimed at changing past unsustainable practices into

new ones that will reduce carbon emissions, ensure forest dependent people's livelihoods and ultimately benefit Indonesia's national economy and social progress.

Jon Heikki Aas

Counsellor

Royal Norwegian Embassy, Jakarta, Indonesia

many developing countries, domestic and regional markets have become more important relative to traditional export markets. There has also been a continuing move away from dependence on natural forests and towards plantations in many parts of the world. These changes will need to be taken into account in bilateral and multilateral discussions on forest governance and timber trade. Some partner countries have addressed these issues in their VPAs.

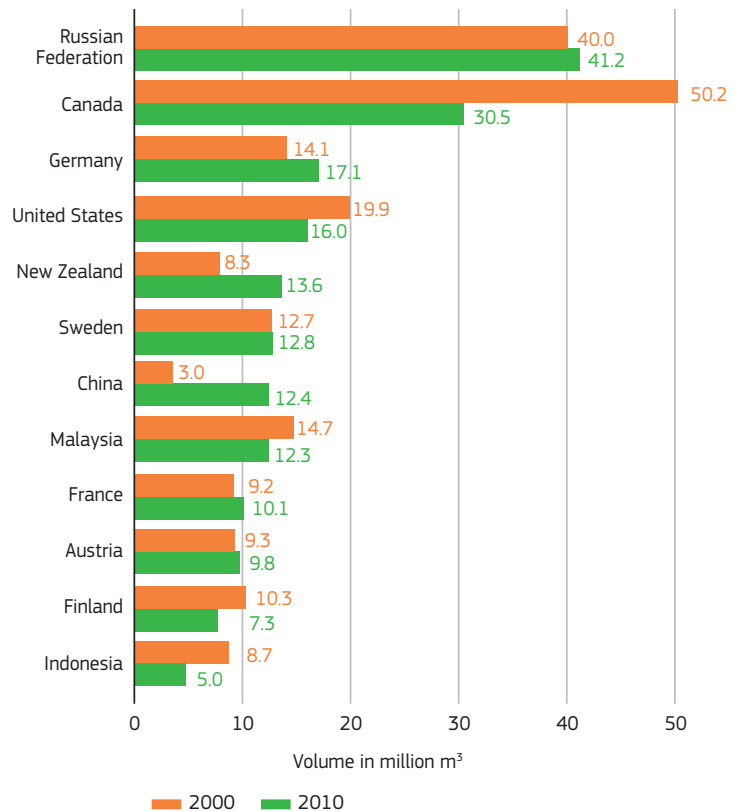
Competition for land

By 2050 the world will need to produce 70% more food while mitigating and adapting to climate change. World food production has outstripped population growth over the last 40 years, increasing by 117% between 1967 and 2007. This increase has been achieved with just an 8% increase in land devoted to agriculture.

Since the mid-1980s, however, yield growth has fallen in both high-income and low-income countries. As global population increases to an anticipated nine billion by 2050 and diets reflect increasing incomes, competition for land to produce food, fibre and energy will intensify and the effects of climate change will become increasingly apparent. Even taking into account expected yield increases, feeding the world in 2050 will require the expansion of agricultural land by an additional 120 million ha, including on current trends an additional 12 million ha of oil palm.

The above means that there will further pressure to convert forest areas to agriculture. The process by which decisions are made to convert forests has been a subject raised by national stakeholders in many FLEGT VPA processes.

**Top 12 primary forest products exporters
(industrial roundwood + sawnwood + panels)**



Source: Adapted from FAO, 2012

Over the past 10 years forest products markets have undergone dramatic changes, especially with the rise of production and trade from China. China's primary wood products exports quadrupled from 2000, reaching 12.4 million m³ in 2010 (see chart). Many other countries suffered severe downturns in export markets due to the global economic and financial crisis which started in 2008, and have not yet fully recovered. Some tropical timber exporters' volumes of primary-processed products have decreased as they promote value-added products' exports. Figures include both tropical and other timber (temperate and boreal)



Palm oil plantation

Consumption Preferences

Consumer power has long been evident in European agriculture, but recently it has become apparent in the international trade in agricultural commodities. Such influence can be exercised through economic interventions, including taxes; through regulatory or voluntary actions to improve access to better foods or foods produced to preferred standards; and by campaigns to change individual behaviour involving public education and labelling to encourage more informed decisions.

The growing influence of consumers is illustrated by the growth in markets for eco-certified products and services cited by the Economics of Ecosystems and Biodiversity (TEEB) report for

business and the emergence of initiatives such as the Forest Footprint Disclosure Project (FFDP) and the Consumer Group Forum (CGF).

Consumer preferences and their influence on the practices of supply of commodities may change radically in the future. Agricultural commodity prices are likely to increase in real terms and account for a higher proportion of disposable incomes. The global middle class will increase from about 1.8 billion now to 4.9 billion by 2030, with all the increase coming from emerging economies.

The Action Plan has clearly demonstrated the influence of consumption on demand and offered an approach that is being considered by other sectors (agriculture, minerals).

Green economy and Rio + 20

The Rio de Janeiro summit in June 2012 promoted the concept of greening the economy for an inclusive sustainable development and emphasised the importance of sustainable development and the role natural resources, including forests, can play in development if properly and efficiently managed.

On forests, the summit reaffirmed the promotion of cross-sectoral and cross-institutional policies promoting sustainable forest management, the support for all efforts that effectively slow, halt and reverse deforestation and forest degradation, including promoting trade in legally harvested forest products.

In that respect, it confirmed the relevance of the FLEGT Action Plan.



Logger in Thailand



VI. Lessons learned

The Action Plan was born out of recognition that illegal logging was causing damage to forests and people and that the EU contributed to the problem by buying forest products made from illegally logged trees. The solution proposed was to stop or curtail it through a suite of supply and demand-side measures. The evidence summarised earlier is that the Action Plan has been successful in doing so. Although problems of poor governance and illegality persist to varying degrees in different countries, they have been reduced significantly in some countries. Furthermore, studies of the global response and the growing recognition of the value of the ecosystem services of forests show that the benefits far exceed the costs.

The Action Plan has taken an innovative approach by looking at supply and demand, by recognising the responsibilities of importers and exporters in illegal logging, by securing legal and governance reforms in legally binding agreements, by bringing new stakeholders around the table in a more inclusive manner, and by better targeted complementary actions (i.e. projects and laws that influence business behaviour in partner countries, Europe and alliances among partners).

The Action Plan has from the outset looked at the influence and potential impact but also limits of European policies on illegal logging in developing countries. By trying to tackle these

policies in a comprehensive and coherent manner, the programme is demonstrating a good approach to development.

Lessons learned from the review of the Action Plan:

- The focus on **legality** is appropriate. Although concern has been expressed that legality is a lower level of ambition than sustainability it has the distinct advantage that it is seen by developing countries as reinforcing their national sovereignty rather than detracting from it. This encourages discussion of wider governance issues, including corruption, which were formerly taboo. Focus on legality, which applies to all operators, allows for a coverage that goes beyond a concession area and so levels the playing field to promote sustainability initiatives.
- Involving the private sector and harnessing the power of the **market** changes the dynamic of the debate about forests and governance. It broadens the base of constituents with an interest in and capacity to effect change.
- Linking **demand-side and supply-side** measures is essential for dealing with governance of resources that end up in international markets. Furthermore, it demonstrates the good faith of the EU, which is willing to change its behaviour to support the efforts of FLEGT VPA countries.
- Separation of the discussion of governance reforms from that of financial assistance changes the nature of the relationship between the EU and developing countries. It becomes a **political dialogue** between more equal partners rather than a negotiation between donor and beneficiary.
- The legally binding bilateral **treaty nature** of VPAs introduces a status that attracts influential actors from beyond the forest sector whose engagement is essential if the status quo is to be challenged. In doing so it also raises the profile of the sector. It brings all administrations around the table and makes governance reforms more visible and assured in the long term.
- Patient support for genuinely inclusive, and therefore inevitably slow, national **multi-stakeholder processes** helps to deal with difficult, deep-rooted, governance issues that are not amenable to an externally determined agenda and timetable.
- Coalitions of interest involving representatives from governments, NGOs and the private sector create opportunities and help to maintain **momentum for change** in ways that none of the parties could do alone. Development agencies, eager for results, change course all too often and are dominated by short-term perspectives. A broad based coalition is more likely to see things through to a conclusion.

The FLEGT Action Plan has been remarkably successful in addressing the key underlying cause of illegal logging and unsustainable forestry practices: lack of good governance. It has done so by improving transparency and accountability in the forest sector and building the capacity of state and non-state actors. The fact that the six VPAs signed to date have the support of local social and environmental NGOs, community based organisations and forest industry is a success that cannot easily be overestimated. Never before in the EU or in any of the VPA countries has a trade related agreement been signed with the full

support of civil society actors. This provides real hope for the difficult implementation phase which is now underway. Furthermore, the experience gained by FLEGT could provide valuable lessons for forestry initiatives under the climate regime.

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FERN, UK

Log yard
©Tom Ter Horst



It links development with trade and goes beyond relationships with governments to work with civil society including the private sector in the broadest sense. It requires domestic actions by Member States and, unusually in development assistance,

negotiation of partnership agreements and associated actions of partners precedes discussion of assistance. The actions identified to improve law enforcement, governance and trade reflect the actual circumstances and the negotiated outcomes between stakeholders of each partner country, and not a preconceived notion of what is right.

Given these circumstances and that the EU responds to interest from partner countries, the Action Plan is more of a **political process** than a traditional aid programme. While that permits intelligent adaptation to a range of very different and changing circumstances, it also makes such work more difficult to plan and to monitor. Indeed, it lacks the milestones and targets of a strategy or the kind of planning document that typifies most development interventions.

Some see the Action Plan primarily as an instrument for regulating trade, some as a foundation for sustainable forest management and others as a way of advancing development and social justice through better governance.

All these points of view are valid, not mutually exclusive, but they are also not necessarily synchronous.

Development assistance often tries to deal with the complexity of the issues around forests by breaking them down into smaller, more tractable components that can be dealt with one at a time. Forests are a component of a **system**, along with people, their institutions and politics, climate, markets and a host of other variables. When one component of the system is changed the full effect

is mainly unforeseen and there are significant impacts on other parts of the system.

In such cases, a single optimum strategy is neither possible nor desirable. A range of approaches better fitted to specific contexts is needed. The Action Plan offers this. It is a positive example of **embracing complexity** in forest governance. While there are certainly challenges in planning, monitoring and communicating such an approach, these are outweighed by the adaptability, responsiveness and the greater capacity to reduce risks that the system offers.

Almost a decade ago, the first Ministerial meeting in Bali in September 2011 initiated the process leading to the launch of the FLEGT Action Plan. Since then, thanks largely to EU leadership, illegal logging has been transformed from a taboo topic to the focus of robust national policy discussions and bilateral agreements in a number of countries.

The Commission's support has enabled CIFOR to contribute research findings to ensure that those discussions are informed by the best possible data and analysis regarding realities on the ground and the likely impacts of policy interventions.

Looking forward, EU support for improved forest governance should evolve in at least two ways.

First, having demonstrated the proof of concept by successfully negotiating VPAs in several countries, EU support will need to take on 'second generation' challenges associated with VPA implementation. There are many lessons to be learned regarding how to build the necessary

capacities and maintain political support, as well as a need to monitor actual impacts of VPA implementation on forest crime, forest condition, and forest-related incomes.

Second, it is critical that the FLEGT experience be extended into and integrated with other forest policy processes, not least the policies and strategies for reducing emissions from deforestation and degradation (REDD) being developed by more than 50 countries to mitigate climate change. The FLEGT and REDD agendas are strongly synergistic, both in terms of requiring the same governance reforms and in terms of facing analogous governance challenges. While these synergies have been recognised at the rhetorical level, much remains to be done to ensure that integration takes place in relevant policy arenas and institutional arrangements.

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Research (CIFOR), Indonesia*



VII. Ways forward

Ten years after its adoption, the Action Plan has resulted in major changes, but more work remains to be done.

Support for VPA implementation

Focus should be placed on VPA implementation, ensuring that legality licensing and systems are functioning well. VPAs are now entering the operational phase, and partner countries will have to continue reforms and the promotion of better governance.

Continued support for systems will be a strong priority. VPAs are a long-term aspect of improved forest governance. Their credibility relates to the

strength of independent audits, and the coming years will show how these audits are evolving. A strong emphasis will be placed on ensuring proper transparency and communication. The role of joint implementation committees and the oversight structures of the VPAs will also have to be assessed.

Multi-stakeholder participation in VPA countries has set the process apart from other initiatives. A continued challenge will be to ensure this continues during implementation and also as the systems become operational. Government and stakeholder dialogue has had a great impact on government accountability, democracy and citizens' rights. Administrations, the private sector,

parliamentarians and civil society organisations have a role to play in ensuring that this impact is sustained.

The VPA has opened up a number of opportunities but these will require further support for them to be operational and have an impact. For example, the VPA helped promote greater transparency in the forest sector. Development programmes should use this opportunity and work with VPA countries to develop ways for the public to use newly available information to hold governments accountable and promote policy change.

Support for demand-side measures

On the demand side, efforts should also be made to promote FLEGT-licensed timber through procurement policies, market mechanisms and communication in consuming countries. Civil society organisations have a role to play here.

Stronger collaboration among consuming markets, including processing hubs, should be developed to close the demand for illegal timber and to promote legally verified products. The EU should continue to lead and reinforce partnerships.

Business operators will have to exercise due diligence and demand high standards of their suppliers. The EU Timber Regulation will enforce such behaviour in the EU, but it should become normal practice for all operators worldwide as part of their corporate and social responsibilities.

Challenges for FLEGT in the broader context

As discussed the impacts and lessons learned from VPAs are relevant for other sectors. With continued analysis and monitoring of impacts, further lessons will be drawn.

The FLEGT Action Plan has been the catalyst for major efforts by many stakeholders from government, private sector and civil society, who see it as relevant and identify with the objectives. It should maintain its relevance in a changing context as long as it continues to emphasise process, genuine partnership and consultation, avoiding pre-set solutions and building trust throughout the supply chain.

Chainsaw logger,
© EuropeAid



A chronology

May 1998:
G8 summit at Birmingham...
agree on
action plan
on forests,
including
a range of
actions against
illegal logging

September
2001:
**East Asia
FLEG
Ministerial
declaration,
Bali,
Indonesia**

**FLEGT
Action
Plan,
COM (2003)
251**

October
2003:
**Africa FLEG
Ministerial
declaration,
Yaoundé,
Cameroon**

**FLEGT
regulation,
2173/2005**

November
2005:
**Europe and
Northern
Asia FLEG
Ministerial
declaration,
St Petersburg,
Russia**

1998

1999

2000

2001

2002

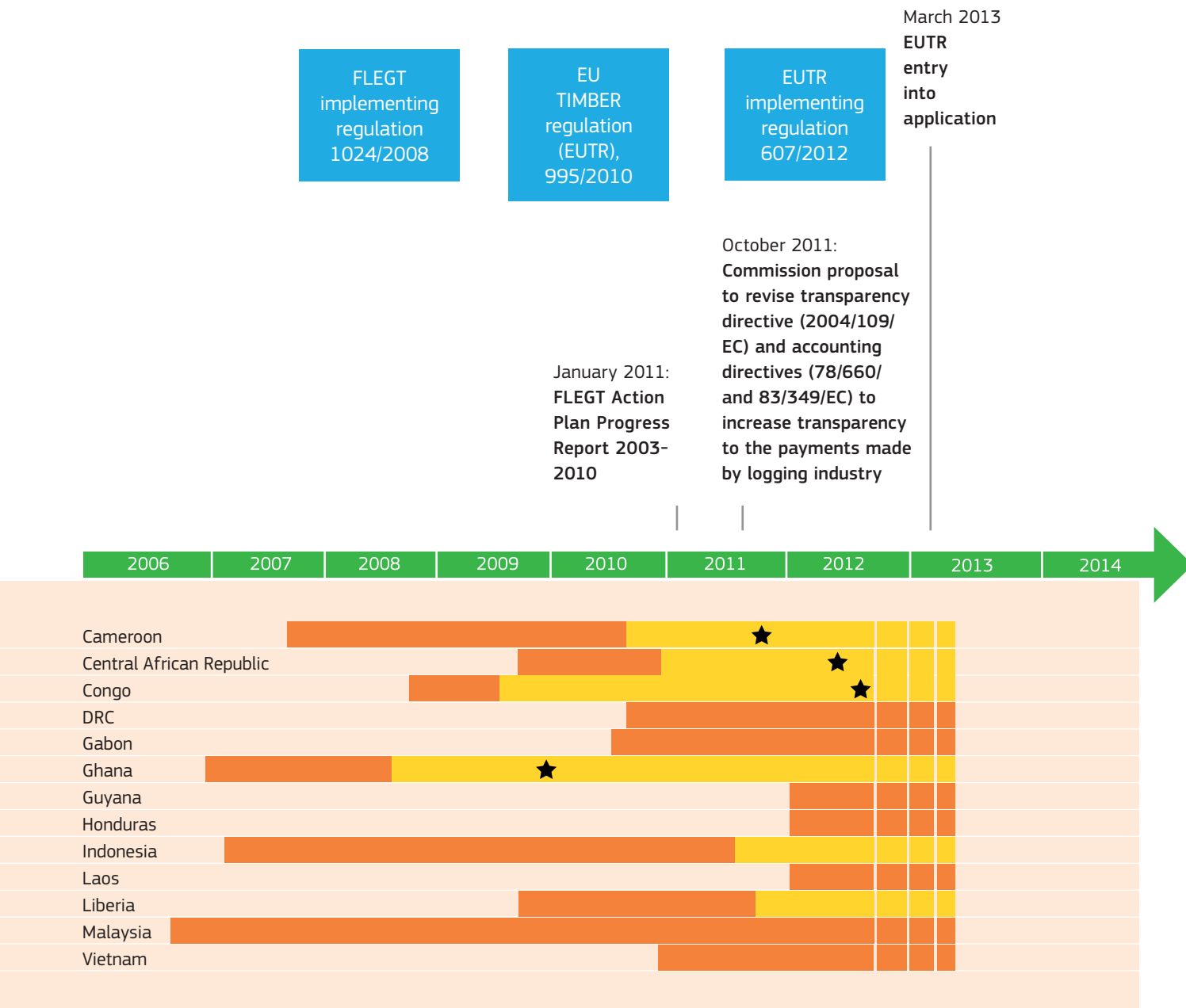
2003

2004

2005

VPAs

- Negotiations
- System development
- ★ Ratification completed and entry into force



European Commission, 2012

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Lessons from the EU FLEGT Action Plan**

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