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EU market conditions for “verified legal” and “verified legal and sustainable” wood products

Photo credit: Rupert Oliver

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Introduction

Background

This report provides an overview of the European market for "verified legal" and "verified legal and sustainable" solid wood products in late 2008 and the early part of 2009. It forms part of a regular series to track market conditions, the first four reports covering only the UK. This report extends coverage to 7 countries of the European Union including: Belgium, France, Germany, Italy, Netherlands, Spain, and the UK.

For the purposes of this report, solid wood products are taken to include rough sawn lumber, dimension products, mouldings, decking, and panel products. Pulp and paper products are not included.

The report draws partly on statistical data derived from forest certification and legality systems, on Eurostat trade data, and a variety of secondary sources. It draws on information derived from semi-structured interviews held with representatives of agents, timber importers, merchants, joinery and furniture manufacturers in a wide range of European countries in the final quarter of 2008 and first quarter of 2009. Contacts were asked to provide general comments on the commercial and market implications of the trade in verified and certified wood products.

What are verified wood products?

One short-coming of environmental timber procurement policies and practices within the EU is that the EU member states have not agreed a definition of "verified legal" or "verified legal and sustainable" wood products. And within EU member states, understanding of what constitutes verified legal and sustainable varies between different actors in the public and private sector. Therefore this report does not establish rigid definitions of "verified legal" and "verified legal and sustainable" timber products. Instead, a comprehensive range of forest certification frameworks, stepwise certification systems, and legality verification programs particularly relevant to the EU market have been identified (see Annex 1). These various programs are referred to by name (or abbreviation) where relevant throughout this report.

Nevertheless various terms are used for convenience sake throughout this report to refer collectively to timber products available through a particular subset of these programs. The term "verified timber" is used when referring to products supplied through any of the programs identified in Annex 1. The term "certified timber" is used when referring to products which are verified under the terms of one or other of the international, national or regional forest certification frameworks identified in Annex 1. The term "verified legal timber" is used when referring either to products verified under the terms of one or other of the private sector legality verification or phased certification programs or to products covered by a FLEGT VPA license.

It is not an aim of this study to assess the relative merits or credibility of individual certification or legality verification systems. These collective terms do not imply any judgement with respect to the quality of assurance provided by the programs.

Comment on price premium data

Previous reports in this series focused heavily on gathering information on price premiums for a range of verified indicator products at point of delivery to the UK market. An original intent of this project was to extend this concept to the wider EU market. However this idea proved difficult to implement in practice. One issue was timing. Interviews were undertaken at a time when European demand had been hit very hard by the global recession so that exporters and importers were being forced to heavily discount stock irrespective of its verification status in an effort to boost sales and maintain cash flow. Buyers were often being supplied with labelled products when requested without being asked to pay a premium.

Another issue is that gathering meaningful price information requires very detailed knowledge of the trading environment, of specific products and trade terminology, knowledge which proved difficult to find amongst the consultancy community in some EU Member States.

It is in any case questionable just how meaningful price premium data is in isolation. In practice, the premium a seller demands of a customer varies widely depending on the size of the order and the likely regularity of repeat business. The willingness to pay the premium also varies widely depending on the significance of wood raw material costs in the overall cost structure of the business. Often the size of the premium is a much less important factor to buyers than the compromises that might have to be made with respect to quality and grade or delivery times.

During interviews, it became clear that those companies that have made far-reaching commitments to shift to verified wood products tend to see this as part of a wider process of restructuring procurement practices in favour of a limited number of key suppliers able to provide the full range of quality services of which forest certification is only one component part. It is not uncommon for this process to involve the complete substitution of one wood raw material for another. For example the replacement of tropical sawn lumber used for window frame manufacture by an engineered wood alternative, or tropical hardwood plywood for combi plywood or OSB. The shift to these new suppliers is undertaken with a view to longer term cost savings and quality improvements and the question of price premiums for verified wood is largely irrelevant. However legality verification or forest certification will be required in order to avoid exclusion from the list of approved suppliers.

Only in the rather limited conditions that prevail in parts of the hardwood sector where specific requests for verified products might be met by limited supply does the issue of price premiums arise. Therefore for the purposes of the current project, where relevant interviewees were asked to comment in broad terms on the percentage premiums typically demanded for specific products. However the collection of price premium data did not form a core component of the study.

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summary

Interest in ‘verified legal’ and ‘verified legal and sustainable’ timber products is increasing in the EU market in response to environmental campaigns highlighting the negative impacts of unsustainable deforestation and illegal logging and policies which underpin the private sector promotion of wood’s green credentials.

Photo credit: Rupert Oliver

This interest has resulted in voluntary corporate commitments to responsible purchasing, Government ‘Green’ Policies Procurement (GPPs) and, to a very limited extent, individual consumer preferences. This paper looks into the extent to which different sub-sectors of the timber products market in Europe have been impacted by these trends. It also considers the global availability of verified timber products and the impact of demand and supply on market prices. The paper’s findings are based on interviews with timber traders, manufacturers, retailers and specifiers in 8 EU countries, together with a wide range of secondary sources.

The EU market for timber products

Taken as a whole, the EU market is the largest consumer of timber products in the world. In 2007, the EU-25 consumed 236 million m3 of timber products, of which 60.4 million m3 was imported. In volume terms, imports are dominated by sawnwood (39%), logs (36%), and plywood (18%).
By volume, 65% of EU imports derive from countries located in temperate and boreal forest zones, while only 14% derive from countries located mainly in tropical zones. The latter however are relatively more expensive than other products, accounting for 26% of imports by value. The remaining 21% derive from countries straddling tropical and temperate zones, notably China and Brazil.
Russia is by far the EU’s largest external supply region for logs and sawnwood followed by the USA, Brazil and tropical Africa. EU imports of plywood derive mainly from China, Brazil, Malaysia, Indonesia and Russia. Wood furniture is the leading EU wood product import in value terms with China the leading external supplier by a significant margin, followed by Indonesia, Vietnam and Malaysia.

Demand for verified wood products

Trends in Chain of Custody (CoC) certification suggest that demand for certified products in the EU is heavily concentrated in a small number of states. By 2008 26% of all European CoC certificates were issued in the UK, 15% in Germany, 12% in France, 7% in the Netherlands and 5% in Switzerland.
GPPs and Trade Association codes of conduct continue to boost demand for verified timber products in the UK, Belgium, France and the Netherlands. However there is little reported impact on demand in Germany, Spain or Italy. And demand for verified wood remains low both in the EU timber trade in general and in timber’s major consuming sectors – construction and furniture – in particular. Limiting factors in these sectors include the presence of a huge number of SMEs; minimal reputational risk in the majority of EU Member States leading to generally low levels of awareness of forest certification and legality verification; and the limited scope and poor implementation of GPPs.

Supply of verified wood products

Overall, 25% of the timber products imported into the EU-25 during 2007 are likely to have derived from independently certified or legally verified forests. Much of the imported verified

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volume was sourced from Russia and other non-EU European countries (mainly Belarus, Switzerland, Norway and Croatia) and was dominated by softwood sawn lumber and softwood logs. If intra-EU trade is taken into account, the proportion of timber products imported by individual member states likely to derive from a verified source is considerably higher, exceeding 50% in 10 EU Member States.

At the end of 2008, 326 million hectares of forest were independently certified worldwide to either FSC or PEFC standards, around 11% of the global commercial forest area. Much of this area is concentrated in the temperate zone. Only around 2% of commercial forest area in the tropics is certified. The rate of increase in global certified forest area has declined in recent years from around 50 million hectares per year between 2001 and 2005 to between 15 and 25 million hectares per year since 2006.

While tropical countries are generally under-represented in the supply of verified products, significant recent efforts have been made to introduce FSC into the Congo Basin where 2.9 million hectares are now under the scheme, an area likely to increase to 4 million by the end of 2009. A further 10 million hectares is covered by legality verification schemes in the Congo Basin. Malaysia's national MTCS scheme covered 4.7 million hectares by the end of 2008. And in Brazil's Amazonian region, where FSC is currently the only operational system, around 1.2 million hectares of forests have been certified.

Supply of verified hardwoods is however severely restricted by the high proportion of hardwood forests which are under the control of small land owners. For example, while around 95% of US hardwood forests are under the control of small non-industrial forest owners, only around 1% of them are certified. Forests under small private and community tenure are also under-represented in tropical forest certification.

Supply of verified products in more processed sectors such as furniture, dominated by imports from China as noted above, is constrained by dependence on imported wood raw material, high levels of fragmentation in China's wood sector, an overwhelmingly price-focused business culture, lack of supply chain management capability and limited exposure to environmental demands in both export and domestic markets.

Premiums for verified wood products

In the UK, the Netherlands and, to a certain extent Belgium, supply of PEFC or FSC labelled softwood and composite panels is the norm and there is only limited demand for labelled goods. Therefore the labelled price sets the market price and no premium is available. There is also little evidence of premium prices for labelled softwood and composite panel products in other Member States where, in the absence of market demand, there is more limited uptake of chain of custody certification and labelled products are rarely supplied.

Photo credit: Rupert Oliver

However, premiums do exist where there are specific requirements for certified products, particularly FSC, which are in limited supply. These apply particularly to parts of the hardwood sector and to some extent the specialty softwood sector (such as western red cedar cladding from North America).

While importers and merchants that are implementing comprehensive corporate responsible procurement policies are willing to pay limited price premiums (up to 10%), higher premiums are typically achieved only when verified wood products in limited supply are destined for high-profile public projects in Member States with effective GPPs.

The highest premiums – in the range of 20% to 50% on the price of delivery to the importers yard – are being sought for FSC certified tropical sawn hardwood from Africa and Brazil. In the temperate hardwood sector, price premiums are being sought for FSC certified American hardwoods in the range of 5%-10%. Price premiums sought for tropical sawnwood supplied under one of the private sector legality verification systems are typically in the range of 3% to 15% with most at the lower end of the spectrum. These prices generally reflect the additional ongoing cost of production and verification as well as an attempt to recoup historical investment in new systems.

However it is worth noting that in the absence of buyers willing to pay a significant premium, some hardwood producers are willing to sell products derived from certified forests without labels for a standard market price. This suggests that the prices being sought are not simply a reflection of the marginal additional cost of verified production but also reflect a desire, where possible, to recoup the often substantial historical investment while supply remains limited.

In addition, where premium prices are not acceptable, but verification is a requirement for market entry, other compromises may be made, for example on product specification or quality.

Other market factors

In addition to outlining the current state of demand and supply for verified products it is possible to identify a number of other key market factors which are likely to affect the market for verified wood products in the short to medium term:

- **Certified purchasing linked to overall quality procurement**: Those EU companies that have made far-reaching commitments to shift to certified timber products often see this as part of a wider process of restructuring overall procurement practices in favour of a limited number of suppliers able to provide the full range of quality services of which forest certification is only one component.
- **Importers more advanced than downstream**: The development of comprehensive responsible timber procurement policies are generally more advanced in the timber importing sector than in downstream manufacturing sectors.
- **Large importers in the lead**: Large consolidated importing companies, particularly in the Benelux countries and the UK, are playing an increasingly significant importing role in the EU trade in verified wood products. Due to their scale, they are well placed both to encourage suppliers to achieve forest certification and to benefit from economies of scale in FSC and PEFC chain of custody.
- **Increasing gulf between responsible purchasers and oth-**

Photo credit: Rupert Oliver

ers: The economic downturn is generally widening the gap between environmentally proactive operators that are now keener than ever to exploit the opportunities emerging for timber from increasing interest in sustainable construction and those that have not focused on environmental issues and which continue to sell primarily on price.

Implications for the timber trade

■**Certification and verification reduces importers' risk**: Sourcing products which are independently verified as legally or sustainably produced continues to be the only credible protection against reputational risk for imports from many tropical countries.

■**More marketing efforts downstream needed**: There is a continuing need for concerted marketing activities to raise awareness of the role of different verification systems and to ensure appropriate recognition amongst manufacturers, specifiers, retailers and end-users.

■**Other benefits need promotion**: While European demand remains uninformed and generally low, a number of other business benefits for certified operators can be identified including: maintenance of market share; protection of corporate reputation; improved business-to-business communication; and as a foundation for pro-active marketing of wood's positive environmental credentials in relation to non-wood products. These need to be better promoted.

■**Due diligence – a way to reduce risk**: New models for green timber procurement are being developed by companies in north-western Europe responding to the challenges of verified wood supply and demand which may offer lessons for other traders. These procurement policies combine due diligence systems to minimise the risk of illegal wood entering supply chains with progressive increases in purchases of certified wood products when available.

■**Trade associations have a key role**: Timber trade associations have a critical role to play in communicating green issues and encouraging and guiding positive action on timber procurement, particularly amongst SMEs.

Implications for policy makers

■**GPP adoption needs both broadening and deepening**: The impact of Green Public Procurement is limited to a small number of EU Member States and even in those States, implementation appears to be patchy, particularly in the vast majority of contracts which do not have a public profile. It is clear that demand for verified products is lower in those countries without GPPs, as well as those which have them but do not appear to implement them systematically.

■**New legislation critical**: Adoption of the EU's due diligence legislation will be essential to remove distortions in the market for some tropical hardwood products, which substantially reduce the non-verified 'mainstream' price against which verified products must compete. In the absence of more effective demand-side policy measures existing trade in verified and certified products will likely be eroded by increased focus on price during a period of recession.

■**Special consideration for SMEs**: Special consideration should be given to ensuring that SMEs, both within the EU and in supplier countries, can participate in the trade in verified timber products.

■**Demand for verified legal may be partly at the expense of certified sustainable**: Interviewees report that the price differential between certified sustainable and verified legal products may begin to increase demand for the latter at the expense of the former, particularly where public and corporate commitments to responsible purchasing do not codify a strong preference for sustainable wood where it is available.

Photo credit: Ghana Forestry Commission

Summary

This section provides an outline of essential features of the European wood products sector to place analysis of markets for verified wood products in context. It also provides a brief commentary on recent market developments, including changes in distribution channels and the impact of the global economic crises beginning in 2008, which provide an important backdrop to interviews undertaken for the project.

Taken as a whole, the EU market is the largest consumer of timber products in the world, consuming around 236 million RWE m3 of solid wood products in 2007. High levels of domestic production mean that timber imports contribute only a relatively small proportion of overall wood supply, around 60.4 million RWE m3 in 2007. In volume terms, 65% of EU imports derive from countries located in temperate and boreal forest zones, while 14% derive from countries located mainly in tropical zones. The remaining 21% derive from countries straddling tropical and temperate zones, notably China and Brazil. Due to the relatively high value of tropical wood products, imports from tropical countries are more important in value terms accounting for 26% of EU import value in 2007. A significant issue from the perspective of trade in verified wood products is that a very large proportion of EU RWE import volume derives either from developing countries (46%) or transition countries (42%) which are often considered higher risk with respect to illegal or unsustainable forestry operations.

The EU has a large and diverse wood processing and furniture industry comprising over 300,000 enterprises and accounting for 4% of all manufacturing production value and 8% of all manufacturing employment in the EU. There is a very low degree of concentration in the sector, the average enterprise having less than 10 employees. The main EU end-using sectors for wood products – construction and furniture retailing - are also highly fragmented. The construction sector comprises 2.8 million enterprises, 93% of which are micro-enterprises with less than 10 employees. There are about 100,000 furniture retail outlets in the EU employing around 600,000 people. Such high levels of fragmentation, combined with a strong focus on price and quality in both sectors, is a major obstacle to the creation of significant demand for verified wood markets in the European market.

However there has been some consolidation in the European timber importing sector in recent years. To help overcome supply shortages and meet rising demand for just-in-time trading, some larger European timber importers have established huge concentration yards close to the main ports, notably in NW Europe. These companies are playing a central role in the European trade in verified wood products. Due to their scale, they are well placed both to encourage suppliers to achieve forest certification and to benefit from economies of scale in chain of custody.

Trade data and anecdotal reports indicates a dramatic decline in EU wood trade beginning at the end of the second quarter of 2007 and intensifying in the second half of 2008. Interviews undertaken for this study suggest the economic downturn is widening further the divide between environmentally proactive operators that are now more desperate than ever to exploit the opportunities emerging from increased market focus on sustainability, and those that have not focused on environmental issues and which continue to sell primarily on price.

Wood supply and consumption

Domestic wood supply

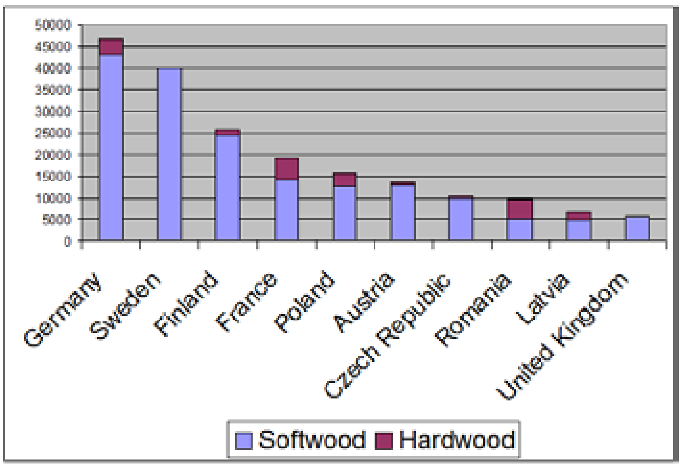
According to Eurostat, in 2007 the total area of forest land in the EU covered approximately 156 million hectares, which corresponds to 42% of the total area. The forest area and the area available for wood production are increasing in Europe. The total forest cover in the EU during the period of 2000-2005 increased by 2.3 million hectares. Forest cover varies greatly among the EU Member States ranging from respectively 74% and 67% of the total land area in Finland and Sweden, to 10% in Ireland, 11% in The Netherlands and 12% in Denmark.

A large proportion of EU wood consumption is satisfied by domestic forests which according to Eurostat produced around 220 million m3 of sawlogs and veneer logs in 2007, an increase of 15% on five years earlier. 88% of production in 2007 comprised softwoods and 12% hardwoods. Much of this production is concentrated in Germany, the Scandinavian countries, France and Poland (Chart 2.1).

EU sawnwood production has been rising in recent years. In 2007, production of this commodity reached 114 million m3, an 18% increase on 5 years earlier (Table 2.1). 90% of sawn lumber produced in 2007 comprised softwood and only 10% hardwood. The EU as a whole accounted for around 27% of

Chart 2.1: Top 10 sawlog and veneer log producers in the EU 27 during 2007 (1000 m3)

Source: Eurostat



	2003	2004	2005	2006	2007
Softwood saw & veneer logs	164	164.9	187.5	167	194.9
Hardwood saw & veneer logs	30.8	30.9	28.3	28.2	29.1
Softwood sawnwood	90.7	94.3	97	101	102.3
Hardwood sawnwood	11.4	11.5	11	11.1	11.7
Plywood	4.1	4.3	4.4	4.4	4.5
Veneer	1.5	1.5	1.6	1.6	1.5
MDF	10.5	11.2	11.9	12.5	13.1
Particle board	37.3	40.2	40.7	42.7	44.7

Table 2.1: EU-27 Production Volume of Solid Wood Products 2003-2007. *Source: Eurostat*

world sawn timber production in 2007. In that year, Germany was by far the largest EU producer of sawn lumber, followed by Sweden, Finland, Austria and France.

The EU's wood based panel sector has expanded considerably in recent years, to such an extent that the region is now the largest producer in the world accounting for around 25% of total world production. The vast majority of EU panel production is consumed by the domestic market and only a small volume is exported. EU wood based panels production is dominated by OSB and other particle boards together with MDF. Production of plywood forms a relatively small component of the sector due to relative scarcity of larger higher quality logs suitable for plywood manufacture.

In 2007, the EU produced over 44 million m3 of particle board, production volume having increased 20% compared to 5 years earlier. Several EU countries are now host to large particle board manufacturing industries including Germany, France, Poland, Italy, Spain, UK and Austria. Particle board can substitute for plywood in a range of mainly internal applications including furniture, shelves, doors, floors and partition walls.

MDF capacity in the EU has been rising in recent years, production hitting 13.1 million m3 in 2007, up 25% compared to 2003. MDF is an engineered wood valued for its stability and ease of working which is now widely used for a range of interior applications including mouldings, casing, finish trim and cabinets. Germany is the largest MDF producer in the EU by a significant margin, followed by Poland, France, Italy and Spain.

The EU veneer manufacturing sector is relatively confined in volume terms, total annual production amounting to no more than around 1.6 million m3 between 2003 and 2007. However the sector is more important in value terms due to its focus on high quality specialist sliced veneers. The sector consumes the highest value domestic hardwood logs and is also a significant user of hardwood logs imported from outside the EU both from the US and tropical regions. Germany has traditionally been

Table 2.2: The EU-27's 10 leading wood product manufacturers
Source Eurostat

	Softwood sawn	Hardwood sawn	Plywood	Veneer	MDF	Particle board
Germany	24028	1142	229	392	4380	10928
Sweden	18490	110	92	55	85	627
France	8300	1890	378	80	1180	4841
Austria	11027	235	258	23	650	2670
Finland	12400	77	1410	59	0	400
Poland	2844	461	440	89	1726	5330
Spain	2180	1152	450	60	1160	3295
Italy	900	800	420	470	1155	3600
Czech R.	5187	267	175	19	94	1428
UK	3100	45	0	0	865	2684
EU-27	**102330**	**11734**	**4497**	**1546**	**13098**	**44690**

the most important and sophisticated actor in the world's sliced veneer market. While German-owned companies continue to play a leadership role in this industry, the centre of gravity of the European veneer manufacturing sector has shifted eastwards. A much larger proportion of sliced veneer supplied to the European furniture, flooring, doors and interiors sectors is now manufactured in Poland, Slovenia, Czech Republic, Romania and the Baltic States.

Wood processing and furniture industries

The EU has a large and diverse wood processing industry. According to Eurostat, in 2006 the EU-27's woodworking sector included 191,000 enterprises with a production value of €121

Table 2.3: The EU's 10 largest woodworking and furniture manufacturing Member States based on production value in 2006
Source: Eurostat

	Woodworking			Furniture		
	Nos. of Enterprises	Production value (€ million)	Employment	Nos. of Enterprises	Production value (€ million)	Employment
Germany	13076	22370	142792	9851	23539	161978
Italy	41100	17144	166427	30136	25692	202765
France	10635	12064	86086	19177	12365	97694
UK	8396	10422	85387	7329	13273	110208
Spain	15678	10164	99807	19197	12008	139777
Sweden	6883	8975	42456	3286	3113	21042
Poland	19015	5501	135625	12648	6328	166707
Austria	3491	6939	38528	3771	2925	32750
Finland	2537	7119	28345	1545	1311	10317
Belgium	1699	3480	13833	2333	3040	18888
EU-27	**191102**	**120926**	**1241249**	**148925**	**120935**	**1341391**

Table 2.4: The EU's woodworking sector by major product in 2007
Source: Eurostat

	Nos Enterprises	Turnover (€ million)	Production value (€ million)	Employees
Total	192144	130727	123989	12445
Sawmilling & planing, impregnation	34188	36700	34200	3070
Veneers, plywood, other panels	2600	24802	23732	1256
Builders' carpentry and joinery	114126	49600	47500	5790
Wooden containers	10040	10569	9967	941
Other products of wood	30000	8994	8540	1383

billion and employing 1.24 million. A further 149,000 enterprises with a production value of €121 billion and employing 1.43 million were engaged in the manu-facture of furniture, a sector heavily dependent on solid wood products. Together the two sectors accounted for 4% of all manufacturing production value and 8% of all manufacturing employment in the EU. In terms of production value, Germany has the largest manufacturing sector based on solid wood products in the EU, followed by Italy, France, UK, Spain, Sweden and Poland (Table 2.3).

There is a very low degree of concentration in the EU woodworking and furniture sectors. The average wood-working enterprise has between 6 and 7 employees, while the average furniture enterprise has around 9 employees.

The majority of EU wood-working companies are engaged either in sawmilling or the manufacture of builders carpentry and joinery (Table 2.4).

In terms of turnover and production value, the manufacture of joinery products for the construction sector is the largest single component of European woodworking industry (excluding furniture). This sector, which encompasses the manufacture of wooden doors, windows, flooring, and glulam, was growing strongly during the recent European property boom. In 2007, total EU production value of the sector reached €49.6 billion, more than a 20% increase on the value recorded at the start of the decade. Eastern Europe has seen the most rapid growth in recent times, particularly in Poland and the Czech Republic. Nevertheless, the majority of production continues to be concentrated in Western Europe. In 2006, Germany, Italy, UK, Spain and France together accounted for 62% of total production.

Table 2.5: Production value of Builders Joinery and Carpentry in EU Member States 1999-2006. € Million
Source: Eurostat

	1999	2000	2001	2002	2003	2004	2005	2006
EU-27	**37285**	**37154**	**36458**	**38164**	**38342**	**41382**	**40514**	**42992**
Western Europe	*35746*	*35340*	*34434*	*36156*	*36261*	*39031*	*37870*	*39949*
Eastern Europe	*1540*	*1815*	*2024*	*2009*	*2082*	*2352*	*2644*	*3043*
Germany	12893	9176	7716	8114	7885	8478	7398	8549
Italy	5208	6055	6003	6360	6649	7516	7226	6752
UK	3611	4551	5038	5505	5267	5754	5612	5569
Spain	3208	3654	3812	3828	3889	3939	4180	4520
France	3058	3275	3373	3876	3862	4038	3884	4028
Sweden	2114	2456	2317	2387	2331	2589	2631	2991
Austria	1855	1848	1799	1789	1921	1988	1923	2175
Netherlands	1531	1767	1802	1728	1713	1804	1859	1958
Finland	1104	1328	1350	1351	1460	1594	1684	1820
Denmark	1163	1230	1225	1219	1284	1332	1475	1587
Poland	1000	1134	1233	1138	1120	1306	1429	1579
Czech Republic	540	681	791	871	962	1045	1215	1464

Although the emergence of major furniture industries in East Asia over the last decade has reduced the global dominance of the European furniture sector, the sector still manufactured product valued in excess of $100 billion in 2007, and accounted for at least a third of global furniture production ($307 billion) in that year. This compares to production values of around $65 million and $55 million in the US and China in that year. The largest producers in the EU in 2007 were Italy ($24.6 billion) and Germany ($21.5 billion). Poland, France and the UK are also significant producers each with furniture production value in the region of $9 billion in 2007.
Eurostat data indicates that chairs and seating (including upholstered products) is the largest single category of furniture manufacturing in the EU accounting for around 30% of total production, followed by other office and shop furniture (17%) and other kitchen furniture (12%) (Table 2.7). The EU domestic garden furniture manufacturing sector is now very small, probably accounting for no more than 2-3% of total European furniture production. The vast majority of garden furniture consumed in the EU is now imported mainly from the Far East.

Table 2.6: Furniture Production Value in EU Member States 1999-2006. € Million
Source: Eurostat

	1999	2000	2001	2002	2003	2004	2005	2006
EU-27	**96320**	**102565**	**102746**	**103812**	**98091**	**104983**	**106590**	**110747**
Western Europe	*92447*	*97855*	*97634*	*98360*	*92167*	*98178*	*98928*	*102300*
Eastern Europe	*3873*	*4709*	*5111*	*5452*	*5924*	*6805*	*7663*	*8448*
Italy	19725	23672	22625	25310	22812	25413	24386	25692
Germany	25229	23682	23134	21107	20126	20683	21945	23539
UK	13968	14414	14588	14733	12471	12988	13331	13273
France	11148	11645	12674	12534	12314	12611	12489	12365
Spain	8260	9585	9760	10008	10253	11509	11760	12008
Poland	2868	3523	3711	3754	4329	5076	5698	6328
Netherlands	3511	3820	3756	3579	3329	3255	3444	3357
Sweden	2849	2662	2450	2878	2901	3181	2956	3113
Belgium	2503	2771	3024	2850	2781	2962	2965	3040
Denmark	2729	3046	3106	2821	2725	2768	2838	2987
Austria	2526	2559	2518	2540	2457	2810	2814	2925
Czech Republic	1005	1186	1400	1699	1595	1729	1965	2120

Furniture production in the EU has traditionally been a labour-intensive industry that includes both small local craft firms and large manufacturers. Small enterprises often act as sub-contractors – often highly specialised in specific tasks - for larger firms (producing components, semi-finished products or finishing and assembling furniture).
The structure of the western European furniture industry has been changing in recent years. Almost single-handedly, the vast Swedish-owned furniture retailer IKEA created a mass market for relatively low–end "flat-pack" and ready-to-assemble furniture. To some extent this trend has undermined the market for higher-end solid wood products. It has also impacted heavily on raw material usage. For example many European furniture manufacturers have shifted away from real wood veneers in favour of non-wood foils and paper finishes as a cost saving device. These materials may also be more easily adjusted to cope with changing fashions.
Meanwhile traditional furniture manufacturers have retained important niche market segments primarily for high-end, expensive and design-led products mostly sold locally.

Wood product imports

The EU as a whole is the world's largest importer of wood products. In 2007, EU wood product imports were valued at €19.2 billion. Wood furniture is the leading EU wood product import in value terms, contributing over €6.1 billion in 2007, followed by sawnwood (€4.2 billion), logs (€1.7 billion) and plywood (€1.6 billion).
In value terms, the UK is the largest European importer of wood

Table 2.7: The EU's furniture sector by major product in 2007
Source: Eurostat

	Nos Enterprises	Turnover (€ million)	Production value (€ million)	Employees
Total	148158	119838	115533	13018
Chairs and seats	25324	35600	35000	2920
Other office and shop furniture	15337	20000	20000	1800
Other kitchen furniture	13974	15427	14244	1312
Other furniture	93524	48313	46445	6993

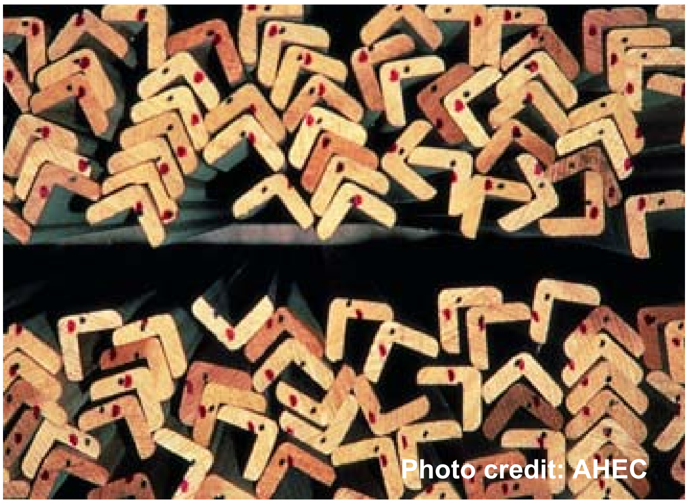


Photo credit: AHEC

products from outside the EU by a significant margin, followed by Germany, Italy, France and the Netherlands (Chart 2.2). The UK's leading position is due primarily to a trend towards rising imports of wood furniture from the Far East which has pro-gressed furthest and fastest in the UK market.

In 2007, the EU-25 imported 60.4 million m3 (Roundwood Equivalent - RWE) of solid wood products derived from sawlogs and veneer logs. In RWE volume terms, imports are dominated by sawnwood (23.3 million m3 in 2007), logs (21.5 million m3), and plywood (10.8 million m3).

In RWE volume terms, the CIS (almost exclusively Russia) is by far the EU's largest external supply region for logs and sawn-wood. North and South America and Africa are other significant supply regions to the EU for sawnwood. EU imports of plywood derive mainly from South America (notably Brazil), China, SE Asia (notably Malaysia and In-donesia) and Russia.

In RWE volume terms, 65% of EU imports derive from countries located in temperate and boreal forest zones, while 14% derives

Chart 2.2: 10 largest EU importers of wood products from outside the EU in 2007 (million euro)

Source: FII Ltd Analysis of Eurostat and Customs Data

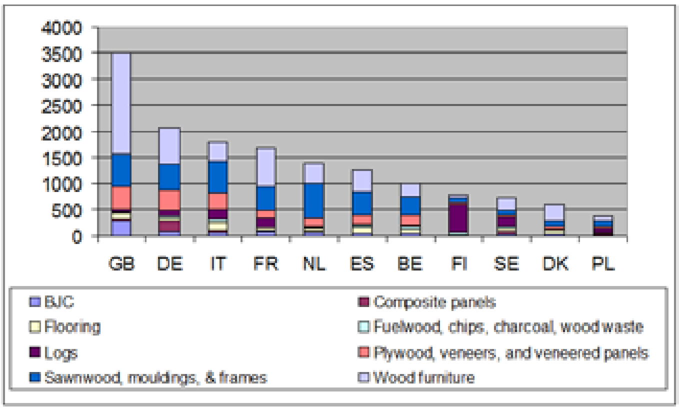


Chart 2.3: 10 largest EU importers of wood products from outside the EU in 2007 (000 m3 RWE)

Source: FII Ltd Analysis of Eurostat and Customs Data

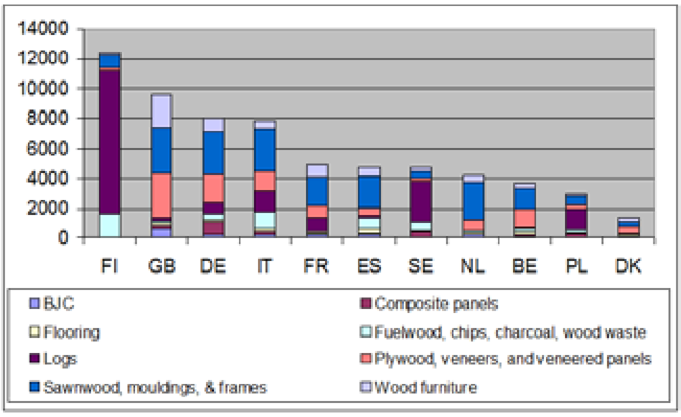


Chart 2.4: EU imports of wood products by region in 2007 (million euro)

Source: FII Ltd Analysis of Eurostat and Customs Data

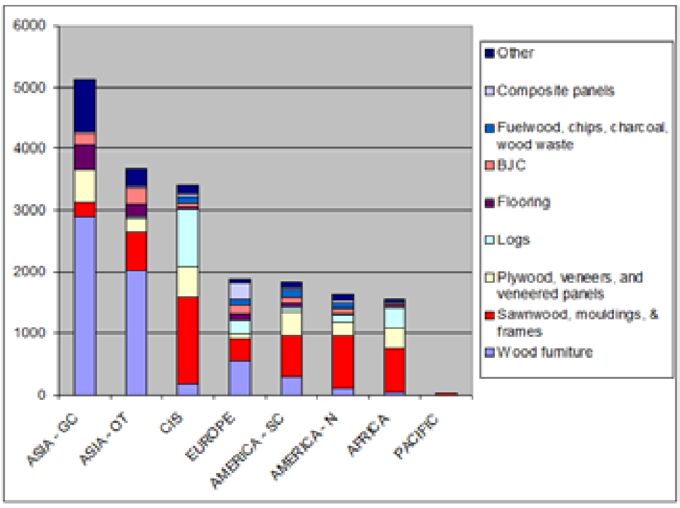
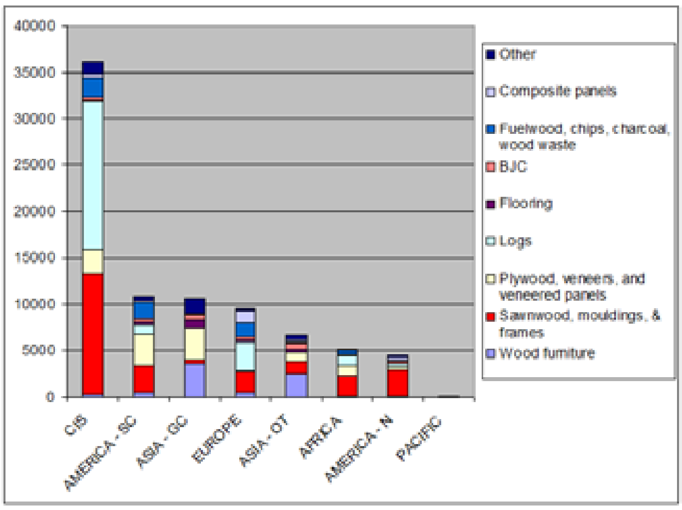


Chart 2.5: EU imports of wood products by region in 2007 (RWE 1000 m3)

Source: FII Ltd Analysis of Eurostat and Customs Data



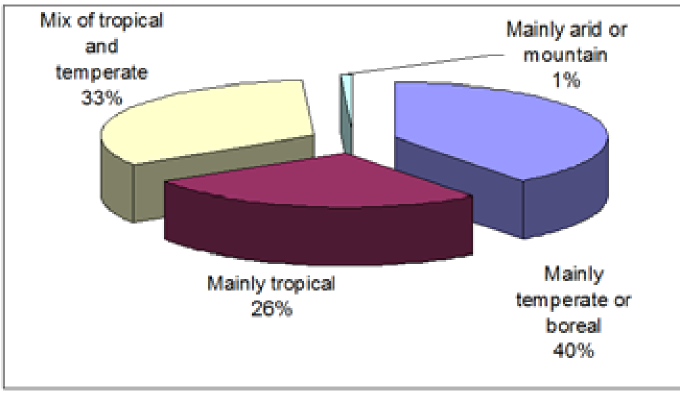


Chart 2.6: Euro value of EU wood products imports by forest zone of source country in 2007
Source: FII Ltd Analysis of Eurostat and Customs Data

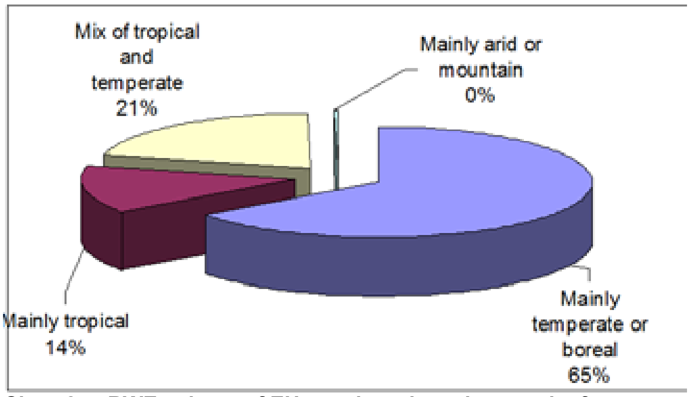


Chart 2.7: RWE volume of EU wood products imports by forest zone of source country in 2007
Source: FII Ltd Analysis of Eurostat and Customs Data

from countries located mainly in tropical zones. The remaining 21% derives from countries straddling tropical and temperate zones, notably China and Brazil (Chart 2.7). Due to the relatively high value of tropical wood products, imports from tropical countries are more important in value terms accounting for 26% of EU import value in 2007 (Chart 2.6).

Due to the relatively limited availability of hardwoods in Europe's domestic forests, a comparatively large proportion of EU imports in 2007 were of hardwoods or of products of unknown species composition such as furniture and joinery likely to contain significant volumes of hardwood.

A significant issue from the perspective of trade in verified wood products is that a very large proportion of EU RWE import volume derives either from developing countries (46%) or transition countries (42%) which are often considered higher risk with respect to illegal or unsustainable forestry operations.

In RWE volume terms, Finland is the leading European importer of wood products from outside the EU (accounting for 12 million m3) due mainly to the high volume of imports of logs and chips from Russia into the country. The other leading EU importers from outside the EU on a RWE basis are the UK (10 million m3), Germany (9.25 million m3), and Italy (8.25 million m3).

To date, the EU has imported negligible volumes of composite panels such as MDF and OSB. This reflects the vast scale and quality of Europe's domestic composite panel industry. However, in 2008 of some of the largest UK plywood importers began to take trial shipments of Chinese MDF and OSB. UK importers have been encouraged to take this step following recent Chinese investment in the panels industry which has been offering very competitively priced product to European buyers. UK importers note that the quality of Chinese composite panels is currently nowhere near good enough to satisfy the demands of European manufacturers that need their raw materials to meet very demanding specifications (consistency, thickness, colour, texture etc). However the products may be appropriate as merchant grade material for onward sales to the joinery and DIY trade.

Table 2.8: EU-25 and selected Member State wood production, trade and consumption of wood products derived from saw and veneer logs. Million m3 RWE in 2007.
Source: FII Ltd analysis of Eurostat and UNECE Timber Committee data

		EU-25	Germany	France	UK	Italy	Spain	Netherlands	Belgium	Denmark
Domestic production of sawlogs and veneer logs (million m3)		**212**	**46.8**	**19.2**	**5.7**	**1.3**	**4.5**	**0.4**	**2.7**	**0.7**
Of	Softwood	187.9	42.8	14	5.6	0.5	3.3	0.3	2	0.6
which	Hardwood	24.1	4	5.2	0.1	0.8	1.3	0.1	0.7	0.1
Imports of wood products assumed to derive from sawlogs and veneer logs (million m3 RWE)		**60.4**	**23.7**	**20.3**	**28**	**23.5**	**12.3**	**11**	**12.2**	**8.2**
Of	Intra EU	na	16.7	15.3	18.6	17.1	8.4	6.8	8.8	6.9
which	Extra EU	60.4	7	4.9	9.4	6.3	3.9	4.1	3.4	1.3
	From pred. temp/boreal countries	34.9	21	17.1	22.1	21.1	9.8	8.4	9.8	7.6
	From pred. tropical countries	10.3	0.9	1.7	1.9	1.5	0.8	1.3	0.9	0.2
	From countries in mixed zones	15	1.8	1.5	3.9	1	1.6	1.2	1.5	0.4
	Softwood	24.7	10.6	9.5	17.3	13.7	5.1	5.6	5.8	5.7
	Hardwood	22.9	3.8	3.6	4.4	5.5	4	2.8	2.9	0.7
	Unknown species composition	12.8	9.2	7.2	6.3	4.4	3.2	2.5	3.5	1.7
	From developed countries	5.9	17.2	16	19.9	18.5	9.1	7	9	6.9
	From developing countries	27.9	2.8	3.4	6.3	2.7	3	2.8	2.5	0.7
	From transition countries	25.2	3.6	1	1.6	2.4	0.3	1.2	0.8	0.3
Exports of wood products assumed to derive from sawlogs and veneer logs (million m3 RWE)		**36.3**	**29.1**	**7.3**	**2.4**	**5.4**	**2.5**	**3.2**	**6.9**	**3.7**
Of	Intra EU	na	22	6.3	2.2	3.8	2.1	3.1	6.4	3
Which	Extra EU	36.3	7.1	1	0.2	1.7	0.5	0.2	0.5	0.7
Assumed consumption of sawlogs and veneer logs (million m3)		**236**	**41.3**	**32.2**	**31.3**	**19.3**	**14.3**	**8.1**	**8**	**5.1**
Population (million)		468	82.1	64.5	61.2	59.6	46.1	16.5	10.7	5.5
m3/capita/annum		0.5	0.5	0.5	0.51	0.32	0.31	0.49	0.75	0.93

Wood consumption

Taken as a whole, the EU market is the largest consumer of timber products in the world . In 2007, the EU-25 group of countries consumed wood products derived from sawlogs and veneer logs with a RWE volume of 236 million m3 (Table 2.8). A significant proportion of this wood consumption is concentrated in Germany (18%), France (14%), UK (13%), Italy (8%) and Spain (6%). Together, the eight countries considered in this report accounted for 68% of total EU consumption of sawlogs and veneer logs in 2007 .

There is considerable variation in per capita wood consumption between countries. For example, while per capita annual consumption of products based on sawlogs and veneer logs is estimated to be around 0.75 m3 in Belgium, it is estimated to be only around 0.31 m3 in Spain.

End-use sectors

The EU construction sector is the most important market for timber and timber products and uses up to 70% of all timber consumed in the EU. According Euroconstruct, the construction market in Europe is worth nearly 1,650 billion (thousand million) euros, a figure which exceeds the entire GDP of Italy. One estimate suggests that wood currently accounts for 7% of the total tonnage of all building materials used in the EU. In terms of value of construction, around 30% of the sector comprises non-residential, 27% is housebuilding, 23% is refurbishment and maintenance, and 20% is civil engineering.

The sector is hugely fragmented comprising 2.8 million enterprises, 93% of which are micro-enterprises with less than 10 employees. Such high levels of fragmentation, combined with a strong focus on price in the construction sector, is a major obstacle to the creation of significant demand for verified wood markets in the European market.

There is huge variation in construction sector activity across Europe (Table 2.9). In recent years, this activity has been concentrated in Germany, Spain, UK, France and Italy. Together these 5 countries accounted for over 70% of EU gross investment value in construction in 2007.

The extent to which wood is used in the construction sector varies widely between EU countries depending on local availability and a range of other historical and cultural factors. For example, the share of wood frame construction in single family homes stands at less than 10% in Belgium, France, Netherlands and Spain and at between 10% and 20% in Denmark, Germany, UK, and Switzerland. However in Scandinavian countries wood frame makes up the majority of residential construction. In Sweden, Norway, and Finland the share is in excess of 80%.

The furniture industry is the second largest user of timber in the EU after construction. An important distinction in the furniture industry is made between contract furniture and residential furniture. The former addresses commercial and corporate markets and is dominated by direct supply to end-users. The latter is produced for the home and sold through retail outlets.

At an EU-level, the furniture retailing sector is almost as fragmented as the manufacturing sector. There are about 100,000 outlets retailing furniture in the EU employing around 600,000 people. However these figures hide significant national variations. Furniture retailing in the UK, France, and Germany has become much more consolidated in recent years, with a majority of product now sold through large multi-store outlets. In southern Europe on the other hand, most furniture is sold through small independent outlets. With the exception of IKEA and a few German and French groups, distribution of furniture

	Gross investment		Employment		No. of enterprises	
	Billion €	% EU total	X 1000	% EU total	X 1000	Av. Employee per enterprise
Western Europe	*1121*	*94*	*13011*	*85*	*2294*	*6*
Eastern Europe	*75*	*6*	*2374*	*15*	*625*	*4*
GERMANY	216	18	2156	14	227	10
SPAIN	186	16	2546	17	448	6
UK	166	14	1822	12	209	9
FRANCE	151	13	1798	12	315	6
ITALY	144	12	1900	12	563	3
NETHERLANDS	52	4	445	3	82	5
IRELAND	36	3	260	2	10	26
BELGIUM	29	2	248	2	71	4
DENMARK	29	2	180	1	29	6
AUSTRIA	29	2	257	2	24	11
POLAND	26	2	690	5	113	6

Table 2.9: The EU construction sector in 2007.
Source: Eurostat

is very rarely carried out on a European scale. Distributors generating part of their turnover outside their home market are still scarce.

Recent market developments

Changes in distribution channels

There has been consolidation in the European timber importing sector in recent years. In part this has been a response to the voracious and rising global demand for wood in Asia - notably China, India and Vietnam – which fundamentally altered trading conditions in the EU. This trend substantially increased wood raw material costs for European manufacturers and contributed to commoditisation of the market, inhibiting affordable supply against specification.

To help overcome this problem for European manufacturers, some of the larger European importers established huge concentration yards close to the main ports, notably in the Benelux countries, northern France and Germany. These companies now play a key role as stockholders supplying smaller distributors in other parts of the continent. They have established direct contact with large mills in major supply countries, built large warehouses, established hi-tech stock control and customer management systems, developed large scale processing capacity to supply kiln dried and dimension, cut-to-size timber, and provide a range of other added-value services.

One large Belgium-based importing and distributing company interviewed by the TTJ in mid 2008 noted that with their special grading, drying and handling services, they are able to service a wide range of customers and end-use markets with applications


Photo credit: AHEC

ranging from solid-doors, mouldings and flooring, to stair-cases and tables, and also ex-clusive joinery products such as the interiors of luxury yachts. Another interviewed company indicated they could supply anywhere in Europe within 48 hours. So successful have these companies been, that many were expanding warehousing and their supply and customer base during 2008. For example, one Dutch company noted that it is now developing a client base in the Far East (mainly for European oak) where many of the European furniture manufacturers it supplied in the past have migrated.

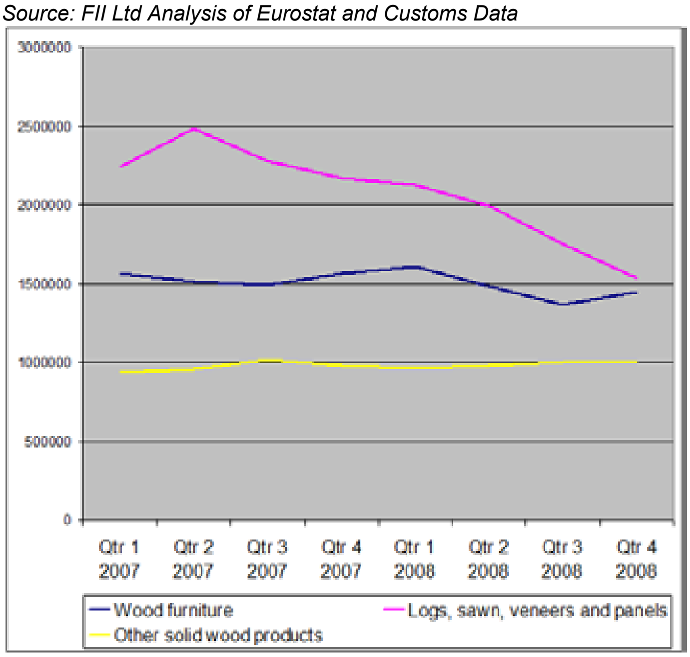
These large consolidated centrally located importing companies are now playing a central role in the European trade in verified wood products. Due to their scale, these companies are well placed both to encourage suppliers to achieve forest certification and to benefit from economies of scale in FSC and PEFC chain of custody. As a result they are able to combine high volume with accurate supply to specification, both in terms of timber quality and environmental credentials. Linked with their commitment to certification and desire to provide a wider range of further processed products, many of these companies are also now playing an important role to generate interest in and demand for lesser known tropical species.

Meanwhile, smaller importing companies elsewhere in Europe have had adjust to the emergence of these new consolidated importing companies. Many smaller distributors have cut back on their own direct imports, filling gaps when necessary by purchasing from the large companies. They tend now to maintain smaller stocks than previously and have followed the broader market trend towards “just-in-time” ordering. These smaller distributors make their living through provision of services tailored very specifically to their customers in the local construction, joinery and furniture manufacturing sectors. These sectors increasingly demand wood supplies of specific and consistent quality and size on a “little and often” basis.

These consolidation trends have however progressed much further in north-western Europe than in southern and eastern areas where the importing industry remains much more fragmented.

Chart 2.8: EU quarterly imports of major wood product groups (1000 euro)

Source: FII Ltd Analysis of Eurostat and Customs Data



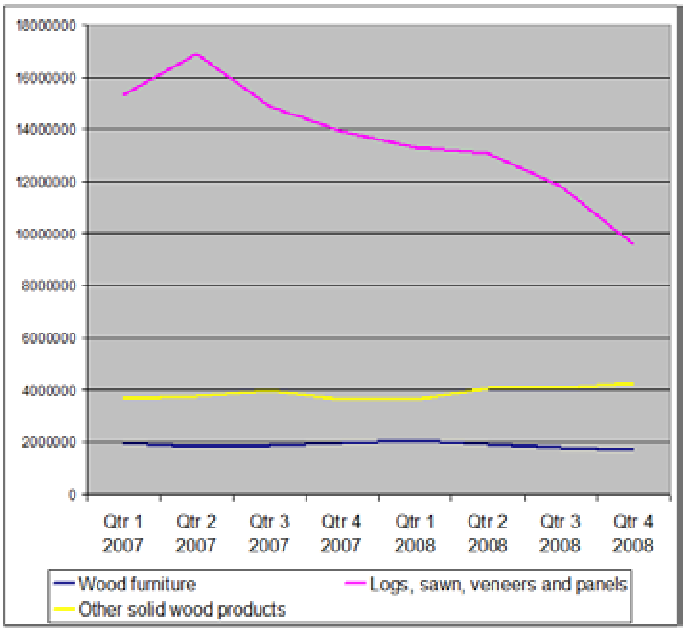


Chart 2.9: EU quarterly imports of major wood product groups (RWE m3)

Source: FII Ltd Analysis of Eurostat and Customs Data

Impact of 2008 credit crunch

In the period 1999 to 2008, the key feature of the EU wood products market was essentially a trend towards rising consumption. This was driven by a range of factors including:

■the property sector boom in parts of Western Europe – most notable in Spain, UK and Ireland;

■the availability of credit on relatively easy terms;

the liberalisation and expansion of economies in Eastern Europe in the run up to and following their entry into the EU;

■low inflation and competitive pricing for wood products with the integration of China and its huge labour force into the global economy;

■rising domestic harvests within the EU;

■development and expanding production of modern wood products and services (including a wide range of panel products, timber frame and other wood based construction systems, pre-fabrication).

■emerging interest in environmental issues, particularly climate change, combined with concerted marketing campaigns by the wood industry emphasising wood’s energy efficiency and other green credentials

During this period, the major concern for the European woodworking industries was mounting competition for raw materials and customers from external suppliers operating in lower cost locations. The threat initially came from Eastern Europe but more recently manufacturers in the Far East, notably China, became a more significant factor, particularly as these competitors were also benefiting in the European market from appreciation of the euro against the $US and other currencies. Many larger European wood product manufacturers sought to turn these potentially damaging trends into an opportunity by out-sourcing or direct investment in new processing capacity in these lower cost locations.

These were the main concerns of the industry until early in 2008 when the first hints of a potentially serious global economic downturn began to emerge. The ongoing financial crisis triggered by a dramatic rise in mortgage delinquencies and foreclosures in the United States, with major adverse consequences for banks, financial markets and property investment around the globe, has had a profound effect on wood consumption. Interviews held with market participants during the closing months of 2008 and in early 2009 indicate that this could be one of the most dramatic and sudden turnarounds in European wood market conditions since the end of the Second World War.

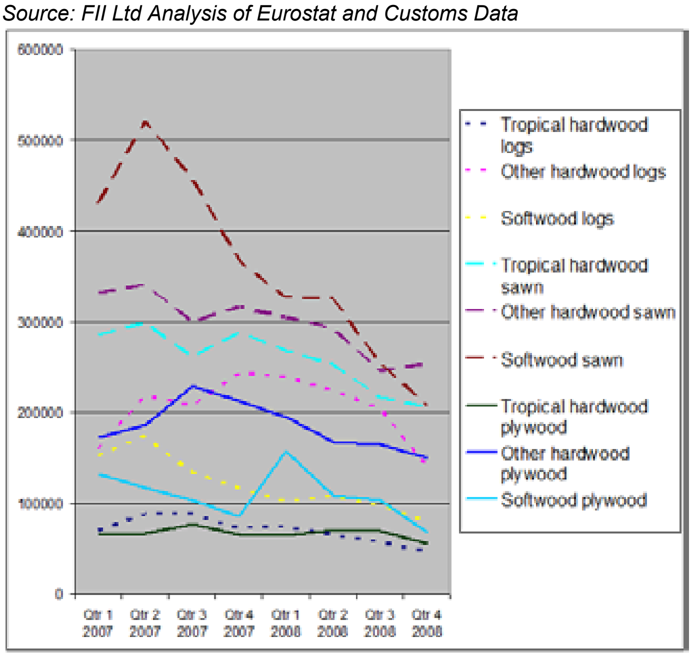
In January 2009, some large European importers were reporting that they have bought hardly anything for forward shipment for six months. Generally cash flow is extremely tight and efforts are being made to reduce inventory. This in turn is feeding through into even lower prices for landed stock. Giving accurate price indications in such market conditions – where the major focus is on reducing existing grounded stock levels and there is very little forward buying – is extremely difficult. Forward prices are now being quoted across a very wide range.

It is, however, too early to say with any degree of certainty how much of the recent decline in wood consumption will be lost longer term. It should also be noted that while anecdotal reports suggest a fairly abrupt change in market sentiment since the middle of 2008, trade data suggests that the rot had begun to set in much earlier with respect to some products and market segments.

Charts 2.8 and 2.9 respectively show quarterly € value and RWE m3 volume of major wood product groups imported into the EU-25 from non-EU countries between the first quarter of 2007 and the last quarter 2008. The data highlights a dramatic fall both in the volume and value of EU imports of primary and secondary processed wood products (logs, lumber, mouldings, veneer, plywood and composite panels) from the end of the second quarter of 2007 onwards. EU wood furniture imports, which had been rising strongly prior to the start of 2007, levelled off during that year and then began to wane from the start of 2008 onwards. Imports of other solid wood products – a group which includes products such as flooring, doors, windows and other secondary and tertiary processed wood products – have remained broadly flat since the start of 2007.

Chart 2.10: EU quarterly imports of primary wood products (1000 euro)

Source: FII Ltd Analysis of Eurostat and Customs Data



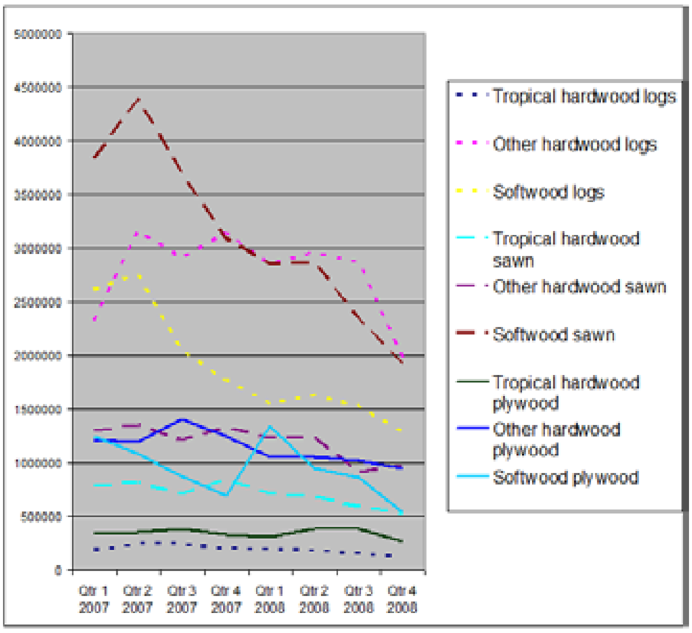


Chart 2.11: EU quarterly imports of primary wood products (RWE m3)

Source: FII Ltd Analysis of Eurostat and Customs Data

Charts 2.10 and 2.11 consider trends in imports of primary and secondary processed wood products in more detail. The Charts highlight that EU imports of softwood sawn lumber have declined particularly dramatically from the end of the second quarter of 2007 onwards. Imports of softwood logs have also been declining since then, although this is probably as much to do with Russian efforts to restrict exports of this commodity through introduction of new export taxes as it is to do with underlying European demand. Imports of tropical and temperate hardwood sawn lumber were also sliding downwards over the same period but at a slower pace. Meanwhile imports of softwood and tropical hardwood plywood were holding up surprisingly well prior to the end of the 3rd quarter of 2008 but then declined steeply in the last quarter of 2008.

Construction industry forecasts

Forecasts of European construction sector activity provided by Euroconstruct at their December 2008 conference, compiled through a survey of the 180 market experts attending the conference, provide an insight into possible future demand for wood products. The survey suggested that despite the short-term gloom, there are reasons to be optimistic about medium and long term prospects. Euroconstruct note that no European country will be spared by the economic crisis. Construction output is falling or remains at best positive in Western Europe for the 2008-2009 period. Ireland and Spain are, in this respect, the countries most affected by the crisis. These two countries ex-cepted, participants at the conference predicted growth of 0.2% for 2010 and nearly 1.5% in 2011.

In Eastern Europe, Euroconstruct forecast that construction will continue to grow in 2009 but less markedly than in previous years. Despite the global economic crises, Poland's construction sector is still holding up thanks to work starting on large infrastructure projects. What's more, from 2010, growth is expected to be more sustained for all the Eastern countries. Euroconstruct's general analysis of the sector for 2009 shows that, until recently, it was above all residential that was expe-

riencing difficult times. Although non-residential escaped this negative trend for a while, it appears that it is now caught in the storm. This trend will also affect the civil engineering segment, which will see a reduction in growth though most often without going into the red. Again however, forecasts in this field are less alarming for Eastern Europe. The figures for renovation throughout Europe are expected to follow a downward trend in 2009 but on a smaller scale than the other segments of the sector.

In December 2008, Euroconstruct were still fairly optimistic about longer term prospects forecasting recovery in the sector from 2010 onwards. The rate of recovery will however vary widely by construction segment. The first to get its head above water should be civil engineering, closely followed by renovation. On the other hand, no improvement in new construction is expected until at least 2011.

Overall, the Euroconstruct forecasts will be of little comfort to softwood producers that are very heavily dependent on activity in the new build sector. Hardwood producers may draw some comfort from forecasts of relatively stronger activity in the renovation sector since these often use a relatively higher proportion of hardwood products compared to softwoods and other materials.

Sustainable construction: an opportunity

On the other hand experts at the Euroconstruct conference highlighted one opportunity for the EU wood sector particularly relevant to the verified wood market. Speakers at the Conference were unanimous in the view that sustainable construction is an opportunity waiting to be seized. The issue of global warming highlights the need for infra-structure developments that can better withstand climate fluctuations, for superior energy performance, and for wider use of materials that sequester carbon. Euroconstruct point out that in order to meet EU targets for reduced greenhouse gas emissions over the next half century, a large proportion of Europe's existing housing stock will have to be either renovated or replaced to ensure they meet much higher insulation levels. The medium and long term opportunities implied by the Euroconstruct forecasts for increased consumption of wood, amongst the most energy efficient of all building materials, are obvious.

There are indications that rising interest in sustainability in the construction sector is already being translated into increased market demand for wood products in parts of Western Europe. For example, wood windows have been making something of a comeback in the UK, helped along by a new concern for energy efficiency and greenery and backed by solid marketing campaigns. One mass producer of joinery products in the UK interviewed by the TTJ in late 2008 reported that their sales of wood windows were up 20% on the previous year. This improvement was attributed to the social housing sector, among others, opting increasingly for timber over PVCu on environmental grounds. The TTJ also suggested that the recent launch of a range of timber and aluminium composite windows by the steel windows giant Crittal Windows is a sign of a current fashion for wood windows in the country.

Elsewhere in Europe, German window manufacturers report that demand for energy efficient window frame systems is rising rapidly, although to date this has not led to any significant change in the overall market share of wood and composite wood/aluminium window frames compared to plastic alternatives.

Diverging views on recession's impact

Interviews undertaken for this study suggest there is diversion of views on the impact of the economic downturn specifically on demand for verified wood products. On the one hand, there are many trading companies that suggest that the emphasis on price has now become so pronounced that interest in potentially more expensive certified products has diminished. At the same time it might become harder for the continent's politicians to sell ambitious plans to tackle environmental problems such as climate change and illegal logging. House builders suffering from declining sales and tightening margins may be less inclined to pursue green procurement and energy efficiency programs. Timber industry operators seeing their markets shrink may become more determined to resist laws requiring greater "due diligence" as a measure to prevent illegal wood imports, particularly if they perceive these laws as discriminating unfairly against timber products in relation to competing non-wood products.

On the other hand, there are importers that have already made a significant commitment and investment in stocking verified products in recent years. Interviews for this study suggest these companies are determined to see a return on their investment and some have become major advocates of European Commission proposals to introduce leg-islation imposing requirements for due diligence on the European trade. In January 2009, one leading UK panel products importer noted that "during the hard times, it is often the cowboys who sell only on price who do best. At these times, regulation is even more essential to protect those companies that are taking a proactive stance".

In short, the economic downturn is likely to widen further the divide between environmentally proactive operators that are now more desperate than ever to exploit the opportunities emerging from increased market focus on sustainability, and those that have not focused on environmental issues and which continue to sell primarily on price. The former have every incentive to call for tougher controls. The latter have an equally strong incentive to resist these controls. The economic downturn also highlights the need for advocates of new measures such as the EC due diligence proposals and FLEGT VPA licenses to emphasise their potential benefits as a way for the European wood sector to boost share in a declining market.

Summary

This section deals with the supply side of the European verified wood market. It draws on existing statistical sources to provide an overview of the global area and distribution of independently certified forests. It then provides a more detailed commentary on the current availability of wood from certified and verified legal sources in the regions supplying wood to the European market. It also comments on market and verification trends that might affect future availability of verified wood from these regions.

Overall, 25% of the timber products imported into the EU-25 during 2007 are likely to have derived from independently certified or legally verified forests. Much of the imported verified volume was sourced from Russia and other non-EU European countries (mainly Belarus, Switzerland, Norway and Croatia) and was dominated by softwood sawn lumber and softwood logs. If intra-EU trade is taken into account, the proportion of timber products imported by individual member states likely to derive from a verified source is considerably higher, exceeding 50% in 10 EU Member States.

At the end of 2008, 326 million hectares of forest were independently certified worldwide to either FSC or PEFC standards, around 11% of the global commercial forest area. Much of this area is concentrated in the temperate zone. Only around 2% of commercial forest area in the tropics is certified.

The rate of increase in global certified forest area has declined in recent years from around 50 million hectares per year between 2001 and 2005 to between 15 and 25 million hectares per year since 2006.

While tropical countries are generally under-represented in the supply of verified products, significant recent efforts have been made to introduce FSC into the Congo Basin where 2.9 million hectares are now under the scheme, an area likely to increase to 4 million by the end of 2009. A further 10 million hectares is covered by legality verification schemes in the Congo Basin. Malaysia's national MTCS scheme covered 4.7 million hectares by the end of 2008. And in Brazil's Amazonian region, where FSC is currently the only operational system, around 1.2 million hectares of forests have been certified.

Supply of verified hardwoods is however severely restricted by the high proportion of hardwood forests which are under the control of small land owners. For example, while around 95% of US hardwood forests are under the control of small non-industrial forest owners, only around 1% of them are certified. Forests under small private and community tenure are also under-represented in tropical forest certification.

Supply of verified products in more processed sectors such as furniture is constrained by dependence on imported wood raw material in key furniture manufacturing countries, notably China, high levels of fragmentation in China's wood sector, an overwhelmingly price-focused business culture, lack of supply chain management capability and limited exposure to environmental demands in both export and domestic markets.

Global area of certified forest

Total global area of independently certified forest amounted to 326 million hectares at the end of 2008. This included 214 million hectares under PEFC, 107 million hectares under FSC, and 5 million hectares under national systems not yet recognised under an international framework (Chart 3.1). Around 57% of all certified forest area is in North America while a further 25% is in Europe. Nearly 60% of the total area of forest that is available for wood supply is certified in both continents. Elsewhere this proportion is negligible, rising to 6% in Oceania (mainly due to certification in Australia and New Zealand) but no higher than 2% in other regions (Chart 3.2). Overall only a small minority (11%) of global commercial forest land is certified.

The global area of certified forest increased dramatically between 2001 and 2005 at a rate of nearly 50 million hectares a year when there was widespread uptake of certification under the FSC, SFI and CSA systems in North America. However with a large proportion of the world's most extensive state and industrial forest lands in developed countries already certified, the rate of growth slowed from 2006 onwards. In the last 3 years, the rate of global increase in certified forest area has hovered between 15 million and 25 million hectares a year (Chart 3.3). 15

The certification movement now faces the significant challenge of expanding in more difficult areas. These include both developing countries which lack capacity, resources and sufficient incentives for forest certification, and the small non-industrial private and communal sector which owns or manages a significant proportion of forests in many regions of the world.

There are, for example, around 16 million small non-industrial forest owners in Europe and around 10 million in the United

Chart 3.1

Source: FII Ltd Analysis of certification system data

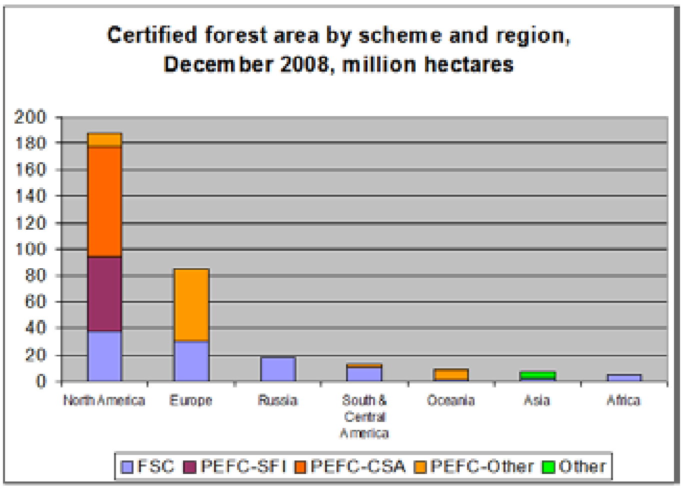


Chart 3.2

Source: FII Ltd Analysis of certification system data

Chart 3.3

Source: FII Ltd Analysis of certification system data

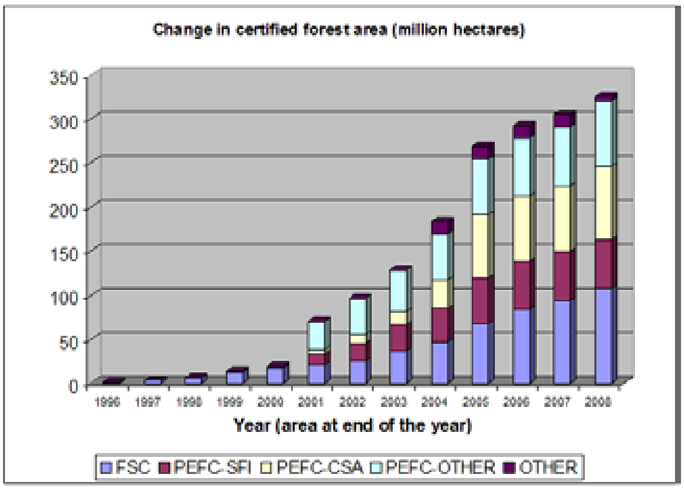
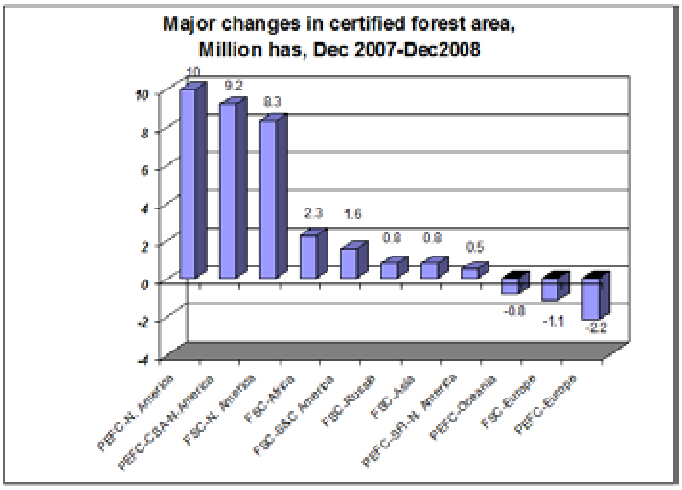


Chart 3.4

Source: FII Ltd Analysis of certification system data



States. Although both FSC and PEFC have attempted to accommodate these ownerships through systems of group and regional certification, it is a huge task to raise awareness of and organise independent certification amongst such a fragmented and diverse group. Market incentives for certification also tend to be limited amongst small owners that might harvest only once in a lifetime and for whom timber production may not be an important reason for managing forests.

An analysis of PEFC and FSC statistics suggests that around 500,000 small non-industrial forest owners are currently certified in Europe, the majority under PEFC regional certification procedures. While this is a significant number, it still amounts to only around 3% of the estimated 16 million forest land owners in the EU.

Major changes in global certified forest area during 2008 by system and region are shown in Chart 3.4. This highlights that the most significant changes in area are still concentrated in the western world. Last year there were significant gains in FSC and PEFC certified forest area in North America. These were partly offset by a decline in both FSC and PEFC certified forest area in Europe.

Regional trends in verified supply

Europe

Certified forest area in Europe in December 2008 amounted to 85 million hectares, about 57% of the continent's total commercial forest area. The extent of certified forest varies widely between European countries:

■Certification is very extensive in the leading Nordic countries, with the entire commercial forest estate of Finland and Norway certified to the PEFC standard, while around 48% of Swedish commercial forest area is certified to the FSC standard and a further 38% to the PEFC standard.

■Certified forest is very extensive in Central Europe, with PEFC dominating in Germany and Austria and FSC in Poland.

In North Western Europe, FSC has certified a large proportion of forests in the UK, Ireland and the Netherlands. There are no PEFC certified forests in these countries.

■The Baltic States are also reasonably well covered by FSC certification which accounts respectively for 55%, 66% and 34% of total commercial forest area in Latvia, Estonia and Lithuania. PEFC certification has made no headway in this region.

■Croatia stands out as the one country in the Balkans with extensive certified forest area. Croatia has become an increasingly important supplier of high quality oak to the EU market.

■Certified forest area in Romania, host to the largest temperate hardwood resource in Eastern Europe, remains relatively restricted. Around 20% of total commercial forest area is now FSC certified despite ambitious government plans to extend this form of certification throughout the country.

Canada

Canada is now the world leader in terms of certified forest area. The country accounts for over half of the certified forest area endorsed internationally by the PEFC certified through the CSA and SFI systems. Canada is also responsible for one quarter of FSC certifications worldwide. The total area of independently certified forest in Canada amounts to around 138 million hectares, very close to the 143 million hectares of forest land identified as subject to forest management in the Canadian government's annual "State of Canada's Forests" report.

A major factor behind rapid and extensive uptake of forest certification in Canada was a commitment made by the Forest Products Association of Canada (FPAC) in February 2002 to ensure all members' forest lands were certified to CSA, SFI or FSC standards by the end of 2006. This commitment was met on schedule by the membership of FPAC which includes all the large forest industry operators in Canada.

Despite the large proportion of the nation's forests certified, interviews for this study suggest that that there are still factors constraining supplies of certified wood products from Canada. This highlights an ongoing issue with all forest certification systems. While significant forest areas may be certified, in many market segments there is insufficient demand for certified wood products to encourage sawmills and distributors to invest in chain of custody certification and to deliver labelled products to the end-user. Much of the pressure to move down the certification route in Canada has come from the paper sector rather than the solid timber sector. The vast majority of the latter is destined for construction in North America where there has been relatively little demand for certified wood.

United States

Certification has progressed rapidly in the United States in recent times, although as in Canada much of the drive has come from the paper sector rather than the solid timber sector. Furthermore a large proportion of certified forest land comprises large industrial estates. There is only limited availability of independently certified hardwood lumber and veneer products which derive almost exclusively from small non-industrial forest owners and which form the major component of European imports from the United States. The current position of the three forest certification systems operating in North America is as follows:

- The FSC has issued around 100 forest management certificates with a total area of 10 million hectares of forest land. Average certified area per certificate is high, at around 100,000 hectares. Around 60% of certified area consists of large tracts of publicly owned forest land. Much of the remainder is in large privately owned forest holdings.
- The American Tree Farm System (ATFS), which has been evolved for smaller owners, has certified around 10 million hectares distributed amongst 90,000 participants.
- The Sustainable Forestry Initiative, designed specifically for certification of large forest tracts, has certified around 30 million hectares of forest land in the U.S. The certified area is made up almost exclusively of large areas of industrial forest land supplying raw material to the pulp, paper, panel products and softwood lumber industries.

Due to the obstacles to forest certification in the non-industrial sector, the American Hardwood Export Council (AHEC) has adopted an alternative approach to provide credible assurances of legal and sustainable sourcing. In 2008, AHEC commissioned an "Assessment of Lawful Harvesting and Sustainability of U.S. Hardwood Exports" . The report, which was prepared by independent consultants Seneca Creek Associates, concludes that the weight of evidence strongly indicates that there is very low risk that U.S. hardwoods contain wood from illegal sources. It is estimated that stolen timber represents less than 1% of total U.S. hardwood production. The authors also have a high confidence that hardwood procured from the United States could be considered Low Risk in all five risk categories of the FSC controlled wood standard .

Russia

In RWE volume terms, the vast majority of imports of Russian wood into the EU comprise low value logs which are destined for processing in Finland. According the Finnish Forest Industries Federation (FFIF), 100% of all timber imports into Finland from Russia are now covered by comprehensive systems of wood tracking implemented by the large Finnish processing companies engaged in the trade. FFIF is confident that these systems are sufficiently robust to guarantee the legality of all Finnish wood imports from Russia.

Systems of independent forest certification are also becoming more established in Russia, although at a slower pace than forecast by some observers. In 2006, FSC were confidently predicting that FSC certified area in Russia would reach 24 million hectares by the end of 2007. However, after an initial burst of growth in FSC certified area in 2006 and 2007, the pace slowed last year. Only an additional 800,000 hectares of forest were certified in Russia during 2008. Total FSC certified area in the country still stood at around 18 million hectares at the end of 2008.

Forest certification in Russia has been challenging for a number of reasons. A key problem has been uncertainty with respect to the forest regulatory framework. This is only now being resolved following passage of Russia's new forestry code in November 2007 and as the government works out more detailed enabling regulations. Lack of effective law enforcement system in many parts of the country has been another factor inhibiting forest certification. Another problem has been lack of independent certification capacity in Russia.

However the process to develop forest certification in Russia has recently received a significant boost. In November 2008, the FSC Board of Directors delivered a positive accreditation decision for the Russian National FSC Standard. And in early 2009, the RSFC, a national forest certification system developed in Russia, was endorsed by the PEFC Council. PEFC has forecast that somewhere between 50 million and 100 million hectares of Russian forests may be certified within the next 10

Photo credit: CSA

years by either the RSFC or the FCR, another national forest certification system currently being developed in Russia.

Africa

The heavy dependence of African tropical countries on the EU market has done much to encourage these countries to engage in the EU's FLEGT VPA process. Progress has been relatively swift. Ghana was first of the EU's trading partners to conclude VPA negotiations in July 2008, although it will be some time before the licensing system is fully up and running (perhaps 1-2 years). Cameroon is expected to conclude an agreement in the first of 2009. Again for purposes of legality licensing there is a need to substantially upgrade the existing system, a process likely to take 2 years. Since Cameroon acts as a major corridor for exports of wood products from neighbouring countries (notably the Congo Republic and Central African Republic), a major challenge is to accommodate imported wood into the Cameroon licensing system. The Congo Republic is expected to finalise a VPA in March 2009. Here progress to develop the Legality Licensing system is particularly well advanced. A traceability system linked to a legality definition has already been developed and is being field tested. An independent observer is in place and discussions are underway with respect to independent auditing. Elsewhere in Africa, Liberia, the Central African Republic, Gabon, and Madagascar are now preparing to enter VPA negotiations. DRC and Sierra Leone have also expressed interest.

The VPA process in African countries has been facilitated by, and also helps to reinforce, existing private sector initiatives to deliver independently certified and legally verified wood to the European market. A large proportion of wood exported to the EU from Central and West Africa derives from European-owned companies that are actively engaged in a process to develop and implement sustainable forest management plans in consultation with national administrations. Many have a long term commitment to achieving forest certification.

According to the Inter-African Forest Industry Association (IFIA) the central African region is host to 180 million hectares of tropical forest of which 53 million hectares is currently allocated for commercial concessions. Forest management plans have been implemented on 25 million hectares of the concessions. 10 million hectares have been legally verified and a further 2.9 million hectares have been FSC certified. The area of FSC certified forest in tropical Africa, which increased by 80% during 2008, includes 1.3 million hectares in Gabon, 877,000 hectares in Cameroon, and 747,000 hectares in the Republic of Congo. Expectations are that there will be 15 million hectares legally verified and 4 million hectares certified by the end of 2009. IFIA is working in pursuit of a target of 10 million certified by the end of 2012.

A recent article in the UK Timber and Sustainable Building (TSB) journal highlights the challenges that need to be overcome to achieve FSC certification in tropical Africa. Referring to the experience of Netherlands-based Wijma, TSB notes that besides establishing sustainable forest management practices, its FSC obligations to local stakeholders involved investment in regional infra-structure, a school, hospital and chicken farm, the latter producing cheap meat to reduce the temptation to hunt wildlife. In most other regions of the world, forest owners can reasonably expect such services to be provided by the state and not to form part of the burden of forest certification.

Despite the challenges, FSC is currently the dominant form of certification in Africa. The much-heralded Pan African Forest Certification System (PAFC) remains embryonic and the one PAFC national system that is fully established, in Gabon, still awaits PEFC approval. Whereas PEFC requires the prior development of a strong national infra-structure for independent certification, which is generally lacking in African countries, FSC certification is more dependent on an international certification framework. African producers have also being encouraged down the FSC route by some major customers in the European market.

Interviews with European African hardwood traders indicate that despite increasing availability of wood from FSC certified tropical African forests premiums for FSC labelled African hardwood products remain high, typically up to 20%. To some extent this reflects the determination of African producers to claw back the significant investments that have to be made to achieve FSC certification in Africa. Some producers seem to be delivering product bearing the FSC label only to those customers that specifically request it and that are willing to pay the premium price. If there is no willingness to pay the premium, then wood


Photo credit: Rupert Oliver

will be supplied without an FSC label or claim even if it happens to derive from the FSC certified concession. In this way, African shippers are attempting to avoid the situation now prevailing throughout much of the softwood sector in which supply of FSC certified product greatly exceeds the level of end-user demand so that it is now very difficult to achieve a premium price. However, African shippers are increasingly offering the legally verified product without demanding a premium.

Outside the tropical zone, South Africa has also been a major supplier of wood products to the outside world, mainly derived from fast growing plantations of eucalyptus, acacia and pine. A significant area of these plantations are FSC certified (around 1.7 million hectares). FSC certification has been an important factor encouraging European purchases of South African timbers, particularly eucalyptus for garden furniture and window frames.

China

Moves are on-going to legally verify or certify wood from China's domestic forests. By the end of 2008, 15 FSC forestry certificates had been issued in China covering 712,000 hectares. A further 1 million hectares were participating in the WWF Global Forest and Trade Network (GFTN) and working towards FSC certification. These certified and verified areas, while significant as pilot projects, still account for little more than 1% of China's total domestic forest resource.

In a press release in January 2009, WWF highlighted the significance of two FSC certificates issued in China during 2008. With the support of TetraPak, the Yong'an Forest Group became the first enterprise with over 100,000 ha of FSC-certified forest in southern China. WWF note that the Chinese authorities have identified southern China as a priority region for forestry development. However certification faces many challenges due to abundant forest species, complex forest features and diversified land tenure. Nevertheless, the Yong'an Forest Group demonstrates that certification is possible across a range of ownership types.

The Muling Forest Bureau is an example of FSC certification in the natural forests of the north-eastern province of Heilongjiang Province. The total forest managed area is over 260,000 located in a WWF priority area – the Amur/Heilong Eco-Region – which is also a major timber production and processing area. The forest is capable of supplying small volumes of FSC-certified Chinese oak and other local hardwood species.

More significant areas of China's forests may soon be certified through a national forest certification system that is being developed jointly by the State Forest Authority and China's Certification and Accreditation Administration (CNCA). National certification standards for forest management and chain of custody have been finalised. Pilot testing of these standards and national certification procedures is underway in six locations across China. The scope of the forest certification standard is comprehensive, including requirements for legal conformance, the rights of local communities and workers, forest management planning, sustainable yield, bio-diversity conservation, environmental impact, forest protection, and forest monitoring. There have also been discussions with both FSC and PEFC on possible co-operation.

However, the long term relevance of efforts to certify domestic Chinese forests to the European wood product supply chain may be quite limited. Chinese manufacturers are heavily dependent on imported wood products, a large proportion of which derive from countries often regarded as high risk with respect to illegal and unsustainable forestry operations, notably Russia, Papua New Guinea, and Myanmar. It is likely that imports of timber account for a significant proportion (perhaps 30-50%) of the total exported – particularly as face veneers, which determine how a product is marketed. With respect to the furniture sector, one estimate is that exports of furniture processed with imported materials accounted for around 41% of the sector's total export value in 2006. This implies that around 59% is currently derived from domestic wood raw material.

The difficulties of verifying the legality and sustainability of wood products supplied from China are compounded by structural problems associated with the Chinese wood trade. Studies by the Tropical Forest Trust and others have highlighted that high levels of fragmentation, intense competition and price-focused business culture are a major problem in seeking to encourage responsible procurement practice. Most Chinese manufacturers do not possess the internal capability, whether in the form of Wood Control Systems, procurement policies, or internal control procedures, to even begin to monitor their raw material supply chain. The local market has shown little or no interest in legality verification and certification so a key driver for corporate action is absent. Furthermore, with numerous traders, shippers, processors, even farmers, involved in the supply chain, it is generally extremely difficult for Chinese wood products manufacturers to provide complete documentation on legality or to account for each step in the supply chain.

Nevertheless, there have been positive developments. Larger export oriented companies selling to retailers in Europe and the US have become more engaged in efforts to supply verified wood products. Overseas customers, such as B&Q and now Home Depot with its recent Chinese acquisition, are looking to establish legality and sustainability in their wood supply chains. Both the Tropical Forest Trust and the WWF Global Forest and Trade network maintain a significant presence in China. By the end of 2008, 621 and 33 Chinese companies respectively had obtained FSC and PEFC chain of custody certification. This compares to equivalent figures of only 371 and 5 a year earlier.

Passage of the Lacey Act amendment in the United States, China's largest wood export market, in May 2008 and of possible EC due diligence legislation some time in 2009 is widely expected to greatly increase China's exporting companies focus on responsible sourcing.

Some sectors are moving faster than others to respond to these trends. Generally prospects for implementation of wood procurement policies and control systems are better in the flooring sector than in the plywood sector. In contrast to the plywood industry, where raw materials flow from many sources and through many hands within China, flooring manufacturers, save smaller producers, are better able to exert some degree of control over their raw material supply chains, sourcing directly from overseas suppliers or traders.

Vietnam

The Vietnamese wood products industry imports an estimated 80 per cent of their raw materials from countries including Malaysia, Thailand, Laos, Cambodia, and China. Environmentalist action particularly targeting the illegal trade between Cambodia, Laos and Vietnam has had an impact on timber procurement practices in Vietnam. Particularly influential was a report released by Global Witness in 1999 - "Made in Vietnam–Cut in Cambodia" - which targeted the largest garden furniture manufacturers supplying the European market. Combined with pressure from large European DIY chains, this report encouraged a strong shift to FSC certification in the wood processing and furniture sector. Some leading garden furniture manufacturers based in Vietnam have since become leading advocates of FSC certification in tropical forest regions of the Far East. By the end of 2008, 168 companies in Vietnam had achieved FSC chain of custody certification, up from 152 a year earlier.

Many Vietnamese furniture manufacturers are now scouring the world for suitable FSC certified hardwoods, particularly since the removal of the Indonesian teak plantations from the FSC list in October 2001. Jarrah and karri from FSC certified eucalyptus plantations in South Africa has become particularly popular amongst garden furniture manufacturers.

In February 2006, a Vietnam Forest and Trade Network (VFTN) was established with support from the WWF. Four companies were accepted as its first official members. They include one timber trading company, Thanh Hoa Co. Ltd., and three wood processing and furniture manufacturing companies: ScanCom Vietnam Ltd., Truong Thanh Furniture Corporation, and Dai Thanh Co. Ltd. Since then three more organisations have joined: JSC Forexco Quang Nam, a forestry operator; Netsco, a timber importer; and Tran Duc Group, a leading garden furniture manufacturer. All these companies have passed the VFTN membership requirement to demonstrate long-term commitment to responsible forest management and trade. In order to qualify for the VFTN, all the member companies have undergone baseline audits and prepared detailed time-bound action plans to improve their environmental performance. The VFTN will provide technical support and guidance to help these companies implement action plans in order to achieve certification within a five-year period. VFTN has a target to increase the number of participants to at least 30 by 2012.

There has also been progress to develop a forest certification framework for Vietnam's domestic forests. A set of Criteria and Indicators (C&I) for sustainable forest management have been devised by a National Working Group in accordance with the FSC Principles and following a wide consultation process. However these have yet to be endorsed by the FSC at international level. To date one small area of plantation forest in Vietnam has achieved FSC certification. As outlined in the Forestry Development Strategy for 2006-2020, Vietnam has a goal of achieving forest certification on 30% of its total forest area.

Malaysia

Around 85% of the value of Malaysian wood products imported into the EU derives from Peninsular Malaysia, with much of the remainder coming from Sabah. The EU has traditionally imported only negligible volumes – mainly of plywood - from Sarawak. Peninsular Malaysia has moved much further than Sabah and Sarawak to develop secondary and tertiary wood processing industries.

Peninsular Malaysia has also taken decisive steps to implement certification. 4.7 million hectares of Malaysia's permanent production forest is currently certified under the Malaysian Timber Certification System (MTCS) scheme. This includes the entire area of permanent production forest in Peninsular Malaysia. Only a small area (56000 hectares) is MTCS certified outside

Photo credit: Rupert Oliver

Peninsular Malaysia (in Sarawak). 76000 m3 of MTCS certified sawn lumber was exported from Malaysia in 2007. The vast majority was destined for the EU (mainly the Netherlands and the UK). UK and Dutch importers indicate that MTCS certified sawn lumber is readily available and can usually be supplied on payment of only a very small premium (1% to 3% of the CIF price).
MTCS is by far the dominant form of certification in Malaysia. Only around 200,000 hectares of the nation's forest are covered by FSC under 5 certificates. The largest FSC certified forest is the KPKKT concession covering an area of 110,000 hectares in the Dungun Timber Complex of West Malaysia and forming part of the Golden Pharos Group. Much of the raw material is utilised as face veneer for three-layer European-style parquet manufactured at the B.K.B. Hevea wood flooring factory in Ipoh. Nevertheless, around 80 FSC chain of custody certificates have been issued in Malaysia, a testament to the growing importance of the country as a processing hub for FSC certified wood raw material imported from other countries.
Wood products exports from Sabah into the EU are dominated by sawn lumber, mainly seraya majau, with smaller volumes of selangan batu, keruing and kapur. An interview with a major Sabah producer highlights some of the challenges of certification and legality verification in the region. This producer is offering some product legally verified using an experienced European auditing company. They suggest that in the past they have achieved a premium of \$5-\$10/m3 on legally verified product from their major UK buyer. However most other buyers (based in the UK, Netherlands, Belgium, France, Germany) are not interested.
A major problem in developing supplies of legally verified timber from Sabah has been the limited nature of demand. The interviewee had in the past bought FSC certified logs from the Deramakot reserve in response to European demand. It was noted that in Germany, price premiums of 10%-15% may be achieved for FSC certified meranti in dimensions suitable for window frames used in the social housing sector. However, no premium could be achieved for any other size specifications. As any single log will yield a range of different sizes of lumber, it is not economically viable to purchase certified logs just to supply a single sector of the market.
With respect to legality verification, the interviewee noted that this can be achieved for high volume commercial species like seraya, but is much more challenging for lower volume species such as selangan batu, keruing and kapur. This is because a significant proportion of these species have to be bought in from a range of smaller mills sourcing from conversion forests.
At least two Malaysian plywood mills (Manuply and Asiaply) have succeeded in boosting market share in the EU through supply of FSC certified product. Much of the FSC certified Malaysian plywood comprises a core of radiata pine imported from New Zealand under a domestically produced tropical face veneer.
Malaysia is currently heavily engaged in negotiations towards finalisation of a FLEGT VPA agreement with the EU. While VPA Licensing might not have a significant impact on the market for wood from Peninsular Malaysia (since this can already be supplied MTCS certified for those European buyers demanding certification), it has potential to improve the environmental credentials of wood products from Sarawak and Sabah in the European market.

Indonesia

Indonesia's forest products sector is going through a major period of structural change. Legally sanctioned production in natural forests declined sharply between 1999 and 2005 from in excess of 25 million m3 to 5 million m3. This largely reflects excessive over-exploitation in the 1980s and 1990s. Natural production forest areas managed under concession agreements are now seriously depleted. A major demand-supply gap has opened up in the country which is being partly fed by a large increase in log supply from industrial plantations and other sources. However illegal wood continues to form a major component of the Indonesian supply equation, estimated to account for around 52 million m3 in 2006, 10 million m3 of which was exported. The Indonesian government is now engaged in a major effort to improve enforcement practices which is having a positive impact.
At present private sector certification of sustainable forest management is not widespread in Indonesia. FSC has certified 8 forest management units with a total area of 900,000 hectares, only around 1% of the total forest estate. This includes 5 areas of natural forest concession with a total area of 886,000 hectares, together with 2 small areas of plantation and mixed forest. Nevertheless, concerted efforts are on-going to develop and greatly extend the practice of independent forest certification and legality verification in the country. Indonesia played host to a five year Global Development Alliance (GDA) program

between 2003 and 2008 with the specific objective to "strengthen market signals to expand certification and combat illegal logging, specifically to stimulate demand for certified forest products and reduce the market for illegally cut wood products in Japan, China and other key Indonesian export markets". Led by the WWF and The Nature Conservancy, the Alliance was a public-private partnership comprised of USAID, the Government of Indonesia, DFID, various NGOs and research organisations and more than 17 companies.

Alliance members built an independent legal verification and timber tracking system in two forest concessions in East Kalimantan, Borneo covering 350,000 hectares of natural forest. The alliance also assisted three forest companies in West Kalimantan, Borneo to successfully convert their timber concession practices to meet Reduced Impact Logging Verification standards as well as legality standards. More than 506,560 hectares of natural forest are now covered by the logging verification system.

The WWF's Global Forest and Trade Network (GFTN), the members of which overlap with the GDA, has also been very active in Indonesia. By the end of 2008, GFTN boasted 9 forest participants in Indonesia, including 3 with natural forest estates totalling around 460,000 hectares, and 6 with plantations totalling around 220,000 hectares. Of this area, 270,000 hectares (all natural forest) is already FSC certified and 410,000 hectares is moving towards FSC certification. GFTN also has 23 trade participants in Indonesia, of which 12 are already chain of custody certified and 11 progressing to certification. These companies are mainly engaged in the garden furniture sector, although there are also interior furniture, plywood, door, moulding and decking manufacturers.

Indonesia also has a home-grown independent forest certification system, the Indonesian Eco-labeling Institute (LEI). It has certified only a relatively small area, although this includes a diversity of forest types (natural, plantation and community). There has been some controversy over LEI's willingness to certify plantations only quite recently converted from natural forest. Limited volumes of LEI labelled furniture and handicrafts are available from 3 companies in Indonesia that have been certified to the LEI chain of custody standard. These products are believed to be mainly destined for Indonesia's domestic market.

On-going negotiations towards finalisation of a FLEGT VPA with the EU hold out the promise of much more significant volumes of legally verified Indonesian wood products being made available to European buyers in the near future. The Indonesian government currently operates the Badan Revitalisasi Industri Kayu (Wood Industry Revitalization Department known as BRIK) system for tracking and regulating the flow of wood products in Indonesia. The existing system has been accepted by the Japanese government as appropriate evidence of legality but falls well short of expectations for independent scrutiny required of the EU FLEGT VPA initiative.

However in early 2009, the Jakarta Post reported that new measures more in line with the VPA requirements would soon be introduced. It was reported that Indonesian timber industry operators throughout the supply chain would be required to have their inventory inspected to ensure it is from legal sources. The Ministry of Forestry will appoint independent auditors and consult local stakeholders to verify the chain of custody. The auditors will conduct field checks where timber is logged. In addition, companies utilizing timber as a raw material will need to obtain official legal certification by the government to verify their source materials as legal. Companies that do not comply with the above system will be prosecuted or have their operating licences revoked. The new system, called the Wood Legality Verification System (SVLK), will replace the existing BRIK system. An LEI spokesperson said it would participate in the process by acting as auditors and licensing authorities under the new system.

Brazil

Brazil remains a major player in the European wood products markets, notably of plywood, sawn lumber and decking. Independent forest certification has formed a significant component of its marketing efforts to broaden market share. Brazil is host the largest area of certified forest of any developing country – around 6.2 million hectares at the end of 2008 – although this still represents only a small proportion of the nation's vast forest area, estimated at around 540 million hectares.

A significant proportion of Brazil's certified forests are in softwood plantation forests of Southern Brazil. It is estimated that around 2.6 million hectares of Brazilian plantations are FSC certified, and a further 0.8 million hectares are PEFC certified. This represents a very significant proportion of the country's

total plantation area of 5.5 million hectares. Brazilian plantations comprise mainly eucalyptus (3.3 million hectares) and pine (1.9 million hectares). The paper sector and softwood plywood sectors have been key drivers of certification of Brazilian plantations. In Europe, the large UK merchant groups have been the major buyers of FSC certified elliottis pine plywood from Brazil. FSC is the only certification system currently fully operational in the Brazilian Amazon where it has certified around 2.7 million hectares. A large proportion of this latter area (1.5 million hectares) comprises the Kayapo indigenous forest reserve for the supply of FSC certified Brazil nuts rather than timber.
The leading supplier of FSC certified wood products from Brazil to the European market by a significant margin is the Swiss-based Precious Woods (which also claims to be the largest FSC tropical hardwood trader in Europe). Precious Woods manages 450,000 hectares of FSC certified forest in the state of Amazonas, and 76,000 hectares in the state of Pará. All products are processed locally in the companies own sawmills into sawn timber, pilings for marine construction projects and finished products and exported predominantly to Europe, with small volumes destined for North America and Asia. Much of the wood is distributed through Precious Wood Europe B.V., the Group's Dutch-based subsidiary. Representatives of this company interviewed in March 2009 reported that sales are predominantly to the Netherlands (around 70% of the total) and the UK (15%).
Interviews for this study have suggested that while availability of FSC certified hardwood from other Brazilian suppliers has increased over time, supply can be inconsistent and prices volatile.
A WWF Forest and Trade Network has been very active in Brazil for many years. Forest participants currently manage just over 1.1 million hectares of forest, of which close to 1 million hectares are already FSC certified. The largest member in terms of forest area is the Orsa Group, which manages around 0.5 million hectares of FSC certified plantations in southern Brazil, mainly for pulp and paper production. Precious Woods is by far the largest tropical hardwood producer in the group.
Illegal logging is a very significant problem in the Brazilian Amazon. Following detailed analysis of Brazil's regulatory framework, the UK research organisation Verifor recently reported that illegal logging may account for as much as 80% of total timber production in the Amazonian region of Brazil. The Brazilian Environment Ministry IBAMA has suggested that some 90 percent of all logging in Brazil is done without the proper permits.
To date the Brazilian government has shown no inclination to sign a FLEGT VPA with the EU, preferring to focus on domestic measures to improve enforcement of forest laws.
AIMEX, the industry association of the Amazonian state of Para (the leading source of Brazilian tropical hardwoods to international markets), has signed a responsible timber procurement pact with the state government. The objective is to ensure that all members of AIMEX can supply within 90 days of a request all relevant information about the source of a particular consignment including management plans and legality. The pact is backed by the joint development of an electronic monitoring system. There are plans to seek to extend the AIMEX Pact to other Brazilian states.

Other Latin America

Bolivia was an early mover to FSC certification. FSC certification currently extends to around 2.3 million hectares of the 7 million hectares of natural forests for which harvesting rights have been granted in the country. Only a small quantity of Bolivian wood products finds its way to European markets. Nearly 50% of the US$66 million of wood products exported from the country in 2008 was destined for the USA. The UK and France were the main European destinations, accounting for around US$6 million each, where FSC certification is a significant marketing factor.
Peru emerged as a significant alternative supplier of South American mahogany sawn lumber, mainly destined for the U.S. market, following the Brazilian government's decision to ban trade in the species in 2002. However wide-scale criticism of illegal and unsustainable practices in the Peruvian mahogany export trade soon emerged, particularly following listing of the species on Appendix II of CITES in November 2003. Peru was accused of issuing export quotas well in excess of those allowed under CITES.
However, concerted efforts are now underway to improve forestry practices in Peru and to diversify into a wider range of certified species and products. The area of FSC certified forest in Peru increased from zero in 2005 to 628,000 hectares in December 2008, distributed amongst 8 relatively small forest concessions and indigenous communities (the largest only 120,000 has).
There is now a major marketing drive to increase sales of FSC certified Peruvian wood in the European market. In 2008, WWF's GFTN-Peru hosted an international business roundtable at which GFTN-Peru Participants negotiated business deals of US$3.6 million in Peruvian FSC certified wood with international buyers. Around 75,000 m3 of certified wood comprising more than 50 different timber species were offered to the international market. Deals were negotiated with 22 companies and 6 importers from Holland, Belgium, China, Mexico and Colombia. Of the US$3.6 million negotiated, US $2 million was for FSC-certified to be delivered within six months.
The certification process in Guyana has taken a backward step in recent years. The FSC certificate of the Barama Company Limited (BCL) covering 570,000 hectares was suspended by SGS-Qualifor, the FSC accredited certifier, in January 2007.
In early 2009, the head of WWF's local office reported that it is no longer working with BCL and that the company is unlikely to regain the certificate due to lack of appropriate managerial and technical capabilities. Barama had been awarded the certification in February 2006 for forests in west central Guyana. Guyana's has played a role in the EU market in the past mainly as a supplier of Greenheart, a heavy dense timber used for marine defence work.

EU exposure to verified supply

The meaning of 'exposure'

A rough indication of the level of trade "exposure" of the various EU Member States to wood from independently verified forests can be derived by combining import trade statistics with estimates of the % area of verified commercial forest in supply countries. This level of "exposure" will be a very much larger number than the volume of FSC or PEFC labelled product. Due to the obstacles to chain of custody verification in fragmented supply lines, and the limited demand for labelled product in some sectors, a high proportion of wood harvested in certified forests never actually makes it to market as labelled product.

Combining data both from forest certification systems and private sector legality verification systems, the analysis suggests that overall, 14.8 million m3 (25%) of the 60.4 million m3 of solid timber products imported into the EU-25 from outside the region during 2007 may have derived from independently verified forests. If intra-EU trade is taken into account, the proportion of timber products imported by individual member states likely to derive from a verified forest is considerably higher, exceeding 50% in 10 EU Member States.

Chart 3.5

Source: FII Ltd analysis of Eurostat and certification system data

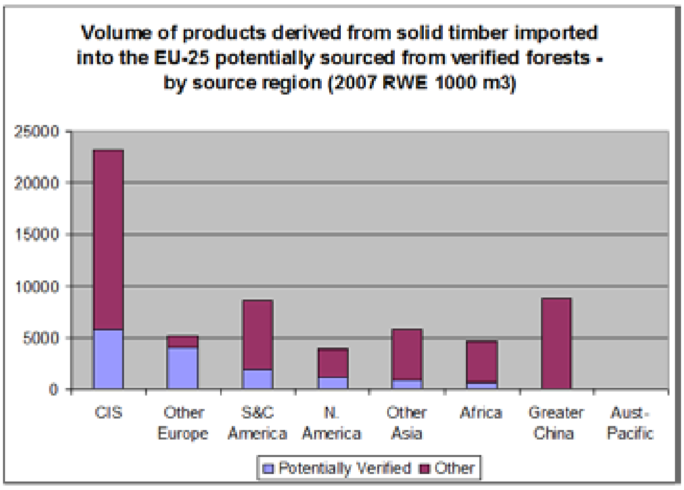
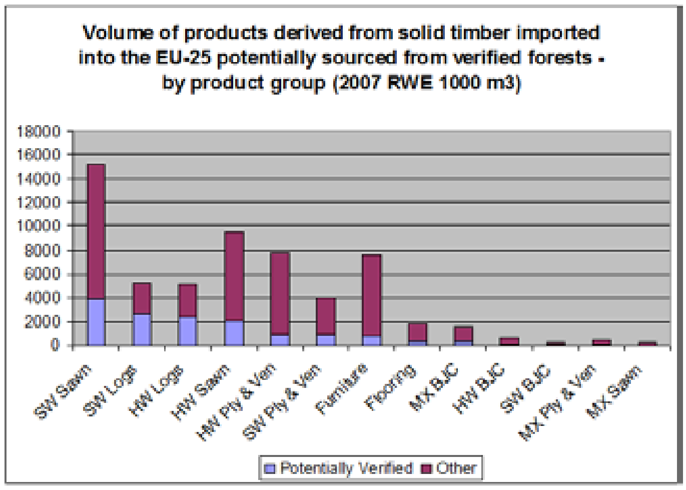


Chart 3.6

Source: FII Ltd analysis of Eurostat and certification system data



Large proportion of supply already verified

Chart 3.5 highlights that much of the verified volume imported from outside the EU-25 derived either from the CIS (mainly Russia) and other non-EU European countries (mainly from Belarus, Switzerland, Norway and Croatia). Chart 3.6 indicates that the largest volumes of product imported from outside the EU likely to have derived from verified forest comprised softwood sawn lumber, softwood logs, hardwood logs, and hardwood sawn.

Table 3.1 shows the RWE volume of products derived from solid wood potentially sourced from verified forests imported into individual EU member states (including both extra and intra EU trade data). High levels of exposure to wood products from verified forests at this level reflect the significant proportion of forest now either FSC or PEFC certified within the EU. The UK was the largest importer of wood products potentially derived from verified forests in 2007, followed by Germany, Italy, France, and Austria. In each of these countries, the proportion of all wood products imports (including both intra-EU and extra-EU trade) potentially from a verified source is in the range 47% to 62%. The data on the proportion of wood potentially from verified forests can be compared with similar estimates of the risk of

Chart 3.7

Source: FII Ltd analysis of Eurostat data and various estimates of illegal wood supply

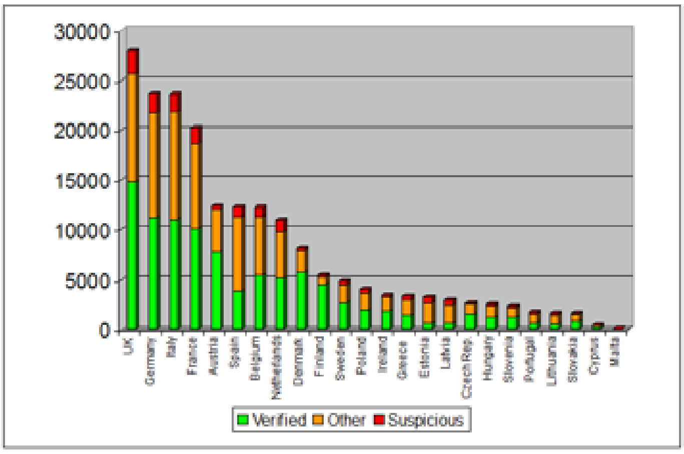
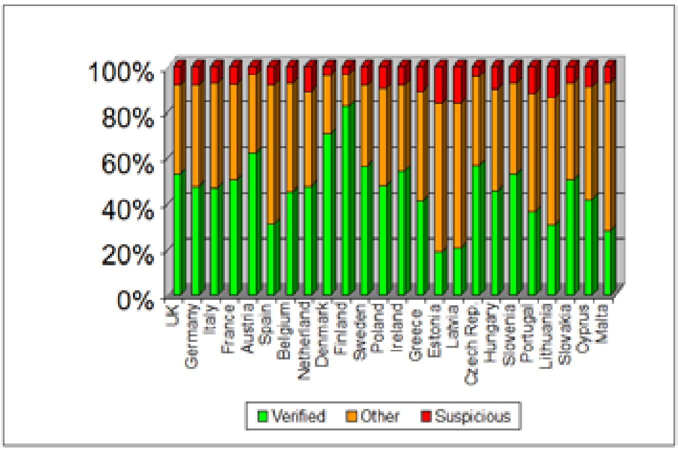


Chart 3.8

Source: FII Ltd analysis of Eurostat data and various estimates of illegal wood supply



exposure to wood of suspicious origin (charts 3.7 and 3.8).
In the same way that the % area of verified commercial forest can be used to assess the volume of wood imports from a verified forest, estimates of % of logs derived from illegal sources may be used to assess the risk of exposure of EU operators in different EU Member States and sectors to wood of suspicious origin.
This is the approach used by the WWF Germany in their July 2008 study entitled "Illegal wood for the European market: An analysis of the EU import and export of illegal wood and related products". The WWF report's conclusion that "almost one-fifth of wood imported into the European Union in 2006 came from illegal or suspected illegal sources" is frequently cited as a rationale for the development of far-reaching legislative measures designed to remove illegal wood from trade.
Both the WWF report and the analysis undertaken here rely on highly speculative data and very simplistic assumptions. This analysis rectifies one shortcoming of the WWF report which took no account of the level of wood trade already covered by systems of independent legality verification and certification. The results of this analysis draw on the reasonable assumption that wood from forests covered by these systems is very unlikely to be illegal.

Table 3.1

Source: FII Ltd analysis of Eurostat and certification system data

	RWE Volume			Value		
EU Member State	All imports	Potentially verified		All imports	Potentially verified	
	1000 m3	1000 m3	%	1 mill €	1 mill €	%
UK	28002	14779	53	7614	2813	37
Germany	23713	11202	47	6671	2862	43
Italy	23595	11043	47	4459	1819	41
France	20268	10161	50	5645	2187	39
Austria	12434	7728	62	2446	1361	56
Denmark	8204	5769	70	2035	1231	60
Belgium	12230	5462	45	3090	1226	40
Netherlands	10966	5180	47	3094	1204	39
Finland	5482	4510	82	789	541	69
Spain	12299	3823	31	2901	784	27
Sweden	4840	2723	56	1642	831	51
Poland	4050	1920	47	910	401	44
Ireland	3474	1873	54	1042	472	45
Czech Rep.	2657	1503	57	727	391	54
Greece	3387	1387	41	785	217	28
Slovenia	2310	1226	53	418	206	49
Hungary	2579	1170	45	477	245	51
Slovakia	1640	818	50	355	192	54
Portugal	1753	637	36	639	229	36
Estonia	3219	605	19	387	108	28
Latvia	2944	601	20	381	104	27
Lithuania	1658	512	31	319	125	39
Cyprus	463	193	42	173	52	30
Malta	92	26	28	45	8	18

Implications

The analysis indicates that, if only extra-EU trade is considered, around 12.6 million m3 (21%) of the 60.4 million m3 (RWE volume) of products imported into the EU from outside the EU in 2007 are at potentially high risk of being derived from a suspicious source. The largest volumes of risky wood derive from CIS, Greater China and Africa and comprise mainly furniture and hardwood products. On the other hand, if intra-EU trade is also considered, the proportion of wood derived from risky sources by individual Member States is considerably lower. The figure reaches 13-16% in the Baltic States; 10-12% in the Netherlands, Portugal, Poland, Greece, and Hungary; 7-8% in UK, Germany, France, Italy, Spain, Sweden, Belgium, and Ireland; and 3-4% in Denmark, Finland and Austria.
While significant, these estimates of risky wood supply are considerably lower than the estimates of the proportion of wood derived from verified forests. The available data suggests that further action to tackle imports of illegal wood is justified, but that this action should be proportionate to a problem affecting less than 10% of wood imports in most EU member states. It also suggests that much may be achieved by building on existing private sector certification and legality verification initiatives.

Data limitations

However, as things stand, the paucity of accurate information and the naivety of the assumptions, suggests that neither this nor the WWF analysis is an inadequate objective foundation on which to base development of potentially far-reaching policy and regulatory measures to tackle illegal logging. More work is required to improve the quality of this analysis, for example through collection of more accurate data on levels of illegal logging and trade, on the special measures already undertaken in each supply chain to eradicate illegal wood, and on the volumes of wood harvested from certified and verified legal forests.

Chain of custody in the EU

The previous section suggests that there is a high level of exposure of EU timber traders to wood from verified forests. The proportion of this wood making it to market as labelled product depends on the level of uptake of chain of custody certification. This has been rising rapidly in the last 2 years (Chart 3.9). The total number of FSC and PEFC chain of custody certificates issued in Europe increased by 48% between 2006 and 2008 to reach 9389. Uptake of FSC certification has outpaced uptake of PEFC certification so that by the end of 2008 there were 5538 FSC CoC certificates in Europe compared to 3851 PEFC CoC certificates. The recent increase in chain of custody uptake is indicative of rising demand for labelled products in Europe. However a closer look at the data implies that demand is still heavily concentrated in a limited number of European countries .
47% of the 3077 of the new CoC custody certificates issued in Europe between 2006 and 2008 were in the UK (Chart 3.10). Together, the UK, Germany, and the Netherlands accounted for over 70% of all new certificates issued during this period. By the end of 2008, the UK accounted for 26% of all CoC certificates issued in Europe, with much of the rest in Germany (15%), France (12%), the Netherlands (7%) and Switzerland (5%) (Chart 3.11). Uptake of chain of custody in Spain and Italy has seen some increase in recent times, but still remains very limited. The relatively high number of chain of custody certificates in France, Germany and Poland partly reflects large domestic processing industries and may be less indicative of strong end-user demand.
Chain of custody tends to be most prevalent in the supply chains of a few large consolidated business sectors such as home improvement retailing and parts of the paper and panels industry. It is less prevalent in more fragmented sectors which nevertheless account for a large proportion of timber demand, including construction and furniture.
The number of FSC and PEFC CoC certified companies is small compared to the total number of companies engaged in the wood sector. Eurostat data indicates that throughout the EU-27 there are 190,000 wood-processing enterprises, 150,000 furniture enterprises, and nearly 20,000 pulp and paper enterprises, many of which would in theory be eligible for CoC certification. This suggests very large sections of the European forest products supply chain are yet to become actively engaged in chain of custody certification and the supply of labelled products.

Chart 3.9
Source: FII Ltd analysis of certification system data

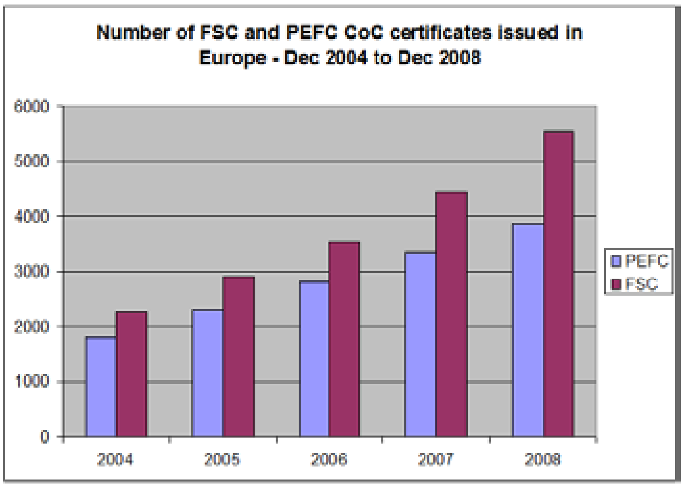


Chart 3.10
Source: FII Ltd analysis of certification system data

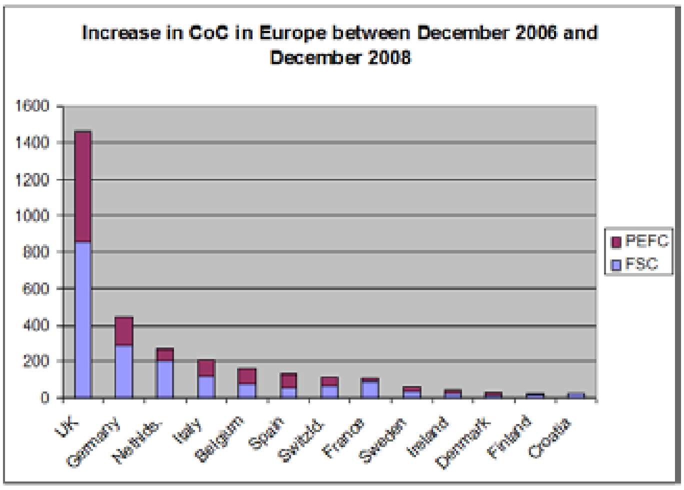
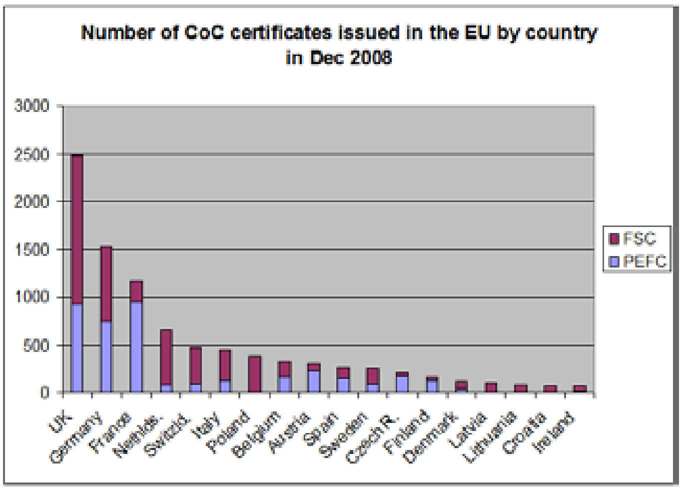


Chart 3.11
Source: FII Ltd analysis of certification system data



Summary

Several policy measures are being developed or implemented in the EU with potential to drive demand for verified wood products. These measures are being developed in pursuit of various policy objectives, notably to meet international obligations to reduce greenhouse gas emissions under the Kyoto Protocol and to promote good forest governance and remove illegal wood from trade in accordance with the EU's FLEGT Action Plan. These policy measures include:

- Promotion of Green Building Initiatives (GBIs) such as BREEAM in the UK, HQE in France, in Austria and in Germany
- Efforts to coordinate and harmonise GBIs at EU level, for example through CEN TC 350.
- Proposals for EU-wide legislation imposing requirements for "due diligence" on operators in the EU forest products sector to minimise the risk of sourcing illegal wood.
- Efforts by the European Commission to promote Green Public Procurement and develop guidance, including specific guidance on timber purchasing
- Efforts by timber trade associations to develop procurement codes and policies for their members and to coordinate this activity at EU level

Some of these measures are still in the early stages of development and, judging from the evidence of market interviews undertaken for this study, are yet to be felt in terms of significant increases in on-ground demand for verified wood products. However they are summarised here due to their long-term potential to significantly alter trading conditions for verified wood products in the EU.

Proposed due diligence legislation

The EU is considering legislation designed to remove illegal wood from European trade flows which, if implemented, could transform markets for verified wood products in the EU. Many Member States have expressed their support for such legislation. Environmental groups have for long been pushing for a legislative approach, and many timber trade bodies at national level are also backing the process.

Commission proposal

In 2008, the European Commission published Draft Legislation proposing that individual European operators that place timber and timber products "for the first time on the Community market" be required to implement a "due diligence" management system to reduce the risk of any illegal wood entering their supply chains. The proposed legislation sets out some broad principles for the "due diligence systems" that would be recognised by the authorities. It aims to build on existing private sector systems such as the procurement codes and policies of European importing trade associations.

In April 2009, the European Parliament voted to adopt a report proposing far-reaching amendments to the EC's proposal, for example placing an obligation on operators to "ensure that only legally harvested timber and timber products are made available on the market" and proposing that all traders and producers be responsible for clearly indicating the source of their products and the supplier of the timber through a traceability system.

Uncertain market impact

The nature of the market impact of this measure remains uncertain and will be heavily dependent on the detailed content of the legislation that finally emerges. For example, if the resulting legislation is aligned to the EC's original proposal, the legislation is likely to lead to greater demands for independent legality verification from suppliers in countries deemed to be high risk while there may be no increase in demand for legality verification from suppliers in countries assessed to be low risk. On the other hand, if the legislation is more closely aligned to the Parliamentary proposal, there may be greater demand for legality verification backed by full traceability from all suppliers irrespective of the level of country-risk.

The EU Council of Ministers is currently considering how to take forward both the EC proposal and the Parliamentary report. The earliest conceivable date on which the new law could come into force is now probably 2010. The EC proposal includes a provision for the new requirements on EU operators to be phased in over a period of 2 years.

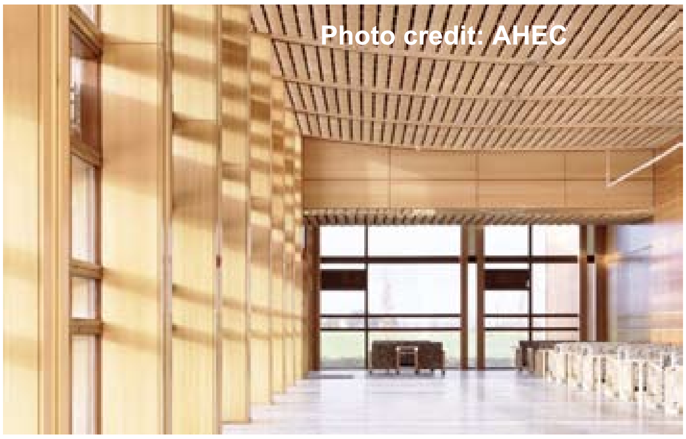


Photo credit: AHEC

Green Building Initiatives

The current focus on energy-efficiency in construction suggests huge potential for growth in Green Building Initiatives (GBIs) with significant implications for an increase in market demand for wood generally and for verified wood products in particular. While the potential is there, a considerable amount of work is still required both to increase uptake of GBIs and to ensure that standards give appropriate recognition to legal verification and certification without undermining wider appreciation of the environmental merits of wood. GBIs can actively discriminate against wood products if they are the only ones required to demonstrate responsible sourcing. GBI standards that give exclusive recognition to a particular forest certification brand may help drive demand for that brand while limiting opportunities for wider use of wood which may provide other environmental benefits such as a reduced carbon footprint.

The market position of GBIs is not yet firmly established in the EU. Discussions at the UNECE Timber Committee Workshop on GBIs held in October 2008 suggested that, at that time, only the UK-based BREEAM and Austrian based klima:aktiv systems were operating on a large scale. BREEAM had certified around 100,000 construction projects in the UK, while in Austria 31 manufacturers of prefabricated houses and 32 residential property developers had started offering homes that meet the klima:aktiv standards. The HQE system in France is gaining momentum but had certified only 190 buildings by mid 2008. The DGNB framework in Germany was operating only on a pilot basis in 2008. The Swan Label for Small Houses which covers Denmark, Norway, Iceland, Sweden, and Finland was finalised in 2005 but currently only two Swedish companies are marketing houses meeting the criteria. Interviews for this study tend to confirm this picture. Only in the UK is the expansion of a GBI regularly mentioned as a significant driver of demand for verified wood products (although no interviews were undertaken in Austria).

There are also signs that some key consumers of GBI standards are already becoming disenchanted with these initiatives. At the UNECE Timber Committee Workshop, Adrian Joyce of the Architects' Council of Europe suggested that the concept behind many existing GBIs is deeply flawed. He noted that it is quite possible to manipulate credit systems to design a building that achieves a high rating which is nevertheless not very environmentally sound. Poorly designed GBIs that are not based on full life cycle accounting can reward building planners for taking a few environmentally progressive steps, some of which may not be particularly relevant, while ignoring deeper problems. Furthermore credits may be awarded at the design stage and not verified by a post-completion visit. The complexity of some systems and associated increase in costs is another problem. Concerted efforts are being made in various fora with the aim of overcoming these problems and to improve the application and conformity of GBIs. In Europe the work of CEN Technical Committee 350 on the sustainability of construction works is particularly relevant. CEN TC 350 is developing a harmonised framework both for environmental product declarations and the sustainability assessment of buildings and works. The outcome of these deliberations with respect to recognition and promotion of verified wood products in Europe is still not certain, but CEN350 could be a key driver of this demand in the future.

Green Public Procurement

The EU has a policy to promote green public procurement with potential to impact on the scale and direction of demand for verified wood products. In the Sustainable Development Strategy adopted in 2006, the EU established a target for Green Public Procurement (GPP), stating that, by the year 2008, the average level of GPP should be at the current level of GPP in the best performing Member States. This target has been made more specific in a Commission's Communication adopted on 16 July 2008, in which the Commission proposes a 50% target for each Member State to be reached as from 2010. The European Commission has developed an evaluation methodology to measure progress and a set of guidance documents setting out criteria for procurement of different products, including wood.

EC proposes legal as minimum requirement

With respect to wood, the EC guidance documents establish the basic principle that verified "legal" should be the minimum requirement for supply of timber into public sector contracts and propose that verification of legality should require that "wood shall be able to be traced throughout the whole production chain from the forest to the product". They also propose that verified "sustainable" should not be a precondition for entering the market but should give an advantage at the contract award stage. The guidance sets out an inclusive approach with respect to forest certification systems, including recognition for "FSC, PEFC or equivalent" and providing scope for alternative forms of assurance where necessary. However no more specific guidance is provided on how "equivalence" should be assessed – leaving the door open to more EU Member States to come up with their own frameworks for comparison of certification schemes.

At this stage, it is not clear how influential the EC's guidance will be. While EU Member States are being encouraged to formally adopt these criteria as part of their national GPP plans, there is no guarantee that they will do so. The Communication itself was addressed to the Council and the European Parliament who were invited to endorse the proposed approach. The Council issued its response in September 2008 which broadly welcomed the Communication and associated guidelines calling for these to be further developed and widely distributed. The Council also called on Member States and the Commission "to develop procurement policies which support and promote international agreements, such as the Voluntary Partnership Agreements with third countries in the framework of the EU Action Plan on FLEGT regarding the production of legally and/or sustainably logged timber and sustainable forest management. Producers and importers from countries which have not concluded such agreements should nevertheless be allowed to present alternative kinds of proof of legal and/or sustainable production".

Overall, the Communication and Council response suggests

CE marking link to sustainability

The EC is considering introducing a new Construction Products Regulation (CPR) that would make CE-marking mandatory for qualifying products in all EU Member States. Of particular significance from the perspective of the current study is that the draft CPR includes a proposal to introduce a new requirement into CE-marking (referred as Basic Works Requirement No. 7) covering the "sustainable use of natural resources": This would mean that EN product standards which underpin CE-marking could include mandatory minimum requirements for the use of materials from sustainable sources and recycled content.

The CPR would be a development of the EU's 1989 Construction Products Directive (CPD) which already provides a European-wide framework for performance assessment and labelling of construction products. The aim of the CPD is to overcome the technical barriers to trade created where different countries in Europe have different standards, testing and labelling approaches for the same products. The Directive introduced the concept of CE marking as a "passport" to enable products to be legally placed on the market in any Member State. In most European countries (the only exceptions being UK, Finland, Ireland and Sweden) CE-marking is mandatory for products for which a harmonised European standard has been finalised.

Over the last decade, requirements for CE marking have been progressively extended to a wider range of products as harmonised European standards have been finalised. The list of wood products currently covered is wide and includes: Wood-based panels (EN 13986), Glulam (EN 14080), strength graded structural timbers (EN 14081, EN 14544), Wood poles for overhead lines (EN 14229), Prefabricated wall, floor and roof elements (EN 14732), Structural LVL (EN 14374), various kinds of wood-flooring (EN 14342, EN 13227, EN 13228, EN 13488 EN 13489 EN 13629, EN 13990, EN 14354), solid wood panelling and cladding (EN 14915) and finger jointed

Table 4.1: Contracting authorities responses to questions relating to the "legality criterion" in Pricewaterhouse Coopers survey (2009)

Product Group	Criterion	Austria	Denmark	Finland	Germany	Netherlands	Sweden	UK
Construction	Does all timber used in the building come from legal sources?	44%	27%	75%	56%	60%	65%	89%
Furniture	Do all wood and wood-based materials come from legally sourced timber?	100%	57%	72%	74%	56%	78%	93%

that efforts to develop more far reaching public sector green procurement policies, including specific requirements for timber, will continue and expand in the future. The guidelines issued with the Communication that verified legal timber should be the minimum requirement, is likely to have a significant influence in those Member States that are still in the early stages of developing a public sector timber procurement policy. The Council's specific reference to FLEGT VPA timber is a strong signal that this timber will receive preferential treatment in European public sector procurement in future. However the Council response also makes clear that individual countries should be free to develop more ambitious policies and targets than those set out in the EC guidance if they so wish (an overview of existing national public sector timber procurement policies is provided on below).

Study to assess overall impact of GPP

An indication of the overall impact of the EU's GPP strategy is provided in a recent evaluation report of the strategy commissioned by the EC from Pricewaterhouse Coopers . The report notes that the European public service spends approximately 16% of EU GNP on purchasing a wide variety of products. The report assesses green procurement practices in the 7 "best performing" EU-Member States on GPP (identified as Austria, Denmark, Finland, Germany, The Netherlands, Sweden and the UK). The results are based on a digital questionnaire returned by 1105 contracting authorities in these Member States. Respondents were asked to indicate whether their most recently concluded purchasing contracts for 10 product groups (including construction materials and furniture) comply with certain 'green criteria'. For both construction materials and furniture, a minimum green requirement was that wood was from a verified legal source. The results for the "legally verified" criterion are shown in table 4.1. The UK emerges as the country that has moved furthest to ensure that at minimum legally verified wood is used in public sector contracts, although the Scandinavian countries are not far behind. Progress has generally been greater in furniture contracts than in construction contracts.

National government timber procurement

As one of the most direct tools available to government's seeking to contribute to the goal of removing illegal wood from trade and promoting sustainable wood, central government procurement has been a key feature of policy discussions in recent years. However, the verdict is still out on just how effective and reliable a tool these policies are.

A brief review (see table) suggests that public sector procurement policies may be a relatively weak lever with which to influence procurement behaviour in EU member states. The public sector generally accounts for only a minority of national spending, policies tend to be mandatory only at central government level, and systems to monitor implementation are generally often there is little follow policies impact directly on only a small proportion of the overall timber trade, and there may be only limited monitoring of policy implementation. Only one EU Member State, the UK, has yet published a comprehensive survey of policy implementation which revealed major inconsistencies in the approach adopted by the various central government departments and agencies. The review also provides an indication of just how convoluted the differing public sector requirements for procuring timber have become. The differences in policy reflect the challenges facing governments as they seek to accommodate the often polarised views of national stakeholders and develop criteria that can both encompass the huge diversity of forestry situations in supply countries while also meeting

Table 4.2: Summary of central government timber procurement policies in 6 EU Member States

	Belgium	Denmark	France	Germany	Netherlands	UK
Federal/central government	Mandatory	Voluntary	Mandatory	Mandatory	Mandatory	Mandatory
Local authorities	Guidance	Guidance and active promotion	Guidance and active promotion	Guidance and promotion (2 states adopted)	Guidance and promotion - national monitoring	Guidance and active promotion
Coverage of public sector	Fed. Gov limited, states more significant. Overall 5-10%	All public sector accounts for 15-25% of tropical timber	All public sector, up to 25%	Fed. Gov. around 5%, states more significant	NA	All public sector, in the region 8%-15%
Current requirement	Sustainable	Legal minimum, sustainable preferred.	Legal and sustainable	Sustainable	Legal minimum, sustainable preferred	Sustainable required. FLEGT VPA where not available.
Evidence accepted	Judged against basic criteria. FSC, some PEFC.	Temporary recommendation to recognise both FSC & PEFC as "legal and sustainable"	Flexible and inclusive, no hierarchy of evidence	FSC, PEFC, other systems assessed as equivalent	Legal: various, judged against criteria. Sustainable: judged against detailed criteria. FSC, PEFC Germany, PEFC Finland	Sustainable: Judged against detailed criteria. Currently FSC, CSA, PEFC, SFI
Anticipated changes	Plan to elaborate more detailed criteria for "sustainable" by mid 2009.	Work to develop detailed criteria . Decision awaited on amendment.	2008 policy commitment to increase certification focus.	Review 2010/2011	Sustainable to be minimum requirement in 2010. FLEGT VPA where not available. PEFC Sweden & Belgium. MTCS being assessed for sustainable	After 2015: Sustainable only & FLEGT VPA no longer accepted. MTCS being assessed for sustainable
FLEGT VPA recognition	None at present	No formal statement of recognition, but implied by minimum legality requirement	French gov. currently accepts & indicates it will accept after policy change, but no formal guidance yet	None at present	Currently accepts as legal. Future guidance under development	Accepted 2009-2015 when no certified wood. Not accepted after 2015.
Monitoring	None	Occasional surveys of guideline usage. Latest reported in 2006.	Review planned 2008	None but impact to be assessed 2010/2011	National monitoring program	Surveys of implementation - reveal major inconsistencies between departments & agencies


Photo credit: AHEC

EU and WTO procurement rules.
At present the stated minimum requirement for public sector procurement of timber vary considerably between the 6 countries. The German and Belgian governments have set a minimum requirement for timber to be sustainable and effectively recognise only FSC and PEFC as appropriate evidence. The UK and Netherlands have adopted a stepped approach, establishing legally verified as the minimum requirement for a set period of time (now lapsed in the UK except for FLEGT VPA timber when available) before demanding that all wood supplied must be sustainable. The French government has established that timber should be from a "legal and sustainable source", but unlike the UK and Netherlands doesn't create a hierarchy of evidence separating "legal" from "sustainable" timber and has been more flexible on the forms of evidence accepted.
This diversity of policies has potential to be a source of market confusion, although one general conclusion that can be drawn is that conformance to either FSC or PEFC certification is likely to be the surest way of securing access to contracts in the EU public sector in the long term. The introduction of procurement policies targeting only timber also raises questions about just how equitable the handling of timber is alongside competing products.

GPP provides extra incentive for corproate action

More positively, there are indications that with sufficient political will and resources, public sector timber procurement policies can play a constructive role to encourage adoption of best environmental practice in the timber sector and reward companies that have invested in supply of verified wood products. As noted by FII Ltd in 2007, based feed back received from interviews with UK traders, "the policy has greatly increased the sensitivity of larger importers, merchants and manufacturers to negative publicity….by doing so it has provided an important additional incentive for these companies to implement far-reaching corporate commitments to sourcing verified wood products…. Furthermore the private sector now looks to government to set the standard for credible legality verification and certification in the UK."
Trade interviews undertaken for this report indicate that these trends have intensified over the last 18 months in the UK and the Netherlands and, to a lesser extent, in Belgium and France. The interviews have also highlighted the impact of internal management issues which mean that if certified wood is required by major customers in the public sector and certified raw material is sufficiently available, it is simpler to switch over to 100% certified production.

Private sector initiatives

Trade association codes

Timber trade associations in several EU Member States are at various stages of development and implementation of codes and purchasing policies for their members including requirements for responsible sourcing of timber products. The EU-funded Timber Trade Action Plan and the European Hardwood Federation (UCBD) have been engaged in an effort to encourage information exchange on these policies and to develop a set of standard tools for procurement across the EU.

TTAP regular review of TTA codes

An important output of the TTAP process has been regular studies comparing various trade association codes of conduct and environmental procurement policies. The most recent study indicates that binding environmental timber procurement codes have been introduced by the timber importing associations of Belgium, Denmark, France, Germany, Netherlands, Spain, and the UK. While not promoting its own binding code, the Finnish Forest Industries Federation has stated that all its members are all committed to the Confederation of European Paper Industries (CEPI) Legal Logging Code of Conduct which includes an explicit commitment to source only legally logged wood and to provide documentary evidence of compliance. Italy is a significant absentee from the list of national trade associations that have introduced timber procurement codes given the high proportion of the EU's total imports of wood products destined for the country.

30% of EU trade covered by binding codes

The TTAP research suggests that a relatively high proportion of national trade in primary wood products (logs, lumber, plywood, veneers and composite panels) is covered by members of the trade associations (in the range 60-90% of all national imports). It suggests that European wood importing companies responsible for around 30% of the volume of all EU imports of primary wood products have already made a binding commitment to some form of green purchasing policy by virtue of their membership of a national trade association. This emphasises the significant potential of these organisations to help drive interest in and demand for verified legal and certified wood products.
The codes vary in the minimum requirements for conformance. Of European associations that have implemented a binding code, those in Belgium, France, Netherlands, Spain and the UK have established the underlying principle that all members must trade at minimum in timber verified as legal. In Germany, members must seek evidence of legality but at this stage it is not yet compulsory that they trade only in timber verified as legal.

Preference for verified sustainable

All the codes with the exception of the Danish and Finnish, also indicate that preference will be given to verified sustainable timber wherever possible. The policies of the French, Dutch and UK Federations go further than this, requiring a step-wise approach towards buying only verifiable sustainable timber. The French and Dutch policies go so far as to establish time-bound targets for achievement of this goal. In these instances, verified legal timber should in theory have only a certain shelf-life after which it should no longer be acceptable on its own. The underlying assumption is that "sustainable" equates to "independently certified", with all associations accepting a range of certification schemes (including both FSC and PEFC) as evidence of sustainability.
The various codes adopt contrasting approaches to the use of

risk assessment. In the UK, risk assessment forms a central component of the procurement procedures. The UK TTF guidance on risk assessment is designed to allow for a quick and easy initial assessment so that areas of low risk can be rapidly eliminated. The first step of the procedure draws heavily on the Transparency International assessments of the robustness of national legal frameworks. In contrast, the Dutch code's risk assessment procedures focus more on determining traceability than on assigning risk to specific regions or countries. The procurement policy of the French Le Commerce de Bois does not require individual operators to utilise risk assessment. Instead it simply assumes that tropical timbers are high risk and demands that these are all accompanied by certificates of legality issued by national governments.

Varying level of enforcement

Trade associations also vary in the extent to which they can enforce green procurement policies and demonstrate progress. At this stage only the French, Dutch, UK and Finnish trade associations can provide evidence to demonstrate that members are implementing the purchasing policy. The Belgian Federation is moving in this direction. The French, Netherlands and UK trade associations require systematic monitoring of members' compliance to their procurement policies, and have introduced procedures for third party auditing of conformance together with annual reporting of progress. Progress is monitored through assessment of the volume of timber supplied that is third party verified as legal or sustainable or derived from companies that are members of the WWF GFTN or similar stepwise schemes.

Key role to raise awareness

Interviews undertaken for the current study suggest that levels of trade awareness of forestry issues and commitment to responsible procurement are particularly high in those countries that have a well developed and enforced trade association green procurement code or policy. Where they exist, trade association codes and policies provide a valuable framework for communication of green issues and to encourage and guide positive action. The most developed policies in the UK, Netherlands and France encourage comprehensive measures to encourage both the removal of illegal wood from trade flows and promotion of certified products. On the other hand, a frequent complaint amongst more proactive participants in these initiatives is that in the absence of strong end-user demand for verified products, voluntary private sector efforts are constantly undermined by the activities of non-members offering unverified products more cheaply.

Importing sector more advanced

Interviews also suggest that moves to develop comprehensive responsible timber procurement policies are generally more advanced in the timber importing sector than in downstream manufacturing sectors. The British Woodworking Federation was the only large wood products manufacturers' association identified during the research as promoting a specific code or policy for timber procurement. While some large European joinery, furniture and flooring manufacturers have developed their own corporate timber procurement policies, there appear to have been few attempts to exploit the potential of trade associations to expand such practices amongst the vast numbers of smaller wood product manufacturers in Europe.

WWF GFTN

The WWF's Global Forest and Trade Network (GFTN) has been an important initiative encouraging uptake of responsible procurement policies and practices in the EU for several years. GFTN member companies are committed to the phased removal of all wood from "unknown/unwanted" sources in their supply chains and progressive increases in the proportion of wood derived from "credibly certified" sources. The latter are defined as forests certified by systems assessed as credible against the WWF/World Bank Forest Certification Assessment Guide. At present FSC is the only certification system assessed as meeting this requirement.

The GFTN continues to be dominated by a limited number of large retailers and their suppliers with a particularly strong presence in the UK (see Table 4.3). Major retailer GFTN members include B&Q, Sainsbury, OBI, Bauhaus, Brico, Carrefour, Castorama, Leroy Merlin, and IKEA. There are also a limited number of joinery and flooring manufacturers (including Forbo Parquet in Sweden, Magnet in the UK, and Luvipol in Spain). Throughout Europe, the large construction and furniture sectors are poorly represented within the GFTN.

The total number of companies that are members of the network in Europe declined quite significantly earlier this decade. For example the UK Group declined from 87 members in 2001 to 46 members by the end of 2007 (including only a few of those that were participating in 2001). The Belgian group fell from 43 members in 2004 to only 20 by the end of 2007. Two groups disappeared entirely during this period - in Italy and Denmark.

Tougher membership requirements

The decline was due to the progressive introduction of tougher membership requirements and new systems of monitoring to ensure a higher level of commitment by network members. So the decline in numbers probably does not reflect any underlying decrease in demand for certified products, but rather an effort by WWF to focus their efforts on a hard core of committed companies.

Since the end of 2007, the numbers of participants has remained very stable in nearly all countries, the only significant changes being a partial recovery in the number of Belgian participants from 20 to 27, and the launch of a new group in Portugal in October 2008 with 5 participants (2 of which are exclusively engaged in cork production).

While the number of GFTN members is limited, the level of commitment to certified products shown by these companies is very high. For example, builders merchants like Jewson and Travis Perkins have stated publicly that the vast majority of wood products they purchase must be supplied as certified within a couple of years.

Table 4.3: Number of members of GFTN in EU countries by product sector (Dec 2008)

	Total	DIY retailer	Other retailer	Paper/ packaging	Printer/ publishing	Joinery/ flooring manu-facturer	Importer/ distributor	Other manu-facturer	Constr-uction/ Housing assoc.	Other
UK	46	3	8	6	5	3	6	3	3	9
Belgium	27	4	7	2		2	9	3		
Switzerland	18		4		1	5	2	4		2
Germany	16	3	2		2		4	2		3
Netherlands	16	2	1	1		3	2	2	2	3
Sweden	14		4	1		1	3	1	1	3
France	11	2	2			3		2		2
Spain	11	1				2	5			3
Austria	8	3	1	1	1	1				1
Portugal	5		1			1				3
Romania	2									2
Total	**174**	**18**	**30**	**11**	**9**	**21**	**31**	**17**	**6**	**31**

case study: garden furniture

Summary

The case study is based on information derived from interviews in the last quarter of 2008 and first quarter of 2009 with a range of participants in the garden furniture sector - including importers, retailers, and exporters.
The garden furniture sector has been deeply engaged in the process to develop verified supplies for at least a decade due to the high visibility of tropical hardwood in the sector, intense green campaigning targeting the sector from the early 1990s onwards, and the growing importance of large European retailing groups in the sale and distribution of garden furniture products.
Hardly any wooden garden furniture is now manufactured in Europe, although there are large numbers of European-based "pseudo manufacturers" that are in effect importers and wholesalers. The European market is now divided between the large retailing groups and the fragmented garden centre and small retailer sector, the latter still accounting for a significant share of the overall market. The larger retailers have been particularly important in driving demand for verified products. Interest in verification varies widely between European countries, for example with Germany deeply engaged and Italy hardly engaged at all.
A key issue in the sector has been lack of availability of certified tropical hardwood, particularly teak, of appropriate quality. To some extent, the problem of lack of certified natural forest teak has been compensated by a shift to more bulk lower grade production based on alternative certified species. Asian manufacturers have responded to European retailers' rising demand for low cost FSC-certified product by switching to a range of other raw materials, notably plantation teak, eucalyptus, acacia, couboril, and pressure treated pine.

The European garden furniture market has for long been a major outlet for verified wood products. This is due to the high visibility of tropical hardwood in the sector, intense green campaigning targeting the sector from the early 1990s onwards, and the growing importance of large European retailing groups in the sale and distribution of garden furniture products. Many European retail buyers will no longer directly purchase or offer any uncertified timber or wood products. FSC is essentially the only brand of forest certification recognised in this sector, with the TFT system viewed as a credible step towards FSC certification where it has not yet been achieved.
Data on the size of the sector in the various European countries is not readily available, but anecdotal reports indicate that Germany, France, Italy and the UK and the four largest consumers of garden furniture products roughly in order of importance.
The market is divided between the large retailing groups and the fragmented garden centre and small retailer sector, the latter still accounting for a significant share of the overall market. In recent years, the larger retailers, including some corporations previously not engaged in sales of garden furniture, have focused heavily on squeezing out the smaller suppliers and taking a much larger market share. Groups like B&Q, Homebase, Tesco, Asda and Morrisons in the UK, Metro in Germany, and Carrefour in France, now all offer significant volumes of garden furniture. This trend towards consolidation, particularly at the lower end of the market, is likely to intensify during the current economic downturn.

Nearly all wooden garden furniture imported

Depending on their size, purchasing power and storage space, retailers buy varying quantities of product either direct from the Far East or from local European suppliers. Hardly any wooden garden furniture is manufactured in Europe. Garden furniture that continues to be manufactured in the EU tends to be of alternative materials. For example, Kettler produce steel furniture in Europe but import their wooden furniture from SE Asia.
There are now large numbers of European-based "pseudo manufacturers" that are in effect importers and wholesalers. Pseudo manufacturers usually supply a design to a Chinese or SE Asian producer who then makes the furniture under the pseudo manufacturers' brand name. Occasionally the factory design is used. Buying direct has the advantage of generating a much higher margin for retailers. On the other hand, purchasing from the importers is lower risk for the retailer and allows for quick repeat order delivery time.
Market demands for verification of garden furniture vary between European countries. In Germany, it is now very difficult to sell any garden product that is not FSC certified. The Dutch and Belgian markets also strongly favour FSC product, but there are some wholesalers still willing to offer non-verified product. France is generally more price sensitive, with many buyers still content to source cheaper non-verified products, although there are signs of a change to a more responsible attitude amongst the larger retailers. In the UK, larger retailers have been major drivers of demand for FSC certified product, although many smaller operators are less conscientious, including many internet based sellers.

More limited interest in verification in Italy

In Italy, quality is the primary concern and interest in verified garden furniture remains restricted. Anecdotal reports suggest Italy continues to import a large amount of non verified high quality teak product manufactured in Thailand from Myanmar logs. Italy also imports significant volumes of Grade A Myanmar Teak lumber – although this is destined for the luxury boat building industry rather than for garden furniture. Myanmar logs are exported to Thailand where they are processed into boat decking before being re-exported to Italy.
Demand for verified wood products in the European garden furniture market has been an important factor driving changes in material sourcing and utilisation strategies in recent years, although this process continues to be extremely challenging for manufacturers. The key issue is the lack of availability of certified tropical hardwood of appropriate quality. Natural forest teak derived almost exclusively from Myanmar is by far the preferred species on technical grounds, offering the best combination of high yield, working properties, durability and colour. But none of this can be obtained certified. Technically, European sanctions on the Myanmar timber trade also mean that this resource should no longer be accessible to manufacturers selling into Europe, although this sanction is being systematically circumvented.

Shift to bulk lower grade production

To some extent, the problem of lack of best quality certified natural forest teak has been compensated by a shift to more bulk lower grade production based on alternative certified species. This move to larger volume lower grade production has been driven by the large retailing firms in their pursuit of market share. Asian manufacturers have responded to European retailers' demands for low cost FSC-certified product by switching to a range of other raw materials, notably plantation teak from SE Asia West Africa and Central America, eucalyptus from plantations in South Africa, acacia from plantations in Vietnam and other SE Asian countries, and couboril from Brazil. In addition

a lot of FSC certified pine from Russia, Northern Europe, North America and New Zealand is now pressure treated to extend its life for outdoor use.
The quality of the alternative materials used for garden furniture falls well below that of Myanmar teak. This is true even of plantation teak which tends to be cut at 17 years old compared to natural forest teak which tends to be cut when it is at least 40 years old. Compared to the natural forest timber, plantation teak generally contains a lot more sap, lacks density and durability, provides lower yield and is available only in relatively small dimensions.

'Price premiums' less relevant

The cost structure of this high volume low quality trade in FSC certified products is entirely different from that of the low volume high value trade in uncertified natural forest teak products. Therefore it's not useful to talk in simple terms of "price premiums" for certified products.
Due to very high quality and yield and its popularity in India, China, the Middle East, and Italy, Myanmar teak commands very high prices irrespective of its verification status. Grade A Teak ex Myanmar was being traded at about US$5,000/m3 before the downturn in mid 2008. Prices for FSC certified plantation teak are highly variable depending on quality, with the best grades from Central America generally trading for no more than $2000/m3 and the lowest grades being bought by low priced Vietnamese producers being at $750/m3 to $1000/m3. Eucalyptus sells at between US$180-500/m3 according to type and density. Higher end eucalyptus prices apply to Solignum Eucalyptus that resembles teak. FSC certified acacia sells at between US$150-300/m3. To the manufacturer, prices of FSC certified timbers can be up to 10-20% higher than prices of unverified timbers of exactly comparable species and grade. But from the foregoing it is obvious that the price premium for certified raw material has much less impact on final selling price than the actual choice of raw material.

Extra wood costs less significant for low quality product

For the lower value product, the supply chain can readily absorb the cost of the higher priced verified timber in processing and manufacturing charges. The ability to absorb certification costs of manufacturers of lower quality products supplied to the large retailers is also greatly facilitated by the fact that, for these products, raw material represents only a relatively small share of the final price of the product. For example, for a typical FSC certified eucalyptus set of 6 garden chairs and a table, the cost of wood raw material contributes to only approximately 25% of the finished set price. Even a 20% price premium for verified raw material paid by the manufacturer would have only a marginal impact on the final delivery price, and this tends to be less of a factor than regular swings in exchange rates, shipping and labour costs.
However, for a high quality natural forest teak set, the cost of wood raw material contributes to approximately 60% of the finished set price. This is due both to the much higher baseline price for Myanmar teak and larger volumes of good quality wood used in its manufacture . So a 10%-20% premium payable by the manufacturer for certified wood raw material in this sector of the market is likely to have a much more dramatic impact on the final selling price.
As things stand, European buyers of garden furniture can make a straight choice. If they want the best quality most durable product, are willing to pay for it, and are not worried about environmental or social credentials, they can source natural forest teak products. If they are concerned about these credentials and are willing to compromise on quality, they can actually buy FSC certified products much more cheaply.

Recession disrupts market picture

The issue of price premiums has been further obscured in the current economic climate. Until the start of last year, the EU garden furniture sector was generally expanding and prices were rising. However in 2008 the wet summer in north-west Europe undermined demand. The worldwide economic downturn then severely dented confidence. Many retailers continue to hold excess stocks over from the 2008 season and, lacking confidence in a significant recovery this year, have drastically reduced forward ordering for the 2009 season. They have also been heavily discounting their old stock, sometimes up to 50% with no concern for the replacement price in their desperation to maintain cash flow.
One effect of the economic downturn has been to reduce demand for higher priced garden furniture sets in favour of cheaper products. To some extent this may be driving demand away from expensive natural forest teak products in favour of lower grade plantation teak, acacia and eucalyptus, which are easier for retailers to source certified. However, customers are also becoming more focused on getting best value for money. Suppliers of FSC certified products are concerned about the continuing competition from less scrupulous operators. Anecdotal reports indicate that, despite the move to certification by a significant section of the European market, numerous goods of dubious origin continue to make their way into Europe. There is still a large unquantifiable supply of illegal wood within the garden furniture sector emanating from various countries including Indonesia, Cambodia, and Laos. Other countries like China, Thailand and Vietnam are also offering teak products to European buyers which are clearly manufactured from Myanmar teak despite the trade sanctions. The ability of legitimate suppliers to compete under such conditions – where products of dubious origin are based on better quality raw materials and offered at very competitive prices – is greatly constrained.
Now another challenge for the sector is emerging. Evidence from furniture trade shows in the Far East suggests that the downturn is encouraging much more interest in relatively cheap non-wood products including no or low maintenance aluminium, steel and mixed material furniture mainly from China.

Summary

Until recently, the European flooring market was a key growth area for hardwood products. As in other sectors, the global economic crises is having a significant impact, reducing growth prospects. In the short term, it might mean that environmental issues take a back seat as manufacturers are struggling to make ends meet and maintain cash flow. However it is also altering the nature of trading relationships between European flooring brands and overseas manufacturers with potential implications for the supply of verified flooring products to the European market. And longer term, a move away from raw materials perceived to be high risk and the development of more certified product lines are likely to form a major component of the industry's future growth strategy.

Trade analysts suggest that European parquet floor production may have declined between 12% and 18% during 2008. Drawing on a member survey, FEP (European Parquet Federation), suggest that overall sales dropped by around 7% compared to 2007. Production in 2008 is estimated at between 82,000 million m2 and 88,000 million m2, while consumption at around 104 million m2. This follows a 2.5% and 4.9% increase in production and sales between 2006 and 2007 and is the first significant turnaround in an upward trend in the European flooring market that has been on-going since at least the mid 1980s. The European flooring sector is now bracing itself for an even slower year in 2009.

In absolute production figures, Sweden and Poland are the largest producers of parquet in Europe (each accounting for around 16%), followed by Germany (accounting for around 13%). Germany is Europe's largest parquet market followed by Spain, Italy and France.

EU dominated by engineered product

In contrast to the North American market which prefers solid wood flooring, the European market for wood flooring is dominated by engineered product. Its popularity is underpinned by its versatility and stability. Unlike solid wood, it is not affected by movement in response to changes in atmospheric moisture. It can be used with underfloor heating and is also popular in apartments because sound insulation can be fitted underneath the wood.

In terms of species, the European flooring sector is dominated by oak which accounts for around 56% of European real wood floor manufacturing. Other temperate hardwood species (notably walnut, ash, and cherry) also play a leading role. Jarrah is also becoming more popular for commercial projects in parts of Europe due to its colour and environmental credentials. The share of tropical hardwood in the sector has been hovering in the range 13% to 16% in recent years.

Sustainability and legality are big topics right now for the European parquet industries. In the last quarter of 2008, Parquet Magazine, Europe's leading trade journal focused on the sector, organised a flooring conference in Europe solely focused on sustainability. They also attended a large flooring conference in China where sustainability played a key part in the agenda.

Limited consumer demand for verification

As in other European wood industry sectors, sustainability is mainly an issue for the "wood chain" (i.e. retailers, distributors, importers producers) because in general, consumers do not demand sustainability or certification and are certainly unwilling to pay a large premium for it. Contacts in the European flooring manufacturing sector suggest that in the region of 12-30% of their buyers will actively request information on the environmental credentials of product, depending on the market or sector.

Price and performance are still the main criteria influencing consumer behaviour. However flooring is an expensive and highly visible investment for most consumers so they do want to feel good about what they purchase. A key problem at the level of the end-user is level of confusion over the green claims of different manufacturers. Although the FSC label is becoming more widely recognised and understood by consumers, this recognition is far from universal. The European Parquet Federation's "real wood" logo is often mistaken as a "green label".

The flooring sector in Europe has been moving more towards chain of custody certification with FSC the most widely known and recognised system. As demand is not really coming directly from the consumer, certified flooring products are often not labelled for onward sale to the consumer. Instead certification is used to provide a marketing edge when supplying large retailers and distributors.

Some manufacturers shifting to 100% certified

One large Scandinavian manufacturer of flooring recently confirmed that about 25% of their sales are certified and that they would trade more if they could get it. In fact, if more certified wood were available this manufacturer has said it would welcome the opportunity to move to 100% certified production.

Even where there is less interest in specific labelling systems, vigorous environmental campaigns focusing on the use of tropical hardwoods in flooring has encouraged the leading flooring producers and traders to take steps to avoid negative publicity. For example, in October 2008 the Environmental Investigation Agency published a report "Buyer Beware" suggesting that few UK retailers of merbau flooring were able to back up their verbal claims that wood derived from legal and sustainable sources with documentary evidence. As a result there are indications that the European flooring trade is requesting much more information from wood suppliers than it used to as part of this environmental reassurance.

Wide variation in demand across the EU

However this attitude is not yet universal throughout the European flooring sector. Contacts in the industry indicate that demand for certification varies widely across the continent. The Netherlands is by far the strongest market, even compared to the UK and Germany, which come a fairly distant joint second. Northern Europe as a whole is demanding more reassurance than Southern Europe. Flooring producers in Northern Europe are far more likely to question their suppliers about legal and sustainable supplies than producers in the South. For example, Italian producers seem to care less about the environmental credentials of their wood supplies and will source from Asia, Eastern Europe and Russia where it is much harder to prove legality. Most flooring supplies from China are not certified and are often sold under known European brand names.

At present rising interest in certification and sustainability in parts of the European flooring sector is tending to erode the market share of tropical hardwoods. It is generally proving much easier for temperate hardwood suppliers to demonstrate conformance to the FSC Controlled Wood standard and to convince manufacturers of their low risk status. At the end of 2008, two major European producers, Weitzer in Austria and Meister in Germany, announced they are no longer sourcing any tropical

hardwood.
The movement away from tropical timbers is occurring despite widely reported fashion trends that should otherwise favour these species. There has, for example, been a growing preference for darker and more interesting exotic species in the furniture and flooring sectors. Design trends have also focused on sharply contrasting light and dark colours, on mixing textures, and therefore on widening the pallet of materials used. But while these trends exist, it's also clear that rather than increase their use of tropical timbers, many manufacturers prefer to adapt other temperate species by staining and other treatments. With modern stains and finishes, manufacturers can now achieve the desired look almost no matter what the species. They are also promoting heavily the natural "rustic" characteristics of temperate hardwoods, making a virtue of the colour variations and knots which are often a feature of temperate hardwoods.

Rising interest in heat treatment

There is also growing interest in heat treatment of temperate hardwoods and softwoods to achieve the hardness necessary for flooring applications. At present lack of heat-treating capacity, relatively high costs and remaining technical issues (for example heat treatment can be associated with increased brittleness) have meant that so far use of heat treated products is not widespread in the flooring sector. But European commentators generally expect these products to become increasingly important in the future, taking market share specifically from tropical hardwoods. Many of these products can be obtained FSC certified as standard.

Changing relationship between EU and Asia

Another factor likely to have a major impact on the demand and supply of verified wood flooring products to the European market is the shifting relationship between European and Asian, particularly Chinese, flooring suppliers. Leading European producers, who own some the world's major wooden flooring brands, have had a variety of links with Chinese and other Asian producers for some time. These links vary from full blown investment to sales agreements for marketing purposes. So far, leading Chinese producers have been selling almost all their production into Europe under European brand names.
However, there are now reports of leading European producers severing ties with Asia and reinvesting in their European production. For example Kährs from Sweden have for many years been in partnership (independently with no ownership tie up) with one of the biggest Chinese flooring producers that has been selling in China under a Kährs brand label. Kährs has also been selling this Chinese production in Europe and elsewhere as their own production. However after years of building up their partners' production and technical processing knowledge, the Chinese company launched its own worldwide brand "Powerdecor". Powerdecor is the first Chinese brand to be launched with global ambitions, but flooring market analysts expect several other Chinese producers to follow suit. These producers are now set to become major competitors of European producers. In response, the major European flooring manufacturers deliberately boycotted last year's flooring convention in China.

Chinese manufacturers reassess strategy

Meanwhile, many Chinese flooring manufacturers have been reassessing their global marketing strategy. America was initially the key target market for Chinese producers and then they began to focus more on Europe. But with changes to the health of these developed markets and the rising costs of production in China the emphasis is altering again. Many Chinese producers now seem more interested in the domestic market and other markets closer to home that offer potential growth, such as India. China is no longer the cheap producer it was. Rising fuel costs, fewer Government subsidies and rising employment costs meant by the middle of last year, there was very little cost difference in flooring products made in China compared with similar products made in the USA.
This does not mean that Europe will stop being a target for Chinese flooring. There are also signs that the cost of production has been falling in China once again during the economic downturn. But there is no doubt that joint projects in China have lost a lot of their attraction for European flooring brands. The credit crunch has reinforced this trend. As consumption has declined, leading European producers have preferred to maintain their domestic production at the expense of their overseas partners. Looking to the future, trade analysts suggest that Europe's flooring suppliers are likely to focus increasingly on the higher end of the market, on product design and development and that much of this production will remain in Europe. This will enable European flooring suppliers to ensure tighter quality control and quicker and more efficient distribution and customer service.

Threat from non-wood substitutes

A focus on green procurement will also form a major part of this new strategy. One aim will be to give European flooring brands an extra marketing edge over their emerging Chinese competitors. Perhaps even more important, an emphasis on the green credentials of real hardwood will be critical to industry efforts to counter mounting competition from manufacturers of wood look-a-like products. These generally comprise vinyl and laminated products with a décor paper face over a softwood or panel substrate. The quality, look and feel of these products have improved to such an extent that it can be difficult for the non-specialist to tell them apart from real hardwood products.


Photo credit: AHEC

Summary

The UK has progressed much further than most other European countries as a market for verified timber products. A combination of factors has contributed, notably: wide availability of supply of verified softwood and composite panels from northern Europe; high levels of consolidation in the retailer, merchant, and construction sectors; the relatively early adoption of comprehensive timber procurement policies by the largest players in these sectors; intense environmental campaigning from the late 1980s onwards; government commitment to a green timber procurement policy and to the wider provision of advice on appropriate forms of evidence in both the public and private sectors; the Olympic Delivery Authority's commitment to a "Green Games"; trade associations long term engagement in sustainable forestry issues and their mandatory requirements to commit to a responsible procurement policy; and the imposition of mandatory ratings against the Code for Sustainable Homes. All the UK's largest wood agents and importers have environmental procurement policies and most of these companies have been developing and implementing these policies now for some considerable length of time. On the other hand, there is also evidence of gaps in the market. Many public sector buyers, particularly at local authority level, are not following central government procurement policy. Proof of certification continues in some cases to be asked for retrospectively. Furthermore, the majority of smaller buyers in the joinery and furniture sectors are less interested in verified wood products. Some importers are still essentially responsive, stocking small volumes of verified wood for marketing purposes only, but not actively developing markets for these products. The willingness of many buyers to pay premiums has always been restricted, and has become more so during the economic downturn. As a result, many importers tend to source verified only when it is easy to do so, where availability is good and there is no need to pay premiums.

Table 1: Production, trade and consumption in 2007

All figures RWE volume 1000 m3 unless otherwise stated

Domestic production		**5705**
Of which	Softwood	5647
	Hardwood	58
	Suspicious origin	57
	Verified origin	4393
Imports		**27997**
Of which	Intra EU	18617
	Extra EU	9380
	Suspicious origin	2285
	Verified origin	14779
	From pred. temperate/boreal countries	22125
	From predominantly tropical countries	1949
	From countries in mixed forest zones	3918
	Softwood	17325
	Hardwood	4395
	Unknown species composition	6282
	From developed countries	19941
	From developing countries	6333
	From Least Developed countries	4
	From transition countries	1581
Exports		**2375**
Of which	Intra EU	2218
	Extra EU	157
Assumed consumption		**31327**
Population		61.2
m3/capita/annum		0.51

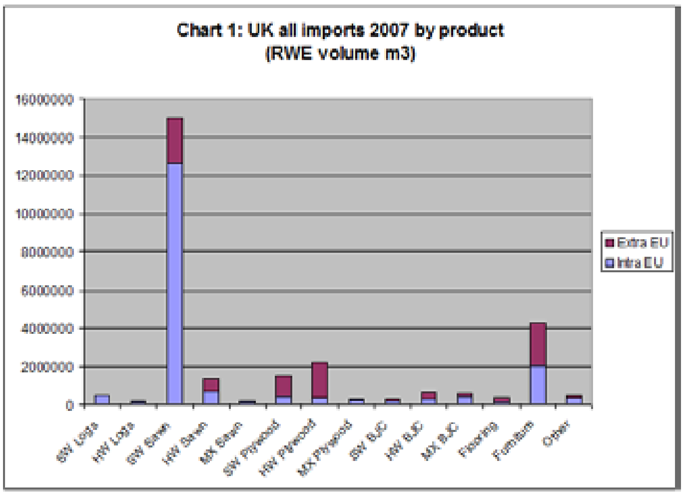
Note: Total RWE production, trade and consumption data is calculated for products derived from sawlogs and veneer logs including: sawn lumber, mouldings, plywood, veneers, building carpentry and joinery products, pallets, barrels and wood furniture. Composite panels such as fibreboard and particleboard are excluded as these often derive from smaller industrial roundwood.

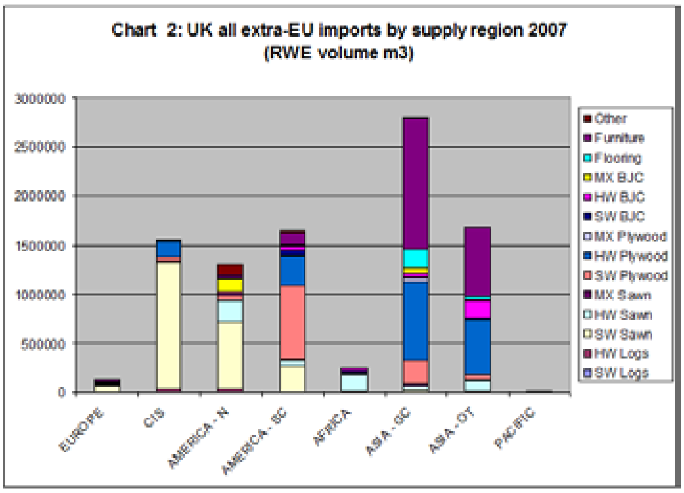
Table 2a: Leading verified supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w verified 000 m3	Value mill €	o/w verified mill €
SWEDEN	SW Sawn	5087.6	4363.9	646.4	554.5
FINLAND	SW Sawn	2121.3	2015.2	308.0	292.6
GERMANY	SW Sawn	1429.4	986.5	164.8	113.8
LATVIA	SW Sawn	1775.7	981.1	215.7	119.2
IRISH REPUBLIC	SW Sawn	546.5	531.0	58.1	56.5
CANADA	SW Sawn	622.5	498.0	105.3	84.3
FINLAND	SW Plywood	330.7	314.2	47.6	45.2
IRISH REPUBLIC	SW Logs	304.3	295.6	20.4	19.8
ESTONIA	SW Sawn	355.4	234.8	50.5	33.4
CZECH REPUBLIC	Furniture	324.0	226.0	18.0	12.6
AUSTRIA	SW Sawn	392.6	207.7	46.6	24.7

Table 2b: Leading 'risky' supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w suspicious 000 m3	Value mill €	o/w suspicious mill €
CHINA	Furniture	1278.5	404.0	1142.5	361.0
CHINA	HW Plywood	794.4	251.1	89.8	28.4
RUSSIA	SW Sawn	1277.3	182.5	157.0	22.4
LATVIA	SW Sawn	1775.7	158.9	215.7	19.3
BRAZIL	HW Plywood	260.3	110.1	40.7	17.2
VIETNAM	Furniture	222.6	76.3	169.9	58.2
CHINA	SW Plywood	234.6	74.1	27.7	8.7
INDONESIA	Furniture	130.0	73.8	97.7	55.5
INDONESIA	HW BJC	127.5	72.4	54.4	30.9
ESTONIA	SW Sawn	355.4	60.3	50.5	8.6
CHINA	Flooring	186.4	58.9	91.8	29.0





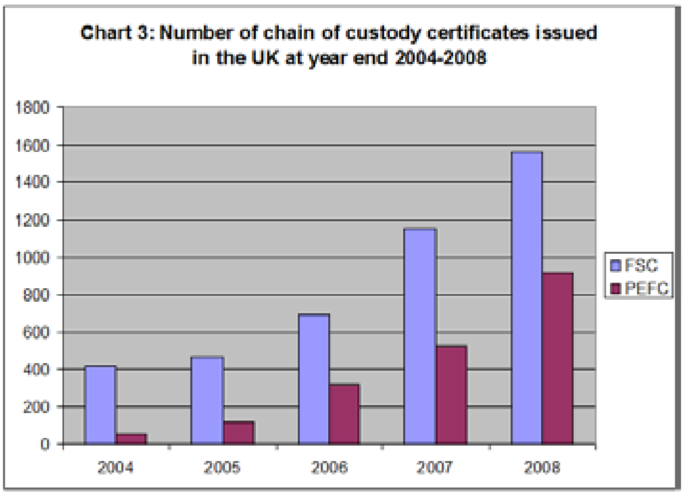


Table 3: Forest products industry structure in 2007

	Nos Enterprises	Turnover million €	Production Million €	Employment
Woodworking	8396	11029	10422	85387
Furniture	7329	14108	13273	110208
Pulp and paper	2052	16908	15945	73535
All enterprises	**17777**	**42046**	**39640**	**269130**

Table 4: Construction industry structure in 2007

	Unit	Total	% EU total
Gross investment	Billion €	166	14.0
Employment	X 1000	1822	12.0
	Unit	**Total**	**Employee/enterprise**
No. of enterprises	X 1000	209	8.7

Table 5: Production of wood based products 2003-2007 (000 m3)

	2003	2004	2005	2006	2007
Softwood saw & veneer logs	4786.0	4970.0	4939.0	5257.0	5657.0
Hardwood saw & veneer logs	122.0	81.0	64.0	56.0	58.0
Softwood sawnwood	2661.0	2711.1	2716.1	2862.4	3100.2
Hardwood sawnwood	81.2	60.6	53.4	44.7	45.4
Plywood	0.0	0.0	0.0	0.0	0.0
Veneer	0.0	0.0	0.0	0.0	0.0
MDF	835.0	880.0	841.0	872.0	865.0
Particle board	2526.0	2653.0	2557.0	2626.0	2684.0

All tables and charts on this page are based on FII Ltd analysis of Eurostat, PEFC, FSC, and UNECE Timber Committee data.

Public sector procurement policy

From January 2004 all central government departments and agencies in the UK have been committed to procuring timber at minimum from legal sources and preferably from sustainable sources. In a move to increase purchases of sustainably produced timber, the UK Government formally announced in April 2007 that only sustainable or FLEGT licensed timber will be accepted after April 2009. Only sustainable timber will be accepted after April 2015.

No precise figures are available on the proportion of UK timber demand represented by central government contracts. However, a Chatham House study suggests that, compared to private sector demand, the proportion may be relatively confined. The study suggests that the public sector is likely to account for somewhere between 10% and 20% of UK GDP, and by implication a similar proportion of timber consumption. Central government (including the Private Finance Initiative which involves public-private partnerships for delivery of public services) is thought to account for somewhere between 8% and 15% of national GDP, local authorities for no more than 3% to 5% of national GDP .

Assessing legal and sustainable timber

The Department for Environment, Food and Rural Affairs (DEFRA), the lead agency on timber procurement, has established a Central Point of Expertise on Timber (CPET), commissioned from the independent consultancy Proforest, to advise on implementation. A key area of CPET responsibility is to assess evidence of conformance against a set of criteria for "legal" and "legal and sustainable" developed by the UK government following a stakeholder consultation exercise. Two sets of criteria have been developed: Category A for independent forest certification systems; and Category B for other evidence. To date FSC, PEFC, SFI, and CSA have all been judged to provide evidence that timber is "legal and sustainable". MTCS is currently assessed as providing evidence that timber is "legal" but not "sustainable" but a reassessment is now on-going.

Judging from conversations with government officials and traders, the UK government is demonstrating considerable commitment to achieving the broad goal of ensuring widespread adoption of this policy within the public sector and also to

Structure of trade and industry

■The UK is heavily dependent on imported wood products. Domestic harvesting of saw and veneer logs in 2007 was around 5.7 million m3 while the RWE volume of imports was nearly 28 million m3. The vast majority of this wood is consumed in the UK, the country being only a relatively minor exporter of wood products (Table 1).

■Domestic wood production in the UK is dominated by softwood lumber, particle board and MDF. Production of hardwood lumber is negligible and the UK has no domestic plywood or veneer production capacity (Table 5).

■79% of the wood imported into the UK in 2007 derived from temperate and boreal countries. Of the remainder, around 7% derived from tropical countries and 14% from countries of mixed forest zones (mainly China and Brazil).

■34% of the wood imported into the UK in 2007 came from outside the EU. This is dominated by softwood sawn lumber (mainly from Russia and Canada), hardwood plywood (mainly from China, Malaysia and Indonesia), furniture (mainly from China and other parts of East Asia), softwood plywood (mainly from Brazil and China) and hardwood sawn lumber (mainly from the United States and Africa) (Charts 1 and 2).

■An estimated 53% of wood products imported into the UK in 2007 derived from verified forests. This reflects the high level of imports from northern European countries and Canada where the vast majority of forests are either FSC or PEFC certified (Table 2a).

■An estimated 8% of the UK's imports are at risk of being derived from suspicious sources (Table 2b). Risky supply chains are furniture from China, hardwood plywood from China, softwood sawn lumber from Russia, softwood sawn lumber from Latvia, hardwood plywood from Brazil, and furniture from Vietnam (Table 2b). While identified as high risk, moves towards legality verification and certification in several of these supply chains to the UK market are well advanced. This applies particularly to the supply of softwood from Russia and Latvia, and outdoor furniture from Vietnam.

■Chain of custody certification has been rising very rapidly in the UK since 2004, with FSC CoC certification outpacing PEFC certification. By the end of 2008, there were close to 1600 FSC and 950 PEFC chain of custody certificates issued in the country (Chart 3).

Office of Government Procurement

The Office of Government Commerce (OGC) is playing a role to encourage greater interest in environmental timber sourcing, particularly in the furniture sector. OGC is an office of HM Treasury which is responsible for improving value for money by driving up standards and capability in procurement, from commodities buying to the delivery of major capital projects. At present OGC accounts for only around 14% of total UK central government procurement (most Departments are responsible for their own procurement). However it is government policy to improve the efficiency of procurement by progressively increasing the role of OGC.
In order to be listed as an OGC supplier, wood furniture companies are being asked to demonstrate that they possess chain of custody under a UK government recognised certification scheme (most are FSC or PEFC certified), or provide other evidence that they are capable of supplying furniture products in line with UK government policy.
Interviews with UK furniture associations suggest that OGC policy has been a key factor driving uptake of chain of custody in the UK furniture sector. However, the overall impact of government policy on the furniture sector has been limited to date. While UK public sector demand is believed to account for between 30% and 50% of the UK office furniture market, the only other sector of the UK furniture market significantly influenced by government demand is the kitchen cabinet sector which supplies a small proportion of product into social housing. Of the over 7000 furniture manufacturers in the UK, less than 70 have so far achieved chain of custody certification. It is notable that those furniture companies that have achieved chain of custody are mainly involved in the sale of office furniture to the public sector.

extend it as far possible into the private sector. CPET guidance with respect to acceptable forms of evidence is becoming more widely used as the basis for procurement policies in both the public and private sectors. The Category A assessment of certification systems is being widely used as the basis for corporate procurement policies being implemented by timber importers and distributors and large joinery manufacturers.

Small market share but an important driver of demand

While the public sector represents only a relatively small proportion of the overall market, interviews for this project indicate that public sector procurement is an important extra driver of demand for verified wood products amongst large builders' merchants and joinery manufacturers. Internal management issues mean that if a company supplies certified wood to one major customer and certified raw material is sufficiently available, it is often simpler to switch over to 100% certified production.
The pace of uptake of FSC and PEFC chain of custody in the UK over the last two years, which has been considerably more rapid than in any other country, is strong anecdotal evidence of the impact of the central government procurement policy on the wider UK market.
But there are also remaining problems over implementation. In

Photo credit: AHEC

June 2008, CPET issued a study reviewing implementation of the policy in the construction sector. It looked at 10 relatively high profile public construction contracts involving a range of building types, contractors and government agencies. The report notes that: "the standard contract clauses used by public bodies for their construction projects varied from no specifications on timber procurement at all, to explicitly requiring certified sustainable timber only. Often the specific contract clauses were difficult to find in large contract documents, indicating that there are many other contract requirements with greater priority…..Responsibility for implementing the policy varied from contract specifiers, procurement or sustainability personnel and many interviewed within the public bodies highlighted a lack of resources and staff to deal with timber procurement".
The study also showed that of 14 central government agencies covered by the study, only 4 were implementing a policy in accordance with DEFRA's detailed guidance. 8 others have a policy that goes "beyond the current policy guidance by specifying sustainable timber only". Some agencies still refer to "FSC or equivalent", or in one case "FSC only" as evidence required. Only two of the 14 bodies were found to have actively raised awareness with procurement personnel through training and workshops. Generally there was relatively limited knowledge of the central Government timber procurement policy amongst the personnel interviewed by CPET.

Complicated and confusing purchasing guidance

Further problems in interpretation have arisen following on from the UK government's decision to amend the policy from April 2009. The decision to change policy in this way was presented as a fait accompli to outside interests. Subsequent consultation focused only on the challenges of implementation. The procurement guidance that emerged from this consultation includes various complicated measures designed to circumvent potential obstacles only identified after the event. For example the question of how to deal with wood from private non-industrial forest owners with very fragmented supply chains which impede efforts to demonstrate "sustainability" in accordance with DEFRA's requirements. In practice, interviews undertaken for this study suggest that the new guidance, together with the "Category B" criteria for assessing forms of evidence other than certification, are regarded as overly complicated and potentially confusing. The guidance seems poorly adapted to resolving the problems of varied interpretation identified in the construction sector survey. To simplify their conformance efforts, all the traders interviewed for this study are simply assuming that government procurement agencies will require wood to be certified under one or other of the recognised "Category A" systems.

Olympic Delivery Authority

The Olympic Delivery Authority (ODA) is one government agency that is having an impact on the UK market for verified wood. Developments for the 2012 Olympic in London will be on a large scale, comprising 11 main sports venues, a media centre, an athlete's village housing more than 17,000 people, plus associated infra-structure. The ODA has made a commitment to ensuring that London 2012 will be remembered as the 'Greenest Games in modern times'. The materials section of the ODA strategy emphasises responsible sourcing. ODA has indicated that it will seek to ensure "100% of timber to be procured from certified sustainable and legal sources", with appropriate supporting evidence as defined by CPET. As with most other UK government agencies, the assumption has been that all timber must be assured under Category A (certification) evidence. As part of the ODA strategy of working only with a limited number of direct contractors and to help ensure only sustainable timber is delivered, the ODA has said that most wood supplied directly to the main contractors for the Games should be derived from timber suppliers appointed to a dedicated 'Timber Supplier Panel'. The 16 companies appointed to the Panel in November 2008 were selected on their capacity to supply the volumes needed combined with their ability to meet the environmental rules. Several large builders' merchants interviewed for this study identified their desire to be represented on the Panel as a significant factor behind a more concerted move to clean up their wood supply lines over the last 2 years.

BREEAM and the Code for Sustainable Homes

The Building Research Establishments Environmental Assessment Method (BREEAM) and the related Code for Sustainable Homes (CSH) have some potential to be more important drivers of demand for verified timber in the UK.
BREEAM is a tool for comparing the environmental impact of whole buildings across their entire life cycle. Buildings are scored overall out of a hundred on a scale of 'Pass' (over 36 points), 'Good' (over 48 points), 'Very Good' (over 58 points) or 'Excellent' (over 70 points).
The government announced in its sustainability action plan "Achieving Sustainability in Construction Procurement" that from March 2003 all government procured projects must achieve a BREEAM or equivalent rating of "Excellent" for new build and "Very good" for refurbishments. Survey evidence suggests that this policy has not yet been fully acted upon – there are widespread reports of local authorities dropping an earlier commitment to BREEAM rating of projects following cost assessments. Nevertheless, implementation of BREEAM in the UK has progressed much faster and further than any other Green Building Initiative operating in a European country. The number of housing units certified to BREEAM in the UK annually increased from 15,000 in 2004 to 35,000 in 2007. Meanwhile the number of developments registered annually with the BREEAM office scheme increased from negligible levels in 2003 to 800 in 2007.
Recent government policy commitments suggest that uptake of the BREEAM standard will become much more extensive in the future. The Code for Sustainable Homes (CSH), which draws directly from the original BREEAM "Ecohomes" concept, was introduced as a standard in England in April 2007 and became mandatory for new homes in England in May 2008. This means that all homes are either assessed against the Code and are given a certificate indicating the rating they have achieved, or they are not assessed and are deemed to have achieved a zero rating against the Code. The rated or zero-rated certificate is contained in the wider Home Information Pack (HIP) which must be supplied to buyers of nearly all homes in England.
Data on the numbers of projects rated against the CSH is not available at time of this review. In the short term the impact of CSH may be constrained, given the state of the housing market and given that house builders can still opt for a zero rating. On the other hand, all public housing must already achieve a 3 star rating in order to obtain central government funding. With the downturn in private sector construction, expanding market share in publicly funded projects has become even more important for the large building contractors. And in the private sector, some planning authorities and clients are already demanding that housing be rated.
In any case, assessment is expected to become mandatory in 2010 and the Government has stated that by 2016 all new-build homes must be zero carbon and therefore comply with Code Level 6. Judging from the huge interest in BREEAM and the CSH at the Ecobuild trade show at Earl's Court in March 2009, many large house builders are already working on the assumption that achieving strong ratings against the CSH will be a crucial factor in long term market development.
To some extent, the role of both BREEAM and CSH in driving demand for verified timber is limited by the relatively low priority (and therefore credits) attached to responsible sourcing under both standards. The allocation of points is heavily weighted towards meeting energy efficiency/carbon dioxide requirements, health and well-being, and local environmental issues. Under CSH, the issue of responsible sourcing accounts for only 2.7% of the total score.
On the other hand, with increasing availability of certified wood products, these credits are regarded as amongst the easiest and most cost effective to achieve. Furthermore, timber frame and joinery manufacturers have now identified the CSH as a key opportunity to expand market share for timber in the UK construction sector. They have a strong interest in maximising credits to be derived from their products, including through supply of verified products as standard.
The actual allocation of points for "responsible sourcing" under BREEAM and the CSH requires a complex calculation based on the volume of responsibly sourced product used in each separate building element, in combination with the quality of the evidence provided. The scores available for different forms of forest certification and legality verification are adapted directly from the CPET assessments.
At present neither BREEAM nor CSH establishes a mandatory requirement that all timber used in rated projects must at minimum be derived from a verified legal source. However in order to achieve any credits for responsible sourcing under either scheme, there is a minimum requirement that timber be accompanied by a signed declaration from the supplier that it is legally sourced and not a CITES listed species.

Private Sector Initiatives

TTF Responsible Procurement Policy

Since 2002, all TTF members have been formally committed to an Environmental Code of Practice requiring that they only source timber products from "legal and well-managed forests". They have also been required to recognize that "the independent certification of forests and the process chain is the most useful tool in providing assurances that the timber they deal in comes from legal and sell-managed forests" and to "implement within their business, company or group a system of environmental due diligence." The Code of Practice is backed by a complaints procedure.

In June 2008, it also became mandatory for all members of the TTF to comply with the TTF Responsible Purchasing Policy (RPP), a tool to assist companies to comply with the Code of Practice. It provides a framework to assess the risk of illegal and unsustainable wood products from non-certified sources entering supply chains. When a company signs up to the RPP, it has one year to undertake a comprehensive risk assessment of all it suppliers using a structured questionnaire. It must then set internal targets to systematically eliminate high risk products and suppliers. Signatories to the RPP must submit annual reports to TTF. Independent auditors are employed by TTF to verify the annual reports and to recommend corrective actions. The RPP draws on the CPET definitions for "legal" and "legal and sustainable" timber.

BWF Code of Practice

The British Woodworking Federation has around 450 members, which in terms of numbers covers only 10-12% of the joinery sector. However, BWF members are more significant in terms of value and volume of production. Just two large BWF member companies (both of which were interviewed for this study) are estimated together to account for perhaps 40% of the UK stair market, 25% of the UK window market, and 60% of the internal door market. Most other companies in the sector are very small: 80-85% of the BWF membership (and the overall sector) are SMEs employing less than 10 people and making less than 3 million per annum. While the majors directly import some product from overseas, the vast majority of BWF members deal only in landed stock and are reliant on other companies that import timber. BWF also note that the vast majority of timber windows manufactured in the UK (around 94%) are manufactured from Scandinavian timber. Only a small volume of tropical hardwoods are used (notably meranti and sapele) for upper-end products.

In 2002, the BWF launched a code of conduct which is binding on all members. BWF personnel visit every member company once every 4 years to assess their conformance to the code. With respect to timber sourcing, the code states that "all members will be expected to use their best endeavours to purchase new timber or wood based products from supply sources which can confirm, by independent certification such as the FSC, PEFC, or any other recognized system, that such products come from well managed and sustainable sources."

The commitments for members of the Timber Window Accreditation Scheme (TWAS) are more stringent than those imposed by the Code. All timber and wood based materials used for the manufacture of windows covered by TWAS must derive from independently certified sustainable sources. These are taken to include FSC, PEFC, CSA, SFI, or MTCS. It's notable that BWF's other accreditation system, for fire door and doorsets, does not include any extra requirements for sustainable sourcing of products. This a pragmatic response to the greater challenges associated with obtaining independent verification for the wide range of wood products and sources – including tropical forests – involved in the manufacture of fire doors.

In an interview in late 2008, a representative of BWF noted that, despite the Code, only a small proportion of BWF members have sought chain of custody certification and is marketing labelled products. To overcome barriers to chain of custody certification, BWF is operating an FSC group CoC system. To date there has been limited take up, particularly as the economic downturn has meant that forest certification has generally become a lower priority. However, BWF comment that demand for certified wood has been rising, particularly for public sector contracts where the level of scrutiny has been rising.

Hardwood lumber

Interviews indicated high levels of commitment amongst importing companies to overcoming the remaining barriers to supply of verified hardwood products. An interview with one of the largest UK hardwood importers provides an insight into the operations and policies of a particularly proactive company, of the market pressures, and also the constraints still facing these companies. This company is both PEFC and FSC CoC certified. Company policy is not to demand that all wood be verified legal since "it is never possible to be 100% certain even when dealing with low risk countries and suppliers". Due to the complexities of some supply chains and technical limitations of chain of custody systems, importers are always dealing with degrees of risk and never with absolutes when considering legality of timber supplies. This company uses Proforest to assist with risk assessment and to undertake second party audits of suppliers where there is uncertainty. The CPET and GFTN approach and definitions to green timber procurement are used.

Similarly it was noted that while a shift to sustainable timber is the "ultimate objective", experience has shown that it is not a useful approach to establish firm target dates for "100% sustainable wood". While this company is a reasonable size – and bigger than most other UK hardwood importers - it is not so influential that it can exert complete control over the supply chain. Instead the company has adopted SMART targets in line with the GFTN approach. These are short-term time-bound targets constantly kept under review with the aim of progressively ratcheting up performance, moving suppliers from verified legal to sustainable. Internal reviews of progress against the SMART targets are undertaken every quarter. The company is also ISO14001 audited, creating new obligations for internal review and annual external audit.

Buyers tightening procurement policy

On the issue of market demand for verified timber, this interviewee suggested that that there is now a progressive tightening of procurement policy amongst a wide range of key buyers including large builders merchants, the major construction companies (Carillion, Bovis, Balfour Beatty, Sir Robert MacAlpine), and government departments. It was suggested that the "implementation of procurement policy by builders and developers is entering a new phase". Furthermore, pressure is mounting from UK high street banks for timber companies to show appropriate due diligence. Banks are in the early stages of asking these questions and their approach tends to be fairly unsophisticated, but the trend is expected to intensify.

May pay significant premiums for verified

This company has been willing on occasion to pay significant premiums for FSC certified hardwood (up to 20% for tropical and 10% for American), and 5% premiums for credibly legally verified. But the willingness of their customers to pay premiums varies enormously, with some willingness in the public sector and amongst the large merchants and building contractors.
This interviewee highlighted the importance of importers and agents taking a lead to develop markets for certified wood amongst their customer base. This was also the theme of comments from a representative of a leading UK hardwood agency acting on behalf of suppliers in North and South America, the Far East, and Africa. This company is committed to ensuring that all the wood it supplies derives at minimum from legally verified sources, moving progressively to certified sustainable. The company is both FSC and PEFC certified and also operates a comprehensive risk assessment procedure using supplier questionnaires backed up by a program of regular site visits. A staff member at board level is responsible for monitoring progress. The company sells to "90% of the UK's leading hardwood importers".

Certified European wood supplied as standard

This agency now regularly sources European hardwood, both FSC and PEFC as standard without charging any premium. American hardwoods are more difficult to obtain certified – premiums can be high, over 10%, but more importantly significant compromises may have to be made with regard to grade and specification. However the available supply is probably sufficient to meet the still restricted level of end-user interest. This company representative noted that the key problem area with regard to obtaining certified hardwood is probably Africa, although the recent move to FSC certification in the area suggests these difficulties are being overcome. Furthermore, it was felt that the widespread move to FLEGT VPA licensing would be very

beneficial in Africa. There might be some willingness amongst his customers to pay small premiums for FLEGT VPA licensed African timber when no alternative certified products are available.
This agent is very active in developing markets for MTCS certified wood products in the UK, noting that he will only buy MTCS wood from Malaysia and will purchase whenever he can get it. This agent has been actively pushing all customers to take only the certified product from Malaysia. He noted that "even the most reluctant have now come round to the idea because by purchasing certified, they now have flexibility to sell into both public and private sector". His customers are now buying MTCS as standard despite the small premium (typically 2%) over non-certified.
A similar story was told by another agent specialising in supply of Malaysian wood to the UK. 90% of what the company now sells from Malaysia is MTCS and much of the rest is VLO. There are also small volumes of FSC certified wood from Malaysia but producers are demanding premiums of 20% to 30% which are well above the willingness of the UK market to pay. This agent noted that all the major importers are now paying a little bit extra to be supplied with MTCS certified or VLO timber

Softwood lumber

Three of the UK's largest softwood importing companies were interviewed for this study. All indicated that the vast majority of their wood (in each case well in excess of 90%) is now supplied as certified, with FSC generally preferred over PEFC. Huge strides have been made in the last two years to overcome remaining hurdles to forest certification in key supply areas including Russia and the Baltics.
One of the interviewees noted that "within the next few months we can expect to see uncertified softwood products to be discounted as certified price becomes fully established as the accepted market price". The big merchant groups have been key drivers behind this process – two of the interviewees noted that the merchant groups account for around 30% of their sales. Outside the merchant groups, interest in certified wood has been patchy so softwood importers are investing in communication campaigns to raise awareness of the certification process amongst customers. One interviewee felt that "the tipping point has not yet been reached where all customers are demanding legal and sustainable timber but it is approaching….Despite some apparent customer lethargy, we must be seen to do the right thing and push for the sourcing of all timber as legal and sustainable". As things stand, most customers are far more interested in product technical specifications.
The only softwood products still difficult to obtain certified are speciality products from North America. While small quantities of CSA certified product can usually be sourced, there is generally very little FSC product available.
Meanwhile, softwood suppliers are increasingly engaged in efforts to expand into markets traditionally occupied by hardwoods, with forest certification often a key component of the marketing effort. For example significant volumes of FSC certified Russian larch are now being imported into the UK to compete directly with tropical hardwood decking products. Nearly all the major hardwood importers are also now offering some form of heat treated certified softwood as a "green" alternative to tropical hardwood in the manufacture of window frames, decking, flooring and cladding. Examples of heat treated branded products include Accoya, Lignia, and Lunawood. While prices are often similar to hardwoods for comparable applications, availability of these heat-treated products still tends to be quite restricted.

Northern Ireland

An interview with a major importer in Northern Ireland provides a broader regional perspective to demand for verified hardwood lumber. The company sources from across the globe, focusing mainly on hardwood, although they also offer clear grade softwoods and have separate divisions trading in plywood and finished doors. Although based in Belfast, the company serves importers, manufacturers and small retailers throughout Ireland.

Demand only from high profile public projects

It was noted that customers only demand certificates if the wood is being used for high-profile publicly funded projects in either North or South. For example, this company was recently asked by an importer for FSC certified tropical hardwood for a Government funded project in Dublin.

Generally the company has struggled to obtain FSC certified products at a price that is acceptable to their customers. With regard to African hardwood, it is noted that they can now source FSC-Pure product from their suppliers in the Cameroon, but the producer has been looking for at least a 20% premium. Even the most committed customers in Ireland have been unwilling to pay this kind of premium. So far, the company has not been able to sell any of this production in Ireland. However the African producer has been unwilling to reduce prices claiming that these premiums are being paid in other European markets, including Germany, Belgium and the Netherlands. FSC-Mixed products (believed to be 70% certified) are being offered from the Congo by various suppliers, and these might be an option for the future if prices are lower.

Lower quality and choice of certified American wood

For US hardwood, the company is able to source a FSC certified material and the suppliers want a premium (5-10%). However the reality is that the quality and choice of specification does not match their American suppliers' usual production "so you end up paying more for less". Therefore, despite achieving FSC chain of custody certification, this company has yet to handle any FSC certified hardwood

Customers looking for reassurance of legality

This interviewee suggests that importers in both Northern Ireland and the Republic are increasingly seeking assurance and information that their supplies are legal. In some cases importers ring up after the event and are enquiring for information on parcels of wood they bought a while ago. It appears that their customers are just beginning to ask serious questions about origin, legality and sustainability. To a large extent, pressure is being applied according to a primitive assessment of risk. For example, US hardwoods are not seen as a problem whereas, according to this interviewee, the majority of architects in Ireland have made a conscious decision not to use any tropical wood.

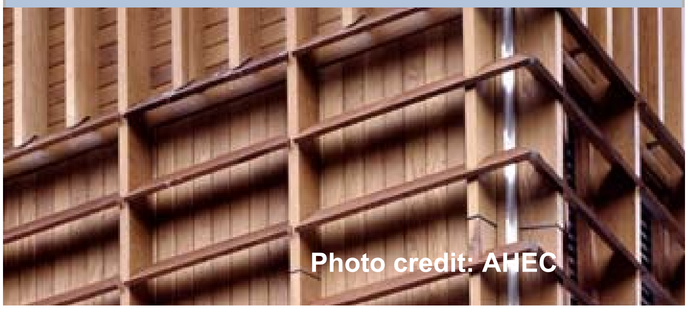


Photo credit: AHEC

and this is now the standard market price in the UK. However it was also noted that customers in the importing and manufacturing sector are not actively specifying verified or certified wood products – but they being supplied it anyway.

Insight into market for certified African wood

An interview with the UK-based sales office of a large timber trading company with concessions in Africa provides an insight into the current UK market situation for verified African timber. It was suggested that obtaining legally verified wood from Africa is more challenging for those traders without their own African concessions, giving this company a competitive advantage over some competitors. 80% of the timber supplied from Africa by this company is now legally verified. FSC certified wood will soon be available. A 3 to 4% premium may be obtained for legally verified African hardwood in the UK and potentially 10% for certified. This falls well short of the expections of the African producers who want a much bigger return on their substantial investment in certification. UK customers will not pay the required premium for African certified products, therefore this company has focused more on supplying verified legal. It was noted that there has been no significant increase in UK demand for FSC certified products over the last 2 years, but there has been "a significant year on year increase in demand for legally verified wood products". It was suggested that customers for tropical timber are now actively seeking verified legal products and that "we would definitely have missed out on substantial sales without being able to supply verified legal product - it would have been a major problem."

A sceptical view of market demand

A representative of another very large bulk importer of hardwood into the UK was sceptical about the growth in demand for certified products. It was noted that "taking into account all the volume we sell into the UK, dealing with most of the main importers and many leading manufacturers, we have very little demand for certified timber". This company is maintaining some key supplies of FSC certified product as part of their green marketing simply to demonstrate that they can source labelled wood when required – "but ultimately it is the quality and price that are the main criteria for the bulk of my customers". It was noted that while overseas hardwood suppliers demand price premiums – 5% for verified legal African and 10% for FSC certified American - the vast majority of customers are unwilling to pay and will almost always opt for the cheaper unverified product. Therefore this company has to absorb the cost and has little incentive to stock larger volumes. However this company can now source all their European hardwood FSC certified. It was noted that there is strong demand for FSC certified Croatian oak, which attracts high prices. However here the premium is achieved because buyers like the high-yield good-quality Croatian product and not because the wood is FSC certified.

London property companies not requiring certified

A smaller specialist importer - dealing in around of 50 different wood species mainly from the Americas, some very exotic (for example mango wood) - also reports very little demand for certified products. It was noted that generally customers – which include high class London based property management companies – are not demanding certification and certainly would not be willing to pay a price premium. He felt that as long as everyone in the chain has made an effort to ask about legality and sustainability and some information is forthcoming, this is usually enough to satisfy even the more conscientious customers.

Plywood & OSB

As in other sectors, there is strong commitment amongst UK plywood importers to purchasing only verified wood. Two of the UK's largest independent plywood importers were interviewed for this study, together with an agent specialising in FSC certified plywood from China. Both the importers reported that they have been implementing now for several years procurement policies designed to shift progressively from unverified to verified wood products. Both were using comprehensive risk assessment systems, had internal monitoring systems to assess progress, and were working to CPET definitions of "legal" and "legal and sustainable". One of the companies reports that all their plywood is already independently certified or legally verified. The other noted that at present 53% of their wood purchases are FSC or equivalent, and that they have established a target of 60% to be achieved within the next 12 months.

Large merchants paying premiums to secure certified

As in other sectors, it is reported that the large merchants have been willing to pay premiums to secure certified material. These companies probably account for at least 50% of the plywood supplied into the UK. The timber frame contractors also tend to buy small volumes of FSC certified plywood. However other manufacturers and smaller retailers do not generally demand verified products and have been unwilling to pay premiums.
An obstacle to purchasing verified tropical hardwood plywood products in the past has been the large price differential that exists between unverified Chinese product and verified products which generally derive from other more expensive sources, notably Malaysia and Brazil. Typical retail prices for unverified material quoted in early 2008 for 18 mm WPB hardwood faced plywood were £15.60 a sheet for Malaysian, a similar price for Brazilian, while Chinese was retailing at £11.50. While the merchants were taking the more expensive certified material, a large sector of the market were still willing to buy the cheaper unverified Chinese product. With price differentials like this, it was difficult for plywood importers to justify a shift to 100% certified sustainable. One of the interviewed companies comments: "we are very concerned to demonstrate a clean image but we are not interested in certification at any price….commitment to certification and legality verification has to be commercially viable".

OSB substituting for plywood

Solutions to these problems are emerging. Increasingly OSB, which is price competitive and readily available FSC certified from domestic and other European sources, is being substituted for tropical hardwood plywood in a wide range of applications. OSB comes in two grades: OSB2 for general purpose applications, including boarding up, site hoarding, garden sheds, packaging, pallets, furniture and temporary works; and OSB 3 for structural load bearing, including applications such as wall sheathing, flooring, and roof decking.
Another solution is provided by the concerted actions of various mills in Malaysia and China to develop more cost-effective FSC certified plywood products. FSC certified Malaysian products comprise a radiata pine core under a tropical hardwood face. Chinese FSC certified products generally comprise either a poplar or eucalypt core with a tropical face. Both these products can be obtained to CE2+ grade which means that they may be used for structural load bearing applications. Some can be obtained as FSC-Pure product.

Tropical plywood still favoured for some applications

These are only partial solutions in the sense that the certified products are not directly comparable to the tropical hardwood plywood products being replaced. There are certain applications still requiring the durability of tropical hardwood throughout plywood – for example marine applications and soffits on houses. Obtaining certified tropical hardwood plywood appropriate for exposed external applications remains challenging. Small volumes of MTCS from Malaysia and FSC product from Indonesia are reported to be available but premiums can be high, particularly for FSC, and the market has generally been unwilling to pay. In mid 2008, before the economic downturn, FSC certified tropical hardwood throughout plywood from Malaysia was being offered at around a 15% premium compared to the unverified product to UK buyers.

Photo credit: Mawson Lumber

Builders Merchants

The UK's large builder merchants, all of which were interviewed for this study, have far-reaching procurement policies giving preference to verified wood products. To some extent they are being driven by end user demand. One interviewee suggested there has been a "huge increase in demand for certified products". It was suggested that interest in certified wood products amongst their customers "increased at least ten fold in the last 18 months…we now have 30 to 40 major accounts insisting on purchasing solely certified products compared to only 2 or 3 accounts 18 months ago".
While very significant, this comment needs to be put into perspective. According to this interviewee, the new demand is emerging strongly amongst the big national corporate and house builders, probably 90% of which are now interested, while perhaps 40% of builders at regional level are showing an interest. Meanwhile demand at the level of the small construction and joinery company operating at local level, which account for a very large share of overall consumption, is negligible - "perhaps only one in a 100 or even a 1000". Other interviewees described the growth in demand in more measured tones. One noted that "while end user demand for verified timber is generally increasing, the pace of growth is not as great as 12 months ago". It was also noted that, while the merchants groups may pay a premium for verified wood, it is very difficult for them to pass this on to their customers. Generally speaking this is only possible with FSC timber and the right customers.
Interviewees also suggested that direct end-user demand is

Furniture sector

From the perspective of illegal wood, the trade in interior furniture with China is amongst the UK's riskiest supply chains. While some of the large retailers have taken concerted steps to reduce the risk of illegal wood entering outdoor furniture supply chains, the signs are that the smaller retailers and the indoor sector are some way behind.

In a recent interview, a representative of the UK Furniture Industry Research Association (FIRA) noted that in the supply of furniture to the private sector, "price and quality are by far the most significant factors influencing demand, with environmental issues well down the list". There are also "a lot of companies doing very little (on environmental issues)", the key problem being the predominance of small companies with generally very low awareness.

Demand for certified 'increased substantially'

The FIRA representative noted that demand for certified furniture products "has increased substantially" over the past 18 months, but that this pressure is focused squarely on the office furniture sector. This reflects demand coming primarily from government departments and, to a lesser extent, the major banks, building societies and utilities (gas, electric, water companies). Much of the demand for verified product in the office furniture sector is satisfied by domestic furniture manufacturers and comprises primarily chipboard and MDF rather than higher value solid wood products.

FISP encourages responsible sourcing

FIRA is encouraging more action on responsible sourcing through the Furniture Industry Sustainability Programme (FISP) which was launched in February 2006 with UK government backing. FISP targets UK manufacturers rather than retailers and importers. Participants in the programme are required to comply with a range of commitments, two of which are mandatory: to prepare and publish an environmental policy; and to ensure legal conformance. Participants are also required to adopt at least another seven core commitments from a list of nine. One core commitment is that the company has a procurement policy in place which must cover key environmental and social issues relevant to the countries of origin. Another core commitment is that the company has implemented either FSC or PEFC chain of custody. Companies may sign up to the programme as "Associate Members" and have two years to become "Full Members" when they have to demonstrate full conformance with programme requirements. Company conformance is audited by FIRA.

Membership of FISP is currently restricted but has been rising rapidly. There are now 53 full members (up from only 13 two years ago), with a further 6 associate members. Of these 48 companies use wood products and 35 have chain of custody. Membership is dominated by the largest UK manufacturers, so the limited numbers are estimated by FIRA to account for 15-20% of total furniture sales in the UK.

only one factor amongst several that is now driving merchants' interest in verified wood products. At least as important are concern for reputational risk, the threat of imposition of potentially more far-reaching controls through legislation, and corporate social responsibility generally. One interviewee noted that their company is currently listed in the FTSE For Good Index and they have every intention of staying there. Increasingly the large UK merchants see their role as gate keepers, taking responsibility for complicated wood sourcing issues on behalf of their customers. These companies have also generally been supportive of the EU's due diligence legislation which could reinforce the benefits of buying through large groups.

Comprehensive procurement policies

Timber procurement policies implemented by the big merchants groups are comprehensive and all share certain features including:

- Risk assessment with follow up requirements for independent third party certification or legality verification in areas of high risk
- Stepped approach, continuously increasing the sourcing of timber from known, legal, progressing to certified and certified sources.
- Flexible and responsive SMART targets rather than commitments to "100% verified legal" or "100% verified sustainable". One of the interviewees noted that their key performance target was to ensure that 67% of timber derives from certified sources by the end of 2008. Another indicated that their target was for 85% of all wood products to be certified by the end of 2008.
- Essentially using the CPET definitions for sustainability - that is recognising FSC, PEFC, SFI, and CSA – although without using the CPET Category B requirements which are regarded as impractical for sustainable.
- Regular first party audits of suppliers on the ground in high risk countries using company staff or other sub contracted services (e.g. TFT).
- Willingness to pay price premiums within reason and to investigate completely new supply sources in order to meet the targets. One interviewee noted that as a general rule, the group was willing to pay up to 5% premium to acquire legally verified or certified product. Another indicated that they would pay 2-4% for legally verified and certainly less than 5%. Higher premiums may be paid for FSC certified products.
- Regular public reporting of progress with external audits either by the WWF GFTN or the TTF RPP.

Remaining constraints

On remaining constraints to introduction of these procurement policies, one interviewee noted that "the shortage in supply is a problem for some products, but probably the biggest constraint is the existence of two conflicting schemes, which often means we end up having to sell certified products as uncertified". This is because the 70% threshold limits for each individual scheme cannot be met.

There are also continuing complaints that some public authorities, particularly at local level, are not applying CPET regulations and that procurement officers in local authorities are frequently not informed even if the authority does have a policy. Another comment is that private sector customers (mainly building contractors) "don't understand this issue at all".

One interviewee noted that while the company has a 5 year plan to eventually source everything certified, a move to 100% certification is unlikely as the company will always want to supplement it's range of large stock items with smaller and flexible volumes of more specialised products which may be difficult to obtain certified.

Joinery Manufacturers

Interviews with the UK's largest joinery manufacturers indicates that these companies have made a concerted move to increase delivery of fully certified product lines, usually FSC, over the last 2 years. Although this process has been facilitated by the heavy reliance on softwood and composite products in the sector, which are readily available certified, it has also on occasions involved a complete shift to new sources of supply and materials.
An interview with a representative of one company accounting for a sizeable chunk of UK market share in the windows, door and stair sector, highlights that increasing end-user interest and demand has been a key factor driving this shift. This interviewee suggested that:

- in the retail sector (accounting for 20% of overall company sales), all their customers require that products be independently certified;
- in the public sector (accounting for 20% of overall company sales), all their customers require that products be independently certified;
- in the merchant sector (accounting for 50% of overall company sales), around 50% want certified as standard, whereas 50% want certified on an occasional basis;
- in the house building sector (accounting for 10% of overall company sales), all the large companies, which account for around 50% of sales into this sector, want certified. Smaller construction companies are not generally demanding certified, but interest is increasing even amongst these customers.

Decisive move to supply only certified product

This interviewee notes that over the last 6 years the company has moved decisively to supplying only certified product. It recently carried out an internal study which indicated that 97% of all timber purchases now meet the CPET Category A sustainability criteria. Only 3% is not currently verified either legal or sustainable. The vast majority of product comprises softwood and composite materials. The company never pays a premium on PEFC material, and only occasionally on small volumes of specialist FSC material. The only remaining constraint to 100% certification is lack of supply of relatively small volume hardwood components – for example hardwood veneer (which is typically used over an engineered wood or composite panel substrate).
Interviews with a number of UK window manufacturers at the Ecobuild show in March 2009 suggested that the vast majority of products now comprise solid softwood or engineered wood products. Many manufacturers at the show noted that while they still supply small volumes of sapele and meranti product, they have also made a concerted effort to transfer to non-tropical substitutes that are more readily available FSC certified. These substitutes include plantation grown eucalyptus from South America and South Africa, and a range of heat-treated softwood products from Scandinavia and New Zealand. While the latter are still available only in small quantities, prices are competitive against tropical hardwoods, particularly as all are provided FSC certified as standard. Their performance is also extremely strong – one manufacturer noting that he is willing to offer a 50-year guarantee for his heat-treated softwood product, compared with a 40 year guarantee for his tropical hardwood products.

Some joinery manufacturers want tropical wood

An interview with another of the UK's major joinery manufacturers suggests that not all UK joinery manufacturers are so willing to switch to alternative species. Although this company is making similar concerted efforts to source verified wood products, significant volumes of tropical hardwood continue to be used for high-end window and door manufacture. The company will only use timbers which are available in significant commercial volumes, which for tropical hardwoods implies either sapele or meranti which tend to be held in volume by the importers.
This company is not interested in sourcing lesser known species – it wants consistent long term supply and quality. Given the problems of sourcing sapele and meranti as fully certified, this company has established legally verified as the minimum requirement. It will pay up to 5% premium for this timber despite lack of willingness on the part of final consumers to pay more.
An interview with a representative of another smaller window manufacturer selling primarily into the commercial sector also suggested a continuing preference for sapele on commercial and technical grounds. This company's policy on timber verification was entirely client-led. They would only supply verified when specifically requested by a customer, which in their experience happened rarely. They were currently able to source the small volumes of FSC certified sapele required from their main supplier (a leading UK hardwood importer) and at present (as a long term customer of this importer) were not being asked to pay a premium.


Photo credit: AHEC

Summary

Interest in and demand for verified legal or certified wood products seems limited in Germany's timber trade. The Federal government timber procurement policy, which favours FSC and PEFC certified wood products, seems to be barely impacting on large sections of the trade. The survey indicates high levels of industry scepticism and trader fatigue with the concepts of legality verification and certification. There is very little recognition of, or appetite for, proactive measures by importing companies. This is both a reflection of and a cause of the timber importers association not engaging in efforts to develop and push demand for verified wood products. There is a strong prevailing view in the trade that, while some overseas suppliers need to improve their performance, it is not a responsibility of importing companies to help drive this process. For those dealing in certified timber, there is a strong sense that demand is very fragile and that the emergence of alternative mechanisms for legality verification might undermine and confuse this market.

Table 1: Production, trade and consumption in 2007

All figures RWE volume 1000 m3 unless otherwise stated

Domestic production		**46798**
Of which	Softwood	42800
	Hardwood	3998
	Suspicious origin	468
	Verified origin	32291
Imports		**23672**
Of which	Intra EU	16668
	Extra EU	7004
	Suspicious origin	1965
	Verified origin	11202
	From pred. temperate/boreal countries	20993
	From predominantly tropical countries	938
	From countries in mixed forest zones	1778
	Softwood	10639
	Hardwood	3831
	Unknown species composition	9244
	From developed countries	17179
	From developing countries	2763
	From Least Developed countries	36
	From transition countries	3609
Exports		**29123**
Of which	Intra EU	22039
	Extra EU	7084
Assumed consumption		**41347**
Population		82.1
m3/capita/annum		0.50

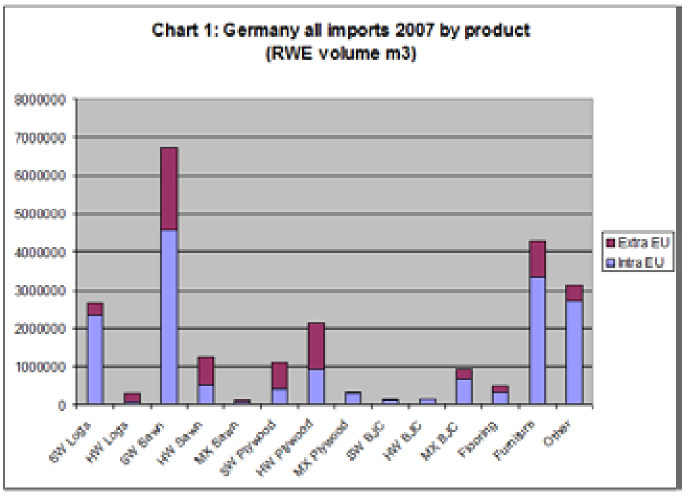
Note: Total RWE production, trade and consumption data is calculated for products derived from sawlogs and veneer logs including: sawn lumber, mouldings, plywood, veneers, building carpentry and joinery products, pallets, barrels and wood furniture. Composite panels such as fibreboard and particleboard are excluded as these often derive from smaller industrial roundwood.

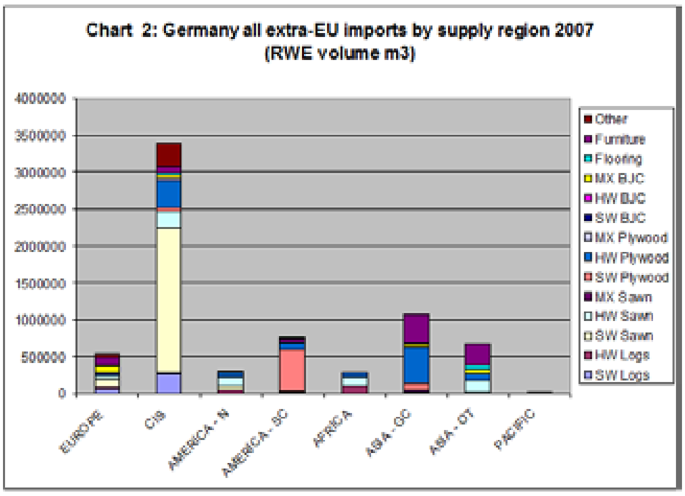
Table 2a: Leading verified supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w suspicious 000 m3	Value mill €	o/w suspicious mill €
RUSSIA	SW Sawn	1491.5	213.1	181.6	25.9
CHINA	HW Plywood	497.1	157.1	81.4	25.7
CHINA	Furniture	365.2	115.4	253.6	80.1
UKRAINE	SW Sawn	282.2	68.1	19.1	4.6
RUSSIA	SW Logs	267.9	63.8	23.9	5.7
RUSSIA	HW Plywood	298.4	56.9	68.9	13.1
POLAND	Furniture	1261.9	51.3	865.8	35.2
INDONESIA	HW Sawn	88.2	50.1	39.3	22.3
POLAND	Other	1138.4	46.3	128.4	5.2
INDONESIA	HW Plywood	78.6	44.6	20.2	11.5
BRAZIL	SW Plywood	550.5	38.5	49.8	3.5

Table 2b: Leading 'risky' supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w verified 000 m3	Value mill €	o/w verified mill €
SWEDEN	SW Sawn	1049.2	899.9	149.9	128.6
POLAND	Furniture	1261.9	748.5	865.8	513.6
POLAND	Other	1138.4	675.3	128.4	76.2
FINLAND	SW Sawn	694.4	659.7	95.7	90.9
SWEDEN	SW Logs	750.1	643.4	52.9	45.3
AUSTRIA	SW Sawn	932.7	493.4	105.5	55.8
CZECH REPUBLIC	Other	638.3	445.3	71.3	49.7
CZECH REPUBLIC	SW Sawn	585.7	408.5	63.9	44.6
CZECH REPUBLIC	SW Logs	495.2	345.5	34.4	24.0
FINLAND	HW Plywood	308.1	292.7	103.3	98.1
SLOVAKIA	Furniture	349.5	246.6	142.9	100.8





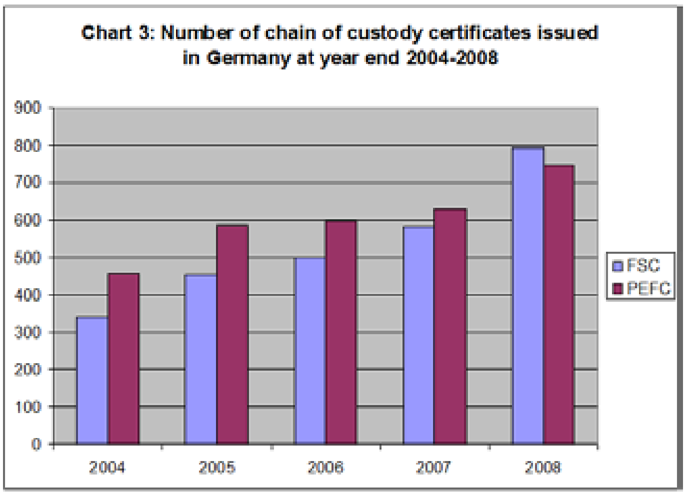


Table 3: Forest products industry structure in 2007

	Nos Enterprises	Turnover million €	Production Million €	Employment
Woodworking	13076	23513	22370	142792
Furniture	9851	24410	23539	161978
Pulp and paper	1658	35700	33320	143581
All enterprises	**24585**	**83622**	**79229**	**448351**

Table 4: Construction industry structure in 2007

	Unit	Total	% EU total
Gross investment	Billion €	216	18.0
Employment	X 1000	2156	14.0
	Unit	**Total**	**Employee/enterprise**
No. of enterprises	X 1000	227	9.5

Table 5: Production of wood based products 2003-2007 (000 m3)

	2003	2004	2005	2006	2007
Softwood saw & veneer logs	26901.0	28690.0	30863.0	34451.0	42800.4
Hardwood saw & veneer logs	3689.0	3551.0	3569.0	3830.0	3997.8
Softwood sawnwood	16525.0	18449.0	20803.0	23242.0	24028.0
Hardwood sawnwood	1070.9	1089.0	1128.0	1178.0	1142.0
Plywood	245.0	283.0	236.0	235.0	229.0
Veneer	392.0	392.0	392.0	392.0	392.0
MDF	3481.0	3633.0	3800.0	4200.0	4380.0
Particle board	9312.0	10617.0	10925.0	10840.0	10928.0

All tables and charts on this page are based on FII Ltd analysis of Eurostat, PEFC, FSC, and UNECE Timber Committee data.

Public Sector Procurement Policies

In January 2007, the German federal Government introduced a timber purchasing policy applicable to all products with a "dominant virgin timber component" including rough, semi-finished and finished products . Paper and paper products are excluded from the policy. The German PPP is mandatory to the Federal Government administrations, which account for a maximum of 5% of the national consumption in timber products. The process to develop the PPP was led by the Federal Ministry of Food, Agriculture and Consumer Protection (BMELV, Bundesministerium für Ernährung, Landwirtschaft und Verbraucherschutz).

To comply with the PPP, timber products must be from legal and sustainable sources, and recycled components will be preferred over virgin sources. The Federal Government has declared that both FSC and PEFC certificates are sufficient evidence that timber is both legal and sustainable. However alternative evidence will be accepted if it demonstrates compliance with similar standards for sustainable forest management. The Federal Government has appointed two public institutions to assess alternative evidence against the FSC and PEFC standards and the government requirements: the BfH (Federal Research Centre for Forestry and Forestry Products); and the BfN (Federal Agency for Nature Conservation). Assessments must be carried out at the request and expense of the bidder.

No system to monitor implementation

Although there is no overall system to monitor implementation by Federal government agencies, the BMELV regularly issues formal reminders to the respective heads of departments of their obligation to implement the directive. The policy has a time limit of 4 years and will conclude with a full assessment of impact. However, the government expect that the PPP will be extended beyond this period.

As the Federal government is responsible for only a small share of national wood consumption, initial trade expectations were that the policy would have little impact on the national wood market. As a result, the PPP was not immediately taken up as an issue by the industry or by trade bodies and journals. However attitudes are beginning to change as BMELV has been promoting the purchasing guidelines to the 16 German States

Structure of trade and industry

■Germany is the largest producer and consumer of wood products in the EU, with much consumption satisfied by domestic forests. Domestic harvesting of sawlogs and veneer logs in 2007 amounts to around 46.8 million m3. This volume was supplemented by imports of 23.7 million m3, making Germany the second largest importer after the UK (Table 1). Germany is also the EU's largest exporter of wood products, with a RWE volume of around 29 million m3 in 2007.

■Germany is a large producer of the full range of wood products including softwood and hardwood lumber, particle board and MDF. Germany has traditionally also been the world's largest sliced veneer manufacturer, although German manufacturers have located much of this production to Eastern Europe in recent years. Domestic plywood production volumes are relatively low (Table 5). The production value of all forest industries in Germany during 2007 was close to €80 billion (Table 3). Germany is the largest joinery manufacturer in the EU and has the largest construction sector in the EU and the second largest furniture sector (after Italy).

■89% of the wood imported into Germany in 2007 derived from temperate and boreal countries. Of the remainder, around 4% derived from tropical countries and 7% from countries of mixed forest zones (mainly China and Brazil).

■29% of the wood imported into Germany in 2007 came from outside the EU. This is dominated by softwood sawn (mainly from Russia), hardwood plywood (mainly from China), furniture (mainly East Asia), softwood plywood (mainly from Brazil) and hardwood sawn lumber (mainly from CIS, the United States, South East Asia and Africa) (Charts 1 and 2).

■Overall, around 47% of wood imported into Germany is estimated to have derived from verified forests in 2007. This reflects the relatively high level of imports of softwood sawn from Sweden, Finland, Austria and the Czech Republic, and furniture and other wood products from Poland (Table 2a).

■It is estimated that around 8% of Germany's imports are at risk of being derived from suspicious sources (Table 1). Risky supply chains are softwood logs and sawn from Russia, softwood sawn from the Ukraine, hardwood plywood from China and Russia, furniture from China, and hardwood sawn lumber and plywood from Indonesia (Table 2b).

■CoC certification has risen slowly in Germany since 2004. The pace of FSC CoC certification quickened a little in 2008, so there are now slightly more FSC certificates than PEFC certificates in the country.

and other key public and semi-public institutions. To date two of the Länder, Baden-Württemberg and Bavaria, have stated that they also intend to implement the policy. The decision of German Rail ("Deutsche Bahn") to apply the same policy also suggests that there is potential for the policy to influence the purchasing behaviour of semi-public and private organisations. Some large German cities have also been promoting timber procurement policies now for several years. Since the late 1990s, the City of Bonn has had a policy to preferentially purchase FSC certified timber. However interviews with the City authorities in early 2008 indicate that due to supply problems, the policy is not being applied in day-to-day procurement but only on a case-by-case basis for specific projects.

City of Hamburg requires FSC certification

The City of Hamburg also has a procurement policy which specifies a requirement for all tropical timber used in structural and civil engineering to be FSC certified. This policy was partially amended following a joint pilot project with GTZ and GD Holz to assess the ability of other certification schemes to provide proof of sustainability. The MTCS was chosen as a case study and subsequently scored 88% in the gap analysis carried out jointly by the University of Hamburg and GTZ. As a result, the CoH agreed also to recognize the MTCS.

The Federation of German Cities and Boroughs has also been actively communicating and promoting the Federal Government's PPP and providing information to member cities and boroughs on forest certification. A key focus is on promoting locally grown wood, particularly from communal forests most of which are certified to either FSC or PEFC standards.

Trade interviews

A series of interviews with 10 German companies were undertaken in the last quarter of 2008. The relative lack of association engagement in efforts to develop and push demand for verified wood products is strongly reflected in these interviews. To some extent the results may have been influenced by the timing of the interviews, undertaken just when trading conditions are rapidly deteriorating and companies have other more pressing concerns. A few companies contacted were unwilling to comment at all and were suspicious of the motives behind the survey, perhaps seeing it as another attempt by policy makers to manipulate the trade in a direction it does not want to go.

Some of those that did respond were extremely blunt. For example, a representative of one large softwood sawmiller and manufacturer of composite panels noted: "There is no additional value for FSC or PEFC certification. Legality verification has no merit. People are not interested and are certainly not accepting price premiums. Certification is just additional work and costs. The timber industry faces many other and more important challenges."

"No-one driving demand for verified products"

Similarly, a large importer, distributor, and manufacturer of hardwood decking and mouldings, said that "currently no-one is driving demand for verified products. It would be necessary first to convince the company's Board. Traditionally the timber industry is very conservative in Germany and CEOs are hard to convince of the merits of moving to certified timber. There might be advantages to be derived from improved relations with

Private Sector Initiatives

The only private sector trade initiative with real potential to drive demand for verified wood products in Germany is the WWF GFTN Group, which currently has 15 members, including 3 leading DIY retailers, the German DIY Association, and a small number of wood importing companies, manufacturers and printers.

The bulk of the timber importing sector is represented by GD Holz. The organisation has introduced a Code of Conduct applicable to its entire membership which accounts for around 80% of all timber imports into Germany. The core underlying objective is that GD Holz members avoid trade in illegal wood. However the wording of the Code is vague, containing no firm commitments requiring companies to take defined actions. The Code is not backed by a process of arbitration or sanctions against members that do not comply.

GD Holz prefer VPA approach over RPPs

An interview with GD Holz indicated that thay they see the EU-wide FLEGT VPA approach to combating illegal logging – working directly with supplier countries and where necessary developing legality licensing in these countries - as a more valuable process than national trade initiatives such as TTF Responsible Purchasing Policies. They were clearly sceptical of the value of market-based instruments and also felt that the concept of ensuring legality is much more important than market demand for certification. They were also sceptical of the value of due diligence legislation, warning of the problems associated with different interpretations and enforcement regimes by the Member States.

With respect to market demand for verified wood, GD Holz's comment was that the trade only cares about price, even more so under the current market situation. When certified timber is purchased, it remains in stock for ages as no-one wants to buy it.

Interviews with other German trade associations in early 2008 also indicated limited levels of commitment to developing markets for verified wood products. The Initiative eV ProHolzfenster is a registered association founded by wood window manufacturers and suppliers to the wood window sector with a membership of 330 committed to promotion of wood windows. It has published a statement on sustainable construction according to which its members are committed to only using timber from sustainably managed forests and to combating unsustainable and illegal logging practices. However this is not backed by any monitoring or auditing mechanisms.

A representative of the Federal Association of Wood and Plastics, which supports mainly the German carpentry and joinery sector, said that the Association does not provide any guidance on timber purchasing and was not aware of the issues.

A representative of the Federation of the German Building Industry noted that to date they have not provided any guidance to member companies relating to wood sourcing. At this stage, construction company clients might consider the origin of wood in those limited circumstances where wood is a dominant and highly visible component of the design but there is not yet any real interest in the large residential housing sector.

Small joinery group promoting FSC

"Meisterteam", a small federation of carpenters, metalworkers and glaziers, runs a subgroup consisting of 10 carpentry companies that have linked up to obtain FSC chain-of-custody group certification and to build links with merchants supplying FSC certified timber. The subgroup focuses on a niche market of environmentally sensitive customers and on exclusive delivery of FSC certified products.

clients, but there is no demand yet. We have never been asked for it. To create demand would involve a long learning process. Buyers are generally not concerned about where the timber is coming from, only about how it is going to be used. In order for any scheme to be adopted widely in the industry it would have to demonstrate first that it is a valuable marketing tool and second that it does not cost anything".

Some sceptical of the trade benefits of FLEGT VPAs....

A medium sized operator supplying hardwood mouldings and sawn lumber had heard of the FLEGT VPA process, but was sceptical of its value: "There is no added value in verified legal. FSC is more than enough. As soon as there is any political involvement, the standards will be immediately watered down and the system will not be credible. And it is not the mandate or job of the trader to explain to his clients the details of legal frameworks and licenses". This contact conceded that "certification is becoming more important", but also felt that "most clients do not care really" and there is very little understanding of the distinctions between different labels and schemes like the WWF GFTN.

There were some who provided more measured, but still essentially negative reponses. The representative of one of Germany and Europe's largest parquet companies (also very active on FLEGT issues and on the Board of the European Federation) noted there is some pressure to supply verified wood products now coming from the retail sector, but generally the demand is significantly less in Germany than in some other European markets. It was noted that there may be advantages to suppliers providing a legality license, but no-one will pay for this. Rather than VPA legality licensing providing a positive marketing tool for suppliers, those without such licenses may find that this is soon used as an "exclusion criteria". This interviewee felt that "only in countries with green PPPs is there a certain level of interest in certified timber". As far as Germany is concerned "interest in these issues tends to go in waves and currently there is even less awareness of illegal logging in the trade than there used to be….there is zero demand for FSC or PEFC, so there will be no demand for verified legal".

....but others reckon VPAs will add value

A medium sized hardwood log importer and distributor suggested that "FLEGT VPA Legality licenses would give the forests more value, and that is the most important thing. Certification is important for the same reason and it is necessary to try to create a level playing field in the industry.. But there is no interest on behalf of the consumer and certainly no willingness to pay more…the best approach may be to require all suppliers to provide meaningful proof of legality ". On the other hand, it was conceded that "generally customer questions with respect to product origin are increasing a little". Usually this company responds by sending official documents provided by their suppliers such as confirmation of concession agreements which is almost always enough for the client. This company representative is concerned about the "increasing risk of exclusion for tropical timber through more and more market barriers and bureaucratic systems".

FSC demand comes from a few large manufacturers

Another large importer and distributor of hardwood logs and sawn, in this case FSC certified, noted that demand for certified timber in Germany comes almost exclusively from a few large manufacturers and there is no demand in the wider trade, joinery and construction sectors. The only exception is where a construction project is covered by a public specification clause.

Photo credit: Ghana TIDD

A representative of one of the largest distributors of garden furniture in Europe selling only FSC products was alarmed at the prospect of alternative mechanisms for legality verification arriving on the market. He commented that ""I can guarantee you if the trade here sees an opportunity to be able to trade FLEGT licenses instead of FSC, the market for FSC will collapse". He is therefore strongly opposed to the concept of legality licensing, noting that it is very difficult to explain to clients and the public. "It has been hard enough making clients understand the concept of FSC. VPA Licensing will confuse people even more". However there were two interviewees who see recent trends in timber verification in a more positive light . Both represented companies more directly engaged in the tropical hardwood trade which also have interests in markets outside Germany. Both companies are developing comprehenisive procurement programs to filter out illegal wood and to give preference to certified wood over time. Both have been a target for high profile negative environmental campaigns in the past.

Lack of interest in certified amongst German customers

While these companies are moving the market for verified wood forward in Germany, both interviewees were realistic about the paucity of interest in these issues amongst their German client base – confirming once again that there is very little demand either for legality assurances or certification. One noted that there has been a very slight increase in people asking for FSC material, but the volumes are extremely small. Last year the company sold only 10-20 m3 of timber to clients who requested FSC. This year they have a single contract for over 300 m3. Even though other clients are now being supplied from verified legal and certified forests, there is no question of them paying a premium. As one noted "it's not possible to show a premium on the sales invoices….there are few but increasing requests for FSC/PEFC, but if that is aligned with higher costs, clients will almost always ask for some cheaper form of assurance. For most customers asking questions, evidence of a known legal source is more than enough".

It was also noted by a representative of one of these proactive companies that to some extent evidence of legality is more relevant to most German buyers than FSC or PEFC certification. Since so few clients have chain of custody, being provided with an FSC or PEFC certificate adds no value because they are not allowed to use the certification system in their marketing. This company representative also suggested that legality licensing might be welcomed in the German market since "it would presumably be far cheaper, the rules would apply to everyone, it would be easier to handle than certification, and the claims can be passed on to clients without CoC".

One of the companies also supplies customers in Eastern Europe, noting that clients in this region "never ask for certified timber or verified legal".

Summary

Overall demand for verified wood is still confined in France, but interest has been rising strongly in several sectors in recent years. This is being driven by some large French companies operating in Africa that are now promoting legally verified and FSC certified wood and by the procurement policies of several large merchant and retailing groups, the LCB timber trade association and the French government. A significant proportion of the French forest resource is also PEFC certified and domestic wood industry is supplying more PEFC labelled product to market.
French public and private sector procurement policies with respect to tropical timbers are strongly influenced by the direct links between the French trade and African producing countries. There is great emphasis on a flexible approach recognising a wide variety of forms of legality verification and step-wise approaches to certification. The content of these policies is reflected in actual demand on the ground, with much interest now being shown in a wide range of independent legality verification systems and with relatively less interest in the FSC brand. The preference for legally verified tropical wood over FSC is also strongly influenced by the difference in price premiums, the former generally supplied at a premium of no more than 5%, the latter sometimes requiring premiums in excess of 20%.

Table 1: Production, trade and consumption in 2007

All figures RWE volume 1000 m3 unless otherwise stated

Domestic production		**19200**
Of which	Softwood	14000
	Hardwood	5200
	Suspicious origin	192
	Verified origin	4800
Imports		**20258**
Of which	Intra EU	15344
	Extra EU	4914
	Suspicious origin	1627
	Verified origin	10161
	From pred. temperate/boreal countries	17119
	From predominantly tropical countries	1663
	From countries in mixed forest zones	1459
	Softwood	9498
	Hardwood	3574
	Unknown species composition	7196
	From developed countries	15964
	From developing countries	3160
	From Least Developed countries	182
	From transition countries	956
Exports		**7251**
Of which	Intra EU	6293
	Extra EU	958
Assumed consumption		**32207**
Population		64.5
m3/capita/annum		0.50

Note: Total RWE production, trade and consumption data is calculated for products derived from sawlogs and veneer logs including: sawn lumber, mouldings, plywood, veneers, building carpentry and joinery products, pallets, barrels and wood furniture. Composite panels such as fibreboard and particleboard are excluded as these often derive from smaller industrial roundwood.

50

Table 2a: Leading verified supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w verified 000 m3	Value mill €	o/w verified mill €
GERMANY	SW Sawn	2529.8	1745.9	269.3	185.9
FINLAND	SW Sawn	1266.0	1202.7	170.4	161.9
SWEDEN	SW Sawn	1091.1	935.9	123.5	106.0
BELGIUM	SW Sawn	1370.9	559.0	133.9	54.6
GERMANY	SW Logs	741.6	511.8	57.1	39.4
GERMANY	Other	558.3	385.3	53.6	37.0
GERMANY	Furniture	439.1	303.0	297.4	205.2
BELGIUM	Other	644.5	262.8	64.0	26.1
POLAND	Furniture	394.6	234.1	219.9	130.4
SWITZERLAND	SW Logs	288.5	221.5	20.0	15.3
SPAIN	Other	306.4	179.8	30.6	17.9

Table 2b: Leading 'risky' supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w suspicious 000 m3	Value mill €	o/w suspicious mill €
BRAZIL	HW Sawn	484.1	204.8	166.0	70.2
GABON	HW Plywood	324.0	204.5	71.4	45.0
GABON	HW Logs	269.8	170.3	73.3	46.3
CHINA	Furniture	367.6	116.2	273.3	86.4
RUSSIA	SW Sawn	759.2	108.5	99.5	14.2
INDONESIA	Furniture	106.0	60.2	95.1	54.0
CHINA	HW Plywood	146.8	46.4	21.5	6.8
BRAZIL	Furniture	114.7	44.1	73.2	28.1
CAMEROON	HW Sawn	125.6	43.5	39.5	13.7
VIETNAM	Furniture	104.4	35.8	80.6	27.6
CONGO DEM. REP.	HW Logs	86.3	25.9	31.3	9.4

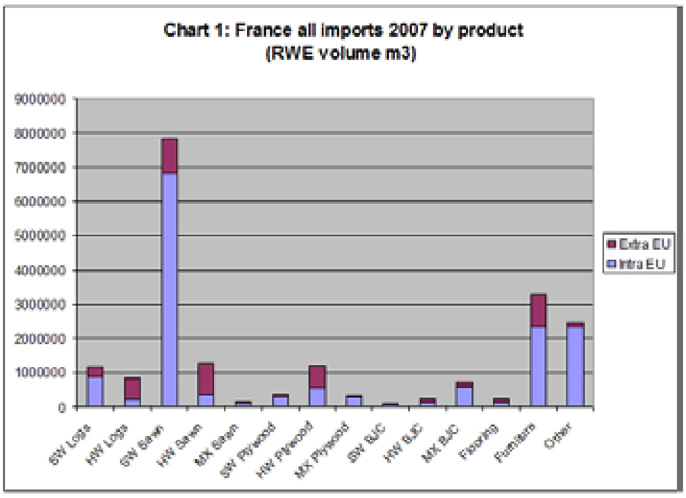


Chart 1: France all imports 2007 by product (RWE volume m3)

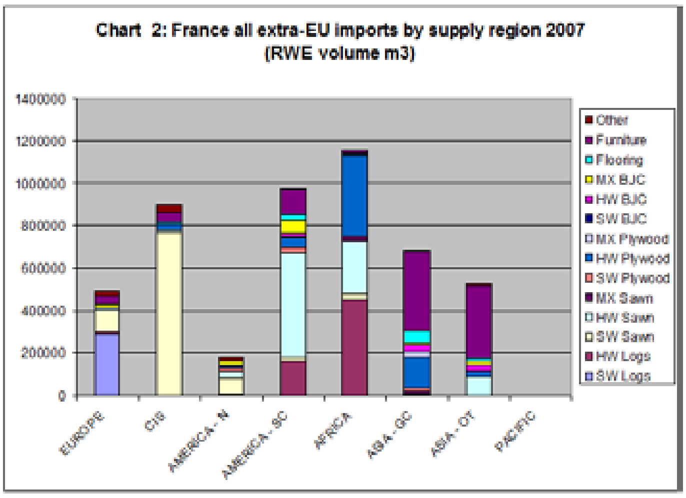


Chart 2: France all extra-EU imports by supply region 2007 (RWE volume m3)

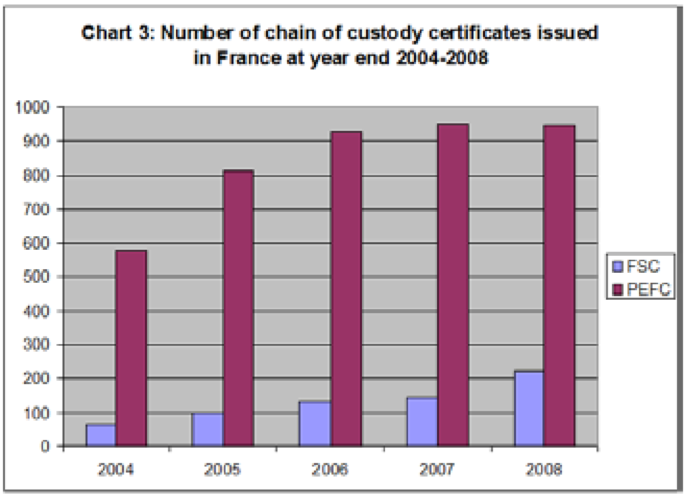


Table 3: Forest products industry structure in 2007

	Nos Enterprises	Turnover million €	Production Million €	Employment
Woodworking	10635	13435	12064	86086
Furniture	19177	13046	12365	97694
Pulp and paper	1537	19724	17701	78462
All enterprises	**31349**	**46205**	**42131**	**262242**

Table 4: Construction industry structure in 2007

	Unit	Total	% EU total
Gross investment	Billion €	151	12.6
Employment	X 1000	1798	11.8
	Unit	**Total**	**Employee/enterprise**
No. of enterprises	X 1000	315	5.7

Table 5: Production of wood based products 2003-2007 (000 m3)

	2003	2004	2005	2006	2007
Softwood saw & veneer logs	14108.0	14196.0	12663.0	13413.8	14000.0
Hardwood saw & veneer logs	5719.0	5671.0	5393.0	5177.5	5200.0
Softwood sawnwood	7440.0	7717.0	7748.0	8049.6	8300.0
Hardwood sawnwood	2099.0	2057.0	1967.0	1942.6	1890.0
Plywood	415.0	435.0	415.0	431.0	378.0
Veneer	84.0	61.0	71.0	76.0	80.0
MDF	990.0	1100.0	1110.0	1160.0	1180.0
Particle board	3900.0	4350.0	4600.0	4760.0	4841.0

All tables and charts on this page are based on FII Ltd analysis of Eurostat, PEFC, FSC, and UNECE Timber Committee data.

Public Sector Procurement Policies

The French government has established a procurement requirement that all wood purchased by central government departments and agencies must be "legal and sustainable". Requirements are different for two categories of products:

■Category I - timber (sawn and veneer products) and plywood, for which a wide range of evidence is accepted including: independent SFM forestry certificate; independent legality certificate; evidence of conformance to an independently verified code of conduct.

■Category II: all secondary-processed products (particle boards, windows, furniture and paper): conformance to an eco-label or forest certification scheme.

There is no hierarchy of evidence separating "legal" from "sustainable" and no criteria for endorsement of forest certification systems. "Equivalent" evidence may also be provided which will be assessed on a case-by-case basis.

Policy could impact large proportion of the market

The policy could potentially impact on a large proportion of the national wood market. The French Ministry of Agriculture quotes the evaluation of CIRAD according to which the share of the national timber consumption covered by public procurement is around 25%. On the other hand, the impact is currently constrained by lack of effective monitoring and enforcement procedures to ensure implementation.

There are plans to update the public procurement policy that have yet to be implemented. Conclusions of the "Grenelle de L'Environnement", a government environmental consultation process undertaken in the second half of 2007, state that "certified wood must be favoured in public building: 100% of wood products purchased by the state should be certified by 2010". In the French government report issued on the Grenelle, it was stated that the government "proposes to strengthen the current policy within this new framework".

A trader interviewed for this study noted that the French Environment Minister, Jean Louis Borloo, recently suggested taxing non certified timber to compensate the extra cost of certified timber.

Structure of trade and industry

■In roundwood equivalent terms, the supply of wood products derived from saw and veneer logs into the French market is split roughly 50:50 between domestic production and imports. In 2007, imports contributed 20.3 million m3 and domestic production contributed 19.2 million m3. France is the third largest consumer of wood products in the EU after Germany and the UK (Table 1).

■France is a significant producer of the full range of wood products including softwood and hardwood lumber, veneer, particle board and MDF. France is also the only European country that continues to produce tropical hardwood plywood, although volumes have been declining dramatically in recent years as more production has switched to producer countries. The production value of all forest products based industries in France during 2007 was around €42 billion (Table 3). France is the fifth largest joinery manufacturer in the EU and has the fourth largest construction and furniture sectors.

■84% of the wood imported into France in 2007 derived from predominantly temperate and boreal countries. Of the remainder, around 9% derived from predominantly tropical countries and 7% from countries of mixed forest zones (mainly China and Brazil).

■24% of the wood imported into France in 2007 came from outside the EU. This is dominated by softwood sawn lumber (mainly from Russia), hardwood sawn lumber (mainly from Africa and South America), furniture (mainly from China and other parts of East Asia), and hardwood plywood (mainly from Africa) (Charts 1 and 2).

■Overall, around 50% of wood imported into France is estimated to have derived from verified forests in 2007. This reflects the relatively high level of imports of softwood sawn from Germany, Finland, Sweden, and Belgium, and various other wood products from Germany (Table 2a).

■It is estimated that around 8% of France's imports are at risk of being derived from suspicious sources (Table 1). Key high risk supply chains are hardwood sawn from Brazil, hardwood logs and plywood from Gabon, furniture from China and Indonesia, and softwood sawn lumber from Russia (Table 2b).

■PEFC chain of custody certification increased rapidly in France between 2004 and 2006 to reach over 900, but the pace of uptake has slowed considerably since then. The numbers of FSC chain of custody certificates issued in France has risen only slowly and now stands at around 200. Many operators are not yet engaged in delivery of labelled products to market.

The process of developing timber procurement policies is still in the early stages at local and regional government level in France . Central government procurement policy together with the ICLEI Procura+ initiative are having some influence on the procurement behaviour of local and regional authorities, but equally important are the campaigning activities of NGOs (that are pushing an FSC-only agenda) and of domestic producers (that are pushing local wood with a PEFC certificate).

Tropical timber producers

A major feature of the French wood market is the close link with African producers. Large French-owned companies continue to operate concessions in Central Africa producing large volumes of hardwood supplied to the French and other European markets. Interviews were held with the sales representatives of two of these companies, asking for details of procurement policies and practices, the supply of and market demand for verified wood products.

One company has a turnover of €35 million, a staff of 250 internationally, and sales offices in both Europe and Asia (it exports directly from Africa to China). This company is itself driving demand for verified wood products internally through operation of a corporate policy called the “Tree of Trust” requiring progressive improvement through 4 levels of verification (from highest to lowest):

1. FSC certification, which currently represents only 3-4% of their European imports;
2. Legal third party verification (OLB,TLTV…) which currently represents 15-20% of imports;
3. Legal forest management;
4. Lowest level - national verification systems such as IBAMA for Brazil or BRIK for Indonesia.

The factors driving their commitment are the corporations own desire to work with reliable suppliers, combined with the customer base which is “increasingly asking for proof of legality”. The interviewee noted that legality verification under systems like TLTV and OLB will generate a slight cost increase. However this tends to be compensated by increased forest productivity thanks to better forest management. But the shift to universal legality verification in Africa is complicated by the predominance of very small producers with small forest plots in some areas. He noted that FSC certified product from Africa is generally offered to European buyers at a 10% to 20% premium, while legally verified is offered at a premium of only around 5-10 Euros per m3 (i.e. typically less than 3% on the CIF cost).

A large company now supplying only verified wood

The other company manages 2 million hectares of concessions in the Congo Basin, has 3200 staff and sells tropical hardwoods in 40 different markets around the world. In France, it imports tropical logs, sawnwood, plywood, mouldings and sells to the construction industry, manufacturers, and retailers (but not directly into the public sector). Each year the company harvests 600,000 m3 of sawlogs in its African concessions and sells over 240,000 m3 of logs, 130,000 m3 of sawntimber (approx 50 species) and 33,000 m3 of okoume plywood. All this wood is now supplied either legally verified (through TLTV or OLB certification) or FSC certified from a large concession in Gabon. The company is capable of providing the market every month with 3000 m3 of FSC certified okoumé plywood, 1500 m3 of FSC certified okoumé sawn timber and related products, and 6,000 m3 of FSC certified logs of other species.

LCB Environmental Charter

Le Commerce du Bois (LCB) represents 170 timber trading companies, covering an estimated 60 to 70% of total timber imports into France. LCB introduced an Environmental Charter on Wood Purchases and Sales in June 2006 which became compulsory for LCB members in 2008. The Charter covers trade in primary and secondary solid wood products (sawn lumber, veneer, plywood, panels, mouldings, decking, and cladding), but does not extend to joinery, furniture and other manufactured products.

The Charter includes detailed requirements for timber procurement including that all wood supplied must be backed by a certificate of legality as a minimum. The Charter also requires year-on-year increases in timber originating from forests that have received a “certificate of SFM or are moving towards SFM certification.”

Implementation of the Charter is backed by procedures for independent audit of members’ progress, the results of which are made publicly available. Charter participants are required to meet specific targets for procurement of sustainable timber dependent on region of supply. By 2010, certified sustainable timber should account for: over 30% of softwood sawn lumber; over 20% of hardwoods sourced from Asia, Africa and Latin America; over 30% of hardwoods from Eastern Europe and other temperate countries; and over 20% of panel products.

Importers & agents

An interview with a representative of a large importer of both hardwood and softwood indicates a high level of corporate commitment to sourcing and marketing verified wood products. This company is both FSC and PEFC chain of custody certified and also a signatory to the LCB Environmental Charter. The interviewee said that the company is convinced internally that certified wood is the way forward. He believes supplying certified wood is the "only way to convince customers, particularly specifiers in the public sector, to still use tropical timber". However the move to certified wood remains challenging in the tropical sector. His company is having to pay a 25-30% premium on FSC certified timber while a premium of only 5% to 10% can be passed on to their customers - so the company is losing money on sales of certified product. "Unfortunately because customers today have a choice between non-certified and certified, they tend to revert to non-certified timber".

Public sector commitment "very mixed"

The interviewee suggested that commitment to sourcing verified wood in the public sector is very mixed. He mentioned a contract with the French railways (SNCF) to refurbish one of the main stations in Paris (Gare de l'Est). The contract involved the purchase of 80 m3 of ipé. The buyer initially insisted on having certified timber but when informed of the price premium preferred to 'turn a blind eye' and revert to non-certified timber.

An interview was held with the French representatives of a large European timber trading company operating two offices in France. This company is working to progressively increase the volume of certified wood it purchases. The company representative believed that end-user demand for verified wood in France: "is driven by public procurement only". He suggested that French customers are not willing to pay the premium for FSC, which in his experience is typically in the range 20-25%. He also suggested that PEFC is prohibitively expensive in France. As a result those customers concerned about green issues tend to go for legally verified.

Strong demand from merchants and DIY sector

Another importer supplying a range of sawn hardwood and mouldings, both tropical and temperate, suggested that there is now strong demand for verified wood amongst builders' merchants and DIY retailers. He noted that much of the demand is currently focused on supply of legally verified product rather than FSC certified. The price premium on OLB legally verified, which in his experience is never above 10%, can be easily absorbed in overall costs. An obstacle to the move to certification in the moulding sector is that manufacturers are often looking for wood in fixed lengths or widths when exporters may only be willing to sell FSC in complete batches.

Photo credit: AHEC

The Company is also a signatory to the LCB Environmental Charter. In line with the requirements of the Charter, the company is now implementing more stringent checks on its lumber purchases from third parties, particularly from high risk countries such as Brazil.

The interviewee said that the motives behind their decision to move towards FSC certification "are not philanthropic". Through certification, the group wants to secure its future. In the supply of certified product, the company has benefited from its control of the hardwood production chain from forest management to finished product. It also has a clear insight into the importance of sustainable forests to maintain the group's future. Implementation of forest certification was expensive, in the region of €1-2 million. Hence they would like to see a more decisive shift in the market to certified wood to maintain higher prices.

Market demand for verified still confined in France

The interviewee noted that demand for verified wood is still confined in France, but that there are more customers now asking for legally verified or certified timber in a few northern European markets, notably the UK, Netherlands, Belgium and parts of Scandinavia. Demand in southern European markets (Italy, Spain) is still very confined. Verified legal wood is generally offered with a 5% premium, but significantly higher premiums may be asked for FSC certified. Dutch customers are generally more willing than other buyers to pay the higher premiums. He thought demand is mainly being generated through public procurement policies.

Builders merchants

Representatives of three of France's largest builders merchants were interviewed. All were implementing comprehensive procurement policies with a focus on removing illegal wood from supply chains.

The largest of these companies distributes about 3.5 million m3 of timber every year, including the full range of products both tropical and temperate. Much of the imported volume is supplied by the company's own import subsidiary that sources timber from Northern Europe, Africa and Asia. The rest is sourced from external suppliers. Tropical hardwoods make up around 6% of corporate purchases. All suppliers are required to comply with the group Responsible Procurement Policy (RPP). The RPP policy bans imports from several high risk countries including Burma, Liberia, and Papua New Guinea. It also specifically excludes species identified by IUCN as threatened, including wengué, merbau, and moabi. Beyond this, the RPP imposes a step by step approach. At present the minimum requirement is that all wood must be verified legal. By end of 2010, the RPP objective is that 80% of timber should be purchased either from FSC or PEFC certified sources.

Driven by concern for reputation

The company policy is driven entirely by concern for corporate reputation. End-user demand is a much less significant factor. In fact, the RPP commitment may have led to a loss of market share. There is little comprehension amongst buyers in the joinery and craft sectors – which make up a huge proportion of the market – of the reasons for legality verification. Understanding within the company is also limited. "I am not sure that many of my colleagues actually understand and back the Group's RPP policy". A lot of previously important suppliers no longer serve the company because they failed the RPP minimum requirements. Meanwhile there is very little end-user demand - the only customers requiring certified are in the public sector. It is suggested that "FSC and PEFC should focus more on raising public awareness of the role of certification". FLEGT is seen as a positive initiative if it can work to put timber importers on a level playing field.

Large merchant carries 60% certified stock

A representative of another large builders' merchant with turnover of over 9 billion euros, 25% of which comprises timber products, reported that the company has been implementing an RPP since 1998. Two thirds of company purchases are european softwoods and hardwoods and the remainder are tropical hardwoods. When the RPP was first introduced, lack of certified timber was a major constraint to implementation. However certified timber now represents 60% of their purchases and the RPP objective is to reach 75% by the end of 2009. The Tropical Forest Trust has played a key role to assist implementation of this policy, checking timber legality across their entire supply chain and helping them to link up with well managed tropical forests. However some products are still difficult to obtain certified, particularly particle panels which are a common component in kitchen furniture. This company is aiming for all products to be either FSC or PEFC certified. Legal verification is seen as having a limited shelf life as it does not demonstrate that forests are sustainable managed.

Systematically assessing risk

The third national builders' merchant interviewed imports about 1 million m3 of lumber - over 75% of which comprise softwoods. This company also has a range of subsidiaries, including one of the leading French importers of softwoods for interior and exterior cladding; a distributor of panel products (plywood, interior design panels with hardwood veneer, composite panels); a leading hardwood importer, bringing in around 60000 m3 of tropical hardwood every year as well as a range of European and American hardwoods; and a major panel importer buying a range of plywood panels from Indonesia, Africa and Brazil.
All these companies have signed LCB's Environmental Charter and are also committed to the group procurement policy.

Photo credit: Ghana TIDD

This policy aims to: a) ensure purchase managers systematically verify timber purchases for legality in countries identified as high risk such as Brazil; and b) increase the percentage of certified timber procured. Already around 50 to 60% of lumber purchased by the group is certified, mainly to PEFC as the company has only just started to set up FSC chain of custody. Drivers behind implementation of the policy are market demand – which this interviewee reckoned had been rising, although more for legally verified than for certified – and as a means of building the company brand and market share.

Flooring

An interview was held with a representative of one France's largest flooring manufacturers producing in the region of 1.2 million m² of flooring each year. As a high profile company it has been targeted by environmental groups in the past. It has therefore implemented a responsible procurement policy to protect corporate image. It is also responding to some extent to increasing customer demand, particularly from the large merchants, DIY retail groups and the public sector.
The company policy bans any purchases of illegal timber and also requires a progressive shift to certification, with a preference for labelling products with the FSC brand. Oak from France and Eastern Europe (Romania, Ukraine, Poland) make up 70% of the company's timber purchases. Most of the French oak is PEFC certified whilst the Polish oak and some Romanian is FSC certified. Ukrainian oak is not yet available certified. Solid oak flooring manufactured in China using French, German or Russian oak is also imported.

FSC certified flooring mills in South America

Tropical hardwood laminates make up the remaining 30% of timber purchases. Most are sourced through group subsidiaries in tropical countries. The Group has an FSC certified mill in Brazil which supplies jatoba which is then processed into laminates in Italy. The Group also has a forest concession in Bolivia where it owns an FSC certified mill that produces cabreuva (Santos mahogany). Some non-certified tropical hardwoods are sourced from Africa, including wenge and doussié (Pachyloba). The group also imports FSC certified hardwood floors from the company's own tropical mills, including teak from Central America, cumaru from Brazil and massarunduba from Brazil and Peru. The company also sources TFT certified teak from Indonesia and Certisource (DNA certified) merbau from a big importer in Australia.

Too many certification systems

According to this interviewee, the main factor constraining the concerted move to certification by the Group is the number of certification systems around: "France should have teamed up with FSC from the outset - setting up PEFC certification complicates issues - there is a limit to the number of certification brands we can handle – it creates a lot of admin, paperwork and labelling backstage and confusion for the end customer". This company also bans the use of percentage based labelling. The concept of using an uncertified tropical laminate over a certified softwood web is not seen as credible.
The company charges a price premium of about 10% for FSC certified European oak flooring, which is generally accepted by this company's major clients which include some of Europe's largest merchants and DIY retailers. It was noted that these clients will generally absorb the cost as they are very reluctant to include a price premium in their prices for onward sales to consumers.

Summary

Of all European markets, the Netherlands is probably the most committed to FSC certified product. This is due to the combined effects of intense environmentalist campaigning over the last 15 years, public sector procurement policy favouring FSC, an FSC "Covenant" arrangement whereby large end-users make a formal commitment to use FSC, and the far-reaching procurement policy of the trade association VVNH. As a reflection of the commitments to move rapidly to certified sustainable contained in the various public and private sector initiatives, legality verification has been widely regarded in the Netherlands as a useful short-term measure but with a limited shelf-life. However there is some evidence that the economic downturn, which has increased the focus on price, may in some sectors have increased demand for cheaper verified legal products at the expense of FSC certified, at least in the short term. Unlike procurement practices evolving in some other European countries, there seems to be less reliance on risk assessment in the Netherlands with the result that market requirements for traceability and certification are more often applied indiscriminately to suppliers in both high and low risk countries. On the other hand, there are still large gaps in market demand for all forms of verified wood further down the supply chain. While all the big retailers and manufacturers are now demanding some form of proof of legality from all their suppliers, they are generally not prepared to pay premiums. At the same time, many of the smaller construction, joinery and furniture manufacturing firms are not actively demanding any form of verification. This combined with continuing constraints on supply, particularly for FSC certified hardwood products, acts as a constant drag to a more rapid move to FSC certified products.

Table 1: Production, trade and consumption in 2007

All figures RWE volume 1000 m3 unless otherwise stated

Domestic production		**396**
Of	Softwood	305
which	Hardwood	91
	Suspicious origin	4
	Verified origin	218
Imports		**10960**
Of	Intra EU	6846
which	Extra EU	4114
	Suspicious origin	1216
	Verified origin	5180
	From pred. temperate/boreal countries	8364
	From predominantly tropical countries	1329
	From countries in mixed forest zones	1223
	Softwood	5571
	Hardwood	2848
	Unknown species composition	2548
	From developed countries	7027
	From developing countries	2685
	From Least Developed countries	53
	From transition countries	1178
Exports		**3227**
Of	Intra EU	3067
which	Extra EU	160
Assumed consumption		**8129**
Population		16.5
m3/capita/annum		0.49

Note: Total RWE production, trade and consumption data is calculated for products derived from sawlogs and veneer logs including: sawn lumber, mouldings, plywood, veneers, building carpentry and joinery products, pallets, barrels and wood furniture. Composite panels such as fibreboard and particleboard are excluded as these often derive from smaller industrial roundwood.

Table 2a: Leading verified supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w verified 000 m3	Value mill €	o/w verified mill €
SWEDEN	SW Sawn	1186.9	1018.1	153.9	132.0
GERMANY	SW Sawn	1159.5	800.2	127.6	88.1
FINLAND	SW Sawn	541.1	514.0	67.0	63.7
FINLAND	SW Plywood	275.1	261.4	45.7	43.4
GERMANY	Other	272.6	188.1	32.1	22.2
GERMANY	Furniture	233.4	161.1	263.0	181.5
BELGIUM	Furniture	338.8	138.2	235.2	95.9
LATVIA	SW Sawn	240.3	132.8	26.2	14.5
MALAYSIA	HW Sawn	307.3	106.4	163.4	56.6
BELGIUM	SW Sawn	214.8	87.6	27.2	11.1
CANADA	SW Sawn	103.4	82.7	36.3	29.1

Table 2b: Leading 'risky' supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w suspicious 000 m3	Value mill €	o/w suspicious mill €
BRAZIL	HW Sawn	544.6	230.4	118.8	50.3
RUSSIA	SW Sawn	664.0	94.9	80.1	11.4
INDONESIA	HW Sawn	160.5	91.2	74.6	42.4
CAMEROON	HW Sawn	201.0	69.6	53.8	18.6
CHINA	Furniture	191.5	60.5	158.7	50.2
INDONESIA	Furniture	105.4	59.9	100.7	57.2
CHINA	HW Plywood	171.0	54.0	37.5	11.9
INDONESIA	HW BJC	62.9	35.8	26.5	15.0
INDONESIA	MX BJC	50.2	28.5	19.4	11.0
IVORY COAST	HW Sawn	38.1	26.7	9.2	6.4
CHINA	Flooring	74.8	23.7	39.7	12.6

Chart 1: Netherlands all imports 2007 by product (RWE volume m3)

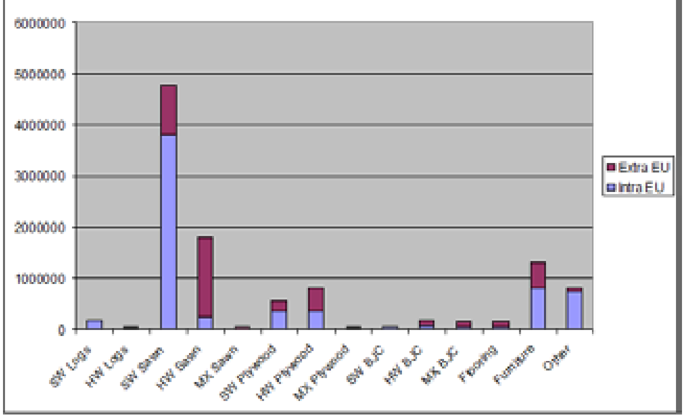
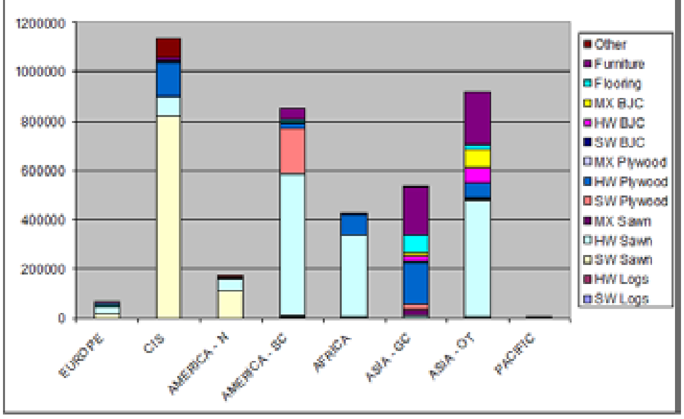


Chart 2: Netherlands all extra-EU imports by supply region 2007 (RWE volume m3)



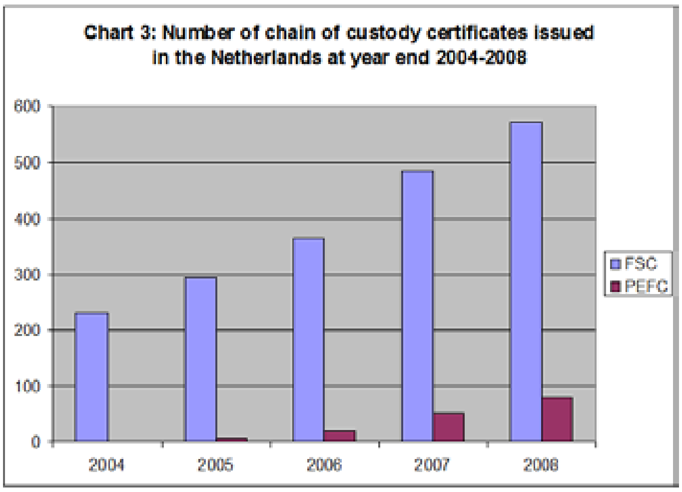


Chart 3: Number of chain of custody certificates issued in the Netherlands at year end 2004-2008

Table 3: Forest products industry structure in 2007

	Nos Enterprises	Turnover million €	Production Million €	Employment
Woodworking	1970 :	:		19850
Furniture	5645	3533	3357	29219
Pulp and paper	425	6163	5781	21677
All enterprises	**8040**	**9695**	**9138**	**70746**

Table 4: Construction industry structure in 2007

	Unit	Total	% EU total
Gross investment	Billion €	52	4.3
Employment	X 1000	445	2.9
	Unit	**Total**	**Employee/enterprise**
No. of enterprises	X 1000	82	5.4

Table 5: Production of wood based products 2003-2007 (000 m3)

	2003	2004	2005	2006	2007
Softwood saw & veneer logs	335.0	302.0	364.0	349.7	305.0
Hardwood saw & veneer logs	103.0	91.0	84.0	93.3	90.6
Softwood sawnwood	164.0	175.0	175.9	179.5	183.6
Hardwood sawnwood	105.0	98.0	103.0	85.7	87.1
Plywood	0.0	0.0	0.0	0.0	0.0
Veneer	0.0	0.0	0.0	0.0	0.0
MDF	0.0	0.0	0.0	0.0	0.0
Particle board	0.0	0.0	0.0	0.0	0.0

All tables and charts on this page are based on FII Ltd analysis of Eurostat, PEFC, FSC, and UNECE Timber Committee data.

Public Sector Procurement Policies

In June 2005 the Dutch parliament adopted the motion Koopmans/de Krom requiring central government authorities to source only sustainable products, including wood, in all public tenders by the end of 2010. Until 2010, the Dutch government has indicated that timber used in central government contracts must as a minimum be legally verified. The Dutch government has adopted the UK CPET criteria for legality and requires that legality against these criteria is verified by an accredited body or auditor complying with ISO 45012. The Dutch government has also stated that after 2010, FLEGT VPA licenses will continue to be accepted as an alternative to certified sustainable where the latter is difficult to obtain.

Dutch government: only sustainable wood from 2010

With the agreement in mid-2008 of a set of criteria defining sustainable timber, the Dutch government has also stated that it will give preference to this timber before 2010. Agreement of the sustainability criteria followed a lengthy and difficult national consensus-building process (referred to as BRL). These criteria allow only for recognition of independent forest certification systems. The results of the first formal assessments against the criteria were released at the end of 2008. The Netherlands government currently recognises as sustainable FSC, PEFC Finland and PEFC Germany. Assessments are on-going for PEFC Sweden, PEFC Belgium and MTCS. PEFC International is due to be assessed after December 2009 following anticipated amendments to the system and standards.

Probos, a Dutch consultancy firm, has been commissioned to fulfil a similar role to that performed by CPET in the UK, preparing more detailed guidance for policy implementation, establishing a helpline, providing training courses, and constructing a web page.

Central government procurement is estimated to account for approximately 10% of national solid timber consumption in the Netherlands. The Netherlands has also established a target for local authorities that 50% of their timber procurement should be sustainable by 2010. Systems for monitoring of implementation have been established at both central government and local authority level.

Local authorities in the Netherlands have been a major focus of FSC promotion over the last 15 years and many are already committed to sourcing only FSC certified timber products.

Structure of trade and industry

■Domestic harvesting of sawlogs and veneer logs in the Netherlands in 2007 amounted to only 396,000 m3 (Table 1). Dutch production of primary and secondary wood products is limited and focused on softwood. There is no domestic production of panels (Table 5).

■The Netherlands is heavily dependent on imported wood products and is also important in the distribution of wood products to neighbouring EU countries. In 2007, the roundwood equivalent (RWE) volume of imports of wood products based on saw and veneer logs amounted to nearly 11 million m3. A significant proportion of wood product is re-exported. In 2007, the Netherlands exported wood products with a RWE volume of 3.2 million m3 (Table 1).

■76% of the wood imported into the Netherlands in 2007 derived from predominantly temperate and boreal countries. Of the remainder, around 12% derived from predominantly tropical countries and 11% from countries of mixed forest zones (mainly China and Brazil).

■37% of the wood imported into the Netherlands in 2007 came from outside the EU. This is dominated by softwood sawn (mainly from CIS), and hardwood sawn (mainly from Brazil, the Far East and Africa) (Charts 1 and 2).

■Around 47% of wood imported into the Netherlands is estimated to have derived from verified forests in 2007. This reflects the relatively high level of imports of softwood sawn, plywood and furniture from northern Europe (Table 2a).

■It is estimated that around 11% of the Netherlands imports are at risk of being derived from suspicious sources (Table 1). Key risky supply chains are hardwood sawn from Brazil, Indonesia and Cameroon, softwood sawn from Russia, and furniture from China and Indonesia (Table 2b).

■The pace of uptake of FSC chain of custody was swift between 2004 and 2008 rising from just over 200 to close to 600. Few PEFC chain of custody certificates have been issued in the Netherlands (Chart 3).

Private Sector Initiatives

VVNH is an umbrella organisation representing roughly 300 timber trading companies which account for around 65% of the total volume of timber imported into the Netherlands. The VVNH has a strong policy on responsible procurement incorporated into a Mission and Code of Conduct.

The primary objectives of the VVNH Mission are: by 2009, to have achieved certainty as to the origins of 100% of the timber traded by VVNH members; and by 2009, 75% of all timber imported and traded by VVNH members should originate from demonstrably sustainable forests. Furthermore, the Mission establishes secondary objectives for different product segments. For softwoods, the target is that 90% should be certified. For hardwood, the objective is that by 2009, 50% of the tropical hardwood imported should be demonstrably legal timber, while 25% of all hardwood should originate from demonstrably sustainable forests. There has been significant progress towards achievement of these targets but they have yet to be reached. Interviews with traders in late 2008 indicated that the softwood percentage is currently running at about 70-80%.

Legal commitment to procurement code since 2004

Since 2004, all VVNH members have been legally obliged to observe a Code of Conduct. This, in turn, entitles members to call themselves Approved Timber Traders, an expression for which VVNH holds the copyright. The Code of Conduct requires that “VVNH members shall exclusively bring timber on the Netherlands market in conformity with current legislation and regulations (agreed nationally as well as internationally)”. Among six further commitments, one is to “preferably deal in timber demonstrably originating from sustainably managed forests”. VVNH has adopted a system of complaints to be applied to members failing to observe any of the provisions of the code. Sanctions may also be imposed including a fine of up to €45,000, suspension or expulsion from VVNH.

VVNH members recognise a wider range of certification schemes than the Dutch government. Although FSC is viewed as a first choice where possible, the PEFC system is also recognised. In order to assist members to implement the Code of Conduct, VVNH also continues to fund the Keurhout certification system. Keurhout is run by an independent and autonomous Board of Experts and assesses forestry certification systems against minimum requirements for “legal” and “sustainable”. Timber from forests judged to be sustainable by the Board can bear the Keurhout logo. Timber from legally verified forest areas recognised by Keurhout may be marketed on the Dutch market using the “Keurhout Legaal’ logo.

FSC covenant influential in the Netherlands

The FSC Covenant has been another influential initiative driving demand for verified timber in the Netherlands. This involves a formal agreement between timber users in both the private and public sectors with FSC Netherlands to work together to ensure the use of FSC certified wood in specific construction projects. To date 102 organisations have signed the Covenant including 9 builders and developers, 5 financial institutions, 22 municipalities and water utilities, three ENGOs and 47 housing corporations. Together these institutions account for a significant share of the Dutch construction sector.

Covenant partners are required to communicate the policy commitment to FSC certified wood internally, to set up management structures to ensure it happens and to monitor implementation. This process is supported by FSC Netherlands which provides guidelines on the FSC species and products available and on

Photo credit: AHEC

their applications, on the suppliers capable of delivering these products, and on the preparations required (for example the forward planning necessary to take account of the longer lead times required in the supply of some FSC certified products).

In addition to the Covenant, every year FSC-Netherlands runs a public awareness campaign with the specific objective of increasing consumer recognition of the FSC brand. At the end of the 2008 campaign, a market survey indicated that prompted public recognition of the FSC brand had reached 67%, up from 55% the previous year.

FSC buyers group

There is an FSC buyers group in the Netherlands - “Stichting Goedhout!” – which is unusual for being the only buyers group in Europe managed by an FSC national initiative (most are run by WWF). As an FSC campaign it has been more explicit than some other buyers groups in its exclusive commitment to FSC as the only credible forest certification scheme. However participation in the group is now relatively confined, consisting of only 16 companies. Membership has declined significantly in recent years, consistent with GFTN policy to confine membership to a limited range of companies that can demonstrate firm commitment to a specific action plan and that are willing to submit themselves to regular audits.

There are other important end-using sectors which appear less engaged in driving demand for verified wood products in the Netherlands. For example interviews undertaken early in 2008 with BouwNed (Association of Dutch Construction and Infrastructure Companies) and NBVT (Netherlands Association of Timber Manufacturers) indicated that while they are promoting the use of sustainable timber amongst their members through meetings and brochures, they have not established any codes or procurement policies for their members. Similarly, the Dutch furniture industry association (CBM) which has 580 members and claims to represent 60% to 70% of the total furniture sector by turnover, indicated that it is not promoting any form of responsible timber procurement policy or guidance to their members.

Trade interviews

Interviews held with 9 of the largest importers in the Netherlands in 2008 suggested very high levels of awareness of certification and illegal logging issues. All the companies were implementing a comprehensive procurement policy. Seven were members of VVNH and bound by VVNH minimum requirements for legal and sustainable timber, while 8 were FSC chain of

Two of Europe's largest FSC suppliers

The level of commitment to FSC in the Netherlands is highlighted by the presence of two of Europe's largest suppliers of FSC certified products in the country – Dekker Hout and Precious Woods. In May 2008, the UK trade journal TTJ carried an article on Dekker Hout, a company which stocks about 80,000 m3 of tropical hardwood and 20,000 m3 of softwood. The article noted that the majority of Dekker Hout's softwood stock is already FSC certified. In tropical hardwood, the figure is around 35% "but expanding rapidly". Expansion is driven by an environmental policy stating that the company is dedicated to substituting all currently uncertified products with FSC alternatives. To achieve this, it has invested directly in concessions, sawmills and moulding factories in South America and Asia, with its own plant in South America 100% dedicated to FSC certified hardwood products. According to TTJ "this strategy has already turned it into Europe's largest producer of FSC-certified hardwoods with more than 30 species in stock".

A representative of Precious Woods in the Netherlands interviewed in early 2009 identified the Covenant as the single most important factor generating demand for FSC certified wood in the Netherlands. This factor has meant that around 70% of the company's total sales are now to the Dutch market (the only other market accounting for a significant share being the UK taking around 15%). This interviewee suggested that the company, which supplies a wide range of FSC certified tropical hardwood species from its operations in Brazil and Gabon, asks for and regularly achieves a 20% premium for FSC certified wood products over uncertified products, particularly in sales to Covenant signatories and the public sector.

custody certified and 3 were PEFC chain of custody certified. Interviews with traders committed to the VVNH policy indicate that they are strongly engaged in seeking to source legally verified and certified wood using a wide range of verification systems. Generally though interviewees expressed a strong preference for FSC certified wood when available as this aligned most closely with end-user expectations.

NGOs major driver of demand

Interviewed companies indicated that ENGOs are by far the most significant factor driving company commitment to the timber procurement policy, followed by shareholders and investors. Immediate customers and end users in both the public and private sector are generally seen as less important drivers.

The continuing existence of gaps in demand for verified products was highlighted in an interview held in early 2009 with a representative of a specialist supplier of tropical hardwood stocking both verified and unverified wood products. With respect to price premiums, the interviewee notes that some customers will pay a premium for FSC certified tropical hardwood, usually where there is public funding being used or products are destined for larger retailers. But many end-users in private sector construction and manufacturing are still not asking for certified products as they are under no pressure from the "man in the street" to supply labelled products. There is however a strong public expectation that government bodies should act responsibly on their behalf. So when Government authorities use certified wood, this is often promoted directly to their constituents to make political capital.

This interviewee suggests that wood importers, distributors and retailers all try to keep at least some FSC certified in stock just to show that they are trying rather than in expectation of end user demand. While certified softwoods can be obtained without compromising on price and quality, the same is not true of hardwood products. For some hardwoods, including American hardwoods and many tropical products, certified products do not match the quality of normal non certified production. Tropical species are often being used that are not ideal for the application simply because they are available certified, for example tatajuba and jatoba for windows in public projects.

This interviewee's company is a significant supplier of high quality teak decking to the boat sector. Although FSC certified plantation teak is available, it is not suitable for boat decking. But quality is the absolute priority for buyers in this sector and there is no space for compromise. This company cynically gets around this problem by keeping at least some FSC material in the yard even though it has been there for a few years and is not really what the customer wants. "It's is all about window dressing, being seen to try and do the right thing. It is not about actual consumer demand".

Sceptical view of private sector demand

The representative of another large hardwood lumber in the Netherlands interviewed in early 2009 provides an equally sceptical view. He comments that "In the private sector basically no one cares about the labelling of wood products". It is conceded that "government purchasing and projects require certification, also local authorities. Any housing or town planning using public money will demand labelled wood". The marine defence market is also recognised as "one of the successes for FSC certification in the Netherlands" since this is all Government funded and every year consumes large quantities of durable hardwood and treated softwood. Other examples of certification demand include windows and joinery for social housing projects funded by local authorities. On the other hand, the bulk of demand for wood for flooring, furniture and panelling is consumed more in the private sector, where demand for certification is less.

This interviewee suggested that FSC premiums vary anywhere from 15% to 30% depending on the species and supplier. The highest premiums tend to be for tropical hardwoods, with a 25% premium being quoted for FSC sapele from Cameroon. FSC certified angela pedra from Brazil, which is being offered as an alternative to sapele, is being offered to Dutch importers at around a 20% premium over an equivalent specification of uncertified sapele. Generally premiums are significantly lower for FSC certified temperate hardwoods, but this is not always the case. For example one interviewee noted he recently had quotes for a tulipwood specification from the USA where the FSC certified option was 18% more expensive.

Public sector buyers willing to pay FSC premiums

Interviewees suggest that Government funded agencies have generally been willing to pay high premiums for FSC certified wood. The situation is more complicated in the private sector. At present demand for all wood products is extremely weak and this is distorting the market for verified wood. There is now more focus on price and as a result far fewer customers are willing to pay any premium. For many customers, a wider variety of assurances that wood is legal and sustainable are now acceptable. Meanwhile some importers with FSC stocks to hand have become so desperate to maintain market share that they have been offering FSC certified hardwoods at much lower premiums when requested for labelled product by the client.

Summary

Many leading importers in Belgium have made a firm commitment to sourcing legally verified wood and are taking concerted action to implement these policies. Some large importing companies based in Belgium selling into other parts of Europe have been leaders in this process. But there are significant constraints to a more decisive move in this direction, notably continuing lack of end-user commitment and the high premiums demanded for some verified products, particularly FSC certified tropical hardwoods. The premiums demanded for these products are well above the willingness of most customers to pay and generally only achieveable on limited occasions in the public sector. In the wider trade, the high premiums for FSC certified tropical hardwoods seem to be driving greater interest in legally verified products. There is also evidence of a shift out of tropical hardwoods altogether in favour of temperate hardwoods which are perceived to be lower risk.

Table 1: Production, trade and consumption in 2007

All figures RWE volume 1000 m3 unless otherwise stated

Domestic production		**2700**
Of which	Softwood	2000
	Hardwood	700
	Suspicious origin	27
	Verified origin	1107
Imports		**12209**
Of which	Intra EU	8831
	Extra EU	3378
	Suspicious origin	924
	Verified origin	5462
	From pred. temperate/boreal countries	9820
	From predominantly tropical countries	900
	From countries in mixed forest zones	1501
	Softwood	5840
	Hardwood	2919
	Unknown species composition	3471
	From developed countries	8998
	From developing countries	2399
	From Least Developed countries	59
	From transition countries	752
Exports		**6927**
Of which	Intra EU	6382
	Extra EU	545
Assumed consumption		**7982**
Population		10.7
m3/capita/annum		0.75

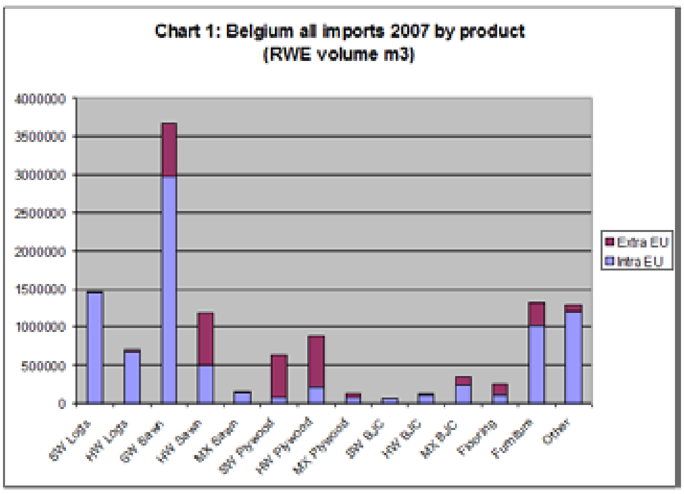
Note: Total RWE production, trade and consumption data is calculated for products derived from sawlogs and veneer logs including: sawn lumber, mouldings, plywood, veneers, building carpentry and joinery products, pallets, barrels and wood furniture. Composite panels such as fibreboard and particleboard are excluded as these often derive from smaller industrial roundwood.

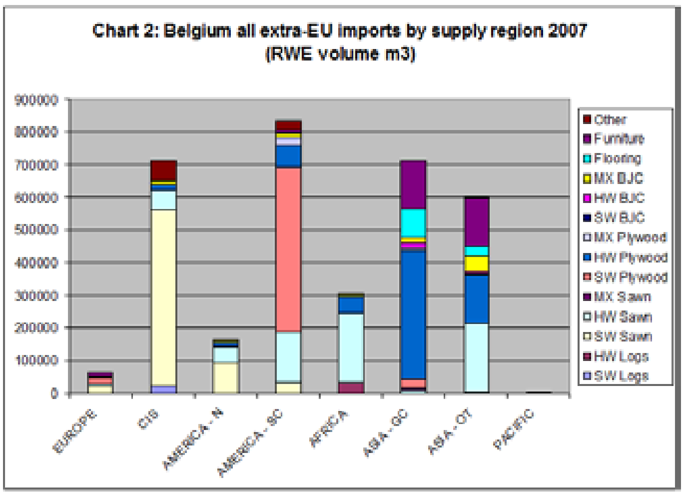
Table 2a: Leading verified supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w verified 000 m3	Value mill €	o/w verified mill €
GERMANY	SW Sawn	1103.3	761.4	111.0	76.6
GERMANY	SW Logs	526.5	363.3	32.6	22.5
NETHERLANDS	SW Sawn	530.3	288.9	75.0	40.9
SWEDEN	SW Sawn	327.0	280.5	40.8	35.0
NETHERLANDS	SW Logs	456.0	248.4	19.8	10.8
NETHERLANDS	Other	390.0	212.5	56.6	30.9
FINLAND	SW Sawn	206.4	196.1	27.1	25.7
GERMANY	Other	279.3	192.8	38.6	26.6
BRAZIL	SW Plywood	499.7	149.9	44.8	13.4
GERMANY	Furniture	206.7	142.7	221.7	153.0
POLAND	Furniture	173.0	102.6	124.0	73.6

Table 2b: Leading 'risky' supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w suspicious 000 m3	Value mill €	o/w suspicious mill €
CHINA	HW Plywood	391.4	123.7	59.7	18.9
INDONESIA	HW Plywood	118.3	67.2	24.1	13.7
RUSSIA	SW Sawn	453.8	64.8	55.8	8.0
BRAZIL	HW Sawn	149.9	63.4	47.6	20.2
CHINA	Furniture	145.0	45.8	106.9	33.8
CAMEROON	HW Sawn	124.0	43.0	47.7	16.5
BRAZIL	SW Plywood	499.7	35.0	44.8	3.1
INDONESIA	Furniture	61.4	34.9	64.3	36.5
INDONESIA	HW Sawn	61.2	34.8	26.8	15.2
CHINA	Flooring	87.0	27.5	45.6	14.4
BRAZIL	HW Plywood	63.3	26.8	10.9	4.6





DFID Department for International Development

timber trade federation growing the use of wood

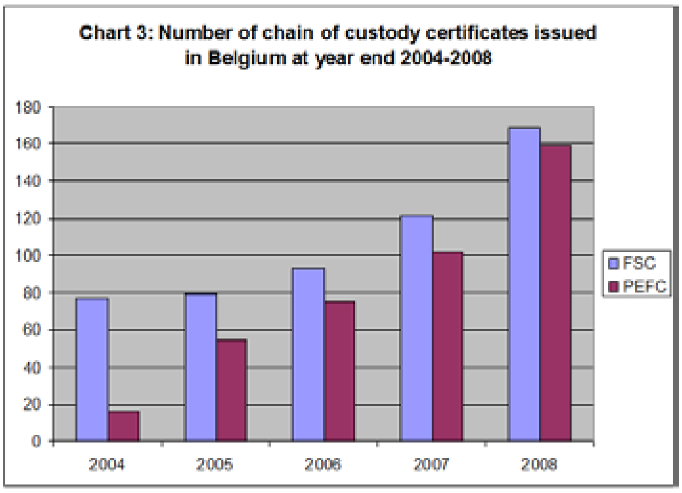


Table 3: Forest products industry structure in 2007

	Nos Enterprises	Turnover million €	Production Million €	Employment
Woodworking	1699	3526	3480	13833
Furniture	2333	3160	3040	18888
Pulp and paper	286	4951	4627	14240
All enterprises	**4318**	**11637**	**11147**	**46961**

Table 4: Construction industry structure in 2007

	Unit	Total	% EU total
Gross investment	Billion €	29	2.4
Employment	X 1000	248	1.6
	Unit	**Total**	**Employee/enterprise**
No. of enterprises	X 1000	71	3.5

Table 5: Production of wood based products 2003-2007 (000 m3)

	2003	2004	2005	2006	2007
Softwood saw & veneer logs	1950.0	1975.0	2000.0	2100.0	2000.0
Hardwood saw & veneer logs	740.0	725.0	690.0	700.0	700.0
Softwood sawnwood	1000.0	1035.0	1075.0	1300.0	1325.0
Hardwood sawnwood	215.0	200.0	210.0	220.0	230.0
Plywood	20.0	21.0	20.0	20.0	20.0
Veneer	48.0	40.0	38.0	40.0	42.0
MDF	260.0	265.0	270.0	265.0	265.0
Particle board	2265.0	2205.0	2365.0	2260.0	2225.0

All tables and charts on this page are based on FII Ltd analysis of Eurostat, PEFC, FSC, and UNECE Timber Committee data.

Public sector procurement policy

Since March 2006, all federal government agencies in Belgium have been committed to a policy of using only wood coming from sustainable forests. The policy may also be voluntarily adopted by regional and local government agencies which are relatively powerful in Belgium and likely to account for a much large volume of consumption. In total, public procurement in the country is estimated to account for around 5-10% of the total forest products market.

The federal government policy covers all primary and secondary solid wood products, together with manufactured joinery products (doors, windows, flooring) and wooden furniture. The policy is to accept only timber supplied under forest certification schemes assessed as conformant to 11 criteria for sustainability by an "Expert Group" comprising national stakeholders. The Expert Group currently recognises FSC together with "PEFC country certification which provides a strongly developed social dialogue and respect for the rights of indigenous populations". A list of approved PEFC certification schemes is published by the Expert Group.

During 2008, the UK based consultancy Proforest that also runs CPET in the UK, was commissioned to review Belgium's timber procurement policy. The study included an analysis of current implementation by federal ministries and institutions


Photo credit: AHEC

Structure of trade and industry

■Domestic harvesting of saw and veneer logs in Belgium in 2007 amounted to 2.7 million m3 (Table 1). Belgian production of primary and secondary wood products focuses heavily on softwood and particleboard with only limited volumes of hardwood products (Table 5).

■Belgium is heavily dependent on imported wood products and is also important in the distribution of wood products to neighbouring EU countries. In 2007, the roundwood equivalent (RWE) volume of imports of wood products based on saw and veneer logs amounted to 12.2 million m3. A very large proportion of wood product is re-exported. In 2007, Belgium exported wood products with a RWE volume of 6.9 million m3 (Table 1).

■80% of the wood imported into Belgium in 2007 derived from predominantly temperate and boreal countries. Of the remainder, around 7% derived from predominantly tropical countries and 13% from countries of mixed forest zones (mainly China and Brazil).

■28% of the wood imported into Belgium in 2007 came from outside the EU. A wide range of wood products enter Belgium from outside the EU, the most significant in terms of volume being softwood sawn from Russia, softwood plywood from South America, hardwood plywood from China, hardwood sawn from Africa, the Far East, and South America, and furniture from East Asia (Charts 1 and 2).

■Overall, around 45% of wood imported into Belgium is estimated to have derived from verified forests in 2007. This reflects the relatively high level of imports of softwood sawn and logs from northern Europe (Table 2a).

■It is estimated that around 8% of Belgian imports are at high risk of being derived from suspicious sources (Table 1). Key high risk supply chains are hardwood plywood from China and Indonesia, softwood sawn from Russia, hardwood sawn from Brazil and Cameroon, and furniture from China and Indonesia (Table 2b).

■Uptake of both FSC and PEFC chain of custody certification has risen steadily in Belgium since 2004, respectively reaching around 170 and 160 by the end of 2008 (Chart 3). But the overall level of uptake is small compared to the number of forest products industry operators in the country (Table 3).

through questionnaires and face-to-face interviews. 55% of federal agencies indicated that they are actively implementing the policy, 37% indicated that the policy is "easy to implement", while 60% indicated a need for additional support. A general conclusion was that existing policy requirements are not sufficiently clear and procurement officers lack understanding of timber procurement issues.

At regional level, the governments of Flanders and Wallonia have for long been engaged in sustainable timber procurement issues, taking two very different approaches. The northern and more urban Flemish region of Flanders looks to the FSC to provide assurances of sustainable forestry practices following intense WWF marketing. The Flanders regional government offers direct financial incentives to local administrations implementing environmental programmes which include timber procurement policies favouring FSC. In 2006, the regional government reported that 255 of the 308 Flemish communes were engaged in this process.

In contrast, the public sector in the more rural French speaking region of Wallonia, with a significant domestic forest resource, leans heavily towards PEFC and has been positively resistant to FSC certification. Around 50% of forests in the region are PEFC certified. Many of these forests are owned by small private forest owners who represent a significant political lobby in the region. At present, Wallonia is not actively implementing a specific timber procurement policy at regional level.

Private sector initiatives

All members of FBCIB, Belgium's timber trade association whose membership accounts for around 80% of timber imports into the country, have voluntarily committed to the association's environmental procurement policy. The policy has two objectives: to seek evidence of legal compliance from suppliers; and to promote sustainable forest management certification. With regard to the latter, FBCIB members must "continue to support credible timber certification schemes, such as FSC, CSA, PEFC, SFI and MTCC". FBCIB is committed to ensuring implementation and encouraging recognition of the policy. Measures are being taken to promote the policy more widely through seminars, advertising and general communication. However no time-bound targets have yet been set or monitoring systems established.

An interview with Fedustria (Wood Industries Federation) in early 2008 indicated that this association is not at present developing a procurement policy or code of conduct for its members. They noted that their members have little or no direct contact with supplying countries and buy from Belgian importers.

Trade interviews

An interview with a representative of one of Belgium's (and Europe's) largest timber importers with over 100,000 m3 of stock suggested a very high level of commitment to sourcing only verified wood products. This company is importing both softwoods and hardwoods, mainly sawn but including some logs for custom cutting to client specification. The company also undertakes further planing and kilning, servicing customers throughout Europe. The company's sawn lumber business is split roughly 50/50 between softwood and hardwood. The main buyers are timber distributors and merchants together with manufacturers of doors/windows, flooring, staircases.

The company's formal procurement policy is to accept only legally verified timber. While it has been FSC CoC certified for a decade, it has an inclusive policy of a recognising a range of verification systems. This is to ensure comprehensive coverage and to respond to the varying demands for verified wood in different sectors of the market. The company operates a continuous program of evaluation of new sources and supports legality verification and phased systems. It operates a sawmill in Africa which is FSC chain of custody certified. The company currently holds around 20,000 m3 of PEFC and 12,000 m3 of FSC stock. All African timber is either OLB or FSC certified, all Scandinavian softwoods are PEFC certified, and most Russian softwoods are FSC certified. American softwoods are either SFI or FSC certified. Malaysian timber is certified to MTCS.

According to the interviewee, this comprehensive approach to green procurement is driven internally by the company and not by direct end-user demand "because the future of our business depends on the sustainability of forest resources". It is suggested that in fact only a small minority of their own customers actually request any form of verification. As a result this interviewee is strongly in favour of regulatory measures to prevent the sale of any unverified wood on the European market:

Market constraints to FSC

This interviewee emphasised the constraints to more widespread adoption of FSC certification: "today FSC certitied tropical wood costs perhaps 30-50% more and when you import it you are never quite sure you will be able to sell it. It does not necessarily meet customer requirements. It's a big risk for us - in the past we have had FSC timber hanging around in stock for 7-8 years. Only public buyers can afford to pay the premium". This is not an issue with legally verified wood products for which, in their experience, the price gap for African hardwoods is only around €3 /m3.

The representative of another medium sized importer was sceptical of the value of FSC certification. His company has a turnover of €25 million and a running stock of around 20,000 m3, comprising logs and sawn of both tropical and temperate hardwood species. The company is selling mainly to distributors and merchants, the joinery trade, and manufacturers, but not directly into the public sector. The company has no formal procurement policy but, according to the interviewee, the aim is to achieve "100% legally verified timber as the first priority". This interviewee does not believe in FSC certification and suggested that legality verification systems are just as reliable. "FSC is too expensive and not cost efficient. It generates a price premium of over 25%. As a result there is very little demand for FSC certified, only in public procurement". He also felt that the introduction of percentage based labelling was a significant

Photo credit: AHEC

backward step: “with all these different standards it has become more and more difficult for the final consumer to understand. There should be one single certification system”. He thought PEFC certification still has issues to resolve but it “is heading in the right direction”.

High prices for FSC certified African wood

The “high prices” for FSC certified African wood compared to legally verified product was a constant theme of interviews with Belgian importers and agents. Estimates of the premiums being asked for popular African species such as sapele and sipo were consistently in the 25% to 30% range. This compared with much smaller premiums of 5-15% frequently cited for equivalent products legally verified under the terms of systems like OSB (most frequently mentioned) and TLTV.

Several interviewees noted that those customers asking for environmental assurances, when informed of the price premium for FSC certified tropical hardwoods, are often willing to switch to the lower cost legally verified option. There was hint that this could, in time, put significant pressure on available supplies of legally verified product. A representative of the Belgian sales office of a large European timber trading company noted that further expansion of VLO supply is now constrained by the lack of availability of qualified auditors and other trained staff. But for now, this interviewee suggested that “legality incurs some extra costs but they are manageable”.

40% premium sought

A representative of the Belgian sales arm of a large European operation with concessions in Africa confirmed that they are currently seeking premiums of up to 40% for FSC certified standard joinery grades of species such as sapele and 20% for legally verified. However achieving these premiums is very difficult. It was noted that “signals from customer are frequently ambiguous, they will typically ask for certified wood products up-front, but then are very reluctant to pay the premium - they will easily revert to legally verified or unverified”. This interviewee felt that while environmental groups tend to target large producer and importer groups, they might do better by targetting the big end users, notably the European manufacturers of decking, garden furniture, doors & windows: “these companies are more likely to use unverified timber because their main concern is to be cheaper and cost efficient”. This interviewee concluded “if non-verified were simply not allowed into the EU, it would make life a lot easier for us”.

Switch to temperate timbers

Another interviewee from a medium sized company importing tropical and temperate hardwood logs and sawn lumber, said that a major part of their reaction to environmental pressures had been to reduce their reliance on tropical timbers and to focus more on temperate species, particularly European which now account for 60-70% of their sales, but also including American hardwoods. To some extent this move reflects the concerns of customers, some of which have now banned tropical hardwoods, and mounting pressure from environmental groups. It was noted that “so long as problems of legality persist in Brazil and Africa, the firm prefers to focus on temperate hardwoods”.

In terms of availability, this interviewee suggested that sourcing PEFC certified European hardwood, most of which for this company is brought in from France, is not a problem and remains very flexible. Obtaining certified hardwood from the US is more difficult, with only FSC available which often incurs a 15% price premium “which is too high for many customers”. The UK is this company’s second largest market after Belgium and is also where there is most demand specifically for FSC certified timber.

Photo credit: AHEC

Challenges in flooring and decking sector

Interviews with representatives of two manufacturing companies provided an insight into demand for verified wood in specific sectors of Belgium’s domestic wood market. One company, a manufacturer of tropical hardwood flooring and decking, has been FSC certified since 2001. The company also imports legally verified tropical hardwoods from Africa, Asia and Brazil. These measures have been taken primarily to allow the company to improve its relationship with and maintain market share in the builders’ merchant and DIY sector in Belgium and northern France. Nevertheless, it has been challenging to increase the proportion of verified wood used in the hardwood flooring and decking sectors. Supplies of both legally verified and certified wood appropriate for these applications are not readily available. While many customers first demand verified or certified wood product, they are not willing to pay the premiums that are usually required and often revert to non-verified as a fall back solution. The exclusive policies of some retail chains, which tend to favour one chain of custody system over another, has made the sourcing problems even more challenging.

Demand filtering through from public sector

A representative of a small (18 staff, €3 million turnover) specialist manufacturer of hardwood bridges – suggests that demand for verified wood generated by Belgian local authorities has been increasing in recent years. The company purchases both logs and sawn lumber, all tropical hardwood. There is no company policy to exclude the use of illegally sourced timber. Rather the policy is to obtain FSC certified and other verified products for those customers that require it. FSC certified now accounts for around 15% to 20% of their annual turnover, having increased steadily during the last 10 years. Requests from parks, garden furniture manufacturers, and building and landscape contractors to source 100% FSC certified are now fairly regular. But there are constraints to moving further down the certification route. Generally this company is willing to pay 15-20% extra for verified product, but premiums requested by suppliers are frequently higher than this. It was suggested that prices for FSC certified tropical hardwood of suitable quality and specification may be over 50% more than equivalent unverified material. In their experience, prices for legally verified may be as much as 25% higher in some instances. The high premium prices quoted by this company may reflect the relatively small orders involved.

Summary

While the national trade association and local environmental groups are taking action to further develop demand for verified wood in Spain, there is a very long way to go. Current interest in verified wood is extremely low, particularly in the absence of a strong public sector steer or of an organisation with the status of the UK's CPET to help generate and direct demand. Customers are beginning to ask more questions about the legality (and more occasionally the sustainability) of wood products. However in the absence of more concerted public sector efforts or a legislative approach, there is likely to be only slow and uncertain progress to develop a mass market for verified wood. The opportunities to achieve price premiums for verified wood in the Spanish market are very rare. In those instances where reassurance is needed, signed letters and other official-looking documentation from suppliers are often accepted without further question.

Table 1: Production, trade and consumption in 2007

All figures RWE volume 1000 m3 unless otherwise stated

Domestic production		**4532**
Of which	Softwood	3258
	Hardwood	1274
	Suspicious origin	45
	Verified origin	2719
Imports		**12285**
Of which	Intra EU	8365
	Extra EU	3920
	Suspicious origin	1016
	Verified origin	3823
	From pred. temperate/boreal countries	9825
	From predominantly tropical countries	848
	From countries in mixed forest zones	1621
	Softwood	5085
	Hardwood	3986
	Unknown species composition	3228
	From developed countries	9057
	From developing countries	2865
	From Least Developed countries	72
	From transition countries	301
Exports		**2541**
Of which	Intra EU	2058
	Extra EU	483
Assumed consumption		**14276**
Population		46.1
m3/capita/annum		0.31

Note: Total RWE production, trade and consumption data is calculated for products derived from sawlogs and veneer logs including: sawn lumber, mouldings, plywood, veneers, building carpentry and joinery products, pallets, barrels and wood furniture. Composite panels such as fibreboard and particleboard are excluded as these often derive from smaller industrial roundwood.

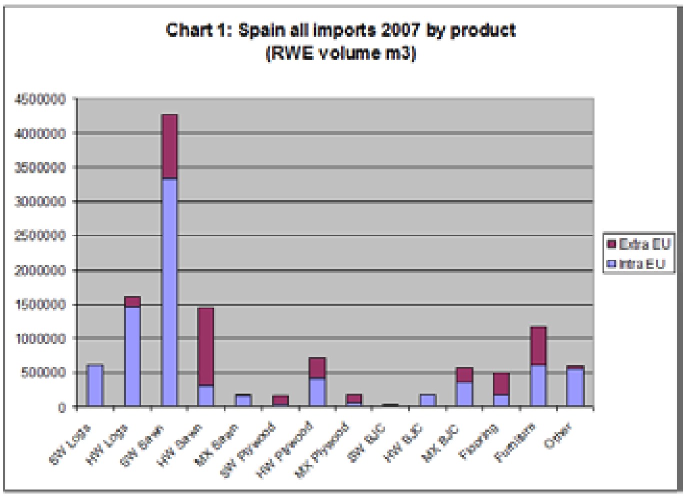
Table 2a: Leading verified supply chains in 2007

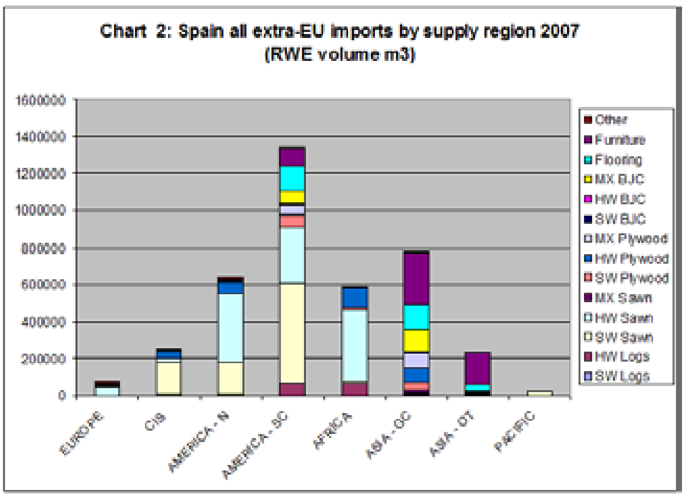
Despatch country	Product group	RWE 000 m3	o/w verified 000 m3	Value mill €	o/w verified mill €
SWEDEN	SW Sawn	837.6	718.5	104.7	89.8
FINLAND	SW Sawn	459.1	436.2	59.6	56.7
GERMANY	SW Sawn	414.2	285.9	42.5	29.3
FINLAND	HW Plywood	165.3	157.0	33.0	31.3
AUSTRIA	SW Sawn	272.5	144.2	30.3	16.0
FRANCE	SW Sawn	530.0	134.1	55.3	14.0
FRANCE	SW Logs	476.9	120.6	24.4	6.2
FRANCE	Furniture	365.8	92.5	243.3	61.5
GERMANY	MX BJC	117.0	80.7	29.7	20.5
PORTUGAL	HW Logs	1319.0	76.4	81.0	4.7
BRAZIL	SW Sawn	246.1	73.8	22.4	6.7

63

Table 2b: Leading 'risky' supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w suspicious 000 m3	Value mill €	o/w suspicious mill €
BRAZIL	HW Sawn	257.5	108.9	58.7	24.8
CHINA	Furniture	277.6	87.7	197.3	62.4
CAMEROON	HW Sawn	234.1	81.1	57.4	19.9
IVORY COAST	HW Sawn	91.5	64.1	25.8	18.1
BRAZIL	Flooring	132.0	50.7	21.3	8.2
INDONESIA	Furniture	74.2	42.1	60.6	34.4
CHINA	Flooring	130.1	41.1	55.0	17.4
CHINA	MX BJC	122.0	38.5	23.2	7.3
IVORY COAST	HW Plywood	48.5	33.9	12.8	8.9
BRAZIL	Furniture	76.7	29.4	46.1	17.7
CHINA	MX Plywood	82.0	25.9	12.5	4.0





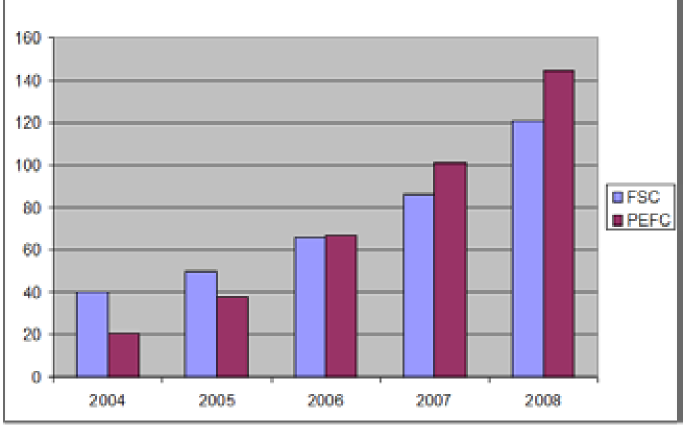


Chart 3: Number of chain of custody certificates issued in Spain at year end 2004-2008

Table 3: Forest products industry structure in 2007

	Nos Enterprises	Turnover million €	Production Million €	Employment
Woodworking	15678	10808	10164	99807
Furniture	19197	12239	12008	139777
Pulp and paper	2001	12385	12023	55220
All enterprises	**36876**	**35432**	**34194**	**294804**

Table 4: Construction industry structure in 2007

	Unit	Total	% EU total
Gross investment	Billion €	186	15.5
Employment	X 1000	2546	16.5
	Unit	**Total**	**Employee/enterprise**
No. of enterprises	X 1000	448	5.7

Table 5: Production of wood based products 2003-2007 (000 m3)

	2003	2004	2005	2006	2007
Softwood saw & veneer logs	5800.0	5875.0	5507.0	4395.0	3258.0
Hardwood saw & veneer logs	1900.0	1920.0	1836.0	1465.0	1274.0
Softwood sawnwood	2710.0	2730.0	2750.0	2860.0	2179.9
Hardwood sawnwood	920.0	1000.0	910.0	946.0	1152.0
Plywood	370.0	375.0	557.0	468.0	450.0
Veneer	55.0	56.0	58.0	60.0	60.0
MDF	1120.0	1184.7	1185.0	1185.0	1160.0
Particle board	3180.0	3244.0	3174.0	3316.0	3295.0

All tables and charts on this page are based on FII Ltd analysis of Eurostat, PEFC, FSC, and UNECE Timber Committee data.

Public Sector Procurement Policies

The Spanish Federal Government has not enacted a specific policy for green timber procurement. However in early 2008, the Ministry of the Presidency of Spain under the proposal of the Ministers of Environment and Finances launched the “Green Public Procurement Plan”. It is based, among other regulations, on the Spanish Strategy for Climate Change and Clean Energy and the draft Integrated National Waste Program. The plan will be applied by the Spanish General Administration. Current information suggests that the plan includes no specific criteria for timber used in public-sector construction projects, although furniture products are covered. The main measures relating to wood products mentioned in the plan are:

■Furniture: “no virgin wood from illegal logging, genetically modified trees or high environmental value species”, and the origin of wood to be “documented by a certificate of sustainable forest management”.

■Criteria for building upkeep: use materials which are easily recyclable or reusable at the end of their lifecycle.

Private Sector Initiatives

The 165 members of the Spanish Asociación Española de Importadores de Madera (AEIM), which account for 70% of the Spanish import trade, are formally bound to a code of conduct including provisions for timber procurement. Members are required to “evaluate their suppliers through careful verification of sources” and to include in their timber procurement contracts a clause “ensuring the exclusion of timber originating from illegal sources”. They are also required to “consider the future implementation of a certification system”. The Code has been subject to review by the Rain Forest Alliance. However at present there are no formal systems for regular monitoring or auditing of Member conformance to the Code.

In a recent interview, an AEIM representative said the Code had been developed in response to concerns raised by NGOs, the media and politicians with respect to wood supplies from high risk tropical countries. Environmental groups, notably WWF and Greenpeace, have been increasing pressure on importers to further develop the code so it has more teeth, including specific targets for action and third party verification.

A recent Timber Trade Action Plan (TTAP) report notes that

Structure of trade and industry

■Spain is the EU’s fifth largest consumer of wood products in the EU after Germany, France, the UK, and Italy. Domestic wood production in Spain is relatively limited so the country is heavily dependent on imports. Domestic harvesting of sawlogs and veneer logs in 2007 amounted to around 4.5 million m3. Spain’s domestic production of primary and secondary wood products is concentrated in softwood and particle board (Table 5).

■The roundwood equivalent volume (RWE) of Spanish imports amounted to 10.3 million m3 (Table 1). 80% of the wood imported into Spain in 2007 derived from predominantly temperate and boreal countries. Of the remainder, around 7% derived from predominantly tropical countries and 13% from countries of mixed forest zones (mainly China and Brazil).

■32% of the wood imported into Spain in 2007 came from outside the EU. Extra-EU imports are dominated by products from South and Central America, notably softwood and hardwood sawn lumber and flooring. Other major imports are hardwood sawn lumber from Africa and North America, and furniture (mainly from China and other parts of East Asia) (Charts 1 and 2).

■Overall, around 31% of wood imported into Spain is estimated to have derived from verified forests in 2007, a relatively low proportion compared to other EU countries (Table 2a). This reflects relatively high levels of imports from countries outside the EU with more limited verified forest.

■It is estimated that around 8% of Spain’s imports are at risk of being derived from suspicious sources (Tables 1). Risky supply chains are hardwood sawn from Brazil, Cameroon and Ivory Coast, furniture from China and Indonesia, and flooring from Brazil (Table 2b).

■PEFC and FSC chain of custody certification increased rapidly in Spain between 2004 and 2008 with neither scheme becoming dominant. The total number of chain of custody certificates is still very small (260) compared to the huge number of companies engaged in the industry.

AEIM has now established an action plan to develop the Code into a more far-reaching responsible purchasing policy for its members. The action plan has led to regular cooperation with Spanish government authorities dealing with illegal logging issues and public purchasing. The organisations are working together to develop practical guidance on legality verification and tools for green timber procurement. AEIM is also evaluating the option of joining the TTAP to provide a platform to assist overseas suppliers to improve traceability and legality verification for wood supplied to the Spanish market. A similar partnership is already under way with WWF Spain, assessing suppliers in the Congo Basin in terms of verifiable legal and moving towards sustainable production. AEIM is also insistently communicating and promoting its members' commitment towards legal and sustainable timber, as well as certification.

Trade interviews

Interviews were held in the last quarter of 2008 with AEIM, two Spanish timber importers and two Spanish based wood frame construction companies. The strong message coming through from all these interviews is that at present there is only very limited demand for verified wood, although some customers are requiring more broad reassurance that products are at least legal. There are Spanish importers and manufacturers that have invested time and money to develop procurement policies and chain of custody certification that now complain that there is no real demand to justify the investments made to date.

Interest in certification of softwoods or temperate hardwoods appears negligible. If labelled wood is provided it might give some market preference but there are rarely if ever any price premiums available. One interviewee, representing a large softwood and hardwood lumber importer, noted that most of their softwood is supplied from Nordic countries which are readily available certified. His company's softwood suppliers may request a small price premium, never more than about 5% for either PEFC or FSC, but there is no appetite to pay in Spain so most is bought without regard for verification status.

"Only interested in best quality wood at the best price"

A representative of a hardwood lumber importer noted that her company procures most of its European hardwoods from a supplier in Bosnia which is unable to provide any labels or documentation. However these supplies have never been challenged by her customers who "seem only interested in the right quality wood at the best price". One of this company's US hardwood suppliers also regularly offers small quantities of FSC certified product. However there is no interest, partly because her customers already have a strong perception that US hardwoods are from well managed forests, and partly because a premium of over 10% is required and compromises often have to be made with respect to quality and specification.

It was noted that, with respect to softwoods and temperate hardwoods, the only time certified wood may be requested is occasionally for a public sector project or when supplying companies that manufacture products (such as doors) for re-export to other parts of Europe. For example, this interviewee recently had a customer request reassurance of legality and sustainability of American hardwoods. In the end a letter from the US exporter stating their environmental credentials proved sufficient.

Otherwise the environmental focus, where it exists, is exclusively on tropical hardwoods. For example, two interviewees observed that suppliers of decking using tropical timbers such as ipe or bangkarai are increasingly being asked for reassurances of legality and sustainability because these products are often being used in public spaces with public funding. But even here, interviewees suggest there is little momentum towards changing procurement practices. Unverified tropical hardwood products are still widely used in public projects. Although there are occasional requests for certified products, where these are not available or too expensive, some form of declaration of legality from the producer government seems to suffice. It appears that only for exceptional high profile government projects will clients insist on certification or pay a price premium.

One interviewee noted that they import iroko from an Italian-owned operation in the Ivory Coast which is unable to supply any certified lumber. She has two clients that, having identified Ivory Coast as high risk, regularly request assurances about the legality of iroko. To date, copies of various documents provided by the company in the Ivory Coast have been sufficient to reassure these customers. None have asked for FSC or other independent third party verification.

There are some tropical exporters offering FSC certified wood to Spanish buyers. For example, CIB has been marketing FSC certified hardwood from the Congo Republic in Spain and has been looking for a 25-30% price premium. Very occasionally this may be achieved when an importer wants to purchase a small amount to boost green credentials and to provide flexibility for those extremely rare occasions when a customer might actually ask for it. But the vast majority of importers are unwilling to pay a premium as they cannot pass any extra cost onto the customer.

Increasing volumes of unverified Chinese plywood

In the hardwood plywood sector, increasing quantities of unverified Chinese product have been imported in recent years without any form of legality verification. Price differentials between these products and verified products from other sources are so great as to discourage any shift to certified products.

Interviews with the two timber frame companies operating in Spain suggested that, at least prior to the property crash in 2008, they were making some progress to develop demand for wood frame construction in Spain. This is a market which is currently massively dominated by concrete. However these companies, both of which are based in northern Europe, suggest that they are constantly impeded by local planning controls which are heavily weighted against timber frame. There is also much resistance to change from domestic construction companies. Nevertheless, one of the interviewees said that they are now working with one of the Spain's largest timber importers which is very enthusiastic to develop the market.

Pushing the environmental benefits of timber frame construction – particularly the carbon sequestration and energy efficiency properties – form a component of the marketing strategy in Spain. But these issues have been much less significant in developing demand than other factors such as speedy construction, cost (timber frame may be 30% lower than concrete construction), and quality.

Both interviewees note that the products they offer could easily be obtained chain of custody certified and labelled at very little extra cost – since their wood products are all derived from northern European suppliers offering these services. However, as things stand, there is no demand for this and they have not taken steps to chain of custody certify their Spanish operations. One interviewee comments: "on environmental issues, Spain isn't even on the map. Our clients have no idea what FSC or PEFC means and it certainly has no bearing whatsoever on making a decision on the type of construction used".

Summary

As things stand there is very little end-user demand for verified wood products in Italy. The Italian government has not developed a formal green timber procurement policy although there are some local authorities that have made a commitment to purchase FSC. The trading companies that have invested in certification are mostly involved in export and are engaged in the supply of some FSC certified products to customers mainly in northern Europe. There is a great deal of resistance to paying more for verified timber even when it is required. On the other hand, there are now more importers demanding general information from suppliers about the legality and sustainability of their supplies. In early 2009, a partnership was launched between Italy's trade association and WWF-Italy including some potentially far-reaching commitments to work jointly to develop demand for verified wood products in the country.

Table 1: Production, trade and consumption in 2007

All figures RWE volume 1000 m3 unless otherwise stated

Domestic production		**1291**
Of which	Softwood	520
	Hardwood	771
	Suspicious origin	13
	Verified origin	90
Imports		**23450**
Of which	Intra EU	17138
	Extra EU	6312
	Suspicious origin	1739
	Verified origin	11043
	From pred. temperate/boreal countries	21084
	From predominantly tropical countries	1462
	From countries in mixed forest zones	1006
	Softwood	13747
	Hardwood	5468
	Unknown species composition	4381
	From developed countries	18523
	From developing countries	2498
	From Least Developed countries	166
	From transition countries	2393
Exports		**5422**
Of which	Intra EU	3765
	Extra EU	1657
Assumed consumption		**19319**
Population		59.6
m3/capita/annum		0.32

Note: Total RWE production, trade and consumption data is calculated for products derived from sawlogs and veneer logs including: sawn lumber, mouldings, plywood, veneers, building carpentry and joinery products, pallets, barrels and wood furniture. Composite panels such as fibreboard and particleboard are excluded as these often derive from smaller industrial roundwood.

Table 2a: Leading verified supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w verified 000 m3	Value mill €	o/w verified mill €
AUSTRIA	SW Sawn	7044.3	3726.4	744.6	393.9
GERMANY	SW Sawn	1639.1	1131.2	165.9	114.5
FINLAND	SW Sawn	414.6	393.9	66.8	63.4
CROATIA	HW Sawn	392.6	386.6	76.2	75.0
AUSTRIA	MX BJC	655.8	346.9	146.2	77.3
CZECH REPUBLIC	SW Sawn	463.3	323.2	43.7	30.5
SWEDEN	SW Sawn	334.4	286.8	53.0	45.5
GERMANY	MX BJC	380.1	262.3	85.6	59.0
CROATIA	HW Logs	230.0	226.5	16.0	15.7
GERMANY	SW Logs	289.8	200.0	21.2	14.6
SWITZERLAND	SW Logs	255.1	195.8	20.3	15.5

66

Table 2b: Leading 'risky' supply chains in 2007

Despatch country	Product group	RWE 000 m3	o/w suspicious 000 m3	Value mill €	o/w suspicious mill €
IVORY COAST	HW Sawn	144.7	101.3	44.2	30.9
GABON	HW Sawn	113.2	71.5	31.4	19.8
UKRAINE	SW Sawn	286.5	69.2	22.8	5.5
BOSNIA & HERZ.	HW Sawn	92.4	68.2	15.6	11.5
IVORY COAST	HW Plywood	94.4	66.1	26.8	18.8
CAMEROON	HW Sawn	184.8	64.0	53.9	18.7
RUSSIA	SW Sawn	427.1	61.0	46.1	6.6
CHINA	Furniture	149.0	47.1	104.6	33.0
RUSSIA	HW Plywood	246.2	46.9	36.1	6.9
GABON	HW Plywood	71.5	45.2	20.5	13.0
AUSTRIA	SW Sawn	7044.3	33.2	744.6	3.5

Chart 1: Italy all imports 2007 by product (RWE volume m3)

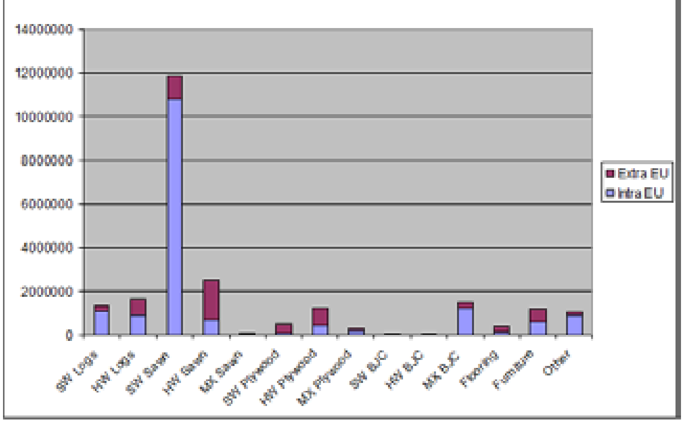
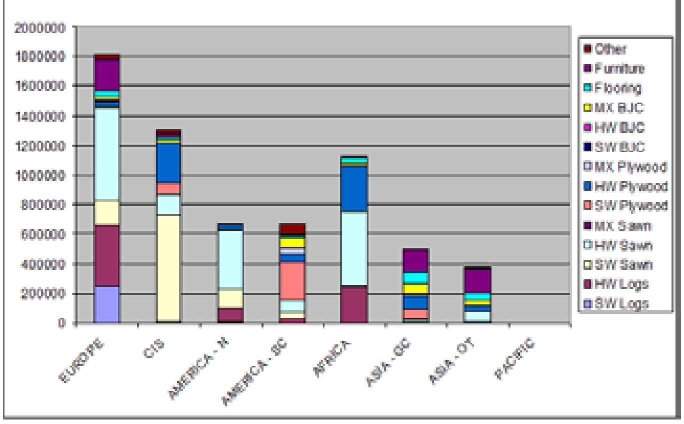


Chart 2: Italy all extra-EU imports by supply region 2007 (RWE volume m3)



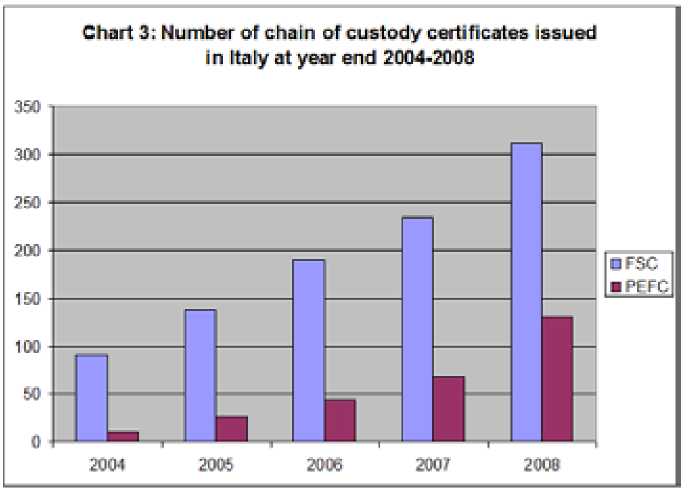


Table 3: Forest products industry structure in 2007

	Nos Enterprises	Turnover million €	Production Million €	Employment
Woodworking	41100	17631	17144	166427
Furniture	30136	26222	25692	202765
Pulp and paper	4269	20388	19559	78925
All enterprises	**75505**	**64241**	**62394**	**448117**

Table 4: Construction industry structure in 2007

	Unit	Total	% EU total
Gross investment	Billion €	144	12.0
Employment	X 1000	1900	12.4
	Unit	**Total**	**Employee/enterprise**
No. of enterprises	X 1000	563	3.4

Table 5: Production of wood based products 2003-2007 (000 m3)

	2003	2004	2005	2006	2007
Softwood saw & veneer logs	653.0	608.0	498.3	485.0	520.0
Hardwood saw & veneer logs	979.0	840.4	841.8	762.0	771.0
Softwood sawnwood	710.0	753.0	790.0	948.0	900.0
Hardwood sawnwood	880.0	827.0	800.0	800.0	800.0
Plywood	511.0	485.0	390.0	334.0	420.0
Veneer	460.0	470.0	470.0	470.0	470.0
MDF	950.0	1000.0	1100.0	1155.0	1155.0
Particle board	3350.0	3655.0	3525.0	3725.0	3600.0

All tables and charts on this page are based on FII Ltd analysis of Eurostat, PEFC, FSC, and UNECE Timber Committee data.

Public Sector Procurement Policies

The Italian national government has not yet developed a timber procurement policy, although government officials suggest that they are willing to start work on such a policy and only await passage of legislation providing a formal mandate. At this stage no decisions have been taken on the likely scope or content of the procurement policy.

In the absence of a national public procurement framework, regional and local government currently provide the only significant public sector driver of demand for verified legal or certified wood products in Italy. Policies at this level are strongly influenced by environmental campaigns and focus on sourcing FSC certified wood products. Currently 124 local authorities in Italy (out of a total of around 1200) are signatories to the Greenpeace Cities Friends of the Forests campaign encouraging procurement of FSC certified wood. However this policy is not backed by any formal system of monitoring to ensure implementation.

Private Sector Initiatives

Italy's timber trade associations have not yet developed any formal environmental timber procurement policy or codes of conduct for their members. However, a potentially significant development came in early March 2009 when the Federlegno – the Italian confederation for the wood, furniture, cork and furnishing industries – signed an agreement with WWF Italy for the "promotion of a transparent sustainable market for wood products". The pact was signed in the presence of Luca Zaia, the Minister of Agriculture, Nutrition and Forestry.

According to the agreement, Federlegno-Arredo and WWF Italy will act co-operatively to ensure "Italy takes responsibility for good forestry management, promotion of certification and development of credible policies in support of producer countries". Federlegno Arredo and WWF Italy are committed to establish a joint program "to monitor timber flows and the domestic timber market, to understand this in terms of volumes and the geographical areas of origin, to promote best practice in management and procurement, and to promote joint projects in areas most affected by deforestation".

Structure of trade and industry

■Domestic harvesting of sawlogs and veneer logs in Italy in 2007 amounted to only 1.3 million m3. Italian production of sawn wood is relatively constrained, not exceeding 1 million m3 for either softwood or hardwood. Italy producers reasonable volumes of particle board and MDF domestically, much of which will be destined for the furniture sector (Table 5)

■In terms of production value, Italy's furniture sector is the largest in Europe and was, until recently overtaken by China, the largest in the world. In 2007 the production value of this sector reached €23.5 billion. Italy's wood-working industry is nearly as large, second only to Germany within the EU with a production value of €22.4 billion in 2007. These industries are hugely fragmented. Italy has over 41,000 woodworking companies and 20,000 furniture companies employing an average of only 4 and 7 respectively per company (Table 3).

■Italy is very dependent on imported wood products. In 2007, the roundwood equivalent (RWE) volume of imports was around 23.5 million m3. A significant proportion of wood processed in Italy is re-exported. In 2007, Italy exported 5.4 million m3 of wood products (RWE volume - Table 1).

■90% of the wood imported into Italy in 2007 derived from predominantly temperate and boreal countries. Of the remainder, around 6% derived from predominantly tropical countries and 4% from countries of mixed forest zones (mainly China and Brazil).

■27% of the wood imported into Italy in 2007 came from outside the EU. This is dominated by hardwood sawn lumber (mainly from Eastern Europe, Africa and North America), hardwood logs (mainly from Eastern Europe), and softwood sawn lumber (mainly from Russia) (Charts 1 and 2).

■Overall, around 47% of wood imported into Italy is estimated to have derived from verified forests in 2007. This reflects the relatively high level of imports of softwood sawn from northern Europe, of builders' joinery products from Austria and of hardwood sawn from Croatia (Table 2a).

■It is estimated that around 7% of Italy's imports are at risk of being derived from suspicious sources (Table 1). Risky supply chains are hardwood sawn from Ivory Coast, Gabon, Cameroon and Bosnia, softwood sawn from Ukraine, and hardwood plywood from Ivory Coast (Table 2b).

■The pace of uptake of FSC CoC certification has been swift since 2004, although the overall number of certificates is still small (300) . Only 130 PEFC CoC certificates had been issued in the country by the end of 2008.

In the first instance, the two institutions will jointly promote procurement practices in line with the WWF GFTN guidelines and promote the use of certified wood products, particularly in construction. A key objective will be "to promote wood as the only certified sustainable raw material that can naturally store carbon dioxide, even throughout the product life cycle, a characteristic that distinguishes wood from all other materials". The implication of the focus on WWF GFTN guidelines is that FSC certification is likely to be seen as the ultimate objective of procurement policies, although other forms of evidence will be accepted as part of a step-by-step approach.
A smaller scale private sector initiative is the "Sistema casa Fiemme", a network of 25 companies from the Fiemme Valley, engaged in green building and using FSC certified wood from local forests.
The process for establishing the Green Building Council in Italy, a body in charge of supporting the LEED Programme in Italy and developing LEED standards at national level, was initiated in 2007. It addresses the issue of encouraging environmentally responsible forest management by requiring use of a minimum of 50% of FSC-certified forest products.

Trade interviews

Based on interviews with 13 companies undertaken in 2008, a recent study of the Italian market for verified wood products concluded: "although there are signs of rising interest in environmental timber procurement issues in Italy, the available information suggests that very few timber trading companies are yet seriously engaged…the lack of any form of trade association code or procurement policy is reflected in the fact that none of the interviewed companies has a formal environmental timber procurement policy. Two of the companies indicated they had an informal policy of preferring FSC or PEFC wherever possible, but this commitment is not monitored"*****.
This conclusion is generally supported by a further series of interviews with Italian importers and manufacturers undertaken in early 2009. These interviews suggest that legally verified and certified wood raw materials are arousing moderate - though growing - interest among final end users. To some extent this reflects growing interest at association level and in the media which is now much more focused on environmental issues. Business and consumer magazines are regularly debating sustainability, green construction, illegal logging and forest destruction. So green issues in Italy are much more in the public spotlight than a few years ago, particularly amongst the younger generation who are more environmentally aware.

Increasing number of companies keep certified in stock

One large importer of both softwood and hardwood products notes that the number of companies keeping hardwood and softwood in stock certified by FSC, PEFC or other bodies is increasing and more operators are working proactively to obtain chain of custody certification. However there are only a very limited number of specific requests for labelled products in the market. This activity is driven by the importers and distributors - who are now more oriented towards an exhaustive "all-round" service – and who consider chain of custody as a further step towards customer loyalty. It is seen as part of a green marketing strategy rather than a necessary customer requirement.
It's also important to note that there are a lot of Italian wood producing companies that are strongly export-oriented. Therefore they need to have some certified and legal wood materials in their warehouses in order to meet the requirements of foreign markets, especially in northern Europe. The main demand for Italian exporters appears to come from the UK, Netherlands and Germany. According to some operators, legal, traceable and certified wood is not considered as a product with an added value, and so it cannot have a higher cost. Rarely will a buyer accept even €10 euros more per cubic meter. One agent trading in American hardwoods reported that only a very small percentage of their sales are certified and even then it is rare to get more than a 5% premium.
Although few companies have implemented and are promoting formal procurement policies, many already appear to be implementing informal systems of due diligence and risk assessment, driven by a desire to protect their reputation. Amongst the companies interviewed, there also seemed to be a genuine understanding and recognition that their future depends on cutting out illegal supplies in the long term, if only to remove unfair competition. They complain that it is by sourcing illegal supplies, that some Chinese, SE Asian and South American companies are undercutting Italian companies in global markets.

Importers adopting "informal" policies

Importers are informally adopting a different approach to sourcing of the various wood types. For softwoods; supplies from Scandinavia and Austria (big supplier to Italy) are seen as well managed and certificates are widely available. However, importers will not generally pay premiums for certified softwoods as they can't pass these on to their customers. Italian importers reckon that softwood from Russia (where they usually look to Siberia) is considered higher risk and certification is much harder or impossible to obtain. There is some evidence that importers are avoiding these supplies more than in the past.
For hardwoods, the approach tends to vary for tropical and temperate species. Generally, temperate hardwoods from Europe and North America are viewed as low risk in terms of legality and sustainability. Italian hardwood importers appear to be sourcing their temperate hardwoods according to price, grade, specifications and quality rather with any consideration of certification or labelling. In the domestic market there is no demand for hardwood products to be certified, with only occasional interest amongst customers in export markets. There is certainly no willingness from Italian importers to pay premiums for certified temperate hardwoods.

An important market for tropical wood

For tropical hardwoods, Italy is still an important market although demand has probably fallen by 15% or so in recent years due to a shift towards temperate species especially for export products, and also changes in fashion. Some importers are already bringing in FSC certified tropical hardwoods for manufactures who have government contracts or export customers in Northern Europe. But because FSC certified volumes of tropical products favoured by Italian importers are restricted, prices are high and overall demand is low, the move towards certified tropical product is seen by most interviewees as window dressing in order to justify their carrying the FSC logo on the letterhead. Italian importers are generally very reluctant to pay premiums for certified supplies. In the current economic climate, the best that can be hoped for those supplying certified products is "buyer preference" as the whole market is more price conscious than ever. Even for tropical timbers, all most buyers require at present is an assurance that products are produced legally and that "forests are not being destroyed".

******Market impact of a FLEGT VPA between Malaysia and the EU, A study for the Netherlands Ministry of Agriculture, Nature and Food Quality, Rupert Oliver, Forest Industries Intelligence Limited, June 2008*

Annex 1: Programs Delivering Verified Wood Products

Independent Forest Certification Systems

Definition

Forest certification programs combined several elements typically taken to involve:

- establishment of forestry and chain of custody standards through a balanced consensus-building multi-stakeholder process;
- alignment of forestry standards with international principles of sustainable forestry management;
- independent third party assessment of on-ground forestry performance and chain of custody management systems against these standards;
- conformance of accreditation and certification bodies with, at minimum, appropriate ISO standards.

International frameworks

Forest Stewardship Council (FSC)

The FSC is an international framework for independent third party certification of forestry performance. Forest management is assessed against standards developed in accordance to the FSC Principles and Criteria. Third party independent certification bodies are accredited by Accreditation Services International (ASI), a company owned by FSC. Accredited certification bodies may operate internationally and may carry out evaluations in any forest type within the scope of their accreditation. The FSC Logo, comprising the 'check-mark' tree icon and the initials FSC is copyright. FSC has developed a comprehensive series of chain of custody standards and rules for on-product and off product claims of conformance to FSC standards.

Programme for Endorsement of Forest Certification (PEFC)

The PEFC Council is an independent, non-profit, non-governmental organisation established to promote the independent third party certification of environmentally appropriate, socially beneficial and economically viable management of forests. The PEFC Council operates by assessing forest certification systems evolved through a national process against specific ISO-related requirements for standards-setting, certification and accreditation. Forest certification standards are required to align with international forestry principles developed from intergovernmental processes (Pan European, Montreal, ITTO etc). The PEFC Logo, comprising two trees encircled and the initials PEFC is copyright. PEFC has developed a comprehensive series of chain of custody standards and rules for on-product and off product claims of conformance to PEFC standards.

National/regional frameworks

Canadian Standards Association (CSA)

CSA, a not-for-profit private association, is the largest standards development organization in Canada. The CSA forest certification framework is a voluntary tool to help organisations achieve sustainable forest management (SFM). The CSA forest certification standard is consistent with the Canadian Council of Forest Ministers SFM criteria and elements which are in turn conform to those of the inter-governmental Montréal process. The standard gives organizations a system for continually improving their forest management performance and engaging interested parties in a focused public participation process. Certification to the standard involves regular independent, third-party certification audits. The CSA SFM Program is based on, and operates according, to the ISO and International Accreditation Forum specifications, requirements and guidance.

Sustainable Forestry Initiative (SFI) Inc.

SFI Inc. is an independent, charitable organization dedicated to promoting sustainable forest management in the USA and Canada. The SFI 2005-2009 Standard is based on principles and measures that promote sustainable forest management and considers all forest values. Certification bodies performing third-party audits to SFI forest, chain-of-custody or fiber sourcing requirements must be independent, objective and qualified. Depending on the scope of the certification audit, they must have completed an accreditation program through one or more of the following independent, international accreditation bodies: American National Standards Institute (ANSI), ANSI-ASQ National Accreditation Board (ANAB), and the Standards Council of Canada (SCC).

Malaysian Timber Certification System (MTCS)

The mission of the MTCS is to establish and operate a credible and internationally recognised national timber certification scheme towards promoting SFM in Malaysia. The Malaysian Timber Certification Council (MTCC), a Malaysian company governed by a Board of Trustees, was established in 1998 to develop and operate the MTCS. The original MTCC forest certification standard (known as the MC&I 2001) was based on the 1998 ITTO Criteria and Indicators for Sustainable Management of Natural Tropical Forests. This standard is being phased out and replaced by the MC&I 2002 which uses the FSC Principles and Criteria as the template (although it is not endorsed by FSC). Development of both forest management standards was through a participatory multi-stakeholder consultation in which MTCC played the role of facilitator. Forest management and chain of custody assessment is undertaken by independent Certification Bodies accredited by the Department of Standards Malaysia (Standards Malaysia), Malaysia's national Accreditation Body.


Photo credit: AHEC

Private Sector Legality Verification and Phased Certification Systems

Definition

The relative recent emergence of private sector legality verification systems has meant that they have not yet been subject to the same degree of analysis and scrutiny as independent forest certification programs. As a result there is not yet any common understanding of core elements of these programs. Some are structured to see legality verification as only a stage in a broader process of certification, while others are specifically designed with legality of verification as the goal. The following list of programs is not exhaustive.

WWF Global Forest and Trade Network (GFTN)

The WWF's Global Forest and Trade Network seeks to provide a comprehensive framework for wood trading chains to shift progressively through various stages including "legally verified" to full certification status. GFTN is an association of national and regional Forest & Trade Networks (FTNs). It is active in nearly 30 producer and consumer countries in Europe, Africa, the Americas and Asia. It encompasses both forest participants and wood trading companies. GFTN Forest Participants must commit to achieving credible certification of at least one Forest Management Unit (FMU) within 5 years, and all other FMUs they manage within 10 years. Forest participants are encouraged to use the Modular Implementation and Verification System (MIV) developed by Proforest allowing phased introduction of the various components of FSC certification which are divided into a set of standardised modules.

Rainforest Alliance/Smartwood Smartstep system

In addition to being an FSC Accredited certifier under the Smartwood brand, Rainforest Alliance operates Smartstep, a phased approach to FSC forest certification. The first step of the process is to demonstrate that wood is "Verified Legal Origin (VLO)" – a third party assurance covering the legal right to harvest, approved planning authorizations, payment of fees and taxes required to maintain rights, and chain of custody. The second step is to demonstrate that wood is "Verified Legal Compliance (VLC)" – a third party assurance covering VLO plus fulfilment of all environmental regulations and social regulations and control of unauthorized activities.

Tropical Forest Trust (TFT)

TFT is a UK registered charity with offices in Indonesia, Vietnam, China, Malaysia, Gabon, the UK and Switzerland. The TFT helps Member businesses – comprising retailers and suppliers of tropical wood products - to find out where their wood comes from, and to link them with acceptable forest sources. As a minimum first step, their wood must come from legally verified forest operations. TFT Members are also committed to increasing the volume of wood that they source from well managed forests. TFT staff also link the forests to Member's supplying factories through robust 'Wood Control Systems' that prevent any unknown or potentially illegal wood from being introduced at any point in the supply chain or during manufacturing. Forest Managers are required to pass through various stages in accordance with an agreed Certification Action Plan (CAP) with the ultimate objective of achieving and maintaining FSC certification.

Tropical Forest Foundation (TFF)

The Tropical Forest Foundation is a non-profit, educational institution dedicated to the conservation of tropical forests through sustainable forestry. TFF operates a two tiered step-wise approach to promote certification of sustainable forest management:

1) The "Legal Verified" label uses a definition of legality focused on the legal right to harvest.
2) The "Reduce Impact Logging (RIL) Verified" label uses a more inclusive definition of legality. To qualify for the label, a forest management unit must be verified through independent audit as conforming to the TFF RIL Standard. Product bearing this mark may be referred to as "transition wood" in the context of comprehensive forest certification schemes.

TFF has also formulated minimum requirements for the establishment of a CoC verification system, including the entity that holds the harvesting mark and all other entities that trade, store and process RIL Verified products.

Keurhout/NTTA Protocol for Validation of Legal Claims.

This Dutch-led program establishes a three step process towards SFM certification. The first step requires independent verification of Legal Origin (including chain of custody, harvesting rights and regulations). The second step requires verification of compliance with all other forestry related laws including labour and environmental standards. The third step involves independent verification against the Keurhout Sustainable Forest Management (SFM) standard. Timber delivered under the first and second steps is termed "Transition Timber". "Transition" licence holders are expected to enter into a third-party verified programme for progressive realisation of SFM standards against agreed time-bound targets.

SGS 'Timber Legality & Traceability Verification (TLTV)

SGS, a private corporation providing certification and inspection services conforming to relevant ISO quality and accreditation standards, has developed the 'Timber Legality & Traceability Verification' (TLTV) Programme to assist forestry companies to demonstrate that their products have been legally produced, acquired and/or sold. "Legality-Verified" timber is further traced down the supply chain through Chain-of-Custody verification. SGS Generic TLTV Standard for Legality of Production covers compliance by the forestry operator with all relevant forestry laws and other legal requirements and also requires the operator to: respect its social obligations towards local communities, workers, and contractors; comply with its environmental obligations imposed by laws, regulations and other relevant national and international environmental requirements; adhere to regulations of forest declarations and taxes; comply with processing, transport and trade regulations; and have management and chain-of-custody monitoring systems in place which ensure adequate control and traceability of its production.

Certisource

Certisource, a private company, aims to move interested parties towards sourcing timber from credibly certified forests. Certisource's system of legality verification is built around the WWF GFTN's guidelines, which provide baseline requirements which need to be met for timber to be described as 'Verified Legal'. As such, in addition to confirmation of the concessionaire's legal right to harvest, Certisource also assesses the legality of the harvesting process, such as the payment of relevant taxes, completion of cruising reports and confirmation (through analysis of log numbers) that tree felling, log extraction and logistics have been conducted according to legally authorized harvesting and management plans. Audits include field inspections as well as examination of documentation. The 'verified legal' concept also includes checks on transportation and chain of custody. Certisource verifies the source of timber using the best available technologies, including DNA, bar coding and RFID.

Eurocertifor-BVQi

Bureau Veritas describes itself as "a trade facilitation services provider" and is one of the world's leading providers of import control and inspection services. It conforms to relevant ISO quality and accreditation standards. Bureau Veritas recently acquired Eurocertifor, an FSC accredited certifier that also operates the Origin and Legality of Timber (OLB) system. The objective of OLB is to guarantee both the geographical origin of a wood product and the legality of the logging operations in that area. The OLB certificate is based on compliance with a locally adapted legality standard. The standard sets out requirements covering:

- compliance with national and international laws and regulations concerning: management and harvesting of the forest; labour, health and safety; and environment.
- minimum requirements with respect to concession boundaries, management planning, conflict management, and control of external purchases.
- traceability of the logs from the forest to the client or, where relevant, to the processing unit
- follow-up tracking of the wood during processing using a volume credit system

Global Forestry Services

Global Forestry Services Inc (GFS) provides assessment and monitoring of manufacturers and traders under a Wood Tracking Program (WTP) based on a formal CoC system. The WTP follows the GFTN responsible purchasing guidelines in recognizing environmental status as: Credibly certified; In Progress/ Controlled Wood and Legal. Companies participating in WTP are required to develop a scheduled Action Plan with the objective of increasing purchases of products from Credibly Certified Sources. GFS' Legal Verification Service, forming part of the WTP, confirms the legal origin of raw material from high risk forest areas through a formal supplier evaluation system. GFS provides a standard for Verification of Legal Origin (VLO) within the WTP. Monitoring of continued compliance to the requirements of the Legal Verification Service is based on regular 6-month surveillance of the client's supply chain. GFS also operates the Forestry Support Program (FSP) which is designed to provide a formal stepwise approach for forestry companies to meet requirements for FSC certification.

Legality Licensing

In Europe, the concept of legality licensing is intimately linked with the development of Voluntary Partnership Agreements (VPA) with supplier countries as a core component of the EU's Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan. Though the ultimate goal of the Action Plan is to encourage sustainable management of forests, ensuring legality of forest operations is considered a vital first step. The European Council has adopted a Regulation allowing for the control of the entry of timber to the EU from countries entering into a VPA with the EU. VPAs include commitments and action from both parties to halt trade in illegal timber, notably with a license


Photo credit: Rupert Oliver

scheme to verify the legality of timber exported to the EU. The EU's FLEGT Committee has issued a series of Briefing Notes which provide guidance on the scope and content of a VPA legality licensing system. The guidance indicates that FLEGT licensing should be based on a Legality Assurance System (LAS) which provides a reliable means to distinguish between legal and illegally produced forest products. These consist of five elements: (1) a definition of legal timber developed through a balanced multi-stakeholder process; (2) verification of compliance with the definition; (3) verification of supply chain controls from harvesting to export to ensure that no timber of unknown or illegal origin is included in exported shipments; (4) issuance of licences; and (5) independent monitoring to ensure the LAS is working as intended.

The Briefing Notes state that in most cases the verification of legal compliance and supply chain control elements will be operated by Partner Country government agencies, or qualified private sector verification organizations (e.g. providers of inspection services) acting on a Partner Country government's behalf. However it is also possible that the LAS may provide for one or both of these elements to be operated by "verification bodies contracted by market participants". The implication is that the various private sector forest certification and legality verification systems described here may in some cases be integrated into FLEGT VPA licensing procedures.

In July 2008, Ghana became the first country to sign a VPA with the EU. However as systems and procedures are still being developed, the first FLEGT VPA licensed timber from Ghana is not expected to be available before 2010. Congo Republic signed a formal FLEGT VPA in May 2009. Formal negotiations towards signing a VPA are currently underway in Malaysia, Indonesia, and Cameroon.

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