IGES attended an international workshop on Trade in Wood Products in South-East Asia in Kuala Lumpur from 24-25 May. The workshop was organised within the Trans-Regional EU-ASEAN Trade Initiative (TREATI) framework, designed to enhance trade relations between ASEAN and the EU. On behalf of the Directorate General Trade of the European Commission, Savcor Indufor Oy, a forestry consultancy based in Finland, organised this workshop. According to the official invitation, the workshop’s main objective was to facilitate access by ASEAN exporters to international markets for wood products by engaging ASEAN officials and key stakeholders in a dialogue on:

- ASEAN’s roadmap for economic integration in the forest sector;
- Potential elements of regional co-operation between relevant authorities, including forestry, customs and law enforcement bodies;
- How to strengthen ASEAN competitiveness in sustainable wood-based products and tackle trade in illegally harvested timber;
- Regional cooperation between bodies dealing with traceability and certification of timber/wood-based products to ensure the sustainability and legality of origin of such products;
- Regional and intraregional trends in timber supply and demand;
- How to gain stakeholder input and support for these activities, particularly from business; and
- How to improve contacts between officials and stakeholders on both sides and develop an expert dialogue.

At the workshop, IGES was able to:
1. Gather up-to-date information on timber trade flows and routes in the Asia-Pacific region;
2. Estimate the potential of ASEAN to provide a suitable regional framework to guide the development of timber trade and to curb trade in illegal wood and wood products;
3. Identify some legislative options in ASEAN countries to control trade in illegal wood products and the practical shortcomings when utilising these options;
4. Explore collaborative ways to build synergies between regional processes such as the AFP, EA-FLEG and ASEAN; and
5. Discuss with other participants the options of collaborative research on the practical steps needed to create and implement a regional cooperation framework to address the issues of illegal timber trade.

Mr. Gijs Berend, European Commission, gave the welcoming address, highlighting the significance of green wood procurement policies introduced by some EU governments and of the voluntary codes of conduct set by private sector organisations in the EU. The Malaysian Senator, Dr. Vijaratnam Seevaratnam, gave the opening address, emphasising the purpose of TREATI—namely to enhance trade relations between both partners.

Fourteen presentations were given in a total of six sessions during both days.

**Session I: Opportunities for regional cooperation**

Mr. Jukka Tissari, Savor Indufor Oy, gave a presentation on the supply and demand of timber in ASEAN, China and the EU, focusing on the importance of China as a “wood factory between ASEAN and the EU.” Mr. Tissari highlighted that China plays a key role in trade by importing primary processed wood products from ASEAN and re-manufacturing them into value-added wood products. China’s domestic consumption of wood for furnishings and decoration is continuously increasing. Policy measures in China include encouraging home ownership, construction of medium and low-end housing and the creation of new suburban districts. China’s domestic wood supply is increasing at a slower pace than its wood products demand and exports. Until plantations start yielding high-quality logs, China’s dependence on imported wood is expected to continue into the foreseeable future. Pressure from import markets of China to eradicate illegal wood from supply chains is not enough, as domestic demand (e.g., 78% for furniture) can absorb non-verified wood.

Mr. Tissari gave a detailed overview of consumption (supply and demand) figures of ASEAN wood and wood products within ASEAN and in China. With respect to roundwood, most trade stays within ASEAN—with Indonesia and Malaysia accounting for 70% of the consumption (31.7 million and 16.7 million m$^3$, respectively) in 2004. Yet China’s roundwood consumption has increased by 10 million cubic metres every year, with current levels of around 330-340 million m$^3$ per year. If new supply quotas are set at 250 million m$^3$ as expected, and the wood demand rises to 370 million m$^3$, then there is still a shortfall of 120 million m$^3$ in the statistics—probably filled by unauthorised logging and undeclared imports of timber. A comparable situation exists in terms of the supply and demand of sawnwood in SE Asia. While the internal consumption in ASEAN has decreased at a rate of -3.5% per year, China’s output has increased recently. As for the supply and demand of wood-based panels (WBP: plywood/veneer, particleboard and fibreboard), ASEAN countries consumed 3.4 million m$^3$ of
wood-based panels in 2004. With respect to plywood, Malaysia and Indonesia were responsible for 86% of the total ASEAN output (Malaysia: 4.9 million m³ and Indonesia: 4.3 million m³). China consumed thirteen times more than ASEAN, which represented a fourfold increase from 1994 to 2004.

Mr. Tissari then addressed the issue of trade flows of timber between the EU, ASEAN and other Asian countries. The log trade between ASEAN and the EU is negligible (17,700 m³ exported to Italy, Portugal and Germany). 574,000 m³ of sawn hardwood was traded from ASEAN to the EU, and almost the equivalent amount of plywood (536,000 m³). Wooden furniture is the most significant commodity traded, with a value of EUR 1.26 billion. Trade in builders’ joinery and carpentry (BJC) products amounted to EUR 305 million. ASEAN supplied modest shares of primary products to the EU: this is 7% of all sawn hardwood imports into the EU and 12% of extra-EU imports; with respect to plywood, 9% of all imports and 16% of extra-EU imports. Most of these primary processed wood product exports from ASEAN came from Malaysia and Indonesia. For instance, their relative share of sawnwood exported from ASEAN to the EU was 76% and 18%, respectively. As for plywood, Indonesia supplied 67% of EU imports, and Malaysia 30%. In furniture, however, Viet Nam, with a ratio on ASEAN exports to the EU of 24%, ranked second after Indonesia’s 50% share. The UK was the EU’s leading importer, accounting for 47% of ASEAN supplies of timber products. The Netherlands was the main importer of sawn hardwood and Belgium the main importer of plywood. Mr. Tissari finally mentioned that the EU’s exports of wood-based products to the ASEAN were much smaller than its imports from the ASEAN.

Mr. Tissari emphasised China’s role as a trade hub. China imports 19 million m³ of softwood logs from Russia and 2 million m³ of hardwood from Indonesia and Malaysia. On the other hand, China has continued to win new markets and gain higher market shares in the world’s furniture trade. Mr. Tissari pointed out that the factors behind China’s furniture industry success are low production costs and efficiently managed factories, with high technology and productivity. The US is the largest market for China’s furniture, importing USD 6,919 million. Japan imported furniture from China worth USD 956 million. This was more than the UK as the EU’s largest importer of furniture from China worth USD 924 million. China is rapidly increasing its plywood exports which doubled in 2005. In 2005, China exported plywood worth USD 1.76 million to the US; USD 1.2 million to South Korea; USD 0.49 million to Japan; and USD 0.46 million to the EU.

In the Q&A session, Mr. Tissari clarified that illegal “unreported” trade was not included in the data presented. Asked about the importance of the Indian market, Mr. Tissari said it was the second largest tropical timber market and that India had recently lowered import tariffs for wood imports. Replying to the question of whether timber flows into China would shift from...
Russia to ASEAN in the future, Mr. Tissari pointed at the role of the Sino-Russian border as the “first frontier.” He said that Russia is showing more interest in industrialising its timber sector, not allowing log exports in the future and that it is only question of time when industrial complexes will be built by Chinese and Russians. A further question was why the direct trade flows between ASEAN and the EU had been only marginally mentioned in the presentation. Mr Tissari replied that he could share material on this issue with interested participants.

Dr. Lauren Flejzor from the International Tropical Timber Organisation (ITTO) spoke on trade in tropical timber and wood products. She presented ITTO studies on trade discrepancies, e.g., in the log and sawnwood trade between Indonesia and China, and Malaysia and China. Dr. Flejzor also mentioned the ITTO’s missions, projects and engagement in recent developments.

Session II: Enhancing regional cooperation

Regional cooperation as a component of strategies to combat illegal logging was the topic of one of the two presentations given by Mr. Duncan Brack, Chatham House, Royal Institute for International Affairs. He enumerated several components required for an international framework to be successful, such as:

a) A forum for debate, awareness-raising, information-sharing and exchange of best practices;

b) Data collection and exchange, which is straightforward and open to input from civil society;

c) Enforcement cooperation, which builds on data exchange but involves a wider range of agencies (Interpol) and mechanisms (Lusaka Agreement, NAWEG, etc.); and

d) International tracking and licensing, to be at heart of any agreement to control trade.

With respect to regional cooperation in the East Asia region, Mr. Brack opined that the existing East Asia FLEG (EA FLEG) structures provided a starting point to build up a regional framework.

Ms. Neria Andin, Assistant Director at the Forest Management Bureau, DENR, Philippines, discussed the planned and implemented action regarding illegal logging in ASEAN countries—implications for regional cooperation, concretely on “Asia FLEG updates and directions.” She summarised the results of the recent EA FLEG Task Force and Advisory Group Meeting in Manila. Ms. Andin informed the attendees that an informal meeting of the EA FLEG Regional Steering Committee would be advantageous as so many of
its members were present at the workshop. This side event was held and IGES assisted in its official capacity as the contact point for civil society in Japan.

**Mr. Le Dinh Ba, Thanh Hoa Co.,** as a private sector representative from Viet Nam gave a presentation on the **benefits and pitfalls for responsible businesses from regional cooperation.** He pointed out certificates that were granted to his company as a “first benefit” from the cooperation with SGS and WWF, while denoting pitfalls experienced with bogus certificates provided by an African seller. He warned that some manufacturers in Viet Nam might not try to apply for certification as long as they can receive good orders from buyers in countries where labels appear to be unimportant for end-users (Italy, Spain). With respect to regional cooperation, he argued that in order to contribute to “real cooperation” the region’s countries would have to first analyse their respective strengths and weaknesses.

**Session III: Managing supply and demand**

**Mr. David Brown,** the Team Leader of the Multi-stakeholder Project Indonesia of the UK Department for International Development (DFID) spoke on the **reduction of overcapacity in industries—a necessary and realistic option?** He began by asking if Indonesia’s forest products primary processing sector operated on illegal timber and mentioned that this question was examined by two similar studies (US AID Natural Resources/ITTO and the Indonesian Ministry of Forestry, Directorate General for Research and Development). He said that assuming that illegal timber will continue to make up most of the input of the nation’s factories, the studies asked to what extent plantation development can reduce incentives for illegal logging. The result was that plantations alone cannot resolve the problem. Instead, Mr. Brown argued, it would be possible to solve the problem with temporary restrictions on production. According to the DFID study on the effects of downsizing industry, a modest programme of industrial downsizing would generate both financial and non-financial values (e.g., USD 2.2 billion in extra-economic [i.e., environmental] value in twenty-five years). He admitted, however, that for such a programme to be acted upon, the answer would lie in politics, not economics.

**Mr James Cunningham, Project Promotion Services,** talked about the role of plantation development in promoting sustainable timber trade.

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1 Based on the DFID policy brief: *Timber industry revitalization in Indonesia in the first quarter of the 21st century* (received at the TREATI Workshop in Kuala Lumpur, 24-25 May 2006).
Session IV: Existing policies and their impact on the timber trade

Mr. Vincent van den Berk from the European Commission Delegation to Malaysia, who is currently negotiating a voluntary partnership agreement (VPA) between the EU and Malaysia under the Forest Law, Enforcement and Trade (FLEGT) Action Plan, gave a presentation on the EU FLEGT implementation in the ASEAN region. After giving a description of the action plan and its main instruments, Mr. van den Berk said that the Commission expected an operational import licensing scheme to be operational from early 2008. He emphasised the importance of the definition of “legality” presently developed under the VPA negotiations. With respect to the Malaysia – EU VPA process, Mr. van den Berk stated that multi-stakeholder consultations for a continued dialogue were ongoing. This work will eventually pave the way for formal VPA cooperation. In his conclusions on the FLEGT Action Plan in general, Mr. van den Berk mentioned the EU’s intention of involving other consuming countries, namely the US, China, and Japan.

In his second presentation, Mr. Duncan Brack discussed the options to exclude illegal timber from EU markets. After stressing the importance of the EU FLEGT timber licensing scheme, he gave an account on a study conducted by Chatham House exploring the options existing in domestic legislation of selected European countries, such as laws dealing with theft and handling stolen property, or money laundering legislation. The main problem with applying existing national legislation consists of proving the continuity of evidence. Mr. Brack highlighted the potential lessons that could be learned from the US Lacey Act, which makes it “unlawful for any person…to import, export, transport, sell, receive, acquire, or purchase in interstate or foreign commerce…any fish or wildlife taken, possessed, transported, or sold in violation of any law or regulation of any state or in violation of any foreign law.” In the US there are ongoing discussions whether to introduce a similar regulation that would apply to forest products. Mr. Brack argued that legislation modelled on the Lacey Act could be applied to the EU, or at least at the member state level. Mr. Brack also mentioned the significance of public green procurement policies.

Mr. Gan Seng Chee, Maritime Law Association of Singapore, talked about maritime legislation regarding illegal cargo. In Singapore, legislation relevant to shipments in illegal wood includes the recently enacted Endangered Species (Import and Export) Act 2006 (ESA 2006), the Marine Insurance Act (MIA) and the High Court (Admiralty Jurisdiction) Act. While ESA 2006 now requires CITES documents for cargo in transit, its effectiveness depends on intelligence collection capabilities and collaboration. According to Mr. Chee, the High Court Act is a particularly powerful legal option against shipments of illegal wood products as it allows arrest of vessels, with a “good arguable case” being a sufficient reason
for arrest. Further advantages of this legal instrument is that it grants more time to make an arrest, enables the arrest of sister ships and is applicable even in cases where non-CITES cargo is involved.

Session V: Opportunities for ASEAN producers in major markets

Mr. Tissari gave a third presentation on public procurement and corporate purchasing policies in major markets, first summarising the purchasing policies existing in the United Kingdom, France, Germany, Denmark and the Netherlands, as well as at the local and EU levels; he went on to describe the private sector’s purchasing policies, (i.e., of large European retailers).

Ms. Rachel Butler, Environmental Manager, Finnforest UK, discussed the issue of responsible purchasing from a buyer’s point of view. She explained that Finnforest UK is part of the Finnish Metsäliitto Group and one of the largest timber importers in the UK. Finnforest UK anticipates that selling products to the UK and other EU countries without assurance of legality at the very least (with preferably sustainability included) will be increasingly difficult. Ms. Butler went on to describe Finnforest, its products and their uses, before she explained her company’s purchasing policy, and the UK government’s procurement policy and its impact on the market.

A planned presentation on facilitating ASEAN-EU trade: capacity-building in conformity assessment was not given.

Session VI: ASEAN’s regional integration process—A framework to guide the development of the timber trade

The main question behind the presentation given by Mr. Prabianto Wibowo from the ASEAN Secretariat on the ASEAN Roadmap for Integration of Wood-based Products was does the roadmap provide “a suitable framework to guide the development of sustainable and competitive timber trade?” His presentation aimed to provide an overview of the implementation of this roadmap. He stated that ASEAN trade in timber products was worth USD 24 billion in 2000, with trade in wood and wood products accounting for over half of this. Mr. Wibowo stressed that the most fundamental aspect of the roadmap lies in its trade orientation focusing on tariff elimination, investment and trade facilitation. However, he said that the issue of legality of timber is becoming more pertinent in light of the developments related to the EU FLEGT Action Plan. Despite slow implementation, Mr. Wibowo concluded...
that the ASEAN roadmap does provide a suitable framework to promote legal timber trade, pointing out that ASEAN guidelines on a phased approach to certification are presently being developed.

In his concluding remarks, Mr. Gijs Berends from the European Commission summarised the presentations and announced that further TREATI workshops on timber trade would be organised.