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7 May 2004

CORRUPTION AND ILLEGAL LOGGING IN THE WOOD PRODUCTS MARKET: the Italian experience in controlling deforestation

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Paper organization

1. State of the problem
2. Are Italian companies involved in deforestation and trade of illegal logging?
3. Which are the most affected countries?
4. Why do we need an action?
5. What are we doing to reduce the problems?

Final considerations

1. State of the problem

- 10% of wood international trade is based on illegal logging; a total value of 150 Billion $/year (OECD Environmental Outlook, 2001)
- At least 50% of wood removals in the Amazon basin, Central Africa and South-east Asia is illegal (Royal Institute of International Affairs, 2002)
- *Countries with tropical forests are still involved in massive logging, often in illegal and unsustainable forms. In many countries illegal logging are of the same amount of legal ones. In other countries illegal is much more extended than legal logging* (World Bank Review of Global Forest Policy – 1999)

- In Cameroon more than 50% of cuttings are illegal (ITTO, 2001)
- In Cambodia, in 1997, illegal logging (4 M cm) have been at least 10 times the legal cutting (World Bank, 1999)

Illegal logging have external effects

Profit from illegal cutting are used for funding regional conflicts in Cambodia, Liberia, in the Congo Democratic Republic,… (FERN and RIIA, 2002)

"Conflict timber" (UNSecurity Council)

An increasing problem (← increased trade of timber)

Indonesia

- in 1998, 40% of logging was illegal, with a total value of more than 365 M $ (Indonesia-UK Tropical Forestry Management Programme, 1999)
- In 2001 more than 70% is illegal (Scotland e Ludwig, 2002)

Philippines

- The loss of revenue in the '80s due to illegal logging has been of 1,8 M $ (Senate of the Philippines quoted by da D.Callister, 1992)
- The Philippines are now a net wood importer (FAO, 2002)

Illegal logging is not a problem only in LDC

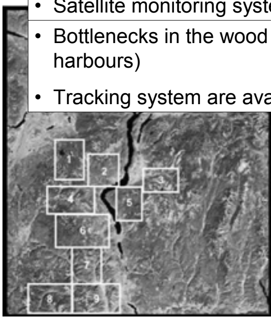
In European countries with economies in transition 20-30 M cm di wood are cut in illegal form every year (ECE-FAO, Timber Committee, 2000)

At least 20% of the wood harvested in Russia (i.e. 22 M mc) is cut in totally illegal manner or in contrast with some of the existing legislation (Morozov, 2000).

"At the moment forests in Serbia are not managed in a sustainable way mainly for the need of timber export" (declaration by the Serbian Minister of Agric. and Forests in the introductory speech at the Congress organised in Belgrade in 2002)

Illegal trade is not a <u>technical</u> problem

- Wood material is visible
- Satellite monitoring system are availbale
- Bottlenecks in the wood harbours)
- Tracking system are ava



2. Are Italian companies involved in deforestation and trade of illegal logging?

Italy: 6th world importer of wood products
(→ 2nd world exporter of furniture)
2nd European importer
1st importer from the Balkan area
2nd European importer of tropical timber

Italy is the 1st export market for Cameroon, Romania, Serbia, Bosnia, Albania…

Import from eastern Europe
(FAO – 1999 – 1000 $)

Croatia	119,833
Russian Federation	102,301
Slovenia	97,800
Poland	82,242
Hungary	79,993
Czech Republic	78,432
Bosnia and Herzegovina	43,460
Romania	43,244
Slovakia	35,372
Bulgaria	22,899
Yugoslavia, Fed Rep of	18,362
Ukraine	12,947
Estonia	8,607
Albania	5,327
Belarus	3,950
Lithuania	3,749
Latvia	2,939

Some examples

- Veneta Legnami: shareholder of the Société Fostière Hazim (SFH) in Camerun
- Vasto Legnami: "*We are so concerned about the state of the forest resources in our concessions (Camerun, Ivory Cost) that in many cases we are directly providing the salaries to the local forest officials*"
- Forestale Veneta: wood import from the Oblast of Lviv (Ukraine)

Greenpeace protesting at the Ministry for Public Works: Azobe' imported from Liberia through the Oriental Timber Company (responsible – as stated by the UN – of illegal trade of weapons)

November 2001

3. Which are the most affected countries?

- West Africa
- Eastern Europe
  - Balkan area
  - Russia
- South-East Asia

A SLOW MOUVE TO THE EAST

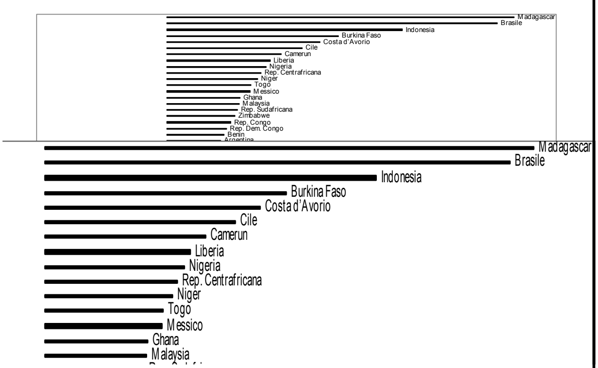
Criteria to orient key-countries as main commercial partners

Indicators

- Size of wood import ↔ Cm.eq. trade (average 97-00, FAO)
- Deforestation trends ↔ Deforested areas (90-00, FAO)
  ↔ Deforested area/total forest area (90-00, FAO)
- Local Added Value production ↔ Roundwood import/total wood import (average 97-00, FAO)
- Illegal behaviour of forest authorities ↔ CPI (*Corruption Perception Index*) defined by *Transparency International* - 2000

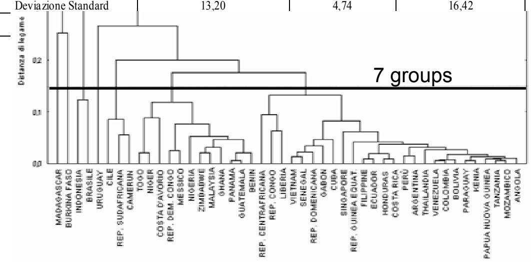
Importazione (mc eq.)			Superficie deforestata (.000 ha)			Tasso di deforestazione (%)			Grado di evoluzione commerciale (%)			Indice di Percezione della Corruzione (CPI)		
Brasile	912.138	1	Brasile	-2.309	1	Niger	-3,7	1	Nigeria	1,5*	1	Madagascar	99,30	1
Indonesia	724.237	2	Indonesia	-1.312	2	Togo	-3,4	2	Benin	1,5*	2	Burkina Faso	47,00	2
Cile	663.538	3	Messico	-631	3	Costa d'Av.	-3,1	3	Niger	1,5*	3	Rep. Centraf.	25,66	3
Camerun	465.831	4	R.D.Congo	-532	4	Nigeria	-2,6	4	Paraguay	1,7	4	Liberia	10,61	4
Costa d'Av.	346.193	5	Nigeria	-398	5	Benin	-2,3	5	Indonesia	1,8	5	Rep. Congo	10,49	5
Rep. Sudafr.	304.134	6	Zimbabwe	-320	6	Liberia	-2,0	6	Camerun	1,8	6	R.Guinea Eq.	5,68	6
Rep. Congo	124.482	7	Argentina	-285	7	Panama	-1,8	7	Gabon	1,8*	7	Gabon	2,66	7
Ghana	102.021	8	Perù	-269	8	Ghana	-1,7	8	Kenia	2,1	8	Niger	2,42	8
Gabon	93.826	9	Costa d'Av.	-265	9	Guatemala	-1,7	9	Rep. Congo	2,2*	9	Angola	1,47	9
Thailandia	92.218	10	Malaysia	-237	10	Zimbabwe	-1,5	10	Madagascar	2,2*	10	R.D.Congo	0,83	10
Nigeria	83.490	11	Camerun	-222	11	Filippine	-1,4	11	R.D.Congo	2,2*	11	Camerun	0,82	11
Singapore	67.170	12	Venezuela	-218	12	Indonesia	-1,2	12	Angola	2,2*	12	Panama	0,52	12
Uruguay	64.844	13	Colombia	-190	13	Malaysia	-1,2	13	Honduras	2,2	13	P.N.Guinea	0,35	13
Malaysia	64.237	14	Bolivia	-161	14	Ecuador	-1,2	14	Cuba	2,2*	14	Tanzania	0,19	14
Liberia	35.894	15	Ecuador	-137	15	Messico	-1,1	15	Tanzania	2,2	15	Filippine	0,18	15
Argentina	23.715	16	Angola	-124	16	Honduras	-1,0	16	Rep.Centrafr.	2,3*	16	Cuba	0,18	16
Madagascar	19.759	17	Paraguay	-123	17	Camerun	-0,9	17	Panama	2,3*	17	Kenia	0,12	17
Paraguay	17.146	18	Ghana	-120	18	Madagascar	-0,9	18	Bolivia	2,4	18	Zimbabwe	0,07	18
Venezuela	16.803	19	Madagascar	-117	19	Argentina	-0,8	19	Ecuador	2,4	19	Nigeria	0,06	19
R.D.Congo	9.568	20	P.N.Guinea	-113	20	Costa Rica	-0,8	20	Rep. Domen.	2,4*	20	Costa Rica	0,05	20
Bolivia	9.171	21	Thailandia	-112	21	Thailandia	-0,7	21	Vietnam	2,5	21	Mozambico	0,05	21
Messico	6.695	22	Kenia	-93	22	R.Guinea Eq	-0,6	22	Venezuela	2,6	22	Honduras	0,05	22
Zimbabwe	4.614	23	Tanzania	-91	23	Paraguay	-0,5	23	Guatemala	2,9	23	Singapore	0,03	23
Perù	4.282	24	Filippine	-89	24	Kenia	-0,5	24	Mozambico	2,9	24	Guatemala	0,03	24
R.Guinea Eq.	3.367	25	Liberia	-76	25	Brasile	-0,4	25	Filippine	3	25	Togo	0,02	25
Guatemala	3.169	26	Benin	-70	26	Venezuela	-0,4	26	P.N.Guinea	3*	26	Malaysia	0,02	26
Benin	2.843	27	Mozambico	-64	27	R.D.Congo	-0,4	27	Costa Rica	3,1	27	Ecuador	0,02	27
Angola	2.638	28	Niger	-62	28	Perù	-0,4	28	Colombia	3,1	28	Indonesia	0,01	28
Mozambico	2.302	29	Honduras	-59	29	Colombia	-0,4	29	Thailandia	3,2	29	Costa d'Av.	0,01	29
Rep.Centrafr.	1.893	30	Guatemala	-54	30	P.N.Guinea	-0,4	30	Argentina	3,2	30	Rep. Domen.	0,01	30
Ecuador	1.798	31	Panama	-52	31	Bolivia	-0,3	31	Senegal	3,2	31	Colombia	0,01	31

SILT Indicator (Sustainability of Italian Import of Wood)



Cluster analysis

Statistiche	Dissomiglianze originarie	Legame singolo	Legame completo
Media	23,5	16,43	27,43
Deviazione Standard	13,20	4,74	16,42



4. Why do we need an action?

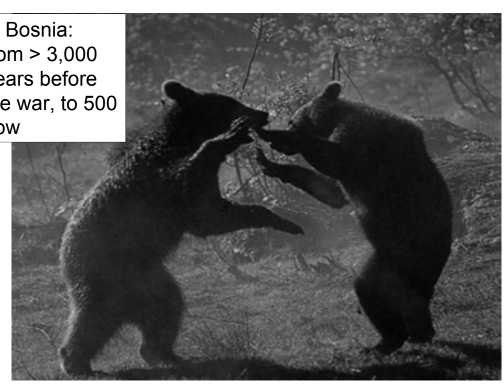
For clear ethical consideration…

…but also because a well-regulated and transparent market is more stable, efficient, equitable.

	2002
Total sample	835
Public works/construction	**46%**
Arms and defence	**38%**
Oil and gas	**21%**
Banking and finance	**15%**
Real estate/property	**11%**
Pharmaceuticals/medical care	**10%**
Power generation/transmission	**10%**
Telecoms	**9%**
IT	**6%**
Forestry	**5%**
Mining	**5%**
Transportation/storage	**5%**
Heavy manufacturing	**4%**
Agriculture	**3%**
Fishery	**3%**
Civilian aerospace	**2%**
Light manufacturing	**1%**

http://www.transparency.org

In Bosnia: from > 3,000 bears before the war, to 500 now



Consequences

- **Natural resources degradation**
- **In the medium-long term a decrease in a local source of income for the owners and the workers**
- **A reduced sources of tax revenue for the local authorities**

Immediate sources of income **(to survive or to get extra-profit)**

- **Low prices**
- **Products accessibility**

Increased demand of illegal products

marginalisation of companies respecting the law

5. What are we doing to reduce the problems?

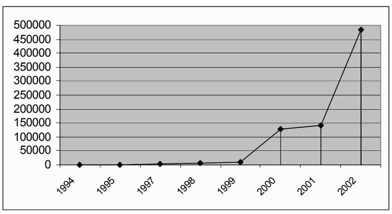
Different instruments available:

a. Existing legistation (binding and not binding)
b. New (or revised) norms and agreements
c. Voluntary initiatives by private companies

a. Existing legislation

Wood imported of species protected by CITES

Since <u>1994</u>: 776.828,2 M3



1994	950.24
1995	0
1996	64.6
1997	2438.81
1998	7999.997
1999	9300.749
2000	127504.5
2001	139568
2002	483064.7

Why it is useful?

- To give evidence that the problems of illegal trade does exist
- We have a specialized police to implement the law (CITES but – in the future – the legislation)

b. New (or revised) norms and agreements

- OECD Guidelines for trans-national corporations
- Green Public procurement policies
- Comunication to the Council and to the Europan Parliament (COM(2002) 82 of 13.2.02) "**Forest law enforcement, governance and trade – FLEGT**"

= a new sector for political action (in a very difficilt political condition)

c. Voluntary instruments of private companies

- Compensatory investments
- Codes of Good Practices :
  - In forest management
  - In providing financial services (see the experience of ABN-AMRO: a positive – limited example: Banca Etica)
  - In the insurance sector (sea transport)
- *External auditing* (Global Witness in Cameroon)
- Environmental and Social Reporting
- SFM and CoC certification

Bioforest Association

Since 1998

Initiator: VALCUCINE SPA

Members (2003): 30 companies (Foppapedretti, AEF, Franke, …)

Invested capital: 580.000 €

- 2 afforestation programmes in Latin America
- A programme to reduce fossil energy consumption in the industrial activities of associated members
- Research funding
- Environmental education in Italy

A sound practice or “green washing”?

Coop

In april 2002 Coop starts selling the first tissue products certified in Italy

	2002	2001	%
Cooperatives	178	-2	-1,1%
Shops	1.265	+3	+0,2%
Employees	47.300	+2,950	+6,7%
Sales (mil€)	9.860	+682	+7,4%
Members (x 1000)	4.995	+293	+6,2%

In October and November 2002 two new products

Now:
4 paper companies certified

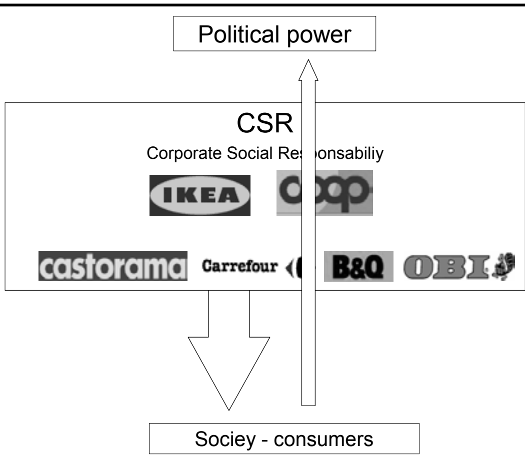
7 different types of paper products

5 new products will be introduced soon

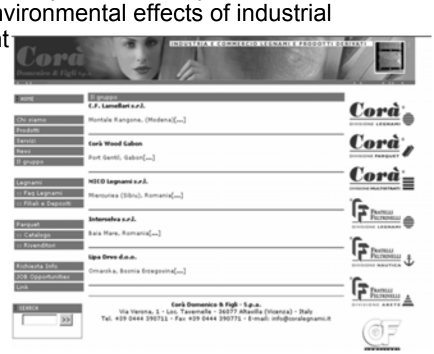
No price premium

Final considerations

- A late perception of the problem
- FAO definition:
  Deforestation is the conversion of forest to another land use or the long-term reduction of the tree canopy cover below the minimum 10 percent threshold.



- New markets: low-quality wood for energy and pannels
- De-localization process: new problems on monitorig environmental effects of industrial development



A prevailing horizontal (South to South opposite to North to North) trade

Market separation should not be an justification to forget the problems related to the state of forest resources and people in the developing world