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SG/SD/RT/A(2007)1

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

English - Or. English

GENERAL SECRETARIAT

Round Table on Sustainable Development

THE ECONOMICS OF ILLEGAL LOGGING AND ASSOCIATED TRADE

AGENDA

8-9 January 2007
OECD Headquarters, Château de la Muette, Paris

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**19th ROUND TABLE ON SUSTAINABLE DEVELOPMENT
THE ECONOMICS OF ILLEGAL LOGGING AND ASSOCIATED TRADE**

to be held at the OECD Headquarters
Château de la Muette, Paris
on 8-9 January 2007

8 January – George Marshall Room

19:30

APERITIF

20:00

DINNER

21:00

**AFTER-DINNER SPEECH ON THE ROLE OF CHINA IN THE
INTERNATIONAL MARKET FOR FOREST PRODUCTS**

Prof. Xu Jintao, Peking University

9 January

9:30* – *Room C*

DISCUSSION (see attached pages)

- i) Supply side measures**
- ii) Demand side measures**
- iii) Making policy in the absence of good information**

13:30 – *Château foyer*

BUFFET LUNCHEON

* *At the Chair's discretion, there will be a fifteen-minute break for refreshments during the sessions.*

ISSUES FOR DISCUSSION

The background paper prepared for this meeting outlines the nature, magnitude and consequences of illegal logging in forest-rich producer countries and the programmes on both the supply and demand side being implemented to reduce this problem. A vast amount has been written about this phenomenon. The general consensus is that effective control of illegal logging requires actions that are both complex and need to be carried out by a broad array of actors, including governments of producer and consumer countries, the forest industry and civil society. All expert advice advocates escaping the narrow field of action of the forest sector alone to include actions in other fields of government activity, such as land use policies, customs and police.

While this makes evident sense, simply affirming the complexity of a problem can run the risk that no one is prepared to assess the overall impact of the many interventions. Acknowledging that a problem defies a single solution can leave individual actors with the feeling that all that exists beyond specific instances are generalities – that even if there is a bigger picture, it is a problem for someone else to focus on.

To avoid a discussion that remains shrouded in generality and to attempt to distil some sense of relative priorities, the following questions have been identified as the basis for discussion. They are deliberately provocative given the purpose of the meeting as a forum for a frank exchange of views.

i) Supply-side measures

The paper's conclusion is that the criterion against which to assess measures designed to curb supply-side drivers for illegal logging is their impact on the price margin between legal and illegal products.

Questions for discussion:

- 1) *Do we know the extent to which current efforts actually increase the costs of illegal operations, or conversely, only increase the cost of legal operations?*
- 2) *What is the minimum set of no regrets policy measures that should be implemented in producer countries?*
- 3) *To what extent should the cost of implementing these measures be expected to come from cost recovery by producer countries (improved tax and royalty collection) and to what extent do the global public good benefits justify international assistance?*

2) Demand-side measures

The paper describes a choice between a multilateral approach (obligatory licensing for all wood products) or reliance on bilateral and voluntary initiatives. The advantage of obligatory licensing across the board is that the risk of trade diversion is low and enforcement possibilities are high. The disadvantage is that it would be extremely complex to negotiate a world wide licensing scheme. And the wisdom of doing so has to be questioned when only 15% of total industrial round wood production is exported to the international market by high risk countries.

Bilateral schemes, on the other hand, have the advantage of being able to be directed to the high risk trade flows. Key countries that should be part of such a system on the supply side are Russia,

China, Indonesia, Malaysia, countries from the Congo Basin and Brazil and on the demand side the EU, US and Japan. Without these countries, any benefits are likely to be small since diverting the flow of wood and wood products through a country not party to such arrangements can defeat the whole point of such schemes. Similarly, to have real impact such schemes have to include all wood products, not only primary round wood. Otherwise, illegal product can simply be transformed into processed products to avoid the licensing requirements.

Voluntary certification schemes are another demand side tool that have helped governments (as purchasers) and consumers create a market for products that can demonstrate their legal, and sustainable, status. However, to date certified products still come largely from low risk countries. There are also more than 40 different certification schemes, increasing the risk that consumers will not be able to make discriminating judgments.

Questions for discussion:

- 4) *The EU's FLEGT scheme extends in its most optimal form, to only 3% of industrial round wood and roughly 20% of all wood products from high risk countries. How realistic would it be to extend a similar scheme to all developed country imports, and within what timeframe?*
- 5) *What is the practicality of extending FLEGT to processed wood products?*
- 6) *How comprehensive would any such schemes have to be to make displacement of the illegal trade to non-participating third countries unattractive?*
- 7) *What are the limits to the effectiveness of certification schemes in curbing the trade in illegal products?*
- 8) *To what extent might the financial and human resources devoted to licensing and certification schemes deliver better results if they were expended on supply-side interventions (for example, comprehensive satellite based monitoring)?*

3) Making policy in the absence of good information

What becomes apparent from the paper is that we lack a sound basis on which to make an informed assessment about whether current efforts to curb illegal logging are focused on the best points of leverage is insufficient. A list of the matters on which we lack adequate information includes:

- what is actually happening to the world's forests;
- who owns the forests and what are the rights and obligations that apply to those owners;
- trade flows for both primary and in particular secondary processed wood products;
- the costs of certification and their actual effects on market prices;
- long-term projections of future demand and supply for wood products.

Questions for discussion:

- 9) *Can sensible global or regional initiatives succeed in the absence of these information gaps?*
- 10) *What sort of concerted action by governments is needed to fill them?*