

**Governments and importers are busy devising and implementing policies for timber purchasing. They should coordinate their efforts**

**T**IMBER PROCUREMENT policies have been devised or are being contemplated by a number of governments and companies, mainly in developed countries. They vary considerably in nature, but the general aim is to oblige or encourage consumers to ensure that the timber they buy has been obtained legally and/or sourced from a sustainably managed forest. Public timber procurement policies (PPPs) are those policies created to guide the purchase of timber by government agencies.

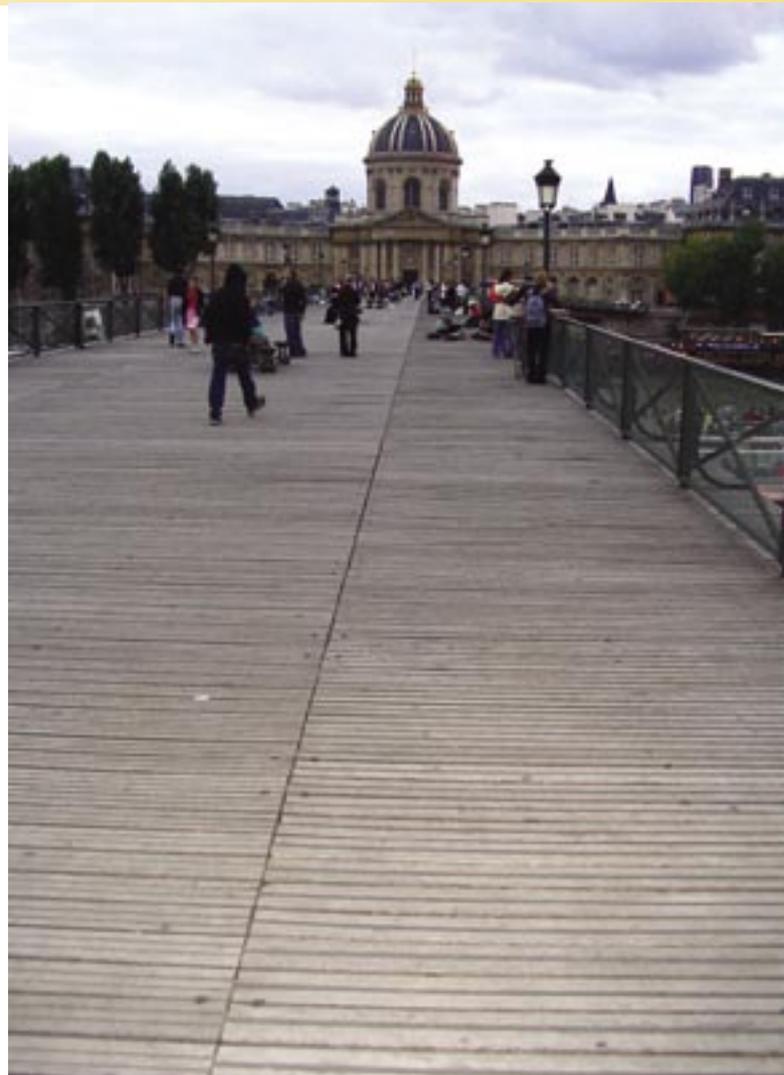
Each year, ITTO convenes an 'annual market discussion' during a session of the International Tropical Timber Council to explore issues affecting the market for tropical timber. The 2006 annual market discussion was held in Merida, Mexico, last May on the topic of timber procurement policies. It featured five speakers and was moderated by Barney Chan of the Sarawak Timber Association, Malaysia, who is also coordinator of the ITTO Trade Advisory Group. This article summarizes the presentations and ensuing discussion.

## **Procurement in the European Union**

In his keynote presentation, **Rupert Oliver** (Forest Industries Intelligence Ltd, UK) provided a background on PPPs in European Union (EU) countries, the driving forces (public, industry but mainly environmental non-governmental organizations—ENGOS) involved and the salient features of these policies. He said that EU PPPs should be developed in line with World Trade Organization (WTO) obligations and EU procurement directives, which require that the criteria for the selection of suppliers is non discriminatory and that the same rules apply irrespective of point of origin. This means that if a government agency

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decides that the timber to be purchased from a given country must be traceable to the forest of origin to prove 'sustainability', then this requirement must be applied equally to timber from other sources. The European Commission has provided legal advice that criteria for 'sustainable timber' may refer to direct environmental and sustained-yield aspects of timber production but not to broader social issues such as the rights of labour and indigenous people.



**Properly procured?** A boardwalk made of a tropical timber crosses the Seine River in Paris, France. Photo: O. Pedersen

Mr Oliver pointed out that some EU member governments (UK, Belgium, Netherlands, France, Germany and Denmark) are developing their own PPPs with little evidence of coordination, let alone harmonization. This could be a major problem for timber suppliers, given that the EU has 25 member countries: Mr Oliver considered it unrealistic to expect suppliers to adapt operations to ensure conformity with 25 different sets of procurement criteria.

Formal efforts to develop PPPs are only being undertaken at the level of national governments, which buy less timber than local and regional governments (of which there are an estimated 200 000 across the EU). Mr Oliver said that procurement policy is often driven by public perception and the media rather than objective assessment, and that ENGO grassroots activism is a key influence. He said that a fair PPP should not incorporate an exclusive commitment to any particular certification brand. However, the Forest Stewardship Council (FSC) benefits from ENGO recognition, mass-marketing and on-product brand promotion by large retailers and is therefore becoming the de facto certification standard. The industry is often shy about tackling authorities



**Timber depot:** the procurement policies of large retailers such as Home Depot and Lowe's have a huge influence on the certified wood industry in the US. *Photo: H. Rubin*

with FSC-only policies, despite these clearly contravening EU procurement directives.

Mr Oliver identified several opportunities and threats arising from PPPs in the EU.

#### **Opportunities:**

- they create stronger demand for certified wood;
- they have the potential to improve returns from investment in certification;
- they reduce unfair competition from illegal wood; and
- they counter ENGO efforts to promote an FSC-only agenda through the development of public procurement policies based on WTO rules.

#### **Threats:**

- inconsistent policies at the national level create a barrier to trade;
- the major beneficiaries are likely to be forest owners in rich western countries;
- single-issue ENGO campaigns lead to an uneven approach;
- procurement requirements reflect a media-inspired perception of forestry issues, not the sustainable development needs of supplying countries;
- goalposts are constantly shifting to satisfy ENGOS; and
- green requirements on timber are not matched by equivalent requirements on substitutes.

Mr Oliver recommended that producers engage themselves in the process of PPP development to avoid being excluded from the market.

### **Phasing in French procurement**

**Jean Marc Roda** (French Agricultural Research Centre for International Development—CIRAD) described the ongoing development of France's public timber policy from a researcher's perspective. The French government has issued a set of rules for public procurements which:

- applies equally to temperate and tropical timbers;
- accepts all existing eco-certificates, or even proofs of legality or of effective management plans endorsed by independent third bodies;
- carefully avoids potential contradiction with WTO agreements; and
- will be enforced gradually: 50% of public procurement by 2007 and 100% by 2010.

According to Dr Roda, public procurement accounts for about 25% of the tropical timber imported by France. Problems that he foresees include the lack of availability of products meeting the requirements, the difficulty of correctly identifying the origin (temperate or tropical) of 70% of the products, and difficulty in monitoring the actual effects of the policy. The lack of availability of certified tropical wood

compared to certified temperate wood will likely create market distortions for tropical wood products. However, the ongoing trend among European countries to increase the level of their environmental requirements for tropical forest products is a reality that he expects to persist.

### **Policy will favour rich producers**

Dr Roda discussed the broader implications of PPPs for the tropical timber economy. Timber procurement policies could create an indirect segregation between some temperate and tropical producers or, more precisely, between producers with a high level of economic stability and those with low economic stability. A factorial analysis of FSC-certified areas against more than 200 economic and development indicators shows a very strong relationship between certified forest area and the country's welfare. This helps to explain why only 5% of certified forests are in tropical developing countries. He concluded that an increase in European environmental requirements for tropical forest products should be accompanied by the development of side-measures to tackle poverty and the comparative disadvantages faced by producing countries.

### **Danish procurement policy expands**

**Christian L. Jensen** (Danish Ministry of Environment) provided an overview of the Danish PPP, which since 2003 has comprised voluntary guidelines for the purchase of tropical timber. In February 2006, the Danish Minister for the Environment proposed a nine-point plan that would expand the government's procurement policy to all kinds of timber. An evaluation of the PPP showed that, among other things, many buyers do not know about the guidelines or follow them incorrectly and that they need to focus more on the specific needs of different user groups (eg harbour engineers, institutions, central procurement officers, etc).

Mr Jensen said that the evaluation revealed differences with the PPPs of other EU countries with regards to criteria for legality, sustainability and documentation, most notably on the inclusion or otherwise of social criteria. The initial exclusive focus of the policy on tropical timber conflicted with WTO rules. There has also been an attempt to evaluate the impact of the Danish PPPs on tropical forests and the tropical timber trade; Mr Jensen noted, for example, that the area of certified tropical forests has increased since 2003 but accepted that the Danish PPP was probably only a small factor in this, given the country's low levels of tropical timber imports. There has also been some minor—but probably not significant—changes in the volume of Danish tropical timber imports.

## Little pressure on US suppliers

**Brigid Shea** (International Wood Products Association—IWPA, USA) said that although there have been some high-profile, city-led campaigns in San Francisco, New York and elsewhere, the bulk of procurement policies in the us are driven by industry, with variations by industry (paper or solid wood products) and timber type (softwood or hardwood). The IWPA represents 221 companies, but most are small businesses and even the largest importers have less than 1% of the total market share of a given product. This means that no company has significant supply-chain leverage for forcing requirements upon suppliers. Moreover, very strict us antitrust rules mean that wood procurement decisions must be made voluntarily.

According to Ms Shea, these two features make us procurement policies different from those in other countries. us companies respect the sovereignty of supplying countries and accept export certificates or licences as proof of legality. Few us consumers have procurement policies and most do not exert pressure on suppliers for any kind of proof of origin. Nonetheless, the IWPA regularly visits suppliers to assure quality, legality and high standards of professional and market conduct. In 1992, the IWPA endorsed two voluntary policies—*Environment policies for wood* and *Purchasing policies for wood and wood products*—that are used widely by members.

### Market positioning

Ms Shea reported that downstream industries vary in the degree to which they push suppliers on wood procurement policies. Big retailers like Home Depot and Lowe's, which import directly or use large importers, take one approach, whereas the thousands of custom cabinet shops that buy from us distributors take another. An IWPA review of corporate procurement policies in different segments of the wood products industry found that the majority of the market was not placing procurement policy demands on importers. Several IWPA members participate in the WWF Global Forest and Trade Network as a way of positioning themselves proactively in the marketplace or in an attempt to garner a greater share of ultra-competitive markets. However, price, availability, quality and consistency tend to dominate business discussions in the us, and procurement policies have less weight.

Nevertheless, Home Depot and Lowe's do pay attention to environmental issues, and have posted environmental policies on their websites. While they tend not to pay a premium for certified products, their tremendous appetite for wood plays a strong role in supporting the development of the certified wood industry. Most softwood lumber imports come from Canada, although an increasing volume is entering from Europe. Softwood plywood from Brazil has also captured a significant share of the us market and its high quality and modest price helps manufacturers produce

quality homes at competitive prices. In the domestic furniture market, manufacturing is moving increasingly offshore to China, where decisions on wood-purchasing are not being made on the basis of environmental considerations.

Projections on the future of wood procurement policies vary throughout the us industry. Success will depend on market demand and competitive prices because in a mostly commodity market everyone sells the same product at the same price. Those companies that choose to sell certified products do so because they feel it benefits their shareholders—either through market positioning, by assuring supply, or in response to negative environmental campaigns. Few companies have chosen to pursue certification solely on the basis of projected profit. However, Ms Shea agreed with other speakers that producer countries should engage in the procurement policy process to avoid being excluded from the market.

### Scepticism on the role of procurement policies

In the discussions following the above presentations, the Malaysian timber industry delivered a statement on its views regarding the international development of timber procurement policies, indicating that it remained uncertain as to whether the principle of responsible purchasing would have a positive impact on tropical timber-producing countries. It contended that the impact of procurement policies on the price of certified timber was negligible and the resulting cost disincentive would work against the ultimate goal of achieving sustainable forest management.

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The delegate of Norway informed the audience that his country was in the process of developing its own PPP and requested guidance from members. The delegate of Australia questioned the effectiveness of PPPs in enhancing sustainability and legality and referred to the need to harmonize the various PPPs. It was pointed out that there is no adequate evidence of the impact of PPPs on the management of forests. The delegate of Congo underscored the need for financial assistance to address the lack of progress in certification in the tropics.

*This summary of the 2006 Annual Market Discussion, which was held on 31 May 2006, was compiled by the ITTO Secretariat.*