

**Completion Report of
the ITTO Project PD 391/02 Rev.2(M)
“Promoting and Creating Market Demand for Certified
Tropical Wood and Verified Legal Tropical Wood”**

Government of Japan

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Project Identification

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Project Completion Report

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Executive Summary

A major obstacle to promoting certified tropical wood and verified legal tropical wood (hereafter “C/VL wood”) as a means to achieving sustainable forest management in tropical countries was the inadequate market demand for C/VL wood. Promoting and creating demand for C/VL wood have been urgent tasks for Asia because it produces and consumes more tropical wood than any other region. To create such demand is especially important in Japan, one of the world’s largest importers of tropical wood.

Originally, the project focused on Indonesia and Malaysia as tropical timber producing countries. After implementation of the project for more than a year, the Executing Agencies requested for additional funds for the extension of the project by including Papua New Guinea for targeted country at the Forty-second session of the council, which was then approved.

The overall development objective of the project is to promote and create market demand for certified tropical wood and verified legal tropical wood. There are two Specific Objectives in the project. The Specific Objective 1 is to promote the use of C/VL wood in Japan by establishing and operating the web-based Fairwood Center for exchange of information related to C/VL wood. The Fairwood Center has been established as a website available both in Japanese and English. The website provides information related to C/VL wood as well our activities and services. Through the Fairwood Center, consultation to the Japanese industry to develop timber procurement policies was conducted.

The Specific Objective 2 is to support the introduction of credible certification and verification systems in tropical wood exporting countries. In the course of implementing activities to achieve this objective, we learnt that it would be difficult to give specific support for introducing credible certification and verification systems in tropical wood exporting countries with the limited budget of this project and the personnel capacity. As a result, this objective was partially achieved. Details will be described under section 3 Project Performance.

The major outcome of the project has been support of the Japanese industry in promotion of legal and sustainable timber through development of timber procurement policies. While almost no company had a timber procurement policy at the start of the Project, some of the influential major companies have developed timber procurement policies by the end of the Project period. This led to development of products using certified timber and this in turn has contributed in supporting the sustainable forest management in the tropical timber producing countries.

The main strategy and model this project aimed to achieve was to encourage sustainable forest management by creating market demand for legal and sustainable wood products in consuming countries. In implementing the project, the Executing Agencies learnt that this model could be effective.

This project was successful in filling the information gap between the industry in Japan and companies in the tropical wood producing countries, and solving language barrier by the Executing Agencies acting as a mediator through the operation of the Fairwood Center. The Executing Agencies also contributed in giving information about the local situation to the Japanese companies through an individual interview.

What is especially noteworthy was that the Executing Agencies focused on the house builders which were the major consumers of timber and timber products. The Executing Agencies collaborated with only a few companies; however, those companies took the matter seriously and tackled the issue by developing the procurement policies and operating them effectively.

This achievement with the house builders greatly improved the awareness of certification schemes within Japan and lead to a drastic increase of the number of companies obtaining CoC certification of FSC and PEFC schemes.

The environment of an industry is different in every country; however, this model of approaching and focusing on certain major industry and of changing the situation from the consumer side might be applied to other countries.

1 Project Identification

1.1 Context

A major obstacle to promoting certified tropical wood and verified legal tropical wood (hereafter “C/VL wood”) as a means to achieving sustainable forest management in tropical countries is the inadequate market demand for C/VL wood. Promoting and creating demand for C/VL wood are urgent tasks for Asia because it produces and consumes more tropical wood than any other region. To create such demand is especially important in Japan, one of the world’s largest importers of tropical wood.

The Project location was Japan as tropical wood consumer country. The project also focused on Indonesia, Malaysia and Papua New Guinea as tropical timber producing countries.

Social context

The social aspects of the Project primarily relate to the social changes that occur after systems of legal verification and forest certification are implemented. The social consequences of illegal and unsustainable logging that exist prior to the introduction of such systems include:

- Direct impacts on communities: a) social disintegration due to conflicts over the destruction of the forest resource and decisions made in the interests of individuals rather than the community, b) damage to livelihoods through the degradation of waterways and decrease in the supply of non-wood and wood products used for subsistence and/or income generation, c) low provision of social services because of lost public revenue from royalties and taxes, d) eventual loss of wage employment opportunities when the local forestry industry collapses through over-harvesting, and e) intimidation and physical abuse of those that oppose the illegal practices.
- Impacts on forest governance: democratic processes are impeded by weak systems of governance characterized by rent seeking, patronage, bribery and influence peddling.

Independent studies have identified various positive social impacts after appropriate legal verification and forest certification schemes were introduced. Social benefits have been secured from certification of both industrial and community-based forestry. Benefits include: a) legitimization of local land tenure rights, b) continued access to forests for non-industrial uses, c) increased enthusiasm for sustainable forest management after seeing the benefits of improved law enforcement and forest certification, d) opening of spaces for communities to engage in dialogue with other stakeholders, e) enabling communities to control incursions on to their land and help them set terms under which their resources are used, f) community leverage for donor and government financial and technical support, g) improved labor conditions and employment, and h) improved livelihoods from the establishment of locally-based processing operations.

By supporting the development and implementation of well-designed legal verification and certification systems, the project seeks to reduce the adverse social consequences of

illegal/destructive logging, especially on the local community. Conversely, the project seeks to maximize the social benefits that are derived from sustainable forest management from the introduction of certification/verification systems.

Economic context

The introduction of certification/verification systems will raise the overall production cost. A barrier to promoting the use of C/VL wood is the difficulty for timber-related businesses in tropical countries to bear the additional cost. These costs are especially high when present practices do not conform to sustainable forest management principles (compliance costs) and when countries do not have their own national certification standard (auditing costs). Both Indonesia and Malaysia have their own national certification schemes and certification bodies, which reduce assessment and auditing costs.

Through workshops and discussions the Project will identify Japanese companies that wish to use C/VL wood, with the aim of assisting these companies to develop timber procurement policies.

The reform of Japan's public procurement policy in 2006 would contribute to raising the demand for C/VL wood in Japan and could lead to higher prices.

Environmental context

Illegal logging is recognized as a major threat to SFM as it is unregulated forest destruction that values forests only for the timber that can be extracted. Illegal and destructive logging in general: undermines national forest programs for sustainable forest management; threatens sensitive ecosystems, including those under protected area management; is responsible for extensive deforestation and forest degradation; triggers forest fires, and; decreases forest bio-diversity.

The project is expected to promote SFM by encouraging the use of wood that has been harvested according to forest-related legislation and regulations and widely accepted SFM principles.

Sectoral Policies

1. International policies and frameworks

In May 1998, G8 Foreign Ministers agreed to launch and support the "G8 Action Program on Forests" focusing on five priority areas, one of which was illegal logging. The subsequent G8 Summits in Birmingham (1998), Okinawa (2000) and Kananaskis (2002) also called for efforts to tackle illegal logging and the ensuing timber trade.

In line with these agreements, the "Bali Declaration" agreed to by the Ministerial Meeting to launch the East Asia Forest Law Enforcement and Governance (EA-FLEG) in 2001 set the following objectives:

- strengthen bilateral collaboration to address illegal logging associated with illegal trade;

- explore ways in which the export and import of illegally harvested timber can be eliminated;
- help raise awareness of forest crimes and threats; and
- involve stakeholders in decision-making thereby promoting transparency, reducing the potential for corruption, ensuring greater equity, and minimizing the undue influence of privileged groups.

A the first G8 Environment and Development Ministerial Meeting held in March 2005 in Derby (UK) and at the subsequent G8 meeting in July in Gleneagles, the country representatives recognized that tackling illegal logging requires action by both timber producing and consuming countries. They agreed to:

- take steps to halt the import and marketing of illegally logged timber;
- work with and encourage the private sector in producer and consumer countries, including timber processors, exporters, importers and civil society organizations, to develop and promote legally sourced timber products;
- work with the private sector to help them adopt and implement voluntary codes of conduct, good business practices and improved market transparency; and
- work with civil society to inform consumers of the problems caused by illegal logging.

2. Policy of Japan

In Japan's Climate Change Initiative that was announced at the G8 Gleneagles Summit 2005, the government stated that "Japan will take actions to tackle illegal logging through a government procurement policy, effort to work out a voluntary 'code of conduct' on the regulation of trade, assistance to timber producing countries and follow-up of the G8 Action Programme on Forests." Japan's "Green Procurement Policy" was subsequently revised and the revisions have been in effect since April 2006. Under this policy, the legality and sustainability of timber and timber products must be considered in public procurement. The Forestry Agency of Japan prepared "The Guideline for Verification and Legality and Sustainability of Wood and Wood Products" for implementation of the revisions. The Guideline discusses definitions of legality and sustainability, the establishment of a multi-stakeholder meeting process, and the possibility of further amendments to the Guideline.

3. Policies between Indonesia and Japan

The governments of Indonesia and Japan are collaborating to tackle illegal logging and the illegal timber trade. They established the Asia Forest Partnership (AFP) at the World Summit on Sustainable Development in September 2002 to promote sustainable forest management in Asia. The main issues that AFP is addressing include good governance and forest law enforcement, developing capacity for effective forest management and the control of illegal logging.

In June 2003, Indonesia and Japan signed the Joint Announcement and Action Plan on Cooperation in Combating Illegal Logging and the Trade in Illegally Logged Timber and Wood Products. Both countries recognize the need for urgency and have agreed to the following actions:

- development, testing and implementation of the systems for verification of legal compliance in due course to be applied throughout Indonesia and Japan, in respect of timber and wood products imported directly or indirectly from Indonesia;
- encouraging involvement of civil society in the effort to combat associated illegal trade and illegally harvested timber and wood products and particularly in monitoring the implementation of the systems for verification of legal compliance; and
- joint development of systems for the timely collection and exchange of data on timber trade and wood products between the two countries.

4. Policies between Malaysia and Japan

On 13 December 2005, the Prime Minister of Malaysia, Abdullah Ahmad Badawi, and the Prime Minister of Japan, Junichiro Koizumi, signed a joint statement for an economic partnership between Malaysia and Japan. Attachment 1 of the statement addresses the issue of sustainable forest management and the trade in legally obtained timber. Both countries agreed to establish a bilateral expert group under the framework of co-operation, which will hold consultations in order to promote sustainable forest management in both countries on:

- measures to promote sustainable forest management;
- enhancing trade in timber and timber products from sustainable resources;
- research and development and transfer of technology on innovative measures and technologies on forest and wood utilization; and
- international frameworks concerning forests and timber including ITTO and AFP.

1.2 Origin and problem

Origin

Illegal logging in the Asia-Pacific region is a major threat to global efforts to promote sustainable forest management. It is pervasive and causing enormous damage to forests, to people dependent on forests and to the economies of tropical timber producer countries.

Recognizing that Japan is a major consumer of tropical wood products and therefore has an important role to play in combating illegal logging, the Japanese government has stated, as its basic policy, that Japan should not use illegal wood. The Project focused on Japan, one of the world's largest importers of tropical wood, and Indonesia, Malaysia, which were major suppliers of tropical wood to Japan. Papua New Guinea (PNG) was added to the scope after approval of extension of the project with additional funding.

There are already a variety of initiatives in Indonesia and Malaysia to address illegal logging through market mechanisms. The major initiatives are certification programs, namely the Forest Stewardship Council (FSC), Lembaga Ekolabel Indonesia (LEI) and the Malaysian Timber Certification Council (MTCC). Although PNG yet has its own certification scheme, they have developed Timber Legality and Traceability Verification (TLTV) system to ensure the legality of timber for exported timber.

Increasing market demand is critical for these initiatives to succeed. Demand from Europe for C/VL wood is growing. The Tropical Forest Trust (TFT) and the Global Forest Trade Network (GFTN) are assisting European buyers to source certified wood products. Such initiatives are laudable, but the European market is far smaller than the Asia-Pacific market. The Japanese market share is particularly large, however, Japanese companies that use tropical timber are not sufficiently aware of forest management issues in the region and do not know how to source legal and sustainable wood products. A survey conducted by the Japan Federation of Wood Industry Associations (JFWIA) of its members before the start of this project confirms this observation. 50% of members believed that no illegally-sourced wood was included in their trade and 40% simply did not know if illegal wood was included or not. Moreover, 65% of members stated that their customers had shown no interest in the legality and origin of the wood that they purchased. None of the companies had a timber procurement policy.

To fill the gap between the market-based, voluntary initiatives in tropical countries and the Japanese market, Friends of the Earth Japan (FoE Japan) and Global Environmental Forum (GEF) launched the “Fairwood” campaign for Japanese wood traders and buyers at the end of 2002.

The project to promote and create market demand for C/VL wood evolved from the discussion during the Fairwood forum in 2004 and our subsequent activities. The aims of the Project are:

- to raise the awareness of Japanese tropical timber buyers of the need for sustainable forest management and to provide them with information on how to source legal/sustainable tropical wood from Indonesia and Malaysia;
- to increase demand for C/VL wood in Japan; and
- to support phased approaches for certification and legal verification systems.

To achieve these aims the Project established a web-based clearing house and point of expertise (the Fairwood Center), which will continue to promote C/VL wood after project completion.

In Japan, a major importer of tropical timber and wood products, the availability of C/VL wood was very low. Weak domestic demand and the small volumes that producing countries were able to supply explain the low volumes of C/VL wood that were traded. The problems of low demand and small volumes of supply were mutually reinforcing.

Closer examination revealed that the promotion of C/VL wood was hindered on both consumer and producer sides by 1) a lack of information and 2) insufficient support services. For both sides information on certification and verification systems was: dispersed and hard to find (a significant problem in Japan is that such information was largely not available in Japanese); not attractive for business people as information on quality, cost, and delivery schedule was not clear, and; poorly promoted. In addition, the supply of C/VL wood must meet the requirements of buyers for quality, cost and delivery schedule. There was no forum to exchange such information between suppliers and buyers.

Many wood suppliers and buyers required institutional and informational support to begin trading in C/VL wood. Japanese firms required assistance to develop wood procurement policies. They lacked information about how to procure certified/verified wood and were not fully aware of the potential benefits of trading in C/VL wood. Consequently, there was little demand from Japan for C/VL wood, which resulted in little incentive for suppliers to offer C/VL wood.

Buyers that wish to procure legal and sustainable wood not only needed information on the types and availability of C/VL wood, they also required information on the environmental and social burden/risks associated with all commercial tropical wood according to species and regions. Information of this sort was unavailable.

Support for suppliers was also lacking. Phased approaches were a pragmatic means of making certification more accessible to suppliers, but much greater support for phased approaches was required. Legal verification systems have only recently been developed and suppliers will require external assistance to implement these. Suppliers lacked basic information on certification and verification and up-to-date market information for C/VL wood.

A clearinghouse and point of expertise in Japan (Fairwood Center) would make an important contribution to bridging this information gap. It would also provide: a mechanism through which suppliers and buyers could contact each other; support to suppliers to implement phased approaches to certification, and; support to buyers to develop procurement policies. The Fairwood Center would not only provide information and support for trade in legal and sustainable wood, it would also provide information on the social and environmental risks of using wood that was not verified as legal and/or sustainable.

2 Project Objectives and implementation strategy

2.1 Project Objective

The overall Development Objective of the project is to promote and create market demand for certified tropical wood and verified legal tropical wood (hereafter C/VL wood).

There are two Specific Objectives in the project. The Specific Objective 1 is to promote the use of C/VL wood in Japan by establishing and operating the web-based Fairwood Center for exchange of information related to C/VL wood. The Fairwood Center has been established as a website available both in Japanese and English. The website provides information related to C/VL wood as well our activities and services.

The Specific Objective 2 is to support the introduction of credible certification and verification systems in tropical wood exporting countries. In the course of implementing activities to achieve this objective, we learnt that it would be difficult to give specific support for introducing credible certification and verification systems in tropical wood exporting countries with the limited budget of this project and the personnel capacity. As a result, this objective was partially achieved. Details will be described under section 3 Project Performance.

2.2 Project strategy

To achieve the Specific Objectives, the following strategies were planned:

1. Identify and classify companies on both demand (Japan) and supply (Indonesia and Malaysia) sides that have the potential and desire to trade in C/VL wood.
2. Collect environmental and social information on wood species and products as well as certification and verification systems, and compile this information in an attractive business-oriented guidebook.
3. Conduct workshops to disseminate this information to Japanese wood buyers and to identify companies interested in developing procurement policies.
4. Create the web-based Fairwood Center to act as bridge between buyers and sellers. The Center will be a clearinghouse for information on C/VL wood and will provide support to both buyers and sellers.
5. Assist Japanese buyers in establishing timber procurement policies and integrate these with their corporate social responsibility and risk management strategies.
6. Select a small number of timber companies in Malaysia and Indonesia that are interested in supplying the Japanese market with C/VL wood. Assist these companies to develop action plans in order to implement phased approaches to certification and/or legal verification that are acceptable to Japanese buyers. Link these suppliers with buyers in Japan to act as a demonstration of what can be achieved.

2.3 Assumptions and risks

The additional costs of implementing certification and legal verification systems can weaken the competitiveness of C/VL wood products. To avoid this situation, it is important to both reduce the costs of these systems and to raise the awareness of buyers to the importance of “green” procurement. The Project provides opportunities for cost saving by developing a cost-effective model for supporting phased approaches to certification/legal verification in supplier countries. The Project also supports targeted buyers to develop green procurement policies that are informed by the concepts of legality and sustainability.

Another potential risk is that green procurement policies could exclude legally produced wood products that are not certified or legally verified. However, the demand for C/VL wood in the Japanese market can be expected to remain relatively small compared with the total size of the market. As long as the Project takes a balanced approach by supporting both the supply side and demand side, it can gradually build a market for C/VL wood that does not threaten non-verified legal wood.

In the operation of the Project, inadequate cooperation and coordination with partner agencies in Indonesia and Malaysia could be another risk. However, the executing agencies have visited the partner agencies to explain the Project and have been successful in garnering their support.

A further potential risk is that Japanese buyers may not be sufficiently interested in C/VL wood, despite the project activities. However, a change in public procurement policy, the results of efforts of environmental organizations in Japan and recent initiatives within the private sector indicate that this should not be a problem. The revision in 2006 of Japan’s green procurement policy adopted under the “Law Concerning the Promotion of Procurement of Eco-Friendly Good and Services by the State and Other Entities” included the requirement that consideration must be given to the legality and sustainability of timber, wood products and paper products that are procured by the government. This has already stimulated a response from the private sector: associations of timber importers and timber manufacturers are now creating codes of conduct and will ask their member companies to only use legal wood. Five environmental organizations, including the executing agencies, have been discussing the sustainability of paper purchases with companies through organizing a study team. Consequently, the major paper supplier companies in Japan - Canon, Nippon Paper Industries, Oji Paper Group, Fuji Xerox and Askul - announced sustainable paper procurement policies.

3 Project Performance

Specific Objective 1: To promote the use of C/VL wood in Japan by establishing and operating a clearinghouse, Fairwood Center, for exchange of information related to C/VL wood.

Output 1-1: Pre-study of the degree of interest in procuring C/VL wood in Japan and to identify obstacles

Activity 1-1-1: Select 5 major wood purchase companies from different industries - trading companies, wholesale merchants, manufactures, and house builders - in Japan (total 20 companies). Conduct interview research to identify their interests in C/VL wood, their current procurement practices, their informational needs and obstacles they face

Realized elements: Total of 33 companies and 3 associations have been visited for interviews by August 2007. The interview result provided good information for companies' interests in C/VL wood and procurement practices.

Duration: 3 months (activity completed on time)

Activity 1-1-2: Compile the results in a report and use this to inform planning for the Fairwood Center and workshops

Duration: 1 month (activity completed on time)

Activity 1-1-3: Create a matrix for selecting suppliers in a systematic manner in Indonesia and Malaysia to participate in the Project

Realized elements: This activity was delayed as it was difficult to seek a way to select supplies both in Indonesia and Malaysia in a systematic and non-biased manner. At the end, questionnaire survey was conducted among suppliers in Indonesia and Malaysia through industry organizations, namely Badan Revitalisasi Industry Kehutanan (BRIK) in Indonesia, Sabah Timber Industries Association (STIA) in Sabah, and Sarawak Timber Industry Development Corporation (STIDC) in Sarawak. Peninsular Malaysia was not included as a target for the questionnaire as we targeted areas which had plywood business with the Japanese industry. The result of the survey became a basic information of the suppliers.

Duration: 1 year (delayed 24 months)

Output 1-2: Creation of a guidebook on the environmental and social issues associated with tropical wood from Indonesia and Malaysia

Activity 1-2-1: Collect environmental and social information for different regions, wood species, and products

Realized elements: This work was subcontracted to Forest Watch Indonesia for the Indonesian part and Resource Stewardship Consultants (RESCU) for the Malaysian part.

Duration: 9 months (delayed 4 months)

Activity 1-2-2: Analyze collected data

Realized elements: Analysis included translation of the original report in English into Japanese.

Duration: 4 months

Activity 1-2-3: Compile the analyzed data into an environmental and social guidebook for procuring tropical woods

Realized elements: Guidebooks were compiled for Indonesia and Malaysia and placed on the website for public use. There were many twists and turns until the finalization of the content of this guidebook. Originally, factsheets for each province in Indonesia and each state for Malaysia were planned in addition to the guidebook. However, it was difficult to compile this in the same format for Indonesia and Malaysia as information collected could not be identical because of data availability. Then, the Executing Agencies had an idea of listing concession owners with maps showing forest categories of each area to show underlying risks of procuring timber from those areas. However this idea was turned down during the PTC meeting as inappropriate for this project. Moreover, such maps and the listing turned out to be not useful for business people as it was too detailed information. This whole process delayed the achievement of this activity more than one year.

Duration: 12 months (delayed 12 months)

Output 1-3: Two workshops to introduce Japanese companies to environmental and social information on tropical wood as well as ways to avoid environmental/social risks

Activity 1-3-1: Publicize the workshops widely and visit targeted companies mentioned in Output 1-1 to induce their attendance

Duration: 1 month (activity completed on time)

Activity 1-3-2: Organize ONE 2-day workshops targeting Japanese companies to introduce environmental and social information on tropical woods as well as ways to avoid environmental social risks, based on the guidebook mentioned in Output 1-2

Realized elements: Workshops were held in Tokyo with approximately 100 participants and Osaka with 50 participants.

Duration: 1 month (activity completed on time)

Output 1-4: Establishment of the Fairwood Center to act as a clearinghouse and point of expertise for information necessary to create a strong cooperative relationship between consumer and producer countries for trade in C/VL wood – finished

Activity 1-4-1: Create a Fairwood Center website, which will be managed in Japan

Realized elements: The nature of the Fairwood Center was to be web-based format from the proposal stage. It could not become a clearing house, but it had become a “center” with information related to verified legal wood and certified wood for the Japanese consumer companies. It is also a communication tool with consumers in Japan and suppliers in producing countries.

Duration: 6 months (delayed 12 months)

Activity 1-4-2: Provide information on C/VL wood, certification and verification systems through the Fairwood Center website. Encourage participants of the workshop (Output 1-3) and targeted companies mentioned in Output 2-1 to utilize the website. Distribute information through mail magazines

Duration: throughout the project after establishment of Fairwood center and before the start of addendum part of the project

Output 1-5: Providing assistance to Japanese companies to develop procurement policies for C/VL wood

Activity 1-5-1: From the original 20 companies interviewed select 10 companies for further discussions. From these select 1 or 2 companies that are interested in utilizing certified/verified wood

Duration: 12 months (activity completed on time)

Activity 1-5-2: Closely assist these 1 or 2 companies to develop procurement policies and to link them with existing and potential suppliers

Realized elements: Several companies developed timber procurement policies with our assistance. As a case for linking a Japanese buyer and a supplier, one garden furniture maker in Japan has tried to procure timber from the community forestry in Indonesia.

Duration: 12 months (activity completed on time, also continued as long as there was demand from companies for assistance)

Output 1-6: Study to activate information on C/VL wood from PNG including options for linking suppliers with potential buyers of C/VL wood

This Output was added after request for extension of the project with additional funding was approved at the forty-second session held in 2008.

After implementing several activities under the project, the Executing Agencies realized the desirability of expanding the project to other producer countries in order to secure more options for supply of tropical timber to Japan. As a result the Addendum proposed to expand the scope of the project to include Papua New Guinea (PNG) as there was interest from Japanese companies on the feasibility of securing C/VL wood supplies from PNG. This was expected to produce a synergetic effect that would build on the project activities in Malaysia and Indonesia to further promote the supply and demand for C/VL wood at the regional level. It was also envisioned to enhance the expertise of the Fairwood Center to advise companies on tropical C/VL wood.

Activity 1-6-1: A review of the social and environmental risks of timber procurement from PNG

Duration: 24 months (delayed 24 months)

Activity 1-6-2: A feasibility study of C/VL wood procurement from PNG

Duration: 2 months (delayed 24 months)

Activity 1-6-3: Identify potential buyers of tropical C/VL wood in Japan

Realized elements: This activity is a follow-up to Activity 1-1-1 of visiting and interviewing the Japanese companies.

Duration: 3 months (activity completed on time)

Activity 1-6-4: Disseminate information through the Fairwood Center

Realized elements: This activity is an equivalent to Activity 1-4-2.

Duration: This is a regular activity to be implemented.

Specific Objective 2: To support the introduction of certification or verification systems in the tropical wood producing countries.

Output 2-1: Identification of obstacles to introducing certification and verification systems in tropical wood producing countries

Activity 2-1-1: Select and interview 5 potential companies (total 10 companies) in Indonesia and Malaysia through close consultation with local partners

Realized elements: Visited and interviewed 2 companies and community forestry in Indonesia in 2008. Visited Ministry of Plantation and Industry Commodities, Malaysian Timber Council (MTC), and 4 companies in Peninsular Malaysia in 2008.

Visited Ministry of Forestry, BRIK, and 10 companies in Indonesia and 10 companies in Malaysia in 2009.

Duration: 2 months (delayed 12 months)

Activity 2-1-2: Compile a report and reflect the findings in the operation and planning of the Fairwood Center and workshops

Duration: 6 months (delayed 21 months)

Output 2-2: Providing support to introduce phased approaches for certification and verification systems in tropical wood producing countries

Achieving the Output 2-2, especially the Activity 2-2-3 deemed difficult as the project progressed, and this issue was discussed at the PTC meeting held in April 2009. In implementing the project and learning about situations in Indonesia and Malaysia, we learnt that there was limitation to how we could support the supplier companies as Japanese NGOs operating in Japan. Originally, we had planned to support suppliers for shifting towards phased approaches for certification and/or verification systems through subcontracting to local consultants. However, we came to a conclusion that it would be difficult to do so for the following reasons:

- 1) Local consultants conduct the supporting business as pure business matter; therefore, the cost for subcontract was much higher than we had expected and we could not come to terms with some of the local consultants;
- 2) We had not understood what was exactly needed at the local level from suppliers in order to shift towards phased approach and we could not figure out exactly what part of work to subcontract to local consultants. Also, some of the local consultants advised that assistance to suppliers would be only functional when it was based on buyer's commitment as a case with TFT's business model.
- 3) We do not have enough resources both in financial and personnel aspects to enter the local market as a new consultant as a competitor to existing consultants. Also it would require a long period of time to gain trust and business relationship.

From all of the reasons above, we suggested that the role of executing agencies, which were situated in Japan, should be finding buyers and making them commit to buying legally verified or certified timber. Fairwood center website would continue to facilitate exchange of information among the suppliers and potential Japanese buyers.

The recommendation at the second PTC meeting from the ITTO secretariat and the donor was to at least find one company and assist them develop action plan to implement phased approaches for certification and/or verification systems.

Implementation of this activity was delayed and finally in summer of 2010, the Executing Agencies proposed a plan to encourage supplier to supply timber with verification for legal origin (VLO) or any other schemes towards sustainability as an additional effort from the legal verification. However, after sharing this idea with the donor, it was suggested to cancel this activity as the legality of timber from Indonesia and Malaysia has been already secured from the Japanese government's perspective.

As the Executing Agencies contemplated on a way to realize this activity, a few years passed since the start of the project. And the situation in the tropical wood producing countries, namely Indonesia and Malaysia have changed. More than 80 % of timber from Indonesia and Malaysia was already verified as legal according to the Japan Timber Import Association. This meant that the original assumption by the Executing Agencies that the availability of legal timber from those two countries was low has been changed during the past few years. The Japanese government requires up to legality of timber. Since the legality of timber from Indonesia and Malaysia has been already almost secured, the necessity to conduct this activity has decreased. As a result, the Executing Agencies decided to follow this suggestion and canceled this activity. The

budget allocated for this activity was reallocated to other remaining activities with the ITTO approval.

Activity 2-2-1: Identify 1 or 2 suppliers that have the potential to shift towards supplying C/VL wood

Realized elements: Through the Activity 2-1-1, the Executing Agencies learnt that some companies had obtained FSC certification in Indonesia. Some others have started to work on improving the standard of operation by cooperation with third party, such as RIL (reduced impact logging) and VLO. In Sarawak of Malaysia, there were two companies which have obtained MTCC-FM certification and one company conducted VLO scheme.

Duration: 3 months (delayed 6 months)

Activity 2-2-2: Facilitate exchange of information through the use of the Fairwood Center among the suppliers and potential Japanese buyers

Realized elements: Pamphlet to introduce Fairwood Center was created both in Japanese and English. This was utilized in promoting Fairwood Center domestically and internationally.

Duration: 3 months (delayed 6 months)

Activity 2-2-3: Assist the selected suppliers in developing action plans to implement phased approaches for certification and/or verification systems

This activity faced a difficulty in terms of implementation. Originally, the Executing Agencies aimed this activity to be a step towards providing support to introduce phased approaches for certification and verification systems. However, the Executing Agencies learnt that in order to do so would require much more funding and personnel capacity. Output 2-2 turned out to be too ambitious for this project which had limited funding. Through consultation with the donor and the ITTO secretariat, this activity was canceled.

4 Project Outcome, Target Beneficiaries Involvement

Awareness towards certified and/or verified legal wood among Japanese industry has increased significantly compared to the situation during applying for this project in 2006 and beginning of the project in 2007. Japanese Government revised the Green Procurement Law in 2006 and the Forestry Agency developed “The guideline for verification and legality and sustainability of wood and wood products.”

Executing agencies conducted interviews with about 33 companies and 3 industry associations in wood-related business in 2007 to check their awareness and any actions taken towards the guideline and their interest in certification or verification of wood. At that time, their interest towards legality or certification of timber was low as well as their clients’ interest.

When Executing Agencies conducted interviews again in 2010 to similar companies, it was obvious that the level of awareness has risen drastically. The number of companies with FSC or PEFC CoC certification was only a few in 2006, but the number has risen to more than 30 in 2010.

4.1 Project Outcome

Spread of timber procurement policies among Japanese industry

Our activity under this project to support the companies has enhanced spread of developing procurement policies. One big drive was Sekisui House’s case. Sekisui House Co., Ltd. is one of the largest and leading housing makers in Japan with net sales of \$ 18,122,123 and building a total of 43,317 houses for the fiscal year 2010. The amount of wood volume they dealt was 295,000 m³ in 2009.

Executing agencies had communicated with them even before the start of the project and Sekisui House developed a wood procurement guideline to promote the use of “Fairwood” with our assistance and announced their wood procurement guideline in 2007. They have started to work with suppliers to raise the procurement levels of Fairwood. The ratio between the procurement level and their use of traceable S and A class wood rose to 87% in fiscal 2010, up 34 percentage points from fiscal 2007 when the guideline went into effect.

One of the first steps they took was to trace the wood they procure from suppliers. They started to request their suppliers to check the origin of wood. They were the first large company who inquired about such issue and this triggered suppliers.

Their interest in legality of wood and certification triggered wood flooring makers to develop new wood flooring using certified wood. This in turn is supporting sustainable forest management in the wood producing countries.

Sekisui House was one of the speakers at the workshops we organized in 2008, and they contributed in disseminating information about company’s responsibility in wood procurement. Fairwood Center as website is also promoting their case.

In summary, companies which developed wood procurement policies between 2006 to 2011 as a result of our activity as well as recent global movement towards ensuring sustainability are follows:

House builders

- Sekisui House Co., Ltd. (Wood procurement guideline since 2007)
- Tokyu Homes Co., Ltd. (Wood procurement guideline since 2008)
- Sumitomo Forestry Co., Ltd. (Wood procurement principle and policy since 2007)
- Chikyu-no-me (Wood procurement guideline since May 2009)
- Misawa Homes Co., Ltd. (In 2007 during our interview, they seemed to have least interest in developing a wood procurement policy. But in June 2010, they announced the policy which they developed with WWF Japan)
- Higashi Nihon House, Co., Ltd. (Wood procurement guideline since March 2011)

Office furniture supplier

- Okamura Corporations (Developed wood utilization policy in September 2010)
- Kokuyo Co., Ltd. (Developed sometime between 2010-2011)
- Uchida Yoko Co., Ltd. (Added “legality of timber” to their environmental policy in 2006 and amended in 2008)

Building material maker

- Asahi Woodtec Corporation (Includes a clause related to timber procurement in their environment code of conduct, offers flooring from FSC certified wood)
- Olis Group (Developed “Promise with forest”)

Furniture maker

- Wisewise, Co. Ltd. (Wood procurement promise since 2009)

Display company

- Nomura Co., Ltd. (Announced use of Fairwood in October 2010)

In order to support house builders or furniture makers, wood suppliers need to be able to provide wood products that would meet their clients’ demand. Some new wood products with certified wood or domestic wood have been developed in the past few years. This project has also contributed directly and indirectly in development of the following products.

Building material makers

- | | |
|-----------------------------|---|
| ➤ Asahi Woodtec Corporation | FSC certified flooring |
| ➤ Itochu Kenzai Corporation | FSC certified tropical plywood |
| ➤ Nakamura Lumber Co., LTd. | FSC certified silver beech, FSC certified quarter pine, FSC certified cedar, etc... |

- Fujishima Mokuzai Trading Company Hardwood plywood using timber from northern area of Japan
- Tatetsu Inc. Co.,Ltd. Hardwood plywood using timber from northern area of Japan
- Yamano Kakoujo Plywood from domestic cedar and cypress

Furniture, small wood products for household

- Wisewise Inc. Furniture using domestic wood and FSC certified wood
- Terrace Inc. Use of wood from community forestry of Indonesia
- Oliver Corporation Furniture using FSC certified wood
- Rosier Co., Ltd. Small wood products using domestic wood, FSC certified wood, community timber
- Dinos Inc. Catalogue and internet shopping. Support in research of traceability

Increase of the number of companies with CoC certification

During the first interview with the Japanese companies in May to July 2007, the number of FSC and PEFC CoC certification holders was just limited to 7 for paper and wood chips and 5 for timber products. During our second interview conducted in January to March 2010, the number of FSC and PEFC CoC certification holders has risen to 32 with some companies holding both FSC and PEFC certification.

Since the companies visited in 2007 and 2010 are not identical although there were some overlaps and these figures were drawn only from companies we visited, these results cannot exactly reflect the trend of the entire Japanese industry. However, the result can still convey a message that interest towards certification has risen within less than 3 years. The number of CoC certification holders is more than 1,000 for FSC (a result from their database search) and 210 for PEFC (displayed on the PEFC Asia Promotions website) in September 2011.

There has been rather rapid increase in the number of FSC and PEFC CoC certification holders among the Japanese timber industry in the past few years. One of the causes seem to be a scheme called “Promotion of building wooden houses (Kinoie Seibi Sokushin Jigyo)” since 2010 operated by Federation of Housing & Community Centers which is an organization under the Ministry of Land, Infrastructure, Transport and Tourism (MITI). This came after enactment of Law concerning promotion of long-life quality housing in 2008. This is a scheme to provide a part of building cost to builders of wooden houses as long as they meet the set requirements. One of the requirements to receive this support scheme is to be able to provide a proof for the origin of timber, which includes the certification schemes. This seems to encourage a number of suppliers to obtain CoC certification. The Executing Agencies believe that the project which promoted legal and sustainable wood has given a background for this change to occur.

Linking a buyer and a supplier

Terrace Inc., a garden furniture maker, learnt about the community forestry in Indonesia during the workshop held under this project. They were impressed by a clear traceability that

timber from the community forestry could provide. Then they sought a possibility of developing a product using timber (teak) from the community forestry in Indonesia and marketing it in Japan. They have already made some stools as sample. This trial has shown some obstacles to overcome, such as quality control to meet the Japanese standard.

Information dissemination through the Fairwood Center

The website “Fairwood Center” was developed in Japanese and English. The Japanese site aims to provide information on how to source legal/sustainable tropical wood as well as general information of the state of the forest. One of the means to do so is the monthly mail news service in Japanese to subscribers of about 1,500 people.

The Japanese website also clearly sets a section that the Executing Agencies could give support and consultation to companies who are interested in procuring legal and sustainable wood. There have been inquiries through the website from the Japanese companies for consultation or giving information about certification.

The guidebooks for procuring timber from Indonesia and Malaysia have been also posted on the website and available for public. The pages explaining about the state of the forests for Indonesia and Malaysia are popular pages of the website.

The English site aims to promote information about movement among Japanese companies towards procuring legal/sustainable wood. Information about the Japanese industry is also sent out through the mail service in English which goes out about quarterly.

4.2 Target beneficiaries involvement

Wood-related businesses in Japan.

Since they were the main target of this project, their involvement to the project was important and significant. A number of companies accepted our interview and collaborated with us in finding out the situation of the industry.

The level of acceptance and cooperation was higher in 2010 than in 2007. In 2010, the focus was on trading, wholesale merchants, panel/board manufactures, furniture manufactures and house builders. By 2010, the major house builders, panel/board manufactures and timber traders were well aware of the issue related to legality and certification of timber, and have already taken some measures. However, the level of awareness among developers and furniture manufactures was low. Many companies were not cooperative and even did not accept to meet us.

Besides interviews, a number of companies in Tokyo and Osaka area participated in the workshop we organized. Through these dialogue, we collaborated with some of them in giving information about the risks in procuring timber and developing timber procurement policies.

Wood-related businesses in Indonesia, Malaysia, and PNG.

Visits conducted to wood-related businesses in Indonesia, Malaysia, and PNG as well as questionnaires conducted for Indonesian and Malaysian industries

Wood-related businesses in Indonesia, Malaysia, and PNG were the important stakeholders for this project and they were essential in learning about the actual situation of the industry. Some of them attended at the workshop held in Japan as speakers.

They also benefited from our visit in learning about the Japanese government's policy for legality and the progress of the industry towards procurement of legal and sustainable wood.

Japanese, Indonesian, Malaysian, and PNG governments

The project indirectly contributed to the efforts to promote sustainable forest management and combat illegal logging that are part of the Joint Announcement and Action Plans announced by the Indonesian and Japanese governments and the Joint Statement for an economic partnership between the governments of Malaysia and Japan.

4.3 Project sustainability after Project Completion

Executing agencies will continue the activity of promoting certified and verified legal wood within Japan as well as supporting sustainable forest management in the tropical wood producing countries. Specifically, we plan to utilize the web-based Fairwood Center as our useful tool and outcome of this project.

There is not much venue for disseminating information about the trend of the Japanese timber industry towards verified legal wood or certification in English, we plan to utilize our Fairwood Center for this purpose. For example, information about an increase of demand for certified timber could be useful information for timber producing countries, and this may in turn support the sustainable forest management in those countries.

Developing wood procurement policy or code of conduct has become somewhat of a norm among the major companies, and there is not much incentive for the followers to do so as it would no longer attract media attention. In order to promote certified and verified legal wood in Japan, raising awareness of consumers for importance of legality and sustainable wood seems to be the key, and a new strategy will be required. As NGOs we may focus more on educating individuals as consumers. For this purpose, we have already set up another website called "Fairwood Café" which targets general consumers as opposed to the business sector.

Forest and timber-related information we gathered during this project for Indonesia, Malaysia, and Papua New Guinea has become an important asset for us. Also we have developed much connection with stakeholders in those countries through implementation of the project.

5 Assessment and analysis

- The project can be assessed as timely in terms of the situation surrounding the Japanese timber-related industry as well as international trends towards ensuring verified legal timber, such as the EU timber regulations and the US Lacey Act. The Executing Agencies assess that our achievement especially among the Japanese industry was notable. The extension of the project period may have acted in favor in this respect.
- The project aimed to support the sustainable forest management by increasing the market demand. This approach was very effective, and in this respect the project identification was successful and effective. However, our aim to directly assist the tropical timber producing countries to shift towards the sustainable forest management turned out to be too ambitious with our limited capacity with the limited given fund. This discrepancy between the planned and the actuals was caused by the lack of information and network in Indonesia, Malaysia, and PNG, especially at the planning stage of the project.
- Selection of local consultant for Malaysia faced some difficulty and delayed the project progress. At the time of designing the project, we had a certain consultant in mind to subcontract; however, their fee far exceeded our budget. Before the start of the project, Executing agencies did not have much experience with Malaysia and we underestimated the prices for Malaysia.
- Study of environmental and social information was subcontracted to local organizations in Malaysia and Indonesia respectively. There was some language problem with the Indonesian report since they mainly wrote the report originally in Indonesian and translation in English was rather poor. As a result the Executing Agencies had to check grammar and wording of the English report. This process added to the delay of the project.
- To display environmental and social information of the producing countries, maps to show concession owners were collected for Indonesia. The Executing Agencies expected that the Japanese companies would find them useful; however, it was too detailed information for them as they sometimes even did not know a country of origin for timber they procure.
- Implementing the project is definitely different from just planning the project. During the implementation of the project, the Executing Agencies were often obliged to modify the plan. This was partially because of the lack of information or experience with the targeted countries. However, this was often complemented by the support from the respective governments and the industry organizations, such as BRIK, SFID, STIA, and STIDC. Without their assistance, the project could not have been implemented smoothly.
- In designing the project, fund allocation for project personnel was inadequate, and this resulted in lack of personnel and delay of the project implementation.

- Representatives from the Forest Conservation Project of the Institute for Global Environmental Strategies (IGES) acted as a national consultant to this project. They assisted the Executing Agencies by giving neutral advice and involving some of the research activities. Their expertise on the forestry in Papua New Guinea was especially helpful in implementing the project for PNG.

- There was a plan to attach fact sheets with maps and concession owners to the guidebooks. This did not work out at the end. This was caused by miscommunication among the staff, the donor, and the targeted companies. The final product that the Executing Agencies envisioned turned out to be not so useful for the Japanese companies. This situation could have been avoided by closer consultation with the Japanese companies at the draft stage. This process also took many twists and turns over a year and this delayed the progress of the project.

- Visiting Japanese companies and having a dialogue with them were more effective and fruitful than we had expected. This provided an opportunity to have a face-to-face meeting for close to two hours with some of the major timber-related companies in Japan. We were able to let them know of our concerns about the legality of timber and the global trends. At the same time, we were able to ask them detailed information about their business operation. With the extension of the project with additional funding, we were able to conduct the second round of the interview. We were able to observe significant difference in attitude among the Japanese companies towards certification from 2007 to 2010.

6 Lessons learned

6.1 Project identification and design matters

The Development objective of this project to promote and create market demand for C/VL wood was an effective approach.

Overall, the activities and approaches taken to increase the market demand in the Japanese industry worked out well. Establishment of the web-based “Fairwood Center” was a good tool; however, the web-based communication alone was not enough as expected. The web could only be a portal, and deeper involvement with relevant parties could only happen through face-to-face meetings and consultations.

In designing the project, the activities could have been categorized in a simpler manner as the flow of the activities sometimes was different from expected. Also since the situation surrounding the issues evolved as the progress of the project, some modifications were required to the project. The Executing Agencies were too occupied to implement the activities set in the proposal. It might have been better to re-evaluate the proposal to include other possibilities.

PNG was added as a target for the project in the middle. The market share of the PNG timber in Japan had been decreasing for a while, but it even dropped more after 2008. This situation was not expected at the time of identification and design of the project. Through conducting the project, we learnt that many companies operating in PNG are related to Malaysian countries. As a result, it supplemented the research of the Malaysian side.

Collecting information of the Japanese industry through direct discussion was an effective approach. This process enhanced communication with a number of companies and associations. Interviews with the industries in Indonesia, Malaysia, and PNG through this project were also fruitful. The Executing Agencies involvement with Malaysia and PNG was low before the start of the project, but the Executing Agencies were able to gain much new information and network through implementation of the project.

The project targeted on three different tropical wood producing countries, namely Indonesia, Malaysia, and PNG. Since the social, economical, legal and environmental context all differed in these three countries, implementation of the project without bias and in a uniform manner was difficult. Malaysia especially turned out to be complex as three states, Peninsular Malaysia, Sabah, and Sarawak, had their own autonomy and had different legislations. In retrospect, it was beneficial to deal with three different countries as we have a variety of outcome. However, to keep the project simpler and to implement it more smoothly, it might have been better to limit the number of targeted country.

One of the factors for the success of the project was cooperation with Japanese business sector. The Executing Agencies were able to develop a partnership with some of the Japanese companies.

On the other hand in the tropical wood producing countries, there was no local NGO which could build a partnership with the business sector. This is mainly due to the nature of NGO in Indonesia, Malaysia, and PNG. Partners for the business sector in those countries tend to be consulting companies. However, they were too expensive to get involvement for the project. The Executing Agencies lacked understanding of this kind of situation before the start of the project.

6.2 Operational matters

This project was unique in that there were two Executing Agencies to implement one project. This was arranged from the beginning as Friends of the Earth Japan and Global Environmental Forum had been working together in the “Fairwood project” since 2002. Since we have been working closely together, there was no problem in implementing the project. The purpose of this collaboration among two different organizations is to complement each other. This worked effectively in conducting the project. We held monthly meetings among staff in order to share information, and this was a good arrangement.

Since this project was conducted by non-governmental organizations, it was often pointed out by the donor and the ITTO secretariat that the project had to be implemented without an NGO-bias and with an objective perspective. The process was a lesson for us not to always point out the negative aspects of the issues. It was a good experience to communicate with the donor and come to terms.

Since the Executing Agencies bases were in close proximity to the ITTO secretariat in Yokohama, we were able to organize PTC meetings quite regularly with representatives of the Japanese government and the ITTO secretariat. This regular discussion through the PTC meetings held about twice a year helped in retrospect the smooth implementation of the project.

We have requested an extension of the project with additional fund and added PNG for the targeted country. Although there was a concern for implementing the project with PNG as there had been some difficulties with other ITTO projects with PNG. In the beginning, it was difficult to contact the industry side of PNG; however, persistent effort to contact them returned a success. During the meeting among stakeholders in PNG, the industry side was very cooperative in giving us information.

The project set up the Advisory Group with representatives from the government, industry and civil society of all the targeted countries, namely Japan, Indonesia, Malaysia and Papua New Guinea. An Advisory Group meeting was held once with representatives of Japan, Malaysia, and Indonesia in 2007 and another one was held with representatives of PNG and the Executing Agencies in 2010. Besides meetings, information was shared through e-mails. In retrospect, the Advisory Group could have been utilized more effectively in implementing the project.

7 Conclusions and Recommendations

The main strategy and model this project aimed to achieve was to encourage sustainable forest management by creating market demand for legal and sustainable wood products in consuming countries. In implementing the project, the Executing Agencies learnt that this model could be effective.

It has been often said that an appropriate forest management is costly; thus it is difficult to achieve the sustainability. Improvement of management on the ground alone would be difficult to collect the cost for the sustainable forest management. Therefore, we envisioned that a change in the demand market side would be necessary. In this sense, we believe that this project made certain level of achievement to the Japanese market and played an important role in changing the attitude of the market in the past few years.

Improvement of level of forest management was sought to be evaluated by spread of forest certification system. However, the standard required by forest certification schemes was too high and schemes to evaluate other effort to improve forest management did not exist. As a result, spread of the forest certification schemes had been slow. After schemes such as reduced impact logging and legality verification were recognized as measures to quantitatively evaluate the level of improvement of the forest management system, the market also started to recognize them as an appropriate schemes. However, the Japanese market was behind in recognizing this situation because of lack of information and language barrier.

This project was successful in filling the information gap between the Japanese industry and companies in the tropical wood producing countries, and solving language barrier by the Executing Agencies acting as a mediator through the operation of the Fairwood Center. The Executing Agencies also contributed in giving information about the local situation to the Japanese companies through an individual interview.

What was especially noteworthy was that the Executing Agencies focused on the house builders which were the major consumers of timber and timber products. The Executing Agencies collaborated with only a few companies; however, those companies took the matter seriously and tackled the issue by developing the procurement policies and implementing them effectively.

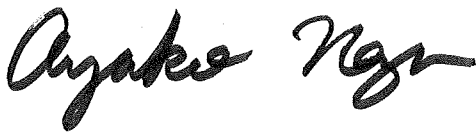
This achievement with the house builders greatly improved the awareness of certification schemes within Japan and lead to a drastic increase of the number of companies obtaining CoC certification of FSC and PEFC schemes.

The project contributed to the spread of verified legal timber and certified timber within Japan by approaching to the Japanese companies. Some of the Japanese companies which have already developed procurement policies are now facing a problem that promoting verified legal timber or certified timber does not appeal to their customers; thus it does not directly increase their sales.

There was no market and not much necessity among the Japanese companies for the verified legal timber and certified timber before the start of the project. Now, the market has been created, however, it is still small. For further promotion of verified legal timber and certified timber in Japan, raising awareness of consumers seems to be the next step. Generally speaking, NGOs in European countries are often responsible for educating the general consumers and they have developed an effective strategy to give pressures to the business sector. Japan as well as some other countries where the power of NGOs is not yet so strong, another approach to promote verified legal timber and certified timber may need to be developed.

This model of approaching to the consumer companies to change their market demand was effective and the Executing Agencies believe that this model could be replicated for different commodities or different countries.

Responsible for the Report

A handwritten signature in black ink, appearing to read 'Ayako Nezu', written in a cursive style.

Ayako Nezu

Researcher, Global Environmental Forum

September 15, 2011

PROJECT FINANCIAL STATEMENT (in US Dollar)

ITTO Funding

Project No. PD 391/06 Rev.2 (M)

Period ending on: July 1, 2011

Project Title: Promoting and Creating Market Demand for Certified Tropical Wood and Verified Legal Tropical Wood

| Component | Original Amount (A) | Expenditures To-date | | | Available Funds (E) { A - D } |
|---|---------------------|----------------------|---------------|------------------------|----------------------------------|
| | | Accrued (B) a/ | Expended (C) | Total (D) { B + C } | |
| I. Funds managed by Executing Agency | | | | | |
| 10. Project Personnel | | | | | |
| 11. National Experts (long term) | | | | | |
| 11.1 Project Coordinator | \$ 138,922.15 | \$0.00 | \$ 138,922.15 | \$ 138,922.15 | \$0.00 |
| 12. National Consultant(s) (short term) | \$11,200.00 | \$0.00 | \$ 11,200.00 | \$ 11,200.00 | \$0.00 |
| 13. Other | \$3,839.92 | \$0.00 | \$ 3,839.92 | \$ 3,839.92 | \$0.00 |
| 14. International Consultant | \$4,133.65 | \$0.00 | \$ 4,133.65 | \$ 4,133.65 | \$0.00 |
| 19. Component Total: | \$ 158,095.72 | \$0.00 | \$ 158,095.72 | \$ 158,095.72 | \$0.00 |
| 20. Sub-contracts | \$31,040.00 | | | | \$0.00 |
| 21. Sub-contract (Indonesia) | | \$0.00 | \$ 17,740.00 | \$ 17,740.00 | |
| 21. Sub-contract (Malaysia) | | \$0.00 | \$ 13,300.00 | \$ 13,300.00 | |
| 29. Component Total: | \$31,040.00 | \$0.00 | \$31,040.00 | \$ 31,040.00 | \$0.00 |
| 30. Travel | | | | | |
| 31. Daily Subsistence Allowance | \$0.00 | | | | \$0.00 |
| 31.1 National Expert(s)/Consultant(s) | | \$0.00 | \$0.00 | \$0.00 | |
| 31.3 Others | | \$0.00 | \$0.00 | \$0.00 | |
| 32. International Travel | \$25,834.34 | | | | \$0.00 |
| 32.1 Project coordinator | | \$0.00 | \$ 15,619.89 | \$ 15,619.89 | |
| 32.2 AG members | | \$0.00 | \$ 3,331.05 | \$ 3,331.05 | |
| 32.3 Others | | \$0.00 | \$ 6,883.40 | \$ 6,883.40 | |
| 33. Local Transport Costs | | | | | |
| 33.1 Project team member | \$4,577.21 | \$0.00 | \$ 4,577.21 | \$ 4,577.21 | \$0.00 |
| 33.3 Others | | | | | |
| 34. Domestic Accommodation | \$3,201.07 | | | | \$0.00 |
| 34.1 Advisory meeting | | \$0.00 | \$ 675.95 | \$ 675.95 | |
| 34.2 Workshop | | \$0.00 | \$ 2,361.67 | \$ 2,361.67 | |
| 34.3 Other | | \$0.00 | \$ 163.45 | \$ 163.45 | |
| 39. Component Total: | \$ 33,612.62 | \$0.00 | \$ 33,612.62 | \$ 33,612.62 | \$0.00 |
| 40. Capital Items | | | | | |
| 44. Capital Equipment | | | | | |
| 44.1 Computer Equipment (server) | \$1,416.85 | \$0.00 | \$ 1,416.85 | \$ 1,416.85 | \$0.00 |
| 44.2 Forestry Equipment (GPS) | \$667.93 | \$0.00 | \$ 667.93 | \$ 667.93 | \$0.00 |
| 44.3 Others | \$59.81 | \$0.00 | \$ 59.81 | \$ 59.81 | \$0.00 |
| 49. Component Total: | \$2,144.59 | \$0.00 | \$ 2,144.59 | \$ 2,144.59 | \$0.00 |
| 60. Miscellaneous | | | | | |
| 61. Sundry | | | | | |
| 62. Symposium/Workshop | \$3,854.27 | \$0.00 | \$ 3,854.27 | \$ 3,854.27 | \$0.00 |
| 63. Printing/web design | \$ 28,265.63 | | | | |
| 63.1 Web design | | \$0.00 | \$ 19,339.21 | \$ 19,339.21 | \$0.00 |
| 63.2 Design | | \$0.00 | \$ 3,356.06 | \$ 3,356.06 | \$0.00 |
| 63.3 Printing | | \$0.00 | \$ 5,570.36 | \$ 5,570.36 | \$0.00 |
| 64. Postage/communication | \$7.55 | \$0.00 | \$ 7.55 | \$ 7.55 | \$0.00 |
| 65. Translation/interpretation | \$20,024.65 | \$0.00 | \$ 20,024.65 | \$ 20,024.65 | \$0.00 |
| 66. Other miscellaneous | \$3,406.04 | \$0.00 | \$ 3,406.04 | \$ 3,406.04 | \$0.00 |
| 67. Write fee | \$118.75 | \$0.00 | \$ 118.75 | \$ 118.75 | \$0.00 |
| 69. Component Total: | \$55,676.89 | \$0.00 | \$ 55,676.89 | \$ 55,676.89 | \$0.00 |
| 70. National Management Costs | | | | | |
| 71. Executing Agency Management Costs | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| 79. Component Total: | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Sub-Total: | \$ 280,569.82 | \$0.00 | \$ 280,569.82 | \$ 280,569.82 | \$0.00 |

| | | | | | |
|--|---------------|--------|---------------|---------------|--------|
| 80. Project Monitoring & Administration | | | | | b/ |
| 81. ITTO Monitoring and Review | | | | | b/ |
| 82. ITTO Mid-term and Ex-post Evaluation | | | | | b/ |
| 83. ITTO Programme Support Costs | | | | | b/ |
| 83. Donor Monitoring Costs | | | | | |
| 89. Component Total: | | | | | b/ |
| 90. Refund of Pre-Project Costs (Pre-Project Budget) | | | | | b/ |
| Sub-Total: | | | | | b/ |
| 100. GRAND TOTAL: | \$ 280,569.82 | \$0.00 | \$ 280,569.82 | \$ 280,569.82 | \$0.00 |

Note: Budget Components are those detailed in the Project Document.

a/ Accrued expenditure: expenditures committed/accrued as at the end of the reporting date, but not yet settled.

b/ Funds retained and accounted for by ITTO - details not available with Executing Agency.

PROJECT FINANCIAL STATEMENT (in US Dollar)
Executing Agencies

Project No. PD 391/06 Rev.2 (M)

Period ending on: July 1, 2011

Project Title: Promoting and Creating Market Demand for Certified Tropical Wood and Verified Legal Tropical Wood

| Component | Original Amount (A) | Expenditures To-date | | | Available Funds (E) { A - D } |
|--|------------------------|----------------------|-----------------|---------------------------|-------------------------------------|
| | | Accrued (B) a/ | Expended (C) | Total (D) { B + C } | |
| I. Funds managed by Executing Agency | | | | | |
| 10. Project Personnel | | | | | |
| 11. National Experts (long term) | | | | | |
| 11.1 Project Coordinator | \$25,000.00 | \$0.00 | \$ 25,000.00 | \$ 25,000.00 | \$0.00 |
| 12. National Consultant(s) | | | | | |
| 13. Other | | | | | |
| 19. Component Total: | \$25,000.00 | \$0.00 | \$ 25,000.00 | \$ 25,000.00 | \$0.00 |
| 60. Miscellaneous | | | | | |
| 61. Sundry | | | | | |
| 62. Symposium/Workshop | \$432.42 | | \$ 432.42 | \$ 432.42 | \$0.00 |
| 63. Printing/web design | | | | | |
| 64. Postage/communication | | | | | |
| 65. Translation/interpretation | \$5,000.00 | \$0.00 | \$ 5,000.00 | \$ 5,000.00 | \$0.00 |
| 66. Other miscellaneous | \$0.00 | \$0.00 | \$ - | \$ - | \$0.00 |
| 69. Component Total: | \$5,432.42 | \$0.00 | \$ 5,432.42 | \$ 5,432.42 | \$0.00 |
| 70. National Management Costs | | | | | |
| 71. Executing Agency Management Costs | \$32,106.75 | \$0.00 | \$ 32,106.75 | \$ 32,106.75 | \$0.00 |
| 79. Component Total: | \$32,106.75 | \$0.00 | \$ 32,106.75 | \$ 32,106.75 | \$0.00 |
| Sub-Total: | \$ 62,539.17 | \$0.00 | \$ 62,539.17 | \$ 62,539.17 | \$0.00 |
| 80. Project Monitoring & Administration | | | | | b/ |
| 81. ITTO Monitoring and Review | \$0.00 | | | | b/ |
| 82. ITTO Mid-term and Ex-post Evaluation | \$0.00 | | | | b/ |
| 83. ITTO Programme Support Costs | \$0.00 | | | | b/ |
| 83. Donor Monitoring Costs | | | | | |
| 89. Component Total: | \$0.00 | | | | b/ |
| 90. Refund of Pre-Project Costs (Pre-Project Budget) | | | | | b/ |
| Sub-Total: | \$0.00 | \$ - | \$ - | \$ - | b/ |
| 100. GRAND TOTAL: | \$ 62,539.17 | \$0.00 | \$62,539.17 | \$62,539.17 | \$0.00 |

Note: Budget Components are those detailed in the Project Document.

a/ Accrued expenditure: expenditures committed/accrued as at the end of the reporting date, but not yet settled.

b/ Funds retained and accounted for by ITTO - details not available with Executing Agency.

PROJECT CASH FLOW STATEMENT
ITTO Funding

Project No. PD 391/06 Rev.2 (M)

Period ending on: July 1, 2011

Project Title: Promoting and Creating Market Demand for Certified Tropical Wood and Verified Legal Tropical Wood

| Component | Reference | Date | Amount | |
|---|-----------|-----------|---------------|----------------|
| | | | in US\$ | Local Currency |
| A. Funds received from ITTO: | | | | |
| 1. First instalment | | 07-May-07 | \$ 70,000.00 | ¥ 8,334,800 |
| 2. Second Instalment | | 24-Mar-08 | \$ 70,000.00 | ¥ 6,918,700 |
| 3. Third instalment | | 13-Apr-09 | \$ 45,200.00 | ¥ 4,489,572 |
| 4. Fourth instalment-1 | | 15-Oct-09 | \$ 3,346.00 | ¥ 300,035 |
| Fourth instalment-2 | | 09-Dec-09 | \$ 2,700.00 | ¥ 236,385 |
| Fourth instalment-3 | | 18-Dec-09 | \$ 38,850.00 | ¥ 3,429,289 |
| Fourth instalment-4 | | 25-Mar-10 | \$ 50,304.00 | ¥ 4,569,615 |
| 7. ETC. | | 20-Aug-08 | \$ 30.64 | ¥ 3,649 |
| 8. ETC. | | 18-Feb-08 | \$ 41.66 | ¥ 4,962 |
| 9. ETC. | | 18-Aug-08 | \$ 53.70 | ¥ 5,852 |
| 10. ETC. | | 23-Feb-09 | \$ 21.92 | ¥ 2,389 |
| 11. ETC. | | 17-Aug-09 | \$ 6.52 | ¥ 647 |
| 12. ETC. | | 22-Feb-10 | \$ 0.75 | ¥ 67 |
| 13 ETC. | | 22-Feb-10 | \$ 2.05 | ¥ 186 |
| 14 ETC. | | 23-Aug-10 | \$ 7.89 | ¥ 702 |
| 15 ETC. | | 21-Feb-11 | \$ 4.69 | ¥ 417 |
| Total Funds Received: | | | \$ 280,569.82 | ¥ 28,297,267 |
| B. Expenditures by Executing Agency: | | | | |
| 10. Project Personnel | | | | |
| 11. National Experts (long term) | | | | |
| 11.1 Project Coordinator | | | \$ 26,449.99 | ¥ 3,149,930 |
| | | | \$ 21,551.26 | ¥ 2,130,558 |
| | | | \$ 28,814.34 | ¥ 2,855,790 |
| | | | \$ 38,583.35 | ¥ 3,429,289 |
| | | | \$ 11,470.02 | ¥ 1,000,000 |
| | | | \$ 12,053.19 | ¥ 1,050,843 |
| 12. National Consultant | | | | |
| 12.1 IGES | | | \$ 6,000.00 | ¥ 714,540 |
| | | | \$ 5,200.00 | ¥ 550,004 |
| | | | \$ 1,883.43 | ¥ 167,400 |
| | | | \$ 2,250.22 | ¥ 200,000 |
| 13. Other Labor | | | | |
| Advisory Member | | | \$ 1,007.64 | ¥ 120,000 |
| Speaker | | | \$ 2,832.28 | ¥ 280,000 |
| 19. Component Total: | | | \$ 158,095.72 | ¥ 15,648,354 |
| 20. Sub-contracts | | | | |
| 21. Sub-contract (FWI) | | | \$ 15,966.00 | ¥ 1,842,209 |
| | | | \$ 1,774.00 | ¥ 184,176 |
| 21. Sub-contract (RESCU) | | | \$ 7,980.00 | ¥ 858,488 |
| | | | \$ 5,320.00 | ¥ 583,657 |
| 29. Component Total: | | | \$ 31,040.00 | ¥ 3,468,530 |
| 30. Travel | | | | |
| 31. Daily Subsistence Allowance | | | | |
| 31.1 Project team member | | | \$ 5,392.83 | ¥ 642,233 |
| 32. International Travel | | | \$ 5,192.99 | ¥ 512,445 |
| 32.1 Project team member(s)/Consultant(s) | | | \$ 3,339.16 | ¥ 330,945 |
| | | | \$ 198.45 | ¥ 17,639 |
| | | | \$ 1,496.46 | ¥ 133,006 |

| | | | | |
|---------------------------------------|--|--|---------------|--------------|
| 32.2 AG member | | | \$ 3,331.05 | ¥ 396,695 |
| 32.3 Speakers to workshop | | | \$ 6,883.40 | ¥ 679,254 |
| 33. Local Transport Costs | | | | |
| 33.1 Project team member | | | \$ 360.39 | ¥ 42,920 |
| | | | \$ 2,536.38 | ¥ 250,290 |
| | | | \$ 589.54 | ¥ 58,430 |
| | | | \$ 1,090.90 | ¥ 96,960 |
| 34 Domestic Accommodation | | | | |
| 34.1 Advisory meeting | | | \$ 675.95 | ¥ 80,500 |
| 34.2 Workshop | | | \$ 2,361.67 | ¥ 233,050 |
| 34.3 Other | | | \$ 163.45 | ¥ 16,200 |
| 39. Component Total: | | | \$ 33,612.62 | ¥ 3,490,567 |
| 40. Capital Items | | | | |
| 44. Capital Equipment | | | | |
| 44.1 Computer Equipment (server) | | | \$ 208.24 | ¥ 24,800 |
| | | | \$ 389.13 | ¥ 38,400 |
| | | | \$ 387.44 | ¥ 38,400 |
| | | | \$ 432.04 | ¥ 38,400 |
| 44.2 Forestry Equipment (GPS) | | | \$ 667.93 | ¥ 79,544 |
| 44.3 Others | | | \$ 59.81 | ¥ 5,903 |
| 49. Component Total: | | | \$ 2,144.59 | ¥ 225,447 |
| 60. Miscellaneous | | | | |
| 62. Symposium/Workshop | | | \$ 3,854.27 | ¥ 420,000 |
| 63. Printing / Web design | | | | |
| Web design | | | \$ 14,832.00 | ¥ 1,470,000 |
| Design | | | \$ 3,356.06 | ¥ 315,000 |
| Printing | | | \$ 3,432.68 | ¥ 322,192 |
| Printing | | | \$ 2,137.68 | ¥ 189,997 |
| Web alternation | | | \$ 4,507.21 | ¥ 400,601 |
| 64 Postage/Communication | | | \$ 7.55 | ¥ 900 |
| 65 Translation/Interpretation | | | | |
| 65.1 Interpretation | | | \$ 5,043.73 | ¥ 549,616 |
| | | | \$ 101.26 | ¥ 9,000 |
| 65.2 Translation | | | \$ 3,733.13 | ¥ 406,800 |
| | | | \$ 560.53 | ¥ 55,555 |
| | | | \$ 10,586.00 | ¥ 940,884 |
| 66 Other miscellaneous | | | \$ 174.75 | ¥ 20,812 |
| | | | \$ 2,685.66 | ¥ 292,657 |
| | | | \$ 462.68 | ¥ 50,419 |
| | | | \$ 13.48 | ¥ 1,470 |
| | | | \$ 17.33 | ¥ 1,890 |
| | | | \$ 14.68 | ¥ 1,601 |
| | | | \$ 37.46 | ¥ 4,420 |
| 67 Writer fee | | | \$ 118.75 | ¥ 10,555 |
| 69. Component Total: | | | \$ 55,676.89 | ¥ 5,464,369 |
| 70. National Management Costs | | | | |
| 71. Executing Agency Management Costs | | | | |
| 79. Component Total: | | | \$ - | ¥ - |
| Total Expenditures To-date: | | | \$ 280,569.82 | ¥ 28,297,267 |
| Remaining Balance of Funds (A-B): | | | \$0.00 | ¥ 0 |

Notes: (1) Amounts in U.S. dollars are converted using the average rate of exchange when funds were received by the Executing Agency

(2) Total Expenditures To-date (in local currency) should be the same as amount shown in Sub-Total of column (C) of the Financial Statement.

PROJECT CASH FLOW STATEMENT
Executing Agencies

Project No. PD 391/06 Rev.2 (M)

Period ending on: July 1, 2011

Project Title: Promoting and Creating Market Demand for Certified Tropical Wood and Verified Legal Tropical Wood

| Component | Reference | Date | Amount | |
|--|-----------|-----------|--------------|----------------|
| | | | in US\$ | Local Currency |
| A. Executing Agencies Funds: | | | | |
| 1. EAs Funds in kind (Personnel) | | | \$ 25,000.00 | ¥ 2,666,522 |
| 2. EAs Funds in kind (Miscellaneous+Mgmt Cost) | | | \$ 33,250.00 | ¥ 3,808,692 |
| 3. Workshop participation fee | | 12-Aug-08 | \$ 1,441.36 | ¥ 140,000 |
| 4. IGES covering the cost of one speaker | | 29-Aug-08 | \$ 2,843.54 | ¥ 263,710 |
| 5. ETC | | | \$ 4.27 | ¥ 388 |
| Total Funds Received: | | | \$ 62,539.17 | ¥ 6,879,312 |
| B. Expenditures by Executing Agency: | | | | |
| 10. Project Personnel | | | | |
| 11. National Experts (long term) | | | | |
| 11.1 Project Coordinator | | | \$ 14,750.00 | ¥ 1,756,577 |
| | | | \$ 250.00 | ¥ 27,245 |
| | | | \$ 5,000.00 | ¥ 441,350 |
| | | | \$ 5,000.00 | ¥ 441,350 |
| 12. National Consultant | | | | |
| 12.1 Assistant 1 | | | | |
| 13. Other Labor | | | | |
| 19. Component Total: | | | \$ 25,000.00 | ¥ 2,666,522 |
| 60. Miscellaneous | | | | |
| 61. Sundry | | | | |
| 62. Symposium/Workshop | | | \$ 432.42 | ¥ 42,000 |
| 63. Printing / Web design | | | | |
| 64 Postage/Communication | | | | |
| 65 Translation/Interpretation | | | \$ 5,000.00 | ¥ 444,400 |
| 66 Other miscellaneous | | | | |
| 69. Component Total: | | | \$ 5,432.42 | ¥ 486,400 |
| 70. National Management Costs | | | | |
| 71. Executing Agency Management Costs | | | \$ 32,106.75 | ¥ 3,726,390 |
| 79. Component Total: | | | \$ 32,106.75 | ¥ 3,726,390 |
| Total Expenditures To-date: | | | \$ 62,539.17 | ¥ 6,879,312 |
| Remaining Balance of Funds (A-B): | | | \$0.00 | ¥0 |

Notes: (1) Amounts in U.S. dollars are converted using the average rate of exchange when funds were received by the Executing Agency

(2) Total Expenditures To-date (in local currency) should be the same as amount shown in Sub-Total of column (C) of the Financial Statement.