The Timber Industry & Corruption: 
Sub-Saharan Africa and Other Examples 

April 1, 2013

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A Typical Villager
Dark Green = Intact (21%)
Lighter Green = Working (32%)
Light Brown = Lost (47%)

Why Forests?
Agenda

• Why Forests Matter and Their Impacts
• About Forest Corruption
• Value Chain
  – Regulatory, Sourcing, Transport, Processing, Export, End User
  – Corruption, Responses, Examples
• Discussion
Do Forests Matter?

- Stimulate GDP growth
- Alleviate poverty
- Large population growth
- Rising global energy prices
- Preserve biodiversity
- Limit deforestation
- Mitigate climate change
Economic Costs

- Discourage investment
- Misallocation of investment
- Market value of forest products
- Economic efficiency
- International support
Social Costs

- Land use conflicts
- Restricted access to forest materials
- Erode public trusts
- Job losses
Environmental Costs

- Logging in protected areas
- Over-harvesting
- Biodiversity depletion
- Soil erosion
- Climate change
Corruption in Forestry

- How is corruption in forestry different from other extractive industries?
  - Decentralized, low tech entry
  - Petty
    - Illegal logging, low level bribery
  - Kenya
  - Grand
    - Authorities facilitating illegal and corrupt logging.
  - Cambodia
- Government Capture
  - Why it is hard to find.
Forestry as a decentralized industry
Implications on the analysis of corruption in forestry
Need to focus on processes and norms
Case study as limited use
Capacity and implementation as primary
Forestry/Logging value chain as the object of analysis
Value Chain – Overview

The way we describe it: A → B → C

The way it really is: A → B → C

Regulatory →
Sourcing →
Transport →
Processing →
Export →
Consumer
Value Chain – Regulatory

- Regulations, Policy
- Zoning/Allocation/Permits
- Areas Impacted
  - Forest tenure
  - Land use
  - Forest management
  - Forest revenues and incentives
- Corruption Examples
Value Chain – Growing

- Silvicultural Activity
- Estate, Plantation, Grower
- Corruption Examples
- Response
Value Chain – Harvest

- Stumpage
- Pit-sawyers / Saw Milling
- Contractors
- Local Timber Trade
Value Chain – Transport

- Private operators, spread out
- Decisions based on conventional behavior, not new rules
- Crossing border for legality
Value Chain – Processing

- Point of “wood laundering”
- Certifications and stamping
- Failure of capacity
- Success of petty corruption
- High degree of potential for intervention
Value Chain – Processing (Certification)

Program for the Endorsement of Forest Certification (PEFC)

Forest Stewardship Council (FSC)

African Timber Organization (ATO)

Requirements:
- Environmental protections
- Public third party cert. audits
- Multi-stakeholder involvement
- Complaints and Appeals process

Problems and shortcomings with implementation
Value Chain – Export and trade

- Economic importance, success of corrupt practices
- Breakdown of lumber tracking (procurement, certification)
- Demand driven industry
- Price stabilization
### Lacey Process

<table>
<thead>
<tr>
<th>„Knowingly“ engaged in prohibited conduct</th>
<th>Trade in illegally sourced wood</th>
<th>False import declaration</th>
<th>Criminal felony fine (up to $500,000 for corporations, $250,000 for individuals, or twice maximum gain/loss from transaction). Possible prison for up to five years. Forfeiture of goods.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>„Unknowingly“ engaged in prohibited conduct</strong></td>
<td>Did not exercise ‚due care‘</td>
<td>Trade in illegally sourced wood</td>
<td>False import declaration</td>
</tr>
<tr>
<td><strong>Practiced ‚due care‘</strong></td>
<td>Trade in illegally sourced wood</td>
<td>False import declaration</td>
<td>Civil penalty fine of $250. Forfeiture of goods.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Forfeiture of goods.</td>
</tr>
</tbody>
</table>
Value Chain – End User Products

- Problems with ‘responsible sourcing’
  - Convoluted at end user stage
  - Limited participation
- IKEA ‘staircase’ model
- Specialty Vendors
Take Away

• Rule of Thumb
• Our Definition of Corruption
Global change in forest area per year

Source: FAO 2006
Forests in SSA
Increase in forest concessions in Cameroon

Sources: Concession data from WCMC, CETELCAF. Land cover from TREES (EC Joint Research Centre), derived from 1992-93 AVHRR imagery; forested area includes dense moist forest and secondary degraded forest classes. Protected areas information from UNEP-WCMC, IUCN.
Sub Saharan Population Growth

Source: ECOSOC 2007
Corruption

- Demand Driven
  - Incentive structure upside down pyramid, favoring end market
- Politics @ Play
  - Lobbying in US
- Other Drivers

| Logger (Tanjung Putin National Park, Indonesia): | $2.20 |
| Broker (buying illegally in Riau province, Indonesia): | $20.00 |
| Broker (selling in Melaka, Malaysia): | $160.00 |
| Buyer (of ramin sawn timber in Malaysia): | $710.00 |
| Exporter (of sawn ramin, in Singapore) | $800.00 |
| Buyer (of molded ramin in the United States): | $1,000.00 |

“History clearly shows that in countries with abundant natural resources and sparse population there is no thought of the future, and all energy is directed to the exploitation and reckless use of what nature has abundantly provided. The waste under such conditions is naturally very great and a more economic utilization does not pay. As the population increases and industry grows, the demand for raw material of all kinds increases, and there is a gradual awakening of public opinion for the need for a more careful husbanding of natural resources. Practically all nations have travelled the same road. Some reach this point sooner than others, but everyone is inevitably bound to face the same situation.”

♦ Raphael Zon, 1910 (USDA Forest Service) ♦
Value Chain

- Wood Forest Products
  - Many chains

1. **Silvicultural activities**
   - Raw material

2. **Processing**
   - 1. Fuel wood/Charcoal
   - 2. Poles
   - 3. Timber
   - Commodities ready for final consumption or further processing.

3. **Transporting**
   - Often just to nearest road.
   - 2-3. To wholesaler or retailer inventory (=80% of the volume) or directly to third stage processing (=20% of the volume).

4. **Retailing**
   - Seasoning
   - Additional processing

5. **Production**
   - Construction
   - Furniture

6. **Transporting**
   - Farmer
   - Outsourced (usually commissioned by the buyer of the material)
   - Timber dealer
   - Carpenter

7. **Final customer**

**Forest**

**Mill**
- e.g., sawmill, pulpmill

**Further processing**
- e.g., mouldings, paper

**Further processing**
- e.g., furniture, books

**End user**

- Transport of logs:
  - Nationally, e.g., by truck, river, train
  - Internationally by ship or overland

- Transport of processed material:
  - Nationally or internationally
  - In many different forms
  - May be directly between processors
  - May involve agents of various types

- Transport of final products:
  - Nationally or internationally
  - In a form ready for sale to end user
  - Usually to retailers
Value Chain

- Pricing Incentives
  - Where the voice is least powerful, the more exploitation takes place

Figure 4.9. Graphical representation of the revenue span for the different links.

Table 4.8. Estimations of maximum and minimum price, average cost and time spent in process and inventory per board

<table>
<thead>
<tr>
<th></th>
<th>Farmer</th>
<th>Processor</th>
<th>Transporter</th>
<th>Timber dealer</th>
<th>Carpenter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum revenue</td>
<td>50¢</td>
<td>100¢</td>
<td>79.2¢</td>
<td>509¢</td>
<td>662¢</td>
</tr>
<tr>
<td>Minimum revenue</td>
<td>11¢</td>
<td>66¢</td>
<td>6.56¢</td>
<td>238¢</td>
<td>409¢</td>
</tr>
<tr>
<td>Average cost</td>
<td>0.5¢</td>
<td>7.5¢</td>
<td>1.15¢</td>
<td>221¢</td>
<td>315¢</td>
</tr>
<tr>
<td>Time spent in</td>
<td>10-25 years</td>
<td>7 minutes</td>
<td>Depending on the distance</td>
<td>3 weeks -2 years</td>
<td>1 week</td>
</tr>
<tr>
<td>process/inventory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Forest Anti-Corruption Recs

- Curb demand for high rents
- Increase supply of sustainable timber
- Improve incentives to enforce laws against corruption
- Build strong governance institutions
- Taxation
- Systematic forest management regime
- Bonds/Debt
- Voluntary control measures: codes of conduct, certification, trade partnership agreements

http://cpi.transparency.org/cpi2011/results/
## Policy

### International
- Treaty for Amazonian Cooperation (1978)
- International Tropical Timber Agreement (1994)…ITTO
- Commission on Sustainable Development › Intergovernmental Panel on Forests › International Forum on Forests (1997)

### Country/Continent Specific
- Africa Forest Law Enforcement and Governance (2003)
- Europe and North Asia Forest Law Enforcement and Governance (2005)
- US Lacey Act (2008)
- Swiss Forest Law (2010)
- Australian Illegal Logging Prohibition Bill (2010)
• What is EU FLEGT?
• Is EU FLEGT Working?
What is the US Lacey Act?

Is it Working?
Lacey Act

• Is it Working?

This document was produced by the EIA with support from a broad coalition of organizations supporting effective implementation of the Lacey Act.
Tracking Systems— a Solution?

- Ghana National Wood Tracking System (WTS)
  - EU recently praised Ghana for progress ultimately exposing information of logs from the source
  - 84% market supply from illegal (chainsaw milling)
  - Artisanal approach

- LiberFor (Liberia)
  - Post Charles Taylor, timber resources now accepted under FLEGT VPA’s
  - Advanced technology tracking system (not all that great)
  - Culture of FDA poor; corruption continues, but less
  - Market matters, see China

“There was no barcode system, no paint, nothing. We just went in and felled trees along two lines.”
Certification – a Solution?

• What is FSC?
  – Mission
  – Vision
  – 10 Principles

• Is FSC Working?

• What is Rainforest Alliance?

• Is RA Working?

• IKEA Staircase Model
FSC Certification

Independent FSC-accredited Certification Bodies ("certifiers") verify that all FSC-certified forests conform to the requirements contained within an FSC forest management standard.

Certifiers assess forest management using the FSC standards. Certifiers are independent of FSC and the companies they are auditing. This third-party verification is crucial to the integrity of the FSC system.

Forest Management certification provides assurance that forests are being managed to the highest environmental and social standards.

Chain-of-Custody certification provides assurance that products bearing the FSC label directly support responsible forest management.
Taxation– a Solution?

- Taxing rents = no effect on supply or resource traded (John Adams: overtaxing trade = abuse of power)
- Taxes negatively affect supply of forests over long run; owner reduces production costs (careless logging, no maintenance, no protection)
  *Unless the full cost of concession is paid (ecosystem service valuation)*
- Owner will trade tax income for forest decline
- Forests managed by state lead to corruption
- Long term care of tropical forests too unprofitable until ecosystem services can be valued
- Sustainable management of forests requires four main cost considerations: 1) logging, 2) depletion, 3) maintenance, 4) environmental (ecological)

“...in some instances, civil unrest has been a better friend of forests than their conscious management.”
Financing Supply – a Solution?

- Idea: create demand for wood products by selling responsibly grown timber and financing production via bond-like products

- Examples:
  - GEF
  - Bamboo Finance
  - Komaza
  - TIST

- Efficacy?
  - Focus is on supply, not demand

“...when you have bad governance, of course, these resources are destroyed: The forests are deforested, there is illegal logging, there is soil erosion. I got pulled deeper and deeper and saw how these issues become linked to governance, to corruption, to dictatorship.”
Estimated proportion of illegal timber exports from REDD candidate countries in 2007

Top 10 Hardwood Log Importers

Source: Global Trade Atlas (reporting countries) – Note: Morocco data unavailable for 2000 and 2001
• What is REDD?
  – Primary aim is “to make forests more valuable standing than they would be cut down, by creating a financial value for the carbon stored in trees. Once this carbon is assessed and quantified, the final phase of REDD involves developed countries paying developing countries carbon offsets for their standing forests.”

• Is REDD Working?
  – In what sense?
  – Naysayers: system for international carbon markets, not land tenure rights
Case Study – Liberia (LiberFor)

• **Where is the corruption?**
  – Private Use Permits
  – 3C’s (commercial, community, conservation)
  – State capture w/private firms to manage technology adoption

• **Corrective Actions**
  – Political will and support by President
  – Taking action to suspend public staff
  – Legal system functioned properly
<table>
<thead>
<tr>
<th>Label type</th>
<th>Tree labels</th>
<th>Log labels</th>
<th>Processed wood labels</th>
<th>Transport documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional paint and chisel labels</td>
<td>Suitable</td>
<td>Suitable</td>
<td>Not suitable</td>
<td>Not suitable</td>
</tr>
<tr>
<td>Branding hammers</td>
<td>Not suitable</td>
<td>Not suitable</td>
<td>Not suitable</td>
<td>Not suitable</td>
</tr>
<tr>
<td>Conventional labels</td>
<td>Suitable</td>
<td>Suitable</td>
<td>Suitable</td>
<td>Not suitable</td>
</tr>
<tr>
<td>Nail-based labels</td>
<td>Suitable</td>
<td>Suitable</td>
<td>Not suitable</td>
<td>Not suitable</td>
</tr>
<tr>
<td>Magnetic stripe cards</td>
<td>Not suitable</td>
<td>Not suitable</td>
<td>Not suitable</td>
<td>Suitable</td>
</tr>
<tr>
<td>Smart cards</td>
<td>Not suitable</td>
<td>Not suitable</td>
<td>Not suitable</td>
<td>Suitable</td>
</tr>
<tr>
<td>RFID labels</td>
<td>Suitable</td>
<td>Suitable</td>
<td>Suitable</td>
<td>Suitable</td>
</tr>
<tr>
<td>Microtaggant tracers</td>
<td>Suitable</td>
<td>Suitable</td>
<td>Suitable</td>
<td>Not suitable</td>
</tr>
<tr>
<td>Chemical tracer paint</td>
<td>Suitable</td>
<td>Suitable</td>
<td>Suitable</td>
<td>Not suitable</td>
</tr>
<tr>
<td>Chemical and genetic fingerprinting</td>
<td>Suitable for individual tree fingerprinting</td>
<td>Technology not sufficiently developed</td>
<td>Technology not sufficiently developed</td>
<td>Technology not sufficiently developed</td>
</tr>
</tbody>
</table>

Note: “Suitable” means the technology can be used as a stand-alone method to provide adequate information for tracking individual logs and bundles of processed wood products, or to provide transport documentation. Technologies judged to be “not suitable” either provide insufficient information, are too expensive to be practical for these purposes, or are not sufficiently robust to withstand the difficult conditions inherent in forest operations. For more details, see table 4.1 or to appendix C.
Case Study – Malawi Viphya Forest

• Where is the corruption?
  – Export Market attractive = high rents
  – Poor Record keeping = opportunities for graft
  – Poor political will to fund forestry sector
  – Allocation of licenses

• Corrective Actions
  – Only Recs!
  – Monitor, Allocate more resources, Re-plant for supply, Promote competition, Value-addition in Country, etc.

• Rational Decisions

“...Sustainable development is not an option! It is the only path that allows all of humanity to share a decent life on this, one planet.”
Case Study – DRC Artisanal

• Where is the corruption?
  – Licenses for people, not large companies
  – Permit access increased > 2 for companies only (up to 11)
  – Grand Corruption: permits not issued by correct authority and explicitly for industrial use!

• Corrective Actions
  – None!

• How? Grand Corruption

“...we work every day without rest; our salary is poor and doesn’t match the amount of work. If you protest, you are shifted; we are controlled by foreigners.”
DRC Artisanal

Where is the corruption?

- Artisanal is for citizens, not foreigners, yet not in practice
- Social contracts violated

Corrective Actions

- None!

How? Grand Corruption
Case Study – Cameroon

• Where is the corruption?
  – Shift from oil to timber auction
  – Concessions for political patronage networks
  – Grand Corruption?

• Corrective Actions
  – Competitive bidding
  – Independent observers
  – Tax reform, slash exports
  – Reallocation of rents

• Results
  – Public scrutiny increased
  – Illegal logging increase

“...The structure and functioning of the world’s ecosystems changed more rapidly in the second half of the twentieth century than at any time in human history.”
Transparency in Regulation

- Forest Transparency Initiative

Material sourcing for a simple product

IKEA
>800 producers
2-350 articles at each