

Study on the issues of illegal logging and related trade of timber and other forest products issues in Europe



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FINAL REPORT

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1 Note on abbreviations and terminology

All abbreviations and acronyms are explained or written in full length at their first occurrence in the text.

The terminology for forest products is following the standards of UN-FAO (FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS).

Unless otherwise specified all measurements are given in metric units and according to SI (Système international d'unités) –standards.

For currency amounts, official international abbreviations are used, e.g.:

USD: US-Dollar

EUR: Euro

RUB: Russian Rouble

2 Introductory remarks

2.1 Relevance of information

This report was compiled – as required in the Terms of Reference (ToR) published in July 2004 – in July-August 2004. In the process of reacting to submitted comments, some updates have been made since, especially as regards the progress of political processes, however, due to the dynamic nature of politics, some of the presented information may already be in need of additional revision.

2.2 Scope of this study

The terms of reference provided by the MCPFE-Liaison Unit Warsaw for this study have asked for the following topics to be covered:

- to provide an overview on regional political processes which consider the issue of illegal logging (Africa FLEG, Asia FLEG, G8, WSSD, others. What are the main findings, including political commitments, legal instruments put in place, and other? - shortly);
- to provide an overview of international initiatives in regards to illegal logging in Europe (including EU- FLEGT and Russian (ENA-FLEG) initiative, and others – if exist);
- to provide on overview on existing information, results of research projects, reports, regulations, etc. in Europe about illegal logging issues;
- to estimate the extend of the problem in Europe, based on existing information.

Furthermore the Terms of Reference asked to address the following questions:

- What are the main types and causes of illegal logging in Europe?
- What is the legal interpretation of “illegal logging” in Europe?
- What issues under “illegal logging theme“ should be a focus issues under the MCPFE forum?

This report presents the results and conclusions of this study makes some recommendations on which issues the MCPFE-forum should focus in the context of illegal logging.

As can be seen from the ToR this study focuses explicitly on illegal logging within the MCPFE-region. The no less important issue of trade of illegal material into the MCPFE-region from other parts of the world is outside the scope of the commissioned study.

2.3 Objective of this report

The Ministerial Conference on the Protection of Forests in Europe (MCPFE) identifies illegal logging as an important issue. The subject is tackled in Vienna Resolution 4, Para 7, where countries committed themselves to: *“provide and analyze information about the impact and underlying causes of illegal harvesting of forest products and related trade on forest biological diversity; take effective measures to combat illegal harvesting of forest products and related trade, and build capacity to ensure effective forest law enforcement”*.

Within the scope of several initiatives and events undergoing and planned in Europe in regards to illegal logging issues, the MCPFE Liaison Unit Warsaw decided to conduct an analysis to obtain relevant information, which can be used to make the decision on the proper steps to be taken in this respect.

In recent years the international society has realised that there is a need for action to tackle the problem of illegal logging and trade in illegally logged material. A number of initiatives have been taken and are about to be implemented. The whole process of trying to prevent illegal logging suffers amongst others from the following challenges:

- There is no one single internationally recognised definition of illegal logging.
- As figures presented in this report will show, even official statistics on illegal logging indicate that the problem seems to be growing in extent, in spite of ongoing efforts to fight the problem.
- As the section on “definitions” will show, illegal logging can be considered as a process with the following steps: *“Illegal activities’ pre-logging (getting “permits”), illegal logging, illegal transportation, illegal processing”*. Discussions have just begun on where in this chain the best countermeasures could be established by legal actions.
- There is considerable difference in the nature of illegal logging, as it is reported from different countries but also within countries, ranging from subsistence based activities to industrial scale operations. Addressing all of these with the same set of laws will not work. So far no clear statements have been put forward in an attempt to draw a line between illegal logging activities that should be subject to law enforcement and those that should be tackled with an adaptation of legislation to the actual needs of local populations.

It should also be stressed that even though illegal logging has undoubtedly negative impacts in ecological, economic as well as social dimensions of sustainable forest management the topic of illegal logging itself should not be mixed up with discussions regarding sustainable forest management.

While most definitions of “sustainable forest management” stipulate adherence to relevant local, regional national and – if applicable – international legislation, not all existing legislative requirements may have fully realised all aspects included in definitions of sustainable forest management (e.g. Rio Forest Principles, MCPFE-Resolution L2). Thus the current focus on illegal logging should not draw attention away from the wider objective of obtaining sustainable forest management.

1 Definitions of illegal logging

One of the main difficulties involving the discussion on *illegal logging* is related to the fact that there exists no common definition of what exactly the term involves, even if only English language sources are taken into consideration.

Whilst most available definitions, describe illegal logging as the process of extracting forest resources in disregard to relevant national legislation, they differ as regards the fields of legislation, which are to be considered. Thus, whilst there is a consensus that logging without or in violation of logging licenses or permits would qualify the timber (obtained in this way) illegal, there is considerable discussion as to whether and to which extent violations against taxation regulations (e.g. property-, income-, value-added taxes) should be taken into consideration as well, and if so, how such requirements could be implemented.

In addition overlapping jurisdictions, resulting for example from decentralization of forest sector legislation, may obscure the definition of illegality (Brack et al. 2002). In the following a number of definitions of illegal logging are presented, and fundamental differences of the term is pointed out.

1.1.1 Currently used definitions of illegal logging

Different stakeholders use different definitions of illegal logging. Environmental NGOs tend to use a broader definition including illegal logging relevant acts, as representatives of industry and governments do. However, all actors agree that illegal logging is a punishable act.

Below is a list of samples of the many definitions of illegal logging. Most definitions differ only in detail, but some rather considerably.

Even at the level of FAO there is no single definition, but a number of FAO-documents have undertaken compilations of definitions on the issue. A very comprehensive list is presented in (Rosenbaum 2003), which also includes some of the definitions presented more in detail below. It also starts out with the wide-ranging definition of “illegal logging takes place when timber is harvested, transported or sold in violation of national laws (Brack and Hayman 2001)

A rather extensive definition of individual acts constituting illegal logging has been presented by the WWF/World Bank Alliance:

- *Illegal logging is logging:*
 - *outside a concession area;*
 - *in excess of quota;*
 - *in a protected area;*
 - *without appropriate permits;*
 - *without complying with bidding regulations;*
 - *without submission of required management plans;*
 - *in prohibited areas such as steep slopes, river banks, and water catchments;*
 - *protected species (as defined by CITES or other international law);*
 - *with duplicate felling licenses;*

- *using girdling or ring-barking to kill trees so they can be logged legally;*
- *that contracts with local entrepreneurs to buy logs from protected areas;*
- *removing of under/over sized trees from public forests;*
- *reporting high volumes extracted from forest concessions to mask that part of the volume is from non-authorized areas outside of the concession boundaries;*
- *using bribes to obtain logging concessions;*
- *using deceptive transfer pricing and other illegal accounting practices to distort prices, volumes, cash flows and debt service levels (for example some companies will inflate the price of imported inputs such as machinery and deflate prices and volumes of their exports to reduce nominal profits, their tax liability with the host country and to illegally transfer funds abroad);*
- *that engages in the illegal transport and trade of timber or the smuggling of timber; that is processed with out the required licenses and that is not in compliance with environmental, social and labour laws. (WWF/World Bank Alliance 2003)*

Also FAO made an attempt of a detailed identification of various possible types of illegal activities constituting “illegal logging”, stating that:

- *There are many types of illegal forest practices.... Public servants may approve illegal contracts with private enterprises. Private commercial corporations may harvest trees of species that are protected by law from timber exploitation. Individuals and communities may enter public forests and illegally take products that are public property. Illegal activities do not stop at the forest. They travel down the line to operations in transportation, processing and trade of forest products. Individuals or corporations may smuggle forest products across international borders or process forest raw materials without a license. Corporations with strong international links may artificially inflate the price of imported inputs or deflate the volume and prices of their exports to reduce their tax liability and to facilitate the illegal transfer of capital abroad (FAO 2001).*

It is worth noting that the two definitions above both include fraudulent corporate activities aimed at price-distortions in their set of practices associated with illegal logging.

Further attempts have been made by other authors:

- *Illegal logging activities include the harvest, transportation, purchase or sale of timber in violation of national laws. The harvesting procedure itself may be illegal, including using corrupt means to gain access to forests; extraction without permission or from a protected area; the cutting of protected species; or the extraction of timber in excess of agreed limits (Marijnissen et al. 2004).*
- *Illegal Logging takes places when timber is harvested, transported, bought or sold in violation of national laws. The harvesting procedure itself may be illegal, including using corrupt means to gain access to forests, extraction without permission or from a protected area, the cutting of protected species or the extraction of timber in excess of agreed limits. Illegalities may also occur during transport, such as illegal processing and export, mis-declaration to customs, or the avoidance of taxes and other charges (Brack et al. 2002).*

- *The term Illegal Logging is used to refer to timber harvesting-related activities that are inconsistent with national (or sub-national) laws. Illegal and corrupt activities in the forest sector can span the entire industry from wood harvesting and transport, to industrial processing and trade. Illegal cutting includes logging inside protected areas or outside concession areas. Logging within allocated concessions can be illegal if it does not conform to the law. For example, cutting restricted species, or over the allowable limit, or before the concession or license is active, constitutes an illegal act. Other types of illegal activities include under-reporting the amount cut, false reporting of the species harvested to avoid higher taxes, the illegal transport of timber, and the poaching of wildlife in areas opened up by timber-cutting. Corruption can occur at many levels, from the issuance of licenses and concessions to local law enforcement (Smith 2002).*
- *Illegal logging takes place when timber is harvested, transported, bought or sold in violation of national laws. Types of illegal activity include illegally obtaining concessions (e.g. via corruption), cutting trees without permission, taking out more trees, undersized trees, oversized trees than is permitted, illegal processing or an under-declaration to customs of the amount being exported (FERN 2001).*
- *The Japan Federation of Wood-Industry Associations (JFW) defines illegal logging as the logging of forests and transport of wood in contravention of the laws and regulations of the country concerned (Kuga 2002).*

These definitions are broad and include almost any illegal act that may occur between the actual growing of trees to the arrival of the product in the hands of the consumer.

Other authors see illegal logging as a part of a broader term, “illegal practices” or “illegal activities” in the forestry sector (Contreras-Hermosilla 1997; Callister 1999; Contreras-Hermosilla 2002b; Guertin 2003):

- Logging protected species;
- Duplication of felling licenses;
- Girdling or ring-barking in order to kill trees so that they can be legally logged;
- Contracting with local entrepreneurs to buy logs from protected areas;
- Logging in protected areas;
- Logging outside concession boundaries;
- Logging in prohibited areas such as steep slopes, riverbanks and water catchments;
- Removing under/oversized trees from public forests;
- Extracting more timber than authorized;
- Reporting high volumes extracted in forest concessions to mask the fact that part of the volume declared is extracted from non-authorized areas outside the concession boundaries;
- Logging without authorization;
- Obtaining logging concessions through bribes;
- Buying logs from local entrepreneurs that have been harvested outside the concession;
- Contract with local forest owners to harvest in their land but then cutting trees from neighbouring public lands instead; and

- Logging when in breach of contractual obligations (e.g. logging before the environmental impact statement).

Eskelinen and McCarthy (2004) have studied the types of illegal logging in six geographic regions (Table 1). Each of these regions defines illegal logging differently. Corruption (including forgery, taking and providing bribes, and organized crime), indigenous rights and human rights are mentioned in most of the areas.

Table 1. Illegal logging in six geographic regions

Russian East Siberia	Far and	South East Asia	Central Africa	Baltic's	South America	North America
- Corruption - Indigenous rights violations - Human rights violations	- Corruption - Logging in protected areas - Bribery - Indigenous rights violations - Human rights violations - Non-forest resource conflicts - Military abuse	- Corruption - Indigenous rights violations - Human rights violations	- Corruption - Indigenous rights violations - Human rights violations	- Corruption - Indigenous rights violations - Human rights violations	- Corruption - Indigenous rights violations - Workers rights violations	- Indigenous rights violations and treaty violations - Harvesting violation - Protected areas violation - Environmental damage and pollution

A somewhat closer definition of illegal logging was suggested by FAO and UNECE for the preparation of country reports presented recently at the Joint UNECE/FAO Workshop on illegal logging and trade of illegally-derived forest products in the UNECE Region (16 – 17 September, 2004). Focussing mainly on harvesting operations, this definition states that:
“Illegal logging refers to timber harvesting activities that fail to respect national and subnational laws and norms that regulate such harvesting operations” (UNECE/FAO 2004)

A Table below (Table 2) compares what kind of activities are included in different illegal logging definitions that were given before.

Table 2. A comparison of definitions of illegal logging, indicating the different focus points of organisations.

Reference to author and institution	Definitions from environmental NGO-publications					UN-system		
	WWF/ World Bank Alliance , 2003	Marijnissen <i>et al.</i> , 2004 (Greenpeace, FERN, WWF)	Brack <i>et al.</i> , 2002, FERN	FERN 2001	Smith, 2002 (ITTO)	Kuga, 2002	FAO, 2001	UNECE /FAO, 2004
Violations of harvesting regulations	X	X	X	X	X	X	X	X
Illegal transport and/or smuggling	X	X	X	X	X	X	X	
Illegal trade (buying, selling, import, export)	X	X	X	X	X		X	
Illegal processing			X	X	X		X	
Corruption and/or bribery to obtain access to the forest	X	X	X	X	X			
Mis-declaration of exports/imports			X	X				
Avoidance of tax payments			X		X			
Logging without permission	X	X	X	X				
Logging in excess of quota	X	X	X	X	X			
Removing under/oversized trees	X			X				
Logging in protected and/or prohibited areas	X	X	X		X			
Logging outside concession	X				X			
Logging protected species	X	X	X		X		X	
False reporting of amount and species cut	X				X			
Price distortion in forest product markets	X						X	
Poaching in the area					X			
Forest product theft							X	

All of the definitions compared in Table 2 agree on violations against harvesting regulations to be defined as “illegal logging”. Especially the definitions by NGOs define more explicit descriptions of possible trespasses (e.g. exceeding of quota, logging outside concession areas), including legislation aimed at safeguarding conservation interests (e.g. protected species, under- and oversized trees), but it may be claimed that these are just subsets of the more general formulation of “violations of harvesting”. With the exception of the definition which focussed explicitly on illegal harvesting used in the UNECE/FAO workshop in Geneva, there is a consensus among all the definitions that illegal trade is also to be included in the definition of “illegal logging”.

All of the definitions used by NGOs include bribery and corruption practices used to obtain logging licenses would qualify for “illegal logging”. The inclusion of trespasses against taxation regulations under the definition of “illegal logging” is also favoured by NGOs. Lost tax revenues are also one of the main factors used in calculating the economic damage of illegal logging.

The inclusion of “market distortion activities” under the umbrella of “illegal logging” is significant, because “market distortion” is usually associated either with the official activities by public authorities such as (hidden) subsidies to landowners (e.g. tax benefits, financial incentives), concession holders (e.g. low stumpage fees) or the processing sector (e.g. guarantees of quantities and prices to large scale clients in the context of the establishment of new processing plants) or with cartel-agreements by a small number of market-dominating companies.

1.1.2 Another approach – the definition of criteria and indicators for legal logging

One of the problems in identifying illegal logging lies in deciding, which laws to consider and where in the production and processing chain potential illegal activities should be considered. Another approach to define “illegal logging” may thus consist in attempting to define “legal logging” instead. The WWF has made such a definition in 2004 (Table 3).

Table 3. Example of a definition of “legal logging” (WWF 2004d).

<p>Legal Source</p> <ul style="list-style-type: none">• Tenure:<ul style="list-style-type: none">- The logging contractor/operator is authorised to be there by the proprietor (lease, concession agreements etc are in place)- Property and/or customary rights are respected- There is no dispute on property/customary rights• All Government required approvals are in place:<ul style="list-style-type: none">- Harvesting permits/cutting licenses- Annual allowable cut permits• Operations meet the requirements and stipulations of the permits• All national and local legislative and administrative processes for tendering, concession and lease processing have been followed.• There are no credible allegations of corruption in the tendering/concession/lease process <p>Revenue Payments</p> <ul style="list-style-type: none">• Stumpage fees and other required revenue payments are paid• Timber extracted corresponds to volumes authorized in the license/contract (e.g. no duplicate felling licenses).• There is accurate measurement, reporting and declaration of values and volumes extracted/transported <p>Forest Operations</p> <ul style="list-style-type: none">• There is no commercial logging in Protected Areas (IUCN 1-IV)• There is no logging:<ul style="list-style-type: none">- In prohibited zones (e.g. steep slopes, riverbanks and water catchments)- Of protected species- Outside concession boundaries- Of undersized trees• There is no girdling or ring-barking, to kill trees so that they can be legally logged <p>Related Forest Crime</p> <ul style="list-style-type: none">• Area logged is secure from other forms of forest damage such as poaching or illegal mining• There is no credible suspicion of transfer pricing irregularities such as:<ul style="list-style-type: none">- Inaccurate declaration of purchase prices for inputs such as equipment or services from related companies- Manipulation of debt cash flows to transfer money to subsidiary or parent company, for example by inflating debt repayment to avoid taxes on profits <p>Log Transportation</p> <ul style="list-style-type: none">• All timber transported has official documentation• Illegally harvested timber has official authorization for its transportation <p>(WWF 2004c)</p>
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1.1.3 Considerations to be taken in defining illegal logging

In combating illegal logging it is important to address the underlying causes of illegal logging phenomena. Furthermore it is important to make an internationally accepted definition either of what is legal logging or what are illegal logging activities. The definition of illegal logging should start with a decision of the issues to be addressed. After the issues have been agreed upon, the appropriate definition and wording can be chosen.

In general, governmental bodies “prefer” shorter and tighter definitions of illegal logging, which mainly include illegal harvesting (i.e. harvesting without proper licences). The NGOs and media like broader definitions, which include almost every single illegal act related to forests. The NGOs argue that cases where indigenous people’s rights are neglected should also be considered illegal logging activities. Using this definition, a case in which a logging concession was obtained through legal procedures, but the rights of indigenous people in the area were neglected (Kakizawa 2001) would constitute illegal logging.

Some parties¹ have pointed out the importance of establishing individual working definitions for all producer countries. In order to develop working definitions these should be developed within the countries and in consultation with the relevant stakeholders. However, the ongoing trend towards decentralisation of forestry issues in many countries, may make this task difficult.

¹ RIIA Workshop of the UK Government Forest Law Enforcement and Governance Programme Assessment, December 1, 2003.

2 Overview on ongoing processes

This chapter presents a brief overview on the political processes, which address illegal logging. Special attention is paid to “Proposal for an EU Action Plan for Forest Law Enforcement, Governance and Trade (EU FLEGT)”, “G8 Action Programme on Forest”, “Forest Law Enforcement and Governance East Asia Ministerial Conference” and “Africa Forest Law Enforcement and Governance Ministerial Conference (AFLEG)”. The main findings concerning political commitments, legal instruments put in place, and progress in general is presented.

2.1 Introduction on international initiatives to combat illegal logging

Illegal logging is considered to be an issue of rising importance by a number of NGOs and the international community. Studies made by WWF and Greenpeace claim that 50 –80% of the timber put on the market from the Amazonas, Central Africa and South East Asia is illegal (Toyne et al, 2002; Greenpeace 2003). Estimates from Russia claim that illegal logging accounts for at least 20% in total and about 50% in the far eastern regions (WWF 2004c).

One of the first steps was taken in 1997, when the G8 members at their Summit in Denver, USA, agreed to launch an action programme on forests. The action programme was started in 1998 (decision made at G8 Summit in Birmingham, UK), but only came into force in 2000. The final report on the action in 2002 included a special section on illegal logging.

In 1999 the World Bank organised the first major international workshop specifically on Forest Law Enforcement in Cambodia, bringing together the Mekong Basin countries (Brack and Hayman 2001).

In September 2001 a FLEG Ministerial Conference, organised by the World Bank, took place in Bali, Indonesia. The result of this was a Ministerial Declaration, which is known as the Bali Declaration, signed by the ministers of the participating countries. (ibidem)

In 2002 FLEG conferences were held in Europe and Africa (AFLEG 2003), in addition the issue was negotiated at the World Summit on Sustainable Development (WSSD) in Johannesburg, and a Memorandum of Understanding (MoU) was elaborated.

Also in 2002, several bilateral agreements (MoUs) were signed between Indonesia and some of its most important trade partners (Japan, China, United Kingdom) (Speechly 2003). In the same year the initiative for an EU Forest Law Enforcement, Governance and Trade (EU FLEGT) Action Plan was started .

In May 2003 the EU Commission adopted the EU FLEGT Action Plan. A council conclusion was adopted in October 2003, followed by a European Parliament motion on the FLEGT action plan, which had been adopted in February 2004. Also in 2003, the United States President’s Bush’s initiative against Illegal Logging was launched and a FLEG Ministerial Conference was held in Africa.

The issue has further been discussed at a regional European level at a Nordic and Baltic 21 Forest Sector Meeting in 2003. In 2004 the Russian Government published its intention to launch a regional Ministerial Conference on the issue in 2005 together with the World Bank.

2.2 European initiatives

2.2.1 Ministerial Conference on the Protection of Forests in Europe (MCPFE)

At the level of the MCPFE the issue of illegal logging and measures to combat the problem were discussed also at the last Ministerial Conference in Vienna in 2003.

In the Vienna Resolution 2 – Enhancing Economic Viability of Sustainable Forest Management in Europe – the Signatory States and the European Community commit themselves to adjusting policy and legal frameworks and instruments to support sound enabling conditions for sustainable forest management that encourage investment and economic activity in the forest sector, including effective measures for forest law enforcement and for combating illegal harvesting of forest products and related trade.

Vienna Resolution 4 - Conserving and Enhancing Forest Biological Diversity in Europe - commits countries to providing and analysing information about the impact and underlying causes of illegal harvesting of forest products and related trade on forest biological diversity; take effective measures to combat illegal harvesting of forest products and related trade, and build capacity to ensure effective forest law enforcement.

In context of the Vienna Resolutions, illegal logging is therefore considered to represent a problem and challenge both regarding the economic as well as the ecological dimensions of sustainable forest management in Europe.

2.2.2 UNECE-FAO

The UNECE/FAO Team of Specialists on Forest Products Markets and Marketing presented a discussion paper on the subject of illegal logging at the annual Timber Committee Market Discussions in October 2003. In its market statement the Committee stated:

“Forest law enforcement, governance and trade (FLEGT) is at present the main issue in the forest sector and the Committee’s annual Market Discussions provided a forum for a multi-stakeholder discussion. Illegal logging denies revenues to governments, industries and forest owners, puts downward pressure on forest product prices, negatively affects workers and compromises sustainable forest management. The Committee wants to work together with other organizations to determine the extent and causes of illegal logging and trade”.

A Workshop on Illegal Logging and Trade of Illegally-derived Forest Products in the UNECE region was held in Geneva Switzerland, on September 16 – 17, 2004. Participating countries presented country reports highlighting the extent of this problem.

The countries acknowledged that there is some illegal logging in all countries but the prevalence and significance of the problem varies widely. It was recognised that estimates are very approximate and that there is a need to improve information quality. Types and causes of

illegal logging in the region were discussed. The workshop identified a number of possible actions, which may be considered necessary to combat illegal logging.

2.2.3 Nordic and Baltic Region Forest Sector Meeting

A Forest Sector Meeting including the Nordic Council of Ministers' Adjacent Areas Programme and the Baltic 21 process was held in October 2003 in Sigulda, Latvia. In this meeting the features of illegal logging and related trade in the Baltic Sea region and the FLEGT process in EU were discussed as well. It was agreed that further co-operation between countries and research organisations is needed, and that there is need for a Voluntary Partnership Agreement between the EU and Russia.

At a further meeting in February 2005 in St. Petersburg additional activities in the different member countries were presented and possibilities for future joint projects in the region discussed.

2.2.4 Europe and North Asia FLEG-initiative by the Russian Federation

The Russian Federation in cooperation with the World Bank is currently in the process of initiating a Europe North Asia FLEG-initiative (ENA FLEG). A scoping meeting for this was held on May 18, 2004 in Moscow. The aim of this initiative is to organize a regional Ministerial Conference in 2005, and following the examples set by the Asian and African processes, is expected to result in an action plan, outlining the necessary measures for implementation on the ground.

This initiative is intended to include relevant producer and consumer countries in the region as well as countries relevant for trans-shipments. This seems of specific importance, as geographic as well as economic conditions in this region would make it difficult to implement any strictly bilateral agreements between producer and consumer countries.

2.2.5 EU action

The FLEGT-proposal for an EU Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT 2003) was ultimately inspired by the results from the WSSD 2002 in Johannesburg. It is based on the principles laid down in the Ministerial Declaration (East Asia FLEG 2001), namely to intensify national, regional and international efforts to cooperate in order to address and fight violations of forest laws, illegal logging and corruption in particular.

The FLEGT-proposal is followed by the Council Conclusions (2003) that urges the Community and Member States² to enter into political dialogue with key target countries instigating them to address illegal logging via forest sector governance reforms and to provide the Commission with relevant information regarding national legislation addressing illegal logging.

The European Committee on Industry, External Trade, Research and Energy (Motion for resolution 7014/04) concludes after examining the proposal that:

² EU member states are: Austria, Belgium, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Netherlands, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden and United Kingdom.

- There is an urgent need to combat trade in illegally sourced timber and forest products; and
- Binding legislation is required to tackle this trade enabling EU countries to e.g. prosecute companies and individuals involved in marketing and importing illegally harvested timber and forest products.

Hence the Committee on Industry, External Trade, Research and Energy requests the commission specifically to draft legislation to prohibit marketing of all illegally sourced timber and forest products.

Until now no EU legislation regarding the subject has been finalised. A proposal for a Council Regulation (2004) concerning the establishment of a voluntary FLEGT licensing scheme for imports of timber into the European Community was presented by the Commission. A press release states that:

“The European Commission today adopted a comprehensive set of measures to combat the growing problem of illegal logging and the related trade in illegally harvested timber that robs governments in affected developing countries of an estimated €10-15bn every year in lost revenue. The main elements of the package are: (i) voluntary partnerships with wood-producing countries badly affected by illegal logging to support and promote governance reform in their timber sectors; (ii) a regulation that sets up a legally binding licensing scheme with partner countries to ensure that only legal timber from these countries is allowed into the EU.” (European Commission 2004)

The EU-FLEGT action plan foresees measures in countries of origin, such as support measures for improved governance and forest law enforcement as well as a licensing scheme for legal timber, based on voluntary partnership agreements. Such licenses should accompany all timber shipments from partner countries to the European Union and should allow for a tracing of the legal origin of the material. Key issues involved in the implementation of such are the reliability of the scheme, which is intended to be achieved by including elements of third party verification (either public or private institutions) and – preferably electronic – tracking systems of licenses, which would make such a system less susceptible to fraud and document falsification (Brack 2004).

The Proposal for a Council Regulation concerning the establishment of a voluntary FLEGT-licensing scheme for imports of timber into the European Community was presented by the Commission in late 2004. The draft document was then submitted to a wide ranging stakeholder discussion. This Regulation, once adopted, will form the basis for negotiations of voluntary partnership agreements (VPAs) with FLEGT-partner countries. During the discussions over the past eleven months the questions of product coverage (i.e. which products should be covered by any such agreement), possible mechanisms to avoid circumvention by (hidden) transit trade through third countries, the scope of legislation to be considered when certifying legality and the type of institution – public or private - to be involved in issuing trade licenses were amongst the most discussed items. According to Commission representatives, the main problem here lies in the fact that many of these issues depend on legal provisions within a partner country and cannot be regulated in detail in an EU legislative document.

Illegal logging is also problem in some of the EU member states, which have recently joined the EU. Intentionally the Commission did not take any specific measures on illegal logging before the accession countries joined the EU, but rather plans to develop a strategy based on their future participation within the EU Single Market.

During the past years several of the new member states have launched initiatives to tackle this issue by means of improved legislation, implementation and monitoring schemes. At the point of finalising this report (October 2005) it is not yet possible to provide detailed conclusions on the impact of all of these initiatives. Some presentations during the MCPFE workshop on illegal logging on November 3-4 2005 in Madrid will present new results in this context.

2.3 Initiatives at global level

2.3.1 G8 Action Programme on Forest

While illegal logging is not a predominant concern in G8 countries themselves, the G8 members do have a responsibility to work with developing nations to suppress such practices. At their Summit in Denver, USA, in 1997 the G8 members agreed to launch an action programme on forests. The G8 Action Programme on Forests was initiated in 1998 at the G8 Summit in Birmingham, UK. The Action Programme consisted of five issues of particular importance:

- Monitoring and assessment;
- National forest programmes;
- Protected areas;
- Private sector; and
- Illegal logging

The action programme seeks to complement actions undertaken at regional and international levels, and states the G8's commitment to identifying actions in both producer and consumer countries.

According to the G8 Action Programme on Forests — Final Report (G8 2002b) and G8 Action Programme on Forest — Background (G8 2002a) documents the G8 members³ have committed themselves to combat illegal logging, the use of illegally harvested timber and related products inter alia by means of:

- *Implementing measures to eliminate import and export hereof;*
- *Increased capacity building and technology transfer; and*
- *Support processes on forest law enforcement and governance.*

2.3.2 World Bank's Forest Governance Programme

The World Bank's Forest Governance Programme is designed to promote a change in current practices in production forestry - to contain the negative social, ecological and economic impacts of poor governance and illegal forestry activities, and improve the process by which concessions are allocated and managed.

³ G8 member are: Canada, France, Germany, Italy, Japan, Russia, United States, United Kingdom

The three main components of World Bank's Forest Governance Programme are:

- Research on Best Practice, Lessons Learned and Country-Level Diagnostic Work
- Ministerial Processes for Forest Law Enforcement and Governance (FLEG)
- Partnerships

The World Bank's Forest Governance Program and the G8 program motivated a partnership on forest law enforcement for East Asia between East Asian governments, the World Bank, the United Kingdom and the United States, which led to the FLEG East Asia Ministerial Conference in September 2001 and to several bilateral MoUs on FLEG-issues.

More recently, ministers from several countries in Africa have expressed interest in focusing specifically on forest law enforcement and governance, and have asked assistance from the World Bank (with sponsorship from the United States, UK and France) to convene an African FLEG Ministerial process in 2002-2003.

The World Bank is also involved as a major partner in a process to invoke a Europe and North Asia FLEG Ministerial Conference, initiated by Russia in spring 2004.

Results from the G8 Environment and Development Ministers that met in March 2005 include, inter alia:

- To secure political commitment to G8 markets to illegal logging
- To use procurement policies in G8 countries to source only legal timber
- To provide more assistance to help producing countries adapt to changing markets.

2.3.3 Forest Law Enforcement And Governance East Asia

The East Asia FLEG (2001) Ministerial Conference was the first high-level regional political initiative addressing illegal logging. The participants declared after the conference that they would:

“Take immediate action to intensify national efforts, and to strengthen bilateral, regional and multilateral collaboration to address violations of forest law and forest crime. In particular illegal logging, associated illegal trade and corruption, and their negative effects on the rule of law.”

Most of the countries in the region have signed the declaration and the attached list of Indicative Actions. A Task Force and Advisory Group were established in April 2000 to encourage progress and four key actions were identified (Speechly 2003):

- *Develop a clear FLEG strategy for the region*
- *Establish a web-based central clearing house for information on concessions, legal frameworks, responsible government officials etc.*
- *Create systems for individual countries to prioritise actions and to report back on obstacles and developments*
- *Conduct regional research on domestic and regional supply and demand*

The draft criterion resulting from stakeholder consultations that describes the requirements for legal timber from Indonesia has been prepared and is ready for field-testing in the Berau

district (Legality Standard 2004). There is no information on the eventual implementation or outcome.

2.3.4 Africa Forest Law Enforcement and Governance (AFLEG)

The participants of the AFLEG Ministerial Conference declared their good intentions in 30 statements covering aspects of illegal logging such as recognising indigenous peoples rights, willingness to fight corruption, involving the private sector and NGO's, putting new laws in place, addressing issues of illegality in the forest sector and re-establishment of good governance in post conflict situations (AFLEG 2003).

The declaration and the indicative list of actions was accepted by acclamation by the countries present at the conference inter alia most African countries.

2.3.1 ITTO

ITTO has recognised that illegal logging and illegal trade are serious problems that affect its members. ITTO has several projects related to illegal logging, including studies of trade data discrepancies and programs to improve information systems, forest monitoring and forest law enforcement.

Forest law enforcement was one of the items discussed during the 37th session of the ITTC in Yokohama last December. The Council received the final report on the study on export and import data on tropical timber products, a study on illegal logging and FLE in Honduras, prepared by the National Forest Administration – Honduran Corporation for Forest Development, and a Report on FLEG in Malaysia in the context of SFM, prepared by Traffic International for the Government of Malaysia. In addition, ITTO is working in cooperation with FAO on the development of guidelines for improvement of law compliance in the forest sector.

2.3.5 World Summit on Sustainable Development (WSSD)

The World Summit includes in its final Plan of Implementation the commitment to “*take immediate action on domestic forest law enforcement and illegal international trade in forest products, including in forest biological resources, with the support of the international community, and provide human and institutional capacity building related to the enforcement of national legislation in those area*”. (WSSD 2002)

In addition to the formal outcomes, the Summit witnessed the announcement of a wide range of informal outcomes, or partnerships for implementation, bringing together governments, intergovernmental organisations and non-governmental actors such as businesses, NGOs and community groups. A number of these are relevant to illegal logging, the Congo Basin Initiative and in particular the Asia Forest Partnership, which includes developing log tracking and verification systems, measures to eliminate the export and import of illegally harvested timber, and data sharing and information exchange on illegal logging and the trade in illegal timber.

The European Commission underlined its commitment to combating illegal logging and trade in illicitly produced timber. European Commissioner Poul Nielson called on wood-consuming

countries to recognise the vital role they must play in closing down the international trade in illegal timber. The EU's commitment at the WSSD lead to the FLEGT Action Plan and now the first proposal for a council regulation following up on some of the action plan's suggestions (Council Regulation 2004).

2.3.6 President Bush's Initiative Against Illegal Logging

Secretary of the United States Colin L. Powell formally launched the President's Initiative against Illegal Logging on July 28, 2003. The initiative was developed at the direction of President Bush with the objective of assisting developing countries in their efforts to combat illegal logging, including the sale and export of illegally harvested timber, and in fighting corruption in the forest sector (White House 2003).

The Initiative focuses on three critical regions – The Congo Basin, the Amazon Basin and Central America and South and South East Asia. The Initiative will emphasise identifying and reducing threats to protected forest areas and other high value conservation forests from illegal logging through four key strategies:

- *Good governance*
- *Community based actions*
- *Technology transfer*
- *Harnessing market forces*

Together with the announcement of the initiative also the commitment of funds at the level of 15 million US \$ for its implementation during 2003 was announced. The initiative mentions the United States' leadership in raising international awareness on the global problem of illegal logging and identifying actions to address it.

2.4 Bilateral agreements – the UK-Indonesia Memorandum of Understanding

The Indonesian government has signed three Memorandums of Understanding (MoU) to combat illegal logging. The newest is an agreement between Indonesia and Japan declaring their intent to cooperate over their opposition to illegal logging and trade in illegal forest products by building on existing bilateral schemes and multilateral frameworks (Japan-Indonesia Memorandum of Understanding 2003). The MoU signed with China focuses on combating illegal trade of forest products (China-Indonesia Memorandum of Understanding 2002).

The Indonesia-UK Memorandum of Understanding (2002) concerns co-operation to improve forest law enforcement and governance and to combat illegal logging and the international trade in illegally logged timber and wood products. It aims to establish a system of legality identification and verification in Indonesia (with capacity-building assistance from the UK), and to move towards excluding products not identified as stated in the MoU from the UK/EU market.

Although by itself it can have only a limited impact on the trade in illegal timber, it is highly significant both for the practical lessons that will be learned from the experience of its implementation and from the demonstration of political will that it represents. Other bilateral agreements are being negotiated and should be encouraged.

2.5 Illegal logging in other international processes

2.5.1 CITES

166 countries⁴ have signed the Convention on International Trade in Endangered Species of Wild Fauna and Flora amongst them all major timber-producing countries (CITES 1973). Only a few tree species are mentioned in the annexes listing species affected by trade regulations. In context with measures planned under the FLEGT-agreements (e.g. proof of legality licenses, third party verification), experiences from the CITES species are of relevance as well as the deliberations to which degree the material traded with CITES-licenses should be excluded from the requirements for new licenses. Either the exclusion or another way of combining the systems should be found in order to avoid duplicate and thus redundant procedures.

2.5.2 OECD

As per June 2004 36 countries⁵ have ratified the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD 1998). Among the big timber producing countries only Brazil has ratified the convention. No African or Southeast Asian countries have signed, nor any of the former Soviet republics, with the exception of Estonia. All major consumer countries, which import timber from regions where illegal logging is suspected, have ratified the convention. As illegal logging is often linked to corruption in the public sector, an increase in efforts to combat corruption is also seen beneficial in abolishing illegal logging.

2.6 Public and private sector initiatives in main importer countries

Lacking a legal framework to exclude illegal material from timber markets, public as well as private actors have launched several initiatives in this direction, partly also as a response to NGOs and several political groups.

2.6.1 Public procurement policies

For the public sector this mostly constitutes policies, which public entities (e.g. national or regional governments, municipalities) employ as buyers on markets for forest products (i.e. public procurement) in order to ensure that in public projects (e.g. construction and furnishing of public buildings) only wood from legitimate sources is being used.

⁴ List of signatory countries is available on www.cites.org

⁵ Countries having ratified the convention are: Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, Czech Republic, Estonia, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.

Only a few consumer countries have a public procurement policy (Garfoth 2004), with a few more on their way (Table 4).

Table 4. A summary of public procurement policies in major consumer countries (Garfoth 2004).

Country	Is a policy in force?	Date present Policy adopted	Scope of application / comments
Denmark	Yes	June 2003	Serve as guidelines for “public and semi-public” institutions. Cover raw materials, finished goods and intermediate products incorporating wood from tropical forests, whether they be natural forests such as rainforests, or plantations. Recycled wood and paper products are not covered
Finland	No	-	
France	No	-	A report from WWF The timber Footprint of G8 and China noted that in 2002 the French Minister for Environment stated that: “The government has decided to include criteria in its public procurement practices which favour the purchase of timber by FSC or equivalent certification systems”. There is no evidence of progress.
Germany	Yes	1998	The Federal Government’s policy is to check that purchases of tropical timber are supported by reliable certificates. However, the government has not published any criteria for assessing whether a certificate can be considered “reliable”. The government is currently developing a broader procurement policy that will cover tropical wood and non-tropical wood. The policy will establish criteria to evaluate certification systems. The criteria will use the Forest Stewardship Council’s (FSC) system as a benchmark.
Ireland	No	-	Enquires to the Ministry of Finance, which is responsible for procurement policy, and searches of the Ministries of Finance and other government web sites revealed no evidence of a policy to take account of environmental considerations in procurement.
Italy	No	-	
Netherlands	No	-	
Portugal	No	-	
United Kingdom: UK	Yes	July 2000	Mandatory for all UK central government departments and executive agencies. Covers solid and engineered wood products and paper. Policy is different on paper and focuses on recycled content. We can provide details.
Northern Ireland	No	-	
Scotland	Yes	July 1999	Mandatory for all departments of the Scottish Executive. Serves only as guidance for other public authorities in Scotland. Covers solid and engineered wood products and paper.
Wales	No	-	The Welsh Assembly’s procurement policy includes consideration of environmental and social factors in procurement although timber and timber products are not mentioned expressly
USA	No	-	

2.6.2 Private sector initiatives by the forest sector

Internationally active forest sector companies have already implemented systems to ensure the legality of their raw material procurement especially from countries, where the risk of purchasing illegal material is considerable. Typically these systems include the following measures:

- Inclusion of legality- (e.g. proof of logging rights) and proof of origin-clauses in contracts
- Requirement to indicate the origin of material to the purchaser
- Right of the purchaser to inspect the logging site (or to be present during logging operations)
- Ex post auditing of contracts and exclusion from future contracts if breaches of legality requirements are detected

Whether the implementation of any such system is also accompanied by third party verification is a subject of discussion between the NGOs and the forest sector companies.

Within the area of interest for the MCPFE, wood procurement for export from (European regions of) the Russian Federation into other parts of Europe is the issue most discussed in context with measures to prevent illegal logging and related trade. Consequently several of the major companies active in this trade are already implementing their own systems to ensure the legality of acquired material.

A comparison of different systems of private sector measures currently implemented to ensure the legality of material imported from the Russian Federation by indicating which features are included into the systems of different companies⁶ was made (Table 5). The (mother) companies involved in this comparison are based in Northern and Western regions of Europe (i.e. from the EU-15 members) as well as from the Russian Federation. As the purpose of this comparison is rather the illustration of different approaches than the approval or disapproval of different system, the names of the companies are not presented.

General information on the different measures has been taken from the public relation material (annual reports etc.) of the companies. In addition company representatives have been asked to provide specific details upon request. All companies involved in this comparison were co-operative and forthcoming in providing the required information on the design of their systems. The actual implementation of the systems could not be assessed within the scope of this study.

It should be noted that the criteria used for comparison of the systems have been selected in order to illustrate the different approaches currently in use. There is no indication to the relative importance or effectiveness of any of the measures used. It is up to the reader to decide which of the measures (i.e. criteria) could be considered more relevant or decisive for the success of any of the implemented systems than others. Thus, while a higher “score” is likely to indicate a more “thorough” system, because more checks are included, a lower score does not automatically indicate a system’s ineffectiveness.

⁶ Source: Assessment by project team at EFI, names of companies and further details are available upon request.

Table 5: Comparison of different systems implemented by companies active in wood acquisition in and import from the Russian Federation to other MCPFE-member countries.

Indicator	Company A	Company B	Company C	Company D	Company D	Company E
Declared attempt to avoid illegal wood	1	1	1	1	1	1
Information system on wood origin tracing	-1	1	1	1	-1	-1
Access to the information on wood origin from Internet	-1	0	1	0	-1	-1
Environmental principles included in to the contract	1	1	1	1	1	1
Information about wood origin tracing is published on company's website	-1	1	1	0	-1	-1
Declaration that they don't buy wood on high conservation value forests, identified by NGO's	-1	1	1	1	-1	0
Using of approved guidelines on how to carrying out audits	0	1	1	1	-1	0
Using GIS for supporting wood tracing	-1	1	1	1	0	1
Using GPS coordinates of the audited sites	-1	1	-1	-1	0	-1
Completeness of wood origin and audit forms (maximum questions at forms of Stora Enso)	-1	1	0	0	1	1
Company is supporting forest certification	1	1	0	1	1	1
Third party verification of wood origin tracing system	-1	1	1	0	-1	-1
Declaration of supporting FSC	1	1	1	0	1	1
Declaration of supporting PEFC	-1	1	1	0	-1	1
Deliveries from Asian parts of Russia are forbidden	0	0	0	1	-1	-1
Asking more information than Russian government	-1	1	1	0	1	1
Published wood origin reports	1	1	1	0	-1	1
ISO certification of traceability system	0	1	1	0	0	0
Stand identification in statement of origin	1	1	-1	1	1	-1
Special methods for selection of suppliers for audits	0	1	1	1	-1	1
Total:	-4	18	13	9	-3	3
Number of "1"	6	18	15	10	7	10
Number of "-1"	10	0	2	1	10	7
Number of "0":	4	2	3	9	3	3

Legend: "1": indicator clearly shown, "-1": absence of indicator is clearly shown, "0": no data about this indicator

3 Available information on illegal logging in Europe

3.1 Introduction

Current information on the state of “illegal logging” and “trade in illegally logged material” can be found from various sources. Governmental organisations, NGOs, research organisations and mass media publish information on the issue. The available information on the scale of illegal logging on the national level varies between European countries. Possible limitations for data accessibility are:

- actual extent of illegal activities
- importance of forestry sector and extent of forests
- government attention to the problem
- media freedom and interest in the issue within the country
- level of NGO’s and other international interest

It is important to realise that the purpose of this section is to illustrate the kind of information, which is currently available on the topic in Europe. The institutions presenting this information may have varying interests in this context.

A valuable source of information exists in the form of the country reports presented at the “UNECE/FAO Workshop on Illegal logging and trade of illegally-derived wood products in the UNECE region”, held on 16-17 September, 2004 in Geneva, Switzerland. A total of 31 country reports⁷ were presented and among them 26 from Europe (including the Russian Federation). All country reports are available from the UNECE webpage.

For official authorities in any given country high estimates on illegal logging may constitute an embarrassment as these hint at ineffective enforcement of legislation or – even worse – bribery and corruption in the sector. On the other hand, while certainly not interested in “high levels of illegal logging”, NGOs are using alarming figures to raise attention to the need for stricter conservation measures and the potential value of certification and verification schemes as well as the need for more intensive protection and conservation measures. For the forest sector industries the publication of high levels of illegal loggings is potentially damaging to their image and eventually to their market perspectives, including also the competitiveness of wood in relation to potential substitution materials.

As the reader of this report will notice, in some countries’ official statements a link is made between the phenomenon of illegal logging and the ethnicity of the alleged perpetrators. The authors of this report have decided also to present references to such statements in this compilation, even though they consider such links politically as well as ethically problematic. Again, the reason for this decision was the purpose of this report: to provide an overview on the currently available information as well as the state of public discussion of the issue.

⁷ Armenia, Kyrgyzstan, the Russian Federation, Tajikistan, Turkmenistan, Ukraine, Austria, Denmark, Finland, France, Germany, Spain, Greece, Italy, the Netherlands, Norway, Sweden, Switzerland, United Kingdom, Albania, Bulgaria, Estonia, Latvia, the former Yugoslav Republic of Macedonia, Poland, Romania, Serbia and Montenegro, Slovakia, Slovenia, Canada and United States

While there is a focus on certain regions commonly seen as “critical” in the context of illegal logging, also information for seemingly “unproblematic” regions was collected. Where possible the “original” source for studies was identified, as closer analysis has shown that often different cited publications can be “tracked down” to the same source quote.

The results from most of the studies and sources introduced in this section are reported in detail in Chapter 4.1 “Available quantitative estimates on the scope of the problem in European countries”.

3.2 Available Information on different European regions

3.2.1 Baltic countries⁸

WWF Latvia (2003a) gives an overview on illegal logging and related trade in the three Baltic countries – Estonia, Latvia and Lithuania. The study does not include a deep analysis of the situation (e.g. by means of statistic data) and focuses mainly on expert opinions. WWF uses the World Bank definition for “illegal logging” in this study, which includes a broad set of illegal activities during the forest harvesting, transportation, processing and consumption cycle. The study includes estimates of illegal logging based on given definition, driving factors and impacts for each of the Baltic countries, and also provides recommendations provided by experts on how to eliminate illegal logging. This study particularly included the list of persons contacted – giving names and contact information. Some information on illegal activities and trade of illegally derived wood products in Estonia and Latvia was presented at UNECE/FAO Workshop, the country report for Lithuania is available online.

Estonia

The Estonian Green Movement-FoE (Ahas 1998; Ahas 2002) publishes most of the information on illegal logging issues in Estonia. Information is available both in English and Estonian. Information in English is also published by other organisations, such as WWF or FERN (Forests and the European Union Resource Network). In most cases these refer to publications of R. Ahas or the Estonian Green Movement-FoE.

Official figures of illegal logging cases such as the volume of illegally harvested timber, the amounts of penalty fines issued and estimates on economic and environmental damage can be found from the Forestry Statistical Yearbooks. For the purpose of this report an update of this information has been obtained from state officials at the Estonian Ministry of Environment (Rauno Reinberg, e-mail, 4.6.2004), in addition further information has been published at the UNECE/FAO Workshop.

BfU (2003a) gives an overview on illegal logging issues in Estonia and also illustrates some case studies. In this study illegal logging is interpreted as a form of environmental crime. Some information on the driving factors and estimates is given by Bouriaud (submitted).

A seminar on “Tracking the origin of the timber” with representatives of the forest industry, State Forest Management Service and NGOs (Estonian Fund for Nature and Estonian Green Movement) was held on 13.03.2002 in Tartu, Estonia. Presentations given by some of the participants and additional information on the discussions has so far only been published in Estonian (ELF 2002).

⁸ This term normally comprises the three new EU-member states Estonia, Latvia, Lithuania

Some cases of illegal logging in Estonia have been presented extensively in the mass media. For example, an illegal logging case in Lahemaa National Park and the investigation process in 2002 were well described in the biggest Estonian newspapers – Aripäev, Postimees and Eesti Päevaleht. Mass media were following the case from May till November 2002.

Latvia

The phenomenon of illegal logging in Latvia is recognised both by governmental and non-governmental organisations. The mass media, too, report on illegal logging related issues.

The most active NGO dealing with illegal logging issues in Latvia is WWF. There are a few reports published in co-operation with other organisations – WWF & Taiga Rescue Network (2002), WWF Latvia (2003b) and WWF/World Bank (2003). These reports mostly include information on trade in illegally harvested timber, legal regulations and procedures how to evade them (WWF Latvia, 2003b), impact on tax revenues and data discrepancies (WWF/World Bank, 2003) and timber trade between Latvia and Sweden (WWF & Taiga Rescue Network 2002) as Sweden is the biggest importer of Latvian timber.

Official statistics on illegal logging cases, the volume of illegally harvested timber, the area affected by illegal logging and the economic loss for state and other forests can be found on the homepage of State Forest Service (www.vmd.gov.lv) in Latvian and English. There are also maps available showing the dynamics of illegal harvesting cases and the dynamics of volume of illegally harvested timber for the years 2002 and 2003 for each administrative district. Further information on illegal activities in each administrative unit can be obtained from direct contact with officials of the State Forest Service. Some of the official figures were presented in UNECE/FAO Workshop.

The existence of illegal logging and trade data discrepancies in Latvia is also recognised by state authorities. It is believed that discrepancies could be explained by the existence of timber of unknown origin on the timber markets. A brief on this issue can be found in the report on forest resources (Dubrovskis 2003) of Latvian National Programme of the Forest Sector and Related Industries and in Market Statement for UNECE Timber Committee (Republic of Latvia 2003). State Audit Office Republic of Latvia (2002) indicates the data discrepancies as a problem too.

The Latvian mass media report on illegal logging issues occasionally. Articles on the issue representing minor aspects (individual crimes) are usually in local newspapers, e.g. “Kurzemnieks” (www.kurzemnieks.lv). Major aspects of illegal logging such as e.g. corruption of state authorities and gaps in existing forest legislation are reviewed in “Lauku Avīze” (www.laukuavize.lv), the biggest newspaper for rural areas and every day newspaper on legal matters “Latvijas Vēstnesis” (www.vestnesis.lv). Fragmented information on the issue is also found in other newspapers not listed above.

Lithuania

Information on illegal logging activities in Lithuania is very fragmented. Illegal logging and related issues are not widely discussed, even though the activity level of NGOs is high. The Lithuanian Green Movement published some information on the situation in Lithuanian forests (Ašmantas 2001). WWF (2004b) writes “more in-depth assessments on the scale of illegal logging are necessary”.

Official statistical data on number of illegal logging cases and the volume of illegally harvested timber in private and state forests are found on the webpage of the General Forest Enterprise at the Ministry of Environment (www.gmu.lt). However, more in-depth information is only in Lithuanian. Same figures are presented in Lithuania's country report. The statistics on illegal logging in Lithuania records also the violations against other administrative norms (Bouriaud and Niskanen 2003).

Brief information on illegal logging issues can be found in the journal "Baltic forests and timber" (www.bmm.lt). BfU (2003a) gives an overview on illegal logging issues in Lithuania as a form of environmental crime. Bouriaud (submitted) investigates some of the causes of illegal logging in Lithuania.

3.2.2 Central – Eastern European Countries⁹

The information on illegal logging and trade in illegally logged material in Central – Eastern European countries is very fragmented. The analysis of available materials shows that illegal logging is detected in all these countries. However, there is a lack of further investigations on driving factors and official statistics. Bouriaud (submitted) gives some estimates on the scale of illegal logging in these countries. Most information on the scale of illegal activities in CEEC except Moldova¹⁰ can be found in UNECE/FAO Workshop country reports.

Apart from country reports most information is found for the Czech Republic. BfU (2003a) gives a brief overview on the methods of illegal logging in the Czech Republic and one case study. It also includes some official statistics. The Forest Management Institute (www.uhul.cz) publishes official statistics of unauthorised fellings, which provides data on the type of the Forest Act violation, number of cases and the volume of illegally harvested timber. The statistics on illegal logging in Czech Republic records also the violations against other administrative norms (Bouriaud and Niskanen 2003).

BfU (2003a) also gives an overview on illegal logging issues in Hungary and Poland. WWF (2004b) gives an overview on illegal logging in the Czech Republic, Hungary and Poland, but refers to BfU (2003a). WWF (2004b) estimates illegal logging as a significant issue also in Slovakia. Some information on illegal logging cases in National Parks in Slovakia is found too (VLK Východné Karpaty 2002).

WWF also reports on illegal activities in the Bialowieza National Park, located in the border area between Poland and Byelorussia. – Poland (WWF 2003) and Byelorussia (Socio-Ecological Union www.seu.ru).

WWF (2004b) reports that no adequate information on illegal logging related activities in Ukraine is available. UNECE (1998) and UNEP (2000) give some estimates on illegal logging in Moldova.

There is very limited information on illegal logging related issues in Central – Eastern European countries both in English and national languages.

⁹ In the context of this report, Central – Eastern European countries include the Czech Republic, Hungary, Poland and Slovakia, all of them new EU member states. Eastern Europe also includes Byelorussia, Moldova and Ukraine. It is known that illegal logging also occurs in these countries but available information is very limited.

¹⁰ The country report for Moldova is not available.

3.2.3 Balkan Region¹¹

Fragmented information on the scale of illegal logging and trade in illegally logged material can be found from the country reports for UNECE/FAO Workshop for most of the countries in the region. For example for Croatia the only source of information is that country report.

The World Bank (2003) writes that forests in Serbia are threatened by illegal logging. The Serbian Unity Congress (1999) reported that ethnic Albanians are illegally logging public forests in Kosovo and Metohija. Illegal logging is also reported from Bosnia and Herzegovina (Clancy 2004) and the former Yugoslav Republic of Macedonia (Reality Macedonia Team 2002). Albanians are often blamed for carrying out illegal logging practices in Macedonian forests especially near the border areas (Reality Macedonia Team 2002). However, no estimates on the scale of illegal logging activities are available for Serbia, Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia. Bouriaud (submitted) gives estimates for Albania, Bulgaria, Romania and Slovenia from National statistical accounts and other sources.

A study has been made on illegal logging in Albania prepared by the Albanian Centre for Economic Research (ACER 2001). In this study, illegal logging is analysed from the perspectives of two motivating factors: commercial interests and poverty. It also creates a statistical portrait of illegal logging activity in Albania and includes recommendations of improving the current monitoring system and legal framework. Illegal logging in Albania is seen not only as a socio-economic problem but also as an environmental problem (UN 2001), which leads to habitat loss and threatens many plant populations (Leigh 2003). Albania Forestry Project supporting institutional and policy reforms was undertaken by World Bank in 1996 (World Bank).

World Bank (undated) has published estimates on illegal logging in Bulgaria – including the number of official records and issued sanctions, and the volume of illegally harvested wood. Bulgaria Forest Development Project (World Bank 2004) gives an overview on illegal logging in Bulgaria. It describes the character of illegal logging and actors involved. It also includes a brief overview on the effects on some of the rural groups if illegal logging would be eliminated.

Bouriaud and Niskanen (2003) give brief information on illegal logging in Romania. Bouriaud (submitted) has also studied the cause of illegal logging in Romania. Rural poverty is seen as one of the main causes of illegal logging in Romania. The Romanian forest product trade statistics with other European countries is analysed by Vincent (2003). European Forest Institute's EFI/WFSE Trade Flow Database was used as the main source of data for this study.

The National Forest Administration Romsilva publishes official statistics on illegal felling. Mass media usually present minor aspects (individual crimes) of illegal logging in Romania.

WWF (2004a) has carried out a preliminary study on illegal logging levels in Bulgaria and Romania.

¹¹ The Balkan region is represented with Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Serbia and the new EU-member Slovenia. So far no information on Croatia has been found in the studies for this report

The lack of information in the Balkan region can be explained with difficult data accessibility, illegal activities are not considered as a serious concern of state authorities and there is a low interest of NGOs on the issue. Most likely also the fact that the consequences of the conflicts of the 1990s can still be felt both economically as well as socially may mean that the public's main concerns are still focussing on other issues.

3.2.4 The Russian Federation (European regions)

The size of European Russia's forest resources and the importance of raw material exports to the forest sector in some European Union member countries have resulted in a high level of public interest in Russian forestry. Forestry activities in general and the scope of illegal activities in specific are discussed frequently by NGOs and featured in mass media in EU member states.

Most information on illegal logging related issues in the Russian Federation is published by NGOs such as Greenpeace and WWF.

Morozov (2000) describes two categories of illegal logging: 1) cuttings carried out without permits or with forged permits; and 2) cuttings with official permit which, in and of themselves, cannot guarantee that the felling is legal. Greenpeace published the report in Russian and English, the summary also in English (Greenpeace 2000). Some authors (Contreras-Hermosilla 2002a and 2002b; Tacconi et al. 2003; Toyne et al. 2002; Auer et al. 2003) mentioning illegal logging in the Russian Federation refer to the summary.

Most papers published by Greenpeace concern illegal logging in the Far East of the Russian Federation, and only a limited number of references is made to the European regions. On the webpage of Greenpeace national offices in other European countries, e.g. Germany, Italy, France, Netherlands and others, information on forest destruction in the Russian Federation was found.

WWF is the main source of information on illegal logging related issues covering all parts of the Russian Federation and particularly the European part. There is a list of various publications giving an overview on the illegal logging problem in general (Kurukulasurya and Kotlobay not dated; WWF 2001; WWF 2004c). There are also studies on Russian – Swedish forest product trade (Lopina et al. 2003) and Russian – Danish forest product trade (Brukhanov et al. 2003). WWF provides estimates on the scale of illegal logging in Northwest Russia and includes detailed references on the origin of the figures in some of the reports (Lopina et al. 2003; Brukhanov et al. 2003). A. Kotlobay (WWF) presented some of the results of ongoing research for Arkhangelskaya and Vologodskaya Oblasts in the International Conference in Arkhangelsk in 2004¹². However, there is no intention to publish these results (interview with Elena Kulikova, WWF Russia, 03.09.2004). The method used by WWF is based on a comparison of production (i.e. harvesting) and consumption (i.e. processing and others uses) statistics (taking import and export into account). The main challenge in implementing this method lies in correctly identifying those quantities on both sides of this equation, which do not show up in the official statistics, such as small-scale harvests and processing as well as local use for household-needs (e.g. fuelwood). Attempts to

¹² NW Russian Forest Sector towards Responsible Business and Sustainable Forest Management, 4 – 5 March 2004, Arkhangelsk

make more region specific statements using this method face the additional problem of partially incomplete registration of inter-regional trade within the Russian Federation¹³.

The Russian Ministry of Natural Resources estimates illegal logging as the share of harvests violating forestry regulations, based on the official registration of such violations. Equalling the level of a criminal activity to the number of officially registered cases may result in an underestimation of the phenomenon, because not all cases of illegal logging can be found and registered due to different reasons, like lack of personnel and finance resources in state forest authorities. The comparison with other areas of crime, such as trade in illegal drugs, or smuggling in general, illustrates the problem.

Sources published by the ministry provide statistics for all forest related trespassing and include also illegal harvesting. Publicly published data on illegal logging cover the whole Russian Federation. Official data for individual regions, which would allow for an inter-region comparison, are harder to access. A country report for the Russian Federation from UNECE/FAO Workshop that was presented by the representative of Federal Forest Service of Russian Federation is also available.

Mass media (News Agencies Rosbalt and Regnum, newspaper Pravda and others) which give illegal logging estimates most often use WWF as their main reference, followed by Greenpeace. Only few media use the figures published by the Ministry of Natural Resources of the Russian Federation. Some journalists participate in spot checks together with forest guards and police. Later in the articles they represent the socio-economic situation in the country, corruption, organised crime structures, weak law enforcement and insufficient work of the judicial system as the driving force behind illegal forest activities.

Kakizawa (2001) has carried out the research on illegal logging in the Russian Federation with a focus on its Asian regions. However, the work also includes information on the legal system for forest management, discipline of the officials, actors of illegal logging and other mainly institutional factors, which are applicable also for the European part of the Russian Federation. The Japan Federation of Wood-Industry Associations supported the study, as Japan is the biggest importer of Russian timber.

Bosquet (2002) gives some information on trade in illegally logged timber. Toyne et al. (2002) gives estimates on the share of illegal exports to some of European countries. For one of their estimates a reference is made to Boske (2001)¹⁴. Researchers from University of Joensuu (1996) have also participated in custom audits on the Russian – Finnish border.

A study undertaken in 2004 by EFI for DFID-UK and the Finnish Ministry for Foreign Affairs arrives at a likely range of 10% to 15% of wood from unknown origin in North Western Russia for the year 2002. These results are published in detail in EFI Technical Report Nr. 19 (Ottitsch et al., 2005), available from EFI's webpages at <http://www.efi.fi/publications/technical-reports/>.

¹³ In co-operation with a Russian researcher, the project team at EFI has also carried out an analysis of “production-consumption-data-comparison” for the North-Western Regions of the Russian Federation and thus had first hand insight into the possibilities of this method.

¹⁴ Most likely this is actually the “Bosquet” (2001) reference, as both reports are on the role of natural resources in tax structure and reform in the Russian Federation. The difference in spelling could be explained with transliteration of Cyrillic alphabet to Latin alphabet.

3.2.5 Other European countries¹⁵

Illegal logging interpreted narrowly, as illegal harvesting, is not discussed as an issue in other European countries. At the national level illegal logging is a negligible problem and only few violations are recorded. This involves either outright theft of – comparatively small quantities – of timber from storage places in the forest or at roadside and prepared for transportation, or the cutting of timber in context with the conversion of forest land to other forms of land-use without obtaining the proper permits.

Fragmented information on illegal logging can be found from country reports for the UNECE/FAO Workshop for most of countries.

However, some reported cases from “Western European” countries can be found from other sources. The News Agency Rosbalt (2003) reports that illegal logging has been detected in Northern Sweden. Illegal tree felling also has occurred in United Kingdom (*Fined for felling* 2002). However, such activities are not widespread.

Tree felling usually requires permission from the Forest authorities, in the form of a felling license, ticket or felling application; and in most countries there is a legal requirement that the felled areas will be restocked, usually by replanting (Levy and Milne 2004). It is important to mention, however, that in several of the countries included in this group, a simplified administrative procedure for small-scale activities, especially for owners harvesting timber on their own property, exists. Either there is a general dispense from obtaining licenses for small scale private use, provided that the owner is able – upon request – to proof that his/her activities are overall in the frame of “sustainable use” (e.g. in Austria) or within the frame of management plans, which have been approved (or designed) by the authorities (e.g. Germany, Nordic countries).

Wider definitions of illegal logging also include trespasses against tax and labour legislation into the scope of activities, which can qualify harvested timber as illegal. Tax evasion by forest owners or operating contractors as well as trespasses against labour legislation (e.g. unregistered workers) are known to have occurred in several of these countries, but are mostly not considered to occur at levels that would be seen as constituting a structural phenomenon of the sector.

Furthermore also trespasses of forest owners or their agents and contractors against environmental legislation would be seen as cases of illegal logging in international discussions, but with the exception of a few countries, thus far these have not been included in official presentations on the issue.

Most of these countries are important markets for illegally logged timber. Illegal imports from tropical countries are an especially widely discussed issue. Increasingly there is also discussion on the suspected trade in illegally logged timber from other European countries. This mostly concerns timber coming from European areas of the Russian Federation, the Baltic States and Central – Eastern European countries because these are important timber exporters to Nordic and Western European countries. Italy is the first export market for Romania, Serbia, Bosnia and Herzegovina and Albania (Pettenella 2004).

¹⁵ Other European countries in the context of this report are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom.

There are no reported cases of organised crime in the study carried out by BfU (2003b). It has been confirmed by the national administrations (customs, police, etc) in the EU member States. This may be explained by the fact that illegal timber imports are provided with legal or faked certificates.

3.3 Conclusions

The analysis of available information shows that illegal logging is an issue of concern in the Baltic countries, the Balkan Region, the European part of the Russian Federation and to a lesser degree in some Central-Eastern European countries. In the form of unauthorised transformation from forestry to other land-uses illegal logging can be found in all European countries, yet there are large differences between countries regarding the scale and driving factors of such activities.

Different sources show that almost all European countries are involved in trade in illegally logged material as producers or consumers. Most information on the trade issues is on trade in illegally logged material between European countries and tropical regions. During the last years there is more information on trade in illegally logged material between the European countries (WWF & Taiga Rescue Network 2002; Brukhanov et al. 2003; Lopina et al. 2003; WWF Latvia 2003a).

3.4 Publicly available information sources (in English language)

There are various sources available on illegal logging and related issues in English. Governmental organisations, research organisations, NGOs, media, industries and others publish information. The list below does not include all sources of publicly available information, as it is impossible. The list includes links to the popular webpages of different organisations dealing with the illegal logging issue and have a focus on Europe. All of these links were up to date and active as of the date of the submission of this report (i.e. November 2004).

http://europa.eu.int/comm/development/body/theme/forest/initiative/index_en.htm EU FLEGT (EU Forest Law Enforcement, Government and Trade)
<http://forests.wri.org> World Resources Institute
<http://Inweb18.worldbank.org/ESSD/ardext.nsf/14ByDocName/ForestsandForestry> World Bank Forests and Forestry
<http://www.cifor.cgiar.org> Centre for International Forest Research
<http://www.efi.fi> European Forest Institute
<http://www.fao.org/forestry> Food and Agriculture Organisation
<http://www.fern.org> Forests and the European Union Resource Network
<http://www.foe.org> Friends of Earth
<http://www.forest.ru> Forest Club (All about Russian Forests)
<http://www.forestintegrity.org> Forest Integrity Network
<http://www.greenpeace.org> Greenpeace
<http://www.illegal-logging.info> developed by Royal Institute of International Affairs
<http://www.itto.or.jp> International Tropical Timber Organisation
<http://www.panda.org> World Wild Fund for Nature
<http://www.taigarecue.org> Taiga Rescue Network
<http://www.un.org/esa/forests> United Nation Forum on Forests

<http://www.unece.org/trade/timber> United Nation Economic Commission for Europe Timber Committee – Food and Agriculture Organisation European Forestry Commission

4 Compilation of scope and consequences in Europe

4.1 Available quantitative estimates on the scope of the problem in European countries

4.1.1 Introduction on type and sources of information

The share of illegal logging is usually estimated as a percentage of total logging. Available sources provide this information as timber volume (in cubic metres) obtained in violation of forestry legislation. In addition, the economic loss in EUR (€), USD (\$) or national currency is published by some sources, using either the market value of the timber, the value of stumpage fees and lost taxation income or other evaluation approaches. Governmental sources often provide information on the number of registered trespasses against forest legislation.

Data used in this study include official estimates, estimates given by non-governmental organisations, such as WWF and Greenpeace, and estimates published by different authors.

Official statistics only show crimes that were officially detected and reported. While it may be claimed that – as in other fields of criminal activity – these do not represent the full scope of the problem, these statistics are certainly useful in analysing the trends in illegal logging - changes in volume of illegally harvested timber and number of registered breaches, also dynamics of estimated economic loss.

Information published by NGOs usually aims at illustrating the full scope of the problem, using mostly indirect methods (e.g. comparison of production and consumption statistics) in order to identify and illustrate the magnitude of illegal logging.

In addition to sources already published during the preparation of this report (i.e. up to September 2004), also the results of a meeting organised by the UNECE/FAO were included.

4.1.2 Regional information

4.1.2.1 Baltic Countries

Available estimates on the scale of illegal logging in Baltic countries differ. According to the statistics provided by the state forest authorities, the share of illegal logging in Baltic countries was 0.7—1.0% in 2003 (National statistical accounts). Illegal logging by state authorities is estimated as share of illegally harvested timber volume from total harvest volume. Some NGOs estimate illegal logging in Estonia 40—50% (Ahas 2002) and in Latvia 15—25% (WWF Latvia 2003). These estimates include violation of tax, social and other legislation issues (WWF Latvia 2003a; Ahas 2002). In the discussion paper published by WWF Latvia (2003a) it is mentioned that interviewed Lithuanian experts interpret illegal logging in narrow terms and do not include tax issues, and in general they agree with official statistics.

4.1.2.1.1 Estonia

According to official statistics 112 001 m³ of timber was illegally harvested, which is 1% of total harvested volume in 2003 in Estonia. In total 689 cases of illegal logging were registered in 2003. In 230 cases the violation was done by forest owner, in 25 by subject of privatisation and in 434 cases the violator was unknown. However, the volume of illegally logged timber by forest owners (54 626 m³) is as high as in the cases when the perpetrator is unknown (56 233 m³). Some of these figures were presented in the Estonian country report. The need for clearer definition on illegal activities is recognised by authorities.

Figure 1 shows increasing number of illegal logging incidents and the volume of illegally harvested timber after 1998 and decrease after 2000.

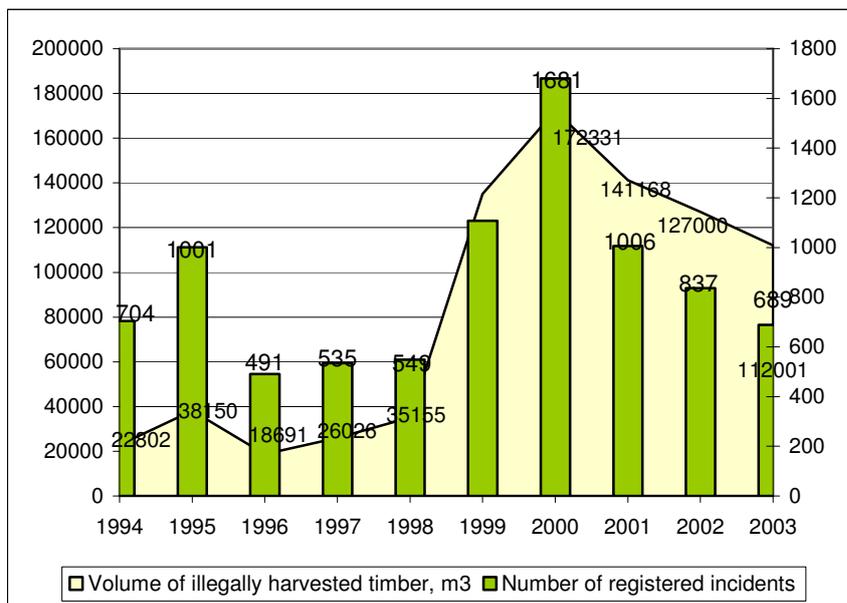


Figure 1. Illegally harvested timber volume and number of incidents in Estonia, 1994 – 2002.
 Source WWF Latvia, 2003 and Ministry of Environment of Estonia

The Estonian Green Movement (different publications) estimates illegal logging in Estonia as 40–50% of total logging. Ahas (2002) gives the share of different forest violations: forest theft – 5% of the felling volume; inadequate or fictive documentation – 20%; violation of felling and nature conservation regulations – 20%; deceptions of employer’s taxes and income tax – 50%; VAT frauds: using intermediate, off-shore and concealed personalities; assortment tampering – 15% and overrunning the permitted annual logging limit approved by forestry policy – 40%. The violations have a high overlap.

4.1.2.1.2 Latvia

According to statistics given by State Forest Service 2139 cases of illegal logging were registered in 2003 in Latvia. 369 cases took place in state forests, the rest in other (mostly private) forests. The volume of illegally harvested timber was 102 981 m³, which is 0.9% of total cutting volume. Nearly 90% (90 254 m³) of illegally harvested timber comes from private forests.

The Figure 2 shows that illegal logging mainly occurs in forests with other than state ownership. The general trend shows that volume of illegally harvested timber and number of registered cases is decreasing.

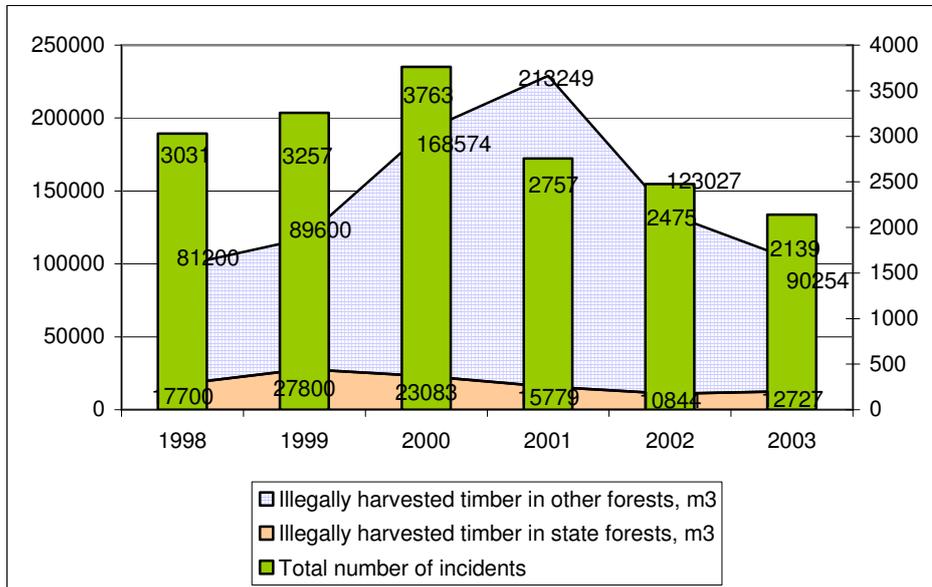


Figure 2. Volume of illegally harvest timber in state and other forests and total number of incidents in Latvia 1998 – 2003. *Source: State forest service*

A closer analysis of the official figures, however, shows changes in the nature and structure of trespasses. While the number of illegal logging cases in “other forests” is decreasing, it is increasing in state forests (Figure 3).

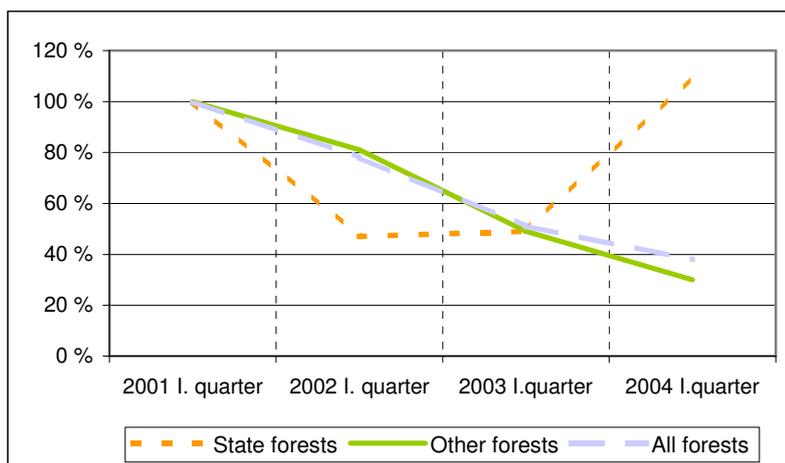


Figure 3. Dynamics of illegally harvested volume in percent. *Source: State Forest Service*

Otto Žvagiņš, the General Director of State Forest Service explains the increasing number of illegal logging in state forests with intensified activity by illegal operators (Apine 2004). The background for this is seen to be a higher market demand for timber, exceeding the legally available supply. Prices and competition are high and those who cannot or do not want to compete in legal market may turn to illegal methods (Apine 2004).

According to the State Forest Service the total number of illegal logging incidents was 2139 in 2003, 369 of those took place in state forests and 1770 in other forests. It is interesting to note that for more than 200 out of these 1770 legal papers to carry out forestry operations were issued by the State Forest Service, but the forest owner failed to carry out these operations according to the specifications given (e.g. damage to remaining stand, cutting of trees not marked for cutting etc.). The number of this kind of illegal logging is decreasing due to an improvement in the knowledge of private owners. The majority of illegal logging, however, involves illegal activities carried out by the perpetrator on someone else's property (i.e. timber theft), which hints at the difficulties which private owners have to safeguard their interests on their land.

A comparison of officially registered production (i.e. timber harvest and imports) and consumption (taking export into account) in Latvia for the year 2002 indicated 1.2 mill. m³ of unknown origin. This resulted from the difference between the production volume of 12.2 mill. m³ and the consumed volume of 13.46 mill. m³. As in other countries, some of this difference can be explained by legal yet for some reason unregistered harvesting activities and other errors related to statistic registration (e.g. conversion factors), but also illegal logging has to be taken into consideration as a considerable factor causing this difference (Republic of Latvia 2003).

WWF Latvia (2003a) estimates illegal logging in Latvia to be in the range of 15—20%, based on the definition given in the cited study.

4.1.2.1.3 Lithuania

According to data of Department of Forests of Ministry of Environment of Lithuania the volume of illegally harvested timber was 43 392 m³ in 2003, which constitutes 0.7% of total harvest volume. 80% of illegally harvested timber comes from private forests. Figure 4 shows that the number of breaches in private forests is higher than in state forests and since 1997 has increased three times from 361 in 1997 to 1073 in 2003. The opposite trend can be observed in state forests, where the number of breaches in 2003 has decreased to half since 1997, from 1490 to 678. Same estimates are given in the country report.

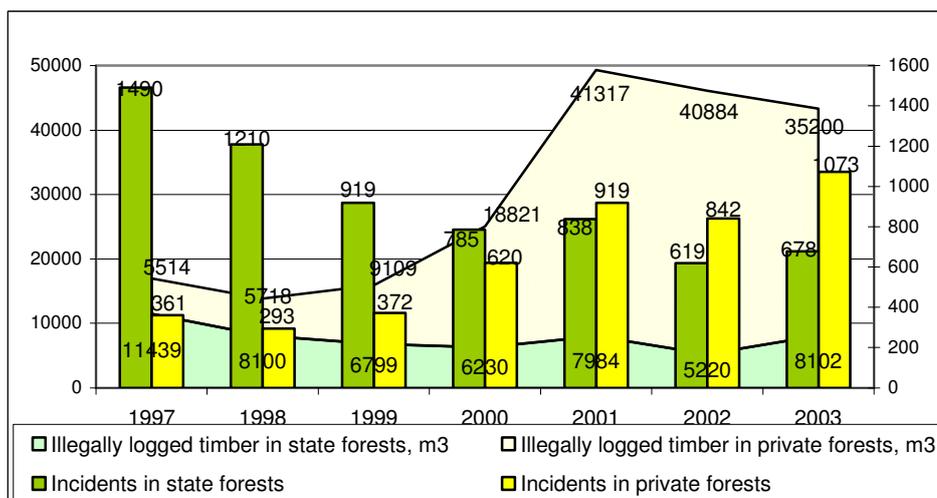


Figure 4. Illegal logging in state and private forests in Lithuania 1997 – 2003. *Source: Ministry of Environment of Lithuania, Department of Forests*

The volume of illegally harvested timber is gradually decreasing in state forests, but increasing in private forests with the peak in 2001 (41 317 m³) and followed by a slow decrease after 2001. The general trend shows decrease of volume of illegally harvested timber and illegal logging incidents. In the late 90s the process of returning property to former owners gained momentum for Lithuanian forests. The limitations on the number of hectares a former owner could have returned was also raised from the original 25 hectares to a significantly higher figure. This might explain why incidents in private forest are increasing and incidents in state forest decreasing. The percentage of private forests in the country has risen considerably in the last 5—7 years.

In 2003 most of the illegal logging in private forests took place in NW of Lithuania – in Kretingos Forest Enterprise where 3330 m³ were illegally harvested, in Telšiai – 3150 m³ and Rietavo 2660 m³. For state forests in the Kėdainių Forest Enterprise, which is located in Central Part of Lithuania, the figure amounted to 1021 m³ (Ministry of Environment 2004).

There is some information available on illegal logging and related issues from Lithuanian and international NGOs both in English and Lithuanian languages. The Lithuanian Green Movement (Ašmantas 2001) refers to official statistics but do not give their own estimates. WWF (2004b) writes that more in-depth assessments on the scale of illegal logging in Lithuania are necessary.

4.1.2.2 Central – Eastern European Countries

Bouriaud (submitted) gives estimates of illegal logging in total harvested volume in percent from national statistical account and other sources for all countries in the region (Table 5). There are also available other estimates for some of countries coming from different sources. Additional information is available for the Czech Republic, Hungary, Moldova and Poland.

Table 5. Illegal logging in total harvested volume in percent in 2000 in Central – Eastern European countries. *Source: Bouriaud (submitted)*

	Illegal logging in total harvested volume, % 2000
Byelorussia	1
Czech Republic	1
Hungary	1
Moldova	4
Poland	1
Slovakia	1
Ukraine	1

Figure 5 represents the official statistics on illegal logging incidents and the volume of illegally harvested timber in the Czech Republic. The Forest Management Institute gives estimates and those also are presented in the country report. Illegal logging constitutes around 50% of all forest violations.

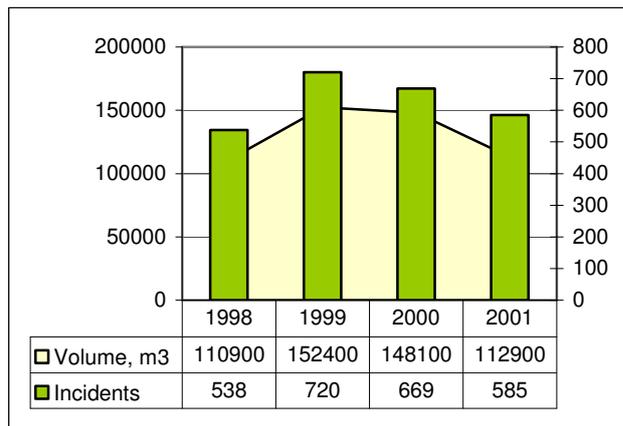


Figure 5. The number of illegal logging incidents and the volume of illegally harvested timber in m³ 1998 – 2001 in the Czech Republic. *Source: The Forest Management Institute*

In Hungary 200–300 thousand m³ of timber are logged in violation of relevant laws (BfU 2003a). If 7 mill. m³ timber is logged legally, then the share of timber logged violating relevant laws is 2.9–4.3% annually.

Illegal logging accounts for 170 000 m³ of wood each year in Moldova, mostly from the 14% of all forests owned and managed by local authorities (UNEP 2000). It is estimated that 65% of fuelwood needs are met by illegal logging (UNECE 1998).

In Poland 11 243 incidents of illegal logging were reported in 1998, with the volume of stolen timber 34 579 m³ (BfU 2003a). 80% of illegally logged timber is used for private purposes by the perpetrators.

With the exception of the Moldavia case, a comparison between the figures for illegal logging reported in these figures and the annual harvest figures show that at least according to these figures illegal logging is not occurring at very high levels.

WWF (2004a) estimates illegal logging in Slovakia between 10–15% based on existing official data and estimates build up on preliminary study.

The Table below (Table 6) summarises the estimates on illegal logging in CEEC¹⁶ from country reports presented in UNECE/FAO Workshop. Illegal trade in the whole region is estimated as less than 5%.

¹⁶ Except Poland and Moldova

Table 6. Illegal logging estimates from country reports presented in UNECE/FAO Workshop, 16-17 September 2004, Geneva Switzerland.

Country	Year	Illegally logged volume th m ³	Percentage from total logging volume
Belarus	2000	18.5	0.14%
Czech Republic	2001	112.9	<1%
Hungary	2003	28.2	<1%
Slovakia	2002	62.4	~1%
Ukraine	2003	83.8	<1%

4.1.2.3 Balkan Region

Estimates on the scale of illegal logging in the Balkan Region (Table 7) can be found in country reports for UNECE/FAO Workshop. It must be admitted that there is no country report for Bosnia and Herzegovina, and no estimates are given in Albania's country report.

Table 7. Illegal logging estimates from country reports presented in UNECE/FAO Workshop, 16-17 September 2004, Geneva Switzerland.

Country	Year	Illegally harvested volume m ³	Percentage from total logging
Bulgaria	2003	22.2 th	<1% (10-25% unofficially)
Croatia	2003	~20 th	<1%
Republic of Macedonia	2003	4.9 th	<1% (25-30% unofficially)
Romania	2003	80.8 th	<1%
Serbia	2003	12 th (in state forests)	1-5% in state forests >50% in private forests
Slovenia	2003	53.6 th (in state forests)	1.8% in state forests ~50% in private forests

Estimates on the scale of illegal logging in Albania, Bulgaria, Romania and Slovenia can also be found from other sources (Table 8).

Table 8. Illegal logging as percentage of total harvested volume in the Balkan region countries in 2000. *Source: Bouriaud (submitted)*

	Illegal logging in total harvested volume, % 2000
Albania	40
Bulgaria	4
Romania	1
Slovenia	4

Albania is raising a high level of interest in context with illegal logging. Illegal logging in Albania is not caused by a particular industrial sector; the phenomenon is stimulated by demand from multiple sectors including timber and non-timber products, wood processing industries, the construction industry, fuel wood consumption of public service entities, the

“primitive” limestone industry, etc. (ACER 2001). It is assumed that over 190 000 m³ of fuelwood was logged illegally to meet the needs of rural households during the year 2000. The total quantity of wood material logged illegally (fuelwood plus timber) in 2000 could be larger than 190 000 m³, while official statistics of DGFP for the same period of time report only 72 600 m³. 91% of the interviewee’s rank personal needs (heating, construction, etc) as important motives behind illegal logging.

For the last years illegal logging has significantly increased in Bulgaria (World Bank 2004). The volume of illegal extraction is not well known, nor the involvement of the local population in it. Available estimates on the annual volume of illegally harvested volume range from the official 41 600 m³ in 2001 to several million m³ per year (World Bank 2004). Part of the illegally extracted wood finds its way to the commercial markets. World Banks study estimates that 5 to 15 per cent of the timber traded in Bulgaria is illegal. Estimated levels of illegal logging in Bulgaria by WWF (2004a) are 45%.

Illegal logging in Romania has a strong correlation with rural poverty (Bouriaud submitted). The volume of illegally harvested timber was 80 853 m³ in 2003 (The National Forest Administration Romsilva 2004).

According to country reports in most of the countries within the Balkan Region illegal logging is stimulated by poverty in rural areas and commercial interests. The trade in illegally logged material is less than 5% in all countries.

4.1.2.4 The Russian Federation (European regions)

Due to the large size of its forest resources, the Russian Federation is of eminent importance for the European forest sector. Any condition affecting price or volume of the supply in Russia eventually has impacts for all of Europe. Conservation NGOs have long shown interest in forestry activities in The Russian Federation and consequently have also published a host of information on the issue of illegal logging in context with this country. For this study publicly available estimates on illegal logging from different sources are presented. Where available also the methods employed to arrive at these estimates are reported.

4.1.2.4.1 Official estimates

The Ministry of Natural Resources estimates illegal logging as the share of harvests officially registered as violating forestry regulations. Due to the fact that – as in all areas of crime – not all occurring cases are reported or become evident to the authorities these figures may not reflect the full level of illegal activities. This may be caused by factors such as the lack of personnel and financial resources by the executive authorities as well as the potential level of corruption in the public sector. According to the official figures illegal harvesting constitutes around ninety percent of all forest-related abuses.

According to the Ministry of Natural Resources of the Russian Federation the volume of illegally harvested timber was 941 500 m³ (~0.7% of total logging) in 2001 and 716 191 m³ (~0.6%) in 2002. The economic loss for the state was estimated as 100 million USD in 2001 and 183.3 million USD in 2002.

Official figures on illegal logging trends in the Russian Federation from 1996 to 2001 show that the highest number of illegal logging cases was from 1999 to 2001, and that in 2002 the number has decreased. However, the volume of illegally harvested timber was increasing until

2001 and a decrease was observed in 2002. The figure below (Figure 6) shows that even if the number of breaches is decreasing the volume of illegally logged timber is still high.

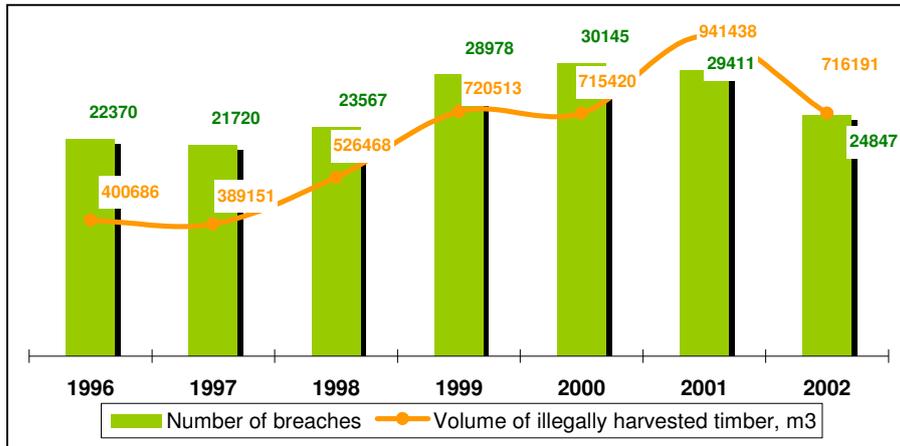


Figure 6. Illegal logging cases (number of breaches) and illegally harvested timber volume (m³) in The Russian Federation. *Source: Ministry of Natural Resources of the Russian Federation.*

The economic loss for the state caused by illegal logging has been increasing together with the volume of illegally harvested timber. There is a significant increase of economic loss in 2001 and 2002 (Figure 7). In 2002 the volume of illegally logged timber is almost the same as in 2000, but the economic loss is more than 11 times higher.

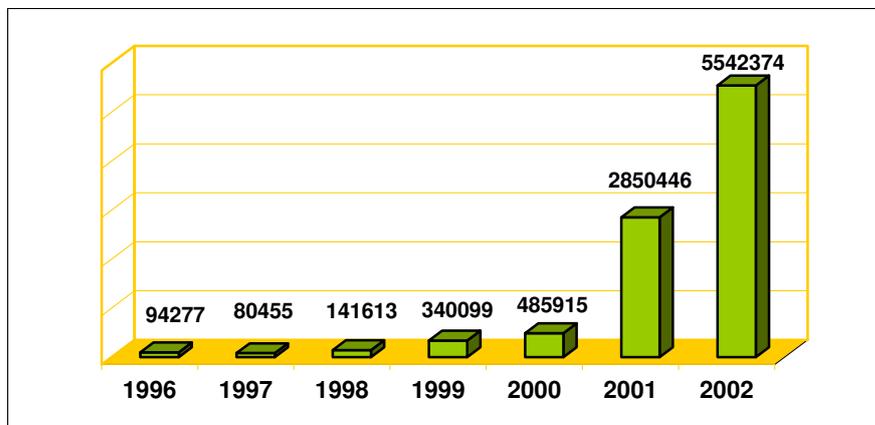


Figure 7. Economic loss in thousand roubles caused by illegal logging in The Russian Federation. *Source: Ministry of Natural Resources of the Russian Federation.*

The main reason for the extreme change depicted in Figure 7 can be explained with changes in legislation for the assessment of damages caused by violations of forestry legislation. Resolution No. 67 of Government of the Russian Federation (5.02.1992) was replaced with the Resolution No. 388 (21.05.2001). According to Resolution No. 67 the economic loss was estimated ten times that of the stumpage price, and if illegal logging occurred in protected areas the figure would be doubled. According to the current Resolution No. 388 the economic loss is estimated as 50 times the stumpage price and the resulting figure can be multiplied by 2 to 5 if illegal logging has been carried out in protected areas.

According to the latest information on illegal logging in Russia, the country report presented in UNECE/FAO Workshop, illegal logging is estimated to be 5 – 10% from total logging (Bolshakov 2004).

According to the official figures on average 0.4% of timber is harvested in violation of forestry legislation. For different regions (oblasts) the figure varies between 0.2 – 1.2% in European Russia. According to the Ministry of Natural Resources the most difficult situation with illegal logging in Northwest Russia in 2002 was in Leningradskaya Oblast (38.9 th m³), Arkhangelskaya Oblast (20 th. m³) and Vologodskaya Oblast (19.8 th. m³). If these figures are studied as the share of total logging in each Oblast, those are respectively 0.9%, 0.2% and 0.3%, which make them appear rather insignificant..

4.1.2.4.2 Estimates by Greenpeace and WWF

Greenpeace estimates the share of illegal logging in The Russian Federation as 20% of all harvest volume. Morozov (2000) gives the figure in his report *Survey of illegal forest felling activities in Russia*. The 20% figure describes illegal logging in the whole territory of the Russian Federation. There is no distinction among regions. However, the report also states that in some regions like the Caucasus and the Far East the share of illegal logging can reach 50-70%. The cited report does not present any specific method with which these estimates have been calculated. It is thus based mainly on estimates of experts based on their experience and knowledge of the situation.

The main sources of information on illegal logging in NW Russia are papers published by WWF. Estimates on illegal logging given by WWF vary from 10% to 50%, in some cases even 70% or 100%. Figures in the range of 50% or 70% are provided in context with illegal logging in the Russian Far East. 100% is given for Caucasus, where red listed species like Chestnut are logged (WWF 2004c). Illegal logging in North Western Russia is estimated to be 25% to 30%. The latest figures given are 36% (Lopina et al. 2003) and 27% (Brukhanov et al. 2003).

The 36% estimate (Lopina et al. 2003) was produced comparing production (and import) and consumption (including export) data for the region. The main data source were data from the State Statistics Committee (GOSKOMSTAT).

According to this study the difference between the official volume data of industrial roundwood harvested or imported and its consumption or export indicates 11.2 mill. m³ of wood from unidentified origin. WWF Russia concludes from this figure that 36% of the legal production “may be obtained from illegally harvested wood”.

Before the publication of this study the most often mentioned figure given by WWF was 25—30%. Other figures given by WWF do not include detailed calculations; those are based on expert estimates or on results of local or regional inspections done by themselves or Greenpeace Russia.

The figures presented in this report were subsequently discussed by experts in Russia and Finland. Amongst others, potential other reasons for the discrepancy in the statistical data were also highlighted, such as the fact that the used data only record harvest activities above certain minimum levels. More refined studies using this material balance approach were called for.

At the international conference “North West Russian Forest Sector towards Responsible Business and Sustainable Forest Management”¹⁷ A. Kotlobay from WWF Russia presented a material balance calculations for the Arkhangelskaya and Vologodskaya Oblasts, showing a misbalance of 1 297 000 m³ in the Vologodskaya Oblast and 5 205 900 m³ in the Arkhangelskaya Oblast. These figures respectively correspond to 15.7% and 26.8% of timber of unidentified origin in relation to the overall consumed material, and are considered to indicate the level of illegal harvesting in these regions.

WWF Russia gives an estimates of economic loss for the State caused through illegal logging of 1 billion USD (mostly unpaid taxes) and refer to the Federal Service of Fiscal Police of the Russian Federation (Lopina et al. 2003; WWF 2004c). The basis for this estimate is not specified.

4.1.2.4.3 Estimates of illegal export

Estimates on illegal timber export vary from 10 to 35%. The average figure of all exports to EU countries is around 20%. The main source of information is a publication by Toyne et al. (2002), published by WWF International.

4.1.2.4.4 Main results of study by EFI for the North-Western Region

A study commissioned by DFID-UK and the Finnish Ministry for Foreign Affairs to the European Forest Institute in 2004 arrives at a range of 10% to 15% of wood from unknown origin for the year 2002. As in most of the published WWF-figures a production-consumption comparison approach was used in this study. These figures are lower than those published in the WWF-studies, albeit for a different period (WWF figures are for 2001.) The authors of the EFI-report (EFI-technical report Nr. 20, <http://www.efi.fi/publications/technical-reports/>) arrive at higher figures (roughly 10 M m³) for both production as well as consumption than both of the most published WWF-studies (Brukhanov 2003 and Lopina 2003). The authors of the EFI-report attribute the differences to their use of more complete information for production as well as consumption. The range of possible results (10% to 15%) results from taking into consideration various factors which could influence the result, such as uncertainties in the determination of use by small scale processing sites (mostly small scale sawmills) as well as the difficulties in obtaining reliable figures on internal trade within the Russian Federation.

The EFI-report also investigates the situation of export from the Russian Federation into the European Union. While official export documentation requirements are seen as no major obstacle for determined circumvention efforts, it acknowledges that roughly 75% of all exports from the Russian Federation to the European Union are already covered by some form of additional private sector system of tracing of origin. While some details of this systems, especially as regards stakeholder access to information, are being discussed in current processes, the report concludes that these systems fulfil their task in keeping wood from unknown sources out of the companies' supply chains.

Assuming that a considerable quantity (i.e. roughly 50%) of wood from unknown origin is also consumed within the Russian Federation, the report further concludes that quantities of wood of unknown origin in export trade could be in the range of 10% to 15% of all exports.

¹⁷ 4 – 5 March 2004, Arhangelsk

4.1.2.5 Other Europe

As it was discussed above (Chapter 2) illegal logging is not considered an issue in other European countries; however, these countries are involved in trade in illegally logged timber, hence an integrated part of the problem. Estimates published by NGOs claim that around 20—25% of Russian timber imported into Denmark, Finland and Sweden is of illegal origin (Toyne et al. 2002).

In UNECE/FAO Workshop country reports for Austria, Denmark, Finland, France, Germany, Spain, Greece, Italy, Netherlands Norway, Sweden, Switzerland and United Kingdom were presented. Also country reports for Luxembourg and Ireland are available online. In all of the above mentioned countries illegal logging is estimated as less than 1% from total logging and trade in illegally logged timber less than 5%. There are no country reports for Belgium, Iceland and Portugal.

4.1.3 Conclusions

There are significant differences between the figures given by different organisations. The table below (Table 7) shows various estimates of illegal logging given by governmental organisations, NGOs and others for selected European countries.

Table 9. Illegal logging estimates for selected European countries given by various organisations. (The percent refer to the total share of timber harvest in a country. For estimates using the “production-consumption-method” (i.e. mostly those by WWF, this also takes imports from other countries (or regions) into account, assuming legitimacy of imported timber in its country of origin.)

Country	Estimates of illegal logging, %	
	By governmental organisations	By NGOs and others
Bulgaria	<1% in 2003 (Ivanov 2004)	10 – 25% unofficially (Ivanov 2004) 45% (WWF 2004a)
Estonia	1% in 2003 (Republic of Estonia 2004)	40 – 50% (Estonian Green Movement)
Latvia	<1% in 2003 (State Forest Service)	15 – 20% (WWF Latvia 2003a)
Republic of Macedonia	<1% in 2003 (Nikolov 2004)	25 – 30% unofficially (Nikolov 2004)
The Russian Federation	0.6% in 2002 (Ministry of Natural Resources of the Russian Federation) 5 – 10% (Bolshakov 2004)	20% (Greenpeace) 27% WWF (Brukhanov et al. 2003) 36% WWF (Lopina et al. 2003)
Slovakia	~1% in 2002 (Moravcik 2004)	10 – 15 % (WWF 2004a)

The differences in available estimates indicate that different estimation methods are applied. For example, official statistics estimates illegal logging in Bulgaria, the Russian Federation and Slovakia as less than 1% or around 1% , which represents officially detected and reported crimes. At the same time WWF estimates show much higher figures. It is known that WWF is using comparison of production and consumption statistics for NW Russia (Lopina et al. 2003) and also for Bulgaria and Slovakia (WWF 2004a).

4.2 Estimates on the consequences

The following sections have been compiled using – where available – evaluations done by NGOs, official authorities or scientific studies. Some specific country examples have been highlighted, because they are dealing with countries, which are considered to be of special interest in the context of this study. If possible, results from different evaluations done for the same country by different institutions are compared.

Sustainable use of wood and other forest products and functions are an essential element for commonly accepted principle of sustainable forest management. Sustainable forest management meets the social, economic, ecological, cultural and spiritual human needs. Illegal forest practices are unsustainable, as they do not provide optimal combinations of goods and services to nations and local populations. Illegal logging issue includes not only the volume of illegally harvested timber and the economic loss in state revenues, but also it plays the role in deforestation, decreases the value of forests stands and diminishes the social and cultural value of forests.

At a first glance the amount of illegally harvested timber appears to be small. In most European countries the *officially* registered volumes of illegal harvested timber are less than one percent from total harvested volume. At such a low rate it does not have any significant impact on forest biodiversity and forest regeneration, unless illegal logging takes place in

protected forest area. The total harvested volume often remains lower than the annual allowable cut (Bouriaud and Niskanen 2003). Ahas (1998) writes “It can be concluded that the current level of harvesting, or even substantially higher levels, are very consistent with meeting the Estonian forest management objectives of supplying non-consumptive use benefits to the economy” about Estonia.

4.2.1 Environmental consequences

From the environmental perspective illegal logging decreases the biodiversity or is leading to depletion of forest resources, mainly because any existing legislation aimed at protecting these values (e.g. protected species, protected habitats, temporal or spatial exclusion criteria for logging activities) will not be taken into account in the context of illegal activities.

For similar reasons it also may have higher impacts on soil erosion and watershed destruction. Forest fragmentation contributes to the extinction of large mammals and specific habitats for different plant and animal species. In Albania the habitat loss of common and easily cultivated wild plants due to legal and illegal logging and unsustainable harvesting practices (Leigh 2003) are reported. Further it has socio-economic impact because thousands of Albanian villagers still depend on herbs as primary source of income. In the Jablanica and Konjic municipalities (Bosnia and Herzegovina) illegal cutting has destroyed the last remaining examples of the endangered Munika black pine and Tise (Clancy 2004). Authorities claimed they were “sanitary” cuts meant to curb the threat of spreading disease, but there was never any confirmation of this from the Ministry of Forestry and Agriculture¹⁸.

Deforestation due to legal and illegal logging is one of the major environmental problems in peri-urban and easily accessible rural areas. Illegal logging usually first takes the place on the roadsides that are easily accessible with harvesting machinery. Illegal logging first results in the degradation of ecologically most valuable stands (Lopina et al. 2003). As a result, a considerable part of high-quality timber stands decrease and the share of low-quality stands increases; also the amount of commercially valuable trees decreases. Illegal logging often affects protected forests and forest reserves (Bouriaud and Niskanen 2003). Logging in natural forests is not illegal in most countries, but nevertheless subject to public debate (Gelder et al. 2003).

Environmental damage of illegal logging activities is mostly named and discussed by non-governmental organisations. However, majority of Latvian experts interviewed by WWF Latvia (2003) do not see environmental damages to forest as a very serious issue compared to economic and social issues. In Russia most illegal logging takes place in easily accessible areas and close to the markets. Those are small areas and it cannot have significant impact on the ecological situation in the country (Bolshakov 2004).

Trade in illegally logged timber sometimes affects protected timber species. Trade in protected timber species is mainly an issue concerning tropical timber species and species listed under CITES. For example, the project of new “Forest Code of the Russian Federation” (text by 13.03.2004 on www.legislature.ru) prohibits cutting of many tree species, e.g. Carelian birch, chestnut and others, including tree species protected by the laws of the Russian Federation and Regional laws. In the context with planned “legality licenses” (e.g. under the EU-FLEGT-action plan), the possibilities for closer cooperation with CITES are being discussed. Especially the question in how far CITES-licenses and FLEGT-licenses could be co-ordinated (e.g. by waiving the requirement for one of them, if the other is

¹⁸ Sanitary or salvage cuttings are often criticised by NGOs, as for operations classified as such in many countries normal legal requirements, especially regarding nature conservation (e.g. logging in protected areas), are not applicable. It is claimed that sanitary or salvage cuts are declared too generously on the side of the forest authorities. With the process of declaration considered doubtful by NGOs this then results also in claims of the operations being illegal, as the administrative act entitling them is considered to be flawed.

required and presented), allowing for a simplification of administrative procedures are of relevance here (Brack 2004).

It is evident that illegal logging in protected areas, such as nature conservation areas or other areas excluded from logging for the purpose of nature and biodiversity conservation, such as riparian buffer zones, is detrimental to the very purpose of this protection. As can be seen from the information on the situation in different European countries, cutting in protected areas is currently not seen as the major form of illegal logging occurring in Europe. Yet given the specific value of protection areas and the fact that some of them are considered to be the last examples of rare habitats and/or endangered species, any activity contravening these protection goals has larger detrimental impacts than the mere size of the operation, measured in area or volume, may suggest, if compared with the general level of logging operations in a country or Europe-wide. The lack of available information on the specific value of such losses suggests the need for further research into the topic, allowing for a more precise evaluation of this specific form of damage.

4.2.2 Estimating the economic impact

It is undeniable that illegal logging has economic impacts. However, there are no comprehensive assessments of the effects of illegal acts on the economy of the forest sector (Contreras-Hermosilla 2002b). The World Bank has estimated that illegal logging causes damages between \$ 10-15 billion every year. This amount of money is calculated as uncollected taxes and royalties from timber harvesting, trade and related activities around the world.

4.2.2.1 Official estimates

Estimates on economic loss are available only for a few European countries. The economic loss in most cases is estimated as gross value of recorded damages, total value of fines and penalties or the value of recorded economic and environmental damages. These estimates can be based on the timber stumpage price where a correction coefficient is applied. The state authorities give such estimates, and in most cases they do not include the estimates of uncollected taxes and royalties. Table 10 below gives an overview on available estimates on the economic loss.

Table 10. Economic loss for selected countries.

Country	Economic loss (in)	Time period	Source
Albania	1.8 mill. €	1997	ACER 2001
Czech Republic	34 mill. €	Per year	BfU 2003a
Estonia	57.7 thousand €	2003	Ministry of Environment
Latvia	3.3 mill. €	2003	State Forest Service
Lithuania	333 thousand €	2003	Ministry of Environment
Moldova	120 thousand €	1997	UNECE 1998
Poland	1 mill.	1998	BfU 2003a
Russia	183.3 mill. US \$	2002	Ministry of Natural Resources of the Russian Federation

4.2.2.2 Estimates by NGOs

Somewhat higher estimates on the economic loss for states caused by illegal logging activities are provided by NGOs. WWF (Lopina et al. 2003) writes that about 1 bill. USD are lost in the forest industry every year because of law violations. According to the State Forest Service of Latvia losses caused by illegal harvesting were 3.3 mill. EUR in 2003. According to other estimates, social taxes not paid by the forest sector creates another loss, which varies from 6 to 23 mill. EUR (WWF Latvia 2003a). As a significant issue the interviewed experts (WWF Latvia 2003a) mentioned also unpaid income tax and value added tax fraud, but no estimates were provided.

4.2.2.3 Impacts on markets

The current increase in illegal logging is attributed to the high demand for cheap wood on the consumer markets in the European Union, Japan, China and the United States, where it is processed into final products (BfU 2003b). From an economical viewpoint illegal logging negatively influences forest industry market conditions as it increases forest management and transaction costs, and leads to market failures (Bouriaud and Niskanen 2003). There are illegal companies operating in the forestry sector. These companies have cost advantage and can offer higher prices for forest resources and sell forest products at lower prices than legal companies (WWF Latvia 2003a). The marginal rent of agents logging illegally is also represented by the unpaid stumpage prices (Bouriaud and Niskanen 2003). In the Latvian case the advantage is ~15—20%, that allows illegal companies to develop projects (e.g. sawmills) that are not economically sound (WWF Latvia 2003a). According to information of State Audit Office Republic of Latvia there are 1358 sawmills operating in Latvia, but there is a lack of evidence on the legal activity of 600 of them. Sawmill capacity exceeds the legally available forest resources many times in Latvia (Auziņš 2004). Market demand for timber is much higher the volumes legally available; prices and competition are high and those who cannot or do not want to compete in legal market are looking for illegal methods (Apine 2004).

Illegal logging increases the timber supply into the markets and lowers the price of timber. This may have an impact on the financial return to the forest owner and also forest industries. On the other hand, though lower raw material prices increase the competitiveness of national industries, and consumers may benefit as a result of lower prices (Tacconi et al. 2003).

Bouriaud and Niskanen (2003) write that the utilisation of forest resources is more costly in the presence of illegal logging than without it. Illegal logging results in direct costs, namely the loss of economical and/or ecological value of forests. Further more opportunity costs are created, as resources used to prevent illegal logging would otherwise be available to be invested for economic gains. Lastly, the presence of illegal activities also increases transaction costs, as they increase the need for specification of harvesting rights as well as costs related to planned systems to ensure the legality of traded material (e.g. intended verification and labelling systems).

4.2.3 Social impacts

Illegal logging and trade in illegally logged timber affects not only environment and economics but it also has great impact on society and social functions. Forests have material (timber, non-wood products) and non-material (recreation, health) social and cultural values.

Damages in the social sector are mainly related to the non-payment of taxes and social security payments as well as to the fact that employees in illegal companies do not benefit from any social guarantees (WWF Latvia 2003a). It is also assumed that companies active in illegal logging are not enforcing workplace safety legislation, which results in a higher risk of injuries, with the added social problem of these workers not having any insurance cover for health-care costs.

Large-scale job losses are assumed as timber supplies run out through unsustainable rates of illegal harvest (Callister 1999). Especially for large-scale illegal logging activities the involvement of organised crime is assumed. Benefits from large-scale illegal logging and related activities often concentrate in the hands of a small number of individuals, who tend to transfer the illegally gained capital to offshore accounts, thus further reducing possible tax revenues. Such capital is not available for investments in the national forest sector, be it for improved conservation measures, be it for improving the long-term sustainability of operations through investments in infrastructure, such as roads and other transport infrastructure. There are statements also from governmental sources that organised crime structures are operating in illegal logging in some European countries. For example, Russian authorities believe that increasing volume of illegally harvested timber per theft proves the existence of organised groups of forest violators operating in forestry (Ministry of Natural Resources of the Russian Federation 2003). Also the effectiveness of crime disclosure by state forest authorities has decreased from 90% in 1992 to 41.4% in 2002, while organised crime groups get better equipment for harvesting, transport, communication and defence. In many countries there are precedents of organised crime groups using threats and violence against forest guards to avoid prosecution and penalties.

Illegal logging causes damage to the forest property. In Central – Eastern European Countries illegal logging mostly takes place in private forests or in the forests with unclear owner (forests under restitution). Local analysis in Romania showed that private owners feel threatened by the timber robbery and that this menace was one important factor, which explained the private owners' behaviour on the cutting issue (Bouriaud submitted). It creates the situation “if I will not cut my timber, the others will steal it”. Bouriaud (submitted) writes about the situation created by forest laws in Romania and Latvia, that despite who actually committed the illegal act, the owner is liable.

Forest and forestry is one the main pillars of sustainable rural development. Forest sector in many countries is a source of direct and indirect employment. It creates potentially new work places and income opportunities mainly in rural areas. New employment possibilities are created through legal and illegal forest activities. Many people, including poor and unemployed, may derive an income from illegal forest activities if they do not have any other legal possibilities. In the case of stolen timber, as far as the volume is kept under control, and reported as “unknown origin”, the situation benefits to all involved stakeholders: rural inhabitants, forest guards, and local sawmills (Bouriaud submitted). The damage in terms of lost stumpage fees and taxes is externalised to the rest of society.

There are different actors involved in illegal logging activities in rural areas. In Bulgaria eight groups of actors in commercially oriented illegal logging have been identified (World Bank 2004). The main groups are ethnic minorities, with the public opinion identifying members of the Roma ethnic group as the main perpetrators, as well as poor and unemployed people in general. Thus poverty seems to be the main driving factor behind illegal logging activities in Romania in general. The motivation to commit an illegal act is based on the opportunity to

obtain wood at a very low cost and to make a significant profit. The World Bank (2004) study shows that the limitation of illegal logging will affect in an unfavourable manner the specified groups. Full restriction on illegal logging for personal consumption may lead to complete loss of income for some individuals involved in such activities.

4.2.4 Impacts on the forest sector and its image

Illegal activities lower the tendency to invest in long-term options. In an environment where the rule of law is weak, investment risks tend to be higher. When illegal opportunities are easily accessible, they render a higher profit and therefore are preferred by entrepreneurs (Contreras-Hermosilla 2002b). Weak legal framework and ongoing illegal forest activities hinder investments in sustainable forest management, international technical and financial assistance is reduced. Some argue that international donors tend to shy away forest projects and programmes in countries where law enforcement is weak (Contreras-Hermosilla 2002b).

Illegal logging and trade in illegally logged timber creates a bad image/reputation of the forestry sector in all levels – local, national and international. Local communities in the rural areas perceive the forest sector as “the bad people”, as they have more money. Communities presume that this money is received illegally. Mass media interest and some court cases have created a negative publicity for the forest sector in Estonia (WWF Latvia 2003a). Illegal logging also affects international reputation of the forest sector of some countries in a negative way and decreases competitiveness of their forest products on international market.

Due to the high level of international interaction in the forest sector today, illegal logging is also likely to damage the forest sector’s image globally. In some markets (e.g. public or commercial procurement) the result may be that in the end the decision is made for a “safe” substitution product, as to date there is no debate on e.g. illegal steel, concrete, fibre-glass, carpeting or plastics.

5 Conclusion and recommendations under the MCPFE-agenda

The conclusions for possible activities of the MCPFE are given in light of its activities at global and European levels as well as its implications for encouraging activities at national levels.

5.1 Commitments from the MCPFE-process in context with illegal logging and trade

5.1.1 Conclusions for the activities of the MCPFE in international processes

At the international level the MCPFE should support the ongoing initiatives (FLEG and FLEGT-processes). It should stress, however, that in the European context (with a relatively high share of small scale private properties) some issues have to be considered:

- The still existing need to arrive at a coherent definition of “illegal logging” at international level, using existing international institutions and processes as potential sources of legitimacy of any such definition.
- How far-reaching can “legality requirements” be demanded and realistically checked:
 - o E.g.: Taxation or labour legislation trespasses are very difficult to assess “ex ante”.
 - o Any systems introduced for “licensing legality” should also be feasible for small-scale properties in order to avoid that such systems are only affordable for large industry or state holdings
- In some countries (e.g. the Balkan region, or to some degree also the Baltic region) “illegal logging” occurs because existing legislation has not been adapted to the needs of small-scale owners. A simplification of procedures for small-scale holdings might avoid that small-scale owners “turn illegal” and also reduce the costs for public administration in this context.
- Additionally some considerations may have to be taken to ensure that local residents can make some use of (public) forest resources. Examples for the latter exist in the form of “forest use rights”, which exist for example in some regions of the Alps (e.g. Austria, Northern Italy, Southern Germany (Bavaria)). In such a context timber use and grazing rights are linked to individual farm holdings or to members of communities, have been set up in order to ensure the resource requirements of local residents. While the execution of historical rights in today’s changed socio-economic context is not free of controversy, the principle idea behind such arrangements still provides an interesting example.
- The practicalities of licensing more processed materials have to be considered. For many important trade-partners “round wood” is only of marginal importance, regarding volume and value. There are also increasing investments of European companies in important producer countries. As currently plans for license

requirements do not exist for e.g. pulp and paper, this would constitute a possibility to circumvent “licensing initiatives”.

5.1.2 MCPFE in Europe (i.e. among MCPFE-member states)

What can be done at regional European level – taking into account also the difference between “producer” and “consumer” countries as well as the different aspects (i.e. “subsistence level” and “industrial level”) of illegal logging?

- Aside from its activities at international level the task of arriving at an internationally agreed definition of illegal logging, which is sufficiently detailed to allow for an exact identification of the problem is certainly one, which an international institution such as the MCPFE should focus on. Representing some of the largest producers as well as consumers of timber on a global scale, any definition arrived at the level of the MCPFE would certainly have considerable weight in all international discussions of relevance to the topic.
- Highlighting the different aspects and the magnitude of the problem in order to tackle the problem “in Europe”.
- The discussion on the potential levels of illegal logging has also highlighted the fact that one of the problems in determining these levels is that existing information systems on production, consumption and trade of forest products are not sufficiently accurate and on time to be used as monitoring and indicator tools. This clearly highlights that such systems should be reviewed and if necessary revised in order to facilitate their use as a valuable information system for decision makers and also to install them as an early warning system to highlight potential irregularities.
- Analysis of potential candidates for FLEGT-partnerships in the field of international co-operation (with developing countries), taking into account the structure of trade (e.g. which products in which stages of processing).
- The MCPFE should use its influence to speed up the process towards a more concrete implementation of the EU-FLEGT action plan, where it could also act as an important liaison to potential candidates for voluntary partnership agreements in Europe. Currently also the evolving North-Eurasia-Ministerial Conference process can be identified as a possible venue for achieving more concrete results in this context.
- In this context also the role that MCPFE could play as a liaison body between the EU-FLEGT-action plan and the North-Eurasia Ministerial Conference should be stressed. The MCPFE is in a unique role to represent countries actively engaged in both initiatives and is the ideal forum for dialogue and joint initiatives. One possible venue for such a dialogue would be the MCPFE workshop on illegal logging planned for 2005.
- Public procurement policies are seen as an important instrument in creating a sound demand for “legal” timber. At the level of the MCPFE initiatives towards a co-ordination of such activities at European level could be taken. This should include an economic and policy evaluation of existing policies, which could further on result in the formulation of suggestions or guidelines. The latter is of special relevance given

the fact that in many countries regional or even local authorities are of high relevance for public procurement, and are often not directly bound by decisions at central levels.

- Realise that illegal logging is demand driven, making the buyers as much part of the problem as the sellers. MCPFE could put an effort into how market mechanisms could be encouraged to squeeze out products originating from illegal logging.
- The question of the desired level of impact of planned measures is important. MCPFE should try to define where an effort produces most value for money and focus on how and where to focus efforts efficiently.

5.1.3 Possible agenda topics for the 2005 MCPFE Workshop on Illegal Logging

Following the discussions during the MCPFE-ELM in Warsaw in October 2004, this report also arrives at some suggestions for possible agenda-topics for this event. Keeping in mind, that such a meeting is foremost a political rather than a scientific event, a focus on policy issues rather than research topics is suggested, while keeping in mind that science and research can contribute substantially to a more objective discussion in context with this sensitive topic.

Possible agenda topics thus include:

- Definition of “illegal logging” in context with policy processes at European level
- Coordination between EU-FLEGT-action plan and North-Eurasia FLEG-Ministerial Conference
- Coordination between European FLEG(T) initiatives and other FLEG-initiatives in other regions of the world
- Different forms and causes of illegal logging in Europe
- Successful examples of combating (forest law enforcement, enforcement of license conditions, trade measures) or avoiding (adaptation of legislation for small-scale use) illegal logging
- Successful examples of public procurement initiatives
- Successful examples of private sector procurement initiatives (timber procurement by forest industries)
- Methods for monitoring the level of illegal logging at national (and subnational) level
Suggestions for international recognition of approaches and methods
e.g.: Statistical approaches
Physical monitoring (including remote sensing)

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¹⁹ A considerable number of the references used for this report consists of documents available at the internet. Unless otherwise mentioned, at the date of the submission of this report (November 15th, 2004), all the links listed here were active.

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