

Chapter 2

Overview of the scope and impact of illegal logging

2.1 This chapter provides an overview of illegal logging across the globe with focus on Australia. It considers the social, economic and environmental impacts of illegal logging and worldwide initiatives to combat the trade before considering initiatives undertaken by Australia in the Asia-Pacific region and the current domestic self-regulatory approach.

The impact of illegal logging worldwide

2.2 The social, economic and environmental impacts of illegal logging are recognised as severe.¹ The Centre for International Economics (CIE) estimated that the social and environmental costs of illegal logging amounted to US\$60.5 billion per annum.² In developing countries, the significance of its impacts on forest degradation, climate change, habitat loss and community livelihoods are widely recognised.³ Estimates suggest that of the US\$60.5 billion, the cost of annual greenhouse gas emissions (based on estimates of global emissions) amounted to US\$43 billion.

2.3 In terms of the financial costs of illegal logging, a study by the CIE estimated that between 20 and 80 per cent of timber was illegally sourced in high risk countries. In 2006, the World Bank predicted that the financial losses to the global market from illegal logging was more than US\$10 billion a year and that losses of government revenues amounted to approximately US\$5 billion a year. The CIE also estimated that:

traded and non-traded output from those sectors of the global industry dependent on illegally-sourced timber as being worth US\$91 billion per annum, or 6% of total industry output. This estimate was derived on the basis of global efforts being effective in stopping illegal logging.⁴

2.4 In terms of the trade impact of illegal logging, the costs of legal log production have been estimated at between US\$63–76 per cubic metre compared to illegal log production costs of between US\$19–29 per cubic metre. Production costs

1 It should be noted, however, that establishing accurate estimates of the global scale and costs of illegal logging are hampered by limited transparency of the regulatory environments in producer countries as well as imprecise export and import trade statistics which make current methodologies unreliable.

2 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 7.

3 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 4.

4 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 7.

of illegal logging operations are far cheaper than those for legal logging because they may only pay the cost of harvesting and transportation, without internalising the costs of legal and sustainable activities such as forest management planning and environment protection.⁵

2.5 The social costs of illegal logging are far reaching and may include:

fees and other benefits associated with legal and sustainable logging, which would normally be returned to the community in various forms of social benefits beyond some arbitrary payments for harvesting timber, are foregone due to illegal logging. These include government taxes and charges which may be transferred to forest-dependent communities, the delivery of government services, and the social services provided directly to communities by legal logging companies, such as roads, education and health services, as part of their logging agreements.⁶

2.6 Other 'intangible' costs associated with illegal logging include a reduction in the standard of living, erosion of sustainable livelihoods, destruction of customary and spiritual and heritage values of forest dependent communities, human rights abuses, use and exploitation of illegal foreign workers, and a reduction in the quality of the forest environment, including contamination of food and water sources. The explanatory memorandum notes that these intangible costs 'extend to the citizens of consumer countries such as Australia, who place an immeasurable value on the existence of forests and sustainable use of those resources'.⁷

Costs and benefits involved in stopping illegal logging

2.7 The CIE estimates that putting a stop to illegal logging would benefit legal producers by US\$46 billion per annum in addition to providing social and environmental benefits amounting to US\$60.5 billion per annum. The CIE noted that:

These total benefits of US\$106.5 billion per annum would be off-set by a decline in the illegal sector of US\$91 billion per annum. From these results, the CIE indicated a benefit: cost ratio of 1.2:1 (106.5/91) from global action to stop illegal logging. In effect, it demonstrates a global benefit from eliminating illegal logging.⁸

2.8 The Australian Bureau of Agricultural and Resource Economics (ABARE) utilised alternative modelling to that of the CIE to establish that the net global benefit

5 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 7.

6 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 8.

7 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 8.

8 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 16.

from stopping illegal logging would amount to approximately US\$60.5 billion per annum after industry adjustment and restructuring. It estimated that global benefits would amount to US\$101.3 against the economic losses of US\$34.5 billion per annum.⁹ ABARE also estimated that if the outcome of eliminating illegal logging were achieved, Australia's GNP would increase by US\$155 million per annum.¹⁰

Global initiatives to combat illegal logging

2.9 The explanatory memorandum notes that whilst progress has been slow and limited at the multilateral level, significant advances have been made through bilateral cooperation between countries to reach agreement on processes for combating illegal logging and associated trade. The United States (US) and the European Union (EU) have developed policies and regulations to combat illegal logging and associated trade. Under the 2008 Amendments to the Lacey Act from H.R.2419, Sec.8204, it is unlawful to import certain timber products into the US without an import declaration or to import such products in contravention of the laws of the country where the timber is harvested.¹¹ The Council of the EU is currently developing a new regulation aimed at minimising the risk of placing illegally harvested timber into that market. The explanatory memorandum notes that a key element of both US and EU approaches is their focus on capacity building in developing countries to support their direct domestic policy measures.¹²

2.10 For their part, a number of key producer countries, including Indonesia and Papua New Guinea (PNG), are developing legality verification, chain of custody and forest certification schemes in response to mounting pressure from consumer countries to demonstrate the legality of their timber products.¹³

2.11 The Australian Government is seeking to address the issue of illegal logging in other countries through non-regulatory measures including capacity building and bilateral and multilateral engagement. Highlights of this action include:

9 *Explanatory Memorandum*, Illegal Logging Prohibition Bill 2011, Consultation Draft– 23 March 2011, p. 16.

10 The explanatory memorandum notes that this estimate does not include the compliance costs associated with legal verification which have previously been shown to be significantly less (*Explanatory Memorandum*, Illegal Logging Prohibition Bill 2011, Consultation Draft– 23 March 2011, p. 25).

11 United States Government, Amendments to the Lacey Act from H.R.2419, Sec.8204, http://www.aphis.usda.gov/plant_health/lacey_act/downloads/background--redlinedLaceyamndmnt--forests--may08.pdf (accessed 23 May 2011).

12 *Explanatory Memorandum*, Illegal Logging Prohibition Bill 2011, Consultation Draft– 23 March 2011, p. 6.

13 *Explanatory Memorandum*, Illegal Logging Prohibition Bill 2011, Consultation Draft– 23 March 2011, p. 6.

- the Asia Pacific Forestry Skills and Capacity Building Program which provides institutional and technical support to developing countries to combat illegal logging and promote better forest management;
- bilateral cooperation agreements with China, Indonesia and PNG including cooperation arrangements for combating illegal logging and promoting sustainable forest management;
- Australia as a signatory to a number of multilateral agreements and processes including the United Nations Forum on Forests, Asia Pacific Forestry Commission of the Food and Agriculture Organisation, and International Tropical Timber Organization.¹⁴

2.12 According to the explanatory memorandum, complementary regulatory and non-regulatory measures have now reached a point of development where a new international policy environment has been established. It noted further that:

These efforts create an environment which enables individual nations, such as Australia, to more effectively combat illegal logging and associated trade by establishing domestic policy settings to allow a differentiation of legally and illegally-sourced timber products. The effectiveness and costs of these domestic policy settings will be strongly influenced by the government's commensurate investment in regional capacity building and bilateral and multilateral engagement.¹⁵

Impact of illegal logging on Australia

2.13 Australia imports approximately \$4.4 billion worth of timber and wood products (excluding furniture) annually. According to the explanatory memorandum, Australia's proportion of illegally sourced timber products has been estimated at 9 per cent of total worldwide imports or around \$400 million (US\$340 million) which is the equivalent of 0.034 per cent of global production. However, as many processing mills supply their manufactured products for domestic consumption and export to other countries, the illegal logging problem for consumer countries such as Australia extends beyond the impacts associated with just the traded products. Australia's share of the problem is, therefore, estimated at US\$21 million per annum.¹⁶

2.14 According to the explanatory memorandum, whilst domestic timber harvesting is controlled through a comprehensive framework of laws, regulations and policies, timber is imported into Australia without any requirement for verifying its legality, other than through voluntary industry measures. Where a regulation exists,

14 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 9.

15 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 6.

16 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 9.

such as under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) management, 'only a limited number of timber products would need to comply and therefore indirectly meet the government's election commitment to restrict illegally logged timber imports'.¹⁷

2.15 The explanatory memorandum details the impact of illegal imports into Australia:

Illegal imports, because of their lower prices, create unfair competition for Australian producers and suppliers who source their products from legally and sustainably managed forests. As a consequence domestic market prices are undercut, impacting on business decisions, industry investment, business profitability and jobs.¹⁸

2.16 Concerns regarding the impact on local industry have also been raised by those within the industry. The Australian Forest Growers, for example, noted in 2009 that whilst the impact has not been clearly measured, the import of illegally logged timber creates an 'artificially low market price that undercuts Australian products and consequently negatively distorts the Australian timber market'.¹⁹

Current self-regulatory approach

2.17 Under the current self-regulatory scheme, there is no national approach or consistent use of measures that provide industry-wide assurance of legality for timber products imported or sold in Australia. The explanatory memorandum notes that only a small number of businesses and industry associations have implemented legality assurance measures. Moreover, some within the industry take the view that no action should be taken because the cost of any governmental action would be prohibitive and generate negligible benefits.²⁰

2.18 Amongst the concerns raised in relation to the self-regulatory approach is that industry is uncertain as to what constitutes an adequate level of legality verification for timber products and that not all business enterprises undertake equivalent levels of legality verification. The explanatory memorandum explains further:

Industry is concerned that some businesses undertake no legality verification of their products (free-riders) and may obtain an unfair market

17 *Explanatory Memorandum*, Illegal Logging Prohibition Bill 2011, Consultation Draft–23 March 2011, p. 5.

18 *Explanatory Memorandum*, Illegal Logging Prohibition Bill 2011, Consultation Draft–23 March 2011, p. 5.

19 Australian Forest Growers, Submission to Proposed new policy on illegally logged timber, 30 November 2009, Submission 5, p. 3.
<http://www.thecie.com.au/RIS%20illegal%20logging/5%20-%20Australian%20Forest%20Growers.pdf> (accessed 2 May 2011).

20 *Explanatory Memorandum*, Illegal Logging Prohibition Bill 2011, Consultation Draft–23 March 2011, p. 10.

advantage from sourcing cheap, potentially illegal, timber as well as the impacts that illegally-sourced timber products can have on market prices. This provides an economic benefit over companies which seek to ensure the legality of their products, thereby creating distortions in the market place.²¹

2.19 Self-regulation by way of voluntary measures is currently implemented through a mix of guidelines, codes of conduct and procurement policies for the purchase and sale of legally sourced timber. According to the RIS, there is limited independent auditing or monitoring of performance against such schemes and system requirements making the effectiveness of such measures in excluding imports of illegal timber difficult to determine.²²

2.20 In terms of impact of the current approach, the CIE, which authored the RIS, concluded that the voluntary arrangements were 90 per cent effective on the basis that an estimated 10 per cent of Australia's timber imports are suspected of being derived from illegally-logged timber. The removal of the self-regulatory scheme would see illegal imports increase to an estimated 20 per cent of Australia's total imports.²³

2.21 As for the costs associated with combating illegal logging, such efforts currently cost the government US\$5 million per annum and include capacity building, bilateral cooperation and multilateral engagement, as well as ongoing work on the part of the Department of Agriculture, Fisheries and Forestry.²⁴

21 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 10.

22 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 10.

23 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 16.

24 *Explanatory Memorandum, Illegal Logging Prohibition Bill 2011, Consultation Draft*–23 March 2011, p. 16.