

Roundtable on Sustainable Tropical Timber

SUPPORT TEXT | 1º Meeting | July 10th, 2013

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TRAFFIC
the wildlife trade monitoring network

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Support Material to the Roundtable on Sustainable Tropical Timber

Executive Summary

The **Roundtable on Sustainable Tropical Timber**, aims to **facilitate** the intersectoral dialogue, to develop an organizational arrangement model, multisectoral, anchored on common goals identified by the different stakeholders in the forest sector in Brazil, with the purpose to achieve feasibility of the sustainable timber market in the country, through negotiation spaces in a joint and unison proposal to be discussed and presented to the Brazilian Government. For this, the interested parts should assess, in a participatory way, the challenges and opportunities of the system and criteria related to the sustainability of the Amazon tropical timber chain. Promoted by the *Rede Amigos da Amazônia / Fundação Getulio Vargas*, in partnership with the *WWF-Brasil* and the *Traffic Internacional*, the Roundtable has the support of the European Commission, Forest Legality Alliance and the World Resources Institute.

The multisectoral organization arrangement model proposed to formalize the Roundtable seeks to gather the interested parts around a specific theme or sector and it can be composed by individual stakeholders or institutions with direct or indirect interest over the theme being worked. From the definition of the representativeness model of the groups, they articulate themselves in the decision making process regarding problems or common goals, through the facilitation of an open dialogue. In this sense, more than a practical exercise, the Roundtable has as main purpose becoming an aggregator entity, that facilitates the dialogue of this group and gather the actors that influence the sustainable tropical timber market in Brazil. Initially, the Roundtable on Sustainable Tropical Timber will focus its efforts on four intersectoral and regional meetings, in order to expand its representation.

To subsidize the first meeting of the Roundtable, this material reflects studies, researches and opinions from experts and presents the results of the Panel Dialogues: Legal Timber Market in Brazil, organized by the RAA|FGV and WWF-Brasil in September, 2012 that had as goal to discuss the main bottlenecks on the custody chain of tropical wood and suggest changes to deal with the presented challenges. Yet, it reflects the results of the annual meeting of the *National Forum of Forest-Based Activities (FNABF)*, that happened on 13th June 2013, in Brasilia, and that had wide representation of the forest sector, including government, industry and civil society.

This material summarizes some of the main points raised by the Panel and the FNABF study, bringing opportunities and suggestion for changes in order to resolve the presented challenges.

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Wood and its origin

Tropical forest timber can be legally extracted through the deforestation authorized by the state of federal environmental body or by the approval of a Sustainable Forest Management Plan (SFMP) with planned and controlled exploitation techniques.

Besides legal extraction, there is the illegal logging, performed without the authorization of the government and performed, as a rule, in a predatory way, generating degradation. In the current scenario, it is estimated that, on average, 33% of Amazon timber production is from illegal sources (Imazon, 2010).

The term "sustainable tropical timber" is chosen as a reference throughout this document, as the product can be obtained from various sources and is intended to highlight those that comes from native areas and that meets a set of sustainability principles in the entire supply chain. The term "sustainable tropical timber" adds different principles: tropical wood refers to wood from native forests of Brazil and not of species that are exotic to the biome. The term sustainable is considered to be as the one that embraces legal compliance, environmental, social and economic criteria of the supply chain and commercialization. The following table describes, briefly, the characteristics of timber according to its origin, forms of exploitation and commercialization.

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Definition	
	<p>Illegal Timber</p> <p>Extraction with no social or environmental criteria; Linked to corruption and tax evasion; Promotes unplanned forest degradation.</p>
	<p>Legal Timber</p> <p>Extraction approved by management plan or authorized deforestation;</p>
Regarding form of exploitation	Meeting of, at least, social criteria (working laws), transportation (DOF, Sisflora), and tributary.
	<p>Sustainable Timber</p> <p>Legal extraction, obtained through sustainable forest management plan, meeting environmental criteria (environmental law and treaties), social (working laws), transportation (DOF, Sisflora) and tributary. It may also include the continuous monitoring of the supply chain and product traceability.</p>
Regarding its origin	<p>Tropical Timber</p> <p>Wood original from Brazilian native forests or native species tree plantations.</p>
	<p>Exotic Timber</p> <p>Wood original from non native species, adapted to the Brazilian climate.</p>

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Bottlenecks and challenges on timber legality

Many studies point out that, to address timber illegality, it is necessary to face many challenges at the same time. The illegal timber exploitation is systematically related to other challenges linked to the Amazon Forest, such as the biome conservation, the responsible use of natural resources, the income generation for the forest peoples and territorial development. Associated to timber illegality are the difficulties related to command and control, which makes even more relevant the attention to the Amazon native timber supply chain, and to the low institutional capacity of the institutions which are responsible for implementing those public policies.

Another big bottleneck, according to some organizations, is the lack of available information and transparency on the sector, a fundamental element on the definition of legality and effective implementation of public policies that foster the legal market.

Added to implementation problems and feasibility of public policies regarding the sector, stands out the lack of coordination among the demands from various organizations and the productive classes of the timber chain workers. In this sense, the feasibility improvement of the tropical timber custody chain is the main goal of the *Roundtable on Sustainable Tropical Timber*.

It is proposed the adoption of a multisectoral organizational arrangement model as a structure to address and resolve the problems of sectoral dialogues so, when coordinated, the sector can be able to address the proposal of problems' solutions related to the policies that influences it.

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General proposals for forest governance – institutional strengthening

It is understood the lack of cohesion in the public policies governance of native forests, these being subject to excessive bureaucracy, corruption and fraud in licensing for timber, reflecting irregularities in the approved management plans, lack of staff, lack of structure and lack of training for inspection. The private sector, in turn, lacks technology, skilled labor and adequate infrastructure for the sustainable forest management, worsened by weaknesses and lack of integration of public control systems.

So, it is then created a scenario of precarious public governance at the forest sector, given that the current public policies system is not able to mitigate the identified problems. For example, the law 11.284/2006 transfers the forest management to the states, that currently are not yet fully prepared for the new tasks, creating a scenario of environmental bodies on states and municipalities with low institutional capacity and structural deficiencies.

Facing these problems, it is identified the need to improve public governance on native forests, given that the growing demand for timber requires the expansion of access to legal sources, with planned monitoring which, on the other hand, requires integrated actions between federal and state government bodies. It is understood, yet, that a better operability of forest governance, created by a coordinated and transversal policy among ministries and economical incentives to the sector may reduce transaction costs and processing time and attract new forest enterprises to operate the areas of concession, added to the improvement and new management instruments on the Ministry of Environment and other ministries (eg. MAPA, MDIC, MJ, MTE) and relevant institutions (MPF, MPEs, etc.)

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Background on the Roundtable

Panel Dialogues: Market of Legal Timber in Brazil

In September 2012, the panel fostered discussions among relevant actors of the custody chain of Amazon timber, promoted by the Rede Amigos da Amazônia and WWF-Brazil as external mediators of the sector. It aimed to promote dialogue among production operators and consumers of the custody chain, having identified the region of São Paulo as key, especially by the fact that it holds the largest share of companies that consume timber. According to the report “Hitting the Target I”, 17% of the Amazon tropical timber is consumed in the State of São Paulo.

The discussions that happened during the Panel points three main bottlenecks faced by the sector, related to the perspectives of prospecting internal market, mainly related to fighting illegality and commercial incentives:

- Fiscal and taxation policy
- Improvement on the electronic systems of timber control (eg. DOF)
- Monitoring

As a result of the Panel, three documents were constructed, organizing the main bottlenecks for that sample of chain operators, as well as effective proposals for their solution.

Annual meeting of the National Forum on Forest-Based Activities (FNABF)

Took place in Brasil, on 18th July 2013, the annual meeting of the Forum, which was fundamental for the forest sector to reinforce its proposal to the strengthening of a sustainable forest economy to the country. Together with the Brazilian Association of Mechanically Processed Timber Industry (Abimci), was released a Sectoral Study for 2013, a yearbook that will raise indicators of production and consumption of timber in Brazil, as well as nacional and external commerce for product and balance of trade. Will be collected socioeconomic data such as job and income generation, installed capacity and the universe of companies acting in the forest sector. The yearbook will be produced until the end of September by the STCP Project Engineering, which will also provide market perspectives for 2014.

Results to be facilitated with the establishment of a Roundtable on Sustainable Tropical Timber:



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1. Proposals for the adoption of fiscal and tax incentives to an industry of traceable and sustainable timber;

Affected by excessive taxation, especially on the sales, the high taxation of the timber sector makes illegal timber to be more economically attractive, discouraging the legality and growth of the sector and, as consequence, the results of the tax policy itself. Furthermore, it is pointed as a consequence of the high taxation the preference for opening small businesses, which means less taxes, at the expense of larger companies that may favor the development on a larger scale.

Added to this scenario, it was identified the preference for substitute products, such as steel or cement that, even with highly unsustainable processes, have more attractive tax exemptions.

In this sense, it is proposed:

- To decrease the tax burden so reputable enterprises can join the market and survive on it;
- To create a meaningful differential to timber that is proven to be original from sustainable management, to encourage the growth of this industry.

With these measures, it is expected to reach the advantage for the use of sustainable or certified source timber. In a more specific way, it is expected:

- Reform of tax policy related to sustainable timber, in a way to encourage the formalization of the production chain;
- Maintenance of tax collection through the formalization of many producers, which are informal today or are using many companies that fits into the “Simples Nacional”;
- To create a tax registration system linked to the registration of credits for exploitation and trade of timber, avoiding tax evasion and the turnover of opening and closure of companies without fulfilling their pertinent legal obligations.

2. Proposal for improvements on the electronic systems for timber control

The discussions that happened on the panel also discussed the DOF System – Forest Source Document, an electronic system controlled by IBAMA that corresponds to a mandatory licence to control transportation and storage of native forest products and subproducts.

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However, the proposal to be developed by the Roundtable should embrace the other existing control systems in Brazil. These systems, such as the DOF and Sisflora, for example, should enable the timber traceability since its origin, throughout all its custody chain.

The difficulties start with the approval bureaucracy for the forest management plans by the licensing institutions, problems on identification of species, problems of registration and ratification of patios and a big amount of companies with pendencies on the Technical Federal Registry, which prevents the regular operation at the DOF system.

The DOF system, even though it represents an evident improvement on the control of native forest products and subproducts, presents weaknesses that allow big amounts of illegal timber to be transacted by a process called “heating” of the wood, irregular procedures on the management of the DOF system that allows the transaction of the timber with fake legality. This situation is widely divulgated as a bottleneck by the media and recognized by authorities.

Among the factors that favors the “heating” of the timber, it is pointed the lack of trust on information at the origin, given that there is not enough technical body to control, lack of integration among the state operating systems (DOF, Sisflora, among others) and the lack of integration with data at the Federal Income Tax Office. Yet, there is the possibility of fraudulent offers of timber credits allowed by the system, in which the selling is approved to, many times, irregular or inexistent companies.

Another problem is the destination, use and calculation form of the conversion index of 45% roundwood to sawn wood determined by the system. Given that the efficiency differs from each specie and product specification, many leavings of conversion in the DOF systems are used as possibility to enter (heating) illegal timber, extracted without authorization.

In this context, it is proposed:

- Transparency of information about the management plans approved by the licensing bodies, that should be made available in an unified, transparent, single and centralized database. It is issencial that the geographic coordinates are presented, as well as the total area, technical responsible with CREA, the responsible for approving the plan and also if there has been inspection at the place;
- Improvement of the information systems, so it can be unified and have information audited;
- Insertion of logic filters, that complicates the insertion of inconsistent data;

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- Keep the registry of patios from individuals and legal entities and end the need for ratification at the CTF/IBAMA;
- Eliminate the fix conversion rate and introduce a report system of efficiency (declaratory), as well as to create a database by species and specification;
- Create a mechanism for regularization of companies with pendencies at the CTF.

3. Proposals to improve the policy of sustainable forest management timber public purchases

Despite the advances that happened with the DOF system implementation, it still presents weaknesses. The lack of an efficient and intelligent structure for inspection contributes to keep a great share of the transacted timber in Brazil being from illegal sources.

These bottlenecks are complex and require a joint and organized involvement of civil society, private sector and government, to allow a favorable environment, with negotiation spaces and integrated actions, in order to create a Forest Policy in Brazil.

The governmental inspection, in all levels, presents huge challenges, especially due to the lack of integrated actions on the various governmental levels and, on the other hand, the overlap of roles and responsibilities. Besides these factors, there is a low investment in their actions, shortfall of human resources to execute the actions which the government is responsible for, a high degree of informality among the involved actors and incipient technology and not widely accessible electronic inspection systems.

The complaint spaces for civil society to report illegal timber transactions, on the other hand, are not structured nor promoted.

In this sense, it is proposed:

- That the Caixa Econômica Federal demands from the final consumer (individuals and companies) invoices with the DOF, related to tropical timber used on constructions of habitations, funded by the Habitation and Construction Secretary, as requirement to release the funding phases;
- The demand, from municipal governments, to present the DOF to liberate the “Habite-se” to enterprises from individuals and companies;
- Requirement that federal entities use the registration form at CTF in their direct and indirect public purchases, such as the Cadmadeira (Registration of Timber Traders of São Paulo State);

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- Development of replicable offline technologies, low cost and effective in the electronic identification of timber species;
- Training of specialized agencies to assist the surveillance operations by the environmental police and also on the roads, increasing the actions taken by the government;
- Co-accountability of state inspection authorities (tax and road) to check the DOF and invoices;
- Involvement of municipalities - development of agreements models in which the municipality provides agents to conduct surveys in deposits and patio yards, in partnership with the Environmental Police and environment secretaries. These modules should be designed and articulated between the state and municipal secretaries and IBAMA;
- Creation of a single denounce channel that integrates those existent, guaranteeing the publicity, transparency and feedback of investigation;
- Promotion of campaign to divulgate the risks of illegal timber and the mechanisms for verifying legality;
- Purchase campaign for forest based products, encouraging the consumer to choose environmental sustainability.

Final Considerations

The associations from the Brazilian forest industry represent around 4% of Brazil's Gross Domestic Product (GDP), 7% of its exportations and two million direct jobs. However, the sector lacks a political agenda articulated for the Native Forests theme, proportional to its social and economical importance.

The forest scenario's need for rebuilt encompasses matters that involve both the market and the environmental aspects. It is understood, more and more, that the illegality framework of tropical timber impacts greatly the legal market, causing also irreversible damages to the environment which, at the medium and event short term, would result in timber scarcity.

The matter of deforestation has been a reason for attention and discussions both at the national and international level, in the past decade. The decrease of deforestation rates in this period is attributed to, in part, to a pressure effort and joint action from entities of civil society and government, through the improvement of command and control instruments (monitoring), adopted in the Amazon.

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Despite the recognition of Amazon's importance for its climate and biodiversity, today, it is a step beyond, associating the conservation with the economic matter and, in that direction, the effective viability of the sustainable forest management will be the best way to avoid the invasion of areas and, as consequence, the deforestation and illegal timber extraction in the Amazon. The multiple use of the forest, with sustainable criteria, is the pathway to be followed, through institutional arrangements that can operate in an organized and coordinated way, to guide the economical development of the region with the Biome's conservation.

In essence, with approximately 24 million inhabitants, the Brazilian Amazon could be preserved if it is brought to the economical and social development, the concern with the responsible use of timber both at the Amazon region itself and at the big consumer centers in Brazil.

During the last decade, many actors among forest based organization and businesses, non governmental organizations, research institutions and diverse government bodies have been, gradually, joining efforts, deepening the knowledge and aiming to raise priorities for the Brazilian Amazon.

Recently, the emergence of some international policies has brought exportation to the debate of Brazilian native timber traceability. Laws such as the Lacey Act, of USA, and the European Union Timber Regulation – EUTR/FLEGT, have been aiming to strict the import criteria on tropical timber, aiming to assure the action against illegal sources and promote traceability of the product at the international market.

In the national environment, some advances are happening in the context of sustainable public purchases, with the edition of state and federal norms listing socioenvironmental criteria for government purchases. In this sense, some work have been done aiming to capacitate employees and subnational governments in the acquisition of native timber of legal sources on direct purchases (furniture) and indirect purchases of governments (such as constructions and engineering services).

The forest concessions, foreseen at the Law 11.284/06, are great opportunities to increase the supply of sustainable managed timber and require a fastest pace at the bidding process, economical instruments that differentiate the timber product at the market and destination of non affected public forests as production forests.

To achieve the necessary changes, the multisectoral dialogue has been strategic. Some initiatives are showing some results, such as the Annual Meeting of the National Forum of Forest Based Activities, in which participated not only furniture industries, loggers and similar, but also the third sector and representatives of the Federal Government, such as

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the Ministry of Commerce and Industry and Ministry of Environment.

The Roundtable on Sustainable Tropical Timber aims to promote a multisectoral organization arrangement model for the Brazilian forest sector, which will be a space of encounters and synergies, on which the construction of common themes and demands is the first step for the group's cohesion. The process will have as a goal also to promote negotiation spaces with the public sector, so they can improve public policies and make possible a more solid market for sustainable tropical timber.

To increase the knowledge on the theme, we suggest the following readings:

Relatório “Acertando o alvo” – Imaflora

“Madeira de Ponta a Ponta” – RAA

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