



Asia-Pacific
Economic Cooperation

FINAL REPORT

APEC EGILAT Policy Theme:

Advancing the Trade
and Distribution of
Legally Harvested
Forest Products

APEC Experts' Group on Illegal Logging
and Associated Trade (EGILAT)

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Overview

The APEC Experts Group on Illegal Logging and Associated Trade (EGILAT) two-year policy theme commenced in 2019, focusing on ‘Advancing the trade and distribution of legally harvested forest products’. Recognising that private sector entities are the key players in the trade and distribution of forest products, the policy theme sought to engage this cohort to identify:

- the issues they face in legal forest product trade;
- the potential actions that might be undertaken to support them; and
- the resources and materials available to help.

This report details the three distinct streams of work that were progressed under the policy theme:

- 1) a series of stakeholder workshops to identify challenges and opportunities for the private sector;
- 2) a private sector survey to capture the views of a broader range of industry organisations; and
- 3) the development of a ‘Compendium of Resources’ to draw together existing tools, materials and resources to understand and navigate the legal frameworks of various economies.

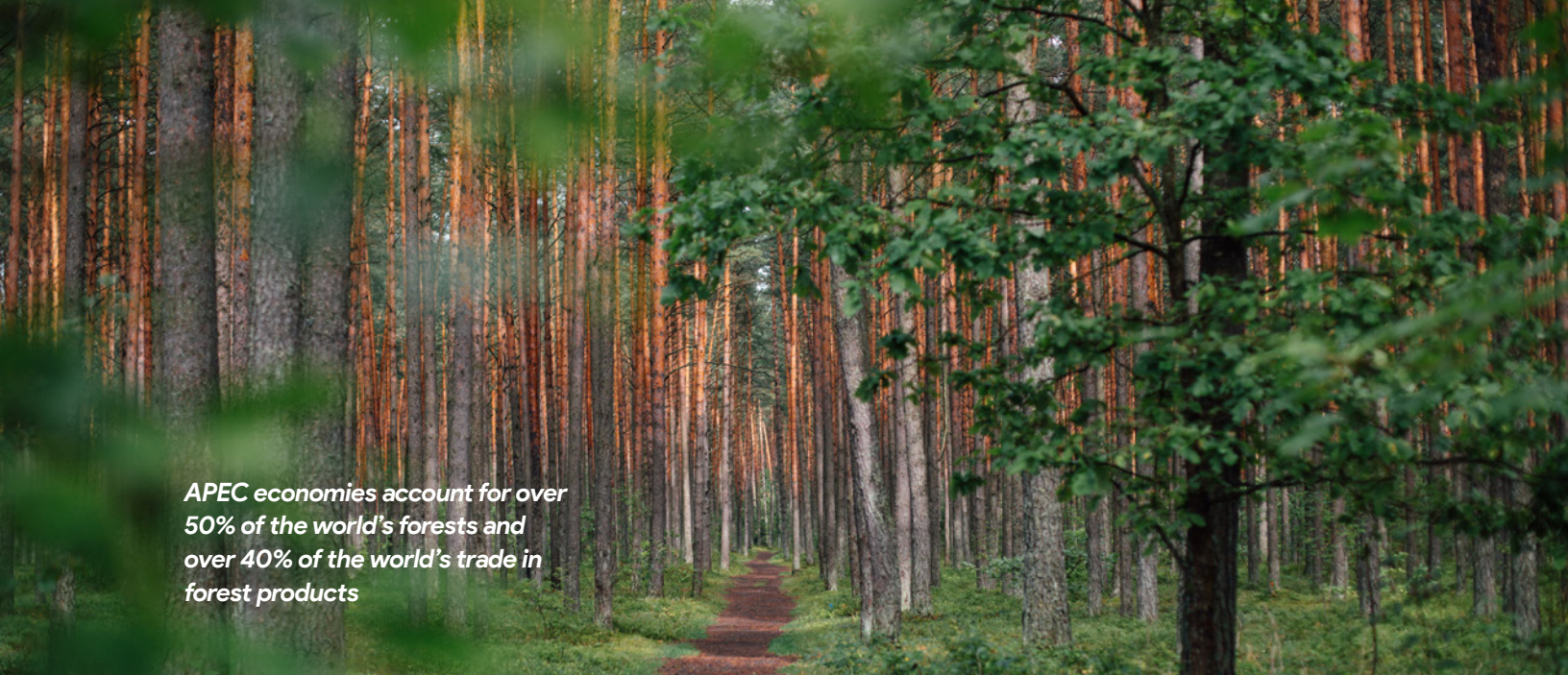
The report outlines the key themes and challenges identified by each work stream, and explores the opportunities identified through stakeholder workshops and by survey respondents, including options to optimise use of the Compendium of Resources.

Across the three work streams, the report identified several overarching and common themes and opportunities regarding the future role of EGILAT and member economies to encourage the legal timber trade. These include:

- working between governments to deliver consistency between regulatory framework requirements where possible
- providing consolidated and current data and information on the resources available to identify applicable timber laws and assess risks
- supporting capacity building around trading in legal products, through various means
- supporting the use of new and emerging technologies, including in the provision of data
- raising awareness and incentives for timber legality
- cooperating around addressing non-compliance and fraudulence.

The report provides eight recommendations for consideration. These recommendations will help shape EGILAT’s future work plan, within the bounds of its mandate, tools, and resources. Stakeholders reflected that the work of the current policy theme was highly valuable and encouraged continued engagement between EGILAT and the private sector into the future, carrying forward the positive momentum. Indeed, this cooperation between APEC members and partners, including the potential for shared resourcing, commitment, and effort, will be pivotal to delivering greater tangible outcomes through the implementation of all, or selected, recommendations.

EGILAT would like to express its gratitude to the representatives of the private sector, civil society, international organisations, and member economies who contributed to the policy theme, particularly through their active participation in the workshops and private sector survey. Their expertise and shared views have been fundamental in shaping this important work. EGILAT looks forward to continuing these valuable partnerships into the future.



APEC economies account for over 50% of the world's forests and over 40% of the world's trade in forest products

Introduction

Illegal logging and its associated trade is a global problem that significantly undermines the sustainable use of forest resources. The United Nations Environment Programme and INTERPOL estimate that illegal logging represents an annual cost to the global community of up to US\$150 billion a year. It is a crime that has wide-reaching impacts across ecosystems, communities and economies, resulting in devastating environmental impacts, crippling biodiversity and destroying a much-needed counterweight to carbon emissions.

“private sector entities are the primary actors in the international trade in forest products... their knowledge of, and compliance with, legal requirements will be critical to achieving EGILAT’s goal”

APEC economies account for over 50 percent of the world’s forests and approximately 80 percent of the global trade in wood products. APEC has committed to showing leadership in the fight against illegal logging as a matter of priority. In recognition of this, at its 15th meeting in Santiago, Chile in February 2019, APEC’s Expert Group on Illegal Logging and Associated Trade (EGILAT) agreed to implement a two-year policy theme focused on ***“Advancing the trade and distribution of legally harvested forest products”***.

The policy theme recognises that private sector entities are the primary actors in the international trade in forest products and that their knowledge of, and compliance with, legal requirements will be critical to achieving EGILAT’s goal of promoting the trade in legally harvested forest products. It also reflects the emergence of a range of legal frameworks regulating trade in legally harvested forest products in and beyond the APEC region. These frameworks signal a growing need for private sector operators to understand and manage the risk associated with timber legality.

EMERGENCE OF TIMBER LEGALITY FRAMEWORKS

Within the APEC region, the economies of Australia, Indonesia, Japan, the Republic of Korea, Malaysia, the United States and Vietnam have all introduced laws that regulate the international trade in legal forest products, with several other APEC economies in the process of developing similar laws.

In implementing the policy theme, EGILAT has sought to identify:

- the issues faced by private sector entities throughout the timber supply chain in trading in legally harvested forest products;
- the existing resources and materials that are available to help private sector entities trade in legally harvested forest products; and
- potential actions that could be undertaken by APEC economies (on an individual or collective basis) and other stakeholders (including the private sector, civil society, and international organisations) to support the trade in legally harvested forest products.

In order to deliver these policy theme goals, three separate streams of work were identified:

- 1) a series of **stakeholder workshops** to engage member economies, relevant NGOs and the private sector to develop broader understanding of the problem, outline solutions, and explore how APEC and EGILAT can best support the trade in legally harvested forest products;
- 2) a **private sector survey** to further draw out an understanding of the challenges of dealing in legal timber supply chains, and opportunities to address them; and
- 3) the development of a **compendium of resources** to draw together resources, tools and materials to assist operators in the supply chain to understand and navigate various economies' legal frameworks and help determine legality, in order to facilitate the trade of legally harvested forest products.

This report brings together the three streams of work, outlines the challenges and opportunities from EGILAT's engagement with stakeholders, and makes recommendations for the future work program of EGILAT to support trade in legally harvested timber products, including strengthened engagement with relevant stakeholders.



Exploring the Policy Theme

The policy theme for Advancing the trade and distribution of legally harvested forest products commenced mid-2019 with the first stakeholder workshop in Puerto Varas, Chile on 16 August 2019. The second workshop was held in Putrajaya, Malaysia in February 2020, and the third workshop was hosted virtually by New Zealand in May 2021. The fourth and final stakeholder workshop dialogue took place on 29 September 2021, once again hosted virtually by New Zealand. This final discussion welcomed back previous participants of EGILAT policy theme events and activities and other relevant stakeholders, to reflect on the progress and findings of the three workstreams. Participants considered opportunities and actions that could be undertaken by EGILAT, APEC economies and other stakeholders to facilitate and support trade in legally harvested forest products in the future.



Stakeholder Workshops

The stakeholder workshop series brought together a range of public and private sector organisations from across the APEC region (as well as selected stakeholders from other economies and organisations) with four key objectives:

1. To understand the challenges faced by private sector entities throughout the timber supply chain in trading in legally harvested forest products;
2. Explore the measures that have, or could be, adopted to overcome these challenges and leverage these opportunities;
3. Identify the existing resources or materials that are available to help private sector entities trade in legally harvested forest products; and
4. Seek industry insights into the design of initiatives related to the policy theme, namely the development of a compendium of timber legality resources and an APEC-wide survey of timber industry members and associations.

Workshops drew on multiple information sources and mediums, including expert presentations on experiences trading in legally harvested forest products, break out group exercises, and interactive sessions including panel discussions. Participants identified several key themes and challenges facing the private sector in trading in legally harvested forest products, which are summarised below.



Key themes and challenges

Dealing with diverse and complex information and legislation

Diversity of legislative requirements at the point of harvest - Most timber producing jurisdictions have their own forest legality frameworks, each with their own harvesting, processing and trade requirements. Similarly, each jurisdiction has its own documentation, certification, and licensing arrangements, all of which are prone to regular amendment. For businesses dealing with these frameworks, it can often be extremely difficult to determine exactly what ‘legal’ timber looks like and what supporting documents and materials can be gathered to verify information supporting legality.

Variety of new and emerging timber trade laws

Over recent years particularly, several economies have introduced legislative frameworks that seek to limit the trade in illegally harvested forest products. Each of these has come with their own definitions of legality and methods of compliance, which can make it challenging for businesses to stay abreast of developments and comply with new or differing requirements. This trend is likely to increase as more economies implement their own timber trade frameworks in response to illegal logging.

Confusing diversity of resources to draw upon

A wide range of resources exist that can provide the private sector with potentially useful timber legality risk profiles, legal information, system guides, risk tools and information. All of these can assist in assessing and managing timber legality risks. However, this information is often disparate in nature and quality, and can be complex in practice to access or use effectively. Given the range of products available, and the sometimes conflicting information in the products, it can be difficult to determine what to use and when.

“Timber supply chains can also be incredibly complex, with mixing of timber sources a normal part of many timber distribution channels, sometimes passing through multiple entities and processes.”

Gathering information

Varying levels of understanding and commitment from suppliers

In many cases, a business managing their legality risks will be reliant on their suppliers for information about the product they are sourcing. While some businesses will have enough market power or effective business relationships to ensure they are provided with relevant information, other businesses may struggle to get sufficient reliable information. Suppliers themselves may be unaware of where their timber is sourced from, indifferent to any requests for information, or even protective of their own supply chains (fearing their clients will go around them). A lack of credible timber suppliers and partners can also make it hard to find legitimate sources.

Use of agents and intermediaries

In many cases, businesses will rely on other parties, such as agents and brokers, to source their timber. This can reduce or limit the visibility of supply chains, encourage one-off or transitional supply arrangements, and limit a business' ability to require traceability. Many also feel that this 'middle' section of the timber supply chain is not well captured by existing timber legality frameworks.

Non-timber businesses trading in forest products

Many businesses deal with forest products only on a peripheral or infrequent basis, or as a small part of a diverse range of products. These businesses often move in and out of timber supply chains, only accessing them to supplement or diversify their core business and may not see themselves as explicitly trading in 'forest products'. In these cases, they are likely to have a more limited understanding of the issue of illegal logging and the operation of timber legality frameworks, and accordingly often are less advanced in implementing systems to manage the associated legal risks.

Differing levels of complexity/transparency

Forest products can take a range of forms, from unprocessed timber to more complex and heavily engineered products. The more complex or processed the product, the harder it can be to determine the species of timber, original source and legality. Timber supply chains can also be incredibly complex, with mixing of timber sources a normal part of many timber distribution channels, sometimes passing through multiple entities and processes. This means that for some products it can be very challenging to determine legality. The complexity of timber supply chains and traceability was widely recognised by participants in EGILAT's stakeholder workshops.

Language barriers

In many cases, supporting documents and resources are only available in local languages. This can present a significant barrier to businesses understanding what they are buying, where it is from, and whether it is legal.



The trade in illegally harvested timber is often facilitated through corrupt and fraudulent practices.

Resourcing and cost constraints

Limited capacity to manage risks

The limited capacity of some private sector entities (particularly MSMEs) to identify and manage risks in their timber supply chains remains a key challenge. Businesses need experience, resource capacity and expertise to conduct supply chain risk assessments, often abilities that they are lacking.

Challenges for MSMEs can include:

- complying with regulatory requirements
- difficulty accessing affordable, legally-sourced timber
- fragmentation and limited representation
- limited operating margins.

Some legality requirements and certification schemes are also not well adapted to the small scale at which MSMEs operate.



Limited capacity to absorb compliance costs

Managing timber legality risks can require significant time and resources. Legality needs to be embedded into the businesses' core decision making, and not be an afterthought. These costs can be even more challenging to absorb when competitors are not investing in similar resources or are trading in the cheapest available timber, regardless of legality. In many cases, there are also limited or no price or market share incentives to help offset the associated costs. Businesses with small margins and limited tenure will struggle to absorb these costs.

Challenges in correctly identifying timber species

Identifying one timber species from another, without specialised skills and equipment (often lacking down the supply chain) can be challenging. This makes managing the associated risks of timber origin and legality inherently difficult.

Corruption and market-side drivers

Challenges in dealing with corrupt and fraudulent activity

The trade in illegally harvested timber is often facilitated through corrupt and fraudulent practices. This can include the provision of forged documents including: harvest permits; land tenure certificates; forest management plans; tax invoices; transport certificates; and others. Several reports have also highlighted the significant efforts that some entities undertake to launder illegal timber through a range of networks and illegal practices. Some workshop participants reflected that a significant proportion of APEC's timber supplies also come from locations that have weak or poor governance arrangements. All of these elements can make it difficult for businesses dealing in good faith to identify and avoid illegally harvested forest products.

Limited market incentives for legal forest products

Despite significant investments by industry to ensure legality in their supply chains (legal harvest, processing traceability, certification, etc.), these actions largely have not been reciprocated with strong market incentives – either in demand or price premiums for legal forest products. This has left private sector entities who have committed to trading in legal timber, with increased compliance costs and at times at a cost disadvantage next to their non-compliant competitors. The lack of price incentive has operators re-evaluating the true value of legal timber and forest products. Despite this, legal supply chains do facilitate improved market access particularly in jurisdictions that impose timber legality requirements, the number of which is expected to continue to increase over time. Consequently, market access remains an important consideration for forest products producers, but challenges remain in realising price premiums.

Competitors will jump in

The barriers to entry in timber markets are often low. Even if a business eliminates higher risk products from their supply chain, their competitors may be less scrupulous. Illegal operators may, by their very nature, avoid many costs associated with sustainable and legal forestry management, such as payment of royalties, compliance with harvest controls, labour costs and other legitimate costs. This can lead to competitors using cheaper high-risk wood sources, putting a compliant business at a significant competitive disadvantage.



Opportunities identified

Workshop participants recognised the persistent nature of these issues associated with trading in legally harvested forest products, and highlighted several valuable approaches and considerations to meeting some of the challenges.

Consistent and considered regulatory approaches

The considerable diversity of timber legality frameworks and requirements facing the private sector was a key challenge identified across workshops. Participants discussed the significant need for greater consistency in timber legality frameworks, to reduce their complexity and to improve overall understanding.

Several valuable approaches were highlighted, including the development of Voluntary Partnership Agreements (VPAs), which provide multiple APEC economies with improved access to the European Union (EU) and other regulated markets for legal timber. Through the development of systems to eventually support the issuing of FLEGT licenses, VPAs help to decrease the risk of EU importers involuntarily handling illegal products; create a more stable operating environment for timber suppliers; and facilitate training and investment to upgrade and improve business practices.

Several industry participants also appealed for greater recognition of well-established domestic legality systems. Given the significant time and resources invested in developing such systems, participants encouraged new and emerging timber trade frameworks and international markets in general to consider the established systems in the design and development of their own.

The need for government-to-government agreed mechanisms was also emphasised, to encourage congruence and compatibility between domestic systems, such as Indonesia's SVLK and VPAs, or Australia's development of Country Specific Guidelines with its trading partners, to support its illegal logging framework. Participants emphasised the need for economies to work together to adapt their regulatory approaches to ensure they are recognised by the other or complementary, particularly between producer and consumer economies.

Data and resource availability

The vital role of economies in supporting the provision of relevant data and resources, including geospatial, trade data, and other contextual information to improve the transparency and traceability of timber supply chains, was emphasised. Data and resourcing challenges are broad ranging, including the lack of real time information, language barriers, and access to information. A potential role for APEC might be to consider what it could do to improve general access to such data and information, including, but not limited to, improvements to the Compendium of Resources, and to encourage member economies to work with their industry to improve access to data and information.

To counter challenges related to language barriers and accessing relevant timber documentation and resources in native languages, a suggestion was made that all APEC economies commit to having their documents made available in English, particularly those relating to harvest and legality as well as timber legality laws and regulations.

A Voluntary Partnership Agreement (VPA) is a legally binding trade agreement between the European Union and a timber-producing economy outside the EU.

The purpose of a VPA is to ensure that timber and timber products exported to the EU come from legal sources. The agreements also help timber-exporting economies stop illegal logging by improving regulation and governance of the forest sector.



Capacity building

The importance of capacity building within the private sector (both at the enterprise and industry level) was highlighted by participants throughout the workshops. The need for training and education on issues such as legality requirements, due diligence, import and export requirements, and using new and emerging technology, was widely recognised. It was noted that this need is particularly prevalent amongst MSME's and smallholders, who often lack the skills and expertise to deal with complex legality issues.

Complimentary to building capacity directly, in order for MSME's to effectively participate in timber legality, participants emphasised a need for due diligence requirements to include considerations of scale, incorporating adaptations to optimise participation by MSMEs, who are not always able to afford certification or other resource-intensive compliance measures.

Participants suggested a role for APEC to work with, or even partner, international organisations to enhance, but not duplicate, efforts to help build capacity of MSMEs and promote the use of legal timber. This aligns with EGILAT's Terms of Reference, which has a focus on capacity building.

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Industry associations

The importance of industry associations in helping their members respond to timber legality issues was a key message echoed throughout workshops. As familiar and trusted sources of information, industry associations have an important role to play in helping to facilitate capacity and understanding, particularly for MSMEs. Further, trade associations act as a filter for their members to identify and communicate priority information, including risks and best practice. The rapport and trust that industry associations develop with their members can provide a useful platform for access to these businesses, to start work or disseminate information quickly, without having this as a first hurdle. This can include the development of supporting guidance and tools, delivering training, fostering a community of timber and due diligence professionals, and sharing ideas and best practices.

The capacity of industry associations was recognised as a critical issue. Industry associations are often under-resourced and have limited capacity to respond to emerging legality issues. Participants encouraged APEC members to consider greater institutional support for industry associations, without duplicating the activities of other multilateral organisations, such as United Nations Food and Agriculture Organization (FAO), European Union's Forest Law Enforcement, Governance and Trade (FLEGT) and the International Tropical Timber Organization (ITTO). A potential role identified for EGILAT is to work with industry associations to 'co-design' training and materials, ensuring it is fit-for-purpose in terms of language, format and content.



This approach emphasises a two-way flow of information, enabling a greater understanding of common misconceptions or contentious interpretations, and a means to address them, including developing a shared understanding and agreement.

The opportunity for EGILAT to develop an online platform connecting industry associations across economies was also considered, emphasising that this may be a way to breach the producer and consumer divide. The platform could bring together governments, industry associations and civil society organisations, where EGILAT could provide unbiased expertise, helping to develop common and clear interpretations of best and expected practice, as well as providing current market information.



“the successful implementation of technology will be reliant on the development of a suitable regulatory ‘ecology’, i.e. legislative support, the development of facilitating databases and infrastructure, and the development of due diligence laws that formally recognise technological options to incentivise uptake”

Technology

The potential of new and emerging technologies to meet some of the challenges associated with trading in legally harvested forest products was an important theme of discussion.

Emerging technologies include the development of blockchain based timber traceability systems, which can potentially provide a fully accountable system for tracking timber from its point of harvest to end use. The technology offers data immutability (with each data permanently written as soon as it is verified), decentralisation (which ensures consistency and independence of the traceability environment) and high scalability (it can be extended and connected to multiple industries to create a safe farming ecosystem). Combined with QR code technology, this can provide a range of verifiable information to parties in the timber supply chain.

Participants also discussed the growing development and use of timber testing technologies (for example, wood anatomy, mass spectrometry, DNA, stable isotope, to name a few) to support legality, and confirm claims made about the species and provenance of forest products. Concurrent to this technology is the development of supporting databases and reference materials which can be accessed for verification purposes.

Also highlighted, were some of the supply chain transparency platforms that are available, for example, String 3, Radix Tree, BVRIO and the Environmental Paper Assessment Tool. All of these purportedly allow for product traceability back to the point of original harvest/production.

Participants suggested that APEC economies need to critically examine and promote the opportunities provided by technology to the private sector, including for regulatory purposes. The use of technologies has clear benefits and opportunities, however upfront costs can be prohibitive before any cost savings or efficiencies are able to be realised. Other significant aspects also need to be addressed, including the availability of reliable reference materials and supporting data systems; the need for consistent testing processes; the general availability of timber samples; and widespread access to service providers. Further, the advanced use of technology can open the door to additional challenges, such as bandwidth accessibility, the ‘human factor’ – that the technology is only as good as the end user, and that the proper application of technology is nuanced – not a ‘one size fits all’ solution.

Participants noted that there could be an important role for APEC economies in addressing some of these fundamental issues. With the increasing emergence of technology, there is a growing need for common platforms and standards to be developed, for information-sharing across borders. It was also noted that the successful implementation of technology will be reliant on the development of a suitable regulatory ‘ecology’, i.e. legislative support, the development of facilitating databases and infrastructure, and the development of due diligence laws that formally recognise technological options to incentivise uptake. A role for EGILAT could be to support the development of a platform for sharing information between governments and exploring how to make technologies more readily available and cost effective for the private sector.

Incentives and consumer awareness

Several participants recognised the challenges facing businesses in absorbing the costs associated with managing their timber supply chains to ensure legality. These challenges are often accentuated by the lack of any market premium or value for verified legal products, and often a lack of understanding or demand for ‘legal’ forest products. Some suggested there was a need for APEC economies to work together to create greater incentives (financial or otherwise) for the trade in legally verifiable timber, including generating solutions based on improved demand through consumer awareness about timber legality, certification, and sustainable forest management, to increase the recognition of timber legality issues.

One specific suggestion included encouraging economies to ensure their domestic procurement policies stipulate that all timber products meet legal harvest requirements. This has shown to be an effective means to influence private sector producers and traders to deal in and maintain stock of only legally harvested products.

“Challenges are often accentuated by the lack of any market premium or value for verified legal products, and often a lack of understanding or demand for ‘legal’ forest products”

The development of an International Legal Timber Day was also proposed, to highlight associated issues and encourage consumers to make more informed choices about their forest products.

Certification schemes

Another key theme emphasised in workshop discussion was the growing importance of third-party certification schemes, such as the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC) in supporting the legal timber trade. Certification is a major tool used by businesses to manage legality and sustainability risks, however the need to make schemes more accessible, particularly for MSMEs, was flagged. A suggestion was made that the FSC and PEFC have an early role to play in considering certification options for MSMEs and the need for further conversations around this was acknowledged.

The potential for EGILAT to play a role in improving opportunities and incentives for certified material, including the possible promotion of certification in supplier jurisdictions, was proposed. A further suggestion included EGILAT working with governments to increase awareness of timber legality and certification schemes amongst the private sector and consumers.

Addressing corruption and fraudulent activity

Several participants noted the challenges facing the private sector in dealing with corruption. It was suggested this was a major issue in some producing economies. The suggestion for the private sector to have a trusted place to report any corruption or suspicions of corruption to, was considered.

Countering negative preconceptions and bias toward timber trade, particularly in tropical timber

Participants highlighted the need to address broad characterisations or even discrimination that timber from certain regions or economies is automatically deemed illegal or unsustainable. The drive for timber legality has potentially produced negative associations for the trade of tropical timber more broadly. There is a need to ensure government policies are inclusive and to promote timber legality, wherever it is produced. While some jurisdictions may be deemed ‘high-risk’ this does not signify that they are unable to produce legal timber, though they may require additional resourcing or steps and assurances to guarantee legality.



Role of EGILAT through future policy theme work

The positive feedback from workshop participants regarding the value of EGILAT’s current policy theme suggests it is a useful way to address timber legality challenges including, but not limited to, those outlined above. Participants found the level of engagement of EGILAT with the private sector to be particularly constructive, and encouraged continued engagement of dialogue into the future. The need to ensure continuity between work of the current and future policy themes was also emphasised, in order to ensure the positive momentum is carried forward.



Private sector survey

The policy theme's private sector survey was designed to supplement workshop discussion and allow EGILAT to capture the views of a broader range of industry organisations than could be reached via the workshop events alone. Like the workshop events, the survey aimed to identify key issues and challenges faced by industry in trading in legally harvested forest products. To encourage respondents to express their opinions freely, survey results were collected anonymously and findings cannot be attributed to any individual party.

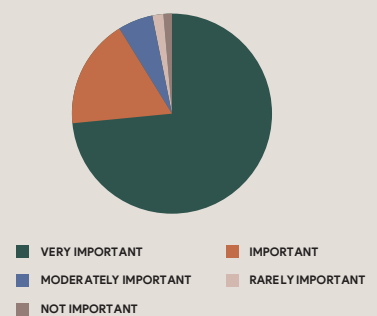
The survey was open from 5–27 August 2021 and elicited 301 responses from 20 APEC economies. The data and results of the survey provide valuable input into EGILAT's consideration of potential gaps and future areas of work for APEC economies and other stakeholders (including private sector, civil society, and international organisations). Respondents from ten economies made up 67% of responses, including those based in Mexico, United States, Malaysia, Chile, and Chinese Taipei.

Notably, the survey obtained strong results from a key target demographic – Micro, Small and Medium Enterprises (MSMEs) - with 146 responses coming from entities with less than 50 employees. MSMEs are integral to the trade in forest products, but are often not as able to have their voices heard in international meetings and events (such as the EGILAT stakeholder workshops) as some of the larger entities, due to cost constraints, language barriers, and other reasons. The survey exercise enabled EGILAT to hear from this important group to better understand their challenges and potential solutions to meet them.

SURVEY HIGHLIGHTS

- Over 300 survey responses from 20 APEC economies
- 198 responses from MSMEs
- 66% of responses came from importers and exporters, highlighting the importance of international cooperation within supply chains

Importance of Forest Product Legality

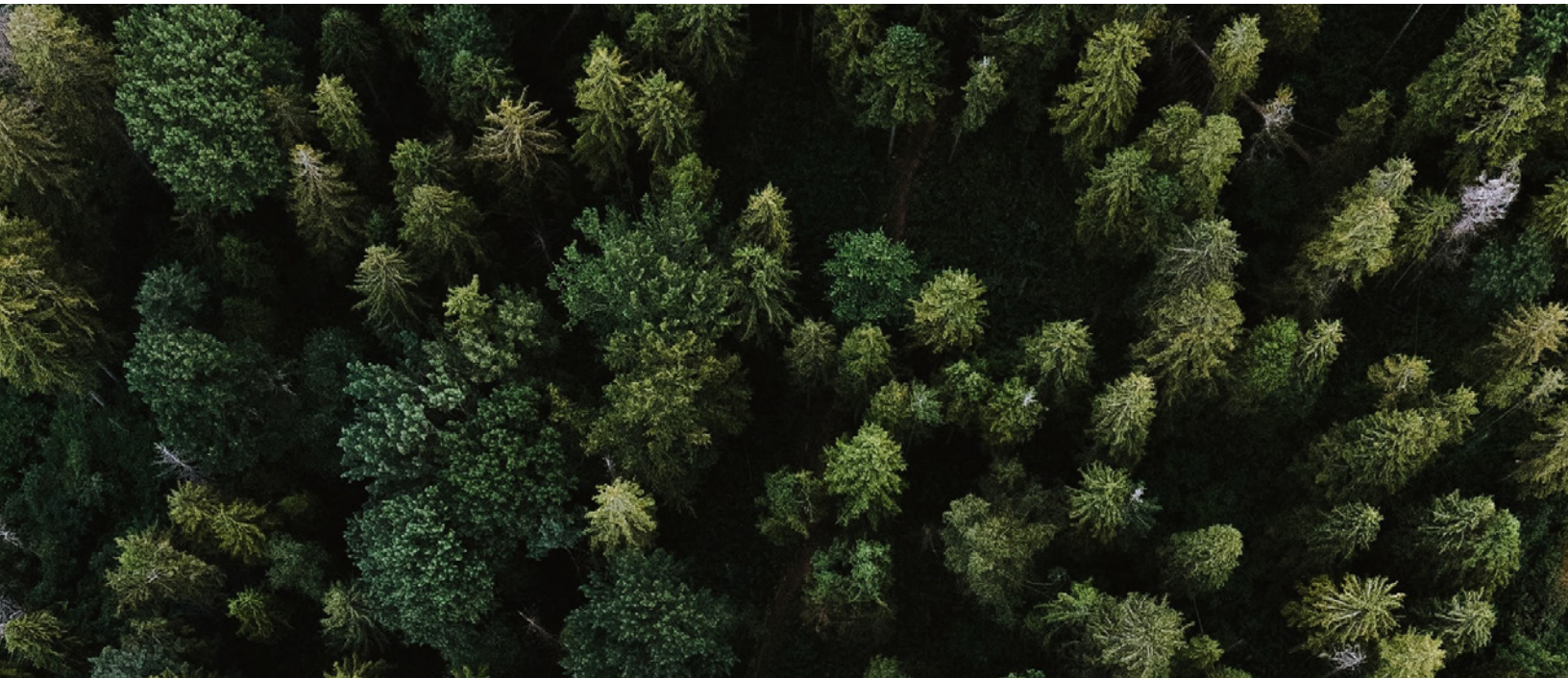


-More than a third of responses came from Privately-Owned MSME's.

-Nearly 60 percent of results came from MSME's which have less than 100 employees.

High level demographic responses indicate that respondents were primarily involved in the timber and wood sectors, with 66% of companies performing both exporting and importing services. The survey also revealed a gender imbalance, particularly with for-profit entities (which made up the vast majority of respondents): 63% of respondents indicated less than 25% of their employees were women.

More than 98% of respondents noted that timber legality was an important or very important element of their business. Consequently, the survey conclusions indicate that increasing resources and consultation will help businesses overcome the issues they face in complying with forest legality regulations.



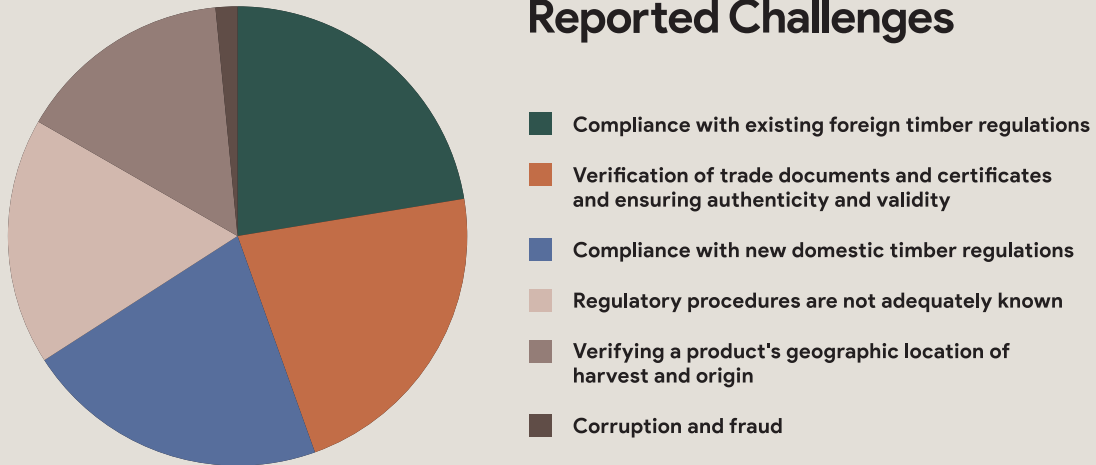
Key themes and challenges

Analysis of survey data revealed the most common challenge indicated by the private sector trading in legal forest products was compliance with existing foreign timber regulations, with 25% of respondents, or 75 responses. The majority of these responses came primarily from MSMEs, making it the most significant challenge reported for this demographic.

The second most-reported challenge overall was the verification of trade documents and certificates and ensuring authenticity and validity, with 74 responses. This was a common challenge reported across all economies, business types and sizes.

The third most-reported challenge was compliance with new domestic timber regulations, with 72 responses. This represents a particular challenge for MSMEs as the second-most-reported issue within that demographic. Another major challenge reported was that regulatory procedures are not adequately known, with 58 responses. Over 75% of the respondents who identified this as a challenge also reported a challenge with compliance with domestic timber regulations or compliance with existing foreign timber regulations.

Reported Challenges



The challenge of corruption and fraud featured prominently, with 55 responses citing corruption or fraudulent activity within the government as a challenge, and 51 responses citing corruption or fraudulent activity within the industry as a challenge. Although these two responses were sizeable, it should be noted that most of these responses were primarily from a single economy rather than a common problem reported across all APEC economies surveyed.

Verifying a product's geographic location of harvest and origin is also a continued challenge for the private sector. Likely contributing to this difficulty, 51 respondents reported difficulty due to lack of information, which had a significant overlap with those reporting difficulty due to cost.

Delays in implementing regulatory procedures and guidelines from the authorizing body are a significant issue. A total of 50 respondents identified this as a critical challenge. Out of these respondents, 62% were MSME's with less than 50 employees, showing the impact these delays have on this subset.

Other challenges noted in the survey, but not as prevalent across respondents included:

- Lack of staff/resources inhibit ability to conduct due diligence (41 responses)
- Partners or customers are not familiar with timber regulations (39 responses)
- Suppliers are not familiar with timber regulations (35 responses)





Actions identified by the private sector

To overcome these challenges associated with timber legality, private sector companies have primarily educated members or staff on domestic timber regulations. In total, 101 respondents - more than a third - report having engaged in informing members and staff on these issues. This action primarily addresses the lack of understanding regarding new domestic timber regulations and ensuring that these practices are being properly followed, which was the third-largest challenge noted by the respondents. Another action identified to assist businesses was direct capacity building for the industry on methods for meeting compliance standards. In total, 80 respondents believed that this would be a practical action to undertake. 58% of these respondents also supported other industry-wide efforts, including a majority of MSMEs, showing that industry-wide education and training campaigns could have support across the sector.

The second most common way to address these challenges was to visit economies/geographies of origin and verify product legality. 91 respondents reported that they undertake such visits, which primarily addresses verifying product origin. It should also be noted that the costs of conducting due diligence was reported as a major challenge, and on-site visitation/inspection can significantly contribute to such costs. In addition, the global pandemic and resulting down-turn in global travel and trade have made it even more difficult to conduct on-site inspections.

Another common means to address forest product legality was to establish a traceability system. 91 respondents reported this as one of the methods they had implemented.

Respondents also noted other ways in which they are addressing the challenges of trading in legal forest products, many of which focus on raising awareness of existing regulations. These include:

- educating members or staff on foreign timber regulations (66 responses)
- educating customers on timber regulations (62 responses)
- educating suppliers on timber regulations (61 responses)
- request assistance from trade associates on compliance (73 responses)
- dedicated staff to verify product's economy/geography of harvest (51 responses).

Other actions identified to promote the trade of legal forest products include:

- increased regulation to require verification of a product's economy/geography of harvest (57 responses)
- online resources regarding product origin verification in native languages (67 responses).

These actions seemed to deliver qualified success, with 188 respondents indicating a level of success ranging from 'very successful' to 'somewhat successful'. A further 20 respondents stated it was 'too soon to determine success', and 15 respondents claimed they were 'not successful at all'. Reasons for their lack of success included increased regulation, lack of coordination and organisation, costs of compliance, and lack of interest. Despite the relative success of some of these strategies, the data clearly show a desire across the industry for greater support in addressing these challenges, particularly from MSMEs.



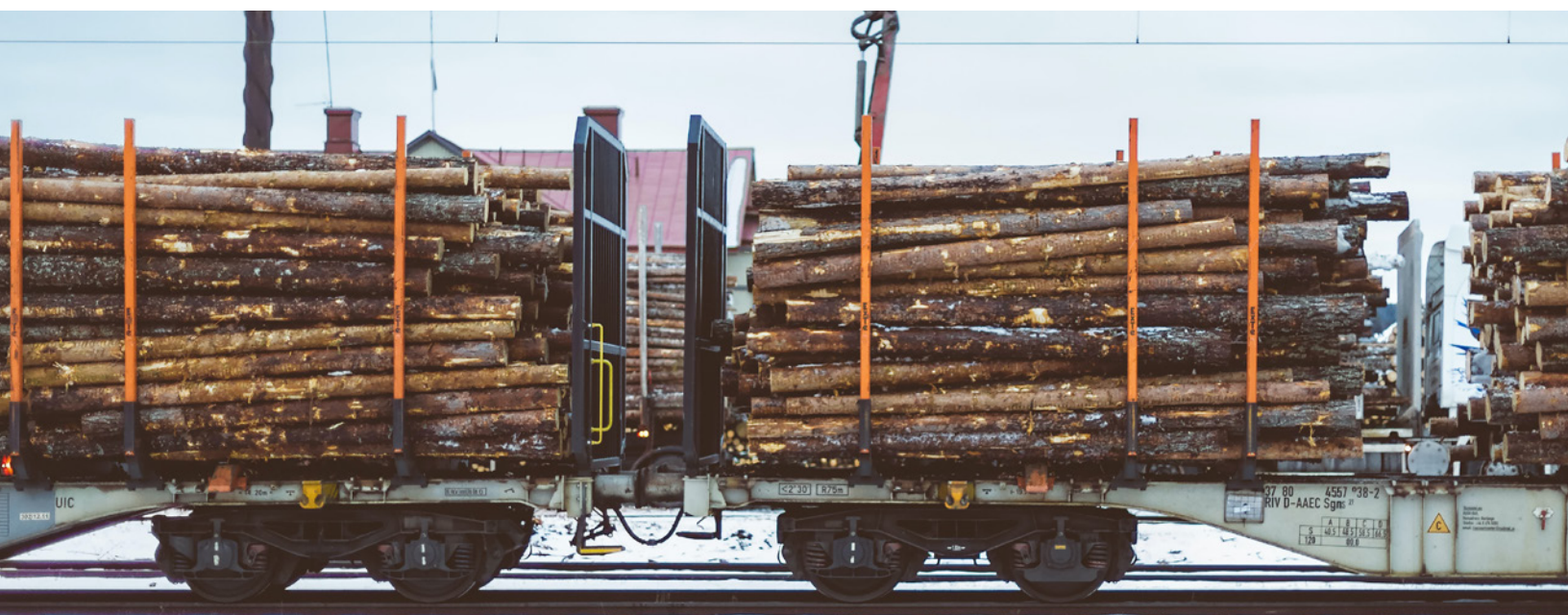
Future opportunities for the private sector

Additional information, resources, and support □ Despite the many resources available, there are often gaps that hinder the promotion of trade of legal forest products. Only 80 respondents believe that sufficient resources and guidance materials are available to assist their entity or business in the transaction of legal forest products. In contrast, 160 respondents believe that there are not enough resources and guidance materials available.

The most sought-after information relates to resources on policies and procedures from APEC members that would be relevant to the industry. Of the 91 respondents who would like to have these resources, 70% are active in either importing goods or exporting goods. Given that most trade occurs between APEC member economies, this is a large gap that could be addressed.

Means to address corruption and fraud in government and industry □ 57 survey respondents indicated that having a means to address corruption and fraudulence in government and industry would be beneficial. This was noted both by respondents who identified corruption or fraudulent activity as a challenge, as well as by other respondents who did not report corruption as a challenge. This may suggest underreporting regarding the challenge of corruption and fraud to legal forest products trade, and perhaps deserves additional attention.

Assistance navigating regulatory complexities across geographies and the industry □ Respondents indicated that assistance in navigating regulatory complexities across geographies and the industry would also be useful. This form of assistance was noted as helpful for 48 survey respondents.



Survey recommendations

- Support educating businesses and their employees on regulations as well as promoting traceability systems. These would help to confront some of the main challenges mentioned in the survey, such as compliance with domestic and foreign regulations and difficulty verifying the origin of harvest.
- Domestic consultations either through private sector organisations or member organisations. This action was specifically noted by MSME respondents and addressing their concerns will be important in targeting a key economic demographic.
- Enhanced outreach to the private sector and end consumers on the range of benefits of trading in and/or purchasing legal forest products, including improved market access, and environmental and social benefits derived from legally and sustainably managed forests.
- Optimise legality requirements and guidance for MSMEs, as appropriate, to facilitate their entry into, and ongoing participation and compliance with, legal timber supply chains. This key segment of the trade - often too small to effectively implement legality procedures and absorb the associated costs - may require creative and adaptive methods to incentivise and facilitate their participation in the legal trade.

For full results, see the Private Sector Survey Final Report at <https://www.apec.org/publications/2021/12/apec-egilat-survey-of-private-sector-organizations-in-the-forest-products-supply-chain>



Compendium of Resources

The Compendium of Resources for the Facilitation of the Trade and Distribution of Legally Harvested Forest Products in the APEC Region (the Compendium) was endorsed for publication by EGILAT members on 4 August 2021. The Compendium contains a compilation of resources from government, international organisations, NGOs, civil society organisations and research institutes, including various of economies' timber legislations; a database of economies' risk and forest policy assessments, and other databases, toolkits and information to support due diligence processes.

The Compendium was developed to:

- Identify and document relevant existing resources, tools and materials that have been created by parties that wish to facilitate the trade in legally harvested forest products. These resources include guides to regulation, economy risk assessments, economy-specific guides, reference materials and any other tools that may help members of the private sector determine legality;
- Apply a framework to review and compile existing relevant resources, including only the resources that are best able to guide and assist operators in conducting trade in legally harvested forest products in the APEC region; and
- Provide an easy to understand and digestible document that will assist operators in conducting trade in legally harvested forest products.



Key themes and challenges

Inclusion of resources and information - The value of the Compendium lies with its clear guidance on resource accuracy and relevance. During the development of the Compendium, concerns were raised on both the timeliness of data, and the widespread differentiation of methodology in assessing resources. In order to deliver a fulsome picture of the resources available to timber operators, the document includes an analysis of each resource incorporated against the categories of timeliness, relevance and robustness. While this information provides a useful picture of the overall landscape of resources and their applicability, the additional inclusion of this analysis may provide added complexity for the end user, possibly hindering the Compendium's impact.

Usability

The Compendium provides a wide array of (sometimes) disparate information to assist timber operators source legal timber. This may result in the document being difficult to navigate for some users, particularly those encountering the information for the first time.

The PDF format of the document may also be a hinderance for some users, potentially making it difficult to navigate or less accessible than if provided in a digital format.

Remaining accurate and relevant

The accuracy of the Compendium requires the information it contains be up to date. Given the increasing momentum of economies developing and amending their regulatory frameworks, the Compendium is in danger of becoming outdated and redundant if a means to update all or parts of the document are not accounted for.

Language barriers

A key concern for widespread use of the Compendium identified by a number stakeholders is its English-only format. This could have a large impact on the uptake and use of the Compendium, particularly in economies where English is not a first language. Participants noted that it would be particularly useful to translate the Compendium into a range of other languages in order to distribute the document as widely as possible.

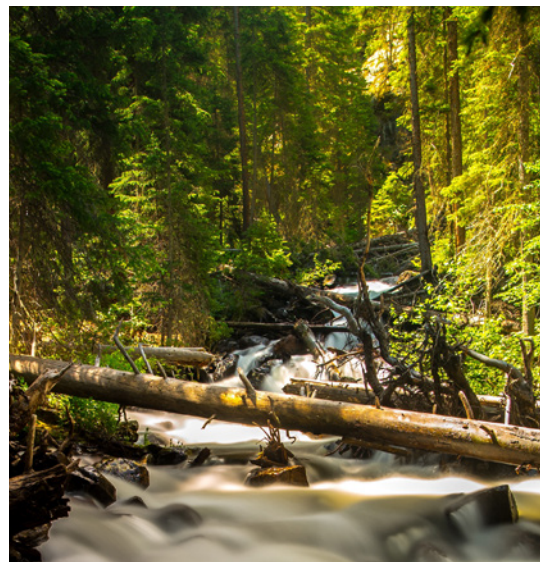


Opportunities and next steps

Opportunities to encourage further uptake and use of the Compendium were discussed during stakeholder workshops, as well as at the 20th meeting of EGILAT.

Converting the Compendium to digital format -

Participants suggested that converting the Compendium to a digital format on a readily accessible website could ease accessibility and format barriers. The potential benefits of digitalising and hosting the Compendium online could include: improved overall accessibility; interactive indexing to ease users' ability to find relevant information quickly; potential auto-translation into various languages; and a more streamlined means to update content, ensuring it remains accurate and current. While there is a broad consensus that this would be a valuable update, the matter of who would be best placed to maintain the Compendium, including its associated costs, needs to be addressed.



Communicating its use - While the use of the Compendium continues to grow as interested parties become aware of it, workshop participants suggested the need for greater communication efforts to maximise its uptake, including utilising trade associations for further dissemination and training.

The Compendium publication can be accessed here: <https://www.apec.org/Publications/2021/08/The-Compendium-of-Resources-for-the-Facilitation-of-the-Trade-and-Distribution>



Critical analysis of policy theme

The policy theme was originally conceived in 2019 as means to more deeply engage the private sector as the primary actors engaged in and driving the forest products trade. The policy theme sought to identify their major challenges and opportunities of trading in legal forest products, with the aim of focusing EGILAT and relevant stakeholders' future action on these key areas, for maximum effect.

The three workstreams launched to explore the policy theme used distinct approaches, and evolved over time to meet identified needs throughout the process. The stakeholder dialogue workshop series provided face-to-face engagement between EGILAT members, the private sector and other relevant stakeholders, and allowed a subset of participants to dynamically exchange views and explore challenges and opportunities for the legal timber trade. However, because participation in these workshops was necessarily limited, constrained by space capacities, travel costs to the early events (though greatly diminished in later virtual events), and language barriers; the private sector survey helped to extend the policy theme's reach. The survey enabled member economies' forest product sectors to engage more deeply, especially MSMEs, and added additional and complementing detail to the workshop outputs that would not have been captured otherwise. The Compendium of Resources, while quite distinct from the workshops and survey, resulted in serving a dual purpose - both as a practical resource for traders and stakeholders, as well as a means to address some of the identified challenges of the policy theme, particularly as they relate to the dissemination of information and identification of resources. Taken as a whole, these three streams of work have provided a relatively comprehensive exploration of the policy theme to date.

Across the three work streams, a number of common themes have been identified, regarding the future role of EGILAT and member economies to encourage the legal timber trade, including working in partnership with other stakeholders. These common themes are outlined below.

Working between governments to deliver consistency between regulatory frameworks where possible, offers a means to facilitate the trade of legal timber. Where timber legality frameworks are able to be complementary, familiar, and linguistically accessible; businesses will be able to more readily meet legality requirements, particularly as they engage in trade across jurisdictions.

Providing consolidated and current information on resources available to identify applicable timber laws and assess risks, is also key to ensuring the legal trade in timber products. The Compendium of Resources is a valuable component of which there are opportunities to encourage its wider uptake, including improvements to its format, language availability and developing a means to ensure its continued accuracy.

EGILAT has heard various opportunities to support capacity building on the trade in legal products. This includes providing institutional support for industry organisations, complementary to existing multilateral efforts, down to supporting MSMEs to develop tools, skills and knowledge. These opportunities include training, education and encouraging the use of technology, by providing expertise, best practice guidance and current market information.

Supporting the use of new and emerging technologies provides a range of opportunities for ensuring the trade of legal timber products. Although much of this technology is still in its infancy, with a number of challenges to overcome before mainstreaming is achievable, the future opportunities for technology to advance timber legality are immense. Pursuing fundamental, concurrent actions in support, and use, of these new and emerging technologies will help drive progress and increase uptake.

The identified need to **raise awareness for timber legality** (while avoiding regional bias) and promote incentives to improve its prevalence, including through third party certification, provides a valuable opportunity to broaden consumer understanding and reach for legal timber supply chains. EGILAT, along with other key actors, has an important role to play in ensuring timber legality messages and communications activities are widely disseminated.

Finally, the need to **cooperate to address matters of non-compliance and fraudulence** points to a valuable role for EGILAT and others, in addressing timber legality. This approach recognises that collaboration and cooperation amongst key parties is fundamental to achieving compliance with regulatory frameworks across all stages of the supply chain.

These common themes are the foundation of the recommendations below. The ability of EGILAT to address these issues will be determined by the level of support and tangible action from member economies and continued and future partners. Drawing on resourcing and in-kind effort across all members and partners will help deliver more, including from the private sector, civil society, and relevant international organisations.

“Where timber legality frameworks are able to be complementary, familiar, and linguistically accessible; businesses will be able to more readily meet legality requirements”



“collaboration and cooperation amongst key parties is fundamental to achieving compliance with regulatory frameworks across all stages of the supply chain”

Recommendations

Drawing on the key themes, challenges and approaches identified across the policy theme's three streams of work, several recommendations have been developed for further advancing the trade and distribution of legally harvested forest products. These recommendations focus on actions that could be carried forward not only by EGILAT and its member economies but also by and/or in partnership with the private sector, industry associations, civil society and other NGOs.

It is recommended that the following actions could be undertaken to further support the trade of legally harvested forest products

1. Raise awareness of the tools and technologies that are available to assist with timber legality verification and supply chain traceability, particularly those that are robust to corruption, and supporting their uptake by regulators and the private sector, including through building capacity.

2. Encourage regulatory frameworks, including voluntary arrangements, to support the use of established and emerging tools and technologies for timber legality verification and supply chain traceability, including third-party certification.

3. Work with industry associations and others to provide clearer guidance around what is considered both 'best practice' and 'expected practice' for ensuring timber legality, and supporting uptake including through capacity building to ensure that MSMEs are adequately equipped.

4. Encourage government to government cooperation to support common and inclusive approaches across different regulatory frameworks where possible (accounting for regionally specific requirements) and improvements to best regulatory practice, based on current and emerging information.

5. Promote greater coordination and complementary efforts between governments, industry and civil society to identify and address instances of non-compliance with timber legality frameworks (including allegations and grievances), and strengthen networks for information-sharing, potentially through online platforms.

6. Maximise the Compendium of Resources' availability and relevance, including by updating to an accessible web-based and indexed format, translating into multiple languages, updating regularly, and marketing widely.

7. Encourage member economies to provide accessible information about their own timber legality laws, and take steps to educate traders globally on identifying legal products originating from within their borders.

8. Ensure EGILAT continues the valuable work of this policy theme, building on resources developed and maintaining established connections with important stakeholders.

The successful application of these recommendations should consider the resources available to EGILAT, and what practically can be undertaken at one time. It is unlikely that EGILAT would be able to simultaneously explore all eight recommendations with its current capacity, however success in taking the recommendations forward will greatly depend on the motivation and efforts of member economies and partners to contribute and deliver more. To deliver a broader work program into the future, EGILAT members and partners could consider nominating to lead and carry forward particular workstreams or tasks, taking ownership of delivering on concise outputs. This would not only help broaden the workplan, but also ensure that particular interests are accommodated, and a wider representation of the community could simultaneously progress our shared priorities.

Conclusion and future potential work

EGILAT's two-year policy theme 'Advancing the trade and distribution of legally harvested forest products' has delivered on its goals of understanding the challenges faced by the private sector in trading in legally harvested forest products, identifying opportunities to overcome these challenges, and identifying existing resources available to help private sector entities trade in legally harvested forest products.

Through stakeholder workshops and the private sector survey, EGILAT identified key challenges associated with the legal trade of forest products, including dealing with diverse, complex information and legislation, difficulties gathering information, resourcing and cost constraints, corruption, and limited market incentives for legal forest products. The development of the Compendium of Resources under the policy theme has helped address the challenge of dealing with diverse, complex information.

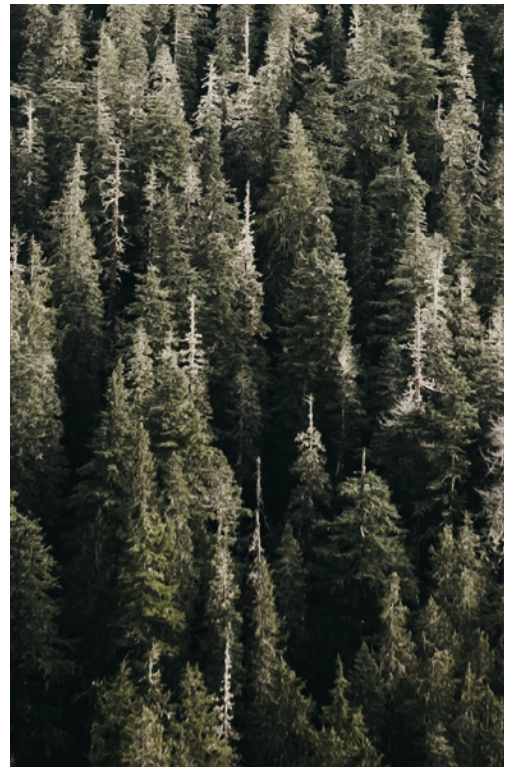
The stakeholder workshops and private sector survey identified several further opportunities to address these challenges, including developing consistent and considered regulatory approaches, ensuring the availability of supporting data and resources, capacity building, leveraging industry associations, supporting new and emerging technologies, developing incentives and consumer awareness, promoting certification schemes, and addressing corruption and fraudulent activity.

While delivering on its goals certainly indicates an achievement, the policy theme's greatest success has been the valuable partnerships developed with the private sector, civil society, international organisations and member economies. It is clear that combating illegal logging requires the efforts of all participants in the supply chain. Momentum must be maintained as EGILAT moves onto its next policy theme and work program to build on the success to date.

The recommendations from this report are intended to help shape EGILAT's forward work plan and the development of the next two-year policy theme. EGILAT must be mindful of the limited tools and resources it has to draw on to deliver the next policy theme, and ensure ambition is set accordingly. The extent and success of this work will be determined by the degree of shared resourcing, commitment and effort from APEC members and partners, including from the private sector, civil society and various international organisations. The level of commitment will determine the extent of recommendations that can be carried forward.

We look forward to the continued and active engagement of our partners as we consider these recommendations and plot a way forward to further support trade in legal forest products.

“Combating illegal logging requires the efforts of all participants within the supply chain.”





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