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Building a Better Business Through Responsible Purchasing

A Brief for US Companies Purchasing Wood Products from

LATIN AMERICA

By Samuel Tararan and Inés Angulo

Where does your wood come from? Is it harvested legally? Is the forest of origin under responsible management or certified? There are many direct and indirect business benefits for implementing sensible, accountable wood and paper purchasing based on these questions. These benefits can include stronger supply chain relationships, enhanced brand integrity, increased customer loyalty, and gains in employee satisfaction and retention.

Latin America is home to some of the richest forest ecosystems on earth, containing 23 percent of the world's forests. The Amazon is the largest remaining intact tropical forest and one of the planet's richest areas in terms of biological diversity. It has more than one third of the world's species, including endangered species such as jaguars, giant river otters, woolly monkeys, and harpy eagles. It is also home for hundreds of different indigenous tribes, provides us with important ecosystem services such as carbon sequestration and watershed protection, and is a source of valuable non-timber products such as medicinal plants and resins. Latin America is also the primary region supplying tropical forest products to the U.S.

According to the United Nation's Food and Agriculture Organization (FAO 2005), South American countries have some of the highest deforestation rates in the world. It is estimated that between 2000 and 2005, 53.1 million acres of forests were lost, equivalent in area to the state of Utah. While conversion for grazing and soy production drive a significant portion of deforestation, unsustainable—often illegal—harvesting of timber contributes to forest loss and degradation. According to Baca (2004), 80 percent of all hardwood extracted from Latin America comes from Peru and Brazil. Illegal logging in these countries principally occurs in the Amazon within indigenous reserves, increasing the threat to the

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livelihoods, culture, and existence of people who depend on forests. While unsustainable forest practices may be a means of survival in the short term, the long-term impacts are crippled economic growth and lost public revenues which result in declining health-care, sanitation, and education opportunities. For businesses, getting involved in unsustainable logging can result in increased liabilities such as dealing with unreliable timber supplies (in quality and volume) and having a negative public image.

It is estimated by FAO that 88.9 million acres (3.7 percent) of Latin America's forests are subject to a formal management plan, however, the majority of these forests are not well managed (FAO 2006). Therefore, independent, third-party certification of responsible forest management is an important tool to guarantee the sustainability of ecosystems and local livelihoods. In addition to environmental conservation, certified forest companies have to develop social responsibility programs, which include the participation of local communities.

Forest certification in Latin America has increased rapidly throughout the region in the past 10 years, reaching almost 20 million acres in 2005. In particular, Bolivia has become a leader in the certification of natural forests. In 2005, Bolivia increased its area of forest certified to Forest Stewardship Council (FSC) standards to 5.4 million acres, all of which is natural forest and represents more than 4 percent of the country's total forest area. In Brazil, there are 8.6 million acres of FSC certified forest, representing 0.7 percent of the country's total forest area. Of this certified area, only 3.1 million acres is natural forest; the remainder is plantations or mixed (natural and plantation) forests[1]. In Guatemala, the Maya Biosphere Reserve is an example of certified responsible forest management where cooperatives and communities manage more than 1.2 million acres of forests in a sustainable way.

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The jaguar (*Panthera onca*) depends on intact forests for survival. (Brazil)

1 This data is estimated from information provided in FAO (2006) and the Information on Certified Forest site endorsed by the FSC (**www.certified-forests.org**)

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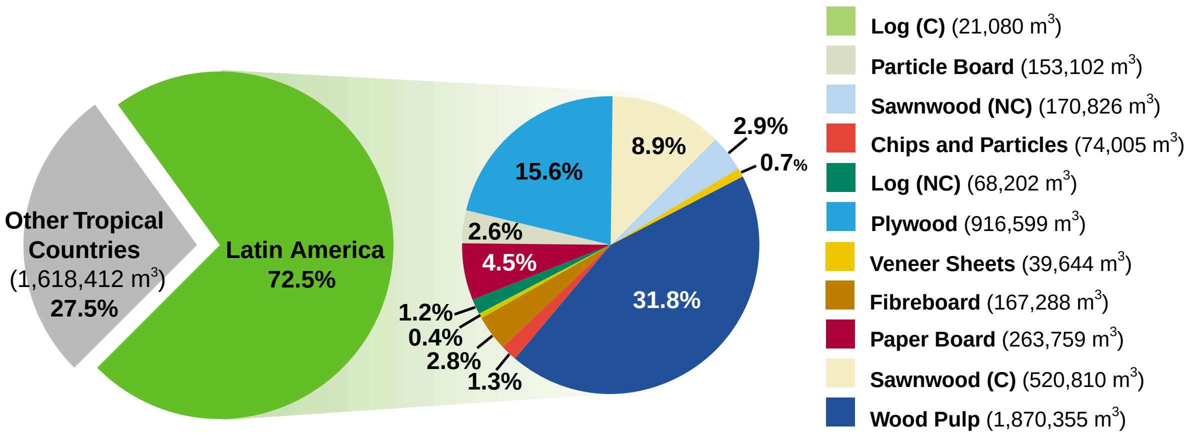
The Yaminagua people are one of the hundreds of indigenous tribes that live in the forests of the Amazon. (Manu National Park, Peru)

U.S.: Main Importer of Tropical Wood Products from Latin America[2]

Latin America is the primary region supplying tropical forest products to the U.S. In 2003, 73 percent of all tropical wood products imported to the U.S. came from this region (figure 1). The main import product is wood pulp, coming mainly from industrial large-scale plantations of softwood non-native species (*Eucalyptus spp.* and *Pinus spp.*) in Brazil.

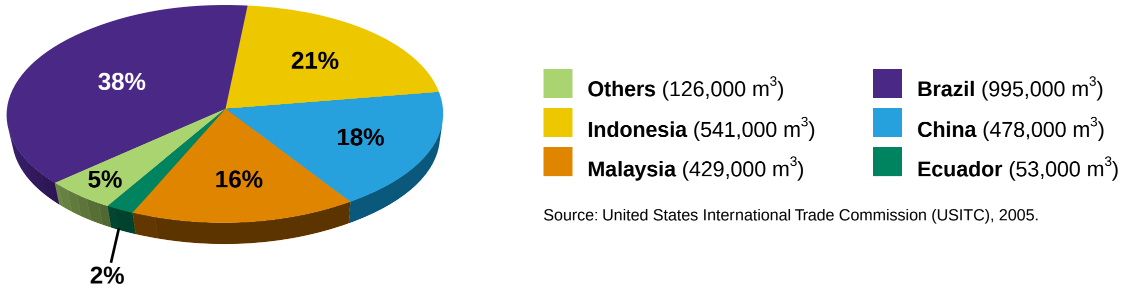
While the majority of softwood products in Latin America come from plantations, hardwood products are primarily extracted from natural forests including those of the Amazon basin. The most significant hardwood products exported from Latin America are sawnwood and plywood.[4] These products accounted for $440 million of the $30 billion U.S. wood products market in 2004 (Metafore 2004). Brazil is the biggest exporter of both plywood and sawnwood to the U.S., contributing to 38 percent of the total American imports of these products (figures 2 and 3).

FIGURE 1: TROPICAL FOREST PRODUCTS IMPORTED TO THE U.S. FROM TROPICAL COUNTRIES AND LATIN AMERICA (M^3), 2003.[3]



Source: FAO, 2004

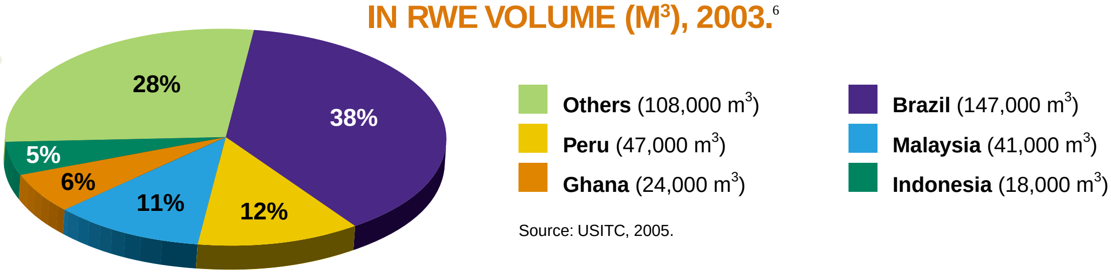
FIGURE 2: U.S. IMPORTS OF TROPICAL PLYWOOD IN RWE VOLUME (M^3), 2003.[5]



Source: United States International Trade Commission (USITC), 2005.

2 This brief only considers U.S. timber imports from countries in Central and South America that have tropical forests (excludes Chile, Argentina and Uruguay).
3 Softwood products are identified as coniferous (C). Hardwood products are identified as non-coniferous (NC).
4 Plywood is manufactured from both softwood and hardwood veneers.
5 In order to find the estimated roundwood equivalent (RWE) volume, the volume of plywood was multiplied by 2.3. RWE is used to estimate the total amount harvested from the forest. The difference between RWE and the volume presented by the USITC is the equivalent of wood lost (not recycled) during the conversion from logs into products.

FIGURE 3: U.S. IMPORTS OF TROPICAL SAWNWOOD IN RWE VOLUME (M^3), 2003.[6]

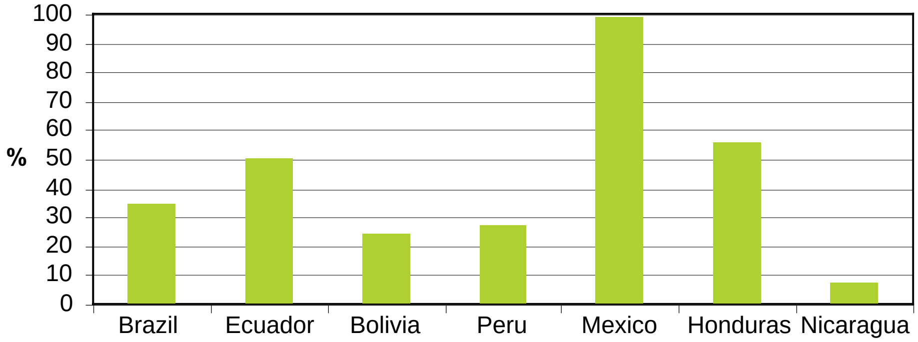


Source: USITC, 2005.

Not only is Latin American wood important to the U.S., but U.S. business is important to Latin America (figure 4). The large U.S. demand for wood from this region is pushing many countries to increase their supply. For example, according to the United Sates International Trade Commission (USITC), Brazil and Ecuador increased their supply of plywood to the U.S. by more than 90 percent from 2002 to 2004.

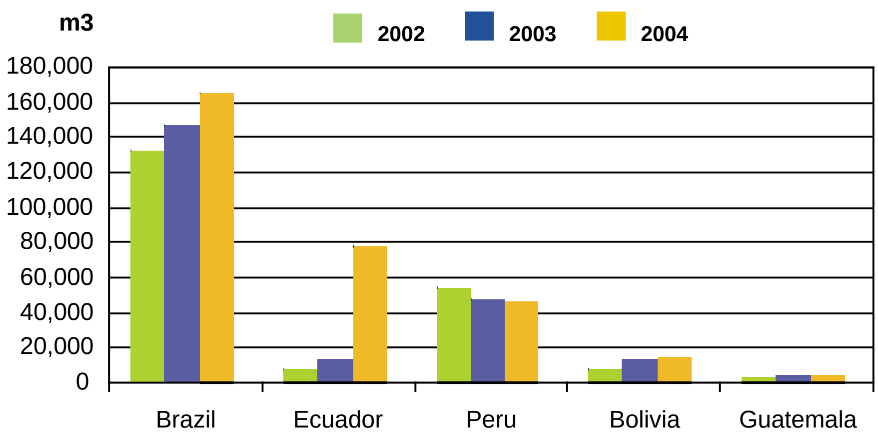
According to FAO (2005), the U.S. was the main importer of all Brazilian sawnwood exports (55 percent) in 2003. Most of the sawnwood being exported to U.S. from Brazil is softwood from plantations. Still, the smaller category of hardwood imports accounts for more than half of the total sawnwood harvested from natural forests in Brazil and is much larger in volume than non-coniferous sawnwood imports from any other country in Latin America (figure 5) and the world. This dependency on the U.S. market is also observed for many other Latin American countries, such as Bolivia and Peru, which exported 40 and 32 percent respectively of all their sawnwood exports to the U.S.

FIGURE 4: PERCENTAGE OF LATIN AMERICAN PLYWOOD AND SAWNWOOD EXPORTS BY U.S., 2003



Source:
http://faostat.fao.org

FIGURE 5: MAJOR EXPORTING COUNTRIES OF NON-CONIFEROUS SAWNWOOD TO U.S. FROM LATIN AMERICA, 2002-2004



Source:
USITC, 2005

6 To find the estimated roundwood equivalent volume (RWE), the volume of sawnwood was multiplied by 1.8.

Illegal and Unsustainable Logging in Latin America

Selective illegal logging of high value trees is one of the driving forces behind habitat loss and encroachment throughout the Amazon, threatening the sustainability of the timber industry, the livelihood of non-contacted indigenous people, as well as the ecological integrity of forests. Due to the illegal and informal nature of this activity, relatively few exact figures are available. A study done by Seneca Creek Associates and Wood Resources International (2004) found that the most reasonable estimates for illegal logging from the Brazilian Amazon region are between 20 to 47 percent. Selective logging and high-grading[7] leave behind a fragmented forest of lower value, less likely to be managed and protected. The fact that these high value trees are dispersed means that more roads and trails must be created to access the resource, in turn increasing the erosion of fragile forest soils.

ILLEGAL LOGGING occurs when forest products are bought or sold in violation or circumvention of national or sub-national laws relating to harvesting, transportation, or processing. WWF uses the term "illegal logging and forest crime" to include large- and small-scale timber theft, transfer pricing, breaching of tax rules, illegal aspects of timber sourcing, and circumvention of concession agreements through bribery or deception.

Currently, the most valuable timber species from Latin America is Big-leaf mahogany (*Swietenia macrophylla*), a large portion of which enters the U.S. as sawnwood (PIERS 2004). When comparing the amount of sawn-

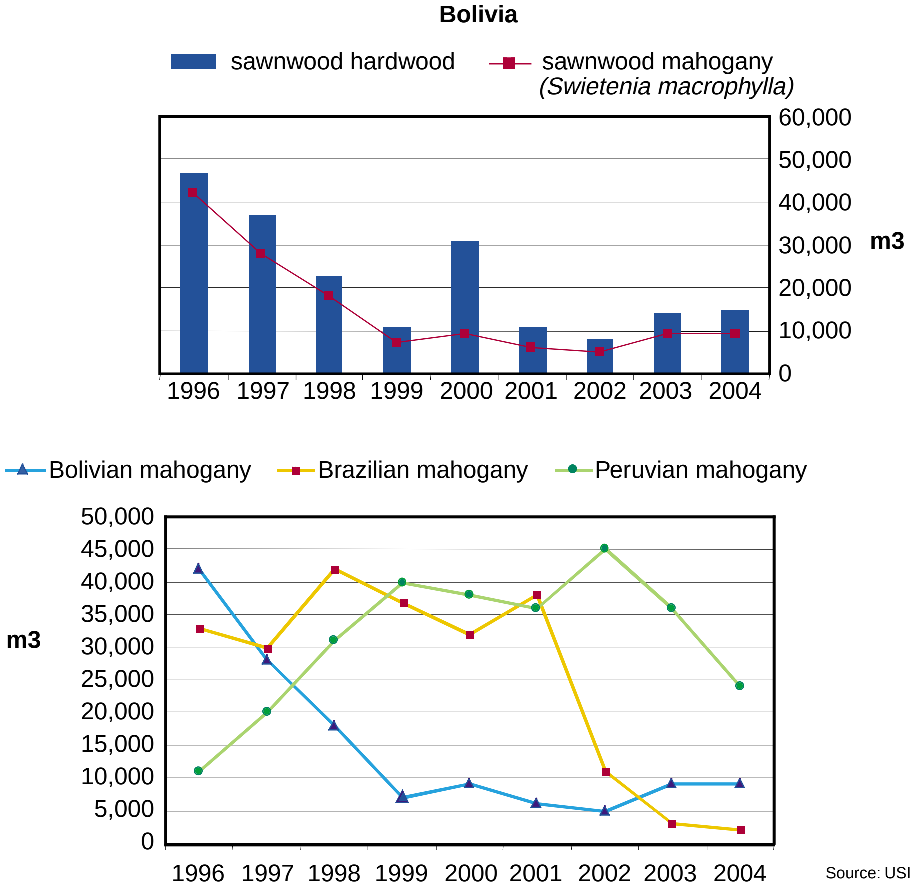
7 High-grading is a type of selective cutting (as distinguished from clear-cutting), where some or all of the biggest and best trees are cut.

Illegally logged cedar (*Cedrela odorata*) trees near the Alto Purus Reserved Zone in Madre de Dios, Peru.

wood hardwood with sawnwood mahogany, the dependency of Peru and Bolivia on trade in Big-leaf mahogany is clear (figure 6). The market is willing to pay a higher price for mahogany, which in turn gives an extra incentive for companies to extract mahogany illegally. The international price for mahogany is around $1,580 to $1,620 per m^3, which is more than double the price of other tropical species (ITTO 2006).

Years of overexploitation of this species led to a major reduction of its natural stock in Bolivia and to a moratorium on its logging in Brazil in late 2001, having a direct impact on imports to the U.S. (see figure 6). As a result of this decreased supply, companies in the U.S. turned their focus to Peru. Here, the availability of Big-leaf mahogany also started to decrease following its inclusion in the Appendix II list of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) in November 2002.

FIGURE 6: MAHOGANY EXPORTS TO THE US FROM PERU, BOLIVIA, AND BRAZIL, 1996-2004.



Source: USITC, 2005

Important Role of U.S. Buyers: What You Can Do

WWF believes that decisions made by U.S. buyers of wood products have a direct impact on the future of forest management in Latin America. Despite numerous challenges facing the forestry sector in the region, an important number of producing and manufacturing companies are moving toward increasingly responsible levels of forest management and processing. As major clients, U.S. buyers can support and engage in business with these companies through WWF's Global Forest & Trade Network (GFTN).

GFTN is already working with committed companies in Latin America through local Forest & Trade Networks (FTN) in Brazil[8], and two in development in Bolivia and Peru. Encouraging your existing suppliers to join the FTNs or buying from new suppliers who are participants in the network helps you to manage risk. Network participation ensures that producers and suppliers are genuinely committed to responsible forestry and receive the technical support and guidance they need to achieve certification. While some suppliers may need time before they can offer credibly certified products, their progress will be ensured through regular monitoring.

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WWF's Global Forest & Trade Network

The GFTN is WWF's initiative to eliminate illegal logging and improve the management of valuable and threatened forests. By facilitating trade links between companies committed to achieving and supporting responsible forestry, GFTN creates market conditions that help conserve the world's forests while providing economic and social benefits for the businesses and people that depend on them. GFTN views credible forest certification as a vital tool in this process.

U.S. buyers can learn more about the companies participating in these FTNs by working through WWF's North America Forest & Trade Network (NA-FTN). The NA-FTN works with U.S. companies that source significant amounts of wood-based products from WWF priority regions to increase the level of credibly certified products within their supply chains. NA-FTN participation will help you to develop a responsible purchasing policy and deliver on it through advice on environmental concerns and facilitation of contacts with responsible suppliers.

For more information

North America Forest & Trade Network (NA-FTN)

WWF-US
naftn@wwfus.org
www.worldwildlife.org/naftn

Global Forest & Trade Network (GFTN)

WWF-International
gftn@wwfus.org
www.panda.org/forestandtrade/

8 Current FTNs in Brazil are: the Community Forest Producer Group in Acre (managed by CTA - Centro dos Trabalhadores da Amazônia), the Brazil Buyer Group (coordinated by Friends of the Earth), and the Amazon Certified Forest Producers Association (PFCA).

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WWF: A Force for Nature

WWF is one of the world's largest and most experienced independent conservation organizations, with almost 5 million supporters and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature by:

- Conserving the world's biological diversity
- Ensuring that the use of renewable natural resources is sustainable, and
- Promoting the reduction of pollution and wasteful consumption.

For more information about WWF, visit our Web site at **www.worldwildlife.org**.

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