



World Business Council for
Sustainable Development

Case study

2005



WBCSD and WWF pilot project Developing best wood tracking practices to verify legality of wood origin in Latvia

Executive Summary

Background

Recent institutional and legal reforms, greening legislation, capacity development and the rapid development of forest certification characterize forest sector trends in the Baltic States. At the same time, problems related to weak law enforcement, the weak organization of private forest owners, insufficient corporate responsibility and money laundering in the timber trade remain.

Under its Collaborative Framework Agreement, the WBCSD and WWF undertook a joint pilot project on wood tracking practices in Latvia. The project in Latvia was also launched to support The Forests Dialogue (TFD) process on illegal logging, which is seeking to raise stakeholder awareness of the problems at an international level, discuss proven and practical solutions and promote their wider adoption.

While the pilot project has allowed project partners to develop a better understanding of the scope and magnitude of the problem in Latvia, the project's conclusion – outlined below - can also benefit other actors in Latvia, as well as other industries and countries.

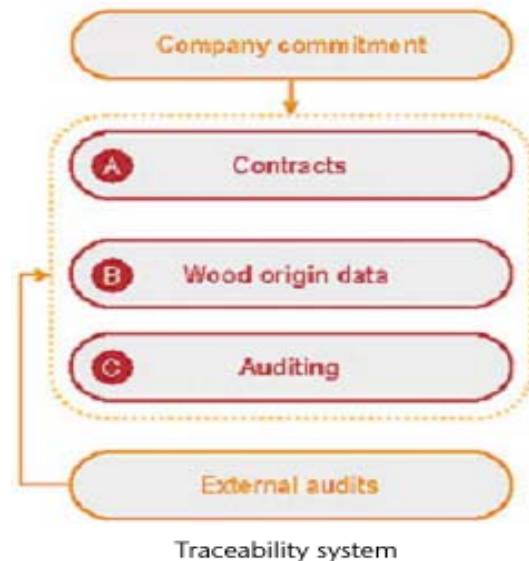
Conclusion and recommendation

The WBCSD & WWF pilot project in Latvia proposes that all companies in Latvia implement and use an effective system to track wood origin by identifying where and how the wood was harvested. The wood tracking system includes three main parts:

- A commitment to ensuring the legality of harvested wood, addressed in supplier agreements;
- The collection of wood origin data based on the supplier's cutting license;
- Verification or auditing of the delivered wood origin information and forest management practices.

Third party verification of wood origin tracking systems is recommended in order to increase credibility and transparency.

The most important challenge in Latvia is ensuring a legal business environment in the forest sector. To ensure fair competition in the market, more attention needs to be paid to preventing phenomena such as tax evasion, money laundering, etc. This can only be solved by the Latvian government, using a combination of measures, in cooperation with private sector and non-governmental organizations. The WBCSD and WWF pilot project in Latvia is a good example of how the forest companies together with NGO's can work at regional level to reach a common goal.





Context - Latvia

Latvian State Forest Service statistics for 2003 show that violations of Latvia's forestry act concern 0.8% of the total volume of timber on the market, or 103,000 m³. This is a 30% decrease from 2002. In 2003 violations concerned felling trees without a license, damaging trees and improper forestry practices.

These figures indicate that violations of Latvia's forestry act are not the main problem facing local industry, but rather other illegalities related to national and international laws. WWF/WB Alliance studies in Latvia suggest that defaults on social charge payments affect 6,000-10,000 forest workers and an estimated loss in revenues of US\$ 15-30 million each year. Illegal practices lower costs by 15-20% compared to legal operations. Several reasons lead companies to illegal practices, the most important being illegal cash flow in the market. The offer of illegal cash creates or provokes the chain of all other illegal activities, including: forged bills of lading, bookkeeping irregularities, tax evasion, false forest inventory data and information, and the manipulation of forest ownership rights.

These illegal activities represent economic, social and reputation risks for all actors in the forest sector. They can cause losses of export markets and investments, as well as distorted competition. Therefore, private and public sector measures are needed to improve the situation.

Given this situation the WBCSD and WWF have joined together to work on a project in Latvia which aims to build awareness of different aspects of the forestry and timber trade and demonstrate best practices for the benefit of the forest sector, local government and society.

Pilot Activities

To help define the issues that concern the local forestry sector, the pilot project team carried out a study on wood tracking from July to September 2004. Information was collected through a questionnaire distributed to the 11 main wood harvesting and processing companies in Latvia, seven of which responded¹. The questionnaire asked the following questions:

- What requirements and activities do you use to track and verify wood origin at various procurement points?
- What documents do you require to track and verify wood origin?
- What requirements do you include in wood procurement agreements regarding wood origin?

The project team analyzed the information supplied by respondents and came to the following conclusions regarding legality verification and wood origin tracking.

Results

All seven respondents have their own wood origin tracking system. Some companies included wood tracking systems in their third party verified management systems (for example ISO 9001, ISO 14001). Almost all respondents have also Forest Stewardship Council (FSC) and/or the Programme for the Endorsement of Forest Certification Systems (PEFC) certified chain-of-custody systems in place for certified wood. Wood tracking systems require companies, contractors and suppliers to take additional

¹ The following companies responded to the questionnaire:

A/S Latvijas Finieris
A/S Saldus mežrūpniecība
SIA Latvijas- Somijas kopuzņēmums SILVA
SIA Rottneros Baltic
SIA Sodra Latvija
SIA Stora Enso Mežs
SIA Sveaskog Baltfor



voluntary actions to track and verify wood origin information in addition to the legal requirements.

Most respondents based their system on:

- Wood transportation waybill;
- Agreement with supplier;
- Cutting license;
- Supplier and forest audits.

1. Wood transportation waybill

A Wood transportation waybill (WTWB) is a legal shipping document issued by the authorities that must accompany every load or transaction of wood and contains information about cargo owner, specification and volume, place of loading and unloading. Wood volume and value are verified after wood is delivered and measured.

2. Agreement with supplier – Environment clauses

All respondents use agreements with suppliers stating the specific wood origin and delivery information required by the buyer, such as:

- Wood is procured in a legal way;
- Data on origin of wood is available in a database or archive and can be presented on request;
- Wood origin information can be verified;
- Special requirements for wood from protected areas must be met and may be verified;
- The supplier takes responsibility for the activities of sub-suppliers and contractors;
- The supplier has an environmental policy and it is available for review;
- The rejection of non-acceptable wood discharges the buyer from the delivery contract.

3. Cutting license

The cutting license (CL) is a legal document that is issued by the State Forest Service to the forest owner and allows cutting to begin. It also requires post-cutting reporting to the authorities. The State Forest Service issues cutting licenses if forest conditions and status meet legal requirements. The license indicates forest owner and property name, land register number, felling area and location information, logging type, main tree species and volume.

Companies purchasing wood verify the cutting license to determine that logging in a particular area was legitimate. It also allows companies to locate the area where the wood was cut and check logging conditions. It is a key element in wood tracking systems for all respondents.

4. Auditing of suppliers

Audits by the purchasing company verify the information delivered by the supplier, including wood origin, forest management practices and the supplier's compliance with agreements. Respondents use different types of auditing systems to assess the data on origin and legality:

- The way supplier collects and files wood origin data;
- The reliability of the stored data;
- The buyer's own wood origin data filing system;
- Forestry practices in logging area (legislation and instructions);
- Biodiversity aspects in logging area;
- Supplier's legal status;
- Authenticity of the cutting license.



5. Wood origin documents - Summary

The wood transportation waybill, agreement with suppliers and cutting license, combined with the audit function comprise supply chain management to verify the origin of wood. Additional company requirements exceeding the law are:

- Clauses in wood purchasing agreement ensuring origin of wood is known and the purchase and harvesting operations are legal;
- Proof of wood origin and legality in the wood cutting license based on physical copy of the cutting license and inclusion of CL number on all WTWB;
- Inclusion of CL number on all WTWB.

Supplier	Required by	Delivery place		
		Standing forest	By the road side	At the mill gates
Forest owner	Law	WTWB (CL)	WTWB (CL)	WTWB (CL)
	Company	CL CL, agreement (Land book, authorization, ID document)	CL CL, agreement (authorization, ID document)	CL CL, agreement (authorization, ID document)
Logging company	Law	WTWB (CL)	WTWB (CL)	WTWB (CL)
	Company	CL CL, agreement	CL CL, agreement	CL CL, agreement
Wood trader	Law	WTWB	WTWB	WTWB
	Company	CL CL, agreement	CL, agreement CL or CL list, agreement CL or CL number in WTWB CL or CL number in WTWB, agreement	CL CL, agreement CL or CL list, agreement CL or CL number in WTWB CL or CL number in WTWB, agreement

CL – cutting license

WTWB – wood transportation waybill

Pilot project team

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- Silva / Thomesto Ltd, Metsäliitto Group
- Stora Enso
- UPM-Kymmene
- Pasaules Dabas Fonds
- WWF International
- World Business Council for Sustainable Development

About WWF

WWF is one of the world's largest and most experienced independent conservation organisations, with almost 5 million supporters and a global network active in more than 90 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 biodiversity;
- Ensuring the that use of renewable natural resources is sustainable;
- Promoting the reduction of pollution and wasteful consumption.

For many years WWF has actively promoted the protection, good management and restoration of the world's forests. WWF is a science-based organisation which aims to use good science to support its conservation agenda.

About the WBCSD

The World Business Council for Sustainable Development (WBCSD) is a coalition of international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress. Our members are drawn from more than 35 countries and 20 major industrial sectors. We also benefit from a Global Network of 40 national and regional business councils and partner organizations involving more than 1,000 business leaders globally.

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