

## Illegal Logging and Corporate Social Responsibility of Forest Enterprises

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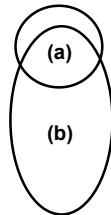
### Paper organization

- A. Introduction: the problem
- B. Instruments and actors
- C. Corporate Social Responsibility: the Italian experience
- D. Some final considerations

### A. Illegalities in the forestry sector

**Deforestation and illegality =**  
 2 interconnected but different problems:

- (a) The un-sustainable management of forests (→ deforestation, forest degradation)
- (b) Illegal practices along the wood chain (from forest management to retail)



### The problem

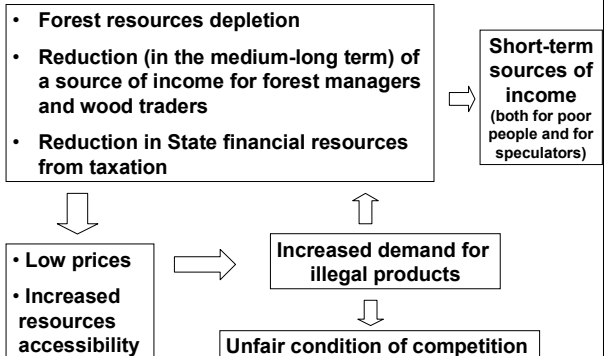
- 10% of wood international trade is based on illegal logging; a total value of 150 Billion \$/year (OECD Environmental Outlook, 2001)
- At least 50% of wood removals in the Amazon basin, Central Africa and South-east Asia is illegal (Royal Institute of International Affairs, 2002)
- *Countries with tropical forests are still involved in massive logging, often in illegal and unsustainable forms. In many countries illegal logging are of the same amount of legal ones. In other countries illegal is much more extended than legal logging* (World Bank Review of Global Forest Policy – 1999)

### Types of illegality

- ✓ contravention of local, national and international regulations
- ✓ violation of forest workers' human rights
- ✓ environmental damage
- ✓ violation of the first nation rights
- ✓ lack of individual protection for workers' health and safety
- ✓ use of grey markets with evasion of taxes and corruption
- ✓ ...

Illegal activities are the cause of many direct and indirect environmental, economic and social problems

### Direct effects

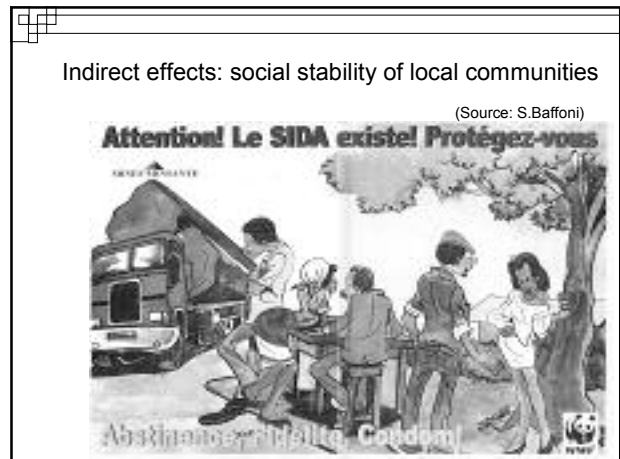


**Indirect effects**

- social stability of local communities
- capitals for illegal investments
- corruptive culture in state-citizens relationships
- ...

<http://www.transparency.org>

	2002
Total sample	835
<b>Public works/construction</b>	<b>46%</b>
<b>Arms and defence</b>	<b>38%</b>
<b>Oil and gas</b>	<b>21%</b>
<b>Banking and finance</b>	<b>15%</b>
<b>Real estate/property</b>	<b>11%</b>
<b>Pharmaceuticals/medical care</b>	<b>10%</b>
<b>Power generation/transmission</b>	<b>10%</b>
<b>Telecoms</b>	<b>9%</b>
<b>IT</b>	<b>6%</b>
<b>Forestry</b>	<b>5%</b>
<b>Mining</b>	<b>5%</b>
<b>Transportation/storage</b>	<b>5%</b>
<b>Heavy manufacturing</b>	<b>4%</b>
<b>Agriculture</b>	<b>3%</b>
<b>Fishery</b>	<b>3%</b>
<b>Civilian aerospace</b>	<b>2%</b>
<b>Light manufacturing</b>	<b>1%</b>



Indirect effects: sources of capitals for illegal investments

**“Conflict timber”**  
(UN Security Council)

Profit from illegal cutting are used for funding regional conflicts in Cambodia, Liberia, in the Congo Democratic Republic,... (FERN and RIAA, 2002)

**Illegality is not a problem only in LDC**

- In European countries with economies in transition i 20-30 M mc di wood are cut in illegal form every year (ECE-FAO, Timber Committee, 2000)
- At least 20% of the wood harvested in Russia (i.e. 22 M mc) is cut in totally illegal manner o against some of the existing legislation (Morozov, 2000).
- “At the moment forests in Serbia are not managed in a sustainable way mainly for the need of timber export” (declaration by the Serbian Minister of Agric. and Forests in the introductory speech at the Congress organised in Belgrade in 2002)

**B. Instruments and actors**

Instruments to promote the use of legal wood products

1. Institutional instruments: international and national regulations and agreements to contrast the diffusion of illegalities
2. Voluntary instruments and initiatives: implemented by private organisations and public authorities
3. Informational and networking instruments

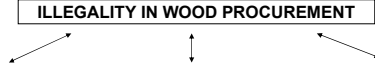
1. Institutional instruments:
  - CBP, CITES, United Nations Convention Against Organised Crime,
  - OECD Guidelines for Trans-National Corporations
  - international and national regulation against stolen goods, money laundry
  - Forest Law Enforcement Governance and Trade
  - Bilateral agreement (eg: UK-Indonesia)
2. Voluntary instruments and initiatives
  - Code of good practice, company's internal regulations
  - Env. and social accounting
  - (External) auditing
  - Env. and social management system
  - Certification and labelling
  - Compensatory investments
3. Informational and networking instruments
  - env. and social reporting
  - research and monitoring activities,
  - publications and denunciation, and use of other media,
  - informative campaigns,
  - networking



Greenpeace protesting at the Italian Ministry for Public Works: Azobe' imported from Liberia through the Oriental Timber Company (responsible – as stated by the UN – of illegal trade of weapons)

November 2001

### Actors and responsibilities Driving Force



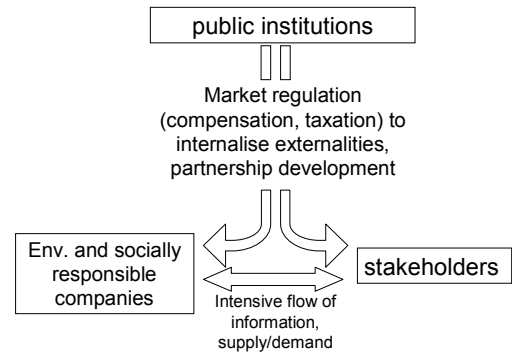
Public Institutions	Civil Society	Companies
General political paradigm	Awareness/ information	Profit
Cooperation policies	Consumption/ preference (premium prices, boycott, ...)	Stakeholders consideration
Environmental policies		

### The company's stakeholder categories

(from Lesourd & Schilizzi, 2001)

	Internal	External
Direct	Manager, employees	investors, lenders, suppliers, customers, tax agency, local community
Indirect	Consultants, sub-contractors	NGOs, Env. Protection Agencies, media, professional organisations, general public

### Ideal condition



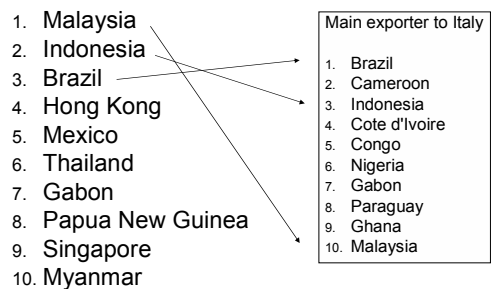
### C. Corporate Social Responsibility: the Italian experience

Are Italian companies involved in deforestation process and trade of illegal logging?

Italy: 6th world importer of wood products  
 (→ 2nd world exporter of furniture)  
 2nd European importer  
 1st importer from the Balkan area  
 2nd European importer of tropical timber

Italy is the 1st export market for Cameroon, Serbia, Bosnia, Albania, ...

### Tropical Countries: Top Ten world exporter



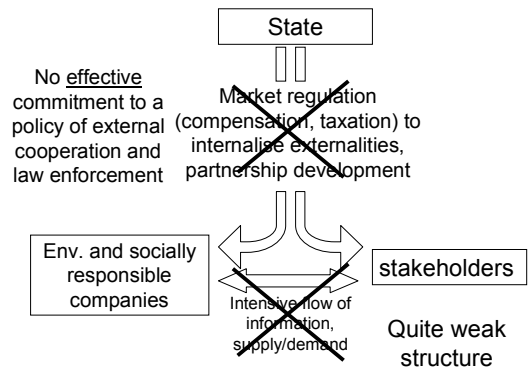
Source: EFI/WFSE Forest Products Trade Flow Database based on United Nations COMTRADE data 2005

## Is there some similarity between deforestation and exportation?

Deforestation	Top World Exporters	Top Exporters to Italy
1. <b>Brazil</b>	1. Malaysia	1. <b>Brazil</b>
2. Togo	2. Indonesia	2. Cameroon
3. <b>Cote D'Ivoire</b>	3. <b>Brazil</b>	3. Indonesia
4. <b>Nigeria</b>	4. Hong Kong	4. <b>Cote D'Ivoire</b>
5. Benin	5. Mexico	5. Congo
6. <b>Liberia</b>	6. Thailand	6. <b>Nigeria</b>
7. Ghana	7. Gabon	7. Gabon
8. Guatemala	8. Papua New Guinea	8. Paraguay
9. Sri Lanka	9. Singapore	9. Ghana
10. Zimbabwe	10. <b>Myanmar</b>	10. Malaysia
11. <b>Myanmar</b>	11. Cameroon	11. <b>Liberia</b>
12. Philippines	12. <b>Cote D'Ivoire</b>	12. Thailand

Source: FAO and EFI/WFSE Forest Products Trade Flow Databas

## Gap analysis



## Characteristics of Italian wood traders and wood-working enterprises

- Mainly small-medium size enterprises
- Organization based on highly specialized districts → strong internal links; they may react quickly to external stimulus (which are now strong at the moment)
- Competitive advantages based on design and quality, not on green marketing instruments

➡ Problem of accountability

How companies take into consideration accountability to external stakeholders?

## Ethical behaviour of a company based on

	1
<i>Rationale</i>	<b>Philanthropy</b>
<i>Management</i>	<i>Ad hoc</i> <b>Direct Stakeholders</b>
<i>Scheme</i>	Passive, inconsistent will based on <i>una-tantum</i> action

## Philanthropy:

Vasto Legnami: official commitment to the sustainable use of tropical forest (no external audit)

*"We are so concerned about the state of the forest resources in our concessions (Camerun, Ivory Cost) that in many cases we are directly providing the salaries to the local forest officials"*

A sound practice or "green washing"?

## Ethical behaviour of a company based on

	1	2
<i>Rationale</i>	<b>Philanthropy</b>	<b>Strategic philanthropy</b>
<i>Management</i>	<i>Ad hoc</i> <b>Direct Stakeholders</b>	Systematic ethical approach <b>Indirect Stakeholders</b>
<i>Scheme</i>	Passive, inconsistent will based on <i>una-tantum</i> action	Target intervention, work on single objectives

## Strategic philanthropy Bioforest Association



- Since 1998
- Initiator: Valcucine SPA
- Members (2003): 30 companies (Valcucine, Foppapedretti, AEF, Franke, ...)
- Investments: 580,000 €



## Ethical behaviour of a company based on

	1	2	3
<i>Rationale</i>	<b>Philanthropy</b>	<b>Strategic philanthropy</b>	<b>Social investment</b>
<i>Management</i>	<i>Ad hoc</i> <b>Direct Stakeholders</b>	Systematic ethical approach <b>Indirect Stakeholders</b>	Professional ethical approach <b>Indirect Stakeholders</b>
<i>Scheme</i>	Passive, inconsistent will based on <i>una-tantum</i> action	Target intervention, work on single objectives	Comprehensive, holistic approach

## Social investment COOP



178 Cooperatives  
4.9 M members  
1265 shops  
47,300 employees  
Sales: > 10,000 MEURO

- > First company with SA8000 certification in Italy
- > Only fresh products from organic or integrated agriculture
- > Large support of the Fair and equitable trade (30 projects with the involvement of 500.000 persons)

## COOP Social investment



In April 2002 Coop starts selling the first tissue products certified in Italy and in October and November 2002 two new products

- Now:
- > 4 paper companies certified
  - > 7 different types of paper products
  - > 5 new products will be introduced soon
- ⇒ No price premium

## How many?

*The only statistics you can trust are those you falsified yourself*  
(W.Churcill)

	1	2	3
<i>Rationale</i>	<b>Philanthropy</b>	<b>Strategic philanthropy</b>	<b>Social investment</b>
<i>No. companies</i>	<200	<50	< 10

...with more than 30,000 companies working in the sector

## D. Some final considerations

- Without a strong role of civil society (NGOs, consumers), CSR is only a rather limited instrument to stop illegality
- Information and networking are the most powerful instruments to improve civil society awareness
  - pressure on the State
  - increased accountability by companies
- De-localization process: new problems on monitoring environmental effects of industrial development

- A prevailing horizontal (South to South opposite to North to North) trade

Market separation should not be an justification to forget the problems related to the state of forest resources and people in the developing world

