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Illegal activities in the Italian wood-energy sector and potential impacts of Regulation (EU) 995/2010 (EU Timber Regulation)

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Outline

- **Background**: the Italian forestry-wood sector in a nutshell
- The **wood-energy sector in Italy**: overview and some critical issues
- A new **challenge**: **Regulation (EU) 995/2010** (EUTR) → potential impacts in Italy
- **Conclusions**

Background (1/3)

Italian **wood-working and furniture sector**:
- **80,000** companies
- **500,000** employees
- total annual turnover of **€27 billion**
- **98% of wood processed in Italy is imported** (Oliver, 2011)

A growing gap between wood demand production and national forest

- **Italian forests:** 10.35Mha (35%)
- Doubled since 1950s

Source: INFC, 200

Background (2/3)

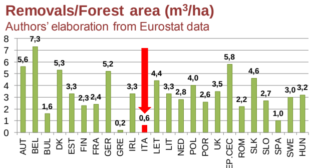
The Italian domestic forest supply: Weak and not competitive

Why?

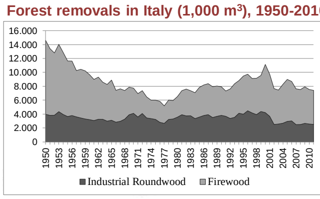
- **95%** forests are in **mountainous/hilly areas**
- **Fragmented forest-ownership** (on average: 7ha)
- **Small forest enterprises** (on average: 3 to 4 employees)
- Lack of strong national association of forest enterprises
- Inadequate technological equipment → low productivity
- Ageing forest owners → low attitude to change/innovate

Background (3/4)

Removals/Forest area (m³/ha)
Authors' elaboration from Eurostat data



Forest removals in Italy (1,000 m³), 1950-2010



Low profitability of forest operations
↓
Reduced active management of Italian forest (abandonment)
↓
Forests expansion and degradation
↓
Low-quality/value wood products
→ **70% firewood**

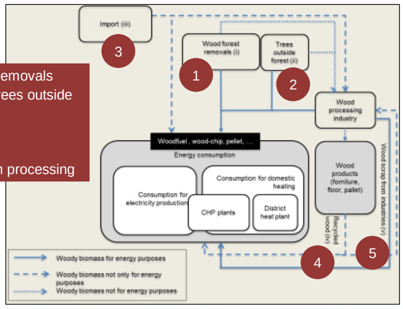
The Italian wood energy sector (1/3)

- **National Energy Balance (NEB)**: **26.5 million (M) tons** of wood used in 2013 for primary energy production
- **Household** woody biomass **consumption** = **72%** i.e. **19.2 M tons** = 17.7 M tons firewood + 1.5 M tons wood pellets

The Italian wood energy sector (2/3)

Potential sources for woody biomass for energy in Italy:

1. Domestic forest removals
2. Removals from trees outside forests
3. Imports
4. Recycled wood
5. Wood waste from processing



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The Italian wood energy sector (3/3)

Potential sources for woody biomass for energy in Italy:

Annual supplies	Quantities (M tons)	Source
Forest removals for energy purposes	2.7	Eurostat
Woody material from trees from outside the forest	3 to 4	FIPER (Federation of RE producers)
Import	3.8	Comtrade
Recycled wood utilized for energy purposes	0.7	Private foundation for environment
Industrial wood waste/residues	*Not available*	
Total sources	**10.2 to 11.2**	
Total National Consumption	**26.5**	
Household consumption	**19.2**	

Even assuming all available biomass is used for energy production (unrealistic scenario) it would be **< 60%** household consumption and **< 45%** total national consumption

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Uncertainty and risks

- The gap between potential biomass sources and consumption indicates that **>50% of energy wood** in Italy comes from unclear sources
- Unclear sources might include wood that is harvested/traded **against existing national regulations** and/or **illegally imported**
- Italy is the 1st firewood importer worldwide (FAO, 2015)

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A new challenge: Regulation (EU) 995/2010

In **2010 the EU Parliament has approved Regulation (EU) 995/2010** (EU Timber Regulation, EUTR):


12.11.2010 EN Official Journal of the European Union L 295/23

REGULATION (EU) No 995/2010 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of 20 October 2010

laying down the obligations of operators who place timber and timber products on the market

The EUTR came into force on 3rd March 2013
EU Member States are responsible for EUTR implementation and enforcement at national scale

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EUTR and forestry-wood companies (1/2)

The EUTR is applicable to a wide range of wood-based products and distinguishes **two main types of actors**:

- **Operator**: any natural or legal person that, for the first time, places timber products on the European market
  *e.g. (i) **wood importers** from non-EU countries, (ii) **forest companies** that harvest wood within EU*
- **Trader**: any natural or legal person who, in the course of a commercial activity, sells or buys on the internal EU market timber or timber products already placed on the internal market
  e.g. a retailer selling wooden furniture produced by a EU-based producer

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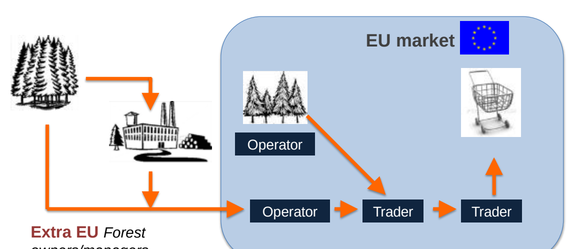
A general scheme



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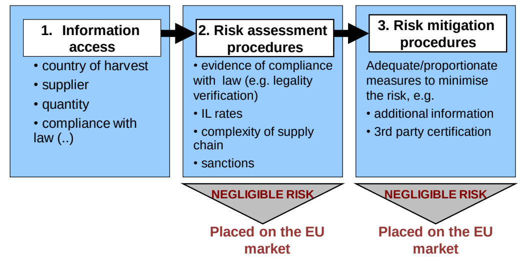
EUTR and forestry-wood companies (2/2)

- **Operators** have to define, implement and maintain a **due diligence system (DDS)** to demonstrate that the products placed on the EU market have been legally sourced
- **Traders** are obliged to **maintain traceability** of timber products they buy/sell for at least 5 years

Due diligence system (DDS)



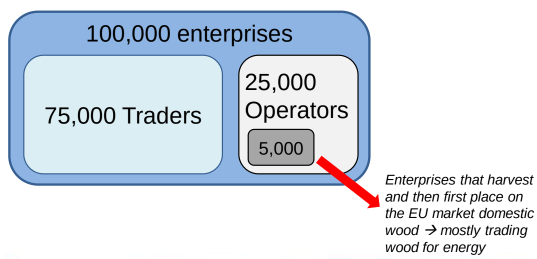
Source: modified from Proforest, 2011

EUTR enforcement in Italy

- At EU-level → EUTR approved in October 2010, it came into force in March 2013
- **December 2012:** Ministry of Agricultural, Food and Forestry Policies appointed as National Competent Authority for Italy and the State Forestry Corps (*Corpo Forestale dello Stato*, CFS) as the body in charge of performing controls
- **December 2014:** penalties and control procedures approved, additional decrees still needed for full implementation
- Official inspections/controls → **not implemented so far**

EUTR and Italian forest-wood companies

About 100,000 Italian enterprises subject to EUTR (FederlegnoArredo, 2014):

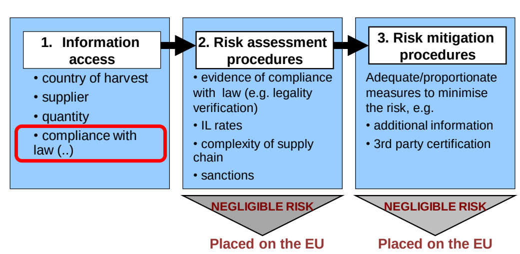


EUTR: a challenge for small and medium Italian enterprises

EUTR is not fully enforced in Italy, but operators are facing some challenges:

1. what are the evidences needed to prove compliance of wood products with the applicable legislation?
2. what will be the costs for Italian operators?

Evidences needed to to prove compliance of wood products with the applicable legislation



Source: modified from Proforest, 2011

Issues considered by EUTR within "applicable legislation" definition

Legislation issues to be covered	Examples of proof of legality
1. Documentation for rights to harvest timber within legally gazetted boundaries	➢ documentation of ownership/rights to land use ➢ contracts ➢ concession agreements
2. Payments for harvest rights and timber including duties related to timber harvesting	➢ contracts, ➢ bank notes, ➢ official receipts
3. Timber harvesting, including environmental and forest legislation including forest management and biodiversity conservation, where directly related to timber harvesting.	➢ official audit reports; ➢ environmental clearance certificates; ➢ approved harvest plans, ➢ official documents issued by competent authorities in a country of harvest etc.
4. Third parties' legal rights concerning use and tenure that are affected by timber harvesting	➢ environmental impact assessments, ➢ environmental management plans, ➢ environmental audit reports
5. Trade and customs, in so far as the forest sector is concerned	➢ contracts, ➢ bank notes, ➢ trade notes, ➢ import licenses, export licenses, ➢ official receipts for export duties

Applicable legislation in Italy

Legislation issues to be covered	
1. Documentation for rights to harvest timber within legally gazetted boundaries	National laws
2. Payments for harvest rights and timber including duties related to timber harvesting	National laws
3. Timber harvesting, including environmental and forest legislation including forest management and biodiversity conservation, where directly related to timber harvesting.	Regional (i.e. sub-national) laws
4. Third parties' legal rights concerning use and tenure that are affected by timber harvesting	Regional (i.e. sub-national) laws
5. Trade and customs, in so far as the forest sector is concerned	National laws

Forest normative framework in Italy

- **Non-homogenous → 21** different normative frameworks depending on the region/autonomous province
- Increasing number of normative requirements → risk of **duplicating responsibilities and creating administrative conflicts..** …controllers for EUTR belong to national authority
- Forestry issues under the responsibility of Regions, environmental ones are managed at central level → risk of overlapping and sometimes unclear roles
- Procedures for getting **harvesting licenses can be non-linear and sometimes costly**

Some additional problems/open questions

- **proof of legality** for small-scale forest operations for which no formal authorization is required?
- **proof of legality** for wood **products derived from trees outside the forest** → wood from agricultural activities (e.g. fruit orchard pruning), poplar plantations and arboriculture systems

2. What will be the costs for the Italian operators?

Costs for EUTR implementation include:

1. investments in **internal organization and control systems** to develop an effective DDS (autonomously or with the external support)
2. **a fee** in order to be included in the national register of operators. (*Decree n.178 specifies that no additional public resources will be made available for the Competent Authority for the implementation of the Regulation (EU) 995/2010*)

Conclusions (1/3)

EUTR would be an important **tool to contrast illegal activities**, guaranteeing transparency and equal competition among companies in the Italian wood-energy sector, that is characterized **by a significant proportion of raw material obtained from unclear sources**

Until now, due to the **inactivity of the Italian public authorities**, EUTR is not fully enforced yet….

….. Italy is not the only EU country that hasn't implemented checks…Romania, Spain, Hungary

Conclusions (2/3)

Late/partial enforcement can contribute to create two level market:

1. the **regular companies that have to pay extra cost** for the DDS implementation, for the fee for the register of operators (in addition to other costs as forest certification) diminishing their economic competiveness,

2. Companies that work **illegally that can carry on their activities**, with indirect advantages of economic competiveness

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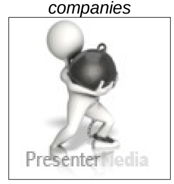
Conclusions (3/3)

Non correct implementation (bad governance, no support from national authorities)

Timber regulation

Large wood companies



Small and medium legal companies

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