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ON BEHALF OF THE AMERICAN FOREST & PAPER ASSOCIATION**

WRITTEN TESTIMONY

**U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON NATURAL RESOURCES
SUBCOMMITTEE ON FISHERIES, WILDLIFE AND OCEANS**

HEARING ON H.R. 1497 – THE LEGAL TIMBER PROTECTION ACT

October 16, 2007

I appreciate this opportunity to present the views of the American Forest & Paper Association and its members regarding H.R. 1497 – the Legal Timber Protection Act. AF&PA is the national trade association of the forest, pulp, paper, paperboard and wood products industry. The industry accounts for approximately 6 percent of the total U.S. manufacturing output, employs more than a million people, and ranks among the top 10 manufacturing employers in 42 states with an estimated payroll exceeding \$50 billion. Sales of the paper and forest products industry top \$230 billion annually in the U.S. and export markets. The more than 200 companies and related associations AF&PA represents have a strong interest in assuring that international trade in forest products is based on compliance with the laws of all countries. We have held extensive discussions with stakeholders on this issue and believe an effective approach can be developed to assist in the world-wide effort to control this environmental and economic threat.

What is illegal logging?

First, it is important to define what we are talking about. Illegal logging and illegal trade in forest products is a complex set of interrelated legal, political, social and economic issues. The term “illegal logging” clearly signifies legal abuses, but the types of activities considered to be “illegal” that are described in various published and web-posted reports are wide-ranging. It is important to note that there is no international

definition of illegal logging. Yet, there are some kinds of abuses that, in the context of policy and trade discussions, rise to a level of both domestic and international significance. These activities involve organized efforts to outright steal trees or otherwise ignore a country's efforts to control and preserve its nation's forests, such as harvesting without authority in designated national parks or forest reserves, logging in excess of authorized amounts, failing to pay taxes or royalties on harvested logs, and exporting logs in violation of export limitations.

The concern surrounding illegal logging is a shared one and is a primary example of an area where the business and environmental communities are united on the need to develop credible and practical solutions to the problem. Illegal logging continues to grow as an important international issue that the forest products community recognizes and is working to address. It undermines the economic viability of legally harvested and traded forest products and contributes to deforestation. Illegal harvesting can have deleterious impacts on biodiversity and other globally important environmental services. Among the factors driving illegal logging are: unclear or poorly enforced forest tenure, weak political institutions, poverty, corruption, inadequate natural resources planning and monitoring, and lax enforcement of sovereign laws and regulations.

Economic Considerations of Illegal Logging

Illegal logging, associated illegal border trade, and the use of illegally obtained timber in manufacturing distort international trade and reduce market opportunities for U.S. suppliers. The very presence of illegally procured wood fiber in the international marketplace affects the competitiveness of U.S. producers who operate legitimately in accordance with national and international environmental and trade rules.

In 2004, AF&PA commissioned what is widely considered to be the one of the most credible and informative reports on illegal logging and which has been separately submitted for the record. The study measured the economic impact on timber production and trade which results from illegally harvested wood products. The report concluded that many of the estimates on the extent of illegal logging are likely exaggerated, but the problem is nevertheless significant and depresses world prices by between 7 and 16%. The study also estimated that the value of U.S. wood exports could increase by over \$460 million annually were there no illegally harvested wood in the global market. Eliminating suspicious roundwood in the global market would have an effect on domestic prices and on the pulp and paper sector which would be in addition to the impact on U.S. wood exports.

Based on the study's analysis, there is credible evidence to suggest that illegal logging of the kind that warrants international concern does, in fact, represent on the order of 8%-10% of global wood products production and a roughly similar share of global wood products trade. This includes only the impact on production and trade of logs, lumber, and wood panels, and does not include the impact on production and trade of secondary wood products, furniture, or pulp and paper. In aggregate, about 8% of the world's roundwood production is suspicious (likely illegal), somewhat less for lumber (6%), somewhat higher for plywood (17%).

Operators that flout the law are a relatively small segment of the total forest products business, but those that choose to engage in illegal forest activity do so largely because of the higher profit potential and/or shortages of legal material. Typically, higher returns are possible because illegal timber is presumably obtained at a lower cost than otherwise would be the case if legal.

Ultimately, the report concluded that to be effective, solutions to the illegal logging issue must reduce the spread between the costs of operating illegally and the costs of operating legitimately. Thus, to lessen the spread, the cost of illegal material needs to rise. This can be accomplished by enhancing enforcement making the risk higher and it more difficult (more costly) to operate in illegal timber.

Programs and Initiatives to Address Illegal Logging

AF&PA and its members are already recognized as leaders in fighting illegal logging and have worked proactively on the issue for several years. In 2003, AF&PA joined with the U.S. Department of State, Conservation International (CI), and others to announce the launch of the President's Initiative Against Illegal Logging. In 2004, AF&PA released its illegal logging report, as previously referenced, which for the first time analyzed the economic impacts of illegally produced and traded wood products. And, in 2005, AF&PA joined with CI to create the Alliance to Combat Illegal Logging, a partnership designed to help put a halt to timber operations in national parks and other protected areas.

Also in 2005, the Sustainable Forestry Initiative (SFI) standard, adherence to which is a condition of AF&PA membership, was revised to incorporate a new Performance Measure. The new measure states that SFI program participants shall have procurement programs in place that support the principles of sustainable forestry, including efforts to thwart illegal logging and promote conservation of biodiversity.

AF&PA and its members have also been and continue to be strongly supportive of ongoing efforts of the U.S. Administration to address illegal logging. In November 2006, AF&PA applauded the announcement that the U.S. Trade Representative's office and Indonesia's Ministries of Trade and Forestry had signed a memorandum of understanding (MOU) through which the United States and Indonesia pledged to combat illegal logging and the trade associated with it. The Administration subsequently backed up this pledge by committing \$1 million in financing to support on-the-ground efforts in Indonesia. Our industry also commends the Administration for its efforts to combat illegal logging through the Strategic Economic Dialogue (SED) talks, taking place between the U.S. and China. The recently completed second round of SED talks resulted in an agreement to establish a Joint Working Group to develop a Bilateral Agreement Addressing Illegal Logging and Associated Trade. We welcome and encourage continued discussions on this topic.

In the coming weeks, AF&PA is set to release a second report, "Wood for Paper: A Statistical Analysis of Sustainable and Suspicious Fiber Sourcing in the Global Pulp Industry". Preliminary analysis indicates that illegal logging, while an issue of concern in the pulp and paper industry, manifests itself much less in this sector than in solid wood products manufacturing. On a global basis, credible allegations about suspiciously (potentially illegal) procured wood fiber for the pulp industry represent less than 2% of the total fiber consumption by the pulp producing sector. In the case of the U.S., practically all roundwood used by the U.S. pulp industry is from managed natural forests or plantations of indigenous species.

At International Paper, we believe our wood procurement philosophy is among the most stringent in the industry. As a global leader in the production of paper and packaging products, integrity in the system (i.e. preventing illegal logging) is critical to our business and our ability to operate in a global market place. Our company, for example, has a long-standing policy of using no wood from endangered forests.

We comply with all applicable laws and regulations in our harvesting and procurement of primary wood (roundwood and chips) and market pulp. We do not procure or accept primary wood or market pulp for our mills from legally designated conservation areas or wood that has been harvested in violation of international trading rules or agreements, such as export bans or the Convention on Trade in International Species (CITES), or wood that is harvested without authorization or in excess of concession permit limits.

We assess risk, for non-North American fiber supply, of attaining illegally logged wood and address significant risk accordingly. We do not use wood fiber from tropical rainforests in our products, nor do we use any natural wood attained from areas designated by Conservation International to be “Tropical Wilderness Areas” or “Biodiversity Hotspots.” Additionally, because we find it difficult to discern legal and sustainable forestry from the illegal and unsustainable, we have also placed a moratorium on any fiber use from Indonesia.

AF&PA and its members are doing the right thing and believe that any reduction in illegal logging will assist our legal products in competing against products manufactured from lower-cost illegal material. And we welcome action that raises the risks for illegal trade without harming the legal trade. This is an important step toward leveling a playing field that is currently stacked against U.S. forest producers that are committed to trading in legal forest products.

H.R 1497 – The Legal Timber Protection Act

We appreciate the increased interest shown by Congress to this important issue. AF&PA recognizes that legislation can potentially have a significant impact on the world-wide problem of illegal logging. In recent months, AF&PA has discussed legislation on this issue with other stakeholders, including the Environmental Investigation Agency (EIA), to seek a workable U.S. legislative approach to this problem that would minimize the impact on legal trade while creating an effective tool to regulate illegal trade coming into the United States.

These stakeholders have focused on the Lacey Act, a federal law designed to control illegal trade in wildlife, as the appropriate vehicle to address trade based on illegal logging. We support such an approach provided it specifies the types of foreign law violations that would trigger Lacey Act liability for forest products. Moreover, to be effective, it is critical that any legislation does not inadvertently increase the cost of legally-obtained timber and timber products, thereby making illegal logging more cost effective. Thus, any legislation should avoid costly chain-of-custody requirements that place undue burdens upon law-abiding businesses.

We particularly appreciate the leadership on this issue shown by Congressman Earl Blumenauer through his introduction earlier this year of H.R. 1497, the Legal Timber Protection Act. The introduction of this legislation, which would amend the existing

Lacey Act to extend its scope to cover plants and plant products taken in violation of foreign and state law, has sent a signal that the United States Congress is serious about combating illegal logging. In fact, it was the introduction of this legislation that resulted in the completion of the stakeholders' discussions and a revised approach supported by AF&PA, its member companies, other forestry-related groups, labor unions, and the environmental community.

Rep. Blumenauer has drafted legislative language to substitute for his bill which utilizes the approach followed in S. 1930, the Combat Illegal Logging Act of 2007, introduced in July by Senator Ron Wyden. We have endorsed Senator Wyden's bill and would endorse a bill in the House that uses Rep. Blumenauer's substitute language. The bill is carefully crafted to address harvesting that is in clear violation of specific foreign and state laws designed to protect forests from criminal activity. While the bill requires companies to record specific information about their plant-related imports, it does not require companies to prove a negative, that is, to prove to the U.S. government that their import is not illegal as a condition of clearing customs. AF&PA encourages the Committee to incorporate the bill language from S. 1930 as it moves forward on H.R. 1497.

AF&PA stands ready to continue to work with legislators and other interested stakeholders to craft appropriate solutions that do not hinder legitimate business transactions. We need to work together to stop this international problem that hurts the environment, the economy, and those companies that are doing right by our forests worldwide.

We believe that the importance of this issue to AF&PA extends well beyond the economic value of the trade opportunities lost to the U.S. forest products industry. To the extent that the general public associates logging, in any country, with "illegal activity," there is a danger of a negative impact on the image of our industry and the products that we produce.

Ultimately, we recognize that support for an amendment to the Lacey Act will have limited impact on combating illegal logging on the ground. But it will send a positive signal to governments, and forest product producers and exporters around the world that the U.S. government, its forest products industry and environmental community recognizes the problem and is prepared to take action.

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On behalf of International Paper, Inc. and the American Forest & Paper Association, I appreciate the opportunity to offer our views on the issue of illegal logging and on H.R. 1497 – the Legal Timber Protection Act.