

**Defra Regulatory Triage Assessment  
(and Policy Appraisal Statement)**

<p><b>Name to be given to potential policy</b> The EU Timber Regulation</p> <p><b>Driver for policy:</b> Domestic issue <input type="checkbox"/> EU requirement <input checked="" type="checkbox"/> International obligation <input type="checkbox"/></p> <p><b>Policy competency:</b> UK <input checked="" type="checkbox"/> England <input type="checkbox"/></p>	<p><b>Policy Area or Agency:</b> Defra International Forestry</p> <p><b>Lead official:</b> Stephen Lowe 0207 238 3202</p>
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**1. Summary: Rationale for Intervention and Options**

**Summary of the problem.**

Deforestation causes around 20% of the world's greenhouse gas emissions, poses a major threat to biodiversity through habitat loss and impacts on the livelihoods of the world's poorest people.

One of the key drivers of deforestation is illegal activity. Where illegally logged timber can be easily placed on open markets alongside legal timber supplies there is money to be made from clearing natural forests either to sell the timber alone or subsidise the conversion to alternative land-uses. This also provides a financial disincentive to those companies sourcing their timber responsibly from legal sources and creates an uneven playing field for the timber trade.

Illegal logging has direct impacts on both governments and legal operators in forest nations, and also limits capacity to engage with measures such as REDD+ which has the potential to provide the international community with cost-effective climate change mitigation options, and is supported by the Government's International Climate Fund.

The EU Timber Regulation (EUTR) is part of a package of measures aimed at ensuring that all products containing wood placed on the market in the EU are from legally harvested timber.

**Summary of the policy outcomes desired.**

The Coalition Government is committed to tackling the trade in illegal timber and this is a key objective from the Coalition Programme for Government and Defra's Structural Reform Plan.

The key change this regulation will bring about is to impose a greater responsibility on those placing products on the market to ensure that their products have been legally harvested. It will work alongside the Forest Law Enforcement, Governance and Trade (FLEGT) regulation (which passed into UK law on 20 February 2012).

FLEGT enables countries to enter into voluntary agreements to implement a licensing scheme and to regulate timber trade in their country. In return the EU commits to ensure that only timber, or timber products, which have come through this legality system can be sold on the EU market. This will increase the supply of legally verified timber onto the EU market and eliminate illegally harvested timber.

The majority of UK businesses involved in the importation of timber or timber products are

already following due diligence processes to ensure that their products come from legal sources. It is estimated that only between 5-15% of timber placed on the UK market comes from illegal sources. In the short term “operators” (those who place timber on the market for the first time) will need to be able to demonstrate, if challenged, that they are following due diligence systems; traders (those who trade in timber and timber products further down the supply chain) will need to be able to show records of where they have purchased and traded in timber. In the medium term this should increase the competitiveness of responsible UK business, by removing illegal timber from the EU market, and in the longer term benefit both UK business and producer countries, by ensuring that more of the revenue from legally harvested timber finds its way to producer country governments and local forest communities.

The EUTR requires sellers of timber and products containing wood (including paper) to exercise due diligence in the supply chain management of their timber and timber products. For the majority of UK business this will be the reaffirmation of their current business practices, and requiring them to ensure that the paper trail is in a format which can be checked, if requested. For those who are acting negligently in sourcing their products they will need to put in place basic due diligence systems, and where necessary push behavioural change down their supply chain. Where they are unable to ascertain the origin of their timber, to a satisfactory level, they may need to consider changing suppliers. But we estimate this will only be relevant for a tiny minority of UK businesses.

## **2. Potential Policy Options**

**Explain the opportunities, obstacles and delivery/compliance issues for each option**

### **i) Do nothing (Is “do nothing” an option at all?)**

Implementation of the EUTR is an obligation under EU Law. The UK agreed to the parent Regulation at European Council, and was instrumental in pushing for the regulation to be as strong as possible. Failure to implement the regulation would lead to EU Infraction procedures and would be politically damaging given the Government’s commitment on illegal logging and the high-profile position the UK has taken on the regulation.

For these reasons “do nothing” is not an option.

### **ii) Non regulatory options (Outline details of potential non regulatory options):**

For the reasons set out above – that this is the implementation of an EU Regulation – a non-regulatory approach is not an option. It should be recognised though that, in advance of agreeing the EUTR, the European Commission conducted a review of options for tackling illegal logging within the EU, including voluntary measures. A regulatory approach was selected as the most appropriate solution and the UK was a strong supporter of this approach. However, we will be working with the Competent Authority (the National Measurement Office) to ensure that supply chain assurance schemes and business improvement models form a part of the compliance approach and will be looking to use existing powers for enforcement, wherever possible.

### **iii) Regulatory options (Considering the current regulatory landscape)\*:**

Defra publicly consulted when the idea of a due diligence regulation was first considered in the EU; the tone of the responses received supported a prohibition being applicable only when operators first place their timber or timber products on the Community market, and that the onus on proving such an offence should remain with the authorities. This was considered a proportionate approach; some NGOs have pressed for a complete ban on the possession of illegal timber but that would be harder to enforce and more costly for business. Tackling illegal timber at the point of entry onto the market will tackle the root problem without placing an unnecessary burden on responsible business operators.

The EUTR requires operators placing timber or timber products on the EU market for the first time to exercise due diligence to mitigate the risk that this timber has been illegally harvested.

In the UK, there is an estimated maximum of 4-5,000 businesses potentially affected; in practice only a very small proportion of that number will be first importers placing timber from outside the EU on the market. Those that are first placers would need to implement a **due diligence system** which:

1. **Provides information** about the supply of timber products, including description, species, country of harvest (and, where applicable, sub-region and concession of harvest), quantity, name and address of supplier and trader and documents indicating compliance with the applicable legislation.
2. **Evaluates the risk** of placing illegally harvested timber and timber products on the market. Criteria which can be used to assess this risk include:
  - o assurance of compliance with applicable legislation, including certification schemes, using a supplier from a country that has a Voluntary Partnership Agreement (VPA) with the EU, third party verification which includes the use of a monitoring organisation (MO).
  - o prevalence of illegal harvesting of specific tree species
  - o prevalence of illegal logging in the country of harvest, and potentially that region of harvest
  - o UN or EU sanctions on timber imports or exports
  - o complexity of the supply chain

Unless the risk of illegality is negligible, takes steps to **mitigate this risk**; for example, additional information, third party verification.

Would these options result in additional costs to business? Yes  No   
 Could such costs exceed £1m per year? Yes  No

**iv) Options that have been ruled out (Why have these been ruled out?):**

None

**3. Initial data to be transferred to the Regulatory Management Tool**

**Link:** [Regulatory Management Tool \(RMT\)](#)

<b>Unique policy identification number</b>	<b>Defra1460</b>
<b>An Impact Assessment will be required</b>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
<b>A formal consultation will be required</b>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
<b>For legislative options - The type of legislation will be</b>	Primary <input type="checkbox"/> Secondary <input checked="" type="checkbox"/> Affirmative <input type="checkbox"/> Negative <input type="checkbox"/>
<b>For legislative options - The impact on existing statute will be</b>	New <input checked="" type="checkbox"/> Amending <input type="checkbox"/> Deregulatory <input type="checkbox"/> Repealing <input type="checkbox"/>
<b>For legislative options - Its status under OIOO will be</b>	Out of scope <input checked="" type="checkbox"/> An Out <input type="checkbox"/> An In £1m- <input type="checkbox"/> An In £1m+ <input type="checkbox"/>
<b>For legislative options - The following will be required</b>	A sunset <input type="checkbox"/>

	<b>A review clause</b> <input checked="" type="checkbox"/>
<b>Fast track Policy clearance is available</b>	<b>Yes</b> <input checked="" type="checkbox"/> <b>No</b> <input type="checkbox"/>
<b>Target date for call for evidence consultation</b>	
<b>Target date for call for consultation on proposals</b>	
<b>Target date for Implementation [or to finalise policy options/IA?]</b>	<b>SNR 5</b>
<b>Estimated FTEs required to develop policy through to clearance</b>	<b>1</b>

#### 4. Policy Sign-On

We have considered the problem and desired outcomes and have agreed the options and evidence required to enable those options to be further assessed and compared

<u>Sign-on team</u>	<u>Name</u>	<u>Date</u>
<b>Policy Lead</b>	<b>Stephen Lowe</b>	<b>15/10/12</b>
<b>Better Regulation</b>	<b>Martin Heffernan</b>	<b>18/10/12</b>
<b>Economist</b>	<b>James Vause</b>	<b>18/10/12</b>
<b>Lawyer</b>	<b>Nick Robson</b>	<b>19/10/12</b>
<b>Social Researcher</b>	<b>N/A</b>	
<b>Delivery Body</b>	<b>N/A</b>	
<b>[Other]</b>		
<b>Approval to proceed (SRO) (After agreement to any business case produced)</b>	<b>Martin Nesbit</b>	<b>01/11/12</b>

## **ANNEX B – Rationale for Fast Track measures**

### **Rationale for intervention and intended effects**

The Statutory Instrument will implement an EU Regulation, and will support the Government's commitment to tackle the global trade in illegal timber and reduce deforestation, with benefits for climate change, biodiversity and poverty eradication. There are currently no regulations in effect to tackle the placing of illegal timber on the market. The Regulation will support the work on CITES (Convention on the Illegal Trade in Endangered Species) and the FLEGT voluntary partnership agreements. EUTR will become directly applicable across the EU as of 3<sup>rd</sup> March 2013 making it an offence to place illegally harvested timber and timber products on the EU market. The offence will only apply to operators who place the timber or timber products on the market in the EU for the first time. It will also require operators to implement a due diligence system to mitigate the risk of placing illegal timber on the market.

The UK government has a longstanding commitment to tackling illegal logging, and deforestation, which was renewed by the Government's commitment to "introduce measures to make the import or possession of illegal timber a criminal offence."

The causes of illegal logging can be attributed to failure of international markets, which continue to accept illegal timber products, and failures of governance which allow commercial and political elites to benefit from forest exploitation by ensuring the absence of, or weak enforcement of, national forest laws in producer countries. Continued deforestation is a significant contributor to global carbon emissions, with deforestation accounting for approximately 18% of global emissions.

Consumer countries have a key role in putting in place policies to control the flow of illegal timber into the EU. As we are seeking a trade-based solution to illegal logging, efforts are most effective when taken at the EU level. Defra originally consulted on the proposal for a due diligence regulation when it was first considered in the EU; the tone of the responses received by the UK has supported a prohibition being applicable only when operators first place their timber or timber products on the Community market, and that the onus on proving such an offence should remain with the authorities.

The EUTR requires operators placing timber or timber products on the EU market for the first time to exercise due diligence to mitigate the risk that this timber has been illegally harvested.

### **Viable policy options (including alternatives to regulation)**

The European Commission reviewed five options for legislative measures before developing the EUTR, ranging from voluntary measures to an outright ban on trade in illegal timber. The Commission subsequently chose a compromise sixth option – the due diligence approach. The European Commission's proposal suggests that a major benefit of this option is that it will favour sourcing from countries with reliable forest management practices, including those which have signed Voluntary Partnership Agreements (VPA) under the FLEGT regulation. The Commission estimate that costs are proportionate to the need for the EU to improve the efficiency of its policy against illegal logging and the related trade. This approach also means that over time, operators will benefit from the elimination of illegal timber products from the market. The chosen option was also seen to require the smallest additional administrative burden of the six options.

If the UK Government does not enact legislation to enforce the EUTR, this will result in infraction proceedings from the EU and a loss of reputation. This has also been a priority that has been championed both nationally and in the EU by the current UK Government.

Were the EU legislation not in place it would be difficult to develop effective voluntary or legislative mechanisms domestically, given the possibility of timber imports being routed through other Member States, with single market constraints on our prospects for regulating intra-EU movements into the UK.

The costs of a due diligence system will depend on the amount of products and the complexity of the product and the supply chain, e.g. how many different sources of timber a product contains. There will be marginally greater comparative costs for SMEs, but trade bodies such as the Timber Trade Federation (TTF) are working to produce guidance and tools to assist their members in compliance.

The costs of a due diligence system will also vary on the source of products, for operators who only purchase from within the EU the costs of carrying out their due diligence obligations will be significantly lower as the companies they are trading with will also be operating under the same system.

### **Initial assessment of business impact**

It is hard to give a completely accurate assessment of the costs for business, partly because of the range of industry sectors covered, but mainly because of the diverse nature of current business practice. We will use the period of consultation later this year to build up a more accurate picture.

In assessing the impact on business we can make a number of reasonable assumptions, both on the number of businesses affected and on the impact on individual enterprises:

### **Number of businesses affected:**

Our data on the number of companies engaged in the relevant sectors is drawn from the Office of National Statistics and the Forestry Commission. These are top-end figures and further account needs to be taken of a number of factors in order to arrive at a reasonable figure for the impact of this regulation on business:

- A number of these firms will not be classed as “operators” under the EUTR ie the person who first places the timber on the EU market. “First placers” are likely to be those trading in logs (hardwood and softwood) and paper, and a small proportion of those involved in the importation of furniture. It is likely that most of those in the category of “Builders, joinery and carpentry” are purchasing their timber from others in the supply chain, rather than importing directly.
- An estimate of the number of companies affected, in the main sectors, is set out in the table below:

Sector	Number of SMEs	Number of larger companies	No. which are first placers <sup>1</sup>	
			SME	Large
Softwood Logs, Sawn wood and Veneer	85	3	34	3
Hardwood Logs, Sawn wood and Veneer	72	16	29	16
Plywood, particleboard and fibreboard	n/a	n/a	-	-
Builders Joinery and Carpentry (BJC)	344	79	0	30
Flooring	n/a	n/a	-	-
'Other' products incl. casks & barrels	n/a	n/a	-	-
Wooden furniture	3550	50	650 <sup>2</sup>	50
Paper	50	5	20 <sup>3</sup>	5
<b>Total</b>	<b>4101</b>	<b>153</b>	<b>733</b>	<b>104</b>

1 – Estimates that 40% of UK timber trade are first placers. Only large “BJC” companies import.

2 – Figures for 2011 suggest 684 companies imported furniture under custom code 9403 30 (Furniture). Of these we can assume that the 50 large companies are included so deduct 50 to avoid double counting. Most of the imports under other furniture codes are likely to be by the same companies, but to allow for the fact that there may be some others we have rounded up.

3 – Uses the same 40% estimate as for the timber trade.

- A number of those who are importers of timber will be receiving their products from within the EU. Under the regulation they will not, therefore, be first placers. It is hard to quantify this, through import figures, but around 80% of UK timber imports come from Scandinavia, Russia and the Baltic States, 15% from other parts of Europe and North America and only around 3% from tropical sources<sup>1</sup>;
- Other importers will be receiving products from relatively low risk countries, or will be importing products which are themselves low risk (because of the species of timber) or which fall outside the scope of the regulation.
- Once FLEGT (Forest Law Enforcement Governance and Trade) Voluntary Partnership Agreements<sup>2</sup> are in place timber from those countries will automatically comply with EUTR and no additional due diligence will be needed.

### **Impact on individual enterprises**

We have been able to gain information on the likely impacts on certain sectors and individual companies through our regular programme of stakeholder engagement, including visits to trade associations and companies.

- The vast majority of companies, especially large enterprises, already have sophisticated due diligence systems in place. These will require minimal or no adjustment to comply with EUTR and will not entail the need for additional staff.
- 2000 companies in the sector belong to trade organisations, or other bodies, which advise on, or operate, bespoke due diligence systems<sup>3</sup>
- For those who do not there is likely to be a one-off cost to put due diligence procedures in place and minimal administrative running costs thereafter. We therefore expect a significant falling off in both the amount and the level of staff input (from professional purchaser to general administration, a fall of around £6 in hourly wage rate).

### **COST ESTIMATES**

#### **Costs per enterprise:**

A very basic Scenario assumes one-off set up costs for those operators with no current due diligence system to change internal systems are estimated at 33 hours of managerial/clerical time for large Operators, and 16.5 days for SMEs. Assuming this work is mainly by procurement specialists, the figures are £625.57 per large operator, and £312.78 per SME.

Ongoing administrative costs are assessed at 1 day per month for large operators and 0.5 days per month for SMEs but as admin costs, rather than for buyers and purchasing professionals.

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<sup>1</sup> Figures from TTF [http://www.ttf.co.uk/Environment/Responsible\\_Sourcing.aspx](http://www.ttf.co.uk/Environment/Responsible_Sourcing.aspx)

<sup>2</sup> <http://ec.europa.eu/environment/forests/flegt.htm>

<sup>3</sup> The following organisations operate schemes provide varying degrees of support towards compliance for companies; Forest Stewardship Council (FSC), Programme for the Endorsement of Forest Certification (PEFC), Tropical Forest Trust (TFT), Timber Trade Federation (TTF), World Wildlife Fund (GFTN).

We have estimated the costs, per business, of the one-off set up costs, and the reduced ongoing costs.

	<b>Estimated set up costs by business size<sup>4</sup></b>	<b>Ongoing administrative costs at year one<sup>5</sup></b>
<b>Large Operators</b>	33 hours - £625.57	12 days - £881.16
<b>SMEs</b>	16.5 hours - £312.78	6 days - £440.58

### **Overall costs**

The overall costs, using the figures for those likely to be first placers (104 Large Operators and 733 SMEs):

	<b>Set up costs Year One</b>	<b>Administrative Costs Year One</b>	<b>Total Costs Year One</b>
<b>Large operators</b>	£ 65,059.28	£ 91,640.64	£ 156,699.92
<b>SMEs</b>	£ 229,267.74	£ 332,945.14	£ 562,212.88
<b>TOTAL</b>	£ 294,327.02	£ 424,585.78	£ 718,912

An adjusted cost, to remove those who are likely to be importing from the EU (therefore not first placers), and based on the assumption that 50% of trade is internal to the EU<sup>6</sup>, is below:

	<b>Set up costs Year One</b>	<b>Administrative Costs Year One</b>	<b>Total Costs Year One</b>
<b>Large operators</b>	£ 32,529.64	£ 45,820.32	£ 78,349.96
<b>SMEs</b>	£ 114,633.87	£ 166,472.57	£ 281,106.44
<b>TOTAL</b>	£ 147,163.51	£ 212,292.89	£ 359,456.40

Year on year costs from Year 2, will be based on the figure for Administration (a basic figure of £424k, adjusted for EU only imports to £212k), with the anticipation of year on year efficiency reductions, conservatively estimated at 5% per year. The introduction of FLEGT VPA timber will reduce this figure significantly.

### **The wider impacts of this legislation:**

#### **Economic**

It is acknowledged that the requirements of due diligence may be harder for SMEs to achieve. Therefore the EUTR contains a provision for operators to be supported in their due diligence by a "Monitoring Organisation" (MO). Where firms elect to use an MO it can be

<sup>4</sup> <http://www.bis.gov.uk/files/file44505.pdf> - based on the figures for 3541 Buyers and purchasing Officers multiplied by 1.19 to give a 2012 rate, under the assumption that those carrying out the due diligence assessment will be buyers and purchasing professionals and not general administrative workers.

<sup>5</sup> These figures based on 41 Administrative Occupations multiplied by 1.19 to give a 2012 rate and based on a 7 hour working day.

<sup>6</sup> UK trade figures for 2000-2010: <http://www.statistics.gov.uk/hub/business-energy/businesses/international-trade>. In practice a greater percentage of timber imports come from within the EU, so this is a conservative estimate.



assumed that they do so because this is a cheaper option than carrying out due diligence in-house. Therefore the estimates of cost based on internal due diligence processes above are assumed to be maximum costs. The impact to competition will vary over time as the market adjusts to meet new demands for legal timber; there have already been advances in technology because of the imminent legislation, including innovative means of timber identification using DNA. This further emphasises the fact that these cost estimates, assuming static technology and lack of learning from experience, may be over-estimates.

During the consultation stage we will seek to gather better information from industry about the impacts they expect and what, if any, monetary value they could put on this.

If trade in illegal timber were prevented, as opposed to being transferred to other countries without due diligence regimes, the benefits felt in developing the forestry industry in many countries that currently require development support would accrue because a reduction in illegal logging would help to deliver the wider international development and environment objectives of the UK Government.

### **Social**

The EUTR will have an impact on sustainable employment within the countries and regions of harvest of illegal timber. Legally harvested timber will be profitable and this will result in a localised boost in employment and funds to local communities, which would boost their ability to provide for their families and send their children to school. The benefits of this policy accrue predominantly outside of the UK borders so need to be seen in the context of wider development, environment and climate change policy.

A number of studies have estimated the cost of illegal logging to forest nations. The World Bank estimates costs of illegal logging at \$15bn per year reporting that “where illegal logging in public lands alone causes estimated losses in assets and revenue in excess of US\$10 billion annually”

**(NB:// This estimate is based on the global annual value of timber logged illegally on public lands, including the full value in this cost benefit analysis implicitly therefore assumes that there is no net benefit to forest nations of illegal logging, or that the benefits of any revenues are offset by the negative social impacts of illegal activity that are also highlighted in the World Bank report which are not quantified elsewhere.) and that “as much as US\$5 billion is lost annually to governments because of evaded taxes and royalties on legally sanctioned logging” (World Bank<sup>7</sup>)**

### **Environmental**

Implementation of this regulation will lead to a reduction in sales of illegal timber which will then have a reduction in the possible profit from illegal logging and illegal deforestation. “..Deforestation and forest degradation release stored carbon into the atmosphere as CO<sup>2</sup> emissions... Deforestation in tropical regions generally emits significantly more CO<sub>2</sub> than forests elsewhere in the world”.<sup>8</sup> With the reduction in illegal logging and deforestation we can see a significant reduction in this cause of greenhouse gas emissions.

There are also likely to be wider environmental benefits from reduced illegal logging. The Eliasch Review<sup>9</sup> estimated that in five out of ten of the countries with the largest forest cover, more than half of the trees cut were illegally felled. Poor regulation and law enforcement are widely recognised as important underlying drivers of deforestation. With the forestry sector accounting for roughly 17% of global greenhouse gas emissions (making it the third largest source of emissions) it is clear that improved governance will be key to tackling this huge source of emissions and with good governance may come a stable industry with better long term job prospects and security for families and communities.

<sup>7</sup> [http://siteresources.worldbank.org/INTFORESTS/Resources/ForestLawFINAL\\_HI\\_RES\\_9\\_27\\_06\\_FINAL\\_web.pdf](http://siteresources.worldbank.org/INTFORESTS/Resources/ForestLawFINAL_HI_RES_9_27_06_FINAL_web.pdf) )

<sup>8</sup> (<http://www.official-documents.gov.uk/document/other/9780108507632/9780108507632.pdf>

<sup>9</sup> (<http://www.official-documents.gov.uk/document/other/9780108507632/9780108507632.pdf>

A relatively small impact on illegal logging, and on the implementation of effective forestry legislation in key producer countries would be significant. In addition to biodiversity impacts the value of climate change mitigation benefits could be considerable; based on the assumed value per tonne of CO<sub>2</sub>e at 2013 traded prices, a 1% reduction in the rate of deforestation, estimated at 0.578bn tonnes of CO<sub>2</sub>e, would deliver climate benefits in the order of £919m.

**One-in, One-out status**

Out of Scope – this is minimum implementation of an EU Regulation

**Rationale for Triage rating**

The measure falls within the new fast track assessment criteria in that the projected burden is well below the £1m per annum gross impact threshold.