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|---|---|--|--|
| <b>Title:</b><br>Timber and Timber Products (Placing on the Market) Regulations 2013<br><b>IA No:</b> DEFRA1460<br><b>Lead department or agency:</b><br>Defra<br><b>Other departments or agencies:</b><br>National Measurement Office (designated enforcement body) | <b>Impact Assessment (IA)</b>                 |  |  |
|   | <b>Date:</b> 26/02/2013                       |  |  |
|   | <b>Stage:</b> Final                           |  |  |
|   | <b>Source of intervention:</b> EU             |  |  |
|   | <b>Type of measure:</b> Secondary legislation |  |  |
| <b>Contact for enquiries:</b><br>Stephen Lowe, Defra  |   |  |  |

|  |                           |
|--|---------------------------|
| <b>Summary: Intervention and Options</b> | <b>RPC Opinion:</b> GREEN |
|--|---------------------------|

| Cost of Preferred (or more likely) Option |                            |  |   |
|---|----------------------------|--|---|
| Total Net Present Value                   | Business Net Present Value | Net cost to business per year (EANCB on 2009 prices) | In scope of One-In, Measure qualifies as One-Out? |
| £-4.78m                                   | £-1.28m                    | £0.27m   | No  |
|   |                            |  | NA  |

**What is the problem under consideration? Why is government intervention necessary?**  
Illegal logging is one of the major drivers of global deforestation. Global deforestation, which constitutes annual losses of forest areas the size of England has significant negative impacts. The TEEB study estimated the value of the ecosystem services lost as a result of deforestation at \$2tr-\$4.5tr each year, these losses are felt both locally by the rural poor in developing countries and globally through the link to climate change and biodiversity loss. Further, illegal logging results in revenue losses to governments and legitimate businesses. Intervention is necessary to meet the UK's obligation under EU law to implement the EU Timber Regulation (EUTR).

**What are the policy objectives and the intended effects?**  
The key change this regulation will bring about is to impose a greater responsibility on those placing products on the EU 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). The intention is to reduce demand for illegally harvested timber and push the requirement for legally harvested timber up timber supply lines back to source countries; with the aim of reducing the illegal and unsustainable logging practices that drive global deforestation.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**  
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. 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 involving a prohibition on the placing of illegally harvested timber on the EU market for the first time and a requirement for those placing timber on the EU market to exercise due diligence, was selected as the most appropriate solution by the EU, with UK support. 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.

|  |                     |                       |                     |                      |                     |
|--|---------------------|-----------------------|---------------------|----------------------|---------------------|
| <b>Will the policy be reviewed?</b> It will be reviewed. <b>If applicable, set review date:</b> 03/2018                |                     |                       |                     |                      |                     |
| Does implementation go beyond minimum EU requirements?   |                     |                       | No                  |                      |                     |
| Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.                       | <b>Micro</b><br>Yes | <b>&lt; 20</b><br>Yes | <b>Small</b><br>Yes | <b>Medium</b><br>Yes | <b>Large</b><br>Yes |
| What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent) |                     |                       | <b>Traded:</b>      |                      | <b>Non-traded:</b>  |

*I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.*

Signed by the responsible Minister: Richard Benyon Date: 14 March 2013

# Summary: Analysis & Evidence

# Policy Option 1

## Description:

### FULL ECONOMIC ASSESSMENT

| Price Base Year 2012 | PV Base Year 2013 | Time Period Years 5 | Net Benefit (Present Value (PV)) (£m) |       |                      |
|----------------------|-------------------|---------------------|---------------------------------------|-------|----------------------|
|                      |                   |                     | Low:                                  | High: | Best Estimate: -4.78 |

| COSTS (£m)    | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Cost (Present Value) |
|---------------|---|--|----------------------------|
| Low           | 1                                       |  |                            |
| High          |   |  |                            |
| Best Estimate |   | £0.2m  | £1.0                       |

#### Description and scale of key monetised costs by 'main affected groups'

Costs comprise the set up and maintenance of due diligence systems by UK businesses who place timber or timber products on the EU market.

Costs to the public sector are the funding of the National Measurement Office to enforce the Regulations, estimated at £0.75m per annum.

#### Other key non-monetised costs by 'main affected groups'

No other significant costs to UK businesses could be monetised.

| BENEFITS (£m) | Total Transition (Constant Price) Years | Average Annual (excl. Transition) (Constant Price) | Total Benefit (Present Value) |
|---------------|---|--|-------------------------------|
| Low           |   |  |                               |
| High          |   |  |                               |
| Best Estimate |   |  |                               |

#### Description and scale of key monetised benefits by 'main affected groups'

No benefits could be monetised; some benefits fall outside of the UK.

#### Other key non-monetised benefits by 'main affected groups'

International: difficult to disaggregate UK's impact as a proportion of the changes driven by EUTR, but benefits accrue to source countries through reduced losses in avoided taxes and benefits to legal operators, reduction in deforestation, reduction in greenhouse gas emissions and reduced negative impact on biodiversity. Domestic: implementation across the EU will benefit responsible UK companies who will be competing for business on a level playing field.

#### Key assumptions/sensitivities/risks

Discount rate (%) 3.5%

Assumption of reduction in annual cost to business of 5% each year due to efficiency savings, increased cooperation from suppliers, and increased availability of FLEGT-licensed timber.

The estimated number of 'operators' is based on current understanding. If the definition of an 'operator' changes in the EU guidance this may impact on the estimated number of UK companies affected by the Regulations.

### BUSINESS ASSESSMENT (Option 1)

|   |               |           |                   |                      |
|---|---------------|-----------|-------------------|----------------------|
| Direct impact on business (Equivalent Annual) £m: |               |           | In scope of OIOO? | Measure qualifies as |
| Costs: 0.3  | Benefits: 0.0 | Net: -0.3 | No                | NA                   |

## Evidence Base (for summary sheets)

### 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.

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.

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.

## Assessment of business impact

It is difficult 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.

The consultation asked for views from business and six trade organisations responded. The majority of respondents were content with the estimated impacts on business in the Regulatory Triage Assessment published alongside the consultation paper. Two respondents suggested alternative cost impacts, which are addressed below.

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 i.e. 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 £642.64 per large operator, and £321.32 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.

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

| Estimated set up costs by | Ongoing administrative costs |
|---------------------------|------------------------------|
|---------------------------|------------------------------|

<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).



|                        | <b>business size<sup>4</sup></b> | <b>at year one<sup>5</sup></b> |
|------------------------|----------------------------------|--------------------------------|
| <b>Large Operators</b> | 33 hours - £642.64               | 12 days - £1127.69             |
| <b>SMEs</b>            | 16.5 hours - £321.32             | 6 days - £563.85               |

### Overall costs

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

|                        | <b>Set up costs Year One</b> | <b>Administrative Costs Year One</b> | <b>Total Costs Year One</b> |
|------------------------|------------------------------|--------------------------------------|-----------------------------|
| <b>Large operators</b> | £66,835                      | £117,280                             | £184,115                    |
| <b>SMEs</b>            | £235,528                     | £413,299                             | £648,828                    |
| <b>TOTAL</b>           | £302,363                     | £530,579                             | £832,943                    |

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> | £33,417                      | £58,640                              | £92,057                     |
| <b>SMEs</b>            | £117,764                     | £206,650                             | £324,414                    |
| <b>TOTAL</b>           | £151,182                     | £265,290                             | £416,471                    |

Year on year costs from Year 2, will be based on the figure for Administration (a basic figure of £531k, adjusted for EU only imports to £265k), 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.

### Consultation responses on impact on business

The majority of respondents were either content with the estimated impacts on business or made no comment. One respondent commented: *“Assessing and mitigating the risk of being delivered illegally harvested timber, developing and maintaining a system of due diligence and maintaining comprehensive records ... are all regarded as best practices that [we] would expect to undertake, irrespective of the introduction of the EUTR. Accordingly we anticipate little additional burden from ensuring compliance with the EUTR.”*

One trade organisation estimated the ongoing administration requirement for carrying out due diligence as 0.5 to 1 employee, or full time equivalent (FTE). However, no data is provided to show how much of this is additional resource due to the implementation of EUTR or how much of this resource is already accounted for by the significant number of responsible businesses already carrying out some form of due diligence. Therefore, it is unclear what proportion of this cost to business, if any, is directly related to the implementation of the EUTR. For this reason, the provided estimated figures have not been incorporated into the impact assessment, as they do not add to our understanding of the impact on business due to EUTR implementation.

<sup>4</sup> Source: Annual Survey of Hours and Earnings, 2012 Provisional Results, Table 14.6a using median hourly wage rate for SIC code 3541 “Buyers and purchasing Officers” + 30% overhead as in BIS Standard Cost Model <http://www.bis.gov.uk/files/file44505.pdf> - assumes that those carrying out the due diligence assessment will be buyers and purchasing professionals and not general administrative workers.

<sup>5</sup> Source: Annual Survey of Hours and Earnings, 2012 Provisional Results, Table 14.6a using median hourly wage rate for SIC code 41 “Administrative Occupations” + 30% overhead as in BIS Standard Cost Model <http://www.bis.gov.uk/files/file44505.pdf> - assumes 7.2 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.

Another trade organisation provided three examples of individual retailers, with a first year set up cost of between £60k and £135k and ongoing annual costs of between £58.5k and £120k. A significant proportion of these costs are attributed to senior staff resource and ongoing consultancy fees. However, as considered above, and evidenced by our extensive stakeholder engagement over the past two years, most large organisations dealing with timber already have staffing resource directed at sustainable and legal sourcing. From the examples given, it is unclear how much of the stated staffing resource can be attributed solely to EUTR implementation. Further, it is not explained why such a high proportion of ongoing senior staff resource and consultancy is anticipated when, following initial setup, ongoing activity to comply with due diligence requirements is expected to be a largely administrative function.

Our wider stakeholder engagement with business has shown that most large and medium sized enterprises already have sophisticated supply chain management systems in place, down to the product line level, and employ staff on supply chain and sustainability compliance issues. These actions, and their associated costs, have been driven by the need to protect brand image and guard against the reputational risk of placing illegal timber on the market. Whilst there is a short term adjustment to ensure the precise requirements of EUTR's due diligence are covered by the existing systems these are generally estimated to be minor. Indeed the majority of businesses and retailers have supported the introduction of EUTR precisely because it will legislate to require other firms to come up to their level of supply chain management; they feel that they have so far invested in systems of supply chain management for which they do not receive a price premium. Where companies have taken no steps to ensure the legality of their timber, competitors would see it as right that they should incur some costs to come up to the standard required, therefore putting them on a level footing with the first movers on this issue.

Unfortunately, no data is provided to demonstrate how representative these three examples are of retailers across the board, which makes it impossible to use the data to make an assessment about the impacts across all retailers. For example, retailers will differ significantly in terms of the overall size of the business, their level of trade in timber and timber products, whether they are primarily operators or traders for the purpose the EUTR, and their current levels of preparedness to carry out due diligence. The difference in impact will be entirely different between a large retailer who deals primarily in timber they bring in from outside the EU, to a smaller retailer who deals with a low quantity of timber products which it purchases as a trader after they have been placed on the EU market. In these examples, the larger retailer will be required to carry out due diligence on a high quantity of timber products, whereas the smaller retailer will only be required to keep records of where they purchased their timber products from, something which they will likely already do in the course of their business. Without the necessary data to provide context, it would be inappropriate to extrapolate the three individual costs estimations provided, as representing the impact on all retailers.

It is acknowledged that the impact on some business in some sectors will be greater than others, but the cost estimates provided are designed to consider the average costs to business across all sectors. For the reasons outlined above, it is considered that the data provided through consultation responses does not provide sufficient data to allow for a more rigorous and informed assessment of cost impacts. Indeed, due to the very small number of examples, the lack of context provided for the examples, and the concerns raised above, it is considered that including these figures in the impact calculations would reduce, not increase, the reliability and accuracy of the impact assessment. Due to the specific circumstances it is considered appropriate to retain the original estimated costings.

It should also be noted that UK business has been broadly supportive of the EUTR, and of the need for robust enforcement, recognising that this approach has the potential to enhance UK business interests by creating a level playing field across the EU. As part of that, there has been recognition that there would be some level of cost to ensure compliance with the regulation.

## **Benefits to UK businesses**

If the EUTR achieves its goal of reducing demand for illegally harvested timber in the EU, this will help to create a level playing field for UK businesses who will benefit from a reduction of illegally harvested timber on the EU market undercutting responsible timber operators and traders. This will enable the vast majority of responsible UK businesses to compete more effectively in the EU market.

## Cost to UK government

There will be new costs to Government associated with the enforcement of the regulations. These costs will be primarily borne by Department for Environment, Food and Rural Affairs who will fund the National Measurement Office to implement effective enforcement to include: support to businesses looking to comply, investigation of substantiated claims of a violation of the EUTR, intelligence-led checks on operators, seizure of illegally harvested timber, issue of notices of remedial action, and prosecution where appropriate. Costs are estimated as £750k per annum.

Costs may also be borne by the Ministry of Justice as a result of prosecutions, court hearings and custodial sentences. The number of prosecutions and hence costs are expected to be low but will be kept under review.

## 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 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.

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<sub>2</sub> 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

<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>)



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.

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.

## Implementation

The National Measurement Office (NMO) are the designated body responsible for enforcing the regulations. The regulations will be reviewed within five years to evaluate whether they are achieving their intended purpose. The use of the powers of entry and impact on the criminal justice system will also be kept under review. The European Commission will perform their own monitoring and evaluation and the UK will endeavour to input into that process.

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