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Master thesis

Analysis of the readiness of Serbia to effectively comply with
and implement the European Timber Regulation (EUTR)

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Vienna, June 2016

Eidesstattliche Erklärung

Ich erkläre eidesstattlich, dass ich die Arbeit selbständig angefertigt habe. Es wurden keine anderen als die angegebenen Hilfsmittel benutzt. Die aus fremden Quellen direkt oder indirekt übernommenen Formulierungen und Gedanken sind als solche kenntlich gemacht. Diese schriftliche Arbeit wurde noch an keiner Stelle vorgelegt.

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Acknowledgments

First of all, I would like to express my appreciation to everybody that has been involved in the organizational process of the European Forestry Master Programme with a special thanks to Marjoriitta Möttönen, for remarkable planning and facilitation throughout the master programme.

I would like to express my deepest gratitude to the supervisor of my thesis - Professor Karl Hogl. I am very grateful for the guidance and support that Professor Hogl has provided me with. Not just that his exceptional knowledge, attention to detail, and patience assisted me to complete the thesis, but Professors supervision also helped me to learn important lessons that enabled me to improve both personally and professionally.

Furthermore, I would also like to express my gratitude to Helga Pülzl and Ivana Zivojinović, for always being well-disposed and willing to help, whenever I faced various challenges and uncertainties during my studies.

Furthermore, I highly appreciated help from Professor Branko Glavonjić, Mr. Dusan Jović and Mr. Nenad Petrović for their assistance, especially regarding the organizational aspects of interviews that I conducted in Serbia. I am also very thankful to Mr. Mico Simkić, Mr. Stevo Sekulić and Mr. Aleksandar Vasiljević for being extremely cooperative and supportive. I would also like to thank the Austrian colleagues for their assistance and knowledge sharing, especially to Mr. Hannes Krehan, Mrs. Jasmin Putz and Mr. Johannes Hangler.

Beyond any doubts, I have to thank to all of my dear friends from the masters programme for wonderful two years of studying, as well as to Nichola, Denver, David and Zare for the useful comments, support, and most importantly for their friendship.

During my master studies I had the privilege to work, among others, with two extremely kind and knowledgeable persons, Mr. Aleksander Buck and Professor Mike Wingfield of IUFRO. I would like to express my gratitude for the support and opportunities they have given to me to sharpen my professional skills.

In the end, I would like to say that I am tremendously fortunate to have a great and big family, therefore and finally, I would like to thank them for the endless and unconditional love and support.

Abstract

Illegal logging and related trade have been recognised as significant global problems of the forest and wood industry sectors. Various measures have been introduced for excluding products based on illegal logging from the markets; *inter alia*, the European Union Timber Regulation (EUTR). This study assesses the state of readiness of the Serbian regulatory and administrative arrangements as well as of the management procedures of Serbian forestry and wood industry to comply with and to effectively implement the EUTR. In order to approach the complexity of the subject matter of illegal logging and related trade, this study starts out by reviewing the state of the art literature and the relevant European regulations for deducing the main dimensions of the problem field and the state of the EUTR implementation. The study continues with the case study description, portraying the current state of Serbian forestry and wood industries, particularly with regards to the issue of illegal logging and related trade. A content analysis of most relevant Serbian regulations and the results of a series of the in-depth expert-interviews allow to identify main gaps and challenges to harmonise the legislative framework and to adjust the organizational arrangements in the Serbian forestry and wood industry sector for effectively comply with the EUTR. For reflecting on the findings from the Serbian case study, this study also briefly gathered empirical data on opinions of Austrian experts concerning the challenges of adjusting for EUTR compliance and implementation. The results indicate gaps and weaknesses in the Serbian arrangements for avoiding illegal logging and related trade and stress the key challenges that are awaiting Serbia. Finally, this thesis suggests some measures for overcoming these challenges and hence for facilitating compliance and effectively implementing the EUTR in Serbia.

Keywords: EUTR, illegal logging and related trade, implementation, forestry and wood industry, Serbia

List of Abbreviations

BFW	Austrian Federal Forest Office
CC	Chamber of Commerce and Industry of Serbia
CITES	Convention on International Trade in Endangered Species
CoC	Chain of Custody
CO	Competent Authority
DDS	Due Diligence System
DRC	Democratic Republic of Congo
EU	European Union
EUTR	European Union Timber Regulation
FAO	Food and Agriculture Organization of the United Nations
FLEGT	Forest Law Enforcement Governance and Trade
FSC	Forest Stewardship Council
GDP	Gross Domestic Product
IPF	Intergovernmental Panel on Forests
LoF	Law on Forests (2010)
LoT	Law on Trade (2011)
MoAEP	Ministry of Agriculture and Environmental Protection
MoE	Ministry of Economy
MO	Monitoring Organization
PEFC	Programme for the Endorsement of Forest Certification
SME	Small and medium-sized enterprises
UNFF	United Nations Forum on Forests
VPA	Voluntary Partnership Agreement
WTO	World Trade Organization
WWF	World Wide Fund for Nature

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1. Introduction

1.1. The problem of illegal logging

Illegal logging, associated illegal trade and corruption directly challenge and weaken sustainable economic growth, equitable development, and conservation of the environment (Kishor and Oksanen, 2006). They are an international problem that is usually a result of the weak forest governance; which consequently reduces the chances to sustainably manage the world forests and contributes to problems such as deforestation, social conflicts, corruption, depleting livelihoods and the loss of potential governmental revenues (Hoare, 2016). Illegal logging is a comprehensive problem which exact scale and value is hard to estimate and quantify in relation to the global trade in forest products due to its secret nature and methodological challenges. However, various reliable assessments indicate that the issue of illegal logging is of significant importance on a global scale (Contreras-Hermosilla *et al.*, 2007).

The impacts of illegal logging can be comprehensive and contain environmental, economic and social features. One of the key environmental impacts is the loss and degradation of forest lands, which consequently in most cases leads to the loss of habitats and biodiversity. Hence, the world's most endangered species, such as orangutans in Indonesia and tigers in Siberia, are threatened because of this issue. Illegal logging presents threat to unique species of tropics, and according to Boucher *et al.* (2011) supply of wood products from tropics is expected to increase in next few decades which is going to put the forests to even greater risk. Deforestation and degradation that are caused by illegal logging also contribute to climate change because great amounts of carbon dioxide are released in the atmosphere every year (Illegal Logging Portal, 2016).

From the economic point of view, according to the World Bank (2004) estimates illegal logging and illegal wood trade practices cost governments and business between 10 and 15 billion USD per year in terms of lost revenue. On a global scale 5 to 10% of the total global industrial round wood production comes from illegally logged wood. Even though the exact amount of wood that enters international trade is unknown, some estimates reveal that international trade of wood products obtained from illegal logging is around 5 billion USD per year (Contreras-Hermosilla *et al.*, 2007). In view of the fact that most of the illegal logging occurs in developing countries, the amount of illegally logged products made of wood in these countries is even higher (Seneca Creek Associates and Wood Resources International, 2004).

Illegal logging and related illegal activities also have negative social impacts on the communities that are dependent on forests, and often it is the case that these communities lose out to powerful interests and logging companies (WWF, 2016). Illegal logging is usually followed by

other illegal activities, such as corruption, that weakens the rule of law (Transparency International, 2010). Furthermore, land and resource use rights of forest communities are one of the consequences of illegal logging that can lead to bigger national conflicts, as it was the case in Liberia (Global Witness, 2016).

Impacts of illegal logging and related illegal activities have not only been reported for tropical countries but for European countries too, including Serbia (Regional Environmental Center, 2009a). Evidence of the environmental impacts (e.g. land degradation and erosion) and the social impacts (e.g. decrease of life quality because of the disturbances of forests) date back to the 18th century. From the economic perspective, the influence that illegal logging has on the state budget is directly present (i.e. the lack of funds resulting from fees for harvesting trees) and indirectly too (e.g. reduced amount of taxes from trade with wood products) (ibid.).

Complex issues such as illegal logging and related trade are usually linked to several economic sectors, and because of that identifying the drivers is an important step in fighting the problem. Poor socioeconomic conditions (e.g. low incomes and high unemployment rates), supply and demand gaps in the wood processing industry, high demand for firewood and institutional weaknesses of the competent authorities are just some of the drivers of illegal logging in South Eastern Europe (Markus-Johansson *et al.*, 2010).

The main driver of illegal logging activities in Serbia is the difficult economic situation caused mainly by past war affairs, the trading embargo, and a collapsing economy (Regional Environmental Center, 2009a). As a result of the overall appalling situation in Serbian forestry and wood industry that is facing various problems, such as a lack of efficient and sustainable forest management, delay in technological developments and institutional weaknesses, illegal activities are present on a high level (ibid.). Hence, illegal logging and related illegal activities directly undermine the effort for the improvement of the current state of forestry and the wood sector in Serbia. The importance of the problem is even bigger, in light of the fact that forests are perceived as one of the most important renewable resource and could have significant impact on the recovery of the national economy and in reaching social stability in Serbia.

Consumer countries' demand for wood and wood products is also an important driver of illegal logging. Nevertheless, various consumer country measures have been initiated in order to fight the illegal logging by excluding illegal timber from their markets. These measures include bilateral agreements, e.g. voluntary partnership agreements (VPAs) negotiated under the EU's Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT), governmental procurement policies, and measures such as the United States Lacey Act Amendment and the European Union Timber Regulation (EUTR) (Brack, 2010), which is the subject matter of this thesis.

The EUTR came into force on the 3rd of March 2013. It fights illegal logging by prohibiting operators in the European Union from placing illegally harvested timber and products on the EU market (EUFLEGT Facility, 2016). In essence the EUTR requires timber importers (operators) to take adequate measures to minimize the risk of importing illegal timber (Jonsson *et al.*, 2015). EU traders who place the timber products on the EU market for the first time are required to exercise a due diligence which comprises three key elements: provision of information, risk assessment and risk mitigation (European Commission, 2015a). Even though, the impact of the EUTR on the global wood market and on the reduction of illegal logging is still unknown, some studies speculate that exports of tropical timber might be redirected to the countries with the less strict regulatory frameworks which would as a consequence have changes in the global timber flows (Jonsson *et al.*, 2015).

Finally, as the Council of the European Union approved opening negotiations in December 2013, the accession of Serbia to the European Union has accelerated. Therefore, processes of harmonisation and approximation with EU legislation are necessary. Even though the Republic of Serbia is not yet a member of the European Union, the implementation of the EUTR indirectly affects the Serbian economy in terms of wood and wood products exports. The implementation of the EUTR is even more important if we are aware of the fact that the EU market is the most important market for the Serbian wood exporters. EU markets are attractive to Serbian exporters mainly because of high prices and reliable, business-like attitudes of importers. But EU markets are also very demanding considering the quality of wood products and exact delivery dates (Vasiljević and Glavonjić, 2011). It can be assumed that proper compliance with the EUTR will be necessary for the Serbian exporters in order to maintain a fair and responsible business relationship with their EU partners.

1.2. Research objectives

The main objective of this research is to analyse and assess the current level of readiness of Serbia to comply with and implement the EU Timber Regulation. More precisely, by the term "readiness" this study refers to the current arrangement in the forestry and wood industry sector in Serbia as compared to the need for implementing the EUTR with its own legislative and strategic framework. The purpose of this research is also to show to what extent different stakeholders in the forestry and wood industry sector are ready to adjust and react in order to meet obligations and scope of the EUTR at the moment. In addition, this thesis takes stock of Austrian experts' viewpoints for in-depth insights and for support in explaining different aspects of the EUTR implementation in Austria for learning from this for the case of Serbia.

Last but not least this research also aims at covering relevant aspects of the future implementation of the EUTR (after Serbia's accession). Once the main gaps and challenges are

identified, the research aims to deliver recommendations for measures which should facilitate the implementation of the EUTR in terms of harmonizing the legislative framework and the organizational set up in the forestry and wood industry sector.

To sum up, this thesis addresses three main research questions:

- I. To what extent are the legislative framework, strategies, and administrative procedures in the Serbian forestry sector ready for effectively complying with and implementing the EUTR?
- II. To what extent are forestry enterprises and wood industry companies ready to adjust for meeting the requirements of the EUTR?
- III. What kind of changes should occur and what measures should be put in place in Serbia for being ready to effectively implement the EUTR?

In addition to the three main questions, this research also aims to address more general aspects and to provide answers to broader questions with regards to the issue of illegal logging and illegal trade in Serbia, such as their nature of their occurrence, the importance of these issues in terms of impacts, and the way these issues are perceived by different authorities and stakeholders.

The implementation of the EUTR has been ongoing for almost three years now. However, a lack of research studies is apparent; regardless of the impact and policy assessments that have been published, a shortage of studies is evident especially with regards to the reactions of forest industries (Trishkin *et al.* 2015). Up to now researchers and experts analysed various aspects of the EUTR implementation (see chapter 3.3.3.). Some of the aspects that are researched address the effectiveness of the EUTR (Levashova, 2011), increased ambiguity (Giurca *et al.*, 2013) or the call for transparency (Client Earth, 2011). An assessment of the EU Timber Regulation and FLEGT Action Plan (Jonsson *et al.*, 2015) gives insights on the experiences from the exporting and importing countries as well as on the impacts of the EUTR. The purpose of this research is also to give insights into the state-of-the-art regarding the implementation aspects of the EUTR while focusing on the Serbian case of readiness towards the regulation.

2. Methods and data sources

The primary stage of the research was a literature review. Data that was collected by reviewing books, published articles, research reports, presentations, proposals from the consultation process on the EUTR implementation and the regulation itself provided secondary data and a comprehensive understanding of the problem area. One main objective of the literature review was to also assess the current state of the art regarding global initiatives and consumer country measures that tackle illegal logging with a special focus on the EU Timber Regulation, to identify research gaps and concerns with regards to the implementation of the EUTR, and to offer insights on the practical applicability of potential research outcomes. Furthermore, the objective of the literature review was also to examine the main aspects involved in illegal logging and trade in order to comprehend and approximate the complexity of the subject matter. In the course of the literature review both quantitative (e.g. as regards the amount of timber and timber products controlled under the EUTR) and qualitative data (e.g. stakeholders' opinions on the EUTR) were analysed.

In a second phase of the research content analysis of laws and strategies that are relevant for the illegal logging and related trade matters was conducted. The objective of the content analysis was to assess to what extent illegal logging and illegal trade issues were already "*integrated*" in the main legislative and strategic documents in the forestry and wood industry sector of Serbia. Furthermore, the objective of the content analysis was also to assess to what extent and how the Serbian regulations already comply with the provisions of the EUTR. The documents that were subject of the content analysis are:

- Laws:
 - The Law on Forests (2010), (*Zakon o šumama*)
 - The Law on Environmental Protection (2004), (*Zakon o zaštiti životne sredine*)
 - The Law on Nature Protection (2009), (*Zakon o zaštiti prirode*)
 - The Law on Trade (2011), (*Zakon o trgovini*)
 - The Law on Foreign Trade (2009), (*Zakon o spoljnotrgovinskom poslovanju*)
 - The Criminal Law (2005), (*Krivični zakonik*)
- Strategies
 - The Forestry Development Strategy of the Republic of Serbia (2006), (*Strategija razvoja šumarstva Republike Srbije*)
 - The National Sustainable Development Strategy (2008), (*Strategija održivog razvoja Republike Srbije*)

These documents were selected based on the author's previous knowledge regarding the EUTR implementation and expert advice in terms of the national documents that are addressing

illegal logging and trade. Because of the fact that no scientific research or expert analysis on this matter were existing at the time when the content analysis was carried out (April-June 2015), the content analysis important as a basis for the later research steps. The themes (categories) that were searched in the documents address the main aspects of illegal logging and related trade matters in general, as well as with regards to the implementation of the EUTR. These categories are:

- I. Illegal activities (logging, thefts, trafficking and processing)
- II. Measures for controlling and prohibiting illegal activities (e.g. penalties, inspections)
- III. Causes and effects of illegal activities in the Serbian forestry sector
- IV. Legality of wood and wood products (definitions, measures, certification)
- V. Trade of wood and wood products (placing of wood on internal market, internal trade, export and import)
- VI. Harmonization of the he Serbian legislation and strategies with EU legislation and strategies

The content analysis was done by reviewing and analysing in which way these themes appear in the documents and how they are addressed. This content analysis has been done in Serbian language. Search terms used for analysis are: *illegal logging (unregistered logging), illegal harvest, illegal trade and illegal activities*. All these terms were considered if they had any relation to forestry, in literal and figurative expressions.

Furthermore face-to-face in-depth interviews with national experts and stakeholders were conducted, in a structured questionnaire guide with an open questions format. In-depth interviewing is a method that is used in a qualitative research and is "*...useful when you want detailed information about a person's thoughts and behaviours or want to explore new issues in depth*" (Boyce and Neale, 2006, p.3). The main objective of the in-depth interviews was to get an impression and information about the current level of the readiness to effectively comply with and implement the EUTR by interviewing relevant professionals from both, public authorities and research institutions, as well as industry representatives in Serbia.

The selection of interviewees was done with the expert assistance. In total, thirteen interviews were conducted in Serbia; five with representatives of public authorities and research institutions (see table 1, blue shaded part, from I 1 to I 5); eight with representatives of private companies and public enterprises representatives (white part of the table 1), five of which are representatives of private companies which export wood products to the EU market (from I 7 to I 10), two representatives from the public (forest management) enterprise (table 1, I 12 and I 13), and one interview was conducted with a representative of the National Park "*Fruška Gora*", also a public enterprise (table 1, I 11).

The intention was to cover the timber processing flow, i.e. from companies specialized in forest management, to companies in primary wood processing, up to the final wood processing stages. The names of the interviewees and details about their positions are kept confidential. The questionnaires comprised open-ended questions which covered the main aspects of the research.

In order to get additional background-information from actors that have already been involved in the implementation of the EUTR, three additional interviews were done with Austrian experts, namely with a representative of the Austrian Federal Ministry of Agriculture, Forestry, Environment and Water Management, as well as with the representative of the Federal Research and Training Centre for Forests, Natural Hazards and Landscape, and the and a representative of the Austrian Chamber of Commerce (see table 1, grey-shaded part, I 14, I 15 and I 16). The intention here was to gain the experts' opinions on the challenges that Austria faced in the process of adjusting the legislative and the industry arrangements and for implementing the EUTR to reflect the findings there against those from the Serbian case study.

Table 1: List of interviewees

Interviewees Reference Number	Organization/Company	Date of interview	Length (min)
I 1	Ministry of Agriculture and Environmental Protection	5.7.2015	120
I 2	Faculty of Forestry, University of Belgrade	8.7.2015	60
I 3	Faculty of Forestry, University of Belgrade	8.7.2015	55
I 4	Serbian Wood Industry Cluster	9.7.2015	65
I 5	Chamber of Commerce and Industry of Serbia	12.7.2015	80
I 6	Private Company (Ltd.) (mainly exporting solid wood flooring)	17.7.2015	60
I 7	Private Company (Ltd.) (mainly exporting wood based panels)	7.7.2015	65
I 8	Private Company (Ltd.) (mainly exporting flooring boards)	16.7.2015	70
I 9	Private Company (Ltd.) (mainly exporting furniture)	13.7.2015	70
I 10	Private Company (Ltd.) (mainly exporting furniture)	1.8.2015	55
I 11	" <i>Fruška Gora</i> " Public Enterprise National Park	5.8.2015	70
I 12	" <i>Serbia Forest</i> " Public Enterprise (primarily forest mgmt.)	7.7.2015	60
I 13	" <i>Serbia Forest</i> " Public Enterprise (primarily forest mgmt.)	3.8.2015	80
I 14	Federal Research and Training Centre for Forests, Natural Hazards and Landscape	27.7.2015	60
I 15	Austrian Federal Ministry of Agriculture, Forestry, Environment and Water Management	28.7.2015	65
I 16	Austrian Chamber of Agriculture	29.7.2015	35

Source: Own table

The interview sample comprises of different working profiles and professionals that hold various positions in their working place (e.g. researcher at the faculty of forestry, experts in

forest certification, Secretary General, CEOs, deputy heads of division, plant managers, raw materials buyer etc.).

Last but not least, data obtained from the in-depth interviews were analysed with the qualitative data analysis software MAXQDA. The main instrument for organizing and interpreting the qualitative data was a coding frame that was developed by using an inductive approach, where codes were derived from the data by categorising major emerging themes and sub-themes.

3. Illegal logging and trade: Different concepts, mitigation initiatives and measures

This chapter addresses approaches of defining illegal logging, illegal trade, and corruption, as well as reviewing different ways of combating illegal logging and the related trade on the international and regional level. It finally also focuses on consumer country measures and further explains the main subject of the research in detail.

3.1. The concept of illegal logging, illegal trade and corruption

This part reviews and outlines the approaches of defining illegal logging, illegal trade and corruption related to forestry. Moreover it focuses on various activities that constitute illegal logging, illegal trade and corruption in order to indicate their complexity and importance for the legal compliance concerns in forestry and the wood sector, which is closely related to the research topic.

Nowadays there is no single international definition for illegal logging and related activities (Seneca Creek Associates and Wood Resources International, 2004). According to Miller *et al.* (2006) defining the concept of illegal logging and related problems is not an easy task. Consequently, the authors focus on the three main elements of the legal compliance issues: illegal logging, related trade, and corruption. Contreras-Hermosilla *et al.* (2007) pointed out that the problem is not just a technical issue, but a political issue as well. Even though the term illegal logging is sometimes associated with unsustainable forest harvesting practices, that is not always the case in practice, because logging can be technically illegal but sustainable, and vice versa. The importance of clearly defining illegal logging activities is also considered as one of the producer country measures to combat the issue itself (Brack and Hayman, 2001).

Even though illegal logging and illegal trade are usually merged together, according to Bisschop (2012) there is a clear difference between those two actions. Hence, it is necessary to state that illegal trade is a commercial activity, and that not all illegally logged timber is traded. However, the EU Timber Regulation, if properly implemented, would strive to reduce both activities.

Tacconi (2007, p.2) defined illegal logging so that it refers to a *"range of illegal activities related to forest ecosystems, forest industries, and timber and non-timber forest products."*; The Royal Institute of International Affairs, standpoint in this regard is that *"Illegal logging takes place when timber is harvested, transported, bought or sold in violation of national laws. The harvesting process itself may be illegal, including corrupt means to gain access to forests, extraction without permission from protected areas, cutting of protected species or extraction of timber in excess of agreed limits. Illegalities may also occur during transport, including illegal processing and export, misdeclarations to customs, and avoidance of taxes and other charges."* (Brack et al., 2002, p.13).

According to the European Commission (2004) having a clear definition is extremely important to accomplish the objectives of the FLEGT Action Plan. The commission provides two major aspects why having a clear definition is extremely important (ibid., p.1):

1. *"Under the Voluntary Partnership Agreements proposed between the EU and timber-producing countries and regions a licensing scheme would be used to identify legally produced timber. Each consignment of legal timber destined for EU markets would be accompanied by an export license. Identifying these timber consignments as legal requires a clear definition of legality."*
2. *"The Action Plan encourages Member States' governments to implement public procurement policies and support the private sector in adopting policies that exclude illegal timber from their supply chains. Implementation of these policies would be facilitated by a clear definition of legal timber."*

According to the Article 2 of the EU Timber Regulation, a tree is legally harvested only if it is in accordance to the applicable legislation in the country of harvest, and on the contrary, it is illegally harvested when it is in contravention of the appropriate legislation in the country where harvest takes place (Commission Regulation (EC) 995/2010).

Not only that the notion of illegal logging and illegal trade evidently indicates law breaking actions that are followed with various different actions, it also represents *"a complex set of interrelated legal, political, social and economic issues"* (Seneca Creek Associates and Wood Resources International, 2004, p.2). The same source indicates the four main activities that belong to the context of illegal logging: (1) harvesting without authority in designated national parks or forest reserves; (2) harvesting without authorization or in excess of concession permit limits; (3) failing to report harvesting activity to avoid royalty payments or taxes; and (4) violating international trading rules or agreements, such as export bans or CITES (ibid.).

Regarding the importance of illegal logging and related trade definitions it is necessary to point out various actions that are associated with these problems in order to prevent occurrence of

illegal activities. Even though it is hard to estimate the range and importance of illegal activities, because of their secret nature, according to Brack (2005, p.30) they are revealed every time authorities make effort to do so. Brack (ibid.) categorises illegal activities into seven groups (see Table 2): illegal logging, timber smuggling, misclassification, transfer pricing, illegal processing, grand corruption and petty corruption.

Table 2: Different types of illegal activities associated with timber trade

<p>Illegal logging</p> <ul style="list-style-type: none"> • Logging in breach of contractual obligations (e.g. without a prescribed environmental impact assessment). • Illegally obtaining concessions through, for example, corrupt means. • Logging nationally protected species without explicit permission. • Logging outside concessions boundaries. • Logging in prohibited or protected areas, such as steep slopes or river catchments. • Removing under-sized or over-sized trees. • Laundering illegal timber through concession. • Use of old log permits or licenses to collect illegally timber to 'sanitize' illegal timber.
<p>Timber smuggling</p> <ul style="list-style-type: none"> • Log import/export in defiance of trade restrictions and/or national control measures. • Unauthorized or unreported movements across State boundaries. • Avoidance of CITES restrictions.
<p>Misclassification</p> <ul style="list-style-type: none"> • Under- grading or misreporting harvest. • Under-valuing export. • Misclassification of species to avoid trade restrictions (e.g. mahogany) or higher taxes.
<p>Transfer pricing</p> <ul style="list-style-type: none"> • Nil profit accounting and manipulating revenue flows for services to avoid revenue.
<p>Illegal processing</p> <ul style="list-style-type: none"> • Processing, for instance, at unlicensed facilities.
<p>Grand corruption</p> <ul style="list-style-type: none"> • Characterized by long-term, strategic alliances with a high level of mutual trust. For example, companies providing <ul style="list-style-type: none"> ○ support to a senior politicians, political parties or major components of State's apparatus to: ○ obtain of extend concession or processing licenses; ○ avoid prosecution or administrative intervention for non-compliance with national legislation; ○ Negotiate favourable terms of investment, i.e. tax holidays or non-collection of statutory duties, etc.
<p>Petty corruption</p> <ul style="list-style-type: none"> • Shorter term, more tactical, employer-employee relationship, facilitated by and may develop into grand corruption.

Source: Brack, 2005, p. 30 (adapted by the author)

The stance of the European Commission (2004, p.2) on this issue is that *"illegal practices occur throughout the forestry sector, from land allocation to export. Illegal harvesting may include not only harvesting practices that contravene the regulations, but also using corrupt means to gain*

harvesting rights, extraction without permission or from protected areas, cutting protected species or extraction of timber in excess of agreed limits. Beyond harvesting, illegal practices may also extend to transport infringements, illegal processing and export, non-payment of taxes or charges, and misdeclarations to customs."

According to Miller *et al.* (2006, p.10) of the WWF's Global Forest & Trade Network, illegal logging consists of various actions that are violating national or sub-national laws or "*where access to forest resources or trade in forest products is authorized through corrupt practices*". Those actions may include illegal harvesting, transporting, processing, buying or selling of timber, as well as harvesting wood from protected areas, exporting threatened plants and tree species, and falsifying official documents. When simplified, the issue can be sorted out in three main illegal activities: illegal harvesting, illegal trade and corruption (ibid.).

Brack *et al.* (2002, p. 13) focus on explaining how an unclear legal definition of "*legality*" can cause various problems in controlling illegal activities in a country; associating it with inadequate legislation and providing examples from Indonesia where "*inconsistencies and contradictions between laws and government department decrees*" have been found; or from Brazil where "*different levels of government – federal, state, and local – possess overlapping legal and regulatory systems that may not always be consistent with each other.*" (ibid.).

In order to implement a definition of legality, the definition must be clear (e.g. stating which laws and regulations are included in the definition), operationally workable (e.g. understood by all staff of forest operators and enforcement agencies), and objectively verifiable (e.g. practical ways to carry out tests of evidence by means of criteria and indicators in the field). It is also important that legality definitions adapt to changing laws being amended over time (European Commission, 2007).

Tacconi *et al.* (2003, p.28) pointed out that illegal activities occur more often when the profit that comes as a result of a law violation is higher from the costs of noncompliance; in addition the authors stated that a "*lack of transparency, accountability, and resources proportional to the responsibilities can lead individuals, companies, and public officials to behave in the pursuit of private economic benefit, political gain, or to apply the law in arbitrary ways.*"

There are also other examples of illegal logging practices that occur in forestry sector; they can be grouped as illegal occupation of forestlands, illegal logging woodlands arson, illegal timber transport, trade and timber smuggling, transfer pricing and other illegal accounting practices as well as illegal forest product processing (Contreras-Hermosilla *et al.*, 2007).

Callister's (1999) research focused more on corrupt and illegal activities in the forestry sector describing the nature, causes, scale and impact of this problem. The author points out that they can occur in public and private sectors as well as that these actions have intentional non-

compliant features. Considering illegal activities, Passas (2002, p.13) points out that the distinction between international and cross-border crime needs to be made: "*International crimes are acts prohibited by international criminal law on the basis of the 1994 draft code, multilateral treaties or customary practice by all nations*", however transnational or cross-border crime can be defined as "*acts which violate the laws of more than one country.*" (*ibid.*). Miller *et al.* (2006, p.11) define corruption in forestry as: "*Authorization to harvest or trade logs or timber products is secured through corrupt application of laws or administrative procedures.*"

In table 3, based on Nemeth *et al.* (2012, p.9), various activities and their relation to corruption in the forest sector are presented. Furthermore, different perpetrators of these activities are presented as well as negative impacts they can make. They are placed in order in which these corruptive actions begin in the forest and are related to the illegal logging (the first row) and come to an end with the actions that are mostly done by higher forest authorities (the fifth, sixth and seventh row).

Table 3: Different forms of corruption in forestry sector

CORRUPTION RELATED TO...	WHO AND HOW	POTENTIAL IMPACTS
Illegal logging	Firms and landowners	Deforestation, land erosion, damage to vulnerable and protected forests
Monitoring of logging	Forest controllers, fee collection system, trading system	Informal logging, poor knowledge about actual timber production and environmental damage
Environmental control	Forest controllers	Loose controls for the protection of non-timber values and environmental damage
Timber trade/timber theft	Forest traders, customs officers, buyers	Reduced state revenues, illegal sale of protected species, higher prices
Regulatory systems	Forests authorities, politicians	Misleading forest management plans, unsustainable logging and deforestation
Royalties	Political levels, fee collection system	Lower state revenues
Logging licences	Political levels, forest authorities, information brokers	Uncontrolled or unsustainable logging
Terms of concession	Political levels, forest authorities	Exploitation of forests, too large concession areas, decreased revenues

Source: Nemeth *et al.*, 2012, p. 9

The scale and scope of forest corruption is very wide; although corruption is more likely to occur in developing countries, it can also occur in developed countries such as Canada (Kishor and Damania, 2007). Corruption can be related to various activities in forestry (table 3) and it can occur in various forms, e.g. petty bribe taking and extortion by forest officials, payments to higher level administrators for timber concession.

To sum up, illegal logging, illegal trade and corruption related to forestry can vary in type and scale. Even though these activities can be defined and described separately, they are often closely connected when they occur. Illegal logging, comes first in the chain of these activities

and because of that and because of a direct impact on forests, it is probably the most frequent term in the literature of all three mentioned. Broadly defined definitions of illegal logging can sometimes contain the aspects of illegal trade; however, illegal trade is often defined as a separate and commercial activity that naturally occurs after illegal logging. Corruption is much wider in a scope and a scale from illegal logging and illegal trade, in fact it can be related to those illegal activities. Evidently, all three activities have in common that they are law breaking activities as well as that they have a negative impact on the forest ecosystems and forest sectors around the world.

3.2. Combating illegal logging and illegal trade: initiatives and measures

Nowadays, combating illegal logging and illegal trade is done on different scales and in different ways; from various international and regional initiatives and agreements to the various processes and policies at the national level (Gulbrandsen and Humphreys, 2006). This part of the literature review first focuses on different international and regional initiatives that are curbing the illegal logging matter, after which it reviews in more detail consumer countries legislative measures that have been taken in the USA and Australia in order to address the existing similarities and differences that these two policies have with the main research subject, i.e. with the EUTR.

3.2.1 International and regional level initiatives

At the beginning of this century, numerous actions to tackle the issue of illegal logging and illegal trade were taken by different governments, civil societies and the private sector. Moreover, these actions were wide-ranging and had a significant impact (Lawson and MacFaul, 2010); whether they were classified as government, private sector or civil society schemes, they were based on multi-stakeholder dialogue platforms and were mutually interconnected (IUCN, 2007).

As the interest in forests was growing in the international arena by the end of the 20th century, so were the concerns regarding illegal logging issues. Therefore, with the adoption of the International Tropical Timber Agreement in 1994, which incorporated illegal logging as an issue of great importance for the first time, legal action at the international level started to deal with the matter of illegal logging and trade (Gulbrandsen and Humphreys, 2006).

In 1996, during the session of the Intergovernmental Panel on Forests (IPF), it was discussed whether the issue of illegal logging was a problem of national concern, international policy, or an issue that requires bilateral developmental assistance (ibid.). The panel agreed to combat illegal logging which later resulted in an respective agreement on a IPF proposal for action.

According to Gulbrandsen and Humphreys (2006), UN institutions and the International Tropical Timber Organization accomplished very little after 1994, i.e. in the last decade of the 20th century, in terms of combating illegal logging, even though IPF, and later the International Forum on Forests (IFF) had set the stage for fighting against illegal logging in the international arena.

In 1998, during the summit that was held in Birmingham, the Action Programme on Forests was launched by the Foreign Ministers of the Group of Eight (G8) countries. In the Action Programme, illegal logging was recognised as a one of the five issues of great importance that had to be addressed (Humphreys, 2006).

Furthermore, the role of the United Nation Forum on Forests (UNFF) in the international forestry community is also important as it has recognised the issue of illegality in forestry and supported measure against it by placing it high on its agenda. Therefore in the second (2002) and third session (2003) "*...UNFF adopted resolutions on measures to be taken at the national and international levels to strengthen legislative frameworks, to build enforcement capacity for monitoring and control and to create verify citation techniques to help control illegal logging.*" (The World Bank, 2006, p.22). Subsequently, at the fourth and fifth sessions of the UNFF, illegal logging and associated trade issues were considered in terms of their impacts on local communities and sources of livelihoods. Moreover, the forum secretariat established a link with regional Forest Law Enforcement and Governance (FLEG) processes and encouraged civil society participation in this matter (ibid.).

Two major conventions that are curbing illegal logging on the global level are the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. The UN Convention against Corruption has provisions that are composed to address important issues such as prevention, criminalization, international cooperation and asset recovery (The World Bank, 2006).

In 2001, actions aiming to curb illegal logging and illegal trade emerged on the regional level as well (The World Bank, 2006). First, regional ministerial FLEG conferences arose in the East Asia-Pacific (EAP) region, that later resulted in regional FLEG task forces. In these meetings officials from the government, private sector and NGO's gathered which resulted in increased action plans on the national and regional levels. Later, with the support from the World Bank, two other regional FLEG processes emerged in Africa (AFLEG) and in Europe and North Asia (ENAFLEG). Finally, the outcomes of all three FLEG regional processes were ministerial commitments which aim to recognise and implement actions to tackle the issue of illegal logging (ibid.).

It can be noted that the primary stage in the genesis of the EUTR and fighting illegal logging in Europe were the regional Law Enforcement and Governance (FLEG) initiatives (The World Bank, 2013). Ministerial FLEG initiatives were co-hosted by producer and consumer countries with support from the World Bank. The intention was to mobilize international commitment of all actors involved to increase efforts in combating illegal logging and to discontinue illegal trade as well as corruption in the forest sector (ibid.).

3.2.2 Consumer country measures: examples from the USA and Australia

Increasing demand of timber and wood products in consumer countries contributes to the problem of illegal logging whenever these countries are importing timber and wood products without ensuring that they are legally sourced (Brack and Buckrell, 2011). Over the last few years consumer countries introduced various measures in order to exclude illegal timber from their markets. These measures include (ibid.):

- bilateral agreements, e.g. voluntary partnership agreements (VPAs) negotiated under the EU's Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT),
- different governmental public procurement policies (e.g. in the Netherlands and the UK),
- broader measures such as the United States Lacey Act Amendment, the Australian Illegal Logging Prohibition Act and the European Union Timber Regulation (EUTR)

This research focuses on the EUTR, a measure that was introduced by the EU to prohibit the illegal placement of wood on its market. Similar measures have been put in place in the US and Australia. Even though they have the same aim, they are different in their mechanisms. Hence, in this part fundamental aspects of the *Lacey Act Amendment* and the *Australian Illegal Logging Prohibition Act* will be reviewed and outlined in order to indicate different segments, as well as to allow comparison of certain elements (e.g. due diligence/due care) of these two policies with the EUTR (once it is introduced in sub-chapter 3.3.) for facilitating a better understanding of the EUTR.

The country that took the first important step in fighting illegal logging on the national level was the United States of America (USA) with its amendment of the Lacey Act (Brack, 2009). Originally enacted in 1900, the Lacey Act was primarily designed to stop trafficking of wildlife. In 2008, the US Congress amended the Lacey Act aiming to extend its jurisdiction to a broader range of plants and plant products, with special focus on illegal timber. It now covers all plants and plant products, excluding food crops, common cultivars and scientific specimens, and therefore applies to practically all timber and timber products in trade (ibid.). The amendment includes a definition of "*illegal timber*" while a range of other relevant laws forbids theft and logging in protected areas, and they impose fees and taxes, and transport regulations. It also

requires import declarations stating the scientific name of the species, the value and quantity of the timber and the name of the country in which it was harvested (Brack and Buckrell, 2011).

The Lacey Act regulates trade inside the US and external trade, as well as both imports and exports (Brack, 2009). The act provides a strong set of criminal and civil sanctions to violators, depending mainly on the level of intent that can be shown on the part of the violator. If a specific intent of the violator can be proven, the violator can be convicted of a felony with the maximum penalty of 5 years in prison and 250,000 USD fine. If no intent of the violator can be proven, the violator can be convicted of a misdemeanour with the maximum penalty of 1 year in prison and 10,000 USD fine. In any case timber or timber products that violate laws can be confiscated, and if it can be shown that due care in acquiring the product has not been exercised, even if no specific intent can be shown, the violator can be subjected to a fine and imprisonment (ibid.).

The act prescribes practices of due care from U.S. buyers to avoid illegal timber entering the market. However, the precise meaning of the term "*due care*" in practice needed to be defined through case law (Brack, 2009). One of the main problems in the enforcement of the Lacey Act in prohibiting illegal timber was the difficulty of tracking illegal products, due to the often very long supply chains of timber products. Prestmon (2015) analysed the impact of the Lacey Act Amendment on the US hardwood lumber and plywood imports. The author's findings show that the price of wood increased and the quantity of imported wood decreased since 2008. These results indicate a positive impact on reducing trade based on illegal logging. However, the author stated that two shifts have to be considered: the extent illegal producers have diverted their exports and the extent substitutions are being made inside the illegally-sourcing country (ibid.).

The Lacey Act has become landmark legislation, serving as a guide for similar legal initiatives around the world (Brack, 2009). Thus, the efforts in curbing illegal logging, similar to those that have been applied in the USA and EU, have also been evident in Australia. In 2012 the Australian parliament enacted the *Australian Illegal Logging Prohibition Act* in order to prohibit the import of all timber products that contain illegally logged timber, as well as the processing of domestically grown logs that are harvested illegally. Hence, "*illegal logging*" is defined as any timber that has not been legally harvested according to the laws of the country of origin (Forest Legality Alliance, n.d.).

This act requires the importers of regulated timber products, as well as domestic processors of logs, to conduct due diligence in order to minimize the risk of their product containing illegal timber (Timber Development Association, 2016). According to the Australian Illegal Logging Prohibition Act due diligence consists of three phases: 1) gathering relevant information, 2) risk

assessment and identification, and 3) risk mitigation (Mitchell, 2013). There are no obligations for Australia's trading partners (Timber Development Association, 2016).

Furthermore, the *Australian Illegal Logging Prohibition Act* places requirements only on Australian businesses, equal treatment has to be considered regardless of the nationality, as well as equal applicability to both domestic and imported timber. This act is consistent with Australia's obligations under the World Trade Organization (Forest Legality Alliance, n. d.).

In 2013, the Australian government adopted the Illegal Logging Prohibition Amendment Regulation 2013 (No. 1). This regulation includes prescribing regulated timber products, due diligence requirements for persons importing regulated timber products and due diligence requirements for persons processing raw logs into another form (Illegal Logging Prohibition Amendment Regulation 2013 No. 1, 2013).

To summarize, in the past two decades different international and regional level initiatives and agreements, as well as policies on the national level, have been put in place to combat illegal logging and trade. The early 1990's can be described as the point in time when the problems of illegal logging were introduced on the global forest policy agenda and acknowledged by the various actors. Consequently, in the last decade, consumer countries have started to control illegal logging matters by enacting bilateral agreements, and introducing public procurement policies and broader measures such as the amendment of the United States Lacey Act and Australian Illegal Logging Prohibition Act. The Lacey Act Amendment is perceived as a milestone for other legal initiatives; it was of paramount importance for the development of the other legal initiatives, *inter alia*, the EUTR. The Lacey Act sets down practices of a flexible due care system, while the Australian act prescribes a more rigid due diligence system. At last, both policies share similarities and differences with the main subject of this thesis, the EUTR, which is described in detail in the following chapter.

3.3. The European Union Timber Regulation

This sub-chapter reviews the major aspects and events in the genesis of the EUTR, addresses the content and the cornerstones of the EUTR, and focuses on reviewing the state of the art literature in terms of the EUTR implementation.

3.3.1 Genesis of the European Union Timber Regulation

The following sub-chapter reviews and describes the processes that preceded the adoption of the Regulation No 995/2010 (EUTR) from the moment when the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan was issued in 2003. Furthermore, it focuses on the content of the FLEGT Action Plan as it is the milestone of the EUTR genesis.

The FLEGT Action Plan, endorsed by the EU Council of Ministers in November 2003, covers almost 60% of the world's forests (Central Africa, Russia, Tropical South America and Southeast Asia). Furthermore, both supply- and demand-side measures to address illegal logging are covered within this plan (European Commission, 2015b). It sets out the three key measures in regards to illegal logging: to prevent the import of illegal timber into the EU, to improve the supply chain and to increase demand for timber that comes from responsibly-managed forests (EUFLEGT Facility, 2015a).

The main element of the FLEGT Action Plan is a voluntary scheme which aims to control illegal logging by letting only legally harvested timber inside the EU (EUFLEGT Facility, 2015b). The scheme consists of two regulations: Council Regulation (EC) No 2173/2005 of 20 December 2005 on the establishment of a FLEGT licensing scheme for timber imports into the European Community (The Council of the European Union, 2005) and also implementing regulation in 2008 to control the entry of timber into the EU from the countries entering into bilateral FLEGT Voluntary Partnership Agreements (VPA) with the EU (European Commission, 2015b). A Voluntary Partnership Agreement is a bilateral trade agreement between the EU and a timber-exporting country outside the EU that aims to assure that wood entering the EU comes from legal sources, simultaneously helping partner countries to reduce illegal logging. Once a country decides to sign a VPA, it becomes legally binding on both sides (ibid.).

The Council of Ministers of the EU has given a mandate to the European Commission to conduct and lead the negotiation of VPAs, while the role of the EU Member States is to support the negotiations and to implement the agreements when they are signed. So far (May 2016) VPAs were signed with the Republic of Congo, Cameroon, Indonesia, the Central African Republic and Liberia. Negotiations are ongoing with the Ivory Coast, the Democratic Republic of the Congo, Gabon, Guyana, Honduras, Laos, Malaysia, Thailand and Vietnam (European Commission, 2015b).

The action plan focuses on seven broad areas, and timber regulation is directly mentioned in point 6 of the action plan *"Using existing or new legislation to support the Action Plan, including the EU Timber Regulation."* (EUFLEGT Facility, 2015a).

According to Brown *et al.* (2008, p.8), the action plan was an innovative approach to fighting illegal logging by *"...linking good governance reform in producer countries to the leverage provided by the EU's own influential internal market."* Brown *et al.* (2008) stated that a coherent environmental policy and social development goals give this action plan a significant feature. Fishman and Obidzinski (2014) had an interesting observation on VPAs, such that the VPA system has some similarities to another system of which the EU is a part: the Kimberley Process Certification Scheme (KPCS). This system aims to prohibit trade in *"conflict diamonds"* by certifying rough diamonds as conflict-free. However, the authors distinguish two differences

between VPA and the KPCS. First, unlike the VPAs, the KPCS prohibits trading with any country that is not fulfilling minimum requirements of the scheme. The other refers to different durations from the beginning to the ending of the negotiations that these two systems feature (ibid.).

Between 2006 and 2008, the European Commission held a web-based public consultation as a part of the FLEGT action plan impact assessment (European Commission, 2008). The aim of the consultation was to obtain information about the need, suitability and feasibility of the EU policy measures regarding illegal timber products entering the EU market. Responses were collected from individuals, NGOs, the private sector and national authorities. The results indicate that the bilateral FLEGT approach was considered insufficient at addressing the problem of illegal logging, that the private sector voluntary scheme could only have a complementary role and that many responses favoured a legislative approach. Hence, the results of the consultations pointed to the option that later evolved in the EUTR, requiring only legally-harvested timber and timber products are placed on the EU market (ibid.).

Furthermore, different EU and non-EU stakeholders were consulted in workshops and interviews. The consultation included a form of questionnaire, with the choice to express opinions verbally. The participants were asked to rank additional options. However, the results showed ambiguity. Additionally, high-level meetings were held with representatives of other major timber importers (China, Japan and the USA), of FLEGT VPA countries (Malaysia, Indonesia, Ghana, and Cameroon), as well as representatives of Russia and Brazil (European Commission, 2008).

In October 2008, due to the VPA's envisaged limitations, the analysis of additional measures to prohibit illegally logged wood entering the EU market resulted in an impact assessment report on additional options to combat illegal logging (European Commission, 2008). In the report, five main options were identified (ibid., p. 6):

- "1) Continuation of the FLEGT VPA approach*
- 2) Voluntary measures by the private sector for further development*
- 3) Border Measures to prevent the importation of illegally harvested timber*
- 4) Prohibition on placing illegally harvested timber on the EU market*
 - 4a: Legislation which prohibits the trading and possession of timber and timber products harvested in breach of the laws of the country of origin (i.e. where trees were harvested)*
 - 4b: Legislation which requires that only legally harvested timber and timber products be placed on the market*
- 5) Legislation which requires due diligence by all timber traders to ensure that they trade legally harvested timber"*

The results of the report hint to a combination of three options. It was concluded that options 4a, 4b and 5 would have the largest impact in terms of reducing illegal logging. The option number 5 combined with the positive elements of option number 2 (voluntary measures by the private sector) and 4b (enforceability by the need for burden of proof) was seen as the most effective way forward without the introduction of a costly systematic control system. Under several other options, considerable enforcement problems were expected (European Commission, 2008).

On the 20th of October 2010, Regulation (EU) No 995/2010 of the European Parliament and of the Council, also known as the Timber Regulation, or the EUTR, was adopted (European Commission, 2015a). Furthermore, In March and April 2011 two stakeholder meetings were held with the aim to discuss different options and best practices for the recognition of monitoring organizations entrusted with certain responsibilities in the framework of the EUTR legislation as well as to share different views on the best options for the risk assessment and risk mitigation procedures. Another stakeholder conference took place in November 2012 in Brussels, where a draft guidance document was presented and discussed (ibid.).

On the 23rd of February 2012 the commission adopted the Commission Delegated Regulation (EU) No 363/2012 on the procedural rules for the recognition and withdrawal of recognition of monitoring organizations as stated in the EUTR. A few months later, on the 6th of July 2012, the Commission adopted the Implementing Regulation (EU) No 607/2012. This regulation imposed rules concerning the due diligence system and the frequency and nature of the checks on monitoring organizations as provided for in the EUTR (European Commission, 2015c). The EUTR entered into force on the 3rd of March 2013 (European Commission, 2015a).

The need for clarification on some parts of the EUTR was recognised during the consultation period with the stakeholders, with experts from the member states and with the members of the FLEGT Committee (European Commission, 2013). As a result the Guidance Document for the implementation of the EU Timber Regulation was issued by the European Commission in September 2013. The purpose of the guidance document is to provide explanations on certain aspects of the EU Timber Regulation and the two Commissions' non-legislative acts. In the document it is written that *"It does not replace, add or amend anything to the provisions of the Regulation (EU) No 995/2010, the Commission Regulation (EU) No 363/2012, and the Commission Regulation (EU) No 607/2012, which constitute the legal basis to be applied. The issues addressed in the guidance document should not be considered in isolation; they must be used in conjunction with the legislation, and not as a "stand-alone" reference."* (ibid., p.1).

A consultation process on the evaluation of the EUTR was held in the period from the 15th of April 2015 until the 3rd of July 2015. Member states, NGO's, private organizations, industry associations, SMEs, consultancies, operators and traders, monitoring organizations and other

relevant stakeholders were included. The objective of the consultation was to gain stakeholders' and public input regarding the EUTR review. In addition, the review provided the essential elements for the Commission report of 3rd of December 2015 (European Commission, 2015c).

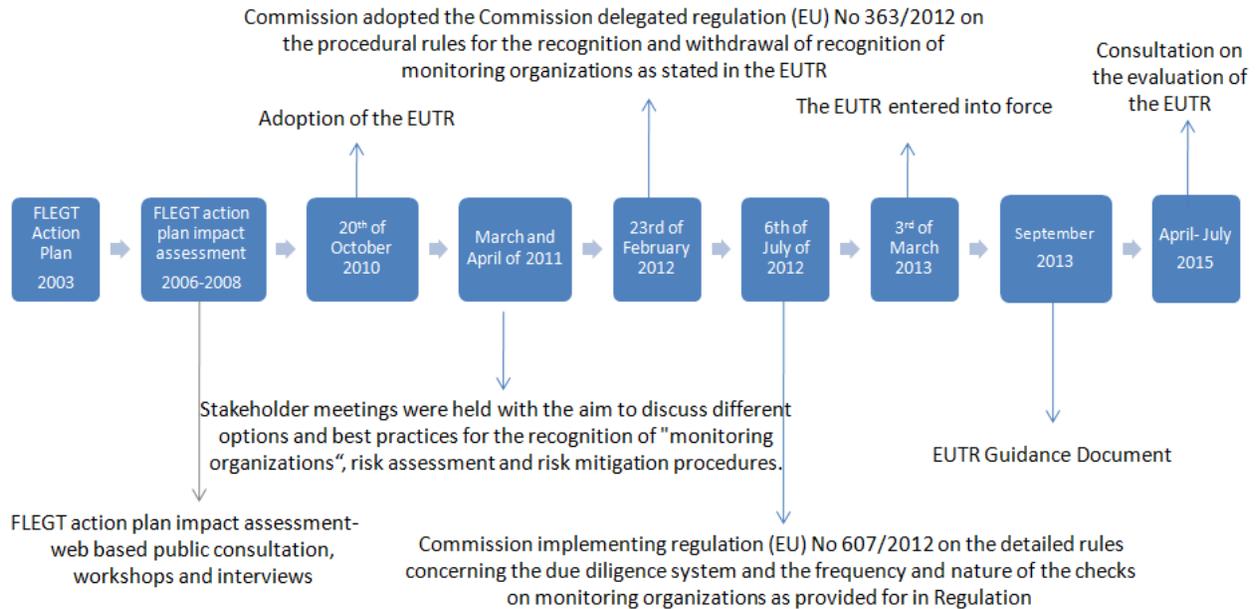


Figure 1: Genesis of the EUTR

Source: Own diagram based on European Commission 2008, 2013, 2015a, 2015b, 2015c.

Figure 1 presents an overview of the main events that shaped the EUTR to this moment. It shows that since the FLEGT Action Plan came into force, it took 10 years for the EUTR to be developed and to enter into force. It can be concluded that the genesis of the EUTR required active participation of various stakeholders in different processes, all devoted to shape the contemporary regulation.

3.3.2 The content and cornerstones of the European Union Timber Regulation

The subsequent part introduces the content of the EUTR. The main cornerstones of the regulation are reviewed and described in order to introduce to the reader the key elements and insights on the EUTR that are considered in much more detail later in the research.

In its essence the EUTR requires from the timber importers (operators) to take adequate measures to minimize the risk of importing illegal timber (Jonsson *et al.*, 2015). Moreover, the EUTR covers those who place timber on the internal market from within the EU as well. Three main obligations are (ibid.):

- The prohibition of the placing on the EU market of illegally harvested timber and products derived from such timber
- The need for practices of due diligence; operators can exercise a due diligence system (DDS) by themselves or with the help of a monitoring organization.
- The need for traceability, i.e. to keep records of suppliers and customers

Unlike the VPA requirements, the EUTR requirements aim to control the demand-side (importers) of the trade (Jonsson *et al.*, 2015). Placing on the market in this context means the supply of timber or timber products for the first time on the internal market. However, this regulation excludes the sale of products that come as a result of following processing of wood within the EU (Commission Regulation (EC) 995/2010, 2010).

The EUTR consists of the 21 articles that are listed in the table 4. The main articles, considering the purpose of the thesis of the EUTR, are described as bellow.

Article 2 of the EU Timber Regulation refers to the legality definition and in line with that a tree is legally harvested only if it is in accordance to the applicable legislations in the country of harvest. On the contrary, it is illegally harvested when it is in contravention of the applicable legislation in the country where the harvest takes place (Commission Regulation (EC) 995/2010). Under the term "*applicable legislation*" in the *article 2*, it is meant that the legislation is covering the following aspects: the rights to harvest timber, payments for the harvest rights and timber, laws related to timber harvesting including environmental and forest legislation, the third parties' legal rights concerning the use and tenure that are affected by harvesting, as well as trade and customs regulations (*ibid.*).

According to *Article 3* products accompanied by a FLEGT license or a CITES permit are considered to have been legally harvested for the purposes of the regulation (Commission Regulation (EC) 995/2010, 2010). *Articles 4 and 5* deal with obligations of operators and the traceability of wood flows (as seen in the table 4). *Article 4* requires from the operators to practice a "*due diligence system*" in order to prohibit placement of illegally harvested timber or timber products on the EU market. In relation to the *Article 5 "obligation of traceability"* the traders are obliged to identify their suppliers, whether they are operators or traders. Besides, they are also asked to identify to whom they are supplying, if it is possible. Information must be kept at least for five years (*ibid.*).

The regulation does not insist on the proof of legality of timber products but specifies elements of due diligence systems in the *Article 6*. which operators are obliged to implement (Commission Regulation (EC) 995/2010, 2010):

a) Measures and procedures providing access to the information concerning the operator's supply of timber or timber products placed on the market: description, including the

trade name and type of product as well as the common name of tree species and, where applicable, its full scientific name; the country of harvest; quantity, the name and address of the supplier to the operator; the name and address of the trader to whom the timber and timber products have been supplied; documents or other information indicating compliance of those timber and timber products with the applicable legislation.

b) Risk assessment procedures enabling the operator to analyse and evaluate the risk of illegally harvested timber or timber products derived from such timber being placed on the market. Such procedures shall take into account the information set out in point a) as well as other relevant risk assessment criteria stated in the regulation itself.

c) Risk mitigation procedures which consist of a set of measures and procedures that are adequate and proportionate to minimize effectively that risk and which may include requiring additional information or documents and/or requiring third party verification (except where the risk identified in the course of the risk assessment procedures referred to in point b) is negligible)

The notion of the Competent Authority (CA) is introduced in *Article 7* where it is stated that each member state has to designate one or more CA that would be responsible for the application of this regulation and communicate in this regard with the European Commission (Commission Regulation (EC) 995/2010, 2010). Moreover, the regulation gives freedom for operators to choose between two options: To establish their own due diligence systems or to use systems provided by "*monitoring organizations*". Under *Article 8*, the concept of the monitoring organization (MO) is described. These organizations have to receive recognition from the European Commission and their role is to check that operators are implementing their systems properly. The CAs need to check the performance of the member states. If the work of the MO is perceived as unsuccessful, then it might result in the withdrawal of a monitoring organization's recognition. Usually MOs are commercial companies offering control and certification services (*ibid.*).

Article 19 states that member states shall lay down the rules on penalties applicable to infringements of the provisions of this regulation and shall take all measures necessary to ensure that they are implemented (*ibid.*).

The Regulation covers a broad range of timber products including solid wood products, flooring, plywood, pulp and paper (Commission Regulation (EC) 995/2010, 2010). However, the regulation does not include recycled products and printed paper such as books, magazines and newspapers. The product scope can be amended if necessary. The regulation applies to both imported and domestically produced timber and timber products (*ibid.*).

Table 4: The list of articles of the EUTR

Article 1	Subject matter
Article 2	Definitions
Article 3	Status of timber and timber products covered by FLEGT and CITES
Article 4	Obligations of operators
Article 5	Obligation of traceability
Article 6	Due diligence systems
Article 7	Competent authorities
Article 8	Monitoring organisations
Article 9	List of monitoring organisations
Article 10	Checks on operators
Article 11	Records of checks
Article 12	Cooperation
Article 13	Technical assistance, guidance and exchange of information
Article 14	Amendments of the Annex
Article 15	Exercise of the delegation
Article 16	Revocation of the delegation
Article 17	Objections to delegated acts
Article 18	Committee
Article 19	Penalties
Article 20	Reporting
Article 21	Entry into force and application

Source: Own table based on the Commission Regulation (EC) 995/2010.

To sum up, table 4 presents the full list of the articles of the regulation. The reviewed content and cornerstones of the EUTR indicate the broad spectrum of subjects covered by this regulation and introduces their main requirements. As the research aims to provide an extensive assessment of Serbian readiness in regards to the EUTR, this part presents the base for research to come.

3.3.3 Criticism and implementation of the European Union Timber Regulation

In the previous two sub-chapters the genesis and content of the EU Timber Regulation were reviewed. The following provides a review of scientific critique on the EUTR, as well as the opinions of different stakeholders on the regulation, in order to indicate the main features, problems and concerns identified in the EUTR implementation to this point.

Before it came into force, Buckrell and Hoare (2011) provided an ex ante analysis of the implementation of the EUTR. They pointed out that guidance for implementation would be necessary, especially towards the ones that are directly affected by the regulation (i.e. the operators, traders, monitoring organizations and competent authorities). In addition, one of the conclusions suggests that information should be passed to the actors in the countries supplying

timber to Europe. Buckrell and Hoare (2011) stated a consistent penalty regime and a uniform implementation are of crucial importance for proper implementation.

The public concerns in terms of the legality of timber that is imported in the EU led to escalating policy efforts aimed to support legality verification and certification uptake, resulting in the following three main policy instruments: VPA (FLEGT), the EUTR and third party verification schemes (Giurca *et al.* 2013, p.740). Even though Giurca *et al.* (2013) believe that these instruments will likely achieve their goals, they focus more on the increased ambiguity that comes as a side effect of these stricter regulations for tropical timber. Hence, their concern is that international timber trade could suffer from *substitution* and *trade diversion*. Giurca *et al.* concluded that *"it is important to emphasize that transparency and consistency in the interpretation and implementation of these instruments—not least as regards the EUTR— play a crucial role in decreasing ambiguity and consequently preventing possible unintentional detrimental effects on trade."* (ibid., 740).

Transparency is another important feature for the proper implementation of the regulation (Client Earth, 2011). While the regulations are comprehensive in a way that they include various actors and processes, they need to be clearly established and all the information (collected as the result of the EUTR implementation) has to be available in accordance to Directive 2003/4/EC (the Aarhus Directive) and Regulations 1049/2001 (the Public Access Regulation) and 1367/2006 (the Aarhus Regulation) on the public access to environmental information. If these can be achieved, it is more likely that successful implementation would be achieved, and that illegally logged timber would stop entering the EU market (ibid.).

Fishman and Obidzinski (2014) brought forward a general critique of the EUTR seeing it as an illegal restriction on trade, as well as the fact that it aims to limit trade on the basis of foreign definitions of legality rather than introducing its own applicable requirements. The authors stated that the Agreement on Technical Barriers to Trade (TBT) and the General Agreement on Tariffs and Trade (GATT), treaties that are under the supervision of WTO, are violated by the illegal timber ban. They are concerned and at the same time curious to follow what might happen if some country challenged the EUTR under the WTO as an illegal restriction on trade. Fishman and Obidzinski (2014) concluded that it is hard to predict how such a trial would be resolved.

The concept of legality determined by the EUTR compared to the concept defined by CITES was considered in the analysis provided by Saunders and Reeve (2014). The authors referred to the EUTR by stating that *"neither [the] regulation itself nor supporting documents contain requirements for validation of legality."* (ibid., p.12) Even though the two concepts of legality differ in their essence, scholars pointed out that the EUTR aims to reduce the risk of illegal products inflowing supply chains rather than focusing on licensing legal products (as CITES

does). In addition, they also referred to the vague EUTR requirement – the risk assessment that operators are supposed to carry out - pointing out that operators should expect a reliable chain of custody (CoC) system in order to deliver this kind of information (ibid.). Comparison of the two different concepts of legality in CITES and EUTR/FLEGT, is presented in the table 5. As it can be seen, the two concepts differ in terms of their scope by defining legality standpoints and processes of credible validation.

Table 5: Different concepts of legality: CITES compared to EUTR

	CITES	EUTR/FLEGT
Scope	Laws on the protection of fauna and flora	All 'applicable legislation'
Definition of legality	Defined by national laws on the protection of fauna and flora.	Expectation that both due diligence and enforcement will be based on knowledge of all 'applicable legislation' and, where available, national 'legality definitions' developed as result of VPAs.
Defined process of credible validation	National authorities issue export permit if specimens to be exported were not obtained in contravention of national laws.	Expectation of systematic checks and third party (independent) audits.

Source: Saunders and Reeve, 2014, p.12.

Levashova (2011) considers the effectiveness of the EUTR within its historical context and explores the three main elements which stem from compromises that arose from decision-making processes within the EU and could potentially reduce the Regulation's effectiveness in achieving its far-reaching objectives. These are three main elements are the prohibition requirements, the scope of the regulation as well as penalties and the criminalization concerning illegal timber. The author compares prohibition requirements of the Lacey Act and the one of the EUTR and points out that the scope of the EUTR is too narrow in terms of prohibition requirements and not as wide as it could be, like in the case of Lacey Act. Moreover, another controversial aspect of the Regulation according to Levashova (2011) is its narrow scope in terms of the omission of printed materials such as books, magazines, and newspapers for at least for the first five years. As a final point, the author describes the lack of a harmonized system of sanctions in the Regulation, stating that the EUTR offers too much space for the member states to implement their own way of sanctioning (ibid.).

Jon Buckrell (2008) of Global Witness sees as the main problem of this regulation a subjective assessment of the due diligence on traders. He provides a comparison with the Lacey Act and claims that, unlike the EUTR, the US regulation is totally objective. Differences between the Lacey Act and the EUTR (e.g. application only to "first placers" in case of the EUTR), different

requested obligations (e.g. no customs declaration needed in case of the EUTR) as well as the key differences between due diligence and due care are presented in the table 6. In addition, it can be seen that both policies apply to internally sourced products as well as imported products.

Table 6: Differences and similarities of the EUTR and the Lacey Act

EU Timber Regulation	U.S. Lacey Act
Prohibition on trading illegally sourced timber, applies only to "first placer" on EU market	Prohibition on trading illegally sourced timber, applies to the entire supply chain
"Due diligence": elaborated process of systems check with different specified roles for different actors	"Due care": flexible, up to individual supply chain actors to implement to their own degree of comfort with risk
Point of control: first placing on the EU market	Point of control: any point in the supply chain
Basic traceability requirements for traders	No specific traceability requirements: implicit in concept of due care
No customs declaration	New declaration form (PPQ 505) for designated import-products per phase-in schedule
Applies to internally sourced products as well as imported products	Applies to internally sourced products as well as imported products

Source: Grant, n.d., p.7.

From the moment it was adopted, the EUTR has received a lot of critique from various ENGO's. Some of them were more general, such as the one from the director of Greenpeace in the Democratic Republic of Congo (DRC) (Hance, 2014). He stated that the EU's attempt to fight illegal logging is failing and backed up his wide-ranging statement with an example from the DRC where it has been said that *"...only by efficiently cutting off the EU as a destination for its illegal wood, can we begin to protect the country's vast tracts of forest and the communities who depend on it."* (ibid., s.p.). An interesting case of the DRC timber seized in Antwerp, Belgium, portrays the stance of Greenpeace towards the EUTR implementation and perplexity of the regulation itself. Officials from Greenpeace, who were unsatisfied with, as they claim, the illegal timber and fake certificates of origin that came to Belgium, also disputed the proof of legality that, as they claimed, hadn't been offered from the DRC CITES authorities. The outcome of the whole affair resulted in the *"formal acknowledgement by the Belgian Timber Trade Federation that in certain cases, the import of CITES species should be subject to due diligence even when permits are available"* (Saunders and Reeve, 2014, p.21).

Industry representatives had also criticised the EUTR. The Italian importing company representative Mr. Stefano Cora casted a doubt on the essence of the EUTR speculating whether this regulation is undermining the value chain or not (International Tropical Timber Organization, 2015). According to Mr. Cora, the main weaknesses of the effective

implementation are 1) an uneven playing field in terms of required documentation inside and outside the EU and 2) the unbalanced application of the due diligence that results in inconsistent implementation of the EUTR (ibid.).

The stance of the European Timber Trade Federation, stated by Mr. Andre de Boer, is that this regulation is a good mechanism even though it has weaknesses (International Tropical Timber Organization, 2015). He provides examples of proper implementation of the EUTR by pointing to the UK, Belgium, the Netherlands and Germany. In addition, he stated that the lack of consistent implementation of the EUTR is based on the fact that most of the EU member states hadn't had national legislation on this issue until recently (ibid.).

Although more research on the implementation aspects of the EUTR in a form of a case study is most likely yet to come, in the scientific literature there are already some examples. A Russian company case study takes into comparison two due diligence systems, one already established in the company and the other from the EUTR Monitoring Organization Nature Ecology and People Consult (NepCon). The study indicates that the major impediments exist with regards to national implementation of effective due diligence systems, unclear prosecution procedures and the national systems of fines, which are not harmonised by the EUTR (Trishkin *et al.*, 2015).

Even though opinions on the EUTR are divided, changes are evident not just in the EU but much further (Giurca *et al.*, 2014). Some perceive it as a positive change. Others think that weak enforcement, lacking guidance and increased bureaucracy are still big concerns and impediments. Giurca *et al.* (2014) pointed out that producers are also introducing changes and making an effort in this regard. Furthermore, they are establishing legality verification schemes to meet the EUTR's requirements; and an example for this is the Timber Legality Verification Information System (SVLK) that works in Indonesia and fully complies with the EUTR (ibid.).

Finally, the assessment of the EU Timber Regulation and FLEGT Action Plan (Jonsson *et al.*, 2015) points out the current status of the EUTR implementation from various viewpoints. It indicates the main challenges that are undermining the implementation (e.g. the lack of resources and knowledge), and it emphasises the future steps in the implementation by providing suggestions (e.g. support for small and medium sized firms, close cooperation with the industry). Among other findings, this assessment indicates the main issues that exporters and importers recognised with regards to the EUTR implementation: weak law enforcement, unsatisfactory guidance from regulatory and implementing authorities and increased administrative burdens. In terms of the way the EUTR is affecting their business, exporters had different opinions. Exporters of temperate hardwood perceive the EUTR as a positive change. In contrast exporters of tropical timber see the EUTR as a trade impediment. The assessment also indicates that capacities of the Competent Authorities in member states were still limited in terms of the staff that is assigned to the EUTR implementation. Consequently, increased

capacity building and the development of risk assessment tools in order to enhance the cooperation are perceived important for the future (ibid.).

In conclusion, from the moment it entered into force, the EUTR has received different critiques from various actors. In terms of the content, the critique and analysis can be categorized into three groups: more general critique of the EUTR, more detailed critique often followed by an analysis of the cornerstones of the regulation, and the critique that deals with the assessment of the EUTR implementation. Up to now, most of the critique covers more general aspects of the EUTR and its implementation. This may be explained by the "*freshness*" of the regulation and the early stages of implementation. General critique considers features such as the effectiveness of the EUTR to curb the issue of illegal logging, costs incurred by developing and countries in transition, stakeholders' perceptions on the regulation etc. Other, more detailed assessments cover the scope of the regulation and its penalties, prohibition requirements, concepts of legality imposed by EUTR, and the due diligence system (subjective assessment of the due diligence on traders, technical effectiveness). The latest research findings show the current status of the EUTR implementation and provide the experiences from exporting countries and EU member states as well as the assumptions on the impacts that the EUTR might induce on a global market. In summary, it can be inferred that some of the key challenges identified in EUTR implementation are a lack of resources and knowledge, weak enforcement in Member States, lacking guidance and increased bureaucracy.

4. Case study description: Republic of Serbia

This chapter reviews various aspects of the political and economic situation in Serbia, the status of Serbian forests, as well as the forestry and wood industry sectors. Additionally, it describes the current situation in terms of illegal logging and illegal trade matters in Serbia. It contains four sub-chapters that serve as a base that enables the reader to get acquainted with the case study of Serbia in relation to the objectives and research questions of this thesis.

4.1. General information, political and economic conditions in Serbia

The Republic of Serbia is located in the Central-Southeast Europe (see figure 2). It borders eight countries. Four of them are the EU member states (Hungary, Bulgaria, Romania and Croatia; see figure 2), four of them are not part of the EU (Bosnia and Herzegovina, the Republic of Macedonia, Montenegro and Kosovo). It is a landlocked country, where the River Danube plays an important role in allowing Serbia inland shipping access to the rest of Europe and the Black Sea.



Figure 2: Location of Serbia in Europe

Source: Denman, 2012, s.p., (adapted by the author)

The Republic of Serbia is divided in administrative and territorial parts, namely provinces, regions, administrative areas, the City of Belgrade, cities and municipalities. There are five regions: Belgrade, Vojvodina, Šumadija, West Serbia, the Region of South and East Serbia, and the region of Kosovo and Metohija (Government of the Republic of Serbia, 2015).

After the democratic political changes in 2000 both the public and the government of the Republic of Serbia focused their efforts on establishing the rule of law and rebuilding the devastated economy. Prior to the changes, Serbia was affected by international isolation, sanctions, trading barriers and wars. After the changes in 2000, all ruling governments made efforts towards the international integration of Serbia in the main international institutions, and towards the reestablishment of broken economic, political and diplomatic relations with the world. The judicial system was reformed in 2008 based on the Law on the Organization of Courts (2008) enacted in the same year.

Following the changes in 2000, Serbia has turned towards the establishment of a market economy, and today Serbian economy is a transitional economy dependent on foreign credit supply and foreign investments as sources of finance. The economy has steadily grown in the previous 13 years, with a negative GDP growth rate recorded only in 2009 and 2012 according to data available from the World Bank (2015). The privatization process of socially owned companies started in 2001 and was characterized by many controversies. Industrial production is underdeveloped, and the economy is based on services, imports, trade and agriculture. Since Serbian imports are larger than exports, the country is classified as a net importer. External debt of Serbia has grown during the last decade, reaching 36.4 billion dollars in 2013 (approximately 27.4 billion Euros) (ibid.). The important economic data, yet relevant for the thesis, is presented in table 7.

Table 7: Selected economic data for the Republic of Serbia

INDICATOR / YEAR	2011	2012	2013
GDP (current, in billions USD)	46.46	40.79	45.2
GDP growth rate	1.4	-1	2.6
GDP per capita (current, in USD)	6422.7	5666.2	6353.8
Inflation rate (Consumer price index)	11.1	7.3	7.7
Foreign direct investments (in billions USD)	2.7	1.9	1.97
Exports of goods and services (as % of GDP)	34	36.9	40.8
Imports of goods and services (as % of GDP)	49.4	53.6	51.9
External debt stocks (current, in billions USD)	31.72	34.44	36.4

Source: The World Bank, 2015, s.p.

Serbia is facing problems regarding the quality of its business environment, which affects attraction of foreign investments and competitiveness of domestic companies (Savić, 2012). According to the World Bank (2014), Serbia was ranked 93 (out of 189 countries) on the ease of doing business in the country. Despite positive changes and trends, Serbian economy is still at an unsatisfactory level. To sum up, Serbia is facing a weak economy, serious fiscal imbalances, and protracted structural challenges (International Monetary Fund, 2015).

The Republic of Serbia started the process of European integration after political reforms in 2000. After the establishment of a new democratic political regime, the EU immediately approved economic help and also reduced some trading barriers with the Republic of Yugoslavia (at that time Serbia was part of the Republic of Yugoslavia, alongside with the Republic of Montenegro). In subsequent years, political dialogue between Serbia and the EU was established with the aim of preparing Serbia for the reforms needed for the accession process to be successful.

A major event concerning the relationship between the Republic of Serbia and the EU happened on the 28th of April 2008 when the Stabilization and Association Agreement between the EU and the Republic of Serbia was signed (Ministry of Foreign Affairs of the Republic of Serbia, 2014). Despite signing the Association Agreement, the European Union did not implement the Interim Trade Agreement signed together with Stabilization and Association agreement. In 2009, the EU decided to start the implementation of the Interim Trade Agreement, and at the end of same year the Republic of Serbia formally submitted its application for the EU membership. In the following years, the ratification process of the Association Agreement was conducted by the Council of the European Union and all its member states. The ratification process was concluded when Romania ratified the Association Agreement in 2013. Another major step towards EU membership was taken in 2012 as the Republic of Serbia was granted the candidate status (*ibid.*). In 2013, the Council of the EU decided to open accession negotiations with Serbia, and the first Intergovernmental Conference took place in January 2014. In 2015 Serbia opened the chapters 32 "*financial control*" and the chapter 35 on "other issues" item 1 as regards "*normalization of relations between Serbia and Kosovo*" (European Commission, 2016a).

4.2. The state of Serbian Forests

In Serbia, forests are perceived as the most important renewable resource that could have significant impact on economic and social stability. However, nowadays the major problems faced by the Serbian forestry sector lies in the lack of efficiency and unsustainable management of forests. This is a consequence of the turbulent past that Serbia has faced while being under sanctions that prevented Serbia from implementing technical developments and communicating with the international community (Regional Environmental Center, 2009a).

The total land area of the Republic of Serbia is 8,836,100 ha and out of that, forest covers an area of 2,252,400 ha according to Banković *et al.* (2008). This puts Serbia in the group of middle-forested countries with 29.1% of land covered with forests. Forest cover in Serbia is closer to the world average (30%) than to the European average (45%) (Food and Agriculture Organization, 2010).

The Law on Forests (2010) divides forests in Serbia into 27 forest districts (see figure 3), which include private and state-owned forests and are formed based on geographical and natural conditions that characterise the whole area. Most of the Serbian forests are located in the central and southern parts of Serbia. As seen in figure 3, the land in the northern part of Serbia (the region of Vojvodina) is mainly used for agriculture, and according to the Ministry of agriculture, forestry and water management (2009), forest covers 7.1% of the total land area in the Vojvodina. In the central and southern parts of Serbia, forests are the dominant category of land use with 37.5% of land covered by forests.



Figure 3: Land use map of Serbia
 Source: Ministry of Agriculture, Forestry and Water Management, 2009, p. 233.

According to the Ministry of Agriculture, Forestry and Water Management (2009), state-owned forest cover accounts for 1,069,200 ha (51%) and privately-owned forest cover for 1,029,200.0 ha (49%) (see figure 4) of the overall forest area. Three types of forests in terms of origin are present in Serbia: natural high stands, artificially established stands and natural coppice forests (see figure 4). It can be seen that the coppice forests are the most dominant type. Coppice

forests have an extremely low average standing timber volume (124.4 m³/ha) and annual growth per hectare (3.1 m³/ha), so their productive potential can be described as limited (ibid).

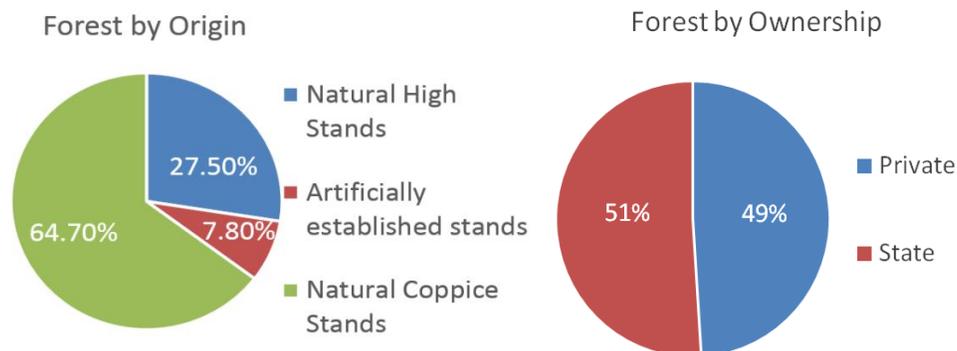


Figure 4: Forest structure by origin and forest ownership in Serbia
Source: The Ministry of agriculture, forestry and water management, 2009 p. 108
(adapted and translated by the author)

4.3. Forestry and wood industries in Serbia

Taken as a whole, the state and the relationship between forestry and the wood industries can be characterized as very weak, mainly because of the appalling cooperation and inadequate organisational arrangement in the last few decades (Regional Environmental Center, 2009a). Nevertheless, slight improvements after democratic political changes in 2000 were evident, especially in terms of the reinforced legislative framework, the control over the wood and wood products trade, and the introduction of financial mechanisms (ibid.).

In 1991, a public forest management company was established to manage all forests, and it had a monopoly over the supply of raw materials (Regional Environmental Center, 2009a). Moreover, the demand for raw wood was growing due to an increased number of privately-owned wood processing companies. The relationship between forestry and the wood industry in the last decade of the 20th century was characterized by corruption, especially regarding false declarations of the quantity and the quality of raw wood (ibid.).

In the 1990s, both imports and exports of the forest and wood industry sector declined due to the trade embargo and the international isolation of the country, causing significant negative effects, which as a result almost led to a collapse of the forestry and wood industry sector. However, after the political changes in 2000 and the transition towards the open market economy, both exports and imports improved and so did the overall conditions in the industry (Regional Environmental Center, 2009a).

As seen in table 8 and figure 5, in the last few years, imports and exports of wood and wood products were almost in balance. Exports of wood and wood products reached 222 million USD in 2013, while imports in the same year reached 193 million USD (Statistical office of the Republic of Serbia, 2014). The data for manufactured furniture show that imports reached a value of 229 million USD in 2013, while exports reached 271 million USD (Regional Environmental Center, 2009a).

Table 8: Serbian exports of selected wood products

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013
Export of manufactured wood and wood products	61.9	93.9	141.5	138.7	103.2	118.4	153.7	161.1	167.2
Export of manufactured furniture	76.4	102.7	143.7	125.1	108.9	132.7	150.8	168.1	204.0
Export of manufactured wood and wood products and furniture (aggregate)	138.2	196.7	285.3	263.8	212.2	251.2	304.6	329.2	371.2
Total export of goods of the Serbian economy	3602.6	5119.5	6439.3	7461.2	5982.2	7388.5	8461.9	8739.1	11001.4
Import of manufactured wood and wood products	127.8	172.0	213.1	237.3	164.9	152.4	159.5	152.5	145.3
Import of manufactured furniture	127.0	158.5	226.9	102.7	76.7	75.4	76.9	87.2	118.9
Import of manufactured wood and wood products and furniture (aggregate)	254.8	330.5	439.9	339.9	241.6	227.8	236.3	239.7	264.3
Total import of goods of the Serbian economy	8408.5	10454.8	13538.1	16542.7	11511.3	12623.5	14268.7	14733.0	15473.9

Source: Own calculation based on Statistical office of the Republic of Serbia, 2009, 2011 and 2014.

Legend: Original data were obtained in USD and then converted to EUR using official EUR/USD European Central Bank average yearly exchange rate.

The total exports of manufactured wood and wood products and furniture did not vary a lot in the last nine years. Total exports of manufactured wood and wood products and furniture averaged 3.7% of the total Serbian exports (see figure 5), while total import of manufactured wood and wood products and furniture as a percentage of the total Serbian import averaged 2.3% (see figure 5). As noted by the Regional Environmental Center (2009a, p.25) *"the most important problem of the wood industry lies in the unbalanced capacities of sawmill's wood processing and available (local) resources"*. Therefore, the apparent lack of resources and limited capacities in wood processing saw mills as a result has unfavourable productivity and efficiency of the wood industry (ibid.).

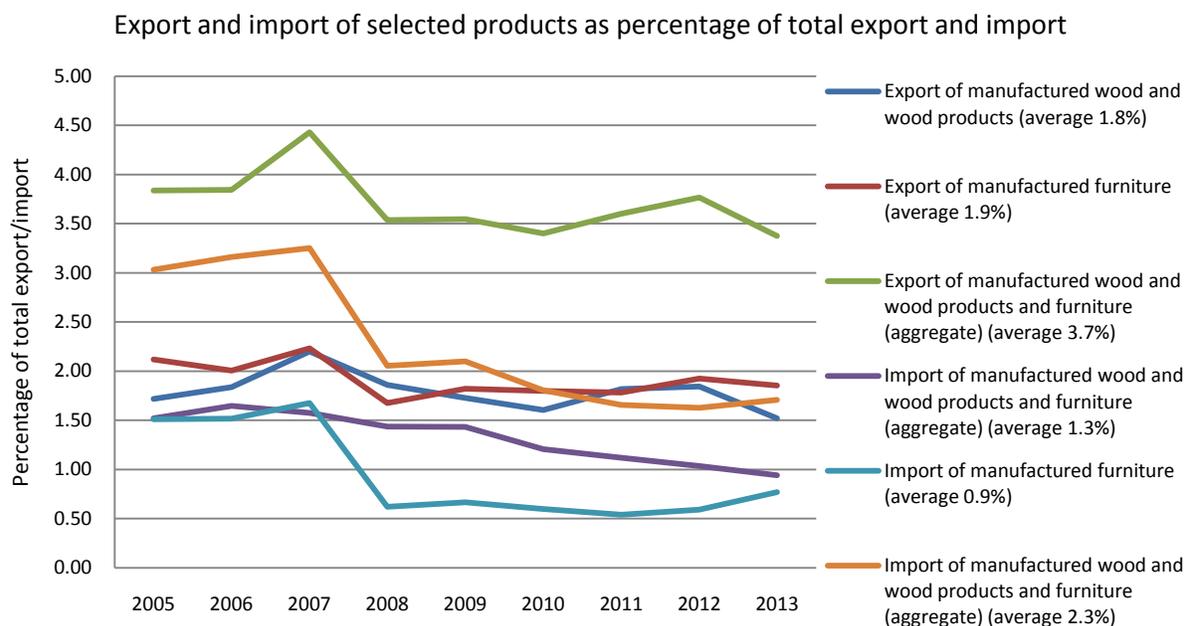


Figure 5: Percentage of export and import of total export and import

Source: Own figure based on the Statistical office of the Republic of Serbia, Statistical Yearbook 2009, 2011, 2014

Today, the EU market is definitely the most important market for the Serbian wood product exporters. The current perception according to Vasiljević and Glavonjić (2011) is that EU markets are attractive to Serbian exporters because of three reasons: high prices, reliability of market partners with a business like attitude. At the same time, the EU markets are very demanding considering the quality of wood products and exact delivery dates and quantities.

Table 9: European Union imports of cork, wood and wood products thereof (except furniture) from Serbia.

Years	Raw cork and raw wood (in millions of EUR)	Cork and wood products except furniture (in millions of EUR)
2005	17.99	13.93
2006	41.59	32.58
2007	51.43	49.40
2008	40.55	49.68
2009	28.50	31.81
2010	34.06	38.26
2011	43.26	46.54
2012	43.01	49.26
2013	55.10	51.79

Source: Eurostat, 2015, s.p.

Table 9 presents the European Union wood and wood products imports from the Republic of Serbia. These data show that in recent years, approximately half of the cork and wood exports

from the Republic of Serbia to European Union were crude materials the other half was the export of cork- and wood-based and processed products.

In order to make profits in conditions of limited domestic market size, Serbian companies are oriented towards exporting to EU markets and have to meet the high standards imposed on this market, such as certification of sustainable forest management and CoC-certificates (Vasiljević and Glavonjić, 2011). For that reason, not only certification of sustainable forest management is extremely important for the Serbian exports, but it is also expected to help reducing illegal activities (ibid.). Even though certification or other third party verified schemes are not accepted as a suitable proof of compliance in the context of the EUTR, *Article 6* of the EUTR envisaged certification as a useful tool for the risk assessment and for risk mitigation as a part of the due diligence system (Commission Regulation (EC) 995/2010). Therefore forest certification is an important issue and could ease the efforts towards effective EUTR implementation in Serbia.

Furthermore, the EUTR and forest certification will have great impact on the Serbian export, given that the EU is the greatest export market for Serbian wood and wood products (Vasiljević and Glavonjić, 2011). However, until September 2010, only 17.2% of the total Serbian forest area was certified, compared to 51.2% in Western Europe. The 2010 survey conducted by Vasiljević and Glavonjić (2011) shows that only 33 companies in Serbia had CoC certificates for their products, which is 1.6% out of all companies registered in wood processing and furniture making (total number 2,053). Figure 6 shows the share of CoC certificates for wood products in Serbia, where more than half of the products (54 %) are sawn-wood, elements for furniture and parquet.

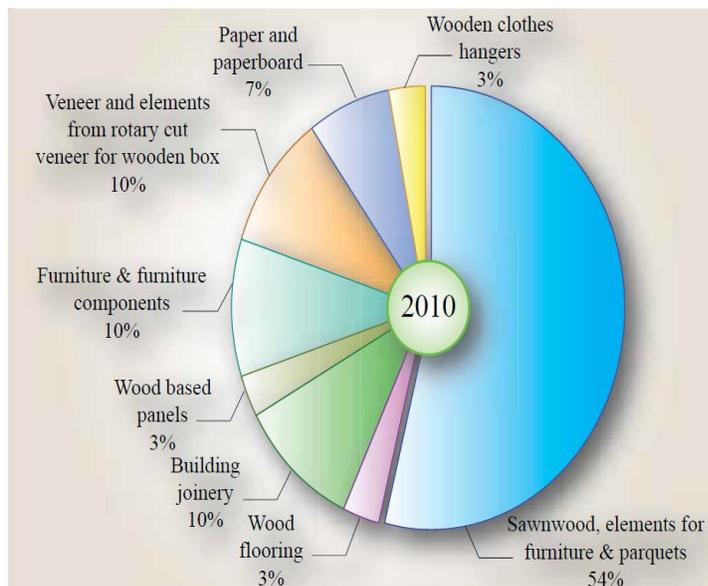


Figure 7: Share of CoC certificates in Serbia
Source: Vasiljević and Glavonjić, 2011, p.15

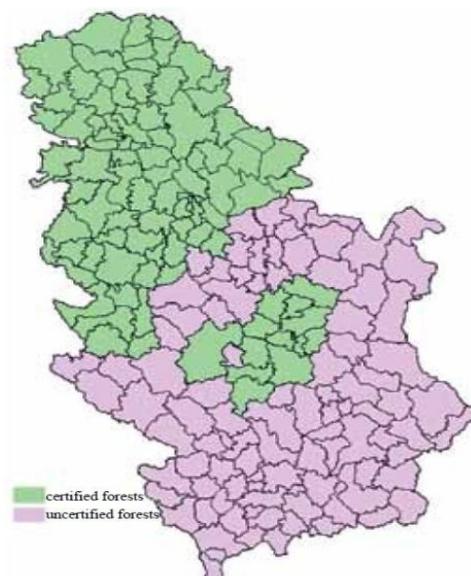


Figure 6: Map of certified and non-certified forests
Source: Vasiljević and Glavonjić, 2011, p.16

Figure 7 shows the regional distribution of certified and non-certified forests; from which it can be inferred that all the forests in the region of Vojvodina are certified, and most of the forests in central and southern Serbia are not certified. In terms of the certification of private forests, relevant data are still missing. However, the intention is to introduce the Programme for the Endorsement of Forest Certification (PEFC) because it seems suitable for group certification of small forest estates (Vasiljević and Glavonjić, 2011).

Finally, it is necessary to accelerate the certification process of both forest and CoCs in order to facilitate companies from Serbia to export goods to EU (Vasiljević and Glavonjić, 2011). According to the Forest Stewardship Council (2015), there were 142 companies that held CoC certificates in December 2015. This indicates a positive trend towards a strongly-increasing number of certified companies. This is even more encouraging, if a tendency for officially recognizing FSC certification as sufficient evidence of a good DDS is taken into account (Forest Stewardship Council, 2016).

4.4. Illegal logging and trade in Serbia

Even though the Illegal logging matter has not received adequate attention from state bodies and forestry enterprises in Serbia (Regional Environmental Center, 2009a), it is an important issue in the Serbian forestry sector, increasingly resulting in significant economic costs (Markus-Johansson *et al.*, 2010).

The main driver of illegal logging activities in Serbia is a difficult economic situation caused mainly by past war affairs, the trading embargo and a collapsing economy (Regional Environmental Center, 2009a). In addition, institutional incompetence, weak societal awareness as regards forests and their importance, and poor law enforcement are also important drivers of illegal logging in Serbia (Markus-Johansson *et al.*, 2010).

Even though the exact amount of the illegally logged wood in Serbia is unknown, the official numbers indicate that approximately 10,000 m³ of wood from the state forests is being cut illegally annually (see table 10), and more than 1, 000,000 m³ from private forests, (Markus-Johansson *et al.*, 2010). Scholars from the Faculty of Forestry in Belgrade estimate that annual illegal harvesting amounts are approximately 300 000 m³ or 21% of the total fuel wood production in Serbia (Glavonjic *et al.*, 2005).

Table 10 presents an overview of estimates of the volume of illegally logged wood in the Serbian state forests. Only forest thefts are considered. It also shows the number of complaints for forest thefts (applications) that were submitted and sanctioned. As shown, around 20% of

submitted applications were sanctioned on average, which is assumed to be the result of incomplete applications, a lack of evidence, and indulgence by the courts.

Table 10: Estimates of illegal logging in Serbian state forests 2002-2009

Year	Illegally logged volume of wood m3	Number of submitted applications	Number of solved applications	Percentage of solved applications %
2002	10,037	1,614	411	25,5
2003	10,349	162	243	15,0
2004	9,136	1,151	310	26,9
2005	8,213	1,489	322	21,6
2006	7,362	1,272	231	18,2
2007	10,671	1,089	198	18,2
2008	13,713	1,345	177	13,2
I-VII 2009	3,182	572	167	29,2
Total	72,663	8,694	2,059	
Average per year	9,926	1,160	270	20.9

Source: Regional Environmental Center, 2009a, p. 92.

Legend: "Applications" refer to court applications when illegal logging was reported

Different types of illegal activities in Serbia can be categorized by the ownership structure: wood theft in state forests and wood thefts and illegal logging in privately owned forests (Regional Environmental Center, 2009a). According to Glavonjić *et al.* (2004) different types of illegal activities occur due to different characteristics of these two types of ownership. While state forests are situated in larger complexes in mountainous areas, private forests are rather smaller complexes and most often near urban areas.

Different settings, in terms of location, historical living context of the people and the economic power of owners, are seen as the main reasons for the different nature of illegal activities that occur in the two ownership types. In state-owned forests illegality is associated with wood thefts that mainly take place near villages and towns (Regional Environmental Center, 2009a). These criminal actions are usually committed by local people that are usually using the wood for heating, as well as for technical wood. In private forests illegal activities include cutting in private forests without authorization of professional services, wood theft and defrauding private forests owners by entrepreneurs (*ibid.*).

A common problem in privately-owned forests lies in the fact that owners are living in towns; hence, thieves can easily commit the crime without the owner noticing (Regional Environmental Center, 2009a). Because of the fragmentation of private forests and the fact that most owners of private forests live in towns and cities, the presence of illegal activities in these forests is high, compared to state-owned forests. According to Markus-Johansson *et al.* (2010) the highest volume of logged wood are those logged in private forests by the forest owners without the prior approval of competent professional services. Although it is illegal, the

problem with this kind of logging is that it cannot be qualified as wood theft and therefore is not a "crime". The most intense illegal logging activities happen in the forested areas bordering Kosovo (ibid.).

Illegal logging is usually accompanied by illegal trafficking of wood. Despite the law on forests (2010) prohibits the movement, transportation or processing of harvested wood without adequate documentation, illegal trafficking is present in reality. Most of the illegally logged wood is traded on the domestic market as firewood and industrial round wood (Regional Environmental Center, 2009a).

In Serbia, private forests are managed by the public management service. This service has a mandate for marking the trees for harvest, issuing documentation for trafficking wood and for providing consultancy. It marks approximately 800,000 m³ of firewood per year in private forests (officially registered number of logged timber). However, it is estimated that the amount of wood that is being logged is much higher than what is registered; around 2,000,000 m³ of firewood is cut in privately owned forests every year (Glavonjić *et al.*, 2004).

In terms of forest security/control service in the public forest management enterprises (Srbijašume and Vojvodinašume), on the ground level, forest technicians are in charge of forest legality in addition to their other tasks (Glavonjić *et al.*, 2004). To ensure legality, public enterprises also employ forest security guards who cooperate with forest engineers and police officials. In 2004, there were 624 employed forest security guards registered in Serbia (ibid.). In terms of private forests, there is no current security service existing in Serbia. It is up to owners to control their forests. In case of theft, police is the competent authority (Regional Environmental Center, 2009a).

One of the main concerns in the current organizational arrangement of forest management authorities is the absence of a consistent monitoring system that would provide exact information and control of illegal activities in the forestry and wood industry sector (Regional Environmental Center, 2009b). Forestry Inspections, the main responsible bodies in charge of controlling legality matters under the Ministry of Forestry and Environmental Protection, and the Service of Forest Guardianship within the public enterprises (Srbijašume and Vojvodinašume) keep their records separated. Moreover, the two state companies carry out their internal control.

Different types of forestry related illegal activities are reviewed in Chapter 3.1. If assuming that corruption and activities such as diminishing quality and quantity are present in Serbian forestry (Regional Environmental Center, 2009b), it should be stressed that it might induce adverse implications on the efforts towards the EUTR implementation in Serbia. As a matter of fact, the relevance of corruption is even bigger if taken into account that EU operators in their risk

assessments also refer to the annual Corruption Perception Index, which designates Serbia as a high risk wood source market. Figure 8 demonstrates the level of public sector corruption with the Corruption Perception Index (CPI) in Serbia is higher than in Croatia (the latest EU Member State and neighbouring country of Serbia) and Austria (Transparency International, 2015). Among the 168 countries in the world, Serbia scores 41 and ranks at the 78th position in the year 2014 (figure 8).

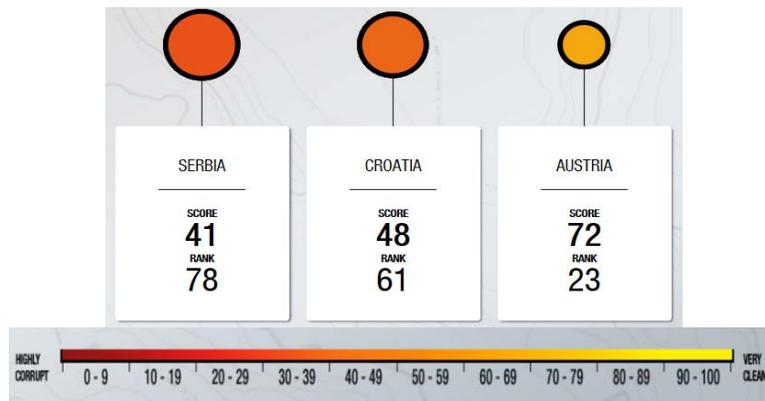


Figure 8: Comparison of the Corruption Perception Index in Serbia, Croatia and Austria

Source: Transparency International, 2015, s.p.

Legend: The scale on the legend ranges from 0 (highly corrupted) to 100 (very clean)

To sum up, Serbia is a country in transition with an economy which is still out of fiscal balance. Nevertheless, the economy has almost steadily grown in the last 13 years. The quality of the business environment is still not at a satisfactory level. In terms of natural resources, forests could have the more important role and bigger impact on the economic and social stability in Serbia. However, forestry and wood industry sectors are facing difficulties and can be characterized as weak when compared to other branches of industry. Some of the major problems are a lack of efficiency in both sectors, unsustainable forest management, and "unbalanced capacities" of sawmills and available resources that restricts the productivity, efficiency and capacity utilization in Serbian wood industry. Illegal logging and trade are significant issue that are mostly driven by generally difficult socioeconomic situation (i.e. institutional weaknesses and poor inter-institutional cooperation, a gap between wood supply and demand) and more so in privately owned forests than in state owned forests. The institutional incompetence, weak societal awareness about the importance, and poor law enforcement are partly responsible for the presence of illegal activities in the Serbia forestry and forest industry sector.

5. Results

This chapter presents the results that were obtained from the conducted interviews and analysed in the MAXQDA software, as well as the results obtained through the content analysis of the relevant laws and strategies in Serbia. The first nine sub-chapters represent the major themes that emerged through the Serbian part of interviews. The last sub-chapter (5.10.) presents the results from the additional Austrian part of interviews. Methods that are used are explained in detail in the chapter 2.

5.1. Presence of illegal logging and illegal trade matters in Serbia

At the beginning, the interviewees were asked to express their perception on illegal logging and illegal trade matters in Serbia and to describe the presence and importance of it. As shown in figure 9, most of the respondents (83 %) stated that these are issues of big importance for the Serbian forestry and wood industry sector. However, seven respondents claimed that such illegal activities are important but only occur in privately owned forests (I 1, I 2, I 3, I 6, I 9, I 11, I 12).

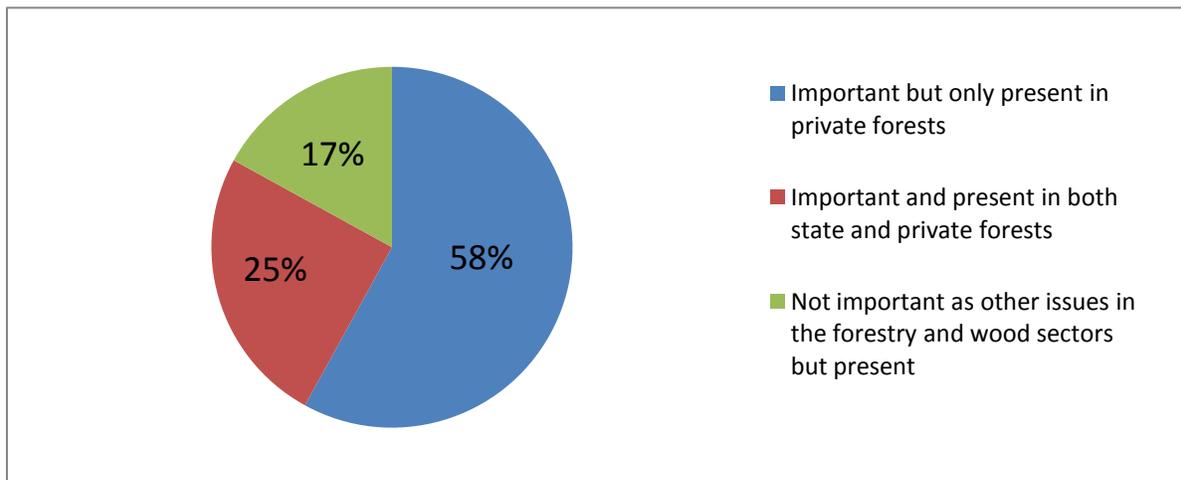


Figure 9: Perceptions of the importance and presence of illegal logging and illegal trade in Serbia
Source: Own figure

The respondent from the Ministry of Agriculture and Environmental Protection (hereinafter: MoAEP) stated *"The main reason I think it is a very important issue is the annual loss of around 12 million Euros that we have as a consequence of the unpaid taxes on illegally logged timber as well as on the value added tax. Hence, the state budget, which is already limited, suffers and so does forestry and wood sector."* (I 1). The same respondent, pointed out that the term *"illegal logging"* was not fully appropriate in this regard because it doesn't lead to devastation of forest lands in Serbia (as it does in some tropical forests). According to several respondents

(I 1, I 6, I 7) it was better to use the expression "*not-registered logging*" since these types of loggings are sporadic in Serbia and they occur mostly in private forests. A respondent from the Wood Industry Cluster (I 4) stated that it is definitely a problem, especially emphasizing the significance of the wood as the second most important resources in Serbia, after coal.

A respondent from the Faculty of Forestry (I 3) said that the problem is generally important, but much more present in the private forests as compared to state forests. The respondent believed that the nature of its occurrence lies in the inconsistency of the Law on Forests (2010) (hereinafter: LoF) and current management practices in private forests. The respondent specified that according to the LoF only trees that were marked from the authorized person are allowed to be harvested. The interviewee provided an example of Austria, where marking trees in private forests was done on a voluntary basis, unlike in Serbia, where it was prescribed by law. Because of cutting trees that were not marked is an illegal act which often occurs as the private owners are not willing to pay for that service, especially in times of financial crisis (ibid.).

A private company representative (I 9) claimed that in general it is a significant problem, indicating that wood from private forests that is not logged in accordance to the LoF goes to the wood industry and immediately becomes part of the illegal trade: "*Illegal logging is a problem because it directly supports illegal trade, and according to some rumours that I have heard, the trend is that illegally logged wood goes to the Eastern markets, especially China and Russia, but not to the EU*" (ibid.).

Some answers reveal that the issue of illegal logging and illegal trade, if generally perceived, is not a problem of significant importance from the interviewees' perspective. However, these respondents also pointed out that illegal logging occurs, these activities take place more likely in private than in the state owned forests (I 8, I 12). Two interviewees stated that in comparison with other problems in forestry (e.g. quality of forests, accessibility to harvest) and in the wood industry (deficiency of wood for the processing units), illegal logging and trade matters are seen as a less significant issue and is therefore not high on the agenda for the Serbian authorities (I 5, I 12). A respondent had reservations about the importance of illegal trade saying that "*it is also questionable how much of illegally logged wood from the private forests goes into the industry as a technical wood for the producing furniture, knowing that the quality of privately owned forests is very low. So I am not quite sure that illegal trade is the issue of big importance in Serbia.*" (I 3).

Key messages: Interviewees indicate that illegal logging and illegal trade activities are present in Serbia, especially in privately owned forests. These activities are also seen as an issue of great importance that adversely affects the Serbian economy. Illegal logging, sometimes more appropriate term - "*not-registered logging*", is perceived to be mainly caused by the hard

economic situation in the country, as well as the inconsistencies of the LoF and private forest management practices.

5.2. Illegal logging and trade in Serbian legislation and policies

In addition to the results of the in-depth interviews, this sub-chapter presents the results from the content analysis of the laws and strategies that are relevant for the illegal logging and illegal trade matters in Serbia. However, this research does not consider further regulations in by-laws.

The *Law on Forests (2010)* was enacted in 2010 in order to provide conditions for sustainable forest management in the Republic of Serbia. In general, its 121 articles aim to regulate the preservation, protection, planning, growing and utilization of forests. The law regulates the matters of legal logging, trafficking and processing of legally logged wood. Hence, it defines in detail which logging activities are considered as legal/illegal, what the mandates of forest guards and forest inspectors are for preventing illegal activities, and finally what penalties can be imposed to those who breach the law. Activities that are prohibited include the marking of wood by unauthorized personnel, logging of wood which is not marked by authorized personnel, trading and processing of wood which is not marked or lacks proper documentation, and not properly keeping evidence of the reception of wood by wood processors.

The intention of the regulator was to prevent illegal activities by disabling wood to be moved from the logging site and sold if not accompanied with proper documentation and marks. The supervision of logging is done by forest guards and forest inspectors (personnel of the forestry public enterprises) who have the mandate to inspect the logging sites, the transportation of wood and wood products as well as the processing sites.

Correspondingly, the forest guards and forest inspectors can temporarily seize wood, wood products and tools used for logging and processing of wood which is suspected to be illegally logged. Penalties for the violation of the regulations are fines and possible seizure of illegal wood or products made from illegal wood and of the equipment used for such illegal activities. Fines for individuals violating the law range from 10,000 RSD to 50,000 RSD (i.e. about 80 to 410 EUR¹), and are much more severe for legal entities, ranging from 300,000 RSD to 3,000,000 RSD (i.e. about 2,500 to 24,500 EUR).

To summarize, Articles 57 and 58 point to legal harvest through required marking of trees for felling by authorised persons while Article 60 of the LoF addresses the issue of processing and trade of (un)marked wood from forests on the internal market. Fines and penalties for activities

¹ Exchange rate applied as published by the National Bank of Serbia, December 2015).

related to illegal logging and trade of illegal wood are defined in Article 111 for legal entities, and in Article 113 for individuals. Mandate and actions of forest inspectors in terms of control are prescribed in the articles 104, 106, 107, 108 and 109. Other articles relevant with regards to illegal logging and related trade matters are the Articles 9, 13, 40 and 41.

The *Law on Environmental Protection (2004)* establishes an integral system of environmental protection in the Republic of Serbia aiming to ensure the rights of people to live in a healthy environment, as well as a balance of economic development and environment protection. It defines that measures and instruments of environmental protection are aiming at sustainable management and the preservation of the natural balance, integrity, diversity and the quality of living conditions, and at the prevention and control of all forms of environmental pollution. Among the broad range of issues that this law tackles, illegal activities in forestry are referred to only indirectly and in general and no specific details are provided on illegal activities and penalties. Article 25 in the chapter on the "Protection of Natural Values" is the only one dedicated to issues of the protection and preservation of forests. It states that in order to protect and advance forest ecosystems, forests should be managed rationally to ensure the accomplishment of the natural functions of forests. Furthermore, state agencies, the owners and the users of forests are obliged to take measures necessary for the preservation and sustainable use of forests as well as measures for controlling and protection in case of pollution.

The *Law on Nature Protection (2009)* regulates the protection and preservation of biological, geographical and areal diversity as part of the natural environment. The main focus of its 135 articles is directed towards the regulation of protection, preservation and management of natural resources, protected species, natural habitats and ecosystems. The law enacts that it is forbidden to cut and to trade protected plants, and that law breakers are to be fined. The international trade of protected species can be done exclusively with the permission of the competent ministry. This law also states that forest management must be based on the principles of sustainable development and the preservation of biological diversity and structure of forest ecosystems. While it does not directly regulate the issues of illegal logging or trade and processing of illegally logged wood and products, it indirectly refers to those issues to some extent through the regulation of the management of natural resources, habitats and protected species.

The *Law on Trade (2011)* (hereinafter: LoT) regulates the domestic trade of goods. Article 34 stresses that goods placed on the internal market have to achieve certain conditions, *inter alia*, technical requirements, labelling and environmental protection standards. The law regulates the issue of adequate documentation of goods by requiring possession of the relevant documentation in terms of production or purchase, transport, storage and the sale of goods

(the Article 35). Furthermore, Article 37 requires traders to keep records when purchasing and selling goods. The law also covers the authorizations of the market (trade) inspectors and gives them competence for the control by reviewing the records and documents, checking vehicles etc. The relevant articles as regards the general conditions of trade are 34, 35, 37, and 55.

The *Foreign Trade Law (2009)* regulates cross-border trade consistently with rules of the World Trade Organization and the European Union regulations. Although it does not directly focus on export and import of wood and wood products, it indirectly allows further harmonization of trading rules by stating that foreign trade of specific goods and services may be separately governed in accordance to rules of the World Trade Organization and the European Union (Articles 11 and 12). This allows further specification of standards that need to be met by exporters from Serbia. There are no specific references to issues of illegal logging and trade of wood and wood products.

The *Criminal Law (2005)*, regulates criminal acts and respective sanctions. Article 274 is focused on forest devastation. It states that "*Whoever contrary to regulations and orders of competent authorities cuts or clears forest, or who damages trunks or otherwise devastates forests or cuts down one or more trees in a park, avenue of trees or elsewhere where cutting down of trees is prohibited, shall be punished by fine or imprisonment up to one year.*" (ibid., p.89)

Furthermore, the Government of the Republic of Serbia introduced a *Forestry Development Strategy* in 2006 (The Government of the Republic of Serbia, 2006). It was the first time in the history of the Republic of Serbia that such a comprehensive and well defined strategic document on forestry development was introduced.

The purpose of this strategy is to co-ordinate general development goals of the forest sector by striving for a balance of the social interests associated to forests, by creating a favourable climate for economic development, by supporting conversation on the ecological values of forests, and by creating optimal legal frameworks for all stakeholders of the Serbian forest sector (The Government of the Republic of Serbia, 2006). When creating the strategy the government started from the fact that the general state of forests in Serbia is unsatisfactory as a consequence of deforestation, which is documented throughout Serbian history. Therefore, one of the main principles that the strategy is based on when considering the management of forest resources is the sustainability of forests and forestry development (ibid.).

The fact that the Republic of Serbia is obliged to a set of international commitments it has signed (e.g. by the UN Framework Convention on Climate Change (1992), The Convention on Biological Diversity (2001), The Convention on International Trade in Endangered Species (2001)) directly affected the development and the goals of the strategy. The harmonization of the strategy with international commitments was necessary and aimed at. Although the

strategy is a document related to a broad set of forestry issues, the main goal of the strategy is set to be *"the conservation and enhancement of the state of forests and the development of forestry as a branch of the economy"* (the Government of the Republic of Serbia, 2006, p.13). Consistently with the main goal of the strategy, the government set specific goals for the forestry sector in relation to the economic and social development, to forests in protected nature areas, to biodiversity conservation, to the enhancement of forest areas, to social and cultural forest functions, to the protection of state-owned forests, to the protection of the game, to wood industry markets, to education and training, research, information and public relations, and with regards to international co-operation (ibid.).

Some of the actions of the government designed to achieve these goals successfully include to avoid any decrease of the areas covered by forests, to support the implementation of sustainable management of forest resources, the provision of a regulatory, institutional and economic framework for the implementation of sustainable forest management and its harmonization with requirements of provisions of the European Union, and provide consistent law enforcement and sanctions for illegal activities (ibid.).

When considering the matter of illegal activities in forestry, especially the issue of illegal logging, the concept of sustainable forest management is repeatedly emphasized throughout the whole strategy. For instance, the strategy highlights the importance of the state of forests, and the identified goals require the establishment of forest management that guarantees the sustainability of forest harvesting, regardless of the type of forest ownership. In addition, the strategy states that the Government should harmonize national regulations with EU regulations and international conventions on biodiversity protection, including the prohibition of harvesting rare and endangered species of plants and animals (ibid.).

Chapter 4.2 of the strategy describes that one of the causes of unsustainable forest management is urgent economic needs of owners of small forest holdings with low economic capacities, implying that the poor economic situation is a cause of unsustainable forest management. Chapter 4.6 of the strategy is dedicated to the wood industry and the markets for wood products. It assesses the overall state of the domestic industry as well as the measures needed for the development of an effective and competitive wood products industry. The current state of the industry is described as underdeveloped in relation to its potential, with exports based on raw wood materials and small shares of products with higher added value. Measures envisaged to increase the competitiveness of the Serbian wood products industry include creating conditions for starting forest certification processes for wood products, introducing production quality management systems, strengthening the system of monitoring flows of raw materials and final products, and encouraging exports of high value added products (ibid.).

Since the strategy is a document covering a wide variety of forestry topics by means of general guidelines, the issues of illegal activities in forestry and wood industry are not specifically covered in detail, but instead through repeated generalizations of terms such as sustainable forest management, establishment of forest management that guarantees the sustainability of forest harvesting and creating conditions for beginning of the forest certification process for wood products (ibid.).

The National Sustainable Development Strategy (Government of the Republic of Serbia, 2008) was initiated to define and present the commitment of the Republic of Serbia towards a vision of sustainable development. The Strategy consists of eight interconnected sections. With regard to the six categories of this analysis (see chapter 2), the fifth section of the Strategy deals with issues of environmental protection and the preservation of national resources, with one chapter focused directly on forests (chapter 1.5 of section 5). It states that "*the main problems are the following: insufficient forests cover, illegal logging, inadequate monitoring, and fires.*" (Government of the Republic of Serbia, 2008, p.89). It also states that two of four main strategic goals of organization and utilization of forests and areas under forest cover are the harmonization of the national legislation regarding sustainable forest management with the EU legislation and the improvement of sustainable forest management and protected natural goods (ibid.). In this way the issue of illegal logging and the harmonization with EU legislation and strategies are directly referred to. Even though both these issues are stressed as important in the strategy, no detailed actions regarding how these issues shall be tackled are presented. Only general statements that show the willingness of the government to tackle the problems are described, e.g. that that the government will support sustainable forest management and that it is necessary to set the right legislative and institutional framework for achieving this (ibid.).

To sum up, although the issue of illegal logging is recognised as one of the main problems in the strategy, there is no further explanation on possible measures to address it and there are no references in the strategy regarding the illegal trade of wood. All analysed documents to some extent address the categories as defined for analysing whether and how central legislative texts and strategic documents cover aspects of the issues of illegal logging and related trade or further aspects with regards to the implementation of the EUTR (see chapter 2). The LoF seems to be most relevant in terms of addressing illegal logging and trade issues in general and also from an EUTR perspective. It addresses the categories I, II, IV and V (see table 11). The LoF directly regulates important matters that are also imposed by the EUTR such as legal harvesting (e.g. marking trees) and placing of wood from forest sites on the internal market. It can be stated that the LoT also adequately covers the placing of any goods (e.g. wood products), that adequately fulfil certain conditions, on the internal market.

However, none of the analysed laws requires the labelling (marking) of products that are processed in later phases of processing (e.g. wood processed in sawmill), which could definitely be a need for implementing the EUTR. Both, the LoF and the LoT, regulate important segments of inspection and controlling matter.

Table 11: Results of the content analysis – an overview

Document	Year enacted	Legislator/publisher	Categories addressed
The Law on Forests	2010	National Assembly of Republic of Serbia	I - Illegal activities, II - Measures for prohibiting , IV - Legality of wood and wood products V- Trade of wood and wood products
The Law on Environmental Protection	2004 (modifications and additions in 2009)	National Assembly of Republic of Serbia	I - Illegal activities II- Measures for prohibiting
The Law on Nature Protection	2009 (modifications and additions in 2010)	National Assembly of Republic of Serbia	I-Illegal activities, II- Measures for prohibiting V - Trade of wood and wood products
The Law on Trade	2011	National Assembly of Republic of Serbia	I - Illegal activities, II - Measures for prohibiting V- Trade of wood and wood products
The Foreign Trade law	2009 (modifications and additions in 2010)	National Assembly of Republic of Serbia	I- Illegal activities, V- Trade of wood and wood products , VI - Harmonization
The Criminal Law	2005 (modifications and additions in 2009,2012,2013,2014)	National Assembly of Republic of Serbia	I- Illegal activities II- Measures for prohibiting
Forestry Development Strategy for the Republic of Serbia	2006	Government of Republic of Serbia	I- Illegal activities II - Measures for prohibiting III- Causes and effects of illegal activities, IV - Legality of wood and wood products, V- Trade of wood and wood products , VI - Harmonization
The National Sustainable Development Strategy	2008	Government of Republic of Serbia	I- Illegal activities, VI - Harmonization

Source: Own table

On the other hand, the Law on Environmental Protection (2004) and the Law on Nature Protection (2009) cover such topics only indirectly and in a general manner, no specific details are provided on illegal activities and penalties. The Criminal Law (2005) addresses category I and II and clearly imposes penalties for illegal activities. In terms of strategies, the Forestry

Development Strategy covers a broad range of forestry issues that directly reach to the categories of analysis, but not always in detail.

In the course of in-depth interviews the respondents were asked to describe which policy documents (laws, regulations, directives or strategies) more or less address the issues of Illegal logging and illegal trade in Serbia. In addition, they were asked to give their opinion on the implementation of these documents and challenges that might occur in this regard.

All of the interviewed representatives of public authorities and research institutions stated that the LoF with its provisions adequately covers and clearly defines illegal logging matters while occasionally also referring to EUTR requirements. However, all the interviewees agreed that in general there is no adequate implementation of the law at the moment, constantly emphasizing that it provides constraints to any attempt to prohibit illegal activities in the Serbian forestry and wood industry sector. A small number of respondents also casted doubts on the efficiency of the LoF (I 1, I 3, I 5). They stated that the inspection of the wood circulation outside forests is not covered by any laws and that no assistance from the police is assured to the forest inspectors by the Forest Law (ibid.). Consequently, these interviewees believe that these weaknesses might affect the EUTR implementation in the near future.

The respondents mainly referred to the LoF as the main document which regulates logging and trade issues in Serbia. The interviewees (I 1, I 3, I 5, I 6, I 7) stated that good legislation in terms of prohibiting illegal activities exist in Serbia. However, they also emphasised that non-compliance occurs for various reasons, yet again referring to the problems that occur in private forests: *"We have the situation that according to the Law on Forest, private forest owners are obliged to pay the taxes to the nearest public forest service in order to register wood, because the public forest service has the role of professional and technical support (e.g. giving approval for the harvesting). However, private owners lack financial resources and tend to manage forests by themselves."* (I 1).

A number of interviewees (I 1, I 3, I 5, I 6, I 7) complained on the adequacy and fairness of the LoF, particularly in terms of private forests. They also stated that it is hardly achievable to comply with everything that is prescribed by the law. One interviewee stated: *"I don't think adequate implementation of the Law on Forests in this regard exist because some segments of the law are not enforceable in this country. If you cut in private forests without marking trees, you break the law. However, the courts in Serbia will not press any charges against you because in the end you do not steal anybody's wood."* (I 8). In addition, respondents also casted a doubt as regards the efficiency of the Serbian judicial system (I 1, I 3, I 5, I 7, I 8, I 9).

Furthermore, interviewees pointed out that in terms of illegal logging, especially considering private forests, the Serbian legislation is much more rigid than in the most of the EU member

states. One of the respondents also criticised "*extremely high penalties*" prescribed by the law (I 13). Furthermore, he stated that as long as bribery and corruption are present among different actors in the forestry and wood sector, weak application of the legislation in Serbia will remain a reality as well (ibid.)

Respondents also indicated that the problem of inconsistency of the LoF and the LoT is a reason for a non-harmonized way of operating of the two inspection services that are responsible for controlling trade flows from the forests to the point they leave the country. A representative of the MoAEP (I 1) explained the problem by saying that while "*the forest inspection is doing its job, the market inspection is not. The problem is that the forestry inspection, according to the Law on Forests, controls only the situation in the forest and not on the roads and the market inspection neglects to control wood trucks on the road. I am not sure if the market inspection officers are aware of the fact that wood controlling is in their competence*" (ibid.). Furthermore, a respondent pointed out that non-compliance of the legislation is caused by insufficient capacities of the forest Inspection (small number of inspectors, poor equipment and lack of educated staff), hence, that they cannot completely carry out legal provisions of the LoF that relate to trade (ibid.).

The two private company representatives (I 6, I 12) stated that they are not fully acquainted with the LoF and that it is not their business to be informed about the law. On the other hand, the representatives of the public authorities and research institution were much more informed (I 1, I 2, I 3, I 4, I 5). The respondents from the MoAEP expected that the changes that were made in the LoF in September 2015 are well harmonized with the EUTR regarding the wood assortments' legality and origin, as well as the wood circulation aspects (I 1).

Key messages: According to the analysis of categories of illegal logging and trade being addressed, the LoF (2010) and the LoT (2010) are the most relevant laws. Interviewees indicated that in general the LoF is relatively well compliant with the EUTR requirements. However, they also noted that there is an evident lack of implementation of the prescription of laws in Serbia. A perceived inconsistency between the LoF and LoT also became evident and is assumed to have a negative impact in term of insufficient control of illegal activities. Furthermore, the Forestry Development Strategy (2006) addresses matters of illegal logging and trade broadly but not in details.

5.3. Role and involvement of the public authorities and other relevant organisations

The interviewees were also asked to describe and assess the involvement of the public authorities and other organisations (e.g. NGO's) in the matter of illegal logging and illegal trade in Serbia. In addition, private company representatives were also asked to comment on the

attitude of the government authorities to support and help the industry actors in various different matters (e.g. facilitating and harmonizing business with the EU markets).

The respondents stated that governmental authorities in Serbia do not adequately consider the issue of illegal logging and related trade, especially not as an issue of top priority (I 6, I 7, I 8, I 9, I 10, I 12). The respondents pointed out that emerging problems that the Serbian economy is facing restrict the abilities of the authorities to react in order to alleviate the issue. They recognised the lack of educated staff as a big constraint in this regard (ibid.). A respondent from the Ministry of Agriculture and Environmental Protection stated that *"even though we have tried, there are no resources for employing the people who would be in charge of this issue"*(I 1).

The respondents (I 2, I 3, I 5, I 12) indicated that there are attempts to address illegal activities, but that there is no interest from the Government. The action plan, that was supposed to tackle illegal activities in forestry in accordance to the FLEGT regulation, was intended and drafted. Even though, the document has been proposed, it has not been adopted by the government *"without any explanation why so"* (I 1).

A small number of respondents recognised the role of the Chamber of Commerce in organizing seminars and similar meetings in regards to the EUTR and other relevant industry matters (I 4, I 5, I 7, I 8). However, they have seen themselves not being taken seriously enough by the industry actors, which resulted in the lack of participants during these events (I 5).

The company representatives' overall impression was that the support by the government and other public authorities is extremely poor and that their companies did not receive any help from the companies so far (I 6, I 7, I 8, I 9, I 12). All of the respondents stated that the cooperation of the governmental authorities with the industry actors has to increase, especially in terms of the EUTR implementation in Serbia (ibid.).

A representative of a company that exports high quality solid parquet and hardwood flooring boards (I 6) stated that there was no support at all, as well as that he has a feeling that public authorities are not motivated to help the exporting companies either. A respondent from a private company that exports flooring boards (I 7) pointed out that the government and other bodies should take the EUTR more seriously for the reason that implementing any regulation or directive from the EU they would strengthen not only the reputation of the country but also the reputation of the Serbian companies.

All of the respondents indicated that other relevant actors in Serbia (e.g. NGO's) were not active with regards to illegal logging and trade. The answers indicate that reasons for this might be that the awareness and perception of forest issues in the society are on a very low level,

hence, the respondents had no doubt that the issue of illegal logging and the EUTR are not perceived as they are perceived in developed countries.

Key messages: Overall, respondents are not satisfied with the role and the level of involvement of Serbian public authorities in the matter of illegal logging. Even though a few actions have been taken to assist industry actors in improving and harmonising their business with EU standards, these efforts are considered insufficient. According to the interviewees, one of the main problems is the difficult economic situation which makes it impossible for the authorities and main relevant bodies to effectively help. Furthermore, some industry representatives even doubt the willingness of public authorities to provide effective help.

5.4. Encountering the EUTR: awareness and perceptions

Despite the fact that the EUTR is not implemented in Serbia, it indirectly affects the export of wood and wood products to the EU market. Therefore, interviewees were addressed with the question of whether and how they were informed about the regulation. They were also asked to explain how their professional work is linked or affected by the EUTR. In addition, the interviewees were also asked to express their impressions about the EUTR and its implementation in Serbia, as well as the effects that EUTR might cause on Serbian forestry and wood industry.

All the respondents were familiar with the regulation to a certain degree, except for one furniture company representative who stated that he does *"not need to be familiar with it. It does not influence the export of my furniture into the EU."* (I 12). Interviewees were informed about the EUTR by reading literature, listening to expert presentations or reading the news about developments in the European timber industry, or by colleagues from within the industry.

All the respondents representing public authorities and research institutions (I 1, I 2, I 3, I 4, I 5) agreed that the regulation would induce positive changes in the long run, in terms of reducing illegal logging globally, as well as in Serbia. However, they expressed concerns about the effects that these changes might induce, primarily in terms of market disruption in Serbia when assuming that the EUTR is effectively implemented in the EU member states (ibid.).

According to a respondent from a company that manufactures and exports wood-based panels in the EU (I 7), the EUTR is taken seriously, indicating that company efforts resulted in a small study regarding the due diligence practices and obligations in 2014. The results of the company's assessment demonstrated that the current organizational set up in Serbia is not suitable in a way that would enable them to fulfil the requirements of a due diligence compliant with the EUTR (ibid.).

An interviewee from another major export company stated that he was fully acquainted with the EUTR because it is his daily job: *"I work on the issues related to the EUTR and due diligence every day; it is our company strategy to be up to date with all the changes that might affect our business. We are the pioneers when it comes to implementing due diligence in Serbia."* (I 8). The same company representative said that his company had started a discussion with the public enterprise from which they are buying wood in order to provide access to the documents necessary for due diligence (ibid.).

Even though one interviewed representative of a public forest management enterprise (I 12) is well informed, he explained that he does not deal with the EUTR on the professional basis because it does not directly affect his company: *"We, as a public enterprise, do not export wood assortments to the EU. So we are not directly affected by the EUTR. However, we had a few cases when we gave statements on the wood legality for our buyers from Serbia that export to the EU market. Basically they asked us to sign the dispatches, statements and agreements. We had no problems about that."* (ibid.).

The interviewees' level of acquaintance with the EUTR and the linkage to their professional work is indicated and summarised in the table 12. The grey-shaded part of the table indicates the actors that export wood or wood products to EU markets. Table 12 shows that the level of acquaintance among the exporters is not as high as it is among other representatives.

Table 12: The respondents' level of acquaintance and work with the EUTR

Interviewees Workplace	Level of Acquaintance with the EUTR	Encounters with the EUTR at work
Ministry of Agriculture and Environmental Protection	Well informed	Yes
Chamber of Commerce	Partially informed	Yes
Faculty of Forestry, University of Belgrade	Well informed	No
Faculty of Forestry, University of Belgrade	Well informed	Yes
Wood Industry Cluster	Partially informed	No
Public Enterprise	Well informed	No
Public Enterprise	Well informed	Yes
National Park P.E.	Not informed	No
Private Company (1)	Partially informed	Yes
Private Company (2)	Well informed	Yes
Private Company (3)	Partially informed	No
Private Company (4)	Partially informed	Yes
Private Company (5)	Not informed	No

Source: Own table

Legend: Well informed: informed about the content and the main cornerstones of the EUTR

Partially informed: knowing the main cornerstones of the EUTR

Not informed: not knowing the content and the main cornerstones.

Key messages: The interviewees are informed about the EUTR in various ways. Some of the respondents encounter the regulation on the professional basis, and only they are well informed about the regulation. Representatives of public authorities and of larger exporters are informed in more detail about the regulation than representatives of smaller companies. While the regulation is perceived as a positive change, there is uncertainty regarding the impact it might have on the Serbian market.

5.5. The current relations between EU operators and Serbian companies

This sub-chapter presents results from the questions that only company representatives were addressed with. It focuses on views of the company representatives in terms of the EUTR implementation and how it affects Serbian companies. The special emphasize is on the due diligence obligations that operators should fulfil when dealing with the EU operators.

First, the company representatives were asked to describe the level of their awareness of the due diligence system (DDS) and whether the information required from the EU operators (in case they practice a DDS) is too much for the companies to fulfil. Three out of seven respondents were aware and acquainted with the DDS (I 6, I 7, I 8), two out of seven were not fully aware (I 11, I 12) and two respondents were not aware at all about the DDS elements (I 9, I 10).

The respondent from a private company that exports flooring boards stated *"I am well aware. For most of the wood processing enterprises implementation of the EUTR and feasibility of Due Diligence is still too complicated, mainly because of the lack of knowledge, the lack of administrative capacities and shortage of the financial resources."* (I 8). Other private company representative said *"I am not fully aware how the DDS works. We need more information about the EUTR and Due Diligence. We need somebody to explain us in a simplified manner"* (I 7). The respondents were also concerned about the feasibility of small-scale businesses in Serbia to respond to the requirements from the EU Operators in particularly because of the lack of financial resources and relevant knowledge (I 7, I 8, I 12, I 13).

Furthermore, Serbian operators were asked to describe how that affects their companies. Two representatives from the public enterprises responsible for forest management (I 12, I 13), stated that operators from the EU indirectly enforce due diligence procedures because their companies do not directly communicate with them, since they do not export their wood but only sell it to Serbian exporters. They as a company indirectly met with the due diligence in terms of helping their buyers from Serbia to prove the legality of wood. They added that so far there have not been any problems in that regard. Furthermore, these representatives stated that the Serbian companies which exported their products to the former Yugoslavian countries

(mainly Slovenia and Croatia) are generally not exposed to the need for a due diligence because Slovenian and Croatian operators do not practice or require it. The reason was seen in the trustful relationship between these partners which is based on a long and close business partnership (ibid.).

Three out of five representatives of the companies that export to the EU stated that the operators practice a due diligence when they export. Furthermore, they stated that their companies have additional costs in terms of investing and educating their employees. One representative stated: *"Yes, we suffer additional costs, significant costs I would say"* (I 8). However, a public company representative stated that they had suffered bigger costs when they had introduced FSC standards (I 13). Figure 10 presents a number of quotes from these respondents in order to show how they perceive that the implementation of the EUTR is affecting exporting companies in Serbia in terms of the need for due diligence practices.



Figure 10: The way the EUTR affects the Serbian exporting companies at the moment
Source: Own figure

Four out of seven company representatives stated that from the moment the EUTR came into force by March 2013, changes in terms of their business with the EU partners were evident (I 6, I 7, I 9, I 12). Furthermore, respondents indicated that their company had introduced a digital system of marking and tracking of wood assortments that was based bar codes (ibid.). However, a representative of the company that exports solid parquet and hardwood flooring boards to six countries in the EU stated that *"after I was informed about the EUTR by a colleague of mine, even though we have seriously considered possible changes in terms of*

additional efforts to satisfy the needs of business partners coming from the EU, nobody from their side has ever requested anything that has not been requested before the regulation came into force" (I 6).

The company representatives were also asked to explain how additional administration (being necessary due to the EUTR) would affect companies in Serbia once the regulation is implemented in Serbia in the future. Taken as a whole, all the respondents stated that public enterprises would not have troubles with that, because the respective administrative procedures have already been established. The respondents' belief was also that the additional administration would not affect bigger companies and that only smaller wood industry players would be affected.

The interviewees (I 8, I 12, I 13) also indicated that small and medium-sized companies were not affected by the EUTR implementation, mainly because in general they were not exporting to the EU. They rather export to Bosnia, Macedonia and Monte Negro and they are typical furniture manufactures. Company representatives furthermore indicated that the additional administration would not affect big exporters and public enterprises, where additional procedures have already been established (ibid.).

Key messages: The EU operators were asking Serbian companies to practice due diligence to a certain degree. The level of awareness about the EUTR and the need for a DDS varies among the respondents. A number of companies are affected by the EUTR, directly or indirectly, manifested through the costs that they have to bear in order to comply with the EUTR requirements. Changes in the business relationships are evident and expected to manifest even more in the future.

5.6. The need for more clarification and interpretation of the EUTR rules

All the interviewees were also asked whether they perceive the EUTR as too complex or ambiguous. Furthermore, they were asked about their opinions on the need for further clarification and specific interpretation of the rules and obligations set forth by the EUTR.

The majority of the interviewees (8 out of 13) expressed their concerns about the complexity and indeterminacy of the EUTR, pointing out that it would have negative effects on the future implementation of the EUTR in Serbia. A respondent from the Faculty of Forestry (University of Belgrade) (I 3) indicated that there is a need for more specific interpretation of certain segments and recalled that some segments are ambiguous in his opinion: *"When I was reading the EUTR I noticed that some parts could be interpreted ambiguously and in different ways"* (ibid.). Other respondents also stated that as long as the EUTR is not clear enough for the actors

in EU countries, and especially for the operators working in the industry, it will not be taken seriously.

A representative of the MoAEP (I 1) stated similar concerns: *"I definitely think that there is a need for more clarification and specific interpretation of the EUTR. For example, questions like how to force other sectors to participate in the implementation have not been answered and clarified yet. They insist on the action plans and on defining a Competent Authority, whereby, it is not clear what authorization this body should have and how it should function. Does it work as an executive body or just as an organ that provides recommendations, and at what level?"* (ibid.).

Overall, the answers from company representatives point to the necessity for more clarification and a more specific interpretation of the rules and obligations prescribed by the EUTR. They explicitly stated that a lack of information from the governmental authorities is evident, and that there have not been enough seminars on the related matters and particularly not about the EUTR itself. Some of them openly stated that they were very confused about what actually needs to be done in order to fulfil the requirements. Moreover, they stated that it is unclear what the actual difference between the requirements set force by the EUTR on the one hand, and forest certification by the Forest Stewardship Systems actually is. Some of them think that it is very important to reconsider the national definition of illegal logging in terms of compliance with the EUTR.

Key messages: The majority of the respondents, especially the company representatives, perceive the regulation as quite confusing. The public authority representatives called for further clarifications in terms of the authorization matters and operational mandate of the Competent Authority. The company representatives stated that more information on the EUTR requirements is necessary, distinctively asking for more clarity of the information.

5.7. The role of the potential competent authority in Serbia

The interviewees were furthermore asked to express their opinions regarding the main Competent Authority (CA) in Serbia, in terms of what would be the most appropriate authority, and how they see the role and importance of such an authority.

The answers varied mainly because of the different points of view on the organizational arrangement and capacities in Serbia that the respondents had. Most of the respondents stated that the forestry arrangement (administered by the MoAEP), in terms of the organisational structures and capacities is relatively well set (I 1, I 2, I 3, I 7, I 9, I 12, I 13). However, they were concerned with the arrangement and capacities of the wood industry sector (administered by the Ministry of Economy, hereinafter: MoE) (ibid.). Furthermore, they recognised the strong

cooperation of the main CA (as prescribed by the EUTR) with other Serbian authorities (e.g. the MoE, inspection services, police and custom authorities) which would be a necessity but very difficult to achieve due to the lack of financial and human resources (ibid.).

Seven out of thirteen interviewees stated that the best option would be if the Directorate for Forests within the MoAEP takes the leading role as the Competent Authority in terms of the EUTR (I 1, I 2, I 3, I 7, I 9, I 12, I 13). Most respondents opted for the Directorate for Forests within the MoAEP mainly because of the current involvement, the relatively high awareness of the staff on this matter and the good reputation that this Ministry has. Three respondents thought that the MoE would be the most appropriate solution (I 6, I 8, I 11), mainly because the EUTR is primarily focused on the industry actors that export wood to the EU which, according to them, should be in the competence of the wood industry sector (i.e. in the MoE). Two of the respondents would prefer the Chamber of Commerce and Industry of Serbia taking the role of the Competent Authority for the EUTR implementation in Serbia (I 4, I 5). According to them the Chamber of Commerce (CC) should be the CA mainly because of the role that the Chamber has had in the past. According to them, the CC would be the best choice because it could connect the forestry and wood industry experts to cooperatively work on this matter (ibid.).

Majority of the interviewees pointed out that any solution as regards the appointment of the CA would entail a lack of well-educated and trained workforce to adequately take the role of the CA (I 1, I 2, I 3, I 4, I 9, I 10, I 13). They indicated that the CA would need to allocate competences to the other ministries and bodies, so that everybody would be aware of "*who is doing what*". They also pointed out that it would be necessary to define the obligations of the EUTR legally, i.e. to integrate them in existing Serbian law (ibid.).

Key messages: The respondents emphasised a need for several authorities to be involved in the EUTR implementation. The Directorate of Forests (MoAEP) was considered as the most suitable solution for the main Competent Authority by a majority of interviewees. The operational capacities and efficiency of the wood industry sector were recognised as inadequate, which would definitely have a negative impact on the work of a future CA.

5.8. Challenges and concerns as regards compliance with the EUTR

The interviewees were asked to express their opinions on the challenges in the Serbian legal, administrative, forestry and wood industry arrangements (structures and procedures) for enabling effective compliance and implementation of the EUTR. In addition, they were also asked to indicate positive sides of the current arrangements.

In general, the respondents recognised various challenges and expressed much more concerns than positive aspects in terms of a future EUTR implementation. They were concerned about the lack of educated workforce at the moment - i.e. a lack of experts that are fully aware in this regard as well as the people that would proactively identify and prevent potential problems in the process of harmonizing Serbian arrangements towards the EUTR. The company representatives (I 6, I 7, I 8, I 9, I 12) were especially concerned about a lack of available information at the moment, especially a lack of information in Serbian language. Their opinion was that this might negatively impact the future implementation of the EUTR in Serbia (ibid.). One respondent stated "*...you can now imagine a small scale family company that is exporting furniture to Croatia and trying to read and interpret this regulation in English.*" (I 6)

Furthermore, the respondents stressed that there is a problem of communication between two ministries that are in charge of the two sectors that should be the most relevant for the EUTR implementation, forestry and the wood industry sector (I 2, I 3, I 4, I 5, I 7, I 12, I 13). While the forestry sector, in terms of its organisational structures, is considered as well-established and is positively assessed from the respondents, the organizational capacity, the role and efficiency of the wood industry sector is considered as weak and insufficient. Furthermore, strong concerns were also the capacity of the two inspections that were perceived very weak in terms of their efficiency. Respondents stated the challenge would be to control the wood and its circulation outside of forests (on public forest roads), where, for instance, no support of the police is assured (by the forest law) for the forest inspectors (I 1, I 2, I 3, I 6). For this reason, the respondents are unanimous that improving organizational capacities and communication as well as cooperation between different ministries are the biggest challenges awaiting Serbia (ibid.).

A lack of financial resources was also recognised as a big challenge and concern. Respondents stated that without adequate financial resources, which would enable proper capacity building especially in terms of establishing a DDS, proper implementation of the EUTR would not be possible (I 1, I 2, I 3, I 6, I 7, I 11, I 12, I 13).

In reference to its previous work, the Chamber of Commerce with its Wood and Paper Sector was recognised, as inefficient and particularly incapable of providing help to the private sector by the majority of the respondents. Respondents perceived a lack of associations or authorities that could provide adequate help. They were concerned that a lack at the governmental level could hinder the efforts to effectively approach EUTR implementation. Some respondents questioned the role and efficiency of the existing associations in the forestry sector as well (I 1, I 2, I 3, I 12, I 13).

The respondents were furthermore concerned that implementation of the EUTR could cause drastic market disruptions which could additionally weaken the Serbian wood industry and

economy. A root for these market disruptions could be the slow response of the small companies whereas larger companies respond much quicker to the EUTR requirements (I 1, I 2, I 3, I 6, I 11, I 12).

A big challenge and matter of concern is definitely a perceived lack of due implementation of laws and related procedures. Besides, some respondents indicated legal loopholes with regards to labelling and tracking wood assortments that are processed (e.g. secondary processing from wood assortments such as technical and industrial raw wood) but are not covered by law (I 1, I 2, I 9, I 11). Covering this material streams, according to the interviewees, will definitely be a challenge for adequate EUTR implementation. The only mechanisms in this regards are the ones found in the Forest law which forbids storing and processing of unstamped wood and wood without required accompanying documents, and requires keeping records on wood assortments which are placed on the market for commercial purposes (ibid.).

Even though interviewees were asked to comment on potential advantages that come with the need to comply with EUTR requirements too, their responses mainly centred on perceived challenges and constraints. However, some interviewees indicated that the positive side related to the EUTR is a forthcoming change of the LoF, which as they were convinced, would be harmonized in a way that will ensure proper compliance to the EUTR (I 1, I 6, I 12).

Key messages: The responses specified various challenges. The most important from the perspective of interviewees are insufficient organizational capacities, a lack of communication and inadequate cooperation between authorities and with industry actors, a lack of adequate implementation of existing laws and the related procedures, and an inadequate work of inspections as well as a general lack of financial resources.

5.9. Interviewees' recommendations

During the interviews the respondents were asked to give their opinions on the recommendations and solutions that would be necessary in order to get closer to effective compliance and implementation of the EUTR in Serbia. They proposed many different solutions while constantly emphasizing the importance of collaboration among the responsible authorities, using the right instruments and calling for changes in the national legislation.

The majority of the respondents called for collaboration between experts and professionals in Serbia with industry representatives (I 1, I 2, I 3, I 4, I 5, I 7, I 9, I 11). For the benefit of all, these actors should work together on the EUTR matter. According to some of the interviewees (I 2, I 3, I 6, I 12), at first, it would be necessary to organize a meeting where all the relevant professionals, those that are fully acquainted with this problematic, should gather and carefully discuss how to approach the necessary changes. The respondents stated that at this stage it

would be necessary to select one or more competent authorities and to clearly explain and distinguish the roles of the industry actors and roles of the authorities as addressed by the EUTR. The respondents explicitly stressed the importance of presenting the EUTR subject publicly, and as a matter of "*state interest*" to emphasize the magnitude of the issue and to achieve that the EUTR and its obligations are taken seriously (ibid.).

Some of the respondents proposed a step by step approach. A private company representative recommended a three step approach where 1) all relevant sectors would need to become fully acquainted with the EUTR, 2) all sectors that are relevant for EUTR implementation have to accept their part of the responsibility and actively participate in the process as the Competent Authority entails, and 3) all the procedures need to be clearly defined (who is doing what, how and to what extent) (I 8).

A respondent from the Faculty of Forestry (University of Belgrade) indicated that companies, as the most affected by this regulation, need to be properly informed. Hence, he suggested the approach that was taken in Germany, where on the federal level recommendations have been issued for companies. Such recommendations should comprise a clear message about the EUTR that should be easily interpreted by the industry representatives. This interviewee furthermore said that a small action plan on the EUTR implementation would be even better (I 2).

According to a professor from the Faculty of Forestry (University of Belgrade), two instruments are crucial in this matter: financial and informative instruments (I 3). According to this interviewee, in the beginning the best would be if small grants would be provided that help to organize meetings and workshops. Afterwards, it would be beneficial to conduct a pilot project that would focus on the smaller wood exporting companies, which the respondent believes would have difficulties in implementing the EUTR. Furthermore, informative instruments are something that are necessary at the moment and should accompany the implementation process (ibid.).

Several respondents stated that one of the necessary solutions would be to establish a new authority in charge of the wood industry part or a working group in the MoAEP, primarily designed to implement the EUTR and FLEGT regulations (I 1, I 2, I 11). Others stated that at first a working group has to be established for drafting a law that would regulate national implementation of the EUTR (I 5, I 6,). Respondents indicated that for assuring proper implementation a special legal act is definitely needed. Because of that, the government would have to determine the tasks and powers of certain bodies at the national level. In a memorandum of understanding all affected ministries would have to agree on their duties and responsibilities (I 1, I 2, I 3, I 4, I 5, I 10, I 11, I 12).

The member of the Faculty of Forestry (University of Belgrade) stated that from his perspective, at first, changes to the LoF are necessary, afterwards the adoption of a legal act that would be particularly intended for this purpose should be a next step (I 3). This interviewee emphasised the importance of the legal and technical foundation that has to be agreed before such an act is adopted, stating that key players in the ministries have to agree on the distribution of responsibilities, roles and tasks of the governmental institutions (as competent authorities) and the penalties to defined for violating the EUTR rules (ibid.).

Key messages: The interviewees indicated a number of challenges and proposed various solutions. Their suggestions very much emphasised the need for collaboration between authorities, changes in the organizational arrangements that are needed for the implementation of the EUTR, the introduction of financial and informative instruments for supporting the implementation process, and changes of the current laws that are perceived as necessary as well as the need for adopting new legal acts.

Figure 11 presents an overview of the most important findings gained from the in-depth interviews with Serbian experts and stakeholders. Grey boxes on the left side refer back to the nine sub-chapters (from 5.1. to 5.9.) and represent the major thematic fields that were addressed by the interviewees.

<p>1 Presence of illegal logging and illegal trade matters in Serbia</p>	<ul style="list-style-type: none"> • An issue of significant importance, but mostly present in the privately owned forests • The term illegal logging is more appropriate to be called not-registered logging • Main causes: <ul style="list-style-type: none"> - Difficult economic situation in the country - Inconsistency of the Law on Forests and private forest management practices • Adverse effects on the Serbian economy
<p>2 Illegal logging and trade in Serbian legislation and policies</p>	<ul style="list-style-type: none"> • The Law on Forests <ul style="list-style-type: none"> - Adequately covers illegal logging matters and nearly in compliance with the EUTR - Proper implementation is missing - Some segments are considered to be inapplicable • The Law on Trade is inconsistent with the Law on Forests and not in compliance with the EUTR
<p>3 Role and involvement of the public authorities and other relevant organizations</p>	<ul style="list-style-type: none"> • Government does not adequately recognize the issue • Wood industry companies receive insufficient support from the "higher authorities" • Mild and ineffective involvement of the Chamber of Commerce • Involvement of other organizations (e.g. NGO's or interest groups) is inadequate • Call for collaboration among the actors • Lack of financial resources and educated people hinder the cooperation
<p>4 Encountering the EUTR: awareness and perceptions</p>	<ul style="list-style-type: none"> • Majority of the respondents is acquainted with the content of the EUTR to a certain extent • Some respondents encounter the regulation on a professional level • The general impression is that regulation will induce positive changes in Serbia if properly implemented
<p>5 The current relations between EU operators and Serbian companies</p>	<ul style="list-style-type: none"> • Operators from EU exercise DDS on Serbian companies to a certain degree • At the moment companies are affected by the requirements imposed by the EUTR in a direct and indirect way • Level of awareness on the DDS varies among the company representatives • Changes in the business are evident from the moment regulation came into force • Big industry exporters have less difficulties to bear the costs
<p>6 The need for more clarification and interpretation of the EUTR rules</p>	<ul style="list-style-type: none"> • Concerns regarding the complexity and indeterminacy of the EUTR • Further clarifications in terms of the Competent Authority matter is considered necessary • Company representatives need more specific information on the EUTR requirements • Complexity and ambiguity will have negative effects on the implementation of the EUTR in Serbia
<p>7 The role of the potential competent authority in Serbia</p>	<ul style="list-style-type: none"> • Several ministries should be involved in the implementation • Directorate of Forests (MOAEP) is considered as the most suitable solution • Lack of educated and trained workforce in the ministries relevant for the implementation of the EUTR • Competent Authority would need to distribute competences to the other ministries
<p>8 Challenges and concerns as regards compliance with the EUTR</p>	<ul style="list-style-type: none"> • Insufficient organizational capacity • Lack of communication and inadequate cooperation between authorities, as well as with the industry actors • Lack of implementation of laws and related procedures • Inadequate state of inspections (lacking resources and educated workforce)
<p>9 Interviewees' recommendations</p>	<ul style="list-style-type: none"> • Collaboration between experts and professionals on all levels is considered necessary • Changes in the organizational arrangement are necessary (e.g. establishment of new bodies) • Enforcement of financial and formative instruments • Changes in the current laws and adoption of new legal acts

Figure 11: Overview of key findings from interviews with Serbian expert

Source: Own figure based on the own results

5.10. EUTR implementation in Austria

This sub-chapter represents the results of in-depth interviews that were conducted in Austria with the intention to acquire insights of Austrian experts regarding the EUTR implementation that would supplement and support the findings of the research and help to answer the third research question which addresses efforts and measures that should be put in place in Serbia in the future.

The respondents indicated that the need for additional legislation that would regulate the EUTR implementation was recognised from the beginning of the 2013. Consequently, in August 2013, Austria introduced *"The Austrian Act of Timber Trade Control"* (Holzhandelsüberwachungsgesetz, short HolzHÜG). The respondent from the Austrian Federal Ministry of Agriculture, Forestry, Environment and Water Management stated *"We didn't have any legislation that was possible to amend in that regard, so we decided to make a new act"* (I 15). The Act regulates mainly two aspects. First, the responsible (competent) authorities for the FLEGT and EUTR implementation and second, it covers the aspect of penalties (ibid.).

The Federal Forest Office (BFW) is defined as the Competent Authority that is responsible for the implementation of the EUTR and controls operators who import timber and timber products from third countries and traders within the EU (I 14). The BFW is responsible for implementing the FLEGT regulation as well, e.g. by checking the import documents, licenses and checking all operators dealing with the imports. The authorities that are responsible for controlling domestic timber trade flows are the District Authorities. Hence, they also carry out checks in terms of the EUTR implementation. In general, their responsibility is to ask domestic forest owners for the information about the quantity of removals from the last year. According to the Austrian Forest Act forest owners are obliged to keep and provide the information about removals to the General District Authorities. Because of this evident overlap in information flows and needs, Austrian authorities decided to assign the competence for the checks in terms of the EUTR as regards domestic wood to the District Authorities (ibid.).

According to Austrian experts most of the forest owners are operators in terms of the EUTR. Because of the large number of private forest owners (there are around 200.000 private forest owners, and around 80% of forests in Austria is privately owned according to Schenker S., 1996.), the enquiries for the removals are asked only for forest owners whose forest property is 500 or more hectares. All others are controlled by means of a sampling approach. Interviewees furthermore indicated that the focus of the checks is on the information side, which means that owners are obliged to provide the relevant information when being requested from the authorities (I 14, I 15, I 16).

The respondents emphasized that collaboration with customs offices is important for the EUTR implementation in Austria (I 15, I 16). They stated that the challenge for proper implementation was to know who the Austrian operators are since they were not obliged to register in the national database (unlike in Germany). After The Austrian Act of Timber Trade Control was enacted, the customs authorities (belonging to the Ministry of Finances) had to provide the EUTR competent authority with the customs data of goods regulated by the EUTR (ibid.).

During the interviews it was several times repeated that the communication between relevant authorities was extremely important and necessary for the effective implementation of the EUTR. The respondent from the Ministry of Agriculture, Forestry, Environment and Water Management stated that during the meetings, that were organized as a part of the early preparation processes for the EUTR implementation in Austria, stakeholders mainly perceived the EUTR as clear and unambiguous, with some exceptions were the EUTR was perceived as not understandable (e.g. who is the operator or trader) (I 15).

When asked to comment on the implementation status in Austria, a respondent from The Federal Forest Office stated that *"appropriate implementation is happening; there aren't any existing problems in terms of the arrangement. Even though it is still early for assessing the EUTR implementation in Austria, we have no cases of non-compliance in the course of inspection of importers of high risk products leading to penalties so far. For the inspection of domestic operators (forest owners) we have a dense net of forest authorities, hence, we don't have problems there either."* (I 14).



Figure 12: EUTR-procedures in Austria
 Source: Austrian Research Centre for Forest, 2016 (adapted and translated by the author)

Figure 12 displays the existing procedures for controlling the imports and domestic trade with timber and timber products in Austria. It shows that different imports coming to Austria from non-EU countries are controlled by the BFW and Custom Services together, and that the control of the timber and timber products from domestic sources is done by the district forest authorities.

6. Discussion

With the previous chapters providing the comprehensive review on various aspects of illegal logging and the EUTR, as well as the interpretation of the results gathered from the content analysis of the relevant laws and strategies in Serbia and of the in-depth interviews, the forthcoming chapter discusses and synthesises the relevant findings with regards to the three main research questions. It not only focuses on significant research findings, but it tries to also consider the study's limitations in order to suggest an agenda for future research.

6.1 The relevance of laws and governmental strategies

The first research question addresses the legislative framework, governmental strategies and administrative procedures in terms of their readiness for effectively implementing and complying with the EUTR.

Taking into consideration "*forestry*" legislation, the content analysis as well as the interviews conducted revealed that the LoF is not only recognised as the central law with regards the EUTR implementation, but it is also the most relevant in terms of directly addressing the issues of illegal logging. The results indicate that the LoF is relatively well harmonized with the EUTR. It directly regulates important matters that are imposed by the EUTR such as legal harvesting (e.g. marking trees) and placing wood from forest sites on the national markets. However, the research also reveals that the LoF does not regulate the supervision and inspection of wood flows and wood products flows outside of forests which may provide constraints for an effective implementation of the EUTR (see figure 13). A limitation of the LoF is also that it does not regulate the entire scope of wood-based products which are regulated by the EUTR. The LoF regulates the wood assortments such as the fuelwood, technical and industrial raw wood, but does not regulate the rest of the further processed wood products as covered by the EUTR.²

² At the time when the work on this thesis entered its final phase by the end of 2015, the Policy Legal Advice Center (PLAC) of the Republic of Serbia organized a study titled "*Legal harmonization with FLEGT and EUTR–Demands, Needs and Consequences*" (Ferlin, 2015, first slide). The main objective of the study was to assess the demands, needs and to provide propositions for harmonizing national legislation with the FLEGT and EUTR regulations (ibid.).

Furthermore, the results show that the current scope of the LoF can be characterized as too rigid in terms of how it addresses private forest owners. Consequently, the private forest owners are not always able to operate in accordance with it, which results in an implementation deficit. In the in-depth interviews, the respondents pointed out that this problem might hinder future EUTR implementation. In view of the current state of implementation of the LoF, the respondents in general stressed that the lack of implementation is evident a problem which is expected to continue in the near future. The difficult economic situation has been recognised as one of the drivers for the presence of illegal activities in forestry sector (Regional Environmental Center, 2009a, p.30). However, the respondents also pointed out that inadequate implementation of the laws on the ground could also be seen as a consequence of insufficient capacities of the forest inspections (small number of inspectors, poor equipment and lack of educated staff) as well as an inefficient judicial system.

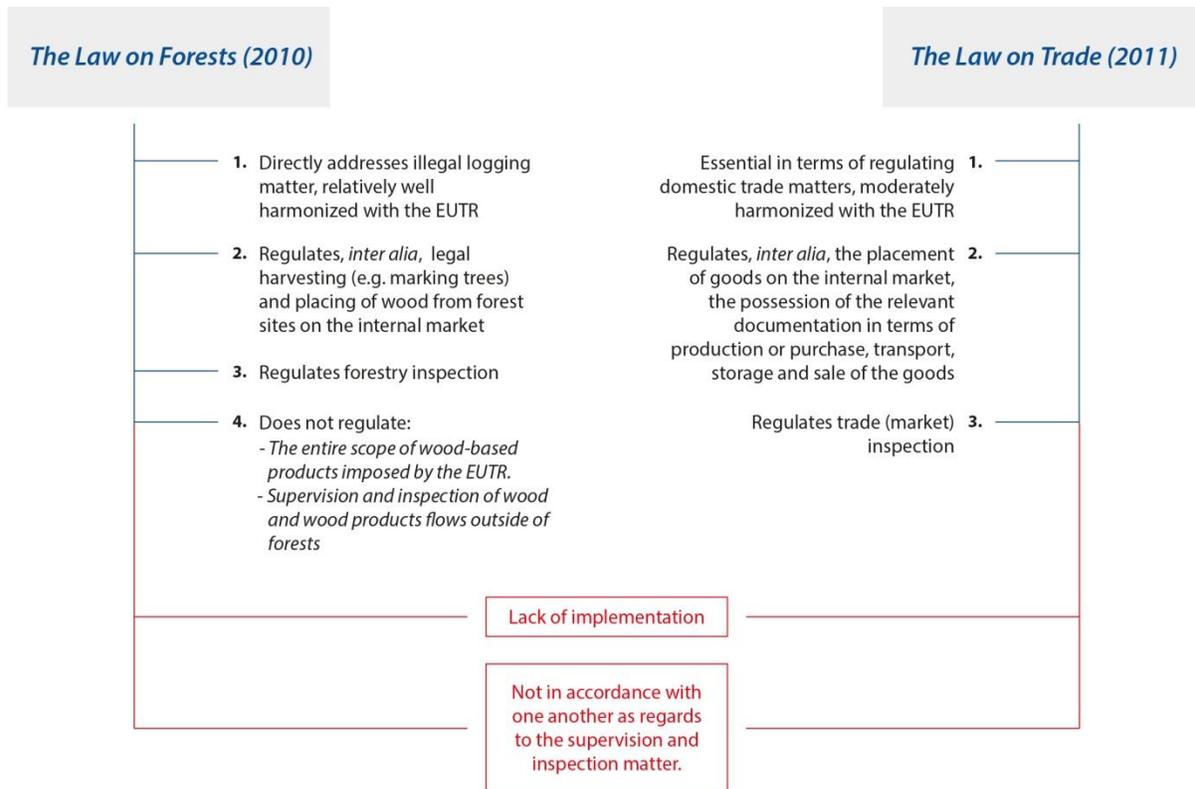


Figure 13: Relevance of the Law on Forests (2010) and the Law on Trade (2011)
Source: Own figure

In terms of trade legislation, two Serbian laws were considered in this research. The LoT is fundamental in terms of regulating domestic trade matters and is recognised as pivotal in terms of the future EUTR implementation (figure 13). It regulates the important aspects in the context of the EUTR such as the placing of goods on the internal market, the possession of the relevant documentation of production or purchase, transport, storage and sale of the goods. Moreover, it also imposes that traders have to keep records when purchasing and selling the goods (i.e.

wood and wood products). Respondents indicated that the main concern in terms of the LoT is its inadequate implementation and the inefficient way in which it regulates market inspections. Even though the current scope of the LoT can be characterized as moderately compliant with the EUTR, it still has to undergo necessary revisions and changes to become fully harmonized with the EUTR. The second law considered in the research, the Foreign Trade Law (2009), was recognised as not highly significant as regards to the EUTR implementation. Although it does not provide specific references to the issues of illegal logging and trade, it supports harmonization with the WTO and the EU.

Interviewees also pointed out that there are certain issues with the inconsistency of these two main laws regarding the EUTR matter in Serbia, the LoF and the LoT, namely as regards supervision and inspection. According to the respondents, these inconsistencies are one of the reasons for a non-harmonized way of operation of the two inspection services that are responsible for controlling the wood flows from the forest to the point of leaving the country.

The research results indicate that the Law on Environmental Protection (2004) and the Law on Nature Protection (2009) do not have any relevance for the implementation of the EUTR. Nevertheless, both documents provide elements that are of high relevance for the protection of the environment in general and therefore indirectly help curbing the problem of illegal use of forest ecosystems. The Law on Environmental Protection (2004) weakly addresses illegal activities in forestry by making reference to them only indirectly. The Law on Nature Protection (2009) indirectly regulates the issues of illegal logging and trade, as well as the processing of illegally logged wood and wood products. It indirectly refers to these issues to some extent through the regulation of the management of natural resources, habitats and protected species.

The two strategies that were analysed in this research do not have any direct relevance regarding the future of EUTR implementation in Serbia. However, indirectly they address wide-ranging aspects that are important for supporting and strategically combating illegal activities at the national level. The Forestry Development Strategy (2006) covers a wide variety of forestry topics through general guidelines. However, illegal activities in forestry and in the wood industries are not specifically covered in detail. Even though the strategy supports the efforts of the government to harmonize regulations with the EU legislation and international conventions (*inter alia* the UNFCCC, the CBD, the CITES) it does neither mention the FLEGT regulation nor the EUTR. It is debatable whether the EUTR and the FLEGT regulation deserve their place in this strategic document, considering the fact that the Serbia is still not a member of the European Union. However, considering the importance of these EU regulations, predominantly for the Serbian economy, it can be claimed that these two regulations, which may be highly relevant for the development of forestry and the wood industry sector, should be addressed by the next Serbian Forestry Development Strategy.

6.2. Administrative procedures and efforts of public authorities

In terms of the procedures applied in public administrations and their readiness for the implementation of the EUTR the results show that Serbian public authorities are at an initial phase of adjustment. According to the representatives of public authorities preparations in terms of defining and allocating competencies for the harmonization with the EUTR were ongoing in mid-2015. These "early" efforts were addressing the assessments of the general arrangements in Serbia as well as the public authorities that were expected to be involved in the future implementation of the EUTR.

The efforts that were put in place at the time of the research inevitably raised the questions about which should be the leading Competent Authority (CA) in Serbia. From the results it can be seen that opinions on this matter varied. The main reasons for different opinions could be that forestry and wood industries are subject to two different ministries and that there are different perceptions of the effectiveness of different authorities. Because of the fact that both sectors are not administered under the one ministry, the respondents' assume a risk of incompetent and inefficient work in future EUTR implementation. Even though the respondents pointed out that the cooperation between the authorities is crucial, the majority of them believed that the MoAEP (more precisely the Directorate for Forests) would be the most appropriate CA. However, respondents also emphasised that it should take the lead but also cooperate with other authorities (MoE, Inspection services, police and customs) in its efforts towards the EUTR implementation. They also recognised that all the authorities in Serbia are deficient in educated and trained workforce which would definitely hinder the harmonization, and after Serbia's accession to the EU, the EUTR implementation process. Furthermore, the findings from Ferlin (2015) indicate that there has been progress with regards to the efforts that authorities have made, as well as that the leading competent authority should be the MoAEP. In addition, Ferlin (2015) also recognises the competences of the market inspection as well as the competences of the police and the customs directorate for the EUTR implementation.

Considering the current significant problems that the Serbian forestry and wood sectors are facing and the efforts that were put in place in terms of harmonization, it can be inferred that the EUTR was taken relatively seriously. Most probably the main reason for this is the impact that it could have on exports to the EU markets. Taken as a whole, and apart from the efforts made regarding legislative aspects, this research indicates that continuous and efficient cooperation of the public authorities will be of substantial significance in the forthcoming years for proper EUTR implementation, especially when the lack of financial and human resources is taken into account.

6.3. Readiness of forestry enterprises and wood industry companies

Aiming at answering the second research question, this sub-chapter discusses the readiness of forestry enterprises and wood industry companies for meeting the requirements of the EUTR.

In general, the majority of respondents expressed their concerns regarding the Serbian state of readiness, especially with regards the ability of the wood industry companies to meet with the EUTR requirements. At the time the interviews were conducted (July 2015), only a small number of company representatives, mainly representatives from large exporting companies, were adequately aware about the regulation. This indicates, that only large EU exporters anticipated the effect of the EUTR and invested resources in order to adjust to the foreseen changes and to avoid problems with EU business partners, hence to prepare their companies for the future EUTR implementation in Serbia. Despite the difficult economic conditions in Serbia, it seems that these companies have taken effort for improving their corporate social responsibility status as well as inducing positive impacts on the environment and other stakeholders by adjusting to the requirements imposed by the EUTR. These early efforts predominantly considered ensuring the practicability of a due diligence system in the companies, so as to efficiently prove that the wood and wood products are coming from legal sources.

At the time of the research, in general small and medium-sized companies (SME) were not affected by the EUTR implementation because of their focus on the domestic market and small amounts of exports to non-EU countries. Even though it is unlikely these companies will be affected by the EUTR before Serbian's accession to the EU, the discussion involves how these companies are going to be ready to adjust and act as operators once Serbia enters the European Union. This could be taken into consideration for future research which could examine the readiness of SME in the wood industry business as regards their ability to act in accordance with the EU legislation.

The implementation of the EUTR was ongoing for more than two years at the time the in-depth interviews were conducted. The varying knowledge of the company representatives about the EUTR and the need for a due diligence system, *inter alia*, raises the question of whether the EUTR is being properly implemented by the operators from the EU when doing business with the Serbian companies. Moreover, according to Jonsson *et al.* (2015), effective EUTR implementation is considered a big challenge due to a lack of resources. Also the EUTR Implementation Report (European Commission, 2016b) points out that the EUTR is not fully implemented. It states that operators in the EU are slowly implementing DDS, yet it is still too early for definite assessment (*ibid.*). According to the small number of company representatives interviewed for this thesis, the requirements raised by EU operators which trade with Serbian companies did not comprise any elements that could be considered EUTR requirements,.

For the reason stated above, if the EUTR is not properly implemented in the EU, it is unlikely to expect Serbian companies to comply with and adjust their arrangements. Based on previous experiences, the respondents indicated that changes related to any industry in Serbia are more likely to occur when the pressure comes from EU partners. Hence, one can argue that the current level of readiness in Serbia is, to a certain extent, linked to the present status of the implementation of the EUTR in the EU member states.

Regardless of the EUTR implementation, it has been recognised that some of the Serbian companies suffer additional costs. They need to invest and educate their employees. Considering the difficult economic situation and its sluggish trend of recovery, it can be expected that these costs become a heavy burden for Serbian export companies. Taking into account the administrative procedures as part of the business, this study reveals that not only large exporting companies take efforts to adjust to the EUTR, but public forestry enterprises do so as well. It is an encouraging that the two biggest forestry management companies (in this case public enterprises), which are considered to be the major suppliers of wood for Serbian export companies, have taken the regulation seriously and put forth efforts to adjust their procedures in accordance with the EUTR.

The role of the private sector is an important segment of the country's forest governance. Evidently, the private sector in Serbia is affected by EU policies. Nevertheless, it is still uncertain how and to what extent such policies will eventually influence the development of industries in developing countries and countries in transition, such as Serbia. On the other hand, when the private sector regulates itself well, in terms of efficiency and accountability, it is more likely that it is going to contribute to curb global challenges such as illegal logging (Bruce-Lockhart, 2016). However, as presented in chapter 4, the Serbian industry is far from being in good shape. The questions of how and to what extent consumer country measures, such as the EUTR and FLEGT regulation, actually impact the development of the forestry and wood industry sectors in other parts of the world could be another topic of future research.

6.4. Approaching EUTR implementation – key challenges

In addition to key challenges and constraints for complying with the EUTR that this research tries to identify, it also aims to indicate necessary changes and point to measures that should be put in place in Serbia. This sub-chapter discusses these aspects from various viewpoints and hence tries to answer the third research question.

First, the research results indicate that certain changes in the Serbian legislation are needed for the effective harmonization with and future implementation of the EUTR. The results point out that amendments and changes to the current legislation, mainly LoF and LoT, are necessary.

This applies to legal gaps and inconsistencies with the EUTR as presented in sub-chapter 6.1. A small number of the respondents even pointed out that a new legislation should be enacted for ensuring proper implementation of the EUTR in Serbia. The findings of the research show how it could be done at the example of the Austrian case where a specific legal act regulates the national implementation of the EUTR and FLEGT (*The Austrian Act of Timber Trade Control*). Even though this thesis did not analyse the act *per se*, relying on the efficient state of the implementation in Austria (European Commission, 2016c) Serbian authorities could consider *The Austrian Act of Timber Trade Control* as an example when drafting a legal act with the intention to integrate the rules of the EUTR and FLEGT in Serbian legislation.

In the meantime certain progress has already been made in Serbia. Ferlin (2015) proposed changes to the current LoF by : 1) prohibiting the placement of timber on the Serbian market without supporting documentation 2) compulsion of keeping the records of the timber trade to entities that are placing the timber on the market 3) extending the influence of the forestry inspections outside of forests without the police support 4) introducing the penalties in case of violation at the offences level 5) introduction of a option to define technical aspects of harmonization through rulebooks. Moreover, Ferlin (2015) also proposes a three step approach for the harmonization with the EUTR: 1) Partial transposition of the EUTR through amendments of the LoF 2) Adoption of Government Regulation that would secure the full implementation of the EUTR 3) Direct implementation of the EUTR.

Beyond the fact that certain changes in the Serbian legislation seem to be necessary, the results of this research indicate that organizational arrangements may have to undergo certain adjustments as well. In fact, such adjustments might be even more urgent considering the weak capacities of the forestry sectors and especially of the wood industry sector in Serbia.

The findings of this thesis show that the wood industry sector is not organized in a way to ensure the best possible development of the industry. More specifically, it does not seem to be well organized for the effective implementation of the EUTR. The organizational capacities efficiency of the wood industry sector was characterized as very weak. According to respondents these deficits would hinder efforts for adjusting to needs implied by properly implementing the EUTR. Therefore, strengthening the capacity of the wood industry sector is considered particularly important. A possible stumbling block seems to be the current non-integration of competencies with regards to the wood industry sector in the governmental arrangement. It seems that there is no functional governmental authority that is responsible for this sector. This is seen as a serious problem which might definitely complicate and hinder future efforts towards implementing the EUTR (I 1, I 2, I 3, I 7, I 12).

The passive and inefficient functioning of the wood industry sector in the past might be one of the reasons of the poor communication between the MoAEP and MoE. Moreover, the findings indicate that inadequate communication between governmental authorities was curbing any efforts for development of the Serbian industry. If bad communication among relevant authorities persists, it could also hinder future efforts as regards implementing the EUTR, especially when the number of authorities that should be involved is taken into account. Furthermore, not only was the communication poor between governmental authorities, but communication between the public and the private sector was also recognised as weak. The industry actors, especially the ones that were working on a small-scale, seemed to be totally neglected in the past. The link between the private and the public sector in fields of wood industry and forestry should be the Chamber of Commerce. However, by many respondents (9) it is perceived as inefficient in fulfilling this task and suffering from a serious deficiency in terms of human and financial resources.

For the above stated reasons, the real challenge may be to engage the public authorities to work together and to cooperate with the private sector regardless of the size and importance of a company. More frequent communication in order to increase the efficiency of the cooperation between public and private actors seems necessary for proper compliance with the EUTR. In addition, addressing potential issues proactively is also something that has to be taken into account. Considering the complexity of actions needed to ensure proper EUTR implementation, further consistent efforts are needed from all actors involved.

Another problem revealed by this research is the inadequate control and inspection of wood and wood product flows in Serbia. It is apparent that insufficient inspection capacities of the two inspection services that control wood and wood product flows in Serbia could hinder any effort for ensuring the legality of wood products in Serbia. This lack of capacities can, concurrently, obstruct the future EUTR implementation. Interview results indicate that these two inspections are primarily lacking financial and human resources to operate on an adequate level. In addition, there are certain inconsistencies with regards to the competencies of these two inspections. Therefore, the control of the wood circulation outside of forests is still not assured. For all these reasons, the respondents were unanimous in stating that the weak conditions of the two inspections resulted in an inefficient way of working. Therefore it seems that if their capacities are not strengthened and further developed the inspection of flows of wood and wood products might remain one of the core problems in efforts of effectively implementing the EUTR.

For that reason, assessing option for how the supervision of product flows could be effective and efficiently arranged for best ensuring the legality could be one highly valuable applied research project for the future. As seen from the Austrian case, the issue of inspection might

require the cooperation of several public authorities. It will also require a high level of technical capacities and a sufficient amount of resources. In addition, such a research could be conceptualized in a way that also considers reorganising the control and inspection services as well as the development of their capacities for facilitating the implementation of the EUTR and FLEGT as well as CITES.

An apparent call for more clarification on the EUTR rules from the interviewed industry representatives, as well as their varying knowledge in terms of the key elements of the EUTR, clearly indicate the evident lack of knowledge among them. Obviously, if they are not aware of the key components of the regulation, any efforts towards the EUTR implementation would be ineffective. Nevertheless, there are several approaches to overcome this problem. The more direct approach, also recognised as necessary by the majority of respondents, would be the introduction of an informative policy instrument. This instrument could and should be designed in a way that everyone affected by the regulation, especially industry representatives, are able to learn about the obligations implied by the EUTR, including ways to organise a DDS, the role of the authorities and monitoring organizations, and the list of products that the regulation covers.

Furthermore, the findings of this thesis also indicate that it is very important to focus on the small and medium-sized forestry and wood processing enterprises, especially because of the lack of financial and human resources in these companies. Besides, some respondents were concerned about the effects of the EUTR implementation on the domestic market. They considered the threat of drastic market disruptions which might result from a slow response to the EUTR by the small and medium-sized companies while larger industry players may much faster react. Based on these reflections it seems important not to overlook the information, needs and capacity constraints of small-scale players.

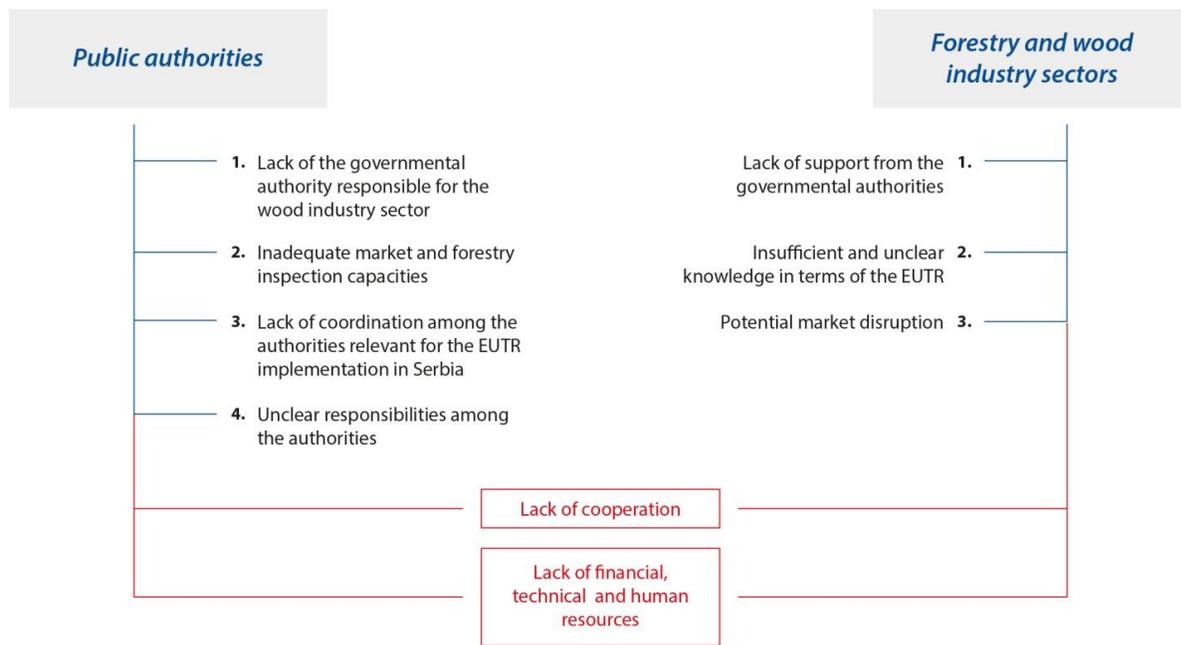


Figure 14: Main challenges and constraints for effective EUTR implementation

Source: Own figure

While proper efforts for raising the awareness on the EUTR and its requirements have been made within the EU (European Commission, 2008), this thesis points to still existing needs for raising awareness in other timber-producing countries which export to EU markets.

Finally, one of the key challenges seems to be a lack of the financial resources in the public authorities involved in the EUTR matter, as well as among the forestry and wood industry actors, which could hinder the future efforts towards the EUTR implementation (see figure 14). Respondents stated that without adequate financial resources for enabling proper capacity building (e.g. for introducing DDS), the effective implementation of the EUTR will not be possible. However, since this thesis did neither assess the budgets of actors nor the efficiency of resource use by the actors that might be involved in the EUTR implementation, it can neither prove nor assess the amount of resource deficit that were indicated by many interviewees.

6.5 Limitations of the research approach of this thesis

Throughout the research for this thesis several limitations became obvious and/or had to be recognised. A first apparent limitation resulted from a lack of available and reliable data on the issue of illegal logging and trade as well as regards consistent statistical on exports but also with regards to a lack of consistent information on organisational arrangements and practices in the sectors that were addressed. As a result of partly outdated and hence rather irrelevant information, the author was sometimes misled at a first step, which to a certain extent negatively influenced the research progress.

Furthermore, a lack of prior research on the topic of the EUTR implementation in general and on the compliance to the EUTR in Serbia was definitely also restricted the research progress, especially at the early stage of research. The shortage of the case-study examples and experiences regarding the EUTR implied that the author had first to develop an understanding of the research problem and the baseline to start. There were no peer-reviewed studies which would address forestry governance, managerial economics or illegal logging matters in Serbia at the time when the work on this thesis started.

Moreover, the lack of knowledge about the EUTR and its potential impacts of it among Serbian respondents further restricted the "*fine-tuning*" of the research process to a certain extent. Often times, respondents were unsure and unfamiliar with the subject of the EUTR, its cornerstones and requirements. For some respondents the interviewer needed to provide extra clarification and could not provide too much information or assessments of the issues asked about.

For the period of the research author tried to overcome aforementioned limitations by consulting the industry experts from Serbia, as well as the peers from the Faculty of Forestry (University of Belgrade), by using their advices to overcome these issues especially while conducting the interviews and interpreting the results.

Finally, because of the time limit and the limited resources for doing the research for this thesis it was clear from the start that only a limited number of interviews can be done. Although it became clear in the course of data collection that there is only a limited number of Serbian experts on the EUTR interviewing some more representatives of further public authorities would have provided a broader empirical basis. Furthermore, the questionnaires that were developed for the qualitative interviews could have been further developed and used in a broader survey too, e.g. a postal survey among a larger sample of forest product company representatives.

To summarize, by trying to respond to the main research questions, the discussion part highlights the different aspects in terms of the Serbian state of readiness, however mostly referring to the challenges and constraints that are limiting Serbia in terms of the EUTR implementation. These challenges mainly relate to legislative gaps, problems directly linked to the industry (e.g. insufficient knowledge of industry representatives in terms of the EUTR and the passive and inefficient functioning of the wood industry sector), as well as to the limitations in the Serbian forest and forest product sectors' organizational arrangements (e.g. inadequate capacities of market and forestry inspection services, see figure 14). Moreover, the discussion elaborates on the research findings and provided some suggestions for overcoming the limitations and challenges that were indicated in this study.

7. Summary and conclusions

This study examined the state of Serbian readiness for complying with and implementing the EUTR. It analysed to what extent relevant national laws and policy strategies refer to core issues of the EUTR and also assessed the awareness and administrative procedures of representatives of public authorities as well as industrial companies with regards to their readiness for complying with obligations set forth by the EUTR. Last but not least, this thesis also provides a number of suggestions for how gaps and problems for meeting the obligations implied by the EUTR could be overcome in the near future.

As recognised by some experts that were interviewed for this thesis, illegal logging and related activities were not recognised as a significant issue by the Serbian government and state authorities in the past. However, it appears that the awareness for issues surrounding the implementation of the EUTR has risen due to its importance for the domestic economy and the process of EU accession. Consequently, it triggered authorities and forced them to start cooperating and to embark upon a process of (re)allocating the respective competencies between relevant authorities, of distributing responsibilities, and adjusting public administrative procedures. Even though all of these processes are in an initial phase, certain progress has been made which resulted in the designation of the MoAEP (Directorate for Forests) as the leading authority, also recognised as the most adequate authority for this matter by a majority of experts which were interviewed for this study.

Nevertheless, according to the results of this study the organizational settings and capacities of public authorities, if taken as a whole, are assessed as insufficient and not yet completely ready for the implementation of the EUTR. A striking finding in this respect is the absence of a governmental authority which is responsible for the Serbian wood industry sector. This deficiency could hinder proper exchange of information to and among the industry actors which is, as also shown in this thesis, very important for effective EUTR implementation. Financially assisting and advocating the Serbian companies should be crucial, yet hardly achievable without such an authority. Moreover, once the EUTR is implemented, the lack of such an authority could undermine the ability to properly check the companies' due diligence systems. Therefore, it seems very important to establish such an authority, or at least a body within the existing setting in the near future, with the aim to ensure close cooperation with the industry on EUTR implementation (see also Jonsson *et al.*, 2015).

According to the results of the series of expert interviews for this study all the relevant authorities are scarce of well-educated human resources. There are not too many experts and professionals with right experience for facilitating further development of industry in this regard. Accordingly, investment in the education of experts seems essential. As this research

demonstrates that there is a relatively limited knowledge of industry representatives on the EUTR there is a certain need for information instruments which are targeted at industry actors.

Beyond the need to strengthen the capacities of both the public authorities and the private sector, it seems also necessary to strengthen the cooperation between the wood industries and public authorities, which again may be a huge challenge. Results of this research have indicated that cooperation between these stakeholders was an issue in the past as well, being perceived as a key barrier for the fruitful development of the wood industry and forestry sector. Along these lines, this thesis highlights the need for enhancement of communication and cooperation among the stakeholders involved in the EUTR matter, with the intention of finding a balance between effective implementation and acceptable costs (see also Jonsson *et al.*, 2015).

From a more general perspective, the readiness of the Serbian forestry and wood industry players is still far from an adequate level. The findings of this thesis indicate, that only large industry players invested resources, adjusted their administrative procedures and made an effort to educate their staff so as to ensure the practicability of a due diligence system. However, whether or not these companies have complete and effective systems to trace the material flows and to prove that their materials are coming from legal sources is still a contentious issue, especially with regard to wood from private forests. For that reason, only a small number of industry actors may be considered as fairly ready for the EUTR implementation.

Regardless of the fact that the business of the SME in wood-processing industry is oriented towards the domestic market and non-EU countries, which implies that they are going to be affected with the EUTR only after the Serbian accession to the EU, this research underlines the importance of their position in this matter. The small and medium-sized companies are finding it hard to make ends meet, and unless financially helped, they would not be able to adjust so as to ensure effective EUTR implementation in Serbia. Therefore, it is essential to provide timely and suitable assistance, especially considering their limited capacities to adapt to swift changes occurring in the market. While the industry representatives perceived the EUTR as a positive change that could potentially reduce illegal activities in Serbia, they are also concerned that the EUTR might cause market disruptions and create an uneven business field in favour of big companies. Therefore, experts suggested that the Serbian government commits more resources in order to facilitate SME of the wood industry for ensuring an inclusive and competitive timber products market, and with that, to strengthen social stability and to increase the government revenues.

Unlike the organizational aspects and actor capacities, the legislation in Serbia can be characterized as "*moderately ready*" for complying with the EUTR. The LoF (2010) and the LoT (2011) are to be considered as the most central pieces of legislation with regards to national

implementation of the EUTR. Even though they are assessed as moderately compliant with the EUTR, there are still certain aspects that have to be amended and changed in order to be fully compliant and harmonized with the EUTR. The current gaps in legislation are found with regards the scope of wood based products covered by national legislation as compared to those categories of products regulated by the EUTR (i.e. not fully covered) as well as the issue of the inspection and supervision of wood and wood product flows. Consequently, it is expected from the governmental authorities to proceed with the necessary changes in these regards. As seen from the Austrian case, introducing a new legal act for regulating national implementation of both the EUTR and the EU-FLEGT regulation could be considered as one approach to close the legal gaps. However, as some statements brought forward in the interviews for this thesis indicate, both of these Serbian laws suffer from implementation deficits, especially the LoF. By reflection about the reasons for these deficits, respondents mainly referred to the difficult economic situation in the country, which was recognised as a main cause in previous studies as well (Regional Environmental Center, 2009a, Markus-Johansson *et al.*, 2010). However, this research also hints to expert perceptions which indicate that private forest owners may simply be unable to act in accordance with the current LoF especially due to the rigid financial terms which they have to meet in order to manage their forests in accordance with the law. This unfavourable condition for private forest owners as defined in the current LoF has forced some of the interviewees to cast a doubt on the fairness of the law with regards to private forest owners. Even though the reform processes to adapt policies and legislation for EU accession is evident and constantly progressing, there is a certain need to reconsider the laws and policies in Serbia in order to ensure equitable treatment of all stakeholders.

The fact that effective implementation of the EUTR is still a big challenge inside the EU too (Jonsson *et al.*, 2015) should not be misinterpreted by the Serbian governmental authorities and exporting companies. Even though a number of experts supported such a perspective the Austrian case has clearly shown an example of an EU member state in which the EUTR is already properly implemented. The EUTR hence already takes effect in the countries from which wood and wood products are sold to EU markets, and it will increasingly do so in the future.

In summary, the potential export of wood-products from Serbia to the EU might be hampered in the near future if the challenges set by the EUTR are not sufficiently met. The image and status of the Serbian wood industry in the EU markets is not encouraging when considering the high levels of illegal activities and corruption. This threatens to become a competitive disadvantage for Serbian exporters. Moreover, considering the importance of the EU market for Serbian companies it is also a serious impediment for the further development of the Serbian economy. For these reasons, it is crucial that the Serbian government commits more resources to help the industry in preparing for the EUTR.

For all these reasons, efficient and comprehensive capacity building is needed in Serbia, especially aimed to improve organizational, institutional, and human capacities. The process of capacity building should include various actors, not just the Serbian government and company representatives, but also the local level officials, researchers, members of the civil society, and NGOs. Keeping in mind that capacity building is essential for endorsing sustainable development in a broader sense (United Nations Environment Programme, 2006) such efforts are not just relevant for adapting the overall arrangement in Serbia towards the EUTR, but they are also needed to promote the sustainable management of the forests and natural resources in accordance with the EU standards.

In the course of the assessment of the Serbian readiness for complying with the standards prescribed by the EUTR, some concepts reoccurred time and time again which can be perceived as central elements of forest governance which is a much broader concept that comprises more dimensions as those that were addressed in this thesis. However, the aspects of, capacity building, law enforcement, clear regulatory environment, cooperation and coordination, and transparency are usually centrepieces of a concept of "*good governance*" and have also been referred to in this study (cf. figure 15). From this perspective, these elements may not only facilitate the effective compliance with and implementation of the EUTR but, if properly applied, would also contribute to good forest governance in Serbia.



Figure 15: Summary of findings: Elements of Good Forest Governance with regards to the EUTR in Serbia

Source: Own figure

Above and beyond, this thesis indicates that illegal logging and the associated trade and corruption are still significant problems in Serbia, usually associated with a weak forest governance. Not just that illegal activities related to forests undermine the efforts for improvement of the competitiveness of the forestry and the wood industry sector in Serbia, but they also have a negative effect on the development of the economy and social stability in Serbia. Therefore, it can be also deduced that the EUTR implementation in Serbia to a great extent depends on the way the forests ecosystems are governed.

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Appendices

Appendix 1. Questionnaire for Serbian public authority representatives and researches

1. Do you think illegal logging and illegal trade of wood and wood products in Serbia are the issues of big importance? From your point of view, how is the whole problem of illegality (or legality of wood) perceived in Serbia and what is your personal observation?
2. According to you which documents (laws, regulations, directives or strategies) adequately address the issue of illegal logging and trade in Serbia? From your point of view is the proper implementation of these documents existing on the ground?
3. In what way do you come across the notion or problem of illegal logging and/or illegal trade in your everyday work? To what extent and how is legality of wood important to you (from the traders point of view)?
4. How would you describe and assess involvement of the Serbian government in the matter of illegal logging and illegal trade in the forestry and wood industry sectors? Is government supportive and motivated to work on this matter?
5. How would you describe and assess the role of forestry organisations in Serbia, regarding the matter of illegal logging and illegal trade in the forestry?
6. How up-to-date are you with the European Union Timber Regulation? What is your general opinion on the regulation itself?
7. At the moment, in what way does the EUTR affect Serbian forestry sector and wood industry and how?
8. Do you think that wood exporting companies in Serbia are ready to fulfil the requirements of the EUTR at the moment? Please elaborate on this question.
9. Do you think there is a need for more clarification and specific interpretation of the EUTR in general? According to you, are there parts that are not clear enough and where they occur?
10. Because of the fact that some parts of the EUTR are perceived as too complex, ambiguous or indeterminate how do you think that would affect possible implementation of EUTR in Serbia?

11. If we take into account that the implementation of this regulation should be done in close cooperation with the wood industry and other sectors, do you think that proper implementation could be achieved in Serbia at the moment? Please describe your impression/expectation/judgement and explain it.
12. What do you consider as significant constraints (challenges) in the Serbian legal, administrative, forestry and forest industry arrangement (structures and procedures) for enabling effective compliance and implementation of the EUTR? What and where do you think are the main gaps in the legislative and regulative mechanism regarding illegal activities in the Forestry and Wood sector?
13. Contrariwise to the previous question, what is already well in place in the Serbian legal, administrative, forestry and forest industry "setup" (structures and procedures) to enable effective EUTR implementation? Elaborate on this please.
14. How would you describe the readiness of small and medium enterprises in Serbia to comply with and to implement this regulation? What do you think would be the challenges and what would be the benefits for them on the way to implement the EUTR?
15. How do you see the role and importance of the future Competent Authority to coordinate different stakeholders in Serbian forestry sector? What kind of measures and initiatives they would need to put in place to achieve effective implementation in Serbia?
16. What would be the pros and cons of properly complying and implementing the EUTR in Serbia? Who would have the most benefits and where would negative effects occur and why?
17. What kind of solution would you recommend (e.g. policy instrument) in order for Serbia to come closer to the level of effective compliance and implementation of the EUTR? What is the next step that Serbian government should do?
18. Is there anything more you would like to add?

Appendix 2. Questionnaire for Serbian forestry enterprises and wood industry company representatives

1. Do you think illegal logging and illegal trade of wood and wood products in Serbia are issues of big importance? From your point of view, how is the whole problem of illegality (or legality of wood) perceived in Serbia and what is your personal observation?
2. According to you which documents (laws, regulations, directives or strategies) adequately address the issue of Illegal logging and trade in Serbia? From your point of view is the proper implementation of these documents existing on the ground?
3. In what way do you come across the notion or problem of illegal logging and/or illegal trade in your everyday work? To what extent and how is legality of wood important to you (from the traders point of view)?
4. How informed are you and staff in your company about the European Union Timber Regulation? What is your impression on the regulation itself?
 - According to you, what are the main challenges for this regulation to become effective on the ground?
5. At the moment, from business point of view how would you describe the relationship between your company and your partner companies (operators) from the EU? Is the legality of wood something that is perceived as very important for both parties? How would you assess and describe the suitability of the two business environments (Serbian and EU) at the moment, all related to trade in forestry and wood sector?
6. Can you explain what has changed businesswise for your company from the moment the European Union Timber Regulation came into force in March 2013? How does that affect your business and exporting strategy, today and how will affect maybe in the future?
7. Do operators from the EU practice a risk management system (Due diligence) when importing wood from your company? How does it affects your company? Do you have any role in such due diligence procedures?
8. Does your company suffer any additional costs when exporting to the EU market since the European Union Timber Regulation came into force in March 2013? What are additional needs, obligations and tasks to be done and how are you coping with those costs?
9. Do you think there is a need for more clarification and specific interpretation of the EUTR in general? According to you, are there parts that are not clear enough and where they occur?

10. Because of the fact that some parts of the EUTR are perceived as too complex, ambiguous or indeterminate how do you think that would affect possible implementation of EUTR in Serbia?
11. How acquainted are you with the risk assessment of the Due Diligence System (article 6 of the EUTR)?
 - Do you think that information required is too much for Serbian companies to provide at the moment? According to you, what kind of information would be enough to realize proper risk assessment?
12. How do you see the role of third parties verified schemes in the process of risk assessment and risk mitigation (part of Due Diligence) in Serbia?
13. How would you assess the involvement and support of the public (state authorities) and private institutions (interest groups e.g.) and bodies in Serbia in this matter? Is there a tendency to help the market actors in forestry and wood industry for facilitating and harmonizing business with EU markets. Have you asked for and have you received any help or helpful information so far? From whom? And about what exactly?
14. To what extent and how would additional administration (imposed by the EUTR) affect your company or other companies in Serbia once regulation is implemented in near future? How does it affect now?
15. How do you see the role of the future Competent Authority and importance of it to coordinate different stakeholders in Serbian forestry sector?
 - What kind of measures and initiatives they would need to introduce or carry out in order to achieve effective implementation in Serbia?
16. How would you describe the overall readiness of Serbia to effectively comply with and implement the EUTR at this moment? What is already in place and what is still missing in order to be ready? Can you give some specific example on measures that should be put in place? Please elaborate on this
17. Is there anything more you would like to add?

Appendix 3. Questionnaire for Austrian experts

1. In what way do you come across the notion or problem of illegal logging and/or illegal trade in your everyday work?
2. According to you which documents (laws, regulations, directives or strategies) adequately address the issue of illegal logging and trade in Austria? From your point of view is the proper implementation of these documents existing on the ground? Can you elaborate
3. How would you describe and assess involvement of the Austrian government in the matter of illegal logging and illegal trade in the forestry and wood sector?
4. How up-to-date are you with the European Union Timber Regulation? Do you think proper implementation of this regulation is happening in Austria? Please describe your impression/expectation/judgement and explain it.
5. At the moment, in what way does the EUTR affects Austrian forestry and wood industry sector and how? Please elaborate on this.
6. What kind of (if any) difficulties and challenges Austria faced in process of adjusting (harmonizing) country "setup" to enable proper and effective implementation of the EUTR?
7. Do you consider a need for more clarification and specific interpretation of the EUTR? According to you, are there parts that are not clear enough and where they occur?
8. If we take into account that the implementation of this regulation should be done in close cooperation with the wood industry and other sectors, how does that affect implementation in Austria? Please describe your impression/expectation/judgement and explain it.
9. What do you consider as significant constraints (challenges) in the Austrian legal, administrative, forestry and wood industry arrangement (structures and procedures) for enabling effective compliance and implementation of the EUTR?
10. How do you see the role and importance of the Competent Authority to coordinate different stakeholders in Austrian forestry sector? From your experience, who do you think it would be the most appropriate Competent Authority in Serbia (authority responsible for forestry, wood industry, or any other authority? And what kind of measures and initiatives the CA would need to put in place to achieve effective implementation in Serbia?
11. In your opinion do operators from Austria practice a risk management system (Due diligence) when importing wood from non EU based companies?

12. Do you think that wood exporting companies in Serbia are ready to fulfil the requirements of the EUTR at the moment?

13. Is there anything more you would like to add?

Appendix 4. List of interviewees

Interviewees Reference Number	Organization/Company	Date of interview	Length (min)
I 1	Ministry of Agriculture and Environmental Protection	5.7.2015	120
I 2	Faculty of Forestry, University of Belgrade	8.7.2015	50
I 3	Faculty of Forestry, University of Belgrade	8.7.2015	55
I 4	Serbian Wood Industry Cluster	9.7.2015	65
I 5	Chamber of Commerce and Industry of Serbia	12.7.2015	80
I 6	Private Company (Ltd.) (mainly exporting solid wood flooring)	17.7.2015	60
I 7	Private Company (Ltd.) (mainly exporting wood based panels)	7.7.2015	65
I 8	Private Company (Ltd.) (mainly exporting flooring boards)	16.7.2015	70
I 9	Private Company (Ltd.) (mainly exporting furniture)	13.7.2015	70
I 10	Private Company (Ltd.) (mainly exporting furniture)	1.8.2015	55
I 11	" <i>Fruška Gora</i> " Public Enterprise National Park	5.8.2015	70
I 12	" <i>Serbia Forest</i> " Public Enterprise (forest mgmt.)	7.7.2015	60
I 13	" <i>Serbia Forest</i> " Public Enterprise (forest mgmt.)	3.8.2015	80
I 14	Federal Research and Training Centre for Forests, Natural Hazards and Landscape	27.7.2015	60
I 15	Austrian Federal Ministry of Agriculture, Forestry, Environment and Water Management	28.7.2015	65
I 16	Austrian Chamber of Agriculture	29.7.2015	35