

DEVASTATION INC.

NOSSA
SAOPAULO



Realização

BOARD OF DIRECTORS

President | Artur Henrique da Silva Santos

CUT | Valeir Ertle

CUT | Denise Motta Dau

CUT | Jacy Afonso de Melo

CUT | João Antônio Felício

CUT | Quintino Marque Severo

CUT | Rosane da Silva

CUT | Valéria Conceição da Silva

DIEESE | João Vicente Silva Cayres

DIEESE | Mara Luzia Feltes

Unitrabalho | Francisco Mazzeu

Unitrabalho | Silvia Araújo

Cedec | Maria Inês Barreto

Cedec | Tullo Vigevani

EXECUTIVE BOARD

President | Artur Henrique da Silva Santos

Administrative Financial Director | Valeir Ertle

Unitrabalho | Carlos Roberto Horta

DIEESE | João Vicente Silva Cayres

CUT | Jacy Afonso de Melo

CUT | João Antônio Felício

Cedec | Maria Inês Barreto

TECHNICAL COORDINATION

Institutional Supervision | Amarildo Dudu Bolito

Information System Supervision | Ronaldo Baltar

EDITORIAL STAFF

Editorial Coordination | Marques Casara

Assistant Editors | Dauro Veras and Paola Bello

Text | André Campos, Carlos Juliano Barros, Dauro Veras,

Leonardo Sakamoto, Marques Casara and Paola Bello

Photo | Sérgio Vignes and Greenpeace

Art Direction | Gustavo Monteiro

OBSERVATÓRIO SOCIAL SHOWS SCHEME OF EXPORT OF WOOD FROM DEFORESTATION



A report published by Instituto Observatório Social (Social Observatory Institute) Journal shows how the export of wood, coming from deforested areas, works. Corrupt public officials and big companies of export are involved in the scheme. Giants in the sector, based in the United States, Asia and Europe, purchase the wood from the devastation.

André Campos, Carlos Juliano Barros, Dauro Veras, Leonardo Sakamoto, Marques Casara, Paola Bello and Sérgio Vignes

International giants in the area of beneficiation and marketing of wood are connected to a millionaire scheme that turns illegally withdrawn wood from the Amazon rainforest into legalized products. The wood is sold to the largest chains of sales of flooring and furniture in the United States, Europe and Asia, and many of them hold seals of certification of wood.

70% of all wood sold in the state of Pará, the biggest seller of Amazon wood in Brazil, has illegal origin. This wood goes through a process of “heating” that works within government organs. Authorities of the Federal Public Ministry and Ibama confirm the scheme and indicate the involvement of the State Secretariat of Environment. In addition to ghost companies, to companies that owe millions in environment fines and to entrepreneurs who account for ideological falsehood and slavery of workers, international groups benefit from the scheme.



DEVASTATION S/A*



How the multinationals and export companies operate sending the wood unlawfully removed from the Amazon rainforest to the United States, Europe and Asia. The predatory trade involves from French “do-it-yourself” segment stores to supplier of products to North American television shows about housing reform.

In 2007, the Brazilian Institute of Environment and Renewable Natural Resources (Ibama) applied nearly R\$ 1 billion in fines against the illegal deforestation in Amazônia. In 2008, only in Pará, fines were applied in the amount of R\$ 600 million. It is not new that the wood coming from Amazônia is, in most cases, obtained unlawfully. The fines are an example of this, since a small portion of illegal wood is seized.

Estimates of Ibama, of the Public Ministry, of Greenpeace and the Institute of Man and Environment of Amazônia (Imazon) indicate that only a third of the wood taken from

the forest is in accordance with the laws. Most part leaves indigenous lands or reservations illegally. The process is contaminated by the corruption of public officials. In Pará, where the wood exported leaves via port of Belém, corruption works even within the Secretary of State for the Environment (Sema).

Two authorities confirm the complaint: the Republic regional prosecutor of Pará, Daniel Avelino, and the state superintendent of Ibama, Aníbal Picanço. “Unscrupulous people, including Sema’s own workers, have approved management plans outside the normal standards,” says Picanço.

* This report is part of the magazine *Observatório Social Em Revista* #15.

“They approve plans in areas where there is no more vegetation or where there is only species of wood that are not sold.”

According to the Republic federal prosecutor, the fraud involves from the invasion of Sema’s system by *hackers* to the corruption of public officials for inclusion of larger number of credits or the approval of management plans that escape the minimum criteria of viability: “There is a strong insertion of false credits in the system, in a variety of ways.”

GHOSTBUSTERS

Façade companies are easily set up to “heat” wood of illegal origin. Auto Parts Stores, machine shops, houses and vacant land are used in the scheme. In just one month, between February and March 2009, the Ghostbuster operation, performed by Ibama, Sema and Public Prosecution, blocked more than 100 of these companies in Belém and in the metropolitan area. The fines given in the operation amounted, until the first quarter of the year, more than R\$ 100 million, while the turnover made by these companies in 2008 exceeded R\$ 250 million.

Nowadays, Pará is the second Brazilian state to purchase wood from other states, only behind São Paulo. What happens is that most part of this wood is never actually transported from one state to another. The transactions are just on paper. What the companies want is not wood, but wood credit, which allows the commercialization.

“They buy the credit from other states, but the wood does not come because there is no economic viability for this operation,” the prosecutor of the Republic confirms. “With these credits, they can commercialize wood from illegal land, as the indigenous land, conservation area, or management plans that were not approved.” According to Avelino, the environmental agency is responsible for making the conference of all the wood that gets to the state and enter the credits in the system, but it does not happen.

THE EXCUSE OF LAND REFORM

At the end of 2008, even the National Institute of Colonization and Agrarian Reform (Incra) joined the scheme. Denounced by the news program “Jornal Nacional” of Rede Globo (TV network) in late January, a

millionaire fraud of illegal exploitation of wood in Pará involved settlements, the region’s logging companies and Sema.

According to the accusation, forest management plans that did not exist were approved by Sema. In addition to the fact that the settlements do not have forests, the authorized wood was removed from other places that were far and by logging companies. Overall, it was authorized the withdrawal of 109 thousand cubic meters of wood from INCRA settlements. The volume represents about 20 thousand trees, which would make the profit of more than R\$ 30 million. At that time, the Secretary of the Environment of Pará, Valmir Ortega, acknowledged the fraud and confirmed that several companies had a turnover of more than 10% of the total authorized by Sema before the problem became public.

In 2007, Greenpeace had already denounced Incra of facilitating the performance of the logging companies in areas of rural settlements in Pará. According to documents obtained by the organization, Incra favored the establishment of partnerships between logging companies and assumed settlers

Yard of Rio Pardo company, involved with illegal operation of buying and selling of timber

associations. Instead of creating settlements in “cricket” areas or already cleared, the agency was accused of disrespecting rules and accelerating the creation of dozens of settlements in areas rich in wood resources.

The accusation, which culminated in the request by the Public Ministry of Pará of the cancellation of 99 settlements established in the state between 2005 and 2006, included ghost settlements, income from the exploitation of wood from the companies and choice by the logging companies of areas for establishment of the settlements. This last offense was confirmed by the testimony of timber workers to the CPI (Parliamentary Commission of Inquiry) of Biopiracy in 2006. According to the denunciation, the areas of the settlements were chosen according to the availability of wood of greater commercial value.

TAKING ADVANTAGE OF THE GAP

This scheme was used by the logging company Madeball. Located in Anapu, Pará, where in 2005, the American missionary Dorothy Stang was murdered, the company was fined and had their wood seized several





times, inclusively by involvement with settlers associations. In 2006, Madeball was sealed by Ibama because of unlicensed operation and because of storing, without proven source, of hundreds of cubic meters of jatobá, ipê, tatajuba, angelim, sucupira, cedar and muiracatiara. The company used legal action to reverse the situation and shortly after started to operate again. The lawsuits have not been judged, and with the delay, two of them already expired.

The logging company is also present in the list of the ones heard by the Parliamentary Commission of Inquiry (CPI) of Biopiracy. In 2006, the Commission investigated the evidence of the granting by Ibama of irregular Deforestation Permissions (ADMs) in exchange for financial support for political campaigns. Called "Plan Legal Harvest 2004", the scheme, organized by Ibama, Incra, logging companies and organizations representatives of rural workers, have enabled ADMs for lots of rural settlements where there was no more wood, but they were used to mask illegal cuts in other areas.

Between 2005 and 2008, Ibama applied to Madeball nine cases of violation, seven of which are still on trial. They include the sale of lumber

without authorization to transport, commercialization and storage of wood without a license and proof of origin. Considering only the last notification in January 2008, the company was fined in almost R\$ 810 mil. Together, the violations not yet paid amount to about R\$ 1.5 million.

Silvino Gomes Barros, a partner of the company, confirms all the notifications. While asserting that since last year, he has worked only with legalized wood, he reinforces that the purchase of wood from settlements and without proof of origin is a common practice in the region. "The times that I have been fined were for having wood with no document, illegal wood," he says. "This is not correct, in no way, but I did it because everyone here works this way, everybody buys wood this way."

Madeball, as well as other dozens of wood companies in Pará, continues operating, even with the pendencies in the environmental agencies. According to Ibama, the Public Ministry and Sema, there are few situations where the business is closed permanently. In most cases there is the possibility of coming up with court appeals until the case is

judged. In such cases, the maximum that can be done, according to Ibama, is the seizure of the illegal wood.

CURTAIN OF SUSTAINABILITY

The illegal logging companies are still operating because there is demand for wood in the market. They are not the only ones who benefit from the ineffectiveness of the legislation. In 2008, according to the Ministry of Foreign Trade, Pará exported more than 2 million cubic meters of lumber, volume transformed into about US\$ 685 million. The main destinations of Brazilian wood were the European Union with 643 thousand cubic meters of lumber, United States - 192 thousand m³ - and China, with nearly 120 thousand m³.

On the list of the largest exporters of the State of Pará, Vitória Régia Exportações is a major customer of Madeball. Founded in 2001, the company exported last year about US\$ 9 million (R\$ 21.2 million by the exchange of December 31st, 2008) in wood for 12 countries, including the United States, France, Germany, Canada, Portugal, Italy and Sweden.

Vitória Régia based their propaganda on the concept of

sustainability. It is certified by the *Forest Stewardship Council (FSC)*, one of the most important environmental certifiers in the world, which operates in Brazil as Brazilian Council of Forest Management (FSC Brazil). Their initiatives are successful as the creation of *Ecoflooring*, floor with three layers of wood. "Because it includes recycled wood, the floor decreases in 200% the environmental impact, making your home get highlighted by its beauty, without harm to nature," says the text on the company's website.

According to the Paraense press, Vitória Régia was one of the first to close a contract of partnership with the state government and with environmental agencies through the Project for Support to Sustainable Forest Management in Amazônia (ProManejo), of Ibama. The company and associations of the Plan for Sustainable Development of the region managed to get authorization of Sema to operate annually a thousand forest hectares in areas of settlements. This partnership aims to FSC certification of the areas exploited and thus ensuring the certification of the origin of the wood commercialized.

IN THE HOMES OF THE FAMOUS

Initiatives such as these provide Vitória Régia with clients as the American "Lumber Liquidators", from Tom Sullivan. He is the creator of the concept of flash-reforms and reuse of materials, seen in several countries in North American television programs like *Extreme Makeover, This Old House and Dream Home*, broadcasted on cable TV in several countries.

The site of Lumber Liquidators announces that its floors can be found in the houses of Jacqueline Kennedy Onassis, Donald Trump, Angelina Jolie, Kim Bassinger and others. Probably these final customers do not know that Lumber Liquidators buys Brazilian lumber from companies routinely involved in environmental crimes.

Asked about the tracking of the production chain, the vice president of Technology, Marketing and Sales of Vitória Régia Exportadora, Sandro Bracchi, assumes that there are failures. "Almost 70% of our wood comes from sources controlled by ourselves," admits without embarrassment. "If I had a sustainable management plan, I could have 100% credibility, but unfortunately, it is not what happens," he concludes.

Bracchi says that it is possible that its suppliers cut trees in quantities higher than allowed, but he tries to free himself of guilt pleading the difficulty of tracking all the wood and he requires that they accomplish with the limitations of the management plan: "We would need to have a fiscalization structure as great as the government organ." As to the purchase of wood from Madeball, systematically fined by Ibama, Bracchi says this company is an old supplier with which there is an undecided commercial matter. He says his company stayed four months without buying from it, but recently has purchased again and has been following the situation.

FAÇADE SUSTAINABILITY

Larger than Vitória Régia, on top of the list of exporters of Paraense wood, the company Pampa Exportações (Pampex) added US\$ 20.5 million in sales to the foreign market in 2008. The major buyers were France and the United States. 21 other countries represented the company's customer list, including Belgium, Germany, Russia, Japan and China.

Wood cut illegally waits to be benefited



DEVASTATION Inc.
Social Observatory Institute

As many other Paraenses companies, Pampa has floors as a base of production - the internal, European preference, and the decks for the North Americans. Founded 22 years ago, it has in its portfolio of customers, great references in the sector of floors and laminates, as the Danish group DLH Nordisk, the French Brico Dépôt and the American Nova USA Wood Products and Thompson Mahogany.

The great propaganda of Pampa, which employs 550 direct employees, is to disseminate actions of sustainability. In such a way that as one of the partners, the geologist Demorvan Tomedi, takes part of the sustainability council of Banco Real. At the site of the financial institution on the Internet there are praises to the company's actions: "... it produces wood floors and components and adopts sustainable practices, such as the use of all the industry waste for the generation of electric energy and reforestation in highly degraded areas with excellent results in tropical and exotic species."

Pampa takes part of the group Buyers of Certified Forest Products, which brings together companies "committed to giving preference to consumption of products from

certified forests," says the statute. According to Tomedi, the exporter is also in the process of certifying the chain of custody (tracking of wood from a certified forest until the final product) by FSC Brazil. They are an exemplary company, except for the serious problems in their production chain. Pampa is one of the most important customers of Madeball, which also has been sued a few times because of irregular shipments for the exporter.

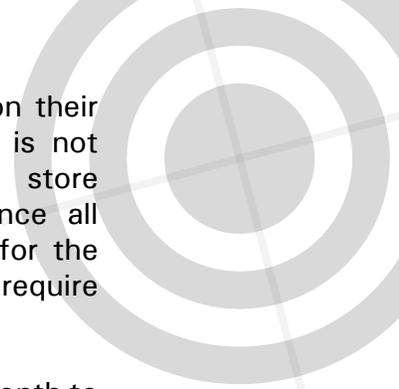
Another irregular supplier is Rio Pardo Indústria Comércio de Madeiras Ltda. In a visit to the logging company's yard in Anapu, several lots that were intended to Pampa were found. According to officials of Rio Pardo, there is a person working for Pampa Exportações who visits regularly the yard of the logging company.

The problem of Rio Pardo is that it does not formally exist. In research with the organs that monitor and regulate companies, the name of the company was found only in the Commercial Board of Pará. There, what appears is the name, the address and state registration, but it lacks the most important: the National Register of Juridical Person (CNPJ). According to the Commercial Board,

although Rio Pardo is active on their system, without the CNPJ it is not authorized to commercialize, store or transport any product, since all the other organs responsible for the dispatch of the authorizations require this registration.

Tomedi took almost a month to give a declaration. He only did it after the reporters have made contact with Banco Real, where he is an adviser in the area of sustainability. He denied any connection with Rio Pardo Madeiras. So, photos of the company yard were sent to him by e-mail, with lots of boards addressed to Pampa. His reply by e-mail:

The company Rio Pardo Madeiras do not appear in any of our records. We did not find any record of its existence with public bodies. We contacted people known in the region of Anapu and nobody heard of this company. Pampa does not have and has never had any employee or representative living in Anapu or in nearby towns. This photo surprises and worries us, because we are totally unaware of its existence. You can see in this picture that it is 2nd quality wood, completely out of the pattern of raw material used in Pampa. With all certainty, the name Pampa,



used in this wood, is improper and should have been used to cover some corruption. This situation is extremely serious and worries us greatly. Again I would emphasize that Pampa has a profile and a work towards legality and sustainability. We have a strong work with our suppliers so that the entire production chain is legal and sustainable.

The photo sent to Pampa was taken at 2:56 p.m. on September 3rd, 2008 by the photographic reporter Sérgio Vignes. At that time, the manager of Ibama in Altamira, Roberto José Scarpari, two agents of the control sector of the federal agency and the journalist Marques Casara, accompanied him. Who warned the photographer about the wood destined to Pampa was the manager of Ibama, after questioning the employees and inspecting the cargo and documentation.

Moreover, Pampa Export confirms having the company Madeball among its suppliers, claiming that in the systems of the control organs, there is nothing against the company. Informed about the fines and notifications received by Madeball in recent years, Tomedi strongly accuses the environmental agencies

of omitting information essential to exporters. "It would be very stupid to accept wood of illegal origin, knowing it," he says. "The biggest problem is that we never know, and only later we discover the frauds that the supplier makes."

Asked about the responsibility that performs on the production chain, the owner of Pampa Exportações does not plead being not guilty, but he accuses the State of neglect, for fining in the end of the production chain and not arresting the offenders in the origin of the problem. "It's the same thing to let the drug dealer bust free and arrest all users of drugs - is this the solution?" he asks.

JUSTIFIED ILLEGALITY

The owner of exporter Lacex Timber, Luís Cláudio Andrade, complains that two environmental agencies omit information to the entrepreneurs: "How can a company in process of embargo be able in the system? How can a company be not blocked, while waiting to be tried? "He asks."When I buy wood from a supplier, I ask the number of the company in Sema and enter Ceprof [Register of Explorers and Consumers of Forest Products of the State of Pará]. If Ibama and Sema tell me that

the company is OK, it is because it is able to sell", he justifies. "I do not have the power of police and I will not go to all places where I buy wood to certify it personally."

Contrary to the speech of its owner, the company's site highlights, in the opening: "Lacex Timber has the greatest care in their choice of suppliers, ensuring the complete legality of their raw material." Although it is not among the largest companies in the state, Lacex Timber exported in 2008, 8.9 thousand cubic meters of improved wood to 21 countries, mainly to the United States, France, Holland and China. Among the notable customers are the American Cecco Trading, FSC certified, and Thompson Mahogany.

As Pampa, Lacex Timber is on the list of customers of Madeball. Asked about the legality of the wood provided, Andrade says he knows about the irregularities of the company, but he says he will continue buying while the logging company is released in the control systems. "Madeball supplies me wood," he says. "If you check, it is released in Sisflora [System of Commercialization and Transport of Forest Products, of the State Department of Environment] and in Ibama.

"The companies always come with the excuse that the documentation of the suppliers is all OK, that the wood can come from an illegal management plan, but that, in the receipt, everything is OK. Isn't who invests in wood around R\$ 300 thousand, R\$ 500 thousand, able to send someone to check this purchase? I think this is intolerable, "the state superintendent of Ibama, Aníbal Picanço replies."The monitoring is an obligation of the environmental agency, but the companies also have to face some assurance that the wood will not give problems."

Sema admits that not all information is available to entrepreneurs. "We heard a lot of complaints that the companies have no information about the suppliers," says the coordinator of supervision, Bruno Versiani. "They have partial access through Sisflora, where they can, for example, know who the supplier is." Versiani says that the agency will soon disclose lists for people to have a link with the name of irregular suppliers, accessible at the time of the purchase of the wood.

According to the Association of Exporter Industries of Wood of the State of Pará (Aimex), this improvement in the system and

the disclosure of companies with environmental problems should have been resolved even in 2008. Changes in the federal system and in the state system were anticipated by the Pact for the Legal and Sustainable Wood, signed in July 2008, between the productive sector, the government of Pará and the Ministry of Environment. However, until the end of this report, Ibama and Sema had not made the planned changes.

INTERNATIONAL MEASURES

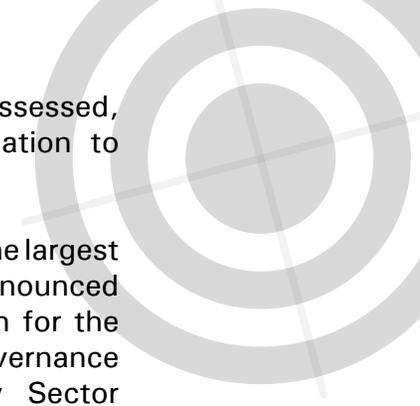
While the starting point of the production chain of wood suffers with corruption and disregard for the environmental laws, the final point, of the international consumers, attempts to alleviate the problem of the purchase of illegal wood.

In the United States, buyer of 25% of the wood taken from Amazônia, a law prohibiting the sale of illegal wood in the country went into effect in September 2008. Approved by the American Congress in June, the legislation also includes by-products, such as furniture and paper. According to the text of the law, it starts being a violation of American federal law the "import, export, transportation, sale, receipt, acquisition or purchase" of any plant

that has been "taken, possessed, transported or sold" in violation to foreign laws.

The European Union, the largest buyer of Brazilian wood, announced in May 2003 the Action Plan for the Execution of Legislation, Governance and Trade in the Forestry Sector (FLEGT, the acronym in English). The plan includes investments in improving the administration of the forestry sectors of the producing countries, including the implantation of systems of tracking and licensing to ensure, in fact, the legal origin of the wood imported from Europe. The European initiative is of voluntary membership, by countries that want to take political compromise to solve the problem. Brazil, even having trade agreements with the Europeans, is not a partner of the plan.

In the text approved by its Parliament in September 2008, the European Union is concerned about the fact that the voluntary agreements are not sufficient to ensure that the products commercialized in the community market have legal and sustainable source. "The EU must start to establish internally legally linked rules, with instruments to validate the concerning disobedience to the law," the document points out.



The goal is that consumers have the assurance that they are buying wood of legal origin and coming from forests with sustainable management.

The current major concern of environmental organizations, however, is China. According to the coordinator of the program of deforestation in Amazônia of Greenpeace, Márcio Astrini, China does not have strict environmental laws and also does not require tracking of imported wood. Exports from Brazil to the Asian giant have increased significantly in recent years. "China is one of the countries that buy more Brazilian wood alone," he says.

CLEAR ILLEGALITY

Oposing the major exporters and the global trend of closing the siege against deforestation, there are still those who seem to prefer the illegality. An example of this is the French group Interwood. Until two years ago, the group was part of the conglomerate Pinaul Printemps Redoute, which owns, among others, the brands Fnac, Redcats, Conforama, CFAO, Puma and Gucci. Currently, Interwood SA belongs to the French DF Synergies (40%), SITI (40%) and Mr Gueit (19%).

Founded in 1984, Interwood operates worldwide in the trade of wood and by-products. The group is administered by the company Sogena and DF Synergies SA. Headquartered in Paris, it has a capital of more than 10 million euros (R\$ 28.1 million) and is directed by the families Gueit and Duval-Fleury, two of the more traditional French families.

The family Duval-Fleury, alone, manages some of the most important business groups in France. It has strong participation in sectors such as rail, with the company De Dietrich & Cie, in the importation of wines, with Blue Coast Wine Import, in the real estate, construction and acquisition of partnerships in small and medium companies, to finance growth or transmission the other groups. Only through Cogepa SA, an investment family holding company also controlled by the family Duval-Fleury, funds of approximately €200 million (R\$ 563.7 million) are managed.

According to the archives of Sema, Interwood Brazil, a subsidiary of the group, has had a license to operate since 2004. According to the Public Ministry of Pará, currently, the company responds in court for crimes against flora, against the environment and genetic patrimony, falsification

of public document and use of false documents. Still, it is also active in the system of Sema, with License of Operation for improvement of wood, valid until November 2010.

If you examine the chain of custody of Interwood Brazil, the situation is even worse. The exporter has, among its suppliers, the company Comabil Indústria and Comércio de Madeiras Biancarde Ltda. Its owner, Joseph Biancarde, answers judicially by environmental crime, slavery work, removal of wood from Indigenous lands, invasion of public lands and ideological falsehood. The lumberman was reported to the Federal Court of Altamira, west of the state, also for crimes against the organization of work.

In April 2008, Ibama found fraud in the permits of transport of forest products made by Comabil. In July, the company was sued by the mobile inspection group of the Ministry of Labor for keeping 15 employees in a position analogous to that of slaves. Biancarde was also accused of physically assaulting his workers and threatening them and their families to death. If he is convicted and the sentences for these crimes are added up, Biancarde, Interwood's supplier, can take up to 17 years imprisonment.

According to the Ministry of Development, Industry and Foreign Trade, in 2008 Interwood Brasil exported wood to the United States, Martinique, China, France, Portugal, Norway, Belgium, Portugal and Greece, among other countries.

Searched by the report for nearly a month, the Brazilian subsidiary of the group limited itself only to inform, through an administrative assistant that was, at the time (April 2009), prevented from exporting by Ibama. Carl Borg, responsible for Interwood Brasil, did not grant interviews. The French group Interwood SA was contacted, but did not answer either.

WORKERS' RIGHTS

According to the confederations representing the workers in economic sectors operating in Amazônia, the illegal exploitation of wood reflects also in the exploitation of workers. For the president of the National Confederation of Workers in the Food Industry, Agribusiness, Grain and Rural Employees Cooperatives (Contac-CUT), Siderlei Silva de Oliveira, it is necessary that confederations and unions organize better and lead the struggle for rights, including in remote regions.

The chairman of the National Confederation of Trade Unions of Workers in the Construction and Wood Industry (Conticon-CUT), Waldemar de Oliveira, says that Conticom, since its foundation in 1992, discusses the importance of forest management and certification as a way to combat deforestation and illegal sale of wood: "The government is adopting measures that we had directed to them a long time ago, as the use of wood derived from forest management in construction and real estate."

DEVELOPMENTS

All companies mentioned in this report were contacted. Some treated the subject with neglect, others threatened with legal proceedings, and others showed concern.

The company J. Gibson McIlvain, client of Interwood Brasil, said by e-mail that would never buy illegal material that makes great effort to ensure the origin of its wood and that will certainly examine the case.

In a note sent by e-mail, the president of Great Atlantic International, Richard McIntosh, argued that its supplier Lacex Timber has never been involved with illegal

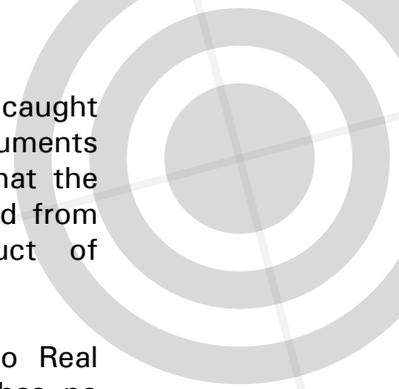
removal of wood, was never caught with possession of illegal documents for export of products and that the company was never prohibited from exporting any wood product of Brazilian origin.

Also, in a note, Banco Real was limited to saying that "has no evidence to declare itself about the facts alleged against Mr. Demorvan Tomedi".

The companies BRBR and Robinson Lumber preferred to comment on the matter only after having access to the report published.

CERTIFICATION QUESTIONED

Created in 1993, the seal *Forest Stewardship Council (FSC)* is an internationally recognized certification that seeks the control of the productive forest practices through the valorization of products originated from responsible forest management. It is the system of forest certification of biggest international credibility and the only one that can incorporate interests of social, environmental and economic groups, under the same principles. Headquartered in Germany, the FSC has now over 112 million hectares and 12.7 thousand certified production



chains in 81 countries. Although the rigidity in the processes of auditing and the constant monitoring of the certified processes have given the FSC credibility throughout the world, the use of the seal by the companies in marketing campaigns, has been the Achilles' heel (the vulnerable spot) of the certification. It is not rare to see companies basing whole institutional campaigns on the FSC seal, when, in fact, they have certified only one or two chains of their products.

"The indiscriminate use of the seal by the companies is a problem that the system needs to face and, in fact, seek mechanisms to solve it," says the chairman of the board director of the FSC Brazil, Rubens Gomes. "There are meetings and several motions in an attempt to take more control of the processes, as well as the action of various segments doing the monitoring, so it will not weaken the control of the system." According to Gomes, even though the advertising is allowed, the improper use of the seal in campaigns can lead to temporary suspension or even the withdrawal of certification. The same applies to cases where the certified company acknowledges problems condemned by the Council in not certified chains.

"The message from the seal involves obeying the law of the country, the fight against slavery labor, the fight against child labor, and no degradation of forests," he explains. He says that the operations evaluated are very strict: "When evidence of irregularity appears, there are effective mechanisms of monitoring that can identify it and, if necessary, punish the company." The president of FSC Brasil ensures that all certified companies mentioned in this report will be investigated.

THE CONSUMER MARKET

Check, as follows, the profile of some of the largest buyers of Brazilian wood sold by the companies Pampa Exportações, Vitória Régia, Lacex Timber and Interwood Brasil, developed by illegal deforestation. Some of them buy from more than one of these exporters.

- **DLH Nordisk**

It is an American subsidiary of the Danish group of shipping and wood Dalhoff, Larsen and Horneman (DLH), founded in 1908. In January 2000, the group acquired EAC Timber and formed one of the largest global companies in the independent marketing of wood. The sources of raw material of

the group are in South America, Africa, Western Europe and East Asia. The group DLH also has subsidiaries in Belgium (Indufor), France (Indubois Nordisk and Bois), Netherlands (Indufor) and UK (DLH Timber). The main characteristic of the group is the purchase of wood from exporters, instead of performing the export itself. According to Greenpeace, the main market for the wood bought by the DLH group in Amazônia consists of France, Denmark, Portugal, Spain, Netherlands, Thailand, Philippines, China and the United States. The group has been denounced by Greenpeace and by the ONG Forests Monitor for marketing of illegal wood.

- **Lumber Liquidators**

The North American Lumber Liquidators has ten years of existence and is today among the largest companies of direct sales of wood to the final consumer. With 140 stores and over 500 employees, it is currently worth more than US\$ 250 million (R\$ 523.9 million). The owner, Tom Sullivan, had net sales in 2007 of US\$ 11 million and in 2008, about US\$ 20 million. The company's name is seen nationally in the program *Dream Home*, from the Home and Garden Television

Wood from Pampa Exports is stored in the courtyard of a company that has no authorization to operate



channel, and weekly in the *Extreme Makeover* programs: *Home Edition* and *This Old House*.

● **Brico Dépôt**

The Brico Dépôt brand is one of the most found in French stores in a market segment called “do-it-yourself.” Together with the company Castorama, also from the same segment, it is among the most important of the English group Kingfisher, which also owns the brands B&Q, Screwfix, Koçtas, and owns 20% of the shares of the German Hornbach. The company operates in France, Spain and Poland. The group Kingfisher operates in eight countries and is the market leader in the UK, Poland, Italy, Turkey and China. It has over 800 stores, 70 thousand employees and six million consumers per week. Kingfisher closed the year 2008 with sales exceeding US\$ 13.5 billion (R\$ 28.3 billion).

● **Nova USA Wood Products**

The North American Nova USA Wood Products specializes in direct importation of Brazilian wood. With chain of custody certified by FSC, it is part of the *National Wood Flooring Association*, the *International Wood Products Association* and the *North American*

Wholesale Lumber Association. They buy Amazon wood directly in the states of Rondônia, Amazonas and Pará. The company also has a branch in Curitiba (PR), which trades products in Brazil, Paraguay, Bolivia and Peru.

● **Thompson Mahogany Company**

Founded in 1843, the North American Thompson Mahogany Company concentrates the purchase of wood in the countries of South America, Central America, Africa and Australia. The company is a member of the *National Hardwood Lumber Association* and the *International Wood Products Association*. Recently they had the chain of custody certified by the SmartWood program, recognized by the FSC for the certification of forests and manufactured products.

● **Redwood Empire**

The group Redwood Empire includes the North American Pacific States Industries. Together, the companies distribute wood for all regions of the United States. Their annual sales amount, in average, more than US\$ 100 million (R\$ 209.6 million). Currently, the companies have about 280 thousand square kilometers of planted wood in

central and northern regions of the state of California.

● **Cecco Trading**

Cecco Trading, a division of Timber Holdings Group, is among the largest buyers of Brazilian ipê. The company has FSC certification and invests in disclosure of actions of sustainability, as the purchase of certified wood and support to programs of low environmental impact.

● **Bois Aise of Montreal**

Founded in 1986 in Montreal, Canada, it also operates in the United States and has an office in China. Its main suppliers are Brazil and China, while the consumer market is predominantly North American.

● **Great Atlantic International**

With annual sales estimated at US\$ 100 million (R\$ 209.6 million), the North American Great Atlantic International, founded in 1998, is among the leaders in the manufacturing of timber. The company was denounced by instigating the market of illegal exploitation of wood in Nicaragua, in the study *Economic and Environmental Impact of the Forest Emergency*, published by the *Center of International Policy*.

Until the end of this report, the company also appeared on the list of debtors of income tax in the state of Massachusetts.

● **Robinson Lumber Company**

Founded in 1893 in the U.S. state of Mississippi, Robinson Lumber Company has offices in the United States, Belgium, Honduras and three in Brazil - in Belém, Breves (PA) and Curitiba. Currently, they sell wood for more than 70 countries. The company is a member of the *International Wood Products Association* and supportive of the *International Tropical Timber Organization*. Present in Brazil since 1960, they have 4.3 thousand hectares of forest on the island of Marajó (PA).

● **Moxon Timbers**

The Australian Moxon Timbers was established in 1903. It operates in the United States, Asia, Latin America and New Zealand. With chain of custody certified by FSC, the company has also offices in France and China.

● **Advantage Trim & Lumber Company**

Founded in 1992, they have as a motto best-quality wood at the lowest price possible. For this, the

U.S. company imports only from developing countries.

● **J. Gibson Mcllvain Company**

It is a North American company certified with the FSC label and a member of *International Wood Products Association*. They have annual sales between US\$ 25 and 50 millions (R\$ 52, 4 to R\$ 104, 8 millions) and invest strongly in sustainability propaganda.

● **Aljoma Lumber Inc.**

Since 1976 Aljoma Lumber has worked with import and export of wood in the United States. Its main customers are building stores, distributors and manufacturers of furniture and utensils of wood. The company distributes wood throughout the United States and Canada and exports to the Caribbean and Central America, embarking from ports in the United States, South America and China.

● **Brazilian Wood Depot**

It is an American company that for over three decades, imports Brazilian wood and distributes it in the United States. The founder and president, Eric Groover, is called, in the company's own website, as "a responsible keeper of the forests around the world."

● **Appalachian Flooring**

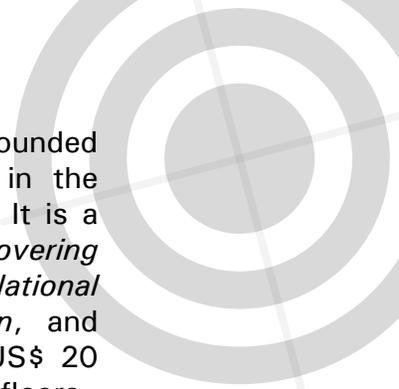
It is a Canadian company founded in 2001 that sells wood in the United States and Canada. It is a member of the *World Floor Covering Association* and the *National Wood Flooring Association*, and has annual production of US\$ 20 million (R\$ 41.9 million) on floors.

● **BRBR**

The BRBR is the main representative of the exporting Vitória Régia in the UK. Therefore, all the company's propaganda is based on the actions of the Brazilian exporter, as the concept of *ecoflooring* and the focus on sustainability.

● **TW Wood Products**

Founded in the American state of Texas in 2005, TW Wood Products has Africa and South America as the main suppliers of raw material for floors and manufactured products.



THE ROUTE OF THE ILLEGALITY

Logging companies deceive the fiscalization and legally sell wood taken from areas of conservation, from indigenous territories and from areas with false plans of management. Check out the route that turns wood into irregular furniture, floors and utensils of high standard inside and outside Brazil:



Ghost companies

Companies that withdraw wood into Brazilian territory must have a forest management plan. From analysis done by the fiscalization organs, they earn wood "credits" indicating the amount of wood that they can remove in a certain time. Ghost companies of the forest area are opened with false addresses and receive permission to remove and sell wood. Only in the first two months of 2009, Ibama identified 50 logging companies that are in this way.

Forged credits

The corruption of officials of the fiscalization organs also facilitates the incorrect information about the areas of exploitation, as a declaration of inexistent wood, the replacement of species and the increase in the volume of the forest, with the registration of more trees with height and diameter allowed to cut than the real number. Virtual credits arise, which legally allow companies to cut down a number greater than that allowed.



Dropping in prohibited areas

The wood is taken from places different from the ones declared, principally from areas of permanent conservation, from embargoed areas and indigenous reservations. In case of not catching the companies in the act in the right moment and place of the cut, the companies report that they had removed wood from the places where they have credits.

Illegal sale of credits

One company buys a shipment of wood from another company of a different city or state, but the only product delivered is the document, where they define the values, the quantity and the species in transit. Trucks loaded with wood from another origin transit with a document that guarantees the apparent legality of the operation. Ibama estimates that 60% of the wood commercialized in Pará is "heated" this way, benefiting the biggest exporters.

Foreign Trade

From all the wood removed and processed in Pará, it is estimated that only 10% remain in Brazil. The United States and the European Union are the major buyers of the Amazon wood and China has been gaining prominence.

