

## *What is happening to the tropical timber trade?*

*Extracts from keynote address to the Third High Level Market Dialogue – 2013, hosted by the Indonesian Exporters Association*

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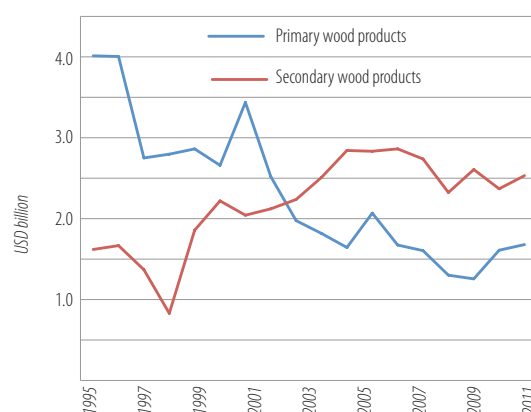
For decades, tropical timber has grappled with numerous challenges and even threats as it struggled to maintain its stake in the international timber market. From the threats of bans and boycotts in the 1970s-80s as well as increasing standard market requirements like quotas, permits, duties, quality specifications and tariff escalation for processed products to the proliferation and variability of requirements based on technical and environmental standards like CE marking, CITES permits, SFM and CoC certification, verification of legality, procurement policies and green building standards, the tropical timber trade is now confronted with the latest challenges of complying with laws prohibiting the import of illegal timber being implemented by major importing countries.

## **Declining trade, changing flows**

Not surprisingly, a review of available data shows that the total volume of world exports of primary tropical timber products comprising logs, sawn timber, plywood and veneer have in fact fallen significantly in recent years. The share of these primary tropical timber products in the expanding total world exports of all primary timber products has declined from 22% to merely 13% over the past decade. Major trade flows for primary tropical timber products have also undergone significant changes, with a distinct shift from established traditional import markets like the EU, USA and Japan to emerging and developing markets, particularly China, India and Vietnam.

While the trend for tropical secondary processed tropical timber products (SPWP, comprising wooden furniture and parts, builders' woodwork, other secondary processed products and moldings) is somewhat brighter, the value of exports of tropical SPWP by ITTO producer member countries still pales in comparison to total exports of global exports of such products, accounting for only 12% of the global total in 2011.

**Figure 1. Crossing paths: Indonesia forest products exports**



Today's international tropical timber trade is characterized by tight supplies of logs, stiff competition from and loss of (already small) market share to other timbers and non-timber products, increasing demands from established markets whose requirements are often difficult to meet,

and new/emerging markets which may be riskier and less reliable than traditional markets. There appears to be no respite from these turbulent and challenging conditions in the short to medium term prospects for the trade.

Already, some in the trade and industry are lamenting the increasing difficulties of conducting business, with some importers reaching the point of not importing tropical timber anymore due to the perceived logistical and administrative requirements.

But getting out of the tropical timber business is not a real option for almost all tropical timber producing countries since the value and role of the forest sector in the context of their social, economic, environmental and sustainable development are simply too high and important to be compromised or sacrificed. In any case, the premise that refraining from trading in tropical timber will somehow result in decreased deforestation and/or the restoration of tropical forests is clearly false: discontinuing trade (and the value it brings to tropical forests) will in all probability lead to the acceleration of forest degradation and deforestation.

Some countries see circumventing or reducing the burden of timber import regulations as a way out of the predicament. In fact, the diversion of exports to other international markets has already taken place to a certain extent. However, such measures can, at best, provide only a short-lived respite as more countries, including tropical timber producing countries and particularly those countries which import and manufacture tropical timber and re-export finished products to traditional major markets, begin to develop their own laws against the imports of illegal timber and timber products or simply substitute their imports with legal timber and timber products from other available sources.

In the circumstances, the way forward is, therefore, to soldier on and persevere in restoring and strengthening the international trade in tropical timber. This entails addressing urgently and effectively the acute image problem which tropical timber has been suffering for decades. In spite of its superior properties and versatility, tropical timber has long been linked by some in the environmental movement to deforestation and biodiversity loss, due primarily to poor governance and enforcement leading to illegal logging and trade.

## **New laws and responses**

Previously, the clarion call was for the implementation and achievement of SFM in the tropics and trade in tropical timber from sustainably managed and legally harvested forests through voluntary soft policy and capacity-building tools such as criteria and indicators; forest monitoring, assessment and reporting; and traceability, CoC and phased approaches to market-based certification. This has now shifted to the imposition of legal and mandatory instruments and approaches to legality and forest law governance and enforcement as embodied in

the Amendment to the Lacey Act in USA that has been enforced since 15 December 2008, the Australian Illegal Logging Prohibition Act 2012 which became law on 29 November 2012 and the accompanying Illegal Logging Prohibition Amendment Regulation which is expected to come into effect on 30 November 2014; and the European Union Timber Regulation (EUTR) which entered into force on 3 March 2013.

The enactment of these laws is the culmination of efforts spearheaded by the G8 through its 1998 Action Plan on Illegal Logging. It is a response from developed countries that have lost patience over the slow progress towards achieving SFM in the tropics, coupled with what they perceive to be the persistent problem of illegal logging and poor governance in tropical developing countries. Concerned over their contribution to global deforestation and wishing not to be associated any longer with these persistent problems, major consumers have decided to enact these laws, giving precedence to legality over sustainability. Having been working towards SFM through voluntary, capacity-building and developmental means and approaches (which many are still struggling with), tropical timber producing countries have now to adjust their focus and priority towards legality and good governance which are being enforced through hard laws and legal instruments.

It is now essential and urgent for tropical timber producing countries and the international tropical timber trade to adopt a positive and proactive approach to addressing the priority challenges of weak forest governance through clear and coherent strategies for reforming and strengthening forest governance and reining in illegal logging and trade more efficiently and effectively. More resources have to be devoted towards this in an inclusive and participative manner at the national level, taking due account of the interests of all relevant stakeholders including small and medium enterprises, the informal sector and indigenous people. This should form the basis for the development and implementation of a national timber legality assurance system (TLAS) incorporating control of the supply chain, verification of compliance, licensing and independent auditing, which is comprehensive, robust, credible and can withstand international scrutiny and meet legal requirements of all international markets.

## TLAS chance

Establishing and implementing a credible TLAS is no easy task as it often involves a revamp of existing governance structures and procedures. In particular, the costs of establishing, maintaining and improving such a system on a continuous basis can be substantial. There are considerable gaps in ability, capacity and financial resources in establishing and implementing the system in practically all tropical timber producing countries which need to be effectively bridged.

This is a situation where the tropical timber trade and industry needs to be supported by government. In turn, both require a supportive international climate which facilitates the marketing and consumption of legal timber and timber products at prices which are remunerative and reflective of the additional costs of producing and marketing these products. Complying with a credible TLAS is a big challenge for the small, medium and community enterprises within the tropical timber trade and industry. Without adequate assistance, these enterprises may become victims of new regulations, leaving only bigger companies to continue the trade. Collective self-help within the trade and industry is needed, with the bigger companies providing leadership and assistance to smaller enterprises.

Expanded contributions from the proponents of timber import regulations are needed to create a supportive international environment in which a flourishing tropical trade predicated on the principles of legality assurance and verification can be facilitated. Efforts so far have resulted in a surge in demand for legal timber which in itself is a powerful incentive for promoting legal timber and clamping down on illegality. However, this demand has to be translated into prices which are remunerative and reflective of the additional costs incurred by producers in ensuring the legality of their products. Merely awarding the green lane for legal tropical timber may not be enough to facilitate the continued production and exports of legal timber into these markets.

As more countries begin to enact laws regulating the import of timber products, the proliferation and variability of such requirements will need to be monitored. It will be a nightmare for tropical timber producers if each importer were to insist on exclusive compliance to its import law and procedures with no reference to what is going on in the exporting country and in other markets. Countries developing national TLASs hope that their systems will be able to meet the requirements of all importing countries. There is, therefore, merit in exploring mechanisms and arrangements (such as mutual recognition and convergence) that can eventually lead to the harmonization of timber import regulations.

Finally, at some point, appropriate monitoring and analyses will have to be undertaken to ascertain the extent to which new timber import regulations have met their intended purpose of blocking the entry of illegal timber into the respective markets. More importantly, we need to assess the impact of these regulations on efforts to combat illegal logging, poor governance, deforestation and forest degradation in the tropics and whether there are any significant unintended consequences that may arise for the tropical timber trade and industry.