



Changing Global Market Requirements Affecting Timber Exporting Countries

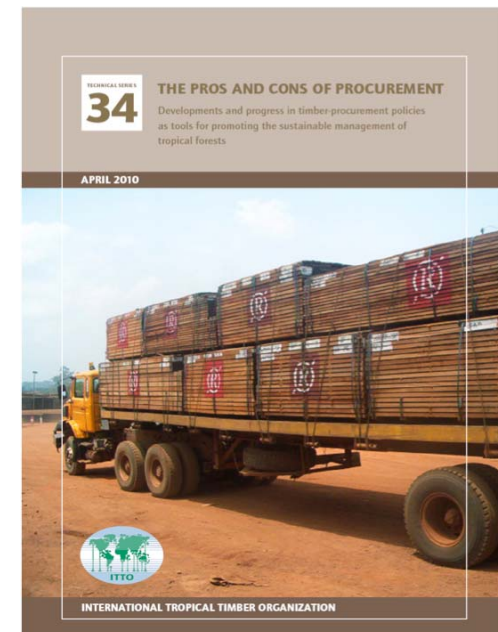
**CAF/EFI/ITTO Side event at IUFRO World Congress
August 25 2010
Seoul, Korea**

**S. Johnson
International Tropical Timber Organization (ITTO)**

Outline of the Presentation

1. Introduction
2. Issues related to procurement policies
3. Market impacts of demand-side measures
4. Capacity and cost impacts in developing countries
5. Competitiveness impacts
6. Conclusions

The presentation is based on 2009 ITTO study:



Demand-side Measures for Promoting Legality and SFM

Public Sector

- Public procurement policies
- Regulations on excluding illegal timber
- Sanctioning illegal products
- Building standards
- Improvement of market transparency
- Market promotion of legal & sustainable products
- Development assistance

**Legal
compliance
and SFM**

Private Sector

- Individual company purchasing policies and actions
- Codes of conduct of industry and trade associations
- Third-party certification and verification
- Communication on responsible performance
- Green building standards
- Other voluntary measures

Partnerships and other actors

- Action plans and projects
- Trade networks
- Other support

Public Policies Are Not Limited to the EU

| Country | Products | Minimum reqs. | Level of obligation | Criteria for proof |
|--------------------|------------|--------------------|---------------------|----------------------------|
| Belgium | W | S | M | Yes |
| Denmark | W/P | L + S | V | Yes |
| EU | All | L | Guidance | |
| France | W/P | LS | M | Systems |
| Germany | W/P | LS | M | Systems |
| Netherlands | W/P | L + S | M | Yes |
| Norway | W/P | No tropical | V | - |
| Switzerland | W/P | S (L) | V | Systems |
| UK | W/P | LS, FLEGT | M | Yes |
| New Zealand | W/P | L + S | M | Systems |
| China | W | Labeling | M | |
| Japan | W/P | L + S | M | Systems |
| Mexico | W/P | L + S | M | Registered auditors |

Several developing countries are preparing TPPs or in the process (Ghana, Vietnam, etc.). Local government-level initiatives spreading e.g. in Brazil.

Issue of Definitions

Legality

- Both TPPs and regulatory instruments have definitions
- Short and long versions, different approaches (legal/illegal) and levels of detail
- Scope and wording of definitions vary
- Commonalities: compliance with national laws and international conventions, countries' sovereign right to specify definition
- Need for more clarity, consistency and commonality between various definitions

Sustainability

- Short vs. detailed definitions (incl. prescriptive SFM requirements)
- Commonalities: C&I frameworks, certification standards
- Acceptability of individual schemes remains a key issue and there are differences in their recognition and pressures to accept only one (FSC)

Issue of Acceptance of Certification Systems 2009

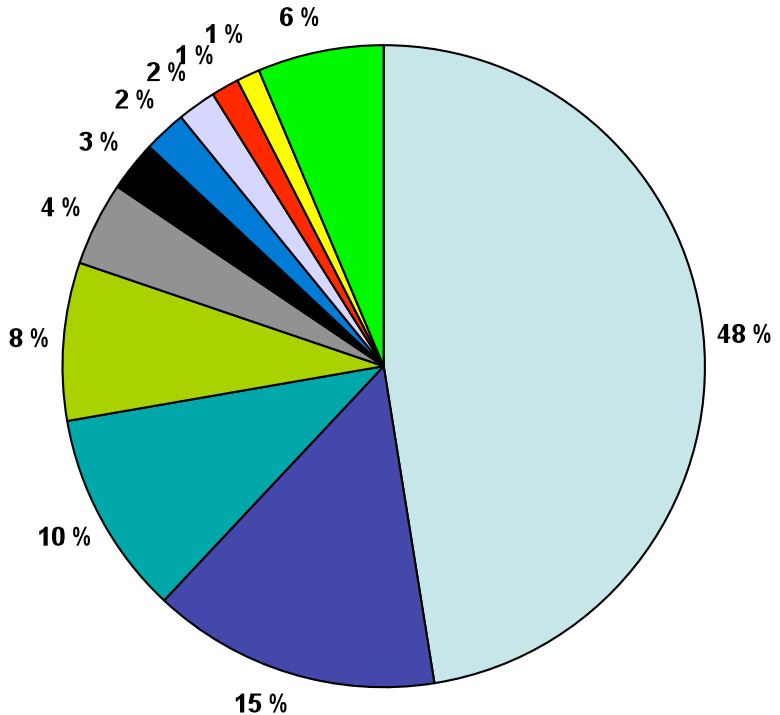
| Country | FSC | PEFC | SFI | CSA | ATFS | MTCS | LEI | Other |
|--------------------------|-----|----------------|-----|-----|------|----------------|-----|-----------------------------|
| Belgium | X | X ^a | | | | | | |
| China | | | | | | | | Chinese eco-labeling scheme |
| Denmark ^b | X | X | X | X | | X | | |
| France ^c | X | X | | | | | | |
| Germany ^d | X | X | | | | | | |
| Japan | X | X | X | X | | X | X | SGEC (national scheme) |
| Netherlands ^e | X | X | | | | | | |
| New Zealand ^f | X | X | X | X | X | X | | Eco-timber |
| Switzerland | X | X | | | | | | Q-Swiss Quality |
| UK ^g | X | X | X | X | | X ^g | | |

FSC – Forest Stewardship Council, PEFC - Programme for Endorsement of Certification Systems, SFI - Sustainable Forest Initiative (US), CSA - Canadian Standards Association, ATFS - American Tree Farm System, MTCS - Malaysian Timber Certification System, LEI - Indonesian Ecolabelling Scheme

Market Impacts of Demand-Side Measures (not only TPPs)

- **Demand:** 25-45% of the market can be impacted
- **Supply:** limited availability offers opportunities for early birds but for others short-term competitive disadvantage
- **Price:** premiums captured in some market segments; in the long run increased costs lead to increased prices
- **Extent of impacts** depends on the speed of eliminating illegal logging and trade and increasing certified supply
- **Winners:** countries with low rates of illegal logging and high degree of certified forests
- **Trade impacts:** all exporters (directly or indirectly), dependency on sensitive markets

Country Shares of Total Timber/Timber Product Export Revenue (ITTO producers and China)

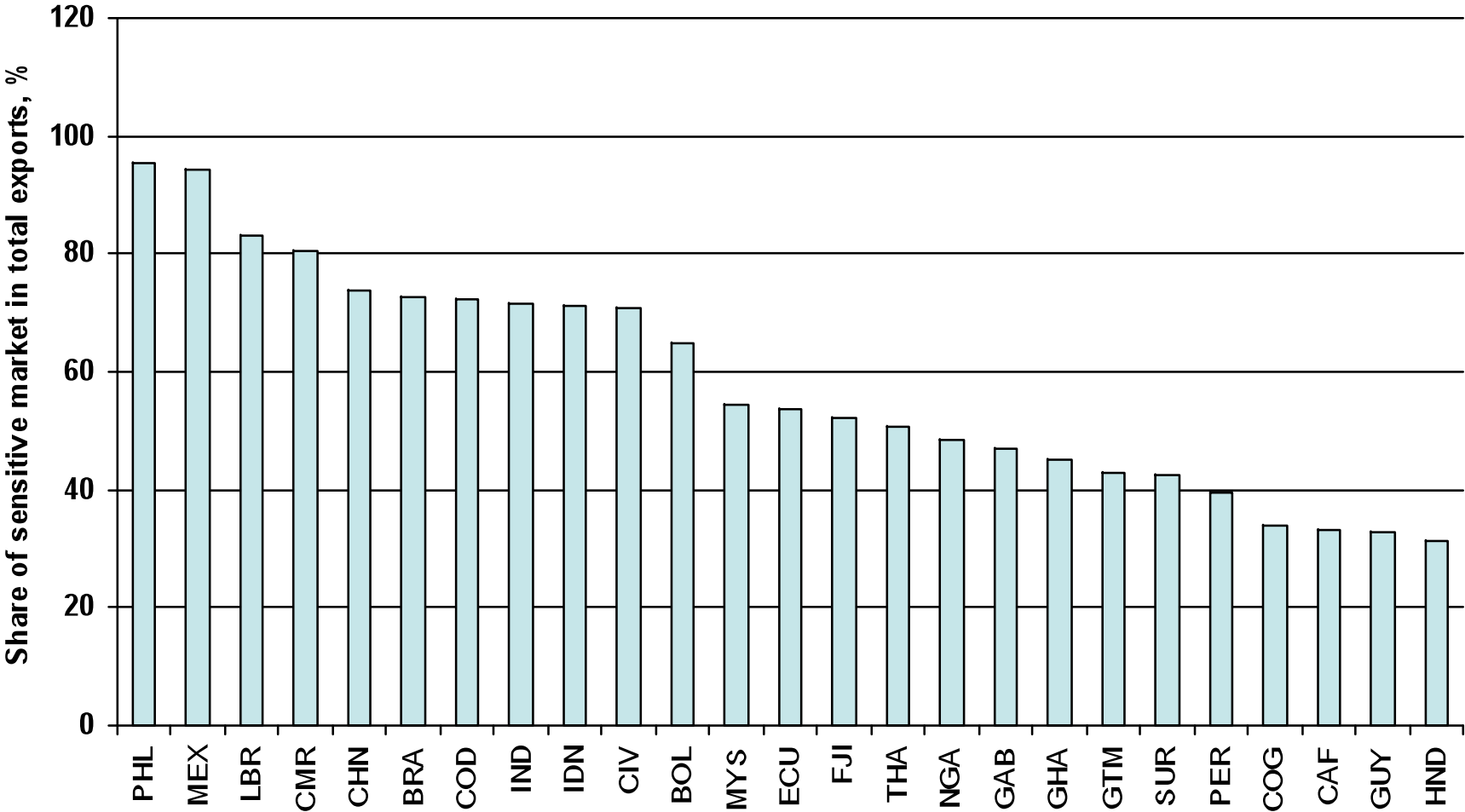


CHN
 MYS
 IDN
 BRA
 THA
 PHL
 MMR
 MEX
 IND
 GAB
 Others

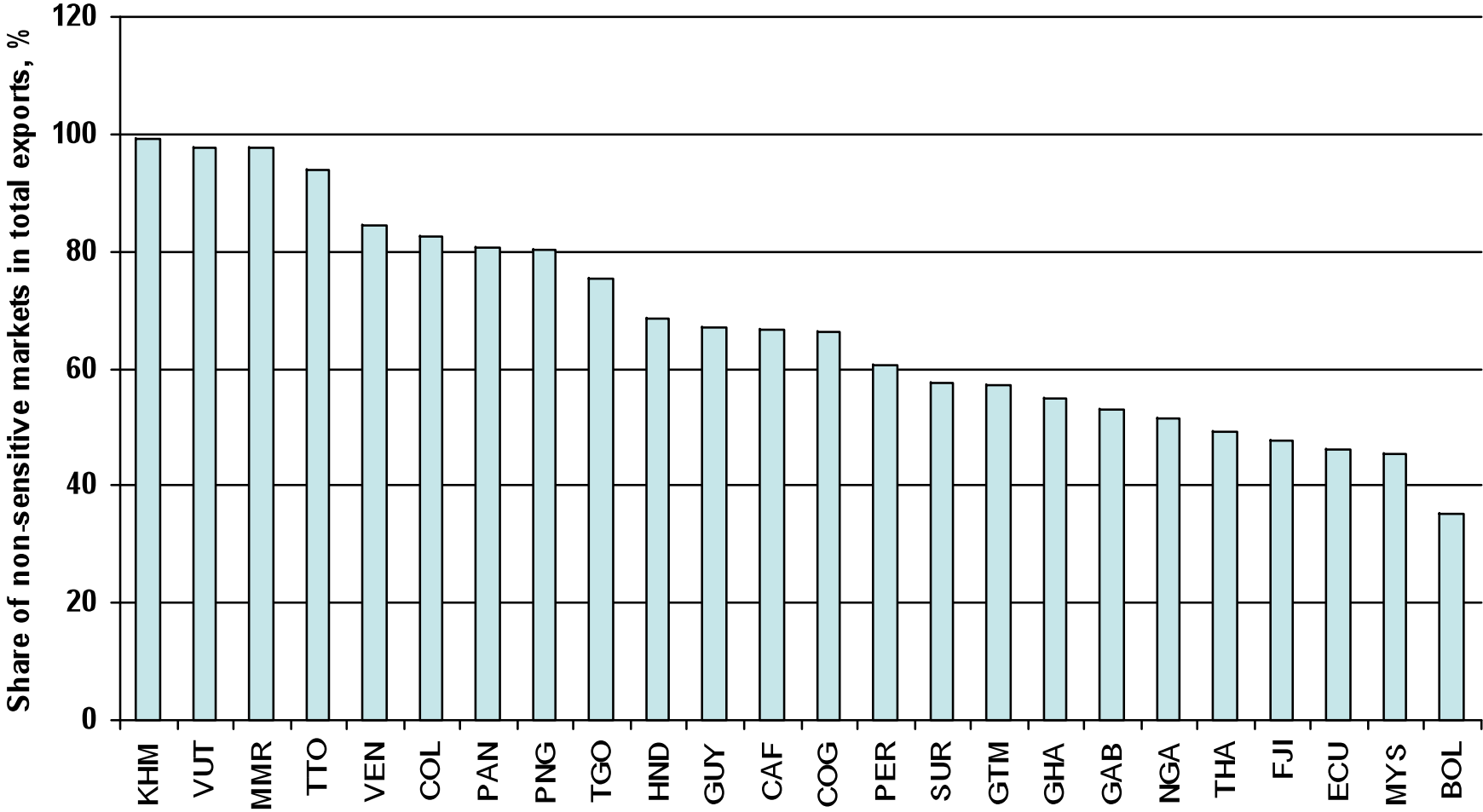
Includes logs, sawnwood, veneer and plywood, other wood-based panels, builders' woodwork and wooden furniture

Note: Vietnam and Laos are missing in the analysis.

Tropical Timber Producers' Dependence on Sensitive Markets



Tropical Timber Producers' Dependence on Non-Sensitive Markets



Capacity of Tropical Timber Producers

Capacity to achieve and demonstrate legality/sustainability:

- Generally inadequate

Constraints

- Governance: inadequate legal framework, weak enforcement systems and institutions, low national priority of the sector, insufficient budget allocations, corruption
- Slow progress in achieving SFM but several recent positive signs (e.g. large concessions in Africa, phased approaches)
- Capacity to demonstrate: limited SFM-certified/legality-verified areas in the tropics
- Uncertain market benefits to compensate added costs; lack of clear producer strategies, partly due to changing goal posts
- Capacity of community forests, smallholders, SMEs, and the informal sector

➔ Need for time and external resources to set up information control and management systems and to address other constraints

Two Parallel Tracks for Developing Countries

1. **Government-implemented timber legality assurance system**

- Mostly in major producing countries (FLEGT VPA targets)
- Complex, time-consuming effort
- Level of technology
- Cost-efficiency and reliability in demonstration of legal compliance
- Financing of additional costs (often significant)

2. **Private sector-implemented systems**

- Forest certification and independent legality audits
- Costly for SMEs, limited access by community forests without external support

Cost of Legal Compliance and SFM in Average-Size Forest Management Units in Cameroon

| Type of FMU | Size of average FMU ha | Legal compliance | Sustain-ability | Total | Legal compliance | Sustain-ability | Total |
|-------------------|---------------------------|-------------------|-----------------|-------|---------------------------------|-----------------|-------|
| | | Unit cost USD /ha | | | Total cost in the FMU USD 1,000 | | |
| Concessions | 59,000 | 5.23 | 1.67 | 6.90 | 303.4 | 98.5 | 401.9 |
| Municipal forests | 23,000 | 6.61 | 2.58 | 9.19 | 152.0 | 59.3 | 211.3 |
| Community forests | 5,000 | 4.68 | 10.03 | 14.71 | 16.7 | 38.6 | 55.3 |

Notes:

Legality: costs of compliance with international agreements and conventions signed by Cameroon.

Sustainability: costs of additional biodiversity studies, environmental impact assessment, additional social studies on indigenous people, establishment of permanent sample plots, support to community development, and direct cost of certification.

Competitiveness Impacts (1/2)

Note: there are few hard facts to date

Substitution between timber products/producers:

- Impact on prices are uneven among different types of wood
- Coniferous wood probably largely neutral; temperate hardwoods a likely winner and tropical hardwoods a likely loser
- Plantation wood a likely winner and hardwood from natural tropical forests a loser
- Countries with large private smallholder production lagging behind in certification are likely losers
- High risk countries are losers; trade diversion
- Possible price premiums not necessarily invested in forest management; integrated companies can be winners

Competitiveness Impacts (2/2)

Substitution between materials:

- Additional costs of wood and wood-based products have a negative but probably limited impact (more significant in tropical timber)
- Difficulty in purchasing wood products compared to other materials (additional risks and costs) likely more important than cost impacts (probably mostly in furniture, joinery products)
- Impact on specifiers (architects, quantity surveyors, etc.) unknown; risk for exclusion of wood if procurement is problematic
- Contribution to the image of wood (possibly for tropical wood as well)
- Wood is pioneering demonstration of legality and sustainability; other sectors lagging behind and will have to join (through green building initiatives), but their issues are less serious/scrutinized
- Lack of agreed methods for life-cycle analysis between materials; difficulties due to diversity of end uses and individual products (general comparisons between materials can be challenged)

Forest, Social and Environmental Impacts

- **Forest:** progress in SFM
 - **Forest sector:** improved legal framework and governance
 - **Fiscal revenue:** depends on timber demand-supply balance
 - **Forest industry:** downsizing, improved supply chain management, access to new markets and maintenance of existing ones
- **Social:** short-term impact on poverty and employment often negative; long-term impact positive
- **Informal sector:** high risk for drastic impacts on forest communities and self-employed/SMEs (millions in developing countries)
- **Environment:** positive but risk of leakage

TPPs: FROM 'SOFT' TOOLS TO 'HARD' REGULATORY INSTRUMENTS

EUROPEAN UNION (EU)

- Voluntary Partnership Agreements (VPA)
- Timber Legality Assurance System (TLAS)
- FLEGT license as proof of legality
- Due Diligence Regulation

UNITED STATES OF AMERICA (USA)

- Amendments to Lacey Act
- Fine, jail for importing timber in violation of laws of exporting country
- Import declaration requirements

OTHERS (Under Consideration)

- Switzerland
- Norway
- New Zealand
- Australia

Conclusions

- TPPs represent a **compromise** between market pressures and what can be achieved in practice
- **Free riding** of illegal logging and trade cannot continue
- Potential negative **market impacts** on wood consumption need to be mitigated (policy consistency)
- Need for **harmonization** in definitions/procurement criteria and flexibility in time-schedules and implementation arrangements
- Impacts in **developing countries** can be drastic and mitigation efforts need external support
 - Impacts on the most vulnerable **informal sector, community forests and SMEs** need particular attention
- More **information on competitiveness impacts** is needed



www.itto.int