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**COMMITTEE ON ECONOMIC INFORMATION
AND MARKET INTELLIGENCE**

COMMITTEE ON FOREST INDUSTRY

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REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

**FORTY-SIXTH SESSION OF THE COMMITTEE ON
ECONOMIC INFORMATION AND MARKET INTELLIGENCE
AND THE COMMITTEE ON FOREST INDUSTRY**

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REPORT

1. Opening of the Session

The Forty-sixth Session of the Committees was opened on 7 November 2012 at the Joint Session of the Committee on Economic Information and Market Intelligence (CEM) and the Committee on Forestry Industry (CFI), co-chaired by Mr. Rob Busink (the Netherlands), Chairperson of CEM and Dr. James Gasana (Switzerland), Chairperson of CFI. Mr. José Trinidad Suazo Bulnes (Honduras), Vice-Chairperson of the Council chaired the Joint Session of the Committees on 6 November 2012 which considered items 4 and 8A of the Agenda and on 7 November 2012 which considered item 6 of the Agenda. The list of participants is presented in document ITTC(XLVIII)/Info. 2.

2. Adoption of Agenda and Organization of Work

The Agenda for the Joint Session of the CEM and the CFI as contained in document CEM-CFI(XLVI)/1 was duly adopted.

3. Admission of Observers

The Committees admitted the observers listed in document ITTC(XLVIII)/Info.3 Rev.1 as approved by the Council.

4. Report of the Expert Panel for Technical Appraisal of Project Proposals

The Committees noted the presentation made by Ms. Eudeline Melet Pekam (France), Chairperson of the Expert Panel for Technical Appraisal of Project Proposals at its Forty-third and Forty-fourth meetings held on 6-10 February 2012 and on 30 July-3 August 2012 in Yokohama, Japan as contained in documents ITTC/EP-43 and ITTC/EP-44, respectively. In summary, the reports of the Expert Panel indicated:

- (i) 42 and 45 proposals appraised at its Forty-third and Forty-fourth meetings respectively;
- (ii) 7 proposals (17% of proposals evaluated) comprising 6 projects and 1 pre-project were accorded category 1 rating at the Forty-third meeting and 17 proposals (38% of proposals evaluated) comprising 13 projects and 4 pre-project were accorded category 1 rating at the Forty-fourth meeting;
- (iii) 2 out of the 7 proposals accorded category 1 rating during the Forty-third meeting and 9 out of the 17 proposals accorded category 1 rating at the Forty-fourth meeting were new proposals; and
- (iv) 20 proposals appraised during the Forty-third meeting and 11 proposals during the Forty-fourth meeting were sent back to proponents for revision and 13 proposals appraised during the Forty-third meeting and 16 proposals during the Forty-fourth meeting were recommended not to be approved by the Committees.

Ms. Pekam presented to the Committees the general findings and recommendations of the Expert Panel at its Forty-third and Forty-fourth meetings particularly addressed to the proponents of proposals with regard to the structure and design of projects, as follows:

- The key problem and problem analysis section is a fundamental part of the proposal and should be conducted thoroughly prior to identifying the outputs and activities;
- A proper presentation of the context: social, cultural, economic and environmental aspects should be provided and related to the project; and
- Approaches and methods are also fundamental in the formulation of a proposal and expected changes should be emphasized rather than what is done in practice.

Ms. Pekam presented to the Committees recommendations addressed to the proponents for the adequate involvement of all stakeholders especially communities, the absence of which may threaten the successful implementation of the whole project and its sustainability, as follows:

- Carry out in-depth analysis of all parties affected by the project, both positively (beneficiaries) or negatively;
- Communities should not be taken as a homogenous group and gender issues and group equity should be considered;

- Provide for beneficiaries' needs and priorities particularly of local communities and demonstrate expression of support of stakeholders.

Ms. Pekam also presented to the Committees recommendations addressed to the proponents for lasting changes in the proposals, as follows:

- Required budget from ITTO should not cover to a large extent personnel and travel costs;
- Proponents should wait for on-going projects to be fully carried out and to build follow-up proposals based on their outcomes;
- The ITTO guidelines should be followed and used.

Ms. Pekam further presented recommendations addressed to submitting countries:

- Strengthen the role of ITTO's focal points particularly in carrying out a first screening of proposals and in monitoring of proposals;
- Use national clearinghouse mechanism, especially noting its obvious added value in passing forward better quality proposals;
- Re-emphasize the need of training on project formulation and provide funding on such trainings;
- Contribute to disseminate relevant ITTO guidelines and results of previous or on-going ITTO and other projects.

Recommendations to ITTO were also made by Ms. Pekam in her presentation as follows:

- Provide more training on project formulation;
- Reinforce the role and involvement of ITTO's focal points in determining venues, monitoring of projects, etc. ;
- Ensure the national clearing house mechanism is fully implemented;
- Further promote the use of ITTO guidelines;
- Reflect on the future of the appraisal system.

Following the presentation of Ms. Pekam, the delegation of Malaysia thanked the Expert Panel for its work and welcomed the useful and thorough recommendations. It wondered whether the future work of the Expert Panel could be undertaken in only one meeting rather than two as was the current practice.

The delegation of Switzerland also thanked the Expert Panel and emphasized the need to provide more training for producing member countries and ensure sustained capacity building including by using the "training of trainers" approach for stakeholders.

The delegation of European Union also thanked the comprehensive presentation of Ms. Pekam and fully supported the recommendations particularly regarding the use of ITTO Guidelines. The delegation highlighted the role and functions of national focal points and urged for the minimization of the costs for project formulation and appraisal including by the increased use of electronic communications.

Ms. Pekam responded that it would be difficult for the Expert Panel to review all project proposals in one meeting. However, the workload could be reduced if initial screening of the project proposals could be carried out by national focal points or the ITTO Secretariat. The sustainability of the training for project formulation would be based on the availability of funding. She further mentioned the necessity of discussions among experts of the Panel in a meeting rather than simply by electronic communications. The ITTO Secretariat informed that a number of trainings for project formulation including four training courses were conducted under project PD 73/89 (M,F,I) "Assistance for Project Identification and Formulation". However, trainings in this regard could not be conducted since 2009 as the project was pending additional funding.

Ms. Pekam thanked ITTO and the members of the Expert Panel for their support during her chairmanship.

5. New Projects and Pre-projects

The Committees noted the projects and pre-projects that were approved under the time-bound electronic no objection procedures to accept Expert Panel ratings and circulated to member countries pursuant to Decision 6(XLIII), following the recommendations of the Expert Panel at its Forty-third and Forty-fourth Meetings as follows:

Committee on Economic Information and Market Intelligence		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 621/11 Rev.3 (M)	Traceability of Timber Produced by Forest Concessions and Native Communities in Madre de Dios and Ucayali	Peru
PD 678/12 Rev.1 (M)	Establishment of a National Forest Statistics Information Management System in Benin	Benin

Committee on Forest Industry		
PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 608/11 Rev.1 (I)	Life Cycle Assessment-Based Initiative for Carbon Foot Print Reduction and Improved Utilization of Tropical Timber Products from Malaysia	Malaysia
PD 612/11 Rev.2 (I)	Rural Community Development through Efficient Charcoal and Briquette Production from Logging and Corn Biomass Residues in the Afram Plains District of the Republic of Ghana	Ghana
PD 655/12 Rev.1 (I)	Capacity Building of the Builders' Woodworks Industry in the Philippines	Philippines
PD 661/12 Rev.1 (I)	Towards Sustainable Utilization of Bamboo Resources in Ghana: Development of Glued Bamboo Beams and Boards for Affordable Housing and Furniture in Ghana through Collaboration with Local Communities in Two Districts	Ghana
PD 671/12 Rev.1 (I)	Boosting Investments in the Processing and Marketing of Forest Products in Atalaya	Peru
PPD 161/12 Rev.1 (I)	Formulation of a Project Proposal for the Development of the Tara (<i>Caesalpinia spinosa</i>) Production Chain in the Andean Region (Peru and Ecuador)	Peru

6. ITTO Annual Market Discussion – 2012

The Committees noted the summary of the ITTO Annual Market Discussion – 2012, held in the Joint Session of All Committees on 7 November 2012, as contained in Appendix A. The theme of the Market Discussion was “Trading in Challenging Markets”. Mr. Rob Busink, Chairperson of CEM, chaired the meeting and Mr. Brent McClendon (TAG Coordinator) served as the moderator of the Market Discussion.

The following feature presentations were made during the Market Discussion:

Mr. Brent J. McClendon, CAE Intl. Wood Products Association (USA)	“Market Dialogue and Trade Advisory Group Presentation”
Mr. Michael S. Snow, Executive Director American Hardwood Export Council (USA)	“LCA, EPDs and Promoting the Environmental Credentials of American Hardwoods”
Mr. Takashi Fujiwara, Managing Director Japan Federation of Wood Industry Associations	“Green Procurement Policies and Timber Industries in Japan”
Mr. André de Boer, Secretary General European Timber Trade Federation	“Overview of Importer’s Markets” (EU)

The TAG Coordinator informed the Committees that collaboration between TAG and the Secretariat would continue for the planning and organization of the ITTO Annual Market Discussion 2013. He informed the Committees that the tentative theme for the discussion would be “Trade Approaches to Meeting Market Demands for Legality”.

The Committees further noted the statement of the Trade Advisory Group (TAG) presented during the Market Discussion as contained in Appendix B.

7. Report on Completed Projects and Pre-projects

The Committees considered the Report of Completed Projects and Pre-projects as contained in document CEM-CFI(XLVI)/2 as follows:

Committee on Economic Information and Market Intelligence

PD 406/06 Rev.1 (M) Establishment of a National Forest and Timber Marketing Statistics System (Ecuador)

The delegation of Ecuador reported on the completion of the project, as all activities have been carried out and outputs achieved satisfactorily, as presented in detail during the side event that took place on Monday, 5 November 2012.

The delegation of Ecuador highlighted the engagement of its government in the execution of the project and in its institutionalization within the Ministry of Environment, in recognition of the importance of the information generated by the National Forest and Timber Marketing Statistics System, called "SAF-2" for decision making.

The Committees noted that all three specific objectives of the project were achieved, with a bigger impact in respect to the geo-referenced information, as the SAF-2 contains maps with information on forest cover, natural protected areas, licensed timber harvesting areas, and productive forest. The delegation of Ecuador also expressed its willingness in sharing its experiences in the implementation of the project to other interested members or parties. The delegation of Ecuador further requested the Secretariat to disseminate the results of the project through the ITTO website in the three official languages.

The Committees noted that the project was executed below the ITTO budget with savings in the amount of US\$8,849.15, which was refunded to ITTO, and that the counterpart contribution was increased. Following the report made by the delegation of Ecuador, the delegation of the European Union commended Ecuador for the successful completion of the project, highlighting that much was done with limited resources and that the SAF-2 will improve legality as there is better information to formulate better policies.

The delegation of Guatemala also congratulated Ecuador for the completion of the project and for the very interesting side event that took place on 5 November 2012, expressing the importance of institutionalizing the project and using it as a tool to combat illegal logging. The delegation of Guatemala also informed that a similar initiative is being run in Guatemala and it would like to benefit from the experience gained by Ecuador.

The Secretariat confirmed that remaining funds have been refunded to ITTO and that all project outputs are made available on the ITTO website, under the section on 'Project Outputs' and in Spanish.

The Committees noted that the technical, completion and final financial audit reports of the project had been submitted to the Secretariat. The Committees duly declared the project complete.

PD 479/07 Rev.2 (M) Timbers of Tropical Africa Part 2: Group 7(2) within the PROTA Programme (Ghana)

The Secretariat informed the Committees of the implementation of the project, accomplished after an extension of six months of its duration with no additional ITTO funds. The implementation of the project resulted in the achievement of all outputs which contributed to the realization of its development objective of improving access to interdisciplinary data on the timbers of Tropical Africa as a basis for sustainable forest management and improving networking, leading to better cooperation and information exchange between forestry actors. The outputs produced also contributed to the realization of the key product and deliverables of the project, namely the Plant Resources of Tropical Africa 7(2) Timbers 2 which is available in English and French as well as in various forms namely books, CD-Roms and internet database (database, prota.org/search.htm) with accompanying brochures, leaflets and manuals. These products are being disseminated for education, extension,

research, industry and policy-making to a wide range of targeted beneficiaries within and beyond the Tropical Africa region.

The Committees noted that the completion and final financial audit reports of the project had been submitted to the Secretariat. The Committees duly declared the project complete.

PD 480/07 Rev.2 (M) Demand and Supply of Tropical Wood Products in China towards 2020

The Secretariat reported to the Committees that all the project outputs had been achieved including: 4 research and analysis reports finalized; 23 domestic investigations carried out; 586 feedbacks received on consumers' preference investigation; an international workshop conducted involving 60 participants and 24 issues of China Wood Products Market Information published.

The Secretariat informed the Committees that the completion report, the technical reports and the final financial audit report had been submitted by the Implementing Agency to the Secretariat in accordance with the Project Agreement.

The delegation of China expressed its appreciation to the donors and ITTO for their support in the implementation of the project. The delegation of China highlighted a number of lessons learned from the project implementation as follows:

- Significance of forecast demand and supply of wood products in China as the world largest processing and trading centre of the world;
- Collaboration with stakeholders including through the establishment of a consultative mechanism is very important;
- Collecting information and data of key tropical timber products from correspondents is of critical importance;
- The right selection of the international consultant will contribute to successful project implementation particularly in framework design and reports finalization;
- The international workshop served as a platform for exchanging information in the field of wood product markets.

The delegation of China presented the following recommendations:

- As problems in statistics for tropical timber products are existent and could result in the generation of inconsistent or incorrect statistics and data, future support is needed from ITTO for further improvement;
- Considering the trends in international trade and market requirements for timber products, the impact and challenges on Chinese timber trade, especially of the US Lacey Act and EU Timber Regulation, should be further analyzed;
- With the increased domestic labour cost and competition in the world timber market as well as the upgrading of Chinese forest industry structure, the follow-up analysis will be necessary.

The Committees noted that the completion and final financial audit reports of the project had been submitted to the Secretariat. The Committees duly declared the project complete.

Committee on Forest Industry

PD 40/00 Rev.4 (I) Utilization of Small-Diameter Logs from Sustainable Source for Bio-Composite Products (Indonesia)

The Secretariat reported to the Committees that all activities were completed and all outputs were achieved in a period of 53 months, including assessment of market needs, identification of technical gaps in producing bio-composite products from small diameter logs (SDL), identification of equipment needs for production and manufacturing constrains, enhancement of production coordination, mitigation of potential trade barriers, compliance with relevant standards and organization of a regional workshop for all participating countries in the project, namely Indonesia, Malaysia, Philippines and Papua New Guinea.

The Committees noted that project reports are available from the ITTO website.

Following the report by the Secretariat, the delegation of Indonesia expressed its appreciation to ITTO, CFC as well as the project partners for funding the project and collaborating in its implementation, and stressed that the outputs of the project are consistent with the Forest Industry Revitalization Programme of the Ministry of Forestry of Indonesia.

The Secretariat informed the Committees that completion report, technical reports and final financial audit report had been delivered by the Implementing Agency in accordance with the Project Agreement.

The Committees duly declared the project complete.

PD 384/05 Rev.3 (I) Testing Laboratory for the Development of Quality Standards for Mexican Primary and Processed Tropical Forest Products

The delegation of Mexico reported that all activities were carried out and all outputs were satisfactorily achieved. The delegation highlighted that Mexico now relies on the fully equipped laboratory conducting testing in accordance with the relevant international standards. It also expects that the laboratory may become a point of reference in research and development for increasing the productivity of timber processing, therefore contributing to the ITTA 2006 objectives. The delegation of Mexico expressed its appreciation to the governments of Japan, United States and Finland for their financial support to the project.

Following the report by the delegation of Mexico, the delegate of the European Union inquired of the reasons for the delay in the implementation of the project. The Secretariat responded that the delay was mainly due to the time required to collect samples for the technical sheets of 26 tropical timbers species which are available at the ITTO website, as well as the civil works needed for the installation of the equipment purchased.

The Secretariat informed the Committees that completion report, technical reports and final financial audit report had been delivered by the Implementing Agency in accordance with the Project Agreement.

The Committees duly declared the project complete.

PD 513/08 Rev.1 (I) Enhancing the Capacity of the Wood Processing Sector to Improve Efficiency and Add Value in Guyana

The outputs of project had been achieved, namely:

- A code of practice (CoP) for wood processing operations was developed in order to provide detailed information on the recommended best practices to be used to drive maximum value from logs and to produce lumber meeting the needs of consumers;
- A capacity-building strategic plan for the wood processing sector was developed to elaborate the specific actions to be taken in the next two years for the development of human resource and infrastructure, networking and management of wood processing sector of Guyana;
- A detailed training manual for ten sessions was developed and tested with stakeholders. The areas for training were identified based on the practices proposed in the code of practice and the competence areas for managers/supervisors and technicians/operators were specified; and
- Mobile sawmill and edger were installed within the forest concession of the association, and the equipment for value-added operations was established in the community where the association members reside.

The delegation of Guyana made a presentation on the project. He expressed appreciation to the donors, as well as ITTO, for their financial support and guidance, and informed the Committees that the project has been contributing to the improvement of the efficiency in the wood processing sector in Guyana and the value added to their wood products.

The delegation of Japan congratulated the success of the project, with particular emphasis on the developed Code of Practice (CoP) for the wood processing operations.

The Secretariat informed the Committees that completion report, technical reports and final financial audit report had been delivered by the Implementing Agency in accordance with the Project Agreement.

The Committees duly declared the project complete.

8. Ex-post Evaluation

(A) Ex-post Evaluation Reports

To facilitate the sharing of experiences and lessons learned from ex-post evaluation of projects among members, the consideration of ex-post evaluation reports was undertaken at the Joint Session of All Committees. The Committees considered the executive summaries of the ex-post evaluation reports as contained in documents CEM-CFI(XLVI)/3-A and CEM-CFI(XLVI)/3-B.

Committee on Economic Information and Market Intelligence

No ex-post evaluation report was considered at this session.

Committee on Forest Industry

PD 233/03 Rev.2 (I) Application of Intermediate Technologies for Sustainable Forest Harvesting (Peru)

A presentation was made for the Committees by the consultant, Mr. Vicente Molinos (USA), on the results of his ex-post evaluation on the project.

Mr. Molinos informed the Committees that the problem addressed in the project was the low forest yield and high production costs resulted from the use of unsuitable equipment and tools in harvesting and the selective harvesting of timber species. The project was executed over a period of 73 months.

The consultant noted that project outputs were fully achieved, and highlighted the impacts of the project after 19 months from its completion, including:

- Improved forest harvesting and processing, as indicated by the fact that very hard wood are now sawn by small forest concessionaires with the use of technology promoted in the project;
- Good uptake and replication, as indicated by the 15 additional semi-portable sawmills having been sold in Peru since 2010, without the Project's credit guarantee scheme. An unexpected outcome is that more than 50 semi-portable sawmills have been established with strengthened design and halved cost compared to the equivalent imported ones as the result of the regional mechanical woodworking workshops in the Peruvian Amazon Region; and
- Effective financing mechanism, as demonstrated by the total amount of credit generated during the twenty months after the completion of the project which is 15 times higher than the investment in the guarantee fund (US\$ 9,647). The credit offered small and medium forest sector producers in Peru a real financing alternative.

Following the presentation, the delegation of Peru commended the consultant for his presentation, and recognized his hard-work under difficult circumstances resulted from the closure of the Implementing Agency, including in accessing the forest concessions and contacting concessionaires. Furthermore, the delegation of Peru expressed its agreement with the content of the report and informed the Committees that some of the recommendations, including the regulatory simplification for the approval of management plans and the development of financing mechanisms under other international agencies, are in a process of implementation.

Then, the delegation of Ecuador congratulated the consultant for his presentation and inquired whether the portable sawmills used in the project had a better performance in the sawing process, mentioning that the Government of Ecuador is now looking for alternatives to the use of chain-saws in order to increase yield. The consultant responded that prohibiting the use of chain-saws is not practical as there is no much difference in the yield between portable sawmills and chain-saws if the latter are properly used.

The consultant clarified that the technology used in the project allows value adding to logs by improving their quality, while chain-saw may be used for large logs to carry them to the portable sawmill.

The Committees commended the consultant for his report and presentation.

PD 275/04 Rev.3 (I) Improvement of the Sustainable Management and Utilization of Non-Timber Forest Products (NTFPs) in Cambodia

A presentation was made for the Committees by the consultant, Dr. Hiras Sidabutar (Indonesia), on his ex-post evaluation report on the project.

The ex-post evaluation of the project was conducted on 15-26 July 2012. Dr. Sidabutar informed the Committees that the problems facing the management and utilization of NTFPs were adequately identified in close consultation with the main stakeholders. However, the identified problems were inadequately analyzed and resulted in rather weak project intervention. Despite weaknesses of the project design, it has greatly contributed to the achievement of planned project objectives. Out of the five planned outputs, four were fully delivered while one was partially delivered. The specific objectives were almost achieved and the development objective which was to contribute to local livelihood, was achieved to a lesser extent.

According to the consultant, reasons for this sub-optimal achievement are: i) majority of collectors and processors of NTFPs are still heavily dependent on middlemen for financing their operation, thus on selling price of the products; ii) some processors are facing low profit margin due to the low productivity caused by the poor processing tools coupled by the low selling price for the inferior quality; iii) difficulty exists in obtaining raw materials at affordable price, and iv) decreasing number of villagers are involved in NTFPs business because of the presence of alternative local income sources.

It was pointed out that the project's objectives could have been better achieved if the intervention had been based on adequate problem analysis. Output 1 for instance, was not a relevant as it relates more to the operational management rather than solving the problem at hand.

The committees were reported that the impacts of the project intervention appeared to be insignificant, rattan and bamboo processing did not contribute meaningfully to the livelihood of most processors and the interest in planting NTFPs was weakening. The training program under the project, formulated in accordance with the results of assessments, was relevant in terms of the subjects covered and methodologies adopted as well as its duration. However, transfer of technologies was hampered by the communication gap due to the language problem. In addition, the full participation of trainees was difficult because of their engagement in the day-to-day income generating activities.

Dr. Sidabutar noted that sustainability of the project intervention was somewhat questionable. Interest in processing was diminishing due to the low productivity caused by poor tools and facilities for processing. Interest in planting was also fading out due to the presence of alternative job opportunities which bring immediate and real financial gain. The developed management plan for community forest has not been adopted in the field nor replicated to other community forests.

The Implementing Agency is not able to provide the assistance needed by the communities mainly due to the limited state funds. The support that has been so far granted by the Implementing Agency is confined only to distribution of seedlings of fruit trees and fast-growing tree species but interest in planting is weakening due to the uncertainty involved in the undertaking, unconformity of planting activity to the local communities' cultural value structure, such as "enter the forest, harvest products and sell for immediate income".

Despite the weaknesses in the project design, it had been smoothly implemented in accordance with its work plans and nearly achieved its intended objectives. The good performance was attributable to the able project management team, competent PSC and supportive partners especially the local forestry administration, local government at different levels, including village administrations, and consultants. The Committees were informed that another key success factor was the timely and sufficiently conducted activities.

Dr. Sidabutar recommended that the Implementing Agency should continue to provide assistance to the local communities by allocating necessary resources to the extent possible in order to sustain activities initiated under the project. He also recommended that ITTO should continue its support

projects on NTFPs because this resource development is basically pro-poor, pro-job and pro-environment with relatively small capital requirement.

Following the presentation, the delegation of Cambodia expressed its gratitude to the consultant and the ITTO Secretariat for conducting the ex-post evaluation of the project and to the donors (Japan and France) for funding the project. The delegation mentioned that many lessons can be learned from the ex-post evaluation, such as the importance of adequate problem analysis for the sound project design; need for reducing project sites to allow intensive monitoring of project operation; and transfer of appropriate technology to be employed by villagers. The delegation confirmed its commitment to the sustainability of the project intervention and requested further ITTO's support to the crucial activities initiated under the project for the benefits of the local people of Cambodia.

The Committees commended the consultant for his report and presentation.

(B) Selection of Projects for Ex-post Evaluation

Committee on Economic Information and Market Intelligence

In view of the lack of available funding, no project was selected for ex-post evaluation. The Committees agreed to include the following projects declared complete at this session in the list of projects that could be selected for ex-post evaluation in the future sessions of the CEM.

PD 406/06 Rev.1 (M)	Establishment of the National Forest and Timber Marketing Statistics System (Ecuador)
PD 479/07 Rev.2 (M)	Timbers of Tropical Africa Part 2: Group 7(2) within the PROTA Programme (Ghana)

Committee on Forest Industry

The Committees duly selected the following projects for ex-post evaluation:

PD 40/00 Rev.4 (I)	Utilization of Small-Diameter Logs from Sustainable Source for Bio-Composite Products (Indonesia)
PD 306/04 Rev.1 (I)	Improving Utilization and Value Adding of Plantation Timbers from Sustainable Sources in Malaysia
PD 334/05 Rev.2 (I)	Demonstration and Application of Production and Utilization Technologies for Rattan Sustainable Development in the ASEAN Member Countries (Philippines)
PD 425/06 Rev.1 (I)	Production and Utilization Technology for Sustainable Development of Eaglewood (Gaharu) in Indonesia

The Committees noted that in the case of PD 40/00 Rev.4 (I) consultations will have to be conducted first with the Common Fund for Commodities (CFC), the donor of the project, on the eligibility and procedures for conducting the Ex-Post evaluation.

The Secretariat noted the request made by the Committees in respect to increase the number of projects for which ex-post evaluation is conducted subject to the availability of financial resources, and considering the results of the Meta Evaluation of ITTO Ex-Post Evaluation.

9. Policy Work

Eight issues and activities under the CEM and five issues and activities under the CFI were discussed by the Committees.

Committee on Economic Information and Market Intelligence

(i) Market Access

Under the issue of market access, the Committees noted a presentation by Ms. Frances Maplesden (New Zealand), consultant, on the draft results of the study “Improving Resilience of the Tropical Timber Sector to the Impacts of Global and Regional Economic and Financial Crises” carried out under TMT-SPD 002/10 Rev. 1 (M). This project was initiated following the speed and severity of the global and financial economic crisis in 2008 and 2009 which impacted the construction sectors and consumer spending in most parts of the world and had marked impacts on the competitiveness of the tropical forestry sector. The crisis exposed the vulnerability of the tropical timber sector which has a relatively limited knowledge base and capacity at country level to manage severe market shocks. The project’s objectives were aimed at increasing the ability of the tropical forestry sector to anticipate, manage and recover from future global economic crises.

The consultant noted that the detailed draft report was available to delegates on the ITTO website as a Council document. The presentation summarised the main findings of the study, including the macroeconomic impacts of recent and past economic crises and identification of country vulnerability; the impacts of the crisis on the tropical forestry sector, including forests, production, trade and prices; the impacts of the crisis on demand in tropical consumer countries with a focus on China and the EU; the impacts of regional and national producer country responses and remedial measures with case studies carried out in Brazil, Ghana and Malaysia, and the identification of successful strategies employed by other primary commodity sectors and their applicability to the tropical timber sector.

Detailed recommendations had been formulated based on the findings of the study and addressed to ITTO, ITTO producer countries, ITTO consumer countries, regional organisations and forest industry and trade associations. Although detailed recommendations were not presented to the Committees, the consultant indicated that these were available to read in the draft report and focused on the following areas: growing domestic and regional markets; developing preparedness measures for global financial crises; cushioning the impacts on forestry enterprises, particularly small and medium-sizes enterprises; strengthening regional cooperation and integration; strengthening capabilities and cooperation between trade and industry organisations in the forestry sector and government-industry partnerships; developing marketing strategies to overcome reduced market demand including diversification of products and markets and focusing on value-added and innovative products; and developing internationally competitive forestry enterprises.

Following the presentation of Ms. Frances Maplesden, the delegation of Switzerland thanked the consultant for the interesting presentation and noted that tropical wood products competitiveness and market access issues had become more important as a result of the downturn in global timber demand. The delegation emphasized the important dimension of competitiveness and draw attention of the Committees on the need for it to be included in future discussions on market access under the policy work.

The Malaysian delegation thanked the consultant for the presentation and requested that the study be expanded to include the experience of exporters in response to the latest developments in legality legislation in importing countries.

The delegation of the EU noted that globalisation of the marketplace has resulted in consolidation of industrial enterprises around the larger enterprises and that SMEs were struggling to survive under current market conditions. The consultant responded that this trend has been observed in the tropical wood products industries, particularly in China which is the major manufacturer of tropical SPWPs. However, she suggested that it is possible for SMEs to be more competitive if they have access to support mechanisms which provide improved access to finance and the ability to adopt new technologies and access new markets

The delegation of Malaysia further drew the attention of the Committees on the important role that the CSAG and the TAG could play to address the image problem that tropical timber suffers. The concerns which CSAG members often raise need to be discussed between them and to inform the Council in its work on SFM. The delegation further suggested that ITTO Secretariat undertake consultations with members of the CSAG and TAG on the possible structure and format of meetings and appropriate initiatives between these two groups.

The delegation of USA also mentioned that the CSAG and the TAG could play a more efficient role and requested that the Secretariat might invite and consider new ideas for their future work from the two groups.

The Committees commended Ms. Maplesden for her excellent presentation.

(ii) Forest and Timber Certification

The Secretariat reported on the development of forest certification in ITTO producing member countries for the year 2011.

According to the statistics collected by the Secretariat, the total area of certified forests in ITTO producing member countries was 23.4 million hectares in 2011. This accounted for 5.9 % of the world's total area of certified forests of some 395 million hectares. The number of FSC-CoCs in ITTO producing member countries was 1504, which accounted for 6.8 % of the world total. Compared to figures in 2007 contained in the ITTO Technical Series Report, the area of certified forests had expanded 61% while the number of CoC certificates had increased over three-fold.

Forest certification in ITTO producer member countries involved two international certification systems:

- a. Forest Stewardship Council (FSC): 16.1 million hectares of forest in ITTO producing member countries were certified, which accounted for about 10.8% of the total. The top countries are Brazil, Democratic Republic of the Congo, Gabon and Bolivia. Brazil is in the lead with 4.9 million hectares of FSC certified forest and 827 CoCs.;
- b. Programme for the Endorsement of Forest Certification (PEFC): 5.9 million hectares of forest in ITTO producing member countries were certified, which accounted for about 2.4% of the total. The top countries are Malaysia and Brazil. Malaysia is in the lead with 4.7 million hectares of PEFC certificated forest.

In addition, there were 4 national certification systems in ITTO producer member countries as follows:

- Brazil: Brazilian Forest Certification Programme (CERFLOR);
- Malaysia: Malaysian Timber Certification Council (MTCC);
- Gabon : PEFC Gabon
- Indonesia: Indonesian Ecolabelling Institute (LEI)

The three certification systems, namely CERFLOR of Brazil, MTCC of Malaysia and PEFC Gabon had been endorsed by PEFC, and included in the certification statistics of PEFC. In Indonesia, the LEI certification system covered 1.4 million hectares of certified forests and 6 CoC certificates in 2010.

In general, two-thirds of the world's certified forests were certified under PEFC and almost one-third was under FSC. PEFC continues to be the largest forest certification scheme in the world with 245 million hectares of forest certified to the PEFC standard by the end of 2011. The area of PEFC certified forests increased 6.7% or 15 million hectares over 2010. In ITTO producing member countries, Brazilian CERFLOR, Malaysian MTCC and PEFC Gabon are the endorsed schemes. PEFC has continued to seek to expand the area of certified forest in ITTO member countries through activities focused on enhancing market demand for certification, especially in Africa and Asia including promoting cooperation with China. However, FSC still held the biggest share of certified forests in ITTO producing member countries. Some 16.1 million hectares of tropical and subtropical forest are certified by FSC, representing 73% of the total area certified. In 2011, FSC and LEI of Indonesia continue to explore potential areas of cooperation in forest management and certification in implementing the MoU between FSC and LEI.

Following the report by the Secretariat, the delegation of Indonesia informed the Committees that besides the voluntary scheme developed by LEI, Indonesia has developed SVLK (Indonesian Timber Legality Assurance System – Indo-TLAS) as stipulated under the Minister of Forestry Regulation no. P.38/2009 and P.68/2011. The system has been built on the basis of Indonesian law and regulation, and with reference to ITTO C&I through multi-stakeholder involvement. The system is mandatory in nature and requires all business units including privately owned forest, forest concession holders, and both primary and secondary industries, to obtain legality certificates. The certification process is performed by independent third parties, which have been accredited by ISO Standards.

Currently, 48 forest concession holders have been granted with SFM certificate covering 6.5 million hectares of state-forest. The units which have already obtained SFM certificate should also hold SVLK certificate. With regards to legality certificate, there are 66 forest concession holders which have obtained legality certificate in state-forests covering about 955,555 ha. Besides state-forests, there are 7,445 ha of private owned forests and 264 units of wood processing industries, which have obtained legality certificates.

(iii) Selected Data and Analysis from ITTO Annual Review and Assessment of the World Timber Situation

Ms. Frances Maplesden (New Zealand), consultant, presented further information on the draft Annual Review and Assessment of the Tropical Timber Situation, 2012, focusing on the EU market situation. The presentation also incorporated results from the EU case study conducted as part of the study TMT-SPD 002/10 Rev. 1 (M) "Improving resilience of the tropical timber sector to the impacts of global and regional economic and financial crises". The EU market was described as having limited opportunity for growth and requiring significant competitive advantage to maintain or grow market share. Sustainable consumption and green consumerism had been dominant market drivers before the economic crisis and certification has become a central issue to marketing of tropical wood products in the EU. Imports of primary tropical wood products have been declining, reflecting trends in log export restrictions from supplying countries, relocation of European investments in wood processing as well as reduced overall demand. There has been significant growth in imports of finished and semi-finished wood products from lower cost Asian suppliers which has contributed to reduced overall demand for tropical primary wood products.

Some of the important trends arising from the economic slowdown which have affected the tropical sector included: an increase in competition from a range of products, driven by reduced price expectations from consumers and perceptions that they are lower risk in terms of their environmental and technical performance; the barriers to market entry becoming higher with the need for suppliers to regularly introduce new and innovative products, which requires investment in product development and marketing and a presence in the market; price becoming a more important determinant of competitiveness, which is a threat to higher end commodities such as tropical hardwoods; and the structural changes in the European wood importing industry encouraging a shift to products and suppliers that are regarded as lower risk, which is usually to the detriment of tropical wood.

Following the presentation of Ms. Frances Maplesden, the delegation of Malaysia requested the inclusion of data on temperate hardwoods in future ITTO analyses of the EU market.

The EU delegation requested whether exchange rate movements had been influencing the tropical trade to the EU. The consultant stated that the weakening of the euro relative to some exporter currencies had been influencing producer countries' export competitiveness, as well as the relative competitiveness of Asian compared with African suppliers.

The delegation of Japan requested clarification on the definition of the term "secondary processed wood products" and the unit of measurement used. The consultant stated that SPWPs included wooden furniture and parts, builders' woodwork and joinery, mouldings, other SPWPs, and cane furniture and parts. The unit of measurement given was value, not volume, with a conversion from value to volume considered too difficult and inaccurate.

The Committees commended Ms. Maplesden for her excellent presentation.

(iv) Enhancement of Statistical Work and Training Workshops on Statistics [PP-A/39-174]

The Committees were informed that work in this area was incorporated into activities 34 and 35 of the ITTO Biennial Work Programme 2012-2013. Although funding for both activities was still pending, the Secretariat, utilizing some residual funds from the previous ITTO Biennial Work Programme and in collaboration with FAO conducted a regional statistical workshop for Central America in Panama City, Panama from 2 to 4 October 2012. The Committees were further informed that the Secretariat attended the meeting of the Intersecretariat Working Group on Forest Statistics in Geneva, Switzerland from 14 to 15 February 2012 and was undertaking the improvement of its statistical databases on an on-going basis.

- (v) Promote Trade in Tropical Timber and Tropical Timber Products from Sustainably Managed and Legally Harvested Sources

Dr. Kwame Asumadu (consultant) made a presentation on the development of wood products tracking systems by Ayum Forest Products Ltd. (AFP) from Ghana and Furniture Exports Ltd. (FE) from Papua New Guinea for the purpose of demonstrating legality of their products. Legality is recognised as an important component of a step-wise process towards sustainable forest management (SFM). He indicated that AFPL has successfully developed and tested a pilot computer-based wood products tracking system. Under the system, the company has successfully piloted the tracking of logs from one of its on-reserve forest concessions through its processing and value-adding chain and exported wood products to customers in Europe. Smartwood (Rainforest Alliance) has successfully assessed the company's pilot wood products tracking system against FSC's controlled wood standard for legally-produced wood products. Following this assessment, AFPL has now gained FSC controlled wood certification, which will enable it to export certified legal products to markets where legality is a requirement for market access. The successful completion of the pilot wood products tracking system has also placed AFPL at an advantage in relation to the Ghana-EU Voluntary Partnership Agreement (VPA) when the scheme is fully operational.

Dr. Asumadu also indicated that FE's wood products tracking system has been assessed by Soil Association (Woodmark) and the company is now able to export legally certified wood products particularly to Australia, FE's main export market. The successful implementation of the wood products tracking system, including its FSC controlled wood certification, will enable it to meet the export requirements of Australia's Illegal Logging Prohibition Bill 2012 when it becomes law.

The delegation of EU enquired what other benefits have the companies gained from the development of the tracking systems. Dr. Asumadu emphasised that the learning experience from developing and implementing the wood products tracking systems, has provided the basis for the companies to continually improve forest management practices. This will make it easier for them to gain full sustainable forest management certification in the future. The annual surveillance audits associated with FSC controlled wood certification will assist the companies to better account for their log inputs and the processed and value added products derived from them. Both companies are also better placed to assist other companies with their respective countries, which may be contemplating implementing similar systems for their forests operations.

The delegation of Benin expressed interest in the development of innovative timber traceability systems in Benin which is still relying on manual and paper based methods. Dr. Asumadu agreed to provide the delegation with information on innovative timber tracking technologies.

The Committees commended Dr. Asumadu for his excellent presentation.

- (vi) Establishment of a Working Group to develop guidelines on legality and sustainability for timber products for public procurement

The delegation of USA expressed concern that activity 25 'Analyze the economic impact of governmental procurement policies on tropical timber markets' under the Draft ITTO Biennial Work Programme for 2013-2014 [Document ITTC(XLVIII)/8 Rev.1] was not included in the Agenda of the Committee for discussion. It further alerted the Committees to activity 39 as contained in Document ITTC(XLVIII)/7 Rev.1 and its implementation status which indicated that project proposal TMT-SPD 013/12 Rev.1 (M) with a budget of US\$150,000.00 had been submitted by the Secretariat and had been approved and funded under the ITTO Thematic Programme on Trade and Market Transparency (TMT). The delegation noted that this came as a surprise particularly because TMT-SPD 013/12 Rev.1 (M) had not been made available on the ITTO website and at the Forty-eighth Session of the Council for the Committees to examine, as per the TP Process.

Having obtained the document, the delegation noted that the project description had several subjective and non-factual statements related to the US Lacey Act. In particular, the delegation pointed out that (i) the Lacey Act is not a government procurement policy and should not be referenced as such, (ii) a statement inferring that the Lacey Act was "a direct market intervention" was false and (iii) that the statement implying that such laws were having a detrimental impact on tropical timber production, forests and enterprises was completely lacking evidence. The delegation further sought clarification from the Secretariat on the agenda policy item "Establishment of a Working Group to develop guidelines on

legality and sustainability for timber products for public procurement" and sought assurance that no such working group is being established under TMT-SPD 013/12 Rev.1 (M).

The delegations of New Zealand and EU agreed with the delegation of USA and expressed their disappointment, adding that they were discussing this issue in the Contact Group on Thematic Programmes.

In response, the Secretariat clarified that the proposal was originally submitted by the Producer Group to the Council at its Forty-sixth Session from 13 to 18 December 2010. The proposal was introduced for discussion and consideration by the Committees at the Forty-fifth Session at the request of the Chairperson of the Council, hence the inclusion of the proposal as one of the policy work under the CEM. Following protracted discussions, consultation and negotiations, the Committees agreed on the need for further work to be undertaken by ITTO on the issue. With a view to facilitating an in-depth consideration by the Committees at the next session, the Committees agreed that a background paper on requirements of legality and procurement policies for timber products be prepared based on the agreed terms of reference contained in Appendix B of the Report of the Forty-fifth Session of the CEM and CFI [Document CEM-CFI(XLV)/6 dated 18 December 2010]. This activity was included in the list of projects, pre-projects and activities to be considered for funding during and following the Forty-sixth Session of the Council but it remained unfunded.

At the Forty-fifth Session of the Committees held in La Antigua, Guatemala in 2011, the Committees were informed that the funding for the activity was still pending. The Committees further noted that following the request made by the representative of producer member countries at the informal teleconference held on 13 September 2011, the activity had been included as Activity 39 'Analyse the economic impact of government procurement policies on tropical timber markets' in the ITTO Biennial Work Programme 2012-2013 which was approved and adopted by the ITTC at its Forty-seventh Session held in La Antigua, Guatemala from 14 to 19 November 2011.

The Secretariat further clarified that as contained in Document ITTC(XLVIII)/7 Rev.1 on the Progress Report on the Implementation of the ITTO Biennial Work Programme for 2012-2013, the implementation status of activity 39 indicates that a small project proposal, TMT-SPD 013/12 Rev.1 (M) with a budget of US\$150,000.00 funded under the ITTO Thematic Programme on Trade and Market Transparency (TMT). The submission, approval and funding of TMT-SPD 013/12 Rev.1 (M) had been done in accordance with the approved ITTO procedures concerning the ITTO Thematic Programmes. The Secretariat informed the Committees that copies of TMT-SPD 013/12 Rev.1 (M) have been made available at the current session of the Committees and the activity has been included as item 25 in the Draft ITTO Biennial Work Programme for 2013-2014 as contained in Document ITTC(XLVIII)/8 Rev.1. The Secretariat suggested that the title of this policy work might be replaced by 'Analyse the economic impact of governmental procurement policies on tropical timber markets'.

In response to the Chair's question regarding a way forward on resolving the issue, the delegation of the US recognized this activity is now a small project under the thematic programme process and under the control of the ED and Secretariat. They hoped that the ED would recognize the sensitivity and importance of the policy issue, especially its connection to a negotiated terms of reference from the Biennial Work Programme. As such, the delegation of the US requested that the document be revised so that it addressed the issue in a more neutral manner, specifically the factual inaccuracies contained in Section 1.2.2 of TMT-SPD 013/12. For example, she noted that the US delegation has stated multiple times at ITTO that the US Lacey Act is not a procurement policy nor a direct market intervention, yet Section 1.2.2. refers to it as such. She also noted that the last sentence in the section presupposes that procurement policies and legality requirements undermine and adversely affect international trade in timber. The delegate of the US also urged the Secretariat to ensure that the activities contained in the document closely reflect the terms of reference negotiated under the BWP, specifically its focus on procurement policies.

The EU supported the US intervention and expressed concern that the issue description in the project document went beyond the scope of the ToRs agreed by Council. In particular it made numerous references to legislation on legality of timber, whereas the ToRs for this activity related to public procurement policies.

In response, the Secretariat informed that according to the Thematic Programme Proposal Appraisal Process, no revision could be made to a proposal which has been accorded final approval for funding.

The Secretariat stated that it fully understood the concerns expressed and suggested a 'soft approach' in taking these into consideration during the implementation of the project.

The delegation of the US stated that their preference is for the document to be revised. She also requested that the committee report, which documents their concern, be provided to both consultants. The delegate of the US then sought clarification if there had ever been a project revised after its approval under the TP process.

The Secretariat indicated that there has been no precedent of revision being made to an approved proposal under the ITTO Thematic Programmes. It would, therefore, not be possible for an approved proposal to be put through the appraisal process again.

The US delegation pointed out that since no hard rules governing revisions in the TP process existed, she hoped the ITTO Secretariat would recognize the importance of having factual and neutral presentation of issues within ITTO project documents, especially those written by the ITTO secretariat. She indicated that the changes to be made did not entail major changes to the main objective of the project nor its activities and urged the Secretariat to revise the document. The US delegation also clarified that they were not asking for the project to go back through the TPAC process.

The Secretariat reiterated that it will take full account of the concerns of the USA and EU and revise the project document and duly address these concerns during the implementation of the project.

(vii) Draft ITTO Biennial Work Programme 2013-2014

The Committees noted the proposed activities for the CEM in the Draft ITTO Biennial Work Programme 2013-2014 as contained in document ITTC(XLVIII)/8 Rev.1 and agreed that these activities be submitted for the consideration of the Council at its current session.

(viii) Items on Policy Work for 2013

The Committees considered and agreed on the following items for policy work in 2013:

- Market access;
- Forest and timber certification;
- Selected data and analysis from ITTO Annual Review and Assessment of the World Timber Situation; and
- Analyse the economic impact of governmental procurement policies on tropical timber markets.

Committee on Forest Industry

- (i) Strengthen the capacity to promote efficient wood processing technologies in tropical timber producing countries [PP-A/47-262]

The Secretariat informed the Committees that an in-house training has been conducted in Ghana (Kumasi, Berekum, and Accra) on 11-15 June 2012, covering five factories (sawmill, wood working, veneer/plymill, and furniture). This activity has involved industry owners, managers, supervisors, operators, as well as the government representatives.

The Secretariat also informed that another in-house training will be carried out in Cameroon in December 2012.

- (ii) Matching the needs of the forest industry with innovations, technologies and know-how developed through ITTO projects [PP-A/47-263]

The Secretariat informed the Committees that works has started from the compilation of data on forest industry private sector associations and the identification of their needs, which will be matched with the innovations, technologies and know-how developed through the implementation of ITTO projects.

- (iii) Life Cycle Assessment (LCA) Analysis

The Secretariat informed the Committees of the completion of a pre-project entitled "Methodological Development for Life Cycle analysis of Tropical Wood Products to Improve their Competitiveness in

International Markets” [TMT-PA 007/11 Rev.1 (I)], which was funded under the Trade and Market Transparency Thematic Programme, as contained in the document ITTC(XLVIII)/7.

The Secretariat further informed the Committees that there were two technical reports as the outputs of this pre-project, namely: 1) wood product accounting and climate change mitigation projects involving tropical timber; and 2) work plan for accounting methodology development for wood products in climate change mitigation projects involving tropical timber. The review and analysis plan were focused only on the accounting of harvested wood products (HWP) in forest-based climate change mitigation projects. The review was focused on existing methods for accounting for HWP at the project scale and possible new analyses that could be conducted to improve methods and allow equitable yet accurate accounting for forestry project and in particular forestry projects in tropical countries.

The existing methods are:

- Winjum et al (1998) – *the dominant approach in the voluntary market methodologies*,
- The IPCC Guidance for National Greenhouse Gas Inventories (2006), and
- Smith et al. (2006) – US Forest Service.

The scope of the work plan was to lay out a plan for developing a new accounting approach for wood products in mitigation projects involving tropical timber. The work plan detailed the necessary analyses together with the timing and estimated costs.

The work plan included the following elements:

- Analysis of production and export of wood products,
- Analysis of in use lifetime of wood products,
- Analysis of emissions from retired wood products,
- Calculation of net atmospheric impact of wood products,
- Plan for accounting methodology development, and
- Likely costs and timing.

The delegation of the European Union suggested that a full project should be focused on specific wood products required by specific markets.

(iv) Draft ITTO Biennial Work Programme 2013-2014

The Committees noted the proposed activities for CFI included in the Draft ITTO Biennial Work Programme 2013-2014 as contained in document ITTC(XLVIII)/8 Rev.1 and agreed that these activities be submitted for the consideration of the Council at its current Session. Furthermore the Committees considered a new activity proposed by the Secretariat entitled ‘Identify Issues Affecting the Launch of Industry Development and Efficiency (IDE) ITTO Thematic Programme’ and decided not to include in the Biennial Work Plan 2013-2014 for the consideration of the Council.

The Committees discussed the following proposed activities:

Activity 2 Demonstration and adoption of credit schemes for Small-Medium Forest Enterprises (SMFEs)

The delegation of the European Union inquired whether ITTO had the technical competence for the promotion of credit schemes and if such activity should be carried out in partnership with other more experienced institutions in the subject. The delegation of the European Union also pointed out that the text in the terms of reference (TOR) should describe how the activity would be carried out rather than the experiences gained through the implementation of previous project. The comments were echoed also by the delegation of the United States.

Following the interventions, the Secretariat described to the Committees on the process that would be taken to implement the activities, clarifying that a partnership with a local financial institution is foreseeing.

The delegation of PNG took the floor to express its support to the view of the European Union regarding the text of the TOR, and highlighted that in PNG there is a need for this activity, as forest communities, who have ownership of the land, do not have enough capacity to enter into more business oriented activities.

The Committees agreed to submit this activity for the consideration of the Council and requested the Secretariat to modify the TORs as appropriate.

Activity 22 Development of Environmental Product Declaration (EPD) for Three Tropical Wood Products

The Secretariat took note of the suggestions from the delegation of the European Union and the delegation of the United States to revise the TOR of this activity in consideration of the latest development on EPD and LCA, as well as their requirements in the international timber markets.

(v) Items on Policy Work for 2013

The Committees considered and agreed on the following items for policy work in 2013:

- Strengthen the capacity to promote efficient wood processing technologies in tropical timber producing countries [PP-A/47-262]
- Matching the needs of the forest industry with innovations, technologies and know-how developed through ITTO projects [PP-A/47-263]

10. Review of Projects and Pre-projects in Progress

The Committees considered the Report of Projects and Pre-projects in Progress as contained in documents CEM-CFI(XLVI)/4 and CEM-CFI(XLVI)/4 Add.1 and took note of progress in the implementation of the following projects and pre-projects:

(A) Projects and Pre-projects under implementation

Committee on Economic Information and Market Intelligence

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| 1. | PD 16/93 Rev.4 (M)
Phase IV, 2012 | Market Information Service for Tropical Timber and Timber Products, Phase IV, 2012 (Global) |
| 2. | PD 124/01 Rev.3 (M)
Phase III Stage 1 | Promotion of Sustainable Management of African Forests (Africa) |
| 3. | PD 182/03 Rev.2 (M) | Enhancement of the Forest Statistics Information and Management System (STATFOR) through the Integration of a Computer Module for Processed Log Management (Gabon) |
| 4. | PD 449/07 Rev.2 (M) | Enhancing Forest Law Enforcement in Papua New Guinea |
| 5. | PD 620/11 Rev.1 (M) | Development and Implementation of a Species Identification and Timber Tracking System in Africa with DNA Fingerprints and Stable Isotopes (Germany) |
| 6. | PPD 14/00 (M) | Strengthening the Market Discussion (Global) |
| 7. | PPD 139/07 Rev.1 (M) | Strengthening of the National Forest Information System (Thailand) |

Committee on Forest Industry

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| 1. | PD 73/89 (M,F,I) | Assistance for Project Identification and Formulation (Global) |
| 2. | PD 39/93 Rev.4 (I) Ph II | The Development, Application and Evaluation of Biomass Energy through Briquetting, Gasification and Combustion of (Wood and Agricultural) Residues (Cameroon) |
| 3. | PD 13/99 Rev.2 (M,F,I) | ITTO Information Network and Project Support (Phase II) (Global) |
| 4. | PD 347/05 Rev.2 (I) | Promoting Access to the Forest Sector Activities by Gabonese Nationals through the Development of the SME Forest Partnership |

5. PD 364/05 Rev.4 (I) Providing Village Communities with Basic Technological Training for Extracting Valuable Essential Oils from Eucalyptus Citriodora Plantations in Rural Areas of Congo (Rep. of Congo)
6. PD 385/05 Rev.4 (I,F) Industrialisation, Marketing and Sustainable Management of Ten Mexican Native Species
7. PD 433/06 Rev.3 (I) Sustainable Model for the Brazilian Wood Flooring Production Chain
8. PD 448/07 Rev.2 (I) Sustainable Utilization and Marketing of Selected Non-Timber Forest Products to Support the Handicraft Industry and the Development of Rural Communities (Philippines)
9. PD 457/07 Rev.5 (I) Operational Supportive System for Promoting the Further Processing of Timber in Five Countries of the Congo Basin (Gabon)
10. PD 506/08 Rev.1 (I) Reviving Forestry Education in Liberia
11. PD 512/08 Rev.2 (I) Industrial Utilisation and Marketing of Ten Potential Timber Species from Secondary and Residual Primary Forests (Peru)
12. PD 521/08 Rev.3 (I) Participatory Forest Management for Sustainable Utilization of Non Timber Forest Products (NTFP) Surrounding the Protected Area of Rinjani and Mutis Timau Mt, Nusa Tenggara Indonesia
13. PD 523/08 Rev.1 (I) Operational Strategies for the Promotion of Efficient Utilization of Rubber Wood from Sustainable Sources in Indonesia
14. PD 540/09 Rev.2 (I) Support to Improve the Productivity of the Peruvian Timber Industry for the Production of Higher Value-added Products

(B) Projects and Pre-projects pending agreement

Committee on Economic Information and Market Intelligence

1. PD 599/11 Rev.1 (M) Development and Testing of National Forest Stock Monitoring System (FSMS) with Improved Governance Capabilities at all Levels of the Forest Administration (Philippines)

Committee on Forest Industry

1. PD 600/11 Rev.1 (I) Model Capacity Building for Efficient and Sustainable Utilization of Bamboo Resources in Indonesia

(C) Projects and Pre-projects pending financing

Committee on Economic Information and Market Intelligence

1. PD 124/01 Rev.3 (M) Phase III Stage 2 Promotion of Sustainable Management of African Forests (Africa)

Committee on Forest Industry

1. PD 13/99 Rev.2 (M,F,I) For 2013 (core activity) ITTO Information Network and Project Support (Phase II) (Global)
2. PD 520/08 Rev.3 (I) Promoting Timber Preservation for Reducing Forest Resource Depletion in Indonesia
3. PD 522/08 Rev.3 (I) Properties, Processing and Marketing of Teak Wood Products of Community Teak Plantations in Java and Eastern Indonesia

4. PD 549/09 Rev.3 (I,F,M) Provenance Evaluation, Wood Technological Characterization and Market Survey for Balsawood (*Ochroma pyramidale* Cav.) in the Lacandon Forest, Chiapas, Mexico
5. PD 608/11 Rev.1 (I) Life Cycle Assessment-Based Initiative for Carbon Foot Print Reduction and Improved Utilization of Tropical Timber Products from Malaysia
6. PD 612/11 Rev.2 (I) Rural Community Development through Efficient Charcoal and Briquette Production from Logging and Corn Biomass Residues in the Afram Plains District of the Republic of Ghana
7. PD 655/12 Rev.1 (I) Capacity Building of the Builders' Woodworks Industry in the Philippines
8. PD 661/12 Rev.1 (I) Towards Sustainable Utilization of Bamboo Resources in Ghana: Development of Glued Bamboo Beams and Boards for Affordable Housing and Furniture in Ghana through Collaboration with Local Communities in Two Districts
9. PD 671/12 Rev.1 (I) Boosting Investments in the Processing and Marketing of Forest Products in Atalaya (Peru)
10. PPD 161/12 Rev.1 (I) Formulation of a Project Proposal for the Development of the Tara (*Caesalpinea spinosa*) Production Chain in the Andean Region (Peru and Ecuador) (Peru)

The Committees held discussions on the following projects and pre-projects:

Committee on Economic Information and Market Intelligence

PD 16/93 Rev.4 (M) Phase IV, 2012 Market Information Service for Tropical Timber and Timber Products, Phase IV, 2012 (Global)

The Committees were informed that the *Tropical Timber Market Report* (TTMR) under the Market Information Service (MIS) has been suspended as the funding of the project is still pending. The Secretariat informed the Committees that the budget for the project has been included in the Administrative Budget 2013 under core operational costs.

PD 124/01 Rev.3 (M) Phase III Stage 1 Promotion of Sustainable Management of African Forests (Africa)

The Secretariat informed the Committees that Stage 1 of Phase III of this project would be completed in early 2013. At the recommendation of the project steering committee (PSC) and to facilitate funding, Stage 2 of the project had been split again into a new Stage 2 [budget: US\$600,000, duration: 18 months] and Stage 3 [budget: US\$518,144, duration: 18 months] with no change in the overall ITTO budget. The Secretariat sought the Committee's approval of this further split of the remaining activities under the project as contained in the new work plan endorsed by the PSC and requested donors to provide funding for the new Phase III, Stage 2 at this session to avoid disruptions in the implementation of the project. The Committees approved the splitting of the remaining activities of the project into the new Phase III, Stages 2 and 3.

PD 182/03 Rev.2 (M) Enhancement of the Forest Statistics Information and Management System (STATFOR) Through the Integration of a Computer Module for Processed Log Management (Gabon)

The Secretariat explained the various delays in the implementation of this project and the lack of submission of a final report by the Implementing Agency. He noted that a follow-up proposal had been approved under the TMT Thematic Programme but that this could not commence until the reporting requirements for this project were complete. The Committees agreed to request Gabon to submit the final report of this project to the Secretariat at the earliest opportunity.

PD 449/07 Rev.2 (M)

Enhancing Forest Law Enforcement in Papua New Guinea

The delegation of PNG expressed gratitude to the ITTO Secretariat and Japanese Government as donor for the flexibility and understanding shown in implementing this project as it was delayed for a number of years due to situation beyond the control of the Implementing Agency. However, he pointed out that the project has been implemented smoothly over the past two years and it is nearing completion. He further noted the issue of project sustainability as the project outcomes are very important. Moving from pilot to rolling out nationally require resources for a robust operational system to improve forest governance and timber traceability. He said there must be a comprehensive training and capacity building drive for stakeholders to ensure the industry is ready to meet the requirements of the system and execute the new governance procedure that are to be supported by the system. He hoped that the final report including technical reports of the project will be presented at the next session of the Committees.

The Secretariat reported to the Committees that the implementation of this project suffered substantial delays due to problems related to the replacement of key project staff and consultants since the actual implementation began in August 2010. Subsequently, the implementation of the project was basically back on track and in line with the revised workplan. Although most project outputs have been achieved and the project has come into the final phase of implementation, the Secretariat has yet to receive the completion and technical reports as well as the final audit report from the Implementing Agency prior to the current session of the Committees. The Secretariat will work closely with the Implementing Agency on the completion of this project to be presented at the next session of the Committees.

PD 620/11 Rev.1 (M)

Development and Implementation of a Species Identification and Timber Tracking System in Africa with DNA Fingerprints and Stable Isotopes (Germany)

The Committees were informed that an Addendum to the document was issued following the inadvertent exclusion of the project from the document. The Committee noted that the implementation of the project has thus far been satisfactory.

Committee on Forest Industry

PD 347/05 Rev.2 (I)

Promoting Access to the Forest Sector Activities by Gabonese Nationals through the Development of the SME Forest Partnership

The Secretariat informed the Committees that the project has completed all activities and outputs for which technical reports along with the completion report have been submitted in July 2012. The Secretariat pointed out that a project proposal for the development of the financial mechanism to support SME partnerships (Output 5), while submitted as a technical report, has not yet been formally submitted neither for the project cycle nor calls for proposals under thematic programmes.

The Committees were also updated that unspent funds have been returned to ITTO in October 2012, however the Implementing Agency has not submitted the original final financial audit in spite of several reminders and follow-up by the Secretariat.

The Committees urged the delegation of Gabon to submit the final audit as soon as possible and to formally submit its project proposal either for the project cycle or for the relevant thematic programme.

PD 448/07 Rev.2 (I)

Sustainable Utilization and Marketing of Selected Non-Timber Forest Products to Support the Handicraft Industry and the Development of Rural Communities (Philippines)

The Secretariat informed the Committees that the all activities of the project have been completed, all outputs have been achieved and technical reports were submitted, however some of those reports require revision and refinements based on the comments made by the Secretariat.

The Committees were also informed by the Secretariat that, the Implementing Agency submitted revised technical reports during the course of the week of the Council Session; however revised completion report and final financial audit were still pending to be submitted.

The representative of the Implementing Agency in the delegation of the Philippines took the floor to inform the Committees that the pending reports will be submitted to the Secretariat by the end of November 2012.

PD 506/08 Rev.1 (I) Reviving Forestry Education in Liberia

The Committee took note of the report from the delegation of Liberia on the reasons for the delay in submitting the project's annual financial audit report and ensured the submission of the report as well as the request for the project extension by end of November 2012 at the latest.

PD 600/11 Rev.1 (I) Model Capacity Building for Efficient and Sustainable Utilization of Bamboo Resources in Indonesia

The Committee took note of the report from the delegation of Indonesia on the reasons for the delay of finalizing the project agreement due to changing of the Executing Agency. The delegation of Indonesia ensured the finalization of the project agreement at the earliest opportunity.

11. Election of Chairpersons and Vice-Chairpersons for 2013

Following the usual consultations undertaken by the producer and consumer groups, Mr. Harrison S. Karnwea, Sr. (Liberia) was elected Chairperson of the CEM and Mr. Osamu Hashiramoto (Japan) was elected Vice-chair for 2013. Dr. Ruth Turia (Papua New Guinea) was elected Chairperson of the CFI and Mr. Björn Merzell (Sweden) was elected Vice-chair for 2013.

12. Dates and Venues of the Forty-seventh and Forty-eighth Sessions of the Committees

The Forty-seventh Session of the Committees would be held in conjunction with the Forty-ninth Session of the International Tropical Timber Council.

The Forty-eighth Session of the Committees would be held in conjunction with the Fiftieth Session of the International Tropical Timber Council.

13. Other Business

The Committees noted and agreed to the functions of the Committee on Forestry Industry (CFI) and the Committee on Economics, Statistics and Markets (CEM) to be adopted by the Council at its current session.

14. Recommendations to the International Tropical Timber Council

- (i) The Committees recommended that funding be made immediately available for the following projects approved under the time-bound electronic no-objection procedure for the spring and autumn project cycles 2012:

Committee on Economic Information and Market Intelligence

PD 621/11 Rev.3 (M) Traceability of Timber Produced by Forest Concessions and Native Communities in Madre de Dios and Ucayali (Peru)

PD 678/12 Rev.1 (M) Establishment of a National Forest Statistics Information Management System in Benin

Committee on Forest Industry

PD 549/09 Rev.3 (I,F,M) Provenance Evaluation, Wood Technological Characterization and Market Survey for Balsawood (*Ochroma pyramidale* Cav.) in the Lacandon Forest, Chiapas, Mexico [US\$635,918]

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| PD 608/11 Rev.1 (I) | Life Cycle Assessment-Based Initiative for Carbon Foot Print Reduction and Improved Utilization of Tropical Timber Products from Malaysia [US\$607,349] |
| PD 612/11 Rev.2 (I) | Rural Community Development through Efficient Charcoal and Briquette Production from Logging and Corn Biomass Residues in the Afram Plains District of the Republic of Ghana [US\$550,692] |
| PD 655/12 Rev.1 (I) | Capacity Building of the Builders' Woodworks Industry in the Philippines [US\$510,999] |
| PD 661/12 Rev.1 (I) | Towards Sustainable Utilization of Bamboo Resources in Ghana: Development of Glued Bamboo Beams and Boards for Affordable Housing and Furniture in Ghana through Collaboration with Local Communities in Two Districts [US\$577,527] |
| PD 671/12 Rev.1 (I) | Boosting Investments in the Processing and Marketing of Forest Products in Atalaya (Peru) [US\$993,438] |
| PPD 161/12 Rev.1 (I) | Formulation of a Project Proposal for the Development of the Tara (Caesalpinea spinosa) Production Chain in the Andean Region (Peru and Ecuador) (Peru) [US\$86,076] |

- (ii) The Committees recommended that funding be made immediately available for the following projects and pre-projects approved at earlier Sessions:

Committee on Economic Information and Market Intelligence

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|---|--|
| PD 124/01 Rev.4 (M)
Phase III Stages 2 & 3 | Promotion of Sustainable Management of African Forests (Africa) [Phase III Stage 2 - US\$600,000][Phase III Stage 3 – US\$518,144] |
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Committee on Forest Industry

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| PD 520/08 Rev.3 (I) | Promoting Timber Preservation for Reducing Forest Resource Depletion in Indonesia [US\$454,518] |
| PD 522/08 Rev.3 (I) | Properties, Processing and Marketing of Teak Wood Products of Community Teak Plantations in Java and Eastern Indonesia [US\$452,688] |

15. Report of the Session

The Committees adopted this report for submission to the Council, with due acknowledgement to the work of the Secretariat under the able guidance of the Chairpersons of the Committees.

APPENDIX A

REPORT ON THE ITTO ANNUAL MARKET DISCUSSION - 2012 7 November 2012, Yokohama, Japan

The theme of the 2012 Annual Market Discussion held on 7 November 2012 was 'Trading in Challenging Markets' with a focus on developments in procurement policies and green building initiatives. This theme was decided in 2011 with a view to presenting an assessment of the impact of developments in procurement policies in consumer countries on markets for tropical timber and the opportunities, or lack thereof, for tropical timber in Green Building Initiatives.

Timber Procurement Policies (TPPs) are being implemented by public agencies, trade associations and private companies in many markets important to tropical timber exporters. These policies have been introduced to limit market access for illegally harvested timber and many have implicit aims of going beyond legality by including references to sustainability of supply.

Green Building Initiatives, which seek to minimise the impact of construction on the environment and make better use of resources and energy, are in operation in several countries which represent major markets for tropical timber.

Both the TPPs and Green Building Initiatives are becoming strong market drivers for verified legal and sustainably produced timber. Maintaining trade is central to achieving environmental goals but many suggest there is a danger that such initiatives could evolve into unjustified environmental barriers to tropical timber.

A recent ITTO study on TPPs revealed much scope for improvement as these suffer from problems of proliferation, varying requirements, definitions of legality and sustainability, procurement criteria, time-schedules and implementation arrangements. The ITTO report suggests that such issues need to be addressed if TPPs are to effectively attain their objectives.

For the 2012 ITTO Annual Market Discussion, four speakers addressed the Committees namely: Brent J. McClendon, CAE, Executive Vice President, International Wood Products Association, USA; André de Boer, Secretary General, European Timber Trade Federation, Michael S. Snow, Executive Director, American Hardwood Export Council and Takashi Fujiwara, Managing Director, Japan Federation of Wood Industry Associations

Green building is not a curiosity anymore – forecast to be a US\$280 billion global industry by the end of the decade

Brent McClendon, Executive Director of the IWPA provided an overview of the state of the US economy and trends in US wood product imports drawing the attention of the Committees to the expansion of the green building market. He pointed out that in 2009, there were just over 2,000 green certified buildings under construction but today there are over 11,000 construction projects which are LEED certified and the numbers continue to grow.

What is LEED? This acronym derives from Leadership in Energy and Environmental Design, a benchmark for the design, construction and operation of high performance green buildings. Mr. McClendon reminded those present that the third party certification programme and US, nationally accepted, LEED benchmark for the design, construction and operation of high performance green buildings was developed in 2000. This now serves as a tool for US buildings of all types and sizes. LEED certification offers third party validation of a project's environmental features and verifies that the building is operating as expected.

A strong case was made by Mr. McClendon for timber producers to take advantage of the trends in green building since wood products can be shown, through Life Cycle Assessments (LCA), to satisfy major criteria under the LEED systems.

Mr. McClendon recalled the ITTO Review of Life Cycle Analysis (LCA) of Tropical Timber Products (2004) but lamented that very few LCA studies on tropical timbers have been conducted to date. This is an area where further work should be undertaken as LCA ratings are significant factors in Green Building Initiatives and Environmental Product Declarations (EPD's).

In conclusion, Mr. McClendon drew attention to a proposal on LCA developed by TAG and submitted to ITTO in 2011 but which did not attract ITTO funding. This proposal calls for further work on developing

LCAs/EPDs for three tropical wood products namely, meranti plywood, ipe decking and khaya lumber. On behalf of the ITTO Trade Advisory Group (TAG) Mr. McClendon requested the Council to consider this proposal for funding.

Want more forests? Buy more wood products!

This statement, borrowed from an American timber trade magazine, was a significant feature of the presentation entitled 'LCA, EPDs and Promoting the Environmental Credentials of American Hardwoods' by Michael S. Snow, Executive Director of the American Hardwood Export Council (AHEC). AHEC is the international trade association for the American hardwood industry, representing companies and trade associations engaged in the exports of U.S. hardwood products.

Mr. Snow provided a background and justification for AHEC's emphasis on Life Cycle Assessments (LCA) which, the event was advised, facilitates AHEC members' and their customers' preparations of Environmental Product Declarations (EPDs). These provide science-based, verified and comparable environmental information along a product's entire supply chain to counter the misleading and often plain fraudulent claims being made by some competitors. EPDs are neutral with no value-based judgments and allow fair comparison of products and services.

Mr. Snow cited a few examples of the "popular science" used by the competition such as "*Use of wood leads to deforestation and massive destruction of nature. Say no to wood and yes to Kalingstone engineered marble*" and "Low Carbon Concrete". The assessment claiming this reported "*It was calculated that the construction approach used for Hampshire County Council decreased the carbon emissions associated with the timber frame by an incredible 33%*". On closer examination however, it was revealed that the claimed savings were derived mainly from "reusing" the existing concrete frame (which was less than 50 years old) and from recycling concrete from the partial demolition for use as aggregate.

Wood products can stand tall in the market said Mr. Snow but as much as LCAs provide irrefutable evidence to support the use of wood, the timber industry must not become complacent. The timber industry, said Mr. Snow, has spent too much time being defensive when it has all the time the tools to go on the offensive in the market place.

Mr. Snow highlighted a recent report from the Intergovernmental Panel on Climate Change's 4th Assessment Report (IPCC AR-4) which provided estimates of greenhouse gas mitigation potentials by sector. Of the various sectors assessed: Energy supply, transport, buildings, industry, agriculture, forestry, and waste, the highest potential saving could be made in buildings and it is this which drives the 'green build' industry.

Wood has a good story to tell in the green build industry. However, the advantages of wood as a material have to be backed by good design. Carbon storage is heavily dependent on design and manufacturing strategies which can affect EPD rating. Securing a sound EPD can be achieved by paying attention to maximizing material use and minimizing residues, ensuring long in-use life and through facilitating recycling and efficient disposal.

Meeting green building requirements begins with LCAs but wood products suffer a disadvantage under the present rules on the "Responsible Extraction" credit which applies uneven treatment of wood versus other extractive industries. Mr. Snow emphasized that cradle to grave analysis is required to assess the contribution of carbon store in wood to climate change mitigation.

An urgent need to harness consumer support on the environmental performance of wood

Mr. Takashi Fujiwara, Managing Director, Japan Federation of Wood Industry Associations provided an informative overview of green procurement policies and the contribution to these policies by the timber industries in Japan. Two issues were highlighted; Goho-wood, the name given to Japan's contribution to eliminating illegal timber from trade and recent legislation enacted in Japan to promote higher and more efficient utilization of wood in the country.

The Committees learnt that the Japanese Government introduced a Green Purchasing Law in April, 2006 to ensure that the wood products entering the supply chain in the country are verified legal and from well managed forest.

The means for assessing the compliance with the new law were negotiated with the Forestry Agency and three means of legality and sustainability were agreed namely: Forest certification and chain of custody systems, verification methods implemented by enterprises which are authorized by relevant associations and verifications schemes operated by individual enterprises.

Mr. Fujiwara stressed that the Goho-wood system is the tool through which environmental information on wood products can be effectively delivered to the Japanese consumers.

In conclusion, Mr. Fujiwara made a very enlightening observation, "For our products to be embraced by the sustainable society we need to harness consumer support on the environmental performance of wood". This echoed earlier remarks by speakers who encouraged work to prove the environmental superiority of wood through LCA and EPDs.

The EUTR is delivering the greatest market potential for softwoods

This was the startling, but not wholly unexpected, view of André de Boer, Secretary General, European Timber Trade Federation in his presentation, "Overview of Importer's Markets" (EU). Mr. de Boer informed the meeting that the ETTF has recently completed a study of product and species flows into the EU and that the ETTF will conduct further studies after the introduction of the EUTR to track and quantify all changes.

Mr. de Boer pointed out that the species mix in the EU market is already changing in favour of softwoods because, as he pointed out, softwoods are known and uncontroversial.

The EU was the world's second largest timber importer in 2011 but that imports have been falling. The EU share of the global timber trade in 2007 was 22% but fell to 17% in 2011. In contrast, China's share of the global timber trade almost doubled in the same period.

Mr. de Boer reported that from 2007 to 2011 EU imports of solid timber products were down 35% and that both softwoods and hardwoods imports declined by 40%. There have been changes in the sources of wood products. Imports from Russia have fallen due to the introduction of log export taxes and there was a decline in imports from Africa, North and Latin America. On the other hand, imports from Non-EU European countries and China have increased. Overall imports from Asian suppliers have remained very stable, said Mr. de Boer.

There have also been some changes in the product mix. From 2007 to 2011, the share of logs and sawnwood in the total EU imports fell from 62% to 53%. However, the share of further-processed products in total wood product imports has been rising due to increased plywood imports from China and Russia and higher wood furniture imports from China and Vietnam.

In conclusion, Mr. de Boer indicated that EU consumption of wood products has contracted in absolute terms but there is a steady increase in imports of finished products with individual EU member state markets becoming even more individual such that exporters need to assess demand potential from an EU member state perspective.

Discussion

Delegates and observers took up several points made by speakers in their presentations. The delegate from Indonesia commented on the poor image of wood in the eyes of the general public, citing the generally held view of many of the younger generation that the timber industry destroys forests. This observation from Indonesia was in response to a statement "if you want more forests buy more wood products" made by one speaker.

The delegate also commented that while Green Building Initiatives (GBIs) are good these, at the moment, tend to focus on energy saving criteria, and are not delivering opportunities for expanding markets for wood products but seem to be providing greater opportunities for wood substitutes.

In response, the speakers agreed that the negative image of the timber industry is deeply engrained in the minds of consumers. They suggested that the best approach to overcoming this was through the delivery of sound scientific information on the environmental credentials of wood through LCA and by changing unhelpful trade policies which are deemed protectionist. The speakers pointed out that one of the problems with current GBIs is that there are different rules for different products and that this needs to be addressed so that the assessment of materials is based on common criteria.

The delegate of Liberia observed that the presentations portrayed a grim picture of the future for tropical wood in international markets. Declining market demand for wood products from Liberia, he said, was having a direct impact on the forest restoration efforts being implemented with the support of forest communities.

Because of declining demand for the raw materials and the consequent drop in income, there is now less interest in supporting forest restoration in Liberia. The forest communities, he pointed out, relied on timber harvesting for their livelihood but with falling demand they are now earnestly seeking alternative land uses to generate income. The delegate posed the question: What do we need to do? Do we create new wood industries and new products? He also charged the timber sector in the consumer countries with the task of convincing the buying public of the environmental advantages of wood products.

An observer from an Australian company noted that while considerable funds are directed to R&D in the softwood sector, the hardwood sector is falling far behind in innovation and even promotion. The widespread negative perception of wood products in the eyes of consumers was reiterated and illustrated with example from Australia. In Australia, an advertisement for an alternative to hardwood shutters proudly states "plantation wood shutters" as if to say plantation wood is somehow better. The hardwood industry, said the observer, must start to market its product and not merely sell it.

The Discussion went in a different direction when an observer, a foreign student studying in Japan, asked for suggestions on how to dispose of the millions of tonnes of wood debris resulting from the March 2011 tsunami in northern Japan. The speakers recognized the immensity of the problem facing Japan as it attempts to deal with this issue and confirmed that the identification of potential end-uses for wood debris depends very much on the contaminants. They noted that in the case of the wood debris in Japan, there will be multiple contaminants which will complicate disposal efforts.

The Representative of the Tropical Forest Foundation expressed his appreciation to ITTO for arranging the Market Discussion and said his organization fully supports the idea of LCA studies for tropical wood products. The usefulness of LCA data, he said, was clearly demonstrated to his organization recently in dealings with a manufacturer of office furniture who confirmed that in as much as that company would be pleased to utilize tropical timber, it would have more confidence in purchasing tropical product if it is to be supported with a LCA report.

A delegate from Malaysia took up the statement made by the Speaker from the ETTF, "the EUTR is delivering the greatest market potential for softwoods" and asked, why is this so when all timber, whether imported or sourced from within the EU, must satisfy the due diligence requirements? In response, the Discussion was informed that this advantage stems from the perception that softwood products are well known in the market and have not attracted the controversy that tropical timber has attracted. The advantage, he said, is purely one of perception.

In expanding on the issues of advantage in the market place, the view was expressed that the EUTR may become a barrier to businesses trading in tropical timber as tropical wood products will have a 'new' risk attached to it which importers will factor into demand and pricing.

Annual Trade Statement

The 2012 Annual Market Discussion ended with the delivery of the Trade Statement prepared by the ITTO Trade Advisory Group. (Appendix B)

The trade advisory group suggested the theme for 2013 Annual Market Discussion as, Trade Approaches to Meeting Market Demands for Legality.

APPENDIX B

STATEMENT OF THE TRADE ADVISORY GROUP (T-A-G)

Brent J. McClendon (IWPA)
7 November 2012

Chairman,

Ladies and gentlemen,

This Trade Statement has been prepared by members of your Trade Advisory Group (TAG). As a trade group, the TAG comprises members of consumer and producer country tropical timber manufacturers, importers and exporters.

Race to Relevancy

There is a strong new trend in the timber association world – and that is to go back to our core mission. See, we (ITTO and industry assoc) are accused of suffering the same mission-creep as occurs from time to time in all government and non-governmental bodies. And after awhile, we look around and realize we aren't meeting the core mission of our membership anymore. People start to question our relevancy.

I raise this issue because TAG is increasingly concerned about how to assure our future productive engagement at the ITTC.

I don't want to sound alarmist. But let me point out a few high-profile changes recently:

- (1) ITTA Objectives are getting very lopsided funding (for example... “expansion of trade” work program in 2010-2011 was funded at 42% of the proposed level while “sustainable management” was funded at 76%). When we drill down we get even more concerned. For example, the thematic program Industry Development and Efficiency has yet to receive any funds (even though indicative budget was \$10 million), whereas other programs have already received more than 50%. The signs are concerning that the word “timber” is dropping off the International Tropical Timber Council radar.
- (2) As you all know, ITTC eliminated funding for the MIS at the last Council session. But Council didn't replace that funding with any new trade-supporting measures. So, unfortunately, this starts a vicious cycle, because when funding decreases, the industry sees less value in ITTO in general, and ultimately pulls back further from engagement at the ITTC. A true lose-lose scenario.

Solutions from TAG's perspective. Quite simply, ITTO needs to embrace a “race for relevance.”

And here are some general thoughts to get the dialogue started:

Our TAG producer members think that there is a need for more training and timber trade-friendly projects.

Consumer TAG members understand there are ‘protectionist’ concerns in all consumer nations and domestic politics always plays a role in funding decisions. However, ITTC should be neutral in the face of these pressures and look to the big picture. Sustainable forest management and economic development go hand-in-hand. We can either see a future of forests... forest lost to fires. ITTC engagement and significant funding is making a difference in tropical forests but a better focus would yield more positive results. All of us in this room know that forests must have value or they will disappear; the forest will be converted to other uses.

The trade itself cannot escape some responsibility for the drift in ITTO – The trade as well as our partners in CSAG need to get much more involved in the ITTO processes of decision making and stronger involvement in the ITTO panel that reviews and assesses projects. We cannot expect to make a serious contribution to the organization solely through participation only during Council. Too few of us show up and our engagement here is short lived. We recognize we must be committed and show this commitment with our attendance and engagement throughout the year in all of the process where the Organization deems our input would be helpful.

In keeping with our theme this year and to emphasize what we said last year, here are some specific ideas:

1. You heard clearly during the MD that this year we are focusing on LCA'S/EPD's as we believe these play a crucial role in market access. The good news is there is already a project in the Biennial Work Plan, Forest Industry. I draw your attention to Item 13(a) of Provisional Agenda - the Progress Report on Implementation of Biennial Work Program. On Page 16, Project Number 31 there is a great project just waiting on appropriate support from this Council. Please make this a priority.
2. Conduct capacity building in support of SFM and sustainable timber industry within existing Thematic Programs. As you prioritize your activities, please stay focused on training. Such training can be either short or long term, for example, a 3 - 4 months project to train forest managers, develop regional ITTO training centers, etc...
3. TAG believes the time is right for a serious ITTO assessment of what industry in the producer countries think they need to do and the assistance needed to comply with Lacey Act, EUTR and other emerging legality systems. Any gaps in understanding these new laws can then be compiled so additional educational tools are developed as needed. We know some producers are looking at Lacey Act, and then at EU's requirement, and then Japan's GoHo, and then Australia's... and feeling overwhelmed. The TAG would like to think ITTO can help demystify the topic of legality assurance.
4. The loss of MIS created a gap in market intelligence for trade and the ITTC. I would ask, in its absence, how are you keeping up with the timber trade? What are you now using to fill the information gap? The World Bank is not alone is asking for a return of MIS reports. TAG urges you to re-instate this valuable service in some capacity.

In summary, we feel strongly that industry plays a powerful role in sustaining forests, and combined with a relevant ITTO outputs, connects forests, markets and government in a positive way. Put another way... if there is no trade, then forests lose their value.

ITTO is an important information conduit and a point organization for projects that make a difference for tropical forest and trade. The mission of TAG is to assure that there is a future for forests. I'm confident we share that mission with the ITTC and we look forward to a much closer working relationship in the future.

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