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## ANNUAL REPORT FOR 2006



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## ITTO Work Highlights in 2006

### Adoption of ITTA, 2006

The United Nations Conference on Trade and Development (UNCTAD) convened the Fourth and final Part of the UN Conference for the Negotiations of a Successor Agreement to the ITTA, 1994 at the Palais des Nations in Geneva, Switzerland, from 16 to 27 January 2006. The Conference adopted the ITTA, 2006 on Friday 27 January 2006.

The Agreement was opened for signature on 3 April 2006. As at 31 December 2006, the following countries had signed the Agreement:

Countries	Date of Signature
Guatemala	14 Jul. 2006
Indonesia	7 Apr. 2006
Madagascar	19 Sep. 2006
Norway	13 Sep. 2006
Panama	8 Dec. 2006
Switzerland	13 Dec. 2006
Togo	21 Apr. 2006

### Extension of the ITTA, 1994

At its Forty-first Session held in November 2006, the Council extended the ITTA, 1994 in accordance with Article 46(3) of the International Tropical Timber Agreement, 1994 until the provisional or definitive entry into force of the ITTA, 2006. The Council also decided to review the status of deposits of instruments of ratification, acceptance, approval or accession to the ITTA, 2006, as well as other provisions of this Decision at Council Sessions to be held in the period 2007-2009 and to undertake consultations with the Secretary-General of the United Nations if the ITTA, 2006 did not come into force by 1 September 2008.

The Council, further decided that in the event that the ITTA, 2006 did not enter into force either provisionally or definitively, on the basis of this review and consultations, it would consider whether to maintain the extension beyond 2009 or terminate the Agreement in accordance with Article 46(5) of the ITTA, 1994. The Council urged Governments to expedite the necessary procedures to become parties to the International Tropical Timber Agreement, 2006.

### ITTC Sessions

During the year, the Organization convened two sessions of its governing body, the International Tropical Timber Council, in Merida, Mexico and in Yokohama, Japan.

In 2006, the Council funded Thirty-one (31) new projects, pre-projects and activities to a total cost of US\$ 7,821,566. The Council also provided additional funds of US\$1,099,600 for some on-going projects, pre-projects and activities. The Organization continued to oversee one hundred and eighty-four (184) ongoing field projects, pre-projects and activities predominantly in the three tropical regions. (See Annex 4 for the full list of projects, pre-projects and activities under implementation).

### Financing at the Mérida Session

The Council financed a number of new projects during the session to further promote and contribute to the sustainable management of tropical forests. The problem of shoot-borers in timber plantations in Mexico's Yucatan Peninsula and state of Veracruz was one such project, while a second Mexican project was funded to finance the management of mangrove and flood forests on the central coastal plains of Veracruz. Guyana's Iwokrama forest benefited from the financing of a project to promote sustainable management, and the Philippines received assistance to implement a forestry information system. A project in Indonesia was financed to assist in the monitoring of concession forest management performance while the African regional parliamentary conference on the sustainable management of Central African forest ecosystems also received funding.

The total amount of funds allocated at the session was US\$3.9 million. Major donors at the session were the Governments of Japan and the USA, while the Common Fund for Commodities, the Friends of Iwokrama and the Governments of Norway, Finland, France, Australia and the Republic of Korea also pledged funds.

## **Financing at the Yokohama Session**

The International Tropical Timber Council committed over US\$5.38 million for new projects and activities for the conservation and sustainable management, use and trade of tropical forest resources during its Forty-first Session in Yokohama, Japan in November 2006.

The funds pledged at the Session were in addition to the US\$3.82 million committed in June at the Fortieth Council Session in Merida, Mexico, bringing the total pledged in 2006 to over US\$9.2 million.

The Council financed eleven projects and seven pre-projects at the Session, including one to promote certified and legally produced timber in Japan and another to strengthen capacity of forest law enforcement and governance in Cambodia. Also financed was a project to support community reforestation by women's groups in Ghana, and another to conserve and rehabilitate natural stands of ramin (*Gonystylus* spp.) and to establish plantations of this species in Indonesia. The Council also financed a project to establish a wood products testing laboratory in Mexico.

The Council allocated additional funds to a project working to expand the Pulong Tau National Park in Sarawak, Malaysia and establish a transboundary conservation reserve with neighboring Indonesia. Additional funds were also allocated to help improve the capacity of ITTO member countries to implement CITES listings of timber species, including a US\$3 million grant from the European Community. This particular work was one of the many activities included in the Council's review of progress in the implementation of the ITTO's Biennial Work Programme 2006-2007. Another activity under the Work Programme, to monitor the relationship between climate change and tropical forests, received additional funds for a report on recent developments in climate change negotiations and implications for tropical forests.

The major donors at this session were the Governments of Japan, Switzerland, the United States and France, while the Common Fund for Commodities and the governments of Finland, Norway, Australia, the Republic of Korea and the Netherlands also pledged funds. In addition, funds were mobilized from the Organization's unearmarked resources, including the Bali Partnership Sub-account B. Descriptions of the newly funded projects are contained in Annex 4

## **Measures to Improve and Strengthen the ITTO Project Cycle**

In 2006, through Decision 3(XXXVII) the Council authorized the Executive Director to engage consultants to prepare a coherent set of user-friendly project cycle manuals and guidelines as well as supporting the manuals with computerized tools.

The draft of the following Manuals and Guidelines were approved by the Council in 2006:

- Manual for Project Formulation;
- Manual for Project Monitoring, Review, Reporting and Evaluation
- Manual on the Standard Operating Procedures (SOP) for the Project Cycle;
- Guidelines for the Selection and Employment of Consultants;
- Guidelines for the Procurement and Payment of Goods and Services; and
- Software Tools to Support Project Formulation.

The following improvements were achieved by the revision process:

- Standard Operating Procedures established;
- Coherence between all Manuals and Guidelines:
- Concepts and terms to be used uniformly;
- One common glossary; and
- Software tools to support project formulation

The Council decided that prior to the full implementation and use of the new manual for project formulation, a limited number of project proposals from volunteering member countries could be formulated based on the revised manual to allow for the identification, on a practical basis, of possible shortcomings.

## **Promotion of the ITTO Guidelines for the Restoration, Management and Rehabilitation of Degraded and Secondary Tropical Forests**

Ten (10) national training workshops had been conducted to promote the understanding and use of the ITTO Guidelines for the Restoration, Management and Rehabilitation of Degraded and Secondary Tropical Forests

in Brazil, Ghana, Mexico, Guyana, Guatemala, Cameroon, the Philippines, Côte d'Ivoire, India and Myanmar. A Handbook on the Guidelines which was launched during the Thirty-ninth Session of the Council had also been approved for publication by Earthscan in 2006.

Proposals had also been developed for national level forest landscape restoration activities while in some cases, national working groups had been set up to advance the landscape approach to restoration. However, there were some issues to be addressed to make both the Guidelines and the Handbook clear with respect to terminology. There had been strong requests for the Handbook to be adapted to national context to assist in formulating project proposals on restoration and to add value to building capacity for the implementation of forest landscape restoration. There were nine additional requests from countries to host the national training workshops.

### **Enhanced Cooperation between ITTO and CITES for Ramin and Mahogany**

In 2006, the Council continued to enhance its cooperation with CITES. ITTO in partnership with the CITES Secretariat and under the auspices of the Tri-National Ramin Task Force convened the "ITTO Expert Meeting on the Effective Implementation of the Inclusion of ramin (*Gonystylus* spp.) in Appendix II of CITES" in Kuala Lumpur, Malaysia, from 16 to 19 May 2006. The meeting was hosted by the Government of Malaysia represented by the Ministry of Natural Resources and Environment (NRE) and the Forest Research Institute of Malaysia (FRIM) with the collaboration of TRAFFIC Southeast Asia. The broad objectives of the ITTO Expert Meeting were to:

- exchange experiences in the implementation of the inclusion of ramin (*Gonystylus* spp.) in Appendix II of CITES including undertaking Non-Detriment Findings as well as training on identification and relevant CITES procedures.
- review recent trade figures and data submitted to CITES, experiences in tracking full range of products and measurement/reporting issues.
- identify and examine problems and issues related to the implementation of the inclusion of ramin (*Gonystylus* spp.) in Appendix II of CITES.
- recommend concrete measures and action to enhance the implementation of the inclusion of Ramin (*Gonystylus* spp.) in Appendix II of CITES.

The ITTO Expert Meeting was attended by some fifty participants from 15 countries representing forestry, customs, timber trade regulating agencies, civil society and international organizations. The experts considered and made specific recommendations on four key areas namely, ecological and management status of ramin (*Gonystylus* spp.), review of market and international trade in ramin, capacity-building for meeting the requirements of CITES Appendix listing of ramin, and coordination and cooperation for the effective implementation of the inclusion of ramin in Appendix II of CITES

### **Promotion of Sustainable Forest Management in the Congo Basin**

Pursuant to Decision 10(XXXII) on "Promotion of Sustainable Forest Management in the Congo Basin" which aimed at supporting the implementation of the regional convergence plan by COMIFAC and the 2015 COMIFAC Objective, the Council at its Thirty-eighth Session in Brazzaville, Republic of Congo, approved two additional activities to this Decision and provided additional financial resources to develop sub-regional project proposals based on the most urgent needs identified by two feasibility studies. The studies were:

- The Achievement of Synergies between the African Timber Organization (ATO) Action Plan on the Further Processing of Tropical Timber in Africa and the COMIFAC Sub-regional Governance Plan
- The Implementation of the Revised Training Programmes in Forest Management and Forest Concession Management in the Congo Basin

The studies were completed in 2006 and two project proposals developed from these studies were presented to the Thirty-third Expert Panel for Technical Appraisal of Project and Pre-project proposals.

### **International Tropical Forest Investment Forum: Issues and Opportunities for Investment in Natural Tropical Forests, 26-27 April 2006, Cancún, Mexico**

This International Forum focused on private sector investment in natural tropical forests. The Forum was jointly organized by ITTO, Forest Trends, and the Mexican National Forestry Agency (CONAFOR), and was attended by some 170 participants from 30 countries around the world.

The Forum made significant contribution to increasing the level of understanding on opportunities and

constraints for investments in natural tropical forest based enterprises, and on the kind of information and types of tools available or needed to promote more responsible investment.

The Forum proved a great opportunity to make new business contacts and to get updated on the latest trends in forest investment worldwide, with a particular focus on natural tropical forests. Key presentations were made and panel discussions held on global issues affecting investments in tropical natural forests, including: trends and meeting forestry investment needs of the private sector; the role of governments and international organizations in creating an enabling investment climate; the role of international investors; new investment tools and approaches; ecosystem service payments; analysis of country investment opportunities; and the way forward – a vision for the process and preparing for sub-regional investment fora.

#### **Latin American Tropical Forest Investment Forum: Issues and Opportunities for Investment in Natural Tropical Forests, 23-24 November 2006, Curitiba, Brazil**

This Regional Forum was a follow-up to the International Investment Forum held in Cancún, Mexico. The Forum was jointly organized by ITTO, the 'Associação Brasileira da Indústria de Madeira Processada Mecanicamente' (ABIMCI), and the Brazilian Government (the Ministry of Foreign Affairs and the Brazilian Forest Service of the Ministry of Environment) and with the support of the World Bank, the Inter-American Development Bank (IDB) and the Food and Agriculture Organization of the United Nations (FAO).

The forum was attended by some 100 participants, mainly from Latin America (including from all thirteen ITTO member countries in the region) as well as from other countries around the world.

Issues that were addressed included:

- Who are the potential investors in natural forest based enterprises in Latin America?
- How do they make investment decisions, and what kind of information do they need?
- What characteristics of natural tropical forest based enterprises in Latin America are particularly attractive to investors?
- How does the overall country-level business climate affect the attractiveness of forest-related investment, and particularly of natural tropical forest based enterprises?
- How can Latin American governments or firms attract more investments for natural tropical forests and what are they currently doing?
- What other mechanisms can be used to make investments for tropical natural forests more attractive?

#### **Inter-Criteria and Indicator (C&I) Process Collaboration Workshop 8-10 June 2006, Bialowieza, Poland**

The workshop was a collaborative effort by the Montreal Process, ITTO, FAO, the Ministerial Conference for the Protection of Forests in Europe (MCPFE), the UN Economic Commission for Europe (UNECE) and the US Forest Service and was hosted by the MCPFE.

The workshop was held in response to repeated calls, mainly by international expert conferences on criteria and indicators (C&I) for sustainable forest management (SFM), for more and improved collaboration among criteria and indicator processes. The workshop made a number of observations and recommendations for consideration by C&I processes and international organizations.

#### **Application of Forest Law Enforcement in the Amazon 29-31 August 2006, Sao Paulo, Brazil**

Under the Biennial Work Programme for 2006-2007, the Council approved and financed the convening of four regional workshops, in coordination with regional FLEG processes to disseminate and promote the use of the ITTO/FAO publication on "Best Practices for Improving Law Enforcement in the Forest Sector", and to provide feedback from the workshops. The first of the planned four regional workshops was convened in Sao Paulo, Brazil in August 2006. The meeting was co-hosted by ITTO, FAO, Amazon Cooperation Treaty Organization and the Government of Brazil. Over 50 participants from eight ACTO member countries (Bolivia, Brazil, Colombia, Ecuador, Guyana, Suriname, Peru, and Venezuela- all also ITTO members) attended, together with representatives of intergovernmental organizations, NGOs and trade.

The meeting heard summaries of the status of forest law enforcement in each of the eight countries, and examined opportunities to further improve the development and enforcement of forest laws.

Among the recommendations was a call for national and regional action, including better coordination on monitoring and controlling frontier areas as appropriate.



## **International Conference on Managing Forests for Poverty Reduction** **3-6 October 2006 / Ho Chi Minh City, Vietnam**

The conference was jointly organized by ITTO, FAO, the Netherlands Development Organization (SNV), the Department of Forestry of Vietnam, the Tropical Forest Trust (TFT), the Regional Community Forestry Training Center (RECOFTC) and the Asia-Pacific Forestry Commission (APFC) with financial support from ITTO and the Ministry of Foreign Affairs (DGIS) of the Netherlands.

The meeting highlighted realistic options for forest management and income generation by local and poor people, drawn from experiences in Latin America, Northern America, Africa and Asia. It also provided insights into policies and legislation that could benefit both forests and the poor. Technical, economic, institutional and policy aspects of small-scale and labour-intensive forest management and wood processing were reviewed. A taskforce was set up to promote community-based and labour-intensive forest management for poverty reduction.

Delegates issued a conference statement calling for forestry policy makers, forest-related development organizations, donors, private sector and local communities to work together in ensuring that forests were managed for the benefit of the poor.

### **ITTO Diagnostic Missions**

Technical missions were dispatched to Thailand and India in 2006 to help identify the factors that most severely limit progress towards achieving the ITTO Objective 2000 and sustainable forest management and to formulate action plans to overcome these constraints. To date, 20 member countries have benefited from these ITTO diagnostic missions, the reports of which are available on the ITTO website <http://www.itto.or.jp>

### **Major ITTO Publications and Reports, 2006**

- Status of Tropical Forest Management Report 2005. Technical Series No. 24
- Guidebook for the Formulation of Afforestation and Reforestation Projects Under the Clean Development Mechanism
- ITTO Guidelines on Auditing of Criteria and Indicators for Sustainable Forest Management – CD-ROM Policy Development Series No.16
- Annual Review and Assessment of the World Timber Situation 2005
- Quarterly editions of the ITTO Tropical Forest Update
- Twice-monthly editions of the ITTO Market Information Service Report

Many reports were published by projects, such as “Program to Facilitate and Promote Adoption of Reduced Impact Logging (RIL) in Indonesia and the Asia-Pacific Region (Indonesia)”. See Annex 5 for a complete list of ITTO publications in 2006.

### **Freezailah Fellowship Programme**

ITTO awarded fifty(50) fellowships worth about US\$300,000 in 2006. To date the fellowship programme has awarded more than 910 fellowships to young and mid-career people from over 30 countries working for government, research institutions, civil society and the private sector to pursue their professional development and improve their career prospects. Short training courses, participation in conferences, study tours, and technical document preparation have accounted for 54% of the activities for which fellowships have been awarded while post graduate programmes accounted for 46% of the activities. Females accounted for 35% of the total awards.

### **ITTO Outreach Through Workshops**

During 2006 ITTO organized and/or co-sponsored many forums for training, discussion, networking and the dissemination of information. These included:

- ASEAN-ITTO Regional Workshop on Perspectives of Clean Development Mechanism (CDM) Forestry

Projects in Asia and the Pacific, 22-24 March 2006 ,Phnom Penh, Cambodia

- International Tropical Forest Investment Forum: Issues and Opportunities for Investment in Natural Tropical Forests, 26-27 April 2006 / Cancún, Mexico
- Inter-Criteria and Indicator (C&I) Process Collaboration Workshop 8-10 June 2006, Bialowieza, Poland
- Tropical Timber and Maritime Transport: What Vulnerabilities Exist and How can They be Addressed? 11-12 July 2006 / London, UK
- ITTO/ICBR/INBAR International Workshop on Sustainable Development of the Global Rattan Sector 24-26 July 2006 Beijing, China
- Workshop on Strengthening, Monitoring, Assessment and Reporting (MAR) on Sustainable Forest Management in Asia, 24-28 July, Sapporo, Japan
- Application of Forest Law Enforcement in the Amazon 29-31 August 2006, Sao Paulo, Brazil
- Sub-regional Workshop on the Reinforcement of Forestry Training Institutions in the Congo Basin 26-27 September 2006 / Yaoundé, Cameroon
- Training Workshop on Tropical Forestry and Timber Trade Statistics, 26-28 September 2006, Santiago, Chile.
- International Workshop on Clean Development Mechanism (CDM): Opportunities and Challenges for the Forest Sector in Sub-Saharan Tropical Africa 2-5 October 2006, Accra, Ghana
- International Conference on Managing Forests for Poverty Reduction 3-6 October 2006 / Ho Chi Minh City, Vietnam
- Latin American Tropical Forest Investment Forum: Issues and Opportunities for Investment in Natural Tropical Forests, 23-24 November 2006, Curitiba, Brazil
- ITTO National Training Workshops on Criteria and Indicators for Sustainable Forest Management held in India and Liberia.

#### **Trade and Civil-Society Advisory Groups Spotlight**

The civil society and trade organizations made substantial contributions to the work of the Organization in 2006. The Civil Society Advisory Group organized two side-events in conjunction with the Fortieth and Forty-first Sessions of the Council and made a number of recommendations, including:

- A global review of forest tenure transitions and assessment of implications for conservation, production, trade and livelihoods;
- An independent review of ITTO portfolio of projects directly relevant to communities to identify new guidelines and evaluation criteria to ensure that: (i) all projects respected local rights and do no harm; (ii) contribute to poverty alleviation, sustainable development; and (iii) the opinions and recommendations of local people were fairly represented in the design, implementation and evaluation of such projects;
- The replenishment of the "Private and Civil Society Partnership" fund to finance small-scale projects, as well as begin the design of a new funding window to support initiatives led by community organizations;
- Conducting capacity building workshops and networking activities for civil society organizations.

The Trade Advisory Group organized the ITTO Annual Market Discussion 2006 and also made a number of recommendations, including urging:

- ITTO to promote international harmonization of standards so as to facilitate trade in tropical timber;
- EU to start discussing Voluntary Partnership Agreements (VPAs) with all timber exporting countries;
- Importing countries to reduce barriers to tropical timber trade, improve the efficiency of systems, especially proper enforcement in order to avoid creating market distortions and thereby affecting trade;
- ITTO to do more work on production and trade in plantation timber since investments in productive and high quality plantations required technology and human resources not available in several tropical countries.

## 1. ORGANIZATION, ADMINISTRATION, AND SUMMARY OF ACTIVITIES

### 1.1. Mission Statement

*"ITTO facilitates discussion, consultation and international cooperation on issues relating to the international trade and utilization of tropical timber and the sustainable management of its resource base".*

### 1.2 Membership

This was the tenth year of operation of the International Tropical Timber Agreement, ITTA, 1994, which came into force on 1 January 1997. Members of the Organization increased by one in 2006 with the accession of Poland on 19 December 2006 as a Consumer member. Total membership was sixty (60) countries (including the European Community), comprising, thirty-three (33) Producers and twenty-seven (27) Consumers. The sixty Members of the ITTO listed below accounted for over 76 percent of the world's natural tropical forest and more than 90 percent of the international trade in tropical timber.

The status of Members as at 31 December 2006 in terms of the ITTA, 1994 is summarized in Annex 1.

Current Membership of ITTO

#### PRODUCERS

##### Africa

Cameroon  
Central African Republic  
Côte d'Ivoire  
Dem. Rep. of Congo  
Gabon  
Ghana  
Liberia  
Rep. of Congo  
Nigeria  
Togo

##### Asia & Pacific

Cambodia  
Fiji  
India  
Indonesia  
Malaysia  
  
Myanmar  
Papua New Guinea  
Philippines  
Thailand  
Vanuatu

##### Latin America

Bolivia  
Brazil  
Colombia  
Ecuador  
Guatemala  
Guyana  
Honduras  
Mexico  
Panama  
Peru  
Suriname  
Trinidad & Tobago  
Venezuela

#### CONSUMERS

Australia  
Canada  
China  
Egypt

##### European Community \*

Austria  
Belgium/Luxembourg  
Denmark  
Finland  
France  
Germany  
Greece  
Ireland  
Italy  
Netherlands  
Poland  
Portugal  
Spain  
Sweden  
United Kingdom

##### Other Europe

Norway  
Switzerland

Japan  
Nepal  
New Zealand  
Rep. of Korea  
United States of America

\* A Member in its own right.

### **1.3 International Tropical Timber Council**

#### **1.3.1 Officers of the Council**

At its Thirty-ninth Session, the Council elected Messrs. Koichi Ito (Japan) and H. E. Amb. Luis Macchiavello Amoros as its Chairperson and Vice-Chairperson respectively for 2006. Decisions on both appointments were unanimous. Mr. Luiz César Gasser (Brazil) continued to serve as Spokesperson for the Producer Group while Ms. Aulikki Kauppila (Finland) also continued to serve as Spokesperson for the Consumer Group in 2006.

#### **1.3.2 The Fortieth Session of the Council**

The Fortieth Session of the ITTC was held in Mérida, Mexico from 29 May to 2 June 2006. The Session was attended by delegates from Thirty-seven (37) ITTO Member Countries and the European Community. Also in attendance were Twenty-six (26) Observers from States; U. N. bodies and Specialized Agencies; inter-governmental and non-governmental organizations.

The Session was opened by the Chairperson of the Council, Mr. Koichi Ito (Japan) and was addressed by H.E. Mr. Patricio Jose Patron Lavada, Governor of the State of Yucatán, H. E. Hon. Patrick Pruaich, Minister of Forests and Treasury of Papua New Guinea, H. E. Mr. Jacques Andoh Alle, Minister of Environment and Forest Economy of Côte d'Ivoire, and Ing. Manuel Reed Segovia, Director General of the National Forestry Agency of Mexico. The Session was preceded by the eighteenth meeting of the Informal Advisory Group (IAG) to assist the Council to organize its work, and also a meeting of the Chairpersons and Vice-Chairpersons of the Committees with the Assistant Directors of the various Divisions to streamline the work of the Committees.

The Council approved twenty-nine (29) fellowship applications at a total cost of US\$149,660.00 following the recommendations of the Fellowship Selection Panel that met at the Fortieth Session of the Council.

Projects, Pre-projects and Activities financed at the Fortieth Session amounted to US\$3,826,524.00. Allocations of funds were made by Japan (US\$3,011,898.00), USA (US\$500,000.00), Norway (US\$130,000.00), Finland (US\$40,000.00) Australia (US\$39,000.00), Republic of Korea (US\$20,000.00), Common Fund for Commodities (US\$ 75,626.00), and Friends of Iwokrama, U.S.A. (US\$10,000.00).

#### **1.3.3 The Forty-first Session of the Council**

The Forty-first Session of the Council was held in Yokohama, Japan, from 6 to 11 November 2006. The Session was attended by delegates from forty (40) ITTO Member Countries and the European Community. Also in attendance were twenty-seven (27) Observers from States, U. N. bodies and Specialized Agencies, Inter-governmental and Non-governmental organizations.

The Session was opened by the Chairperson of the Council, Mr. Koichi Ito (Japan) and was honoured with the attendance of H. E. Mr. Hiroshi Nakada, Mayor of the City of Yokohama, H. E. Dr. Elvis Ngolle Ngolle, Minister of Forestry and Wildlife of Cameroon, Ambassador Jörg Al. Reding, Head of Economic Development Cooperation of the State Secretariat for Economic Affairs of Switzerland, H.E. Mr. Michael Maue, Ambassador of Papua New Guinea to Japan and Mr. Kenji Tsuji, Deputy Director-General of the Forestry Agency of Japan. The Session was preceded by the nineteenth meeting of the Informal Advisory Group (IAG) and a meeting of the Chairpersons of and Vice-Chairpersons of the Committees with the Assistant Directors of the various Divisions to streamline the work of the Committees.

The Council conducted its Annual Review and Assessment of the International Timber Situation based on statistics and available data on production, imports and exports of timber products. This review emphasized tropical timber products, placing their production and trade in a global context.

The Council awarded twenty-one (21) fellowships at a total cost of US\$150,100.00 following the recommendations of the Fellowship Selection Panel that met at the Forty-first Session of the Council.

Projects, Pre-projects and Activities funded at the Forty-first Session amounted to US\$ 5,384,642.00. Allocations of funds were made by Japan (US\$3,525,382.84), Switzerland (US\$651,600.00), U.S.A (US\$500,000.00), France (US\$120,000), Finland (US\$60,000.00), Norway (\$48,000), Australia (US\$35,000), Republic of Korea (US\$30,000), The Netherlands (US\$14,659.16), and Common Fund for Commodities (US\$ 80,000). Amounts of US\$190,000.00 and US\$130,000.00 of the total funding were from the Unearmarked Funds and the Working Capital Account of the Administrative Account, respectively.

The total pledged sum of US\$5,384,642.00 included amounts of US\$150,000.00 and US\$100,000.00 respectively, being donors' pledges to the Sub-account B of the Bali Partnership Fund.

### 1.3.4 Voluntary Contributions

New voluntary contributions received in 2006 to the Special Account and the Bali Partnership Fund were made by the following Countries and Organizations:

Government of Japan	\$3,325,455.00
Government of Switzerland	\$3,000,000.00
Government of U.S.A.	\$1,000,000.00
Government of The Netherlands	\$29,000.00
Government of Norway	\$130,000.00
Government of Australia	\$74,069.00
Government of Finland	\$40,000.00
Government of Republic of Korea	\$50,000.00
Common Fund for Commodities (CFC)	\$99,000.00
The Nature Conservancy (TNC)	\$70,000.00
Friends of Iwokrama, U.S.A.	\$10,000.00
You You Ang.Co. of Japan (Private)	\$840.00
	<hr/>
	<u>\$7,828,364.00</u>

In 2006, the largest allocation of funds for the work of the Organization were made by Japan (US\$6,537,281), Switzerland (US\$3,000,000), and USA (US\$1,000,000). Detailed Information on allocation of funds by donors to the Special Account and Bali Partnership in 2006 is contained in Annex 7.

## 1.4. The Committees

### 1.4.1 Officers of the Committees

Dr. James Gasana (Switzerland) and Ms. Chantal Adingra (Côte d'Ivoire) served as the Chairperson and Vice-Chairperson of the Committee on Economic Information and Market Intelligence respectively in 2006.

Dr. Petrus Gunarso (Indonesia) Dr. Flip van Helden (Netherlands) served as the Chairperson and Vice-chairperson of the Committee on Reforestation and Forest Management respectively in 2006.

Dr. Jung-Hwan (Republic of Korea) and Mr. Dani Pitoyo (Indonesia) served as Chairperson and Vice-Chairperson of the Committee on Forest Industry respectively in 2006; and

Messrs Li Qiang (China) and James Singh (Guyana) served as Chairperson and Vice-Chairperson of the Committee on Finance and Administration respectively in 2006.

### 1.4.2 Associated Sessions of the Committees

Associated Sessions of the Committees were held in conjunction with the Fortieth and Forty-first Sessions of the Council.

The ITTO Annual Market Discussion 2006 was held at a joint session of the committees during the Fortieth Session of the Council in Mérida, Mexico. It was organized by the Trade Advisory Group (TAG) with the theme "Timber Markets and Procurement Policies". Mr. Barney Chan, TAG Coordinator moderated the discussions which was chaired by Dr. James Gasana (Switzerland). The following feature presentations were made during the Market Discussion:

Mr. Mario Molina  
CONAFOR, Mexico

"Tropical Woods for Industrial Use in Mexico"

Mr. Rupert Oliver  
Forest Industries Intelligence Ltd., UK

"Recent Trends in Timber Procurement Policy"

Dr. Jean Mark Roda  
CIRAD, France

"European New Trends of Public Procurement Policies for Tropical Timber: Lessons from the French Case and Global Implications"

Mr. Christian Lundmark Jensen  
Danish Ministry of Environment

"Implementing Public Procurement Policies in Practice, Lessons Learnt – A Case from Denmark"

Ms. Brigid M. Shea  
IWPA, USA

"Corporate Procurement Policies in the USA"

The report of the ITTO Annual Market Discussion 2006 is attached as Annex 2

The Sessions of the Committee on Economic Information and Market Intelligence and the Committee on Forest Industry were held jointly in 2006. The Committee on Economic Information and Market Intelligence reviewed the status of implementation of fifteen (16) projects, seven (7) pre-projects and one activity in 2006. Information on these projects and pre-projects is provided in Annex 4. The Committee recommended to the Council a total of five (5) new projects for approval and funding.

On policy work, the Committee on Economic Information and Market Intelligence held discussions on the following issues: (i) Market Access; (ii) Forest and Timber Certification; (iii) Selected Data and Analysis from ITTO Annual Review and Assessment of the World Timber Situation – China (iv) Market Study on Tropical Plantation Timber Products [PP-A/35-138]; (v) ITTO Annual Market Discussion – 2007; (vi) Review of the Timber Market in Two Significant Tropical Timber Importing Countries [PP-A/36-149]; (vii) Studies on Subsidies Affecting Tropical Timber Products; (viii) Auditing of Existing Tracking Systems in Tropical Forest Industries; (ix) Forest Law Enforcement and Illegal Trade in Timber and Timber Products; (x) Enhancement of Statistical Work and Training Workshops on Statistics; (xi) Monitoring Progress Being Made Regarding the Comparability and Acceptance of Certification Systems; (xii) Economic Valuation of the Forest Sector with Particular Reference to the Amazon Basin.

The Committee on Reforestation and Forest Management recommended to the Council to approve and fund fifteen (15) new projects and four new pre-projects. The Committee also recommended the approval of revised versions of three (3) projects approved at an earlier Session. The Committee noted that there was still a number of projects and pre-projects approved at earlier Sessions that were pending financing. A total number of sixty-eight (68) projects and pre-projects in reforestation and forest management were under implementation in 2006. The complete list of projects and pre-projects under implementation is provided in Annex 4.

The following policy issues were also considered by the Committee: (i) Review and Update of the ITTO Guidelines for the Conservation of Biodiversity in Tropical Timber Producing Forests; (ii) The Promotion of the ITTO Guidelines for the Management, Restoration and Rehabilitation of Degraded Secondary Tropical Forests; (iii) Monitor and Assess the Environmental, Social and Economic Costs and Benefits of Forest Plantation Development and Utilize the Information to Promote New Plantations; (iv) Contribute Appropriately to National and International Efforts in the Area of Prevention and Management of Fire in Relation to Tropical Timber-Producing Forests (Colombia, Philippines and Peru).

The Committee on Forest Industry reviewed the status of implementation of thirty-five (35) Projects that were under implementation. The Committee recommended to Council twelve (12) new Projects and four (4) new Pre-projects for approval and funding. On policy work, the Committee on Forest Industry considered the following issues: (i) Promotion of Wood-based Bio-energy Using Wood Residues and Wastes in Tropical Countries; (ii) Promotion of Private Investment through Facilitating Information Exchange on Investment Opportunities – Convening of Investment Promotion Forum/Seminar; (iii) Assessing Opportunities for and Promoting Development of Non-Timber Forest Products and Forest Services which can Improve the Economic Attractiveness of Maintaining the Forest Resource Base; (iv) International Conference on the Transportation of Timber Products; and (v) Discussion on a Proposal for a Global Review of Lessons Learned by ITTO from Projects and Programmes dealing with the Promotion of Community-based Forest Enterprises.

The Committee on Finance and Administration (CFA) adopted the report of the independent public accountants on the accounts of the Organization for the financial year 2005. Following the revision of the

Biennial Administrative Budget for 2006-2007, the CFA recommended to the Council to approve an amount of US\$ 5,460,138 as the budget for 2007.

The Chairperson of the CFA also chaired the Panel on Sub-Account B of the Bali Partnership Fund that made recommendations to the Council on the allocations for financing of projects, pre-projects and activities from Sub-Account B of the BPF, as well as financing from the "Unearmarked Funds" in the Special Account. The Panel recommended the financing from the resources of the Sub-Account B of the Bali Partnership Fund and/or Unearmarked Funds of the following:

PP-A/39-162	Cooperation with CITES – Improve capacity of Members to implement CITES listings of timber species [ITTO Budget – US\$750,000.000]. Partial funding of US\$190,000.00
PP-A/39-165	Intersessional Working Group on Thematic Programmes [Decision 2(XXXIX) paragraph 2 item (vi)] US\$110,000.00

## 1.5. Informal Groups

### 1.5.1 The Informal Advisory Group (IAG)

The IAG established under Decision 3(XXIII) and comprising the Chairperson and Vice-Chairperson of the Council, the Chairpersons of the Committees, the two Spokespersons, a representative of the Government of Japan and the Executive Director held its eighteenth and nineteenth meetings in 2006. The eighteenth meeting was held on 28 May 2006 in Mérida, Mexico. Issues discussed included: Preparations for the entry into force of the ITTA, 2006; Council decision-making process - ITTC Decision 7(XXXIII); Draft decisions/elements of decisions submitted pursuant to ITTC Decision 7(XXXIII) on "Measures to Reduce Costs and Improve the Efficiency and Effectiveness of the Organization; and a list of possible decisions for the Fortieth Session of the ITTC.

The nineteenth meeting of the IAG was held on 5 November 2006 in Yokohama, Japan. Issues considered by the IAG included frequency, duration and financing of Council Sessions; Council decision-making process – ITTC Decision 7(XXXIII); consideration of draft decision/elements of decisions submitted pursuant to ITTC Decision 7(XXXIII) on "Measures to Reduce Costs and Improve the Efficiency and Effectiveness of the Organization"; and a list of possible decisions for the Forty-first Session of the ITTC. The IAG presented the following list of possible decisions to be considered and adopted by the Council at its Forty-first Session: (i) projects, pre-projects and activities; (ii) extension of the ITTA, 1994; (iii) participation of ITTO in the Coalition Against Wildlife Trafficking (CAWT); (iv) support for the development of approaches to reduce greenhouse gas emissions from tropical reforestation and tropical forest degradation; (v) relief from obligations for Liberia pursuant to Article 33 of the ITTA, 1994; and (vi) matters related to Article 16 of the ITTA, 1994. The IAG also noted that five countries namely Guatemala, Indonesia, Madagascar, Norway and Togo had signed the ITTA, 2006 pending ratification, acceptance or approval of the Agreement.

### 1.5.2 Civil Society Advisory Group (CSAG)

In statements to the Council the CSAG stated that there were a growing number of ITTO projects with community element or dimension and that there were no clear criteria or mechanisms for learning from these projects. The CSAG recommended that ITTO should develop a thematic programme focusing on community forestry and enterprises and thereby strengthening ITTO's work in that area. CSAG indicated that such a programme would need to address the following needs:

- More available information and support to governments engaged in on-going policy and legislative changes in the forest and environment sector;
- More possibilities for communities and their organizations to gain direct access to financing and to projects and activities;
- More capacity-building and exchange of experiences within and across regions for (i) government and those responsible for overseeing CFEs and implementation of policy; and (ii) CFEs and communities engaged in integrated ecosystem management.

The CSAG outlined the following issues and recommendations for the consideration of the Council:

- A global review of forest tenure transitions and assessment of implications for conservation, production, trade and livelihoods;
- Engaging an independent review of ITTO portfolio of projects directly relevant to communities to identify new guidelines and evaluation criteria to ensure that: (i) all projects respected local rights and

did no harm; (ii) contribute to poverty alleviation, sustainable development; and (iii) the opinions and recommendations of local people were fairly represented in the design, implementation and evaluation of such projects;

- The replenishment of the "Private and Civil Society Partnership" fund to finance small-scale projects, as well as begin the design of a new funding window to support initiatives led by community organizations;
- Conducting capacity building workshops and networking activities for civil society organizations corresponding to the new guidelines and funding.

### 1.5.3 Trade Advisory Group (TAG)

In statements to the Council, TAG noted that the high fuel prices around the world in 2006 had had adverse impacts on logging and mill operations, freight and other associated costs. TAG also noted that harmonization of standards was becoming a trade issue in both consuming and producing countries and urged ITTO to promote international harmonization of standards so as to facilitate trade in tropical timber and urged the different certification bodies to move towards mutual recognition of each other. TAG stated that illegal logging and illegal trade in timber still remained the focus of many people around the world and had turned into a serious issue where the legality of tropical timber was being questioned by everyone. TAG underlined that tropical timber should be treated as legal until and unless proven otherwise. TAG underscored the sensitivity of the issue of procurement policy to Producing Member Countries, and noted that some EU countries and Japan had written public procurement policies on tropical timber and cautioned that if the issue was not handled properly, it would attract the attention of the World Trade Organization. TAG also noted that the EU FLEGT process was proposing a Voluntary Partnership Agreement (VPA), on a bilateral basis, with certain countries but the discussions on the VPAs had excluded certain major timber exporting countries and TAG found the practice to be discriminatory and expressed concern. TAG strongly urged the EU to start discussing VPAs with all timber exporting countries.

TAG further noted that the verification of legality of timber was an expensive process and producers had been saddled with the costs making it more expensive to produce products with accompanying proof of legality, while illegal timber was still being sold cheaply. TAG underlined that illegal logging and illegal trade in timber remained a high profile issue and lauded efforts to combat illegal logging and illegal trade.

TAG also noted the introduction of CE marking for sawnwood with effect from 1 September 2007 and stated that the requirement would have a strong effect on future consumption of tropical timber in Europe and was likely to become a trade barrier for most tropical timber producing countries because:

- the larger variety of tropical timber species as compared to temperate species would imply the need for extensive and expensive testing work;
- the new requirement would limit the introduction of lesser known species in the market; and
- of the requirement that testing would only be carried out by laboratories recognized by the EU.

TAG noted that the introduction of the CE marking for sawnwood would add new costs to tropical timber producers, act as market barrier and further reduce the competitiveness of tropical timber products in the market and that the CE marking for sawnwood, as was the case with plywood, would have a stronger effect on small and medium sized companies in view of the technical and financial limitations. TAG urged importing countries to reduce barriers to tropical timber trade, improve the efficiency of systems, especially proper enforcement. It noted that failures in the enforcement of such systems tended to create more market distortions, thereby affecting trade. TAG called on ITTO to study these systems in more detail and identify mechanisms to reduce discrimination against tropical timber products in the market. It also urged ITTO to support tropical timber producers to achieve the standards required by assisting countries to establish testing facilities.

TAG noted the growing importance of forest plantations and urged ITTO to do more work on production and trade in plantation timber. It stated that plantations would open new perspectives for tropical countries and called on ITTO to assist countries in order to ensure that investments in the plantations would be beneficial to these countries in the future since investments in productive and high quality plantations required technology and human resources not available in several tropical countries.

### 1.6. Summary of Projects, Pre-projects and Other Approved Activities

In 2006 the Council funded Thirty-one (31) new projects, pre-projects and activities at a total cost of US\$ 7,821,566. The Council also provided additional funds of US\$1,099,600 for some on-going projects, pre-projects and activities. The list of new projects, pre-projects and activities funded in 2006 is appended as



## Annex 3.

Table 1. Summary of Projects, Pre-projects and Approved Activities - Funding pledged in year 2006

	Projects		Pre-Projects		Activities		Additional Funding for Ongoing Proj./Activities	Total	
	No.	ITTO Funding US\$	No	ITTO Funding US\$	No.	ITTO Funding US\$	ITTO Funding US\$	No.	ITTO Funding US\$
Economic Information and Market Intelligence	5	1,720,532						5	1,720,532
Reforestation and Forest Management	11	4,210,787	5	353,754			129,600	16	4,694,141
Forest Industry	4	1,124,001	4	262,492			400,000	8	1,786,493
Council (Note)					2	150,000	570,000	2	720,000
TOTAL	20	7,055,320	9	616,246	2	150,000	1,099,600	31	8,921,166

Note:

The financing of the Biennial Work Programme for the years 2006-2007 in the amount of US\$11.12 million approved at the Thirty-ninth Session of the ITTC in November 2005, has not been included.

Table 2. Projects, Pre-Projects and other Approved Activities Funded by the Organization.  
1987 - 2006 [ITTC (II) - ITTC (XLI)]

WORK	STATUS	No.	ITTO Funding (US\$)
Projects	Completed	330	172,845,388
	Operational	124	67,082,883
	Pending Agreement	14	5,822,283
	Sub-total:	468	245,750,554
Pre-Projects	Completed	165	15,454,285
	Operational	25	1,688,535
	Pending Agreement	5	333,476
	Sub-total:	195	17,476,296
Approved Activities	Completed	154	22,152,168
	Operational	35	12,990,826
	Sub-total:	189	35,142,994
	TOTAL	852	298,369,844

## 2. POLICY WORK

The Successor Agreement to the ITTA, 1994 was successfully concluded on 27 January 2006 after three years of protracted negotiations. The Council also worked on other policy related activities, including: (i) Measures to Improve and Strengthen the ITTO Project Cycle; (ii) ITTO Objective 2000; (iii) Forest Law Enforcement in the Context of Sustainable Timber Production and Trade; (iv) ITTO Guidelines for the Restoration, Management and Rehabilitation of Degraded and Secondary Tropical Forests; (v) Enhanced Cooperation between ITTO and CITES (vi) Promotion of Sustainable Forest Management in the Congo Basin (vii) Extension of the ITTA, 1994 and (viii) Matters Related to Article 16 of ITTA, 1994.

### 2.1. Adoption of the ITTA, 2006

The United Nations Conference on Trade and Development (UNCTAD) convened the Fourth and final Part of the UN Conference for the Negotiations of a Successor Agreement to the ITTA, 1994 at the Palais des Nations in Geneva, Switzerland, from 16 to 27 January 2006. The Conference managed to reach agreement on the difficult issues that eluded consensus during the first three rounds of negotiations, including on financial arrangements and scope of the Agreement and adopted the ITTA, 2006 on Friday 27 January 2006.

Over 180 delegates from ITTO member countries, potential member countries, intergovernmental organizations, United Nations specialized agencies, UN bodies, civil society organizations, trade organizations and several non-governmental organizations (NGOs) attended the Conference

The Agreement was opened for signature on 3 April 2006. As at 31 December 2006 action related to signature, ratification, acceptance and approval had been taken by the following countries:

Countries	Signature	Provisional application	Ratification, Accession (a), Acceptance (A), Approval (AA), Definitive signature (s)
Guatemala	14 Jul. 2006		
Indonesia	7 Apr. 2006		
Madagascar	19 Sep. 2006		
Norway	13 Sep. 2006		
Panama	8 Dec. 2006		
Switzerland	13 Dec. 2006		
Togo	21 Apr. 2006		

### 2.2. Measures to Improve and Strengthen the ITTO Project Cycle

At its Thirty-seventh Session through Decision 3(XXXVII) the Council authorized the Executive Director to engage consultants to prepare a coherent set of user friendly project cycle manuals and guidelines as well as supporting the manuals with computerized tools.

The report of the consultants was presented to the Council at its Forty-first Session in Yokohama, Japan in November 2006. The following Manuals and Guidelines were presented to the Council:

- Manual for Project Formulation;
- Manual for Project Monitoring, Review, Reporting and Evaluation
- Manual on the Standard Operating Procedures (SOP) for the Project Cycle;
- Guidelines for the Selection and Employment of Consultants;
- Guidelines for the Procurement and Payment of Goods and Services; and
- Software Tools to Support Project Formulation.

The SOP is a framework of practices and regulations for the ITTO project cycle that should be followed from the start of a project to completion. These procedures evolved as a result of Council Decisions and past experiences of various implementers of the ITTO project cycle. The SOP integrates and updates all pertinent procedures and guidelines of ITTO pertaining to the whole project cycle.

The "ITTO Guidelines for the Selection and Employment of Consultants and Procurement and Payments of Goods and Services, 2nd Edition (2006)" builds upon the first edition published in June 1993; taking into account the experiences gained by Member Countries in these aspects of project work and the need to utilize project funds for more efficient and effective procurement of goods and services. The Guidelines should be

used in conjunction with other relevant procedures stipulated in the other revised ITTO Manuals and Guidelines and pertinent Council Decisions related to the project cycle.

The revised "ITTO Manual for Project Formulation 3rd Edition (2006)" builds on the second edition and it covers three types of proposals: projects, small projects [with a budget of less than US\$150,000 and duration of less than two (2) years] and pre-projects.

The Software Tool is fully based on and conforms to the ITTO Project Formulation Manual which:

- helps project proponents to formulate their project, small project and pre-project proposals;
- creates a blank proposal document in proper format with charts and tables already pasted in; and
- text to complete the proposal can easily be typed in.

The Software Tool will help proponents in creating the problem tree, the objectives tree, the logical framework matrix, the work plan and the budget tables.

The revised "Manual for Project Monitoring, Review, reporting and Evaluation" 2nd Edition (2006)" builds on the 1st Edition. It identifies three (3) phases for reporting: inception, implementation and completion phases.

The report identified the following improvements achieved by the revision process:

- Standard Operating Procedures established;
- Coherence between all Manuals and Guidelines;
- Concepts and terms to be used uniformly;
- One common glossary; and
- Software tools to support project formulation

The Council decided that prior to the full implementation and use of the new manual for project formulation, a limited number of project proposals from volunteering member countries could be formulated based on the revised manual to allow for the identification, on a practical basis, of possible shortcomings.

### **2.3. ITTO Objective 2000**

Pursuant to its Decision 2(XXIX) which requested the Executive Director to render assistance, on request, to Producer countries to identify, in each country, those factors which most severely limit progress towards achieving the ITTO Objective 2000 and sustainable forest management and to formulate an action plan to overcome these constraints, the Council in 2006 dispatched technical missions to Thailand and India.

#### **2.3.1 Achieving the ITTO Objective 2000 and Sustainable Forest Management in Thailand**

The Mission was led by Dr. Markku Simula(Finland). Other Members of the mission were Mr. Takeshi Akaha (Japan), Dr. Behari Bipin (India) and Mr. Yam Malla (Nepal). The mission was assisted by Dr. Chudchawan Sutthisrisilapa, Dr. Komon Pragtong, Mr. Sittichai Ungphakorn and Mr. Wichit Sonthiwanit. The mission was conducted from 22 March to 8 April 2006 and involved field visits to five (5) Provinces (Chiang Mai, Nakhon Ratchasima, Prachinburi, Rayong, Chonburi) and a debriefing stakeholder workshop. A total of about 125 people were consulted representing different stakeholder groups.

The mission identified seven main areas for detailed investigation. These were (a) conservation and management of natural forests; (b) community forestry; (c) plantations; (d) industry and markets; (e) non-timber forest products; (f) public policies; and (g) institutional capacity.

The mission noted that since the logging ban in 1989, timber production in Thailand had shifted from natural forests to planted forests. However, plantations of timber species had progressed slowly due to series of constraints, including costs of land and labour and the technical basis of plantation development was relatively shallow. The mission called for studies to be carried out to diversify plantation sites and species for improved economic returns. The mission noted that plantations were financially feasible but the gestation period was too long for poor farmers while credit facilities and incentives were also inadequate. The mission stated that the most critical constraints impeding progress towards sustainable forest management were: (i) the bottlenecks of the regulatory framework; (ii) lack of coherence among public policies; (iii) people's widely varying perceptions about how Thailand's forests should be conserved and managed; (iv) lack of coherent support to communities and the private sector to manage forest resources; (v) institutional uncertainty related to public forest administration; (vi) deficient information systems; and (vii) lack of systematic strategies for human resource development and extension.

The mission made a number of recommendations, including:

- Revision of guidelines for the preparation of management plans for protected areas (PAs) and forest reserves to better address participation of local people and potential for management of NTFPs;
- Approval of the Community Forestry Bill without delay. Community forestry should be allowed in national forest reserves through legal provisions;
- Plantation development should be carried out through a new approach and the government's role in mitigating market risks related to private sector plantation development should be focused on arranging adequate credit facilities, improved market transparency, promotion of diversification of outputs and developing measurement and grading systems for timber;
- Studies on the feasibility of establishing a special forest fund for community forestry and small holder plantation development using the existing banking institutions as the delivery channel;
- Updating the Forest Policy and removing the conflicting policy goals related to land use;
- Carrying out a survey on illegal logging and associated trade;
- Restructuring the public administration system. Provincial and District Natural Resource/Forest Officers should assume a strong role and develop solid strategic plans for the forestry development in their territories;
- Preparation of a human resource development plan and extension strategy for the forestry sector covering education and training (for the next 5-7 years);
- Introduction of a broader range of species in plantation investments, particularly *Eucalyptus grandis*, *E. urophylla* and their hybrids;
- Stronger role for the industry in the development of its raw material supply and wood procurement; and
- All the stakeholders, probably with the facilitation of the Royal Forestry Department, should identify and assess options for the development of forest certification in Thailand.

The mission recommended that ITTO should support Thailand to:

- develop national criteria and indicators through a broad-based participatory process;
- develop management plan for the Western Forest Complex;
- develop a pre-project on the elaboration of the human development plan and extension strategy as a first step to remove a key constraint to making progress towards sustainable forest management in Thailand;
- carry out a feasibility study that would map out options and outline a comprehensive plan for implementation of a major support programme to strengthen the national forest information system for improved control of illegal logging and associated trade as well as public decision-making on the sector in general;
- build partnerships with Thai education and training institutes and relevant regional organizations, such as RECOFTC; and
- organize crash courses on quality management for supervisors in the furniture industry.

### **2.3.2 Achieving the ITTO Objective 2000 and Sustainable Forest Management in India**

The mission was led by Mr. Maharaj Muthoo (India). The other members of the mission were Dr. Jürgen Blaser (Switzerland), Mr. John Palmer (U.K.), and Mr. Ram Prasad (India). The mission conducted field visits and interacted with foresters and/or stakeholder groups in several states including Andhra, Haryana, Gujarat, Madhya Pradesh, Maharashtra, Orissa and Tamil Nadu. The mission visited the national forest education and research institutions at Dehradun and held a multi-stakeholder workshop at Amity University.

The report noted that forest degradation and deforestation had happened in India due to unsustainable practices and pressures from agro-pastoral activities and other land uses. The area of dense-cover forests had fallen by 2.62 million ha between 2001 and 2003 to a total of 39.0 million ha, corresponding to a loss of dense tree cover of 6.2% in two years. Average wood volume had also fallen from a level of 47m<sup>3</sup>/ha in 1990 to 43m<sup>3</sup>/ha in 2000. The mission noted that in spite of debates extending over decades, there was no effective national land capability mapping or integrated land use planning, which had been compounded by the complexities of land tenure.

The mission noted that Joint Forest Management (JFM) was the principal forest management strategy in India which was introduced through the 1988 forest policy. JFM had also been introduced in certain states on community land outside notified forest areas (e.g. Haryana). The mission acknowledged that the confirmation of rights of access to forest resources, such as fuelwood and fodder, was perhaps the greatest common benefit to JFM schemes.

The mission identified the following as crucial constraints impeding progress towards sustainable forest management in India:

- under-investment in notified forests with creeping forest degradation;
- restrictions on harvesting and transporting timber and other forest products;
- continuing and rising gap between demand and supply with unrecorded removals of fuelwood, timber and other forest products;
- undue reliance on limited budget and external support for field programmes instead of leveraging private-public-panchayat partnership potential; and
- limited timber market intelligence and poor state of forest data management.

The mission made a number of recommendations to the Ministry of Environment and Forestry, including:

- (i) Revising the 1988 forest policy and related regulatory framework;
- (ii) Clarifying the production role of natural tropical forests in the national forest policy and formulation of state-level strategic forestry programmes, through a participatory process;
- (iii) Reviewing the Forest and Working Plan Codes in order to update them;
- (iv) Promoting agreements between JFM schemes and private companies for the establishment of commercial plantations in degraded forest land and joint investments in forest industries based on natural forest or plantation timber;
- (v) Strengthening, at state level, programmes and resources for the control of illicit logging and other illegal activities. Establishing and implementing national purchasing policies for the purchase of legally sourced timber;
- (vi) Establishing a national think tank and communication group that would assess the real value of forests in order to considerably increase public and private funding for the recapitalization of forest resources and sustainable forest management;
- (vii) Increasing the number of training programmes for (a) forest communities implementing JFM schemes; and (b) technical services providers, including in particular forest researchers, the preparation of training and outreach materials, to be widely distributed and designed for different groups of potential beneficiaries;
- (viii) Improving analytical capacities for monitoring, data and information management;
- (ix) Piloting projects of community based sustainable forest management in teak forests linked with certification in one or two selected states with adequate natural forest management resources;
- (x) Promoting improved utilization, valorization and marketing of non-timber forest products;
- (xi) Promoting modernization of secondary wood processing industry and reduction of waste; and
- (xii) Establishing a computerized information system with updated data on forest product markets (timber and NTFPs) accessible to producers and buyers of forest products.

The mission also made a number of recommendations for the medium to long-term ITTO involvement in India, including:

- (i) Establishment of a National Forest Policy Analysis Facility for speedy implementation of sustainable forest management and related review of the 1988 Forest Policy;
- (ii) Support for the development of forest certification mechanism for timber and NTFPs;
- (iii) Institutionalization of criteria and indicators for sustainable forest management;
- (iv) Support for strengthening research and development to increase forest productivity;
- (v) Development of timber market intelligence, data collection and the organization of stakeholders;
- (vi) Development of forestry database management system;
- (vii) Support for promoting public-private Panchayat partnership for sustainable forestry;
- (viii) Development of integrated forest fire management mechanism in the country;
- (ix) Support for promoting high-tech/clonal plantations and the conservation and management of mangroves and bamboo resource;
- (x) Establishment of facility for research and development of NTFPs to address the issues of pro-poor growth and gainful employment;
- (xi) Training and human resource development for implementation of holistic sustainable forest management;
- (xii) Capacity building for regulating timber trade;
- (xiii) Promotion of traditional knowledge to provide livelihood opportunities to the tribal communities and establishment of forest extension centers; and
- (xiv) Support for modernizing and strengthening the forest based industry and value addition.

#### **2.4. Forest Law Enforcement in the Context of Sustainable Timber Production and Trade**

At its Thirty-first Session in November 2001, the Council adopted Decision 6(XXXI) authorizing the Executive Director, upon request by Producing Member Countries, to conduct studies and to assist producing countries in devising ways to enhance forest law enforcement, taking into account, when necessary, illegal timber trade and its impacts. In November 2006 the Council received a report on Ecuador's National Strategy for Forest Control and Illegal Logging. The report was presented by Mr. Alfredo Carrasco, Under-Secretary of Natural Capital, Ministry of Environment of Ecuador.

The report noted that the national strategy for forest control and illegal logging in Ecuador was part of a broader strategy with support from ITTO and the Governments of Germany and Switzerland.

The report stated that the forest monitoring system in Ecuador was weak with limited road control on trafficking of forest products and wildlife. Illegal timber was consequently flooding the domestic markets and, thereby, affecting prices and discouraging efforts towards sustainable forest management and creating negative community perception. The report noted that illegal logging was rampant even in national parks and sponsored by organized groups

The Government had, therefore, refocused on a sustainable forest development strategy involving:

- Sustainable management of native forests to provide raw materials and environmental goods and services;
- Conservation of natural protected areas and sustainable management of adjacent areas for the well-being of local communities; and
- Development of afforestation and reforestation on a sustainable basis for production and protection purposes.

In December 2005 the Government declared a state of forest emergency and mobilized law enforcement teams for the verification of plans and programmes at the Ministry of Environment (MAE) technical offices at the national level and on-site checking. The Government had also designed a national decentralized forest monitoring system at various levels of government including, national, provincial, cities and community governments in the more rural areas. In November 2006, the Government undertook regional dialogues on forest control which were developed under the leadership of the Ministry of Environment through regional and national workshops with the aim of transferring responsibilities and legal competences from the Ministry of Environment to the communities to monitor the following:

- Compliance with the Forest and Conservation of Natural Resources and Wildlife Law and its current regulations;
- Fight against illegal logging, timber traffic and trafficking of wildlife species; and
- Safeguarding good management and conservation of the country's forest resources.

#### **2.5. ITTO Guidelines for the Restoration, Management and Rehabilitation of Degraded and Secondary Tropical Forests**

At the Fortieth Session of the Council held in Merida, Mexico, the Council received a report on the progress in the implementation of the ten (10) national training workshops to promote the understanding and use of the ITTO Guidelines for Restoration, Management and Rehabilitation of Degraded and Secondary Tropical Forests. A Handbook on the Guidelines which was launched during the Thirty-ninth Session of the Council, had also been approved for publication by Earthscan.

The report stated that the seven (7) national workshops that had so far been conducted had been extremely successful and three (3) more workshops would be conducted in Côte d'Ivoire, India and Myanmar. The Seven workshops had been conducted in Brazil, Ghana, Mexico, Guyana, Guatemala, Cameroon and the Philippines.

A total of three hundred and twenty (320) managers and practitioners had been trained in the understanding and application of the Guidelines under the Forest Landscapes Restoration concept. Proposals had also been developed for national level forest landscape restoration activities and in some cases national working groups had been set up to advance the landscape approach to restoration. The initial feedback from the workshops had been very good. However, there were some issues to be addressed to make both the Guidelines and the Handbook clear with respect to terminology. There were also strong requests for the Handbook to be adapted into national context to assist in formulating project proposals on restoration and to

add value to building capacity for the implementation of forest landscape restoration. There had been nine additional requests from countries to host the national workshops.

## **2.6. Enhanced Cooperation between ITTO and CITES for Ramin and Mahogany**

At its Thirty-seventh Session held in Yokohama, Japan in December 2004, the Council adopted Decision 2(XXXVII) on "Enhanced Cooperation between ITTO and CITES for Ramin and Mahogany" and requested the Executive Director to provide support to organize, in cooperation with the CITES Secretariat, a meeting under the auspices of the Tri-National Ramin Task Force to bring together ramin range states, exporters, importers, CITES experts and other interested parties to assist in the effective implementation of the CITES decision to list ramin (*Gonystylus spp*) on CITES Appendix II.

The ITTO Expert Meeting on the Effective Implementation of the Inclusion of Ramin (*Gonystylus spp.*) in Appendix II of CITES was convened at the Crowne Plaza Hotel, Kuala Lumpur, Malaysia, from 16 to 19 May 2006. The meeting was hosted by the Government of Malaysia represented by the Ministry of Natural Resources and Environment (NRE) and the Forest Research Institute of Malaysia (FRIM) and with the collaboration of TRAFFIC Southeast Asia. It was also organised in cooperation with the CITES Secretariat and under the auspices of the Tri-National Ramin Task Force.

The broad objectives of the ITTO Expert Meeting were to:

- exchange experiences in the implementation of the inclusion of Ramin (*Gonystylus spp.*) in Appendix II of CITES including undertaking Non-Detriment Findings as well as training on identification and relevant CITES procedures.
- review recent trade figures and data submitted to CITES, experiences in tracking full range of products and measurement/reporting issues.
- identify and examine problems and issues related to the implementation of the inclusion of Ramin (*Gonystylus spp.*) in Appendix II of CITES.
- recommend concrete measures and action to enhance the implementation of the inclusion of Ramin (*Gonystylus spp.*) in Appendix II of CITES.

The ITTO Expert Meeting was attended by some fifty participants from 15 countries representing forestry, customs, timber trade regulating agencies, civil society and international organizations. The experts considered and made specific recommendations on four key areas namely, ecological and management status of Ramin (*Gonystylus spp.*), review of market and international trade in Ramin, capacity-building for meeting the requirements of CITES Appendix listing of Ramin, and coordination and cooperation for the effective implementation of the inclusion of Ramin in Appendix II of CITES. The report of the ITTO Expert Meeting was presented to the Council at its Forty-first Session and was being published for dissemination

## **2.7. Promotion of Sustainable Forest Management in the Congo Basin**

Pursuant to its Decision 10(XXXII) on "Promotion of Sustainable Forest Management in the Congo Basin" which aimed at supporting the implementation of the regional convergence plan by COMIFAC and the 2015 COMIFAC Objective, the Council at its Thirty-eighth Session, in Brazzaville, Republic of Congo approved two additional activities to this Decision and provided additional financial resources to develop sub-regional project proposals based on the most urgent needs identified by two feasibility studies. The reports of two such studies were presented to the Council at its Forty-first Session in Yokohama, Japan.

### **2.7.1 Study on the Achievement of Synergies between the African Timber Organization (ATO) Action Plan on the Further Processing of Tropical Timber in Africa and the COMIFAC Sub-regional Governance Plan**

The main output of the study was the formulation of a project proposal for the development of further processing of timber in Central Africa. The study involved:

- Reviewing recently available literature on the strategic work plan of the African Timber Organization (ATO) and COMIFAC Plan of Convergence;
- Analyzing the logical framework matrices of these action plans, more specifically those components dealing with the further processing of timber and related items;
- Identifying and analyzing shared and/or convergent features in the two strategic action plans in order to strengthen them;
- Identifying basic priority actions for the development of a regional project to promote processed products within the strategic activities of the ATO Work Plan;



- Collecting additional data and field-level information in three of the five ITTO Member Countries in the region;
- Using the data and information collected to develop a project proposal aimed at promoting further processed products for Members of ITTO and COMIFAC; and
- Preparing and conducting a regional technical workshop to present outputs and validation of the project proposal.

#### **2.7.2 Feasibility Study for the Implementation of the Revised Training Programmes in Forest Management and Forest Concession Management in the Congo Basin**

The report was based on a feasibility study to build the capacities of forestry training institutions of members of the Network of Central African Forestry and Environmental Training Institutions (RIFFEAC), including those from five (5) ITTO Member Countries, namely Cameroon, Central African Republic, Congo, Democratic Republic of Congo and Gabon. The objectives of the study were to:

- (i) identify and analyze each RIFFEAC member's needs of improving its curricula in forest management based on the reference-training programme developed under project PD189/03 Rev.1 (I) and other on-going relevant initiatives;
- (ii) assess the financial implication of the implementation of the reference manual for the training programme developed under project PD189/03 Rev.1 (I);
- (iii) develop a project proposal taking into account the most urgent specific needs of each institution on its training programme in forest management improvement and other on-going relevant initiatives; and
- (iv) organize a regional workshop to discuss and validate the project proposal.

The key findings of the study were:

- Training capacity was inadequate and needed improvement in quality. Graduates' skills did not meet the requirements of concessionaires, particularly with regard to social and environmental aspects;
- The reference programme for sustainable forest management of concession was a useful strategic tool to improve and harmonize training but needed further elaboration;
- Potential for specialization and sharing of human resources had not yet been tapped but under discussion;
- Basic education and training were a priority but further training was also needed;
- Interface with the private sector was weak, and the partnerships needed formal arrangements;
- External support was not coordinated but already significant and outputs could be shared for greater effectiveness and that the will to cooperate was existing;
- Main needs for support were logistics, infrastructure and teachers' capacity. There were some commonalities but also some differences between institutions; and
- Sustainability of financing needed to be addressed.

#### **2.8. Extension of the ITTA, 1994**

At its Forty-first Session, the Council decided to extend the ITTA, 1994 until the provisional or definitive entry into force of the ITTA, 2006, in accordance with Article 46(3) of the International Tropical Timber Agreement, 1994. The Council also decided to review the status of deposits of instruments of ratification, acceptance, approval or accession to the ITTA, 2006, as well as other provisions of this Decision at Council Sessions to be held in the period 2007-2009 and to undertake consultations with the Secretary-General of the U.N. if the ITTA, 2006 did not come into force by 1 September 2008.

The Council, further decided that in the event that the ITTA, 2006 did not enter into force either provisionally or definitively, on the basis of this review and consultations, it would consider whether to maintain the extension beyond 2009 or terminate the Agreement in accordance with Article 46(5) of the ITTA, 1994. The Council urged Governments to expedite the necessary procedures to become parties to the International Tropical Timber Agreement, 2006.

#### **2.9. Matters Related to Article 16 of ITTA, 1994**

At its Forty-first Session, the Council noted that the position of Executive Director of ITTO would become vacant on 6 November 2007 and requested the Executive Director to take action to advertise the position, in the ITTO Tropical Forest Update, on the ITTO website, in "The Economist", in "Le Monde" and in "El País" (Madrid), and through national governments. The advertisement should be placed by 11 December 2006;

The Council also requested the Executive Director to establish a Panel composed of four producer members, plus the producer spokesperson, and four consumer members, plus the consumer spokesperson, to examine the applications and agree on an indicative short list of not more than six names, with at least half of these to be from producer Members. Each Member Country was entitled to endorse only one candidate. The Panel should meet and finalize its work before 31 March 2007 and should circulate its report to Members by 6 April 2007.

The Council urged Members to inform their candidates to submit their applications by 28 February 2007 by 17:00 hours (Japan time), taking into account that each Member was entitled to endorse only one candidate.

### 3. ITTO BIENNIAL WORK PROGRAMME

#### 3.1. ITTO Biennial Work Programme for 2006-2007

The Council at its Thirty-ninth Session in Yokohama approved and funded the Biennial Work Programme for 2006-2007. The work programme has been classified under Administrative activities, Strategic policy activities and Project activities under the responsibility of the main implementation parties, namely, the Council, the Committees and the Secretariat. The activities under the Biennial Work Programme have been classified as follows:

##### Administrative activities/ITTA Negotiations

- Appointment of Executive Director;
- ITTA Negotiation;
- Forest auditing, certification and law enforcement;
- Timber tracking;
- Dissemination of the publication on "Best Practices for Improving Law Enforcement in the Forest Sector";
- Deforestation impact on trade and resources;
- Forest auditing/compliance with legal requirements;
- International Conference on illegal logging and illegal trade; and
- Comparability and equivalence of certification systems.

##### Implementation of ITTO policies related to sustainable forest management

- Review, update and promote the use of the ITTO Guidelines for the Conservation of Biodiversity in Tropical Timber Producing Forests;
- Regional meetings involving executing agencies of ITTO projects related to sustainable forest management;
- International conference on managing forests for poverty reduction; and
- Two-week forest policy short course.

##### Markets and forest industry development

- Cooperate with UNCTAD to expand its web-based market information in the commodities area (INFOCOMM);
- Review of the timber market in two significant tropical timber importing countries;
- Study of subsidies affecting tropical timber products;
- Improving statistical databases and maintaining access to international forest products trade databases;
- Organizing an international conference on wood-based bioenergy;
- Investment promotion; and
- International conference to promote development of non-timber forest products and services.

##### Information, appraisal and outreach

- Publication of the Tropical Forest Update (TFU) and Market Information Service (MIS);
- Communication and outreach; and
- Support for the Trade Advisory Group (TAG) and Civil Society Advisory Group (CSAG)

##### CITES

- Improve capacity of Members to implement CITES listings of timber species; and
- Provide for enhanced cooperation on CITES matters related to tropical timber among governments (including CITES authorities), the private sector and civil society.

The terms of reference for the cooperation between ITTO and CITES to improve country capacity to implement CITES listings of tropical timber species is attached as Annex V.

##### Others

- Strengthen ITTO's participation in and contribution to the CPF;
- Evaluation of implementation of the ITTO Yokohama Action Plan 2002-2006;
- Formulate and approve the ITTO Action Plan 2007-2011; and
- Expert Panel for Technical Appraisal of Project Proposals:

### **3.2. Progress In the Implementation of the ITTO Biennial Work Programme for 2006-2007**

The ITTO Biennial Work Programme for 2006-2007 contained a total of seventy-one (71) non-routine activities comprising administrative (11), projects (12) and strategic policy activities (48). The seventy-one activities had been further classified into:

- Studies/Field action;
- Workshops, seminars and conferences;
- Cooperation with intergovernmental organizations;
- Revision of manuals and guidelines, evaluation and planning actions; and
- Communication and outreach

The report of the progress in the implementation of the Biennial Work Programme for 2006-2007 is contained in document ITTC(XLI)/8 and is attached as Annex 8.

## 4. SUMMARY OF THE WORLD TIMBER SITUATION

This summary is extracted from ITTO's 2006 Annual Review and Assessment of the World Timber Situation.

### 4.1. State of the Forests

In all three ITTO producer regions, forest coverage has been declining since the inception of ITTO: in Africa, from 49.3% of total land area in 1985 to 44.2% in 2005; in Asia, from 41.4% in 1985 to 35.4% in 2005; and in Latin America from 59.4% in 1985 to 52.4% in 2005. For all ITTO producer countries as a whole, the decline was from 52.7% in 1985 to 46.4% in 2005. Forest degradation was not measured, and in the case of natural forests, deterioration could progress far from the original condition before forest cover loss would be recorded. In addition, the movement to establish tree plantations in tropical countries, progressing rapidly in recent years, carried significant risk that natural tropical forests might be cleared to make way for plantations without this being recognized as a loss by policymakers or other key stakeholders.

In ITTO consumer regions over the same period, forest coverage had risen: in Asia from 17.8% to 21.1%; in the European Union from 34.4% to 37.3%; in non-EU Europe from 26.7% to 29.1%; and in North America from 23.9% to 31.3%. For all consumers, forest coverage rose from 22.0% in 1985 to 27.1% in 2005.

### 4.2. Demand Determinants

#### 4.2.1 Population

The total population of producer countries had grown by almost 600 million from 1987 to 2007. ITTO consumer country populations had also been growing over the 1987-2007 period, although more moderately. There were, however, a few exceptions, one highly significant: in 2005, Japan's population growth was believed to have ceased, and the anticipated decline in its population in coming years would reduce its demand for forest products.

#### 4.2.2 Growth and Inflation

Since 2000, trends in GDP growth have been similar for all consumer regions, but Asia clearly showed the greatest volatility, with Europe and North America tracking each other's growth within a much narrower band. GDP growth for all ITTO Consumers was 2.9% in 2005, 3.4% in 2006, and was expected to be 3.1% through 2007. Economies of ITTO consumers in Asia grew fastest at 4.7% for 2005, 4.9% in 2006, and over 4.6% expected in 2007. Next was North America with 3.2% growth in 2005 rising to 3.4% in 2006, with a significant slowing to 2.9% forecast for 2007. In Europe, the two non-EU members of ITTO continue to grow faster than the EU-15 who are ITTO members but convergence was evident: in 2005, non-EU Europe's growth was 2.1% in comparison with 1.5% for the EU, but the respective performances for 2006 were 2.7% compared to 2.5% and for 2007, 2.3% versus 2.2% respectively.

Consumer country inflation rates were mostly in a band around 2%, whereas most producer countries held inflation rates near 5% in the period under review. Some slowing of inflation was expected during 2007 in almost every producer and consumer region with the exception of consumers in Asia. The moderation is especially evident in Africa, where inflation had been running in double-digits since 2000, peaking at 19.4% in 2005. Regional inflation had fallen to under 6% in 2006, and was expected to moderate further to 5.3% in 2007.

### 4.3. Tropical Timber Production

At the regional level, the highest degree of conversion to at least primary products was in Latin America, where since 1995 more than 99% of logs have been converted locally into sawnwood (89.5% in 1995, 86.7% in 2005, 87.2% 2007 forecast); plywood (8.7% in 1995, 10.8% in 2005, 10.3% 2007 forecast) and veneer (1.9% in 1995, 1.9% in 2005, 1.8% 2007 forecast). In Asia, the roundwood exports proportion of log production was 8.8% in 1995, declining to 7.2% in 2005 and forecast at 4.2% for 2007, as roundwood export policies were tightening.

Only African producers were still exporting significant proportions of their log harvests as roundwood, though there was also a decline in roundwood exports from this region (from 40.6% of the log harvest in 1995 to 17.3% in 2005 and 16.3% forecast for 2007). Clearly, substantial progress had been made in fostering domestic processing, but evidently there was further significant potential for capturing added-value by the African economies through intensifying industrial development efforts.

Due to the shift in raw material mix in some countries from indigenous mixed-hardwood tropical forests to plantations, the RWE proportions of tropical hardwoods versus coniferous woods in the total primary products of producer countries were also examined. In Africa, almost 100% of all primary products were made from tropical hardwoods. In Asia, conifers made up a gradually growing but still small share of total production: 3% in 1995 growing to 6% in 2005 and forecast at 5% for 2007. In Latin America, it was necessary also to account for products made from softwoods and hardwoods grown in non-tropical regions of certain countries. In 1995, the proportion of conifers was 33% growing to 40% in 2005 and forecast to have remained close to this level in 2007.

Production of tropical industrial roundwood (logs) in ITTO producer countries totalled almost 126 million m<sup>3</sup> in 2005, a 5.6% decline from 2004. Log production increased again to 137 million m<sup>3</sup> in 2006, and the 2007 forecast was 138.8 million m<sup>3</sup>. Tropical sawnwood production by ITTO producers totalled over 41 million m<sup>3</sup> in 2005, a 5.8% increase from 2004 levels. In 2006 sawnwood production jumped 10.7% to 45.5 million m<sup>3</sup>, and was forecast to increase to 47.4 million m<sup>3</sup> in 2007. Tropical hardwood veneer production in producer countries held steady at under 2.6 million m<sup>3</sup> in 2005. Production grew by 6.7% to 2.75 million m<sup>3</sup> in 2006 and grew by a forecasted 1.3% to 2.79 million m<sup>3</sup> in 2007. Producer countries' tropical plywood production increased by 1.2% in 2005 to 14.4 million m<sup>3</sup>, jumped to 16.2 million m<sup>3</sup> in 2006, and was forecast at 16.5 million m<sup>3</sup> for 2007.

#### 4.4. Exports

ITTO producer countries exported nearly 12.7 million m<sup>3</sup> of logs worth \$1.5 billion in 2005. Producer log exports in 2005 were up 1.8% from 2004 levels but fell by nearly 9.3% to 11.5 million m<sup>3</sup> in 2006 before rising a forecasted 1.4% to 11.7 million m<sup>3</sup> in 2007. Sawnwood exports by producer members rose 5.0% to 10.2 million m<sup>3</sup> worth \$3.6 billion in 2005 but fell back to 9.35 million m<sup>3</sup> in 2006 and were forecast to slide to 9.3 million m<sup>3</sup> in 2007. Veneer exports from ITTO producer countries increased 8.8% in 2005 to slightly over 1 million m<sup>3</sup>, worth \$726 million, increasing only by a further 0.5% in 2006, but the 2007 forecast was for 2.8% growth to 1.09 million m<sup>3</sup>. Tropical plywood exports by producer members in 2005 declined 1.9% to 8.3 million m<sup>3</sup>, rose 5.2% to 8.8 million m<sup>3</sup> in 2006 and were expected to ease by 1.0% in 2007 to 8.7 million m<sup>3</sup>.

Inter-regional differences in progress toward encouraging production and trade of higher-value-added or secondary processed wood products (SPWPs) were examined by comparing the value of primary product exports to SPWP exports. Latin America has been relatively highly advanced in the shift to secondary products, with about 60% of total exports by value accounted for by SPWPs in 1995 and rising to approximately 70% in 2005. In Asia, the corresponding SPWP shares were about 30% in 1995 and 55% in 2005. For African producers, SPWPs accounted for only about one percent of exports in 1995, quintupling to a still small five percent in 2005.

ITTO consumer countries also exported or re-exported small quantities of tropical timber in 2005, mainly sawnwood and plywood exports of 0.5 million m<sup>3</sup> (worth \$0.4 billion), and 1.5 million m<sup>3</sup> (worth \$0.7 billion) respectively. Consumers' tropical log and veneer exports were smaller (0.11 million m<sup>3</sup> worth \$52 million, and 0.12 million m<sup>3</sup> worth \$185 million respectively in 2005). Exports of tropical plywood by consumers increased robustly by 16.1% to almost 1.7 million m<sup>3</sup> in 2006, with the 2007 forecast for a further 17.7% increase to almost 1.9 million m<sup>3</sup> forecast for 2007. Meanwhile, consumers' tropical log and sawnwood exports declined in 2006 and 2007 to 0.08 million m<sup>3</sup> and 0.4 million m<sup>3</sup> respectively, while their tropical veneer exports were expected to stay approximately constant at 0.12 million m<sup>3</sup> through 2007. The sharp increase in consumer tropical plywood exports have been driven by China's burgeoning trade in this product.

#### 4.5. Imports

Tropical hardwood log imports by ITTO consumer countries declined by 2% to 11.4 million m<sup>3</sup> in 2005, and a further 6.2% in 2006 to 10.7 million m<sup>3</sup>, with a forecast of less than 10.1 million m<sup>3</sup> of consumer tropical log imports in 2007. If imports by producing members were taken into account, total 2005 tropical log imports by ITTO members were 15.4 million m<sup>3</sup>. The 2005 total log import figure was about 2.6 million m<sup>3</sup> higher than total ITTO exports. This balance was at least partially provided by non-ITTO log suppliers including Equatorial Guinea and the Solomon Islands, with exports estimated at an average of over 0.4 million m<sup>3</sup> per year each.

Imports of tropical sawnwood by all consumer countries decreased by 3.3% in 2005 to 7.4 million m<sup>3</sup> and declined a further 2.0% to 7.28 million m<sup>3</sup> in 2006. The forecast for 2007 was a modest 0.5% increase to 7.32 million m<sup>3</sup>. Increased imports by producers moderated the decline in total ITTO tropical sawnwood imports to 1.9% in 2005, when the figure reached 10.8 million m<sup>3</sup>. However, total ITTO tropical sawnwood imports recovered by 1.5% in 2006 to just under 11.0 million m<sup>3</sup>, and the 2007 forecast is for 2.8% growth to almost 11.3 million m<sup>3</sup>.

Total ITTO tropical veneer imports increased 1.5% to 1.3 million m<sup>3</sup> in 2005, slumped by 14.0% to only 1.1 million m<sup>3</sup> in 2006, and were forecast at 1.0 million m<sup>3</sup> for 2007. Veneer production and trade estimates should be viewed with caution due to classification uncertainties between veneer and plywood and the varying assumptions made by different analysts in making estimates to convert from various surface area/weight measures to cubic volume. Total ITTO imports of tropical plywood declined by 10.5% to 9.84 million m<sup>3</sup> in 2005 and continued falling to 8.48 million m<sup>3</sup> in 2006. The 2007 forecast is for a modest rebound to about 8.75 million m<sup>3</sup>.

#### 4.6. Prices

Prices for a majority of primary tropical timber products ended 2006 strengthened or at least equal to their levels at the end of 2005, as supply of raw materials worsened, global economies expanded and consumer confidence improved in many markets.

African log prices mostly held onto gains made in 2005, with some species reaching new record highs in 2006. Several African species were drawing increasing attention as substitutes for similar Southeast Asian log species recently due not only to rising prices, but also to some instances of unavailability for the latter. Upward pressure on African log prices resulted from supply shortages, due to both reduced harvests and transport logistics problems. Shortages were exacerbated by export bans as well as increases in freight rates and/or taxes and similar levies.

Log prices for some Southeast Asian species rose to 10-year highs in 2006 due to further tightening in the supply of Asian logs, mainly arising from improved law enforcement and restrictions on log exports by some countries. The price rises for Asian logs were absorbed by active buyers from major Asian consumer countries, with the exception of those from Japan who showed increasing willingness to switch to lower-priced substitutes including conifers. Rubberwood price rises in 2006 were due to Malaysia's prohibition of rubberwood log exports to meet furniture and panel products manufacturers' demand for rubberwood.

Prices for most Asian and African tropical sawnwood species were stable or rising in 2006. However, there were a few exceptions such as obeche sawnwood which seemed to be moving cyclically, showing firmness through the mid and latter parts of 2006 but not testing the highs of 2002 and 2004. Iroko maintained the historically high prices first seen in 2004 during 2006. Meranti and seraya sawnwood prices had been rising strongly during this period, with meranti continuing to post historical highs. Supply shortages and scarcity of offers were common in 2006, not only for traditionally strongly preferred sawnwood species such as dark red meranti (DRM), but also others including rubberwood sawnwood which had been offered in some instances only on condition of buyers' acceptance of some mixture with durian sawnwood.

South American mahogany prices, driven upwards by harvesting and export restrictions linked with controls undertaken to meet the requirements of the species' Appendix II CITES listing, rose at similar rates to meranti in 2006, but the actual prices attained by mahogany were more than double those of meranti, testing the \$2000/m<sup>3</sup> ceiling. Prices of other Latin American hardwood species, however, were flatter through 2006, attributable at least in part to lackluster demand from European buyers. Prices of Brazilian pine eroded sharply due to increasing global competition. The extreme tightness of South American mahogany supplies lent strength to the demand for and prices of woods of similar appearance and properties such as khaya (African mahogany). This also provided an opportunity for lesser-known species to gain footholds in the markets. There had been a few cases of South American woods that had been in little demand under their local common names experiencing sudden surges in sales once they were advertised as comparable to popular Brazilian species like mahogany.

Prices for Asian plywood continued to rise steadily and steeply through 2006, due to basic scarcity of peeler logs in some cases heightened by regulatory policies, as well as transport interruptions due to weather and other factors. New wood housing starts and related plywood demand in Japan did not show any significant rebound in 2006, despite a recovering economy. Coniferous plywood was increasingly taking market share from tropical plywood, holding down the latter's price in the large Asian plywood market. Prices of Brazilian hardwood plywood continued rising in 2006 accompanied by relatively strong demand. In contrast, Brazilian softwood plywood was facing increasingly stiff competition (especially from China but also from other suppliers of non-tropical panel products) and struggled to maintain its price level through 2006.

#### 4.7. Secondary Products

Exports of secondary processed wood products (SPWP) by ITTO producers continued their long-term upward trend in 2005. ITTO producer country exports rose 7.1% in 2005, reaching almost \$10.3 billion,

exceeding the \$10 billion mark for the first time. The leading producer country SPWP exporters in 2005 were Indonesia, Malaysia, Brazil, Thailand and Mexico. Each earned more than \$1 billion from their 2005 SPWP exports, and all of them increased exports from 2004 levels. Together, these five countries accounted for 89% of total ITTO producers' SPWP exports in 2005. Indonesia and Malaysia retained their positions as two of the world's ten largest SPWP exporters in 2005 with 13% and 7% expansions in their exports, respectively. After more than doubling in the previous three years, Brazil's SPWP exports grew by a more modest 2.2% to \$1.82 billion in 2005. Much of Brazil's export furniture was made from solid pine and reconstituted panels – it is impossible to disaggregate tropical SPWP from export statistics.

At over \$11.4 billion, China was by a wide margin the world's largest single-country exporter of SPWP in 2005 (although the European Union in aggregate exported an unparalleled \$25.8 billion of SPWP in 2005). China continued its rapid growth in SPWP exports, which jumped by 20.2% from 2004 to 2005. Already one of the most price competitive of all exporters in global SPWP markets, China's most recent new product offerings, especially in wooden furniture and smaller wooden household articles, also displayed impressive improvements in design, quality of materials, woodworking skills and finishing. These refinements may be at least partially attributable to the rapid recent relocation of SPWP manufacturing capacity to China from the USA, Taiwan Province of China and other Asian producers through various forms of subsidiary operations and joint ventures.

Japan and the USA remained the two largest markets for SPWP from ITTO producers, with such products making up 31% and 22% of their total SPWP markets respectively in 2005. However, these shares had declined (from 35% in Japan and 25% in the USA) since 2000, primarily due to competition from China. The USA was the main partner of ITTO producers in value terms (\$4.8 billion in 2005) and its market continued to be the engine driving SPWP (mainly furniture) trade, growing almost four-fold in the last decade and up by 52% in the five years to 2005. Although ITTO producer countries accounted for only 11% of the total EU market for SPWP in 2005, the magnitude of this huge market meant that the value of this share (\$2.9 billion) was 1.5 times the value of their Japanese market share and 61% of the value of their share of the US market. In 2005, imports of SPWP by ITTO consumers from ITTO producers were worth a record \$10.2 billion, exceeding the value of their imports of primary tropical timber products from these countries by almost 5%.



## **5. OTHER ACTIVITIES**

### **5.1. Expert Panel for Technical Appraisal of Project and Pre-project Proposals**

The Thirty-first and Thirty-second meetings of the Expert Panel for Technical Appraisal of Project and Pre-project Proposals were held in February and August respectively. Both meetings were chaired by Dr. Peter Schröder (Germany). The Panel reviewed a total of one hundred and eleven (111) projects and pre-projects and recommended to the Committees forty-five (45) projects and pre-projects for their consideration.

### **5.2. ITTO Sponsored Events**

Other meetings organized or co-sponsored by the Organization in the course of the year were:

#### **5.2.1 ASEAN-ITTO Regional Workshop on Perspectives of Clean Development Mechanism (CDM) Forestry Projects in Asia and the Pacific, 22-24 March 2006 ,Phnom Penh, Cambodia**

This workshop was attended by representatives of ITTO and Association of Southeast Asian Nations (ASEAN) member countries as well as by international non-governmental organizations, research institutions and the private sector. It was sponsored by ITTO and ASEAN and was supported by the Cambodia Forestry Administration. Resource persons from Perspectives Climate Change Consulting, the Centre for International Forestry Research, and the German Technical Assistance Agency GTZ provided expertise to facilitate discussions.

The workshop was designed to promote understanding of the rules and procedures of Clean Development Mechanism (CDM) afforestation and reforestation (A&R) projects and to encourage country-level initiatives in promoting such projects in line with the ITTO Guidelines for the Restoration, Management and Rehabilitation of Degraded and Secondary Tropical Forests. It also aimed to facilitate exchange of views on the possible inclusion of emissions reductions from deforestation in developing countries in a post-2012 agreement of the Kyoto Protocol.

#### **5.2.2 International Tropical Forest Investment Forum: Issues and Opportunities for Investment in Natural Tropical Forests, 26-27 April 2006, Cancún, Mexico**

This International Forum focused on private sector investments in natural tropical forests. The Forum was jointly organized by ITTO, Forest Trends, and the Mexican National Forestry Agency, CONAFOR, and was attended by close to 170 participants from 30 countries around the world.

The Forum made a significant contribution towards increasing the level of understanding of opportunities and constraints for investments in natural tropical forest based enterprises, and on the kind of information and types of tools available or needed to promote more responsible investment.

Questions that were addressed included:

- Who are the potential investors in natural forest based enterprises in the tropics?
- How do they make investment decisions, and what kind of information do they need?
- What characteristics of natural tropical forest based enterprises are particularly attractive to investors?
- How does the overall country-level business climate affect the attractiveness of forest-related investment, and particularly of natural tropical forest based enterprises?
- How can governments or firms attract more investments for natural tropical forests and what are they currently doing?
- How can an Investment Promotion Strategy improve both international and domestic investment?
- What other mechanisms can be used to make investments for tropical natural forests more attractive?

The Forum offered a great opportunity for making new business contacts and getting updated on the latest trends in forest investments worldwide, with a particular focus on natural tropical forests. Key presentations were made and panel discussions held on global issues affecting investments in tropical natural forests, including: trends and meeting forestry investment needs of the private sector; the role of governments and international organizations in enabling an investment climate; the role of international investors; new investment tools and approaches; ecosystem service payments; analysis of country investment opportunities; and the way forward – a vision for the process and preparing for sub-regional investment fora.

### **5.2.3 Inter-Criteria and Indicators (C&I) Process Collaboration Workshop, 8-10 June 2006, Bialowieza, Poland**

The workshop was a collaborative effort by the Montreal Process, ITTO, FAO, the Ministerial Conference for the Protection of Forests in Europe (MCPFE), the UN Economic Commission for Europe (UNECE) and the US Forest Service. The workshop was hosted by the MCPFE.

The workshop was held in response to repeated calls, mainly by international expert conferences on criteria and indicators(C&I) for sustainable forest management (SFM), for more and improved collaboration among criteria and indicator processes.

The workshop made the following observations and recommendations for consideration by C&I processes and international organizations:

- (a) Participants expressed support for the FAO Forest Resource Assessment's (FRA) use of C&I for global forest data, summaries, assessments and reporting on forests. However, a desire for more collaboration among FAO, C&I processes and countries on the FRA was expressed.
- (b) Collaboration was welcome when mutually driven, informally initiated and the benefits were clear.
- (c) Harmonization, while commonly understood to be a desired goal of C&I, was often misunderstood.
- (d) Criteria and indicators and their resulting reports would carry more weight if there were:
  - clearer relevance to country development agendas or programmes;
  - links to other economic sector development goals;
  - well-supported and visible theory behind indicators;
  - more innovative presentations of information in national reports telling meaningful stories; and
  - more synergy among the active C&I processes.
- (e) Future C&I process collaborative workshops might focus on:
  - how to market national forest reports (i.e., developing a better understanding how special interest groups, users at lower levels of management, other sector and decision makers etc. are audiences for which national sustainability reports must be specifically tailored);
  - methods of analyzing indicator data (the development of systems models);
  - clarification of common global, regional, country and forest management unit level data threads;
  - protocols for efficient data collection; and
  - messages to share with colleagues, stakeholders and leadership.

### **5.2.4 Tropical Timber and Maritime Transport: What Vulnerabilities Exist and How Can They be Addressed?, 11-12 July 2006, London, UK**

A two-day consultation was held to explore the many complexities associated with the maritime transport of tropical timber and to enhance ITTO's capability to plan an international conference on the transportation of timber products. The information and knowledge made available in this small consultation meeting would be used by ITTO in its further preparations for an international conference on the transportation of timber products.

The presentations made during the two-day consultation meeting focused on the international maritime shipping of tropical timber products and helped answer three overarching questions:

- What are the complexities of shipping tropical timber from producer to consumer countries?
- What elements of tropical timber shipping processes allow for illegal trade of logs and tropical timber products?
- What international tools exist or can be created to ensure legal shipments of timber?

Part of the discussion focused on changing trends in the transport business and tropical timber trade, including the containerization of shipping of timber products, the increasing trade in processed timber products, and issues related to chain of custody and certification. There was also recognition of the wide interpretation of 'illegality' in the forest sector and an acknowledgement that some importing countries have no legal basis or framework for making imports of 'illegally' produced timber an offence.

Additionally, participants sought clarification on the issue of shipping documentation and procedures. In particular, participants debated which entity (such as shippers, traders or customs) was responsible for checking the accuracy, authenticity and legality of shipping documents, including, but not restricted to, the bill of lading, certificate of origin, packaging lists and description of goods. It was unclear to participants: what happened when a bill of lading was switched in international waters during the timber shipping process; which

country's laws and procedures would prevail; and how electronic trading arrangements might assist in preparing shipping documentation and help prevent fraud. Participants also sought clarification on the role of banks in the process, how to create incentives for 'good players' (such as shippers, traders, producers), and other issues such as licensing, chain of custody, 'self-policing' and corporate codes of conduct for responsible timber purchasing.

Finally, participants discussed the need for capacity building and awareness raising to enhance law enforcement. They suggested this would be especially relevant at the national level, so that government agencies from exporting and importing countries could ensure respect of law and legality as well as authenticity of shipping documentation and procedures. Attention was also drawn to the role of importing countries, which could be more proactive by, for example, ensuring that their customs authorities check for legal documentation. Participants also recognized the impact and role of ongoing and emerging initiatives in combating fraud, such as CITES, Forest Law Enforcement and Governance, Voluntary Partnership Agreements, and public procurement policies.

#### **5.2.5 ITTO/ICBR/INBAR International Workshop on Sustainable Development of the Global Rattan Sector, 24-26 July 2006, Beijing, China**

The workshop was based on an ongoing activity of the International Tropical Timber Organization (ITTO) funded project "Capacity building for the development of a sustainable rattan sector in China based on plantation sources (ITTO PD 100/01 Rev. 3 (I))" being implemented by the International Centre for Bamboo and Rattan (ICBR) of China with technical supports from the International Network for Bamboo and Rattan (INBAR) and the Chinese Academy of Forestry (CAF).

The workshop's objectives were to:

- discuss issues in R&D of rattan sector as well as direction and strategies;
- discover business and investment opportunities in the global rattan sector;
- explore, exchange and update scientific and technological findings and information;
- provide a forum for researchers to present their projects and methodologies, state-of-the-art technologies, products and services;
- provide a platform for key players/stakeholders in the global rattan sector to interact, network and build strategic partnerships.

#### **5.2.6 Workshop on Strengthening, Monitoring, Assessment and Reporting (MAR) on Sustainable Forest Management in Asia, 24-28 July 2006, Sapporo, Japan**

This inception workshop on strengthening monitoring, assessment and reporting on SFM in Asia was organized by FAO in collaboration with the Forestry Agency of Japan, ITTO, International Network for Bamboo and Rattan (INBAR), and the Secretariat of the Convention on Biological Diversity (CBD) in conjunction with the 17<sup>th</sup> Meeting of the Working Group of the Montreal C&I process. The general aim of the workshop was to launch the project "Strengthening Monitoring, Assessment and Reporting on Sustainable Forest Management in Asia".

#### **5.2.7 Application of Forest Law Enforcement in the Amazon, 29-31 August 2006, Sao Paulo, Brazil**

Under the ITTO Biennial Work Programme for 2006-2007, the Council approved and financed the convening of four regional workshops, in coordination with regional FLEG processes to disseminate and promote the use of the ITTO/FAO publication on "Best Practices for Improving Law Enforcement in the Forest Sector", and to provide feedback from the workshops. The first of the planned four regional workshops was convened in Sao Paulo, Brazil in August 2006. The meeting was co-hosted by the sponsors (ITTO and FAO) together with Amazon Cooperation Treaty Organization and the Government of Brazil. Over 50 participants from eight ACTO member countries (Bolivia, Brazil, Colombia, Ecuador, Guyana, Suriname, Peru, and Venezuela- all also ITTO members) attended, together with representatives of intergovernmental organizations, NGOs and trade.

The meeting, one of the first such gatherings of technical experts from the Amazon region, heard detailed summaries of the status of forest law enforcement in each of the eight countries, and examined opportunities to further improve the development and enforcement of forest laws.

Among the recommendations was a call for national and regional action, including better coordination on monitoring and controlling frontier areas as appropriate.

**5.2.8 Sub-regional Workshop on the Reinforcement of Forestry Training Institutions in the Congo Basin, 26-27 September 2006, Yaoundé, Cameroon**

ITTO and the Central African Forests Commission (COMIFAC) jointly organized the sub-regional workshop in Yaoundé, Cameroon, from 26 to 27 September 2006.

The Council during its 38th session provided additional financial resources for the implementation of Decision 10(XXXII) to develop a sub-regional project proposal based on the most urgent needs identified by a feasibility study on the implementation of training programmes on forest management and forest concession management. The workshop took into account relevant ongoing initiatives regarding the implementation of these programmes in various training institutions affiliated with the Network of Central African Forestry and Environmental Training Institutions (RIFFEAC).

A survey on the needs of training institutions had been undertaken by consultants as a basis for the formulation of a preliminary version of a sub-regional project proposal, which was reviewed by sub-regional workshop.

The objectives of the workshop were to contribute to the development of a strategy for the reinforcement of RIFFEAC and the coordination of support for training institutions in the Congo Basin. This meeting and its expected results were in accordance with the implementation of the COMIFAC's Convergence Plan adopted by its member countries in December 2000.

Participants of the workshop were representatives from training institutions affiliated with RIFFEAC, regional and international organizations supporting the process for the improvement of forestry training programs, and other relevant stakeholders.

**5.2.9 International Workshop on Clean Development Mechanism (CDM): Opportunities and Challenges for the Forest Sector in Sub-Saharan Tropical Africa, 2-5 October 2006, Accra, Ghana**

The Ghana Forestry Commission (GFC) and the Forest Research Institute of Ghana (FORIG) hosted this event, which covered a wide range of issues related to investment opportunities in natural forest ecosystems and renewable energy in Sub-Saharan Africa.

The workshop brought together international experts, potential investors and a wide range of stakeholders, to discuss and develop strategies to assist Sub-Saharan Africa's effective participation and involvement in forestry-related CDM projects and activities to mitigate the impacts of climate change.

Issues discussed at the workshop included background to the development of CDM forestry in the UNFCCC and the Kyoto Protocol, as well as current trends in research in CDM forestry covering global experiences in this area.

Other issues discussed at the workshop were models or examples of best practice mitigation projects including renewable energy projects, opportunities and challenges for private and public sector investments in climate change mitigation projects and the prospects for establishing a greenhouse gas emissions market for Sub-Saharan Africa.

The workshop was sponsored by ITTO, the Common Fund for Commodities and the Food and Agriculture Organization of the United Nations (FAO).

**5.2.10 International Conference on Managing Forests for Poverty Reduction, 3-6 October 2006, Ho Chi Minh City, Vietnam**

This four-day meeting highlighted realistic options for forest management and income generation by local and poor people, drawn from experiences in Latin America, Northern America, Africa and Asia. Case studies presented include: how the Kongo community in Cameroon manages a 3,000-hectare community forest, how Nepal successfully involves communities in forest management and in small-scale enterprises, and the extent to which communities in Thua Thien Hue and Dak Lak provinces in central Vietnam participate and benefit from forest allocation and subsequent timber harvesting.

The conference also provided insights into policies and legislation that could benefit both forests and the poor. Technical, economic, institutional and policy aspects of small-scale and labour-intensive forest management and wood processing were reviewed. A taskforce was being set up to promote community-

based and labour-intensive forest management for poverty reduction.

At the conclusion of the meeting, delegates issued a conference statement calling for forestry policy makers, forest-related development organizations, donors, private sector and local communities to work together in ensuring that forests are also managed for the benefits of the poor. They specifically called on policy makers to improve access and rights of the poor to forest resources, and to simplify forest laws and regulations. International development organizations and donors were requested to help set up comprehensive support systems for wood-based enterprises in rural communities. The private sector was urged to facilitate partnerships with local communities, households and forest associations, and local communities were asked to play a more active role in forestry policy making and in fostering forest enterprise development.

The conference was jointly organized by FAO, the Netherlands Development Organization (SNV), the Department of Forestry in Vietnam, the ITTO, the Tropical Forest Trust (TFT), the Regional Community Forestry Training Center (RECOFTC) and the Asia-Pacific Forestry Commission (APFC). The conference was made possible with financial support from ITTO and the Netherlands Ministry of Foreign Affairs (DGIS).

#### **5.2.11 Latin American Tropical Forest Investment Forum: Issues and Opportunities for Investment in Natural Tropical Forests, 23-24 November 2006, Curitiba, Brazil**

This regional forum focused on private sector investments in natural tropical forests in Latin America. The Forum was jointly organized by ITTO, the 'Associação Brasileira da Indústria de Madeira Processada Mecanicamente' (ABIMCI), and the Brazilian Government (the Ministry of Foreign Affairs and the Brazilian Forest Service of the Ministry of Environment) and with the support of the World Bank, the Inter-American Development Bank (IDB) and the Food and Agriculture Organization of the United Nations (FAO).

The forum was attended by close to 100 participants, mainly from Latin America (including from all 13 ITTO member countries in the region) as well as from other countries around the world.

The Forum made a significant contribution to increase the level of understanding on opportunities and constraints for investments in natural tropical forest based enterprises in tropical Latin America, and on the kind of information and types of tools available or needed to promote more responsible investment.

Questions that were addressed included:

- Who are the potential investors in natural forest based enterprises in Latin America?
- How do they make investment decisions, and what kind of information do they need?
- What characteristics of natural tropical forest based enterprises in Latin America are particularly attractive to investors?
- How does the overall country-level business climate affect the attractiveness of forest-related investment, and particularly of natural tropical forest based enterprises?
- How can Latin American governments or firms attract more investments for natural tropical forests and what are they currently doing?
- What other mechanisms can be used to make investments for tropical natural forests more attractive?

The Forum offered great opportunity for making new business contacts and getting updated on the latest trends in forest investments in Latin America, with a particular focus on natural tropical forests. Key presentations were made and panel discussions held on issues affecting investment in tropical natural forests, including: trends and meeting forestry investment needs of the private sector, the role of governments and international organizations in enabling an investment climate, the role of international investors, new investment tools and approaches, ecosystem service payments, analysis of country investment opportunities, and the way forward.

#### **5.2.12 Training Workshop on Tropical Forestry and Timber Trade Statistics, 26-28 September 2006, Santiago, Chile.**

With the primary aim of strengthening cooperation between FAO, ITTO and their member countries, both organisations organised and co-financed a Workshop on Forest Product Statistics from 26-28 September 2006 in Santiago, Chile. The objectives of this workshop also included the enhancement of information flows and provision of assistance to countries so as to enable them to comply with international forest agreements and processes; sharing of data management techniques; strengthening of national capacities (e.g. through training activities); and improvement of national and regional statistics on forest products.

Participants were from the following countries: Argentina, Bolivia, Colombia, Costa Rica, Cuba, Chile,

Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Uruguay and Venezuela.

The workshop participants expressed their appreciation for the cooperation between FAO and ITTO in the area of forest product statistics. They concluded that the working partnership had helped to reduce countries' reporting requirements to meet the demand for information of both organizations, particularly through the formulation and use of the Joint Forest Sector Questionnaire, among other things.

The workshop made a number of recommendations, including:

- The need to implement training programmes at the country and regional levels that would ensure the participation of institutions involved in gathering, processing and dissemination of forest product statistics. Support from FAO and ITTO was requested to this end;
- Significant efforts were needed from Technical and Aid Agencies to strengthen countries' institutional capacities so that these institutions would improve their forest statistics and disseminate the information in a timely and systematic manner;
- National Statistical Correspondents should carry out regular reviews of the data provided through FAO and ITTO to international users of statistics, and should provide comments and/or corrections as required; and
- Institutional capacity-building should be strengthened in the countries for the formulation of projects aimed at improving their national forest information systems.

### **5.3. Meetings and Conferences**

ITTO participated in and contributed to the following international meetings, conferences and workshops:

- (i) First Steering Group Meeting for the High Conservation Value Forest (HCVF) Resource Network, 30 -31 January 2006, Oxford, U.K.
- (ii) Sixth Session of the United Nations Forum on Forests, 13-24 February 2006, New York, U.S.A.
- (iii) Regional Workshop on the Review of the Status of the Congo Basin Forests Report, 15-17 March 2006, Kinshasa, D.R. Congo
- (iv) Regional Workshop on Forestry, Wildlife and Poverty Alleviation, 27-28 March 2006, Maputo, Mozambique
- (v) Thirteenth Meeting between the Common Fund for Commodities and ICBs (succeeded by a two-day conference on Commodities), 3-5 April 2006, Rome, Italy
- (vi) 14th Environment Congress for Asia and the Pacific (ECO Asia 2006), 24-25 June 2006, Saitama, Japan
- (vii) Towards a New International Regime on Forests, organized by Geneva Environment Network, 5 July 2006, Geneva, Switzerland
- (viii) Asia Timber & Forestry Conference, 21-22 August 2006, Kuala Lumpur, Malaysia
- (ix) UNFCCC Workshop on Reducing Emissions from Deforestation in Developing Countries, 30 Aug. - 1 Sep. 2006, Rome, Italy
- (x) Regional Multi-stakeholder Seminar on Improving Forest Law Compliance in the Forest and Wood Products Industry Sector of Papua New Guinea and other ITTO Producer Countries in the South Pacific Region, 13-14 September 2006, Papua New Guinea
- (xi) 2da Convención Nacional Maderera y 3ra Premiación a los Empresarios Madereros Más Destacados del 2005, 15 September 2006, Pucallpa, Perú
- (xii) International Symposium on Afforestation and Reforestation CDM Projects, 27 September 2006, Seoul, Korea
- (xiii) Briefing Session on International Experts Meeting on Illegal Logging – "Possible way forward towards more sustainable forest management", 5 December 2006, Tokyo, Japan
- (xiv) Open-Ended Ad Hoc Expert Meeting on a Non-legally Binding Instrument on All Types of Forests, 11-15 December 2006, New York, U.S.A.

### **5.4. Communications and Outreach.**

The Secretariat undertook a wide range of public relations, awareness and education activities. In the period 1 January 2006 – 30 September 2006, the Organization undertook a major upgrade of its website, providing a number of added features including multilingual capabilities (full website capabilities in English, Japanese, French, and Spanish), a searchable database of ITTO decisions, and enhanced content for the 'Status of Tropical Forest Management 2005' report. The ITTO website, which was maintained throughout the period, contained over 7,000 pages of information and received an average 14,000 unique visitors per month, a 25% increase from the previous year. The Secretariat distributed three editions of its email bulletin 'Tropical Forests

Online', which draws the attention of about 5,000 addressees to news posted on the ITTO website. In the period the Secretariat also published and disseminated, in hard-copy and on the web, 'Status of Tropical Forest Management 2005' (ITTO Technical Series #24) and implemented an ambitious media plan which resulted in over 120 media placements worldwide, including 'The Economist', the Associated Press and the Washington Post, delivering ITTO's message to a wider audience. The Secretariat also made progress in preparing a report documenting the achievements of ITTO over its first 20 years. The Secretariat continued to distribute a range of public relations materials including brochures, reports, newsletters and posters. Such materials were distributed on request, at conferences and meetings, and through other organizations making use of ITTO material.

## **6. SECRETARIAT**

The Secretariat received the full support of the Government of Japan and the City of Yokohama through the provision of office accommodation, facilities, and equipment. Both Sessions of the Council also benefited from the same sources.

Mr. Alastair Sarre, Editor/Communications Manager separated from the services of the Organization with effect from 31 March 2006 and Dr. Steven Johnson, Statistician was reassigned the responsibility as Editor/Communications Manager with effect from 1 August 2006.

Dr. Lauren E. Flejzor joined the Organization as Projects Manager in the Division of Forest Industry with effect from 1 February 2006.

The total staff complement for 2006 was thirty-two, from sixteen different nationalities, including those seconded from the city of Yokohama.

A complete list of the professional staff members of the ITTO Secretariat is attached as Annex 6.



## 7. COMMITTEE ON ECONOMIC INFORMATION AND MARKET INTELLIGENCE

In 2006, the Committee held its Thirty-eighth and Thirty-ninth Sessions in conjunction with the Fortieth and Forty-first Sessions of the Council respectively. Both of the Committee's sessions were held jointly with the Committee on Forest Industry. During its sessions, the Committee undertook its on-going work on project and strategic policy activities.

### 7.1. Project Activities

Seven new project proposals were submitted in 2006 for appraisal by the Committee on Economic Information and Market Intelligence:

- PD 340/05 Rev.2 (M) National Forest Statistical Information System in Guatemala
- PD 357/05 Rev.2 (M,F) Support Project to the Establishment and Initial Operation of a Voluntary and Independent Monitoring System for the Forest Concessions of Central Africa (FORCOMS) (CAR)
- PD 379/05 Rev.3 (M) Enhancing Papua New Guinea's Timber Marketing Information System (MkIS)
- PD 391/06 Rev.2 (M) Promoting and Creating Market Demand for Certified Tropical Wood and Verified Legal Tropical Wood (Japan)
- PD 406/06 Rev.1 (M) Establishment of a National Forest and Timber Marketing Statistics System (Ecuador)
- PD 415/06 Rev.2 (M) Systematisation and Modelling of Economic and Technical Information to Train Professionals Related to the Production, Processing and Marketing of Timber Products – Phase II (Colombia)

With the exception of PD 357/05 Rev.2 (M,F), which the Committee decided to defer consideration, all submitted projects were approved by the Committee. The Council subsequently funded four projects [PD 340/05 Rev.2 (M), PD 391/06 Rev.2 (M), PD 406/06 Rev.1 (M) and PD 415/06 Rev.2 (M)]. The Council also funded the following project approved by the Committee at its previous session.

- PD 353/05 Rev.2 (M,F,I) Adoption and Implementation of the Forestry Information System (FIS) for the Philippines

The Committee reviewed the status of implementation of twenty-four approved projects, seven pre-projects and one activity in 2006 including two [PD 191/03 Rev.3 (M) and PD 298/04 Rev.1 (M)] which lost the status as approved projects. Descriptions of these are provided in Annex 4. The completed projects for which completion reports were received and duly approved were:

- PD 47/98 Rev.2 (M) Establishing a Data Collection and Dissemination System on a Sustainable Basis for Timber Marketing Statistics in Cameroon
- PD 80/01 Rev.6 (M) Consolidating Sustainable Forest Management Certification System in Indonesia
- PD 203/03 Rev.3 (M) Systematisation and Modelling of Economic and Technical Information to Train Professionals Related to the Production, Processing and Marketing of Timber Products (Colombia)

The Committee also considered and approved the Report of Ex-post Evaluation of PD 74/01 Rev.1 (M)(Indonesia). It further decided to conduct ex-post evaluation of PD 80/01 Rev.6 (M).

### 7.2. ITTO Annual Market Discussion 2006

The ITTO Annual Market Discussion 2006 was held on 31 May 2006 at a joint session of the three technical committees during the 40th Session of the Council in Mérida, Yucatán, Mexico. The theme of the discussion was "Timber Markets and Procurement Policies". and the moderator was Mr. Barney Chan (T-A-G Coordinator). Presentations on the theme were made by invited speakers comprising Mr. Mario Molina (CONAFOR, Mexico), Mr. Rupert Oliver (Forest Industries Intelligence Ltd., UK), Dr. Jean Mark Roda (CIRAD,

France), Mr. Christian Lundmark Jensen (Danish Ministry of Environment) and Ms. Brigid M. Shea (IWPA, USA). The report of the discussion is in Annex 2.

With regard to the ITTO Market Discussion 2007, the Trade Advisory Group (T-A-G) proposed "Trade in Secondary Processed Wood Products: Trends and Perspectives" as the theme. The proposal was duly approved and endorsed by the Committee and the Council.

### **7.3 Policy Work**

In addition to strategic policy activities approved for the Committee under the ITTO Biennial Work Programme for 2006-2007, the Committee considered the following policy matters:

- Market Access
- Forest and Timber Certification
- Selected Data and Analysis from ITTO Annual Review and Assessment of the World Timber Situation - China

### **7.4 Biennial Work Programme for 2006-2007**

In addition to its routine tasks related to project appraisal, monitoring and evaluation, the Committee considered the progress in the implementation of the following strategic policy activities approved for the Committee under the ITTO Biennial Work Programme for 2006-2007:

- (i) Market study on tropical plantation timber [ITTO Yokohama Action Plan, Section 3.1, Goal 1, Action 3].
- (ii) Assist the Trade Advisory Group (T-A-G) in organizing and holding the ITTO Annual Market Discussion 2006 on the world tropical timber trade during the Fortieth Session of the ITTC, Mérida, Yucatán, Mexico, 29 May – 2 June 2006 [ITTO Yokohama Action Plan, Section 3.1, Goal 1, Action 4].
- (iii) Assist the Trade Advisory Group (T-A-G) in organizing and holding the ITTO Annual Market Discussion 2007 on the world tropical timber trade during the Forty-second Session of the ITTC (May/June 2007) [ITTO Yokohama Action Plan, Section 3.1, Goal 1, Action 4].
- (iv) Review of the timber market in two significant tropical timber importing countries [ITTO Yokohama Action Plan, Section 3.1, Goal 1, Action 5].
- (v) Study on subsidies affecting tropical timber products [ITTO Yokohama Action Plan, Section 3.1, Goal 2, Action 2].
- (vi) Auditing of Existing Tracking Systems in Tropical Forest Industries.
- (vii) Consider further work on forest law enforcement and illegal trade in timber and timber products [ITTC Decision 6(XXXI)].
- (viii) Enhancement of statistical work and training workshops on statistics [ITTA, 1994, Articles 29,30] [ITTO Yokohama Action Plan, Section 3.1, Goal 1, Actions 1,2,3].
- (ix) Monitor progress being made regarding the comparability and equivalence of certification systems [ITTO Yokohama Action Plan, Section 3.1, Goal 2, Action 3].
- (x) Economic valuation of the forest sector with particular reference to the Amazon basin [ITTO Yokohama Action Plan, Section 3.1, Goal 2, Action 7.7].

**8. COMMITTEE ON REFORESTATION AND FOREST MANAGEMENT****8.1 Project Activities**

In 2006, the Committee on Reforestation and Forest Management reviewed twenty-two project and four pre-project proposals which were commended for its consideration by the Expert Panel for the Technical Appraisal of Project and Pre-project Proposals during their Thirty-first and Thirty-second meetings, as well as proposals submitted directly to the Committee after amendments by submitting member countries. These are:

## Project Proposals:

PD/PPD NUMBER	TITLE	SUBMITTING COUNTRY
PD 294/04 Rev.4 (F)	The Study and Demonstration of the Management of Secondary Forests in Tropical Regions for the Purpose of Enhancing Economic and Ecological Benefits – Phases I & II	China
PD 297/04 Rev.3 (F)	Implementation of the Sustainable Forest Management Programme of the IWOKRAMA International Centre	Guyana
PD 302/04 Rv.2 (F)	National Programme for the Restoration, Management and Rehabilitation of Secondary and Degraded Forests in Ecuador	Ecuador
PD 327/05 Rev.3 (F)	Rehabilitation and Management of the Degraded Tropical Forest Reserves in Ogun, Osun and Edo States of the Federal Republic of Nigeria through Community Participation	Nigeria
PD 350/05 Rev.3 (F)	Production Systems and Integrated Management of Shoot-borers for the Successful Establishment of Meliaceae Plantations in the Yucatan Peninsula and Veracruz, Mexico	Mexico
PD 354/05 Rev.2 (F)	Productivity Enhancement of Tropical Forests of Uttar Pradesh State Using Clonal Technology	India
PD 360/05 Rev.2 (F)	Multispectral Three-Dimensional Aerial Digital Imagery for Monitoring Forest Management and Conservation in the Republic of Congo	Rep. of Congo
PD 369/05 Rev.2 (F)	Demonstration for Restoration, Management and Rehabilitation of Degraded and Secondary Tropical Forest in Hainan, China	China
PD 376/05 Rev.2 (F,M)	To Develop and Promote a Monitoring Information System to Support the Sustainable Development of Tree Resources outside Forest at the Sub-district Level in Thailand	Thailand
PD 377/05 Rev.3 (F)	Development of Cloning for Samba (Obéché), West African Mahogany and Tiokoué Tree Species	Côte d'Ivoire
PD 383/05 Rev.2 (F)	Community Forest Development in Gabon (Gabon)	Gabon
PD 387/05 Rev.2 (F)	Promotion of Community-based Forest Plantations in Tanah Laut, South Kalimantan, Indonesia	Indonesia
PD 388/05 Rev.1 (F)	Technology Development and Supervision for the Establishment of Dipterocarps Commercial Plantations in Indonesia	Indonesia
PD 389/05 Rev.2 (F)	Application of the Internal Monitoring of SFM Performance at Forest Management Unit Level	Indonesia

PD 392/06 Rev.1 (F)	Regional Project to Promote Reduced Impact Logging in the Congo Basin – Phase I	Gabon
PD 393/06 Rev.1 (F)	Village-level Reforestation Plus Nutrition Promotion by Self-Motivated Community Women's Groups	Ghana
PD 394/06 Rev.1 (F)	Restoring the Ecosystem Functions of the Lake Toba Catchment Area through Community Development and Local Capacity Building for Forest and Land Rehabilitation	Indonesia
PD 395/06 Rev.1 (F)	Implementation of a Model of Local Community Stewardship for Rehabilitation and Sustainable Use of Mangroves in North Sumatra Province	Indonesia
PD 396/06 Rev.2(F)	Strategy for Developing Plantations Forest: A Conflict Resolution Approach in Indonesia	Indonesia
PD 399/06 Rev.1 (F)	Expansion of Application of Forest Resources Monitoring System (FORMS) in Timber Corridor Areas of the Philippines by Utilizing the Forest Canopy Density (FCD) Software	The Philippines
PD 407/06 Rev.1 (F)	Support to the Implementation of the Action Plan for the Sustainable Management of the Assoukoko Gazetted Forest	Togo
PD 426/06 Rev.1 (F)	The Prevention of Further Loss and the Promotion of Rehabilitation and Plantation of <i>Gonystylus</i> spp. (ramin) in Sumatera and Kalimantan	Indonesia

Pre-project Proposals:

PPD NUMBER	TITLE	SUBMITTING COUNTRY
PPD 123/06 Rev.1(F)	Controlling the Dieback and Decay Phenomenon in Plantation Species	Côte d'Ivoire
PPD 124/06 Rev.2 (F)	Reforestation of Tropical Savannah Grassland with High Valued Teak in Papua New Guinea (PNG)	PNG
PPD 128/06 Rev.1 (F)	Strengthening Capacity of Forest Law Enforcement and Governance in Cambodia	Cambodia
PPD 130/06 Rev.1(F)	Identification of a Project for the Regeneration and Management of Mangrove Forests Surrounding the Douala/Edea Reserve, Department of Sanaga Maritime, Cameroon	Cameroon

After a thorough evaluation, the Committee recommended to Council the approval of all project proposals, except project proposals PD388/05 Rev.2 (F), PD 302/04 Rev.2 (F), PD 354/05 Rev.2 (F) and PD 369/05 Rev.2 (F), for which the Committee recommended to the ITTC that these proposals should not be further considered by ITTO. The Committee also approved all pre-project proposals submitted for its consideration.

The approved project and pre-project proposals in year 2006 mainly focus on the maintenance of the resource base, including forest regeneration and rehabilitation of degraded and secondary forests, and on monitoring forest management activities, including for detecting any illegal activities. Other areas of work such as the promotion of community forestry and sustainable forest management, research and development in order to improve tools and mechanisms to implement sustainable forest also received attention during the two project cycles of year 2006.

Completed Projects:

During 2006, the Committee received reports of fifteen (13) completed projects, out of which eight (6) were still pending financial audits at the time of reporting their completion. These are:

PD NUMBER	TITLE	SUBMITTING COUNTRY
PD 185/91 Rev.2 (F)*	Sustainable Forest Management and Development in Peninsular Malaysia, Phase II	Malaysia
PD 2/93 Rev.1 (F)*	Integrated Pilot Management of the Ngoua II Forest-North - Phase I: Preparation of the Management Plan	Congo
PD 44/95 Rev.3 (F)*	Management and Conservation of Mangroves in the Gulf of Fonseca Honduras, Phases I & II	Honduras
PD 30/97 Rev.6 (F)*	Rehabilitating Degraded Forest through Collaboration with Local Communities	Ghana
PD 8/98 Rev.4 (F)*	Development of a Demonstration Area in the Sustainable Management of Gabonese Forests	Gabon
PD 22/98 Rev.1 (F)*	Development of Teak Cloning and Establishment of Industrial Plantations	Côte d'Ivoire
PD 41/00 Rev.3 (F.M)	Model Development to Establish Commercial Plantation of Dipterocarps	Indonesia
PD 44/00 Rev.3 (F)	The Implementation of a Community based Transboundary Management Plan for the Betung Kerihun National Park, West Kalimantan, Indonesia, Phase II	Indonesia
PD 106/01 Rev.1 (F)	Increasing Genetic Diversity of Shorea leprosula and Lophopetalum multinervium for Breeding and Genetic Improvement	Indonesia
PD 122/01 Rev.1 (F)	Support for the Establishment of a Cuttings Propagation Unit for the Production of Samba and Other Local Species	Togo
PD 137/02 Rev.2 (F)	Demonstration Plantation of Xantoxylum rethsa, Manilkara kauki, Alstonia scholaris, and Whrightia pubescens to Promote Sustainable Bali Natural Forest	Indonesia
PD 222/03 Rev.1 (F)	Harmonization of Forest Related Terms and Definitions	Philippines
PD 206/03 Rev.1 (F)	Development of Human Resources in Sustainable Forest Management and Reduced Impact Logging in the Brazilian Amazon	Brazil

\* Completed projects pending financial audits

Completed Pre-Projects:

During 2006, the Committee received reports of six (6) completed pre-projects, out of which two (2) are still pending financial audits. These are:

PPD NUMBER	TITLE	SUBMITTING COUNTRY
PPD 37/02 Rev.1 (F)	Study for the Conservation, Rehabilitation and Sustainable Management of Mangroves in Togo	Togo
PPD 56/02 Rev.1 (F)	Strengthening Central and Sub-national Institutions to	Indonesia

Enhance Plantation Forest Development in Jambi and South Kalimantan

PPD 65/02 Rev.2 (F)*	Seed Management and Conservation	Côte d'Ivoire
PPD 87/03 Rev.2 (F)	Identification of <i>Gonystylus</i> spp. (Ramin), Potency, Distribution, Conservation and Plantation Barrier	Indonesia
PPD 95/04 (F)	Model of Rehabilitation and Sustainable Utilization of Mangrove Forest at Langkat, North Sumatra	Indonesia
PPD 104/04 Rev.1 (F)*	Development of a Project Proposal to Support the Implementation of the National Forest Strategy in Peru	Peru

\* Completed pre-projects pending financial audits

Projects under Implementation:

The Committee also reviewed the status and scope of work of eighty-three (83) approved projects and fourteen (14) pre-projects under implementation, of which six (6) projects and two (2) pre-projects are still awaiting implementation agreements. It should also be noted the increasing number of approved projects and pre-projects awaiting funding, while six (6) projects and one pre-project fell under sunset provisions during year 2006. The complete list of projects and pre-projects under implementation is provided in Annex 3.

## 8.2 Non-Project Activities

### 8.2.1 Ex-post evaluation

#### Completed Ex-post Evaluations

Consultants presented reports during the Thirty-ninth Session of the Committee on RFM on the completed ex-post evaluations of eleven (11) projects evaluated as thematic group evaluation of projects on Training in Sustainable Forest Management and on Community Participation in Sustainable Forest Management. These projects are:

#### Training in Sustainable Forest Management

PD 89/90 (F) I, II & III	Sustainable Forest Management and Human Resources Development in Indonesia - Phase I, II & III (Indonesia)
PD 26/92 Rev.2 (F,I)	Development of Methods and Strategies for Sustained Management of Moist Tropical Forests in Cameroon
PD 63/97 Rev.3 (F)	Specialization Program for Forest Technicians on Sustainable Tropical Forest Management in Bolivia
PD 42/00 Rev.1 (F)	Training of Trainers for the application of the ITTO, and the National Criteria and Indicators of Sustainable Forest Management at Forest Management Unit Level (Indonesia)

#### Community Participation in Sustainable Forest Management

PD 37/95 Rev.2 (F)	Management of Cative Forests and Non-timber Products with the Participation of Rural and Indigenous Communitieis, Darien, Panama
PD 21/97 Rev.2 (F)	Developing Tropical Forest Resources Thorough Community-Based Forest Management, Nueva Vizcaya, Philippines
PD 48/98 Rev.1 (F)	Reforestation of the Abutia Plains by Indigenous Communities in the Volta Basin (Ghana)
PD 49/98 Rev.1 (F)	Participatory Tropical Forest Development by Women in Indigenous Communities (Ghana)

PD 9/99 Rev.2 (F)	Sustainable Management of Missahoe Reserved Forest Forestry Resources with the Participation of the Local Rural Communities for an Optimal Timber Production, Kpalime, Togo
PD 38/99 Rev.1 (F,I)	Demonstration Community Forest Management in the Natural Cloud Forests of the Uruma Basin, San Ignacio (Peru)
PD 44/99 Rev.2 (F)	Implementation of a Management Plan by the Chiquiaca and Orozas Communities in Tarija, Bolivia

#### Selection of Projects for Ex-Post Evaluation

At its Thirty-fifth Session, the Committee requested the Secretariat to prepare a short list of projects for ex-post evaluation to be considered at the Thirty-seventh Session of the Committee. From this list, the Committee selected the eleven projects mentioned above that have been evaluated. The Committee also decided to select further projects for ex-post evaluation during the Forty-first Session, based on an updated short list to be prepared by the Secretariat of projects completed since 2004 in the Reforestation and Forest Management Division and not previously selected for ex-post evaluation. The Committee also requested the Secretariat to consider a new theme under which it should group completed projects in the short list to be prepared, this being that of Criteria and Indicators of Sustainable Forest Management.

#### 8.2.2 Policy Work

During 2006, the Committee continued to focusing its Policy Work on the following four (4) main Issues:

##### Prevention and Management of Forest Fire

This issue is related to Decision ITTC 6(XXXIII) on Prevention and Management of Forest Fire. The Committee held discussion on this issue and observed that, although the Decision requested the Executive Director to provide assistance to up to eight (8) member countries, in evaluating the country's forest fire prevention and management, progress in this field has been very slow. In addition to the two countries reported last year, (Philippines and Colombia), only one country (Peru) has requested such assistance and has completed the evaluation of its forest fires prevention and management strategies. The report of the case study in Peru was circulated during the two sessions of the RFM Committee that took place in 2006. But fruitful discussion did not take place because of the absence of INRENA, the national institution responsible for this activity in Peru.

##### ITTO Guidelines for the Conservation of Biodiversity in Tropical Timber Producing Forests

This activity is related to activity (vii) "Review and update the ITTO Guidelines for the Conservation of Biodiversity in Tropical Timber Producing Forests, taking into account recent developments, including CBD' work programme on forest biodiversity and ITTO's renewed cooperation with IUCN" included in the ITTO Work Program for 2004 - 2005 approved by Decision 4(XXXV), and which continued as activity xxiii in the ITTO Work Program for 2006-2007.

The Committee considered the report of this activity, including the draft revised ITTO Guidelines for the Conservation of Biodiversity in Tropical Production Forests, during its Thirty-seventh Session in November 2005. During that Session, the Committee had discussions and decided to endorse the approach proposed in the study report to finalize the Guidelines, including the field testing of the revised draft Guidelines and the convening of an Expert Panel to further revise the draft Guidelines based on field tests. The Committee also developed terms of reference in order to implement this approach and finalize the Guidelines. Four countries were selected for the implementation of field tests: Brazil, Guyana, Cameroon and Indonesia.

At its Thirty-ninth Session in November 2006, the Committee reviewed the progress report presented by IUCN, the institution that has been subcontracted to assist ITTO in implementing field tests, noting that the implementation of this activity is on track, although the pace of implementation needs to be increased.

The Revised Guidelines are expected to be submitted to Council for consideration in November 2007 after a review by an Expert Panel scheduled to meet in September 2007.

Promote the Implementation of Guidelines for the Management of Secondary Tropical Forests, the Restoration of Degraded Tropical Forests and the Rehabilitation of Degraded Forest Land

This issue refers item 2(v) a “Conduct of ten (10) national workshops to further promote the implementation of the ITTO Guidelines for the management of secondary tropical forests, the restoration of degraded tropical forests and rehabilitation of degraded forest land” and item 2(v) b “Support to the Global Workshop on Forest Landscape Restoration” of the 2004-2005 ITTO Work Program..

All national workshops planned under this activity were fully implemented in 2006, except the national workshop in Brazil, which took place earlier in March 2004: Ghana (30 January – 3 February), Mexico (6-10 March), Guyana (13-17 March), Guatemala (20-24 March), Cameroon (24-28 April), Philippines (8-12 May), Côte d'Ivoire (30 July-4 August), India (22-25 August) and Myanmar (28 August-1st September). The completion report of this activity was presented to Council during its Forty-first Session, under agenda item 13 by IUCN, which had been selected to assist ITTO in implementing the workshops.

Under this activity, it can also be mentioned that ITTO remained an active partner of the Global Partnership on Landscape Forest Restoration during year 2006 and participated in the meeting of the Partnership that took place on 25-26 May 2006 in Colorado Springs, USA, just before the Fortieth Council Session in Merida, Mexico.

Monitor and assess the environmental, social and economic costs and benefits of forest plantation development and utilize that information to promote new plantations.

The study is related activity (vi) of the ITTO 2004-2005 Work Program “Monitor and assess the environmental, social and economic costs and benefits of forest plantation development and utilize that information to promote new plantations”. The study was conducted in conjunction with the Market Study on Tropical Timber implemented by the EIMI Committee [activity (i)] by STCP, the firm that was selected, after a call for tenders, to implement the study. The report of the study was presented to the Committee at its Thirty-ninth Session by the consultant.

Important facts that could be highlighted from the study include the following:

- The extent of forest plantations in tropical countries (2005) amount to about 67.5 million ha: 54 million in Asia-Pacific, 8.8 million ha in Latin America and 4.6 million ha in Africa;
- The main tropical countries in terms of forest plantation establishment are India (32.6 million ha), Indonesia (9.9 million ha), Brazil (5.6 million ha) and Thailand (4.9 million ha);
- The extent of forest plantations in non-tropical countries (2005) amount to about 119.9 million ha: 64.6 million in Asia-Pacific, 32 million ha in Europe, 19.8 million ha in Latin America and 3.4 million ha in Africa;
- The major non-tropical countries in terms of plantation establishment are China (45.1 million ha), Russia (17.3 million ha), USA (16.3 million ha) and Japan;
- The major constraints to industrial forest plantation development identified in the study are related to the following factors:
  - Lack of information on current status of commercial tropical plantations;
  - Land tenure;
  - Capacity building on forest plantation;
  - Lack and/or insufficient R&D;
  - Lack of financing mechanisms, and
  - Land-use competition.
- Strategic actions to be implemented by member countries with the support of ITTO would include:
  - The development/improvement of forest policies conducive to forest plantation establishment;
  - The development of strategies and mechanisms to allocate lands for forest plantations;
  - The establishment of conditions to improve investment in sustainable forest business.
- Strategic actions proposed for direct implementation by ITTO include:
  - Improving information base on timber plantations;
  - Promote international and regional fora to discuss financing and development of forest plantations in the tropics;
  - Develop policies to promote investment climate in forest plantation;
  - Support human resource development and institutional strengthening through training and the provision of financial resources; and
  - Review the ITTO Guidelines for the Establishment and Sustainable Management of Planted tropical forests.



## 9. COMMITTEE ON FOREST INDUSTRY

### 9.1 Project Activities

In the year 2006, thirteen project and five pre-project proposals were submitted by member governments for consideration and appraisal by the Committee on Forest Industry:

PD 285/04 Rev.3 (I)	Introduction of a Village Industry in the Community around an Industrial Forest Plantation in Sumatra, Indonesia
PD 348/05 Rev.2 (I)	Composites from Wood Residues and Recycled Plastics for Increasing Utilization Efficiency of Wood Resources (Philippines)
PD 355/05 Rev.2 (I)	Capacity Building for Environmental and Forestry Training Institutions in Central Africa and Continuous Training for Forest Concession Personnel (CAR)
PD 363/05 Rev.3 (I)	Harmonizing Forestry Training in order to Develop National SFM Capacities in Congo
PD 364/05 Rev.3 (I)	Providing Village Communities with Basic Technological Training for Extracting Valuable Essential Oils from Eucalyptus Citriodora Plantations in Rural Areas of Congo
PD 384/05 Rev.3 (I)	Testing Laboratory for the Development of Quality Standards for Mexican Primary and Processed Tropical Forest Products
PD 385/05 Rev.2 (I,F)	Industrialisation, Marketing and Sustainable Management of Ten Mexican Native Species
PD 398/06 Rev.2 (I)	Promoting the Utilization of Plantation Timber Resources by Extending Environmentally Sound Preservation Technology (China)
PD 401/06 Rev.2 (I)	Value Adding and Kiln Drying of Commercial Timbers by Small Scale Community Saw Millers in Guyana
PD 416/06 (I)	Regional Workshop on Processing, Marketing and Trade of Quality Wood Products of Teak Plantations (India)
PD 422/06 Rev.1 (I)	Sustainable Management and Utilization of Tropical Bamboo in Yunnan Province of China
PD 425/06 Rev.1 (I)	Production and Utilization Technology for Sustainable Development of Eaglewood (Gaharu) in Indonesia
PD 431/06 Rev.1 (I)	Processing and Utilization of Trees on Farmlands and Logging Residues through Collaboration with Local Communities (Ghana)
PPD 117/05 Rev.2 (I,M)	Development of a Local Forest Industry based on Sustainable Forest Management in the South-West Sector of the Lacandon Highlands National Park within the Mayan Biosphere Reserve, Peten, Guatemala
PPD 118/05 Rev.2 (I,F)	Training and Operation of Sawwood Stocking Centres with Legal Timber from Arajuno Community Forests and Small Forest Owners in the Ecuadorian Amazon Region (Ecuador)
PPD 121/06 Rev.2 (I)	Development of Value-adding Processes for Short-rotation, Small-diameter Community Teak Plantations in Java and Eastern Indonesia
PPD 122/06 Rev.1 (I)	Wood Technology (Guatemala)
PPD 125/06 Rev.2 (I)	National Training Program to Promote the Adoption of Reduced Impact Logging (RIL) in Papua New Guinea

After a thorough evaluation, the Committee recommended to Council the approval of twelve project and four pre-project proposals. However, the Committee recommended to Council that one pre-project proposal [PPD 118/05 Rev.2 (I,F)] should not be further considered by ITTO and that a decision on one project proposal [PD 355/05 Rev.2 (I)] be deferred until the next session. The approved proposals in year 2006 mainly focused on the sustainable development of forest industry through capacity building and transfer of technology. Some of the approved proposals also focused on sustainable management and utilization of non-timber forest products in member countries.

During 2006, the Committee also reviewed the status and scope of work of forty-five approved projects and pre-projects, ten of which were completed. The completed projects and pre-project included:

PD 94/90 Rev.3 (I)	The Integration of Forest-Based Development in the Western Amazon - Phase II – Technology for Sustainable Utilization of Raw Forest Materials (Brazil)
PD 12/98 Rev.2 (I)	Manpower Development for the Ghana Wood Industry Training Center (WITC)
PD 61/99 Rev.2 (I)	Increasing the Efficiency in the Tropical Timber Conversion and Utilization of Residues from Sustainable Sources (Brazil)
PD 24/00 Rev.1 (I)	Promotion of Sustainable Utilization of Rattan from Plantation in Thailand
PD 68/01 Rev.2 (I)	Training in Reduced Impact Logging in Guyana
PD 69/01 Rev.1 (I)	Improved and Diversified Use of Tropical Plantation Timbers in China to Supplement Diminishing Supplies from Natural Forests
PD 110/01 Rev.4 (I)	Program to Facilitate and Promote Adoption of Reduced Impact Logging (RIL) in Indonesia and the Asia Pacific Region (Indonesia)
PD 174/02 Rev.1 (I)	International Workshop on Clean Development Mechanism – Opportunities for the Forest Industry Sector in the Asia-Pacific Region (Korea)
PD 189/03 Rev.1 (I)	Support Project for the Updating of Training in Forest Management and Forest Concession Management in Central African Forestry Schools (Gabon)
PPD 39/02 Rev.2 (I)	Processing and Utilization of Logging Residues through Collaboration with Local Communities and Forest Industries (Ghana)

The Committee took note of the ex-post evaluation reports for the following projects:

PD 7/94 Rev.3 (M,I)	Information and Technical Assistance for Production and Trade on Tropical Timber (Brazil)
PD 47/94 Rev.3 (I)	Industrial Utilization of Lesser-known Forest Species in Sustainably Managed Forests (Honduras)

The Committee selected the following projects for ex-post evaluation:

PD 94/90 Rev.3 (I)	The Integration of Forest-Based Development in the Western Amazon - Phase II – Technology for Sustainable Utilization of Raw Forest Materials (Brazil)
PD 24/00 Rev.1 (I)	Promotion of Sustainable Utilization of Rattan from Plantation in Thailand
PD 68/01 Rev.2 (I)	Training in Reduced Impact Logging in Guyana
PD 69/01 Rev.1 (I)	Improved and Diversified Use of Tropical Plantation Timbers in China to Supplement Diminishing Supplies from Natural Forests

Moreover, in a joint Session with CEM, CRF and CFA, the Committee took note that three consultants had been engaged to revise the ITTO Project Formulation Manual and related materials based on Decision 3 (XXXVII) "Measures to improve and strengthen the ITTO Project Cycle".

## 9.2. Policy Work

The Committee on Forest Industry considered policy issues in accordance with the work programme for 2006-2007 and the ITTO Yokohama Action Plan 2002-2006. In an effort to both streamline the work and enhance debate on policy issues, the following issues were considered during joint sessions of the CEM and CFI Committees.

Promote the Establishment of Efficient and Socially Responsible Community-based Forest Industries

Review of Community-based Forest Enterprises in Tropical Forest Countries: Status and Potential

The Committees were briefed on the results of the study that had been implemented by Forest Trends and Rights and Resources Initiative in collaboration with other partners. In the presentation of the report, Ms. Augusta Molnar highlighted the findings from a review of 19 case studies on community-based forest enterprises (CFE) in tropical forest countries, and which indicated that community forest management could reduce deforestation and contribute to improved forest management, conservation and fire protection. She explained that CFE also contributed to the rural economy, employment generation and improved livelihoods. However, the study found that there were only a limited number of tropical countries where conditions had been favorable to the emergence and growth of CFE. The main recommendations of the study to the producing countries are: 1) to reduce or modify regulations that impede the emergence of CFE; 2) to secure tenure and access to forest resources; 3) to increase community participation in the forest policy dialogue; and 4) to strengthen capacity building. The study's recommendations to ITTO are: 1) to analyze and exchange lessons learned on CFE status and performance in the market place and 2) to promote more projects and policy work that support CFE. In addition, the CSAG spokesperson presented the following recommendations resulting from a side event on CFE organized by CSAG: 1) to include a CFE programme into ITTO's Biennial Work Programme for 2008-9; 2) to undertake a review of the projects and programmes dealing with CFE in the three Committees and present the results at the Forty-first Council Session; and 3) to create an Expert Panel to elaborate a CFE workplan to be presented at the Forty-first Council Session and at the International Conference on CFE.

The delegates from the Philippines, EU, Switzerland, Brazil and PNG commended the presenters and stressed the importance of CFE for both poverty alleviation and sustainable forest management. However, some of these delegates cautioned that the findings of this study may be too optimistic and may require more clarification regarding the risks and challenges that CFE face, including those related to increased globalization and benefit sharing. The delegate from Switzerland supported the proposal for a global review of lessons learned by ITTO from projects and programmes dealing with CFE for presentation at the Council and at the International Conference on CFE, while expressing reservations about the need for an Expert Panel on CFE. The Committees recommended to take up this issue at its next session. The delegates of Brazil and Guatemala expressed the interest of their governments in hosting the International Conference on CFE.

Review of Lessons Learned by ITTO from Projects and Programmes Dealing with the Promotion of Community-based Forest Enterprises

The Committees resumed their discussions on the proposal for a global review of lessons learnt by ITTO from projects and programmes dealing with the promotion of CFE. The Secretariat gave an overall overview of the policy and project work done by ITTO in support of CFE. The Committees were informed that despite the fact that ITTO funded a large number of projects and pre-projects in support of "community" based activities such as community forestry, community participation, community based management and conservation, collaborative management, participatory management, stakeholders participation, strengthening indigenous people/communities, socially sustainable forestry management, support to community organizations, rural populations and grass-root support to SFM, only a limited number of these projects and pre-projects were specifically focused on helping communities develop forestry based enterprises.

Twenty-two (22) projects and pre-projects, almost all under the CFI, contained one or several project components that specifically supported developing CFE, and dealt with issues such as: community-based processing of forest products; support to small forest industries; support to bamboo, rattan and non-timber forest products processing and marketing; support to wood workers villages; and the use of logging residues

by communities. Of these 22 projects and pre-projects, 13 were still on-going, while 9 had been completed, and 3 completed projects had been selected for ex-post evaluation in 2007.

Noting that ITTO has accumulated significant experiences in the many issues involved in developing CFE through its project and policy work, and that during 2007 further key information would become available, the Committees recommended to the Council that the theme of CFE be considered for further policy work by the CFI. The Committees recommended that a draft proposal be submitted at the Forty-first Session of the Committees for inclusion into the ITTO Biennial Work Programme for 2008-2009.

#### Study and Promote Policies and Other Measures to Increase Tropical Plywood Industry Competitiveness

The Committees were briefed by the Secretariat on the successful outcome of the International Conference on Tropical Plywood, which took place from 26 to 28 September 2005 in Beijing, China, and which was organized in close collaboration with the FAO and the International Forestry Cooperation Center of the State Forestry Administration of China. The Committees took note of the recommendations made by the Conference and particularly those which could be given due weight with regards to the future work program of the CFI and ITTO, such as:

1. to convene an international conference on tropical plywood (or on another tropical forest product such as wooden flooring & decking) every four years;
2. to assist tropical plywood and timber associations in ITTO producer countries by strengthening their networking capacities towards improved information sharing among their members on technical, economic and environmental related issues and policies affecting the market;
3. to improve statistics and market transparency on tropical plywood by, among others, revising Chapter 44.12 of the Harmonized System in collaboration with the World Customs Organization and relevant trade associations.

The Committees were informed by the Secretariat that the proceedings of the International Conference on Tropical Plywood had been published and that the presentations, findings and recommendations of the Conference are available on ITTO's website.

#### Promote Wood-based Bioenergy using Wood Residues and Wastes in Tropical Countries [PP-A/39-183]

The Committees were briefed by the Secretariat on the progress in the implementation of this activity, particularly with regard to the organization of an International Conference on Wood-based Bio-energy, which would take place in Hannover, Germany on 17-19 May 2007 in conjunction with the LIGNA+ 2007, in which wood energy would be an overarching theme. The Committees took note that the Conference would be hosted by the Government of Germany. The delegate of Germany highlighted the importance of this International Conference in promoting bio-energy and its main objective at raising the awareness of the technical and economic potentials of utilizing wood residues for energy generation. He further stated that Germany, as the host country of the Conference, looked forward to welcoming many participants in the Conference.

#### Promote Private Investment Through Facilitating Information Exchange on Investment Opportunities - Organization/Convening of Investment Promotion Forum/Seminar [PP-A/39-184]

The Committees were updated by the Secretariat on progress in the preparations for the convening of three regional fora to promote investments in the sustainable management and development of natural tropical forests as part of its policy work under the ITTO Biennial Work Programme for 2006-2007 pursuant to ITTC Decision 4(XXXV). The Secretariat informed the Committees that the Latin America regional forum was scheduled to be convened in Curitiba, Brazil, on 23 and 24 November 2006. The Government of Ghana had offered to host the regional investment forum for West and Central tropical Africa, scheduled to take place in the second half of 2007. As for the planned regional investment forum for natural tropical forests in Asia, the Committees were informed of the Secretariat's ongoing efforts in seeking interest from ITTO member countries in the region to host the event.

#### Assess opportunities for and Promote Development of Non-Timber Forest Products and Forest Services which can improve the economic attractiveness of maintaining the forest resource base [PP-A/39-185]

The ITTO Secretariat indicated that the Government of China offered to host the conference, which is scheduled to take place in 2007. The ITTO Secretariat was closely collaborating with the Chinese Government and relevant agencies on the technical and logistical preparations for the convening of the conference.

International Conference on the Transportation of Timber Products [PP-A/31-111C]

The Secretariat reported on the progress made at the London shipping consultation held from 11-12 July 2006. The Secretariat presented a draft terms of reference (TOR) for an international conference on the transportation of timber products, and delegates discussed these TOR as well as a need for a larger international conference. The delegates of the Netherlands and the US thanked the Secretariat for their efforts in convening the small consultation, and the US proposed that a study be conducted to analyze problems and relevant issues associated with tropical timber shipping.

An informal working group composed of India, New Zealand, Switzerland, the US, four Trade Advisory Group members and the ITTO Secretariat met to discuss ways forward. The group agreed that a study should be conducted to advance the planning for an international conference, and on the study's draft terms of reference to be presented to the Committees. At the session of the Committees, the delegate of Malaysia expressed concern about the scope of the study, saying that a more comprehensive study might be necessary. The delegates from New Zealand and the US suggested that the group had agreed to the scope of the study, but that flexibility could be exercised in determining the duration of the study and the timing of its presentation. The Secretariat invited Members of the Committees to submit information and suggestions related to the study to the Secretariat.

The Committees agreed to a terms of reference for an analytical study, which would include a discussion on issues raised at the London consultation and other relevant technical and policy matters. It was expected that the study would be reviewed by Members at either the Fortieth or Forty-first Session of the Committees.

**ANNEX 1**  
**International Tropical Timber Agreement, 1994**  
**Status of Members as of 31 December 2006**

Member	Signature	Provisional application	Ratification, accession (a), acceptance (A) approval (AA), definitive signature (d)
Australia .....			2 Feb. 1996 (d)
Austria .....	13 May 1996		16 May 1997
Belgium/Luxembourg .....	13 May 1996	13 May 1996	
Bolivia .....	17 Aug. 1995		17 Aug. 1995
Brazil .....	13 Dec. 1996		28 Nov. 1997
Cambodia .....	3 Feb. 1995		3 Feb. 1995 (A)
Cameroon .....	22 Dec. 1994	31 Aug. 1995	
Canada .....	3 May 1995		23 May 1996
Central African Republic .....		10 Jan. 1997	
China .....	22 Feb. 1996		31 Jul. 1996 (AA)
Colombia .....	8 Nov. 1995	9 Oct. 1996	16 Aug. 1999
Congo .....	22 Jun. 1994	25 Oct. 1995	
Côte d'Ivoire .....	9 Sep. 1996	9 Sep. 1996	31 Jan. 1997
Democratic Republic of the Congo .....	17 Dec. 1996	27 Mar. 1997	
Denmark .....	13 May 1996		13 May 1996
Ecuador .....	1 Jun. 1994		6 Sep. 1995
Egypt .....	8 Nov. 1994	15 May 1996	13 Apr. 2000
European Community .....	13 May 1996	13 May 1996	
Fiji .....	27 Jan. 1995	27 Jan. 1995	
Finland .....	13 May 1996	13 May 1996	
France .....	13 May 1996	28 Oct. 1996	
Gabon .....	27 May 1994	2 Aug. 1995	
Germany .....	30 Aug. 1995	30 Aug. 1995	
Ghana .....	12 Jul. 1995		28 Aug. 1995
Greece .....	13 May 1996		13 Oct. 1997
Guatemala .....		3 May 2001 (a)	
Guyana .....	13 Sep. 1996		27 Aug. 1997
Honduras .....	9 May 1995	2 Nov. 1995	
India .....	17 Sep. 1996		17 Oct. 1996
Indonesia .....	21 Apr. 1994		17 Feb. 1995
Ireland .....	14 May 1996		18 Aug. 2000
Italy .....	7 May 1996		25 Jun. 1998
Japan .....	13 Dec. 1994	13 Dec. 1994	9 May 1995 (A)
Liberia .....			9 Dec. 1994 (d)
Malaysia .....	14 Feb. 1995		1 Mar. 1995
Mexico .....			11 Mar. 2004(a)
Myanmar .....	6 Jul. 1995		31 Jan. 1996
Nepal .....		23 May 1997	
Netherlands .....	6 Jul. 1995	6 Jul. 1995	
New Zealand .....			6 Jun. 1995 (d)
Nigeria .....			28 Feb. 2002(a)
Norway .....	25 Jan. 1995		1 Feb. 1995
Panama .....	22 Jun. 1994	4 May 1995	4 Apr. 1996
Papua New Guinea .....	28 Aug. 1995	28 Aug. 1995	13 May 1996
Peru .....	29 Aug. 1994		21 Sep. 1995
Philippines .....	29 Sep. 1995	26 Feb. 1996	
Poland .....			19 Dec 2006 (a)
Portugal .....	13 May 1996		4 Nov. 1999
Republic of Korea .....	12 Sep. 1995		12 Sep. 1995
Spain .....	12 Jan. 1996	12 Jan. 1996	15 Jan. 1997
Suriname .....			24 Aug. 1998 (a)
Sweden .....	13 May 1996		13 May 1996
Switzerland .....	29 Aug. 1995		10 Jun. 1996
Thailand .....	10 Apr. 1996		25 Jul. 1996
Togo .....	12 Jul. 1994		4 Oct. 1995 (A)
Trinidad and Tobago .....			29 Dec. 1998 (a)
United Kingdom .....	13 May 1996	13 May 1996	
United States of America .....	1 Jul. 1994		14 Nov. 1996 (A)
Vanuatu .....			19 May 2000 (A)
Venezuela .....	4 Oct. 1995		2 Mar. 1998

## ANNEX 2

### REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL THIRTY-EIGHTH SESSION OF THE COMMITTEE ON ECONOMIC INFORMATION AND MARKET INTELLIGENCE AND THE COMMITTEE ON FOREST INDUSTRY

#### REPORT ON THE ITTO ANNUAL MARKET DISCUSSION - 2006

31 May 2006, Mérida, Yucatán, Mexico

The market discussion 2006 was held on 31 May 2006 and the theme was "Timber Markets and Procurement Policies". The discussion featured 5 speakers namely Mr. Mario Molina (CONAFOR, Mexico), Mr. Rupert Oliver (Forest Industries Intelligence Ltd., UK), Dr. Jean Mark Roda (CIRAD, France), Mr. Christian Lundmark Jensen (Danish Ministry of Environment) and Ms. Brigid M. Shea (IWPA, USA). The discussion was moderated by Mr. Barney Chan (Sarawak Timber Association, Malaysia), Coordinator of the T-A-G.

Mr. Mario Molina made a presentation on the forest sector in Mexico, including the country's forest resources, wood production and capacity, industrial uses, apparent consumption and correlation of the latter with imports. Apparent consumption was almost 30 million m<sup>3</sup> in 2003, up from 17 million m<sup>3</sup> in 2000. About 75% of the wood consumption was accounted for by wood imports in 2003, up from 47% in 2000. The growth of wood imports had been stimulated by greater consumption and economic and exchange stability. The wood trade sector was characterized by high intermediation due to lack of capital in the marketing channels, high production costs, obsolete production technology and heavy focus on the national market. These characteristics suggested the need for national producers to design strategies that would allow them to develop and preserve sustained market niches by integration or alliances and greater focus on added value and semi and finished products demanded by the market. Mr. Molina indicated that the demand for certified wood products in Mexico was negligible and there was no price premium for such products. This was probably due to the lack of knowledge of no certified products and policy promoting certification as an element of sustainable forest management (SFM).

In his keynote presentation, Mr. Rupert Oliver provided a background on public wood procurement policies (PPP), the driving forces (public, industry but mainly ENGO driven) involved and the salient features of these policies. He underlined that government procurement policies should be developed in line with WTO obligations and EU Procurement Directives. The criteria for selection of contractors must be non-discriminatory and the same rules must apply irrespective of point of origin. If a government agency should decide that the timber must be traceable to forest of origin to prove "sustainability", this must be applied equally to timber from other countries of origin. Specifications must be directly related to the subject matter of the contract. EC legal advice on criteria for "sustainable timber" might refer to direct environmental and sustained yield aspects of timber production but might not refer to broader social issues such as rights of labour and indigenous people.

Mr. Oliver said that a fair PPP should be driven less by exclusive commitment to any particular certification brand and potential acceptance of a wider range of schemes. The exclusion of social criteria meant that schemes should be judged on what they were best able to deliver and there should be flexibility to provide alternative forms of evidence where certification was impractical. Mr. Oliver pointed out that some EU member governments (UK, Belgium, Netherlands, France, Germany and Denmark) were developing their own PPPs with little evidence of coordination, let alone harmonisation. He considered it unrealistic to expect timber suppliers to adapt operations to ensure conformance with 25 different sets of criteria.

Formal efforts to develop PPPs were only at national government level which was a less significant timber buyer than local and regional government (estimated at 200,000 authorities). Mr. Oliver said that procurement policy was often driven by public pre-conceptions and the media rather than objective assessment. ENGO grass root activism was a key influence. FSC had benefited from ENGO recognition, mass marketing and on-product brand promotion by large retailers while the industry was shy of tackling authorities with FSC-only policies, despite these clearly contravening EU procurement directives.

Mr. Oliver identified opportunities and threats arising from PPPs:

#### Opportunities:

- Creating stronger demand for certified wood.
- Potential to improve returns from investment in certification.
- Reduce unfair competition from illegal wood.
- Development of public procurement policies based on WTO rules counters ENGO efforts to promote FSC-only agenda.

## Threats:

- Inconsistent policies at national level create a barrier to trade.
- Major beneficiaries likely to be forest owners in rich western countries.
- Single-issue ENGO campaigns lead to uneven approach.
- Procurement requirements reflect media inspired perception of forestry issues, not sustainable development needs of supplying countries.
- Goal posts constantly shifted to satisfy ENGOs.
- Green requirements on timber not matched by equivalent requirements on substitutes.

Mr. Oliver concluded his presentation by recommending that producers should engage themselves in the process of the development of PPPs so as to avoid being excluded from the market.

Dr. Jean Marc Roda described the ongoing development of France's public timber policy from a researcher's perspective. The French government issued a set of rules for public procurements which:

- are applied equally to temperate and tropical timbers;
- accept all existing eco-certificates, or even proofs of legality or of effective management plans endorsed by independent third bodies;
- carefully avoid potential contradiction with WTO agreements;
- will be enforced gradually: 50% of the public procurement by 2007 and 100% by 2010.

According to Dr. Roda, public procurement accounted for about 25% of the tropical timber imported by France. Problems foreseen included inadequate availability of products meeting the requirements, impossibility to correctly identify the origin (temperate or tropical) of 70% of the products and difficulty in monitoring *a posteriori*. The lack of availability of certified tropical wood as compared with greater availability of certified temperate wood were likely to create market distortions for tropical wood products. However, the ongoing trend among European countries to increase the level of their environmental requirements for tropical forest products was a reality that was expected to persist.

Dr. Roda discussed the broader implications of PPPs on the tropical timber economy. Timber procurement policies could create an indirect segregation between some temperate and some tropical producers or, more precisely, between producers with a high level of economic stability, and those with a low economic stability. A factorial analysis of FSC certified areas versus more than 200 economic and development indicators showed a very strong relationship between certified forest areas and the country's welfare. This explained why only 5% of the certified forests were in tropical developing countries. He concluded that an increase in European environmental requirements for tropical forest products should be accompanied by the development of side-measures to tackle poverty and the comparative disadvantages faced by producing countries.

Mr. Christian L. Jensen provided an overview of the Danish PPP, which since 1995 has been covered by voluntary guidelines for a wide variety of products and materials. Voluntary guidelines for purchase of tropical timber were launched in 2003. Following a 9-point plan of February 2006 from the Danish Minister for the Environment, the Danish timber procurement policy and guidance will expand to all kinds of timber. An evaluation of the Danish PPP revealed, among others, that many did not know the guidelines or followed them incorrectly; the guidelines needed more focus on different user groups' specific needs (harbour engineers, institutions, central procurement officers, etc.); and that there were differences with PPPs from other EU countries with regards to criteria for legality, sustainability and documentation, most notably regarding inclusion of social criteria. The initial exclusive focus on tropical timber could potentially conflict with WTO rules. There were some attempts to evaluate the impact of the Danish PPPs on tropical forests and tropical timber trade, noting increased area coverage of certified tropical forests since 2003 and some minor, but probably not significant changes in the Danish import volumes of tropical timber.

Ms. Brigid Shea said that US industry procurement policies were largely different compared to those in the EU and varied by industry (paper or solid wood products) and species (softwood or hardwood). Although IWPA represented 221 companies, most were small businesses and even the largest importers had less than 1% of the total market share for a given product. This meant that no company has significant supply-chain leverage to force requirements upon suppliers. Furthermore, very strict US anti-trust rules meant that wood procurement decisions must be made voluntarily and by each company. These two features made US procurement policies different from those in other countries. US companies respected the sovereignty of supplying countries and the issuance of export certificates or licenses as proof of legality. Most US consumers did not have procurement policies and did not exert pressure on suppliers for any kind of proof of origin. Nonetheless, IWPA extensively visited suppliers to assure quality, legality and high standards of professional and market conduct. In 1992, IWPA endorsed two voluntary policies for its members' use entitled Environment Policies for Wood and Purchasing Policies for Wood and Wood Products. These policies were being widely used by its members. IWPA had also adopted policies against illegal logging and on an importers "code of conduct".



With regards to downstream industries, these varied in the degree they pushed suppliers on wood procurement policies. Big retailers like Home Depot and Lowe's that imported directly or used large importers, took one approach, whereas the thousands of custom cabinet shops that bought from US distributors took a completely different approach. An IWPA review of corporate procurement policies in different segments of the wood products industry found that the majority of the market was not placing "procurement policy" demands on importers. Several IWPA members were participants in the WWF Global Forest and Trade Network as a way to position themselves pro-actively in the marketplace or an attempt to garner a greater share of ultra-competitive markets. However, price, availability, quality and consistency tended to dominate business discussions in the US more than procurement policies. Home Depot and Lowe's listed environmental policies on their web sites. While they tended not to pay a premium for certified product, their tremendous appetite for wood played a strong role in supporting the development of the certified wood industry. Most US-based home builders did not pay attention to the source of their wood, but a few of the large national builders had committed to buying certified wood. A large portion of softwood lumber imports came from Canada, although an increasing volume was entering from Europe. Softwood plywood from Brazil had captured a significant share of the US market and played an important role in helping US manufacturers produce quality homes at competitive prices. In the domestic furniture market, manufacturing was moving increasingly off shore to China where decisions on wood purchasing were not made on the basis of environmental consideration.

The projection for the future of wood procurement policies varies throughout the US industry. Success would depend on the market demand and competitive prices because in a mostly commodity market, everyone sold the same product at the same price. Those companies who chose to sell certified products did so because they felt it benefited their companies – either through market positioning, by assuring supply or as initiative to respond to environmental campaigns against their companies. Most companies had not yet chosen to pursue certification solely on the basis of projected profit. However, producer countries should engage in the PPP process to avoid being excluded from the market.

In the ensuing discussion, the speakers were congratulated for their presentations. The French delegate clarified that France's PPP was on all timbers, not only tropical and that the guidelines were not perfect and were subject to revision every two years. The Malaysian timber industry delivered a statement on its views regarding the international development of timber procurement policies. While fully supporting the efforts to address the complex problems of illegal logging and illegal trade, the industry remained uncertain whether the principle of responsible purchasing would have a positive impact on tropical timber producing countries in particular. It contended that the impact of PPPs on the price of certified timber was negligible and the resulting price disincentive would work against the ultimate goal of achieving SFM. On difficulties faced by tropical producing countries, the statement highlighted the varying and divergent requirements of PPPs as the most challenging and expressed the hope that the EU Forest Law Enforcement, Governance and Trade (FLEGT) initiative would provide common requirements applicable to all EU member countries as well as to domestic and imported timbers. The possibility that wood could be substituted by other materials which were not subjected to the strict requirements facing the wood sector was also emphasised.

The delegate of Norway informed that his country was in the process of developing its own PPP and requested guidance from members in this regard particularly in dealing with local municipalities. The delegate of Australia raised the issues on the effectiveness of PPPs in enhancing sustainability and legality as well as on the need for harmonizing the various PPPs. It was pointed out that there had been no adequate evidence to indicate the impact of PPPs on the management of forests thus far. While the need for harmonization was generally agreed, there were complexities and challenges in bringing about greater convergence amongst PPPs. Being a relatively recent development, the overall experience with PPPs was still evolving and there would be room for fine-tuning and improvement.

The delegate of the EC provided clarification on its policies on PPPs, FLEGT and Voluntary Partnership Agreements (VPA) while the delegate of Congo underscored the need for financial assistance to address the lack of progress in certification in the tropics.

The representative of FAO announced that a one day forum on public procurement policies and their impact on trade would be organised by FAO and UNECE in Geneva on 5 October 2006.

### ANNEX 3

#### List of New Pre-Projects, Projects and Activities Funded in 2006

##### PRE-PROJECTS

###### Reforestation & Forest Management

- |          |  |
|----------|--|
| ITTC/XL  | PPD 123/06 Rev.1 (F) – Controlling the Dieback and Decay Phenomenon in Plantation Species (Côte d'Ivoire)  |
| ITTC/XLI | PPD 111/05 Rev.1 (F) – Sustainable and Multipurpose Forestry to Settle the Tribal Shifting Cultivators of Tripura State in India by Providing Viable Economic Activities (India)                   |
|          | PPD 124/06 Rev.2 (F) – Reforestation of Tropical Savannah Grassland with High Valued Teak Species in Papua New Guinea (Papua New Guinea)   |
|          | PPD 128/06 Rev.1 (F) – Strengthening Capacity of Forest Law Enforcement and Governance in Cambodia (Cambodia)  |
|          | PPD 130/06 Rev.1 (F) – Identification of a Project for the Regeneration and management of Mangrove Forests Surrounding the Douala/Edea Reserve, Department of Sanaga Maritime, Cameroon (Cameroon) |

###### Forest Industry

- |          |  |
|----------|--|
| ITTC/XL  | PPD 19/01 Rev.2 (I) – Sustainable Management of Non-timber Forest Products (NTFPs) in Cameroon, Congo, Gabon and Central African Republic (CFC)                      |
| ITTC/XLI | PPD 68/03 Rev.2 (I) – Study on Utilization of Plantation Teak (Myanmar)  |
|          | PPD 121/06 Rev.2 (I) – Development of Value-adding Processes for Short-rotation, Small-diameter Community Teak Plantations in Java and Eastern Indonesia (Indonesia) |
|          | PPD 125/06 Rev.2 (I) – National Training Program to Promote the Adoption of Reduced Impact Logging (RIL) in Papua New Guinea (Papua New Guinea)                      |

##### PROJECTS

###### Economic Information and Market Intelligence

- |          |  |
|----------|--|
| ITTC/XL  | PD 340/05 Rev.2 (M) – National Forest Statistical Information System in Guatemala (Guatemala)  |
|          | PD 353/05 Rev.2 (M) – Adoption and Implementation of the Forestry Information System (FIS) for the Philippines (Philippines)   |
| ITTC/XLI | PD 391/06 Rev.2 (M) – Promoting and Creating Market Demand for Certified Tropical Wood and Verified Legal Tropical Wood (Japan)  |
|          | PD 406/06 Rev.1 (M) – Establishment of a National Forest and Timber Marketing Statistics System (Ecuador)  |
|          | PD 415/06 Rev.2 (M) – Systematisation and Modelling of Economic and Technical Information to Train Professional Related to the Production, Processing and marketing of Timber Products – Phase II (Colombia) |

###### Reforestation & Forest Management

- |         |  |
|---------|--|
| ITTC/XL | PD 294/04 Rev.4 (F) Phase I – The Study and Demonstration of the Management of Secondary Forests in Tropical Regions for the Purpose of Enhancing Economic and Ecological Benefits (China) |
|---------|--|

PD 297/04 Rev.3 (F) – Implementation of the Sustainable Forest Management Programme of the Iwokrama International Centre (Guyana)

PD 349/05 Rev.2 (F) – Criteria for the Management of Mangrove and Flood Forests in the Central Coastal Plains of Veracruz, Mexico: A Community Management Tool (Mexico)

PD 350/05 Rev.3 (F) – Production Systems and Integrated Management of Shot-borers for the Successful Establishment of Meliaceae Plantations in the Yucatan Peninsula and Veracruz, Mexico (Mexico)

PD 360/05 Rev.2 (F) – Multispectral Three-Dimensional Aerial Digital Imagery for Monitoring Forest Management and Conservation in the Republic of Congo (Republic of Congo)

PD 376/05 Rev.2 (F,M) – To Develop and Promote a Monitoring Information System to Support the Sustainable Development of the Tree Resources outside Forest at the Sub-District Level in Thailand (Thailand)

PD 389/05 Rev.2 (F) – Application of the Internal Monitoring of the SFM Performance at Forest Management Unit Level (Indonesia)

ITTC/XLI PD 367/05 Rev.2 (F) – Promotion of the Sustainable Management of Tropical Planted Forest in Congo's Tropical Forest Plantations (Republic of Congo)

PD 383/05 Rev.2 (F) – Community Forest Development in Gabon (Gabon)

PD 393/06 Rev.1 (F) – Village-level Reforestation Plus Nutrition Promotion by Self-motivated Community Women's Groups (Ghana)

PD 396/06 Rev.2 (F) – Strategy for Developing Plantation Forest: A Conflict Resolution Approach in Indonesia (Indonesia)

PD 426/06 Rev.1 (F) – The Prevention of Further Loss and the Promotion of Rehabilitation and Plantation of *Gonystylus* spp.

#### Forest Industry

ITTC/XL PD 416/06 (I) – Regional Workshop on Processing, Marketing and Trade of Quality Wood Products of Teak Plantations (India)

ITTC/XLI PD 344/05 Rev.2 (I) – Utilization of Less Used Wood Species in Guyana (Guyana)

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

PD 431/06 Rev.1 (I) – Processing and Utilization of Trees on Farmlands and Logging Residues through Collaboration with Local Communities (Ghana)

#### **ACTIVITIES**

ITTC/XL Expert Panel for Appraisal of Project Proposals, Thirty-second Meeting

First Regional Parliamentary Conference on the Sustainable Management of Central African Forest Ecosystems [Decision 2 (XL)]

ITTC/XLI In cooperation with relevant organizations, monitor the political implications for the resource base of climate change and related policy development, and the contribution of the resource base to the mitigation of the effects of climate change [Decision 2(XLI) para.2 (xx)]

Expert Panel for Appraisal of Project Proposals, Thirty-third Meeting